

engines and (vi) sales of engine components by Rolls Royce Canada to its U.K. parent.

Rather than concerning itself with the EC, historically Canada's industry has focused on the U.S. market. In fact, the Canadian industry is structured in a way that is complementary to the American industry. Over 70 per cent of commercial transactions in this sector are with the U.S. Canadian exports are in the form of subsystems and components and subcontracted production for American contractors and the United States Department of Defense. As a result, Canada has become the largest supplier of aircraft parts to the U.S. (followed by France, Japan, Italy and the United Kingdom). In return, Canada imports 55 to 60 per cent of the aircraft and systems Canadian firms use (primarily first and second tier companies),¹⁴ and the U.S. supplies over 90 per cent of total material sourced outside of Canada. The U.S. is expected to remain a principal market, accounting for more than half of the Canadian aerospace output.

The revenue increase recorded by the industry in the past few years has been attributable largely to the many sources of demand in the American defence market¹⁵ (for subsystems and parts manufacturers) and to the civilian aerospace market's reaction to air transportation deregulation. However, after an eight-year growth period, the U.S. defence budget risks being affected by cutbacks, resulting in decreased American military spending. As a result, the U.S. aerospace industry could reorganize its structure or modify its demand patterns. The future of the aerospace industry, consequently, lies not only in military applications but also in civil applications. The relatively small share of the defence components (about 30 per cent of total sales) should allow the Canadian industry to adapt quickly and adjust to the new realities of the market.

The decrease in the defence budgets of the United States and other developed countries will likely result in a continuing downward trend in military aircraft procurement. Moreover, many countries (new low-cost entrants from Southeast Asia, South America and Japan) are becoming increasingly autonomous with regard to the manufacture of military aerospace equipment. These countries can also position themselves in the global markets, thus

reducing export market opportunities even more for Canada.

The dimensions of the shift in demand from the military to the civilian sector are illustrated by several statistics. Of total spending related to aircraft (US\$68.1 billion) in the U.S. in 1989, 40 per cent was for civilian aircraft and 60 per cent for military aircraft. In contrast, in 1987, civilian aircraft represented 30 per cent of total spending on aircraft (US\$59.8 billion).¹⁶ For 1992, more than half of estimated U.S. aircraft spending (53 per cent) is forecasted to be attributable to commercial aircraft. U.S. spending on aircraft constitutes approximately 50 per cent of total American aerospace industry sales.

In spite of changes in the American market, including a reduction in the military segment, the U.S. still remains the largest aerospace market. The North American market, furthermore, represents approximately 70 per cent of the world aircraft turbine engine fleet and will thus remain the prime market for the Canadian aerospace industry. Nevertheless, one recent example of a Canadian aerospace company's sales effort reflects the profitability of bidding for contracts in the smaller EC market. The Canadair Division of Bombardier was recently awarded several large procurement contracts for its new 50 passenger aircraft, the Regional Jet (RJ). Deliveries of this aircraft are expected to begin in 1992. Although the U.S. market is the largest in the world, the Canadian industry should not ignore opportunities that exist in Europe.

In summary, the Canadian aerospace industry is very competitive with respect to certain market niche products (gas turbines, small aircraft, inertial navigation systems, infrared surveillance systems, flight simulators, satellite subsystems and aircraft environmental control systems). Despite the handicap of an extremely limited domestic market (both civilian and military), Canadian companies have performed well by concentrating their efforts on exports and by entering into teaming arrangements with the U.S. on a North American defence industrial base. The Canadian aerospace industry is one of the high technology leaders in the Canadian manufacturing sector and is characterized by state-of-the-art technology development. However, in these times of rapidly changing