

V TRADING HOUSES AND THE GOVERNMENT INTERFACE

This chapter addresses itself to the relationship of trading houses with government departments and agencies involved in trade development, trade promotion, export financing, and aid funding, and with state trading organizations.

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The Program for Export Market Development (PEMD) is perhaps the most successful government program aimed at developing exports of Canadian goods and services. It is well known and extensively used by the exporting community. One would expect that specialists in export trade such as trading houses would be heavy users of PEMD funds in comparison with manufacturers. The following data fail to prove this point.

Even if some trading house activities are included under the agents and representatives category, combined totals indicate that they accounted for 5 per cent of applications and 3 per cent of total approved PEMD funding. Lack of trading house sector involvement is particularly evident in Section B applications where trading houses and agents combined, accounted for 4.2 per cent of applications approved and 6.1 per cent of amounts approved.

An examination of PEMD applications made by trading houses surveyed by the Task Force in its questionnaire indicates that 82 per cent were made by those with sales of less than \$25 million and 80 per cent were for inedible end products. The conclusions one can infer are that while trading houses in general are small users of PEMD, in proportion to their importance to Canadian exports, a large majority of the users were small trading companies for manufactured products.

In the view of the trading house community, greater participation in PEMD programs could be achieved if they were better adjusted to the specific needs of trading houses, particularly those of a smaller size specializing in end products. These needs differ in comparison to exporting manufacturers. Much of it has to do with a trading house's *raison d'être* and method of operation.

A manufacturer, particularly in the small to medium-sized range, must allocate his resources between general business management, production, domestic sales, and exporting. His commitment to exporting can be less if problems exist in other areas or domestic sales are strong and capacity fully utilized. Furthermore, many manufacturers find they are not ready for international expansion, and that it is more difficult, costly and risky than expected. This seems to hold particularly true when they target distant markets — an area where the Task Force survey has found Canadian trading houses conduct much of their business. In addition, the survey found that the large majority of trading houses conduct their business on a merchant basis and therefore assume the risk involved in the export transaction in most cases.

Trading houses on the other hand must export to survive. In the competitive global marketplace they must constantly respond and adapt to market conditions and opportunities. Their commitment is total as they have no fallback position.

In terms of method of operation, trading houses tend to operate in two modes, each of which depends upon the company's market intelligence system and ability to evaluate incoming information. These two modes include identifying market opportunities and sourcing for them — a market demand orientation, and secondly, taking existing products and services and identifying and developing markets for them — a market supply orientation.

For small and medium-sized Canadian trading houses to achieve successful growth they require: (i) *sustained market presence* — to develop and expand their intelligence system, identify new opportunities, and service existing markets; and (ii) *the development of supply sources* — both to fill identified opportunities and to generate new business lines by developing markets for new products.

To address these needs, to encourage more small and medium-sized Canadian suppliers to enter exporting through the use of trading houses, and to encourage a structured and strategic approach to export market development and longer term relationships between suppliers and trading houses, the Task Force recommends that:

TABLE V-1 — Comparison of PEMD Applications for Trading Houses, Agents, and Manufacturers
Number and amount (in thousands) of PEMD Applications approved for fiscal years 1980-81 to 1983-84.

Section ¹	Trading Houses		Agents and Representatives		Manufacturers	
	number	amount	number	amount	number	amount
A	9	\$160	2	\$ 15	150	\$ 5,146
B	68	\$222	39	\$135	117	\$ 3,609
C	31	\$240	25	\$211	1,215	\$ 8,758
D	7	\$ 70	5	\$ 12	100	\$ 573
E	0	\$ 0	0	\$ 0	1	\$ 21
F	0	\$ 0	1	\$193	56	\$ 7,636
R	21	\$ 97	3	\$ 10	102	\$ 758
Total	136	\$789	75	\$576	1,741	\$26,501

Trading Houses and Agents combined: 211, \$ 1,365
Total for all PEMD applications²: 4,090, \$41,991

¹A — Specific Project Bidding; B — Market Identification Trips;
C — Participation in Trade Fairs Abroad; D — Invitation to Incoming Buyers;
E — Export Consortia; F — Sustain Export Market Development Activities;
R — Export Marketing for Agricultural, Fisheries and Food Products.
² — Total covers all other categories including consulting engineers.