II. MARKET OPPORTUNITIES AND SECTOR MARKETING PLANS

PRIORITY SECTOR IDENTIFICATION

This analysis of the French market identifies a number of sectors where requirements match Canadian expertise and capabilities. Marketing efforts in these priority sectors should produce increased sales of Canadian products and improve industrial co-operation. The five sectors selected are areas in which Canadians have a competitive advantage. One sector, i.e. fish products, has had an historically significant export advantage and Canada can expect to increase its market share. The other sectors, i.e. computer products, packaging and labelling equipment, energy and automotive parts have generally had limited success but important potential exists for growth of Canadian exports to the French market. Discussed separately are opportunities for co-operation with French firms in third countries and industrial co-operation.

1. COMPUTERS AND RELATED PRODUCTS

The Opportunity

France has many economic, political, strategic and commercial reasons to want to recover its domestic market and increase its share of the world market. For these purposes, the French government intends a) to promote mergers in order to have its industry attain international size and expertise; b) to release substantial funds for research and subsidies to the industry; c) to rationalize production in certain areas, i.e. optical fibres, telecommunications, etc.; d) to try to form a common front with other European producers against the invasion of U.S. and Japanese computer industries; and, e) to promote investments abroad in order to obtain access to new markets and technologies. France's considerably expanded science and technology budget and the integration of research into the Ministry of Industry are key factors in this strategy.

The French are, however, too dependent on foreign products in certain areas to close their doors on imports. For example, 66 per cent of microcomputers and 61 per cent of terminals sold in France in 1980, were imported. Also, of the 36,000 word processors operating in France in 1981, most were imported. The major manufacturers of word processors installed at the end of 1981 were IBM, Olivetti, Rank-Xerox, Wang, AES, CPT, Wordplex and Philips.

Large users of data processing equipment are often public concerns and thus, they tend to favour the domestic industry. But, about 60 per cent of the purchases are made by private companies, among which the small and medium-size firms seem to be very dynamic, with a 7-per cent average growth annually. It just happens that Canada's strengths lie particularly with small business systems, word processors and graphic displays which are marketed with particular emphasis on small and medium-size independent businesses in which the proprietors are the decision makers.

More than $145 million worth of data processing and electronic office equipment (or about 16 per cent of total exports for this sector) were shipped to Western Europe in 1981. Canada's domestic computer firms have selected Europe as a priority export market. The EEC countries, in particular, represent the third largest market for computer products after the U.S. and Japan.

The marketing strategy focuses on areas where the Canadian industry is more heavily represented, notably terminals including CRT display, data collection, graphics and portable computer systems designed for specific applications, i.e. word processing, business management, and so on.

The Canadian Computer Industry

Canada's data processing industry has experienced a phenomenal growth. In 1981, industry revenues exceeded $4 billion and increased at a rate of about 22 per cent. Two main subsectors accounted for this growth: equipment sales and rental revenues (more than $3 billion) and service revenues (more than $1.5 billion).

Several hundred companies are directly engaged in generating computer equipment sales. These companies supply a variety of products including microcomputers, large mainframes, peripherals and software for mini and microcomputer systems. Worldwide sales of computer equipment and automated office equipment by indigenous Canadian firms exceed $300 million annually.

Although the Canadian market for computer equipment is largely supplied by imports, this is balanced to some extent by the high export rate of domestic production. In 1981, the total production of data processing and office automation equipment by all firms (Canadian-owned and branch plants) in Canada was valued at more than $900 million. More than 90 per cent of this production was exported to overseas markets. Although the majority of these foreign sales were made by the Canadian subsidiaries of U.S. multinationals, Canadian-owned firms sold more than two-thirds of their computer equipment in export markets.

The major factor contributing to the soaring levels of Canadian exports in computer equipment has been the high degree of rationalization taking place in the production of computer hardware by foreign-owned subsidiaries in Canada. With government encouragement, Canadian plants of multinational firms have secured worldwide mandates for a particular product or product line. This has spurred the growth in production of equipment which meets international requirements. Recognizing the favourable economic environment and taking advantage of Canada's highly-skilled labour force, certain foreign parent firms have elected to develop and manufacture new computer products in Canada. Although the multinational com-