

## EXECUTIVE SUMMARY

A number of the regulatory changes that will be made under the European Community's Single Market program will reinforce major structural changes already under way as a result of the global transformation of the auto industry.

These developments will result in some significant new opportunities for Canadian-based firms, especially in the original equipment and aftermarket parts sectors, provided that Canadian firms take appropriate action to capitalize on these opportunities.

### 1992 Regulatory Changes

The major regulatory changes under Europe 1992 that will affect the EC's auto industry are:

Reduction of technical obstacles to trade within the Community. The effect of the reduction of technical barriers to trade will be to increase the competitiveness of European automobile producers. European firms will be able to devote more of their R&D efforts to new product development as opposed to adaptive engineering. The reduced complexity of model development and production will also lead to cost savings in the final product.

Non-EC firms exporting to the EC should also benefit from the fact that once testing and certification requirements have been met in one Member State the product should be free to move freely throughout the Community.

Tax harmonization. Tax harmonization, when it is finally achieved, will have a significant impact on the automobile market in the EC. Automobile demand is likely to increase in those Member States where taxation levels have been relatively high, such as France and Italy. However, it is becoming increasingly evident that this harmonization will not be realized by the end of 1992.

Ultimately, vehicle companies will be able to more readily pursue Community-wide marketing strategies, when tax levels are harmonized.

Value-added tax (VAT) changes and user tax changes will also affect the consumer's choice of car size and thereby affect production and marketing decisions by automobile producers.

Controls on government subsidies/interventions. Governments in the Member States will be much more constrained in their ability to intervene on behalf of "national champions." As a result new investments, restructuring, mergers and acquisitions should take place more readily and more freely throughout the Community.

EC-wide road-worthiness tests. The Commission proposed to introduce legislation that would require mandatory testing of passenger and goods vehicles below 3.5 t.

The tests would cover a specified list of items including braking, steering, seat belts, wheels, suspensions, chassis frame, noise, suppression of radio interference and exhaust emissions.