

projects such as Airbus,<sup>81</sup> Tornado and EFA. Not long ago, this rationalization was limited to companies within the industry. Recently, however, more open government procurement policies have induced a further restructuring and led to an increased level of concentration, as diversified companies have ensured a place for themselves in the aerospace industry by merging with specialized companies. The recent formation of Deutsche Aerospace AG (DASA) means that now more than 70 per cent of the German aerospace industry will be controlled by a single company, therefore making it a major single player in the European contest. In England, Rover has joined with British Aerospace.

In the defence industry, Article 30 (6) of the Single European Act and the IEGP policy of European defence market unification have contributed to an acceleration of the restructuring process initiated by the globalization of these markets. Cross-boundary competition in defence procurement will induce companies to enter into intra-EC co-operation that could take various forms (holdings, consortia, or joint-ventures). The accelerated rationalization and concentration of the industry has taken place within the scope of the open European market movement, although it has happened outside the range of the Single European Act. The following is a list of such examples.

- . MBB was taken over by Daimler-Benz;
- . Plessey was bought by GEC and Siemens;<sup>82</sup>
- . Phillips backed out of military electronics and sold its assets to Thomson and Siemens;
- . the defence divisions of Thorne-EMI and Racal are up for sale, and Ferranti is expected to be up for sale; and
- . European helicopters builders are expected to group together (Aérospatiale, MBB, Augusta and Westland), and similar unification should occur in the space industry (MBB, British Aerospace, Matra, Thomson, Alcatel, and so on).

These groupings are based on the concomitance of the following elements:

- . a sharp increase in research and development costs;
- . the stagnation and shrinking of world defence budgets;
- . the fear that American manufacturers will spread out (geographical extensions) following reductions in the American defence budget; and
- . a driving effect due to unification and rationalizing of these companies' civilian and defence activities (induced largely by Europe 1992).

Restructuring should bring to the European defence industry a reduction in the duplication of R & D efforts and, consequently, in the related costs and risks. Restructuring should also cause the rationalization of production, a decrease in marketing costs, and a change in the European industry's influence on the re-defining of the world market.

Negative consequences for Canadian companies (whose activities consist largely of subcontracts) could result from the reinforcement of the European industry and the increased competition in the declining military industry market.

Faced with more efficient and aggressive European competitors, it is almost certain that the Canadian industry will have greater difficulty selling its products in Europe and will have to address stronger competition in third markets.

In the long run, the restructuring of the European industry constitutes an additional threat to Canadian defence exports. Despite its fragmentation, the European defence industry has a wider technological base than does its Canadian counterpart. Moreover, the consolidation of the European industry should reinforce this technological base. The danger for the Canadian defence industry therefore lies at two levels. First, more efficient European R & D could induce rapid technological changes capable of wiping out Canada's advance in certain market niches.