$86 million in the year ending July 31, 1982, $55 million of which went to the Volkswagen plant in the U.S. This was largely due to the Duty Remission Program (DRP) used by Volkswagen. That program, which also applies to BMW and Daimler-Benz, allows foreign vehicle manufacturers to reduce their import duties on vehicles exported to Canada if they purchase and export Canadian parts. Under the plan, purchases from Canada do not need to be shipped to the country where the head office of the car manufacturer is located. In the case of Volkswagen, Canadian parts can be shipped to any country and credit received under the DRP. Although those sales are not included in export figures to Germany, they are nonetheless a direct result of successful contact with German companies. The main German production plants of BMW and Daimler-Benz represent the largest potential for sales to the F.R.G. Volkswagen's strategy is to work toward integration of its North American (Canada, U.S., Mexico) operations. As a result, the opportunity for VW parts sales to Germany under duty remission terms is small relative to the potential in the U.S.*

The potential for OEM sales to Volkswagen (principally in the U.S.) has been increased as a result of the recently negotiated duty-free access agreement. In return for obtaining duty-free access to the Canadian market for its automobiles and light-duty trucks, VW must meet designated levels of Canadian Value-Added (CVA).

Commercial vehicles, a complementary group representing close to 10 per cent of vehicle production, have been identified as offering stronger growth potential than cars in the 1980s. That suggests that contacts with such firms as MAN, Magirus-Deutz, Daimler-Benz, and Faun-Werke should be cultivated to explore new markets for Canadian suppliers.

The Aftermarket

More than 50 per cent of the passenger and utility vehicles in Germany are serviced at facilities controlled by the manufacturers (i.e. authorized dealers). The rest of the market is serviced by private workshops and dealers selling parts to the growing (35 per cent) do-it-yourself market. The crucial element is that the vehicle manufacturers insist that the franchised dealers purchase only authorized replacement parts corresponding to the OEM parts. On grounds of assured reliability, a German court in September 1981 upheld this requirement. Associated with that is the understanding that the OEM parts suppliers will maintain "exclusiveness" by dealing only in the aftermarket through franchised dealers. Although the other sales outlets (i.e. unauthorized) resent the "enforcement" of that practice, the court decision has reinforced the current pattern of controlled sales.

For safety and a variety of other reasons, private dealers prefer to handle aftermarket parts produced by the OEMs or their authorized suppliers. It is therefore difficult for a traditional Canadian aftermarket supplier to enter this market. Similarly, a Canadian OEM supplier can enter the aftermarket only through the channels stipulated by the car manufacturer and faces additional costs to sell to the private trade with similar but unmarked parts. That practice is discouraged by the automobile manufacturer.

With the inflationary squeeze making the cost of replacement parts increasingly difficult to bear, the consumer is beginning to accept the concept of quality rebuilt parts. To date, there is little or no rebuilding of automotive parts in Germany but, as acceptance of such replacement parts grows, Canadian firms active in the "rebuilt" sector should consider the F.R.G. market.

Recent Canadian Marketing Activity

Canadian automotive exports to the F.R.G. in 1982 amounted to $14.8 million. Products shipped to third country assembly sites of F.R.G. automotive producers under the Duty Remission Agreement (e.g. Volkswagen), which accounts for the bulk of this trade, are not included in this export figure.

In addition to assistance to individual firms, the federal government has sponsored participation at Automechanika in Frankfurt and at SITEV in Geneva. Automechanika is a large, international automotive fair held biennially on even numbered years, and oriented specifically to the aftermarket. The most recent Canadian participation was in September 1982, with 25 Canadian manufacturers taking part. The show has proved extremely popular, and the results have been encouraging. The fair is international in scope and, while useful in establishing contacts with large numbers of customers from many countries, the benefits in terms of sales in the German market have been more limited. To a large extent, the sales difficulties can be linked to the formal and rigidly enforced distribution system, dominated by the major OEMs.

The federal government has encouraged investment in Canada by both German vehicle and parts manufacturers through seminars and individual contacts since March 1982. A mission recently visited Germany with the goal of stimulating investment and industrial co-operation by German parts manufacturers. Individual target firms were visited, and a seminar was conducted to outline the advantages of a Canadian location for German parts manufacturers interested in establishing a North American presence.

Similarly, the Automotive Parts Division of the Department of Industry, Trade and Commerce-Regional Economic Expansion works closely with the Canadian and U.S. offices of the German vehicle manufacturers. In conjunction with the Automotive Parts Manufacturers' Association, representatives of Volkswagen, BMW and Daimler-Benz visited Canada on several occasions during 1980-1981 in an attempt to increase supply from Canadian companies. With the Duty Remission Orders in place for German vehi-

* Refer to Table 9, page 36 for a list of Canadian automotive exports to the F.R.G.