

cle manufacturers, they are now more willing than ever to seek Canadian parts. Currently, there are 10 Canadian suppliers to BMW (of which one is a subsidiary of a German firm). Daimler-Benz has proven to be a more difficult company to supply because of its lower production volumes. At last count, Volkswagen was purchasing more than \$65 million worth of Canadian-made parts from 43 Canadian companies annually.

The Ontario government has played a complementary role to foster trade growth by conducting missions of Canadian parts manufacturers to the F.R.G. and by urging German parts suppliers to consider establishing manufacturing facilities in Canada.

### Canadian Success Stories

In the OEM market, Varta, Duplate, CGE, Canadian Timken, Wegu and others have benefited from the Duty Remission Orders to increase sales to German vehicle manufacturers. In the aftermarket, a number of Canadian companies (Certified, RCP, Ruff, Tridon), that have been visiting Europe for some years, have established substantial business accounts. Others, such as Canparts and Keystone, have gained recognition in the marketplace by exhibiting at Automechanika.

### Market Considerations

An inescapable hurdle for any parts supplier is the task of meeting the German standards and safety regulations. All automotive parts have to be tested and approved by the *Technischer-Überwachungs-Verein* (TÜV) in accordance with the German Road Code. The TÜV service is available, at a fee and with a certain delay for testing time, to any Canadian supplier. In most cases, OEM parts, meeting the manufacturer's requirements, have little difficulty meeting TÜV regulations.

Canadian parts exports to the F.R.G. are subject to the EEC's Common External Tariff. At the present time, Germany grants Most-Favoured-Nation (MFN) treatment to all countries and the rates of duty on most manufactured goods fall within a range of 5 to 17 per cent ad valorem. When competing with Common Market suppliers, Canadian goods are subject to that tariff in addition to transatlantic shipping costs. However, the vehicle manufacturers can increase their volume of exports by selling through the EEC.

Most Canadian OEM parts that are built into vehicles assembled in the F.R.G. are eligible for duty drawback when they are exported (if not already covered by a remission agreement).

### Considerations for Approach to OEMs

Although the following points are generalized to take into account variations from one automobile manufacturer to another, they represent observations of interest to all potential Canadian suppliers.

- i) A local agent is a prerequisite for any serious Canadian supplier to this market. With few exceptions, agents serve only one of the OEM or the aftermarket. It is rare that an agent will go against that market tradition. The automobile manufacturer prefers to deal through commercial agents rather than directly with the supplier, in the belief that an agent assumes a more neutral role and considers the needs of both parties. It is, therefore, advisable for a Canadian firm to engage a suitable local agent to represent and promote its interests ab initio. The parts supplier, with assistance from the Embassy, should first obtain provisional agreement from the German vehicle manufacturer to consider supply. Then the Canadian company will be in a position to engage a competent agent.
- ii) Although participation in the appropriate European trade fair (SITEV in Geneva for OEM or Automechanika in Frankfurt for aftermarket) is an important introductory step, a persistent campaign waged in co-operation with an agent is necessary to achieve the first sales breakthrough. The manufacturer prefers to deal with potential suppliers on a one-to-one basis, in his home territory, and with his technical people present.
- iii) The initial approach of a prospective supplier to this market should be to sell one particular component (not a variety of products). The company is expected to have the resources sufficient to retool or prepare new mouldings to meet the manufacturer's specifications at the sampling stage. (Once a product is accepted, the German manufacturer will usually provide compensation for such costs. That reimbursement by the manufacturer means that the supplier will be prohibited from dealing with unauthorized service outlets for the aftermarket.)
- iv) Most manufacturers allocate about 80 per cent of their orders to current suppliers, leaving a 20-per cent "swing" component to direct to new suppliers. If there are no new suppliers, 100 per cent of the orders are negotiated with the proviso that the 80-per cent "rule" could apply in future. That principle implies that no Canadian firms will necessarily be excluded from consideration because of satisfactory existing sources of supply.
- v) As a rule, a new supplier is never given more than 20 per cent of a manufacturer's OEM requirements for a particular item or range of items. An increase in the 20-per cent share will depend on the ability of the supplier (and of his co-suppliers) to retain their quality, reliability and price competitiveness. That limit may be exceeded for the aftermarket.
- vi) Pricing plays an important role, since manufacturers will accept only new supplier arrange-