

product categories, they are most active in inedible end products (56 per cent of all export transactions). In terms of functions performed, they are the most specialized groups. Of the very small firms 53 per cent are completely specialized, mostly as export merchants or export managers. On the average, they have been in operation for eight years. The Canadian controlled firms employ, on the average, six people in Canada and one abroad.

Small Firms (\$1 to \$25 million)

Their major activity is exporting which accounts for 64 per cent of all their transactions. They are most active in the Middle East, the E.E.C., Mexico, Central America and the Caribbean. With regard to products handled, they are heavily involved in food, feed, beverage and tobacco (39 per cent). Their activities in inedible end products are noteworthy — 20 per cent of all export transactions. As far as functions are concerned, when they specialize, it is mostly as merchants and to an extent greater than those who act as export managers. They have been in operation for 12 years on the average; Canadian-controlled firms employ 11 people in Canada and four abroad.

Middle-Sized Firms (\$25 to \$100 million)

Export transactions are their main activity, accounting for 52 per cent of their total business. Domestic transactions are also substantial, representing 24 per cent of their total transactions. Japan is their primary market with 38 per cent of all export transactions, followed by the E.E.C. (21 per cent). They specialize in food, feed, beverage and tobacco (49 per cent) and crude materials (30 per cent). When they specialize by functions it is mostly as export merchants. They have been in operation for 31 years on the average. The Canadian-controlled firms employ, on the average, 43 people in Canada and 19 abroad.

Large Firms (greater than \$100 million)

They are mostly involved in exporting (64 per cent of all transactions). All other types of transactions represent a modest share of their activities. Although third-country transactions are limited (8 per cent of total transactions), these transactions are relatively more important than in other groups. In fact, large firms carry 81 per cent of all third-country transactions in the whole trading house sector. Their main export destination is Japan (33 per cent of all export transactions), followed by the E.E.C. (19 per cent). Fabricated materials constitute their main commodity sector (46 per cent). They are the least specialized group with regard to functions performed (only 38 per cent are 100 per cent specialized by function). They have been in operation for 24 years, on the average. Canadian-controlled firms employ, on the average, 55 people in Canada and 40 outside of Canada.

Implications

Analysis of the data leads to two important observations. First, that there is a change in terms of activities performed along the group-size continuum. Second, and as a result of the first observation, the various groups complement each other.

Very small firms need domestic and import activities to complement exports as a means of staying in business. As they expand, they intensify their exporting activities. At the same time, they focus on exporting inedible end products which require more labour-intensive

input than commodities. Larger trading houses tend to concentrate in more commodity-oriented product categories which involve international trading rather than international marketing skills, and which at the same time are more capital-intensive than labour-intensive.

Export destination patterns change as the size of the trading house increases. Small fragmented markets such as the Caribbean are the prime target of very small and small trading houses. But as they expand, they move into more competitive markets such as the Middle East, the E.E.C. and then Japan.

From a government trade policy viewpoint, it is important that all foreign markets and all product groups be covered by trading houses, and the contribution of very small and small-sized trading houses is as important as that of larger firms. The fact that there are many very small or small trading houses in the sector should not be viewed negatively. Rather it should be realized that they perform activities that large trading houses would be only marginally interested in performing.

It should also be kept in mind that the largest potential for the trading house sector and for Canadian exports lies in the small to medium-sized manufacturing sector. Very small and small trading firms are best attuned to meeting their needs. However, they have difficulties because of the lack of adequate financial resources, and because they do not benefit from the recognition that large well-capitalized firms get from government export-support agencies, banks, manufacturers, and producers.

The sector reveals a structural gap in the medium-sized category. Our conclusion is that one of the important reasons for this is that the small companies (noted above) face conditions which render growth difficult. The average number of years of operation for very small firms is eight years. Even after eight years, their export transactions are less than one million dollars on the average. In the view of the Task Force, this situation is often more the reflection of difficulties they face at home than of a lack of motivation to expand. At the present time, government agencies and banks do not provide them with the support they need. Misconceptions with regard to their capabilities and expertise need to be corrected.

CONCLUSIONS

The data gathered in this chapter suggest that the trading-house option for the expansion of Canadian exports is not a dream or a myth but a reality. The trading house sector plays a much greater role than has been recognized in public discussions up to the present. Expertise in "trading" is limited in Canada due to its relatively short history as an international marketing nation. Our investigations show, however, that 176 Canadian-controlled trading houses employing 2,264 people contribute to some \$6.5 billion of Canadian export transactions. A crude estimate for the whole sector would raise total employment inside and outside of Canada to some 6,000 people. Their contribution to Canadian exports would perhaps total 15 per cent — a rather commendable performance.

Measures should be aimed at developing a better link between manufacturers and producers and the trading house sector; at providing more appropriate export assistance programs and banking services; and at promoting the expansion of existing trading houses.