

## EXECUTIVE SUMMARY

The mandate of the Task Force has been to examine the current status of the trading house sector in Canada, identify its problems and opportunities, and to propose measures which would assist the sector in making its maximum contribution to the expansion of Canadian exports.

In pursuing its work, the Task Force, through an extensive survey supplemented by additional research, has established the extent of trading house activity in Canada, reviewed the role of trading houses in a number of other industrialized countries, and put forward a number of recommendations to trading houses themselves, to the manufacturing community, to the banks, and to the departments and agencies of the federal government concerned with exports. As well, we have made suggestions about sectors of the Canadian economy where we believe useful trading house initiatives could be taken.

It has long been conventional wisdom that trading houses in Canada have played only a minor role in our export trade. Chapter III of this report, which summarizes our research into this subject, makes it clear that trading houses are in fact substantial contributors to Canadian export performance. Indeed, in 1983 their export transactions represented over 13 per cent of total Canadian exports. Of more significance is the fact that they accounted for 40 per cent of all Canadian exports to non-U.S. markets. Given the Canada-U.S. relationship we were not surprised that trading houses played only a small role in that market (about 3 per cent). On the other hand, their extensive role in non-U.S. markets demonstrates the usefulness which trading houses have in dealing with regions of the world where expertise in differing cultures, industrial structures, and ways of doing business is essential for long-term success.

We have found that trading houses are well distributed across Canada with Ontario (45 per cent of the total), Quebec (25 per cent), and British Columbia (15 per cent) being the main locations. Not surprisingly, the relatively small proportion of foreign-owned trading companies operating in Canada (9 per cent of those surveyed), given the size of most of those represented here, do about one third of the total of trading house transactions.

Our review has shown that a large majority of firms in this sector are small and specialized. We were very interested to find that only a small minority of the companies identified (9 per cent) acted solely as export agents. Of the remainder, most acted as merchants buying and selling for their own account. As export merchants, their willingness to act as principals taking risks and putting money up front to pay for goods obviously makes them a valued asset in the Canadian export mosaic. This should put to rest the common misconception that trading houses are "parasitic" ten-percenters. Of the balance, there were firms who acted as procurement managers, consortia, buying houses, etc.

In its survey, the Task Force found that very small trading houses were most important in inedible end products and fabricated materials, with the principal market destinations served being Mexico, the Caribbean, and Central America.

In the successively larger trading house groupings, we have found the product specialization moving progressively from food and crude materials to fabricated materials and crude products with the principal market destinations being the Middle East and Japan. In light of the considerable public interest in expanding exports from the small and medium-sized manufacturing sector, we believe it is important to note the particular role played by small trading

houses in export transactions involving fully-manufactured goods. It is our view that this is not accidental. Small and medium-sized manufacturers are likely to be more interested in smaller individual transactions because of capacity restraints, and may well find relationships with small trading houses more comfortable than with very large trading enterprises.

In our review of trading house structures in West Germany, France and even Japan, we have been impressed by the strength of small and medium-sized specialist trading houses in those economies. We underline the point that giant trading companies (*à la sogo shosha*) are not necessarily the only way for a country to benefit from trading expertise.

Because of the recent initiatives in the U.S. relating to trading companies (through the passage of the Export Trading Company Act of 1982), we examined recent experience in that country (see Chapter II). In our discussion with representatives of U.S. trading companies, banks, and government departments, we concluded that the greatest initial benefit has been the very much wider appreciation in the U.S. business community of the role which trading companies can play. While a number of large U.S. banks and others have moved to establish trading companies as a result of this legislation, on balance these have not yet developed very quickly.

Small trading houses include many fiercely independent specialized entrepreneurs who have identified particular niches in markets abroad, differentiated either by product line or geographic area. They are particularly suited to the representation of small and medium-sized manufacturers and producers. One of the weaknesses of this grouping is the lack of widespread information in the manufacturing community and service industry about the reputation and competence of individual trading houses. This is a subject to which the Task Force paid special attention. Our major recommendation to the trading house sector itself is that it should organize itself to provide a much higher visibility with the business community and governments through the establishment of a trading house organization, membership in which would require meeting specific criteria of reliability, competence, and experience. A professional grouping of this kind, in addition to providing potential Canadian clients with a greater degree of confidence in selecting trading house partners, should also engage in an active program to make the trading house function more readily understood and appreciated in Canada.

We have been glad to see that a number of representative trading houses have already begun discussions which should lead to the formation of a trading house group, under the auspices of the Canadian Export Association.

To supplement this action by the trading houses, the Task Force believes that producers and manufacturing associations in Canada would perform a useful service for their members if they would undertake programs and activities designed to make certain that their members understand clearly the cost-effective option of using trading houses to undertake their export activities. It is our view that concerted interplay between trading houses and manufacturing associations would give added impetus to Canadian export performance through the pooling of the strengths and experience of both groups.

In our discussions with trading houses, one recurring theme was their relationships with their bankers. For small trading houses in particular, the growth of the group could