AN ANALYSIS OF
MAINE/CANADA TRADE
WITH POLICY RECOMMENDATIONS

Prepared for

THE MAINEWATCH INSTITUTE

by

PAN ATLANTIC CONSULTANTS

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Mainewatch Institute

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Dear Reader:

Maine's economic prosperity depends on trade with partners throughout the world, yet there is no trading partner more important to Maine than Canada, particularly its eastern Provinces. In the last several years, trade restrictions between the United States and Canada have eased considerably, lifting barriers and clearing the way for increased economic activity between the bordering nations. Based on proximity alone, Maine and the eastern Canadian provinces should currently be experiencing a healthy and thriving trade relationship. However, many factors are preventing Maine from fully capitalizing on the tremendous markets that lie to its north.

Mainewatch Institute undertook the study that follows, *Maine/Canada Trade Analysis, with Policy Recommendations*, to first analyze the current trade status between Maine and Canada. The body of this report explores this issue in depth, providing data ranging from current trade statistics to a history of the U.S.-Canada Free Trade Agreement to a review of trade development assistance provided to exporters in Maine and other northern border states.

The report then summarizes information gathered from over 75 individual interviews with Maine companies currently trading or considering future trade with Canada. Through these interviews, the barriers to increased trade between Maine businesses and the Canadian market become readily apparent.

Finally, the report offers both an analysis of key trade opportunities for Maine businesses, and a series of policy recommendations aimed at reducing the barriers to increased trade. The policy recommendations, which include rethinking the transportation infrastructure between Maine and eastern Canada, would, if implemented, have a measurable impact on Maine's export levels.

Mainewatch Institute thanks its contractor PanAtlantic Consultants of Portland for its excellent work in preparing this report. We hope that by using the information and acting on the recommendations provided in this report, the State of Maine will experience direct benefits in the form of new economic opportunities and jobs for Maine people.

Sherry F. Huber
Chair, Mainewatch Institute Board of Directors

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SECTION I. INTRODUCTION AND OBJECTIVES

Canada is the most compatible trading partner for the United States. For border states contiguous to one or more Canadian provinces, such as Maine, this is particularly true. The U.S./Canada trading relationship represents the world's largest trading block. In addition to trade, the U.S. and Canada have significant cross-border investment and other commercial relationships.

The creation of the U.S.-Canada Free Trade Agreement (FTA) on January 1, 1989, created a plethora of new opportunities for business on both sides of the border. In particular, U.S. companies have benefitted from the lowering or elimination of tariffs, easier cross-border movement of personnel and a more liberal Canadian regime in relation to direct investment by U.S. companies in the Canadian economy.

The ratification of the North American Free Trade Agreement (NAFTA) in January, 1994 and further liberalization of the world's trading system following on the most recent General Agreement on Trade and Tariffs (GATT) agreement, will further liberalize trading conditions, in the process creating an even more integrated economic relationship between the U.S. and Canada.

Maine has a particularly close trading relationship with Canada. More than one-third of Maine's manufactured exports go to Canada and Canada is Maine's principal source of imported products. However, Canada has a significant trading surplus with Maine (more than a two to one ratio).

In the five years since the introduction of the U.S.-Canadian Free Trade Agreement, Maine's exports to Canada have increased 23.6% in dollar values.

Despite this increase, some factors have prevented an even greater increase in Maine exports to Canada. These include:

1. The very severe Canadian economic recession of 1990-1993, which Canada began to emerge strongly from in the latter part of 1993 (Canada experienced a longer recessionary period than the U.S.).

2. The decline in value of the Canadian dollar versus the U.S. dollar, reflecting the very difficult structural and debt problems of the Canadian economy.

In addition to and perhaps as a partial result of these two factors, evidence suggests that many of Maine's manufacturing companies have not yet taken advantage of or significantly increased their marketing thrust into Canadian markets in recent years.

OBJECTIVES

The principal objectives of this project were to:

1. Analyze Maine's current trade relationship with Canada.

2. Examine reasons for the failure of Maine companies to capitalize more fully on opportunities presented by the Canadian market.

3. Analyze trade opportunities with Canada and recommend policy initiatives which would stimulate increased export activity by Maine companies in the Canadian market.

SECTION II. METHODOLOGY

The methodology employed to conduct this project consisted primarily of secondary and primary strategic market research.

Extensive secondary research was conducted on all relevant published statistics and data. There exists a huge amount of data on U.S./Canada trade relationships. However, there is little reliable documented data specific to Maine's trade relationship with Canada. One difficulty which exists in reviewing secondary data and statistics is the lack of good statistical data at the micro (state) level from U.S. government sources.

Primary research took the format of strategic personal and telephone interviews with a wide range of public and private sector sources in the U.S. and Canada who are actively involved as trade practitioners or policy makers. These included federal, state and provincial trade practitioners, economic development officials, bankers, economists and importers and exporters.

As a component of the strategic research process, an analysis was conducted with 75 Maine companies who are currently, or are interested in exporting to Canada. These companies span a range of major export sectors including the pulp and paper, wood products, processed food products, leather goods, electronics and fabricated metal products/industrial machinery sectors. This analysis provided valuable insights into the current level of export activity of a representative sample of Maine's manufacturing exporters, the projected level of activity in relation to Canadian markets, and public sector support mechanisms which active Maine exporters desire for their continued export development into the Canadian market.

More than 150 strategic primary interviews were conducted during the course of executing this project. Pan Atlantic Consultants is deeply indebted to all those who gave generously of their time and provided invaluable insights on how to better Maine's trading relationship with Canada. A database of interviewees is appended to this report. Interviewee quotes are used throughout, but in the interests of confidentiality the identity of the sources of specific comments is not given.

SECTION III. HIGHLIGHTS

The export of goods and services and greater overall engagement in the global economy is one of the keys to Maine's future economic development. The U.S. Department of Commerce estimates that every $1 billion of manufactured exports generates more than 20,000 manufacturing jobs with a potential spin off of two to three times that number of service jobs.

Maine lags seriously behind the national economy and other Northeastern states in the ratio of exports to Gross Domestic Product.

Maine has a very close trading relationship with Canada. More than a third (34.7%) of Maine's total exports of $1.14 billion in 1993, 38.5% in 1992 and 35.2% in 1991 go to Canada. This compares with Maine's exports to Europe (23.8% of total) and Asia (29.5% of total). Maine's exports to Canada have increased by 23.5% since 1989, from $318 million to $394 million. In the interim period, imports to Maine from Canada have been growing rapidly, up by $127 million, or 75%, in the past two years alone. However, Maine's exports to Canada have not grown much in the past three years, and have, in fact, declined from the high figure of $418 million recorded in 1990. Maine's export growth to Canada since 1990 has been hindered by the severe Canadian recession and the unfavorable exchange rate of the Canadian versus the U.S. dollar. (Ref. p. 18)

However, Maine has a major trade deficit with Canada. Maine's exports to Canada in 1993 were valued at $394 million while imports were valued at $966 million, resulting in a trade imbalance of $572 million for the year. Deficits for 1992 and 1991 were $537 million and $472 million, respectively. Canada exports two and a half times as much to Maine as it imports from Maine. Furthermore, Maine lags significantly behind the rest of the nation and other contiguous New England states in terms of its imbalanced trade relationship with Canada. The size and widening scale of Maine's trade deficit with Canada is cause for concern. (Ref. p. 19)

Maine's trading relationship with Canada must be the cornerstone of all international business development. The proximity to two strong and diverse, internationally-oriented markets (Québec and Ontario) provides Maine's businesses with ample access to other Canadian markets also.

Maine's trade imbalance with Canada far exceeds that of other New England states, who have chosen to develop aggressive and forward thinking trade and international commerce initiatives focused on either narrowing their trade imbalance or indeed, creating a trade surplus. For example, New Hampshire, whose exports to Canada increased by 41.4% between 1992 and 1993, had a $69 million trade surplus with Canada in 1993. (Ref. p. 24)

In 1993, the top 6 export categories to Canada were lumber & wood products ($128.7 million or 32.6%), pulp, paper and allied products ($72.5 million or 18.4%), fish ($32.3 million or 8.1%), food products ($22.9 million or 5.8%), industrial and commercial machinery ($22.7 million or 5.7%) and electronic equipment and components ($22.3 million or 5.6%). These accounted for over three-quarters (76.2%) of Maine's total exports to Canada. Thus, Maine's exports to Canada are heavily natural resources based. The export mix has not changed substantially in recent years. By comparison, exports to Canada from Maine's three neighboring New England states in several value-added manufactured product sectors have shown much higher growth rates in the past three years. In general, the mix of products exported to Canada from these states is higher valued-added and less natural resources-based. (Ref. p. 20)

Maine's exports to Canada are reasonably well distributed with 38.6% going to Québec, 29.8% to New Brunswick, 16.6% to Ontario and 15.0% to other Provinces. Surprisingly, Nova Scotia takes an extremely low level of exports from Maine, and the Western Canadian provinces account for 15% of Maine's exports to Canada. New Brunswick is Maine's largest trading partner (imports and exports), a factor which is heavily influenced by energy imports to Maine. However, Québec followed by New Brunswick and Ontario is Maine's leading provincial export destination. (Ref. p. 22)

In examining Maine's exports at a provincial level, it becomes apparent that the vast majority of Maine's exports are in a limited number of natural resources categories, principally wood and lumber products, pulp and paper and fish (New Brunswick). However, Ontario imports a more diverse range of value-added manufactured products from Maine. This suggests that many Maine exporters of value-added manufactured products have not, up to now at least, targeted Québec and other provincial markets.

In order to identify trends and issues in Maine's trade relationship with Canada, strategic interviews were conducted with seventy-five Maine manufacturing companies. During these interviews, various aspects of their trade relations with Canada were explored to identify concerns in relation to development of business with Canada and needs in terms of public sector support for their endeavors.

The majority of companies interviewed view the Canadian market as a natural first step in export market development. Furthermore, many companies said that they have progressed to developing export business in other markets having learned from the experience gained in exporting to Canada. Approximately 46% of the exporting companies surveyed indicate that their exports to Canada have increased in the past 3 - 4 years. (Ref. p. 33)

Québec and Ontario are the leading Canadian provinces to which the Maine companies interviewed are currently exporting their products. The primary reasons given for their popularity are proximity to Maine, population base, high level of industrialization and market potential. In addition, there is a strong feeling that though the Maritime Provinces (in particular, New Brunswick and Nova Scotia) represent traditional natural markets for Maine companies, that they are not potentially as lucrative as Québec or Ontario given their limited (2 million) and scattered population base, fragmented and limited industrial base and the fact that their economies lag behind the rest of Canada. There appears to be an increasing interest in looking at opportunities in Québec. This seems to be the result of the realization that Québec has become a very modern and a much more open trading economy.

Turning to the issue of pursuing business opportunities in Canada in the future, only 34% of those companies who are currently exporting to Canada indicated that they expect to expend a greater degree of effort on Canadian market development in the next few years. The primary reasons given for not pursuing the Canadian market more aggressively are the unfavorable exchange rate, a high level of competition from Canadian companies and the fact that the U.S. economy has improved. The latter reason is cause for serious concern as it indicates the prevalence of an attitude of pursuing export markets only when the U.S. economy is in difficult straights. Successful export development requires long term commitment.

For the U.S., the FTA has met the expectations of an enhanced commercial relationship between Canada and the United States. As the evidence shows, trade has increased, investment flows are positive and cooperation in a number of areas has blossomed.

Beyond the immediate effects documented in this report, the agreement ultimately will prove beneficial in other, less concrete ways. The creation of a free market area encompassing 276 million consumers allows U.S. and Canadian businesses to take advantage of larger markets and economies of scale. Further, the FTA creates an enhanced atmosphere for trade. U.S. and Canadian companies, which never considered exporting before, have begun to do so. Consumers in both countries benefit as well, as increased competition and lower costs bring down prices and increase selection.

Only 27% of the Maine companies surveyed stated that the FTA has had a positive impact on their business with Canada. 68% of the companies interviewed indicated that the FTA has had little or no impact on their cross border sales, while 5% of those interviewed believe that the FTA has had a negative impact. (Ref. p. 48)

Companies interviewed were broadly aware of the benefits accruing from lower, or, in some cases, negligible import duties, access to bidding on government contracts, an improved investment climate, removal of restrictions on business travel, etc. However, many tend to dwell on non-tariff barriers which they consider obstacles to freer trade despite the implementation of the Free Trade Agreement. These include rules of origin certificates and forms of content, administrative bookkeeping, understanding and applying the phase out schedules for tariffs and accessing reliable sources of information to address such problems and questions.

The principal perceived barriers to trade development with Canada can be classified in a number of areas:

- Non-tariff obstacles such as excessive paperwork, inspection procedures and different standards.
- Canadian protectionism and language and cultural differences (Québec).
- A lack of knowledge of Canadian markets and the need for individualized technical assistance to assist companies in Canadian market development.
- Unfair trading practices such as Canadian federal or provincial government subsidization of its industrial sectors.

- Poor road networks and a lack of air transport from Maine to major Canadian cities.

- Poor exchange rate of the Canadian dollar versus the U.S. dollar.

- High costs for services such as trucking.

(Ref. pp. 57 - 61)

In order to understand Maine's relative position and performance in conducting trade with Canada, an assessment was conducted of the performance and trade attributes of other states with similar characteristics to those of Maine. International trade with Canada and focused state activity to increase trade with Canada is a strong feature in all states surveyed. Canada is the largest export trading partner of almost all states surveyed. Due to shared geographic boundaries or geographic proximity, similar raw material and industrial bases, and strong business relationships, Canadian cross border trade is the recipient of focused and long-term business development efforts from each state's public and private sector. Each state's export trade has experienced strong growth over the past three years, with most states averaging approximately 20% per annum. These growth rates are much higher than Maine's. The Canadian provinces most frequently cited, by state development officials, as having the best possibilities for export business are Ontario, Québec, British Columbia, and Nova Scotia. (Ref. p. 67)

In contrast, Maine's public sector efforts in relation to trade development with Canada are much more limited than those of other New England or U.S. border states. Funding for trade development is very limited and, as such, unlike other states there is not a proactive or sustained development effort in relation to Canada, our single largest and most natural trading partner.

The primary reasons given for steady export growth are the strengthening of both the New England and eastern Canada economies (specifically Ontario and Québec) and the added interest in cross border trade stimulated by the implementation of the U.S./Canadian Free Trade Agreement in January, 1989.

Maine companies were surveyed on the availability and value of trade development services provided by public or quasi-public sector entities. In general, companies interviewed feel that the public or quasi-public sector can play a very useful role in assisting their trade development and promotion efforts and most particularly trade development with Canada. However, they also feel strongly that assistance must be individually focused to be of practical assistance to them.

The Maine World Trade Association received a favorable rating, in relation to its services, from those companies who had used it in the past. However, many were not aware of the full range of services offered by MWTA and some of those who were aware had not taken full advantage of them. (Ref. p. 73)

In general, there is skepticism regarding the ability of the state to deliver a strong program of individualized technical assistance in relation to trade development. The private sector is much better equipped to do that. However, most companies believe that there is need for a much better focused public sector approach to trade development and promotion, especially as it relates to Canada. The lack of policy direction and programatic inertia on trade development, at the public sector level, in recent years has been harmful to Maine's export development efforts. Maine can ill afford to ignore the opportunities presented by the global economy and the emerging Atlantic Rim.

The Canadian market offers a broad degree of opportunity to Maine's established export sectors and other indigenous sectors which have not yet begun to penetrate export markets. Existing export sectors need to continue development of higher value-added manufactured products.

In addition, there are opportunities for development of exports in other sectors such as specialty produced foods, telecommunications equipment, professional services (engineering services, software, etc.), biotechnological preparations, specialized wood products, electronics and instrumentation and environmental products and services.

Maine and Canada are both well positioned to become key players in the emerging Atlantic Rim. Maine and Canadian companies can leverage off each other in relation to trade development into other parts of the Atlantic Rim such as the European Union.

Several policy initiatives need attention at the public sector level so that Maine businesses can take full advantage of the opportunity presented by the market of 27 million people 'next door'. Five policy initiatives deserve immediate attention. These are:

1. Development of a clear, focused public and private sector program of technical assistance.

2. A strong promotional program coupled with strong international business development leadership.

3. Regional economic development collaborations with other New England states.

4. A comprehensive review of Maine's transportation infrastructure requirements to support exporting to Canada.

5. Development of strategic alliance program partnerships between Maine and Canadian companies.

(Ref. pp. 84 - 89)

Above all, the public sector must develop a clearly focused, international business development program which must set clear, measurable objectives. Strong, active leadership by the Governor in the implementation of this program is vitally important.

Canada must be the cornerstone of Maine's trade policy. Attention to the opportunity presented by Canada will pay handsome economic dividends in the years ahead if Maine grasps the opportunity now.

SECTION IV. CANADIAN MARKET - BACKGROUND

To better understand the opportunity presented by the Canadian market, it is important to place the Canadian market and economy in perspective.

With an area of more than 3.8 million square miles, Canada is the second largest country in the world, comprising 10 provinces and 2 northern territories, and occupies more than 10% of the earth's land mass. It is bounded by the Atlantic, Pacific and Arctic oceans and shares a 3,700 mile border with the United States.

Although large in size, Canada has a relatively small population -- 27 million people -- representing a fraction of one percent of the world's population. More than 80% of the population lives clustered in small areas of southern Québec, Ontario, Alberta and British Columbia within 125 miles of the U.S./Canadian border.

Some 77% of Canada's population lives in urban areas. Toronto is the largest city (urban area population 3.6 million), followed closely by Montréal (population 3 million). Vancouver is Canada's third largest city (population 1.5 million).

Canada has two official languages, English and French. English is the main language of commerce throughout Canada. More than a quarter of the population is Francophone (French-speaking) and most Francophones live in the Province of Québec. Smaller Francophone populations also exist in Ontario, New Brunswick and Manitoba.

Economy

Canada is one of the major industrial economies of the world (the seventh largest) despite the problems of a small, scattered population separated by tremendous distances. Once almost exclusively natural-resource based, the country's economy has become highly diversified with a modern manufacturing sector.

The Canadian economy encompasses both large national and multi-national corporations, as well as small owner-managed businesses. While a strong free-enterprise and entrepreneurial element characterizes the Canadian economy, the massive costs of developing and maintaining the national infrastructure, resulting from size and geography alone, have fostered significant government involvement in industry.

Canada's major trading partner is the United States. Canada is also the United States' largest trading partner and the border between the countries is very open.

Canada is a signatory to the General Agreement on Tariffs and Trade (GATT) and implemented an historic free trade agreement with the United States in January, 1989. The **U.S.-Canada Free Trade Agreement** covers trade in both goods and services and the liberalization of investment conditions.

On December 17, 1992, Canada, the United States and Mexico signed the new North American Free Trade Agreement (NAFTA). This agreement entered into force on January 1, 1994, once it had been ratified by all three governments. The objectives of NAFTA include the elimination of trade barriers and the facilitation of the cross-border movement of goods and services and will be implemented over a 15-year transition period.

The Canadian unit of currency is the dollar. The Canadian dollar (C$) has, for the past 18 years, been worth somewhat less than the U.S. dollar, reaching as low as 69¢. At the time of writing, a Canadian dollar is worth approximately 73 U.S. cents. There are no currency or exchange controls whatsoever in Canada. The Bank of Canada guides the exchange rate by intervening in the free market to buy and sell Canadian dollars.

Canada experienced particularly tough times during the recent recession, but has shown robust signs of recovery since the latter half of 1993. Overall growth recorded in GDP for 1993 was 2.3%. Growth for 1994 is expected to exceed 3.5%.

The major bright spot in Canada's economic picture has been its export trade and balance of payments in 1992 and 1993 with the United States. Since the U.S.-Canada Free Trade Agreement (FTA) took effect in 1989, Canadian exports to the United States have grown 25%, while barely holding their own and often diminishing in other export markets. Total U.S./Canada trade is approximately US$234 billion (imports and exports), far exceeding U.S./Japan trade, or our trade with any other single trading partner. In fact, U.S. trade with just the Province of Ontario exceeds total U.S./Japan trade.

U.S. merchandise exports to Canada grew by approximately 6% annually for the past several years despite the severe Canadian recession. This is attributable to the opening of the Canadian market under the U.S.-Canada Free Trade Agreement (FTA) and to lower relative costs of many U.S.-made products which gave U.S. exports a significant competitive advantage. It is also due to a desire by many Canadian firms to acquire products and equipment that could help them lower costs and raise productivity and efficiency. There has been particularly strong U.S. export performance into Canada in pollution control equipment, computer equipment and software, laboratory and scientific instruments, electromedical devices, franchising and various consulting services.

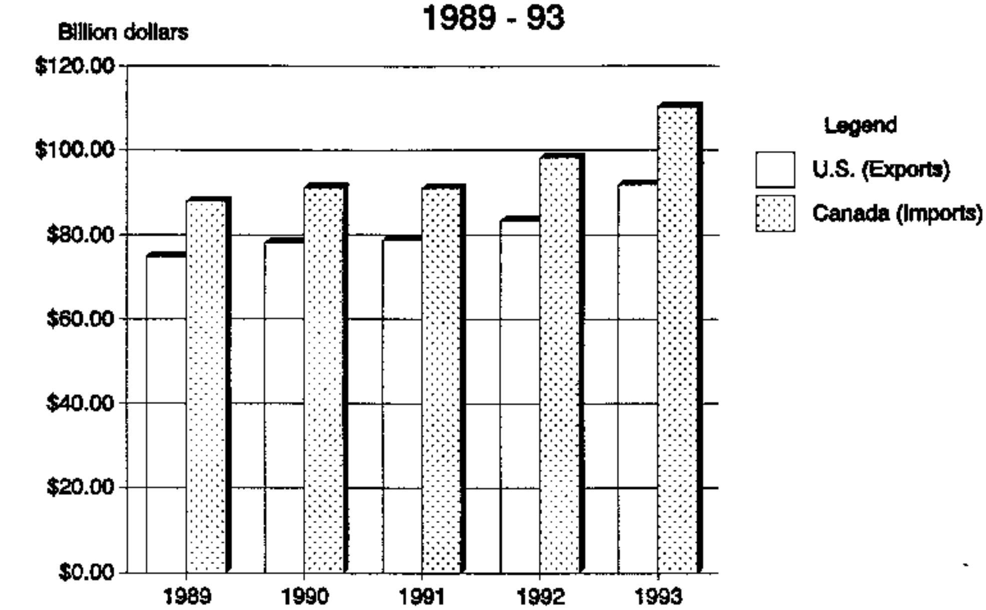
A number of studies, including recent OECD reports, have concluded that the recession has in fact strengthened Canadian companies, forcing a re-structuring that has dramatically raised their productivity and global competitiveness. With recovery finally taking hold, the economy is expected to show growth of 3 to 4 percent annually in the next few years and Canadian industry is well-placed to profit from opportunities created by the FTA, the North American Free Trade Agreement (NAFTA) and other trade-liberalizing measures. However, unemployment, government deficits and taxes in Canada are likely to remain high, which will continue to encumber overall economic performance substantially and likely place a drag on GDP growth rates.

Canada has fostered a familiarity with the United States that is unparalleled in the world. Canadians regularly receive U.S. television and radio broadcasts, read U.S. publications and press and travel frequently for business and pleasure to many U.S. destinations. This awareness of U.S. products, techniques and companies ensures a warm reception for the vast majority of American goods and services and great opportunities for Maine exporters of products and services in a very broad range of sectors.

SECTION V. U.S-CANADA TRADE/MAINE-CANADA TRADE

This section examines Maine's trade (imports and exports) with Canada and individual provincial trade partners.

U.S. Trade With Canada: Exports, Imports and Trade Balance 1989 - 93



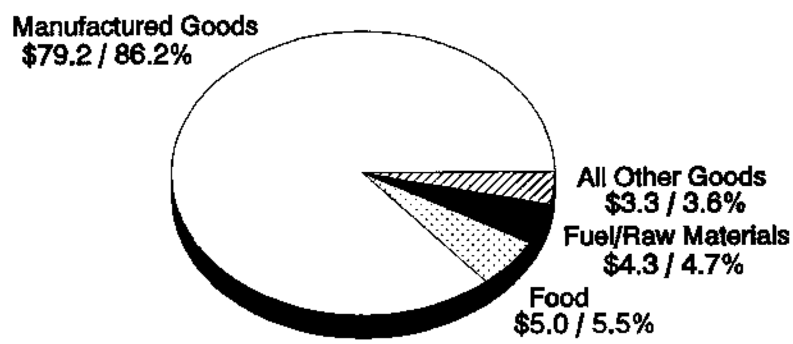
	1989	1990	1991	1992	1993
Exports	$75.0	$78.2	$78.7	$83.2	$91.8
Imports	$88.0	$91.2	$90.9	$98.2	$110.4
Balance	-$13.0	-$13.0	-$12.2	-$15.0	-$18.6

Source: U.S. Department of Commerce, International Economic Review - 1994

The U.S. and Canada enjoy a trading relationship in manufactured goods of more than $200 billion. U.S. exports to Canada have grown by 22.6% in the five year period since the implementation of the FTA in January, 1989, while imports from Canada to the USA have increased by 25% in the same period. The U.S. provides Canada with 71% of its total imports; and 78% of all Canadian exports were destined for the U.S. in 1993. Though the U.S. had an $18.6 billion merchandise deficit with Canada in 1993 it also recorded service exports to Canada of $17.7 billion (with a trade balance in services of $9.1 billion) for 1993. In recent years, the U.S. has been enjoying strong success in services exports to Canada as a result of the liberalizing of the service trade environment via the FTA of 1989. Thus, the real U.S. deficit in trade with Canada (merchandize and services) for 1993 was $9.5 billion.

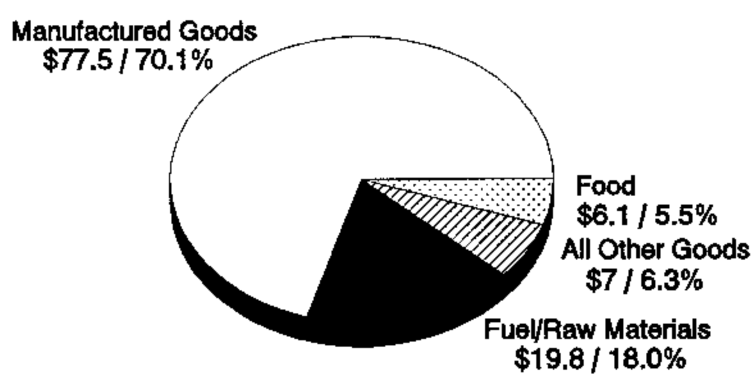
U.S. Trade With Canada: Exports, By Product Sector, 1993
(In Billion Dollars)

Total $91.8 Bn



U.S. Trade With Canada: Imports, By Product Sector, 1993
(In Billion Dollars)

Total $110.4 Bn



Source: U.S. International Trade Commission

Manufactured exports accounted for 86.2% of U.S. exports to Canada in 1993 and 70.1% of U.S. imports from Canada. 18.0% of Canadian exports to the U.S. in 1993 were comprised of fuels.

Maine's Trade With Canada

All figures in millions of U.S. dollars.

MAINE EXPORTS TO CANADA 1989-1992

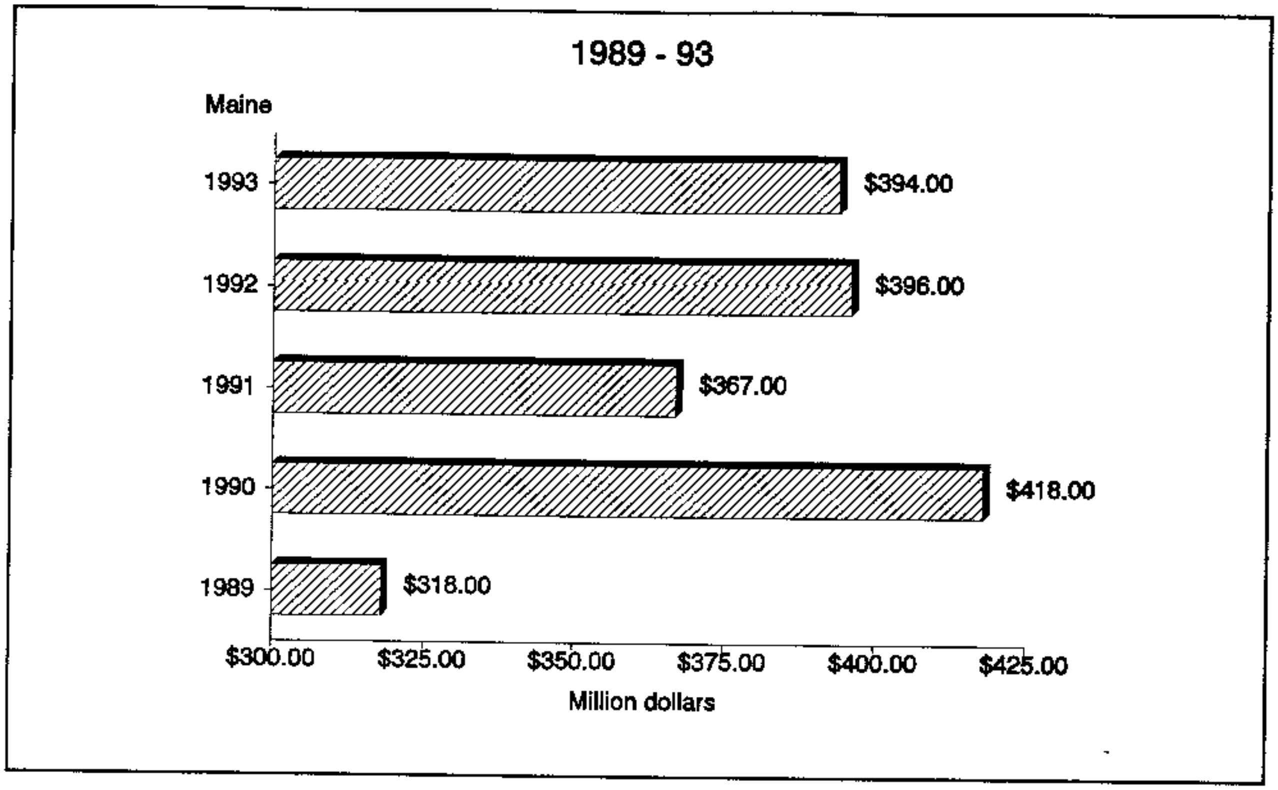
Standard Industrial Classification Description	1993	1992	1991	1990	1989
All Commodities	393.7	396.3	367.6	418.0	318.1
SIC-01 Agriculture - Crops	7.8	11.0	5.6	6.6	1.8
SIC-02 Agriculture - Animal Products	17.1	4.6	3.7	4.6	1.7
SIC-08 Forestry	-	2.4	3.0	1.5	2.9
SIC-09 Fishing, Hunting, Trapping	17.4	25.4	20.8	15.3	9.7
SIC-12 Coal Mining	-	-	-	-	-
SIC-14 Mining and Quarrying	0.3	0.4	0.2	0.3	0.9
SIC-20 Food and Kindred Products	22.9	18.2	17.4	39.0	23.5
SIC-22 Textile Mill Products	2.6	3.1	3.4	8.8	6.1
SIC-23 Apparel & Finished Fabric Products	1.7	1.0	1.8	0.9	0.4
SIC-24 Lumber and Wood Products	128.7	124.7	122.0	92.2	97.6
SIC-25 Furniture and Fixtures	2.6	1.4	2.0	1.1	1.0
SIC-26 Paper and Allied Products	72.6	73.3	79.6	85.2	80.3
SIC-27 Printing and Publishing	2.2	3.6	4.1	1.9	13.4

MAINE EXPORTS TO CANADA 1989-1992

Standard Industrial Classification Description	1993	1992	1991	1990	1989
SIC-28 Chemicals	5.9	8.5	9.3	9.0	3.0
SIC-29 Petroleum Refining	2.0	2.6	2.3	1.5	0.3
SIC-30 Rubber and Miscellaneous Plastics	8.4	9.0	6.6	7.1	5.9
SIC-31 Leather and Leather Products	9.3	9.8	10.1	13.2	10.7
SIC-32 Stone, Clay, Glass & Concrete Products	0.9	1.1	0.6	7.4	1.4
SIC-33 Primary Metal Industries	4.6	4.8	5.9	5.3	2.7
SIC-34 Fabricated Metal Products	6.6	7.5	6.5	7.0	2.8
SIC-35 Industrial and Commercial Machinery	22.7	23.5	16.2	23.9	17.9
SIC-36 Electronic Equipment and Components	22.3	20.1	18.1	18.5	12.7
SIC-37 Transportation Equipment	13.0	7.4	7.8	19.3	10.5
SIC-38 Measuring, Analyzing & Control Instr.	1.7	2.8	2.0	3.0	1.5
SIC-39 Miscellaneous Manufacturing Industries	1.2	1.3	1.4	1.8	1.1
SIC-91 Executive, Legislative, General Govt Services	3.4	7.0	5.2	6.9	3.0
SIC-92 Justice, Public Order, Safety	0.7	0.2	0.3	0.7	0.2
SIC-98 Goods Returned to Canada	11.0	11.2	9.8	12.0	-
SIC-99 Nonclassifiable Establishments	3.0	9.4	0.6	24.0	5.1

Source: Bureau of Census/MISER Statistics and Maine World Trade Association - 1994

Maine's Exports to Canada 1989 - 1993

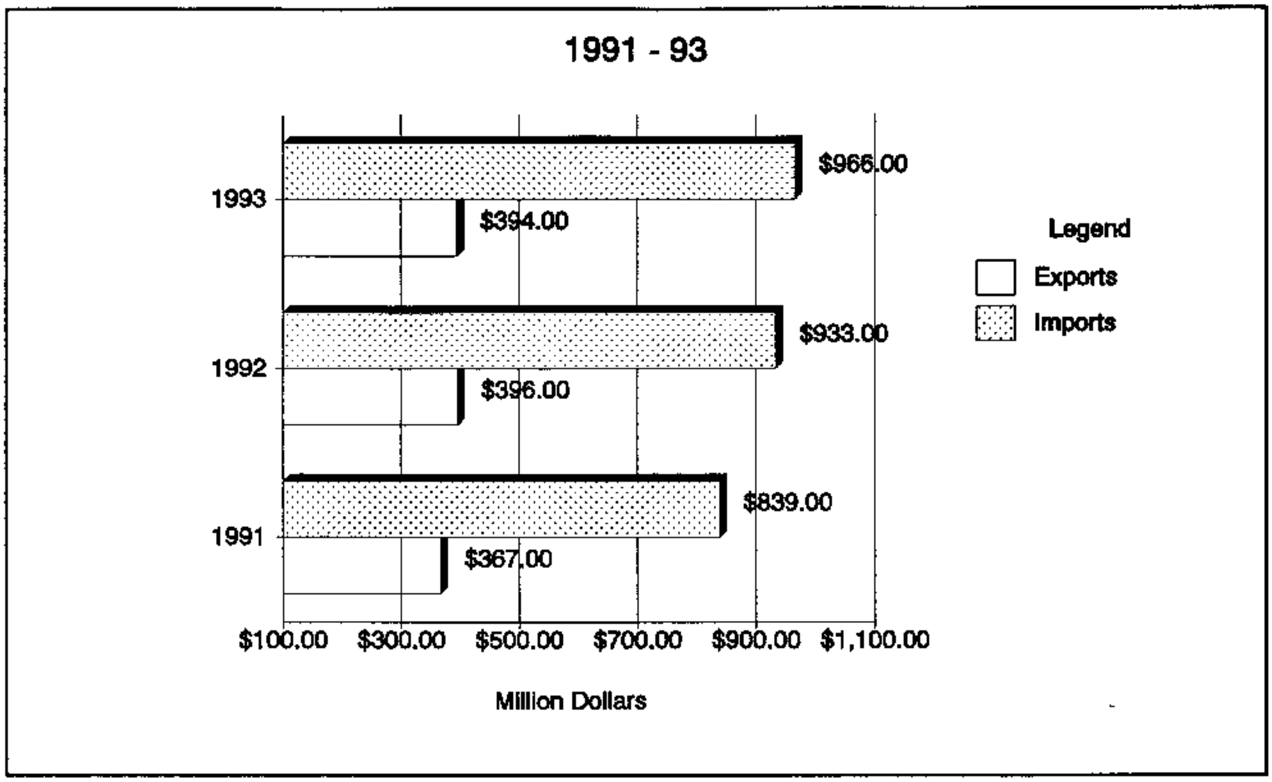


Source: Maine World Trade Association

Maine's exports to Canada have increased by 23.5% since 1989. However, as can be seen from the chart above, Maine's exports to Canada have not grown much in the past three years, and have, in fact, declined from the high figure of $418 million recorded in 1990.

Canada is Maine's most important export market, taking 34.7% of Maine's total exports of $1.14 billion in 1993, 38.5% in 1992 and 35.2% in 1991. This compares with Maine's exports to Europe (23.8% of total) and Asia (29.5% of total). As discussed earlier, Maine's export growth to Canada since 1990 has been hindered by the severe Canadian recession and the unfavorable exchange rate of the U.S. versus the Canadian dollar.

Maine's Imports and Exports to Canada 1991 - 1993



Source: Statistics Canada - 1994

As the chart above illustrates, Maine has a major trade deficit with Canada. Maine's exports to Canada in 1993 were valued at $394 million while imports were valued at $966 million, resulting in a trade imbalance of $572 million in 1991. Deficits for 1992 and 1991 were $537 million and $472 million, respectively.

Maine's trading relationship with Canada is severely imbalanced. Canada exports two and a half times as much to Maine as it imports from Maine. Furthermore, Maine lags significantly behind the rest of the nation in terms of its imbalanced trade relationship with Canada.

MAJOR CANADIAN EXPORTS TO MAINE (IN MILLIONS OF U.S. DOLLARS)	
COMMODITY	**1993**
Wood Pulp	325.4
Petroleum and Coal	188.4
Fish	88.4
Newsprint	42.3
Softwood, Lumber	39.0
Inorganic Chemicals	34.8
Electricity	33.2

MAJOR CANADIAN IMPORTS FROM MAINE (IN MILLIONS OF DOLLARS)	
COMMODITY	**1993 $M**
Lumber and Wood Products	128.7
Pulp, Paper and Paperboard and Allied Products	72.5
Fish	32.3
Food Products	22.9
Industrial and Commercial Machinery	22.7
Electronic Equipment and Components	22.3

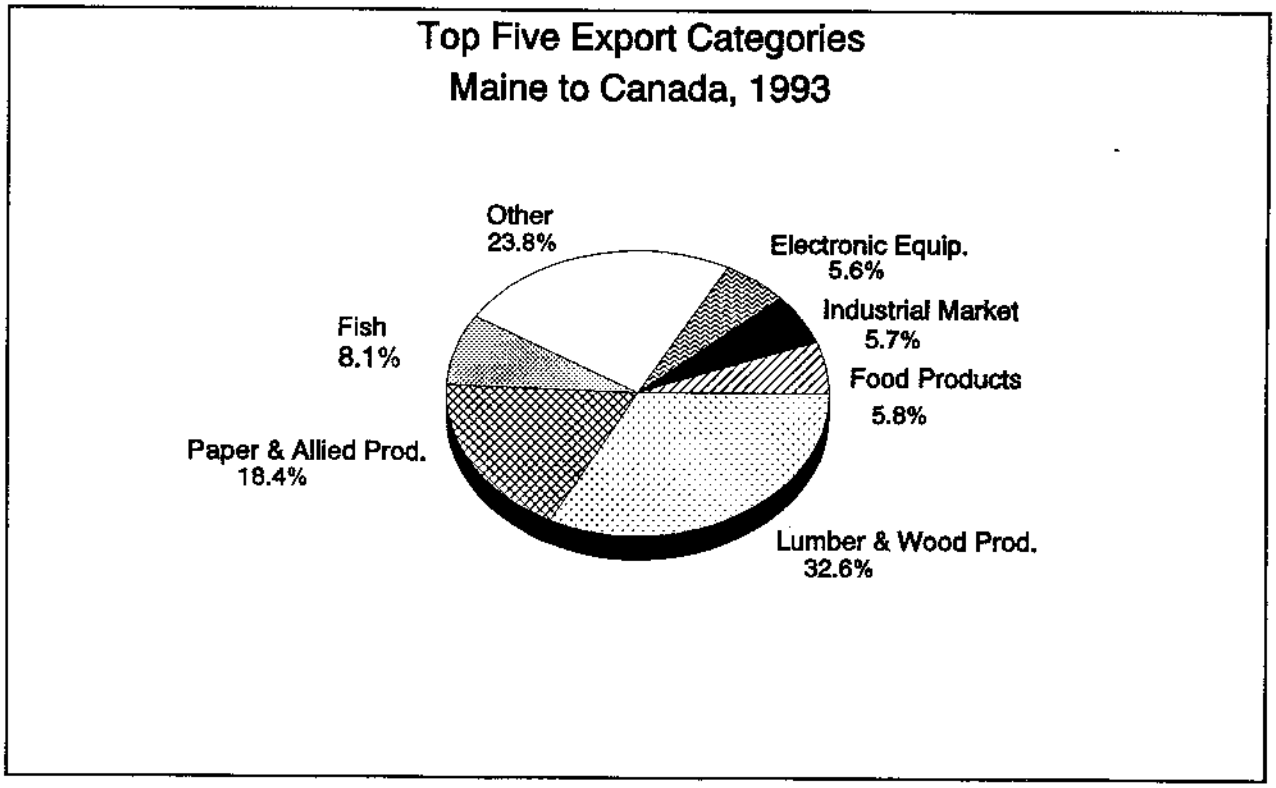
Source: Statistics Canada.

Maine's Exports by Commodity to Canada

For 1993, lumber & wood products ($128.7 million or 32.6%), pulp, paper and allied products ($72.5 million or 18.4%), fish ($32.3 million or 8.1%), food products ($22.9 million or 5.8%), industrial and commercial machinery ($22.7 million or 5.7%) and electronic equipment and components ($22.3 million or 5.6%) were the top 6 export categories. These accounted for over three-quarters (76.2%) of Maine's total exports to Canada.

The top two categories, lumber and wood products and paper and allied products, accounted for more than half (51%) of Maine's exports to Canada in 1993. This does not represent a significant difference from the situation which pertained five years previously when these two commodities accounted for 55% of exports to Canada.

Thus, Maine's exports to Canada are heavily natural resources based and the export mix has not changed substantially in recent years.



Source: Statistics Canada

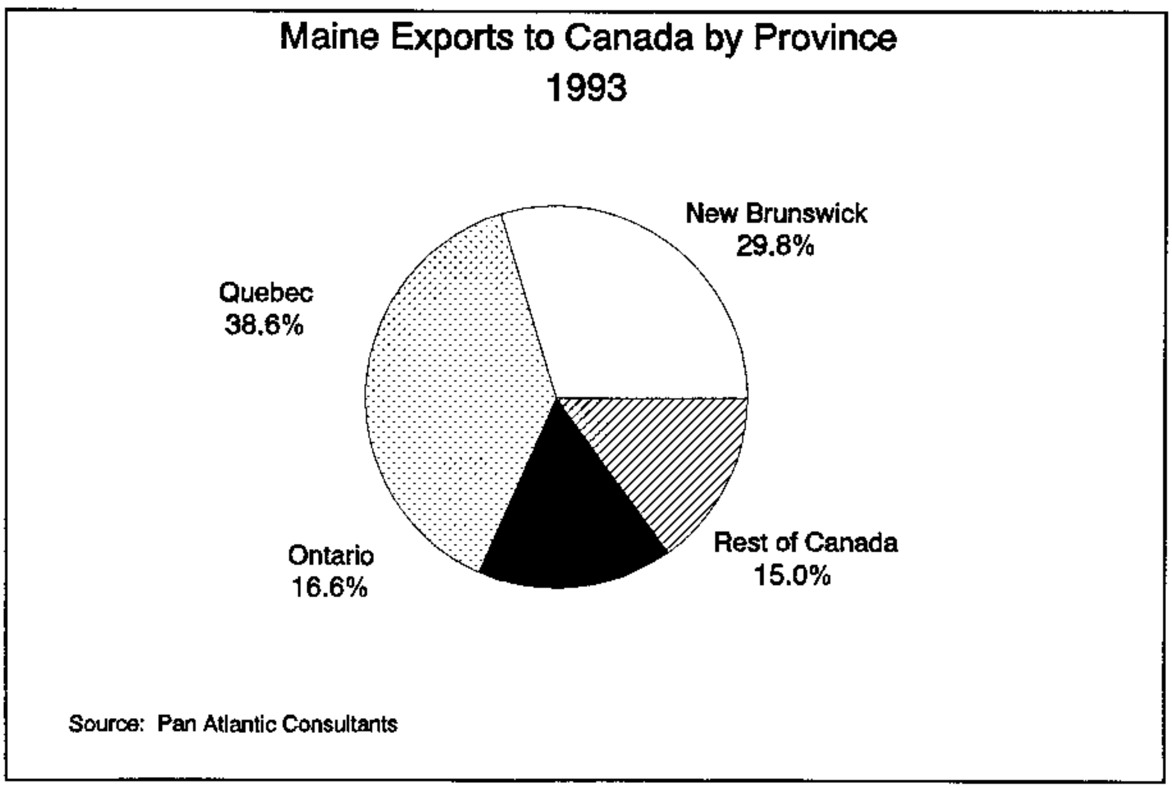
Maine's Exports and Imports by Province

U.S. $M	MAINE EXPORTS		MAINE IMPORTS	
Province	1992	1993	1992	1993
Canada Total	396	394	934	966
New Brunswick	107.3	117.5	456.9	490.5
Québec	137.6	152.2	200.3	221.6
Ontario	68.2	65.7	108.6	115.3
Nova Scotia	5.8	3.9	77.3	73.0
Rest of Canada*	77.1	54.7	90.9	65.6

Sources: Statistics Canada
Provincial Departments of Economic Development (Canada)

* The largest other provincial market is British Columbia.

It is extremely difficult to get accurate statistics at this level from any U.S. sources. It appears that the U.S. government does not collect and analyze statistics at this level. Thus, the most reliable statistics available are those collected by Canadian sources such as Statistics Canada and individual Canadian Provinces.



New Brunswick is Maine's largest trading partner (imports and exports), a factor which is heavily influenced by energy imports to Maine. However, Québec followed by New Brunswick and Ontario is Maine's leading provincial export destination.

Maine's exports to Canada are reasonably well distributed with 38.6% going to Québec, 29.8% to New Brunswick, 16.6% to Ontario and 15.0% to other Provinces. Surprisingly, Nova Scotia has an extremely low level of exports from Maine and the Western Canadian provinces account for 15% of Maine's exports to Canada.

Maine is running significant imbalances with all provinces and in particular with New Brunswick. Of significance also is the fact that Maine has very low export levels ($3.9 million in 1993) to Nova Scotia, but had imports of $73 million from that province in 1993.

Maine's principal imports and exports (U.S. $M) by category to the top three provincial destinations - New Brunswick, Québec and Ontario for 1993.

COMMODITY	NEW BRUNSWICK		QUÉBEC		ONTARIO	
	Imports	Exports	Imports	Exports	Imports	Exports
Petroleum & Fuels	143.8	2.4			6.7	
Softwood, Lumber & Wood	36.5	32.4	83.2	83.6		
Fish	32.8	28.6				
Electricity	31.0					
Agricultural Products		8.8				
Paper, Pulp & Cardboard	151.4	18.3	9.3	26.4	35.3	15.7
Chemicals			25.1		7.8	
Machinery & Transport Equipment					20.3	23.1
Percent of Total	80.6	74.7	52.2	72.3	60.8	60.7
Other	95.0	27.0	104.0	42.2	45.2	26.8
TOTAL	490.5	117.5	221.6	152.2	115.3	65.6

Source: Statistics Canada

In examining Maine's exports at a provincial level, one of the major features which becomes apparent is the fact that the vast majority of Maine's exports are in a limited number of natural resources categories, principally wood and lumber products, pulp and paper and fish (New Brunswick). Ontario imports a more diverse range of value-added manufactured products from Maine. This indicates that many Maine exporters of value-added manufactured products have not, up to now at least, targeted Québec and other provincial markets. Québec, Canada's second largest market with a population base of close to 7 million people, has an increasingly diverse manufacturing economy which leads Canada in exporting activity.

Interestingly, Québec's exports to Maine are much more diversified with pulp & paper and wood products accounting for a little more than 40% of exports to Maine.

How does Maine's trade performance with Canada compare with other New England states?

SELECTED NEW ENGLAND STATES TRADE WITH CANADA 1991-1993 - $M

STATE	EXPORTS TO CANADA			IMPORTS FROM CANADA		
	1991	1992	1993	1991	1992	1993
Maine	418	396	394	839	934	966
New Hampshire	300	304	430	304	312	361
Massachusetts	2.6Bn	2.5Bn	2.8Bn	2.1Bn	2.7Bn	2.7Bn
Vermont	N/A	2.4Bn	2.3Bn	N/A	2.2Bn	2.2Bn

Sources: Trade Division, Massport, Boston
Maine World Trade Association
State Departments of Economic Development (ME, NH, MA, and VT)

From this chart, we see that other contiguous New England states have reasonably balanced trade relationships with Canada. New Hampshire, whose exports to Canada increased by 41.4% between 1992 and 1993, had a $69 million trade surplus with Canada in 1993.

Maine lags behind other comparable New England states in exports to Canada while it continues to record ever higher trade deficit levels (up 21.2% between 1991 - 1993).

Vermont's exports and imports to Canada are very high due to the fact that more than half of recorded exports and imports are comprised of electronic components produced in a duty-free zone in Vermont, exported to Canada for further processing and then re-imported to the U.S. as finished merchandise.

New England's principal manufactured exports to Canada include:

- high technology equipment, such as computers, test and analytical equipment and measuring devices;
- electronic components;
- fabricated machinery parts and finished produced assemblies;
- medical and diagnostic equipment;
- aerospace equipment;
- seafood and other foodstuffs;
- agricultural products;
- lumber, paper and pulp products;
- raw metals, such as iron, steel and aluminum; and
- textiles and apparel.

New England's principal imports from Canada include:

- electronics;
- software;
- fabricated machinery parts and finished produced assemblies;
- lumber, paper and pulp products;
- seafood and foodstuffs, including meat;
- agricultural products;
- raw materials such as iron steel and aluminum;
- high technology equipment;
- energy, such as electricity, gas, oil and coal; and
- rubber and plastics.

Comparison of Maine's principal exports by commodity as a percentage of total global exports versus Maine's exports by commodity as a percentage of Maine exports to Canada.

COMMODITY	PERCENTAGE OF MAINE EXPORTS TO CANADA BY COMMODITY	PERCENTAGE OF GLOBAL MAINE EXPORTS BY COMMODITY
Paper	18.4	22.4
Electronics	5.0	17.7
Lumber & wood	31.3	14.9
Leather goods	2.5	13.0
Fish products	6.3	6.5
Machinery	5.9	5.5
Food products	4.8	3.3
Livestock	1.2	2.5
Chemicals	2.2	2.1
Transport equipment	1.9	2.0
Metal fabrication	1.9	1.7

Source: Pan Atlantic Consultants

From this chart we note that Maine's exports to Canada differ from Maine's worldwide exports, principally, as follows:

Maine has a much higher percentage level of lumber and wood products exports to Canada (31.3% than to the world at large 14.9%). Electronics and leather goods exports to Canada are much lower as a percentage (5.0% and 2.5%, respectively) than they are to the rest of the world (17.7% and 13.0%, respectively).

Section Summary

- Canada is Maine's most important export market, taking 34.7% of Maine's total exports of $1.14 billion in 1993, 38.5% in 1992 and 35.2% in 1991. This compares with Maine's exports to Europe (23.8% of total) and Asia (29.5% of total). Maine has a major trade deficit with Canada. Maine's exports to Canada in 1993 were valued at $394 million while imports were valued at $966 million, resulting in a trade imbalance of $572 million for the year. Deficits for 1992 and 1991 were $537 million and $472 million, respectively. Canada exports two and a half times as much to Maine as it imports from Maine. Furthermore, Maine lags significantly behind the rest of the nation in terms of its imbalanced trade relationship with Canada.

- In 1993, the top 6 export categories to Canada were lumber & wood products ($128.7 million or 32.6%), pulp, paper and allied products ($72.5 million or 18.4%), fish ($32.3 million or 8.1%), food products ($22.9 million or 5.8%), industrial and commercial machinery ($22.7 million or 5.7%) and electronic equipment and components ($22.3 million or 5.6%). These accounted for over three-quarters (76.2%) of Maine's total exports to Canada. Thus, Maine's exports to Canada are heavily natural resources based and the export mix has not changed substantially in recent years.

- Maine's exports to Canada are reasonably well distributed with 38.6% going to Québec, 29.8% to New Brunswick, 16.6% to Ontario and 15.0% to other Provinces. Surprisingly, Nova Scotia takes an extremely low level of exports from Maine and the Western Canadian provinces account for 15% of Maine's exports to Canada. New Brunswick is Maine's largest trading partner (imports and exports), a factor which is heavily influenced by energy imports to Maine. However, Québec followed by New Brunswick and Ontario is Maine's leading provincial export destination.

SECTION VI. ANALYSIS OF MAINE EXPORTING COMPANIES ISSUES IN RELATION TO TRADE WITH CANADA

Strategic interviews were conducted with seventy-five Maine manufacturing companies in order to identify trends and issues in Maine's trade relationship with Canada. During these interviews, various aspects of their trade relations with Canada were explored to identify their concerns regarding the development of business with Canada and their needs in relation to public sector support of their endeavors. Companies interviewed included not only those that are currently exporting but also some companies who have exported in the recent past and some that are considering exporting in the near future. The majority of the companies interviewed are actively exporting to Canada. However, some companies have ceased exporting, at least temporarily. On the whole, the comments and opinions of the individuals interviewed reflect the current trends and issues central to Maine's trade with Canada.

Companies were selected from a variety of industrial sectors and ranged in size from small (under 10 person) to large (several hundred person) operations. The following table lists the number of companies interviewed by industrial sector. Every attempt was made to include a representative sample of companies from each major manufacturing export sector. However, for a variety of reasons, some sectors are better represented than others.

INTERVIEW POPULATION BY INDUSTRIAL CLASSIFICATION (SIC CODE)		
SIC CODE	**DESCRIPTION**	**# OF INTERVIEWS**
20	Food & Kindred Products	10
22	Textile Mill Products	2
24	Lumber & Wood Products	14
27	Printing & Publishing	2
30	Rubber & Plastics Products	3
31	Leather & Leather Products	6
34	Fabricated Metal Products	9
35	Industrial & Commercial Machinery including Transport Equipment	12
36	Electronics & Electrical Equipment	9
38	Measuring, Analyzing & Controlling Instruments	4
39	Miscellaneous Manufacturing Industries	4
TOTAL		**75**

Factors Influencing Export to Canada

Of the seventy-five Maine companies surveyed sixty-three (84%) currently export to Canada. The level of individual company exports ranges but typical exports averaged several hundred-thousand dollars. These dollar amounts typically represent between one and ten per cent of a company's total annual sales revenue.

The volume of each company's exports is typically influenced by several factors including company size, demand for the particular product in the Canadian market, the level of individual company export marketing efforts and the exchange rate.

The majority of companies interviewed view the Canadian market as a natural first step in export market development.

> "It's a good market to gain some initial export market experience."
> - Electronic Exporter

Furthermore, several companies cited that they have progressed to developing their export business in other markets having learned from the experience gained in exporting to Canada.

The proximity of the Canadian market is another factor cited by many companies. Several companies expressed the opinion that they needed to diversify their markets and in the process export market development is a very important consideration. The Canadian market represents the natural first step.

> "I compete in a very mature market in the USA and so I began to look at export opportunities. Canada was the logical starting point."
> - Machinery Exporter

Others companies noted the fact, that in many ways the Canadian market is reasonably similar to the domestic market.

> "It's like our own market . . . . we're accepted in Canada, they view us as being similar and also they see us as their natural trading partner."
> - Wood Products Manufacturer

Some companies said that they view the Canadian market as a natural extension of the local market, in the Northeast of the USA. After they have developed business in the Northeast, Canada, and in particular Eastern Canada represents a natural business opportunity for them. The term 'Eastern Canada' applies to Ontario, Québec and the four Maritime Provinces.

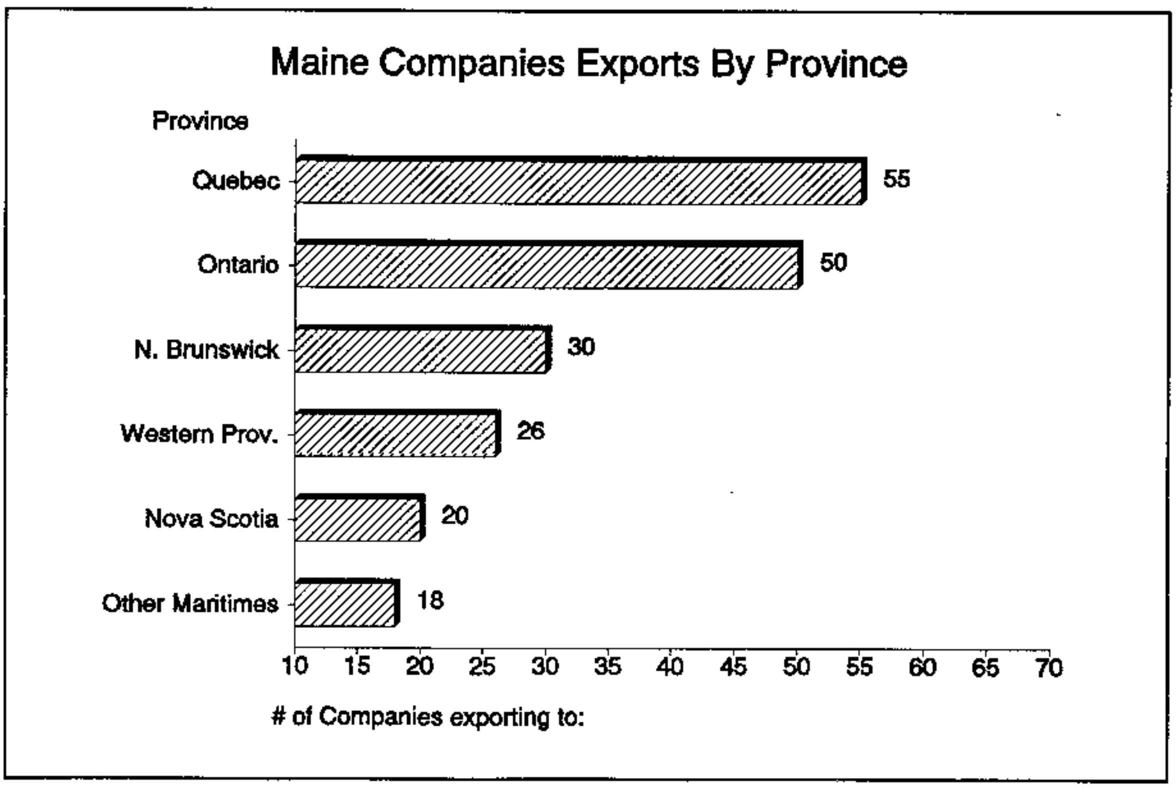
Geographic Distribution of Exports to Canada

As illustrated below, Québec and Ontario are the leading Canadian provinces to which the Maine companies interviewed are currently exporting their products. The primary reasons given for their popularity are proximity to Maine, population base, high level of industrialization and market potential.

These two provinces represent almost two-thirds of Canada's population and an even larger percentage of the country's industrial activity.

There was a high awareness level of this fact among companies. In addition, there is a strong feeling that though the Maritime Provinces (in particular, New Brunswick and Nova Scotia) represent traditional natural markets for Maine companies, that they are not potentially as lucrative as Québec or Ontario given their limited (2 million) and scattered population base, fragmented and limited industrial base and the fact that their economies lag behind the rest of Canada.

Among companies interviewed, there appears to be an increasing interest in looking at opportunities in Québec. This seems to be the result of the realization that Québec has become a very modern and a much more open trading economy.



PROVINCES WHICH MAINE COMPANIES EXPORT TO (Multiple responses included)						
SIC Code	Québec	Ontario	N.B.	N.S.	Western Provinces	Other Maritimes
20	7	8	3	2	3	1
22	2	2	2	2	2	2
24	11	4	8	2	2	2
27	1	2	1	1	1	1
30	3	2	2	2	2	2
31	5	5	2	1	3	2
34	5	4	4	2	2	1
35	9	10	1	3	3	2
36	5	7	2	3	5	2
38	4	4	3	1	2	2
39	3	2	2	1	1	1
Totals	55	50	30	20	26	18

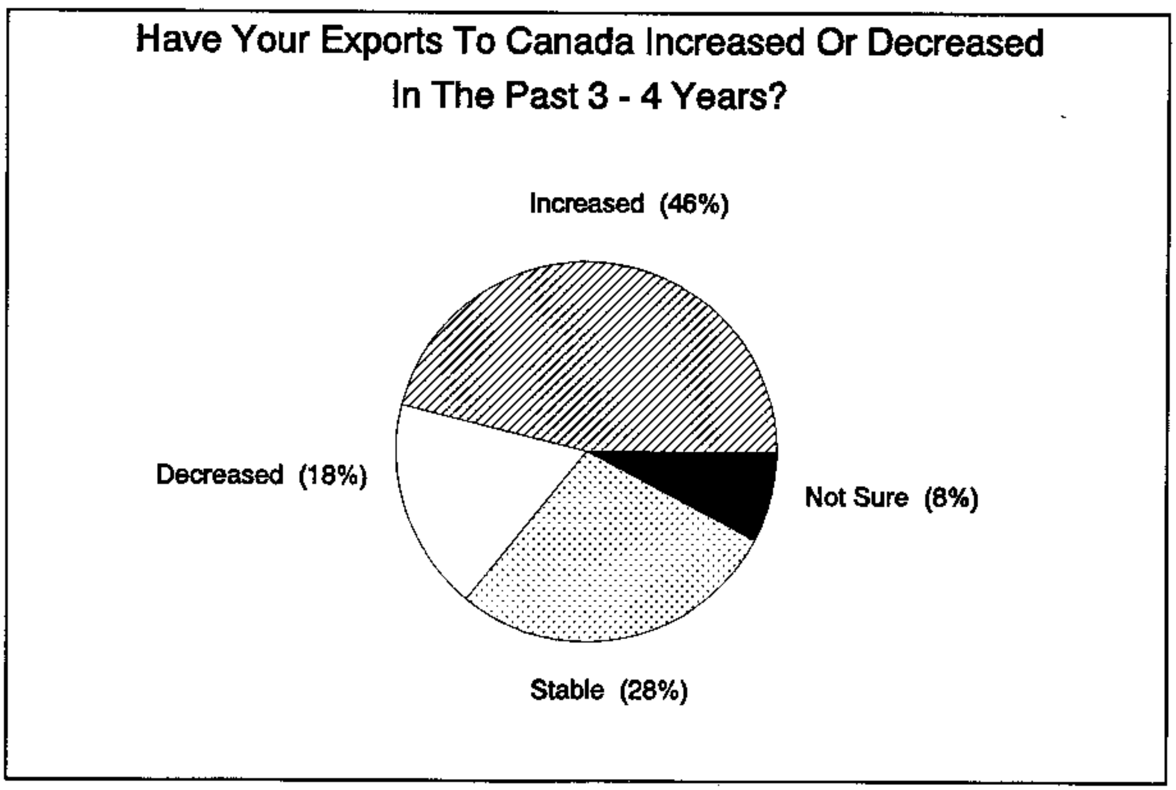
Although not separated out on either exhibit, among exports to the Western Provinces, most companies are exporting to British Columbia. The popularity of exporting to British Columbia can be accounted for by its significant population and industrial base. In fact, Vancouver, B.C. was mentioned as the third most likely metropolitan area to export to, following closely behind Toronto and Montréal.

Level of Exports to Canada

Approximately 46% of the companies exporting indicate that their exports to Canada have increased in the past 3-4 years. In general, the increases were attributed to a slight improvement in the Canadian economy. Secondly, increased exports have been realized because some companies have themselves expended greater efforts developing their export markets.

> "Its depends on the Canadian economy. 1992 was a terrible year, but '93 was a good year. It has been a soft market but we expect things to get better as the economy continues to improve."
>
> \- Industrial Manufacturer

> "As business in Canadian factories increase, we ship more. It's supply and demand."
>
> \- Electronics Company



Some companies, who said that they manufacture a product that is not produced in Canada, noted that they are enjoying success in the Canadian market and are optimistic about their continued opportunities there.

> "The market for our products in Canada is strong. We are in a good position to take advantage of that market because we are one of only three companies in the world who supply this particular product."
>
> - Leather Goods Producer

> "In the beginning, people asked us to come. Our business just naturally evolved. Now, we're aggressively going after business. Our lines are doing extremely well."
>
> - Processed Food Producer

> "We are exploiting new markets and we're expanding our line of 'fulfillment products' via catalog."
>
> - Miscellaneous Products Manufacturer

Although 28% of the companies interviewed stated that Canadian sales had remained stable, 18% had noted a decline in sales over the past 3 - 4 years. Several companies cited the Canadian-U.S. dollar exchange rate as a major factor affecting their Canadian sales.

> "As the Canadian dollar has become weaker, our products have become more expensive and therefore less competitive with Canadian products."
>
> - Lumber Producer

> "The determining factor for our products in Canada is whether or not the exchange rate improves. It really makes it difficult to compete with Canadian companies."
>
> - Plastics Producer

> "What's the advantage of lowered duties compared to the exchange rate!"
>
> - Rubber Products Producer

Some companies admit that much of the blame for their company's poor performance in the Canadian market can be attributed to a lack of genuine marketing effort on their part in targeting Canadian customers.

> "We've always felt that there was a market for our product in Canada, but it hasn't really developed. Part of the problem is that we haven't had the time to actively develop that market."
>
> - Machinery Producer

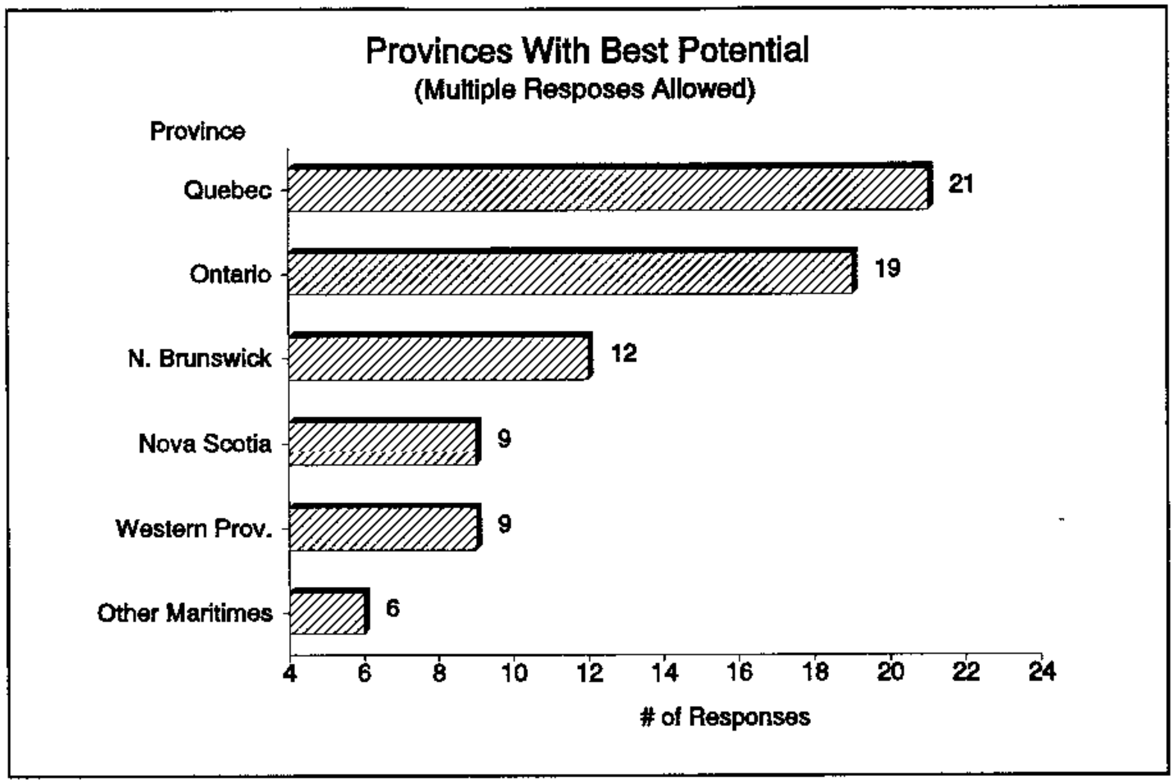
> "Our exports have stayed the same. We just haven't expended the marketing effort and that's what it takes to be successful in any market."
>
> - Instrument Manufacturer

Others feel that although Canada offers some potential, their U.S. business is large enough and thus they don't really need to expend a great deal of effort in that market.

> "We are very busy servicing our U.S. customers. Exports to Canada are on the back burner. The opportunities there are good. However, we just haven't pursued them."
>
> - Leather Goods Manufacturer

Regional Opportunities

Respondents were asked to identify which provinces in Canada hold the greatest trade potential for their product lines. The chart below illustrates the provinces which respondents selected most frequently. Maine companies identified Québec and Ontario as having the most potential for market growth. Their choice was based upon population size and the industrial base of both these provinces.



Although Québec is viewed by many as offering the greatest opportunity for future market development, several companies noted that they feel that this province is somewhat closed to U.S. companies that produce items which compete directly with products manufactured within its' own borders. This comment was particularly prevalent in natural resource-based sectors such as lumber products.

> "Québec seems to be more protective than other provinces. The government there is so supportive of its own businesses that it borders on protectionism."
>
> - Lumber Producer

"Québec companies have a negative attitude towards U.S. companies. They only buy from us out of necessity and always hassle you about the price."

- Industrial Manufacturer

"Québec is much more closed than other provinces. Companies there like to buy locally."

- Industrial Manufacturer

Other companies mentioned that Québec can be difficult to deal with because of the differences in language and culture.

"Québec is the most difficult to deal with because of the language barrier."

- Industrial Manufacturer

"It's different in Québec. For example, there are the cultural differences to deal with."

- Building Products

"Our catalogs have to be produced bilingually in Québec. People in other provinces get upset if catalogs are bilingual."

- Catalog Company

"We do export there but it's like a different country. People think in French as well as speak that language."

- Leather Products Manufacturer

However, many Maine companies who have a product that has potential in the Québec market, do not appear to fear these obstacles.

"Québec is not a problem. We are developing a good market there. . . . They speak English also."

- Electrical Products Manufacturer

"I see a little difference (with Québec). Another manufacturer may have more problems than we do. We have such a large share of the market. We do provide a brochure in French."

- Engineering Company

"They all speak English. No need to speak French. Even though their answering machines are in French, everyone in the plant speaks English and can do business in English."

- Electronics Company

Thus, attitudes to development of trade with Québec appear to be split. Some exporters are very concerned with the obstacles while others feel that issues such as the different language and culture are not a problem.

A limited group of companies spoke of the possibilities for trade development to other Francophone countries, such as France, Belgium and North African countries, using a Québec business partner as the conduit for such development.

Some companies are exporting to the Maritimes but, in general, they see the opportunity level as more limited then that of Ontario or Québec. In the opinion of many companies, the Maritime economy is in many way similar to Maine and does not offer the broad scope of the two large Canadian provinces - Ontario and Québec.

Future Opportunities

Overview

Respondents mentioned several factors which influence their decision making regarding pursuing business opportunities in Canada in the future. These include economic conditions in the U.S. and Canada, the exchange rate and competition from comparable Canadian products.

Responses to the question of future market opportunities in Canada again varied by industry, product, and company size. Companies interviewed said that their company's decision to actively pursue the Canadian market are contingent on improvements in the economy and the Canadian/U.S. dollar exchange rate. Only 34% of those companies currently exporting to Canada indicated that they expect to expend a greater degree of effort on Canadian market development in the next few years.

> "The economic conditions in Canada have had a negative impact on our trade with Canada. It looks somewhat better now, but I'm not really optimistic about a swift turn-around."
>
> - Electronics Manufacturer

> "The exchange rate affects us in that we've had to make some modifications in our product to market it against other materials that are used by our competitors. We have made some advances in handling and disposal of hazardous materials but the exchange rate drives the cost of our product very high in Canada."
>
> - Industrial Manufacturer

Another factor influencing Maine's trade development with Canada is the gradual improvement of the U.S. economy. Several companies, interviewed by PAC, stated that the domestic market was more of a priority for their company mainly because of the potential of the U.S. market compared to that of the Canadian Market. This is a common theme among Maine companies. When the U.S. economy improves, many have a tendency to retrench and, in the process, concentrate on large regional markets in the U.S., in the process neglecting exports.

> "Our domestic market is more of a priority to us, Canada is just not that big of a market."
>
> - Engineering Company

> "We are a high-tech company and they are a relatively low-tech country. There just aren't a lot of companies in Canada that would have any interest in us."
>
> - Precision Machining Company

> "A major drawback of the Canadian market is the size of the population base. We are looking more at the global market."
>
> - Industrial Manufacturer

Several companies in the lumber industry cited increased competition from Canadian saw mills as a reason for declining opportunities in the Canadian market. Many feel that Maine lumber companies are at a competitive disadvantage because of the poor exchange rate and also because of government subsidies reportedly being paid to Canadian saw mills which allows them to buy raw logs from Maine and then ship finished products back to the U.S. at prices lower than their U.S. competitors.

> "There is little or no opportunity in Canada for U.S. lumber companies. There are just too many mills there for us to compete with. The exchange rate has really hurt our business in Canada."
>
> - Lumber Producer

> "There are no real opportunities in Canada. Canadian saw mills take the better quality rough lumber from Maine and sell their finished goods at a lower price."
>
> - Lumber Producer

Another factor affecting the sale of dimensional lumber in Canada is the Canadian construction industry's preference for rough-green lumber over kiln-dried lumber.

> "There is less of a market for kiln-dried lumber in Canada because of a preference for rough-green lumber. It's probably 10% less expensive than kiln-dried lumber. If the Canadian construction industry would increase its use of kiln-dried lumber, we would spend more time marketing our product there."
>
> - Lumber Producer

However, other companies from other industrial sectors such as the food processing industry and companies manufacturing products with specific niche applications are more optimistic about future opportunities in the Canadian market. In the processed food sector, some companies are increasing their sales efforts to Canada.

Advice For Other Companies Seeking To Export To Canada

PAC asked companies that currently export or have exported to Canada in the past if they could provide any advice for other Maine companies who might be considering exporting their products to Canada for the first time. The following comments provide an overview of those responses.

> "The most important thing to do is to set-up a good relationship with a Canadian partner. It really makes everything that much easier."
> - Plastics Producer

> "A good Canadian partner is key because they can handle all of the government regulations - all you have to do is ship them the products."
> - Electronics Manufacturer

> "Do your research before you go ahead. You need to know all the rules."
> - Lumber Products Company

> "Pick one region initially and learn as much as you can about the market and your sales potential. Then branch out into additional regions if a market exists for your product."
> - Electrical Manufacturer

> "Hire a Canadian sales representative who knows the territory and the customers."
> - Plastics Manufacturer

> "We could say that there are no differences between Canadian and U.S. customers, but there are. It makes sense to hire a Canadian representative who can sell to Canadian companies."
> - Machining Company

Section Summary

- The majority of companies interviewed view the Canadian market as a natural first step in export market development. Furthermore, several companies cited that they have progressed to developing their export business in other markets having learned from the experience gained in exporting to Canada. The proximity of the Canadian market is another factor cited by many companies.

- Québec and Ontario are the leading Canadian provinces to which the Maine companies interviewed are currently exporting their products. The primary reasons given for the popularity of these provinces are their proximity to Maine, population base, high level of industrialization and market potential. In addition, there is a strong feeling that though the Maritime Provinces (in particular, New Brunswick and Nova Scotia) represent traditional natural markets for Maine companies, that they are not potentially as lucrative as Québec or Ontario because of their limited and scattered population base, fragmented and limited industrial base and their economies lag behind the rest of Canada. There appears to be an increasing interest in looking at opportunities in Québec. This seems to be due to the realization that Québec has become a very modern and much more open trading economy.

- Responses to the question of future market opportunities in Canada varied by industry, product and company size. Companies interviewed said their decision to actively pursue the Canadian market is contingent on improvements in the economy and the Canadian/U.S. dollar exchange rate. Only 34% of those companies currently exporting to Canada indicated that they expect to expend a greater degree of effort on Canadian market development in the next few years.

SECTION VII. U.S.-CANADA FREE TRADE AGREEMENT

VII.1. FTA Overview

When the comprehensive U.S.-Canada Free Trade Agreement (FTA) was implemented on January 1, 1989, observers on both sides of the border anticipated that it would increase bilateral trade, encourage bilateral and foreign investment and generate commercial cooperation in a number of domains.

However, both countries went into a severe recession in 1990 and as a result business conditions were hurt in the period from 1990 to 1993. However, the FTA has been one of the bright spots on the economic horizon in both countries. Initial indications suggest that the agreement has lived up to its promise, and, as recovery takes hold in Canada and the United States, that its benefits will be magnified.

In the five years since the implementation of the FTA, trends in trade, investment and commercial cooperation have been promising. Overall trade has increased, and both partners have seen significant expansion in exports. The recession in both countries slowed, but did not stop, export expansion in the United States and only decreased Canadian exports slightly. Investment activity was brisk in the years immediately before and after the signing of the agreement. Commercial cooperation has brought increased access to government procurement, streamlined standards and certification processes, facilitated business travel and provided an efficient new forum for the resolution of U.S.-Canadian disputes. Below is a summary of the major areas of activity in relation to the FTA.

Trade

Many of the FTA's provisions touch directly on trade. Perhaps the most important is the elimination of all tariffs on North American goods traded between the United States and Canada by 1998. When the FTA was implemented, tariffs on some items were abolished immediately, while others are being gradually reduced over 5 or 10 years. The agreement also includes the elimination of a number of non-tariff barriers to trade, such as internal measures favoring domestic goods over imports and regulations restricting services.

Many U.S. producers are highly competitive in Canada, and the reduction and elimination of obstacles to trade, including some of the highest tariff rates in the industrialized world, has allowed U.S. exporters to make important gains in the Canadian market. While U.S. tariff rates were, on average, much lower than Canadian rates prior to the agreement, elimination of tariffs has also increased Canadian price competitiveness in the United States, the largest import market in the world.

In fact, total merchandise trade flows between Canada and the United States have shown strong growth since the inception of the agreement. Total U.S.-Canada merchandize trade has grown from $163 billion in 1989 to $202 billion in 1993, an increase of 23.9% over four years.

The strong growth in U.S. exports to Canada since the inception of the FTA has important ramifications for the American economy, especially job creation.

Canadian export performance since the signing of the FTA has been equally solid. According to a Commerce Department estimate, Canadian exports to the United States may have accounted for as many as two million Canadian jobs in 1991.

Sectors in both countries, which were previously subject to high tariffs, have seen especially strong growth under the agreement. American producers and manufacturers of such diverse items as fish products, furniture, paints and dyes, soaps and polishes, chemical products, plastics, paper products, apparel items and electric machinery have seen high Canadian tariffs come down and their exports to Canada increase. Even U.S. firms with little experience in exporting to Canada have had impressive results.

Certain Canadian sectors have also seen growth in exports to the United States far higher than the Canadian average. Canadian producers, from distillers of whiskey to manufacturers of certain types of aircraft, have taken advantage of substantial reductions in U.S. tariffs and have enjoyed increases of two-fold or more in their exports to the United States since 1989. The aviation products sector has been especially promising for Canadian companies.

The services trade also appears to have reaped benefits from the FTA. The agreement is the first comprehensive international pact which provides discipline over the conduct of trade in services. More than 150 service sectors, such as wholesale and retail, agriculture, construction, telecommunications and various professional and business services, are guaranteed the right to sell across the border, the right of establishment and transparency in regulations. Total U.S. service receipts from Canada were some $17.7 billion in 1993, up 18 percent from the year before.

Investment

Under the provisions of the agreement, investors are accorded a number of protections. These include equal treatment with domestic investors. In addition to the concrete provisions of the FTA, the creation of a free trade area was expected to encourage investment between the North American partners and to attract foreign investors.

Results have been promising. Activity was greatest just before and just after the agreement became effective, as firms anticipated the effects of the agreement.

Key beneficiaries of Canadian investment in the United States have been American border communities, such as Buffalo and Detroit, well positioned to supply the U.S. market.

Canadian service providers also are moving south to service their Canadian clients in their new American operations. For example, two major Canadian banks, National Bank of Canada and the Royal Bank of Canada, have opened branch offices in Buffalo, New York. Further afield, the Caisses Desjardins, Québec's principal credit union, has opened a branch in Florida primarily to serve several hundred thousand Canadians who spend all or part of the year there.

U.S. direct investment in Canada since the implementation of the FTA has also been strong. Many American investors have taken advantage of the FTA to rationalize operations or expand into Canada. Some U.S. companies situate plants or operations in Canada to be close to Canadian customers.

Government Procurement

The government procurement provisions of the FTA ensure equal treatment for Canadian and U.S. suppliers for many government purchases over $25,000. This represents a significant reduction in the minimum threshold of $171,000 under the Government Procurement Code of the General Agreement on Tariffs and Trade.

According to the U.S. Department of Commerce, between 1989 and 1993, some 736 government of Canada contracts worth about $45 million awarded to American companies were directly attributable to the increased access resulting from the FTA. Small businesses are increasingly winning these contracts.

While statistical information on Canadian access to U.S. government procurement is unavailable, Canadian firms are regular suppliers to U.S. government agencies.

Standards

The FTA explicitly states that technical standards in the two countries should not create unnecessary barriers to trade. The private sectors in both countries are working towards standard harmonization in a number of areas. Much progress has been made in this regard. Professional certification standards are also being harmonized.

Business Travel

Facilitated entry of U.S. and Canadian business travelers reinforces the agreement by assuring access to customers, clients, plants and facilities across the border. In the first year of the agreement, approximately 1,800 American professionals were admitted into Canada to perform services under the FTA. In the same period, the United States admitted some 3,700 Canadian professionals under FTA provisions.

Dispute Settlement

The FTA has created an efficient and enforceable dispute settlement process. Emphasis is put on dispute avoidance through joint consultation. Both sides have worked together to iron out wrinkles in the agreement, such as the terms and conditions of the Exporter's Certificates of Origin. The FTA also provides for bi-national panel review of disputes. General disputes are adjudicated under the provisions of Chapter 18 of the FTA while disputes concerning antidumping and countervailing duty cases fall under Chapter 19. Both of these chapters allow the partners to avoid costly and lengthy litigation in national court systems.

Cross-Border Alliances

Canadian and U.S. firms have increasingly chosen to work together in cross-border alliances to pursue opportunities in the enlarged FTA market. These alliances often include taking equity in the partner's firm or investments in the partner's country.

As an example, government-owned Canadian National Railways (CN) developed a marketing alliance with six U.S. railways in order to position itself for a greater share of trans-border freight traffic.

VII.2 The Free Trade Agreement and Maine

As discussed earlier, Maine's exports to Canada have grown by 23.5% since 1989. In the interim period, imports to Maine from Canada have been growing rapidly, up by $127 million, or 75%, in the past two years alone. In addition, it should be noted that increases in imports from Canada are being made from a much higher base level.

Maine's exports in most (SIC) categories have remained reasonably static for the past five years. The exceptions are the lumber and wood products sector - exports increased from $97.6 to $128.7 million; industrial and commercial machinery - $17.9 to $22.7 million; electronic equipment and components - $12.7 to $22.3 million; and transportation equipment - $10.5 to $13 million. Despite the fact that these figures indicate there is evidence of increased export activity, we believe that there is significant potential for improvement.

By comparison, exports to Canada, in several value-added manufactured products sectors from Maine's three neighboring New England states have shown much higher growth rates in the past three years. In general, the mix of products exported to Canada from these states is higher valued-added and less natural resources based.

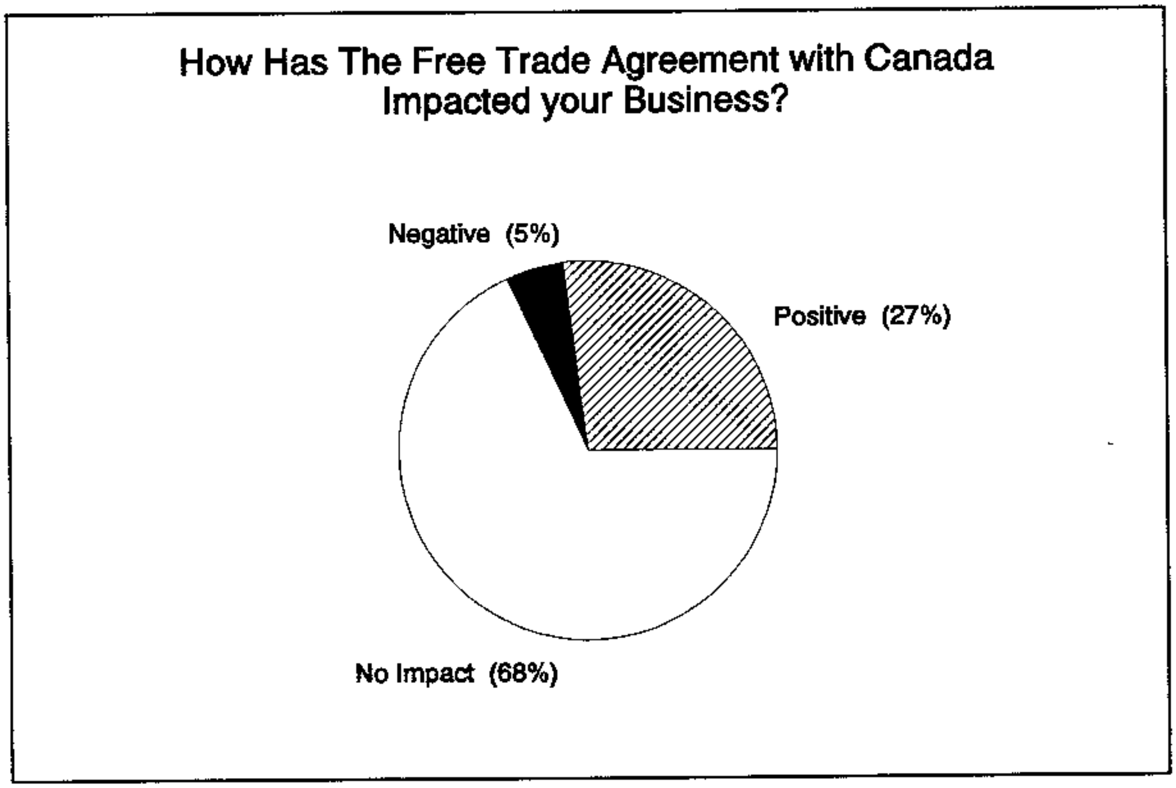
Exports of Products in Selected Sectors to Québec from New Hampshire, Vermont and Massachusetts 1991 - 1993 in Millions of Dollars

Product Category	Massachusetts			New Hampshire			Vermont			ME
	'91	'92	'93	'91	'92	'93	'91	'92	'93	'93
• Industrial Machinery/ Computer Equipment	1Bn	934	913	88	77	185	20	32	102	22.7
• Transport Equipment	149	178	187	19	15	16	7	17	37	13.0
• Fabricated Metal Products	107	115	149	12	11	29	11	16	22	6.6
• Rubber & Plastics	57	66	84	9	11	16	4	7	16	8.4
• Electronics (non-computer equip.)	415	428	507	27	28	30	1.7Bn	2.1Bn	1.8Bn	22.3

Source: Massport - Trade Development Unit

In general, the Maine exporting companies interviewed, during the course of conducting this project, were not particularly positive regarding the impact of the FTA. This can be attributed, to some extent at least, to the severe impact of the Canadian recession, which lasted longer than the U.S. recession, and also to the poor prevailing exchange rates of the past few years, which make U.S. exports less competitive in Canada.

Only 27% of the companies interviewed stated that the FTA has had a positive impact on their business with Canada. 68% of the companies interviewed indicated that the FTA has had little or no impact on their cross border sales, while 5% of those interviewed believe that the FTA had a negative impact.



Companies interviewed were broadly aware of the benefits accruing from lower, or, in some cases, negligible import duties, access to bidding on government contracts, removal of restrictions on business travel, etc.

However, many companies dwelt on factors which they consider obstacles to freer trade despite the implementation of the Free Trade Agreement. These are discussed in Section VIII.

A number of state development organizations in other states* were also surveyed to determine if the Free Trade Agreement with Canada, FTA, implemented in January of 1989, has been good or bad for international trade from their respective states. Officials were probed in areas such as changes in business climate, administrative issues and export trends, in relation to Canada, which companies in their respective states are experiencing.

Every state commented that the FTA has had a positive affect on boosting trade with Canada.

> "The FTA jumpstarted trade, first by having many Canadian companies make inroads into New Hampshire and causing our local companies to become much more proactive than reactive about trade."
>
> - New Hampshire Trade Development Office

> "The FTA has been very important to growing New York's exports to Canada and has strongly influenced the investment of Canadian dollars in New York markets."
>
> - New York Trade Development Office

> "The FTA has been excellent for Minnesota's companies. It has focused many small and mid-size companies on the benefits of exporting and has given rise to an increase in our companies participating in trade shows and trade missions."
>
> - Minnesota Trade Development Office

In general, state trade development agencies view the FTA as assisting merchandize exports to Canada.

> "The FTA has been great for companies exporting merchandise. We've seen increases in many sectors. It has not helped our agricultural exports. Our wheat farmers are really taking a beating."
>
> - Idaho Trade Development Office

*Massachusetts, New Hampshire, Vermont, Connecticut, New York, Minnesota, Idaho and Washington.

> "The FTA has been very positive for merchandise trade. The jury is still out on how we'll fare regarding agricultural exports."
>
> - Washington Trade Development Office

> "The FTA, coupled with provincial regulations, has not really helped our diary and wine industries."
>
> - New York Trade Development Office

And finally, the FTA is put in perspective relative to the entrepreneurial nature of a state's export development:

> "Our exports were very strong and healthy before the FTA. It's biggest impact has been the location of literally hundreds of Canadian companies into northern Washington."
>
> - Washington Trade Development Office

> "The FTA has not had a huge impact but it has been helpful. It's biggest benefit has been the rapid reduction of tariffs on some items."
>
> - Vermont Trade Development Office

State development officials were questioned whether the FTA has been good or bad relative to the individual initiatives of companies and businesses in general. Overall, the FTA has had a very positive affect on companies conducting trade with Canada and has provided an awareness and focus on exporting that had not existed previously. Besides providing easier access to Canadian markets, the ratification of the FTA has sparked interest in exporting by smaller companies that had not been prevalent ten years ago. In addition, the joint, cross border interest in trade has stimulated the formation of new distribution networks, strategic alliances and joint ventures.

> "The FTA has significantly increased the number of companies exporting to Ontario and Québec."
>
> - Massachusetts Trade Development Office

"Many companies are just now addressing trade with Canada because of the FTA (and NAFTA)."

- Connecticut Trade Development Office

"The FTA really started a lot of international cooperation and education between Alberta and Idaho. Because we share a common platform with the FTA, we now participate in a significant number of educational seminars, rules programs, etc."

- Idaho Trade Development Office

The most frequently cited negative aspects of the FTA are the rules of origin, certificates and forms of content, administrative bookkeeping, understanding and applying the phase out schedules for tariffs and accessing reliable sources of information to address problems and questions.

"Figuring out the rules of origin to a small company is a hassle of time and money."

- Minnesota Trade Development Office

"At first, it was very difficult to get good, timely answers from anyone, especially at the U.S. Department of Commerce. We still have a real hard time with the rules of origin and applicable schedules for duties and tariffs. The Canadian offices seem to be more helpful than our U.S. offices."

- New Hampshire Trade Development Office

"Complying with the rules of origin are always a problem - it's especially exacerbated if you're dealing with Québec."

- Vermont Trade Development Office

VII.3. North American Free Trade Agreement (NAFTA)

The United States, Canada and Mexico completed negotiations on a North American Free Trade Agreement (NAFTA) late in 1992 and it was formally implemented in January, 1994. This historic agreement not only brings Mexico into the North American free trade area, but also broadens the scope of the FTA to create additional opportunities. NAFTA includes a number of provisions on areas not covered by the FTA -- intellectual property rights, land transportation, the environment -- as well as major improvements on some of the provisions of the FTA. Many of the improvements and changes are an outgrowth of experience gained by the United States and Canada in implementing the FTA.

Market Access

The FTA eliminated barriers to trade between the United States and Canada. One of the most important market access provisions of the agreement is the elimination of tariffs on goods produced in the United States and Canada.

The agreement does not change the duty rates for goods from other countries. For U.S. exporters, this means that American goods are now more competitive in the Canadian market than goods from other countries. A U.S.-made household scale, for example, now enters Canada duty-free, while scales from other countries continue to pay a 10.2 percent duty.

NAFTA makes no change in the staging process for elimination of tariffs on products traded between the United States and Canada.

Rules-of-Origin

Only those items produced in the United States or Canada benefit from the preferential rates mandated by the agreement. The FTA establishes specific rules-of-origin which prevent items from third countries from being shipped through one FTA partner to another to escape higher tariffs.

- NAFTA clarifies the rules-of-origin and harmonizes their administration.
- Includes a de minimus provision, which allows up to 7 percent of the value of North American products to be non-North American in origin.
- Requires that passenger vehicles and light trucks have 62.5 percent North American inputs/direct costs to qualify for preferential treatment. NAFTA requires 60 percent content for other vehicles after a phase-in period.

- Simplifies the rules-of-origin for certain electronics products.

- Strengthens rules-of-origin for textiles; garments must now be made from both fabric and yarn of North American origin.

Customs Issues

The FTA covers a range of issues related to administration of customs.

- NAFTA extends the deadline for elimination of duty drawback to January 1, 1996.

- Provides duty-free temporary entry of tools of the trade and professional equipment for professionals covered under the temporary entry provisions.

- Allows all goods returned after repair or alteration in another NAFTA country to re-enter duty free after 1998.

Government Procurement

The FTA expanded the size of the government procurement markets which will be open to free and fair competition between U.S. and Canadian suppliers. The agreement requires clear, fair rules of bid selection and provides for an effective bid challenge system.

- NAFTA extended coverage to federal procurement of goods and services valued over $50,000 ($25,000 for goods only) and construction contracts valued at over $6.5 million and to listed government-owned corporations for goods and services contracts valued at above $25,000 and construction contracts valued at over $10 million.

- Expands coverage to include some services and construction procurement.

- Adds new federal Canadian government organizations and Crown Corporations to the list of covered entities.

Services

The FTA is the first trade agreement to include trade in services. The agreement ensures that companies in over 150 service sectors can provide their service in the partner country without discrimination.

- NAFTA extends coverage to nearly all service sectors.

- Eliminates existing federal and local regulations restricting partner country access to services markets, unless reserved.

- Removes citizenship or permanent residency requirements for licensing of professional service providers.

Financial Services

The FTA removes virtually all discrimination on the basis of nationality in the financial services sector (commercial and investment banks, savings and loan institutions and certain insurance activities).

- NAFTA establishes a comprehensive set of principles and rules governing trade and investment in financial services.

- Covers state/provincial and local, as well as federal, measures.

- Guarantees U.S. firms in Canada the right to process financial data in the United States.

- Provides access to the NAFTA dispute settlement mechanisms for NAFTA financial services firms.

New Disciplines

NAFTA introduces two new disciplines not covered by the FTA: protection of intellectual property rights (IPR) and liberalization of land transportation. NAFTA is also the first trade agreement to ensure that its trade enhancement provisions do not prevent the NAFTA countries from protecting the environment.

FTA Provisions Unchanged By NAFTA

Some provisions of the FTA remain essentially unchanged by NAFTA. These include:

- the FTA's agriculture measures, such as elimination of Canadian import licenses on certain U.S. agricultural products, prohibition on the use of export subsidies on goods traded between the two countries and exemptions on meat import quotas;

- the FTA's streamlined border-crossing procedures for business travel;

- the FTA's energy chapter, which removes barriers to trade in energy and provides secure access to energy supplies and markets;
- other FTA provisions on technical standards and wine and distilled spirits; and
- the exemption for Canadian cultural industries.

NAFTA - Maine Companies Reactions

Overall, the majority of the companies surveyed indicated that the North American Free Trade Agreement (NAFTA) will eventually have much more of an impact on their trade with Mexico than with Canada. Many note that tariffs have already been eliminated or reduced on many products exported to Canada by the introduction of the FTA.

> "It will have an impact on our business with Mexico. It could possibly improve trade with Canada if some additional changes are made with regard to easing customs regulations."
>
> \- Industrial Manufacturer

> "I support it, but I don't see it impacting trade with Canada or Mexico for quite some time. There are still too many barriers on both borders which will take some time to eliminate. Most relate to each country looking to protect its own industries and job base. Free trade won't happen until we can eliminate such fears."
>
> \- Machining Company

> "There are a lot of companies looking South to Mexico rather than North to Canada. Mexico seems more willing to trade with the U.S. than Canada does."
>
> \- Lumber Company

Section Summary

Over the short term, the FTA has met the expectations of an enhanced commercial relationship between Canada and the United States. As the evidence shows, trade has increased, investment flows are positive and cooperation in a number of areas has blossomed.

Beyond the immediate effects documented here, the agreement ultimately will prove beneficial in other, less concrete ways. The creation of a free market area encompassing 276 million consumers allows U.S. and Canadian businesses to take advantage of larger markets and economies of scale. Further, the FTA creates an enhanced atmosphere for trade. U.S. and Canadian companies, which never considered exporting before, have begun to do so. Consumers in both countries benefit as well, as increased competition and lower costs bring down prices and increase selection.

Most of the companies surveyed indicated that the North American Free Trade Agreement (NAFTA) will eventually have much more of an impact on their trade with Mexico than with Canada. Many note that tariffs have already been eliminated or reduced on many products exported to Canada by the FTA. Overall, there does not appear to be much detailed knowledge among exporters of the further trade liberalization measures resulting from the implementation of NAFTA.

SECTION VIII. BARRIERS TO TRADE DEVELOPMENT WITH CANADA

This section discusses real and perceived barriers to the development of trade with Canada as per the opinions of Maine manufacturing companies surveyed.

Perceived barriers to trade development with Canada can be classified in a number of areas:

- Non-tariff obstacles such as excessive paperwork, inspection procedures and different standards.
- Canadian protectionism and language and cultural differences (Québec).
- Unfair trading practices such as Canadian federal or provincial government subsidization of its industrial sectors.
- Poor road networks and a lack of air transport from Maine to major Canadian cities.
- A lack of knowledge of Canadian markets and the need for individualized technical assistance to assist companies in Canadian market development
- Disadvantageous U.S. exchange rates vis-a-vis Canada.
- High costs for services such as trucking.

Non-tariff barriers include:

- Different Canadian technical standards at a provincial level.
- Increased paperwork in relation to product shipments into Canada. However, while some companies indicated a need for a reduction and standardization of the amount of paperwork and customs regulations associated with exporting products to Canada, companies that have been exporting to Canada for some years did not view it as a major concern. Many of these companies use a customs broker which appears to eliminate much of the hassle and confusion encountered by companies with less experience in cross-border trade regulations.

> "At first its an inconvenience, but once you've learned the regulations and the paperwork it becomes second nature and its no longer a problem."
> - Electronics Manufacturer

"We try to have our business conducted by a Canadian broker because of the paperwork."

- Building Materials Producer

"We recommend having a local representative broker. They interface with end-users."

- Food Processor

- A perception by some companies that inspection of products has become more rigorous at Canadian customs posts.

- Differing paperwork and inspection standards at different Canadian customs posts.

"Border crossings became more aggravated on the Canadian side (after FTA). It seems that the Canadians feel as though they have had to give something up. They've become real picky and really tear your truck apart."

- Food Processor

"Our transportation manager always complains that the Canadian customs officials have become much stricter since FTA."

- Lumber Company

"There isn't any consistency. Some days my shipments would be all right, and other days they wouldn't pass. It's just too subjective."

- Food Processor

"We're experiencing longer delays in customs. We have to fill out paperwork and declare a value on every little packet we send, even if its just color photographs of our product."

- Distilling Company

"Customs is a problem. We even have trouble with our product samples and sales literature. You'd think we were bringing in drugs or something. The Canadians scrutinize everything, they're tougher than the U.K."

- Rubber Products Manufacturer

Unfair Canadian trading practices.

Many companies feel that there is subsidization of competing industries by federal and provincial governments in Canada.

There is also a general perception that Canada has a protectionist attitude to its industries which is manifested by discouraging imports in whatever way possible.

Infrastructure.

Poor infrastructure was cited by many companies, especially in terms of the lack of a direct east-west shipping route, and, to a lesser extent, the poor condition of the major access road to the Maritimes - Route 9.

> "An east-west route should definitely make it easier to reach our Canadian markets."
>
> - Industrial Manufacturer

> "East to west routes in Maine could be better. In the springtime, several of those routes have heavy load limits which force us to use smaller loads or alternate routes."
>
> - Lumber Products Company

> "We haven't really had much of a problem with the current set-up, but I'm sure better roads would definitely help to facilitate trade with Canada."
>
> - Building Materials Manufacturer

The lack of direct flights between Maine and Canada was also noted to be an impediment to trade development with Canada. Many companies noted that they must travel to Boston in order to fly to Canada to meet with Canadian customers.

> "The lack of direct flights from Maine to Canada affects our sales rep. It really wastes a lot of his time and is a major inconvenience."
>
> - Electronics Manufacturer

Many companies acknowledge that flights, if they did exist, would in all likelihood be infrequent and might not be numerous enough or cost effective for any airline to consider adding to their current schedules. This inconvenience, and others like it, tend to create a feeling among some Maine businesses that the hassles associated with trading to Canada are just not worth their time and effort.

Technical assistance.

A lack of knowledge exists, among many exporters, about how to do business in Canada. Many companies said there is a need for stronger support systems to provide trade information, technical assistance, buyer contacts, etc. Many spoke enviously of Canada's highly developed information and technical support structure for its exporting companies.

While some exporters said that attending seminars is useful, there is a strong, desire for more intensive one-on-one technical assistance as it relates to Canadian market development. Though many acknowledge that this is available from private sources, such as trade consultants, they cannot afford to pay for it and believe that this should be made available either directly or indirectly (funded to some extent) by the public sector.

The lack of a concerted and ongoing trade promotional program by the State of Maine is also a barrier to Maine's export development. Other states have developed a highly focussed approach to trade promotion with Canada via trade missions, trade fairs, etc.

Unfavorable exchange rates.

As discussed earlier, it is widely felt that the unfavorable exchange rate is a real impediment to trade growth for Maine companies. While most of those interviewed said there was little or nothing that could be done to rectify the problem, they believe that the unfavorable exchange rate severely limits the competitiveness of many Maine companies in Canada.

> "The exchange rate is our biggest impediment, I can give them rock bottom prices and its still hard to compete. Something about the whole situation doesn't seem fair."
>
> \- Food Producer

> "The dollar rate is a major problem."
>
> \- Leather Goods Producer

Companies manufacturing products which face lesser competition in the Canadian market are not as affected by the exchange rate. For these companies, product price is not as crucial because of the lack of a competing Canadian product. Also, many of these companies utilize a Canadian distributor who purchases their product in U.S. dollars.

> "The exchange rate is more of a problem for our distributor because we quote prices in U.S. dollars and he has to pass on the difference to his customers."
>
> - Industrial Manufacturer

> "As for impediments to doing business with Canada, there are none. We deal in U.S. dollars."
>
> - Electronics Manufacturer

Other barriers.

Other, more minor factors which were identified as impediments include:

~ Canada's poor postal system,

~ Freight charges,

~ Trucking regulations,

~ Provincial and General Sales Taxes.

All companies interviewed indicated that there are some impediments to trade development with Canada. However, the more successful importers tend to downplay the impediments.

> "There are always going to be some problems that you will encounter in selling to Canada, as with any export market, but there's nothing so significant that you can't work around if you really want to do business there."
>
> - Wood Products Manufacturer

Many acknowledge that trade with Canada is more open and that the opportunity exists to develop business in Canada. What is needed is a more proactive approach and increased marketing efforts.

Section Summary

Companies identified several non tariff barriers to development of trade with Canada. Some of these, such as poor infrastructural links between Maine and Canada, a lack of knowledge of Canadian market know-how and the current high value of the U.S. dollar versus its Canadian counterpart, do constitute real impediments.

Other barriers cited, such as Canadian protectionism, alleged Canadian government subsidies and even excessive paperwork and inspection procedures, are a matter of subjective opinion.

Export market development, to any market, brings with it unique challenges no matter which market is targeted. Some of the frustration expressed by exporters, or potential exporters, is due to the long development period involved in export market penetration, often 3 to 4 years. This in itself is a barrier. However trade agreements, such as the FTA, NAFTA, the Uruguay round of GATT negotiations, etc., are all designed to liberalize the world's trade environment. These measures will contribute to the easing of some of the non-tariff barriers cited earlier.

Some of the barriers cited can, however, be alleviated via better policy planning and program implementation by state and federal authorities.

SECTION IX. ANALYSIS OF TRADE DEVELOPMENT ASSISTANCE PROVIDED TO EXPORTERS IN VARIOUS STATES

IX.1. Other States Trade Development Efforts

This section of the report provides an analysis of the trade development efforts of other New England and U.S. border states vis-a-vis Maine's efforts, in relation to trade development with Canada.

In order to understand Maine's relative position and performance in conducting trade with Canada, an assessment was conducted of the performance and trade attributes of other states with similar characteristics to those of Maine. Several states were surveyed in order to develop a profile of state development and international business activities, identify targeted market sectors and market regions, discuss state-provided market and technical assistance services, understand lessons learned from international trading experiences and to understand how experienced trade practitioners and policy makers view the U.S./Canada Free Trade Agreement.

The states surveyed were New Hampshire, Vermont, Massachusetts, Connecticut, New York, Minnesota, Washington and Idaho. It is logical to survey other New England states as they share many common attributes with Maine; reasons for surveying a variety of non-New England states are listed below:

- New York was chosen due to its proximity to New England, its economic and manufacturing diversity and because it has substantial trade with the eastern Canadian provinces.

- Minnesota was selected because it is centrally located between eastern and western Canadian provinces, has a diverse economic mixture of agricultural, natural resource and high technology and is also perceived to be an innovative state in terms of economic development activity.

- Washington was chosen because its trades primarily with different Canadian provinces than the New England States, is a vibrant exporter of both raw materials and high technology products and is seen as a business development innovator.

- Idaho was selected because it is largely a rural state with a diverse economy comprised of agricultural, resource and industrial sectors.

To execute this survey, a questionnaire was developed with detailed questions pertaining to U.S/Canadian trade, market sectors, international business trends and trade impediments, the Free Trade Agreement and state and organizational business assistance. Strategic, qualitative interviews were conducted with key state international business development officials. A complete database, of international business contacts interviewed, is to be found in the appendices at the end of the report.

International Trade Activities

Canada is the largest export trading partner of each state surveyed except Washington, where Canada is the second largest export trading partner. Due to shared geographic boundaries or geographic proximity, similar raw material and industrial bases, and strong business relationships, Canadian cross border trade is the recipient of focused and long-term business development efforts from each state's public and private sector.

Each state's export trade has experienced growth over the past three years, with most states averaging approximately 20% per annum. From the interviews conducted with state development officials:

> "Exports are up significantly - 40% growth between 1992 and 1993."
> - New Hampshire Trade Development Office

> "Canada is our largest export market and largest inward market for investment."
> - New York Trade Development Office

> "Our trade with Canada has grown by 300% in six years. It has dropped a little this year because of the aftershocks of the Canadian election."
> - Idaho Trade Development Office

Each state cited that tracking their exports into Canada is much easier than tracking imports from Canada as imported merchandise is not tracked in terms of its final destination. For example, material is sometimes credited as being imported into Maine (point of entry) when its true destination could be New York or Pennsylvania. Interestingly, all states noted that Statistics Canada and the Massachusetts Institute for Social and Economic Research (MISER), located at the University of Massachusetts at Amherst, have more reliable statistics than the U.S. Department of Commerce. Furthermore, there is no reliable or comprehensive source for tracking the value of services; therefore, all trade statistics cited represent merchandise (both raw materials and finished goods) only.

The primary reasons given for steady export growth are the strengthening of both the New England and eastern Canada economies (specifically Ontario and Québec) and the added interest in cross border trade stimulated by the implementation of the U.S./Canadian Free Trade Agreement in January, 1989.

> "Exports are starting to slowly increase due to the combined improvements in Connecticut's and Canada's economy. . . . The Free Trade Agreement refocused our companies on doing business in Canada."
> - Connecticut Trade Development Office

> "The combination of a stronger U.S. and Canadian economy coupled with the jumpstart of the FTA has really made Canada our major trading focus."
> - Minnesota Trade Development Office

> "The FTA and a stronger trade economy has been very important to Massachusetts' principal export commodity - computers."
> - Massachusetts Trade Development Office

A reasonable trade balance exists between all New England states and Canada except for Maine. The principal reason for Maine's imbalance is the large quantity of energy, primarily electricity and petroleum products and pulp and paper, imported by the state.

Connecticut, which has a trade balance with Canada, attributes its favorable trade balance to the high value of exported finished goods produced by very large corporations located within the state such as Pratt and Whitney, Xerox, General Electric, Stanley Works, Pitney Bowes and Otis Elevator. Aerospace, defense technologies, aircraft, electronics, finished tools and office equipment exports contribute significantly to Connecticut's trade surplus.

Vermont has enjoyed a trade surplus with Canada for two consecutive years - 1992 and 1993. Vermont's positive trade balance has come at the expense of it's major provincial trading partner, Québec. Vermont did note, however, that it is difficult to deal with the Québec Government on some issues, including the timely response to trade-related issues. However, on the other hand, Vermont has found that regional economic entities in Québec, especially in the Montréal and Québec City areas, are positive and accommodating.

The trend in export growth is viewed both as a positive and a negative to Vermont; while pleased to have a trade surplus, Vermont also devotes almost all of its international development on Québec, thereby potentially exposing Vermont's exporters to the economic fluctuations of one provincial economy.

Massachusetts officials noted they have a trade surplus with their largest Canadian trading partner, Ontario, and a trade deficit with their second largest trading partner, Québec. Massachusetts' principal export to Ontario is computers and computer-related technology. Massachusetts' principal imports from Québec include industrial components, machinery, seafood and energy.

Minnesota's three largest trading partners are Ontario, Québec and British Columbia. Though Minnesota has a trade imbalance with these provinces, exports to Canada have grown approximately 20% - 25% per year, and totaled $1.7 billion in 1993. Minnesota's principal reason for a trade imbalance is the significant amount of energy-related products, including coal, gas, electricity and petroleum that are imported from Canada.

Washington enjoys balanced trade with Canada and has experienced significant export/import growth. In 1989, combined trade with Canada totaled $6 billion. In 1993, this had grown to $10 billion. The state's principal export trading partners are British Columbia, Alberta, Ontario and Québec. Washington's principal exports to its Canadian trading partners include aerospace technology, aircraft, raw and finished wood, energy and agricultural products; Washington imports raw and finished wood, agricultural products, machinery, livestock, electronic components and transportation equipment.

Though precise trade statistics do not exist for Idaho's export/import trade, the State Department of Economic Development reports "basically balanced trade". Idaho's principal trading partners are Alberta and British Columbia, but the State also has exports to Ontario and Québec. Idaho attributes its balanced trade to having strong exports of electronics, machinery, building materials, fertilizer, agricultural products and software. Idaho imports wood products, electronics, foodstuffs, agriculture and energy from Canada.

From the analysis of strategic interviews, Québec and Ontario are New England's and New York's largest Canadian trading partners, with much less activity focused on the Atlantic Provinces of Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island.

As noted in the table below, the New England states, with the exception of Maine (to New Brunswick), conduct low levels of export business with the Atlantic Provinces. The principal reasons for this include the perception of small provincial economies, geographic remoteness, lack of structured industrial sectors and an absence of growing and diverse market sectors. These reasons were cited by all New England states surveyed. Surprisingly, however, was the common perception of, at least, some untapped and potentially rewarding export opportunity. The table below describes the rank order of trade with principal Canadian provinces:

NEW ENGLAND STATES - CANADIAN PROVINCES: TOP TRADING RELATIONSHIPS (Imports and Exports)

PROVINCE	STATE					
	ME	NH	VT	MA	CT	NY
Ontario	3	2	2	2	1	1
Québec	1	1	1	1	2	2
Nova Scotia	small*	Negl.	Negl.	small	small	small
New Brunswick	2	3	small	small	Negl.	Negl.
Prince Edward Island	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Newfoundland	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.

*Principally, imports from Nova Scotia.

Source: Pan Atlantic Consultants

For example, Vermont recently participated in an eighteen state trade mission that traveled to several Canadian locations, including Halifax. Vermont's International Trade Director believes that there is a reasonable level of potential in Nova Scotia due to a growing, vibrant entrepreneurial community and he intends to start fostering future trade relations with his counterparts in Halifax. Likewise, New Hampshire's Office of International Commerce will be pursuing export opportunities in the Atlantic Provinces later in 1994 by participating in a co-sponsored fifteen member economic delegate trade mission. In addition, both New York and Connecticut are starting to investigate the Nova Scotia market, noting that the Halifax market hosts numerous industrial companies eager to form strategic alliances and joint ventures with companies located in New England.

Massachusetts is the only state in New England that does not have an initiative planned for expanded trade to the Atlantic provinces; rather, the Massachusetts Office of International Trade and Investment (MOITI) is marshaling resources for expanding trade with emerging economies in Latin America, the Pacific Rim and Eastern Europe.

> "There are tremendous opportunities for New England states to grow trade with eastern Canada and other countries. We should form regional alliances that leverage our goods and services, quality image, and "Yankee" ingenuity to promote ourselves."
>
> \- Vermont Trade Development Office

The Canadian provinces most frequently cited, by state development officials, as having the best possibilities for export business are Ontario, Québec, British Columbia, and Nova Scotia. Ontario is cited the most frequently because of a diverse and strong economy; Québec is almost mentioned as frequently because of the abundance of raw material and semi-finished goods producers who ship partially completed product to New England companies for completion and because of its growing and diversified economic base. British Columbia is seen as a vibrant and technology-oriented province, but quite distant from New England to be a major trading partner. As mentioned previously, Nova Scotia is perceived to be a frequently overlooked market with moderately strong potential.

> "We have to remember that Canada isn't a 'domestic' trading partner - it's still international trade. Ontario, and to a lesser degree, Québec, are still "wide open" for trade. We need to exploit these opportunities."
>
> \- New Hampshire Trade Development Office

> "We have to diversify into other Canadian markets - the western states are exporting to the eastern provinces faster than we are exporting to the western provinces."
>
> \- Connecticut Trade Development Office

New England's principal exports to Canada include high technology equipment, such as computers, test and analytical equipments and measuring devices; electronics; fabricated machinery parts and finished, produced assemblies; medical and diagnostic equipment; aerospace equipment; seafood and other foodstuffs; agricultural products; lumber, paper and pulp products; chemicals; raw metals, such as iron, steel and aluminum; and textiles and apparel.

New England's principal imports from Canada include electronics; software; fabricated machinery parts and finished, produced assemblies; lumber, paper and pulp products; seafood and foodstuffs, including meat; agricultural products; raw metals, such as iron steel and aluminum; high technology equipments; energy, such as electricity, gas, oil and coal; and rubber and plastics.

State Development Efforts

In general, there is a very concerted effort by both state government organizations and the private sector to enhance established Canadian relationships and to create new opportunities through focused trade missions, trade shows, economic and regional alliances and selected market planning efforts. Overall, these efforts are proactive business and regional, cross-border trade initiatives designed to secure strong business partnerships that transcend commodity specific and company size export/import ventures.

Common to almost all New England states is the significant growth of small and mid-size companies exporting to Canada. A frequent characteristic of this type of business development is the initial formation of a joint venture with a similar Canadian-based company that shares common or value-added technology, manufacturing operations, markets or simply interest in international business development. Joint ventures are prevalent in medium and high tech industries and most frequently bring together a component fabricator and a finished assembler of an industrial product in order to complete the product faster and cheaper for distribution to new markets. This was frequently cited in Vermont, Connecticut, Massachusetts, New York as well as by Minnesota and Washington. Market sectors that are currently demonstrating strong joint venture growth are electronics, computer technology, machinery control systems, environmental technology and software.

The other major trend is to focus concerted business development and alliance efforts on specific regions within a target province. The purpose of this type of alliance is to leverage common industry, export interest, distribution infrastructure and geographic proximity in order to build joint long-term economic development plans. This can be on a small scale, such as New Hampshire's economic alliance agreement with the Greater Sherbrooke Québec region or Vermont's emerging economic alliance agreement with several cities between Montréal and Québec City to a larger scale, such as the Pacific Northwest Economic Partnership, an alliance between Washington, Oregon, Idaho, British Columbia and Alberta.

More often than not, these alliances have been initiated by Canadian regional development groups. For example, Nova Scotia is considering the formation of an economic region called "NEAR", or the New England Atlantic Region, with a focus on strengthening cross border trade between the four Atlantic Provinces and the New England States. The Pacific Northwest Economic Partnership, mentioned above, was originally conceived in British Columbia.

State Development Organizations and Levels Of Trade Assistance

Each state's international development office was surveyed to determine the scope of services provided to the private sector. A summary of these services is presented below:

STATE INTERNATIONAL DEVELOPMENT OFFICE SERVICE MATRIX									
STATE	**ME**	**NH**	**VT**	**MA**	**CT**	**NY**	**MN**	**WA**	**ID**
Staff Size	1	4	1	20(a)	6	25	25	5(b)	5
Trade Information	Y	Y(c)	Y	Y	Y	Y	Y	Y	Y
Statistics	Y	Y	Y	Y	Y	Y	Y	Y	Y
Tech. Asst.	Y Limited	Y(d)	Y(e)	Y(f)	Y	Y	Y(g)	Y	Y
Contacts (Development of)	Y Limited	Y	Y	Y	Y	Y	Y	Y	Y
Targeted Intros.	Limited	Y	Y	Y	Y	Y	Y(h)	Y	Y
Missions	Limited	Y	Y	Y(i)	N	Y	Y(j)	Y	Y
Shows	N	Y	Y	Y	Y	Y	Y	Y	Y
Canada Office	N	N	Y(k)	N	N	Y(l)	N	N(m)	N(n)
Other			(1)			(2)	(3)	(4)	(5)

OTHER:

(1) Focused efforts on partnership and joint venture formation, Ex/Im Bank financing, association formation, Québec/Vermont trade commissions.

(2) Grants available for companies to conduct market research and foreign sales corporation formation.

(3) Minnesota Export Finance Assistance Program which provides loans to small and mid-size businesses interested in export development.

(4) Pacific Northwest Economic Partnership - joint efforts between development officials and companies from Washington, Oregon, Idaho, British Columbia and Alberta.

(5) Same as number 4 above.

NOTES:

(a) 2.5 people focus on Canadian trade development exclusively

(b) office will be increased to 7 staff this year

(c) extensive international trade library and on-line data directories

(d) commingled Ex/Im Bank and SBDC representative at Int'l TradePort

(e) "Executive on Loan" program - Vermont/Québec executive exchange

(f) provide facilities for incoming delegations to conduct research

(g) country specific and market sector technical assistance

(h) specialists focusing on joint ventures, strategic alliances, loans

(i) four per year - split between Ontario and Québec

(j) three per year - Toronto, Montréal and Vancouver

(k) located in Montréal

(l) offices in Montréal and Toronto

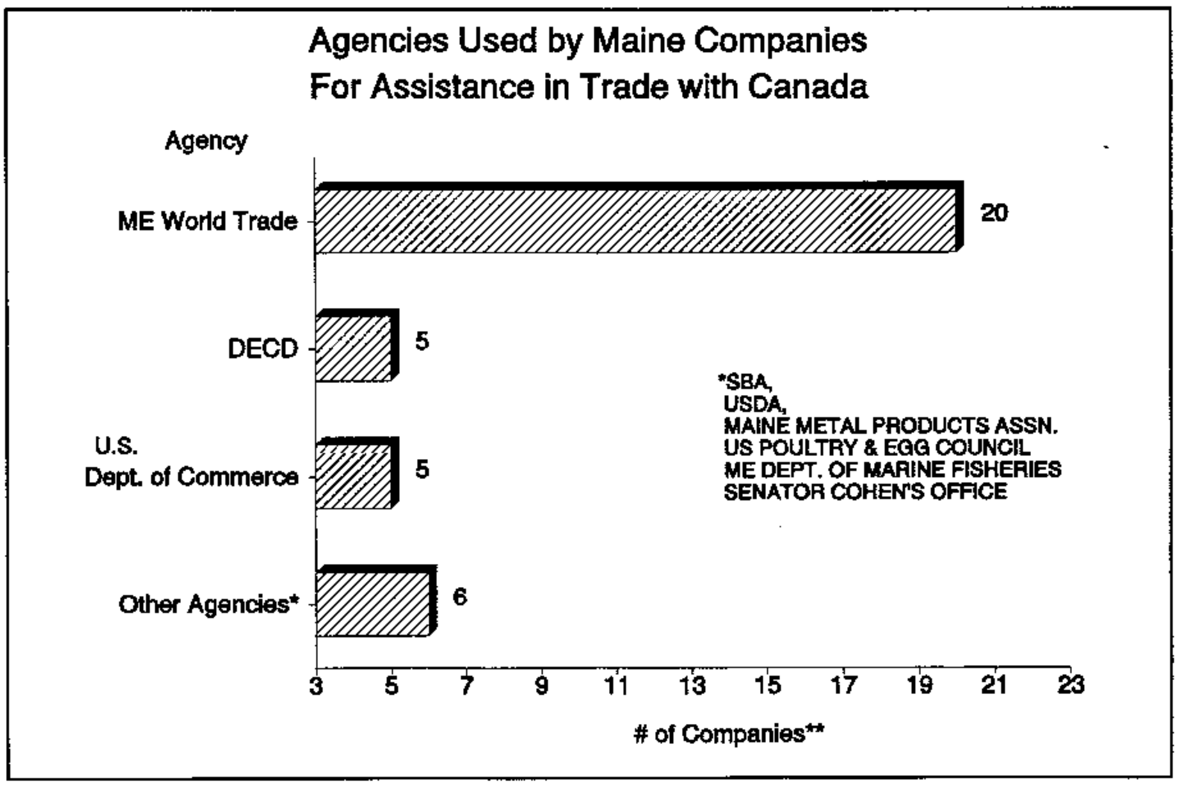
(m) will establish an office later this year - either Toronto or Vancouver

(n) will establish an office later this year - either Calgary or Edmonton

IX.2. The State of Maine's Export Development Assistance as it Relates to Canada

In surveying businesses in relation to their export development efforts with Canada, each respondent was asked about current usage levels of assistance and desired levels of assistance from state or quasi public sector entities.

Many of the companies interviewed have received some form of trade assistance from various agencies within the state, in relation to export development, though not necessarily Canadian market development. This assistance has included general seminars on trade development, statistics, industry contacts, trade missions, etc. Others who have not sought out any type of assistance from these agencies, are at least aware that some type of assistance is available if they need it. However, only a minority of the companies interviewed (28 out of 75) have used the services of any agency in relation to Canadian trade development.



**Some companies have used services from more than one agency.

Maine World Trade received a favorable rating, in relation to its services, from those companies who had used it in the past. It appears that MWTA has succeeded in promoting itself well, as the organization's name recognition among companies interviewed was strong. However, most were not aware of the full range of services offered by MWTA and many of those who were aware had not taken full advantage of the organization's services. Only three companies indicated that they had utilized services other than attending informational seminars in relation to Canadian market development. These services included obtaining technical information, statistics, and industry contacts.

> "Maine World Trade assisted us with a 30-50 company mailing to Canada a few years ago. They were really quite helpful in providing us with names of companies to contact.
>
> - Machinery Producer

> "I went to the Maine World Trade Data Bank a month ago. They had very recent, specific and very useful information on the Canadian market."
>
> - Instrument Manufacturer

Others indicated, however, that much of the information available from MWTA is too broad-based in scope. This belief may be a result of the fact that many companies are not aware of the range of expertise and services which Maine World Trade offers or have not taken full advantage of it.

> "We attended a MWTA seminar on the Free Trade Agreement several years ago and it was pretty good, but I think they tend to be a little too general and don't address the specific needs of each company."
>
> - Industrial Manufacturer

> "Maine World Trade is not worth the money you have to pay to join. Their seminars are too general for any real use. We need more specific technical assistance than that which they can provide."
>
> - Industrial Manufacturer

> "Agencies like that don't serve the nitty-gritty problems. They tend to serve as a chamber of commerce type of organization and are too broad in scope."
>
> - Electronics Manufacturer

> "Small businesses with little resources find it difficult to know who to talk to when they need help. Any assistance that is available in the state needs to be much more specific in scope. We need less of an overview and more hands on assistance."
>
> - Machinery Producer

Assistance from other organizations within the state appears to be sporadic as these organization were not well represented in the responses given. The companies who had received assistance from the Department of Economic and Community Development (DECD) had all participated in past trade missions to Canada sponsored by the agency. These companies all feel that while trade missions can offer an excellent opportunity to meet business partners, they usually do not generate business unless there is adequate preparation beforehand in terms of developing specific trade contacts who have at least a preliminary interest in importing from them.

> "We've attended trade missions sponsored by the DECD. They were good, but it seems that whenever you attend these things, you only meet companies that are interested in selling you their products. It would be nice to attend one and meet companies that are interested in buying our products."
>
> - Precision Machining Company

Section Summary

Overall, Maine's public sector efforts in relation to trade development with Canada are much more limited than those of most other New England or U.S. border states. Funding for trade development is very limited and, as such, unlike other states there is not a proactive or sustained development effort in relation to Canada, our single largest and most natural trading partner.

In general, Maine companies interviewed feel that the public or quasi public sector can play a very useful role in assisting their trade development and with Canada. However, they also feel strongly that assistance must be individually focused to be of practical assistance to them. They are principally seeking the following types of assistance in relation to Canadian market development.

1. Trade information and statistics.

2. Technical assistance, which is specific to their individual situations. This should focus on imparting Canadian market know-how, specific industry sector information and research reports on the Canadian market, industry buying source contacts and, in an ideal world, planned targeted individualized itineraries, to meet with potential buying sources.

3. An ongoing and concerted program of promotional activities to include provincial trade missions and trade shows. Companies are at pains to point out that trade missions need to be well prepared, in advance, so that their time is used efficiently by meeting with well screened potential business partners. Companies believe that political leadership by the governor could be very useful in opening doors in non-domestic markets such as Canada.

SECTION X. TRADE OPPORTUNITIES/RECOMMENDED POLICIES

The previous sections of this report provide the reader with a framework of Maine's historical and current cross-border trade activity with Canada, including: the impact of the Free Trade Agreement, a discussion of the experiences of Maine-based exporting companies, and remarks and perceptions regarding the role of and services provided by export-oriented technical assistance organizations in Maine. In addition, information is provided on the export development efforts of other New England and border states in relation to Canadian market development. An understanding of this information is crucial in formulating a serious discussion concerning Maine's potential to increase exports to Canada. It is equally important in developing a series of programmatic and policy recommendations for the short and medium-term as well as creating the information requirements needed for an environment where long-term international trade development will prosper.

X.1. Opportunities

X.1.1. Sectors

In any discussion regarding international trade and investment opportunity it is practical to define the market opportunity using the following parameters:

- **established, indigenous sectors** that principally respond to a maintenance-based tactical marketing approach or strategically-oriented market expansion approach;

- **existing, indigenous sectors** that have not penetrated export markets that require a comprehensive mix of market research, network development and strategic market development; and,

- **start-up sectors** that are opportunistically created because of an emerging consumer demand for improvement and/or change.

Established Export Sectors

Maine has numerous established export sectors that have demonstrated growth in Canadian markets. Many of these sectors are natural resource-based and include a variety of raw, semi-finished, finished wood, wood by-products, paper and pulp. Indeed, Maine's largest export commodities to Québec, New Brunswick and Ontario are a combination of paper, pulp or allied products or finished lumber or wood products. Maine's other top resource-based export sectors represent food products (fish, lobsters and other seafood), and agricultural products (potatoes, vegetables, blueberries, processed food products and miscellaneous fruits). Maine's other dominant, established export sectors include electronic products and components, leather products, office equipment, footwear, plastics, industrial machinery and transport equipment, textiles, fabricated metal products and construction related machinery.

A previous study conducted by the Urban Institute (1993) indicated that Maine's top twenty export sectors account for almost two-thirds of Maine's total exports, implying a somewhat diversified export community. It is very important to note, however, that a significant portion of these established export markets are maintained via the sale of contracted lots of products to a finite number of distributors or value-added manufacturers. This should be recognized for the concern it presents to Maine's imbalance of trade with Canada, and indeed, several other global trading partners. Examples of this situation include:

- the sourcing of raw logs and semi-finished lumber to Canadian saw-mills for further value-added processing (a sector in recent years that has experienced static or negative export growth and which is subsidized in Canada);

- the singular relationship in the export of semiconductors to Malaysia (approximately 90% of Maine's electronic exports are shipped to Malaysia by one company).

Several established market sectors have strong potential for continued export growth. These include:

- Lumber: hardwoods and softwoods, chips and shavings, shingles, turnings and wood products, furniture, cabinets, millworking.

- Paper, pulp and allied products: paper products, tissues, stationary, paperboard, laminates, cartons and containers, etc.

- Food and kindred products: meat, processed meat and poultry, maple syrup, canned fruits and specialties, frozen vegetables and fruits, fresh and prepared fish and seafood.

- Electronics and electronic components: representing communications, computer hardware, electrical switchgear, transformers, controls, instrumentation, etc.

- Precision machinery: semi-finished and finished products and assemblies.

- Industrial machinery: turbine components, agricultural handling equipment, mineral spreaders, CNC machine tools, milling machines, etc.

- Footwear and leather products: shoes, tanned leather, luggage, accessories.

- Textiles and apparel: fabrics, fibers, dry goods, clothing.

- Chemicals: solvents, medicinal chemicals, biological products, detergents, adhesives, composites, etc.

- Transportation equipment: automotive parts, brakes, pneumatics, aircraft engines, etc.

X.1.2. Existing Indigenous Sectors

There are several indigenous sectors in Maine that have not leveraged the opportunity for export of their goods and services in the Canadian market. This is due to several reasons:

- Some sectors are at an early stage in their market development and are currently developing their regional or national domestic markets;

- Some sectors are small employers and do not possess the critical mass necessary to develop export markets;

- Some sectors are relatively new to Maine and are not currently positioned to take advantage of the Canadian market; and,

- Some sectors have previously attempted exporting to Canada and have experienced only marginal success.

Several such sectors in Maine are currently focused on developing their competitive advantage in the New England/Northeastern market. Typically, these sectors have not reached the stage of internal development to spin off capacity or technology focused on Canadian market opportunities. Examples of these market sectors include:

- specialty food processing
- certain types of specialized wood products
- niche-oriented precision metal fabrication
- professional services
- telecommunications equipment
- certain plastics and composite rubbers
- biotechnological applications

The food processing industry is a prime example of a market sector that believes it can be successful in the Canadian market.

> "We're gradually branching out. Our aim is to get an even larger share of the Canadian market. We recently introduced a new line there and we're hoping to be in supermarkets throughout Canada."
>
> - Food Processor

> "I see opportunities everywhere in Canada. When I began selling to Canadian companies, people were buying off the back of our truck. Our product is well liked in Canada."
>
> - Food Processor

Maine has a long history in processing and adding value to wood products. Whether it is shingles, dowels, fencing, or cabinetry, Maine's small wood product businesses are beginning to participate in emerging Canadian consumer markets:

> "The Canadian home-improvement market holds the greatest potential because Canadians are following the lead of U.S. consumers and are buying more and more do-it-yourself products from larger stores like Home

> Quarters and Grossmans. In the past these customers always bought from local hardware stores. It's much easier for us to sell to these larger companies because most handle their own distribution."
>
> \- Specialty Building Products Producer

> "Our volume will increase as we get smarter and get more exposure through distributing through large stores."
>
> \- Specialty Building Products Producer

The automotive sector also possesses growth opportunities in the Canadian market. Several Maine companies which market to this sector expressed optimism regarding their potential in the Canadian market.

> "The automotive sector probably offers the most potential for us in the Canadian market. We manufacture valves and regulators that are currently used in manufacturing plants and the automotive industry would be a natural extension of our capability."
>
> \- Industrial Manufacturer

> "The automotive market is booming; the Canadian market tends to follow the U.S. market and is currently expanding."
>
> \- Machining Company

> "The automotive parts industry is doing well in Canada. It appears to be improving because the Canadian economy is improving."
>
> \- Industrial Company

> "Our product is tied directly to the sale of four-wheel drive trucks and the weather. We see sales increasing. The Canadian economy is more stable than that of the U.S."
>
> \- Engineering Company

The professional services market is another sector that is well-developed in Maine and which has untapped export potential in the Canadian market. A common denominator identified during dialogues with economic development officials and trade experts is this sector's strong potential for export development. A variety of professional services abound in Maine that currently have the capacity to either enter the Canadian market as a stand alone entity or as a subcontracted partner to a local Canadian firm.

The FTA doubled the value of Canadian Government procurement contracts available for U.S. companies to pursue. The North American Free Trade Agreement has eliminated virtually all barriers on exporting professional services from the United States to Canada. As the world's leading exporter of professional services (the U.S. has an approximate 20% share of U.S. global services exports), the U.S. is a highly respected participant in the Canada's $285 billion service market. The most frequently sought U.S. services in the Canadian market include construction, architectural and engineering, management consulting, advertising, insurance, technology, financial, environmental, telecommunications, software development and research and development.

Canada's construction-related services industry, while perceived as a world leader which annually posts huge trade surpluses, is a prime service sector for Maine's highly developed construction sector service firms. In Maine, such companies tend to be vertically integrated, incorporating architectural, engineering, contracts, procurement and regulatory functions. This type of full-service contracting is not present in most Canadian firms, who are forced to seek collaborative relationships in order to provide complete services to the client.

Management consulting services also provide Maine's service providers with an excellent opportunity to export intellectual capital. Certification to practice in Canada is not required by federal or provincial regulations. Indeed, several Maine firms and independent consultants have established networks and have been awarded contracts in the areas of marketing, business planning, resource and environmental consulting, and legal and financial consulting.

The advertising sector is another professional service area that grew during the late 1980's and is continuing to show strength in the Canadian market. U.S. advertising firms have practiced for several years in the Canadian market; a few Maine firms have established joint ventures with New Brunswick and Nova Scotia and Québec counterparts. This type of relationship will continue to prove beneficial as Maine businesses seek to grow markets in eastern Canada.

An area that has greatly benefitted from the reduction and elimination of tariffs is the telecommunications industry. In just four years, the reduction of tariffs increased U.S. exports to Canada by over 400%. Canada is an ideal market for increased export of telecommunications equipment, as it is sparsely populated and covers a large geographic area requiring an extensive infrastructure.

The telecommunications market is extremely competitive in Canada and Canadian manufacturers are perceived to be among the best in the world. Maine's telecommunications companies are ideally positioned to bring value to the Canadian market through collaborative ventures and strategic alliance partnerships. Maine has more than 15 companies in this sector employing more than 1300 people generating over $125 million in sales annually. Currently, most of Maine's telecommunications-based companies export their products.

The demand for traditional materials such as steel and aluminum is slowing as the consumer becomes more discriminating in their taste for a products physical appearance and weight. The demand for composite resins, plastics and tensile fabrics is increasing in both the U.S. and Canadian markets. Currently, U.S. companies that are geographically close to Canadian markets are the leading exporters. Environmentally friendly manufacturing processes are highly valued in the Canadian market and this bodes well for Maine's limited number, but highly successful producers, of composites and plastics.

X.1.3. Start-up Sectors

One of the principal differences between Maine's established export sectors and sectors that have not been leveraged for export expansion is that the former classification tends to be based on natural resources or industries that have a long presence in Maine (eg., wood-based, agricultural and metal fabrication). Maine's start-up or emerging market sectors aren't typically traditional industries; rather, they represent an outgrowth of technology and/or extension of civil infrastructure that is technology or services-related. Sectors of this type, which are developing in Maine, possessing export potential include:

- pollution control remediation services and equipment,
- instrumentation and analytical equipment including medical equipment,
- computer software services,
- biotechnology.

Canada's stringent environmental regulations have caused a rapid increase in expenditures on pollution control, abatement and remediation equipment and services. Maine has many similarities with Canada in terms of environmental consciousness and as a result, has become known nation-wide for its capacity and innovation in environmental engineering and consulting services.

The Canadian analytical device market is another emerging opportunity for Maine's manufacturers. For example, Canada imports approximately 75% of its medical equipment requirements from the U.S. Furthermore, the U.S. is a major supplier to the Canadian biotechnology and veterinary medicine markets. Maine has a fledgling industry building in each of these sectors and some companies are currently exporting to several overseas markets. The Canadian market should present further growth opportunities for Maine's companies as well as potentially attracting investment or plant relocation/expansion possibilities.

X.1.4. Atlantic Rim and Third Area Markets

The concept of the Atlantic Rim region, as a strongly integrated and interdependent trading block, is one whose time has come. Maine is well located, geographically, to become a real player in this arena. It should enthusiastically embrace the opportunity presented by the emerging Atlantic Rim concept.

The European Union imports approximately 25% of Maine's total exports. Furthermore, Maine's strongest export sectors have developed markets in strong European economies such as Germany, France, the United Kingdom, Italy and the Benelux countries. In some instances, Canadian distribution networks in these (European) markets are more sophisticated than their U.S. counterparts and would afford Maine businesses who link up with them an expedited ability to enter European markets.

Furthermore, regional collaborations between Maine and Eastern Canadian companies, or groups of companies, could be a very effective method of developing trade to other countries in the Atlantic Rim region (the North American Wild Blueberry Association's marketing program in Europe is a good role model).

X.2. Recommended Trade Policies

If Maine is to reduce its imbalance of trade with Canada, it is important to identify policies that can be developed into actionable plans and programs that would provide the greatest benefit to the largest number of Maine companies. Five areas identified during the course of this project include:

1. Development of a clear, focused public and private sector program of technical assistance.

2. A strong promotional program coupled with strong international business development leadership.

3. Regional economic development collaborations with other New England states.

4. A comprehensive review of Maine's transportation infrastructure requirements to support exporting to Canada.

5. A strategic alliance program.

X.2.1. Clear, Focused, Public and Private Sector Technical Assistance

As previously noted in this report, most states have a stronger public sector resource base than Maine for international business development and the provision of technical assistance to exporters. The latter is a critical element required, especially by the small and medium-sized business community, to assist in export market development.

Of the nine states analyzed, Maine is the only state, besides Vermont, that currently operates an international development office with one person. In several instances, states have specific trade specialists with special, full-time focus on the Canadian market. This is crucial as the implementation of the FTA, NAFTA and GATT modifications (Uruguay Round) will require a comprehensive understanding of trade policy and regulations.

The depth of staff is also important as it not only means responsive answers and attendance to business, but it provides the ability to access a full range of services encompassing timely market research, business assistance, network development, business introductions as well as participation in trade shows, missions, and hosting educational seminars. In several states, trade specialists conduct extensive in-state travel in order to be more readily accessible to the private sector. A strong public or quasi-public international commerce division also provides for a stronger link to the private sector consultant base for detailed, technical assistance and long-term marketing planning assistance.

Ideally, the best technical assistance is provided by a combination of the public and private sectors. Maine has a solid-base of private sector practitioners (consultants) as well as individuals within companies that have significant export experience. It is extremely important for the private sector to know that the public sector (eg., Government Officials, Trade Associations, Business Groups, etc.) is responsive and committed to developing and maintaining dialogues with cross border counterparts. It is equally important for the private sector's assistance providers to have clear direction from the public sector regarding the goals of the state's international business programs.

In developing initial international relations and proposing programs calling for private sector involvement (such as loaned executives, where companies experienced in exporting make available a knowledgeable staff person for a short time to assist an inexperienced company), a state organization has to have the breadth of experience and depth of resources to gain the private sector's confidence. In this type of environment, the private sector is more willing to commit resources to programs such as trade missions, trade seminars and shows and other types of export development initiatives.

The State of Maine should offer, at the minimum, the level of technical assistance and export direction that is offered in other New England states. Improvement over current conditions can be achieved by the DECD working much closer with the Maine World Trade Association and the U.S. Department of Commerce representative in Maine to ensure that there is no duplication of services and hence no wastage of limited resources.

In addition, all state funded and quasi-public agencies involved in trade development should jointly set and agree on an annual program of technical assistance to the export sector, setting specific goals, a workplan and measurable targets by export sector. The public sector should develop funding mechanisms to ensure that the export sector has access to, and can utilize the services of, the private sector consulting base for detailed technical assistance.

A special task force should be appointed by the Governor and Legislature to review annual progress in achieving targets set in such a trade development plan.

Finally, it is vital that the development and delivery of public sector trade policies and programs be conducted in a truly non-political fashion so that the economic development benefits are maximized for all Maine businesses and citizens.

X.2.2. Trade Development Via Promotional Activities

Trade missions are perceived by the general business public as being effective only if they possess the following characteristics:

- Led by a Governor who definitely understands international issues as well as business development and is willing to devote the time and resources to an ongoing series of well conceived focused missions.

- Focused, with a specific sector(s) identified and supported by the private industry.

- Post-mission communication and development supported by a highly responsive staff with special skills or experience relative to the target country.

- An understanding that results usually take a significant amount of time (months to a couple of years).

Many state and provincial development officials and other experts surveyed note that the states in the region should examine opportunities to work together and leverage their limited individual state resources. The concept of Maine, New Hampshire and Vermont teaming together in multi-state trade missions and trade shows was frequently advanced. In addition, the concept of Maine, New Brunswick and Nova Scotia teaming together was mentioned by officials on both sides of the border.

X.2.3. Regional Economic Development Collaborations

A natural extension of multi-state trade missions is the establishment of regional economic development collaborations. These could take place in the following forms:

- two or more contiguous states
- contiguous states and provinces

This concept has been successfully advanced in the northwestern United States. The Pacific Northwest Economic Partnership was formed in 1989 between Washington and British Columbia for the purpose of jointly promoting each others' technology-based industries. Much of the ongoing success of the collaboration is due to the large amount of intercorporate cross-border trade in the aviation, aerospace and computer industries. Typical events have included trade fairs, trade missions, focused marketing into the Pacific Rim, joint advertising and co-marketing ventures, etc. Such joint efforts can also lead to developing a jointly staffed trade office, where resources are shared and common business goals for similar economies are developed and promoted. Eventually, this two state collaboration grew to include Oregon, Idaho and Alberta.

Nova Scotia is also proposing a similar concept. Called the "New England Atlantic Region", this proposed collaboration would include the Atlantic Provinces and New England States and would focus on economic development schemes whereby smaller economies could leverage limited resources for broader international marketing into Latin America, Europe and Asia. Vermont and New Hampshire have had preliminary discussions regarding this type of interregional cooperation.

The U.S. Department of Commerce is also an advocate of cross border economic development initiatives. Recently, the U.S. DOC sponsored a multi-state trade mission to Halifax in which eighteen states participated. Regional economic and trade officials noted in interviews that Maine was the only Northeastern state not in attendance.

Several New England states, including Vermont, New Hampshire and Massachusetts are very proactive in forming focused cross border business coalitions. These are usually comprised of agreements between local chambers of commerce or trade associations to network and host business delegations on a scheduled basis. Their initial impact is geared to social networking and goodwill; as relationships develop between public and private sector counterparts, cross border coalitions shift their emphasis on linking economic development practitioners in the development of distribution networks, site locations, and the identification of representatives and brokers or an infrastructure issue that is common to both parties (for example, the absence of air travel connections between Maine and Canada). Frequently, formal agreements are developed defining mutual business goals of technical assistance and business development. The state of New Hampshire has such an agreement with Sherbrooke, Québec; several New York State cities have programs developed in Québec and Ontario and Rhode Island is undertaking the groundwork for a formal tie with Nova Scotia.

The cost of developing this type of cross border coalition between groups is relatively small in terms of dollars. Nevertheless, the medium and long-term reward for this type of effort can be substantive, especially in terms of strategic business partnerships and investment activities. It would be to Maine's benefit to explore opportunities in Québec and Ontario where Maine's small and mid-size manufacturer's could, over time, leverage business opportunities in a Canadian growth market.

X.2.4. Transportation Infrastructure

If Maine is to increase its exports to Canada, it is vital that business development initiatives and transportation infrastructure planning and modernization requirements be integrated. As shippers and freight forwarders improve their modes of intermodal transportation to respond to increased customer requirements of faster, less expensive and cleaner delivery, Maine's transportation planning and implementation initiatives will need to have improved linkages between highway, air, marine and rail transportation.

Two specific areas, highway and air transportation, need to be addressed in the near future. Maine's principal north/south and east/west highway routes into Canada are frequently cited by businesses as an impediment for increasing export activity. It is important to note that these routes are not a deterrent to exporting, as Maine companies with Canadian markets have accepted that certain commodities must be shipped in lighter loads to accommodate highway road weight and dimensional limits. These routes are, however, a medium and long-term liability in terms of substantially diversifying the types and amounts of commodities we can expect to export in the future. Furthermore, as Maine implements future business attraction strategies, the highway corridors to Canada will be a critical component analyzed by export-oriented companies.

At present, Maine does not have scheduled air service to Canada. The only available air service is via charter service. This is an area that should be addressed immediately as it is an impediment to business development. Many businesses mentioned that their need to travel to Canadian cities to develop or maintain business relations is frequent and that travel via automobile is extremely time-consuming. The current level of travel between Canada and Maine is probably not great enough to support daily scheduled service between many cities; however, Portland and Bangor are likely cities to establish air connections with Canadian cities such as Montréal, Toronto, Halifax and Saint John. Initial service may include one or two flights per day on an alternate day basis.

Marine and rail transport must also be integrated into a business development and transportation infrastructure plan. The port of Portland can play a larger role in the shipment of a variety of products directly to Canadian ports such as Halifax or Montréal or to larger U.S. ports for bundling with larger shipments. The development of the intermodal rail facility in Auburn is a positive move in relation to development of transport links between Maine and Canada.

X.2.5. Strategic Alliance Partnership Development

Development of strategic alliance partnerships is one of the many appropriate vehicles for adding value in international business development. Strategic alliance partnership formation in the private sector can take several forms, the most prevalent being:

- joint ventures
- technology licensing
- reciprocal marketing and distribution relationships
- shared research and development arrangements

In each of Maine's export market areas (established, existing but untapped, and emerging) strategic alliance development programs should be considered. U.S. and Canadian firms are frequently choosing to form alliances to pursue opportunities created by the FTA and NAFTA. The benefits which Maine can accrue from successful alliance partnerships include:

- increased employment in Maine through increased sales in the U.S. from such partnerships,
- selected opportunities to improve technological expertise in Maine,
- increased exports from Maine to the partnership country and to third area markets (e.g., Atlantic Rim),
- low-risk entry opportunity for the Maine-based company to enter the Canadian market,
- increased demand for services and consequently new business opportunities for other Maine companies,
- opportunities to attract inward investment or equity positions in Maine from selected Canadian and third area markets, and
- opportunities to develop closer links between Maine and offshore industries.

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Main Street
Stratton, ME 04982
Tel: 207-246-4500
Contact: Luke Brochu, General Manager

Teel Machine
Route 302
Fryburg, ME 04037
Tel: 207-935-3561
Contact: Gilbert Hopler, President

The Baker Company Inc
Sanford Airport
Sanford, ME 04073
Tel: 207-324-3250
Contact: Philip Lang, Sales & Marketing Manager

The Irwin Company
Gorham Industrial Park
Gorham, ME 04038
Tel: 207-856-6111
Contact: Scott Semili, Plant Manager

Tibbetts Industries Inc
Colcord Avenue
Camden, ME 04843
Tel: 207-236-3301
Contact: Gail Pinto, Sales Manager

Tri Penn Inc.
Route 202
Winthrop, ME 04364
Tel: 207-395-4865
Contact: Terry Johnson, Plant Manager

U.F. Strainrite, Inc.
17 Foss Road
Lewiston, ME 04241
Tel: 207-777-3100
Contact: John LaPoint Sr., President

U.S./Canadian Fulbright
350 Albert Street, Suite 2015
Ottawa, Canada K1R 1A4
Tel: 613-237-5366
Contact: Victor Konrad, Executive Director
(Formerly Director of U.S./Canadian studies at the University of Maine, Orono.)

U.S. Consulate - Halifax, Nova Scotia
910 Cogswells Tower, Suite 910
Halifax, Nova Scotia B3J 3K1 Canada
Tel: 902-429-2482 (direct line)
Contact: Richard Vincon, Principal Commercial Officer

U.S. Department of Commerce, International Trade Administration
One Memorial Circle
Augusta, ME 04330
Tel: 207-622-8249
Contact: Stephen M. Nyulaszi, Director

U.S. Embassy - Ottawa
100 Wellington Street
Ottawa, Ontario K1P 5TL Canada
Tel: 613-238-4470
Contact: Bob Marron, Senior Commercial Officer

USFCS Department of Commerce
Toronto, Canada
Tel: 416-595-5406
Contact: Dan Wilson, Commerce Officer

University of Montréal
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Montréal, Canada H3C 3J7
Tel: 514-343-2401; Fax: 514-343-5831
Contact: Pierre-Paul Proux, Professor, Department of Economics

University of Southern Maine, Edmund S. Muskie Institute of Public Affairs
96 Falmouth Street
Portland, ME 04103-4899
Tel: 207-780-4008
Contact: Charles S. Colgan, Associate Professor of Public Policy & Management

Vermont Department of Economic Development

109 State Street
Montpelier, VT 05609
Tel: 802-828-3221; Fax: 803-828-3258
Contact: Rob Clarke, Trade Director

Vulcan Electric

Kezar Falls, ME
Tel: 207-625-3231
Contact: Geoff Ives, Director of Marketing and Distribution

Wahlco Engineered Products Inc.

29 Lexington Street
Lewiston, ME 04240
Tel: 207-784-2338
Contact: Fred Koach, Sales Manager

Wasco Products Inc

Pioneer Avenue
Sanford, ME 04073
Tel: 207-324-8060
Contacts: Diane Dioran, Sales Manager
John Lambert, Traffic Manager

Washington State Trade & Economic Development

2001 6th Avenue, Suite 2600
Seattle, WA 98121
Tel: 206-464-7143
Contact: Don Jackson, Head, Canadian Program

Watts Fluidair

9 Cutts Road
Kittery, ME 03904
Tel: 207-439-9511
Contact: Mark Levine, Director of Marketing

White Rock Distilleries Inc
21 Saratoga Street
Lewiston, ME 04241
Tel: 207-783-1433
Contact: Ginny DeRocco, Marketing Administrator

William Smith Enterprises
P.O. Box 127
Coopers Mills, ME 04341
Tel: 207-549-3103
Contact: Robert King, Sales Manager

Wilmarth and Associates
14 Gates Lane
Simsbury, CT 06070
Tel: 203-651-8544
Contact: Gary Wilmarth, Consultant

Wood Structures Inc.
P.O. Box 347
Biddeford, ME 04005
Tel: 207-282-7556
Contact: Frank Paul, Vice President, Sales

Woodtek Inc.
Madison Road
North Anson, ME 04958
Tel: 207-635-2200
Contact: Stephen Salisbury, Sales Manager