

3. EUROPE 1992: EFFECTS ON CANADA'S INDUSTRIAL PRODUCTS AND SERVICES SECTOR

3.1 Structural Changes

Of the 20 Canadian-owned companies with operating subsidiaries in the EC recorded by ISTC, approximately 13 have an office/warehouse/manufacturing operation in Europe. This is a low number compared with the 250 Canadian companies (including subsidiaries of foreign-owned companies) exporting to the EC.

Import opportunities for firms without a presence in Europe are expected to be adverse. The measures following integration will cause these firms to lose markets. Europe 1992 might have a negative impact on these companies, and if they do not react quickly enough, they might find the market more difficult to penetrate.

The changing market conditions in the European Community will have an impact not only on the Canadian companies present in the EC, but also on those that are only exporting to EC countries or have no business at all with the European countries. These expected impacts are presented in Chapter 5.

The rationalization and the lower costs achieved through economies of scale by the European companies will make it more difficult for companies that will remain of small or medium size to operate in the electrical and electronic engineering products industry. This could affect most of the Canadian firms since they mainly have one or two subsidiaries in the EC and very few have made a move to increase their presence in Europe. Some companies could take advantage of the opportunity in Europe and merge with others to increase the number of countries in which they have some activities. However, they are still in a better position than companies only exporting to the Community since these firms may not be able to take full advantage of the opening of the

European market (outside Community firms will not be treated as equal to Community companies).

In the mechanical engineering category, European companies are generally ahead of Canada in terms of technology. They invest a greater share of revenues in R&D than do the average Canadian companies. Two possibilities therefore exist for Canadian companies present there. Either their market share will decrease because they cannot follow the pace of the European companies invading the market with new personalized and well-designed products; or they will take advantage of the opportunity of being in a technologically advanced market and transfer the technology to the Canadian companies' plants.

Most Canadian firms with subsidiaries in the EC in this category are evolving into a specific market "niche." In order to remain competitive, their efforts are concentrated on a very small market segment. This appears to be the best way to compete in the European market since companies can concentrate on giving the best products to their customers. With the opening of the borders, it will be easier for these companies to enlarge their market to more than one or two Member States. As long as these products embody the latest technology, firms will take advantage of the European opportunities. One has to consider that a market "niche" is not a one-product line. What is reflected here is to have a specific market target with sufficient diversity to minimize risks.

3.2 Changes as a Result of New Regulations

a) Technical Standards

With the elaboration of new European standards, it is essential that Canadian companies servicing global markets ensure that their products qualify under these new