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EXTERNAL AFFAIRS ~~CONFIDENTIAL~~ EXTÉRIEURES

COMPETITIVENESS PROFILE

MOTOR VEHICLES

1. Structure and Performance

Structure:

SIC 323 Motor Vehicle Manufacturers includes the assemblers of cars and trucks. Major product lines include passenger cars, station wagons, mini vans, vans, pick-up trucks, and medium and heavy duty trucks. Sales in Canada of cars, including station wagons, were $9 billion in 1983. Imports were $6.2 billion and exports $9.6 billion. (Figures on trucks are not available in a disaggregated form. However, similar ratios on imports and exports prevail.)

Motor vehicle assembly (cars and trucks) is concentrated in a few firms which are predominantly foreign owned and controlled. The industry has been operating in a conditional duty-free environment since 1965 within the framework of the Canada/United States Auto Pact. All of the six car and light truck manufacturers are foreign owned and are concentrated in Eastern Canada. The medium and heavy duty truck manufacturers are evenly distributed between British Columbia, Ontario, and Quebec.

Performance:

In the 1979-1983 period major changes have been made in the product and production process in most of the Canadian car assembly facilities. Investment in assembly facilities averaged approximately $250 million annually compared with less than $150 million annually in the previous five years. This came at a time when industry was facing severe financial losses due to a major decline in the market coupled with increasingly stiff competition from offshore producers, mainly the Japanese. During the recession of 1980-82, the industry lowered its breakeven point by 25 percent and as the recovery continues to take hold, profits are now reaching record levels. This recovery is largely in response to a quickly rebounding U.S. market and within that market high demand for the larger cars that Canada has traditionally produced. In 1984, vehicle sales in Canada and the U.S. increased by 19 percent over 1983. This led to a 19 percent increase in Canadian production and a trade surplus in excess of $10 billion with the U.S. in vehicles in 1984.

2. Strengths and Weaknesses

The Auto Pact has served to rationalize the structure of the Canadian and American car and light truck assembly operations into an integrated North American automotive industry. Canada benefits from the scale efficiencies of long production runs of a limited number of models, but on the other hand is vulnerable to a downturn in demand in the United States market for those models produced in this country. Since the auto sector