



## 2016 Top Markets Report **Construction Equipment** Country Case Study

### Canada

Canada is the largest market for U.S. CE sector exporters. Sector exports of \$54.2 billion/\$10.8 billion (2011 to 2015 combined/annualized average) are over 170 percent greater than the amount of the next largest market. Construction and mining machinery make up the majority of CE sector exports. Canadian buyers prefer equipment with superior reliability and productivity, which provides U.S. producers with a relative competitive advantage. Low commodity prices continue to influence Canada's economy, which has dampened the demand for CE sector products. The country is still on track for modest economic growth, which should limit any sharp drops in sector demand.

Overall  
Rank

1

#### Canada's Export Market

Canada is by far the largest U.S. export market for CE sector products. The two countries' shared border/cultural values/business practices, membership in the North American Free Trade Agreement (NAFTA), and Canada's strong and stable economy make it one of the most important sector top markets.

For the period from 2011 to 2015, cumulative U.S. CE sector exports to Canada of \$54.2 billion (\$10.8 billion annualized average) accounted for 27 percent of the total global U.S. sector exports. U.S. exports to Canada were over 170 percent greater than the next largest export market of Mexico at \$31.0 billion. Construction machinery and mining machinery and equipment accounted for 69 percent of total sector U.S. exports to Canada worth \$37.5 billion. Exports of engines for use in these categories of equipment accounted for 24 percent of exports worth \$13.2 billion. Exports of pumps/motors and cylinders/actuators combined accounted for the remaining 7 percent of total sector exports at \$3.5 billion. Although U.S. CE sector exports to Canada have experienced short-term declines, long-term prospects are still positive. U.S. CE sector exports to Canada have grown 44 percent since 2000 at a Compound Annual Growth Rate (CAGR) of 2.7 percent.

#### Country Snapshot:

- Large export volume (largest U.S. CE sector export market)
- Long-term steady export growth/short-term decline
- Buyers value reliable/productive/technologically advanced products

After reaching a high of \$12.3 billion in 2012, U.S. CE sector exports to Canada have steadily declined to \$9.1 billion by 2015. This decline mirrored global export trends for the U.S. CE sector, as post-2008 recession spending leveled off. In addition to this post-recession spending adjustment, continued weakness in commodity prices for oil and ore have continued to slow export demand growth. Unlike more commodity export-dependent economies such as Brazil and lesser-developed markets in Africa, Canada's more diversified economy is better positioned to minimize the current low commodity price cycle.

Canada's CE sector market is quite similar to the United States. Buyers of U.S. CE exports are primarily engaged in commercial and residential construction, forestry, mining, oil and energy production. Many U.S. CE sector manufacturers operate Canadian business units for sales, service and manufacturing. Domestic Canadian

sector manufacturers also produce construction, mining and forestry equipment, as well as related service and repair parts to serve these end users.

Despite continued low prices, Canada is still a major global exporter of “in demand” commodities. Canada is a net exporter of crude oil and is the world’s fifth largest producer, exporting approximately \$100 billion annually at June 2015 prices.<sup>1</sup> The country is also among the world’s leading exporters of coal and gold.

### **Challenges and Barriers to Export**

U.S. CE sector exports face low barriers to trade in Canada. As a result of the 1988 enactment of the Canada-United States Free Trade Agreement (CAFTA) and the North American Free Trade Agreement (NAFTA) in 1994, U.S. CE sector goods enter Canada duty free.<sup>2</sup> Further, in 2015, Canada eliminated tariffs on machinery, equipment and inputs for industrial manufacturing.<sup>3</sup> To qualify for duty free treatment, however, CE sector products must satisfy NAFTA rules of origin requirements, which can be a difficult and complex task. To assist potential exporters with this requirement, the Department of Commerce maintains a website containing guidance on satisfying rules of origin requirements.<sup>4</sup> Construction, forestry and mining business practices in the United States and Canada are quite similar, so CE sector products manufactured for the U.S. market can be exported to Canada with very little modifications beyond bilingual English/French product labeling and documentation. Federal law requires bilingual labeling (aside from name and address), manuals, instructions, and any other accompanying documentation for most products sold in Canada. Currency fluctuations directly affect prices on CE sector products for Canadian buyers. Although the U.S.-Canada currency exchange rate has remained relatively constant in recent years, continued low oil prices will likely put downward pressure on the Canadian dollar, driving up the price of U.S. CE sector exports to Canada.

### **Opportunities for U.S. CE Exporters**

Generally speaking, the opportunity outlook for U.S. CE sector exporters is very positive. Under NAFTA, U.S. CE exporters face very few barriers to trade. In addition, the following factors further increase Canada’s attractiveness as an export market:

*Market stability:* While low prices on many of Canada’s export commodities persist, the Canadian economy is relatively stable and growing. According to the Bank of Canada, as the Canadian economy continues to adjust to sustained low commodity prices, the predicted GDP growth of 1.7 percent in 2016 will rise to 2.3 percent in 2017.<sup>5</sup>

*Recognized brands:* U.S. CE sector brands are well known and respected in Canada, including U.S. sector leaders such as Caterpillar and Deere.

*Established dealer network:* Virtually all major U.S. CE manufacturers have established dealer networks in Canada, which, in turn, feed CE sector export demand. These dealerships sell large equipment and offer comprehensive product support services. In addition, these manufacturers operate sophisticated parts distribution networks to support their dealers.<sup>6</sup>

*Business environment:* In addition to the benefits of free trade under NAFTA, Canada is ranked 13<sup>th</sup> in the World Bank Ease of Doing Business Index, which is a positive indicator of business friendly regulations, intellectual property rights protection, and a generally favorable export climate.<sup>7</sup>

*Trade exhibitions:* U.S. CE sector exporters have many opportunities to make contact with prospective Canadian buyers through trade exhibitions in North America. CONEXPO/ConAgg (Las Vegas, NV) is the largest sector trade exhibition in North America. Held every three years, the show is widely attended by Canadian buyers and exhibitors. MINExpo International (Las Vegas, NV) is the world’s largest trade exhibition for the mining sector and is held once every four years. Along with annual shows World of Concrete (Las Vegas, NV) and World of Asphalt (location varies by year), which are focused on equipment used in the production and application of materials, these events provide good opportunities for U.S. CE sector exporters to reach Canadian buyers. U.S. CE exporters, particularly those without an established presence in the country, should consider visiting Canada to establish a local presence. Joining a U.S. delegation to a relevant Canadian trade exhibition is another avenue to relationship building and long-term success.

### **Know the Buyer**

Canadian buyers favor CE sector equipment that is productive, reliable, and utilizes technology to achieve these characteristics. Although acquisition price is a

consideration, equipment characteristics are the primary factor in purchase decisions. In addition to equipment characteristics, Canadian buyers demand a strong after-sales support and service network for CE

sector equipment. Altogether, these characteristics put U.S. CE sector exporters in a strong competitive position.

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<sup>1</sup><http://commodityhq.com/education/a-deeper-look-at-canadas-commodity-industry/>

<sup>2</sup>[https://build.export.gov/main/FTA/nafta/eg\\_main\\_017794](https://build.export.gov/main/FTA/nafta/eg_main_017794)

<sup>3</sup><http://actionplan.gc.ca/en/initiative/tariff-relief-manufacturing-inputs-and-machinery>

<sup>4</sup>[https://build.export.gov/main/FTA/nafta/eg\\_main\\_017794](https://build.export.gov/main/FTA/nafta/eg_main_017794)

<sup>5</sup><http://www.bankofcanada.ca/wp-content/uploads/2016/04/mpr-2016-04-13.pdf>

<sup>6</sup>[http://www.deere.com/en\\_US/docs/pdfs/parts/wwps\\_locations.pdf](http://www.deere.com/en_US/docs/pdfs/parts/wwps_locations.pdf)

<sup>7</sup><http://www.doingbusiness.org/data/exploreconomies/canada/>