DOING BUSINESS WITH CANADA?
HERE ARE FIVE INDUSTRIES WITH THE GREATEST POTENTIAL

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Canada was the United States’ largest goods export market in 2015 and was the United States’ second largest supplier of goods imports that same year.

According to the Department of Commerce, U.S. exports of goods and services to Canada supported an estimated 1.7 million jobs in 2014 (latest data available) (1.3 million supported by goods exports and 394 thousand supported by services exports).1
While similar cultural and business norms facilitate trade between the United States and Canada, there are important differences. And not all Canadian markets are created equal.

Here we outline some of the top considerations for U.S. companies doing business in Canada and the industries with the most potential today including manufacturing, agriculture, forestry, infrastructure and energy.

Cultural & Business Norms: Similarities and Differences

The Canadian legal system is based on British Common Law. Contracts are considered to be the basis of business deals. In the case of disputes, Canadians often seek resolution via mediation. Formal legal action is available, but is typically seen as a last resort.

Inter-Provincial Trade is characterized by a number of regulatory differences among provinces. For example, certification bodies for teachers, welders, lawyers, doctors, nurses, pipe fitters, engineers, and many other professions and trades can impede individuals from working outside of the province(s) where they are certified. This is referred to as the Inter-Provincial trade barrier issue and is currently under review by the Provincial Trade Ministers. Inter-provincial movement of most manufactured goods is not regulated, and movement of trade goods across the country is similar to that in the United States.

Canada is the second largest country in the world in terms of square miles (or kilometers). More importantly, the U.S.–Canada border is the longest unprotected border (more than 5,500 miles/9,500 km) between two nations in the world. The population of Canada is roughly 10% that of the United States and approximately 75% of the inhabitants live within 100 miles (161 kilometers) of the Canada–U.S. border.

There are 119 border crossings, including seven unmanned crossings, and multiple rail and ferry crossing points. With so many access points, this border has experienced some of the highest traffic and has been a very active trade corridor for many years.

Logistics are well integrated and provide substantial connectivity between Canada and most U.S. states. Although much of the trade flows North–South, there is substantial connectivity inside Canada for moving people and goods from coast to coast. The TransCanada Highway, national and regional railways, excellent air travel and airports, and pipelines, move many products across the nation and to the coastal ports (Pacific, Atlantic and Arctic Oceans) for distribution to Europe, Asia, South America and beyond.

Canadian culture is a mixture of global immigrants and influences. For instance, with a population of just over 6 million inhabitants, Canada’s largest city, Toronto, is considered by many to be the most multicultural in the world, boasting more than 50% foreign-born residents and representing over 230 nationalities.

Canada’s diverse population also includes, but is not limited to, Asian cultures in the West, European cultures in the Prairies, and French and European roots in Quebec and in Atlantic Canada.
Canada has strong First Nations (not referred to as “Indian” in Canada) cultures that can be seen throughout the country. U.S. companies can take advantage of the relationships that these many cultural backgrounds bring to their business connections. This diversity provides an opening to develop or expand companies’ reach in Canada and in other global jurisdictions.

Canada embraces many other cultural identifiers: sports, food and music are keys to the Canadian identity. There is a strong undercurrent of patriotism in Canada, and there is pride in Canada’s solid reputation as a peacekeeper and community builder on the global stage.

Opportunities by Industry

Although Canada offers opportunity in most industries, there are some that have unique and specific potential today. Similarities between industries across the border, foreign exchange advantages and simply the growth potential of each sector within Canada are among them. This high-level review is designed to provide information on sectors that show great promise in Canada in the near future.

MANUFACTURING

The manufacturing sector shows several levels of development across Canada based on local markets. The most significant and sophisticated hubs for manufacturing are in Ontario and Quebec. Primarily developed to support the automotive, aerospace, telecom and pharmaceutical industries, these hubs boast clean and safe facilities, and many of the manufacturing companies employ world-class sophisticated and/or large-scale equipment in their processes and facilities.

Opportunities include the ability for U.S. companies to leverage these capabilities to reduce costs. Cost structures may allow for increased margins without compromising production quality. Time zone alignments and ease of transport can be a significant advantage for U.S. firms with Canadian manufacturing centers.

An acquisition or joint venture/alliance with a Canadian manufacturer could also open a large market north of the border to the U.S. firms.

Union dynamics may be the most important challenge to entering the Canadian manufacturing sector. While not necessarily different from those in the U.S. at the high level, the dynamics on the ground exhibit substantial differences, including certifications, safety and labor regulations.

Labor relations have been generally positive in recent years, and work disruption due to strikes and lockouts is uncommon. Canada has a large sophisticated and skilled workforce with more than two-thirds of the

CHOOSING A FINANCIAL INSTITUTION

Many firms with subsidiaries, operations or sales offices in both Canada and the United States need assistance with managing payables, receivables and currency, and arranging credit and treasury management services. Banking on both sides of the border with a U.S. financial institution that has a full-service branch in Canada can have significant advantages, including:

• Familiarity with your business and industry
• Faster response to treasury management and credit requirements in both countries
• Ability to lend to both your parent organization in the United States and its Canadian subsidiary
• Existing relationships with Canadian financial institutions, professionals and suppliers that can benefit your business expansion
• Assistance with streamlining of collateral and documentary relationships
adult population holding post-secondary credentials. The national unemployment rate is currently 6.8% and stable, with variations among provinces running between 5.9% and 12%.4

AGRICULTURE

Agriculture has been central to Canada’s economy coast to coast — for its entire existence as a country. From the fruit orchards in the West, to the grain and wheat of the Prairie provinces, to the wine regions in Ontario and British Columbia; from the world-class honey and maple syrup, to the dairy and meat producers across the nation, Canada is a significant food and crop producer.

Opportunities for U.S. firms: Much agricultural investment is in corporate farming, equipment and value-added foods. As smaller farms struggle to survive, consolidation remains a key growth strategy. This leads to a robust agriculture equipment sector that includes the financing tools and mechanisms farmers need to access state-of-the-art equipment. Canada has created many base crop export opportunities but has done less to extract value from the product before it is exported. U.S. companies can capture this value as they have access to developed distribution markets and the expertise to convert the raw product into end-use packaged consumer goods.

Challenges include controls around the agriculture and food industry, including the governing bodies, regulations (including GMO) and quotas that need to be understood by any inbound investor. U.S. agriculture companies should also be aware of the impact that trade agreements will have on this industry. The pending Free Trade Agreement (FTA) with Europe will bring significant increases in inbound investment and market expansion opportunities in Europe. U.S. firms interested in Europe can leverage this opportunity.

FORESTRY

The forestry industry in Canada is growing due to increased trade with, and demands from, China. As a result of recent softwood lumber disputes between Canada and the United States, Canada has developed new market channels, which are increasing the demand for softwood and specialty wood products. The industry has been slow to develop value-added wood products; therefore, the primary product is raw softwood.

Most provinces have a forestry industry and harvest various softwoods. The largest contribution to the softwood industry in Canada is from British Columbia. This province has a large endowment of boreal forest, roughly 126 million acres (51 million hectares), about 12% of the total in Canada.3 This resource has been carefully managed through an active reforestation policy in place for more than 25 years. The industry is cost-competitive and well-controlled, and maintains significant harvesting opportunities.

Opportunities abound for companies that can add value (for example, optimization of raw wood) to wood products and have access to markets in place to sell the end products. Sourcing opportunities also include technologically advanced mills with well-trained personnel. In addition to its high-quality processing infrastructure and abundant forests, Canada offers a potential for foreign exchange gain.

There are also opportunities to supply equipment to this growth industry, especially equipment that optimizes yield such as specialty milling equipment, robotics and control systems.

Challenges include the fact that the forestry industry in Canada and the United States is tightly knit, and softwood lumber issues in this sector are hotly debated today and have been for many years. U.S. firms would be well-advised to work closely with their Canadian partners as they develop their entry strategies into other markets outside of North America. Key consideration must be given to any new agreements between the U.S. and Canada on softwood lumber to determine the best target market.

Additional Considerations: Global market dynamics can change quickly. U.S. companies should be keenly aware of the openness of the U.S. market to softwood from Canada, new markets pulling the product to other regions/countries such as China and Eastern Europe. Given that these factors can change often and affect the market opportunity, companies should have a risk mitigation plan in place to ensure the success of the market investment.

KEY PILLARS TO BUILDING AND LAUNCHING AN EFFECTIVE STRATEGY

• Understand how the target market works
• Identify where your business fits within the available market
• Build a strategic implementation plan
• Execute the plan for successful market entry
• Measure the results and adjust to changing conditions
Energy is defined broadly for the purposes of this discussion to include opportunities for companies that support and/or supply this sector. Companies that are driving innovation and efficiencies, as well as first-, second- and third-tier direct suppliers, will find significant niche opportunities in the Canadian market especially if they can provide process improvements to current operations.

The energy industry in Canada generally consists of oil and gas, mining, renewables, and power production and distribution. Each has unique features, including the nature of the industry, regulatory controls, and the level of involvement by government.

They also differ from province to province, with various provincial controls and incentives in place to encourage or discourage investment and foreign involvement.

Energy is largely an export industry in Canada with more than a third of the oil, gas and coal production and more than 10% of hydroelectric power exported to the United States. Oil and gas remain Canada’s largest export commodity, and significant export growth potential exists.

The current market dynamics in Canada, including global prices for commodities, access to markets and environmental concerns make opportunities in Canada somewhat unpredictable at the moment. Low oil and gas prices have had a negative impact on the Canadian industry, as they have in the United States and elsewhere. In general, the Canadian oil and gas industry is cost-competitive on a global basis and will become healthy again as world oil prices stabilize above $50/barrel, creating significant financing and development opportunity.

Every region of Canada has significant hydroelectric development opportunity, and the recent emphasis on reducing carbon emissions will encourage further gains. Governments are increasingly involved in controlling the market with the objective of creating more green energy. This includes the goal of eliminating coal-fired power stations. A shift to a focus on renewable power is in its infancy, relatively speaking. This shift will lead to more hydropower and other alternate energy sources for power generation.

Opportunities exist for firms with clean technologies, renewable power generation products and innovations in hydrocarbon extraction. Because this is a mature market, companies will need to be truly ahead of the curve to be successful and will need to collaborate with seasoned companies to develop business.

Government spending in the area of renewable power generation and technologies will be significant both federally and provincially as the country attempts to meet aggressive greenhouse gas targets.

Watch for new incentives from all three levels of government for companies using or introducing clean technology.

Challenges include intensifying competition from foreign companies that have been entrenched for years. Established companies have a strong hold on the market and will guard their investment carefully and aggressively. New entrants will need to be innovative and internationally competitive.

Unlike in the United States, large energy projects in Canada tend to be located in remote areas away from urban populations. First Nations land claims and rights can be a significant factor for projects in the energy industries. Given the policies in place federally and provincially, indigenous groups in Canada must be consulted in projects being developed anywhere in northern Canada. This process often increases development time and cost.

Governments have tended to be pro-energy resource development. That support can help to offset the additional time and cost involved in working up agreements that achieve consensus with all the affected players, including First Nations groups. It also offers a unique opportunity for U.S. firms to partner with First Nations groups to gain an advantage when entering the market.

Infrastructure

Infrastructure, in this case, is broadly defined to include public-private partnerships, materials, the electrical grid and other elements required to build an efficient and safe infrastructure. As with most countries, the Canadian government has established plans and policies designed to encourage and fund infrastructure spending over the next 8–10 years. Billions of dollars will be spent on roads, bridges, schools, hospitals, ports, airports, urban railways, etc. These projects are typically initiated by the government agencies and require a wide range of products and services.

Infrastructure spending will be roughly aligned with the size of the provinces and the current infrastructure deficit in each province. Based on this formula, the key provinces to watch will be Ontario (also the seat of the federal government), Quebec, British Columbia and Alberta. Many billions will be spent in other regions of the country, but these four provinces account for 85% of the population and are therefore most likely to get the vast majority of the spending.

Opportunities abound for creative financial institutions with the tools needed to partner with government because much of this activity will be funded by deficit budgets. Private-public partnerships (P3s) will be required in many cases to achieve the goals. The focus on reducing the carbon footprint in the country will create opportunities for companies with energy-saving technologies. These may include improved process efficiency, innovative products and proven design expertise. Engineering firms will be the gateway for introducing these innovations to the market.

Companies that have designed, engineered
or built innovative infrastructure projects in the past will also be in demand across the country. Collaborating with or acquiring firms in architectural design, engineering or construction for their supply chain could be an effective entry strategy. Local governments (provincial or municipal) will typically lead the execution of these projects. Challenges include a government focus on ensuring local benefit. In-market jobs will be important but using local firms wherever possible will also be critical politically. U.S. firms wanting to engage in this space in Canada should consider strategic associations with well-positioned local firms. Additional considerations: Many Canadian firms will not be big enough to bid on the projects; they will need bigger associates. Also, because it involves government spending, the process will be slow, and the bidding will be complicated. Working with competent collaborators that have experience navigating public project work processes will be critical for success.

ABOUT RAINMAKER GLOBAL BUSINESS DEVELOPMENT

Rainmaker is a recognized leader in global market expansion and strategic business development. Founded in Canada in 2007 to serve the energy industry, Rainmaker GBD’s process has evolved beyond energy and today we excel at assisting companies in various industries to pursue international expansion opportunities. Our team of professionals works closely with our clients to develop comprehensive market entry strategies, enhanced market exposure and traction, and expanded global reach.

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ABOUT PNC BANK CANADA BRANCH

Established in Canada in 1998 and a Canadian commercial lending foreign bank branch since 2001, PNC Bank Canada Branch ("PNC Canada") offers specialized knowledge and experience to help you succeed in this vital cross-border marketplace. We offer:

- Experts who respond quickly to requests regarding treasury management and credit requirements and amendments
- Ability to lend to your Canadian operations in Canada
- Familiarity with your business and sector, along with existing relationships with Canadian financial institutions, professionals and suppliers that can benefit your business expansion
- Assistance with the streamlining of collateral and documentary relationships.

If you are a U.S. company with actual or projected operations in Canada, or a Canadian company, PNC Canada can assist you with credit, depository, and treasury management products and services.

1  https://ustr.gov/countries-regions/americas/canada (Office of the United States Trade Representative)
4  http://www.statcan.gc.ca/tables-tableaux/sum-som/601/cst01/lfss01a-eng.htm (Statistics Canada)
5  https://cfs.nrcan.gc.ca/StatsProfile/Overview/ca (Natural Resources Canada)

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