

1. BACKGROUND AND TRENDS

The concept of a unified Europe is not new. In the 1957 Treaty of Rome, the Member States of the EC (six at that time) committed themselves to establishing a common market by abolishing "obstacles to the freedom of movement for persons, services, and capital." This was to occur in stages over the next 12 years; 30 years later, the task is still not complete. However, considerable progress has been made on some fronts — notably in goods — but difficulties remain. In the financial area, these include exchange controls, restrictions on access to stock exchanges, limits on the foreign investments of some kinds of financial institutions, and restrictions on residents taking out insurance policies with companies in a foreign country.

So the completion of the internal market is 20 years late. What has happened to speed up the process, making 1992 a credible deadline?

In 1985, Member States decided to make a fresh start. The Single European Act that took effect in 1987 was designed to give a new impetus to the process of liberalization by offering a new set of principles suitable for attaining unification.

As proposed in the White Paper, *Completing the Internal Market*, the Single European Act abandoned the unanimous vote in favour of a qualified majority system. The new system sidesteps endless negotiations and abuses of right of veto, and facilitates agreement on issues for which Member States must give up a degree of sovereignty.

The EC thus gave itself the means to work efficiently. The European Commission identified regulations requiring amendments in a series of 300 Directives proposed to the Council of Ministers. As of July 1, 1989, more

than half had been adopted, and some were at the drafting stage.

Europe 1992 has a direct impact on the Canadian financial sector, specifically on its network in Europe and on operations and services conducted from head offices. This wide-ranging impact dictates a redesign of business strategies to adapt to an increasingly competitive environment and to respond to opportunities.

1.1 Canadian Context

Canada's trade with the EC is not as large as with the U.S., but is nevertheless substantial, particularly in capital flows. A more competitive European business sector will affect the Canadian domestic market, but its chief impact will be on Canada's foreign trade and international financial activities.

In 1988, Canada exported more than C\$10 billion in goods to the EC, almost 8 per cent of total exports. In the same year, imports from the EC were worth C\$15 billion, 12 per cent of total Canadian imports. Investment flows are even more important. In 1983, Canadians invested \$7.9 billion abroad, with 55 per cent going to the U.S. and 22 per cent to the EC. Net portfolio investment abroad by Canadians totalled \$1.1 billion, with only 11 per cent going to the EC. Net foreign investment in Canada totalled \$4.9 billion, 40 per cent coming from the EC and 19 per cent from the U.S. Net portfolio investments in Canada were \$13.8 billion, 33 per cent from the EC and 10 per cent from the U.S. These figures show that Canadians invest primarily in the U.S., whereas an important share of foreign investment in Canada comes from the EC.

The investment flows between Canada and the EC will certainly increase after the combined restructuring resulting from the Canada-U.S. Free Trade Agreement (FTA) and Europe 1992. Canada and the U.S. will form one bloc, the EC and its