

EXECUTIVE SUMMARY

In 1986, the European Community (EC) embarked on a six-year program to achieve a Single Market. In the financial sector, progress was initially slow but has been accelerating. This key sector has a strong driving effect because it covers all economic sectors and all companies and individuals. The business community has already largely integrated the prospect of a unified market in its strategies. The most visible effect of this is a growing wave of mergers, acquisitions, joint ventures and cross-border co-operation and participation accords sweeping over Europe, following the moves of leading institutions in their respective markets.

The impetus towards a truly integrated market derives from the original approach adopted by EC Member States in the Single European Act. Under the Act, many decisions no longer require unanimity; a qualified majority is sufficient. Emphasis has shifted from detailed harmonization of regulatory systems to mutual recognition of each other's systems. Generally, control of undertakings in each country has been given to the country of origin, which is often best equipped to ensure proper surveillance. A host country now accepts that a company from another EC Member State but established on its territory is governed by the regulations of the home country.

At the same time, the European Commission is preparing a comprehensive set of new regulations — almost 300 Directives to be incorporated by Member States in their legislation. These Directives harmonize key sectors and provide common solutions to complex technical problems.

The unification process requires a reassessment of relations between the EC and the rest of the world, in the new context of a single market, the opening up of Eastern Europe and the rise of Japan and Southeast Asia. EC economic experts and political figures are holding regular high-level meetings to deal with a host of sensitive issues.

In services, a sector of increasing importance, the unified market calls national regulations and protectionism into question. Unification has thus contributed to bringing American and European views closer together in most areas, aided by the liberalization of markets and the new international context.

Fears of a Fortress Europe are fading; liberal ideas are triumphant everywhere; and protectionist tendencies will likely be surmounted by prolonged growth. However, there are still differences over industrial policy and concepts such as the mixed economy, as well as uncertainty over where German unification and the opening up of Eastern Europe may lead.

The changes taking place in Europe have a definite influence on Canadian financial institutions, which are exposed at the same time to deregulation in both national and international markets. Faced with increased competition, banks feel hampered by regulations that deny them access to some activities, such as underwriting and distributing insurance products. In Europe, universal banking is a tradition; in North America, the process of dismantling the walls between the different pillars of the financial sector is still at an early stage. Some Canadian financial institutions dominate their domestic market and are preparing to maintain this leading position against a strong push from outside competitors. These institutions are also used to a high level of profitability, which will be difficult to match in the highly competitive markets of Europe. Thus priority for these companies is given to national expansion.