PART I: THE CONTEXT

1. CANADIAN CONTEXT

1.1 Introduction and Canadian Company Overview

A larger, more competitive European economy poses both opportunities and challenges for the Canadian economy and for individual businesses. Through the early years of the 1990s, restructuring should be reflected in accelerated investment, and possibly some upward pressure on European interest rates and prices. Under these macroeconomic influences, increased European demand should provide increased export opportunities for investment goods and for consumer items.

Over the longer term, 1992 should make European industry more competitive and lead to larger real incomes. The latter will be positive for Canadian exporters to Europe, while the former should generate increased competition in the Canadian market, and elsewhere, from European suppliers. If Canadian producers respond positively to heightened global competition, the possibility of losing market share to the increasingly competitive European producers, both in Canada and abroad, will be diminished. If the challenge is not met, the result could be reduced sales of Canadian goods in Canada and in Europe. Effects are likely to vary significantly by sector.

Apart from export effects, European integration provides an opportunity for Canadian companies to enter Europe or to expand operations there. The restructuring of European industry should be particularly pronounced in chemicals, mechanical engineering, office machinery, electrical goods, motor vehicles and parts, sections of food processing, civil engineering, wholesale trade, and financial intermediation. In the longer term, aggregate costs of production are likely to be lowered by 5 to 8 per cent, providing a significant advantage to companies with an established production base in Europe. These cost savings are analogous to those anticipated for Canadian producers as a result of the Canada-U.S. Free Trade Agreement.

Taking advantage of Europe 1992 will require Canadian entrepreneurs and firms, both large and not-so-large, to develop detailed investment plans. Barriers to Canadian investment include:

- the scarcity of large, Canadian-based firms with trans-North American experience;
- the dominant position of non-Canadian firms in much of Canadian manufacturing;
- the need for Canadian firms to concentrate on meeting the challenges of the FTA.

Canadian firms generally do not rank among the world's largest, but some in forest products, mining and related manufacturing, telecommunications equipment and services, civil engineering, and financial intermediation do fit this description. And Canada is an "open" economy in which management has faced, for the last half century, competition in domestic and foreign markets. This will be increasingly true in the future, if Canadian industry adjusts to become more competitive in response to the FTA.

A capacity to respond to external events is part of Canadian corporate culture. Canadian mid-sized companies thrive in this environment, and have expanded into the U.S. and other markets. Further, for Canadian managers, gaining "world product mandates" from international headquarters will not be a novel experience. Finally, a comparatively large number of Canada's population are either immigrants or