

# CANADA

## Overview

Although Canada continues to face a growing debt and smaller growth rates in the mid-1990s, its well-diversified and high technology economy provides many opportunities for U.S. firms. Canada is the United States' largest trading partner with bilateral trade estimated at \$350 billion. Geographic proximity and similar levels of economic development provide a positive environment for both commercial and defense firms.

## Defense Industry Environment

Canada's defense spending continues to decrease as the Government of Canada enacts deficit cutting measures. As presented in the FY 1996/97 budget, Canada's Department of National Defence (DND) must reduce its budget from \$10.5 billion to \$9.2 billion by 1998. The budget reduces current defense allocations by \$800 million, which will delay major procurement and capital projects. To absorb the budget cuts, the DND will close one base and reduce operations at another, trim training and military exercises, adopt practices such as purchasing "off-the-shelf," privatizing services, purchasing goods that are multi-functional and decreasing the amount of noncompetitive procurement. Changes in the international defense environment will also influence the new procurement principles and continue to reflect emphasis on peacekeeping operations and sovereignty patrols. Cuts to the capital program will require a review of the priorities of capital expenditures.

The composition of the Canadian defense industry is mainly companies that serve market niches and have other commercial interests outside defense. The industry and its companies have developed in this manner due to trade agreements with the United States, such as the Defense Development Sharing Agreement (DDSA) and the Defense Production Sharing Agreement (DPSA). Because of this growth style and the relatively small domestic defense market, much of the defense R&D funding has pushed along other commercial technological development. With restraints on defense spending growing, concerns of a chain reaction that may impede growth in related sectors continue to develop. One possible bright spot, however, is the creation of the new Technology Partnerships Canada fund. The FY 1996/97 budget presented this fund as an aid to reduce costs of high technology product R&D. The value of the fund will be approximately \$150 million in 1996-97 and \$250 million in 1998-99.

Canada's defense sector consists largely of electronics companies and aerospace firms that produce sub-systems or sub-assemblies for inclusion in final products. They cover areas of the industry such as: communications and radar equipment; navigation systems; sensors; computer systems and software; anti-aircraft defense systems; major sub-assemblies (wings, fuselage components, flight controls, landing gear); and, other special purpose electronic components. Some sectors, such as ammunition and light armored vehicles, have a large percentage of goods produced by sole-source contract holders or by companies that possess a large share of the market.

Foreign interest in the Canadian defense market is evident in two fashions: suppliers and ownership. Foreign sources account for approximately 60 percent of the supply, with the United States representing the vast majority. Parent companies of firms operating in the Canadian defense industry are primarily Canadian or U.S.-owned. Nonetheless, companies of third countries operate in Canada as well. The major international competitors in this market include divisions of General Motors, Boeing, Pratt and Whitney Canada Inc., Bell Helicopter Textron, Rolls-Royce Canada Limited and McDonnell Douglas Canada Limited. The largest domestic suppliers of defense equipment include CAE Electronics Limited, Canadian Marconi Company, Computing Devices Company, Spar Aerospace Limited and Bombardier Inc.-Canadair Limited (including De Havilland).

## **Defense Opportunities**

The Canadian defense market is becoming more streamlined and cost-effective in response to ongoing budget cuts. As a result, purchasing "off-the-shelf" in a piecemeal fashion and taking more time to make procurement decisions have become more common. Furthermore, goods will face fierce competition and will need to meet the same requirements at lower costs. According to the 1994 "Defence White Paper," defense acquisitions will be cut by at least \$15 billion over the next fifteen years. This will limit the capital investment to weapons systems viewed by the government as contributing to only core capabilities. The DND will attempt to refurbish current equipment and extend its life whenever possible.

A forecast for large-scale procurements is difficult to obtain. The DND has proposed many "wish lists," but the challenge is obtaining appropriations for the projects. Approved acquisitions include search and rescue helicopters and armored personnel carriers. Other unapproved hopefuls include frigate-based maritime helicopters, submarines, multi-role support vessels, weapons effect simulators, air-to-air refueling planes and joint command and control operational information systems.

Despite the ominous forecast for large procurement projects, the need for goods that sustain military operations still exists. These goods are non-defense products and are within the scope of the General Agreement on Tariffs and Trade (GATT), the U.S.-Canada Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA). This coverage, along with the trend toward privatization, gives U.S. firms easier access to Canadian markets for items such as office supplies, food services, auxiliary fleet support products (tug boats, tankers, barges), computer system support and aircraft maintenance services.

## **Defense Procurement Process**

The principal contractor for goods and services is the Department of Public Works and Government Services (PWGS) (formerly known as Supply and Services Canada). This department acts as the central purchasing agent for all federal departments and agencies. Implementation of the FTA expanded the scope of government procurement to free and fair (non-discriminatory) competition between U.S. and Canadian suppliers. The FTA applies to goods

purchased by selected agencies of the Canadian federal government but does not cover some sectors, such as defense and provincial and municipal government procurement. The FTA requires clear, fair rules of bid selection and provides for an effective Bid Challenge System (BCS).

In 1990, PWGS moved to a more open and competitive bid procedure covering GATT and FTA purchases. Under these procedures, U.S. companies no longer need to pre-qualify to submit bids on GATT and FTA/NAFTA procurement. Bidding on these procurements is straightforward, and U.S. firms generally report few problems with the procedures. PWGS provides bid packages that contain all of the specific information and product specifications required to submit a bid. Companies must specify the particular procurement of interest by citing the bid solicitation number listed in the procurement notice when they request bid packages.

Most PWGS procurements, especially those covered under GATT and FTA/NAFTA, are on the electronic bulletin board operated by the Open Bidding Service (OBS). This service discloses information relevant to the contract tender, such as contract histories and which companies have already ordered bid documents for a given opportunity. It also gives a seven-day advance notice of sole-source contract awards to allow other suppliers to challenge the award. The Canada Communications Group publishes the "Government Business Opportunities" (GBO) bulletin in hard copy three times per week that contains similar information to that of the OBS.

In order to take advantage of either the electronic bidding system or the GBO, an interested firm must subscribe to the OBS. Subscription fees vary with the amount of services desired. An online subscription to OBS costs \$130 per year, plus an additional log-on fee of \$0.40 per minute (deducted from a required minimum deposit of \$100). A one-year subscription to the GBO is \$525. The bid request line, the channel through which companies request bid documents, costs \$37 per year and an average of \$6.20 per document received (depending on length).

When submitting bids on Canadian government procurement, a firm should respond to the specific requirements outlined in the bid documents and reply by the indicated deadline. The bid documents provide a wealth of useful information for writing a proposal and include contacts if questions should arise.

## **Procurement Contacts**

Listed below are useful contacts for additional procurement information.

Canada Communications Group  
Public Works and Government Services  
Canada  
45 Sacre-Coeur Boulevard  
Hull, Quebec K1A 0S9  
Tel: (819) 956-4800  
Fax: (819) 994-1498

Open Bidding Service  
Bid Request Line  
P.O. Box 22011  
Ottawa, Ontario  
K1V 0W2  
Tel: (613) 737-3374  
Tel: (800) 361-4637

Department of National Defence  
Director General, International and Industry  
Programs  
101 Colonel By Drive  
Ottawa, Ontario  
K1A 0K2  
Tel: (613) 992-3719

Foreign Affairs and International Trade  
Canada  
Trade Opportunities Division (for defense)  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, Ontario  
K1A 0G2  
Tel: (613) 996-1758

Industry Canada  
Aerospace and Defence Branch  
235 Queen Street  
Ottawa, Ontario  
K1A 0H5  
Tel: (613) 957-9417

## **Diversification/Commercial Opportunities**

As a result of increased conservative control and budget constraints, the Canadian federal and provincial governments are actively pursuing privatization of operations in many key areas. Federally, the Canadian National Railway and Air Canada are both fully privatized, while approximately 50 percent of Petro Canada has been privatized. Across the nation, airport authorities continue to be established as not-for-profit corporations which control the management and operation of airport facilities in various cities. Interest remains, but to a lesser degree, in the commercialization of Canada's Air Navigation System.

On the provincial level, the electric companies and retail liquor outlets are potential candidates for privatization. In fact, Nova Scotia has privatized its electric company and Alberta, its liquor stores. The health care industry will most likely see some form of privatization as well, and thereby afford continuing commercial opportunities.

The following industry sectors have been highlighted by the Commercial Service as good prospects for U.S. exporters.

*Computer Software*

The Canadian software market is projected to grow at an annual rate of between ten and 12 percent during the 1996 to 1998 period. Factors supporting this growth include increased use of computers in the workplace as well as the increased proliferation of computer technologies in non-business markets, such as the home consumer market, the educational market, the entertainment and in-house publishing industries, and the reference/information markets. According to a recent Statistics Canada survey, almost half of the workforce - 48 percent - is using computers on the job, compared to 33 percent in 1989, and this trend is expected to continue.

Price competition, particularly in the personal computer software area will continue as firms compete for market share in specific industry segments and platforms. Sales of personal computer software is projected to be one of the fastest growing software categories, but due to price reductions, revenues will grow at about half of the projected gain in unit volume. Corporate and home consumers continue to purchase a greater variety of software packages, and their hardware procurement decisions will increasingly be based on the available types of software/variety of applications, rather than on the types of hardware they own (the traditional purchase factor only a few years ago).

Development of new personal computer operating systems will also contribute to the demand for new applications software for personal computers. Increasing demand for multimedia capabilities and applications will also substantially increase the demand for highly sophisticated software packages.

The proliferation of inter and intra company networks will boost demand for networking software, groupware software, and middleware software. This phenomenon will also contribute to increased demand for consulting services, particularly in client/server and networking systems integration.

Although U.S. companies continue to be the dominant suppliers of computer software in the Canadian market, Canada's software industry has a strong nucleus of companies that have achieved international recognition as technical and market leaders for their products. Most of these products are niche-oriented, with well-known applications in computer graphics and animations, advanced programming tools and languages, geographic information systems, forms-processing software, and educational/computer-based training products. Also noteworthy are Canadian achievements in specialty software areas like remote sensing, telecommunications network management, expert systems for mineral processing, real-time systems design, process and industrial control, geophysical engineering and power systems analysis.

Third-country competition for U.S. software and services firms in Canada are from such Third World nations as China and India, which supply programming and software services for a fraction of the cost of North America. To maintain their dominant position, U.S. companies must supply quality products in multiple formats and utilize cost effective distribution channels.

Demand for computer products and technologies is expected to increase approximately

three to six percent annually during the 1996 to 1998 period. Recent strategic partnerships in the computer industry will further increase the already intense competition in this industry, thus resulting in further price reductions and marginal gains in revenue growth during the forecast period. As a result, price and distribution channels continue to be critical success factors in the Canadian computer hardware and peripherals market.

Relatively little value-added work is being done by the Canadian computer hardware manufacturing sector. Most major components such as semi-conductors, disk drives and circuit boards are imported, with typically only final assembly or packaging done in Canada. As a result, the majority of Canadian computer hardware and peripherals market demand is satisfied by imports. Although the United States remains the dominant supplier of such products for the Canadian market, competition from third countries with low production costs (such as Southeast Asian countries) is expected to increase. Nonetheless, since Canada represents a sophisticated market of consumers demanding superior quality technologically advanced products, U.S. companies with competitively priced products, effective distribution channels and strong customer service will likely remain the dominant import suppliers.

The trend to downsize computer systems from mainframes and mini computers to personal computers and personal workstations (a hybrid of personal computers and low-end workstations) will remain strong. Portable computer products are expected to represent a fast growing segment of the Canadian personal computer market, accounting for 25 percent of all personal computer sales in Canada in 1995.

The home/consumer computer market is growing rapidly, and accounts for a significant part of Canadian demand for personal computers. This market segment demands personal computers equipped with multimedia systems and good graphics. This will also drive Canadian demand for associated products such as CD-ROM players, sound cards, and video accessories.

In the business sector, computerization of Canadian companies will continue to increase and more companies will likely adopt advanced processing machinery requiring computer technologies. According to a Statistics Canada survey, almost half of the Canadian workforce - 48 percent - is using computers on the job, compared to 33 percent in 1989.

Demand for computer networking hardware products will also increase significantly as corporate re-engineering continues in search of operational efficiencies and includes the networking of corporate computer systems.

### *Telecommunications*

Valued at \$3.9 billion in 1994, the mature Canadian telecommunications equipment market is diverse and sophisticated. Despite the dominance of several Canadian companies in the worldwide telecommunications market, the Canadian market remains extremely receptive to imports (primarily from the United States) which were just over US\$2 billion in 1994.

Even though the number of users is not growing substantially, the market continues to

grow due to increased competition. Companies are forced to purchase new equipment in order to remain competitive with the new players who enter the market. Progressive deregulation of the Canadian industry by its regulating body, the Canadian Radio-Television and Telecommunications Commission (CRTC), has set the stage for increased competition which is mainly from U.S. companies engaged in joint-ventures with Canadian manufacturers.

Adding to this, Canada's largest manufacturer of telecommunications equipment, Northern, recently abolished its long-standing preferred supplier arrangement which favored Canadian companies. Consequently, improved market access for U.S. telecommunications equipment suppliers should result in greater sales opportunities. Significant opportunities for U.S. exports remain in applications for asynchronous terminal mode (ATM) technology and integrated services network (ISDN) technology.

### *Pollution Control Equipment*

The implementation and enforcement of stricter federal and provincial environmental legislation during the past three years has positively impacted demand for pollution control equipment in Canada. This market sector is forecast to grow by at least two to three percent annually in real terms through 1997. The primary Canadian end-users of such equipment are the pulp and paper, chemical, metallurgical and textile industries.

Implications for U.S. suppliers are positive, especially considering the fact that Canada currently imports about 37 percent of its needs for environmental technology. Increasingly, Canadian companies are in need of products and services which focus on pollution prevention rather than "end-of-the-pipe" reactionary solutions. Volatile organic compounds, a precursor to smog, are a problem throughout southern Ontario and Quebec, the Vancouver area, and New Brunswick. The demand for environmental technology in western Canada is also expected to grow substantially, and environmental initiatives should represent increasing opportunities for U.S. firms. Demand for water pollution equipment is also expected to increase as a result of increased public and political concerns about protecting and restoring Canada's aquatic environment.

In marketing pollution control equipment and services to Canada, U.S. suppliers also benefit from several advantages, including advanced technical know-how, proximity to the market, and reduced tariffs under the NAFTA.

### *Medical Equipment*

The Canadian market for medical equipment is dominated by foreign manufacturers who supply 80 percent of the market. U.S. manufacturers traditionally account for 75 percent of Canadian imports of medical equipment. U.S. suppliers face third-country competition from Asian countries (which benefit from low production costs) and from European countries, such as Germany and the United Kingdom, which focus on specialized products.

Socialized medicine has established Canada as one of the world's strongest markets for medical equipment. Several factors will continue to impact market demand for medical equipment in

Canada in the coming years, foremost of which is the country's aging population. As Canada's population ages, there will be increasing demand for products such as electronic cardiovascular and patient mobility devices. Also, in a continuing effort to reduce healthcare costs, the Canadian industry will be using more specialized equipment to reduce the need for medical staff and professionals. Therefore, despite the many recent hospital closures occurring in Canada, opportunities in a wide spectrum of product areas will continue to exist.

### *Electronic Components*

The total market value of the Canadian electronic components industry is difficult to estimate, given its marked fluctuations and the breadth of the market. None-the-less, with strong growth projected in the telecommunications and information technology sectors over the next 12-18 months (approximately ten to 12 percent annually), the electronic components industry should perform in the same range as well. A considerable portion of the imports from the United States in this sector are brought to Canada for additional processing and are then re-exported. A strong domestic market exists with some major Canadian firms producing for export as well. Innovative or cost-effective technologies employed by U.S. companies to introduce new components or improve existing ones, should allow them to compete effectively in this marketplace in areas such as satellite parts and components, semi-conductors and electronic transformers.

### *Aerospace*

Paralleling the situation in the U.S. market, Canada's aerospace industry faces difficult challenges throughout the remainder of the 1990s. Analysts agree that the current restructuring trend will continue as the long-term focus of the industry continues to move away from defense-related manufacturing. The total defense component of the Canadian aircraft and parts industry stood at approximately 30 percent of the total Canadian market in 1994. Consequently, this relatively high civil component has in part offset the impact on Canadian industry of a shrinking defense market. In terms of scale, Canadian firms are typically not as large as their international rivals. The competitive strengths of Canada's aerospace industry are rooted in its early conversion from defense to commercial production. The local market is primarily dominated by several U.S. - owned subsidiaries which produce parts and components for export. Local production of aircraft is limited to commuter aircraft, business jets and helicopters.

## **Key Non-Defense Ministries**

Transport Canada  
International Marketing & Programs  
Place de Ville, Tower C, 24th Floor  
Ottawa, Ontario  
K1A 0N5  
Tel: (613) 990-5578

Health Canada



Materiel Management Divisions  
Jeanne Mance Building  
Tunney's Pasture  
Ottawa, Ontario  
K1A 0K9  
Tel: (613) 941-3724

Environment Canada  
Materiel Management  
Procurement and Contracts  
Terrasses de la Chaudiere  
11 Wellington Street, 28th Floor  
Hull, Quebec  
K1A 0H3  
Tel: (819) 997-2800

## **Doing Business in Canada**

Business practices in Canada are similar to those in the United States. This is not to say, however, that doing business in Canada is exactly the same as doing business in the United States. U.S. business travelers to Canada should be sensitive to cultural and language differences and allow adequate time for the development of personal contacts in business dealings. Trade agreements have placed U.S. firms on the same level as Canadian firms and provide an excellent structure in which companies can increase their business. This allows U.S. companies to compete without discrimination for opportunities above and beyond the ability of third countries. With total trade between the United States and Canada in excess of US\$350 billion per year, and total U.S. direct investment in Canada of \$96 billion in 1994, Canada represents enormous business opportunities for U.S. companies.

## **Trade and Investment Regulations**

NAFTA, FTA and GATT do not cover trade in defense products. Rather, bilateral defense arrangements, which have roots dating from the 1950s, govern defense trade between the United States and Canada. Current trading patterns reflect the defense production and the acquisition framework established by the U.S.-Canada Defense Development Sharing Agreement (DDSA) and the Defense Production Sharing Agreement (DPSA). Under these agreements, Canada discontinued its development of major weapons systems to concentrate on areas in which it had a competitive advantage. It began to focus its resources on manufacturing products in the communications, navigation and transportation fields.

Since defense products do not have coverage under NAFTA, FTA or GATT, some barriers impede entrance into the Canadian market for U.S. suppliers. These barriers are mostly non-tariff barriers in the form of legislation or policies. Usually the legislation or policies deal with product import restrictions, government incentives for businesses or restrictions for security reasons.

U.S. foreign investment in Canada is subject to the Investment Canada Act, but the NAFTA further defines the investment relationship between the two countries and adopts the principle of national treatment. Although most sectors of the Canadian economy are open to foreign investment, there are several sectors where foreign investment is limited or prohibited. Three sectors subject to special investment rules of particular concern to U.S. investors are cultural industries, telecommunications and financial services.

There is no discrimination against U.S. foreign investors in any aspect of import or export trade. Foreigners can engage in all import and export activities permitted to a Canadian national. However, permits are required for the import or export of certain commodities, including armaments and strategic goods.

With respect to intellectual property, the "Paris Convention for the Protection of Intellectual Property" affords protection for patents, trademarks and industrial designs. Copyright protection is also provided under the "Universal Copyright Convention."

## **U.S. Government Points of Contact**

Listed below are useful points of contact for U.S. firms interested in the Canadian market.

### **U.S. & Foreign Commercial Service**

U.S. Embassy  
100 Wellington Street  
Ottawa, Ontario  
K1P 5T1  
Tel: (613) 238-5335  
Fax: (613) 238-5999

### **U.S. Defense Attache Office**

U.S. Embassy  
100 Wellington Street  
Ottawa, Ontario  
K1P 5T1  
Tel: (613) 238-5335

### **Trade Associations**

Aerospace Industries Association of Canada  
Suite 1200  
60 Queen Street  
Ottawa, Ontario  
K1P 5Y7  
Tel: (613) 232-4297  
Fax: (613) 232-1142

### **Canada-U.S. Business Association**

191 The West Mall Suite 1105  
Etobicoke, Ontario  
M9C 5K8  
Tel: (416) 621-1507  
Fax: (416) 620-5392