More Competition

Because of the drop in prices, the EC will also be a more competitive and more difficult market. This will be reinforced by the increased interest of non-European firms (Japanese, Korean, American, and EFTA members) in the European market.

More Serious Competitors for Non-EC Markets

Finally, European countries, increasingly efficient in their internal markets, will also be more serious competitors in external markets, including those of Canada and the United States. Canadian firms should also become more competitive and should experience relative price drops as a result of the FTA.[11] The studies reveal that the effects of Europe 1992 in Europe should be greater than those of the FTA in Canada. The differences, however, will probably not be significant. In terms of competitiveness of Canadian and European firms on a global level, price variations would be negligible from the viewpoint of currency fluctuation. This might not be the case, however, for certain sectors. Finally, the current Uruguay Round of GATT negotiations should also contribute to reinforcing the productivity of certain sectors.

4.2 Effects on Sectors and Consequences for Companies

The consequences of Europe 1992 for different sectors in the European economy vary a great deal, depending on how the sector in question is affected by non-tariff barriers, restrictive public procurement policies and obstacles to the freedom of establishment or free movement of capital. To develop a better understanding of the effects of Europe 1992 on these various sectors, it may be useful to make a distinction between 1) direct effects, which are a direct result of increased market access due to the elimination of non-tariff barriers or declining production costs due to the greater mobility of factors; and 2) indirect effects, influenced by changes in the economic environment.

<u>Direct Effects</u>

To analyze the direct effects of Europe 1992 on various sectors, six criteria were used:

- elimination of border controls and harmonization of indirect taxes;
- harmonization or mutual recognition of standards;
- opening of public procurement and minimum state intervention;
- opening up of the service market;
- the free movement of capital, harmonization of corporate law and creation of a European Company Statute;
- the extent of European programs in Research and Development (R & D). While these programs are not explicitly part of the Europe 1992 process as defined by the *White Paper*, they are important accompanying measures.

The first three criteria can be qualified as downstream criteria because they are primarily related to demand and market access. The last three criteria are upstream criteria since they primarily affect conditions and costs of production.

Table 1 classifies sectors according to these criteria. It appears that the sectors most affected are:

- the food and agricultural industries, due to the extensive non-tariff barriers currently in place (border controls, problems with standards);

- heavy electrical industries, especially telecommunications equipment, due to the importance of public procurement and European R & D efforts in these sectors;

- services in general, since they have been strictly controlled by national regulations. The services particularly affected will be air transport,