2. Strengths and Weaknesses

Structural:

The independent parts producers in Canada have closely geared their production to the needs of the major North American vehicle manufacturers which until recently have largely sourced their parts needs from firms in North America. They are reliant to a great extent on sourcing contracts on a "make to drawing" basis and on access to the centralized purchasing structure of the car manufacturers. The branch plant parts producers tend to be second sources for identical products currently being produced elsewhere in the corporate empire. Those independent and multi-national parts firms that design and develop components have until recently benefited from, and perhaps become overly dependent on, the relative stability of automotive technology, particularly in North America. This situation is changing, and in the future success will depend increasingly on product development capability. Small Canadian-owned firms in particular will be hard pressed to adapt to new market requirements that demand sophisticated managerial, entrepreneurship and technical skills.

Recent and future design developments that will require more complex, higher priced replacement components, and a sharp increase in the use of electrical and electronic equipment could double the global automotive aftermarket by 1985. Canadian firms specializing in the aftermarket will have difficulty taking advantage of these opportunities because of stiff competition from major OE producers.

Offsetting some of these structural weaknesses are opportunities for Canadian parts makers to supply Canadian assembly plants on a "just in time" inventory reduction basis. There are growth prospects for car parts such as body stampings and seat assemblies which are expensive to transport. Production of these could be moved from more distant locations, often in the U.S., to agglomerations around assembly plants.

Trade Related Factors:

While original equipment parts enjoy conditional free trade with the United States under the 1965 Auto Pact, aftermarket parts are excluded and are protected by a tariff. The result is that the aftermarket parts sub-sector has not enjoyed the same degree of rationalization as the original equipment parts sub-sector.

Automotive products from GPT countries enter Canada duty-free. A number of countries, such as Mexico, Korea, etc. have fairly sophisticated automotive industries and are beginning to export significant quantities of parts to North America. At the same time their markets are largely closed to Canadian products. While injury is currently not evident, a close watch on imports from these countries will have to be maintained.