



Canada Heats Up as Export Market for U.S. Companies

A declining dollar reverses trade flow northward.

BY ANDREA MACDONALD

The U.S. remains the globe's economic engine (even with a possible economic slowdown in the wings) and now the focus is shifting to export opportunities as the dollar becomes weak. Among the places where this U.S. trade transition from 'buying' to 'selling' is occurring, arguably none is as important as Canada. Already one of our prime trading partners and largest export market (some two million U.S. jobs are tied to exports to Canada), the declining U.S. dollar is making U.S. products something of a 'blue light' special north of the border.

It's no secret that Canadians rely on imported products. On the industrial side, 80% of the machinery and equipment used in processes is imported, and Canadian businesses are investing in this area. Even Canadian exported goods contain some 30–35% of imported material. Now with the soaring "loonie," the nickname used in Canadian parlance to differentiate it from other currencies, as in 'the loonie performed well today on currency markets'), traditional domestic demand is surging.

The dollar has fallen 19% since 2002, with much of that decline happening in recent months. Few experts predict a

rebound any time soon. Bad news for American consumers and importers who have become heavily reliant on imported goods, but good news for American exporters (and those who hadn't previously thought of themselves as exporters).

U.S. businesses are well positioned to take advantage of Canadian demand, and smart ones are already doing so, as the latest trade numbers demonstrate. The U.S. Department of Commerce trade stats show that exports of goods and services grew by 11.8% year-to-date with Q3 slope the steepest in 4 years.

On the Canadian side, the reverse situation exists. The loonie has appreciated more than 60% since 2002, and more than 20% in the last six months of 2007. This has been a big blow to Canadian manufacturers who have been used to a currency that was valued at significantly less.

There is absolutely no consensus as to how this is going to shake out. In Canada, opinions vary whether and how long the loonie will stay above par with the U.S. dollar. But even at par, the Canadian dollar is stronger than in recent history, which makes American goods and services more affordable.

Canadian Trade Facts

Canada is the U.S.'s most loyal and significant trading partner. Here are some stats to back that up:

- 90% of Canada's 32 million people live within 100 miles of the U.S. border
- Canada's GDP is 70% trade dependent
- In 2006, Canada was the leading market for U.S. goods, totaling U.S. \$260.7 billion
- U.S. exports to Canada have exceeded all U.S. exports to the EU despite the fact that the EU has fifteen times the population of Canada
- The fastest growing Canadian commercial sectors are medical devices, security/safety equipment, oil and gas field machinery, computer software and water resources equipment and services



Sources: Industry Canada, Statistics Canada, U.S. Department of Commerce

The year of exports

Mary Anderson, President, Canadian Exporters and Importers Associations (I.E. Canada) says that the change is definitely a challenge for Canada's exporters, but that importers and consumers are seeing a benefit.

"Trade is a two way street. The change in currency value will hurt business and will lead to restructuring in Canada. But it also allows Canadian consumers a significant quality and diversity in the types of products they can now buy," says Anderson.

The strong Canadian dollar is fuelling the Canadian appetite for imports and as the closest exporter, the U.S. is well positioned to reap the benefits. Delays at land crossings between Canada and the U.S. have made headlines as Canadian shoppers rushed to find deals at American retail outlets. Online retailers are reporting significant increases in orders from Canada. Canada Post has reported double-digit increases in the number of packages coming into Canada from American retailers.

Canadian manufacturers are making the best of a bad situation. Focusing on productivity improvements to keep costs in check, many businesses have made investments in plant upgrades, new machinery and equipment, with many of these purchases coming from U.S. companies.

According to Anderson, it's time for Canadian businesses to re-group and create strategies for maximizing on the strength of the Canadian dollar.

"It's time for capital investment. They need to think smart, narrow their product lists and be global," she says.

So what are Canadians looking to purchase? The latest U.S. Commercial Services country profile (2006-2007) predicts that the optimal prospect sectors are automotive parts and services, electrical power systems, building

products, plastics materials, oil and gas field machinery, computers and software, medical equipment, agricultural machinery and equipment, water resources equipment and services, security equipment and franchising.

From the perspective of someone who finances trade transactions, Jim Fortsch, Head of ECA Finance, UPS Capital, says that UPS has seen increased global demand for products and services in the sectors of communications, telecommunications, broadcast, small aircraft, packaging equipment and services, and environmental products and services—and thinks it reasonable to expect much of the same in Canada.

"Many of our clients are looking to expand sales across the border," says Fortsch. "Currencies are appreciating against the U.S. dollar, which is allowing U.S. companies to win more business against their competitors."

"It is the year of exports," agrees Lynn Durning, Senior V.P. & Regional Manager, Wells Fargo HSBC Trade Bank. "Exports are highly influenced by the dollar and that drives volumes for our U.S.-based customers," says Durning.

In Buffalo, New York, Veneer Systems Inc., a producer and distributor of products for companies and individuals who work with wood veneer, has seen a tremendous increase in Canadian orders almost over night.

"I can't remember the last time I had this many orders going across the border," says John van Brussel, V.P., Veneer Systems Inc., "and the only thing I can attribute it to is the dollar."

Veneer Systems service a pretty specialized market with various lines of products but he sees sales growth occurring broadly.

"Everything is moving—definitely more so than in past years," says van Brussel.

To be sure, there are problems associated with the falling dollar that counter-balance the opportunity for more Canadian sales. Van Brussel says that many of the machinery, parts and supplies they distribute come from Europe where the euro has appreciated against the U.S. dollar. This means that machines are costing Veneer Systems more than they did a few years ago.

In terms of pricing, van Brussel enjoys a degree of flexibility most companies do not—Veneer Systems is able to adjust their prices several times a year as the currency values change. Furthermore, they do not have locked-in, long term contracts with customers, giving them freedom to alter prices as their own costs fluctuate.

The declining U.S. dollar is also a double-edged sword for Conklin, New York-based Samscreen Inc., which supplies portable screening media for the construction and mining industries. While the company expects an increase in Canadian sales, the cost of raw materials from Canada has also increased.

"Imports are more expensive, although our suppliers have been holding to our contract prices," says CEO Davis

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Fleming. But the 'net-net' looks positive. "The extra business we expect to pick up from Canada will more than offset the increase in raw material costs."

In the food import business, there is increasing interest from U.S. exporters looking to ship to Canada, but still not a lot of additional business. While U.S. agricultural exports into Canada are expected to reach \$77 billion in 2007 (the U.S. Department of Agriculture scaled up its projection nearly 7% at mid-year), there is a feeling on the Canadian side that U.S. companies view shipping food products into Canada as complicated and difficult with issues around packaging and labeling and language.

The **Canadian marketplace is so accessible** from a transportation and logistics standpoint that it's **worth a bit of extra compliance effort.**

Such concerns are largely unfounded, however, says a Canadian-based agri-food marketing rep. While there are supplemental requirements that must be met, the Canadian marketplace is so accessible from a transportation and logistics standpoint that it's worth a bit of effort. Also, there are programs offered through the U.S. Department of Agriculture that help fund the changes needed to make a food product ready for export.

Indeed, facilitated cross-border entry is a distinct advantage to trading in Canada. The country has put programs in place that make it easy for American companies to access the Canadian marketplace. Through the Non-Resident Importer (NRI) program, U.S. export businesses are able to qualify as importers of record, allowing them similar rights and privileges to companies located in Canada. The NRI program enables a U.S. business to operate in Canada without necessarily having a physical presence in the country, making entry into the market far less expensive than it would be otherwise.

Don't stop at Canada

If dollar devaluation is the principal driver for increased U.S. exports to Canada (something which few experts expect to change in the near future), it also is impacting other markets favorably.

But a word to the wise, currency fluctuates both ways over time. In order to protect against reversals from being on the wrong side of a dollar swing, Fortsch encourages companies to diversify their exports not only for aggressive growth but also as a defensive strategy.

"Expand your global business and use export related financial products, which can help mitigate risk and help [customers] develop their export capabilities," he recommends.

The Trade Bank's Durning agrees: "Focus on your core competencies and use your financial partners to help hedge against fluctuations," she advises.

Currency fluctuations are inevitable when financial mar-

Purolator: Specialists in Shipping to Canada

While he says it's still too early in this phase of the currency valuation game to know how much trade will expand northward, the head of the U.S. division of Canada's largest courier service and his colleagues have been putting the pieces in place to be primed for growth.

John Costanzo, President of Purolator USA for the past six years, has begun to see a pick-up in Canadian companies buying industrial equipment from U.S. vendors.

"In situations where people are building or replacing equipment and looking for better purchasing options, the U.S. is suddenly looking more appealing."

Organized with a staff of two in 1960 as the Canadian subsidiary of an American courier, Purolator has grown over four decades to become one of the country's largest employers. Although it has recently added inter-U.S. deliveries to its offerings to be able to increase the value proposition it can offer customers, the bulk of Purolator's traffic involves moving freight into and out of Canada.

As such, it is ideally positioned to exploit the export surge as Canada's largest integrated distributor.

"We want to own the cross-border trade; we focus 100% of our energy on that everyday."

Costanzo points out that Purolator is positioned to offer its Canada-bound customers faster service with better distribution at reduced costs. Rather than treat Canada "as the 51st state," which is how he characterizes the competition ("Canada bound packages get picked up in the sweep



John Costanzo, President of Purolator USA

of domestic freight and delivered in the same profile, which often means unnecessary air"), Purolator can consolidate Canada-bound packages in its U.S. distribution centers and deliver them via ground line haul overnight.

"With our service, we're going to consolidate your 100 packages and charge you one clearance charge. Other companies shipping to Canada will ship 100 separate packages, incurring 100 separate charges. We'll send it up as a consolidated freight shipment and then when it gets there, break it down into its parts."

Another benefit of this model—all the more valuable with the expensive loonie and cheap dollar—is the ability to eliminate dedicated Canadian distribution centers and ship directly from U.S. facilities via Purolator land haul next day delivery.

kets determine the value of freely traded currencies. Smart businesses know this, and prepare for fluctuations then take advantage of the opportunities that arise for changes in currency values. It is an exciting time for U.S. exporters—exports are surpassing imports, helping to narrow the trade deficit, and there is rising demand for American goods while economies around the globe are seeing an increase in currency values.

It could just be the perfect storm for American exporters. **WT**

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