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Automotive

Canada's International Business Strategy

1996-1997

Team Canada • Équipe Canada

Canada's International Business Strategy

is made up of an ***Overview*** *highlighting Canada's international business development priorities, and a series of* ***Industry Sector Strategies****, which include lists of planned international activities. The following documents are available:*

Overview
1. Advanced Manufacturing Technologies
2. Aerospace and Defence
3. Agriculture, Food and Beverages
4. Arts and Cultural Industries
5. Automotive
6. Bio-Industries
7. Business, Professional and Educational Services
8. Chemicals, Plastics and Advanced Materials
9. Construction Products and Services
10. Consumer Products
    - *Apparel*
    - *Textiles*
    - *Footwear*
    - *Sporting Goods*
    - *Pleasure Boats and Equipment*
    - *Tools, Hardware and Housewares*
    - *Residential Furniture*
    - *Business and Institutional Furniture*
    - *Giftware and Crafts*
11. Electrical Power Equipment and Services
12. Environmental Industry
13. Fish and Seafood Products
14. Forest Industries
15. Information Technologies and Telecommunications
    - *Overview*
    - *Telecommunications Equipment and Services*
    - *Software Products, Computer Services and New Media*
    - *Geomatics*
    - *Computers, Peripherals and Instrumentation*
    - *Electronic Components*
16. Medical and Health-care Products and Services
    - *Medical Devices*
    - *Pharmaceuticals*
    - *Health-care Services*
17. Metals, Minerals and Related Equipment, Services and Technology
18. Oil and Gas Products and Energy Equipment
19. Resource Equipment and Technology
    - *Agricultural Technology, Machinery and Equipment*
    - *Ocean and Marine Shipboard Technology*
20. Space
21. Tourism
22. Urban Transit and Rail Equipment

For information on how to receive the Overview, or additional Industry Sector Strategies, please call: 1-800-267-8376.

All monetary figures in this document are expressed in Canadian dollars unless otherwise indicated.

Cat. No. C2-226/5-1996E ISBN 0-662-24039-1

Aussi disponible en français sous le titre Automobile.

The automotive sector consists of two subsectors:

1) *Original Equipment (OE) Manufacturers: car, light truck and trailer assembly; vehicle parts/components; tires/tubes;*
2) *Aftermarket (AM) Manufacturers and Automotive Services: suppliers of replacement parts, accessories, service/repair equipment, distributors, and repair and maintenance facilities.*

Canadian Position

- Automotive is Canada's largest manufacturing sector (15 percent) and largest exporter. It accounts for nearly 550 000 in employment, and the total value of shipments in manufacturing in 1994 was $65 billion. Total exports were $60 billion, 95 percent of which were to the United States.
- The sector is fully integrated and rationalized on a North American basis and is internationally competitive. It has a strong record of consistent improvement in quality, productivity and delivery, although there is a general lack of awareness of Canada's strengths in offshore markets.
- Canada's 15 assembly plants, with a value of shipments at $45 billion, produced 2.3 million vehicles in 1994. Most plants have popular product mandates and are either new, or they have been expanded or modernized. Assembler investment and marketing decisions are made outside Canada, and little research and development (R&D) is undertaken here.
- Light vehicle sales were $1.3 million in 1994, of which the Big Three had 73.2-percent market share and the Japanese 18.9 percent (see Figure 1). Auto sector trade surplus was $5.8 billion (see Figure 2), and new capital investments in manufacturing continue to be strong (see Figure 3).

Figure 1
Canadian Light Vehicle Market Shares

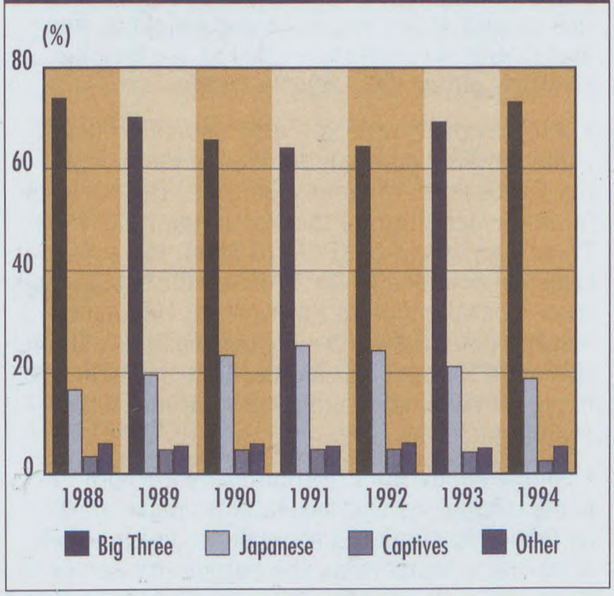
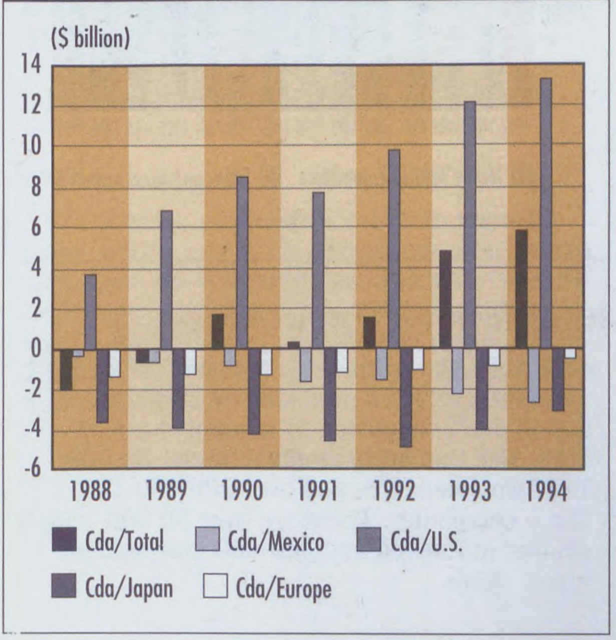
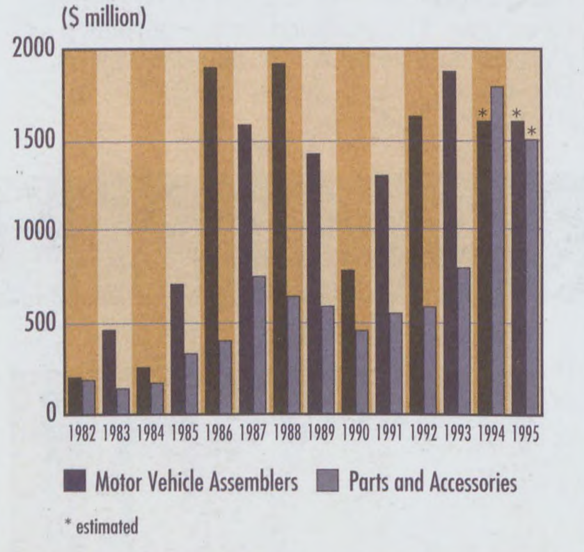


Figure 2
Canada's Auto Trade Balance with Major Trading Partners



- In OE and AM parts and accessories manufacturing, the value of shipments was $18.4 billion in 1994. AM sales and services were valued at $21 billion. Canada has a strong capability in garage, repair and diagnostic equipment, and an extensive tool and die sector.
- The OE parts sector has seen considerable growth and productivity increases in recent years. A number of Tier One companies compete internationally, but most operate at the Tier Two (sub-assembly) and Tier Three levels (discrete parts and materials), where they use leading-edge process and production technology. The parts sector in Canada requires more strength and technology in some areas.
- Key auto markets for Canada are Japan, Europe, Mexico and the United States, with some interest in China, Brazil and India.

Figure 3
Canadian Automotive Industry Capital Expenditures

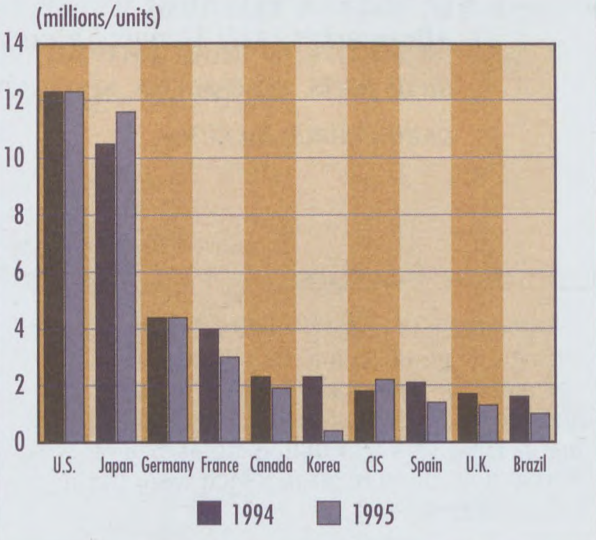


* estimated

International Environment

- Globally, the automotive industry shipped 47 million vehicles produced by 28 major assemblers, supported by a supply base of 2500 Tier One parts manufacturers, 30 000 Tier Two companies and over 200 000 Tier Three companies. There are over 50 000 vehicle dealers in Canada and 500 000 independent repair shops.

Figure 4
World's Top Ten Light Vehicles Producers in 1994 – Compared to 1995



- Manufacturers are under constant pressure to restructure, reduce costs, and increase competitiveness. They must also adjust to globalization, shifts in production centres, changing tariff regimes, technological change, evolving environmental or other regulations, and consolidation of supplier firms.
- North American assemblers are focussing more on their core business, thus providing opportunities as they outsource more parts making; and multinational enterprises (MNEs) are forming strategic alliances to remain competitive.
- International trade agreements and reduced trade barriers continue to change the competitive advantages of many countries. The successful implementation of the North American Free Trade Agreement (NAFTA) in 1994, the potential Chilean accession to the NAFTA, efforts to extend trade liberalization in the Western Hemisphere, and the potential for a stronger trading relationship with Europe, will require that the strategic implications of such alliances continue to be evaluated.
- Global competition will intensify for both parts companies and assemblers, particularly as emerging countries struggle to develop their economies, many using the automotive sector to spur economic growth. It is expected that trade barriers will be reduced further, thus opening new market opportunities for Canadian firms.

United States

- The U.S. is the most important market for the Canadian OE and AM automotive industry, accounting for over 90 percent ($14 billion) of total value of shipments. The U.S. and Canadian automotive sectors are fully integrated. While Canadian companies tend to view the U.S. as part of their "domestic" market, the reverse may not always be so.

- New supply opportunities are being created by the recent establishment and expansion of European and Japanese assemblers in North America. Also, the recently concluded U.S./Japan Agreement on Autos and Auto Parts should improve trade relations between the two countries, and provide opportunities for Canadian manufacturers.

Japan

- In Japan, the last few years have been ones of retrenchment as the domestic market and corporate profit levels declined. Returning to profitability will likely depend on the Japanese sector restructuring, as companies adjust to the increasing cost of yen-based operations, reduce excess capacity in both assembly and parts, and seek new markets.

- The well-established Japanese vehicle production base in North America continues to expand (17 percent of North American capacity). The recent U.S./Japan agreement calls for improved Japanese market access and deregulation. Measures proposed will improve export opportunities for OE parts; AM parts and accessories; North American-built vehicles; OE parts supply in North America; and new investments. Close relations with Japanese companies must continue.

Europe

- The recent decline in value of North American currencies has enhanced Canadian competitiveness for OE and AM parts supply, exports to Big Three and Tier One operations in Europe, new investments and business collaboration.

- Europe-Canada auto trade is relatively small, with imports traditionally far greater than exports ($1.6 billion and $450 million respectively).

- Some European parts manufacturers (particularly in Germany, Austria, Sweden, France and Italy) are aggressively seeking North American partners to solidify their position as potential global suppliers.

Mexico

- In the longer term, the Mexican market is expected to increase assembly capacity over 50 percent, to about 2 million units per year, and parts sales are expected to grow to $20 billion. The phasing out of the protectionist Mexican Auto Decree will create significant trade, sourcing and investment opportunities for both assemblers and parts manufacturers.

- Canadian suppliers must compete on the basis of "lowest-cost, highest-quality, high value-added" components. Canada's main competitors are U.S. companies. The low value of the peso will encourage parts and vehicle sourcing from Mexico while discouraging exports to the Mexican vehicle market.

Emerging Markets

- Canadian industry has identified a number of emerging markets, which have potential in the longer term. In the OE sector, of interest are Brazil, India and China, with lesser interest in Eastern Europe, Indonesia and Malaysia. In the AM sector, Brazil, India, Malaysia, Indonesia and Eastern Europe are of interest, with lesser interest in South Africa and the Middle East.

Brazil

- Brazil has a substantive auto industry with major vehicle and parts investments from Europe, Japan and the United States, and is the world's tenth-largest vehicle producer (1.58 million units). Total value of auto-related shipments in 1994 was US$36 billion, of which US$14.8 billion was in parts.

- The Brazilian government has started to liberalize its protected automotive regime, in part to rectify its balance of payments problems. Accordingly, import duties were raised on vehicles (currently 70 percent) and reduced on OE parts (currently 2 percent).

- Pending the results of ongoing analyses, short-term opportunities have been identified for Canadian OE parts suppliers. Studies are under way that may determine a plan of action for the Canadian sector.

China

- The Chinese automotive market is forecast to grow at 9 percent annually for the next 10 years, to about 3 million units by the year 2000 and 5.5 million units by 2010.

- The Big Three have an interest in setting up plants in China, and expect their current parts suppliers to co-operate with them on this.

- The Chinese government plays a strong role in industrial development, and expects suppliers to consider Chinese partners to transfer supply capabilities there. More analysis is required.

India

- India has rapidly increasing purchasing power, credit liberalization, declining interest rates, duty concessions and easier consumer financing. Therefore, the Indian automotive market is expected to grow strongly, doubling the automotive population by 2001.

- MNEs such as General Motors, Peugeot, Ford, Daimler-Benz and Daewoo are targeting India strategically, both as a market in itself and as an integral part of their globalization efforts. Initial assessment of the Indian automotive market indicates some opportunities for Canadian automotive firms in OE and AM parts and accessories, particularly in joint ventures with Indian counterparts.

- Many Indian business regulations have been eased, including the 51-percent Indian ownership requirement, but this and the 50-percent import duties on automotive parts continue to be barriers to investment.

Main Challenges

- The challenge for government is to maintain an industrial and trade policy environment that fosters the development of the motor vehicle, parts and equipment industry; to ensure that Canada remains attractive to investors for manufacturing and technology development and for establishing R&D; to improve sourcing opportunities; and to increase trade.

- The challenge for industry is to continue to acquire more technology and design-in capability, and to seek opportunities provided by regional and national assembler strategies.

- The profile of the Canadian automotive sector needs to be raised with key trading partners and emerging markets, to ensure that potential traders and investors are well acquainted with Canadian capabilities.

- Discrepancies in trade data and other statistics are being harmonized to improve effectiveness of analyses and provide fair and full comparability on a North American basis. Emission and safety standards in North America should also be harmonized with other jurisdictions.

- There should be ongoing strategic analyses, and timely dissemination and distribution of relevant information and intelligence to the industry, which will assist in business development.

Strategic Direction

The overall action plan for the sector is focussed on the following strategic elements.

Industry-Government Co-operation (all subsectors)

- The various Automotive Advisory Committees (AACs) will undertake analyses in collaboration with appropriate stakeholders on:
  - – streamlining and harmonizing trade data and other sector statistics on a North American basis with NAFTA partners (AAC/International Committee, Department of Foreign Affairs and International Trade [DFAIT], Industry Canada [IC], Automotive Parts Manufacturers' Association [APMA], Automotive Industries Association [AIA], Association of International Automobile Manufacturers of Canada [AIAMC], Japan Automotive Manufacturers Association [JAMA]);

– harmonizing emission and safety standards in North America (AAC/Standards and Regulations Committee, Transport Canada [TC], IC, Environment Canada [EC]); and

– analyses of training requirements (AAC/Human Resources Development Committee, Human Resources Development Canada [HRDC], IC, missions).

- To improve analyses and increase business activity for Canadian parts companies, a work plan will be prepared and implemented to increase dissemination and distribution of strategic auto-related intelligence and information (AAC/International Committee, DFAIT, IC, APMA, AIA, Ontario, Quebec).
- Raise profile of the Canadian auto parts sector's capabilities in developed and emerging markets through media promotion, preparation of "evergreen" sector-specific prospectuses, a strong industry lead in international activities, and incoming media missions from Japan and Europe (DFAIT, IC, APMA, AIA, Ontario, Quebec).
- To ensure that both OE and AM companies have full market access to all sourcing, trade and investment opportunities, regular bilateral and multilateral consultations will be undertaken with key players in Japan, Europe and the U.S. to exchange information and discuss issues as they arise, and a work plan will be implemented (DFAIT, IC, missions).

Original Equipment Manufacturers (OEMs)

Sourcing/Trade Development

- To assess the potential for supply and exports of vehicles and OE/AM parts, analyses and surveys will be undertaken of parts/materials sourcing patterns by new assemblers, market intelligence from missions, and strategic visits will be made to assemblers. An auto parts mission will also be conducted to Japan (DFAIT, IC, APMA, AIA, missions).
- Improved contacts between Canadian suppliers and Japanese assemblers in North America will be promoted through corporate visits and technical seminars in key locations, to increase OE sourcing in Canada from $1.4 billion to $2 billion over the next two years (DFAIT, IC, Packaging Association of Canada [PAC], APMA, missions).
- To raise the profile of the Canadian sector and demonstrate OE parts supply capability (sourcing and exports), promotion will be undertaken in key markets through fair participation in Japan, Germany and the United States, and industry participation in an international business conference in Japan (DFAIT, IC, APMA, Ontario, Quebec, missions).
- To analyse the full scope of sourcing and investment opportunities and obtain more detail on trade, distributor networks and trade associations visits will continue in emerging markets, particularly China and Brazil. An action plan will be developed, if required, for participation in Automec '97-Brazil (DFAIT, IC, APMA, AIA, missions).

Investment/Technology Acquisition

- Ongoing analyses and visits to assemblers in Canadian-based plants are planned to promote the assignment of key product mandates into plants here; to continue assembly expansion investments as markets dictate; and to discuss their ability to assist the OE parts sector for design-in capability (IC, Ontario, Quebec, missions).
- Attract Tier One parts manufacturing (systems integration) in areas where Canada needs more depth, and in new complementary investments such as auto electronics and drive-train parts. Focus will be to promote business partnering, joint ventures, licensing and alliances, particularly in Japan, Germany, France and Austria, using an incoming partnering mission and targeted visit programs to Canadian-based and offshore companies (DFAIT, IC, missions).
- To promote technology inflow, analytical documents will be prepared; technical/diagnostic workshops will be held to improve manufacturing; and responsive government technology policies and programs will be highlighted (IC, PAC, Ontario, Quebec, missions).
- To increase foreign investments, examination and comparison of the competitiveness of the Canadian investment climate versus that in other jurisdictions will continue, and investment promotion documents maintained. Information seminars in Canada, with speakers invited from the relevant territories, will be considered (DFAIT, IC, APMA, AIA, Ontario, Quebec).

Research and Development

- Increase R&D in Canada through greater awareness of available Canadian R&D tax benefits and of national/provincial labs, using the media and bilateral technology development programs (IC, DFAIT, Ontario, Quebec).

Aftermarket and Services Industries (AM)

Sourcing/Trade Development

- Increase Canadian AM supply opportunities by participating in international automotive trade shows in United States, Mexico and Europe, and through identified distribution networks, catalogue shows, and incoming buyers' missions from Japan and elsewhere to attend local shows in Toronto and Montreal. Emphasis will be given to new opportunities in North American jurisdictions where emission and safety standards and laws are in place or planned, and to promoting Canadian expertise in warehousing, distribution systems and inventory management (DFAIT, IC, AIA, missions).
- Collect, analyse, and disseminate sector information on new opportunities, by producing documents, holding seminars and organizing market assessment visits in Latin America, India and the Pacific Rim (DFAIT, IC, AIA, missions).
- Develop the capabilities of new exporters to enable them to better respond to new opportunities by holding seminars and disseminating intelligence from missions (DFAIT, IC, AIA).

Investment/Technology Acquisition

- Increase global awareness of Canadian supply capabilities and promote AM investments in complementary product lines from the U.S. and Europe through participation in trade fairs, promotion of joint ventures and licensing, and publishing of an AM exporters directory (DFAIT, IC, AIA).
- Monitor new process and product technology (particularly in Europe), and competitive packaging developments (DFAIT, AIA, missions).
- To improve Canadian competitiveness and capability in the AM sector, an industry group will study packaging, and Intelligent Manufacturing Systems Canada will examine processing and manufacturing (AIA, PAC).

Contacts

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AUTOMOTIVE

Activity	Date	Location	Dept.	Contact
Africa and the Middle East				
AIA Show: Mission from Saudi Arabia	13-Apr-96	Montreal	DFAIT	613-944-5984
Automechanika '96: Mission from Saudi Arabia	10-Sep-96	Frankfurt	DFAIT	613-944-5984
East Asia				
Auto Parts Mission from India	01-Jun-96	Ontario/Quebec	DFAIT	613-996-5903
Japan				
APMA/PAC Seminar Program: Workshop Diagnostics and Eye for Waste Program	01-Apr-96	Ontario/Quebec	APMA	416-620-4220
AIA Show: Media Mission from Japan	13-Apr-96	Montreal	DFAIT	613-955-1678
APMA Auto Parts Mission	01-May-96	Tokyo/Nagoya	APMA	416-620-4220
APMA: Canada/Japan Business Conference	13-May-96	Canada/Japan	APMA	416-620-4220
APMA/PAC Program Seminar: Doing Business with Japan	01-Oct-96	Toronto	APMA	416-620-4220
Tokyo Motor Show 1997: National Stand	01-Oct-96	Tokyo	IC	613-954-3445
Automotive Technical Seminar	31-Oct-96	Nagoya	Ontario	416-325-6861
Latin America and the Caribbean				
Partnering Mission from Mexico	01-Apr-96	Ontario/Quebec	IC	613-954-3436
PAACE '96: National Stand	24-Jul-96	Mexico City	DFAIT	613-995-0460
PAACE '96: Mini-Mission and Seminar	24-Jul-96	Mexico City	IC	613-954-3436
United States				
Automotive Industries Export Directory	01-Apr-96	Ottawa	DFAIT	613-944-7486
AIA Show: Mission from the U.S.	13-Apr-96	Montreal	DFAIT	613-944-7486
University of Michigan Briefing on the Automotive Industry	01-Aug-96	Acme, MI	DFAIT	613-944-7486
SEMA 1996: National Stand	19-Nov-96	Las Vegas	DFAIT	613-944-7486
Society of Automotive Engineers (SAE) Show: National Stand	26-Feb-97	Detroit	DFAIT	613-944-7486
Mid-America Trucking Show '97: National Stand	23-Mar-97	Louisville, KY	DFAIT	613-944-7486

Note: Dates and locations are subject to change.

Activity	Date	Location	Dept.	Contact
Western Europe and the European Union				
Partnering Mission from Austria	01-Apr-96	Ontario/Quebec	IC	613-954-3725
Auto Mission to Western Europe	01-Apr-96	Various Cities	IC	613-952-5161
Media Mission from Germany and Austria	01-Apr-96	Ontario/Quebec	IC	613-954-3725
Auto Parts Mission from Italy	01-Jun-96	Ontario/Quebec	DFAIT	613-992-7001
Automechanika '96: National Stand	01-Sep-96	Frankfurt	DFAIT	613-992-7001

For up-to-date and detailed information on the activities in this document and those contained in other sectors, you may consult the CIBS Compendium. This on-line compilation of activities planned by the federal and provincial governments is continuously revised and is accessible via the Department of Foreign Affairs and International Trade World Wide Web site, at the following address: http://www.dfait-maeci.gc.ca

Acronyms and initialisms used in Canada's International Business Strategy

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AAFC	Agricu
ACOA	Atlant
APEC	Asia-P forum
ASEAN	Associ
BBS	electrc
BOOT	build,
BOSS	Busine System
CCC	Canadi
CIBS	Canada Strateg
CIDA	Canadi Agency
CIS	Commo
CSA	Canadi
DFAIT	Departi Interna
DFO	Departr
DND	Departn
EC	Environ
EDC	Export I
EU	Europea
FITT	Forum for International Trade Training
FORDQ	Federal Office of Regional Development — Quebec
FSU	former Soviet Union
FTA	Canada-U.S. Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada
	International Business Opportunities Centre
	Industry Canada
	International Development Research Centre
	international financial institution
	International Standards Organization
	International Trade Advisory Committee
	International Trade Centre
	Ministry of Agriculture, Fisheries and Food of Quebec
	multilateral development bank
	multinational enterprise
	North American Free Trade Agreement
	North Atlantic Treaty Organization
	National Research Council
	Natural Resources Canada
	Natural Resources Canada — Canadian Forest Service
	National Sector Team
	Organization for Economic Co-operation and Development
PEMD	Program for Export Marketing Development
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SME	small and medium-sized enterprise
UNEP	United Nations Environmental Program
WED	Western Economic Diversification
WTO	World Trade Organization

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Acronyms an nternational Business Str

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AAFC	Agriculture and Agri-Food Canada
ACOA	Atlantic Canada Opportunities Agency
APEC	Asia-Pacific Economic Co-operation forum
ASEAN	Association of Southeast Asian Nations
BBS	electronic bulletin board system
BOOT	build, own/operate, transfer
BOSS	Business Opportunities Sourcing System
CCC	Canadian Commercial Corporation
CIBS	Canada's International Business Strategy
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CSA	Canadian Standards Association
DFAIT	Department of Foreign Affairs and International Trade
DFO	Department of Fisheries and Oceans
DND	Department of National Defence
EC	Environment Canada
EDC	Export Development Corporation
EU	European Union
FITT	Forum for International Trade Training
FORDQ	Federal Office of Regional Development — Quebec
FSU	former Soviet Union
FTA	Canada-U.S. Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada
IBOC	International Business Opportunities Centre
IC	Industry Canada
IDRC	International Development Research Centre
IFI	international financial institution
ISO	International Standards Organization
ITAC	International Trade Advisory Committee
ITC	International Trade Centre
MAPAQ	Ministry of Agriculture, Fisheries and Food of Quebec
MDB	multilateral development bank
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NRC	National Research Council
NRCan	Natural Resources Canada
NRCan-CFS	Natural Resources Canada — Canadian Forest Service
NST	National Sector Team
OECD	Organization for Economic Co-operation and Development
PEMD	Program for Export Marketing Development
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SME	small and medium-sized enterprise
UNEP	United Nations Environmental Program
WED	Western Economic Diversification
WTO	World Trade Organization

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