SECTORS WITH GREATEST POTENTIAL FOR EXPORT GROWTH

AEROSPACE AND DEFENCE

The aerospace and defence sectors cover a range of products from rubber boots to complete aircraft. These two sectors can of course be considered distinctly, but as there are opportunities for civilian aerospace products to be sold to the U.K. Ministry of Defence (MoD), there is a considerable overlap.

While many of the projects related to aerospace or defence are often very sizable, with only the largest of international companies acting as prime contractors, these same projects offer numerous smaller opportunities to the companies that supply the prime contractors. Similarly, not all of the MoD's projects are necessarily large, as some are designed to acquire very specific capabilities or technologies. As such, opportunities exist for Canadian firms of all sizes if they are offering a product that is unique in terms of technology, capability, or price.

Successes have been due to a policy to buy "commercial, off-the-shelf" in order to reduce costs.

Market Opportunities

As has recently been true for many countries, the U.K. defence budget has contracted in real, as well as relative, terms. Defence expenditures fell from a peak of 5.5 percent of GDP in 1984 to 3.8 percent in 1993, and they will remain an obvious target for further government savings. Nevertheless, the share of equipment within the defence budget has risen considerably over the last few years to reach 41.3 percent in 1995-96, or approximately $19 billion. Within expenditures on equipment, air systems account for 33 percent; sea, for 27 percent; land, for 19 percent; with 22 percent going to general support.

The United Kingdom is also a major exporter of defence products, ranking second in the world after the United States in 1993, with foreign sales in the order of $15 billion (16 percent of the market). As such, the U.K. industry presents important opportunities for collaboration in third markets. The U.K. aerospace industry is a major global player, with turnover in the order of $20 billion (split fairly evenly between the civil and military sectors), or roughly 10 percent of the world aerospace market. Of this, some 60 percent is exported. Again, these figures underline the fact that the opportunities presented through collaboration with U.K. industry are not restricted to the domestic market.

In spite of the downward trend in the U.K. defence budget, Canadian suppliers of defence and aerospace equipment have managed to increase their exports to Britain over the past few years. From a total of $331 million in 1993, these have risen to $377 million in 1994 and to $476 million in 1995. Canadian imports from the U.K. of these same product groups were equally impressive, thus confirming the broad and closely integrated relationship to be found between the British and Canadian aerospace and defence industries.

In terms of market trends, the U.K. Ministry of Defence is moving from procuring complete platforms (e.g., new aircraft or ships) towards improving its capabilities with respect to weapons and sensors, and the electronic integration of these two groups. Canadian firms have had recent export successes in a number of related areas, notably sonar and radar systems, space and tactical communications systems, and targeting systems. These successes have in part been due to