

c) Companies without any Commercial Ties with Europe

In these times of market globalization, it is risky for a Canadian company to limit sales to its traditional export market, the United States. Such companies are exposing themselves to eventual increased competition from European industry on third markets and even on domestic markets. They are also shutting themselves off from business opportunities provided by a more open and less fragmented European market. Moreover, these companies risk losing important subcontracts with U.S. contractors, which, in seeking to increase the Community content of their exports to Europe, might substitute European subcontractors for Canadian ones.

Most of these companies should re-evaluate their strategies and seek to establish initially low-risk ties. Using agents to test the acceptance of products in the European market, setting up a sales office, or establishing of joint ventures are some of the means by which these companies may enter the European market. While these suggestions may be ways to explore the EC market, no success is guaranteed.

Canadian companies without any commercial links with Europe should at least strengthen the subcontracting ties they have with Canadian and American companies to ensure that they are not left behind. By participating indirectly in this way, they may also be able to benefit from spin-offs that might result from Europe 1992.

d) Defence - Special Considerations

In the Canadian defence industry, the previously developed strategies are likely to facilitate access to the European defence market as advocated by the IEPG; avoid the eventual implementation of Community customs tariffs; and, enable the industry to participate in EC and IEPG research and development programs. However, the strategy adopted by a company, whether it proceeds from the establishment of a foreign presence, acquisition of an offshore subsidiary or the formation of a strategic alliance, must take into consideration the recent developments in defence world markets.

As previously mentioned, defence budgets are suffering extensive cutbacks in all NATO countries, and markets are shrinking. The U.S., the main export market for Canadian products, will reduce its military budget by 1992, which will lead to a major restructuring of the U.S. defence industry. Notwithstanding diminished defence expenditures, development of high technology defence systems will remain a high priority.

In this new environment, it seems that only companies that are leaders in their own sector of activity, and are capable of maintaining a substantial and continuous R & D effort, will be able to overcome the expected competition and establish themselves in Europe. Other companies will find it increasingly difficult to make their defence-related activities profitable. The best strategy for these companies lies in the reorientation of their activities from military towards civilian, although a balance between military and civil production would be desirable to properly diversify in the event that unexpected declines in market shares do occur. Among Canadian companies having adopted such a strategy, or preparing to do so, are Héroux Inc. and Oerlikon Aerospace.

Héroux, a company specializing in the design, manufacture and maintenance of landing gear, with 70 per cent of its production devoted to the defence sector, has chosen to diversify its position on the market by expanding into the upgrading of landing gear of aircraft for large commercial airlines. The company considers that its refurbishing activities constitute a market niche with good prospects that will result in reducing Héroux's dependence on defence markets.

At Oerlikon Aerospace, prime contractor for the procurement program of low-altitude air defence systems, 95 per cent of revenues come from the defence sector. Faced with global market reductions, Oerlikon is presently investigating possible civilian applications of the technology it has developed for the defence sector. The long-term objective is to draw 50 per cent of its revenues from activities of a civilian commercial nature. Among the considered sectors, Oerlikon will give priority to space and environment.