- the competition with potential Japanese operations in Europe who are now also moving upmarket towards the most profitable segments and increasing penetration in markets where they still have limited access;

- a potential increased flow of U.S. exports from both "transplant" Japanese and U.S. manufacturers; and

- the emergence of new producers in the Asia-Pacific area which are preparing large- scale production for export to Western markets.

At present the European producers control a large part of their domestic markets as well as the high-value export market to the U.S. In the future, several new Japanese players will most probably join the large producers in Europe and strive for access to the upper segments. If this materializes, shifts in ownership of capacity are likely to occur.

b) Parts Producers

It is likely that the market for auto parts and components in Europe will expand rapidly over the next decade to reach around 90 billion ECU in the 1990s (from the current 60 billion ECU), although the actual level of vehicle production is unlikely to increase significantly. This development will take place for the following reasons:

- increased sophistication of vehicles which will be standard-fitted with increased automotive electronics applications, anti-pollution devices, more efficient safety restraint systems, etc.;

- general "up-market" move in car demand with consumers demanding more equipment, comfort and power;

- increased out-sourcing by car manufacturers of components with high value added;

- potential of access to the Japanese replacement market as a result of the growing fleet of European cars in Japan (providing European exports to the other areas remain stable); and

- growing aftermarket for replacement parts because of an increasing number of vehicles in circulation, a trend that will continue; between 1971 and 1985, the number of cars in use in the EC rose from 59 million to 116 million, and by 1993 a fleet of 129 million vehicles is forecast.

Despite the bullish market outlook for EC parts producers, significant rationalization and restructuring is expected. Aside from the few major Western European parts suppliers, most companies are relatively small by world standards and growth by acquisition features strongly in their expansion plans. As a result of technology developments and "systems" sourcing, vehicle assemblers in Europe will increasingly restrict their purchases to a very much smaller first tier of parts suppliers. These, in turn, will develop relationships with a smaller number of second and third tier suppliers.