

a policy on the part of the MoD to buy "commercial, off-the-shelf" whenever possible, in order to reduce costs. The cost of training has also pushed the MoD towards simulation in all areas, resulting in some notable successes for Canada in the area of flight simulation equipment.

## Local Capability and Competition

The U.K. has a number of very large players active in both the aerospace and defence sectors, and these normally act as the prime contractors for any important projects. These companies are technologically sophisticated and offer products that have a world-class reputation. The prime contracting companies are primarily assemblers who often rely substantially on subcontractors from outside their group, thereby offering a number of opportunities to suppliers of subsystems. Second-tier suppliers can include major foreign firms – e.g., American or other European defence contractors – where they possess special capabilities. In turn, U.K. or foreign suppliers have requirements for specialised components, opening numerous opportunities for even smaller companies.

Several U.K. firms are world-class aerospace/defence companies and may be appropriate partners for Canadian exporters; they include British Aerospace (BAe, civilian and defence aerospace, ordnance), GEC-Marconi (Europe's second largest defence electronics contractor), Vickers Defence Systems (armoured vehicles), GKN Westland Helicopters (helicopters), Rolls-Royce (aero-engines), Pilkington Optronics (electro-optics), Shorts (missiles), Thomson-CSF (simulators), Racal (electronics), Vosper Thornycroft (patrol boats and strike craft), Lucas (aerospace systems), Dowty (landing gear, propellers), Smiths (flight management and avionics systems), and Pilatus Britten-Norman (small aircraft).

## Distribution Channels

The appropriate strategy for Canadian companies wishing to pursue business in the U.K. aerospace and defence markets will vary with the size, type, and market segment in question. Suppliers of components and equipment should seek to convince one (or more) of the U.K. prime contracting companies to collaborate on a specific

project. Companies with unique defence products should approach the Procurement Executive of the U.K. Ministry of Defence to convince them that the product in question is state-of-the-art and should be considered within future requirements. This approach will require briefing of the MoD, the user community, and possibly the Defence Research Agency. Companies seeking to become long-term suppliers to the MoD or to U.K. prime contracting companies may need to invest in a local facility to ensure regular service and liaison. A local manufacturing subsidiary is also useful in avoiding the problem of offset requirements which can arise in larger projects (see below).

For all exporters, some local representation will be required – e.g., via an agent or distributor. In a decision with respect to local representation, the fact that British firms are major exporters should be kept in mind, as collaboration can lead to significant opportunities in third markets.

## Entry Barriers

Entry into the U.K. aerospace and defence markets is not characterized by any obvious entry barriers. Given the high technical standards operative in these sectors, ISO-9000 certification is often a pre-requisite for bidding, however. Electronic equipment will need to meet the European standards for radio frequency interference and electromagnetic compatibility.

With respect to MoD procurement projects over \$21 million, however, foreign suppliers will have to evaluate the need for "industrial participation" (or "offset") commitments in Britain. These involve undertakings by a foreign supplier to directly allocate a given percentage of the value of a defence contract to production in the United Kingdom. While such undertakings are not required by law and are not legally binding, they do form part of the package that the MoD evaluates before choosing a supplier. Given the high threshold at which industrial participation rules take effect, this issue is not encountered frequently. Nor have companies which have signed industrial participation agreements always found them problematic, as they can often be built into their global strategy, either in sourcing supply or in tackling third-country markets.