NEWS

# How Canada is tapping into challenging new export markets

**For the first time in Canada's history, exports to the United States are being surpassed by exports to emerging markets, bringing with it a series of challenges to exporters.**

**Avrim Lazar**, President and CEO of the Forest Products Association of Canada and chair of the Advisory Committee on Paper and Wood Products (ACPWP) to the United Nations, points out that the shift in export climate has helped us weather the current economic turmoil.

"If you pay any attention at all to global markets and financial news, you know that the center of gravity—the engine of economic growth—is increasingly in the emerging markets," says Lazar. "That's what has gotten us through this recession to the extent that we're through with that."

Lazar is still quick to acknowledge the United States role.

"They are still our most important customer," says Lazar. "But any stool needs more then one leg and what we're doing is creating the stability that comes from diversifying."

**EMERGING EXPORTS** The shift in the forestry export climate has helped the industry weather the current economic turmoil.
PHOTO: IPG

## Transportation logistics

With increased demand from the Asian markets specifically, the ports and existing infrastructure at Prince Rupert and Prince George in Northern B.C. have become the gateway for goods heading west.

**Tim McEwan**, president and CEO of Initiatives Prince George, a municipally owned corporation and one of the key players in developing transportation logistics for the region, calls the region a "strongly emerging transportation hub to facilitate the growth of exports into the Asia-Pacific markets."

"The dynamism of the Asia-Pacific is having cascading implications—mostly good—for northern B.C. and B.C. as a whole," says McEwan.

To put it in perspective, 17 months ago the port at Prince Rupert saw about 30 containers a week. That flood gate has opened to about 450-500 a week with plans by CN to nearly double that capacity to about 700-800 a week by 2012.

China's hunger for dimension lumber has seen a massive increase growing 166 percent when comparing January to June 2010 to the same period in 2011. Coal exports were up about 66 percent as well.

**Peter Jeffrey**, vice president of Canadian Manufactures and Exporters BC says his sector has seen a major change in exports.

"For our sector in B.C. you're seeing for the first time exports exceed 50 percent to somewhere else other than the U.S.," says Jeffrey but points out it's a long road ahead.

"Canada doesn't have any trade agreements running west," says Jeffrey. "It's new ground with a lot of companies running into problems with the rules and regulations of foreign countries."

But industry is optimistic.

"Ten years ago we were in there doing the right thing and people said it would never work," says Lazar noting that the perseverance on both the government and industry side has driven the growth of China as an emerging market.

"You don't go to China to make a sale, you go to China to make a relationship and sales come with the relationship."

ANDREW SEALE
editorial@mediaplanet.com

QUESTION & ANSWER

**What industries/sectors are poised for the most growth within the emerging markets?**

The prime sector will be consumer goods. The growth in per capita income means that there will be an increasing demand for consumer goods and service. Related to that will be the demand for commodities to produce those goods that are being sought by the emerging markets consumer.

**Traditionally emerging market countries are thought to be predominately made up of BRIC. What opportunities do you see in other EM countries that may not be on investors' radar? How bullish are you on these markets?**

There are many countries other than the BRICs, They include Korea, Taiwan, the Philippines, Thailand, Vietnam, Poland, Turkey, South Africa, Nigeria, Argentina, Chile and many many more. I'm bullish on all of them since they are all being impacted by advances in communications and transportation, which is giving them access to information and products.

**What's the risk versus reward scenario with emerging markets investing in your opinion?**

Emerging market now represent 34 percent of the world's market capitalization. So investors should think about increasing their exposure to that extent.

**What emerging markets are you studying now for future opportunities?**

We are now looking at the Frontier Markets where not much research has been done and where the markets are at the nascent stages such as Kazakhstan, Kenya, Romania, Slovakia, Bangladesh and many others.

**MARK MOBIUS**
Executive Chairman,
Franklin Templeton's Emerging Markets Group

DON'T MISS!

**INDUSTRIES ON THE MOVE** As developing countries grow, EM companies are looking towards Canada for investment opportunities.
PHOTO: IPG

# A primer on investing in Canada for emerging markets

**As companies in emerging markets stretch out their feelers in search of resources, Canada is becoming a more attractive place for foreign companies to establish themselves.**

"There has been an increasing trend over the last few years of the Canadian capital markets providing companies from emerging markets with foreign capital," says **Rajeev Dewan**, a senior associate at Canadian law firm WeirFoulds LLP.

Dewan explains "with world-leading expertise in natural resources, including oil and gas, mining and clean technology, Canada's two primary public capital marketplaces, the TSX and the TSX Venture Exchange (the "TMX Exchanges") are considered an ideal venue for such companies looking to fund their growth and innovation. But navigating the Canadian investment marketplace isn't just a flash of a pen—there are rules and regulations to play by.

## Getting on the list

Currently, the bulk of listed companies from emerging markets have come from China and South and Central America.

As of September, 57 Chinese companies have listed on the TMX Exchanges with an aggregate market capitalization of approximately $5 billion. There has also been an increase in interest amongst resource companies from India, "who are exploring the viability of listing in Canada given our expertise in these sectors," explains Dewan.

## Hitting the brakes?

With increased interest in Canadian assets by emerging markets, regulators are taking a second look at the impact of such listings on the integrity of the Canadian capital markets. **Scott Murtha**, a tax lawyer at Boughton Law Corporation says, "Any time you have a non-Canadian investor and they acquire control of a Canadian business, they have to make an application under the Investment Canada Act. That's sort of a gatekeeping legislation whereby the Canadian government gets to review certain transactions over certain thresholds."

Although Murtha adds "Canada doesn't try to make it difficult to do business here," Dewan has his concerns for the future; pointing out "The Ontario Securities Commission issued a notice in July that it would be conducting a target review of certain Ontario reporting issuers listed on Canadian exchanges which have significant operations in emerging markets."

"Accordingly, the growth in the number of emerging market companies raising capital and listing in Canada may be impacted by the results of this regulatory review," Dewan explains.

## Completing the cycle

However, on the other side of the coin, a number of Canadian financial services firms have expanded their global footprint and established a presence in these emerging markets to access companies in these markets.

Dewan points to Scotiabank's acquisition of Dresdner Bank SA last September, which enables its investment banking division, Scotia Capital to tap into "an existing wholesale operating platform to target key sectors in Latin America, including oil and gas, power and mining."

ANDREW SEALE
editorial@mediaplanet.com