EUROPE 1992: IMPLICATIONS FOR THE CANADIAN WOOD PRESERVATION INDUSTRY

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A plan to form, by 1992, a truly single market without any barriers to the internal movement of goods, capital, services, or people in the trading block of 12 western European countries is known as EUROPE 1992.

This new EUROPE will be more of a single market than Canada and the United States (U.S.), especially with the unification of East and West Germany. The member states of the 12 western European countries plan to proceed to enact national implementation legislation by the end of 1992, thereby realizing a truly EUROPEAN Common Market.

1992 is shorthand for the creation in the community of a truly single market without any barriers to the internal movement of goods, capital, services, or people. This new Europe will be more of a single market than Canada and the U.S., even given our free trade agreement. The European Community (EC) program is well underway. The European Commission (the executive organ of the community) has tabled over 95% of the 279 directives needed to effect the single market, and the European Council (the legislative arm) has already agreed to most of these measures. The aim is to have most of them adopted by 1990 so that the member states can then proceed to enact necessary national implementation legislation thereby realizing a truly European market by the end of 1992.

The most striking thing about this new market will be the sheer size of it. With 325 million upwardly mobile consumers, the EC is the world's largest exporter and the world's second largest importer. With unifification of Germany these impressive figures will go even higher. But it is also worth focusing on the EC's own international trade network. The EC has free trade agreements covering industrial goods with the European free trade association countries (EFTA) (comprised of the Scandinavians plus Switzerland and Austria), and has preferential trading agreements with a large part of the rest of the world, mainly the former colonies of its member states.

This network increases the EC's own commercial and economic weight, which rests on the fact that the EC has a GDP about equal to that of the U.S. In fact, the EC accounts for 25% of the entire world's GDP.

The EC is an economic giant in capital markets. EC financial centres accounts for 45% of total incremental bank lending, compared to 18% for Japan and 10% for the U.S.

The EC alone conducts about 16% of world trade. For some products, market pulp for example, the EC represents by far the world's largest single market. The 8.5 million tonnes imported in 1987 was almost 39% of total world trade.

In terms of our own exports, it is a crucial market with an annual growth rate averaging 15% since 1985. Our largest single export category is forest products which last year accounted for almost one third (31%) of our exports to the EC. Wood pulp alone represented over 15% of Canadian exports to the EC, softwood lumber 7%, and newsprint 4%.

It is worth noting that a high proportion of our exports to Europe is of value added goods. And in the case of the EC, we are talking about a cash market and by and large a profitable one.

Moving from trade to economic relations, we need to recognize a high level of economic and industrial partnership in that the

level of the of the EC's direct investment in Canada is high and growing and that it carries an important element of technology transfer. In fact, technology development is an important part of the 1992 exercise. The EC has matched the 1992 program with a major R&D effort to regain technological competitiveness, with a ten billion dollar budget over four years. This is over and above the R&D budgets of the twelve member states of EC. The EC is determined to put its industries on a new competitive footing, by closing the technology gap with the U.S. and Japan. The benefits of the world's largest single market plus ten billion in new money are going to go a long way to achieve that.

Europe may become an easier marketplace because of uniform standards established on a fairly comfortable basis of mutual recognition, because one patent procedure will do instead of twelve, because a single incorporation will do instead of several, and because of rationalized warehousing and distribution system.

But at the same time, Canadians will find greater difficulty in competing in Europe, in third markets and in our own domestic markets. European industries will become more competitive, benefiting from economies of scale and other efficiencies. National and cross-border mergers and acquisitions are leading to horizontal integration and thereby world-scale multinationals with global marketing strategies. And with respect to our wood products industry, this is taking place in EFTA countries (particularly Norway, Sweden and Finland) as well as in the EC.

One large question is always asked: Will the post 1992 Europe be protectionist? Will it be "Fortress Europe?"

Clearly that is not the idea of 1992. The idea is an alternative to protectionism. That said, what is in progress is a broad exercise in restructuring which will produce sectoral and regional winners and losers. Inevitably the losers will produce protectionist pressures.

Coming to our subject of Europe 1992 and wood preservation industry, the construction products directive was agreed to and published within the EC (in December 1989). In European law and under the agreement of the single European Act of 1987, which all EC member governments are bounded by, the construction products directive must be implemented in each of the twelve EC countries with short time scale.

In U.K., for example, the construction products directive will be implemented on July 27, 1991, less than twelve months away. The construction products directive lays down six essential requirements which are given in a simple functional form; these are:

I. Mechanical resistance and stability
II. Safety in case of fire

III. Protection against noise
IV. Energy economy and heat retention
V. Safety in use
VI. Hygiene, health and the environment.

This constructive product directive is the key to the subsequent production and use of harmonized European design codes and product standards for all construction nationals.

Eurocode 5 and CEN wood product standards: Eurocodes will be the common European design tool for engineering calculations. Eurocode 5 deals with timber and it is well advanced in its preparations.

CEN product standards are currently being developed for all construction materials to a very tight timetable. Lumber and wood based panels are part of this activity.

There are five principal CEN technical committees for wood materials: These are:

CEN/TC 124 - SOLID STRUCTURAL TIMBER
CEN/TC 112 - WOOD-BASED PANELS
CEN/TC 175 - NON-STRUCTURAL SOLID TIMBER
CEN/TC 38 - NATURAL DURABILITY AND PRESERVATION
CEN/TC 127 - FIRE TESTS.

Any standard on wood durability or preservation is extremely important to wood products, as bad preservative standards will jeopardize timber versus other construction materials, and there is added factor of the growing environmental movement and anti-chemical lobby.

The role of CEN is now paramount for both the Eurocodes and the products standards. It is becoming an increasingly important European organization.

CEN/TC 38 has been very active and efficient. It has produced the following draft standards which were adopted for the votation by the member bodies

- definition of biological hazard classes

- natural durability of wood

- treated wood

  . requirements for preservative-suitable for use in those conditions defined by hazard classes.

  . Procedures for sampling and preparation of preservative treated wood for analysis of penetration and retention of preservative.

  . Requirements for classifying, identifying and marking of preservative treated wood.

- Performances of preservatives

  the three documents prepared are:

  part 1 - tests for specific hazard classes

  part 2 - minimum performance criteria in tests

  part 3 - specifications of wood preservatives (classification, identification and labelling).

It is important for this association to keep abreast of the development of CEN standards. The Council of Forest Industries of British Columbia (COFI), along with the External Affairs Department, are doing an excellent job of monitoring these activities.

Although a single European market, with a single set of rules, has the potential to make market entry easier in EC countries not currently served by Canadian exporters, there is also the possibility that traditional markets such as U.K. will be threatened as other members of the EC attempt to set trade rules that will protect domestic industry. These new rules will apply equally to Canada's traditional markets, and those that Canada wishes to develop. Requirements for lumber with less than 19% moisture content for construction purposes in EC is a good example. In the author's opinion, the Canadian position on issues governing trade with EC is:

* availability and cost of raw material - a relative advantage
* proximity to market and transportation costs - a disadvantage
* non-tariff barriers in the form of standards - a possibility
* other barriers - risk related to volatility of exchange rates.

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