

research.⁸⁷ The primary driving force that led to the formation of EUCLID was not one of strategic military necessity, but one of industrial survival. The initial budget for this program for 1990, its first year of existence, is \$165 million. It is expected that if EUCLID is as successful as the European Research Co-operation Agency (EUREKA)⁸⁸, its sister program in the civilian sector, the budget and commitment for EUCLID will rise significantly in the near future. Details on the EUCLID program can be found in Appendix C.

These programs all assume a highly important role in the development of a European R & D synergy and co-operation. Although there appears to be progress in several areas, existing programs have not yet led to important discoveries, and the EUCLID project should not result in any short-term technological breakthroughs. The impact of these programs lies more in their attempt to promote a spirit of co-operation across national boundaries, which in the long run should lead to technological advances and enable the European industry to play a key role on world markets.

The objective of these programs is to provide Europe with the technologies that will enable it to compete with the U.S. and Japan. Participation of foreign companies will be possible only insofar as it will satisfy a clearly identified deficiency. These programs not only represent a solution to Europe's need to catch up, but also address the desire to place Europe in a leading position with respect to emerging technologies. The new flexibility in co-operation between public and private sectors only puts this desire into concrete form.

The Canadian industry's R & D efforts, having brought a technological advance in certain market niches, will have to be maintained and increased. Otherwise, technological advances resulting from rationalized European R & D could seriously compromise Canadian product competitiveness.⁸⁹

2.5 Implementation of Customs Tariffs on Defence Products

The implementation of customs tariffs on imports of military equipment depends on the importing country. Some countries, such as Great Britain and Italy, grant duty-free entry for imports that are

intended for national security or defence purposes. Other countries, such as France, the Federal Republic of Germany and the Netherlands, levy duty on these same imports, whether they enter from outside or inside the Community.

Based on the principle that the exclusive jurisdiction on national security conferred to the EC by Article 223 of the Treaty of Rome does not give individual states the right to grant exemptions from Community tariffs, the European Commission has proposed to abolish the exemptions from customs duties granted by certain member states. According to the Commission, tariff exemptions granted by member states on certain items supposedly intended or required for defence purposes have caused the loss of close to \$260 million in EC revenues, since some of these goods were subsequently released into the civilian economy without recovery of customs duties.⁹⁰ However minimal, this loss is the result of the actions of a few member states but has been to the detriment of the EC as a whole and, as such, cannot be justified in the eyes of the Commission.

In the interim, while the Commission waits for the 12 member states to vote on the proposal, it has suggested a compromise solution permitting a temporary suspension of duties at 0 per cent to cover a list of equipment similar to the one established by Article 223 of the Treaty of Rome. This list, still not made public, could conceivably be either very short or expanded to include components and sub-assemblies, which constitute the bulk of Canadian sales to Europe.

Should the proposal be adopted, the impact on Canadian defence exports could be very negative. First, the imposition of tariffs, varying between 3 and 5 per cent but possibly reaching 14 per cent, would greatly harm the competitiveness of Canadian products, especially in the fields of communications and electronics. In 1988, between \$300 and \$350 million⁹¹ worth of Canadian defence exports to Europe would have been affected by such a measure. Furthermore, European protectionist thinking could jeopardize NATO co-operative programs, which have enabled several Canadian companies to establish commercial ties with European partners.⁹²