

Statement

95/29

CHECK AGAINST DELIVERY

**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE
CANADIAN BANKERS' ASSOCIATION
"THE WORLD IS OUR MARKET" TRADE FINANCE SEMINAR**

**TORONTO, Ontario
May 15, 1995**



Government
of Canada

Gouvernement
du Canada

Canada

I am delighted to have this opportunity to address today such an impressive group of small and medium-sized companies who wish to expand their export sales or who may be considering entry into the export market. It is always gratifying for an International Trade Minister to witness the eagerness of new exporters in looking beyond Canada's borders to promising business opportunities.

I commend the Canadian Bankers' Association for organizing this trade finance seminar, as the world has become even more our marketplace.

Events over the past year have again demonstrated the central importance of international trade and investment to Canada.

In 1994, Canadian exports increased by 21 per cent, reaching \$219 billion. Our annual trade surplus totalled \$17 billion, up almost \$8 billion from 1993. Merchandise trade surpluses with both the United States and Japan again increased.

Yet at the same time as we post such impressive trade records, we must recognize that our exports today rest on a foundation that remains too narrow, with few firms still accounting for the majority of our total exports. Too few of our country's small businesses are involved in international markets.

It is well known that small and medium-sized enterprises are the fastest-growing component of the economy. They are the most knowledge-intensive, the most responsive to rapid change, and the largest creator of new jobs.

During the 1980s, firms with fewer than 100 employees created over 2.3 million net new jobs, or 87 per cent of the total growth in employment. During this decade, they have the potential to perform even better. In fact, today about half of all Canadians employed in the private sector are in businesses with fewer than 100 employees.

This is an impressive national resource with tremendous job- and wealth-creating capabilities. However, its potential will not be fully realized until smaller companies become much more active exporters.

Falling trade barriers, new technologies and global trends have opened doors abroad for smaller companies. Facing global competition has now become an integral part of any serious business plan.

The arithmetic is simple. In the global market for many niche products and services, Canada often accounts for only 1 per cent or so of global consumption. Companies that do not export are often ignoring literally 99 per cent of their potential customers.

As the world economy becomes more open, the distinctions between domestic and international markets are becoming more blurred.

The development of your export capabilities is in fact an investment. It is a long-term commitment which will have an impact on all aspects of your business operations. As with any such undertaking, there will be challenges and obstacles. However, countless exporters can attest to the fact that the effort is well worth it.

In fact, many exporting firms will acknowledge that exports are the basic reason their businesses are flourishing.

Our government is committed to helping smaller companies play a larger role in exports. To that end, my department has shifted the focus of its services to meet better the needs of small and medium-sized businesses.

Backed by a range of specialized information and trade promotion programs and services, my department's trade commissioners serve in 128 locations around the world. Last year, the Trade Commissioner Service marked its 100th year of experience in opening doors to foreign markets. It knows the ropes, and can help smaller exporters deal with the challenges of complex foreign business environments.

From their 10 locations across Canada, the federal government's International Trade Centres [ITCs] can help companies identify market opportunities, develop foreign marketing plans, and get information on government support programs. They are the first point of contact with the federal government for new exporters. As part of their services, the ITCs are electronically linked to our trade commissioners abroad.

Our long-standing Program for Export Market Development - PEMD as it is known - and our support for Canadian participation in international fairs and missions are now centred on smaller enterprises. Then there are the programs to provide hands-on training to new exporters to the U.S. border states, Mexico and Europe, starting when the decision to export is first being examined.

To that end, my officials work closely with the Forum for International Trade Training [FITT]. The FITT philosophy is that to compete successfully in world markets, a company that wants to export has to act like a long-distance runner training for a marathon. In doing so, FITT provides a wide range of services which can be customized to the skill and experience levels of participants. This year the program is operating in 30 community colleges across Canada, with some 1000 students registered.

FITT is a major undertaking, patterned after the government-business training vehicles that have long been in operation in Germany and Japan.

As such, FITT has received federal and provincial government funding, along with the support of business associations, including the Canadian Chamber of Commerce, the Canadian Exporters' Association and the Canadian Manufacturers' Association.

This represents a degree of co-operation not before seen in Canadian export circles. It is a model that we as a government seek to expand by bringing in even more partners to work with smaller companies - in particular, banks and other financial institutions.

As much as it is essential that more Canadian companies engage in exports, the increased involvement of Canadian banks and other financial institutions is key to transforming Canada from a trading nation to a nation of traders.

It is with this in mind that, one year ago, I joined the Ministers of Finance and of Industry in a meeting with the presidents of the major banks and the Export Development Corporation - or EDC - Canada's official export credit agency. At that meeting, we discussed additional ways in which we can collectively further the capacity of Canadian companies to export - in particular small businesses.

The problems are well known. Small exporting businesses are faced with unique financial requirements and tough financial challenges. The most common difficulties are those of gaining access to capital for export-driven growth; getting full value for foreign receivables on operating lines of credit; and the limited availability of export financing to developing countries.

As a result of our meeting with EDC and the banking community, there are a variety of ways in which financing support to exporters is being improved.

EDC has recently formed a specialized business team dedicated to serving the export insurance and financing needs of small business. The new team's objectives concern easier access, simplified procedures and faster turnaround times.

As well, the Federal Business Development Bank (FBDB) is focussing more on the needs of small and medium-sized exporting firms. They are expanding their programs that are targeted at making available to exporters much needed start-up and operating capital.

In terms of cash-flow, the pre-shipment period of an export contract is often critical to a small business. To help ease this

cash-flow burden, the Canadian Commercial Corporation - CCC - has developed a Progress Payment Program delivered through bank branches. The Progress Payment Program helps small and medium-sized businesses obtain pre-shipment financing for export sales beyond that normally available to them.

Another frequently cited problem of export financing is the uneven treatment of foreign receivables in terms of margining against operating lines of credit. The Export Development Corporation has been working closely with banks in extending operating lines of credit to Canadian exporters against their foreign receivables.

Clearly, adequate financing to exporters is critical. However, equally as important in developing international trade is the availability of financing to an exporter's foreign customer. As we know, a good financing package can often make or break the sale.

This is particularly true in markets of emerging economies. To that end, EDC is currently working with banks in developing two frameworks for foreign risk sharing to encourage banks to participate actively in international financing and to increase the overall availability of financing to foreign markets. One of these frameworks is targeted directly at supporting smaller exporters.

In a similar vein, a new company was launched several months ago, called Northstar Trade Finance Inc. This innovative firm provides medium-term export financing for smaller export sales. Northstar was developed with support from federal and provincial governments, the Bank of Montreal and an EDC insurance arrangement.

Making more or better financing available to exporters is one of the key objectives that we have been pursuing with banks. Another related goal is to help exporters to become more efficient at accessing available capital.

Today's seminar helps to provide the opportunity to acquire the tools necessary to make the best use of the trade finance products and services available from both public and private sector financial institutions.

Similarly, as part of our discussions with banks, we identified the need to increase the knowledge of bankers about the business of exporting and the challenges faced by exporters. As a result, the Institute of Canadian Bankers has put together a seminar for account managers involving senior bank trade specialists and representatives from my department and the Export Development Corporation. As companies generally turn to their bankers for export financing information, this seminar should help bankers serve their clients better.

As I have said, our work with the banks has resulted in some progress. However, much remains to be done if banks are to engage fully in fostering Canadian exports.

Among the initiatives I have just outlined, the pace of progress and innovation should be accelerated, particularly in two areas:

- First, I hope very much that the foreign receivables program, aimed at combining the resources of the Export Development Corporation and the banks to improve the treatment of foreign accounts receivables can move immediately into the pilot stage of testing with Canadian exporters;
- Second, the Export Development Corporation frameworks for risk sharing on medium-term financing with the banks should move as quickly as possible into the operational stage.

Both of these new financial services need to be tested in the marketplace.

When inviting our financial institutions to tackle the export challenge and to adjust to the realities of the new, global economy, I am not suggesting that banks take unreasonable financial risks in support of questionable ventures.

Indeed our initiatives are based upon risk sharing among private and public sector financial institutions.

I am suggesting that our banks can and should develop the ability to assess better foreign risks and be as astute and effective at providing financial services to exporters as they are at providing such services in support of more traditional domestic transactions.

I recognize that this is not a simple task.

It requires nothing less than a shift in corporate culture and a commitment to make the necessary efforts in developing the expertise, the programs and the services to meet the needs of exporters. Canadian exporters expect no less from their financial institutions.

Addressing the gaps in the export financing support available to small and medium-sized enterprises will continue to be a priority for the Government. By pooling the resources and talents of both our public and private sectors, governments, banks and companies, we shall reap the rewards in export markets and generate jobs and growth at home.

Thank you