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Urban Transit and Rail Equipment

Canada's International Business Strategy

1996-1997

Team Canada • Équipe 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. The following documents are available:*

Overview

1. Advanced Manufacturing Technologies
2. Aerospace and Defence
3. Agriculture, Food and Beverages
4. Arts and Cultural Industries
5. Automotive
6. Bio-Industries
7. Business, Professional and Educational Services
8. Chemicals, Plastics and Advanced Materials
9. Construction Products and Services
10. Consumer Products
    - *Apparel*
    - *Textiles*
    - *Footwear*
    - *Sporting Goods*
    - *Pleasure Boats and Equipment*
    - *Tools, Hardware and Housewares*
    - *Residential Furniture*
    - *Business and Institutional Furniture*
    - *Giftware and Crafts*
11. Electrical Power Equipment and Services
12. Environmental Industry
13. Fish and Seafood Products
14. Forest Industries
15. Information Technologies and Telecommunications
    - *Overview*
    - *Telecommunications Equipment and Services*
    - *Software Products, Computer Services and New Media*
    - *Geomatics*
    - *Computers, Peripherals and Instrumentation*
    - *Electronic Components*
16. Medical and Health-care Products and Services
    - *Medical Devices*
    - *Pharmaceuticals*
    - *Health-care Services*
17. Metals, Minerals and Related Equipment, Services and Technology
18. Oil and Gas Products and Energy Equipment
19. Resource Equipment and Technology
    - *Agricultural Technology, Machinery and Equipment*
    - *Ocean and Marine Shipboard Technology*
20. Space
21. Tourism
22. Urban Transit and Rail Equipment

For information on how to receive the Overview, or additional Industry Sector Strategies, please call: 1-800-267-8376.

All monetary figures in this document are expressed in Canadian dollars unless otherwise indicated.

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Aussi disponible en français sous le titre Matériel de transport urbain et ferroviaire.

URBAN TRANSIT AND RAIL EQUIPMENT

In establishing sector strategies for international business development activities, the focus will be on the urban transit equipment and freight railway equipment subsectors, which offer trade growth opportunities.

Canadian Position

Virtually all Canadian urban transit and rail systems and vehicles are supplied by domestic sources. The sector comprises a small number of major assemblers and approximately 250 component suppliers. In 1994, the industry shipped approximately $2.2 billion worth of goods. Over 70 percent of shipments were destined for foreign countries, almost all to the United States. Canadian manufacturers hold some 20 percent of the overall U.S. urban transit and rail market. In some years, Canada-based urban bus manufacturers have accounted for 50 percent of the U.S. market. Canadian companies have the proven technologies, expertise, new products, operational efficiency and proximity to continue to expand their share of the U.S. market.

Some of the major products and services provided by the Canadian industry include:

- rail rolling stock: passenger and freight;
- turnkey passenger rail systems;
- buses: large transit conventional, low-floor and alternate-fuelled, inter-city coaches, and para-transit and school buses;
- diesel locomotives: D-C and A-C traction;
- signalling and communication systems;
- advanced train control systems; and
- consulting services such as the development and implementation of management information systems (MIS); intermodal operations; supervision of rail construction; and locomotive rehabilitation programs.

International Environment

In 1994, exports of rail equipment, principally to the U.S., were close to $1.4 billion. Rail equipment imports in 1994 were in the order of $732 million, thus generating a trade surplus of about $665 million. Total sector exports constituted about 1 percent of total Canadian end-product exports in 1994.

The market outlook for guided urban transit systems and inter-city passenger rail equipment is very promising. Significant opportunities for Canadian mass transit suppliers exist, particularly in the United States, Mexico and Southeast Asia.

The U.S. guided urban transit systems and inter-city passenger equipment market was estimated at $90 billion for the five-year period to 1997.

The North American market for freight equipment continues to be extremely bright. Sales of freight cars doubled to approximately 50 000 from 1992 to 1994. U.S. market opportunities improved with the implementation of the Canada-U.S. Free Trade Agreement (FTA) tariff cuts, which are to be completed by January 1, 1998. Mexico's moves to modernize its transportation infrastructure also present real opportunities for Canadian companies. The focus will be on Mexican government procurement to upgrade the transportation infrastructure.

Sales to non-U.S. markets have increased significantly since 1993, particularly through offshore systems or turnkey procurements. Sales, as part of long-term systems contracts, totalled just under $1 billion in 1994 alone.

The Asian market presents opportunities for Canadian urban transit products and services as well as for railway systems and engineering. A number of Chinese rail projects are under scrutiny by Canadian companies.

In Latin America, privatization offers new opportunities for the supply of equipment and consulting services. Rail standards are the same as those in Canada, and it is a relatively close and inexpensive market to service. However, in the short term, financial constraints may dictate that Latin American countries focus on upgrading and refurbishing existing plants and equipment.

In Africa and the Middle East, including Israel, there are opportunities for consultants and suppliers of locomotives and rail-maintenance equipment. Many of the opportunities in Africa are with major railroad rehabilitation projects financed by the African Development Bank or the World Bank.

Since 1992, the Australian National Rail Corporation has implemented a $410-million construction and renovation program aimed primarily at building standard-gauge systems and improving current infrastructure and signalling systems on major routes. This program may provide opportunities for Canadian manufacturers.

At approximately US$3 billion annually in loan approvals, the transportation sector is second only to agriculture as the World Bank's largest development target. The focus of the affiliated regional development banks is similar. Infrastructure, including roads, bridges and public transport, remains a basic requirement for many developing countries.

Main Challenges

Canadian manufacturers of mass-transit equipment have done reasonably well in the large U.S. market, despite such non-tariff barriers as the federal Buy America Act. However, significant opportunities exist to increase market penetration if these barriers are removed. The Buy America provisions of the U.S. Intermodal Surface Transportation Efficiency Act (ISTEA) require 60-percent U.S. content and final assembly in the United States. These requirements have forced Canadian assemblers of rail vehicles and component suppliers to establish an additional plant or relocate to the United States.

Canadian opportunities to participate in U.S. high-speed rail projects will also be restricted by local content requirements.

In the freight rail car sector, different leasing rules in the U.S. present some challenge for Canadian manufacturers. Leasing firms are major purchasers of freight rail cars, which are in turn leased to railroads or shippers. Generous leasing rules in the U.S. have skewed the leasing business in favour of the U.S. manufacturers, as the building of freight cars and the follow-on servicing and administration of lease fleets tends to follow the leasing arrangement, resulting in reduced opportunities for Canadian manufacturers.

One important challenge that remains in the sector is that too few Canadian companies, especially small and medium-sized enterprises (SMEs), are involved in export activities. Furthermore, there is a need to diversify export markets beyond the U.S. for these manufacturers.

Canadian companies are not pursuing potential international financial institution (IFI) projects at an early enough stage of development to be successful when a formal request for proposals is issued.

Strategic Direction

The Government's activities will focus on urban transit equipment, principally passenger rail cars and buses, and freight rail equipment. Significant opportunities in these subsectors can be supported with selective trade and investment promotion activities.

Removal of the existing U.S. non-tariff barriers would provide significant opportunities to increase market penetration, particularly for small Canadian urban transit suppliers. Industry Canada (IC) is involved, along with transit equipment manufacturers and the provinces of Ontario and Quebec, in the conception, funding, and implementation of a joint action plan aimed at achieving a consensus on both sides of the border in favour of liberalized procurement rules. IC will continue to work closely with the Department of Foreign Affairs and International Trade (DFAIT) in the formulation of Canadian positions as the negotiations progress.

For urban transit equipment and systems, IC and DFAIT will encourage a stronger Canadian presence at the next Union Internationale des Transports Publics (UITP) Show, particularly by SMEs. The focus will be on the promotion of the 1999 UITP Show, to be held in Toronto. Likewise, both departments will encourage first-time involvement by SMEs in the sector at the 1996 American Public Transit Association Show in Anaheim.

IC will continue to work closely with the Canadian Association of Railway Suppliers to prepare a further submission to the Government seeking competitive Capital Cost Allowance (CCA) provisions for freight rail cars, to match what industry perceives to be the more generous regime found in the United States. Canadian railways and leasing companies are also participating in this initiative. The Government will continue to support industry efforts to achieve a bilateral industry consensus in favour of accelerated removal of the remaining Canada-U.S. tariffs on freight cars.

Building on the success of the recent Team Canada[1], rail mission to China, similar opportunities in that country for buses of all kinds will be explored. Data on technical requirements in potential foreign markets (e.g. left-hand versus right-hand drive) will be accumulated and disseminated to Canadian manufacturers. Opportunities for the sale of new and used buses to Central and South America will be pursued through active consultation with the industry, the Canadian missions, and the Canadian Urban Transit Association.

With regard to opportunities in Mexico, the Government will disseminate the results of a survey undertaken to determine opportunities in Mexico for Canadian transportation products and services, and the type of commercial arrangements most likely to be successful in exploiting these opportunities.

The transportation sector was identified by the Task Force on IFI Procurement as a key sector for attention by the interdepartmental Capital Projects Action Team (CPAT). CPAT is a recently completed initiative aimed at focussing and co-ordinating existing government resources on a limited number of high-potential IFI opportunities where industry is exercising leadership and collective commitment. Several high-potential countries have been identified in Asia (China, Indonesia, India, the Philippines, Vietnam) and Latin America. The Overview section of *Canada's International Business Strategy* (CIBS) provides a description of the role of IFIs.

Contacts

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[1] To serve business more effectively, the Government is pursuing new approaches, based on a Team Canada partnership with the provinces and the private sector, to help Canadian enterprises compete internationally.

Activity	Date	Location	Dept.	Contact
Asia-Pacific South				
Malaysia Transportation Sector Media Strategy	01-Apr-96	Kuala Lumpur	DFAIT	613-996-5824
Thailand Rail Transport Mission	20-May-96	Canada TBD	DFAIT	613-995-7662
Ausrail '96: Info Booth	22-Aug-96	Brisbane	DFAIT	613-995-7652
Australia: Rail Transport Mission	01-Sep-96	Canada TBD	DFAIT	613-995-7652
East Asia				
Rail Transport Mission	01-Apr-96	Montreal/ Toronto	DFAIT	613-995-6962
Korea Transportation Infrastructure Study	01-Oct-96	Seoul	DFAIT	613-995-8744
Third International Railway Equipment Exhibition: Info Booth	09-Feb-97	New Delhi	DFAIT	613-996-5903
United States				
Transportation Newsletter about the U.S. Market	Ongoing	Chicago	DFAIT	613-944-7486
New England Transportation Industry Market Study Update	31-May-96	Boston	DFAIT	613-944-7486
International Public Transit Exposition: National Stand	07-Oct-96	Anaheim	DFAIT	613-944-7486

Note: Dates and locations are subject to change.

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 initialisms used in Canada's International Business Strategy

(This list does not include sector-specific references.)

AAFC	Agriculture and Agri-Food Canada
ACOA	Atlantic Ca
APEC	Asia-Pacifi forum
ASEAN	Associatior
BBS	electronic
BOOT	build, own/
BOSS	Business O System
CCC	Canadian C
CIBS	Canada's Ir Strategy
CIDA	Canadian I Agency
CIS	Commonwe
CSA	Canadian S
DFAIT	Departmen Internation
DFO	Departmen
DND	Departmen
EC	Environmer
EDC	Export Dev
EU	European U
FITT	Forum for I
FORDQ	Federal Office of Regional Development — Quebec
FSU	former Soviet Union
FTA	Canada-U.S. Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada

IBOC	ternational Business Opportunities entre
	dustry Canada
	ternational Development Research entre
	ternational financial institution
	ternational Standards Organization
	ternational Trade Advisory ommittee
	ternational Trade Centre
	inistry of Agriculture, Fisheries and ood of Quebec
	ultilateral development bank
	ultinational enterprise
	orth American Free Trade Agreement
	orth Atlantic Treaty Organization
	itional Research Council
	itural Resources Canada
	itural Resources Canada — nadian Forest Service
	itional Sector Team
	ganization for Economic -operation and Development
	ogram for Export Marketing evelopment
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SME	small and medium-sized enterprise
UNEP	United Nations Environmental Program
WED	Western Economic Diversification
WTO	World Trade Organization

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