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**OVERVIEW OF ISTC'S SECTORAL
U.S. AND FTA-RELATED TRADE DEVELOPMENT
STRATEGIES AND PRIORITIES**

Canada 

July 18, 1990

**OVERVIEW OF ISTC'S SECTORAL
U.S. AND FTA-RELATED TRADE DEVELOPMENT
STRATEGIES AND PRIORITIES**

The information contained in this document is drawn from the sectoral submissions to the International Plan, augmented by a series of detailed interviews undertaken by Trade Policy representatives with individual Industry and Technology sector branch Directors. The write-up for each sector attempts to provide a brief sectoral context, focuses on the strategic approach being pursued in each sector and identifies a few examples of the type of activities being undertaken.

In addition, each Director interviewed was asked to comment on the applicability of sub-sectoral market studies and suggestions for other sub-sectoral work which might be undertaken if additional U.S. and FTA-related resources were to be made available. Responses to these queries are included in this document under tabs G and H.

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RESOURCE PROCESSING INDUSTRIES

PULP AND PAPER

The sector is heavily export oriented and the large companies which characterize this sector undertake U.S. marketing activities without any direct marketing support from government. There is a significant U.S. participation in the sector and Canadian ownership has declined slightly in the last two years due mainly to the purchase of Consolidated-Bathurst Inc. by Stone Container Corporation, an American company. In the newsprint industry, a number of mills are supplier/subsidiaries of U.S. newspaper publishers although one such mill was recently sold to a Canadian newsprint manufacturer. Overall, the industry is the largest foreign supplier of pulp and paper to the U.S. The major trade objective is to regain lost market share as well as to shift production towards higher value-added paper grades.

Investment in new equipment reached record levels in 1989 and while declining in 1990, will still be above historical levels. While investment in environmental pollution control equipment has increased, investment over the next 3 to 5 years will be largely environment-driven. This sector is expected to utilize about 30 percent of investment input during this period.

ISTC trade strategies centre on the provision of better market intelligence and export market support for companies affected by the FTA (e.g. - producers of fine paper and packaging grades).

The growing preoccupation in the U.S. and Canada with the need to utilize more recycled material in paper manufacturing is causing industry-wide concern as this places many Canadian firms at a severe locational disadvantage vis-à-vis U.S. producers. A major, but non-conventional, trade support activity is to encourage companies to invest in recycling and deinking plants. Government subsidies are not contemplated to promote this development.

An analysis of U.S. subsidy activities is underway to assist in future subsidy negotiations with the U.S. Export support in the fine paper grades will be undertaken in U.S. border states, with assistance from posts in these territories.

CONVERTED WOOD AND PAPER PRODUCTS

This sector is composed mostly of small-to-medium sized companies whose sales activities have historically been directed at the domestic market. The FTA provides an opportunity for increased penetration in the U.S. for producers with competitive products or technology. At the same time, however, the sector faces increased pressure from the much larger U.S. industry and there is a need for structural adjustment and a greater emphasis on market development and technical innovation.

A key marketing objective, in view of the structure and location of the Canadian industry, is to secure closer cooperation with provinces and industry associations. The Cooperative Industry and Market Development Programs (CIMDP) is a major element in this approach.

Sectors that will receive close attention include a number that have already made inroads into the U.S., notably kitchen cabinets, doors, remanufactured wood products, manufactured housing and log homes, and wallpaper. Planned activities include the development of new packaging materials as well as participation in trade shows in Boston and Atlanta.

WOOD PRODUCTS

The sector is a major exporter and the U.S. is the principal market. Canada has about 30% of the U.S. softwood lumber trade, a position which has aroused considerable protectionist sentiment among U.S. producers. The lumber trade suffered a considerable setback resulting from the 15% charge on exports to the U.S. and, alternatively in some provinces, by increased stumpage charges. There is also growing concern in Canada at the industry's dependence on the cyclical U.S. housing market.

To reduce this dependence, a strategy is being pursued which would increase offshore marketing efforts and pursue the development of greater value added products, especially in the panels sector.

A key initiative is the development of the Cooperative Overseas Market Development Project for the wood products industry in Ontario, Quebec, Nova Scotia, New Brunswick, Newfoundland and P.E.I. through a joint agreement with provinces and industry associations. Requests for a similar project in Alberta and to renew the existing effort in B.C. have been received and are being addressed.

Conventional trade support activity is being de-emphasized in favour of work on standards and specifications problems, support to producer associations, and technical support to exporting firms. The softwood plywood standards issue under the FTA is a key market access issue. The question of subsidies to U.S. wood products producers from state and local governments is of ongoing interest. A number of ISTC regional offices have plans for targeted promotional activities in the U.S.

IRON AND STEEL

The U.S. is the primary export market for the Canadian steel industry and trade development activity is confined to that country. High shipping costs for steel products and NTBs by potential importers preclude any sustained offshore marketing activity. About one-quarter of industry output is directed to the U.S. Companies in the industry are mostly large and do not seek government assistance for trade development activities.

The major ISTC trade development objectives are to forestall or minimize U.S. protectionist measures. The U.S. has voluntary export restraint arrangements with many country suppliers, which does not include Canada, and a major objective is to maintain this status quo. Quarterly meetings on trade questions are held with U.S. government officials. A monitoring operation is carried out on Canadian steel exports to the U.S. Post priorities are concentrated in border states covered by Boston, Buffalo, Chicago, Cleveland, Detroit, Minneapolis and NYC.

FABRICATED METAL AND CONSTRUCTION PRODUCTS

Metal fabricators produce mainly intermediate products, most of which are only marketed domestically. Most producers are SMEs and with the decline in trade barriers as the FTA is implemented, companies will need to scale up production volumes and manufacturing technology in order to remain competitive both in Canada and the U.S. The same situation prevails for manufactured construction products.

Producers of construction commodity materials are in a stronger position - notably in the cement, flat glass and clay brick sectors - and are shipping significant production volumes to the U.S.

The trade development strategy for the fabricated metal sector will focus on introducing the stronger, export-ready Canadian companies to U.S. trade opportunities, and to encourage those who have already established themselves in U.S. border states with niche products, to broaden and deepen their market penetration.

Producers of construction materials will need assistance with market research and trade show attendance. In addition, providing support to enable materials to meet local building codes will be particularly important, and assistance from NRC through its Canadian Construction Materials Centre, will be required for materials evaluation purposes. Examples of planned activities include:

- advise EAITC on export-ready companies for inclusion on missions;
- attendance at key trade shows, for industry representation purposes;
- strategic planning seminars for glass products and pre-stressed concrete products industries; and,
- trade shows, NEBS, NEXUS, PEMD.

METALS AND MINERALS PROCESSING

The sector is dominated by large MNEs and production is very much export dependent. Although the industry markets its products world-wide, the United States is the principal export market. Product prices are mostly set in international commodity markets and, as a result, companies have a continuing preoccupation with cost competitiveness.

In view of the size and market position of firms in this sector, there is no need for conventional trade development support from government. Opportunities exist to license the technology developed in Canada under the Acid Rain Abatement Program to companies facing similar pollution control problems in the U.S.

INDUSTRIAL CHEMICALS

The elimination of tariffs under the Canada-U.S. Free Trade Agreement (FTA) is expected to improve the competitiveness of a wide range of Canadian chemical exports to the U.S. At the same time, Canada's preferential access to the U.S. market under the FTA is also expected to greatly improve the prospects for further investments in Canadian production to serve the North American market. These opportunities will include products based on competitively priced, primary petrochemicals such as propylene and the aromatics (benzene, toluene, xylenes). There will also be opportunities on a selective basis for electrochemicals and for chemicals based on domestic minerals.

ISTC's efforts will focus on identifying to potential Pacific Rim and European investors, the advantages of establishing specialty chemical production in Canada to supply the North American market. Examples of specific planned activities include:

- Working closely with the Canadian Chemical Producers' Association in its efforts to promote new investment in Canada;
- Joint efforts with university business schools to improve the international business skills of the senior management cadre in this sector;
- Attending trade seminars in the U.S. to facilitate exchange of information.

PLASTICS, RUBBER AND CHEMICAL SPECIALTIES

The strategic objective is to meet increased demand for plastics, rubber and chemical specialties products by increasing investments in, and expanding market opportunities for Canadian production, particularly in the U.S. market. Trade and investment promotion activities in this sector are intertwined.

With a view to taking advantage of the market opportunities provided by the FTA, specific activities to improve the competitiveness of the industry will include:

- Continuing the close working relationships with the relevant industry associations to improve ISTC's market intelligence base and increase the flow of advanced technology information to Canadian firms;
- Joint efforts with university business schools to improve the international business skills of the senior management cadre in this sector;
- Development of information technology centres to improve the exchange of information among Canadian firms and with U.S. and other foreign companies;
- Complete and develop a follow-up action plan of the SRI report on plastics.

The specific geographic priorities in the U.S. include areas covered by the Chicago, Santa Ana, Cleveland and New York posts; posts in other U.S. cities may be involved depending in progress in the above planned activities.

BIOTECHNOLOGY

The biotechnology industry crosses a number of sectors and many firms in these various sectors view the use and application of biotechnology as being an important factor in their growth and innovation. The industry is driven by technology and success is determined by a company's human skills and its ability to develop new forms of intellectual property. Canadian biotechnology companies are generally quite small and most will have to grow significantly before they are able to operate internationally.

The development of strategic partnerships between biotechnology companies and potential users is viewed as a key factor for success and growth in the industry.

The approach being adopted is to promote strategic partnering by targetting a few firms (mainly mature U.S. firms in the chemical and pharmaceuticals area) which are looking to biotechnology for growth. Much of this work is done through U.S. posts (presently 7) with seminars and meetings being held with a few key firms in order to strengthen their awareness of the Canadian capabilities. A set of such meetings was held in January 1990 in the Southern California area and a further set is planned for the Boston area in the fall 1990.

The Association of Biotechnology Companies, an international trade association based in the U.S. for the first time held its annual meeting outside of the U.S., in Toronto in May 1990. Follow-up to this event, to be lead by Investment Canada, will evaluate prospects resulting from the contacts made.

MEDICAL DEVICES

The Canadian medical devices industry comprised of a large number of foreign-based subsidiary companies and a small nucleus of innovative Canadian-owned firms. Internationally, the industry is presently experiencing a period of rationalization resulting from global competitive pressures. In Canada, this trend is being reinforced by the FTA.

ISTC has adopted a two pronged strategy to respond to the international pressures:

- i) a sector campaign which attempts to increase the innovative competitive base by matching Canadian technological strengths and industry recipient strengths with international opportunities; and,
- ii) initiatives aimed at obtaining for Canadian subsidiaries, R&D mandates and expanded geographic product mandates.

Success in accessing the U.S. market is seen as being critical for growth and survival. In their pursuit of U.S. markets, companies generally attend major U.S. trade shows (e.g., the Atlanta Home Healthcare Show) without government support.

PHARMACEUTICALS

The world pharmaceutical industry is dominated by large multinational corporations. The industry is presently going through a period of significant transition as a result of the globalization of trade and the rapid increase in product development costs. These large companies, which had set up a system of highly decentralized subsidiaries, manufacturing minimal value-added products, are now taking strategic decisions with respect to where R&D and manufacturing activities will occur.

Faced with intense international competition to attract new investment in this industry, ISTC is developing, company specific approaches aimed at obtaining significant R&D and production mandates for existing Canadian subsidiaries.

Efforts are also underway to improve the competitiveness of the Canadian chemicals industry which is viewed as a part of the industrial infrastructure necessary to support a significant pharmaceutical industry in Canada.

SURFACE TRANSPORTATION AND MACHINERY

AUTOMOTIVE PARTS

The overall trade development strategy for the automotive parts sector is as follows: (a) to support activities that encourage European, Asian and U.S. vehicle assemblers to increase purchases of Canadian auto parts, and explore new opportunities for "port of entry" application of parts; (b) to position Canadian-based auto parts manufacturers to supply the Asian transplant assembly facilities in North America; and (c) to support the promotion of Canadian aftermarket and original equipment sales to world assemblers and to companies in the emerging automotive economies.

ISTC and EAITC, together with representatives of the Provinces of Ontario and Quebec, the Automotive Parts Manufacturers' Association and the Automotive Industries Association, have formed Steering Committees to develop common strategies and workplans, particularly in regards to the U.S. market. It is expected that common workplans will be finalized by the late fall of 1990.

For the U.S. market, ISTC will pursue a targetted, focused approach to improving market access through support of missions and participation at automotive shows.

Activities include supplying resource persons as required to staff info booths, lead missions and pursue other government/company contacts, in coordination with EAITC and regional offices. Specific examples are:

- ° participation in up to five aftermarket trade shows in the U.S. during 1990/91;
- ° Canada booth at the 1990 and 1991 SAE shows in Detroit;
- ° auto parts sourcing missions to U.S. transplant locations.

AUTOMOTIVE VEHICLES

The automotive light vehicle industry in Canada has limited growth potential due to the nature North American market and continued inroads by overseas manufacturers. As a result, the major trade development efforts will concentrate on heavy duty trucks and specialty vehicles (e.g., fire trucks, ambulances, ATV's, snowmobiles, etc.) in targeted niche product markets where there are good opportunities for increased sales.

ISTC's efforts to promote direct sales of Canadian vehicles in the U.S. will be maintained primarily through participation at trade shows and the provision of focused assistance for specific trade opportunities.

Examples of specific activities include:

- ° National Transport Equipment Association show;
- ° Mid-America Truck Show (participation by External post);
- ° Joint working group with Canadian Trucker Association to identify U.S. opportunities;

The specific geographic priorities in the U.S. include areas covered by the Detroit, Chicago, Atlanta, Los Angeles, New York and Washington posts.

MARINE SYSTEMS

The Canadian shipbuilders and marine equipment producers face severely restricted access to the U.S. market as a result of various non-tariff barriers which were not altered by the FTA. The limited opportunities that remain in the U.S. market represent important opportunities and are actively pursued. Initiatives focus on encouraging and recruiting industry participation at various marine trade shows most notably the Work Boat Trade Show in New Orleans which has been a particularly good event for suppliers of marine specialty products and small vessels.

Increased export marketing efforts will be required for the ocean industries sector (oil and gas and ocean science) because of currently depressed domestic market conditions. The primary world event for offshore oil and gas is the annual Offshore Technology Conference and Trade Show held in Houston, Texas. Large Canadian industry missions are organized to attend this event, which includes a Canadian industry information booth staffed by ISTC personnel.

Canadian pleasure craft producers are facing considerable competitive pressure from the U.S. and major marketing efforts are necessary to assist them in seeking new markets. The U.S. is the primary market for the industry and efforts will be concentrated in expanding the exposure of new Canadian products mainly in the U.S. south-east. Specific initiatives include: incoming buyers missions to the Toronto and Montreal International Boat Shows; outgoing missions of companies to Seattle and Chicago and a Canadian stand at the Fort Lauderdale, Miami and Atlanta Boat Shows.

URBAN TRANSPORTATION AND RAIL SYSTEMS

The U.S. is the major market for Canadian urban transit manufacturers accounting for ninety per cent of the sector's exports which make up approximately sixty-five per cent of the sector's output. However, competition from Japanese and European firms in the U.S. market has increased in recent years and Canadian firms have been losing significant contracts to very attractively priced offshore bids.

Two large companies - Bombardier and Lavalin-UTDC - dominate the guided urban transit sub-sector and four large firms dominate the bus sub-sector. As these major Canadian suppliers have sales and, in a number of instances, assembly facilities in the U.S., it is not necessary to undertake an extensive trade development program. Efforts this year will concentrate on the organization of a large Canadian exhibit (25 firms) at the American Public Transit Association Trade Show in Houston which is only held every three years.

As a number of U.S. trade barriers affecting this sector were not addressed by the FTA, improved access to the U.S. market remains a priority issue to the sector. Initiatives will be actively pursued to accelerate the elimination of duty applicable to freight and passenger rail cars as provided by the FTA, and to eliminate certain U.S. non-tariff barriers (i.e., Buy America and regulations on temporary importation of freight cars) which impede Canadian sales. The removal of Buy America provisions that apply to Canadian urban transit suppliers is of particular importance to the continued growth of the industry in Canada.

MACHINERY AND EQUIPMENT INDUSTRIES

These industries cover a broad and diverse group of sectors having varying competitiveness and trade/export development requirements. Firms in these industries range from some of the country's largest industrial corporations employing thousands to small local establishments with less than 10 employees. They include companies involved in the production of a wide range of machinery and electrical equipment required by resource, processing, manufacturing, secondary and service, environmental, power generation and distribution and construction industries.

Firms in these industries can be grouped into three different categories. The groupings, together with specific FTA-related strategies for each, follow:

- ° large Canadian company with international experience or a subsidiary of a foreign parent having a world product mandate;
 - The international operations of these firms are sophisticated and they are well represented in the U.S. marketplace. Ongoing ISTC efforts as a result of the FTA for these firms are minimal and are largely restricted to ensuring that these firms are considered for all the U.S. related trade events that are sponsored by EAITC.
- ° subsidiary of a foreign parent firm serving relatively small Canadian markets with a variety of products at high production costs;
 - Significant efforts are often required to ensure that the parent firm does not view the FTA as simply an opportunity to rationalize its North American production by repatriating Canadian production to larger, more efficient plants in the USA. Strategies are firm specific and involve studying the industry and the firm in order to identify opportunities and to develop rationales designed to convince the parent management of the benefits of pursuing these opportunities from a Canadian base. ISTC has undertaken such an approach in the major appliance industry which has resulted in plans by two firms to restructure their production to specialize in certain products for the North American market. ISTC is also working with management of other machinery firms in an attempt to design strategies to ensure their continued manufacturing presence in Canada.
- ° small domestic firms producing for the domestic and small niche international markets.
 - Canadian firms are faced with increased competition in their domestic market as well as the necessity of competing for the first time in the much larger North American marketplace. ISTC activities are designed to prepare firms for the changing market environment and to assist them in penetrating and holding a share of the U.S. market. Examples of activities carried out by ISTC include speeches to industry associations, analyzing the effects of the FTA on industry subsectors, and the organizing of special seminars to prepare firms to do business in the USA.

In addition to the activities noted above directed at assisting machinery firms to meet the opportunities and challenges resulting from the FTA, ISTC actively supports and participates in a significant number of trade fairs and missions which directly assist firms in pursuing U.S. market interests and is highly active in delivering PEMD program assistance.

CONSTRUCTION SERVICES

Canadian construction contractors are primarily oriented to the domestic market with export contracts amounting to less than one per cent of the industry's annual activity.

The industry - through the Canadian Construction Association (CCA) in consultation with ISTC and with financial assistance from EAITC - conducted a market study of the U.S. The study revealed that the U.S. private sector market is relatively open and is more profitable than the Canadian market, identified selected market opportunities and recommended approaches to possible market entry. Major impediments in developing the U.S. public sector market are "Buy America" and local preference policies at the state and municipal levels which generally restrict government purchases of construction services to domestic contractors.

Industry interest in the U.S. market remains limited, although there is an increasing interest in immediate across-the-border contracts resulting from the FTA procedures to simplify cross-border travel for professionals and business visitors.

ISTC's efforts will focus on developing the competitiveness of the industry through improved management techniques and productivity and the adoption of computer-related technology. In addition, ISTC efforts will be intensified to eliminate interprovincial barriers in construction. There will be limited efforts placed on U.S. trade development initiatives.

CONSULTING ENGINEERING

Canadian consulting engineering companies are predominantly small operations oriented mainly to serve the domestic market. Significant exports sales are generated by the industry but these are attributable to the activity of only a few large firms that enjoy worldwide reputations.

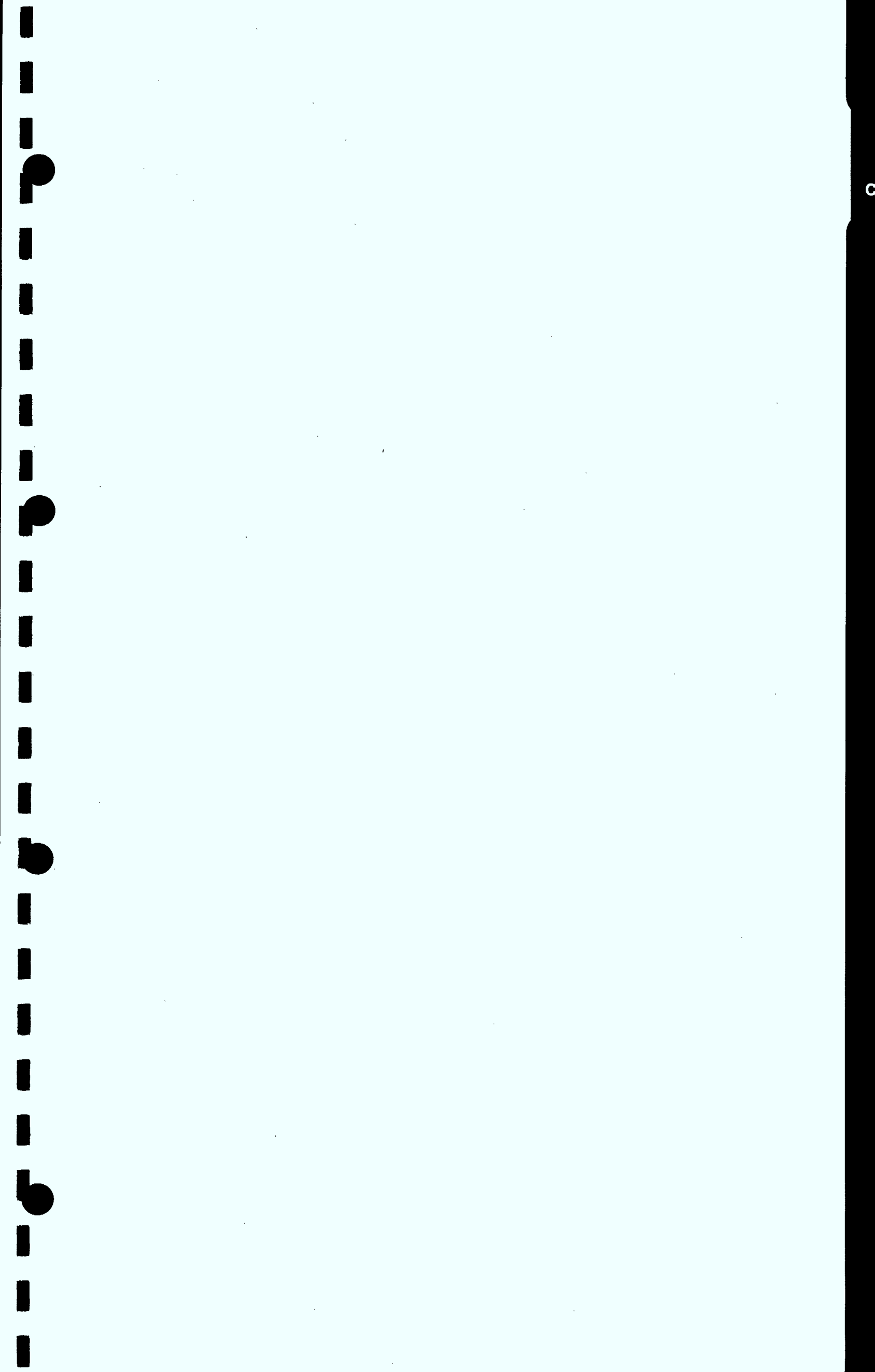
ISTC trade development activities will focus on providing assistance and advice to the Association of Consulting Engineers of Canada (ACEC) as part of a study to examine the U.S. consulting engineering market. The study will be funded by EAITC. In addition, ISTC will continue to encourage the ACEC to pursue under the FTA a harmonization of professional accreditation requirements with its U.S. counterpart organization as U.S. procedures are far more onerous than those in Canada.

ARCHITECTURE

ISTC has provided financial support to the Royal Architectural Institute of Canada in their work with the American Institute of Architects to develop harmonized professional accreditation regulations as prescribed by the FTA.

GEOMATIC SERVICES

U.S. market opportunities for geomatic services has been examined in a recent study financed by EAITC. ISTC provided assistance in the development of the study as part of an industry/government steering committee. ISTC will continue to assist the Geomatics Industry Association of Canada (GIAC) in its efforts to inform its membership of the study's findings. ISTC will support GIAC efforts to mount targeted U.S. missions in the current fiscal year.



INFORMATION TECHNOLOGIES INDUSTRIES

COMPUTERS, TELECOMMUNICATIONS, MICROELECTRONICS

The large and increasing Canadian trade deficit being experienced across information technology sectors reflects the rapid technological developments continuing in these sectors and the increasing competition being experienced especially from Japanese suppliers. The U.S. is the largest market for these sectors, particularly for computer products and components and there are significant opportunities for U.S. market expansion as a result of U.S. deregulation.

Increasing efforts will be required from Canadian firms to increase the level of investment in technology development, infrastructure and production facilities as well as to forge links with U.S. industry in such areas as strategic partnerships, consortia and joint ventures in order to pursue U.S. market opportunities.

ISTC efforts will focus on firm specific discussions aimed at increasing investment levels in Canadian subsidiary operations and on identifying export opportunities available in existing U.S. niche markets for microelectronic and telecommunication equipment and on expanding export opportunities in the high growth areas of computer parts and components.

The major thrust of support and promotion activities to assist Canadian companies to take advantage of these opportunities will focus on their participation in missions and trade fairs. This will include direct company-to-company and government-to-government discussions to secure Canadian involvement in U.S. consortia and government-funded initiatives.

CONSUMER ELECTRONICS, ELECTRONIC COMPONENTS

Canadian capabilities in the areas of consumer electronics and electric components are limited to select product areas. ISTC activities will initially focus on identifying key market prospects and formulating a strategy for exploiting those opportunities.

Exports to the U.S. for electronic components will be encouraged through the organization of trade missions and through targeted initiatives with specific companies which are under offset obligations. In regard to consumer electronics, the Quebec region proposes support to a number of dynamic companies particularly young, high-tech firms that have developed high quality consumer products in specific market niches.

Planned activities in support of the electronics components sector include participation with select Canadian companies in various trade shows in the U.S.

TECHNOLOGY MANAGEMENT

Technology management includes the application of information technology, the introduction of modern management practices and the adoption of advanced manufacturing applications. Efforts in this area will enhance the international competitiveness of both Canadian manufacturing and service companies.

ISTC efforts will focus on assisting small and medium sized companies involved in the foods products, forestry, metal and non-metal products areas through the establishment of a partnership between the private sector, the science community and government. A major initiative to assist in establishing this partnership is a 2 year, \$1.25 million, advanced manufacturing sector campaign.

Initiatives will be directed at developing contacts with relevant government organizations, research institutions, universities, industry associations and companies in targetted countries, including the U.S., to determine the extent to which advanced technologies and management practices have been adopted; to develop a better understanding of how technology diffusion is stimulated; and, to identify potential technology transfer opportunities into Canada.

Contacts with U.S. State Industry Department Officials in Detroit, has been identified as a priority.

SERVICE INDUSTRIES AND CONSUMER GOODS

TEXTILES

The textiles industry is undergoing significant adjustments resulting from the FTA and increasing competition from low-wage sources.

ISTC's strategy is to assist the industry to better integrate itself into the North American market. This varies sharply from sub-sector to sub-sector:

- ° In the primary textiles sub-sector (fibre, yarn and fabric production), ISTC's strategy will initially be domestically focused encouraging SME's to adopt new techniques and rationalize production.
- ° In the rapidly growing industrial textiles sub-sector, emphasis will be placed on the adoption of leading edge European technology and products (through technology transfer, joint ventures, etc.) to assist in penetrating the U.S. market.
- ° In the carpet sub-sector, ISTC efforts will encourage producers to tap U.S. distribution channels and carve out market niches.

FURNITURE PRODUCTS

These industries, which comprise household, office and special purpose furniture, will need to adjust to strong competitive pressures resulting from the implementation of the FTA. The recent large rise in U.S. imports of household furniture into Canada underlies the importance of not only maintaining existing domestic market shares but at the same time pursuing aggressive trade promotion and development activities abroad, particularly in the U.S.

The primary trade objective is to encourage and assist Canadian manufacturers to develop and carry out export marketing strategies to take advantage of new opportunities resulting from the FTA. The approach will be twofold, consisting partly of seeking out profitable market niches in household furniture, and partly to upgrade product design to improve market acceptance in both domestic and U.S. markets. An expanded marketing base will permit Canadian companies to specialize production and serve particular market segments.

Implementation of the trade strategy for the office furniture industry, which overall is fairing better than the household sector, includes a two day marketing course concentrating on developing company market strategies; a solo Canadian business furniture show to be held at the Canadian Embassy in Washington; and, a trade mission to Washington which will focus on learning how to sell to the U.S. government.

LEISURE PRODUCTS

Leisure products encompasses a variety of industries including cultural/entertainment products (motion pictures and sound recordings), printing, sporting goods, jewellery, toys and games, giftware, signs and displays, and hardware and housewares. While the products manufactured are extremely diverse, these industries share a common need to strengthen and expand their industrial base as well as to seek new export market opportunities, particularly in the U.S.

The industry needs to improve its domestic performance and inter-industry competitiveness before it can focus on efforts to expand into foreign markets, particularly to take advantage of opportunities afforded by the FTA.

Aggressive trade promotion activities are necessary to ensure exposure to international audiences. Examples of trade activities include market identification and import analysis studies, increased participation in U.S. trade shows and recruitment for NEBS and NEXUS mission.

Trade and export promotion efforts vary from sector to sector but will focus on initiatives targeted at areas covered by Los Angeles, New York, Washington, Dallas, San Francisco and Seattle.

FISHERY PRODUCTS

The industry is highly export oriented (80 per cent) and the U.S. market represents a major portion (55-60 per cent) of overall export sales. The Departments of External Affairs and International Trade and Fisheries and Oceans have maintained a longstanding leadership role in pursuing trade development activities for fisheries products. ISTC's Regional Offices are directly involved in these initiatives and actively encourage and support Canadian firms to participate in major trade fairs in the U.S.

Current trade development initiatives are focused on maintaining traditional markets, primarily in the food service sector, based on the Boston area, while the same time pursuing opportunities in other regions (e.g., south-east, mid-west, and south-west).

ISTC activity has emphasized the acquisition and dissemination of market intelligence particularly with respect to value-added products. Under the Fisheries Sector Campaign, a marketing study on new product introduction in the U.S. retail markets will be carried out, as well as updating a market study on the food service (chains) segment. These will form the foundation for future specific targeted market development initiatives. In addition, ISTC will be undertaking an up-date of the Alaska Competitiveness Analysis publication.

ANIMAL AND PLANT PRODUCTS

Trade interests in this sector vary widely from essentially free market, heavily export oriented areas (red meats, oilseed crushing) to domestically oriented, oftentimes supply managed subsectors (dairy, poultry, flour milling). Traditional trade promotion and development activities is led by the Departments of Agriculture and External Affairs and International Trade with ISTC (mainly Regional Offices) providing liaison for industry participation.

ISTC efforts focus mainly on developing trade and export market intelligence particularly on main competitor industries in selected export oriented sectors. Work is currently underway with industry to develop a U.S. marketing strategy for processed pork products. This effort is of critical importance given recent U.S. countervailing duty application on Canadian fresh and frozen pork exports. In addition, ISTC is working with Canadian flour millers to pre-position them to take advantage of anticipated future market opportunities for specialty flours available under the FTA.

GROCERY PRODUCTS

The sector is domestic market oriented (80 per cent) with most exports destined for U.S. markets. Production is dominated by subsidiaries of large U.S.-based multinational firms.

Increased competition resulting from the FTA is expected to result in significant adjustment problems in a number of processed food product areas where there is a heavy reliance on supply-managed agricultural inputs, or on inputs whose prices are determined by marketing boards.

ISTC has established a Working Group to assess the competitive difficulties to be faced by the food processing sector as tariffs are phased out under the FTA. The findings of the Working Group will be included as part of the Department of Agriculture's comprehensive Agriculture Policy Review.

While traditional trade promotion and development activities are led by the departments of Agriculture and External Affairs, ISTC has been assisting the recently established Canadian Specialty Foods Association in its efforts to develop the U.S. market by providing assistance in identifying market opportunities and Canadian supply capabilities.

CLOTHING

The Canadian clothing industry, like those of all other developed nations, is unable to compete on a cost basis with imports from low-wage countries. As a result, it has been forced to largely abandon the production of basic commodity apparel and focus on the high fashion, specialized product and high service ends of the market where price is less of a competitive factor. With the opening up of the U.S. market under the FTA, Canadian firms perceive an opportunity to compete in these niche markets on a North American basis.

Given the current domestic market orientation of the sector and the relatively small size and associated limited management resources of most firms, a major focus of ISTC's activity will be the acquisition and dissemination of detailed sub-sector information regarding retail markets, competitors and sources of material supplies in the U.S. Much of this is to be funded under the Fashion Apparel Sector Campaign.

FOOTWEAR

The Canadian footwear industry has gone through a period of significant contraction since 1985 when import quotas were eliminated. Nonetheless, a nucleus of strong firms remains, concentrated largely in the winter boot sub-sector. The FTA is expected to provide increased market opportunities for these firms.

ISTC's activity will centre on detailed sub-sector market studies, and assistance regarding export marketing and business management practices.

SERVICES

Services includes a number of diverse sectors of varying sizes. The strategic direction for trade development focuses on strengthening the competitiveness of firms in Canada and raising the profile of the Canadian services sector internationally through improved marketing efforts.

There is no specific trade objective for the U.S. market, in part because the North American market is relatively homogeneous with relatively few trade barriers. ISTC is involved in the joint Canada-U.S. Services Working Group established under the FTA to further liberalize North American trade in services. Trade development activities in the services sector include:

- improve available information on U.S. procurement practices;
- the joint work between the ISTC office in B.C. and the provincial government to develop strategic planning seminars for services firms; and,
- commissioning a study by the Canadian Exporters' Association to analyse the needs and interests of Canadian service exporters.

AEROSPACE AND DEFENCE INDUSTRIES

DEFENCE ELECTRONICS

The Canadian market for defence electronics is quite small and very specialized. Few Canadian companies possess the knowledge and technology necessary to produce for this market and those that do, must of necessity, export to survive.

ISTC's efforts will focus on attracting U.S. investment into Canada to fill voids in Canadian production capabilities through incentives such as DIPP and industrial benefits leverage (e.g., CAATS - Computer Aided Air Traffic System). Generally, these efforts are aimed at obtaining world product mandates.

In addition, traditional trade development tools such as trade shows (e.g., the Paris Airshow), intelligence gathering and trade missions, are used to assist in building export markets. The Canada-U.S. Defence Development/Defence Production Sharing Arrangements are also used to develop Canadian capability to produce products required by the U.S. military.

SPACE

Procurement in the world space industry is largely controlled by governments. Canadian capabilities in this industry are quite limited and the sole Canadian prime contractor (Spar Areospace) is only capable of 45% Canadian content.

ISTC's efforts are directed at assisting the industry to broaden its base beyond the Canadian market. Initiatives, in this regard, have included the signing of MOU's with the EC and Japan. The current top priority is to assist the industry to access NASA procurements through an MOU. Export development assistance has also been used extensively.

MARINE AND LAND DEFENCE SYSTEMS

Access to the U.S. and other NATO country markets is essential to Canadian firms involved in the production of defence-related equipment. Activity focuses around weapons procurement, defence production sharing agreements and the like, both for NATO and North American defence projects. Canadian participation in such projects is proportional to the overall level of Canadian investment.

ISTC's efforts are directed at ensuring that prime contractors on projects are fully aware of Canadian capabilities and are willing to grant world product mandates to Canadian firms. In addition, there are continuing efforts to ensure that Canadian suppliers are not excluded by the U.S. Department of Defense through the use of small business set-asides and other non-tariff barriers.

Export development initiatives range from traditional trade shows (e.g., Land Vehicle Systems), intelligence, and incentives (DIPP) to the Canada/U.S. Working Group on Defence Sharing Agreements, where a key goal is ensuring that Canadian firms have access to U.S. R&D.

AIRCRAFT AND PROPULSION SYSTEMS

Markets for aircraft and aircraft systems are international in scope and exports by Canadian firms account for over 70 percent of the industry's sales. The U.S. is a key market for the sector. The sector's export success has been based largely on its ability to design, develop and manufacture a range of specialty products within particular world market niches. Examples include business, commuter and general aviation aircraft, civil helicopters, and the gas turbine engines for these aircraft.

For the larger firms in the sector which are well established in international markets and are fully capable of mounting marketing initiatives, the focus of ISTC's efforts include the overall long term corporate development MOUs, helping to mitigate/remove market access impediments, ensuring level playing field conditions for the sector firms, promoting Canadian interests in international joint projects and providing supplemental intelligence on markets and technology to the sector.

For the smaller firms in the sector, ISTC's activities will be focussed on providing marketing assistance through the provision of market intelligence, market identification and international exposure, and through participation in trade fairs and missions such as investment and technology transfer prospecting in Europe and elsewhere.

ISTC's trade development activities focus on supporting and amplifying the marketing efforts of EAITC by pursuing specific opportunities for sector companies identified by attendance at trade shows, fairs, conferences, and foreign company visits. Market access is also supported through the use of DIPP and industrial benefits leverage. In addition, continuing discussions and/or negotiations are conducted with the parents of Canadian firms concerning the future directions (including new investment) planned for the Canadian operation.

TOURISM

Growth in Canada's tourism industry is forecast to continue over the 90's, slowing during economic decelerations and through the GST transition. Tourism is Canada's 3rd largest export at \$7.1 billion in 1989. While the U.S. is Canada's largest tourism market, growth potential is limited due to fundamental shifts in the structure of the U.S. travel market, unprecedented competition, limitations on dollars available for marketing Canadian tourism, and the need for Canada's industry to re-tool some of its products and services. A number of characteristics internal to the industry will affect growth, given that 85 percent of businesses are small posing predictable constraints on access to financing, human resource development and technology up-take.

Tourism consists of many different types of businesses providing a wide selection of products and services. The strategic direction for trade development and international competitiveness depends on offering a wide range of demand-driven products tailored to the needs and interests of customers. Marketing efforts will need to become more effective and more targeted and will need to involve greater partnerships between industry and government.

The specific trade objectives for the U.S. market involve ISTC-Tourism on two fronts:

1. to develop market opportunities and attract new customers by:
 - bringing together product suppliers, tour operators, wholesalers, and retailers in Canada and the U.S. into consortia for developing new products;
 - targeting high-growth and high yield market segments;
 - market research and analysis to identify and assess market segments of greatest potential;
 - developmental work in emerging markets of potential for Canadian tourism;
 - coordination and integration of the marketing efforts of private sector and provincial/territorial partners;
2. in the context of Tourism Annex of the FTA and our participation in the Working Group on Tourism, specific undertakings apply:
 - to build opportunities for joint tourism research covered under the bilateral Memorandum of Understanding on Tourism Research;
 - to coordinate on tourism trade issues coming before international organizations dealing with tourism;
 - to facilitate Canada-U.S. tourism trade by identifying issues that could become barriers to the free flow of tourists across our borders.

SUB-SECTOR MARKET STUDIES

OVERVIEW

The possibility and usefulness of undertaking detailed sub-sector studies of U.S. markets was pursued with sectoral directorates. Some ISTC activity relating to the development of U.S. market studies is presently underway. There is an identified need in a number of industry sub-sectors, for more detailed information on U.S. markets, particularly in those sub-sectors which are not dominated by large firms. A number of possible sectoral candidates have been identified.

There appears to be scope for more activity in this area, some of which may be addressed as the various sector campaign initiatives evolve. However, in a number of sectors, there does not appear to be a need for such information due either to the nature of the sector or the availability of existing market information.

SPECIFIC COMMENTS

Textile, Clothing and Footwear Directorate - Industry has indicated a need for very specific sub-sector information on the various U.S. regional markets with information on price points, major retailers, etc. The TCF Directorate intends to address this need by accessing sector campaign funds.

Commercial Service Industries Directorate - None specified.

Information Technologies Industry - Some need to identify the structure and composition of the small companies (sub-sectoral) involved in the ITI sector. All of the big Canadian ITI companies are known and work well together.

Forest Products Directorate - There is less emphasis than before on market studies, although CIMDP will identify the need for specific market study proposals.

Metals and Minerals Directorate - There may be some potential for sub-sector market studies in the fabricated metal and construction materials sector. Further examination is needed to clarify the existing level of information available.

Consumer Products Directorate - Some requirements to identify new trends and opportunities for import replacement in certain sectors (i.e. jewellery, commercial printing, pools and spas). Current study being undertaken with the industry association for the sporting goods sector. The need for "quality" studies was stressed to provide much needed information on industry strengths, weaknesses, market strategies with respect to both the domestic and U.S. markets.

Construction and Capital Projects Directorate - Market studies are already in train; one has been completed and two others initiated.

Marine, Urban and Rail Directorate - Market studies are deemed to be of limited usefulness given well-developed ISTC and industry knowledge. Funding has been a major problem. Some possible candidates include ocean industries robotics and pleasure craft.

Food Products Directorate - Targeted marketing studies in the food industry are already available off-the-shelf. Cost is prohibitive for most Canadian firms.

Chemicals Directorate - There is definitely scope for more sub-sector market studies, and a definite need for those with a geographic focus. Work is underway with SRI of the plastics sector. A decision as to how to engage U.S. posts during the interview stage is pending.

Automotive Directorate - There is undoubtedly a need for more detailed market information. The specialty vehicles area (e.g. trailers) is a good example. In the auto parts area, the need is not as great, partly because already 80-90% of the firms are exporting. It must be remembered that market studies do not replace mission work.

Marine and Land Defence Systems Directorate - Specific studies on defence markets are not required as very specific information is obtained from project specifications. However, studies would be useful to help companies diversify into commercial markets. Studies in the area of advanced industrial materials would be particularly useful.

Defence Electronics and Space Systems Directorate - There is a considerable need for niche market studies. Companies operating in this sector have very narrowly defined product lines and studies could assist them in their attempts to diversify and penetrate new markets.

Biotechnology and Health Care Products Directorate - There is a need for some market studies particularly in the medical devices and in health care consulting services areas.

ORIENTATION OF INCREMENTAL SUB-SECTORAL WORK

OVERVIEW

In addition to commenting on sub-sectoral U.S. market studies sector, directorates provided an indication of other possible additional activities which might usefully be undertaken at the sub-sectoral level if further resources were to be made available.

While these potential sub-sectoral initiatives vary considerably from sector to sector, there are a number of suggestions oriented to providing additional market development/market awareness information to business.

SPECIFIC COMMENTS

Textile, Clothing and Footwear Directorate - In the industrial textiles sector, a strategy will be pursued to assist Canadian industry to penetrate the U.S. market by encouraging the adoption in Canada of leading edge European technology through technology transfer, joint ventures, direct investment, etc. External's resources will be utilized to fund subsequent export development activities.

Commercial Service Industries Directorate - Possible initiatives include: developing exporters seminars and trading house/distribution services seminars; link service sector firms to Canadian manufacturers; and pursue the development of a computer-based market opportunities system.

Information Technologies Industry - Need to get the Canadian companies together at the sub-sectoral level in order to develop a basis for a common effort/approach to doing business, particularly in regard to targeting markets.

Forest Products Directorate - The overall emphasis where incremental work is concerned is to move exports into higher value-added product areas.

Metals and Minerals Directorate - None specified.

Consumer Products Directorate - Need to create a general awareness in the industry to the necessity to improve their competitive position. This includes education/awareness of the need to apply new technology and encourage investment in response to continuous changes occurring in the industry.

Construction and Capital Projects Directorate - There is scope to undertake market awareness initiatives targeted at smaller and medium sized firms.

Marine, Urban and Rail Directorate - Development of investment and export promotional brochures would be useful. Comprehensive identification of U.S. trade barriers and development of policy response.

Food Products Directorate - Comparative cost of production studies between Canadian and U.S. firms would prove useful. While the Food Task Force will be looking at this issue to a certain extent, its efforts will likely be too highly aggregated to be useful to firms.

Chemicals Directorate - Canada is to become the secretariat for the International Plastics Association (through SPI Canada). The focus of this initiative goes beyond the U.S. A likely outcome of the SRI plastics industry study, is that a PEMD/Plastics program may be set up. Much more market intelligence work is needed in the chemicals sector. More analytical work is needed in such areas as the chemical industries related to construction, packaging, end use, transportation, electrical and electronics.

Automotive Directorate - The Directorate would like to do more mission and seminar-related work but funding is a limitation. On the trade side, lots of money is available for FTA-related activities but everyone forgets that the FTA is much more than trade. For example, the Directorate would like to be able to take Canadian companies down south to see what their U.S. competitors are like, if money was available for this. More focus needs to be placed on competitiveness, efficiency, and productivity issues, not just specific export-related activities; doing so will result in increased exports.

Marine and Land Defence Systems Directorate -
Encouragement for R&D, joint ventures, product development and productivity improvement would be useful.

Biotechnology and Health Care Products Directorate -
Development of simple, easily understood publications on doing business in the U.S. with specific sub-sector references. Undertake an in-depth analysis of the various incentives and offsets that are provided in the U.S. to determine if Canada is competitive in this regard. Undertake efforts to obtain information on international companies.

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