

II. MARKET OPPORTUNITIES AND SECTOR MARKETING PLANS

PRIORITY SECTOR IDENTIFICATION

This analysis of the F.R.G. market identifies a number of sectors where requirements match Canadian expertise and capabilities. Marketing efforts in those priority sectors should produce increased sales of Canadian products. The eight sectors selected for this marketing plan fall largely into two categories. The first are sectors where trade has been historically significant and Canada can increase its market share. They include automotive parts, defence electronics, fish products and sporting goods. The second category includes sectors in which Canadians have a design, capacity or other specific advantage. They include timber frame construction and computer products. Discussed separately are opportunities for joint Canadian-German participation in capital projects in third countries and co-operative industrial ventures.

The sectors included in this plan are not, of course, the only areas of opportunity for Canadian exports to Germany. As in the past, many of Canada's established exports will continue to flourish without direct government promotion. The affluent and diverse German market holds the potential for improved Canadian sales in many other product areas not highlighted in this plan.

1. AUTOMOTIVE PARTS

The Opportunity

The German Automotive industry, with a turnover of DM 126 billion (\$81 billion) in 1980, ranks third in the world after Japan and the United States. During the past two years, the industry has suffered the same difficulties that characterized the North American market during that corresponding period: slackening overall demand; a pronounced shift toward more fuel-efficient vehicles, accelerated by spiralling gasoline costs; and market penetration by Japanese producers. Despite those factors, the medium-term outlook for the vehicle producers in the F.R.G. remains good. Knowledgeable observers believe that the automobile industry will remain among the growth sectors in the F.R.G., but at a more modest rate of expansion than during the 1970s. A 20 per cent increase is anticipated in the market over the next decade.

In examining the opportunities for Canadian automotive parts suppliers in the F.R.G., several key factors must be taken into consideration:

- a) the health of the German automobile industry and, hence, the production levels of the German vehicle manufacturers;
- b) the initiative and perseverance of the Canadian manufacturer;

- c) the price competitiveness and quality of the parts offered by the Canadian supplier;
- d) the Duty Remission Agreements;
- e) the investment opportunities available in Canada for German parts manufacturers, i.e. joint ventures, licensing agreements, direct investments;
- f) the precedent set by Volkswagen in entering into a duty-free agreement.

In 1982, production of passenger vehicles in the F.R.G. reached 3,761,436 units, an increase of 5 per cent over 1981. On the other hand, utility vehicles slipped by 6 per cent to 301,220 units. Domestic manufacturers captured 75.9 per cent of the F.R.G. market in 1982, a significant recovery from the 63.7 per cent share in 1980.

The primary potential for sales by Canadian original equipment manufacturers (OEM) lies with the Volkswagen, BMW and Daimler-Benz groups. Successes have already been recorded with those firms, confirming the opportunity of substantially expanded sales. The Ford and General Motors subsidiaries have limited export interests in Canada and are unlikely to see the advantages of encouraging Canadian parts suppliers. Nonetheless, opportunities exist, since vehicles manufactured by those companies could be imported into Canada duty-free under the Auto Pact. Furthermore, the supplying of parts for "world cars" such as the Ford Escort has become worldwide and represents a supply opportunity for Canadian parts producers.

Three factors are the basis for the positive outlook of the German automobile industry. First, the rate of growth for passenger vehicles is expected to average 2 per cent per annum throughout the 1980s. Secondly, the German industry is determined to meet the Japanese competition on its own terms, with rationalization and restructuring plans demanding increased investments. Thirdly, the 1980s will see a new era of co-operation guiding the German (and European) automobile industries. Agreements such as those between VW and Nissan for export marketing and the VW-Renault project for joint development of automatic power transmissions illustrate that Europe is determined to meet the Japanese challenge.

The Potential for Canada

There is potential for the supply of parts to the major original equipment manufacturers (OEM), i.e. Volkswagen, BMW and Daimler-Benz. Established suppliers of new vehicle parts can also expect to supply OEM-approved replacement parts for the aftermarket. As a third component, the private brand aftermarket will offer opportunities in coming years if it develops as expected. Present projections, however, indicate that even a strong promotional effort would not develop commensurate sales results until acceptance of private brand parts has expanded.

Canadian exports of automotive parts and accessories to German OEMs, worldwide, amounted to