

SECTOR: TRANSPORTATION EQUIPMENT

1. Market Opportunity Overviews

The transportation equipment sector provides unique market opportunities in both motor vehicle and parts and urban transportation equipment. In 1984, it is estimated that Canada will have a positive balance of trade with the U.S.A. in motor vehicles and parts of approximately \$5.5 billion. Offshore markets hold promise for original equipment and aftermarket parts.

Urban transportation equipment represents a sector with significant export growth potential. Current Canadian exports approximate \$300 million or 75% of total annual production in a world market that is estimated to the year 2000 to require \$400 to \$500 billion in equipment. Canada has the technological potential to supply complete turnkey systems with a high degree of Canadian content. Individually, a number of Canadian organizations are recognized internationally as both proficient manufacturers and transit operators.

2. Current Access Constraints

The most significant determining factor affecting the Canadian motor vehicle and parts sector is the Canada-U.S. Automotive Products Trade Agreement (APTA) as it provides for duty-free access between Canada and the U.S.A. for both motor vehicles and original-equipment parts in a fully integrated North American market and production system. The design of North American vehicles coupled with the internationalized corporate structure of the "Big Four" has tended until recently to separate the North American market from the international market with the result that the vehicles produced tend to be destined primarily for the North American market. The Canadian motor vehicle industry has developed little indigenous management autonomy and limited R & D is undertaken in Canada. Independent Canadian parts producers have closely aligned their production to the needs of the major North American vehicle manufacturers who, until recently, have largely sourced their requirements from firms in North America. They have historically tended to rely on sourcing contracts that are let on a "make to drawing" basis and on access to the centralized purchasing structure of the car manufacturers.

Canadian manufacturers of urban transportation equipment could stand to win a significant portion of the international market if a number of constraints are overcome and appropriate policy instruments are put in place to support Canadian producers. These relate to access to the U.S. market, systems capability and export financing. Access to the important U.S. market is impeded by substantial tariff and non-tariff barriers. Urban transportation equipment was virtually left untouched by the Tokyo Round of trade negotiations with neither the U.S.A. nor Canada reducing their tariffs on rolling stock and the U.S.A. not removing the domestic content requirements of its Surface Transportation Assistance Act (STAA). The STAA, which