

Furthermore, restructuring creates opportunities for Canadian companies that have the means to reinforce their presence in Europe through mergers or acquisitions and by getting a foothold in certain markets. Bombardier's strategy of purchasing Shorts in Ireland and the French railway builder ANF is a good example.

c) Possible Strategies

The Canadian defence industry appears to be most vulnerable to changes occurring in Europe. The restructuring of the European defence industry around a few large manufacturers will make the latter much more competitive both in the European market and in non-EC markets. Several large manufacturers will emerge from this wave of rationalization, enabling them to finance the increasingly high costs of R & D, production, and marketing new products. In addition to having to contend with increased competition, the Canadian industry may face new EC tariff barriers. Faced with these new challenges, the Canadian defence industry will have no choice but to try to extend not only the technological edge that has created its success, but also an emphasis on niche markets (subsystems rather than whole systems). Above all, the industry must maintain its presence in Europe.

7.8 Specialty Chemical Products, New Materials, Pharmaceuticals and Biotechnologies

a) Consequences in the EC

The creation of the Single European Market involves reducing administrative delays for intra-EC trade, standardizing VATs, harmonizing product standards, making product registration and licensing decisions public, strengthening intra-EC intellectual property rights and, to offset greater competition in the Single Market, an increase in legislated protection for employees. The net effect of these changes will likely be a substantial

increase in EC economic growth. This growth will create a wide range of business opportunities for the industries examined in this section -- for Canadian as well as for European firms.

The competitive strength of EC firms within the sectors covered by this section varies. The EC has more than its share of the world's largest chemicals and plastics firms. These firms are widely thought to have a technical edge over their North American competitors. They have been particularly aggressive in increasing their production of specialty chemicals and technical plastics, which are usually characterized by higher value added and lower cycle-sensitivity. There is also some strength in advanced industrial materials, partly based on European strength in plastics and partly based on experience in the use of such materials in other industries in which European firms have strength -- in particular, defence, nuclear energy generation, and automobiles. There is also some EC strength in pharmaceuticals and biotechnology, but on balance Europe tends to lag behind North America in this area, largely because of the market fragmentation that Europe 1992 is designed to overcome.

EC firms have been preparing for the Single Market through a large number of mergers, particularly in countries where the industry is relatively weak (such as Spain), and by buying North American firms or divisions or establishing joint ventures with them. This latter strategy secures North American marketing expertise (particularly in pharmaceuticals) or in some cases exploits a perceived technical advantage in North America while evading the increased competition of the Single Market (particularly in plastics).

b) Consequences for Canadian Companies

The capacity of Canadian firms to exploit the opportunities of Europe 1992 is affected by several factors.

The Canada-U.S. FTA will have mixed effects. On the one hand, adjusting to the