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NATIONAL TRADE DEVELOPMENT STRATEGY

GLOBAL MARKETS AND SUPPLY OVERVIEW

**FOR DISCUSSION AT FEDERAL-PROVINCIAL MEETING
OF DEPUTY MINISTERS OF TRADE
(TORONTO, JANUARY 8, 1985)**

**EXTERNAL AFFAIRS CANADA
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INTRODUCTION

Government export support services are available to respond to the needs of all companies wishing to develop their export potential. However, the budgetary reality currently faced by governments enforces a discipline on all spending programs, including government-initiated export promotion activities. It is therefore essential to review and prioritize world markets in the context of national and regional industrial capability to identify markets of concentration and sectors of opportunity on which incremental trade promotional resources should be targeted to maximize returns.

The objective of providing a greater focus of promotional efforts on markets of concentration and sectors of opportunity is to provide the basis on which governments could agree to work together with the participation of the private sector to develop unified export marketing plans.

This paper looks at export marketing from the "demand" perspective (i.e. what does the market want) and moves from there to match up demand with the export supply capability of Canadian companies.

I. GEOGRAPHIC MARKETING (U.S.A.)

GEOGRAPHIC PRIORITIES

The influence and the importance of the U.S. market on the economy of Canada is demonstrated through the size and diversity of Canadian exports to that country. The first six months of 1984/85 have seen nearly 80% of all Canadian export sales cross the border providing direct employment for more than three million Canadians, almost 25% of the total available labour force.

Of particular interest is the fact that while Canada remains the single largest supplier to the U.S.A. of natural gas and electricity, over 70% of Canadian exports to the U.S. are manufactured products. These statistics underline how important the U.S. buyer is to each region of Canada and every sector of Canadian industry. Given the increased attention other foreign suppliers are paying to the U.S. market it is imperative that we revitalize our trade promotional efforts and vigorously pursue every sales opportunity in order to maintain and increase the Canadian share of the U.S. market.

During 1985/86, the U.S. Branch plans to step up its program of developing marketing "strategies" for key and priority industry sectors. Working closely with DRIE sector branches export approaches have already been formulated for Agricultural Machinery; Manufactured Wood Products; Urban Transportation Equipment; and Sporting Goods. Other strategies in various stages of completion include: Forestry Equipment; Oil and Gas Equipment; Defence Products; Hardware; High Tech (Computer Hardware and Software); Apparel; Pleasure Boats; Manufactured and Processed Food and Processed Fish Products. While the U.S. market as a whole is seen as the natural one for Canadian industry particularly first-time exporters and small/medium sized firms, the Northern Tier States, Sun Belt Region and West Coast are the strongest regional markets and are targetted in the Promotional Projects Program (PPP) developed for fiscal year 1985/86.

This PPP includes 75 promotional events ranging from full scale Canadian national participation to buyers missions and solo shows. Twenty-two events focus on Consumer Products including furniture, apparel, sporting goods, and housewares; twelve on Food Products including fish; nine events on the Resource Industry including Building Materials and Manufactured Wood Products; and five events on the High Tech Industry. The balance of the program addresses key sectors such as the Automotive, Defence, Energy, Agricultural Machinery, Forestry Equipment, Health Care, Iron and Steel, Marine, Pulp and Paper, and Transportation Industries.

EUROPE

Europe is the largest trading region in the world and the second most important one for Canadian exporters. With a population of 800 million Europe includes half of the world's 24 largest import markets and six of Canada's 10 best customers; the largest of these being the United Kingdom and the USSR. West Europeans trade mostly with their neighbours but still import more than \$375 billion annually from outside the European Free Trade Zone (EEC plus EFTA). In addition the centrally planned economies of Eastern Europe import \$65 billion each year from western suppliers. Europe purchased 11% of Canadian exports valued at \$8.1 billion in 1983 and is a primary market for a broad range of suppliers located in every province of Canada.

Within Western Europe the diversity of economic development in the mature industrialized north and the newly industrializing south presents market opportunities which match Canadian expertise in every product sector. Western Europe absorbs 8.6% of Canada's exports and on average more than 60% of these goods since 1980 have been in higher value added fabricated materials and end products. Distribution channels and other marketing mechanisms are similar to those in North America and Europe is the most important trade show centre in the world. It also has the attractiveness of being essentially a cash market. The area will continue to play a very important role as a source of revenue and job creation in Canada, including in the tourism sector where receipts from Europe reached \$650 million in 1983.

The USSR is the number one market for Canadian grains and Eastern Europe is the location of the only ongoing export contract for the Canadian nuclear industry. Eastern Europe takes 2.4% of Canadian exports even though market development takes time and patience. Competitive financing packages are an important part of most sales offers as is the ability to meet counterpurchase obligations but the business is profitable. Eastern Europe has reduced Western indebtedness and is now in a position to increase imports faster than the world average. The USSR in particular will remain one of the primary purchasers of large scale capital projects.

The maintenance of fair market access and relief from non-tariff barriers in Europe is an essential requirement for Canadian exporters. Current bilateral and multilateral discussions on access will intensify should there be a new round of multilateral trade negotiations. Canadian firms continue to benefit from various agreements with European suppliers to transfer technology into North America. The area currently supplies 18% of foreign investment equity in Canada and is an important source of debt financing. It is also the recipient of 16% of Canadian direct investment abroad.

Canadian manufacturers should capitalize further on the high level of R & D on the continent. Europe offers many opportunities for technology transfer, debt and equity sourcing and the exposure to a worldwide customer base at specialized trade fairs. The region can also offer attractive partners for joint projects in third countries. Western Europeans offer worldwide marketing expertise and a strong technology base while East Europeans can frequently make joint venture proposals more cost competitive. Companies with new product developments should invest in the European market early on in the product development life cycle to maximize growth opportunities. The region increased imports by more than 12% in 1984 and a continuing improvement in the relative competitive position of Canadian suppliers can be achieved through aggressive long term marketing strategies.

NATIONAL TRADE DEVELOPMENT STRATEGY
AFRICA AND MIDDLE EAST BRANCH
I GEOGRAPHIC MARKETING

A. Primary Markets

The primary markets are in the Arabian Peninsula and North Africa and include Algeria, Egypt, Saudi Arabia and the Gulf countries. Of these Egypt is the only market whose fortunes are not tied directly to world market prices for oil and gas. As a consequence of lower and somewhat uncertain returns from oil and gas sales these markets have moved out of the "boom" phase and into a consolidation and industrial development phase. Canadian exporters lacked the depth and resources to be major participants in the many mega projects associated with this period but are now exceptionally well placed to supply the technology, and raw and semi finished materials and services that are required. These are still some of the best "cash" markets in the world. In the case of Egypt most major exports require blended EDC/CIDA financing and the growth in the market for Canadian exports commenced when it became a CIDA country of concentration.

B. Secondary Markets

In the countries of Western/Central Africa there are major opportunities for capital projects provided there is access to aid financing. Cameroon and Gabon have access to both EDC and aid financing. The market potential of both Iraq and Iran is excellent but until the war is concluded there will be limits and in the case of Iraq difficult to obtain financing. Jordan and North Yemen offer good potential but concessional financing is essential but not yet available from CIDA.

C. Responsive Markets

Many other countries of Africa and the Middle East offer more restricted but for the products of individual companies interesting opportunities. Often there are special marketing and/or aid requirements.

The Asia Pacific region offers a variety of opportunities for Canadian exports ranging from wheat and grains to sophisticated high technology items. From straight export sales of bulk commodities through intricate joint venture manufacturing arrangements to enormous turn key projects, the region is a market for all Canadian exporters.

Japan, the industrial giant of the region offers an excellent opportunity for diversified exports. With a population of 120 million, a per capita GNP of approximately \$12,500, and low unemployment rate, it boasts the second largest free market economy in the world. Sales of raw materials are expected to increase in 1984 and beyond, although industrial restructuring which emphasizes "knowledge" industries rather than traditional heavy industry is expected to have a moderating effect on this growth. The traditional surplus in our trade with Japan has been based largely on raw materials and is decreasing steadily. To prosper in this market Canada must expand and diversify its exports. Canada has consistently been in a deficit position in machinery, consumer goods and processed raw materials.

Japan also offers Canada a substantial opportunity for investment capital. Japanese industry tends to invest in its suppliers and increasingly, to protect its markets. Ways must be found to attract such investment to Canada.

China and India, the two most populous countries of the world continue to offer great promise for Canada. China is Canada's fifth largest market. With its new "open door" policy and rapid move toward decentralization it offers new and challenging opportunities in agriculture, energy, mining, oil and gas, aerospace and telecommunications. India, whose current pipeline of projects to be financed by the World Bank alone totals US \$5.7 billion, embarks on its seventh 5-Year Plan in 1985. This is expected to provide new opportunities in power generation, oil and gas equipment, railway modernization and telecommunications. Both countries are aggressively pursuing a policy of absorbing technology through joint ventures and licensing to upgrade their industrial base. Financing is also extremely important.

Southeast Asia (ASEAN) is the fastest growing regional economy in the world. 55-67% of ASEAN annual imports of US \$80 billion (all sources) are machinery, transportation equipment and other manufactured goods. Over the next few years new opportunities are expected to arise for telecommunications, power generation, urban transportation, oil and gas equipment and services, and aerospace.

Australia and New Zealand offer Canadians a total market of approx. \$900 million, over 1/2 of which is in fully manufactured goods. Major opportunities exist in the areas of agricultural equipment, videotext, aircraft, oil and gas drilling equipment, engineering consulting services, and telecommunication equipment.

Hong Kong, Korea and Taiwan, the newly industrialized countries of the region rely greatly on imports of all kinds ranging from raw materials to consumer products and high technology items. As the economies of these countries grow, new opportunities for Canadian exports of grains and foodstuffs, forest products, chemicals, electronics, telecommunications and satellite equipment are emerging. Hong Kong is also a potential source for investment in Canada.

The developing countries of Asia and the Pacific such as Pakistan, Burma, Bangladesh, Nepal, Sri Lanka and the Philippines have traditionally been aid oriented export markets. New opportunities are also created through activities of the World Bank, ADB and other IPI institutions.

1.5 Latin America and Caribbean

The region remains the most crucial and relevant Third World area in terms of Canadian trade objectives and global economic interests. Facts: largest recipient of Canadian bank loans; most favoured area for Canadian direct foreign investment after U.S.; most important Canadian market area after U.S., Western Europe, Japan; over 50% of Canadian exports to region are manufactures; three countries, Mexico, Brazil and Venezuela are designated priority markets, while Cuba, Colombia and Trinidad rank closely behind.

In the course of recovering from global economic recession, the emphasis is on structural adjustment designed to conserve foreign exchange, expand exports and increase employment. Market demand over the next 5-10 years will reflect these objectives and it will consist mainly of major infrastructure projects in: energy (hydroelectric, oil and gas); resource development (mining, fishing, agribusiness); transportation (rail, urban air, ports, roads, storage and handling); telecommunications; urban development; tourism. Secondary industry development will reflect the same objectives, particularly in agribusiness, resource upgrading and metal-mechanical equipment.

In the region, the countries of the Caribbean Basin and Cuba have special characteristics in that they are good traditional and, taken as a whole, large markets for Canadian processed food, newsprint, a wide range of manufactured products and telecommunication equipment. In addition, Canada-Cuba trade relations are unique with Canada the sole source of North American products and technology in several sectors including agriculture, transportation, power generation, telecommunications and tourism.

In the more developed countries (Brazil, Mexico) the demand for more sophisticated technology transfer will increase rapidly in sectors such as communications, instrumentation and process control, food processing, electronics and metal processing. Accompanying this demand, with its inherent spin-off of regional protectionism, will be a requirement, in one form or another, for joint participation in the industrial development process.

Primary markets are Mexico, Brazil, Venezuela, Cuba, Colombia and Trinidad. Of secondary importance are Argentina, Barbados, Chile, Ecuador, Jamaica, Panama and Peru. The remainder of the countries will be treated for the most part on a responsive basis.

The import capacity of Latin America and the Caribbean is expected to grow by 2½ to 3 times its present size of \$75 billion by 1990. By maintaining our current market share, Canadian exports to the region would reach from \$5-9 billion annually.

SECTOR

AGRICULTURAL AND FOOD PRODUCTS

1. Market Opportunity Overviews

Agricultural products:

Canadian animal breeding stock and genetic material enjoy a reputation for high quality and veterinary health standards. Offshore sales of animals and semen totalled \$65 million in 1983. There are opportunities for both animals and genetic material in South America, particularly dairy and swine; swine breeding stock in Southeast Asia and China. The challenge in Europe is to maintain market share in the face of tariff and non-tariff barriers. The U.S.A. remains the largest single market for beef and dairy animals, semen and embryos.

Seed and table potatoes have some potential for expanded exports in the Middle East/North Africa and South America; more secure access to the E.E.C. is crucial for continued sales both within the expanded Community and to other markets. Apples, blueberries and other berry crops have continued prospects in the U.K., Western Europe, Japan and Southeast Asia. The major opportunities for the nursery and floriculture sector are concentrated in the U.S.A.

Canadian forage and oilseed varieties are facing more selective demand and difficult access in European markets, but have good long term possibilities in Japan and China. Japan and Korea should be continuing markets for certain livestock feeds (dehy. alfalfa, canola meal) and there is potential for feed ingredients and technical services in South and Central America. Pulse crops have prospects for growing markets in the Middle East/North Africa and South America. The U.K. is the major buyer of white beans. Edible soybeans also do well in Southeast Asia. In the face of declining domestic and traditional export markets for leaf tobacco, countries in the Middle East with tobacco monopolies appear to offer the only growth prospects.

Food Products:

This sector comprises all processed foods, including meat, dairy cereal preparations, fruits and vegetables, honey, sugars and syrups, confectionary spices, oils/fats/shortening, beverages and other preparations. Exports by 38 countries, which account for more than 80% of world trade in these products, totalled U.S. \$61,000 million in 1982, a 500% increase over 1970. As comparable Canadian exports rose by 360% from \$476 million in 1970 to \$1,711 in 1982, Canada's share of this trade declined from 3.9% to 2.8%.

The principal products entering trade are meat (25% of sector trade in 1982), dairy (19%) and beverages (13%). Most categories show values in excess of \$1,600 million and even the smallest (honey) had shipments in excess of \$100 million. The major destinations are Western Europe, U.S.A., Middle East and the Pacific. However, for a variety of reasons, the most attractive opportunities exist in the U.S.A., Pacific, Middle East and the Caribbean. In the U.S.A., Canada is historically the largest supplier, but there is ample opportunity for additional sales in every category; the Pacific (notably Japan) is an expanding market and, although Canadian sales have grown at twice the total market, there are opportunities in all major sectors; Canadian exports to the Middle East, the fastest growing market, are less than 1% of the total; sales to the Caribbean have maintained their share of that market.

2. Current Access Constraints

Food products face a variety of trade constraints including prohibition of imports (e.g. certain Caribbean countries), foreign exchange controls (South America), quotas (E.E.C., Japan) and minimum import prices (E.E.C., Japan). Indirect constraints include phytosanitary, veterinary and labelling regulations, cultural requirements (e.g. halal slaughter for meat to Moslem countries) and subsidized exports by certain countries (E.E.C.).

In the agriculture sector, veterinary health regulations restrict exports of breeding animals to several markets, e.g. the E.E.C., U.S.S.R. and China. Some individual U.S. states also impose requirements that differ from national regulations. Phytosanitary access for seed potatoes to the E.E.C. is a continuing problem with implications for us in third markets where the E.E.C. is a competing supplier. Apples face an import ban in Japan, officially for plant health protection reasons. Variety testing and licensing represents an increasing barrier to Canadian forage seeds in Europe and other markets. Dehydrated alfalfa cannot compete freely with U.S.A. products in South Korea; other feed ingredients encounter import bans - South and Central American countries for technical or foreign exchange reasons.

3. Canadian Export Capabilities

Food processing is well developed in Canada with plants located in all regions. Approximately 12% of production is exported, but industries in the sector have adequate capacity to expand output to meet additional demands. However, Canada's competitiveness is reduced by a number of domestic influences, notably actions of marketing boards and relatively high labour costs in some industries. Currently, the high value of the Canadian dollar vis-à-vis other currencies is also reducing our competitiveness.

Except for limitations imposed by annual crop or animal reproduction cycles, exportable supplies of most of the primary agricultural products are adequate. Size and experience of individual exporters or producing organizations are more likely to be limiting factors.

4. Proposed Promotional Activities

Activities in the livestock sector include participation in 7 major international livestock shows (Europe, Asia, Latin America) and sponsorship of technical seminars, incoming and outgoing missions and visiting buyers. Support will be increased for horticultural product organizations to promote exports on a generic basis. The Department will sponsor participation in 3 nursery trade shows in the U.S.A. and host several incoming missions for specific horticultural commodities in 1985. Sales missions to specific markets are planned for pulses and tobacco. Food product promotion activities will include participation in 6 major international food exhibitions, 5 regional shows in the U.S.A., 8 solo food shows, plus retail promotions in stores and restaurants, and various missions.

Our continued support for exporters and industry associations will emphasize information and counselling on markets, judicious use of the PEMD program, and improved coordination of marketing efforts between the federal and provincial agencies involved.

SECTOR:

FISHERIES PRODUCTS

1. Market Opportunity Overviews

Canada's fisheries products exports will remain highly dependent on three main markets - US, EC and Japan. In response to the strong US dollar and weaker EC currencies, Canadian exporters have attempted to increase their sales, particularly of groundfish, to the former. They are also trying to preserve markets in the latter in anticipation of a return of strengthened economies and improved sales of groundfish and shellfish. In spite of a recent decline in sales volumes, Japan becomes increasingly more important as an outlet for such products as herring, herring roe, crab, redfish, capelin and squid.

Brazil's recently more relaxed import regulations present opportunities particularly for saltfish. Africa cannot afford to purchase most Canadian species, and in many cases is not equipped to handle frozen fish, therefore sales possibilities are limited. However, an opportunity to increase sales may lie in expanded use of food aid expenditures to supply dried and canned fish to some African countries.

If Eastern Europe, and in particular the USSR and Poland, accept to meet their purchase commitments and the GDR continues to buy, these sales will be of value particularly in removing excess supplies that can push prices down.

More emphasis on underutilized species to traditional and non-traditional markets should increase sales of these products.

2. Current Access Constraints

In Canada's two most important markets, the US and the EC, access concerns exist. In the case of the US, possible countervail and anti-dumping findings as well as US reaction to the Gulf of Maine settlement could result in market disruptions. Stricter application of labelling regulations could reduce sales of freshwater fish from Canada. Spanish and Portuguese accession to the EC may result in terms that are less favourable to Canadian exports to an expanded EC. Until currency values in the EC rise, Canadian exports will continue at lower levels.

3. Canadian Export Capabilities

A number of positive resource developments augur well for increased export sales. These include the forecast of a substantial increase in groundfish landings, an improved management of species in the Gulf of Maine, and better control of the west coast salmon and the enhancement program as a result of the Cda/US Pacific treaty.

A conscious effort by Canadian exporters to improve the quality of their products has already had, and is expected to improve, future acceptance of Canadian products. Improving standardization will also benefit sales.

The restructuring of the Canadian industry is not yet finished. Improvements in this area will enhance Canada's competitive position. The formation of export consortia and the strengthening of fisheries councils in BC and Eastern Canada will result in increased export efforts by these entities.

Upgraded products and new-product development are both goals of some processor/exporters.

There are problem areas which hamper Canadian exports. These include transport costs, limitations on export financing and insufficient skilled managers in the fishing industry.

4. Proposed Promotional Activities

Promotional projects are planned to respond to all the opportunities described above. These include trade fair participation in the US, the EC and Japan, solo shows, incoming buyers missions, market surveys, importers directories and promotion of underutilized species. A closer working relationship with the industry and the provinces on export promotion has begun.

SECTOR: GRAINS AND OILSEEDS

II. SECTORAL MARKETING OPPORTUNITIES

1. Market Opportunity Overviews

As a leading contributor to the balance of payments, the grains and oilseeds sector is heavily dependent on exports and is thus vulnerable to demand and price fluctuations in the world market. Constraints in the transportation and handling system were a factor limiting exports during the buoyant 1970's but in the 1980's, it is limited growth in demand and surplus production (particularly in the EEC and the U.S.) which is shaping market outlook. As well, a number of centrally planned and developing importers continue to strive for greater self-sufficiency. The longer term outlook for grains and oilseeds exports is for continuing growth but at a more modest rate and in an increasingly competitive environment. Low market returns to producers combined with difficulty in financing imports for many countries are currently creating marketing problems. For the current year, Canada's export volume will fall short of recent levels due to the drought-reduced crop in western Canada, and the market share thus lost may be difficult to regain in the short term.

Canada's grain and oilseed marketing strategy is to market as much volume as possible at competitive prices. While the processing and export marketing of grain and oilseed products is encouraged, the major market is for unprocessed grain and oilseeds and consequently most exports are in this form. Hard spring wheat remains the largest single class of grain exported but the marketing thrust will include medium quality and soft wheats in coming years as the production of these types increases. This will represent a diversification in the basis for trade which will be advantageous if developed in a controlled manner. Exports also feature a degree of market concentration which tends to make the industry vulnerable and further diversification in this regard will be a positive development. Recent advances in production of wheat in China is a case in point, although Asia as a whole continues to hold potential for increased exports.

2. Current Access Constraints

Grain markets generally are relatively free of restrictions. Canada has been able to compete in commercial markets largely because of consistent quality and reliability as a supplier. In addition, good customer relations have been important in maintaining access. Political actions have rebounded unfavourably on market share for some exporters. Bilateral agreements have been beneficial for Canada in gaining and maintaining access to certain markets.

A factor which limits access to some middle income and developing countries, is the export assistance which Canada can provide. Canada exports grain for cash, commercial credit (up to 3 years) or as food aid. Other exporters, particularly the EEC and U.S., have more comprehensive facilities which have successfully obtained them preferential access to certain markets.

Many markets require the ready availability of commercial credit for a broad range of grain commodities and products.

Canada has also had difficulty in gaining access to some markets which have restrictions on imports for domestic political reasons. For example, political considerations have dominated South Korea's sourcing of imports of grains and oilseeds. Health regulations also are restrictive in certain markets. Canada has suffered the erosion of important historical grain markets in Western Europe as a direct result of the Common Agricultural Policy of the EEC. For example, the market for Canadian wheat in the U.K., though still important, is declining and the market for feed by-products in Europe is in jeopardy because of EEC policies on import levies. Furthermore, EEC export subsidies distort traditional trading patterns in third markets.

Another factor which has constrained the ability of many countries to import Canadian grain is the strength of the Canadian dollar relative to their currencies in recent years. The major question mark for the remainder of this century surrounds the ability of many importers to pay a price which provides an adequate return to our producers. The potential growth in trade is largely to developing countries, which are likely to increasingly encounter difficulty in paying for grain imports.

3. Canadian Export Capabilities

The grains and oilseeds sector is export oriented and the production base has the capability to respond to export demand. The export target of 30 million tonnes projected for 1985 has already been realized and further expansion of grain and oilseed exports to 36 million tonnes by 1990 is considered a reasonable target. Canada's supply capability will be dependent on production constraints such as weather and soil resources and perhaps most importantly in the near and medium term, on the financial returns available to the farm sector from the export market. The 1983 Western Grain Transportation Act should provide a basis for the further development and maintenance of an adequate transportation system.

4. Proposed Promotional Activities

The Canadian International Grains Institute has proved very effective in market development and maintenance and will continue this role. The CWB as the marketing agency for wheat, oats and barley will continue its program of customer visits and servicing as well as the Canadian Grain Commission on matters relating to quality standards, weighing and inspection. The grain trade with appropriate Government program support will continue to promote Canadian grains and grain products through incoming and outgoing missions. Future initiatives will be targetted to specific commodities or countries. A general promotion has limited utility where a relatively small number of buyers and sellers (increasingly of a state or quasi-state trading nature) are largely aware of each others needs, products and supply capability.

Key factors in continued expansion of Canadian grain trade are sustained production levels adequate to meet demand (particularly for oilseeds), competitive pricing and comprehensive expeditious export financing facilities to assist in gaining access for a range of product to a variety of markets.

SECTOR: MACHINERY AND EQUIPMENT

1. Market Opportunity Overviews

Significant new opportunities for the export of machinery and equipment are expected over the next few years. In particular, exports in such areas as packaging, material handling, oil and gas field equipment, and environmental equipment should be strong, especially in the U.S. market where the broad range of new equipment applications provides an opportunity for Canadian suppliers to specialize in particular segments of the market. Significant market potential for Canadian machinery and equipment has also been identified for Europe (eg. North Sea oil and gas activity), South and South-East Asia (eg. power, pulp and paper), Africa and the Middle East, Australia (oil and gas field and mining equipment) and South America. In addition, Canadian manufacturers of industrial equipment should be in a position to benefit from new market demands resulting from the increased automation of industrial processes being facilitated through the application of micro electronic technology.

2. Current Access Constraints

Developments in the international trading environment can significantly influence the trade performance for this sector. On the positive side, import duties for the U.S. and other major markets are being progressively reduced as a result of the last round of tariff negotiations. In addition, a range of major machinery exports including agricultural machinery, pulp and paper equipment and some heavy metal working equipment has been provided duty-free access to the U.S.

The principal forms of non-tariff barriers having an adverse effect on Canadian machinery and equipment exports include: tied foreign concessional export financing and aid which, in effect, often preclude any significant Canadian participation in large projects; (b) government procurement policies such as U.S. "Buy American" legislation and the policy of European and other countries to simply not consider Canadian or other foreign bids in areas such as power equipment and oil and gas pipeline equipment; and (c) "local content" provisions imposed in certain countries as a condition for Canadian suppliers to obtain contracts and which tend to reduce significantly the volume of equipment shipped from Canada.

3. Canadian Export Capabilities

The varied range of machinery and equipment produced by the Canadian industry falls into three broad capabilities: (a) resource based machinery; (b) plant and industrial machinery; and (c) service industries machinery. In order to remain competitive in markets characterized by a wide range of demands and a large number of suppliers, many machinery companies have gradually reduced the range of machinery products manufactured in Canada, particularly standard types, and concentrated on certain types and sizes of machinery as well as on custom-engineered equipment. Specialization has, in

a number of cases, been achieved through rationalization agreements whereby the Canadian subsidiary produces a line of machinery for the corporate group while rounding out its product lines with imports from the parent organization. In other cases, companies have developed unique equipment and capabilities which they have been able to market successfully in Canada and abroad.

Despite cyclical problems the resource machinery equipment sector continues to provide a diversified range of high quality products to meet the particular and varied needs of the Canadian resource industries as well as international market demands. Canadian manufacturers have derived a considerable competitive advantage from their longstanding reputation for service and reliability established through close association with the development of the Canadian resource base. Many areas of resource machinery production involve custom-engineered equipment where production scale is a less significant factor than in most other industrial sectors. Accordingly, Canadian production facilities for resource machinery are normally of a size comparable to foreign competitors.

Canadian industrial electrical equipment firms have developed several areas of internationally recognized competence, notably large hydro-electrical turbines and generators, transformers, long distance transmission equipment and large motors and controls systems. In most of these products, the sector is internationally competitive. In the case of agricultural equipment, the Canadian industry is technologically competitive and, in recent years, has been at the forefront of several technological achievements including the development of large capacity 4-wheel drive tractors and axial flow combines. Canadian developed specialized machinery for the production of cereal grains on large farms under dryland farming conditions is also well suited to the requirements of other large scale farms throughout the world, especially the grain growing regions of the U.S. and Australia where it has enjoyed significant success in recent years.

Canada's competitive strength in plant and industrial equipment, as with most other capital goods sectors, tends to be selective in terms of the range of sizes and models of equipment produced. Particular strengths include specialized packaging equipment, customized machine tool equipment, particularly for the automotive industry, steel plant and heat treating equipment, and a wide range of equipment for the food and beverage industry. Although encompassing a diverse range of products, production of service industries machinery and equipment involves, to a greater extent than other machinery sectors, standard or off-the-shelf types of products where economies of scale are a major competitive factor.

4. Proposed Promotional Activities

Apart from ongoing trade development activities including support under the Export Market Development and Promotional Projects Programs, exports of machinery and equipment could benefit from a series of export marketing conferences for significant subsectors (eg. oil & gas equipment). Such conferences, similar in format to the Annual High Tech Conference, could consist of brief presentations by trade commissioners from identified priority market areas on the "how-to's" of doing business in each market, the specific opportunities existing in the target country, and statements by DEA, CIDA, EDC on government services available to exporters. One or two days as required would be devoted to private interviews between industry representatives and trade commissioners.

SECTOR: TRANSPORTATION EQUIPMENT

1. Market Opportunity Overviews

The transportation equipment sector provides unique market opportunities in both motor vehicle and parts and urban transportation equipment. In 1984, it is estimated that Canada will have a positive balance of trade with the U.S.A. in motor vehicles and parts of approximately \$5.5 billion. Offshore markets hold promise for original equipment and aftermarket parts.

Urban transportation equipment represents a sector with significant export growth potential. Current Canadian exports approximate \$300 million or 75% of total annual production in a world market that is estimated to the year 2000 to require \$400 to \$500 billion in equipment. Canada has the technological potential to supply complete turnkey systems with a high degree of Canadian content. Individually, a number of Canadian organizations are recognized internationally as both proficient manufacturers and transit operators.

2. Current Access Constraints

The most significant determining factor affecting the Canadian motor vehicle and parts sector is the Canada-U.S. Automotive Products Trade Agreement (APTA) as it provides for duty-free access between Canada and the U.S.A. for both motor vehicles and original-equipment parts in a fully integrated North American market and production system. The design of North American vehicles coupled with the internationalized corporate structure of the "Big Four" has tended until recently to separate the North American market from the international market with the result that the vehicles produced tend to be destined primarily for the North American market. The Canadian motor vehicle industry has developed little indigenous management autonomy and limited R & D is undertaken in Canada. Independent Canadian parts producers have closely aligned their production to the needs of the major North American vehicle manufacturers who, until recently, have largely sourced their requirements from firms in North America. They have historically tended to rely on sourcing contracts that are let on a "make to drawing" basis and on access to the centralized purchasing structure of the car manufacturers.

Canadian manufacturers of urban transportation equipment could stand to win a significant portion of the international market if a number of constraints are overcome and appropriate policy instruments are put in place to support Canadian producers. These relate to access to the U.S. market, systems capability and export financing. Access to the important U.S. market is impeded by substantial tariff and non-tariff barriers. Urban transportation equipment was virtually left untouched by the Tokyo Round of trade negotiations with neither the U.S.A. nor Canada reducing their tariffs on rolling stock and the U.S.A. not removing the domestic content requirements of its Surface Transportation Assistance Act (STAA). The STAA, which

was enacted in 1978, provides federal leverage through substantial federal funding assistance on purchasing for urban mass transit projects at the state and local levels. These projects are funded 80% federally and 20% at state and local levels. While the U.S. export capability in urban transportation is minimal, Canada faces stiff competition from European and Japanese producers who are willing to offer attractive financing terms to penetrate the growing developing country markets. Canadian industry is also coming under increasing pressure for higher local content, joint ventures, licensing arrangements and technology transfer. The willingness and ability of Japanese and European firms to respond to these pressures have been an important factor in their competitive position in developing country markets.

3. Canadian Export Capabilities

Canadian export capability in the motor vehicle and parts industries has been firmly established, particularly in the North American context, as its performance since 1965 under the Canada-U.S. Automotive Products Trade Agreement (APTA) has shown. The acceleration of change towards the internationalization of the motor vehicle industry will bring with it a new sense of dynamic change that will present new and unforeseen opportunities and constraints. The Canadian industry will continue to be shaped in large measure by the APTA. New standards of Canadian research and design, manufacturing process, quality assurance and price competitiveness will demand the best that our industry has to offer. The more competitive and innovative Canadian suppliers become, the greater the prospect for encouraging assemblers abroad and of influencing their decision-making to agree to increased Canadian parts sourcing.

Canadian export capability in the supply of both urban transportation equipment and services has been demonstrated with 75% of total annual production being sold in the international market. Closer cooperation between Canadian manufacturers and operators would clearly help Canadian producers to compete effectively in world markets. Once a system is installed in a foreign country, succeeding orders tend to involve the same type of equipment. Therefore, it is important that Canadian equipment be introduced, show-cased, in major growth markets including the Middle East, Far East, Turkey and Spain.

4. Proposed Promotional Activities

North American motor vehicles and their constituent original-equipment parts tend by design to be geared to the North American market. However, as the industry moves toward internationalization of product design and production, new opportunities coupled with increased competitive pressures from offshore suppliers will be present. Canadian motor vehicle parts producers will be presented with new windows of opportunity and promotional activities that improve their opportunities to secure industrial cooperation, technology transfer and joint ventures should assist in having Canadian parts producers adopting an even more aggressive international supply capability. The attracting to Canada of offshore investment by non-traditional North American motor vehicle manufacturers will also provide new opportunities for Canadian parts producers to supply parts to other related foreign based assembly operations.

In the case of urban transportation equipment production, it will be important to promote close cooperation between Canadian equipment manufacturers and systems operators in order to "show case" Canadian equipment operating in a revenue producing mode. A more integrated approach between consultants, government and industry in international marketing efforts, may also be a determining factor in meeting stiff international competition for this capital equipment. In addition, Canadian consultants could be encouraged to seek to ensure that the availability of Canadian systems is examined during their development of specifications for offshore projects. Timely and competitive export financing will clearly be an increasingly important factor influencing the success of Canadian urban transportation equipment in maintaining a strong export performance during the 1980s. In all cases, however, it will be important to address each major project on its own merit and evaluate specific marketing programs in terms of Canadian industry's needs.

SECTOR: ELECTRONICS

I. MARKET OPPORTUNITY OVERVIEW

World markets for electronics products and services have been growing at a rapid pace over the past decade or two. Growth projections in the 1980s and 1990s indicate continuing rapid rates, especially in informatics and telecommunications. While the needs of individual countries vary widely, as does their capacity to absorb and fund acquisitions, there are few markets with insignificant potential for commercial sales by Canadian industry. In addition to informatics and telecommunications, space communications have also shown continuing upward growth trends. Rural communications have for some time been an important component of development programs in Third World countries. In defence electronics, while markets outside of North America are limited, there are opportunities for unique product or technology sales.

Priority markets are a) for informatics - USA, W. Europe, Japan; b) for telecommunications - Africa, Asia/Pacific; c) for space communications - Nigeria, Colombia, Argentina, Mexico, China; d) for rural/subscriber radio - Colombia, China, Thailand; and e) for defence electronics - USA.

II. CURRENT ACCESS CONSTRAINTS

By and large, policies of individual countries are aimed at creating, or expanding, domestic industrial capabilities. Imports, when they are allowed, are expected to serve these policy objectives through, e.g., establishment of local manufacturing facilities, licencing and training. Protectionism in NATO's European countries, and Canadian export controls to many Third World countries, limit Canadian industry access to the defence electronics markets.

Standards are often a constraint. Linguistic and application environments, as well as telecommunication, safety and electrical requirements are common obstacles to the sale of Canadian products abroad. Compliance with local standards is often complicated by industry's incomplete knowledge of requirements and approvals procedures, as well as by its limited access to test facilities, and by the cost of product adaptation.

III. CANADIAN EXPORT CAPABILITIES

Canada was the first country to establish a geostationary communications satellite system, and to test direct broadcast satellite services; it also led the way into digital telephony transmission, arctic communications, spectrum management, and the second videotex generation. In defence electronics, military radio relays, artillery computers and navigation systems, have met with significant success in international markets.

The Canadian communications electronics industry includes large, medium and small enterprises. Their capabilities cover almost the entire range of sector activities. This variety extends into company strengths and weaknesses, and into the productive capacity which they can apply to the pursuit of markets abroad. All, however, display similar capacity to innovate, and aggressiveness in the pursuit of exports in their chosen specialty fields.

Government and private sector are active in standards-setting organizations, which provides opportunities not only to influence the drafting of standards to Canada's benefit, but also to gather most useful marketing information.

IV. PROPOSED PROMOTIONAL ACTIVITIES

Marketing of leading-edge technologies requires strategies which differ from those which have proved useful in other, more traditional sectors. One of the first tasks is to raise awareness among potential buyers of both the availability of technological solutions to their problems, and the capability and interest of Canadian exporters to do the job. Broad awareness-raising activities include the publication of segment catalogues describing individual company capabilities, inserts in vertical publications, placement of articles in specialized magazines, and participation in trade shows. Defence electronics companies will participate at the Paris International Air Show in May-June, 1985 and at a vertical show in Singapore in 1986.

Narrower awareness-raising activities include the organization of seminars for, or missions of, small groups of potential buyers from specific communities, e.g., retailers, bankers, educators, etc., as well as one-on-one meetings with major potential customers or partners.

Demonstration (tire-kicking) of such new technologies is essential as there is no suitable substitute for hands-on experience. Equipment should be made available for loans, for up to six months, or even one year to allow potential buyers to become familiar with the technology, and to discover by themselves uses which had not been identified earlier.

AEROSPACE MARKETING OPPORTUNITIES

Overview

The Canadian aerospace industry sales in 1983 were \$3.25 billion, 80% of which was exported. The industry is dominated by two major Crown-owned aircraft companies, Canadair and de Havilland, and by Pratt and Whitney Canada (PWC) which has the small gas turbine engine mandate for the United Technologies Corporation. Other elements are major systems and avionics companies, components manufacturers, and a large number of firms supporting the prime contractors and providing repair and overhaul services world wide. The industry is expecting a significant increase in export sales in 1985 as a result of the upturn in commercial and general aviation and the continued high level of defence spending by the US and other NATO countries.

Current Access Constraints

The industry market penetration problems relate to the products and geographic area. In general, if the product is competing with a fully funded government program in the United States, Britain, France, Brazil, Indonesia, or Spain, the national market is closed and a competitor is created in the other markets. Additional constraints are competitors' predatory financing, foreign military assistance, and subsidized pricing. The possible sale by the Crown of Canadair and de Havilland could generate some market resistance; this should not affect the rest of the industry. A significant portion of the market for de Havilland's STOL aircraft is in the developing countries of the world, which nearly all face serious economic problems and have great difficulty in financing major capital projects.

Canadian Export Capabilities and Opportunities

The USA business market will dominate future sales of Canadair's Challenger. Military or government-related market opportunities include 24 aircraft to China, 12 aircraft to Australia and 7 plus to the USA. Canadian and United States-produced avionics will be excluded by our export permit restrictions from the Chinese offer. The Australian order requires 30% industrial participation which Canadair is unable to offer without taking the work from itself or its Canadian suppliers. Strong local lobbying must be overcome in the USA government market. Follow-on sales prospects to Germany look promising, now that the first 7 units have been sold to the Government.

Canadair's pilotless surveillance systems, CL-289 and CL-227, have multibillion dollar market prospects provided that program funding brings both the CL-289 to production for the German and French Government requirements and the CL-227 to preproduction status for evaluation by US Navy, US Army, and other procurement authorities.

A small market will continue to exist in various parts of the world for specialized amphibious aircraft such as the Canadair CL-215.

De Havilland's Dash 7 and Dash 8 major market is the United States regional carriers followed by regional carriers world wide. The Dash 7 maritime patrol variant is competing with British and Netherlands aircraft for a large Venezuelan Navy patrol aircraft contract. Given that country's financial situation, financing such a large order poses major problems for de Havilland and its Canadian avionics suppliers.

The de Havilland Buffalo is ideal in its size range as a support aircraft for developing countries, and will continue to sell in small quantities. De Havilland's Twin Otter will continue to sell in small quantities. However, it faces stiff competition from Israel's Arava and Spain's CASA 212

PWC engines, with over 27,000 units in operation, generate significant revenues from spare parts and overhauls. New market opportunities require production sharing and offsets as well as competitive financing. To gain access to a potential 6,000 engine market for a new US Army helicopter, 50% of the engine will be shared with one of its major competitors. Winning the Netherlands' F-50 order requires a guaranteed offset to Netherlands industry. PWC continues to compete effectively for all new aircraft opportunities within engine size range.

Canadian avionic firms' market access is difficult where the domestic competitor's product development is fully funded in a government procurement. However, the market is large enough that sales on other programs justify a sustained marketing effort with particular emphasis on US aircraft manufacturers. CAE Electronics' recent success on the US Air Force C5 simulator program augers well for future sales into the US military simulator market.

Component manufacturers such as Boeing of Canada, Bristol Aerospace, Dowty, Fleet, Menasco, Spar, etc., continue to compete vigorously for orders from the major aircraft and engine manufacturers in US and Canada and are expected to enjoy continued sales growth. Limited opportunities are available from Europe for these companies. Douglas of Canada will continue to be a major supplier of airframe sections to its US parent.

The newly formed Canadian helicopter industry's survival depends on exports. Bell and MBB are well established in certain markets and, assuming availability of export permits and competitive financing, their longer term prospects are encouraging.

Proposed Promotional Activities

A major Canadian industry and government presence will take place at the Paris International Air Show, May 30 - June 9, 1985. Several Canadian companies will exhibit at the S.E. Asian Aerospace Show in Singapore in January, 1986.

The aerospace companies will continue to participate in commercially organized trade promotion activities appropriate to their market sector. The Aerospace Industries Association of Canada will continue to collaborate with appropriate Government departments in new marketing initiatives.

Sector: CONSUMER PRODUCTS

1. Market Opportunity Overviews

The consumer products sector is defined here to include textiles, clothing, footwear, furniture and leisure products.

In general, Canada does not have a strong internationally competitive position in consumer products, particularly those where semi-skilled, labour intensive manufacturing processes are in use. There are, however, a number of product areas where special factors have produced some interesting export opportunities.

Most consumer product exports from Canada are directed to the U.S. market, but some success has also been possible in other developed, industrialized countries, eg. Western Europe, Japan, Australia.

2. Current Access Constraints

Given the extremely wide range of products in this sector, it is difficult to generalize about trade barriers and their impact in various markets.

The U.S. market, in particular, is generally accessible for high quality goods having special features, eg. high fashion clothing, although high tariffs remain.

3. Canadian Export Capabilities

In textiles, there has been some export success in certain sub-sectors, particularly carpets, coated fabrics, and some other man-made fabrics. Exports represented 7% of Canadian shipments in 1983, with the U.S. taking 48% of our textile exports.

The clothing sector exported 5% of its shipments in 1983. In sub-sectors such as designer fashion and outerwear, Canada is able to compete internationally on quality, style and price, particularly in the U.S.

Canadian exports of fur garments have recently accounted for between 30% and 55% of domestic production. Canadian fur garments are recognized worldwide for high quality and value, and domestic producers are continuing to make inroads into the U.S. market, in particular. In Western Europe, anti-fur and anti-trapping campaigns have combined with unfavourable currency exchange rates to result in substantial losses of Canadian fur markets there.

In the footwear sector (non-rubber), Canada has a limited competitive range; in 1983 exports accounted for 7% of total Canadian production, or \$47 million. Rubber footwear exports are extremely limited (\$0.5 million in 1983).

The leisure products sector includes commercial printing, publishing, jewellery/silverware/giftware, sporting goods, sound recordings, signs and displays, toys and games, and motion pictures. Of these, significant export volumes have been achieved only in publishing, sporting goods, toys and games, and jewellery/silverware/giftware. Most of this success has been in the U.S. market.

In the furniture sector, the most export-oriented product line is office furniture, where exports in 1984 accounted for almost 40% of production. In household furniture, exports historically accounted for only 6%-7% of production; however, during the past two years, exports of household furniture have increased by 35% annually. Recent trends in currency exchange rates have improved the access for Canadian products to the U.S. market, and decreased opportunities in the U.K. and other European markets.

4. Proposed Promotional Activities

Canadian exporters of consumer products are generally using a number of federal export services, including the Program for Export Market Development (PEMD); the Promotional Projects Program (Fairs and Missions); and market research and support by Canadian posts abroad. The identification of market niches is critical to success in these product areas.

With respect to planned events, the U.S. market will see promotional activity over the coming year in sporting goods, furniture, housewares, and wearing apparel (including jewellery). In Western Europe, books and sporting goods will be featured.

Particularly for the benefit of the smaller firms in this sector, further federal export promotion activities could include: expanded market surveys by posts; export seminars specifically directed to firms in the sector; increased participation in trade fairs abroad; and technical assistance in the formation of export consortia. Such activities would, of course, be welcomed by the industry; they would, however, have to compete with those proposed in other sectors for limited budget resources.

SERVICES INDUSTRY

Market Opportunity Overview

International trade in services has received growing attention in recent years. It is generally concluded that Canada has a major export interest for certain key service sectors and also certain distinct vulnerabilities as a large net importer of services and host country for foreign direct investment.

The overall share of services in world trade appears to have remained more or less constant over the past fifteen years at about one-third of merchandise trade, but with significant changes in the composition and direction of service trade. It has been argued that total service trade would have grown faster were it not for the existence of barriers to such trade. It is these impediments to service market access, which exist for a variety of historical and policy reasons, that are now the subject of increasing international analysis and discussion.

With respect to consulting engineering services exports have become an increasingly important activity since the 1960's. Work in export markets has increased by nearly 20% annually and by 1980 accounted for approximately 20% of the industry's billings. Traditionally the USA has represented the most important export market for engineering services but more recently consulting engineering exports are more equally divided among the USA, Latin America, Middle East, Far East and Africa. In addition to direct sales to these countries, the multilateral development banks and agencies represent a large market for Canadian consulting firms.

Current Access Constraints

Trading nations have long recognized the importance of service exports, to their current account performance. Similarly, imports of services can make critical contributions to national economic development. Appeals for liberalization of trade in services are made on the grounds that increased internationalization of service trade through the market mechanism could produce global welfare gains through specialization. However, there are wide differences among the functions performed by service sectors as they take place in highly differentiated national and international regulatory regimes.

The latest impetus for international discussion on trade liberalization for services has come from the United States, which is pressing strongly for multilateral action to deal with a perceived growth in impediments to its increasingly important exports of services. Most developed countries have been prepared to support examination of the feasibility of greater multilateral cooperation in the services area, where rules and dispute settlement machinery are significantly less developed than in the goods sector. Developing countries have been markedly less prepared to accept discussion of international service activities in organizations such as GATT.

The international market place is lucrative for Canadian consulting engineering firms, however, considerable time and effort is required to market these services and competition is extremely fierce. Due to the cost involved in undertaking a successful international marketing campaign as well as the relatively limited financial resources of most consulting firms, it is difficult for the small and medium sized

firms to compete abroad successfully. Furthermore, many developing countries have started to develop their own consulting engineering industry. Thus, contracts are being awarded to local firms and outside consultants who have been successful in establishing a presence in the market either by forming a joint venture with local engineers or setting up offices in the region.

Increasingly, Canadian firms are facing competition which is prepared to offer "up front" engineering services on major projects without cost to the buying country. These services are offered in the hopes of securing larger follow-on contracts for the supply of equipment and the construction of the project itself. CIDA's Industrial Cooperation Program can fund such studies, however, the program funds are limited and not all countries qualify to receive these funds.

Canadian Export Capability

Services can be described as intangible economic outputs produced for sale or distribution through the market mechanism or through established state institutions or programmes. Examples run from personal and distribution services, through engineering and other consulting and business services, to financial services, and to transport and communication services, education, health and cultural services.

By 1982, the Canadian consulting services industry consisted of over 2,200 active firms with 42,000 employees with total billings of \$2.2 billion. It is interesting to note that relatively few firms (20 firms in 1980) enjoy most of the involvement in international projects. Furthermore, Quebec and Ontario based firms account for the majority of foreign contracts awarded to Canadian consultants.

Experience suggests that the Canadian consulting industry, based on capacities developed in contributing to Canada's resource-based industries, has the competitive ability to win further markets abroad.

Canada is regarded as a leader in the provision of telecommunications facilities and services, as carriers have overcome great geographic difficulties and become more responsive to increasingly sophisticated user demands. Telecommunications consulting services are important to Canada and considerable trade takes place in telecommunications transmission services between Canada and the rest of the world.

Computer services are an area where demand is growing fast. Canada has strong domestic industrial and export capability in some specialized areas. The field of computer services, because of rapidly changing markets and technology, is one requiring close attention in terms of export promotion, import trends and national and international regulatory arrangements.

Proposed Promotional Activities

Canadian consulting engineering firms are generally using federal export support programs including PEMD, PPP and market investigation and support by the posts abroad. Early identification of opportunities is critical for success in this sector.

1. Market Opportunity Overview

Export prospects for Canadian resource products will continue to be significant but will likely expand more slowly than in recent decades. Although individual sectors face varying prospects, a more competitive international market environment is emerging as a result of reduced growth in demand associated with world economic conditions, substitution by other materials, product down sizing and health and environmental concerns. At the same time, over-supply is common, stemming largely from developments in the USA, Scandinavia, and LDC's. In forest products, slow but stable growth is expected in traditional export markets for most products while strong growth in sales of groundwood printing papers, waferboard and millwork will likely continue in the USA. Good opportunities exist for expanded sales of newsprint, pulp and lumber to Pacific countries, as well as for lumber and other wood products to the Middle East and North Africa. Markets for Canadian minerals and metals are also expected to grow more slowly, in particular copper and lead, while exports of refined zinc and aluminum should continue to show strength, notably to the USA. Demand for sulphur, potash and other minerals is expected to remain strong in East and Southeast Asian countries. The potential for increased sales of petrochemical products to the United States, Japan and Western Europe is significant as domestic industries in those countries adjust to high feedstock prices.

2. Current Access Constraints

Access to export markets for Canadian resource products continues to be impeded by tariffs and an extensive and increasing array of non tariff measures. Nominal tariffs which escalate with the degree of processing afford considerable effective tariff protection and limit exports of Canadian mineral, forest and petrochemical products in the U.S. and particularly in Japan, the EC and several industrializing countries. Canadian forest products exports mainly consist of newsprint, pulp and lumber which enter the U.S. virtually free of duty while tariffs on these and other wood and paper products are relatively high in the EC, Japan and many developing countries. While Canadian mineral ores and concentrates are generally duty-free, smelted, refined and semi-fabricated mineral and metal products face high import tariffs particularly in developing countries e.g. Brazil and South Korea. In petrochemicals, high tariffs still characterize major markets, following the limited gains achieved during the Tokyo Round. Non-tariff measures inhibiting exports of Canadian resource industries include: government procurement practices, quantitative restrictions and their administration, import licensing, building codes and standards, countertrade, strategic stockpiles, safety and health regulations.

3. Canadian Export Capabilities

Canadian resource industries retain significant advantages which will be enhanced by the restructuring and rationalizing now under way. In the forest industries, emerging timber supply constraints require renewed emphasis on improved processes. Pulp producers are well placed to meet future export opportunities. Canadian supply capabilities in groundwood printing papers and waferboard, on which USA tariffs were reduced in the Tokyo Round, are substantial.

Although Canadian mineral resources vary widely in location and quality they are judged to be economically adequate for several decades. Canadian producers are generally cost-competitive and enjoy advantages particularly in aluminum, copper, zinc and nickel as well as asbestos, molybdenum, gypsum and potash. Potential threats to Canadian competitiveness are posed by environmental and health requirements affecting use of mineral products in some countries. The Canadian petrochemical industry, particularly in Western Canada, is in a good position to meet new export opportunities, as traditional producers of basic petrochemicals in the US and overseas shift their activities down-stream.

4. Proposed Promotional Activities

Promotional activities should not only continue to support Canadian exporters in pursuing opportunities for primary resource products in traditional markets, but also in demonstrating applications and advantages of using further processed products reflecting Canadian production capabilities. Particular attention should be devoted to providing assistance in developing fast-growing markets for Canadian resource products in the Pacific Rim, and other fast growth markets in the Third World. The Cooperative Overseas Market Development Program has been highly successful in promoting overseas markets for wood products from British Columbia and consideration should be given to its renewal beyond 1986.

II SECTORAL MARKETING OPPORTUNITIES

2.11 DEFENCE PROGRAMS SECTOR

1. Market Opportunity Overviews:

The Canadian Department of Defence Capital budget is currently 26% of its overall budget for 1984-85 of \$8.77 billion, and will continue to grow to fulfill Canada's obligations to NATO and to North American collective defence as a priority in the Canadian Government. Currently, the main DND expenditures are for imported, major military equipments of types not manufactured in Canada, but the continuing increase in DND's capital budget will result in new opportunities for Canadian defence and high technology industry for both DND and foreign requirements. DND'S major re-equipment programs occur infrequently, with typical life cycles before replacement of 15-20 years. Therefore, to remain viable, and to achieve state-of-the-art technological capability, Canadian manufacturers of defence and related technology products must be prepared to compete in the export market for sales.

The largest export market for Canadian defence manufacturers is the USA. This will be US\$300 billion in 1985 plus nearly US\$30 billion for R&D. Prime Minister Mulroney and Minister of National Defence Coates have stressed the importance they attach to economic strength and consequently the need for greater participation in the US defence market to increase defence and related production capabilities. This market is characterized by requirements for high technology equipment, subsystems and components. Canadian industry, by virtue of proximity to the USA and working to the same, or similar, technical and quality standards is in an excellent position to compete with US and European NATO countries for prime and subcontracts. Since 1959, Canadian defence exports to the USA are over \$9 billion and have been drawn from many product sectors, the most important being: aerospace, armament, electrical and electronics, general purchasing, shipbuilding and vehicles. Over this time frame, the value of prime contracts (i.e., sales directly to the US Government) have been 50% of total defence sales but in recent years the ratio of subcontracts/prime contracts has been rising.

The overseas defence market has resulted in sales of over \$3.5 billion since 1962 from a wide range of product sectors. This market is characterized by a larger ratio of prime contracts (72%) than for sales to the USA, but in recent years the ratio of subcontracts is increasing. Another important characteristic of the Overseas market is the large ratio of sales of complete end items (aircraft simulators, aircraft engines, radio equipment) and spares rather than components.

Historically, our largest defence equipment market overseas has been to European NATO countries. However in the last few years, for several reasons, these traditional markets have been declining. To reverse this trend, during a recent visit to Europe the Honourable James Kelleher, Minister for International Trade, agreed during meetings with FRG Defence Minister Woerner that defence procurement programs offered excellent opportunities for German and Canadian industry to cooperate in joint ventures and in transfer of technology and that new initiatives in these areas should be fostered. New opportunities are also being pursued in the Middle East (in particular Egypt and Saudi Arabia), East and South East Asia, (electronics and communications equipment) Australia and New Zealand. There are sporadic opportunities in South America but current financial difficulties of most SA countries have prevented significant sales of new equipments and business is mainly for repair and overhaul and spares.

2. Current Access Constraints

For the USA, thanks to the US/Canada Defence Production Sharing Arrangement, the "Buy America" requirement and duties, are waived for Department of Defense prime and subcontracts to Canada. There are some non-tariff barriers, such as restrictions on some contracts to US sources only ("NOFORN"); small business and minority group set asides and labor surplus area exclusions. In spite of these restrictions, there is an estimated accessible market of nearly US\$80 billion for Canadian defence industry. For all other countries, export permits are required and are not available to some countries where sales are prohibited in accordance with Canadian Government policy. A growing problem for Canadian defence and high technology exporters is increasing demands from most overseas countries for offsets, coproduction and counterpurchase as a condition of sales.

3. Canadian Export Capabilities

The Canadian defence industry currently numbers about 300 companies, with total employment of nearly 40,000. Annual production totals approximately \$2.5 billion of which \$1.5 billion is exported, particularly for the following sectors of technological expertise:

- STOL, special purpose aircraft and remotely piloted vehicles
- Small gas turbine engines, engine fuel systems and instruments
- Aerial delivery systems; aircraft and personnel locator beacons
- Air crew and air traffic control training simulators
- Electro optic, acoustic and radar sensing and processing systems, navigation equipment, fire control systems, security equipment
- Command, control, communications, and information systems,
- Special purpose tracked and wheeled vehicles
- NBCW detection devices and personnel protective equipment
- Ships - from patrol boats to supply vessels
- Air to ground rockets, sounding rockets, ammunition

4. Proposed Promotional Activities (initiated by DEA Defence Programs Bureau)

- "HITEC 85" - (Defence and High Technology Industry Export Conference (March))
- New trade development actions to promote sales of Canadian defence products to US Department of Defense, instituted as a result of attendance of approximately 4000 Canadian companies at cross-Canada seminars by DOD Procurement officials in December 1984. (This initiative arose from a meeting between Canadian Minister of National Defence Coates and US Secretary of Defence Weinberger).
- New defence promotion for Europe, including reciprocal procurement seminars between Canadian industry and those of FRG, and other NATO countries, resulting from visits of Ministers Kelleher and Coates to Europe in November/December 1984.
- Catalogues: update "Canadian Defence Products Guide", prepare Spanish edition of "Canadian Security Products Guide"
- Trade Fairs: Belgium: International Security and Safety Show (April); Paris Air Show (June); AFCEA (Armed Forces Communications and Electronics Assoc) Washington (June); US Marine Corps Show (July); Netherlands Security Equipment Show (September); US Army Show (October); Singapore Air Show (January 85); etc.
- Outgoing and Incoming Missions: California Defence Products Mission New England - Canadian High Technology Market Place (early 1985) Sector specific missions and Incoming Buyers Missions as required

III. HORIZONTAL/INSTITUTIONAL MARKETING OPPORTUNITIES

3.1 International Financial Institutions Procurement

Substantial opportunities for sales of capital goods and services are generated through projects financed by international financial institutions (IFI's). In 1984, approximately \$10 billion was tendered through competitive international bidding for projects sponsored by the World Bank and the regional development banks. The procurement product mix in dollar terms was 60% equipment, 30% civil works and 10% consulting.

Canada captures about 2% of this market which, although roughly in line with our share of OECD exports to developing countries, is less than the share won by most other donor countries. Canada has done well in consulting services procurement but we have not been strong in competing for equipment and civil works contracts. One of the biggest constraints has been lack of Canadian bids. In those cases where they have tendered, Canadian suppliers have won 40% of the business.

Given the Third World's growing need for capital investment and the inhibiting debt situation faced by many developing countries, IFI financed procurement has become a major source of export opportunities and an important entrée into this expanding market. Canadian firms should be encouraged to compete more aggressively for these contracts with support provided by government in the critical areas of project identification, commercial intelligence and marketing assistance.

2. Government Procurement

The GATT Agreement on Government Procurement entered into force on January 1, 1981 and its coverage was meant to open to international competition a portion of signatory governments' procurement of goods. In 1981-82 Canadian suppliers won \$160 million worth of contracts from foreign entities under the Agreement while Canada awarded to foreign suppliers some \$169 million worth of contracts. The bulk of contracts won by Canadian suppliers was in the U.S.A. for a broad range of products.

In preparing for further negotiations pursuant to the GATT Agreement, the views of key industry associations were sought. There was little familiarity with the GATT Government Procurement Code and suggestions were made that greater efforts be made to publicize and monitor, for Canadian manufacturers, opportunities which have been opened up by the Code. Seminars, publications and particular sourcing networks may be relevant.

III. HORIZONTAL/INSTITUTIONAL MARKETING OPPORTUNITIES

3.3 Development Assistance

The Third World offers significant opportunities for Canadian exporters. By 1990, it is anticipated that developing countries as a group, will account for some 30% of world trade. Although exports represent approximately 30% of our GNP, the proportion of Canadian exports destined for developing countries is not large; in 1983, it dropped from 11% to 9%. By contrast, other major industrial countries send a much greater share of their exports to the developing world.

Many countries have successfully used their aid programs to open up markets for exporters. As the main delivery channel for Canadian Official Development Assistance (ODA), CIDA has acted to increase private sector involvement in the aid program. Currently, at least 65% of ODA is used for the procurement of goods and services in Canada. This includes about 70 to 75% of the bilateral program and an even larger proportion of food aid. CIDA also engages in parallel financing with the Export Development Corporation (EDC) for selected projects where developmental and commercial objectives coincide. The Industrial Cooperation Program has been set up to provide funding for Canadian firms to do feasibility studies, establish joint ventures and provide technical assistance in developing countries.

In light of the increasing use of aid funds by other countries to subsidize export financing, is this enough? Canada has worked to reach international agreements which would bring such practices under greater discipline. Problems remain however, and, until they are resolved, it is for consideration whether a larger portion of our aid resources could be used to support competitive Canadian exports for developmentally sound projects?

IV. INVESTMENT/TECHNOLOGY INFLOW

In its agenda document "A New Direction for Canada" the government has stated that if Canadian industry is to be internationally competitive Canada must become effective in applying leading edge technologies, and that both the public and private sector have important roles to play in this regard. Further, the document states that Canada wishes to become a better place for foreign investors to do business, and that real opportunities exist in this regard to remove obstacles to private sector growth and to foster increased investment which will create jobs and attract new technology.

The government has tabled legislation to establish a new agency, Investment Canada, which will have among its functions the encouragement of inward investment. In addition, federal government departments have reviewed their structure with the aim of improving and expanding mutually supportive activities in relation to investment promotion and technology development and acquisition.

In the Department of External Affairs, a Bureau of Investment and Technology has been established to serve as a focal point for policy development and operations in these areas. Since a country of Canada's size cannot produce all of the technology that it requires it must encourage the importation and adaptation of foreign technology, followed by its diffusion and enhancement within the country, to strengthen the competitive position of Canada's industry. Canadian Embassy Science and Technology offices, located in six key countries, will assist Canadian companies in identifying potential sources of technology, through direct contact and in cooperation with trade commissioners. They will also continue to provide strategic reporting on important technological developments in selected key areas. The federal government looks forward to discussions with the provinces and the private sector on improvements to the mechanisms for identifying these areas and for distributing assessments of overseas advances in technology and innovation.

The prospecting of foreign technology is generally integrally related to the process of attraction and importation of investment capital. The federal government is now reviewing its existing export development funding programs and the role of trade commissioners in major industrial and financial centres abroad in encouraging foreign investors to come to Canada, with particular attention to the needs of small and medium businesses. Included in the review process are plans to identify priority industrial sectors, to design quality publicity material for potential investors, and to improve liaison between interested agencies and industries with respect to all aspects of Canadian industrial development work abroad.

The USA is a principal source of foreign investment flows into Canada. In the first three quarters of 1984, it accounted for 60% of the total inflow into Canada of foreign direct investment. This represents an inflow of over C\$ 1 billion compared to the net outflow of US direct investment in 1983 of C\$ 660 million. Although recently flows into Canada of portfolio investment from the USA have been exceeded by those from the rest of the world, the USA remains the prime traditional source for Canada. On a cumulative basis, as of the end of the third quarter, 1984, the USA accounted for slightly more than half of all foreign portfolio investment in Canada.

PROGRAM FOR EXPORT MARKET DEVELOPMENT

Geographic Distribution of Approvals and Reported Sales

(1971/72 - 1983/84)

	<u>Number Approved</u>	<u>Amount Approved (\$)</u>	<u>Reported Sales (\$000)</u>
Africa/Middle East	3,295	45,444	3,007,263
Asia/Pacific	3,889	39,368	928,775
Europe	5,817	43,307	699,089
Latin America/Caribbean	3,361	30,444	1,067,596
United States	<u>7,464</u>	<u>49,057</u>	<u>957,623</u>
 TOTAL	 23,826	 207,620	 6,660,346

Sectoral Distribution of Approvals and Reported Sales

(1982/83 - 1983/84)

	<u>Number Approved</u>	<u>Amount Approved (\$)</u>	<u>Reported Sales (\$000)</u>
Agriculture	132	940,799	4,140
Fish & Trapping	21	319,043	175
Forestry	12	51,570	2
Mining	33	232,669	8
Manufacturing	4,805	33,611,181	30,481
Construction	310	4,107,474	6,954
Transportation	67	539,549	695
Communication & Util.	34	293,390	4,106
Wholesale Trade	585	5,805,167	3,892
Retail Trade	138	1,243,134	4,150
Business Services	1,291	25,041,018	128,823
Government Services	23	131,754	4
Educational Services	11	52,977	62
Health & Social	9	36,916	-
Other Service Ind.	89	579,732	39

January 2, 1985.

**PROMOTIONAL PROJECTS PROGRAM
SUMMARY 1971/72 TO PRESENT**

Fiscal Year	Activity		Benefits		Export Sales ¹ . Influenced	No. of Dist'n ⁴ . Agreements
	Number of Projects	Expenditure (\$ millions)	Cdn. Co's. Assisted	Foreign Visitors		
71/72	116	\$2.4	563	700	\$153.3	--
72/73	157	3.2	715	863	\$140.0	--
73/74	200	2.9	625	1,095	\$127.7	--
74/75	181	3.1	789	1,019	\$128.5	--
75/76	185	4.0	718	1,164	\$147.0	--
76/77	212	3.6	960	1,129	\$120.0	--
77/78	199	4.0	1,315	873	\$170.0	--
78/79	215	4.9	1,460	968	\$175.0	--
79/80	276	6.9	1,440	1,467	\$250.0	365
80/81	278	8.0	1,674	1,503	\$310.0	425
81/82	299	8.8	1,652	1,465	\$350.0	675
82/83	308	9.5	1,580	1,082	\$600.0	850
83/84	341	12.9	2,818	810	\$910.3	1,156
84/85 ² .	448	15.7	(3,000)	(1,000)	(\$1,000.0)	(1,300)
85/86 ³ .	(450)	16.0	(3,000)	(900)	(\$1,000.0)	(1,200)
Cumulative Total	3,865	\$105.9	22,309	16,038	\$5,581.5	5,971

- Notes:**
- 1 On-Site sales reported plus discounted forecast sales.
 - 2 Projected for current year.
 - 3 Planned for next year.
 - 4 Includes agency relationships, distributors appointed, joint venture agreements and licencing agreements.
(Not recorded prior to establishment of computerized records in 1979.)

CANADA'S TOP 20 RANKED EXPORT MARKETS IN 1983

VALUE \$ CDN. MILLION

Rank	Country	1983	% Total 1983 Exports	Cumulative % Share of Total
1	United States	64,528	72.9	72.9
2	Japan	4,728	3.3	78.2
3	United Kingdom	2,449	2.8	81.0
4	U.S.S.R.	1,762	2.0	83.0
5	China	1,607	1.8	84.8
6	Federal Repub. of Germany	1,156	1.3	86.1
7	Netherlands	958	1.1	87.2
8	Belgium-Luxembourg	700	0.8	88.0
9	France	626	0.7	88.7
10	Brazil	596	0.7	89.4
11	South Korea	556	0.6	90.0
12	Italy	549	0.6	90.6
13	Algeria	449	0.5	91.1
14	Australia	438	0.6	91.6
15	Mexico	375	0.4	92.0
16	Saudi Arabia	365	0.4	92.4
17	Cuba	361	0.4	92.8
18	Taiwan	342	0.4	93.2
19	India	262	0.3	93.5
20	Venezuela	232	0.3	93.8
	TOTAL	88,506	100.0%	--

Source: Statistics Canada

CANADA'S TOP 20 RANKED EXPORT COMMODITIES IN 1983VALUE \$ CDN. MILLION

Rank	Commodity Category	1983	% Total 1983 Exports	Cumulative % Share of Total
1	Passenger automobiles and chassis	9,573	10.8	10.8
2	Motor vehicle parts, exc. engines	5,753	6.5	17.3
3	Wheat	4,648	5.3	22.6
4	Trucks, truck tractors and chassis	4,215	4.7	27.3
5	Newsprint paper	4,005	4.5	31.8
6	Natural gas	3,958	4.5	36.3
7	Lumber softwood	3,900	4.4	40.7
8	Crude petroleum	3,457	3.9	44.6
9	Wood pulp and similar pulp	3,058	3.5	48.1
10	Petroleum and coal products	2,816	3.2	51.3
11	Precious metals, including alloys	1,828	2.1	53.4
12	Aluminum, including alloys	1,744	2.0	55.4
13	Motor vehicle engines and parts	1,549	1.8	57.2
14	Other telecommunications and related equipment	1,466	1.7	58.9
15	Coal and other crude substances	1,313	1.5	60.4
16	Electricity	1,228	1.4	61.8
17	Organic chemicals	1,201	1.4	63.2
18	Fertilizers and fertilizer materials	1,160	1.3	64.5
19	Office machines and equipment	1,068	1.2	65.7
20	Iron ores and concentrates	972	1.1	66.8
	TOTAL	88,506	100.0%	--

Source: Statistics Canada

Selected Export Statistics for
Agriculture, Fish and Food Products

	<u>1983</u> <u>(DN \$ Millions)</u>	<u>% Total</u> <u>1983 Exports</u>
1. Agriculture (excluding wheat)	2,512	2.8
2. Food and Beverage Industries (including processed fish)	4,034	4.6
(Fish	1,589	1.8)
3. Total (1 + 2)	6,546	7.4

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