Specialty chemicals. At first sight, in terms of potential for exploiting the European market, specialty chemicals appears to be a distinctly unpromising area. It is an area in which Canada has a massive trade deficit, in which European firms are already internationally strong, and into which the leading European firms have been diverting substantial investment. Furthermore, the weakness of the Canadian pharmaceutical industry (multinationals carrying out low value-added operations in Canada) means that fine chemical production in Canada is negligible, and incentive to develop such production has been lacking.

However, this may well be a sector where Europe 1992 provides a number of opportunities. First, the development of the Canadian specialty chemicals industry has been hampered by problems of scale. The FTA makes possible larger scale operation and establishes the conditions for the development of internationally competitive firms in this area. Second, some Canadian firms already sell successfully into Europe. For example, both Alkaril and Domtar export surfactants to Europe (in the case of Domtar, from a New Jersey plant). Third, multinationals have had some success in securing world product mandates for Canadian divisions. For example, Dupont Canada produces a specialty resin for export. Fourth, space, which Canada has in abundance, remains an advantage in industrial production in general and chemical production in particular.

Specialty chemicals is an area in which there is slightly more likelihood of profitable openings in the EC market than the current weakness of the industry in Canada would suggest. As compared to European firms in the industry, Canadian producers have somewhat lower raw material costs but higher labour costs. But Canada's space advantage, along with the current reorganization of the chemical industry in response to the FTA, is likely to provide some opportunity for sales to Europe by Canadian-owned firms, although the amounts involved are likely to be small.

These same factors -- space and the FTA -- are also likely to provide strong incentives for European firms to invest in Canada, to gain access to the North American market. Investment by EC firms in Canadian production facilities will likely be the surest means to increased EC/Canada economic links over the next decade.

b) Advanced Industrial Materials

While there are exceptions to the following generalizations, in general the Canadian plastic products industry is weak; Canadian industrial activity in ceramics and related composites and laminates is very modest; and in neither area is there a significant volume of exports to Europe.

As we saw earlier, there is some strength in advanced industrial materials, largely located in firms that might lose markets to new materials (metals manufacturers) or in firms that are potential users (automotive firms). Canada also has strong firms producing the equipment for manufacturing plastic goods (e.g. Husky Injection Molding Systems) and they may have some interest in extending into plastic product development. It is conceivable that these firms could generate advanced industrial materials that could be profitably sold in Europe. In particular, Canadian firms have an energy cost advantage that is important in the manufacture of new materials, especially ceramics. But, on balance, this is an area in which few Canadian firms are well positioned to exploit the opportunities of Europe 1992. The European plastics industry is itself very strong; in ceramics, Japanese and U.S. firms have a technological lead and are