

As has also been shown in other studies in this series, however, the potential benefits may be greatest for Canadian companies which have operations in the Community or alliances with EC-based companies. Provisions, such as those in the Utilities Directive favouring EC-based companies, may make it more difficult for Canadian businesses to gain access to integrated Community markets from a Canadian base. At the same time, however, there is the danger that the ability of Canadian businesses to establish operations in the EC will be impaired by reciprocity provisions, such as those in the Second Banking Directive. Such provisions will make it increasingly important for Canadian businesses to consider the possible negative implications that the promotion of protective measures in Canadian markets may subsequently have on their access to EC markets.

The opening of highly restricted EC markets is also likely to create new competitive challenges for many Canadian businesses. Many of the areas of the European economy that are being liberalized are ones in which European suppliers have tended to be small and inefficient relative to their competitors in other jurisdictions. The widespread use of regulatory and public procurement restraints of intra-EC competition has been a major contributing factor. These restraints have frequently been used to maintain inefficient domestic production in the Member States, or have had the effect of limiting EC companies to small national markets within the Community.

The emergence of more efficient European companies in many industries, therefore, is expected to accompany the lowering of the remaining regulatory and institutional barriers to competition between the Member States. The European industries in which high efficiency gains are expected include many, such as telecommunications equipment and banking, that are potentially important for Canadian businesses.<sup>107</sup> EC companies that develop in these areas will have the benefit of relatively secure access to potential markets of 340 million people. This should make them strong competitors not only in the Community, but also in Canadian, U.S. and other countries' markets.