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BRITISH COLUMBIA INDUSTRIAL DEVELOPMENT BULLETIN

A bulletin concerned with industrial advances affecting the B.C. economy

MERRY  CHRISTMAS

B.C. & Europe 1992

Although many firms in British Columbia are still wrestling with the implications of the Free Trade Agreement, the economic union of the 12 EEC countries - Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the U.K. and West Germany - in 1992 will create the world's largest single market of some 324 million people. The new Europe's imports will be more than twice those of the U.S.; its exports, four times those of Japan. Recent events in Eastern Europe can only add to the importance of this market area.

	GDP $U.S. bil	Pop. millions	GDP per capita	Exports $U.S. bil	Imports $U.S. bil
U.S.A	4,806	246.3	19,520	321.2	460.8
EEC	4,739	324.3	14,612	1,062.3	1,077.0
Japan	2,843	122.6	23,180	260.0	165.0
Canada	482	26.0	18,550	112.1	106.8

What's inside

Europe 1992

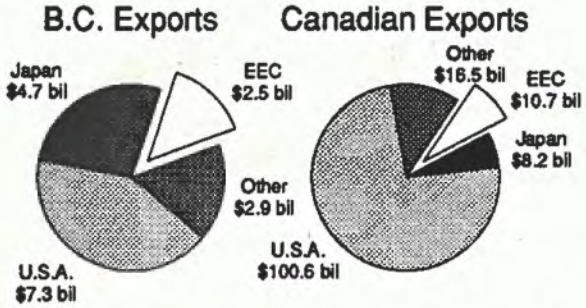
About 280 "directives" which make up the Single Europe Act are being worked through the slow EEC legislative process. These directives permit the free movement of people and products inside the EEC - they take down the tax, physical and technical barriers to trade. To date, about half of the directives have been adopted, and some of the most controversial still remain to be argued, especially in the indirect taxation area, and certain areas such as Europe's heavily protected automobile markets.

A major European report which examined the advantages of the single market found that the elimination of the Community's internal trade barriers would result in cost savings in the order of $250 billion as geographic barriers and different technical standards were removed and greater economies of scale, greater competition and market integration attained. Benefits from the lowering of costs – and thus prices – would be a 4.5% increase in GDP; a 6% decline in consumer prices and the creation of 1.8 million jobs.

Canada has done well exporting to the EEC, when we compare ourselves to the United States. In 1988, the U.S. exported $C90 billion worth of goods to Europe and Canada $10.7 billion, or 17% of the U.S. total. This is better than the usual 1/10 proportion in our trade.

In a similar vein, B.C. has done well exporting to the EEC. Despite being the most distant province from Europe, B.C. accounts for 23% of Canada's total exports to the EEC.

Industry, Science and Technology Canada
Industrie, Sciences et Technologie Canada



To avoid getting swelled heads, however, let's compare ourselves to our U.S. counterpart Washington State. Here we trail by an unhealthy margin. Washington's exports to the EEC are $C4.4 billion vs B.C.'s $2.5 billion. If we factor planes and related parts from Boeing out of the total, the remainder is only $C1.2 billion -- but this still consists of more high value-added products than B.C. ships. A look at the table tells the story.

Top 10 Exports to EEC in 1988, millions Cdn. $

British Columbia		**Washington State**	
Pulp	$1,152	Transport Equip	$3,191
Softwood Lumber	586	Food & Kindred	144
Paper/Paperboard	98	Machinery	139
Plywood	86	Instruments	133
Salmon (processed)	77	Chemicals,allied	103
Coal	76	Elec/Electronic	66
Copper	66	Paper & Silled	60
Salmon (unprocessed)	59	Lumber	36
Zinc	33	Agric. Crops	32
Molybdenum	31	Primary Metals	29
Total	**$2,513**		**$4,434**

Shouldn't B.C. Firms be Reacting ?

Of course B.C. companies have to concentrate on markets in the U.S. under the Free Trade Agreement, and on those in the Pacific Rim. But perhaps we underplay the EEC too much. This huge, upscale market comprises 324 million customers, and does one-fifth of the world's trade.

But why should you react, you ask? Well, are you one of the following?

A multinational with established facilities in Europe? New opportunities may arise for you, but you will have to deal with a trimmer and more efficient European competition -- and likely with larger, meaner customers who have re-vamped their purchasing departments!

A business with operations in one European country? You will face the same risks and choices as a European company. When Europe's internal barriers to trade go down, new multinationals will push into your previously established (or protected) local market. Your choices will be to expand, ally yourself strategically, perhaps rationalize operations into a niche line... or get out.

An exporter to Europe? Watch out for meaner European competition, and for a "Fortress Europe" protectionism in certain industries. You will not enjoy the benefits of mutual recognition that your European competitor enjoys, i.e. if a product is manufactured to standard in one European country, it can be sold to all of them. Also, although the Europeans are disclaiming any intent to set up "Fortress Europe", they are not undertaking Europe 1992 to help us out! It is European industries' input that will weigh heavily in bureaucratic committee work. The only B.C. industry association with a firm strategy in place on Europe 1992, is the Council of Forest Industries of B.C. (COFI). This organization has maintained an office in the U.K. throughout the last 28 years and now has had its personnel designated as the official Canadian industry spokesmen on all technical wood product issues, of which there are many. In particular, COFI's engineering staff in London are coordinating all the technical work for Canada on the relevant product and building standards, or "Eurocodes". The objective is to ensure maximum capability between the new European standards and the products available from the Canadian industry, as a means of both protecting and expanding an important export market.

Industry, Science and Technology supports COFI's suggestion that any Canadian industries currently shipping to Europe would be well advised to consider the question of new EEC product or usage standards, and what this might do to their export sales.

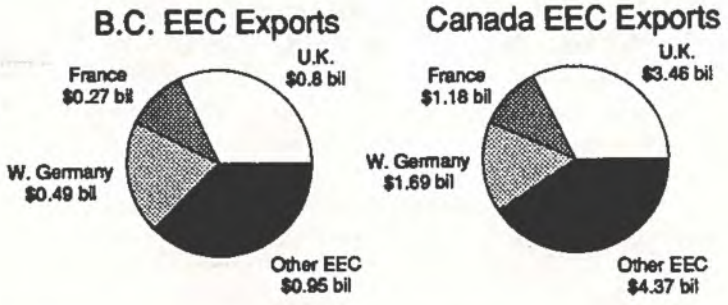
Industry is in a better position to handle the involved technical issues than is the government, though ongoing coordination of effort between the two is certainly necessary.

A business which hasn't yet tackled Europe? Watch out -- Europe may tackle you! Even in your traditional market, you may suddenly meet with aggressive competition from European companies who have restructured to get scale and cost benefits in the new single market. On the other hand, if you hadn't moved into Europe before, because of the many trade barriers and the fragmentation of the market, new opportunities may be coming for you.

So how should B.C. firms be reacting? B.C. firms can consider direct investment, joint ventures, mergers and marketing strategies -- all of the above. The essential thing is to do it soon. Speaking recently in Vancouver, Garde Gardom, B.C.'s Agent General in London, summed up the message. Move "behind any walls" before they go up in Europe. Inform yourself, put together a strategy, monitor the progress of developments in the EEC. Invest now, or get a beach-head, or form alliances and make your presence felt. Find out the specifications of the market, and upgrade the quality of products to meet Europe's high standards. Government and business in the US and Japan seem to be far ahead of us in terms of this kind of strategy development.

What EEC Countries Have to Offer

The various different member countries of the EEC have very different conditions and markets, and will be affected differently by 1992. The relative importance of the various EEC countries to date is depicted below. This ordering could well change after 1992.



It has been suggested that Europe's labour intensive manufacturing will tend to shift to the less developed south, while service industries and high value-added manufacturers will concentrate in the north. The current picture of the EEC countries, and some conjectures, are as follows:

Belgium Brussels is the heart of the EEC, and expanding your operation from Brussels might help avoid "nationalist" objections that might arise from a bid originating in Germany, the UK, Italy or France. The relative strength of the Belgian franc in the late 1980's has made Canadian exports very attractive. Although forestry and mining products represent 75% of Canadian exports to Belgium there are good opportunities for high value added manufactured and consumer goods. Quite a few Canadian and Belgian companies are considering the mutual advantages of joint ventures and investments to benefit from 1992 and from the FTA.

France The French government is very keen on 1992, and is trying to persuade multinationals to locate there, but the effort is getting somewhat mixed reactions among the nationalistic French. Numerous French companies are busy looking for partners and acquiring interests in the other EEC countries; a recent survey showed that 50% of them intend to undertake mergers in 1992. Despite persistently high unemployment rates (10%), France's economy is doing moderately well. Recently it enjoyed a period of strong capital investment by industry, with much modernizing and rationalizing of production. The sale of 65 Airbuses to Canadian airlines sent two-way trade between Canada and France over the $3b mark and in fact put Canada into a trade deficit with France. The two countries are trying to encourage partnerships, particularly in the agrifood and high technology sectors. Defence and construction also offer good opportunities for Canadians.

West Germany The dominant economy in Europe, West Germany's, may have the most to lose under Europe 1992. Its costs are the highest in the EEC for labour, energy and environmental controls. Its strong mark makes investing in Germany expensive for foreigners. Its 70% corporate tax rate is discouraging. German industry wants tax cuts and deregulation but this goes against the social-

welfare doctrine. In non-resource areas, market opportunities exist in telecommunications equipment, automotive components and defence products. Lacking any major resource endowment, except coal, the German economy relies on the manufacture of high quality, technologically advanced products that stem from a serious commitment to R&D by both the private and public sectors. Joint ventures with such German companies could bring significant technological benefits to Canadian companies. About 31% of German firms plan mergers in 1992.

Ireland Ireland has a well-educated, skilled workforce but lacks jobs, with an unemployment rate hovering around 17%. Foreign companies are taking advantage of Ireland's low wage rates to undertake assembly and computer-service work. Ireland has a well developed hi-tech industry and Canadian capabilities are readily recognized in such areas as telecommunications, electronics, computer hardware and software, and broadcasting equipment. The unrest in Northern Ireland will, however, undoubtedly continue to affect its attractiveness to investors.

Italy Faced with Europe 1992, Italy will have to deal with its large government deficits and weak banking system. Import growth has, however, remained strong despite constricted government spending. Italy is the world's third largest lumber importing country. In higher value-added products, although Canada's market share is small, the growth potential is substantial. Areas of opportunity include productivity-enhancing equipment and services, seafood and health care/pharmaceutical products. Several of Italy's larger companies are acquiring partners and interests in the other EEC countries. Canadian firms may also be able to build on the Economic and Industrial Cooperation Agreement signed with Italy in 1988.

The Netherlands Some Dutch firms are already streamlining operations in preparation for Europe 1992. Holland has free cross-border flows of capital and encourages the participation of foreign financial institutions. Its telephone system peripheral equipment market was liberalized this year, creating opportunities in the informatics sector. Timber frame construction is gaining acceptance in the Netherlands as is interest in SPF lumber for renovations, plywood and western red cedar.

United Kingdom British firms are reacting to 1992 more slowly than either French or German firms. The British government is seriously promoting 1992 after a 1988 study showed that only 38% of senior corporate executives even knew about the 1992 changes. Canadian firms have traditionally done well in the U.K. where their market penetration has been four times greater than in other EEC countries. While the U.K. market for Canadian forest, mine and fisheries products continues to be good, higher value products such as defence equipment, software, data communications, specialized computer hardware and computer services represent other attractive markets. Some 135 Canadian manufacturers currently have offices and/or facilities in the U.K.

Greece Although Greece's industrial base is small - accounting for only 20% of its GDP - it gets the largest share of the Mediterranean development funds to improve its economic competitiveness and reduce regional disparities. Strong Greek military spending, along with other major government expenditures, represent some of our best market opportunities. Over the next 4 to 5 years, energy and forestry sectors may also offer potential.

Portugal Recognizing that it has to play economic catch-up, the Portuguese government has significantly modernized its infrastructure and changed labour laws to make the country look better to foreign investors. Modernization of government and business operations, the telecommunications industry and the privatization of radio and T.V. industries will continue to require state-of-the-art products and services.

Spain The Spanish economy is the fastest-growing in the European Community, and the 11th largest in the world -- but currently ranks only 30th in terms of Canadian export markets, which should tell us something. Our export opportunities are particularly good for fisheries products, resource products, defence equipment, communications equipment, medical equipment and specialized technology related to control and automation systems, distribution networks, biotechnology and new materials. Like Portugal, Spain is modernizing its infrastructure. It is also trying to get foreign investment by

deregulating its securities industry and promoting mergers.

The variation and mix of production advantages and market niches within the EEC offer something for almost any company. It may also be worth noting that the environmental concerns which have emerged in North America are just as strongly held in Europe. Environmental products and service opportunities likely exist across all 12 EEC countries.

B.C. Success Stories

As our total export pattern shows, resources are our big exports to Europe. However, many Western Europeans willingly pay a premium for quality, and B.C. firms are among the many Canadian businesses who have good value/cost ratios in high-end products. Some of the mix in export types can be seen in a sampling of B.C. companies who have recently made successful forays into Europe.

Softouch Systems, makers of software services for scheduling airline crews, entered the European market in 1985 with a sale to British Caledonia, and have since expanded to other European airlines. They hope that the 1992 deregulation of airline services will open doors for more sales.

SEI Industries' "Bambi Bucket", a huge dipper which is suspended under helicopters, picks up water for firefighting. France, Italy, Spain and Portugal are spending a good deal on firefighting equipment, and SEI is fighting hard to get its share of this procurement.

Adagio Enterprises, a maker of fine fashions, has been very successful in Europe, to the point where they are going to open a store in Paris next year. Adagio has found that while North America and the EEC are comparably sized markets, the European market for high quality luxury goods is 5 times that of Canada and the U.S.. Adagio found that middle-men in Europe can add 60% to a product's price. Legal differences also exist which can make obligations to agents, distributors, etc. much more onerous than in North America. Dealing directly with retailers thus offers some advantages.

Pacific Fermentation Industry recently found Italian contacts receptive to their yeast for winemaking. They also found an unforeseen opportunity in yeast for frozen bread dough, which is increasingly popular among time-short European homemakers.

Conair has sold firefighting aircraft and systems for helicopters to the government of France since 1982, and more recently has done business in Portugal and Spain.

Conair's Turbo Firecat: B.C. Firefighting Technology

International Hardsuits have an arrangement with Draegerwerk of Germany for marketing rights for their well-known deep-sea "Newtsuit". Testing is occurring at the Gussi test facility, and the company hopes to sell 6-8 Newtsuits in 1990.

The Newtsuit and Beluga Buddy

Bravo Children's Wear were recently invited to exhibit their products at Canada House in London. They made contact with an importer, are now successfully selling, and aiming at making further cracks in the tough, competitive European clothing market.

Okanagan Dried Fruits Ltd. anticipates sales of $500,000 to Germany within a year. They sell to Switzerland and England, are actively working in the tough French market, and are looking at Spain.

Great Canadian Cider Exporters say that Labatts' move into the UK has helped open British minds -- and throats -- to Canadian beverages. Great Canadian means to introduce its hard apple cider into this biggest cider consuming market in the world. It is negotiating for production in Britain, using Canadian apple concentrate, and calculates that within three years of startup, it could sell a million gallons a year -- almost as large as the total BC market!

Rocky Mountain Bicycles has hit the European peaks with a vengeance. Its custom-designed, hand-built "Lamborghini of bicycles" won the award for bike of the year, plus full centre page treatment, in "The Bike Magazine", Europe's most important consumer's guide. This and the company's upcoming participation in an important Milan show will soon generate sales in Europe.

Yet other companies are also working on Europe, with good prospects. Applied Microsystems have successfully exported their oceanographic instrumentation equipment to 25 countries, including several in the Pacific Rim. Elders Grains, which sells cereals and grain, has recently established contacts in France and Holland.

What is Government Doing?

The federal government has focused on an information campaign on 1992, led by a thorough study, **1992 Implications of a Single European Market**, which is being sponsored by External Affairs and International Trade Canada (EAITC). The first phase of the study, **Effects on Europe**, was launched at an April conference in Toronto. The second phase, now underway, includes 12 industry sector analyses of trends, export impacts, EEC competition, investment implications and technology acquisition opportunities. These industry sectors include:

- agriculture and food products
- consumer goods and cultural industries
- telecommunications and computer based industries
- automotive
- forest products
- defence, aerospace and transportation
- minerals and metals
- specialty chemical products, new materials, pharmaceuticals and biotechnology
- industrial products and services
- financial services
- fisheries products
- professional consulting services

For each sector, working groups of specialists from Industry, Science and Technology Canada (ISTC) and other government departments have been formed to provide detailed analysis of the impact of 1992 on Canada. A few results are summarized below.

The Working Group on Defence Products reports that the EEC Commission's proposal for curtailing duty free entry for certain defence products and sub-systems poses a threat to Canadian sales and to NATO co-operative programs. Nevertheless, Canadian companies in the defence business can view the coming of the European Single Market with "qualified optimism". Provided Canada maintains its technological lead in specialized areas of defence sub-systems and equipment, we should be able to keep our role as specialized supplier to NATO Europe through US prime contractors, European primes and on a direct basis.

The Working Group on Fisheries Products has done an impact analysis and found that of the three categories of 1992 measures - those approved, those awaiting approval and those proposed but with no text available - there are generally few areas of serious concern. However, there is some possibility that EEC market integration could lead to increased trade protectionism through the expansion of price supports and related reference prices, and the expansion of EC subsidies to fish processors and aquaculturists.

As the industry sector analyses indicated above become public, EAITC plans a series of conferences across Canada. Watch for one in Vancouver before winter's end. But don't wait 'til then to take action!

1992 at a Glance

Business America has highlighted the following specific changes as the major part of the 1992 program.

In standards, testing, certification
Harmonization of standards for:

- Simple pressure vessels
- Toys
- Automobiles, trucks, and motorcycles and their emissions
- Telecommunications
- Construction products
- Personal protection equipment
- Machine safety
- Measuring instruments
- Medical devices
- Gas appliances
- Agricultural & Forestry tractors
- Cosmetics
- Quick frozen foods
- Flavorings
- Food emulsifiers
- Extraction solvents
- Food preservatives
- Infant formula
- Jams
- Modified starches
- Fruit juices
- Food inspection
- Definition of spirited beverages & aromatised wines
- Coffee extracts & chicory extracts
- Food additives
- Materials & articles in contact with food
- Tower cranes (noise)
- Household appliances (noise)
- Detergents
- Liquid fertilizers & secondary fertilizers
- Lawn mowers (noise)
- Medicinal products & medical specialities
- Radio interferences
- Earthmoving equipment
- Lifting and loading equipment

New rules for harmonizing packing, labelling and processing requirements

- Ingredients for food & beverages
- Irradiation
- Extraction solvents
- Nutritional labelling
- Classification, packaging labelling of dangerous preparations
- Food labelling

Harmonization of regulations for the health industry (including marketing)

- Medical specialities
- Pharmaceuticals
- Veterinary medicinal products
- High technology medicines
- Implantable electromedical devices
- Single-use devices (disposable)
- In-vitro diagnostics

Changes in government procurement regulations

- Coordination of procedures on the award of public works & supply contracts
- Extension of EC law to telecommunications, utilities, and transport
- Services

Harmonization of regulation of services

- Banking
- Mutual Funds
- Broadcasting
- Tourism
- Road passenger transport
- Railways
- Information services
- Life & nonlife insurance
- Securities
- Maritime transport
- Air transport
- Electronic payment cards

Liberalization of capital movements

- Long-term capital, stocks
- Short-term capital

Consumer protection regulations

- Misleading definitions of products
- Indication of prices

Harmonization of laws regulating company behavior

- Mergers & acquisitions
- Trademarks
- Copyrights
- Cross border mergers
- Accounting operations across borders
- Bankruptcy
- Protection of computer programs
- Transaction taxes
- Company law

Harmonization of taxation

- Value Added Taxes
- Excise taxes on alcohol, tobacco, and other

Harmonization of veterinary & phytosanitary Controls
Harmonization of an extensive list of rules covering items such as:

- Antibiotic residues
- Bovine animals and meat
- Porcine animals and meat
- Plant health
- Fish & fish products
- Live poultry, poultry meat, hatching eggs
- Pesticide residues in fruit & vegetables

Elimination and simplification of national transit documents and procedures for intra-EC trade

- Introduction of the Single Administrative Document (SAD)
- Abolition of customs presentation charges
- Elimination of customs formalities & the introduction of common border posts.

Harmonization of rules pertaining to the free movement of labor and the professions within the EC

- Mutual recognition of higher educational diplomas
- Comparability of vocationaltraining qualifications
- Specific training in general medical practise
- Training of engineers
- Activities in the field of pharmacy
- Activities related to commercial agents
- Income taxation provisions
- Elimination of burdensome requirements related to residence permits.

A Holiday Message from ISTC - British Columbia's Executive Director

Dear Colleagues:

With this issue, we mark the official establishment of the new Department of Industry, Science and Technology Canada (ISTC). ISTC is here to help Canadian firms become more competitive, and as part of the process, to be the voice in Ottawa for Canadian industry.

While the snow has the good manners to stay in Central Canada, competition never leaves us alone, not even in our market niches in B.C.. The globalization of production and the pace of technology change, affecting all aspects of the production process, will keep the pressure on us.

In 1990 and beyond, this office will be very concerned with the design and delivery of new services to B.C. firms, particularly those which will support the development and adoption of productive new technologies. If you have thoughts as to how we could better help you in this regard, feel free to pass them on! I and my staff, who include experts in key B.C. industry and technology sectors and specialists in international trade, would like to hear from you.

Best regards of the season!

Victor G. Lotto

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Executive Director

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