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EDC'S MAGAZINE FOR CANADIAN EXPORTERS

WINTER 2009

# ExportWise

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# Plastics

## Retooling to Maintain Canada's Position

PM40063481

# Helping companies get through the financial crisis

Photo: Martin Lipman

**Eric Siegel,**
President & CEO

The global financial crisis is broader in scope and complexity than anything any of us have ever witnessed, with impacts that are harsh for everyone, and devastating for some. It is unprecedented in my career and I have been in the business of helping Canadian companies trade internationally for nearly 30 years.

Powerful evidence of the impact this crisis is having on Canadian companies is the fact that 8,312 companies used EDC's financing and insurance for their business activities in 2008. This is an 11 per cent increase over 2007, and the largest annual increase in customers in EDC's history.

The situation is urgent for many of our customers; the surge in demand for our products and services – and our advice – continues in 2009 because the need is so great. We are drawing on every capability, experience, and relationship we have to ensure Canadian companies can get through this crisis and emerge strong and competitive. Helping us to respond quickly are changes made at EDC in recent years that we modeled on our customers' best practices in efficiency and process improvement.

Meeting this increased demand results in increased risks and rising claims for EDC. Like our customers, we are doing everything possible to rise to the challenge and we must manage our risks wisely and effectively. That will mean making difficult choices and decisions. We want to ensure that our decisions are based on a real understanding of a company's business, its plans, and the strategic role it plays within an industry.

We are working with all the stakeholders in Canada's trade success – exporters, financial institutions, business associations, and government – to identify those areas where we can make a difference. Especially important are our ongoing and regular discussions with customers. This constant contact ensures we understand customer needs, and makes sure customers have a clear understanding of what we can or cannot do.

This global credit crisis could likely continue well into 2010. As part of its response, the Government has given EDC greater financial flexibility to meet the growing needs of exporters, including an increase in our borrowing authority. It also announced an injection of $350 million in capital to help support EDC's efforts in highly impacted sectors like automotive and manufacturing.

The January 2009 Budget included proposals that, once Parliament has enacted the Budget legislation, will broaden EDC's ability to respond to the deepening credit crunch. The Budget proposes increases to EDC's role in domestic financing and insurance that will enable us to fill emerging gaps and to complement the efforts of Canada's private financial institutions and other Crown Corporations such as the Business Development Bank of Canada.

Trade is vital to Canada's prosperity and it is access to credit that keeps trade flowing. While times are difficult, there are many excellent business opportunities out there, particularly in emerging markets as governments worldwide introduce stimulus spending. We believe that companies that can plan, and build to seize those opportunities now are going to come out of this crisis further ahead than those that take shelter to ride out the storm. EDC is committed to putting its full capabilities – financial experience, and market knowledge – at their disposal to succeed in this very challenging environment.

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ExportWise






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# ExFiles

## Exporting Success Stories

Many of Canada's most aggressive exporters are small- and medium-sized enterprises. To help encourage the development of this prized sector, EDC recently sponsored The National Bank of Canada's "PME exportatrice" awards. In this issue we salute the Quebec-based winners of those awards and highlight some of the challenges they faced on the road to success.

BY PETER DIEKMEYER

## iBwave Solutions *Montreal, Quebec*

IBwave Solutions developed a unique telecommunications software application: a tool to help simplify in-building project management for operators, integrators and equipment manufacturers. Now it can't sell them fast enough.

Mario Bouchard recently returned from the flourishing Middle Eastern financial capital of Dubai and landed in Montreal with a big smile on his face. The company he heads sells software that enables telecom wireless providers to better manage the services they provide, and his initial assessments of demand for his company's products there were highly positive.

"Our tools are primarily used by RF engineers within large new buildings such as office towers and shopping malls," said Bouchard. "Of the 10 or 12 major construction projects that are on the books in Dubai, our technology is slated to be used in all of them."

iBwave's success in Dubai is a familiar story to Bouchard. Despite the fact that the company has only been around since 2003, it has already landed more than 150 clients in 46 countries across five continents. Close to 99 per cent of its revenues now come from outside of Quebec and 95 per cent from outside of Canada.

Photo: Jupiter Images Unlimited

Almost 95 per cent of iBwave's revenues come from exports, to 150 clients in 46 countries.

According to Bouchard the company has faced numerous challenges. For example, IBwave's wide client base has forced it to operate in a variety of currencies and has exposed it to considerable foreign exchange risk. Fortunately, a new partner has appeared.

"EDC has become an increasingly reliable option for us," says Bouchard. "Their Foreign Exchange Facility Guarantee enables us to buy forward currency contracts without putting down the usual collateral. This provides us with a considerable working capital advantage."

One development that Bouchard will be watching during coming months is the effect the global economic slowdown will have on commercial construction. "When I arrived in Dubai, the cover page of the first newspaper said that activity had slowed. There are cranes everywhere, but with the stock market down, some firms have no money to finish their projects."

"But things are not slowing everywhere. Frankly, our major challenge right now is finding skilled sales people with the right technical knowledge to sell our products in foreign markets," says Bouchard. "We have an excellent window of opportunity and we want to exploit it."

Another advantage that iBwave's technology provides, says Bouchard, is the ability to sell on a world stage. "Right now things are slowing in the United States," says Bouchard. "However Western Europe and Japan have so far not been as affected. So we can focus efforts there and in other markets that are still growing."

**www.ibwave.com**

## Steltec *Sainte-Thérèse, Quebec*

Steltec produces detailed diagrams that show builders how to assemble structural steel. By partnering with other Quebec businesses, the company was able to help grow an international footprint for the entire industry.

During the early 1990s, Maurice Roy, president of Steltec, got a phone call from a direct competitor who had a unique idea. "He suggested that instead of just stealing each other's business, Quebec structural steel detailers should get together to see what they could do to grow the industry as a whole," says Roy. "I thought it was a good idea. So a few companies got together and started conducting training sessions that would improve the skills of workers and help integrate new people into the field."

Steltec prepares detailed structural steel drawings for new constructions. The drawings are used to supplement the architect's plans, show the steel parts, cuts, copes, welding and holes, and how they are supposed to be assembled. They also include an erection diagram which shows the part numbers, so assemblers can match the pieces on the plan with the actual steel components.

"It's like a sophisticated version of the drawings that Ikea supplies you with their furniture parts, to help you assemble them into a completed model," observes Roy.

During the early 1990s, Canada's cheap currency helped companies like Steltec get their feet into the new U.S.

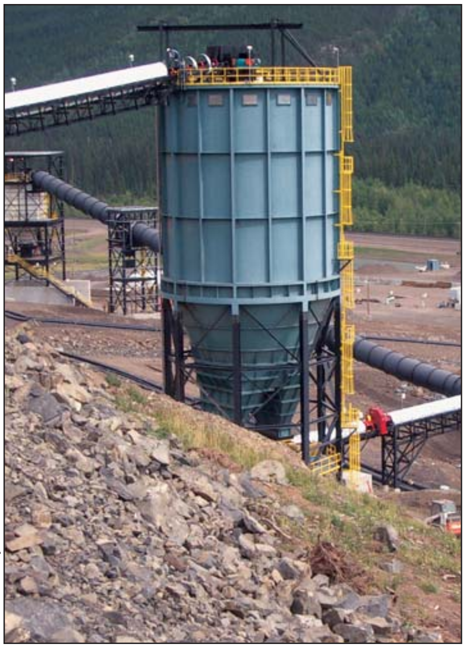

Photo: Courtesy of Steltec

Steltec plans to refine its products to remain competitive during the economic slowdown.

market. This led to substantial and growing demand. The courses were a key element in training new workers who were increasingly being sought out. In fact, the initiative served as a role model for future industry cooperation, says Roy.

"When we bid on jobs in the United States and need additional skills we often seek out advice from the specialists we know in other Quebec companies," says Roy. "Or if the opportunity is not right for us we refer the lead to others, who may be more specialized in that particular area." Steltec also partners with five other Quebec companies to share the cost of a booth at the North American Steel Construction Conference, a major industry event that allows players to showcase their talents.

But Roy is not resting on his laurels any time soon. The slowdown in the United States is forcing many builders to cancel or postpone their projects. "There are going to be some tough years ahead," says Roy. "We will need to continuously refine our products to help our builder clients improve efficiency so that they can remain competitive. They are definitely going to need our help." **www.steltec.ca**

# Société des Technologies de l'Aluminium de Saguenay Inc. (STAS)

*Chicoutimi, Quebec*

Quebec is home to some of the world's most productive aluminum producers and a world class supplier base has sprung up to support them. These players are increasingly making their presence felt on the world stage.

When Société des Technologies de l'Aluminium de Saguenay Inc. (STAS), an aluminum industry supplier, signed a recent contract to complete a project in Brazil, the company did some very important preliminary work. "Brazil has strict currency controls," explained Pierre Bouchard, STAS's president. "Companies there need to get the government's permission before they can send cash outside of the country. So before we invested too much, we had to make sure that the client had the necessary certificate that entitled it to pay us, once our order was complete."

STAS designs and markets technologically advanced equipment, such as dross cooling systems, de-gassing equipment, crucible cleaners, filtering equipment for molten metal rotary injectors and so on, which mostly targets aluminum producers. Rising global aluminum consumption has created considerable demand for its products and services, much of it in emerging markets.

The company got its start in Quebec, which has one of the world's most modern aluminum production industries, and then it built its base out from there. "The world market has only a few thousand potential clients, many of them outside of Canada, so close to 85 per cent of our sales are now exports," says Bouchard. "But we try to provide turnkey solutions, which include training customer personnel so that they can operate and maintain the equipment on their own once it is installed and running."

However, while almost all of the companies that STAS deals with are highly professional and serious about their work, Bouchard has grown to appreciate the services offered by one particular partner. "EDC has helped us on several occasions that went far beyond the organization's call of duty," says Bouchard. "For example last year one of our clients was in a country that put a temporary freeze on currency exports, so they were unable to obtain permission to pay us. The local EDC representative intervened on our behalf. And although it took six months, we eventually got our money."

According to Bouchard, unlike many fixed asset manufacturers STAS is not too concerned about the current global slowdown. "Aluminum installations are massive structures that are planned over the course of many years, so short-term fluctuations are not too significant for us," says Bouchard. "In fact we recently closed a deal to supply four machines worth $10 million to the United Arab Emirates. It is pretty clear that the long-term outlook for aluminum remains excellent." **www.stas.com**

Photo: Courtesy of STAS

Rising global aluminum consumption has increased demand for STAS, especially in emerging markets.

# Talking to the Dragon:

## An interview with Jim Treliving

Jim Treliving may be best known to Canadians as one of the "Dragons" on the popular CBC-TV business show, *Dragons' Den*. But he's also a tremendously successful Canadian entrepreneur who started with a single Boston Pizza franchise and eventually bought the entire company. He also owns Mr. Lube and has interests in real estate development, sports entertainment and the Texas oil and gas industry. He's a director of the Hockey Canada Foundation and serves as chairman of both the Global Entertainment Corporation and the Boston Pizza Foundation, which has raised more than $7.7 million for various Canadian charities since 1990. He currently divides his time between Canada and the United States, and has homes in both countries.

*ExportWise* spoke with Mr. Treliving about being a Canadian entrepreneur, the reasons for his success and what other aspiring entrepreneurs can learn from it.

Jim Treliving, Chairman and Owner of Boston Pizza.

Photo: Jeffrey Kirk, CBC Television

**ExportWise:** *Some observers have suggested that Canadians are generally averse to risk, and this is why entrepreneurs find it difficult to get started or succeed here. Is that a myth or is there something to it?*

**Treliving:** I really do believe that we're a cautious group, and that the reluctance to take risks is part of our upbringing. It's also reflected in our banking system, which asks entrepreneurs to put a lot on the line before they can hope to get any financing. I think that's partly why Canadians have been a lot more cautious in their business ventures than Americans.

One thing I've found about the U.S., as compared to Canada, is that there have always been lots of avenues for financing a business. It's not so much a matter of entrepreneurship as being able to get cash easily and do a deal easily. You can go to lenders in the U.S. and tell them you want to start a business, and they'll say, "Fine, tell us how much you want, and we'll take the building and land as collateral." And that's all there is to it. Canadian entrepreneurs generally don't get that level of opportunity.

**EW:** *It's also been said that we don't like taking risks because we're afraid of failure. True?*

**Treliving:** Well, in Canada, if people have to declare business bankruptcy, they feel really badly about it. They see it as shameful. In America, by contrast, the risk of bankruptcy is just part of the deal, and if it happens it's nothing to get upset about. I know businesspeople in the States who have gone broke a couple of times and their attitude is, "I went bankrupt but it doesn't matter, because I'll be back in business in a couple of weeks." Canadians, though, see bankruptcy as failure – their thinking is quite different.

**EW:** *Is this why many Canadian businesses limit themselves to the U.S. when they're looking for export markets? Is it that the risk seems lower in the States than elsewhere in the world?*

**Treliving:** That's very much the case. But it's a mistake to think that way, because some of the best opportunities aren't in the United States. Of our newest emerging markets, China is going to be one of our biggest, and will replace a lot of the markets we now have in the United States. There have been huge changes in China. Their cities have become far more modern – they were riding bicycles when I was there in the 1980s, but now they're driving cars. There are Buick, Ford and GM models there that I've never seen in North America, like the nameplate on one car that said Buick Shanghai. And while Canadians are acquainted with just four or five big Chinese cities, there are at least 10 other places that have populations of over 10 or 12 million, and most of us have never even heard of them. But the biggest change since I first went to China is that it now has a middle class of 300 million people, with 300 million more getting ready to move into it. That becomes our market.

**EW:** *So a Canadian entrepreneur with an eye on the future should be looking to China?*

**Treliving:** That's true, so I would say to any businessperson: if you're going to export, put a Chinese policy together for your company. Go there and visit the place – not just once, but often enough to know what's going on. We have a brand new Canadian embassy in Beijing, which has a big staff that can help you get an insight into the market. Once you have that, you can find partners over there and work with them.

**EW:** *But isn't it easier and safer for Canadian companies to go into the U.S.? China seems very alien and risky in comparison.*

**Treliving:** Americans seem a lot like us, so we think we understand them and that doing business in the U.S. will be easy. But that illusion ends the moment you step across the border. Their mentality is completely different from ours and so are a lot of their business practices. The differences are sometimes subtle but they can have huge effects on how you operate down there.

As for China being riskier for entrepreneurs, I don't believe that's true anymore. Actually, I think it's tougher to make it in the U.S. now, because there's so much competition for everything. When I came down here to open restaurants, I was thinking of those 300 million American customers in contrast to the 30 million I had in Canada. But I found that if you open a place anywhere it's busy, 10 other restaurants will immediately open beside you.

I also think China is a lower risk than the U.S. simply because there are so many people entering the middle-class marketplace there. The U.S. market isn't going to grow from 300 million to 600 million in the next 20 years, but China's is. So if you're smart and have a China policy, you can go over there now, open your business and see your market grow. It's farther away so it feels riskier, but I don't think it's any more dangerous for a business than going to the U.S. But you can't run a Chinese operation from Toronto or Vancouver. You need partners over there so you can have people on the ground who know the business.

**EW:** *What we've been discussing implies a reasonably stable and predictable global market. At the moment it's neither of those things. How does this affect small entrepreneurs who are just getting started or are trying to grow?*

**Treliving:** Right now, banks and other lenders are so nervous that they won't even talk to a new person unless he or she has a track record. So the advice I'd give to an entrepreneur who has been thinking about expanding is this: sit tight for six months to a year. Make sure you run your business well and that you make it even better. As for expanding, don't worry about it, just get your current operation on a solid footing. You'll still have customers because people still need to buy things, even if they're thinking harder about doing it. The same thing applies for young entrepreneurs; if you've just established your business, take another six months to a year to make sure you're doing everything right, and then decide where to go next.

**EW:** *Assuming things eventually return to normal, what's the most important advice you'd offer to aspiring entrepreneurs who are looking for financial backing?*

**Treliving:** The very first thing you need is a good business plan. The second thing is to figure out exactly what will cause your business's cash flow to jump to the next level. Then you project your cash flow. Do a 120-day projection, a six-month projection, a one-year and a two-year projection. Then you can create a fantasy one about what you think the business might be doing in five years. But at this point, you're just trying to project when the business will go to the next level of cash flow, starting at 120 days.

And then you sit down and say: this is what I'm going to do, and this is how I'm going to do it. And then you go out and work and work till you get it done. It's all pretty simple, actually, if you just stop and think about it!

*EDC is proud to sponsor the CBC's business reality series Dragons' Den, which airs Monday nights at 8:00 p.m. on CBC.* ■


Photo: Courtesy of MEDEC

# Skyrocketing demand for sophisticated medical devices

## Canadian companies in this largely recession-resistant and somewhat overlooked sector benefit from substantial export opportunities

BY PETER DIEKMEYER

When Ginette Gagné was first approached to take over as Chief Financial Officer at CryoCath Technologies, she immediately sensed the potential of this medical technology company's product pipeline. CryoCath's flagship Arctic Front, a minimally invasive cryo-balloon catheter designed to treat atrial fibrillation, was safer, faster and more efficient than other offerings and was poised to make major breakthroughs.

However, Gagné noticed a significant potential challenge: CryoCath did not yet have regulatory approval to market the product here in Canada. Fortunately, the company was able to overcome that temporary hurdle.

"If it was not for exports we would not exist," said Gagné, who once worked for the U.S. and European operations of industry giant Boston Scientific. "We had not yet been approved by the Food and Drug Administration to sell Arctic Front in the United States either. However European regulatory authorities were faster and as a result, their market was open. So we made our initial efforts there." CryoCath's preliminary results in Europe have been positive; Gagné estimates the potential market opportunity for Arctic Front (which had already been used to treat more than 3,000 patients) at close to $2 billion.

### Eyes on the prize

According to Gagné, the intense competition from major international players combined with more limited access to financial resources renders challenges in the medical devices sector quite daunting. However, smaller players may have certain advantages. "Often, they more innovative, more creative and are able to see opportunities in areas that are off the beaten path," says Gagné. "Furthermore, cost structures are different in smaller businesses. That means that they can develop certain niche lines more lucratively than bigger players."

For those that succeed the benefits can be impressive. In the fall of 2008, Cryocath was acquired by U.S. Medtronic. As a result, after her short eight-month stint as the CFO of a Canadian owned firm, Gagné will be once again reporting to a U.S. parent company, a development she sees as positive for the company, but also for patients around the world. "In today's global interconnected supply chains, ownership matters less than it used to," says Gagné. "If you have innovative, high quality products that fill a real need for patients, customers will talk to you."

### Medical devices: global opportunities

According to Stephen Dibert, President and CEO of MEDEC, a national association that acts on behalf of the medical device industry, CryoCath's tactic of targeting foreign markets before developing domestic sales is common in the sector. "Our regulatory authorities at Health Canada are swamped. So it often takes companies longer to get authorization to market their products here than it does in other countries," says Dibert. "Furthermore, the medical device industry is global in scope. As a result, new innovations, often by definition have significant potential."

MEDEC estimates that the industry includes about 1,500 corporate facilities that employ more than 35,000 Canadians. In all, the sector generates $6 billion in sales each year. Although many of the largest players are Canadian subsidiaries of international giants such as Baxter Corporation, Bayer, Zimmers and Johnson & Johnson Medical Products, several domestically-owned players have also made great inroads. That said, not all local companies have been as successful in export markets as CryoCath has.

"The Canadian industry is very innovative," says Dibert. "However, partly because of their smaller size relative to the larger international players, Canadian firms need all the help that they can get to develop their export potential." According to Dibert, the greatest demand for Canadian medical device producers stems from the United States, which absorbs about half of all exports, followed closely by major European countries. However, emerging nations such as India, China and Brazil are also increasingly coming up on the radar screen.

It is thus not surprising that in recent times, MEDEC and Export Development Canada have been crossing paths. "EDC is making its first steps in assessing how they can help Canadian companies get a global footprint," says Dibert. "We have been partnering with them by providing them feedback and telling our members about their products and services. So far the fit has been quite good."

## A sector with great potential

Keith Thompson, EDC Sector Advisor for Life Sciences sees the potential of Canadian medical device producers "This group holds great interest for us, particularly in these difficult economic times," says Thompson. "Medical device developers are working in an environment characterized by continuous growth and innovation. Furthermore, healthcare tends to be a defensive, recession-proof industry and with the aging population in many Western countries, demand is almost certain to grow steadily."

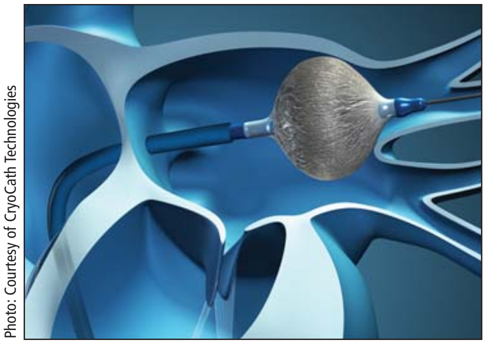

Photo: Courtesy of CryoCath Technologies

Targeting foreign markets before developing domestic sales is common in the medical device industry.

Because of the industry's potential, Thompson is making significant efforts to come up with better ways for EDC to lend support. When we spoke to Thompson, he was preparing to attend two large industry shows – Bio-Europe 2008 and Medica Trade Fair – to study industry supply chains and to get to know some of the major players involved.

"We currently support about $150 million worth of transactions each year in the sector and while that may sound like a lot, we can do a lot more," says Thompson. "For example, EDC's program to finance Scientific Research and Experimental Development tax credits is a promising step. The initiative will enable medical device companies to get some of the cash they invested, circulating back into operations faster." Thompson is also impressed with export opportunities in India and China. He is currently working with EDC representatives in India to study the possibility of providing some financial services to a group that is putting up several hospitals there. In exchange, the Indian group would commit to purchase Canadian products.

Photo: Courtesy of Pyng Medical Corp.

Pyng Medical products provide an alternative to conventional IV infusion for shock and trauma victims.

## Pyng Medical: the importance of hedging

David Christie, president and CEO of Pyng Medical Corp. is another big believer in the importance of supporting Canadian medical device exporters. The company developed and markets the ***FAST1***® Intraosseous Infusion System, which provides a rapid, reliable and safe alternative to conventional IV infusion, for fluid and drug resuscitation in shock and trauma victims.

"***FAST1***® is highly differentiated and has no direct competitive products. We are also protected by patents which means that we can command a premium price," says Christie.

In fact, trauma and resuscitation products for front-line critical care personnel have become a lucrative niche for Pyng. This summer, the company acquired the trauma assets of California-based Bio Cybernetics International. These included three products: market leading ***T-POD***® Pelvic Stabilizer, ***MAT***® Tourniquet and ***CRIC***™ Cricothyrotomy System.

However, Christie's and Pyng Medical's success comes with some risks attached, which is where EDC comes in. "A large part of our sales in the United States (which accounts for 90 per cent of Pyng's exports) are handled through one major distributor," says Christie. "And while the relationship has been going exceptionally well, we have a lot of eggs in that one basket. If for any reason something went wrong, we would be heavily exposed. The fact that EDC insures those receivables helps us manage the risk." ■

**FOR MORE INFORMATION**

- kthompson@edc.ca
- www.medec.org
- www.cryocath.com
- www.pyng.com

# Canada's

Photo: © Masterfile

# Plastics Industry in an Uncertain World

BY DENNIS AND SANDI JONES

**The very first plastic made its public debut at London's Great International Exhibition in 1862. Trademarked Parkesine, it was the invention of a British chemist named Alexander Parkes, who touted it as the ideal material for small items such as "medallions, salvers, knif handles, pierced work and pen holders."**

Parkes won a bronze medal for his invention, and although Parkesine was never a marketplace success, it did signal the dawn of the plastics age. By the 1930s, plastics were being used in everything from billiard balls to electronic components. By the end of the Second World War, they had become an indispensable part of everyday life.

Canada's plastics industry hit its stride in the 1960s, and since then we have become the world's ninth-largest exporter of plastics manufacturing machinery, the eighth-largest exporter of plastic products and the third-largest exporter of moulds.

Most of the companies in these three subsectors are small and medium-sized enterprises that are wholly Canadian-owned and have their head offices in Canada. The fourth subsector is resin manufacturing, which provides the raw materials from which plastics are made and is dominated by large transnationals such as Dow Chemical, Imperial Oil and NOVA Chemicals.

The industry, even when resin manufacturing is excluded, is an important contributor to Canada's economy. In 2007, Canada's output of plastic products accounted for 4.2 per cent of GDP and 5.3 per cent of total manufacturing employment, with exports worth $8.6 billion.

The machinery subsector employed more than 5,000 people and shipped $1.1 billion worth of equipment and parts abroad – a full 87 per cent of its total production. Canada's mould makers had about 8,400 employees and their products accounted for $870 million in exports. Our largest market for these goods has always been the United States but we also have customers in China, Mexico, Japan and Italy, who tend to buy more moulds and machinery than plastic products.

**Plastics prominence**

There are several reasons for Canada's high profile in the global plastics sector, according to Serge Lavoie, President of the Canadian Plastics Industry Association (CPIA).

"Canada got a good start in the industry because we came quite early to the petrochemical business and to the manufacture of synthetic resins. By taking advantage of our resin supply, and by maintaining a very high level of R&D, we've been able to create a wide variety of products for a large range of markets – not just plastic products, but also the moulds and machines to make them."

John Margeson, a Plastics Specialist in Industry Canada's Resource Manufacturing and Value-added Products Directorate, agrees. "We have a strong cluster of all four plastics subsectors right here in Canada, with all the advantages of geographical concentration and a highly skilled labour force. And because our domestic market is relatively small, our plastics companies have always seen exports as part of their business plan and have been selling their products abroad for decades. This depth of experience has given them important survival skills, which is a major advantage when they need to diversify their markets."

Diversification is a key factor in maintaining the industry's competitiveness abroad. It helps considerably that Canadian companies occupy the entire plastics value chain, from resins to end-products, because this opens up niches in a lot of other supply chains as well.

And those niches can turn into good business opportunities, as Montreal's Transco Plastic Industries knows from its long experience in the American market.

Ninth-largest exporter of plastics manufacturing machinery

Eighth-largest exporter of plastic products

Third-largest exporter of moulds

5.3 per cent of total manufacturing employment

4.2 per cent of GDP

Exports worth $8.6 billion

Photo: Courtesy of Transco Plastic Industries

Transco was careful to reinvest in itself during the good times, which means it is better prepared for the bad.

Transco, which has been in the packaging business since the 1930s, manufactures both plastic films and retail and industrial packaging, and was never a complete stranger to the United States. But its exports jumped sharply when NAFTA opened the border and the company discovered a market gap between the major U.S. packaging manufacturers and their much smaller competitors.

"The middle of the market was wide open," says Transco President Mitch Herman, "and nobody in the United States was filling it. But like a lot of Canadian companies, we've always had to be flexible to survive, and we found that our skill set made us a perfect fit for that particular niche. For the big American packagers it was just a nuisance segment of the market, but for us it was very rewarding."

Similarly, Brampton Engineering (BE) has made a success of its export business because of its ability to diversify. The company now builds machines for producing highly advanced, multilayer films, and sells its equipment to film manufacturers around the globe. But BE didn't start out that way.

"We began in 1973 as a supplier of components and dies for blown film systems," says President and CEO Bud Smith, "and since then we've evolved into a supplier of complete systems. We specialize in equipment that can produce films containing up to 11 layers of different plastics, with each layer serving a specific purpose. Manufacturing these film systems is very much a niche market, and there aren't enough customers in Canada for a company of our size. As a result, we've always sold most of our equipment to buyers outside Canada."

## From resins to recycling

Maintaining Canada's position in the global plastics sector is not easy. A current problem, especially for manufacturers of plastic products, is the unpredictable fluctuation of resin prices.

Until late 2008, resins were expensive because of the high price of the oil and gas used to make them, and while the raw materials costs have fallen since that time, they are certain to rise again when the global commodity market recovers.

The price of resins will rise with them, but it's often impossible for a plastic products company to pass its increased costs along to its customers as quickly as prices go up. The lag inevitably erodes profits.

## Environmental pressures

The whole question of plastics and the environment is another major challenge. Public anxiety about the environmental impact of the industry is very high, and many questions are being asked about some of the chemicals it uses (such as bisphenol A) and about some of its products (such as plastic bags). This is a huge concern for the packaging industry in particular, since this subsector tends to have the highest environmental profile with the public.

"The biggest challenge we're facing now is the issue of the environment," says James Downham, President and CEO of the Packaging Association of Canada.

"Most plastics come from oil and gas, which are non-renewable resources, and this worries many people, so that's a concern to many people. Another big concern is what to do with plastic products when they reach the end of their lives. If you can get them into the waste stream so they can be separated, most can be reclaimed and recycled, which is what everybody wants. But making that happen on a large scale can be extremely difficult.

"The few plastic products that are manufactured from renewables like corn and starch are also under suspicion, because of the perception that farmers are diverting food crops into plastics production."

For Lavoie, the non-renewable issue stems at least partly from public misunderstanding. "The manufacture of all plastic products accounts for no more than 4 per cent of oil and gas usage, compared to the 88 per cent used for fuel. This fact, along with the understanding that plastics are eminently suited to recycling, can help alleviate the public's concern about our use of non-renewable resources."

But environmental pressure doesn't always come directly from the public; some originates with retailers anxious to demonstrate corporate social responsibility. When a major buyer of packaging such as Wal-Mart asks its suppliers to reduce their packaging weight by 5 per cent, the packagers have to decide very quickly how they're going to do this.

Photo: © Masterfile

**If a government abruptly outlaws plastic bags in a hasty response to public demand, for example, a whole chunk of a market can disappear overnight.**

Fortunately, plastic packaging is well suited to weight reduction, and manufacturers have been pursuing this approach for years; bags and bottles, for example, tip the scales at less than half their original weights. Still, manufacturers have little choice about doing so, regardless of the source of the pressure, and they also do need contingency plans to cope with what may be arbitrary environmental decisions. If a government abruptly outlaws plastic bags in a hasty response to public demand, for example, a whole big chunk of a market can disappear overnight.

The industry is trying hard to respond to the environmental issues. Many companies are looking at their supply chains and exploring new technologies to find out how they can reduce the amount of plastic in their products.

Other firms are trying to help with the establishment and maintenance of recycling programs. But recycling standards and strategies across Canada are fragmented and inconsistent; Nova Scotia, for example, diverts most of its domestic plastic waste into recycling streams, but not all provinces use such a comprehensive approach. This makes it hard for the plastics industry and its allies to present a clear, consistent environmental message to the public.

Photo: © REUTERS/Enny Nuraheni

The migration of North American manufacturing to Asia has already affected the industry, with Canadian markets on this continent dwindling as many companies shift their operations to firms in Asia.

### Performance pressures

Other problems are emerging to join the environmental challenge. The migration of North American manufacturing to Asia has already affected the industry, with Canadian markets on this continent dwindling as both American and domestic companies shift their operations to firms in Asia.

There is deep concern in the industry that these Asian companies may swamp Canada's current export markets with cheaply produced plastics and equipment, making it difficult or impossible for our companies to compete. China, for example, is busily developing its own plastics and packaging sector and clearly wants its industry to become a world player. It is already achieving this in some segments of the U.S. market, where imports of Chinese plastic goods have displaced formerly competitive Canadian products.

This is not to say that foreign competition is a new experience for the Canadian industry. Germany, Italy, Portugal and Japan have always been among our rivals in the machinery and mould subsectors. But the European and North American markets have matured, so the greatest growth opportunities lie in the emerging economies. And it's exactly in those economies where the competition is most ferocious.

Asia, moreover, isn't the only potential source of rivalry. Natural gas is far cheaper in the Middle East than anywhere in North America, and this abundant, inexpensive supply of feedstock has created huge growth in the region's resin manufacturing sector. As a result, countries such as Saudi Arabia, Iran, Turkey and Egypt are already becoming low-cost production zones for plastics products.

Most of their markets are in Europe and they don't yet pose a major threat to Canada's plastic products industry, but that may change before long.

On the machinery side, China has begun to manufacture a variety of processing equipment. These systems are now displacing Canadian sales in North America, even though Canadian machines (like European ones) tend to be superior to the Asian versions.

In Lavoie's opinion, "this is because North American manufacturers are looking for deals, so they tend to buy the inexpensive Chinese equipment. But elsewhere in the world, and even in Asia, companies see cost as less of a factor, so they still look to Europe for the high-quality machinery they prefer."

This suggests, of course, that Canada should be pursuing these customers as well. Some are, which explains the success of Canadian companies such as Brampton Engineering, Macro Engineering, Mold Masters and Husky Injection Molding.


Photo: Courtesy of Brampton Engineering

Brampton Engineering has made a success of its export business because of its ability to diversify.

As for Canadian mould manufacturing, this subsector's exports have been very strong for the past 30 years. The market is eroding now, not as yet from Asian competition but because of the problems in the North American automotive industry, which normally absorbs a great deal of the subsector's production. These problems will probably last for some time and will become much worse if the Detroit Three continue their precipitous decline, so this segment of the plastics industry is coming under tremendous pressure to adapt and diversify.

Moreover, the situation for both mould and machinery companies is aggravated by a looming labour shortage. Both subsectors need personnel who are highly skilled in a variety of trades, and this trained talent is in increasingly short supply as experienced people retire. It is by no means clear who will replace them.

Lavoie sees three great challenges ahead for the industry. "First, because our export growth has been almost exclusively the result of NAFTA, we've committed almost all our efforts to the U.S. market. But the economic problems there mean that a lot of our American market is evaporating, and we have to find ways to deal with that.

"Second, we have to retool ourselves for the future, and that means we have to reinvest in the industry, which is hard to do when markets are flat or shrinking. Third, China and India are already dissatisfied with being low-cost producers and are moving up the technological value chain, so we'll soon be facing even tougher competition."

## Slips and slides

The current global economic downturn is adding to the industry's unease. Sector associations like the CPIA are concerned about the slump, but what are things actually like for companies on the front line?

"They're difficult," says Transco's Mitch Herman. "We're seeing lower consumption in all three of our major North American markets. One is the beverage industry, which has been our biggest customer. Another is the courier sector –s its business is falling off so it's not buying as much packaging for shipping. And retail sales are down, which is eroding the need for packaging in that sector.

"All these pressures are being compounded by the huge volatility in the cost of our raw materials. We've shifted a lot of our production overseas during the past several years, but commodity pricing is as unpredictable there as it is here. That makes it hard to forecast costs for yourself or prices for your customers, and you start to wonder whether your buyers will be able to pay their bills. One bright spot at the moment, though, is that the Canadian dollar is coming back down."

Transco, fortunately, was careful to reinvest in itself during the good times, which means it is better prepared for the bad. "We've constantly upgraded our equipment, notes Herman, "not just because newer machines let you run at a lower cost, but also because they allow you to do things your competitors can't. It's generally true in our business that profit margins diminish as a market matures, so you always have to be reinvesting in new technology that will give you new opportunities while bringing your costs down."

At Brampton Engineering, the product is different but the emphasis on reinvestment is similar. In the case of BE, this includes an extremely active research program: the company has two full-scale R&D production lines, one at its factory and a second, off-site one that it uses through an agreement with a customer that bought the equipment.

The company's R&D strength has made it a world leader in multi-layer film production systems, and it competes very successfully with the far larger German companies that are its major rivals.

"Our relatively small size can be an advantage," says Smith. "We can respond very quickly to problems a customer may have in the field, and we're much more adaptable than the big German firms in designing custom systems and coming up with innovations to meet specialized needs."

BE's tradition of flexibility and personal service are proving to be an advantage during the downturn, but the company isn't relying solely on those virtues.

"Our customers have been postponing their next purchases because of the economic situation, so we've been talking to them about increasing the capabilities of their existing equipment without committing a lot of capital. For example, if we help make some relatively small changes to their production systems, they may be able to manufacture a broader range of products or increase output, either of which will strengthen their bottom line with a modest investment."

## Moulding opportunities

If the industry gets its strategies right, there will be plenty of opportunity for future growth. Smith, for one, sees very substantial possibilities ahead.

"All industries are going through difficult times now," he observes, "but the plastics industry is going to be one of the fastest-growing sectors of the global econ-

**Making a multi-layer film that will keep food fresh for five months is a much better way to find customers.**


Photo: © Andrew Paterson / Alamy

**The industry is trying hard to respond to the environmental issues. Many companies are looking at their supply chains and exploring new technologies to find out how they can reduce the amount of plastic in their products. Other firms are trying to help with the establishment and maintenance of recycling programs.**

omy for the next 30 years. Even though companies may stop buying equipment during a recession, the successful ones start purchasing very quickly once the bottom of the market is reached, because the technology keeps changing and they have to keep up with it. So huge new opportunities will appear as innovations in engineering and design allow plastics to replace glass, cardboard, aluminum and other metals. This means that companies with good technology and a good market position can take full advantage of the value and flexibility of plastics, and will be very well placed to meet the global demand both for equipment and for the products that are made with it."

That demand is likely going to grow at 2 to 3 per cent in North America and 5 per cent globally, but in India, China and the developing world, it will be expanding at a pace of 10 per cent annually, or even more."

What needs to happen, to help make this bright future a reality, is laid out in a technology roadmap developed in 2006 by the CPIA and industry stakeholders. The roadmap, as Lavoie summarizes it, proposes four key strategies:

First, Canada's manufacturers of plastic products need to move away from mass-produced commodities and toward customization; the emphasis should be on manufacturing short-run, niche products that are highly customized and can be brought to market very quickly. Canada can't compete with Asia in the long-run, mass production market, and trying to do so is a recipe for failure.

Second, developing and producing hybrid polymer materials is essential. These new hybrids, made from traditional petrochemical supplies or from plastics combined with metals, natural products or other substances, offer new directions and new possibilities. Aerospace is one example; aircraft manufacturers want higher fuel efficiency in their products, and lightweight, plastics-based composites are of great interest to them. The same is true of the auto industry.

Third, Canada must start making many more high-value-added products, especially in the packaging subsector. One specific need, for example, lies in food safety; consumer worries about it are increasing, and improved plastics are the only realistic means of protecting food more effectively from contamination.

Fourth, there's the enormous, barely explored field of sustainable plastic products. This has tremendous promise in light of the public's concerns about the environment, and sustainability in particular is going to be an important part of the industry's future. Manufacturing plants must become environmentally responsible "good neighbours," and their products will need to be not only highly sustainable in themselves, but also promote sustainability in other value chains.

All that said, the global economic turmoil that began in late 2008 is going to have unpleasant effects on the industry, at least in the short term, some of them lasting. Even the best-financed, best-organized, most adaptable and most innovative companies are having a difficult time and will need all the support they can get.

Enter EDC, which has a long history with the export side of the plastics sector. "We work with about 170 Canadian exporters from the plastics sector every year," says EDC Sector Advisor Keith Thompson, "and support about $500 million worth of annual business for the industry. Our services for the sector have tended to concentrate on various types of insurance and bonding, but we're now getting more and more calls from Canadian customers who want to use our working capital and financing tools as well. We've also been encouraging our customers to diversify into new markets in Mexico, South America, China, India and Russia, which will help them ride out the global downturn."

Brampton Engineering is one of those customers, and the company has worked with EDC for a long time.

"BE has used EDC's services to leverage additional financial capacity so it can meet growing export sales," notes EDC Account Manager Richard Ross. "Most recently, we've helped BE with buyer financing and documentary credits for customers in India and Eastern Europe."

Transco too has enjoyed EDC support for many years. "We look at EDC as a protection against the unseen," observes Herman. "Since we're a custom producer, we make our credit decisions when we start manufacturing an order, not when we ship it. So EDC's benefit to us is that it insures not only our receivables but also our orders, which means we're covered from the moment we start production. That's very important for smaller suppliers like us, especially these days when even huge corporations can go bankrupt and take their suppliers down with them. So EDC insurance has been a real boon to us, not because we've ever made any significant claims on it, but because it lets us sleep at night."

Canadian plastics companies have developed a reputation for producing high-quality products that compete very effectively around the world. Our future is not in low-cost, low-margin commodity goods, but is rather with products whose value lies in advanced design, sophisticated technology and very high levels of sustainability.

Canada's industry is not the only one following this path, though, and we will need to harness all our energies and abilities to maintain our existing markets and reach into new ones. But we have a vibrant industry with a treasury of good ideas and new technologies, and that will make all the difference. ■

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# Cultivating a Key Agricultural Equipment Market in Kazakhstan

BY DANNY KUCHARSKY


Photo: Courtesy of Buhler Industries

As Kazakhstan's agricultural output resumes growth after the breakup of the Soviet Union, companies such as Canada's Buhler Industries are capitalizing on equipment needs.

Winnipeg-based tractor manufacturer Buhler Industries got a surprise call from one of its dealers in 2001. CanAgro asked, 'Can we buy 20 tractors and ship them to Kazakhstan?' recalls Eric Allison, director of sales at Buhler.

"We asked, 'You want to ship them where?'" Since that time, Buhler's knowledge of Kazakhstan has experienced a dramatic growth curve as sales to the country have increased exponentially. "We used to call it the wild, wild, west," Allison says of those early days in Kazakhstan. There are now about 2,000 Buhler tractors in Kazakhstan and Russia, sold under its Versatile brand name. The company also sells to North America, its primary market, as well as Ukraine and Australia.

Although its population is only 16 million, Kazakhstan has the ninth largest land mass in the world, and the majority of it is suitable for agriculture. And, like Canada's Prairies, much of that land is ideal for growing crops like wheat, cereal and barley. Much of Kazakhstan "looks and smells and seems just like you're in Saskatchewan," notes Carl Marcotte, EDC's Vice President, Resources Group.

In fact, several international organizations have tapped the former Soviet state as one of the countries with the most potential to meet the world's growing demands for food, particularly in emerging markets. The European Bank for Reconstruction and Development, for

Canada is a pioneer in the development of low-till or no-till technology which, by eliminating the need to till the soil and plant the current crop over the previous year's, dramatically increases productivity.

example, names northern Kazakhstan, southern Russia and Ukraine as the major spots on the planet where a significant increase in agricultural production is possible.

Given that Canada is a world leader in developing agricultural equipment and techniques, Kazakhstan has been lining up to buy machinery from Canadian exporters, who are primarily based in Saskatchewan and Manitoba. Indeed, agricultural equipment has now become Canada's number one export to Kazakhstan. Canadian-manufactured farming equipment "can extract yields that would be unbelievable 50 years ago," Marcotte says. "It's very much a Canadian success story."

Kazakhstan actually had a long tradition as a major wheat and barley bread basket during the Soviet era, but most of its agricultural land went fallow after the 1991 breakup of the Soviet Union. That collapse led to the dismantling of collective farms, removal of state subsidies and the transfer of large plots of cropland to pasture, notes Uliana Haras, EDC Associate Economist.

With no money to invest in production and equipment, the old Soviet equipment was rusting away. So much so that EDC estimates the vast majority of agricultural equipment in Kazakhstan, as well as neighbouring CIS states Russia and Ukraine, needs replacing. Canadian firms are competing for this business with agricultural equipment manufacturers primarily based in the United States and Western Europe.

Because of the decline of the agricultural sector, in the seven years following the Soviet Union's breakup, grain acreage in Kazakhstan dropped by two-thirds, "which is enormous," Haras says.

Agricultural output in the country has since resumed growth – it's been growing by double-digits annually – but it has yet to match even 1990 levels. Kazakhstan is aiming high, however: it hopes to become the number five wheat producer in the world (it currently occupies the seventh spot).

### Buying Canadian

Canada is a pioneer in the development of low-till or no-till technology which, by eliminating the need to till the soil and plant the current crop over the previous year's, dramatically increases yields, Marcotte says. No longer do farmers plough up the soil and turn it over to create rows to plant the next seed, moves that damage the soil and causes moisture and nutrient loss.

In addition, the Kazakhs are bullish on Canadian reseeding technology in which seeds are injected into the ground by air pressure, rather than the traditional technique of tilling the soil and dropping the seeds in by gravity feed. "They find the combination of Canadian tractors, seeding technology and harvesting technology very attractive," he says.

Igor Ermolenko, CEO of JSC Holding Kazexportastyk, one of the largest grain companies in Kazakhstan, says his company started to buy Canadian equipment six years ago because of the similarities in climatic conditions between the Prairies and northern Kazakhstan. What's more, "we found a lot of similarities in characters and owners of companies in Canada and Kazakhstan," namely the high number of family businesses in the two countries." Compared to doing business with big European or American suppliers, "we have more comfort and a better understanding with Canadian partners."

Marcotte concurs. In Kazakhstan, "Canadian companies have found a very warm and welcoming people who seem to have the same approach to the land that Canadian farmers have." Despite

Photo: Courtesy of Buhler Industries

**Canada's exports of agricultural equipment to Kazakhstan are so important that the Central Asian country has emerged as the third-largest buyer of those products (with about 3 per cent of the market). The United States is by far the largest buyer of Canada's agricultural equipment exports, at 80 per cent.**

**Canada plays a leading role as Kazakhstan's second largest soil preparation machinery supplier and fifth largest tractor supplier.**

**Canada is responsible for 35 per cent of Kazakhstan's soil preparation machinery (or seeders) imports, second only to the U.S., which has a 45 per cent share.**

**Kazakhstan is Canada fifth largest market for tractor sales. Saskatchewan dominates the soil preparation segment, while Manitoba dominates the harvesting and tractor segments.**

language barriers, "there's a real affinity between Canadians and Kazakhs that makes it pretty easy to work together and leads to stronger business relationships. Canadian companies have shown they're serious about a long-term commitment. There's a real cultural connection."

But the main selling point for tractors from Buhler or air drills from Saskatoon-based Morris Industries is that "we find Canadian machinery is easier to maintain than competitors' products," says Ermolenko. "Our engineers and mechanics like it. They manage to keep it working under any conditions." EDC's decision to become involved in his company's purchases of Canadian goods has made Canada's agricultural equipment even more competitive, Ermolenko says.

### Reinvesting in agriculture

One major way of reaching that goal is through the Kazakh government's decision to make it a priority to partner with the private sector to reinvest in agriculture, Haras says. It has done so by reforming the sector's regulatory framework and by providing financing to agribusiness. That, in turn, has enabled Kazakhstan to purchase foreign machinery, much of it Canadian-made, to help rebuild the sector.

The financial connection, however, was more tenuous when Canadian exporters began selling to Kazakhstan. Exporters, who "were not very comfortable dealing with these types of countries," demanded cash upfront, says Susan Bray, Sector Advisor, Resources Group. "They didn't want to take any kind of risk at all."

That put the onus on buyers to pay immediately, something that can only be done a few times, especially since foreign dealers face time lags of several months between orders and arrivals of shipment, Allison says. "We didn't want to take the risk and that's where EDC came in with receivable insurance."

Meanwhile, once they saw how well-suited the Canadian equipment was for their market, Kazakh dealers started clamouring for more goods – and for more reasonable payment terms, Marcotte says. EDC built a strategy to work with Canadian exporters to provide buyers with extended payment terms, in the form of accounts receivable insurance

**EDC's long-term view for Kazakhstan is one of political stability, says Andrew Bennett, EDC Senior Political Risk Analyst. The World Bank notes that following independence in 1991, Kazakhstan was one of the earliest and most vigorous reformers among the countries of the former Soviet Union. In the early years of transition, prices were liberalized, trade distortions reduced, and small- and medium-scale enterprises privatized. The treasury and budget processes were significantly improved. Kazakhstan scores much less favorably, however, in the areas of land reform in the rural areas, in the creation of an enabling environment for the small and medium-sized enterprises, and in the elimination of corruption, according to the World Bank.**

which covers up to 90 per cent of exporters' losses if foreign buyers can not or will not pay. The insurance "gives manufacturers the comfort to take a risk and grow their business," while buyers get the credit they need to dramatically step up their imports of Canadian equipment, he says.

From humble beginnings in 2002, EDC's agricultural support in CIS reached $150 million in 2007. Bray says there is opportunity to grow further in countries like Kazakhstan, given the amount of land that can potentially be cultivated.

To account for growth in agricultural equipment sales, EDC has now moved beyond providing accounts receivable insurance in Kazakhstan and has been working to put lines of credit into place with a number of specialized state-owned financial companies active in the agricultural equipment sector. For instance, EDC has established a $100 million line of credit with Astana Finance and is in negotiation with Kazagrofinance. In addition to support offered via state-owned entities, capacity is also available with private commercial banks including with BTA Bank and a $15 milion line with Tsesnabank as well as individual loan agreements or guarantees with Bank CenterCredit and Kazkommertzbank. "They've worked very, very hard to open up this market," says Buhler's Allison.

## Outlook

Noting that CIS states like Kazakhstan represent the largest export market and market for growth for Canadian agricultural manufacturers equipment outside North America, Bray says: "We all thought we have to be there." Farming equipment makers are starting to look to expand to other new markets like South Africa and Brazil, but the viability of these markets remains unclear, she says.

As part of its strategy to introduce Canadian suppliers to the market, last October EDC co-sponsored the Canadian Pavilion at the CIS' largest agricultural event – the Golden Autumn exhibition, in Moscow. "The Canadian presence clearly made an impact," says EDC's Chief representative Rod Lever, with Canadian small- and medium-sized enterprises making their first foray into the market making important contacts and pulling in significant orders.

Meanwhile, Marcotte says the largest Canadian exporters EDC works with have been growing their production capacities by between 25 and 35 per cent annually to meet foreign demand. "Kazakhstan actually can't get enough equipment fast enough, even with the economic crisis. There's that much opportunity there."

Ermolenko notes "most experts are bullish" about agriculture in Kazakhstan, given the amount of underutilized farmland that remains: an estimated 17 million acres of once fertile soil in northern Kazakhstan that became idle in the 1990s can be recovered and be put back into production.

However, the current economic crisis is causing an impact, particularly in Russia, where buyers are having difficulty converting rubles into U.S. dollars, Allison says. "We've had many cancellations because the dealers can't get access to funds. They have money to pay, but they can't convert rubles into dollars." As of late November, sales of about 75 Buhler four-wheel-drive articulated tractors had been cancelled.

Still, Allison says the slowdown is only temporary. "This is just an unfortunate blip. Nobody saw it coming. Things will turn around again. There's so much uncultivated land over there (in the CIS) that they need more equipment." Although North America continues to be the firm's bread-basket, the Russia-Kazakh market will continue to grow for at least another 10 years, Allison predicts.

Photo: Courtesy of Morris Industries


A major selling point of Canadian seeding drills, such as those supplied by Saskatchewan-based Morris Industries, is that they are easier to maintain, according to many Kazakh buyers.

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# EDC Helps Digicel Connect with Canadian ICT Firms

BY TOBY HERSCOVITCH

Photo: Courtesy of OZ

**No island is an island, when its people are interconnected by Digicel. Now, the frontrunner in wireless telecommunication providers in the Caribbean is seeking suppliers for nearly every facet of its business and EDC is helping qualified Canadian companies vie for a share of this pie.**

Three representatives from Digicel spent two concentrated days in Montreal talking to Canadian companies keen on supplying technology and services to their fast-growing company. Twenty-seven meetings later, they flew back to their Jamaican headquarters having identified several prospective suppliers to help them expand their business in the Caribbean and Central and South America. Digicel also has a sister company in the South Pacific.

The matchmaking event was organized by EDC's Information and Communications Technology (ICT) team. "Our goal was to broaden and deepen Digicel's base of Canadian suppliers. The companies who participated were very enthusiastic about this event and the follow-up has been excellent. As a result, it is a format we plan to replicate with other foreign buyers," says Paul Day, EDC's Vice-President, ICT.

"We're expecting to hit 40 countries, from our current 26, by the end of this year," says Mario Assaad, Chief Technology Officer. "We are looking for products and services in three key areas: infrastructure, including cell towers; innovative products, such as software for instant messaging (IM); and middleware, such as point of sale (POS) solutions."

Founded in 2001, Digicel has gone from an upstart company, taking on Jamaica's telecom monopoly, to become the largest wireless telephone operator in the Caribbean. It has also climbed to the top or second place in other Caribbean islands, and in several Central American markets. Today Digicel has more than 6.5 million subscribers and an annual growth rate that has averaged more than 50 per cent since its inception.

According to Assaad and his colleagues Amilkar Torres, Product Delivery Director, and Curt de Gourville, Network Design Director, Digicel prides itself on offering affordable prices, clear marketing, flexibility and speed. "We are building a bigger, better network in the areas where we operate and we provide 24/7 customer care," says Assaad.

Digicel looks for similar strengths in its vendors – "flexibility, responsiveness, competitive prices, and strong after-sales support," notes de Gourville. "We also look for a diversity of applications because we have to adapt to different cultures in each of our markets."

Over the past five years, EDC has provided project financing as well as syndicated and direct loans to Digicel to encourage purchases from Canadian suppliers such as Research in Motion (RIM) and Mpathix, a provider of voice and data messaging solutions. "As Digicel continues to grow, it offers new opportunities to innovative small and mid-sized companies here in Canada," says John Miller, Strategic Account Executive.

The matchmaking event started with a webinar, where participants from over 60 Canadian companies gained an overview of Digicel's operations, growth plans and supply needs. This was followed by one-on-one meetings with companies pre-selected by Digicel. Two firms that were invited to submit proposals were OZ Communications and VisionMAX.

### Linking to the latest in mobile messaging

OZ is a leading consumer mobile messaging solution provider – giving consumers access to instant messaging, email, and many online communities on the broadest range of mobile devices in North America. The company ranked eighth in the 2008 Deloitte Fast 50, a listing of the fastest growing technology companies in Canada. In November 2008, mobile phone giant Nokia acquired OZ.

"We have more than 60 per cent of the North American mobile device market for IM and consumer email," says Per-Olof Bjorkhede, Account Director. "I believe we stand out for our technology and user experience, based on the number of features we offer, their look and feel, and our close support to our customers."

The company was founded in Iceland in 2000 and moved its base to Montreal in 2004, following major client Ericsson of Sweden, which had set up a research centre there. OZ now employs 240 people and has offices in the U.S., UK and a development centre in Mumbai, India. It is also looking at expanding in emerging markets such as Central Europe – and Central America where Digicel is growing.

OZ was able to improve its access to cash with the help of EDC's Export Guarantee Program, whereby EDC works with Canadian exporters and their banks to increase working capital. OZ has also taken on larger foreign contracts with the help of EDC's Performance Security Guarantees.

Today, one of its key challenges is adapting to the rapid changes in social networks and mobile devices. "We're dealing with new providers, new online communities, new types of devices, new features – we have to keep up not only with this changing landscape, but with the high level of support our customers expect," says Bjorkhede.

"It's a big help when we can gain access like this [from EDC's matchmaking session] to companies like Digicel, who would otherwise be harder for us to approach," says Bjorkhede.

### From order-taking to customer-care systems

VisionMAX of Mississauga, Ontario recently won a contract with Digicel. VisionMAX provides cost-effective IT solutions for business, including point of sale (POS) systems, billing and operational support systems, and software to support digital entertainment systems.

Photo: © Pinto/Zefa/Corbis

"Our strengths include our ability to mass-customize our applications, eliminate a lot of the complicated programming and deliver on time and on budget. Our applications are built graphically, based on our VisionEngine platform, making them much easier to use. It also means we can quickly take our application from the abstract level to a working prototype, so our customers don't have to imagine what it can do – they can see for themselves," says David McDougall, VisionMAX's President.

"Our biggest challenge is the fast pace of our growth," adds McDougall. The company, which started a decade ago during the technology bust, has seen its sales double over the past two years. Staff increased from 38 to 75, the majority involved in R&D and consulting. While most of the company's exports are to the U.S., it recently won business in Dubai and Taiwan, the latter with a large American leader in television entertainment products and systems.

In the case of the satellite TV provider, McDougall adds: "We were up against global firms like Oracle, [the world's largest enterprise software company], Amdocs and Convergys. We spent five months preparing the bid and there were six people on the client side doing the due diligence. In September, we learned that we won the bid – we had quite a celebration!"

Aiming to increase his company's growth worldwide, McDougall jumped at the chance to meet Digicel. "It is difficult for a relatively small company like ours to attract international business and promote ourselves abroad. EDC's combination of support for these endeavours, and its financing and insurance products to help us be successful ºinternationally, are tremendously important to us."

Digicel was also highly satisfied with the meetings. "They were very productive. Most of the Canadian companies we met had a good range of mature and innovative products to offer," says Torres.

In this business, he adds, you can be flooded by suppliers. As such, Torres and his colleagues often prefer when trusted partners, such as EDC, identify potential vendors.

Canadian companies who are interested in learning more about opportunities with Digicel can contact EDC's ICT team at ICT@edc.ca or visit Digicel at www.digicelgroup.com. ■

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# The Northeast

BY DENNIS AND SANDI JONES


Photo: © Jeremy Woodhouse/Getty

One of the great advantages of Ontario's business environment is its proximity to the U.S. Northeast. Companies on both sides of the Great Lakes have been trading with each other since Ontario was still Upper Canada, and this close relationship has contributed much to the economic vitality of both nations.

The Northeast includes West Virginia and western Pennsylvania, as well as Upstate New York, which is considered to be the region outside metropolitan New York City.

In Pennsylvania, the chief industries and businesses are in and around Pittsburgh, while West Virginia's major centres are Morgantown and Charleston; in Upstate New York, the commercial hubs are Buffalo, Rochester, Syracuse, Binghamton and Watertown. These metropolitan areas are home to numerous Fortune 500 companies such as Alcoa, U.S. Steel, Corning, Kodak and Xerox, and to several large and important universities that include Carnegie Mellon, Cornell, Vassar and the University of Buffalo.

The region's population of 13 million makes it one of Canada's top U.S. markets. Its economic relationship with Ontario is extremely varied and complex, with a myriad of tightly integrated supply chains linking major economic clusters on both sides of the border. Working within these supply chains makes a great deal of sense for Canadian exporters, since about half of all U.S. manufacturing facilities lie within a one-day trucking radius of upstate New York.

The Buffalo area, moreover, is the Northeast's major distribution and logistics centre, and its proximity to Ontario's Golden Horseshoe means that Canadian businesses can easily reach the multitude of customers just across the border. Conversely, American companies in the Northeast are perfectly aware that Canada's major industrial hub is invitingly close – closer, in fact, than are many U.S. markets.

The local economy has inevitably suffered from the recent U.S. financial upheavals. Compared to many other regions of the country, though, it's fared remarkably well because of its diverse employment base and a strong concentration of knowledge and health industries. Ironically, its status as a somewhat depressed area has also helped protect it from the sharp economic declines seen in higher-flying regions. As one observer noted, "When you've had to keep your feet on the ground, you don't have so far to fall."

## Home of high technology

For Canadian companies involved in advanced technology – ICT, imaging and robotics, for example – there are numerous large corporations in the Northeast that are very interested in Canadian products, services and technological partnerships. The region's ICT sector is the third largest in the world and employs tens of thousands of people in subsectors that range from consumer electronics manufacturing to photonics. IBM recently invested $2.5 billion in a chip-fabrication plant in the Hudson Valley Research Park at Fishkill, NY, while Albany, NY, has become the home of the international electronic consortium SEMATECH.

Rochester has a cluster of optics and imaging companies that includes Kodak, Xerox, Bausch and Lomb, and Corning. The photonics side of this cluster has already developed links to several Canadian counterparts such as the Ottawa Photonics Cluster, the Canadian Photonics Consortium and the Ontario Photonics Technology Industry Cluster.

Pittsburgh is a major centre for robotics R&D, supported by institutions like the Robotics Institute at Carnegie Mellon University and the National Robotics Engineering Consortium. In IT, Carnegie Mellon has the Software Engineering Institute, a premier research facility, while other advanced institutions include the Pittsburgh Supercomputing Center and the Nanotechnology Institute.

Activity in medicine and the life sciences is vigorous and has been expanding rapidly. One major player is the Buffalo Niagara Medical Campus, whose member institutions work in numerous fields of research including cancer, structural biology, visual impairment and bioinformatics.

Rochester is a high-technology centre for medical IT systems and for medical and dental imaging; a major company in this subsector is Carestream Health Inc., a Rochester-based spin-off from Kodak that is owned by Toronto's Onex Corporation and employs several thousand people. As for Pittsburgh, its biomedical cluster comprises about 160 companies, including Bayer and SmithKline Beecham.

## From autos to the environment

The region's automotive industry has historically been very strong and is likely to remain so despite the current slump in the automobile market. General Motors and Ford are still among the largest employers in the regional manufacturing sector, and have thoroughly integrated their operations in Canada and the U.S. Toyota, for its part, has built a major manufacturing plant in West Virginia to supply engines to its assembly operation in Cambridge, Ontario.

On the transportation side, Canada's Bombardier Inc. has production facilities near Pittsburgh, and in Plattsburgh, NY. The region also supports an important aerospace sector with extensive requirements for advanced systems, components and services. Amherst Systems (a division of Northrop Grumman) and General Dynamics both have aerospace plants in


Photo: © Richard T. Nowitz/CORBIS


Photo: © Panoramic images/Getty

and around Buffalo, and the corporate headquarters of the Moog Aircraft Group is in nearby East Aurora, NY.

Pennsylvania has a strong chemical industry based primarily in Pittsburgh. In West Virginia, chemicals also make an important contributor to the economy; dozens of companies are active in the state, including major corporations such as Dow, DuPont and Union Carbide. Calgary's Nova Chemicals has a large subsidiary operation here.

The region's long industrial history has levied a considerable cost in terms of water, air and soil pollution; not coincidentally, it now supports a strong and growing environmental technology sector. In Upstate New York, Canadian firms will find a range of opportunities in air pollution control, soil and water remediation, alternative fuels, nanotechnology and clean energy technologies.

Pennsylvania is focusing on environmental subsectors that include air pollution, waste management, renewable energy, alternative fuels and green construction. As for West Virginia, its economic dependence on coal means that its industries are looking for advanced technologies related to clean coal, energy efficiency, biomass processing and coal-waste processing.

## The view from Toronto

Smaller Canadian enterprises such as Toronto's Goldrich Printpak Inc. can do well in this very large market. "Goldrich began in the 1950s as a commercial printer," says company president Leslie Goldberg.

"Since then we've evolved into a full-service firm that offers creative and structural design, printing and manufacturing high-quality folding cartons, visual retail packaging including blister and skin cards, product and package assembly, display assembly, shrink wrapping, vacuum forming and a whole lot more. In our business we have to be adaptable and ready to change, so we've worked hard to make ourselves into a vertically integrated, one-stop shopping centre for all our clients' packaging needs."

Now employing about 78 people, Goldrich began exporting to the U.S. Northeast in the 1980s. The firm first noticed the market's potential when it placed ads for salespeople in the Toronto papers and received several responses from across the border.

Photo: Courtesy of Goldrich Printpak Inc.

Folding carton manufacturer/printer Goldrich sells the bulk of its business in the corridor from Toronto through western Pennsylvania and Upper New York State.

"That told us we might have a market in the Buffalo area," says Goldberg, "so we started going to trade fairs there. Because the visual display card market was a new one in the Northeast at that time, it wasn't long before everybody wanted us to be their supplier. Once we were making things for people, we started asking what other packaging products or services they needed, and those became our second growth level. After that, the more services and kinds of production we integrated into the firm, the more they wanted to buy."

Although Goldrich now sells its products as far away as Florida and New Jersey, the bulk of its business is still in the corridor running from Toronto down through western Pennsylvania and Upper New York State. The company uses direct sales representation rather than agents or distributors to market its products and services, which are provided out of Toronto.

The Northeast remains a lucrative market, says Goldberg, although it's tougher than it used to be. "Over the past decade, our margins have been eroding because the major retailers are driving prices down all along their supply chains, and the high Canadian dollar has also been a problem.

"As a result, we started sourcing a lot of our raw materials from abroad, which has helped us stay competitive. Our U.S. market has been pretty flat for the past two years, but we're now seeing some new life there despite its economic difficulties. That's partly because we've shifted our focus to food, pharmaceuticals, cosmetics and other population-driven needs, which aren't as sensitive to downturns – as the population in our market grows, our sales will grow too."

EDC has been an important partner in developing the company's export trade, adds Goldberg. "We use EDC's Accounts Receivable Insurance so we can be sure we'll get paid. EDC is also good at giving us sales contacts, and they're a big help when we need to find out if we can safely do business with a potential customer."

The experience of Goldrich Printpak suggests how much opportunity the U.S. Northeast can offer to Canadian exporters. Located within easy reach of Canada's largest industrial area, the region's familiarity with Canadian businesses and its highly developed logistics systems make it a prime market for exporters of all types and sizes. So if you're seeking new customers, be sure to consider the U.S. Northeast – it may be the very place you've been looking for. ■

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- www.goldpak.com

# Scientific Research and Experimental Development Tax Incentive Program

BY BRUCE GILLESPIE

Thanks to an innovative new use of EDC's Export Guarantee Program, exporters now have the opportunity to receive an advance against their Scientific Research and Experimental Development (SRED) tax credits. Experts say that means exporters will be able to invest more money in critical research and development without sacrificing cash flow, particularly at a time when credit is increasingly hard to obtain.

### What is SRED?

The SRED program is the largest single source of federal support for industrial research and development in the natural sciences, and it is administered by the Canada Revenue Agency (CRA). In 2006, SRED provided more than $3 billion in tax assistance to businesses of all sizes, operating in all industries, across Canada.

Currently, the largest users of the SRED program are manufacturers of computers and computer products, transportation equipment and chemicals. But while many business owners assume the tax credits are only available to companies in the technology sector, they are actually available to any company engaged in research and development, including manufacturers and exporters.

In the past, many small- and medium-sized businesses were reluctant to apply for SRED tax credits because of the work involved and the time it took to receive the payout. "Companies often incurred a cost related to R&D months before they actually got the refund based on their investment since the waiting period is four to six months after the fiscal year end," explains Vicky Brouillard, EDC Sector Advisor, Light Manufacturing. "For most Canadian companies, there is a federal rebate of 35 per cent in addition to add-ons that vary by province."

So, four years ago, with that in mind, EDC started to work on a way to help exporters reduce that lag time and encourage investment in R&D. The result is an innovative application of the Export Guarantee Program that sees companies doing eligible work receive an advance against their SRED tax refund in a fraction of the time it normally takes.

Essentially, with a guarantee from EDC that reduces their risk exposure, banks agree to establish R&D operating facilities for companies doing work that is eligible for SRED tax credits. To qualify for an EDC guarantee, Brouillard says an exporter must have been involved with the SRED program for at least two years.

At that point, the company engages the services of an external consultant who provides an expert opinion as to whether their current work would qualify for SRED tax credits and how much of a refund they could expect to receive. Based on those findings, the bank advances the exporter a percentage of the costs that are deemed eligible, usually between 60 and 75 per cent.

"It's a working capital solution that provides a kind of real-time R&D financing," says Brouillard. "It's a type of bridge financing until they receive that cheque from the government in 18 months." She says the shorter wait time makes a big difference to exporters. "I've talked to some companies that say, 'If I'm concerned about payroll, I might retract on the research I'm doing,' so I think this will encourage companies to invest as they see fit in R&D and not hold back because of working capital restraints."

### How AFORE Solutions used SRED

The first company to pilot this new application of EDC's Export Guarantee Program was AFORE Solutions, a privately owned network equipment and technology provider in Ottawa. The company provides network equipment vendors around the world with custom development solutions, whether it's software or hardware or a combination of the two. "Our primary focus is on exporting Canadian solutions and technology, although we also do some business in Canada as well," explains President and CEO Alex Berlin.

When the company was founded in 2003, it had 10 employees. Today, it has more than 60 full-time staff, and Berlin says AFORE Solutions has seen steady growth on a year-over-year basis. He says R&D plays a critical role in the company's ongoing success, and being able to obtain an advance against its SRED tax credits thanks to a guarantee from EDC has been a big help. " Canada is not a low-cost geography. So, for us to

Photo: Courtesy of AFORE Solutions

▲ The SRED program has helped AFORE Solutions maintain a steady cash flow while expanding its offerings.

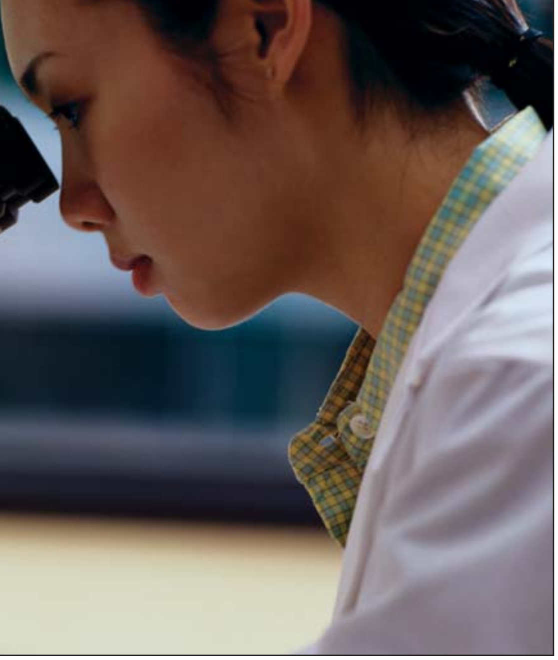

Photo: © Ryan McVay/Getty

compete, we have to be able to leverage the R&D tax credit programs the government provides and use them to their full extent."

Berlin says the opportunity came about in discussions with his bank, RBC Technology Banking Group, when looking at ways of creating additional working capital facilities. After speaking with EDC, AFORE Solutions engaged an external consultant to lead them through the SRED application process in 2004. Berlin says coming up with documentation for the program's financial review was not a major challenge, since they were already being created as part of the company's annual external audit.

Preparing the technical review of the company's R&D work was more involved, so AFORE Solutions worked with a consultant to prepare it to ensure the company stood the best chance of realizing the maximum level of SRED tax credits. Berlin says hiring a consultant to take the company through the process was invaluable experience, and after the first couple of years, though, Berlin says he has moved most of that work in-house.

"We've been leveraging our internal resources for the past three years because we know our technology best. It probably takes about three or four weeks of effort, but if you can get 25 or 30 cents return on every R&D dollar you put into the application work, it's a good investment to make."

Berlin says that although the SRED application process can seem daunting at first, it's worth it in the end. "You do need to put in some effort, but the return fully justifies this effort. And once you've done it once or twice, it becomes more routine; every year, we spend less effort in preparing the application because we have established a process and have the in-house expertise to process the majority of the documentation."

The program has helped AFORE Solutions maintain a steady cash flow while expanding its offerings, such as new modular software that allows network equipment vendors to accelerate their time to market and cut costs by using AFORE Solutions' components to build custom systems. "I've recommended this program to many local companies because it's a great tool that allows companies that have to invest in R&D to stay competitive," says Berlin.

## Get expert advice

Determining which costs the CRA deems eligible for SRED tax credits and which costs are not can be challenging, especially for companies that are new to the program. Generally, the program funds work that leads to new, improved or technologically advanced products or processes in a wide range of industries.

According to William Robinson, a consultant with Research Support Services Inc., of Port Coquitlam, BC, who has worked with companies pursuing SRED tax credits for the past 18 years, the types of work that are eligible include developing new tools or products, extending a product line, exploring ways to work better or cheaper and developing or improving technical processes. He says the SRED program rewards companies employing innovative solutions to both old and new problems.

According to the CRA's guidelines, eligible projects must meet three criteria: they must attempt to advance a company's technology base (including technical knowledge), face a question of technological uncertainty (in terms of how to solve a given problem) and feature technological content (in other words, prove that money was spent, R&D work was done and recorded and qualified personnel were used).

The role of the consultant in EDC's Guarantee Program is to evaluate the work from a technical and/or a financial point of view according to the slew of CRA guidelines that govern the program. "We evaluate the work in terms of all the application guidelines and all the information circulars that are out there to say, OK, the CRA will probably view this as eligible SRED work," explains Robinson.

"But because eligibility is subjective, and a successful claim largely depends on the reviewer's industrial R&D experience, no consultant can give guarantees, so we give you our best opinion on what will qualify for SRED tax credits, based on our experience with the SRED program."

Robinson says the SRED program has been a huge help to his clients over the years, and he expects more companies to show an interest in it going forward, given the current state of the credit and lending industry in Canada and south of the border.

"With the credit crunch being what it is, it's becoming extremely difficult for small- and medium-sized companies, particularly in manufacturing, to access credit. However, companies who avail themselves of the EDC Export Guarantee Program find the banks view the SRED tax credits as excellent collateral. In these situations the banks are willing to loan up to 90 per cent of the money spent against the future SRED claim, which will be filed at the end of the tax year. So, both parties are winners, as the banks are assured they will get their money back, and the company has the funding to complete its project."

Robinson says he's seen the difference the tax credits make to small companies over the years. "It allows for much less disruption in research and development work due to cash flow problems. Knowing you can get advances like the EDC Export Guarantee Program helps accelerate a company's R&D program by ensuring a consistent cash flow. In the end, that means they get their products to market much sooner, which makes them, and Canada, more competitive in the global economy." ■

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# REGIONAL VOICES

ATLANTIC CANADA

## Atlantic Canada takes on global opportunities

Photo: Paul Adams/Photo Features

Atlantic Canada is one of the first places in this country where we notice a downturn in the economy. In good times, many businesses in this region see credit insurance either as a luxury item, or as a commodity, where lowest price wins out. In hard times though, companies really appreciate EDC's expertise and reliability. Atlantic exporters look to us to fill the void that other institutions are starting to leave.

In today's financial climate, banks are becoming more hesitant to lend to companies based on their foreign receivables, unless these invoices are insured. As such, they are taking a renewed interest in EDC. Before, I was the one leaving messages for my bank contacts to set up meetings on how we could work with each other more. Now they're calling me first, asking about EDC's risk appetite and credit practices. They're inviting the Atlantic Team to talk to their account managers on a more regular basis about how EDC can partner with them.

We are also margining foreign exchange facilities more and providing export guarantees so that banks can free up more loans and lines of credit to their exporting clients.

EDC is now the insurer of preference because of our risk appetite and the complete suite of export solutions we can deliver to the banks and their exporting customers.

Most of the business we do here is still based on fishing and forestry. For the second year in a row, we had great success

ONTARIO

## Diversification during the credit crunch

Photo: Portraits Plus Photography Studio

Market diversification is top-of-mind with many Ontario exporters right now, especially those in the manufacturing sector who are hardest hit by declining demand from their major markets in the United States, Mexico and Europe during this slowdown.

At the same time, the financial crisis that is driving interest in investments and diversification may also be impeding the success of such strategies. Many potentially lucrative and creditworthy deals have been left on the table for want of financing while financial institutions in Canada and around the world react to the credit crisis. A lot of those deals are now coming to EDC as a result.

A prime example of how the credit crunch and diversification issues are intertwined can be found in Ontario's auto sector. For example, we are hearing a lot about the "flight to quality" in the finance world, and the retrenchment of the financial industry at large towards the relatively stronger sales of the Japanese automakers is a prime example of the phenomenon. Auto parts manufacturers and exporters that primarily supply the Detroit Three are seeing very few opportunities for viable credit. Consequently,

BY DAVID SURRETTE

bringing U.S. and Canadian companies in the seafood industry together at the important Boston Seafood Show, held every March. We work with a U.S. partner called the Fisheries Exchange and have helped about 80 small to large Canadian companies meet the same number of potential U.S. buyers or suppliers. In 2007, our efforts led to about $40 million in new export business that EDC insured; in 2008 that amount was nearly double.

While most Atlantic exports and investments still go to the U.S., we've seen companies grow their business in the Caribbean, Mexico and the Gulf States. Asia is a harder sell, especially when a company exports fresh seafood or forestry products, because it is still more costly to send those goods so far. However, we recently participated in successful missions taking local companies to Panama and the UAE. We work closely with all trade groups in each of the Atlantic Provinces, including our federal colleagues in the Atlantic Canada Opportunities Agency (ACOA) and Foreign Affairs and International Trade Canada, to promote trade abroad.

Outside our traditional industries, Atlantic Canada has excellent engineering firms, like Jacques Whitford and CBCL, which have projects around the world and are growing in markets such as Russia, the Gulf States and Africa. We also have a rising star in the aerospace industry. Provincial Airlines is leading an international consortium to build state-of-the-art surveillance planes that could soon make the company a world leader in this field.

With all the offshore oil development going on in the Atlantic region, we have had requests for contract insurance and guarantees from smaller Atlantic companies that would like to do business with the oil and gas giants involved. Since much of the output from these projects is for export, we are looking into the possibility of providing services that would enable more Atlantic companies to participate in the offshore boom.

These are all signs that Atlantic companies are seeking to take on new global business opportunities. As they do so, they use – and really appreciate – the broad range of products and services that EDC can offer them. ■

BY DAN MANCUSO

diversification in customer base is currently the single most important factor in forecasting how well auto parts manufacturers will weather the current downturn.

The urgency to diversify one's markets is spreading across all sectors in Ontario. Over the last three quarters of 2008 we saw a huge increase in interest among Ontario companies in how EDC can assist them with foreign investments or Canadian direct investment abroad (CDIA).

This is unusual. Only a few quarters ago, we saw limited CDIA transactions coming out of Ontario, consistent with our historical experience in the province. EDC used to go looking for CDIA deals. Now they are coming to us, from every size of company to markets all over the world.

The rush to CDIA is a good thing for Ontario exporters and something EDC has encouraged for many years because of the healthy growth rates in many emerging markets. However, I am concerned that this trend may be purely reactionary. The timing of these decisions is making the process a challenge, as well.

But, while emerging markets are still growing quickly, current business opportunities in such markets were negotiated quite some time ago.

Exporters looking to emerging markets need to understand that they'll need to be looking two to five years down the road before they pay off. Ontario exporters understand this situation, but the credit crunch does present challenges. Which is where EDC can help.

That said, the key benefits to Canadian businesses that invest abroad include a broader customer base and greater opportunity to participate in global supply chains, both of which increase capacity to weather an economic downturn.

*Dan Mancuso is now Vice-President of EDC's Customer Experience Group.* ■

# Current Crisis a Catalyst for Change

BY PETER HALL

Photo: Martin Lipman

**Peter G. Hall**
Vice-President & Chief Economist

Financial markets bade a happy farewell to 2008, and entered the new year with optimism. It didn't last long. Upbeat market results in the first few business days of 2009 soon faded, and poor economic news resumed. As if putting a new calendar on the wall would stem the flood of bad news that surged last fall. Unfortunately, poor basic fundamentals rule the day. Last fall's economic and financial turmoil was no transitory tremor; it moved the Richter scale in dramatic fashion, and businesses, consumers and market watchers are still assessing the fallout.

Pressures that triggered last fall's quake were building for some time. High liquidity and increasing asset values helped to create excessive activity in the U.S. economy over the last seven years – excesses that ended up being exported all over the world. How? Economies selling into the U.S. geared their production to unsustainable export growth, and the effects spread domestically and to their other trading partners. It has all come to a sudden end, and everyone is feeling it. So, were last fall's big jolts enough to bring things back to normal?

Not so fast. Huge, multi-year excesses don't just evaporate overnight. An obvious sequence of economic events that began in mid-2006 is still unfolding. The sequence began when Americans first realized that there were far more houses .on the market than U.S. consumers really needed. Real estate prices tumbled in short order and construction activity shifted into reverse, in the process revealing a deluge of toxic mortgages on the books of leading world financial institutions. No longer able to cash in on swollen home equity, the mighty US consumer reined in spending, and global demand felt the pinch. Around the world, employment is now beginning to react – promising punishing second-round effects on economic activity.

As the process is still underway, the bad news is that we can expect more bad news. Markets won't react well to the new revelations, and general pessimism is likely to persist. Savvy planners need to prepare for reticent buyers and limits on access to capital. How long will it last? Unlike 2001, the excesses are just too great this time around, and will take time to work down. Take U.S. housing markets, for example. The current surplus is large enough that it will probably be early 2010 before balance is restored. Other indicators suggest little chance of a rebound in the latter half of 2009. Thus far, a bleak situation, especially for exporters.

Even so, are there any opportunities? Near-term prospects are indeed more limited, particularly in Canada's traditional markets. But a glance outside of the comfort zone reveals exciting possibilities. Emerging market growth will slow, but will still be well above the global average. In addition, the earthquake cracked open government coffers, and those able to deliver goods and services to massive public infrastructure projects in short order are likely to be in high demand this year and next. In addition, a lower loonie and substantially weaker primary input costs will be a help to many Canadian exporters.

The bottom line? Growing exports in traditional markets will be a tough slug in the next two years. Surviving and prospering into the future calls for ventures into lesser-known zones. Can we do it? In normal times, necessity is often the mother of invention. But crisis is the mother of transformation; heeding this adage will be critical to short-term success. ■

*Peter Hall is EDC's Vice-President & Chief Economist. He can be reached at phall@edc.ca.*

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Canada EDC



# From the Editor

**Michael Toope**,
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## EDC establishes global community investment partnership with CARE Canada

EDC recently announced that it is launching a new four-year, community investment partnership with CARE Canada for small business enterprise development and micro-financing related projects in emerging markets. We did so for many reasons, to foster employee volunteerism and personal development but also because we understand the benefits of trade to the prosperity of regional and national economies.

Each year EDC will assign two to four EDC staff for four to 16 weeks to CARE enterprise projects. Initially, the focus for projects will be in Peru beginning in April of 2009. Certainly, the wide range of our employees' expertise will mean invaluable support to emerging market entrepreneurs. For example, assignments could include developing marketing plans for small exporters, developing a risk assessment program for a microfinance lender, or improving the application of information technology, among others. And these assignments will no doubt give EDC volunteers a challenging yet meaningful experience. EDC has long been an advocate for community investment, and through this initiative, we have now broadened our notion of "community" by extending the scope to those markets where we conduct business.

## EDC Environmental Policy under review

EDC's Environmental Policy governs our overall environmental commitments. The policy was originally established in 2005 and included a commitment to review beginning November 2008.

To that effect, EDC has initiated a policy review process with the goal of introducing a revised policy in 2009. And we want to hear from you. We encourage you to visit www.edc.ca this summer to view a discussion paper on the key issues we have identified and put forward for consultation. During the 90-day public commentary period, we invite you to provide commentary or feedback to our Environmental Advisory Services. ■

# Trade Resources

**A list of associations and government agencies dedicated to helping Canadian businesses succeed.**

## Provincial Government Agencies

### ALBERTA

**Trade Team Alberta:**
**www.alberta-canada.com/tta**
TTA is a partnership of the Governments of Canada and Alberta, working to enhance international business opportunities for Albertans.

### MANITOBA

**MTI: Manitoba Trade and Investment:**
**www.gov.mb.ca/trade**
MTI's mission is to help build the Manitoba economy through increased exports and by attracting and retaining foreign direct investment.

### NEW BRUNSWICK

**Business New Brunswick – Export Development Branch:**
**www.gnb.ca/0398/export/index-e.asp**
Business New Brunswick's Export Development Branch specializes in counselling and other services to export-ready companies and existing exporters.

### NEWFOUNDLAND AND LABRADOR

**www.gov.nf.ca/doingbusiness**
A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

### NOVA SCOTIA

**Nova Scotia Business Inc.:**
**www.novascotiabusiness.com**
NSBI offers many export development programs and services for small- to medium-sized businesses and local exporters entering new markets.

### ONTARIO

**International Trade Development:**
**www.ontarioexports.com**
The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

### PRINCE EDWARD ISLAND

**PEI Business Development:**
**www.peibusinessdevelopment.com**
The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

### QUEBEC

**Services for businesses:**
**www.entreprises.gouv.qc.ca**
Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

**Investissement Québec:**
**www.investquebec.com/en**
Financing products range from work for companies, cooperative businesses and non-profit organizations from start-up, expansion, export, R&D activities, to mergers and acquisitions.

### SASKATCHEWAN

**STEP: Saskatchewan Trade & Export Partnership:**
**www.sasktrade.sk.ca**
STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

### BRITISH COLUMBIA

**British Columbia Asia Pacific, Trade and Investment Division, Ministry of Technology, Trade & Economic Development:**
**www.gov.bc.ca/tted**
Assists BC companies to enter international markets and attracts foreign investment to BC.

## Federal Government Agencies

**Business Development Bank of Canada (BDC):**
**www.bdc.ca**
BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

**Canada Business:**
**www.cbsc.org**
Canada Business reduces the complexity of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements.

**Canadian Commercial Corporation (CCC):**
**www.ccc.ca**
The CCC serves as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions.

**Canadian Consular Affairs Bureau:**
**www.voyage.gc.ca**
The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

**Foreign Affairs & International Trade Canada:**
**www.international.gc.ca**
DFAIT supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful, secure world.

**Team Canada Inc.:**
**www.exportsource.ca**
Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

## Associations

**Canadian Manufacturers and Exporters:**
**www.cme-mec.ca**
Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels.

**Canadian Chamber of Commerce:**
**www.chamber.ca**
As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

**Canadian Federation of Independent Business:**
**www.cfib.ca**
CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector.

**Canadian Association of Importers and Exporters**
**www.importers.ca**
I.E. Canada represents and educates importers and exporters and advocates on their behalf to influence change. Membership includes importers, exporters, distributors and agents as well as custom brokers, lawyers, accountants, freight and shipping companies, airlines, banks and foreign trade promotion offices.

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398.**

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777.**

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