

with sales of \$2 million/year or less. Twelve per cent were medium-sized with sales between \$2 million and \$20 million/year. Small firms accounted for close to 7 per cent of total industry sales and medium-sized ones for 17 per cent.

A 1979 survey of the export activity of 11,470 manufacturing firms showed that small companies exported only 4.5 per cent of their total annual sales and medium-sized companies 12.4 per cent of total sales, compared with 27.5 per cent for companies with over \$20 million in sales.

Small and medium-sized firms experience major difficulties when attempting to export. They lack resources, both financial and human, as well as experience of foreign markets, export practices, and techniques. Trading houses could meet their needs at a lower cost than if they were to develop such expertise on their own.

From consultations with small and medium-sized manufacturers, the Task Force found that, with some exceptions, manufacturers by and large are not aware of what trading houses can do for them, and in some cases are suspicious of trading houses, fearing that they would take undue remuneration for their services.

Although various measures have been taken by the federal and provincial governments to educate and inform manufacturers on the role and function of trading houses, much remains to be done. Activities, such as conferences and seminars addressing this subject could be pursued. More effective work could be done by trade associations in this area with the active co-operation of the recommended trading house association. We believe, however, that the recommended trading house association would be best placed to effect such activities and take the lead in their initiation.

Small and medium-sized firms have not yet realized the benefits that could accrue to them from a closer association with trading houses. The Task Force hopes that they will come to realize that they can derive from trading houses the same benefits that manufacturing firms derive in other countries from their association with their own trading houses. The Task Force believes that small and medium-sized manufacturing firms should utilize the services of trading houses for penetrating and developing their presence in distant foreign markets. In addition, they should consider the opportunity of creating joint export marketing groups with trading houses, either singly or through their trade associations.

Recommendations to the Banking Community

Clearly, adequate credit support is a critical factor in the success of international trading operations. The large, well-established trading houses with which we discussed this subject gave us the impression that they were reasonably satisfied with their Canadian banking arrangements. In contrast, smaller, experienced and competent trading houses reported considerable difficulties in this area. They attributed their problems to two principal factors: lack of knowledge in the banks about the kinds of trading operations in which they were engaged, and a disposition on the part of the banks to gauge the extent of the credit which they were prepared to extend on the volume of fixed assets owned by trading companies. Small trading houses believed that these points interlink. If the banks were more knowledgeable about trading house operations, they should be more ready to consider extension of credit based on the reliability and experience of the trading house concerned and the inherent value of the export transactions requiring financing. We have been impressed by the fact that European banks seem to adopt this approach much more readily than Canadian banks.

As a means of improving this situation, the Task Force recommends that:

Recommendation 4

Canadian banks establish, within their regional international financial centres, a focal point for trading houses, staffed with personnel knowledgeable in international trading operations.

Recommendation 5

Canadian banks re-evaluate their processes for extending credit to trading houses, recognizing that the criteria which they apply to other sectors such as manufacturing are not relevant to companies engaged primarily in international trade.