Appendix B

"Trade vs Transportation Barriers"

This excerpt from the Discussion Paper issued to pre-registrants outlines the nature of problems encountered by Canadians in international trade. These background notes form the basis for discussions in the workshops, where chairmen encouraged participants to identify and discuss the key issues which emerge from review of these discriminatory measures.

Trade and Transportation

Most Canadians understand the national importance of trade. Statistics show that international trade accounts for over 30 percent of our national income. More than 3 million Canadian jobs depend upon exports. All sectors of our economy and all regions are affected by this nation's trade performance.

International trade is a highly competitive game. In 1985, Canada's exports totalled 27.8 percent of our Gross Domestic Product; comparable figures for some other industrialized countries were France at 22.2 percent, Italy at 23.7 percent, the United Kingdom at 26.5 percent and the Federal Republic of Germany at 32.2 percent. Economies of scale and saturation of domestic markets force countries to look abroad for sales. In this environment, Canada needs to exploit its strengths and to both guard and enhance its international competitiveness.

Competitiveness requires close attention to markets and to costs. After the cost of production, transportation is usually the second most important cost factor in the landed price in foreign markets. Transportation costs usually are a more important element than customs duties or sales taxes. To illustrate, a 1985 sample of 30 exporters (including forestry, automotive parts, processed foods, metals) revealed that two-thirds reported that transportation represented 10 percent or more of the landed price of their exports to all foreign destinations. In fact, close to half of these exporters stated that transportation made up over 20 percent of the foreign landed price of their products.

While the United States clearly dominates in Canada's trading activity, Canadian companies have always sought to expand by serving markets beyond North America. Diversification in marketing is prudent, and broader horizons permit Canadian companies to expand and to take fullest opportunity of economies of scale and our comparative advantage.

Hence, it is not surprising that the less developed countries (LDC's) are important markets for many Canadian companies. The LDC's purchased $8.0 billion of Canadian goods in 1985 and $8.5 billion in 1986. Last year, those sales constituted one-third of Canada's offshore (i.e., non-USA) exports.

The following chart was drawn from the results of a recent survey produced for the Department of External Affairs. The analysis for the survey included the important observations that:

> "Overall, transportation costs in exporting to the LDC's tend to be higher in comparison to the cost of shipments to Western Europe. ...LDC transportation costs as a percentage of total delivered cost can be one and a half times the comparative cost of shipments to Western Europe. In addition, freight costs often can be a significant hindrance to smaller Canadian exporters who lack the volumes needed to negotiate satisfactory rates comparable to those enjoyed by their larger counterparts. Exporters of lower value, high volume commodities are also sensitive to transportation costs in shipping to LDC's".