

EXECUTIVE SUMMARY

This report investigates the ways in which the Canadian industrial products and services 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 Canadian-owned companies in the industrial products and services sector are mostly of small and medium size with an average of 33 employees. All the subsectors in this sector have a negative trade balance. One of the factors explaining these deficits is the lack of research and development (R&D) done by Canadian firms.

The European market is quite different from the Canadian one, with growth of the European market quite high (around 8 per cent). The leaders in the Community are Germany and the United Kingdom with more than 55 per cent of total EC production.

The secret to remaining competitive in this market is to stay on top technologically through R&D and the marketing of new products. This is why European companies are putting up to 5 per cent of their sales in R&D and investing more than 13 million ECU every year.

Europe 1992 has already started to increase the trade volume among EC countries, and this trend is expected to continue for many years.

Furthermore, European companies are already internationally competitive in this sector. With Europe 1992, companies want to establish themselves as world leaders. Although only a small proportion of Canada's current trade in this sector is with the EC (only 250 Canadian companies export to the EC and 20 have operations there), Canadian firms cannot afford to ignore the important developments now taking place in Europe.

Canada ships only 1.7 per cent of all imports entering Europe, whereas European products represent 15 per cent of Canadian imports. However, the Canadian deficit in this sector over the past 10 years has been over \$13.8 billion.

Europe 1992 aims to reduce or eliminate the trade barriers between EC countries. 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. Already some individual EC firms are restructuring to take advantage of the economies of scale and greater specialization made possible by a single EC market comprising 340 million people.

Through the proposed directives, the European Commission wants to eliminate the customs controls between Member States, harmonize the taxation system and the technical standards, and adopt similar government procurement policies. The Commission is also trying to help European firms increase their strength by the common rules for the movement of capital as well as for the application of a new company law. The Commission is also setting up R&D programs that will permit the European companies to produce new advanced products.

The industrial products sector may be broken into two main parts: the electric and electronic engineering category and the mechanical engineering products category. Each of these categories has its own rules and operates in its own way. The first one is developed more toward the international market with big companies, while the second has a lower profile, with small and medium-sized companies operating on a national and community level.