

EXECUTIVE SUMMARY

The opening of intra-Community competition in public procurement markets is one of the major objectives of Europe 1992. An indication of the importance of this initiative is that, together, these markets represent approximately \$600 billion annually, or the equivalent of Canada's gross national product (GNP). For the aerospace, defence, and urban and inter-city transport industries, national governments and associated agencies and corporate entities are the most important sources of business. Thus, the measures that are envisaged to change contracting practices in the European Community (EC) public markets will have a potentially significant impact on companies within these three industries. This study, consequently, focuses on the impact of actual, contemplated and projected changes to those major public procurement markets in the EC and their consequences on these Canadian industries.

Changes in public procurement contracting policies of EC member states are projected to have a significant impact on the three industries studied in this report, since these policies have generally worked to prevent intra-EC trade, reduce the competitiveness of European companies, and bar companies outside the EC from penetrating the EC's markets.

Historically, individual EC member states have almost exclusively favoured domestic suppliers for public procurement. In the urban and inter-city transportation industry, as well as in the defence industry, national policies have led to a fragmented industry, the creation of national champions and inflated manufacturing costs and have also discouraged the harmonization of standards and regulations. In the aerospace industry, Europeans began developing a Community perspective in the early 1970s. Aerospace companies have increasingly worked together since that time. Nevertheless, the development of an EC-based aerospace industry structure is not entirely reflected by the purchasing policies of member states.

Changes and Implications of Europe 1992

The impact of Europe 1992 will vary significantly for each of the three industries. The final form of the measures regulating the opening of public procurement markets will substantially govern the impact. Furthermore, market conditions are evolving in different ways for each of the industries, adding an additional degree of uncertainty to predictions concerning these industries. This is particularly true of defence-related industries. It should be kept in mind, however, that the purpose of liberalizing public procurement markets is to open contracts to intra-EC competition in order to benefit the EC's industries, rather than to allow non-EC companies an opportunity to penetrate the Community's markets. Canadian industry could either gain or lose from this opportunity.

Aerospace

The EC directives regarding public procurement markets of entities operating in the transport industry do not govern air carriers. Nevertheless, market conditions combined with foreseen changes in public procurement and the EC's Research and Development (R & D) support programs will significantly change the European aerospace industry's structure and competitiveness and will have an impact on Canadian companies. Civil commercial aerospace goods demand is expected to grow as anticipated Community air traffic deregulation, economic growth and increased trade stimulate civil commercial aircraft orders in the 1990s. In the short term, an increase in demand for regional aircraft is expected. In the long term, an increase in demand for wide body aircraft is also expected, as airlines respond to congestion at large urban air traffic centres.

The European industry's response to these and other changes has been to concentrate. The recent formation of Deutsche Aerospace from AEG's electronics interests and the aerospace operations of Dornier and MTU exemplify this trend. Clearly, it is the intention of European industry to take substantive measures to improve its competitive ability.