

Transportation costs and lead times and the psychological need for physical closeness will contribute to this situation. These barriers to direct export sales will not be eliminated by the Single Market program. Indeed, they may be strengthened as rationalization reduces the number of players in the parts subsector and tightens links between survivors and the vehicle manufacturers.

This process of rationalization is the second major element that will influence parts suppliers who wish to supply the European market to make some form of investment in Europe.

A major outcome of Europe 1992 will be the acceleration of the process of rationalization of the supplier base in Europe. The number of major parts manufacturers supplying European

assemblers is expected to be reduced from approximately 1 500 to under 1 000. As a result, it will be even more difficult for new entrants, especially those from outside Europe, to gain access to the original equipment market.

#### **4.6 Anticipate Increased Competition from EC Firms**

Rationalization and reduction of direct and allocated unit production costs in the EC motor vehicle industry may result in intensified competition from European nameplates in the lower and middle price ranges.

Many existing European parts firms will be forced to merge to remain competitive. Surviving European players may emerge in a strengthened position to compete in world, including North American, markets.