

These directives will particularly affect segments in industries such as large electrical equipment, wire and cable, office and automated equipment in the electrical and electronic engineering category.

With these new directives and electrical standards, governments will be hard pressed to protect their own industries. Companies from every EC Member State and even from outside the EC will be able to obtain contracts that, until now, were reserved for national companies. It is clear that Canadian companies should monitor the changes in EC standards for divergences from North American or world standards. This will help them adjust for European needs and be more competitive in the European market.

In the long term, it is estimated that these changes will considerably reduce the number of firms involved in subsectors affected by government procurement. Mergers and acquisitions will be emphasized. It is estimated that the number of manufacturers will drop down to about the same number found in the U.S.

These directives will, however, have very little impact on the mechanical engineering products. This is because, with the exception of the armed forces,

the mechanical engineering industry is not one that is nationally protected. Table 8 shows the number of companies for specific categories influenced by government procurement. It also indicates the number of producers in the U.S. for the same products.

e) Movement of Capital

The freedom of capital movement will permit entrepreneurs to invest their money in other member countries more freely.

Anticipation of free movement of capital and the abolition of intra-community trade barriers have already had an important impact on the location of new investments within the Community. For example, in sectors in which labour costs are an important variable, productivity will be a major factor. Thus countries with a lower cost structure will have a great advantage as long as labour quality does not decrease. Since protectionism will be much more difficult to achieve, investors in every country will be able to seek the best investment opportunities throughout the entire European Community.

Companies manufacturing products in the electrical and electronic engineering category, such as low tension equipment, rotating machines, professional equipment and construction and material handling

TABLE 8

Number of Companies for Specific Industries Influenced by Procurement

| | <u>Value of EC market in billions ECU per year</u> | <u>Number of EC producers</u> | <u>Number of American Producers</u> |
|---------------------|--|-----------------------------------|---|
| Boilermaking | 2 | 12 | 6 |
| Turbine generators | 2 | 10 | 2 |
| Locomotives | 0.1 | 16 | 2 |
| Mainframe computers | 10 | 5 | 9 |
| Telephone exchanges | 7 | 11 | 4 |
| Telephone handsets | 5 | 12 | 17 |