I - STUDY OBJECTIVES

This report is one of a series covering approximately 80 manufacturing sectors, commissioned by the U.S. Trade, Tourism and Investment Development Bureau of the Department of External Affairs and written by Peat Marwick. The series is designed to provide a preliminary indication of Canadian export opportunities in the United States that may now exist as a result of the rising cost of offshore imports. The information provided about the nature and size of the U.S. import market, as well as leads and marketing intelligence, should help Canadian companies to determine whether further investigation of opportunities is justified and, if so, to begin such follow-up. The reports are likely to be of particular interest to small and medium-sized Canadian companies that either are not exporting or would like to increase their exports to the United States.

Each sector report identifies the major products imported into the United States from developed countries, explores the effect that the devaluation of the U.S. dollar has had on the price of these imports, and indicates which of these products might provide Canadian suppliers with increased export opportunities in the United States. The U.S. Department of Commerce's segmentation of statistics, upon which the review of U.S. imports is based, does not always correspond to the traditional definitions of product sectors in Canada. In a few reports, therefore, there are some differences between the products discussed in the report and those commonly included within that sector. Definitions of what products are covered in each report are, however, provided in all cases so that such differences can be identified and taken into account.

The report also identifies some initial export leads for Canadian manufacturers, lists trade fairs and industry publications favoured by U.S. importers, examines the U.S. importers' perceptions of the impact of a Free Trade Agreement between Canada and the United States on their purchases of Canadian products and provides the relevant tariff tables outlining the implementation stages of the Free Trade Agreement. Analysis of Canadian export industries or international competitiveness was outside the scope of these reports. For specific information on export marketing of their product, Canadian companies are invited to contact the U.S. Trade, Tourism, and Investment Development Bureau or the appropriate Canadian Trade Commissioner in the United States (addresses in final appendix).

II - CONCLUSIONS OF THE PEAT MARWICK STUDY

The U.S. Department of Commerce (USDOC) reports that after an increase in product shipments of 4.1% to $1.25 billion (U.S.) in 1987, U.S. paper machinery industry producers expected a 33% constant (1982) dollar increase in shipments in 1988 and average annual increases of 2.5% (in constant 1982 dollars) thereafter through 1991. U.S. demand for these products, however, exceeds U.S. shipments and is being satisfied by imports. The trade balance for products including new and rebuilt wood preparation machinery, pulp and paper mill machinery, and paper converting machinery has moved from a surplus situation in 1982 to a deficit of $260 million (U.S.) in 1987. The USDOC attributes the worsening trade balance to a number of factors including higher dollar exchange rates that prevailed when many orders for machinery were originally placed; lower production costs in other countries; more favourable foreign financing; and a growing number of U.S. companies establishing foreign manufacturing subsidiaries.

The particular products and product groups which are the focus of this report are machines for making and processing cellulosic pulp, paper and paperboard articles and parts, but excluding those for making containers. This product group represents the major types of paper machinery imported into the United States from major developed countries. Canada supplied 11.8% of the $270 million (U.S.) of 1987 U.S. imports of the products which are the focus of this report. European countries dominate this import market.

It has been demonstrated that Canada is losing share in the market. Because of the impact of the Free Trade Agreement and because of the decline in the U.S. dollar against all major western industrialized countries except Canada, there is an export opportunity which provides the potential for Canada to regain its share in the market.