

2. EUROPE 1992: CHANGES AND IMPLICATIONS FOR CANADIAN INDUSTRY

2.1 Market Conditions

The market conditions in the three industries examined in this report are projected to vary considerably. For instance, in the civil commercial aerospace industry, expected Community air traffic deregulation and continued steady economic growth as wider liberalization of EC trade and commerce takes place should bring about an increase in demand. This will stimulate the number of civil commercial aircraft orders in the 1990s. Throughout the next 15 years, the world civil commercial aircraft market is estimated to amount to a little over US\$250 billion. The Community share of this market should represent about 20 per cent. Aircraft, engines and spare parts should constitute between 35 per cent and 50 per cent of Community company purchases.⁶⁸

International co-operation is already very strong in this industry as a result of the enormous costs involved in the construction of an aircraft. European countries cannot individually shoulder development in this industry. This fact, together with greater access to, and transparency of, government procurement, will induce a further restructuring of the European aerospace industry and lead to a higher level of concentration. Not only will more attention be paid to the realization of European joint programs, but also large aerospace companies will emerge. The acquisition of MBB by Daimler-Benz is a good example of this trend. Last year, Daimler-Benz regrouped AEG's electronics interests with the aerospace interests of Dornier and MTU to form the subsidiary Deutsche Aerospace. Deutsche Aerospace has thus become the largest player in the European industry.

In brief, the Canadian civil aerospace sub-industry can look forward to growth in European air transport demand. In theory, the regional and business aircraft transportation field, in particular, represents an excellent opportunity for Canadian companies.⁶⁹ These significant changes notwithstanding, the effects of the completion of the Single Market in 1992 will have a greater impact on

military procurement of aircraft, which has previously been characterized by strict rules regarding local content.

With regard to the defence industry, the predictable military budget cutbacks of NATO countries and the reduction of conventional East-West forces will create a narrowing of the defence market and a consequent intensification of competition, which will favour the more powerful companies. It may also cause a refocusing of military technologies toward surveillance (remote sensing) C3 and intelligence.

With reduced military budgets, it can be expected that Community members will look for ways to reduce the costs of operating and maintaining equipment, as well as ways to prolong the operational lifespan of existing equipment. It is also likely that many acquisition programs will be downgraded or even abandoned. This implies that Canada has good opportunities now; however, this is questionable, since most Canadian companies find it difficult to penetrate the European market. In such a context, will remaining opportunities (such as surveillance systems, simulators, component parts and replacement subsystems) remain open to the Canadian industry? Will the industry be able to maintain its market share?

With regard to the urban and inter-city transport industry, in particular the subindustry of mass transit equipment and material, the 1990s market should be characterized by a slight increase in demand for merchandise transport services⁷⁰ and equipment (introduction of swap body units) and an increase in passenger transport services.⁷¹

Production for both domestic and export markets should pick up in the 1990s, mainly as a result of high speed rolling stock gradually going into service in several European countries. Expenditures will attempt to address the need for modernization and will be largely devoted to the purchase of material destined for the planned European high speed network (TGV).⁷² Some projects are in the