

1. BACKGROUND AND TRENDS

1.1 Canadian Context

a) Sector Description

The focus of this report will be the four subsectors of the telecommunications and computer sector: communications equipment and electronic components; computers, peripherals and business machines; telecommunications carriers; and the computer services industry. Table 1 provides a statistical description of the Canadian sector, with a sketch of the main economic aggregates for the four subsectors. It indicates that Canada is active in each of these subsectors, and shows as well that some of the major players in the sector are foreign-owned. However, domestic ownership predominates in the telecommunications equipment industry, led by Northern Telecom, and in the telecommunications carrier and computer services industries. (See Table 2.) The heavy dependence of the computers, peripherals and business machines subsector on imports reflects the lack of Canadian production of printers and copiers and a dependence on imports of key inputs: microelectronic components and printed circuit boards. Exports form a significant proportion of domestic production in each subsector.

b) Trade Flows between Canada and the EC

Figures 1 and 2 and Table 3 show that Canada engages in extensive trade in telecommunications and computer goods and services. However, except for telecommunications services, currently only a relatively small proportion of Canada's trade in such products is with the EC. Figure 3 and Table 4 show that, overwhelmingly, Canada's exports of telecommunications and computer products go to the U.S., while an important source of its imports of computers, semiconductors and other electronic

equipment is the Pacific Rim, mainly Japan. Figure 4 shows that, except for electronic tubes and semiconductors, the EC has historically been the destination of only a small share of Canada's exports, although due to the greater market, computers and office machinery, make up the bulk of Canada's trade with the EC (Figures 5 and 6). During the nine-year period from 1978 to 1987, the constant dollar value of total Canadian exports in this sector has doubled, while imports have increased more slowly (Figures 7 and 8).

Table 5 presents the distribution, in 1987, of Canadian exports to EC member nations by subsector, and Figures 9 and 10 the overall view of Canadian trade with the Member States. It is a very uneven picture. Except for sales of electronic tubes to France and office machinery to the Netherlands, most Canadian telecommunications and computer exports are to the U.K. Canadian suppliers have been closed out of much of the rest of Europe. In part this shut-out is due to barriers that also inhibit intra-EC trade, barriers that Europe 1992 will attempt to eliminate.

Trade figures understate the extent of Canadian involvement in European markets. An alternative to arms-length trade is direct investment within the EC in production and distribution facilities, either as wholly owned subsidiaries or as joint ventures. The existence of barriers to trade, not only between the EC and other countries, but within the EC itself, is a potentially powerful factor influencing the decision to invest rather than trade. Important barriers (other than tariffs and quotas, which have been eliminated within the Community and are regulated by GATT rules for extra-EC trade) continue to exist where telecommunications and computer products are concerned. They take the form of (a) differences in technical regulations