

program, will bring about the emergence of more "world class" European parts firms. These will likely follow the lead of their United States and Japanese counterparts and seek to establish a presence on all three major auto-producing continents. Some may seek to exploit Canadian cost and technology advantages by establishing subsidiaries or joint ventures or purchasing existing players in Canada. Europe 1992 can reasonably be expected to increase the number of EC-based subsidiaries and joint ventures operating in North America and will certainly increase the probability of such new operations in Canada. Joint ventures will be particularly attractive to European players seeking to establish a presence in Canada. Due to the restructuring of the North American parts subsector, links to established North American parts players will be a substantial asset.

One Canadian advantage of particular interest to European investors is low-cost hydroelectric power. This is of particular importance in aluminum casting, as exemplified in the substantial investment in aluminum wheel capacity in Canada in recent years. Emission controls systems represent another area where Canada possesses comparative advantages over Europe, as Canadian engine parts producers have dealt with emissions regulations for two

decades, versus a few years in the European Community.

### 3.6 Technology Sharing

Technology sharing in the parts subsector between Canada and the EC may become more extensive after 1992 if Canadian players extend their presence in the Community, either through establishing plants or forming joint ventures.

Rationalization of the North American and European automotive parts industries is making technology an increasingly critical competitive factor in the OE sector. High quality at low price is currently an absolute minimum requirement for remaining competitive. New entrants, then, must have something unique to offer in the way of technological innovation. This situation will create opportunities for small- to medium-sized, flexible and innovative parts companies based in Canada. Product and process improvements that improve quality and reduce costs should find a ready audience among leading European components suppliers and vehicle assemblers.

Similarly, tapping into the established technological expertise of EC-based players through technology sharing agreements may provide parts firms operating in Canada with a critical competitive advantage.