and approved. These regulations will have a major impact on the European Community and its trading partners. The regulations will also bring indirect impacts on variables such as the trade flow between the two entities, the competitiveness and the investment opportunities. In the following paragraphs, an analysis of some of these key variables and their impacts on the Canadian industrial products and services industry are examined.

a) Trade Flow

The exact impact on the trade flow of the industrial products and services sector is difficult to determine. It is likely that Canadian companies established in the EC will take the opportunity to increase their clientele by distributing their products to a greater number of countries. Assuming that some of the products or components are manufactured in Canada, this practice would help the trade deficit. On the other hand, however, the European companies are growing, especially in the electrical and electronic category, and may be able to produce some products at much lower costs. Rationalization and economies of scale will permit them to introduce new products at very affordable prices.

There could also be a positive trade flow for Canada coming from companies exporting to the EC. After 1992, those companies that have passed the new ruling on reciprocity and anti-dumping will now be able to export their products over all the Community territory. These factors should enable them to increase their sales figures and, at the same time, work positively on the Canadian trade deficit with the Community in this sector.

From what has been seen in the past few years, the trade balance with the EC is decreasing every year, and it is very unlikely that this trend will change. The easiest way for Canadian companies to enter the European market will be to take a special "niche," small market segment and try to cover a large part of this segment in the Community.

b) Increased Movements of Rationalization

Europe 1992 has already begun to affect the European industry. Mergers and acquisitions, rationalization and joint R&D programs have been implemented and this will continue. European companies, especially in the electrical and electronic engineering category, are already changing the "rules" of the game. They are seeking to reach international competitiveness as soon as possible. Over the long term, this could decrease the Canadian positive trade balance with the Community and also with the third countries, since European firms should become more aggressive in countries outside the EC.

The European sector is already a major international trader, and it is expected that, with Europe 1992, it will increase its presence outside the Community. North America seems to be an ideal target for it.

c) Investment Opportunities

Canadian investments in the EC in the industrial products and services sector have been very minor, as noted earlier, with only 20 companies having subsidiaries and only 13 having an official warehouse or manufacturing operation in the Community.

The opening of the European market will permit better access between Community countries and thus favour investment in the EC. Canadian firms will not have to invest in more than one subsidiary, since they will be able to move their products throughout the Community with only one subsidiary. However, some programs, such as R&D, might require two subsidiaries in the EC in order to take part in these programs. The opening of a European subsidiary could be a very wise investment, especially in industries such as wire and cable, large electrical equipment, agricultural machinery and construction