

EXECUTIVE SUMMARY

This report investigates the ways in which the Canadian telecommunications and computer sector may be influenced by the European Community's (EC) attempt to complete its common internal market by 1992 -- a program called Europe 1992 for short.

The telecommunications and computer sector is a very important element of Europe 1992. It is an aim of the EC to oversee the development of a European information economy in which Community telecommunications and computer firms establish themselves as world leaders. Although only a small proportion of Canada's current trade in telecommunications and computer goods and services is with the EC, Canadian firms cannot afford to overlook the important developments now taking place in the EC.

These developments are first and foremost the reduction and elimination of technical barriers to trade that have balkanized telecommunications and computer goods and services markets in Europe. In addition to equipment non-compatibilities, technical barriers to trade include different standards, differences in certification and testing procedures, and non-transparent regulations. An additional barrier, of particular applicability to trade in these goods and services, is government procurement policies, which tend to favour each EC Member State's home suppliers.

Europe 1992 aims to reduce or eliminate these barriers. Numerous directives harmonizing standards, promoting transparency, and opening up government procurement to EC-wide bidding have either been agreed to or are under intensive discussion. The prospects are now good that Europe 1992 will succeed sufficiently to create a single internal market for many telecommunications and computer products. Already some individual EC firms such as Siemens, Alcatel, and Philips are restructuring to take advantage of the economies of scale and greater specialization made possible by a single EC market comprising 325 million people.

Europe 1992 is expected to provide opportunities for Canadian firms. In addition to an expected growth in the EC market of 4.5 per cent, Europe 1992 creates a very large market in which Canadian firms with technological and market know-how should be able to find niches. This is particularly true of firms producing and marketing telecommunications equipment, especially terminal equipment or customer premises equipment, and of computer software and service firms.

To make the most of the opportunities provided by Europe 1992 Canadian telecom and computer firms will require some form of EC presence. Even small- and medium-sized Canadian firms will have to take on, to some degree, a multinational character if they wish to take advantage of an EC-wide market. Given the additional risks, as well as headaches, entailed by a foreign (EC) presence, many Canadian firms may not avail themselves of EC opportunities. But they cannot ignore the fact that Europe 1992 is likely to create new world-scale, European-based firms that will be in a position to challenge for a share of North American markets.

In sum, Europe 1992 will test Canada's capability and willingness to compete internationally. But without the benefit of a pact such as the Canada-U.S. Free Trade Agreement, firms wishing to make foreign sales will need to be more than trade-competitive. Success in Europe is likely to require a European presence and high quality goods.