



2016 Top Markets Report **Cloud Computing** Country Case Study

Canada

Canada, ranked number one in this report, presents a wide opportunity for various cloud-related services. A relatively easy market to enter makes Canada a good new-to-export destination, as well as one to further expand internationally. However, competition is quite fierce as multiple U.S. companies and other international leaders are already in operation there. U.S. companies venturing into the Canadian marketplace should have a good business strategy that differentiates them from the competition and targets a niche market.

Overall
Rank

1

Canada was the top export market for U.S. computing services exports in 2014. According to the U.S. Bureau of Economic Analysis, U.S. companies exported \$4.4 billion worth of computing services to Canada in 2014.

According to IDC, public cloud infrastructure will increase by 45 percent in 2016.¹ Gartner estimates that Canadian public cloud services expenditures will grow from \$5.4 billion in 2015 to \$10 billion by 2019.²

Canada has one of the highest Internet penetration rates in the world with 93 percent of its population having access to the Internet.³ In 2014, the average peak connection speed in Canada was 43 megabits per second, almost as fast as the U.S.' speed, 45 megabits per second.⁴ However, Canada faces a challenge when it comes to getting fiber to some of the more remote locations within the country. Data centers in Canada tend to be located in urban centers, where fiber is more readily available.⁵

As the Canadian cloud computing market matures, some interesting phenomena are occurring. The market is quickly shifting from isolated infrastructure-based solutions for developing applications and content delivery, to platforms that

integrate onsite, public and private IaaS.⁶

As a result of companies not wanting to directly manage their IT systems, there seems to be an increasing market for managed hybrid services. Over the past two years, market leaders have quickly extended beyond a singular public IaaS environment to a hybrid combination of an on-premise, third-party server support and private and public IaaS, PaaS and SaaS technologies.⁷

Despite its business attractiveness, one of Canada's most difficult market challenges to overcome is its competition. Companies such as IBM, Microsoft, AWS, Bell Canada, Long View, Telus, Cogeco, Internap, SherWeb, Rackforce and CenturyLink, among others, have already established operations in Canada.^{8,9}

Due to data security concerns and the preference from government and, allegedly, from consumers to keep data within Canadian territory, some U.S. companies have established data centers in-country. Microsoft recently announced plans to establish two data centers in Toronto and Quebec to provide cloud services to its customers. The data centers in Toronto and Quebec City will be the first Microsoft cloud locations in Canada.¹⁰ Besides Microsoft, other

market leaders such as IBM, SAP, Salesforce and Fujitsu also have data centers in Canada.^{11, 12, 13}

Amazon Web Services recently announced that it will open a data center in Montreal in 2016 to store data within Canada.¹⁴ This seems to be in response to concerns raised by Canadian consumers, especially from the health, finance and government sectors, who are asking the company to establish data centers in Canada. They believe this will allow easier compliance with some data localization aspects of Canada's data privacy law, the Personal Information Protection and Electronic Documents Act, or PIPEDA.¹⁵

PIPEDA sets out the ground rules for how private sector organizations collect, use or disclose personal information in the course of commercial activities across Canada. It also applies to personal information of employees of federally-regulated works, undertakings, or businesses (organizations that are federally-regulated, such as banks, airlines and telecommunications companies).¹⁶

Some provinces have privacy legislation that has been deemed substantially similar to PIPEDA, which means that, in some cases, it is applied instead of PIPEDA. Alberta, British Columbia and Québec all have legislation that has been declared to be substantially similar to PIPEDA and will apply to private sector businesses that collect, use and disclose personal information while conducting business within those provinces. Ontario, New Brunswick and Newfoundland and Labrador each have privacy legislation that has been declared substantially similar to PIPEDA with respect to health information custodians.¹⁷

In 2015, the Canadian government passed the Digital Privacy Act, which resulted in a number of significant amendments to PIPEDA. Among these amendments is the allowance to disclose personal information without consent when the disclosure is in connection with business transactions. Another important amendment impedes PIPEDA from restricting the sharing of business contact information, including email addresses, which an organization collects, uses, or discloses solely for the purpose of communicating with a person in relation to their employment, business or profession.¹⁸

As a result of various terrorist acts taking place in Canada in 2013 and 2014, the Canadian Parliament passed the Anti-Terrorism Act in June 2015, also

known as Bill C-51.¹⁹ The bill has received some criticism from some Canadian ICT businesses due to its potential to alter business transactions and exchanges.²⁰ However, the recently elected government of Prime Minister Trudeau is currently in the process of amending the bill with potential impacts to business transactions; however, the outcome will not be clear until the bill gets amended.²¹

U.S. companies should understand the potential impacts of PIPEDA and Bill C-51 in regards to data localization and subsequent preferences for cloud services being hosted and managed within Canadian borders.

Notwithstanding competition and data privacy and security laws, the Canadian market presents a great opportunity for U.S. companies seeking to export for the first time or expand their operations into a multibillion-dollar market. Furthermore, the Trans-Pacific Partnership (TPP) a trade agreement signed among 12 countries within the Pacific Rim (including the United States and Canada) should serve as a catalyzer to increase cloud computing business exchanges between the United States and Canada.

Guidance and Resources for Exporters

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in Canada. The information was provided by U.S. Department of Commerce staff located in-country as well as by input from U.S. Department of Commerce industry specialists. As mentioned, the information is only intended to serve as guidance and does not guarantee sales or success in the market.

- Usual buyers of cloud computing services in Canada might include: SMEs and large private companies.
- Preferred business strategies to enter/expand in the market might include: Business partners and local representatives.
- Common trade barriers to enter/expand in the market might include: Many Canadian organizations are on the fence when it comes to adopting U.S. cloud technology due to fears that they could run into legal and data privacy issues when transferring data across borders.

- Recommendations to bid and navigate government procurement processes: Local representation is important when trying to attain government contracts. U.S. companies wishing to sell to the federal government will also have to be listed on a procurement vehicle in order to sell to the Government of Canada.
- American Chamber of Commerce in Canada <http://www.amchamcanada.ca/>
- The Canadian Chamber of Commerce <http://www.chamber.ca/>
- Government Procurement Information <https://buyandsell.gc.ca/for-businesses/selling-to-the-government-of-canada>
- Trade Show: <http://www.itechconference.ca/>
- U.S. Department of Commerce Country Commercial Guide <http://apps.export.gov/article?id=Canada-Information-and-Communications-Technology>
- Conference and Exhibition: <http://www.gtcc.ca/>
- Information Technology Association of Canada <http://itac.ca/>

Citations

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- 16 https://www.priv.gc.ca/resource/fs-fi/02_05_d_15_e.asp
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