One trend in particular that will have an impact on the European aerospace industry and market is the anticipated decline in demand for defence aerospace goods. In this sector of the industry, emphasis is expected to be placed on extending the lifespan of current equipment and purchasing surveillance equipment rather than combat aircraft.

- **Defence**

With respect to the overall defence industry, the EC has no jurisdiction on exclusively military matters. Moreover, the directive proposal governing previously excluded sectors states clearly that it does not extend to contracts relating to state security matters. Nevertheless, steps taken by the Independent European Program Group (IEPG) are causing a movement away from nationally based defence industries to an EC-based defence industry structure.[2]

The recent and ongoing restructuring of the EC's defence industry is the result of several forces. The process was initiated as Europeans "played their cards well" under NATO and succeeded in building a European military complex over the last 10 years. Since Canada does not have a defence industry in the sense that other European countries do, it is likely to be vulnerable to changes occurring in Europe. In other words, the restructuring of the EC's military complex in anticipation of changes in the EC's defence markets is bound to have some negative effect on Canadian companies.

Actions such as the adoption of Article 30 (6) of the Single European Act, which endows the European Commission with the right to oversee the preservation of technological and industrial capabilities necessary for Community security, indicate that the opening up of defence markets will apply only to EC companies. The nature of discussions, particularly the concept of "juste retour" (balanced trade), indicates that Canadian companies can increasingly expect to be at a disadvantage when attempting to sell in the EC. Furthermore, the strengthening of European competitors, not only in their own internal market, but also in third markets (more precisely, the U.S. market) -- clearly the objective of improving the EC industries' competitive ability -- poses a serious threat to Canadian companies in view of already shrinking defence markets. There also exists a definite need to protect crown-owned technology; otherwise Canadians may be losing advantages that were gained at great expense. Finally, the size of the large manufacturers that will emerge from the wave of rationalization will reduce EC internal competition to better prepare for external competition. This will enable these manufacturers to absorb the ever-increasing costs related to research and development, production, and the marketing of new technologies.

In addition to these problems, the Canadian defence industry faces the possible imposition of new tariff or non-tariff barriers to access of EC markets. According to the European Commission, tariff exemptions granted by member states on certain items supposedly intended for defence purposes have caused the loss of close to $260 million in government revenues, since some of these items are subsequently released into the civilian economy without recovery of customs duties. The EC Commission has permitted a temporary suspension of duties at 0 per cent to cover a list of equipment that could conceivably be expanded to include components and sub-assemblies. If a tariff is assessed to protect the EC industry, future trades in defence goods could be seriously inhibited, as well as trade in dual-use high technology items.

- **Urban and inter-city transport**

Urban and inter-city transport, the final industry studied in this report, comprises both the bus and rail sub-industries. The opening up of these markets is currently having a different impact on each of the two sub-industries. The bus industry has begun to restructure its international operations, in general avoiding change in Europe. In contrast, the rail industry is increasingly concentrating around two entities, GEC-Alsthom and Asea Brown Boveri (ABB).