

within NATO programs. For instance, under the ongoing conventional weapons disarmament accord in Europe, Canada could exploit its skills in such areas as verification, surveillance and logistics to play an active role. Increased participation will not only allow companies to reduce the impact of increasing costs, but will also reduce the problems related to the design, manufacturing and marketing of new products, which form the main obstacles to Canadian defence electronic industry development.

The Canadian defence industry cannot ignore the changes that are occurring in this period of transition to an increasingly competitive global economy. Europe 1992 is an important part of this movement. Canadian companies should realize, consequently, that while there will be a cost (related to time and distance) associated with doing business in Europe, there will also be a cost associated with inaction.

#### **b) European Defence Industry**

The defence expenditures of European NATO countries are a little less than half the amount of the U.S. The size of the market, therefore, suggests that the dominant players in the world defence market should emerge from the EC. Although many European companies are competing on world markets, national policies have prevented the realization of the potential that a European defence industry could be expected to have.

The EC has realized that to improve its competitiveness on world markets, the restructuring of its defence industry must continue. The favouring of domestic suppliers had created a fragmentation of the industry, high manufacturing costs, overcapacity and an absence of standardized equipment. A partial reflection of Europe's competitive weakness can be found in the fact that European manufacturers, along with their U.S. counterparts, are now relying heavily on Japanese components and are starting to purchase Japanese subsystems. Nevertheless, European companies are active competitors in the production of a wide range of goods, such as aeronautic, automotive, naval construction, electronic, telecommunication, and other high technology products.

In recent years, the defence industry has become structured more globally, a process the EC has not

escaped. This new trend should bring about a reduction in the number of large armament contractors. Until recently, however, this industry was expanding in Europe.

During the last 10 years, large NATO programs in Europe, such as the introduction of new technologies in armaments stationed in Europe, have benefited European companies and have encouraged the development of a defence industry. These programs, combined with specific government programs and the efforts of groups such as the Eurogroup and the IEPG, have facilitated an increase in intra-EC collaboration and narrowed the gap between the European and American defence industries. The new European military complex is thus in a position to occupy a larger place not only in third countries, but also in the U.S., where the government is expected to begin calling for more competition for its contracts. A good example of the European penetration of the U.S. market is the previously mentioned sale of Écureuil helicopters by Aérospatiale to the U.S. Coast Guard.

In spite of the trend toward increased integration, some resistance to the movement in the EC still exists, as shown by a study released by the IEPG. With some exceptions of satisfactory collaboration, the European defence industry is still handicapped by the fragmented nature of the European effort in all stages in the procurement process.<sup>45</sup> Each country's ministry of defence tends to do business with its own national industry. Hence, requirements are too closely related to narrow national requirements, procedures vary considerably among European countries, and the existence of national technical standards (both military and civil) hampers collaboration between industrial European partners.<sup>46</sup> This situation is paralleled by differences in legal, accounting and business procedures.

The European defence industry is similar to Canada's insofar as it is primarily composed of dual military/civilian "high tech" companies. Approximately 60 per cent of the EC aerospace industry output is defence related. (This figure is between 60 and 70 per cent in the U.S. and about 80 per cent in Japan.) In contrast to Canada, the EC has helped European companies in the aerospace industry by providing support for R & D. The European industry differs from the U.S.