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Consumer Products

Canada's International Business Strategy

1996-1997



Team Canada • Equipe Canada

Canada's International Business Strategy

is made up of an **Overview** highlighting Canada's international business development priorities, and a series of **Industry Sector Strategies**, which include lists of planned international activities.

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©Minister of Supply and Services Canada 1996
Cat. No. C2-226/9-1996E ISBN 0-662-24043-X

Aussi disponible en français sous le titre Biens de consommation.

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The Canadian apparel industry consists of companies engaged in the production of men's, women's and children's clothing, including institutional, athletic and specialized clothing as well as fur apparel.

Canadian Position

In 1993, the apparel industry was made up of an estimated 2100 establishments, produced goods valued at \$6.1 billion and employed 85 000 people. The six-year period between 1988 and 1993 saw a downsizing of the industry, with a loss of 700 establishments and 30 000 jobs. The industry anticipates that figures for 1994 and 1995 will show an increase in the number of jobs. Most apparel firms are small and medium-sized enterprises (SMEs): close to 80 percent employ fewer than 50 employees, and 90 percent employ fewer than 100 employees.

In 1993, the Canadian market for apparel was \$8.5 billion, based on wholesale prices, of which Canadian apparel manufacturers captured 63 percent. This was a reduction from 72 percent in 1988. The retail market, which had reached \$16.3 billion in 1990, dropped to about \$14.2 billion in 1993. This drop was due primarily to the economic recession, the Goods and Services Tax (GST), increased cross-border shopping, decreased expenditures on personal clothing,

and the increased popularity of casual, less expensive clothing for work and social events. In 1994, the retail market recovered slightly, reaching \$14.6 billion.

Apparel exports were valued at over \$1 billion in 1994, which is estimated to represent close to 15 percent of Canadian shipments for that year. This would be three times the 1989 percentage. Highest exports are in the fur apparel subsector. In 1993, exports represented 68 percent of fur apparel production; the men's and boys' suit subsector was next, where the figure was 34 percent.

Over 90 percent of apparel exports in 1994 were shipped to the United States. Other major markets were the United Kingdom (\$17.5 million), Japan (\$15.1 million) and Germany (\$12.3 million). There are only an estimated 40 companies active in these last three markets. With few exceptions, manufacturers prefer to concentrate their efforts in the U.S. market. Fur apparel manufacturers, however, are seeking new markets in Europe and Asia in an effort to reduce exposure to economic and climate trends in a single region.

Imports remain a significant factor in the Canadian market, capturing 37 percent in 1993. In recent years, China has been Canada's primary source for imports, but in the first six months of 1995, the United States led other sources with a share of 19 percent. It is projected that imports will continue to displace domestic production, putting added pressure on the industry to secure new markets.

The Canadian apparel industry is moving forward to adapt to the changing environment. In the process, the less competitive and the inefficient companies have ceased operations, while the more progressive and dynamic companies have been flourishing and growing. The loss of domestic market share, combined with the introduction of

Table 1
Canadian Market, 1988-1994

Year	Shipments	Exports	Domestic Shipments	Imports	Canadian Market
\$ million					
1988	6657	415	6242	2409	8650
1989	6948	343	6605	2713	9319
1990	6831	323	6509	2937	9447
1991	6156	412	5745	2629	8373
1992	5854	581	5273	3053	8326
1993	6130	783	5347	3125	8472
1994	na	1040	na	3318	na
Change in Canadian Market, 1988-1993					
\$ million	(527)	368	(895)	716	(178)
%	(8)	90	(14)	30	(2)

Table 2
Exports, 1989-1994

Year	Total	U.S.	U.S. as % of Total
\$ million			
1989	343	287	84
1990	322	275	85
1991	411	346	84
1992	581	518	89
1993	783	704	90
1994	1040	944	91
Change in Exports, 1989-1994			
\$ million	697	657	94
%	203	229	-

Exports to the U.S., 1994

Type of Apparel	(\$ million)	Percentage
Men's and Boys'	371	39
Women's and Girls'	206	22
Fur	77	8
Children's	44	5
Occupational	43	5
Sweaters	30	3
Other	173	18

the Canada-U.S. Free Trade Agreement (FTA), followed by the North American Free Trade Agreement (NAFTA), has provided the impetus for apparel firms to adopt a North American market orientation, as opposed to thinking of distinct Canadian and U.S. markets.

The Canadian industry enjoys a number of competitive advantages. The most important are listed below.

- **Flexibility:** Apparel manufacturers can respond quickly to the volatile fashion market. Production is largely geared to short runs of a wide variety of products.
- **Fabrication:** The industry uses a wide range of fabrics in its garments to achieve product differ-

entiation. It is estimated that over 75 percent of apparel fabrics are purchased outside Canada, primarily from Europe and the Far East.

- **Image:** Over the years the Canadian industry has acquired a reputation for good styling and fashion innovation in a wide range of apparel products.
- **Modern facilities:** The Canadian industry has become more cost competitive, principally as a result of modernization of production facilities. Today, many of the companies actively exporting are considered to have efficient manufacturing and marketing operations.
- **New technologies:** Companies that have adopted new production technologies as well as electronic data interchange (EDI) are achieving greater manufacturing efficiencies, reducing the skill requirements of their operations, and reducing cycle times.
- **Marketing expertise:** Many apparel firms have acquired the know-how, experience and logistical ability required to sell in the U.S. market. Successful firms are undertaking more promotion, opening sales offices, formalizing marketing strategies, hiring sales representatives and using designers more extensively.
- **Proximity to the U.S. market:** Canadian producers have been able to diversify their customer base by gaining access to this large and stable market.
- **Canadian Apparel Federation (CAF):** The CAF, which represents an increasing proportion of the apparel industry, is helping its members export through "The Source" program, which includes the development of information packages and sessions, marketing strategies, mini-trade shows, databases and buyer-manufacturer matchmaking to expand the knowledge of both manufacturers and retailers.

- **Fur Council of Canada (FCC):** The FCC, which represents groups from all sectors of the fur industry, plays a strong leadership role by conducting market research, developing co-operative marketing and promotional campaigns and putting in place public relations programs. It plays a significant role in increasing the prestige of the North American Fur and Fashion Exposition (NAFFEM), which is an important marketing vehicle for fur apparel firms.

International Environment

Although an apparel industry exists in virtually every country, during the last 20 years, production has become increasingly concentrated in developing countries — principally in the Far East and Eastern Europe — where there is a plentiful and productive labour supply and a low wage structure. In 1993, about 66 percent of world trade in apparel consisted of developing countries shipping to developed ones.

Few, if any, countries rely exclusively on domestic sources of supply to meet their needs. In 1993, the leading importers of clothing were the European Union (EU) (\$33 billion), the United States (\$32 billion) and Japan (\$12 billion). Collectively, these three regions accounted for 77 percent of all imports. Canada accounts for less than 1 percent of world apparel imports.

For over 20 years, the Multi-Fibre Arrangement has enabled importing countries to impose country-specific controls to restrict imports that caused disruption of home markets. As a result of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the textile and apparel sectors are being brought under the World Trade Organization (WTO) trading rules. This means that the international environment will be significantly altered over the next 10 years.

On the export front, China is the world's leading exporter, shipping goods valued at close to \$17 billion in 1993. China was followed by the EU and Hong Kong, which shipped goods valued at \$11 billion and \$9 billion respectively. Global competition is extremely intense, especially in the EU and the United States, which are traditionally the main markets for Canadian producers.

The introduction of the FTA and the NAFTA significantly altered the Canada-U.S. trading environment by providing Canadian companies with preferential access to the lucrative U.S. market and to the Mexican market.

To counter the impact of exports from low-cost countries, and to gain competitive advantage in world markets, apparel producers in industrialized countries such as Canada have had to adopt more focussed marketing, product and manufacturing strategies.

Main Challenges

The chief impediments to Canadian success in international markets include:

- **Small size of companies:** Small firms often do not have the resources, infrastructure or skills required for exporting.
- **High cost of financing exporting activities:** Costs prohibit small firms from committing to an export program.
- **Inadequate technical capabilities:** Retailers, particularly in the United States, insist that suppliers adopt EDI.
- **Consolidation of supplier base by retailers:** Retailers are narrowing their supplier base to manufacturers with the demonstrated flexibility, cost structure, design capability, product diversity, quick response, and production capacity to service their needs.
- **Lack of profile in world markets:** Although Canada's designers are receiving increased recognition, they still do not have the name recognition that many European and U.S. designers enjoy.
- **Lack of market research information:** Canadian firms must have access to up-to-date, accurate and comprehensive market intelligence.
- **The need for faster product development cycles:** Product development cycles are expected to be reduced to the range of one to three months as opposed to the current four to six months.
- **Rules and regulations:** The NAFTA has resulted in Canadian companies being faced with complex rules of origin and marking rules as well tariff preference levels. These provisions may not be widely understood. In addition, one of the major threats to the fur industry is the potential EU decision to ban imports of 13 fur species if trapped by leg-hold traps or methods not meeting international humane standards.

Strategic Direction

The international business strategy for this sector must focus on increased penetration of the U.S. market as well as the development of new markets (such as Russia, in the case of fur apparel). The strategy will be co-operatively pursued by the CAF, the FCC, the Department of

Foreign Affairs and International Trade (DFAIT), and Industry Canada (IC).

The industry, through the CAF and the FCC, will strive to:

- increase the number of exporting companies as well as the degree of market penetration by existing exporters to raise the value of Canadian apparel exports to \$1.5 billion by the end of 1997;
- continue its efforts to educate apparel companies on organizing for exporting. It will promote the establishment of business networks and provide seminars to improve the industry's awareness of market opportunities as well as to offer guidance regarding the strategic elements of exporting and the establishment of better long-term strategies;
- encourage the adoption of state-of-the-art technologies related to quick response and EDI to ensure compatibility with retailers;
- extensively market and promote the CAF's "The Source" matchmaking service to provide a greater number of U.S. buyers with potential Canadian suppliers;
- continue the promotion and development of NAFFEM as a significant marketing vehicle (FCC).

For its part, the federal government will:

- keep the industry up-to-date and well informed with respect to issues that affect the trading environment. These issues include changes in rules of origin, marking rules and product integration under the WTO. It will also disseminate best-practice information (IC);
- ensure Canadian companies have access to up-to-date market intelligence, particularly with respect to the United States (IC, DFAIT); and
- continue to support export efforts through DFAIT's Program for Export Market Development (PEMD) and New Exporters to the Border States (NEBS) program, as well as its sales representative locator missions (DFAIT).

All parties will:

- encourage a greater number of Canadian companies to participate in appropriate market development activities such as trade shows.

Contacts

Canadian Apparel Federation
605-130 Slater Street
Ottawa K1P 6E2
Tel: (613) 231-3220
Fax: (613) 231-2305

Fur Council of Canada
1435 St-Alexandre Street, Suite 1270
Montreal, Quebec H3A 2G4
Tel: (514) 844-1945
Fax: (514) 844-8593

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 941-6674
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The highly diversified textile industry includes producers of fibres, yarns, fabrics and a variety of textile products such as household linens, carpets and materials used in the manufacturing of a broad range of industrial products.

Not included in this definition is the motor vehicle fabric accessories industry, which had shipments of \$1.9 billion in 1994 and employed approximately 7000 people.

Canadian Position

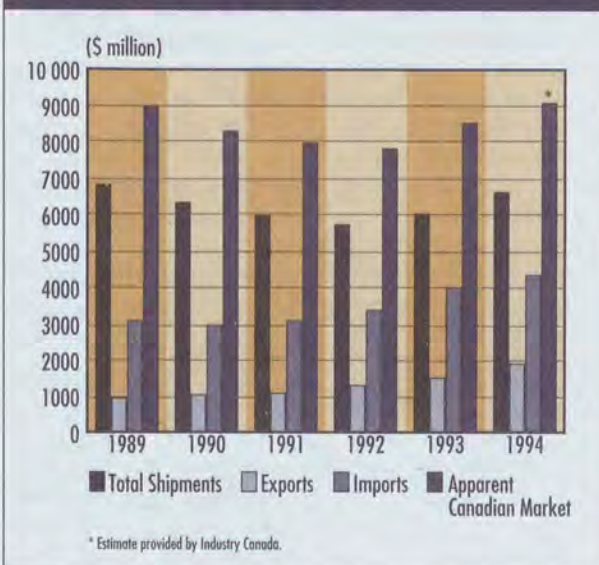
The textiles sector, an important component of Canadian manufacturing activity, employed about 50 000 people in 1994 and had total shipments of approximately \$6.6 billion, \$1.9 billion of which was exported. The industry's exports have grown considerably, increasing their share of all shipments from 14 percent to 29 percent between 1989 and 1994. Exports continued to grow in the first quarter of 1995, reaching \$536 million, which represents an increase of 23 percent in the value of exports over the same period in the previous year. The United States is the largest destination for textile exports, accounting for 79 percent. Other key destinations include the European Union, Asia-Pacific countries and South America.

Substantial and continuing capital investment by the industry has produced a dynamic, modern, efficient and environmentally astute textile manufacturing sector, with productivity improvements over the past decade outpacing those of Canadian manufacturing overall.

Boasting excellence in quality, design and service, Canadian firms are developing new export markets for an increasing variety of textiles. Some producers are very capital-intensive, and can take advantage of economies of scale to attain price leadership in certain products with large world markets. Others are small and medium-sized enterprises (SMEs) with competitive strengths in small-run production, derived from servicing the many diverse demands of a relatively small domestic market. Many are adopting and creatively adapting technological advances to develop new specialty yarns and fabric constructions, as well as unique higher value-added, high-performance textiles, which are in growing demand in specialized market niches worldwide.

Domestic producers are continuing to take advantage of export opportunities arising from the North American Free Trade Agreement (NAFTA), both in the United States and more recently in Mexico. As well, the gradual elimination of import restraints and the reduction of tariffs over a 10-year phase-in period under the terms of the completed Uruguay Round of Multilateral Trade Negotiations are motivating domestic textile producers to make the necessary investments that will help them to meet the challenges of global trade.

Figure 1
Shipments, Imports and Exports

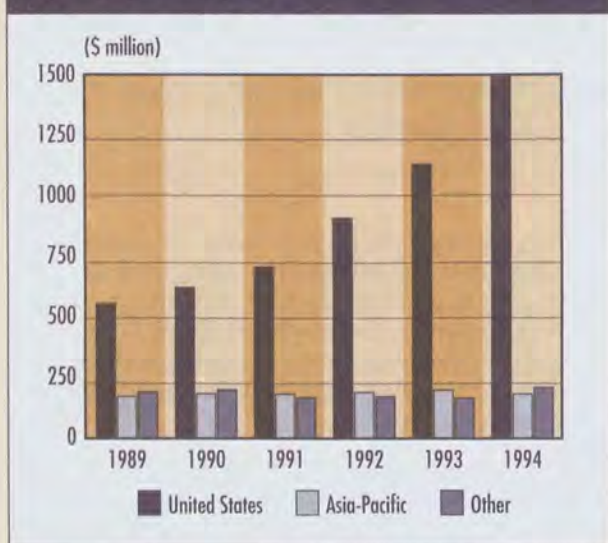


Source: Statistics Canada

International Environment

International trade in textiles represents about 4.4 percent of world exports in manufactured products overall. World textile fibre consumption grew by only 0.8 percent in 1993, deteriorating from a 1.2-percent growth in 1992 over 1991 and sinking well below the average annual growth

Figure 2
Exports by Country of Destination



rates achieved in the late 1980s. Between 1992 and 1993, the world textiles trade grew by only 1.4 percent, reaching US\$87.3 billion in 1993, of which 19 percent occurred between developed countries and some 39 percent occurred between developed and developing countries.

New regional trading blocs such as the NAFTA are strongly influencing global trade patterns and industry structure. While developed countries continue to dominate the textile sector, developing countries, with easy access to new manufacturing technologies and capital, are increasing their share of world textile production. The rise of new trade powers in textiles has contributed significantly to the decline in production held by the developed world. For example, China is currently undergoing a phenomenal expansion in textile manufacturing and exporting. At the same time, it is increasing its relative importance as a world textile importer (average annual growth rate of 17 percent over the past 12 years) due to continuing domestic shortages of raw materials needed by its rapidly expanding clothing industry. In 1993, China was the fourth-largest importer of textiles in the world.

Over the next decade, world textile consumption is projected to grow by only 1.5 percent annually. Much of this growth is expected to come from maturing markets in developing countries that succeed in increasing their own purchasing power, rather than from mature markets in developed countries. Growth in demand for certain textiles

will exceed the average rate. For example, many global competitors are attempting to capitalize on emerging opportunities for highly engineered technical textiles, for which demand is expected to grow by 10 percent to 15 percent annually.

Main Challenges

With the emergence of new trade powers in textiles, particularly among newly industrialized countries, the pressure for Canadian textile manufacturers to improve their global competitiveness has intensified, particularly in light of continued slow growth in world demand for textiles.

Changing swiftly to become internationally competitive in a rapidly evolving and more dynamic trading environment, textile producers around the world, including Canadian producers, are investing in continuous productivity improvements, product and market specialization, and establishing a regional presence in a growing number of selected markets.

The domestic textile industry faces an increasingly cost-conscious clientele, both Canadian and foreign, demanding high-quality products and superior customer service. The proliferation of new textile producers worldwide, as well as the continuing drive by existing producers to become more competitive, provide prospective buyers with a growing number of viable sourcing options.

Strategic Direction

Slow growth in textile consumption and the liberalization of world trade are compelling the textile industry to further strengthen its domestic base and to aggressively pursue exports. To maximize opportunities for the textile industry, the Government will work closely with the industry and its associations, namely the Canadian Textiles Institute (CTI), the Canadian Carpet Institute (CCI) and the Textiles Human Resources Council (THRC) to encourage and promote the following initiatives and activities:

- provide the intelligence and support that will help manufacturers increase their sales in high-growth and niche markets; capitalize on opportunities arising from the NAFTA and take advantage of opportunities in the Asia-Pacific region, Europe and South America (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT], CTI, CCI);

- enhance market intelligence gathering and dissemination activities (DFAIT/missions, IC, CTI, CCI);
- help to increase Canadian manufacturers' awareness of international market opportunities, and support Canada's profile abroad through preparation and dissemination of information on international exhibitions and upcoming events of importance to textile producers (IC, DFAIT);
- encourage industry-led programs and initiatives to help textile manufacturers, especially SMEs, to become export-ready and better prepared to compete in international markets (CTI, CCI, DFAIT, IC);
- enhance global awareness of Canadian competitive strengths in production flexibilities, product quality and quick response through various media and promotional publications, including product-specific capability guides, distributed to Canadian trade missions and prospective buyers worldwide (DFAIT, IC, CTI, CCI);
- provide comprehensive market reports to firms seeking information on export opportunities in selected countries (DFAIT, IC, CTI, CCI);
- explore and facilitate partnering and international strategic alliances between Canadian and foreign producers, particularly those capitalizing on innovations in product development and textile applications (IC, DFAIT, CTI); and
- encourage the industry to actively participate in the development of international standards, testing and certification (IC, DFAIT, Canadian General Standards Board [CGSB], Standards Council of Canada [SCC], CTI, CCI).

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Contacts

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-2883
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The Canadian footwear industry manufactures a wide range of products from leather, rubber and other synthetic materials, the majority being leather dress boots, men's and women's shoes, and winter and protective footwear.

Canadian Position

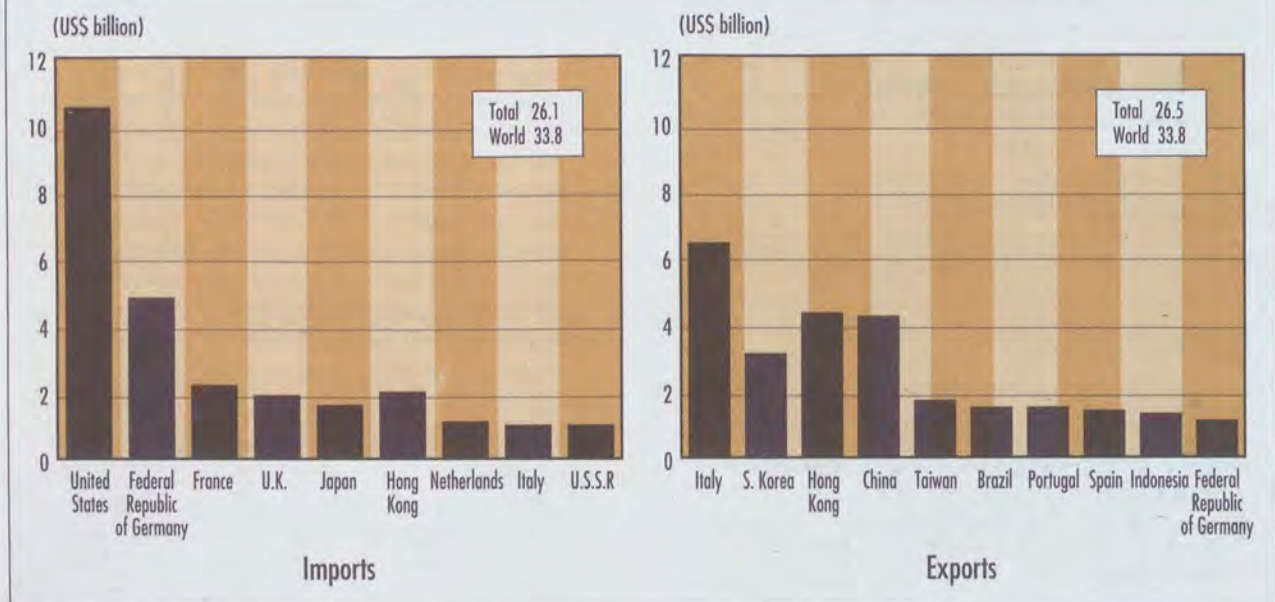
The Canadian footwear industry employed some 9000 people in 1994. There were approximately 75 establishments producing estimated total annual shipments of \$645 million, of which \$113 million was exported. Exports in 1994 represent an increase of 53 percent on a value basis over the previous year. The United States is the major destination of footwear exports, accounting for more than 90 percent of shipments. The European Union (EU) is the other key destination. To a large extent, the industry's achievements in the U.S. are linked to manufacturers' participation in five key footwear shows.

Although the primary strengths of Canada's major footwear firms lie in their solid technical and marketing expertise, this is far from the norm in the industry. The leading companies,

however, have gained recognition in the U.S. as highly flexible producers of special-purpose footwear such as winter, utility and work boots. The Canadian industry is very strong in the winter boot segment of the domestic and U.S. markets and this is largely responsible for the significant growth in exports (65 percent) in 1994 over the previous year.

With a few exceptions, Canadian firms are small and medium-sized enterprises (SMEs) with flexible production systems which, because of their technical and marketing expertise, can capitalize on niche marketing opportunities in the United States and to a lesser extent Germany, Japan, France and the United Kingdom. Export trade will be essential to the future viability of this industry, as there is little room for growth in Canada.

Figure 1
Key Players in World Markets, 1992



Source: Statistics Canada

International Environment

World trade in footwear totalled US\$34 billion in 1992, representing slightly more than 1 percent of total world exports in manufactured products.

Developing countries accounted for 55 percent of all footwear exports. Canada's share of the world market is currently less than 0.5 percent. It is not unrealistic to project a doubling of Canadian footwear export trade in the next two to three years, considering the industry's current performance, niche market opportunities in the U.S. and Europe, and the present comparative currency advantage.

The general relaxation of international trade barriers and tariffs in the 1980s has brought about a significant shift of footwear manufacturing from all of the developed countries, including Canada, to low labour-cost economies such as the Asian trade bloc of China, South Korea, Hong Kong and Taiwan.

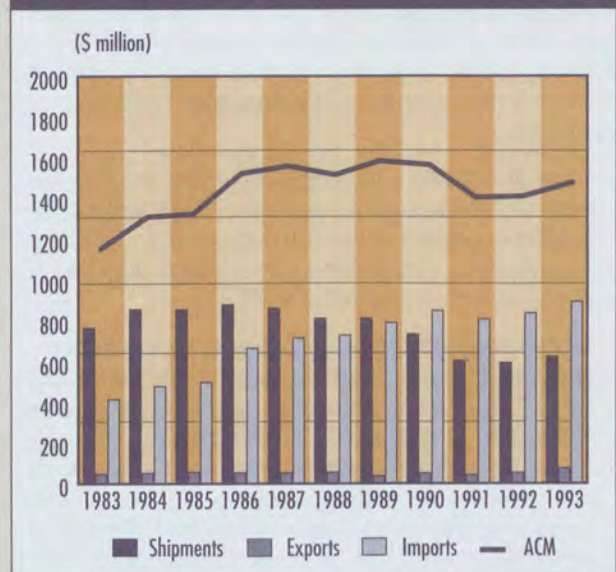
Producers in Canada, having virtually abandoned the low end of the market (as have all developed countries), continue to consolidate and restructure their manufacturing facilities for the production of higher-quality products specifically tailored to niches in world markets. The Canadian production of winter boots is one such example.

Main Challenges

The major challenges the industry faces in striving to improve its export position include:

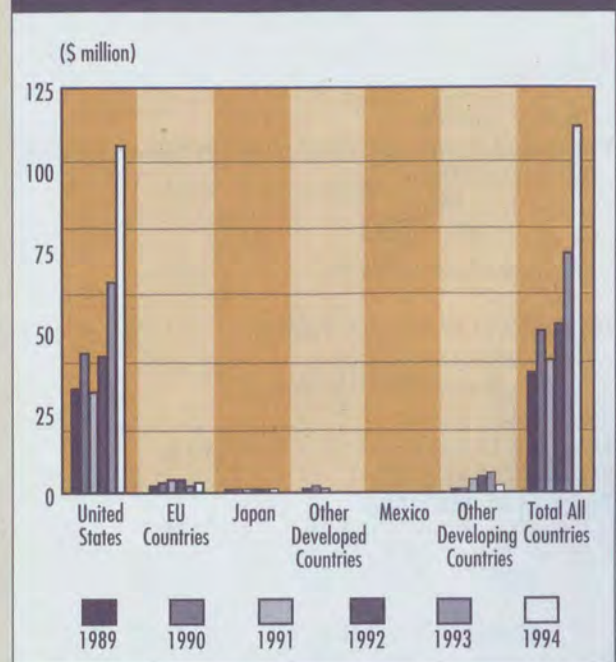
- strengthening of international marketing capabilities through better access to foreign market intelligence and training of management personnel;
- greater commitment to improve manufacturing efficiency through the adoption of new technologies and operating procedures;
- improved product design and technical skills; and
- development of new and improved products and long-term global marketing strategies.

Figure 2
Apparent Canadian Market



Source: Statistics Canada

Figure 3
Destinations of Canadian Exports



Source: Statistics Canada

Strategic Direction

Industry Canada (IC), the Department of Foreign Affairs and International Trade (DFAIT) and the Shoe Manufacturers' Association of Canada (SMAC), in concert with industry specialists, will promote the following initiatives and activities:

- provide market intelligence to assist manufacturers in taking advantage of high-growth niche markets; capitalize on opportunities in Europe, Scandinavia, the northern regions of the U.S. and South America (IC, DFAIT);
- encourage the adoption of new technologies and operating methods to improve design, quality and productivity through seminars, company visits and contacts with international footwear research and development centres. Government will continue to actively promote industry membership in the Shoe and Allied Trades Research Association (SATRA), a world-renowned footwear research and product development centre (IC, SMAC); and
- target the northern regions of the United States and Europe for high-end winter boots and special-purpose footwear (IC, DFAIT).

Contacts

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-2893
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820



The sporting goods industry includes firms primarily engaged in manufacturing a broad range of consumer goods for individual and group recreational and fitness activities.¹

Canadian Position

In 1994, the industry was comprised of about 215 establishments and employed roughly 7400 people. Annual shipments totalled about \$960 million, of which \$435 million (45 percent) was exported. Imports were \$912 million and accounted for 63 percent of the Apparent Canadian Market (ACM).

Many companies in this industry are Canadian-owned. They range in size and scope from relatively small operations serving niche markets and usually manufacturing a narrow band of products, to large, globally competitive companies with the resources and management depth to compete internationally against well-known brand names.

The industry includes approximately seven large vertically integrated manufacturers that are internationally competitive in the manufacturing and distribution of sports equipment. While smaller Canadian companies have established a name and reputation in such diverse niche markets as sport whistles, above-ground pools, outdoor products, and swim goggles, to name only a few, Canadian industry is known globally more for its strength in the skating and hockey equipment, cycling products, exercise equipment and personal protection segments. Canada's presence in these segments

is dominated by technically advanced, internationally competitive manufacturers that have been in the forefront of opening new markets. In many cases, smaller companies have been able to take advantage of their efforts by exporting complementary and accessory products.

Whereas small and medium-sized enterprises (SMEs) require assistance in becoming export-ready and guidance in identifying international market opportunities, trade events, and best marketing practices, the larger companies have more interest in foreign government market access regulations and product certification requirements, and exploiting opportunities for investment,

Table 1
Major Export Segments

Category	Canadian Exports (\$ million)		
	1993	1994	% Increase
Ice skates/parts	\$39.9	\$59.8	50
Ice hockey equipment/sticks	50.0	69.2	38
Protective headgear (incl. bike/hockey hdgr)	29.0	38.9	34
Gym/exercise equipment	112.5	105.7	(6)
Bicycles/parts	12.9	9.4	(27)
In-line/roller skates	14.0	40.4	189
Spa and pool products	50.0	68.0	36
Snow skis/snowboard equipment	10.3	17.5	70
Total Major Export Segments	\$318.6	\$408.9	28%
Total All Export Segments	\$338.4	\$434.6	28%

¹ Excluded are firms primarily engaged in recreational watercraft; camping equipment; sporting arms and ammunition; sport tape; skate sharpeners; athletic footwear; and jerseys.

Table 2
Canadian Exports by Geographic Region 1993 vs. 1994 (\$ million)

	Sports Equipment				
	1993	% of total	1994	% of total	% inc.
United States	275.6	81	370.1	85	34
Western Europe	41.7	12	40.5	9	(3)
Eastern Europe	2.2	1	3.3	1	50
Asia	12.2	4	12.8	3	5
Other	6.7	2	7.9	2	18
Total	\$338.4	100	\$434.6	100	28

technology and licensing. Canadian companies generally have a reputation for high-quality, well-engineered and well-designed products, and are strong international performers in certain product segments.

Export growth continues to surpass domestic growth. In particular, there have been major export increases in ice and in-line skates, hockey equipment, protective headgear (especially bicycle and hockey helmets), snow ski/snowboard equipment, and swimming pool equipment.

Geographically, the U.S. continues to be the major market for Canadian exports. Its share has increased from 81 percent in 1993 to 85 percent in 1994, followed by Western Europe with 9 percent and Asia with 3 percent. Eastern Europe is slowly becoming more of a factor in terms of export potential.

Exports to the U.S. are expected to continue to grow significantly, particularly in ice hockey and in-line skates, swimming pool products, exercise and personal protection equipment, and accessories associated with cycling, roller and ball hockey, snowboarding, and cross-country skiing.

In Western Europe, some firms have now established wholly owned marketing and production subsidiaries to take advantage of the expanded European Union (EU) and the emerging nations of Eastern Europe. Others are aligning with community-wide wholesalers and/or aggressively pursuing licensed manufacturing arrangements. While these strategies have led to a slowing in the growth of Canadian exports, they

have also resulted in greater visibility of Canadian brand products and more opportunity for investment and technology transfers. There is still significant export potential for bicycle components and accessories, outdoor products, splashers pools and pool products, personal protection equipment, in-line skates and hockey equipment.

North American Free Trade Agreement (NAFTA) members and potential member states offer market potential, although Canadian firms interested in these markets require greater information in order to pursue export opportunities. Currently, some exercise equipment is exported to South America, while exports to Mexico, at this stage, consist mostly of ice skates and exercise equipment.

In Asia, Japan continues to represent the greatest short-term potential although there is emerging consumer demand among other Pacific Rim countries for recreational products. Currently, Japan represents over 50 percent of the \$12.8 million exported to this region. In the short term, there appears to be potential in the Japanese market for export growth in in-line skates and equipment, snowboards/skis, bicycle parts/accessories, and outdoor items.

In summary, Canada is in a good position to take advantage of the growing popularity of in-line skating/hockey, fitness and exercise activities, outdoor recreation, and personal protection concerns. It should continue to maintain a dominant presence in the ice skating and hockey equipment sectors, with a lesser, though still competitive, position in snowboarding/cross-country skiing, exercise equipment, and swimming pool products. In addition, Canada has established a good reputation as a quality supplier of specific niche products such as sport whistles, camping products, swim goggles, and high-end bicycle components and accessories.

International Environment

The world market for sports equipment at the wholesale level is approximately \$80 billion. At the country level, there is a high degree of market concentration, with the top 10 countries estimated to represent in excess of 80 percent of the world market and 75 percent of international trade. However, at the individual supplier level, industry estimates indicate that the top 10 companies control less than 20 percent of the market. Although exact worldwide market figures are unavailable, industry estimates place the U.S. at 30 percent of the sports equipment market, EU at about 33 percent, Japan at 22 percent, Canada at 3 percent, and the rest of the world at about 12 percent.

Taiwan, with almost 20 percent of world exports, continues to be the leading exporter of sports equipment. Recent players emerging as significant exporters include China (particularly in bicycles) and low-wage areas in the Far East such as Indonesia, the Philippines, Thailand and Malaysia.

Several key emerging consumer trends in North America and Western Europe will influence the market, in particular:

- ongoing and increasing emphasis on personal fitness and family/group recreational activities;
- increased female participation, which is boosting demand for existing equipment and creating demand for new kinds of equipment;
- greater consumer awareness of the environmental and ecological effects of outdoor and recreational equipment and activities.

Key emerging markets expected to affect the industry over the next few years include an expanded NAFTA, the developing economies of Eastern Europe, and a more closely integrated EU. South America is anticipated to be an emerging market for sporting goods in the next three to five years. The effects of the implementation of the Uruguay Round of Multilateral Trade Negotiations are difficult to assess at this time, although no significant changes are expected.

For the next decade:

- Internationally, rising income levels and purchasing power in many countries, along with maintaining an active and healthy lifestyle, provide a promising long-term outlook for the industry.

- Greater use of composites and advanced materials, supplanting traditional materials, will improve sourcing opportunities and gain ready acceptance among consumers.
- The more successful firms will be marketers with control over the brand name, distribution, service and manufactured quality of their products rather than just manufacturing operations.
- Product development lead time will be reduced, and there will be pressure from major retailers to shorten the product buying cycle.
- Consumer pressure will encourage companies to increase the use of recycled and recyclable materials in the manufacturing process, and greater emphasis will be placed on the development and marketing of environmentally friendly products.
- Significant growth is expected in individual outdoor-oriented activities. Some segments targeted as growth areas over the next decade are products associated with cycling; soccer; golf; exercise walking; basketball; in-line skating; volleyball; exercising with equipment; wilderness activities; snowboarding; and personal protection.

Main Challenges

Industry challenges with regard to the consumer include:

- maximizing opportunities resulting from changing consumer demographics and increased female participation. Baby boomers are indicating a preference for recreational team and/or individual activities. There is a growing demand for redesigned products and lighter, higher-quality, and more durable personal protection equipment;
- dealing with the lack of brand-name recognition, which is a serious impediment to the growth and success of Canadian SMEs.

Industry challenges in regard to international market access include:

- making better use of such modern marketing tools as trade name positioning, targeted distribution, after-sales service, pricing strategies, and product quality;

- increasing export efforts and activities to compensate for the slow growth of the Canadian market. From 1990 to 1994, the Canadian market grew by 6 percent whereas exports increased by 117 percent;
- increasing Canada's presence in growth and niche market segments in order to maintain Canada's success and market share;
- reducing product-development costs and lead-time cycles to take advantage of growth opportunities;
- meeting environmental and ecological concerns in the major North American and European markets. The industry must develop products and strategies that accentuate the use of recycled and recyclable materials and products;
- obtaining relevant market intelligence on newly developed and growth markets (Mexico, South America, Japan, Europe) and ensuring that missions are more aware of industry supply capabilities.

Strategic Direction

To maximize opportunities for the sporting goods industry, the Government, in concert with industry, will promote and encourage the following initiatives and activities:

- provide strategic market intelligence on trends and emerging opportunities in growth markets, primarily through industry statistics, sector analyses and surveys of consumer product trends (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT], associations);
- improve the communication flow between missions abroad and industry to assure that the maximum number of export-ready companies can take advantage of existing or emerging market opportunities. Current export and industry directories will be made available to the missions, which in turn can supply more knowledge about growing trends in existing markets (e.g. snowboarding in Japan), and the market prospects and distribution characteristics in emerging markets such as Mexico and Chile (DFAIT, IC, associations);
- continue to focus on market-development activities using internationally recognized sporting goods trade shows. These activities can expose Canadian products and export-ready companies

to a broad spectrum of international buyers and opportunities in established and emerging markets. Examples of these fairs are the National Sporting Goods Association Show (NSGA) and National Pool and Spa Show in the United States, ISPO in Germany, and the Montreal International Sports Exhibition (DFAIT, IC, associations);

- help SMEs to become export-ready and better prepared to compete in international markets through government and association-led seminars and missions. These will focus on raising export awareness and highlighting best management practices (associations, DFAIT, IC);
- promote greater involvement of export-ready companies in promotional activities by involving industry associations in recruiting campaigns. Target at least 50 percent new exhibitors at the NSGA Show, Outdoor Retailer and ISPO (IC, DFAIT, associations);
- continue to help and encourage companies to participate in niche and specialty international shows in product segments where they can compete effectively, such as the JETRO Sport and Leisure Show in Japan; Outdoor Retailer, Interbike, and Super Show in the U.S.; SPOGA, SISEL, FIDEC, IFMA, Salon de la Piscine, and the Outdoor Trade Fair in Europe (DFAIT, IC);
- encourage and promote closer industry/government consultations to ensure that government trade promotion resources and funding are used as efficiently as possible in the development and implementation of marketing plans for export promotion.

Contacts

Industry Canada
Fashion, Leisure, and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-3109
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The pleasure boat industry embraces manufacturers of boats such as sailboats, powerboats, personal watercraft and human-powered boats. It also includes companies that make marine equipment for boats of all sizes, docks and mooring equipment, marine and safety clothing, maintenance and cleaning products and marina equipment.

Canadian Position

In 1994, the industry consisted of approximately 235 boat manufacturers and employed about 5500 people. Annual shipments were \$634.5 million for boats and \$100 million for marine equipment and accessories. Of the total, \$450 million was made up of export shipments. It was the first year in a quarter of a century that the industry saw a trade surplus (\$9 million).

Most companies are Canadian-owned. They vary from relatively modest operations to major internationally competitive companies with the resources and management skills to withstand competition from the leading brands. Canadian

companies supply specialty markets; they usually produce a narrow product line and are generally known for product quality, design and performance in specific segments of world markets.

Canadian companies have made a name for themselves on the basis of specialty products such as personal watercraft, catamarans, foot-pedal craft, aluminum rowboats, sailboats and powerboats. In addition, the Canadian industry is internationally known for its strength in marine equipment subsectors.

Exports now account for nearly 61.2 percent of total shipments, the increase being driven by exports of personal watercraft and human-powered craft. In 1994, total exports rose 36 percent from

Table 1
Canada's Pleasure Boat Industry, 1988-94
(All boats, excluding equipment, parts and motors)

	(\$ million)						
	1988	1989	1990	1991	1992	1993	1994
Manufacturers*	380	327	315	253	234	231	235
Employees*	5603	5715	4546	3500	3671	4871	5600
Shipments**	481.4	514.5	421.4	340.9	412.5	516.8	634.5
Exports	89.8	111.7	122.7	112.3	195.9	303.6	418.5
Exports, U.S.	79.3	100.3	107.9	92.3	174.5	267.6	376.7
Exports, EU	3.5	4.1	8.0	6.4	6.6	10.3	16.2
Domestic shipments	391.6	402.8	298.7	229.0	216.6	211.9	216.0
Imports	171.9	212.4	157.2	161.9	173.5	156.9	191.2
Imports, U.S.	149.6	193.5	143.3	148.7	159.4	142.4	176.8
Imports, EU	5.6	4.3	3.3	3.8	3.3	4.4	4.9
Canadian market	563.5	615.2	455.9	390.9	390.1	371.6	407.2

* Figures indicate absolute numbers.

** Total shipments, including personal watercraft.

1993. The main market is the United States with 89 percent, followed by Western Europe with 3.4 percent and the rest of the world, primarily Japan and South America, with 7 percent.

Exports to the United States can be expected to continue to increase substantially in the coming years, given the diversity in types of boats exported.

There is also significant international growth in marine products and accessories. The Canadian pleasure boat industry has major manufacturers in all these categories and is benefiting from this international growth.

The advent of market economies in Eastern Europe should create new markets for marine products. Western Europe will also become a major market for this sector. Growing demand is expected for open-air equipment such as canoes, foot-pedal craft and kayaks. Significant potential is also seen for maintenance and cleaning products, marina equipment, safety equipment, navigation systems and specialty marine clothing.

Although the industry anticipates new market outlets in Europe and in other industrialized regions, it is concerned about competition from U.S., French, British and Dutch products in these markets. Many companies see significant opportunities in Caribbean and South American markets, especially Brazil, Argentina and Chile.

Canada is well-positioned to take advantage of the growing popularity of small boats and outdoor activities. It should maintain its enviable position in the personal watercraft sector, and occupy a lesser but still competitive position in canoes, kayaks, powerboats, aluminum rowboats, pontoons and inflatable rubber boats. Moreover, Canada enjoys a good reputation as a supplier of quality specialty products. However, transport costs remain a major handicap in developing export markets for small boats.

Table 2
Canadian Boat Exports, 1992-94

Type of boat	(\$ million)		
	1992	1993	1994
Personal watercraft	160.0	252.0	342.0
Powerboats	14.8	24.2	28.5
Outboard powerboats	2.5	4.6	6.2
Canoes	3.9	5.6	6.8
Sailboats	5.1	8.2	11.1
Total main segments	\$186.3	\$294.6	\$394.6
Total boat exports	\$195.9	\$304.9	\$418.5

Table 3
Canadian Boats Exported by Geographic Region, 1992-1995

	(\$ million)			
	1992	1993	1994	1995
United States	92.3	174.5	267.6	376.7
EU	6.4	6.6	10.3	16.2
Asia	5.2	7.5	6.5	8.1
South America	1.8	3.5	8.8	10.8
Other	6.6	3.8	10.4	6.7
Total	\$112.3	\$195.9	\$303.6	\$418.5

International Environment

The 1994 international retail market for boats and equipment, including related services, was approximately US\$32 billion, including US\$3.5 billion for marine equipment and accessories. The market is highly concentrated; the top 10 producing countries hold over 80 percent of the world market and over 75 percent of international trade. According to industry estimates, the U.S. accounts for approximately 55 percent of the world market, the European Union (EU) and Scandinavian countries 25 percent, Asia, including Japan and Australia, 8 percent, South America 3 percent, Canada 2 percent, and the rest of the world about 6 percent.

In general, powerboats come from the U.S., Europe and Canada, while personal watercraft come from Canada, the U.S. and Japan. Sailboats come from Europe, especially France, Great Britain and the Scandinavian countries. The Canadian industry's main competition in powerboats is the United States. European countries, especially France, are the main competition in sailboats, and Italy provides major competition in inflatables.

Technological development and innovation are widely disseminated, but the marine industry is not yet using composite materials and new high-tech materials to their full potential. It is believed that composite materials, which are already widely used in the manufacture of canoes and small boats, will soon be widespread in the industry, especially for sailboat hulls, masts, fittings and equipment.

In the major markets, greater focus on family activities and recreational leisure activities should spur the demand for products such as kayaks, canoes, sport-fishing launches and personal watercraft, at the expense of products such as high-performance powerboats and racing sailboats. Another consumer trend is increased market participation by women, which is boosting demand for existing types of equipment and creating demand for new kinds of equipment. As well, there is growing consumer awareness of the environmental effects of outdoor and recreational equipment and of the activities connected with them.

The new markets that can be expected to exert an influence on Canada's pleasure boat industry in coming years are the signatories to the North American Free Trade Agreement (NAFTA), South American countries, and the countries of the EU, with their increasingly integrated economies.

There is every reason to believe that the pleasure boat industry has promising international market prospects. Rising purchasing power in many countries, favourable demographic trends in the leading markets for marine products, and the growing role of outdoor marine activities as part of a healthy and active lifestyle are boosting the potential for growth.

Main Challenges

The industry needs to make better use of such modern marketing tools as trade name positioning, targeted distribution, after-sales service, pricing strategies and maintenance of product quality.

Meeting environmental concerns in major markets will also be key. The industry must develop products that make greater use of recycled and recyclable materials. The challenge is greatest in North America and Western Europe, where there are fears of legal restrictions and controls over boat operating conditions by means of speed limits, the closing of navigable waterways, and motor emissions controls.

Further challenges facing the industry include:

- increasing Canada's presence in growth markets and niche segments. This will be necessary to maintain Canada's success and market share;
- increasing export activities to compensate for the fluctuations and changes in the Canadian marketplace. The Apparent Canadian Market (ACM), which was \$615.2 million in 1989, shrank to \$407.2 million in 1994;
- meeting the strong competition from U.S. manufacturers. Canadian boat manufacturers must contend with the presence everywhere of U.S. products, and the competitive position of U.S. products in the Canadian marketplace is a good indication of their competitiveness in export markets;
- preparing and diffusing information on main and potential markets for the industry. Better market intelligence is of growing importance, especially for Mexico, Brazil, Japan and European countries;
- reducing product development costs; and
- responding to changing consumer demand. There is growing demand for small boats, personal watercraft, canoes and kayaks, and sagging demand for fibreglass powerboats.

Strategic Direction

Government, in concert with the industry, will:

- provide strategic market intelligence, primarily sector statistics and market and product trends (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT]/missions);
- continue to focus on market development activities where Canadian products can be presented to a wide range of international buyers. The International Marine Trades Exhibition and Convention (IMTEC) in Chicago and the Miami International Boat Show are examples (DFAIT/missions, industry associations, IC);

- encourage companies to exploit European market opportunities by providing intelligence, logistical and financial support for their participation in major trade events (DFAIT/missions, industry associations, IC);
- exploit the opportunities offered by the proximity of the world's largest marine market by helping companies focus on niches and specialties in the U.S. where they can compete. Detailed market intelligence will be gathered so that manufacturers can be better informed of distribution channels and market opportunities (DFAIT/missions, IC);
- help small and medium-sized enterprises (SMEs) become export-ready and prepared to take on the competition in international markets by means of events organized by government and industry associations. This will educate firms about exporting, promote the best practices and encourage new management approaches (IC, DFAIT, industry associations);
- maintain the surge of new exporters by getting marine associations involved in recruiting campaigns for promotional activities. A target for the coming year is that half the exhibitors at IMTEC and Miami will be new exhibitors (IC, DFAIT, industry associations);
- meet industry's information requirements by mass electronic distribution of the INSIGHT/ VISION pleasure boats database to the private sector, trade missions and industry associations (IC, industry associations, DFAIT/missions);
- collaborate on the development of marketing plans that could either be implemented as joint government-industry projects or recommended to the appropriate federal department (industry associations, IC, DFAIT); and
- highlight Canadian capabilities by using promotional events to distribute up-to-date information on exporters and export-ready firms (industry associations, IC, DFAIT).

Contacts

Industry Canada
 Fashion, Leisure and Household Products Branch
 Pleasure Boat Industry
 235 Queen Street
 Ottawa K1A 0H5
 Tel: (613) 954-3760
 Fax: (613) 954-3107

Department of Foreign Affairs
 and International Trade
 Trade Opportunities Division
 125 Sussex Drive
 Ottawa K1A 0G2
 Tel: (613) 992-7722
 Fax: (613) 943-8820

The Canadian hand tool, hardware and housewares industries manufacture a broad range of products such as cookware, cutlery, tableware, plastic housewares and other durables, locks and latch sets, cabinet and casket hardware fittings, hinges and other builders' and shelving hardware, as well as a variety of non-power-driven hand tools and implements such as augers, axes, chisels, edge tools, garden implements, hammers, hand-saws, mechanics' measuring tools, screwdrivers and wrenches.

Canadian Position

The demand for hardware (including tools) and housewares products closely follows the level of activity in manufacturing and construction (residential and non-residential construction), and the home renovations market. Although these markets have been battered during the latest recession, an expected resurgence in demand could boost their fortunes. The hand tool subsector represents more than half of Canada's total hardware manufacturers, producing approximately 25 percent of the value of total factory shipments.

Increased competition in the domestic market from low-cost Asian imports has forced Canadian manufacturers to specialize, innovate, and develop export markets. As a result, Canadian industry has gained an excellent reputation in foreign markets for well-designed, high-quality and innovative hand tools, and exports of Canadian-made hand tools have grown from \$30 million in 1991 to over \$42 million in 1994. Exports from the hardware industry (excluding hand tools) have also been impressive, growing from \$119 million in 1991 to \$218 million in 1994. Exports of housewares grew by a staggering 98 percent from \$163 million in 1991 to \$323 million in 1994, primarily in table and kitchenware products.

Although small companies with fewer than 20 employees dominate the Canadian hand tool, hardware and housewares manufacturing base, they account for only a small fraction of the value of total shipments. The Canadian market was estimated at \$5.1 billion in 1994, with employment fairly stable at 24 000.

The three sectors have long recognized that viable export markets must be developed and expanded if the Canadian industries are to grow profitably and continue to be strong contributors to employment. Their steady export performance

over the past few years indicates that these sectors have achieved considerable success in penetrating these markets.

The United States is both the principal destination of Canadian exports of hardware and housewares and the principal source of imports. However, low-cost Asian imports, especially from China and Taiwan, have shown strong growth in recent years. The steady worldwide growth in hardware imports from low-cost producers reflects the much lower material and labour costs enjoyed by those countries. These cost advantages have forced small Canadian firms to specialize and carve out niches in which to market their products. What Canadian firms lack in cost advantages with their foreign counterparts they are making up for in quality and innovation.

International Environment

- The United States will continue to be the major market for Canadian tools, hardware and housewares products. Exports to Europe, Mexico and Asian markets will continue to flourish as trade barriers are gradually lowered.
- The international outlook appears promising for a number of Canadian durables such as lawn and garden implements, tableware, plastic housewares, cookware, the do-it-yourself market, composters and patio/garden ornaments. Innovative and environment-related niche products such as composters also offer excellent opportunities for Canadian producers in international markets.
- Companies in these sectors, while experiencing weak domestic sales, have been enjoying strong export sales in the first half of 1995.

Main Challenges

- Intense domestic competition, brought about by the proliferation of new retail formats such as large U.S. warehouse-style retailers and high-profile home improvement centres, may impede the industries' ability to channel some of their efforts toward increasing export markets.
- The three sectors have been battered by major increases in raw material costs.
- The industries are being faced with ever-increasing consumer expectations for quality, price, product selection and service.
- Keeping abreast of the latest technologies to meet increasing customer demands has become extremely costly, especially for small and medium-sized enterprises (SMEs).

Strategic Direction

To maximize opportunities for the tools, hardware and housewares industries, Government will:

- work closely with industry to identify export-ready firms and help those companies to develop strategic export programs. The target for 1996-97 is 15 to 20 firms (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT]);
- with the assistance of the Canadian Hardware and Housewares Manufacturers' Association, educate the industry in terms of the wide range of government programs and services available to assist them in becoming export-ready (DFAIT, industry associations);

- work with the industry associations to share, on an industry-wide basis, information on the key technological advances that will be needed in the future to meet the needs of customers (IC, industry associations).

Contacts

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-2893
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The residential (also referred to as household) furniture industry is made up of establishments that primarily manufacture household furniture, of all kinds and of all materials, including outdoor furniture but excluding mattresses and bedsprings as well as furniture reupholstering and repairs. The industry serves one market: the consumer market, in which products are sold through retail outlets.

Canadian Position

In 1994, the industry consisted of about 650 establishments, employing some 19 500 people on a permanent basis, with shipments of goods valued at \$1.67 billion.

In 1993, 60 percent of industry shipments were wooden furniture, 31 percent were upholstered furniture and 9 percent were metal and plastic goods.

Exports reached \$585 million in 1994 (35 percent of industry shipments), while imports into Canada totalled \$667 million (38 percent of the domestic market).

The vast majority of firms are privately owned small and medium-sized enterprises (SMEs). Less than 1 percent are foreign-controlled. The two largest firms, Dorel (\$334 million in 1994) and Palliser (\$211 million in 1993), have become international producers. The next eight largest firms have revenues in the range of \$30 million to \$55 million.

Quebec accounted for 45 percent of industry shipments in 1992; Ontario, 32 percent; the Prairies, 15 percent; British Columbia, 7 percent; and the Atlantic region, 1 percent.

The industry has a number of strengths, including product quality, a flexible work force and a generally co-operative labour-management climate. In addition, the industry has gone through a great deal of adjustment in the late 1980s and early 1990s, in response to the recession and the Canada-U.S. Free Trade Agreement (FTA), which has made it more efficient and more able to meet increasing international competition.

Over the last few years, exporting has been the major bright spot for the industry. Between 1989 and 1994, export shipments expanded at an annual rate of 24 percent, compared with an annual gain of 8 percent for imports and an annual decline of 10 percent for domestic shipments.

The industry was particularly successful in exporting wooden furniture. These exports stood at \$446 million in 1994, versus \$68 million for upholstered furniture and \$72 million for other types of furniture. In 1994, Canada registered a positive trade balance in wooden furniture (\$164 million) and negative balances in upholstered furniture (\$183 million) and other types of furniture (\$63 million).

By and large, the successful Canadian exporters have generally focussed on products where design and quality are more important than price, although some firms have succeeded in penetrating low-cost niche markets such as those for ready-to-assemble TV stands.

Canadian exports have always been predominantly to the United States, with the share standing at 96 percent of all exports in 1994. This reflects, on the one hand, the size of the U.S. market, its geographical proximity and the common characteristics of furniture product design and quality in the two countries and, on the other hand, the higher cost of shipping furniture overseas, tariff barriers and a lack of knowledge about distant markets. The U.S. is also Canada's largest source of imported furniture, accounting for 65 percent of total imports in 1994.

The positive environment created by the competitive advantages of the low Canadian dollar provides a window of opportunity for the industry to expand its exports. Market prospects in the U.S. are encouraging; over the next several years, market demand is projected to increase at an average annual rate of 2 percent to 3 percent. While Canadian exports to the U.S. reached \$562 million in 1994, this represented only about a tenth of U.S. imports from all countries, leaving considerable scope for expansion.

In addition, the North American Free Trade Agreement (NAFTA) will provide improved access to Mexico for Canadian exporters and the World Trade Organization (WTO) will create new oppor-

tunities in Western Europe (particularly for competitively priced high-end furniture and solid wood furniture components) and Japan (for competitively priced high-end furniture). With regard to Japan, product modifications in terms of sizes and designs may be necessary.

International Environment

Household furniture is manufactured in every country in the world, although in some countries production is on an artisanal basis.

The world market for household furniture is estimated at about \$95 billion. The U.S. forms the largest market, about 25 percent of the total, followed by Japan at 15 percent.

The market is largely heterogeneous, with a wide variety of consumer preferences in style, design, uniqueness, quality and price.

World trade in household furniture accounts for less than 1 percent of trade in all merchandise. However, it has been growing at a slightly faster rate than all merchandise during the last few years, reflecting primarily increasing shipments of furniture in knocked-down form.

Italy and Germany are the world's largest exporters, but several low-wage Asian countries (particularly Taiwan and China) are becoming more active on the international scene.

The Canadian industry is a relatively small player on the world scene, accounting for less than 4 percent of world consumption, production and trade. However, as hardwood supplies become more scarce around the world, Canada, with its generally good supply of hardwoods, may become a more important manufacturer.

The U.S. will remain Canada's principal client and supplier for the foreseeable future. However, Canada can expect increased competition from Western European manufacturers, particularly in the area of higher-priced products with unique designs, and from Asian manufacturers, notably in the areas of furniture components and lower-priced furniture. Reflecting the impact of tariff elimination under the NAFTA, Mexico may become a more important exporter to Canada, displacing some low-end imports from Asia.

In the short term, market demand for household furniture is very susceptible to shifts in the economic climate, including factors such as interest rates and unemployment rates. Over the

longer term, market demand is largely dependent on rates of household formation, housing starts and income growth.

The outlook for household furniture demand in developed countries is for slower growth than for other forms of consumer expenditures. However, several market niches will offer above-average growth, including furniture that meets the physical needs of the elderly, and furniture for the home office and home entertainment centre. Growth in the popularity of ready-to-assemble furniture is expected to continue.

In the past, labour costs, access to raw materials, tariff rates and transportation fees were critical to the competitiveness of furniture products in the marketplace. While these factors will continue to play an important role, marketing skill, design, quality and quick delivery services will take on more importance in the future.

Increasingly, consumers in developed countries are considering furniture as a fashion product as opposed to a long-term purchase. These consumers want furniture that expresses their lifestyle choice.

Main Challenges

The Canadian industry will face a number of challenges over the medium term. Some are of a macro-economic nature and beyond industry control (such as the value of the Canadian dollar in relation to other major currencies), while others can be tackled in whole or in part by industry players. Following are the key challenges the industry faces in striving to improve its export position:

- offset inherent cost disadvantages by placing more emphasis on upgrading innovative design capabilities and producing quality-assured products, two areas that can provide an important competitive edge;
- reduce vulnerability to currency fluctuations by seeking maximum efficiency from the labour force, manufacturing operations and warehouses;
- improve knowledge of export marketing, of which the majority of manufacturers have little or no understanding (a few larger firms account for the bulk of Canadian exports); and

- diversify the export market base; at present, the U.S. absorbs 96 percent of Canadian exports. While this export concentration makes sense, the industry will have to devote more effort to finding new markets.

Strategic Direction

To make the most of opportunities for the residential furniture industry, Government, in co-operation with the industry, will work toward:

- increasing the number of dedicated exporters from an estimated 50 in 1995 to 100 over the next five years by promoting the benefits of export marketing and providing strategic market intelligence to the industry (Industry Canada [IC], Department of Foreign Affairs and International Trade [DFAIT]/missions, industry associations);
- increasing Canada's share of the U.S. import market from 10 percent in 1994 to 15 percent over the next five years, primarily by bringing incoming buyers and sales representatives to Canadian trade shows and encouraging industry participation at U.S. trade shows (IC, DFAIT/missions, industry associations);
- helping companies that are exporting to the U.S. to expand their market horizon in order to double exports to non-U.S. markets over the next five years, by identifying specific market opportunities and encouraging industry participation at non-U.S. trade shows (IC, DFAIT/missions, industry associations); and
- increasing industry awareness of the importance of developing unique product design, of adopting ISO 9000 or similar quality standards, and of improving productivity (IC, industry associations).

Contacts

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-3105
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The business and institutional furniture manufacturing industry consists of establishments primarily engaged in the production of furniture for offices, stores, hotels, motels, restaurants, churches, schools, hospitals and other similar institutions. It is classified by Statistics Canada under Standard Industrial Classification (SIC) codes 2641, 2649 and 2692.

Canadian Position

In 1994, the industry consisted of about 440 establishments, employing roughly 17 000 people, with shipments valued at \$1.63 billion. Office furniture (i.e. SIC 2641 and 2649) accounted for about 40 percent of all plants, 53 percent of total employment and 60 percent of all shipments.

Ontario accounts for about 66 percent of industry shipments; Quebec, 23 percent; the Prairies, 7 percent; British Columbia, 3 percent; and the Atlantic, 1 percent.

The vast majority of firms are privately owned small and medium-sized enterprises (SMEs). About 10 percent of firms are foreign-controlled, primarily from the United States, and they account for roughly 30 percent of industry shipments.

Canadian exports reached \$910 million in 1994 (56 percent of industry shipments), while imports into Canada totalled \$562 million (44 percent of the domestic market). Office furniture accounted for 50 percent of all exports and 29 percent of all imports. The office furniture subsector registered a trade surplus of \$292 million in 1994, while the institutional furniture subsector posted a trade surplus of \$56 million.

Canadian exports have always been predominantly to the United States, with the share standing at 94 percent of all exports in 1994. This reflects on the one hand, the size of the U.S. market, its geographic proximity and the common characteristics of furniture product design and quality, and on the other hand, the higher cost of shipping furniture overseas and tariff barriers. The U.S. is also Canada's largest source of imported furniture, at 87 percent of total imports in 1994. Other main sources of imports are the European Union and low-cost Asian countries, with 5 percent and 4 percent of all imports, respectively.

The industry had a trade surplus of \$295 million with the U.S. in 1994 (exports – \$858 million, imports – \$563 million). The positive trade balance is attributed to a number of factors, including a measure of labour cost-competitiveness with the U.S. industry, good product quality, innovative designs, aggressive export marketing in the medium- and high-priced niche markets, the low value of the Canadian dollar and the knowledge and co-operation of the U.S.-based commercial officers of the Department of Foreign Affairs and International Trade (DFAIT). However, on the negative side, transportation costs for furniture are much higher in Canada than in the United States, which puts Canadian manufacturers at a disadvantage in supplying both the domestic and U.S. markets.

International Environment

The world market for business and institutional furniture is estimated at about \$100 billion. The U.S. market is valued at roughly \$25 billion (including about \$10 billion for office furniture). Canada's share of the world market is less than 2 percent.

Market demand is driven by the level of commercial, industrial and institutional construction, the state of the economy as a whole, corporate profits, investments in office automation equipment, the home office phenomenon and a trend to the refurbishing of used furniture. Business and institutional furniture in developed countries is a market approaching maturity. The market in the 1990s is expected to grow at a slower rate than in the 1970s and 1980s, although several market niches will offer above-average growth, including home office furniture and ergonomic furniture. The interest in ergonomic furniture is being spurred by the growing awareness of workplace injuries.

Globally, the market is heterogeneous. Suppliers are using price points, design and styling features, product quality and delivery services to attract clients. Customers are becoming more knowledgeable about both products and services, and are becoming more price sensitive. There is little evidence of brand awareness.

Most furniture is sold by tender and contract. Architects and interior designers, acting on behalf of the end-use purchasers, play an important role in the selection of products. Some products, such as home office furniture, are sold through retail outlets.

The United States will continue to be Canada's most important client and supplier. Over the next few years, market demand in the U.S. is projected to increase at an average annual growth rate of 2 percent to 3 percent. While Canadian exports to the U.S. reached \$858 million in 1994, this represented about 40 percent of U.S. imports from all countries, leaving some scope for expansion.

In addition, the North American Free Trade Agreement (NAFTA) will give Canadian exporters improved access to Mexico, while the World Trade Organization (WTO) will create new opportunities in Western Europe (particularly for competitively priced high-end furniture) and Japan (notably for high-end executive wood desks and systems furniture).

However, the Buy America Act and the lack of harmonization of Canadian and foreign product and performance standards constitute impediments to international trade.

In many developing countries, expenditures by international financial institutions (IFIs) play an important role in infrastructure development. Despite Canada's role as a leading contributor to these institutions, Canadian furniture manufacturers have not taken full advantage of associated procurement opportunities. These institutions provide a unique vehicle to enter markets that would otherwise be difficult to penetrate.

While Canadian manufacturers will see new marketing opportunities as a result of trade liberalization, at the same time, they will be more exposed to international competition both at home and abroad. For example, low-wage countries such as Taiwan and Mexico are becoming more active on the world market, especially in ready-to-assemble furniture in the low- to medium-price ranges. In contrast, Western European exporters

generally focus on products where unique designs and technical innovations are more important than price.

Main Challenges

The principal challenges that Canadian manufacturers face in striving to improve their export position include:

- adjusting successfully to increasing internationalization by becoming niche players, specializing by product or by market;
- reducing their manufacturing costs by adopting advanced technologies that permit a higher degree of automation while retaining production flexibility to exploit niche markets, and seeking maximum efficiency from their operations;
- improving their competitive edge by putting more emphasis on product development and the production of quality-assured products;
- devoting more effort to diversifying their export market base (the U.S. absorbs 94 percent of Canadian exports) by aggressively exploiting opportunities resulting from the NAFTA and the Uruguay Round of Multilateral Trade Negotiations.

Strategic Direction

- increase industry awareness of the importance of keeping abreast of technological developments, of improving productivity, of developing new products and of adopting ISO 9000 or similar quality standards (Industry Canada [IC], industry associations);
- increase Canada's share of the U.S. import market from 40 percent in 1994 to 60 percent over the next five years (IC, DFAIT/missions, industry associations);
- help companies that are exporting to the U.S. to expand their marketing horizons, notably by taking advantage of the new opportunities arising from the NAFTA and the Uruguay Round and the opportunities offered by IFIs, with the goal of doubling Canadian exports to non-U.S. markets over the next five years (IC, DFAIT/missions, industry associations);

- pursue efforts to promote the harmonization of international product and performance standards and to mitigate the effects of the Buy America Act (IC, DFAIT/missions, industry associations);
- provide strategic and up-to-date information (in electronic and printed versions) to existing and potential exporters to assist them in identifying and exploiting export market opportunities (IC, DFAIT/missions).

Contacts

Industry Canada
Fashion, Leisure and Household Products Branch
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-3100
Fax: (613) 954-3107

Department of Foreign Affairs
and International Trade
Trade Opportunities Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 992-7722
Fax: (613) 943-8820

The giftware and crafts sector represents a range of products from unique, handmade, individually created collector-quality goods to mass-produced souvenir-type items, as well as collectibles, clothing, speciality food, and home and garden articles.

Canadian Position

Canadian producers of giftware and crafts run the gamut from major manufacturers to artists and artisans who work at home and sell their products at community, regional and provincial gift and arts/crafts shows. The average-sized operation is estimated to be one to six employees, with total employment estimated at about 25 000. In addition to the large giftware companies, there are about 250 to 300 export-ready craft and giftware producers in Canada, with individual sales averaging between \$80 000 and \$150 000 a year. Total Canadian exports, including giftware, craftsworks, paintings, drawings, original engravings, carvings and sculptures of Inuit and Dene art, reached \$50.5 million in 1994, of which \$41 million was to the United States.

International Environment

This is a high-growth sector. Most giftware is sold at trade shows to retailers, wholesalers and distributors as opposed to sales calls on retail outlets.

Canadian giftware and crafts tend to be exported along geographic lines in a north-south alignment in the United States. Important considerations in these sectors are price points and quality. The nature of the industry makes imported souvenir goods, including Native crafts, easily available at much cheaper prices than authentic crafts or giftware. Canadian arts and crafts are mostly sold on their creativity and quality, and promotion and marketing efforts should focus on these aspects. Price can be an impediment in marketing upscale pieces. New markets for Canadian giftware and production crafts are opening in Japan, driven in part by shifts in the Japanese retail distribution system and the favourable exchange rate.

There is a developing interest in Canadian aboriginal arts and crafts in the United States, Western Europe and Japan. To date, efforts have

been focussed on the German and U.S. markets, but coming years will see increased emphasis on the considerable potential offered by other European markets, and Asia.

Strategic Direction

Government, in co-operation with industry, will:

- build a strong presence for Canadian arts and crafts, including aboriginal works in targeted U.S. and Asian markets, by supporting professional organizations and Native artists in their export endeavours (Department of Foreign Affairs and International Trade [DFAIT], Industry Canada [IC], Indian and Northern Affairs Canada [INAC], provinces, associations);
- continue to work with U.S. associations such as the Indian Arts and Crafts Association to address problems derived from imitation Native crafts, with a view to creating a similar association for Canadian producers and wholesalers (IC);
- continue to work with associations, councils and provincial trade departments to assist individual companies in finding suitable markets for their products (IC, DFAIT);
- strengthen participation in appropriate trade events to promote unique Canadian arts and crafts and Native/Inuit creations. IC's Aboriginal Trade and Market Expansion Initiative will focus on helping aboriginal companies and artisans (involved in visual arts and giftware/arts and crafts) graduate into international markets using existing programs (DFAIT, IC, INAC, provinces);
- provide export-ready companies with more strategic and updated information on the U.S. and Japanese markets, imports and trends (DFAIT);
- create a new awareness of Canadian arts and crafts products among a wide segment of the U.S. target markets for these products. Arts and crafts producers who are successfully exporting to the U.S. will be encouraged to look seriously

at Japanese markets and to participate in events such as the Tokyo Gift Show or solo events staged by the Canadian Embassy in Japan (DFAIT);

- promote Canadian giftware and arts and crafts shows to Japanese importers, agents and distributors to develop their awareness of Canadian capabilities (DFAIT); and
- continue to publish an export newsletter for the Canadian giftware and craft industries (DFAIT).

Contacts

Industry Canada
235 Queen Street
Ottawa K1A 0H5
Tel: (613) 954-3760
Fax: (613) 954-3107

Industry Canada Aboriginal Business Program
Tel: (416) 973-2212
Fax: (416) 973-2255

Department of Foreign Affairs
and International Trade
Japan Division
125 Sussex Drive
Ottawa K1A 0G2
Tel: (613) 996-2460
Fax: (613) 943-8286

United States Business Development West
Tel: (613) 944-6577
Fax: (613) 944-9119



CONSUMER PRODUCTS

Activity	Date	Location	Dept.	Contact
Asia-Pacific South				
Canadian High Commissioner's Award	03-Mar-97	Auckland	DFAIT	613-996-1052
Central/Eastern Europe and the Commonwealth of Independent States				
Dreamhouse Ukraine: Info Booth	01-Oct-96	Kiev	DFAIT	613-996-2147
East Asia				
Beauty Products Market Profile	01-May-96	Hong Kong/ Guangzhou	DFAIT	613-995-8606
Japan				
Messe-bitition '96: Info Booth	01-Apr-96	Osaka	DFAIT	613-996-2460
Regional Consumer Product Shows: Info Booths	01-Apr-96	Various Cities	DFAIT	613-996-2460
Regional Fairs in Aichi-ken and Gifu-ken: Info Booths	01-Apr-96	Nagoya	DFAIT	613-996-2460
Outdoor Equipment and Attire: Mission from Japan	01-Aug-96	Quebec/ Ontario/B.C.	DFAIT	613-996-2460
Kitakyushu International Fair: Info Booth	01-Oct-96	Kitakyushu City	DFAIT	613-996-2460
Furniture Seminar	01-Nov-96	Nagoya	DFAIT	613-996-2460
Tokyo International Furniture Fair: National Stand	22-Nov-96	Tokyo	DFAIT	613-996-2460
Canada Furniture Mart and Selected Site Visits: Mission from Japan	10-Jan-97	Toronto/ Montreal/Winnipeg	DFAIT	613-996-2460
Latin America and the Caribbean				
Catalogue Solo Show	05-Jun-96	Colón, Panama	DFAIT	613-996-6129
EXPOCOMER: National Stand	05-Oct-96	Panama	DFAIT	613-996-6129
El Salvador 1996 International Trade Fair: National Stand	01-Nov-96	San Salvador	DFAIT	613-996-6129
Trading House Mission to Caribbean Area	18-Nov-96	Bridgetown	DFAIT	613-943-8807
Toronto Home Improvement Show: Incoming Caribbean Visitors	01-Feb-97	Toronto	DFAIT	613-943-8807
Canadian Hardware Show: Buyers from Cuba	04-Feb-97	Toronto	DFAIT	613-996-6129
Canadian Hardware Show: Caribbean Visitors	04-Feb-97	Toronto	DFAIT	613-943-8807
Multiple Markets				
National Hardware Show and Building Expo: Mission	11-Aug-96	Chicago	Alberta	403-427-6254
United States				
U.S. Design: Outgoing Mission	TBD	Detroit/Chicago/ New York	IC	416-973-5192
New Directions: Newsletter	01-Apr-96	Minneapolis	DFAIT	613-944-6577

Note: Dates and locations are subject to change.

Activity	Date	Location	Dept.	Contact
New Exporters Mission	01-Apr-96	Atlanta/Boston/ Chicago	Alberta	403-427-6254
Southeast U.S. Market Intelligence Seminar	01-Apr-96	Montreal	DFAIT	613-944-9479
Apparel Market Guide for U.S. Midwest	01-May-96	Chicago	DFAIT	613-944-9476
Inuit Art Exhibition: Solo Show	01-May-96	Birmingham, MI	DFAIT	613-944-6577
U.S. Market Trends Seminar	01-May-96	Calgary/Edmonton	Alberta	403-427-6254
Western U.S. Market Intelligence Seminar	01-May-96	Edmonton	DFAIT	613-944-9479
Home Furnishing Show: National Stand	16-May-96	Chicago	DFAIT	613-944-9479
SIDIM: Mission from Southeast U.S.	23-May-96	Montreal	DFAIT	613-944-9479
Market Showplace: U.S. Visitors	01-Jun-96	Edmonton	DFAIT	613-944-9479
Montreal Home Furniture Show: U.S. Visitors	15-Jun-96	Montreal	DFAIT	613-944-9479
Karel Show: Outgoing Mission	01-Jul-96	Fitchburg, MA	DFAIT	613-944-9479
NSGA '96: National Stand	01-Jul-96	Chicago	DFAIT	613-944-9476
Western N.Y. Gift Show: Info Booth	14-Jul-96	Rochester, NY	DFAIT	613-944-6577
Summer Home Furniture Market: National Stand	31-Jul-96	Minneapolis	DFAIT	613-944-9479
Giftware NEBS Mission	01-Aug-96	Seattle	Alberta	403-427-6075
Giftware Partnering Mission	01-Aug-96	Atlanta	DFAIT	613-944-6577
Men's Wear Locator Mission to U.S. Midwest	01-Aug-96	St. Louis, MO	DFAIT	613-944-9476
Midwest Men's Wear Collective Summer '96: National Stand	01-Aug-96	Chicago	DFAIT	613-944-9476
Outdoor Retailer Expo: National Stand	01-Aug-96	Salt Lake City	DFAIT	613-944-9476
Hardware and Building Products NEBS Mission to the U.S. Midwest	10-Aug-96	Chicago	DFAIT	613-944-7486
Canada Mode, Fall '96: National Stand	01-Sep-96	New York	DFAIT	613-944-9476
Atlantic Craft Trade Show: U.S. Buyers	03-Sep-96	Halifax	DFAIT	613-944-6577
International Marine Trade Exhibition and Conference — IMTEC '96: National Stand	26-Sep-96	Chicago	IC	613-954-3760
High Point Home Furnishing Markets	01-Oct-96	Quebec/Ontario/ Western Canada	DFAIT	613-944-9479
Midwest U.S. Market Intelligence Seminar	01-Oct-96	Toronto	DFAIT	613-944-9479
Private Label Expo: Info Booth	01-Oct-96	New York	DFAIT	613-944-9476
IIDEX '96: U.S. Visitors	14-Nov-96	Toronto	DFAIT	613-994-9479
Giftware Locator Catalogue: Study	15-Nov-96	Minneapolis	DFAIT	613-944-6577
Canadian Apparel Lines for U.S. Reps: Study	01-Jan-97	Minneapolis	DFAIT	613-944-9476
Children's Wear Rep Locator Mission	05-Jan-97	New York	DFAIT	613-944-9476
CFG Men's Wear Event: Solo Show	10-Jan-97	New York	DFAIT	613-944-9476
Canadian Home Furnishing Market: Mission	11-Jan-97	Toronto	DFAIT	613-994-9479
Giftware Partnering Mission	31-Jan-97	Chicago/Kansas City	DFAIT	613-944-6577
Canada Mode, Winter '97: National Stand	01-Feb-97	New York	DFAIT	613-944-9476
Home Shopping Promotion: Mission	01-Feb-97	Across Canada	DFAIT	613-944-6577

Activity	Date	Location	Dept.	Contact
Midwest Men's Wear Collective Winter '97: National Stand	01-Feb-97	Chicago	DFAIT	613-944-9476
Women's Wear Rep Locator Mission	01-Feb-97	New York	DFAIT	613-944-9476
Giftware and Craft Seminar: U.S. Market	17-Feb-97	Toronto	DFAIT	613-944-6577
Toronto Gift Show: U.S. Buyers	17-Feb-97	Toronto	DFAIT	613-944-6577
Miami International Boat and Sailboat Show: National Stand	21-Feb-97	Miami	IC	613-954-3760
Giftware Partnering Mission	01-Mar-97	Boston	DFAIT	613-944-6577
Boston Spring Gift Show: N.B. Mission	23-Mar-97	Boston	N.B.	506-627-4039
Western Europe and the European Union				
NAFFEM: Buyers from Belgium	01-May-96	Montreal	DFAIT	613-996-2147
NAFFEM: Buyers from Italy	01-May-96	Montreal	DFAIT	613-996-2147
NAFFEM: Buyers from Spain	01-May-96	Montreal	DFAIT	613-996-2147
Wood/Furniture Sector NEXOS Mission	01-May-96	Milan	DFAIT	613-992-7001
ISPO (Fall and Spring): National Stand	01-Sep-96	Munich	DFAIT	613-996-2147
Salon du Prêt-a-porter: Incoming Buyers from Belgium	01-Sep-96	Toronto	DFAIT	613-996-2147
Marine Equipment Trade Show METS '96: National Stand	01-Nov-96	Amsterdam	IC	613-954-3760
Interzum (wood construction/furniture components): Info Booth	01-Mar-97	Cologne	DFAIT	613-992-7001

For up-to-date and detailed information on the activities in this document and those contained in other sectors, you may consult the CIBS Compendium. This on-line compilation of activities planned by the federal and provincial governments is continuously revised and is accessible via the Department of Foreign Affairs and International Trade World Wide Web site, at the following address: <http://www.dfait-maeci.gc.ca>

Acronyms and international Business Strateg

(This list does not include sector specific)

		DATE DUE DATE DE RETOUR		
AAFC	Agriculture			International Business Opportunities Centre
ACOA	Atlantic Canada			Industry Canada
APEC	Asia-Pacific forum			International Development Research Centre
ASEAN	Association			International financial institution
BBS	electronic business			International Standards Organization
BOOT	build, own/operate			International Trade Advisory Committee
BOSS	Business Opportunity System			International Trade Centre
CCC	Canadian Council			Ministry of Agriculture, Fisheries and Food of Quebec
CIBS	Canada's International Strategy			multilateral development bank
CIDA	Canadian International Agency			multinational enterprise
CIS	Commonwealth			North American Free Trade Agreement
CSA	Canadian Standards Association			North Atlantic Treaty Organization
DFAIT	Department of International Trade			Ontario Research Council
DFO	Department of Fisheries and Aquaculture			Natural Resources Canada
DND	Department of National Defence			Natural Resources Canada — Canadian Forest Service
EC	Environment Canada			Ontario Sector Team
EDC	Export Development Corporation			Organization for Economic Cooperation and Development
EU	European Union	CARR MCLEAN	38-296	
FITT	Forum for International Trade Training		EDMD	Program for Export Marketing Development
FORDQ	Federal Office of Regional Development — Quebec		R&D	research and development
FSU	former Soviet Union		S&T	science and technology
FTA	Canada-U.S. Free Trade Agreement		SAGIT	Sectoral Advisory Group on International Trade
GATT	General Agreement on Tariffs and Trade		SME	small and medium-sized enterprise
GDP	gross domestic product		UNEP	United Nations Environmental Program
GNP	gross national product		WED	Western Economic Diversification
HRDC	Human Resources Development Canada		WTO	World Trade Organization



Acronyms and in Business Strateg

(This list does not include

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AAFC	Agriculture and Agri-Food Canada	IBOC	International Business Opportunities Centre
ACOA	Atlantic Canada Opportunities Agency	IC	Industry Canada
APEC	Asia-Pacific Economic Co-operation forum	IDRC	International Development Research Centre
ASEAN	Association of Southeast Asian Nations	IFI	international financial institution
BBS	electronic bulletin board system	ISO	International Standards Organization
BOOT	build, own/operate, transfer	ITAC	International Trade Advisory Committee
BOSS	Business Opportunities Sourcing System	ITC	International Trade Centre
CCC	Canadian Commercial Corporation	MAPAQ	Ministry of Agriculture, Fisheries and Food of Quebec
CIBS	Canada's International Business Strategy	MDB	multilateral development bank
CIDA	Canadian International Development Agency	MNE	multinational enterprise
CIS	Commonwealth of Independent States	NAFTA	North American Free Trade Agreement
CSA	Canadian Standards Association	NATO	North Atlantic Treaty Organization
DEAIT	Department of Foreign Affairs and International Trade	NRC	National Research Council
DFO	Department of Fisheries and Oceans	NRCan	Natural Resources Canada
DND	Department of National Defence	NRCan-CFS	Natural Resources Canada — Canadian Forest Service
EC	Environment Canada	NST	National Sector Team
EDC	Export Development Corporation	OECD	Organization for Economic Co-operation and Development
EU	European Union	PEMD	Program for Export Marketing Development
FITT	Forum for International Trade Training	R&D	research and development
FORDQ	Federal Office of Regional Development — Quebec	S&T	science and technology
FSU	former Soviet Union	SAGIT	Sectoral Advisory Group on International Trade
FTA	Canada-U.S. Free Trade Agreement	SME	small and medium-sized enterprise
GATT	General Agreement on Tariffs and Trade	UNEP	United Nations Environmental Program
GDP	gross domestic product	WED	Western Economic Diversification
GNP	gross national product	WTO	World Trade Organization
HRDC	Human Resources Development Canada		



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