

Countertrade is a phenomenon of increasing significance as far as trade with the developing world is concerned, and this is a reflection of the serious balance of payments situation in many developing countries. It has, of course, also been a feature of Eastern European trading practices for a considerable period. In Chapter VI of the report, we describe the growth of the technique internationally, attempt to evaluate the impact of countertrade so far on Canadian exports, and make recommendations.

Based on experience to date, our view is that Canadian exporters have had relatively few demands for countertrade. In the short run, they should be able to avoid disadvantages to themselves by contracting with one or more of the Canadian and multi-national companies which have developed recognized expertise as countertrade intermediaries. In the longer run, there is a need for the recommended trading house association to identify for the business community generally the scope of the expertise which can be provided by Canadian trading houses. There is also a need for a focal point in government, in collaboration with the new association, to monitor and disseminate information on countertrade developments, and to provide basic advice and referral services to Canadian exporters.

In Chapter VII we have reported on our findings concerning other avenues available for the expansion of trading house activity in Canada. One of these areas is banking, where the evidence indicates that European bankers are equity participants in trading companies, and that U.S. banks are moving, albeit with some difficulty, into trading functions following the passage of the Export Trading Company Act of 1982. After discussions with the banks, we note that Canadian banks have made a credible case that they should have the authority to own and operate up to 100 per cent of trading houses which may take temporary title to goods. This would give additional support to Canadian producers and manufacturers and would also allow Canadian banks to compete more effectively with their banking competitors abroad. We support this conclusion and recommend that the inhibitions contained in the Bank Act be removed.

We also report on the exporting potential of Canada's distributive trades and co-operative movement, and on the potential for the adoption of trading house techniques by multi-product conglomerate companies. In all these areas, there are potential opportunities for improving Canadian exports through the use of the trading house concept. We recommend that the government consider the introduction of a tax incentive for exports, similar to those in force in the U.S. and some Western European countries, as a means of encouraging the kinds of new developments in trading which we have noted, but also and importantly, as a means of ensuring that existing Canadian trading houses can be more competitive with their foreign counterparts.

In summary, the Task Force identified three basic elements required for the widest contribution by trading houses toward maximizing Canadian exports.

The first is that the smaller export trading houses be given special attention as the group most likely to improve exports of manufactured products — particularly those originating from small and medium-sized manufacturers. We see our recommendation regarding the formation of an accreditation-type association as being of particular benefit to smaller trading houses. As well, the specialized Trading House PEMD Section we have proposed will have principal value to small trading houses. Equality of treatment of reputable trading houses by government departments and agencies, and more innovative and responsive financing support by the Canadian banking community in conjunction, where appropriate, with the Export Develop-

ment Corporation, are also priorities for growth of small trading houses.

The second element is the need for small and medium-sized trading houses to consider among themselves the opportunities for co-operation and merger which would enable them to grow more quickly. If our recommendations regarding greater awareness of the trading house community — in other industry sectors and in government — are accepted, the demands on the trading house sector should increase at a rate which will not only require the emergence of new firms, but also the development of larger firms with enhanced specialization capabilities.

The third element we identified has to do with sectors in the Canadian economy which do not now participate to any marked degree in trading activities, but whose counterparts in other countries are in fact traders. Essentially, developments here must rely on private sector initiatives, but encouragement by government would be helpful. In this regard, consideration of an export tax incentive would be particularly useful.

Our principal conclusion is that in Canada there is an active and substantial existing trading house community. It represents a credible and cost-effective option for Canadian producers and manufacturers seeking to enter export markets or to expand their coverage of world markets. The sector needs greater public visibility and more equitable treatment by government export promotion agencies and the financial institutions. If these requirements are met, trading houses can be expected to play a progressively more important role in Canada's export mosaic.