HOUSE OF COMMONS
CANADA

CANADA'S TRADE CHALLENGE

Report of The Special Committee on a National Trading Corporation. June 1981

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The Special Committee
on a National Trading Corporation
has the honour to present its

FOURTH REPORT

to the House of Commons

The Special Committee on a National Trading Corporation was established by the House of Commons on June 12, 1980 to examine how a national trading corporation could improve Canada's export performance, and to describe the form such a corporation should take and the tasks it should perform.

In fulfilling that mandate, your Committee met with 450 witnesses in Canada and nine other countries. In all, we held 270 meetings. (see Appendices A-D).

Our task could not have been completed without the assistance of a large number of people whose contribution we wish to acknowledge here. Witnesses who prepared briefs and/or appeared before the Committee or met with us informally in Canada and abroad gave generously of their time to share their experiences and advice with us.

Invaluable support in the organization of the Committee's work was provided by the Clerk of the Committee. The Committee was also fortunate in being able to call on the skill, patience and dedication of a large number of people—on the House of Commons staff and outside—who provided the secretarial assistance, translation, interpretation, reporting, editing and printing services and the myriad of other details that supported and facilitated the Committee's work.

The Committee is also grateful for the research support provided by the Research Branch of the Library of Parliament and for the advice and guidance in conducting our inquiry and writing our reports rendered by advisers from the Canada Consulting Group Inc.

Testimony, written briefs, informal meetings and our own research form the basis of this Report. The Committee's Second Report described our findings on the evidence and in this, our Fourth Report, we present our conclusions and recommendations.

ORDER OF REFERENCE

Ordered,—That a Special Committee of the House of Commons to be composed of seven Members, be appointed to act as a Parliamentary Task Force on a National Trading Corporation, to report finally no later than December 19, 1980, to examine ways in which a national trading corporation could improve Canada's export performance and to describe the functions that should be undertaken and the form that such a corporation should take and, more specifically, to consider:

1) means of assisting small and medium-sized Canadian business to expand their export markets;

2) what (if any) direct government participation and involvement is required, what kind, to what extent and for what period of time;

3) the corporate structure and working relationship of any such trading corporation;

4) the method of financing such a corporation;

5) the role of the Board's managerial and staff requirements of such a corporation;

6) the overall costs and benefits of creating a national trading corporation;

That the Committee shall have all the powers given to Standing Committees by section (8) of Standing Order 65;

That the Committee have the power to retain the services of expert, professional, technical and clerical staff as may be deemed necessary;

That the Committee, its subcommittees and members of the Committee have the power, when the Committee deems it necessary, to adjourn or travel from place to place inside and outside Canada and that, when deemed necessary, the required staff accompany the Committee, subcommittee or members of the Committee, as the case may be;

That the provisions of section (4) and (9) of Standing Order 65 be suspended, unless otherwise agreed to by the Committee, in application to the said Committee;

That, notwithstanding the usual practices of this House, if the House is not sitting when an interim or final report of the Committee is completed, the Committee may make the said report public before it is laid before the House.

House of Commons
Thursday, June 12, 1980

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Thursday, June 12, 1986

MEMBERS
of the Special Committee on a National Trading Corporation

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Chairman
Parkdale — High Park

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Vice-Chairman
Laval

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THE REPORT IN BRIEF

Special Committee on a National Trading Corporation

World competition for export sales is intensifying and Canada must make a bold move to stay in contention. Growth in the domestic economies of the industrialized nations has slowed and countries are aggressively seeking international trade to fill the gap left by weakened home markets. Canada is at a crucial crossroads, and only a committed and concerted effort to compete for export growth will safeguard our industrial competitiveness in the next decade.

Canada has been losing ground in terms of its share of world trade—dropping from 4.9 percent in 1972 to 3.4 percent in 1979. In addition, Canada's traditional dependence on trade with the United States has worked against the development of a major Canadian experience base or reputation in growth markets. The dominant position of natural resource-based products in Canada's merchandise trade has masked a failure to develop world-competitive end products.

Canada is an exporting country; merchandise exports account for 25 per cent of our GNP. It is time Canadians recognized that fact. We must reverse the downward trend in our share of world trade and stake out a position in growth markets. We must increase our exports of end products, especially if we wish to continue to merit the adjective "industrialized".

Your Committee believes there is a potential for exporting roughly $10-14 billion worth of additional manufactured goods and capital projects, a figure that could mean increasing our exports by 15 per cent over present levels. Eight to twelve billion dollars worth of potential appears to lie with exporters who can be pushed to improve their export performance and with companies not now exporting who can be encouraged to become exporters. A further $1.5 billion to $2.5 billion in potential exports exists in the world market for capital projects. Canadian industry has the expertise and the experience to tackle larger capital projects in telecommunications, transportation, energy, pulp and paper, mining and civil works, such as highways and bridges.

At present many Canadian manufacturers capable of and interested in exporting lack the financial and human resources to develop new markets, and they have nowhere to turn for assistance. The private trading house sector is at too early a stage in its development to take on broad responsibility for the export of manufactured goods. Big companies are simply not interested. Ready access to trade services in a wide range of markets could place Canadian business in a position to realize its export potential.

Success in the capital projects area requires an established reputation for performance coupled with evidence of an ongoing commitment to international markets. In order to build a reputation in the field, Canadian companies need recourse to a financial base capable of supporting several projects and activities. Expertise in marketing, deal-making, project management and business-government relations are also vital to success in the capital projects market.

There are serious gaps in Canada's approach to international marketing. Firms do not have access to a comprehensive market intelligence system or dedicated sales personnel who will represent a variety of products. As well, specialized trading services ranging from packaging through to transportation and delivery are not readily available to small scale exporters.

Your Committee has faced the problem of how to meet Canada's trade challenge; our analysis of existing institutions has led us to the conclusion that Canada needs a new kind of trading vehicle to take our goods into foreign markets. After considering a number of alternatives, we are recommending that the federal government sponsor the development of a **Canadian Trading Corporation.**

We have concluded that the Canadian Trading Corporation should take the form of a shared enterprise, drawing financial strength and support from the public sector and a commitment to sound commercial practices from private owners. The need for sound commercial practices was emphasized by virtually all the witnesses who appeared before the Committee and the corporation's mandate should reflect that commitment. More specifically, the role of Canadian Trading Corporation should encompass:

1. Exports, imports and trade between foreign countries
2. A capability to trade in all products, including the export of capital projects
3. A complete set of general trade-related services
4. A focus on growth markets

As a shared enterprise, the Canadian Trading Corporation would be up to 50 per cent owned by the federal government, with the other half of the equity held by perhaps 10 private sector investors. Government would enjoy the same rights as other shareholders, for example, the ability to appoint members to the board of directors, but would have no special relationship with the corporation or influence over its affairs. Indeed, once the corporation's mandate has been clearly defined, the board will have to exercise complete independence in electing a chairman, appointing a president and chief executive officer and ensuring that the best private sector budgeting, reporting and control procedures and standards are adopted. As in any corporation, the board's responsibility will be to act in the best interests of the corporation.

As to the level of investment required to launch the corporation, it is essential that an adequate capital base be established to enable the corporation to start off on a secure footing and to weather the start-up period. The $300 million equity base that we recommend should be sufficient to meet the needs of the corporation as it develops over its first five years of operation. By the end of that time we expect the corporation to be doing $2 billion worth of business, a figure that places the $300 million equity base well within the range of normal working capital to equity ratios.

The method we recommend to establish the Canadian Trading Corporation is a new act of Parliament. At the same time, the *Canadian Commercial Corporation Act* will have to be amended to reflect more accurately its actual role and preclude the possibility of overlapping responsibilities with the trading corporation.

The corporation's start-up period will be critical in terms of recruiting a team of skilled and experienced trading personnel and identifying an additional network of organizations and individuals who can provide services to complement and supplement those offered by permanent staff. On the operations side, we believe that the corporation's priorities should be focussed on building its capital projects business and establishing its general trading operation in one or two key growth markets.

If carefully planned and executed, these steps will help to establish the corporation's presence in international trade while providing a base of experience from which to develop and expand its operations. But even before the Canadian Trading Corporation has evolved to the point where it can fulfill all aspects of the comprehensive mandate we propose for it, it will be able to make a substantial contribution to improving Canada's export performance.

Recommendations designed to assist Canada's existing trading community are also included in this report. While these proposals are actually outside the Committee's mandate, they are consistent with the general objective of improving Canada's export performance. Among the measures we recommend are improving market intelligence and policy information systems to give Canadian businesses and decision-makers access to the information they need to pursue export opportunities and develop trade strategies. Export financing and insurance schemes should also be modified to put Canadian exporters on an equal footing with their international competitors. Government programs to foster export growth must be rationalized to eliminate confusion and overlap, and innovative programs to promote export education and give businesses access to the services of trade specialists should be introduced. Domestic and foreign incentives, such as tax measures and bilateral aid, are also discussed. Finally, we emphasize the essential role of government in making trade a national priority.

In the opinion of the Committee, every component of the trading community will have to perform at a high level to maintain and advance our competitive position in world markets; the establishment of the Canadian Trading Corporation, along with a well-designed and carefully focussed package of government trade support services can make a significant contribution to this effort.

RECOMMENDATIONS

The Special Committee on a National Trading Corporation Submits the following Recommendations

- That the federal government sponsor the development of a major Canadian trading corporation. **35**
- That the Canadian Trading Corporation be given a mandate to engage in exports, imports and third-party trade between foreign countries. **39**
- That the Canadian Trading Corporation develop working arrangements with trading houses specializing in countertrade. **40**
- That the Canadian Trading Corporation ultimately be capable of selling any commercially viable product. **40**
- That the Canadian Trading Corporation provide a complete set of trade-related services covering both general trade and capital projects. **41**
- That the Canadian Trading Corporation give the highest priority to establishing selected foreign-based operations in growth market regions. **44**
- That the Canadian Trading Corporation be established with an initial equity commitment by the shareholders of at least $300 million. **49**
- That the federal government invest in a 40-50 per cent equity position in the Canadian Trading Corporation and that major corporations invest in a 50-60 per cent equity position. **50**
- That the Canadian Trading Corporation be established by a new act of Parliament. **51**
- That the *Canadian Commercial Corporation Act* be amended to legislate the powers, duties and responsibilities of a defence procurement agency for foreign governments and to eliminate any overlap with the proposed role and functions of the Canadian Trading Corporation. **51**
- That the Department of Industry, Trade and Commerce substantially increase its commitment to rapidly developing and implementing a world-class market intelligence system. **56**
- That the Export Development Corporation investigate the applicability to the Canadian situation of insurance schemes offered in other countries for (a) foreign exchange rate fluctuations and (b) cost increases due to domestic inflation. **58**
- That the Export Development Corporation provide partial loan guarantees to financial institutions for short-term loans to exporters secured by either orders or export accounts receivable. **58**
- That the Minister of State for Trade in consultation with his colleagues consider the advisability of integrating the Program for Export Market Development and the Canadian Project Preparation Facility. **59**
- That the Program for Export Market Development be expanded to include cost sharing or forgivable loans for the development expenses associated with offering practical education in export trade. **59**
- That the Department of Industry, Trade and Commerce develop export diagnosis and export manager for hire programs, to be operated either by the federal government alone, or in conjunction with a private association or group. **60**
- That the Minister of Finance consider the advisability of extending the tax reduction currently available for manufacturing and processing profits to permit equivalent reductions for profits arising from the sale of trade services, with emphasis on the potential of such an incentive to significantly improve Canada's export trade performance. **61**

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CHAPTER ONE

The Global Battle for Export Growth

Chapter 1

The Global Battle for Export Growth

Throughout the international economic arena countries are reassessing traditional attitudes toward both the importance of trade and the underlying commitment that is essential for export success. For some countries this is nothing new; trade has always been crucial to economic survival. For others, the drive to compete directly with the industrialized world started in the seventies and is being pursued vigorously today. For Canada, participation in the global war for trade advantage is a new experience. World competition for exports has indeed become a battleground for economic survival. International competition in this decade will severely test Canada's ability to advance and perhaps even to maintain its existing trade position.

On the surface, Canada's merchandise export performance appears satisfactory. Exports have grown from nearly 20 per cent of GNP in 1970 to more than 25 per cent in 1980. Canada's export trade in 1980 was $74 billion—an important $8 billion excess of merchandise exports over imports.

In reality, however, Canada is barely in the game with respect to the export of end products* and our merchandise trade position is propped up by natural resource-related exports and a favourable exchange rate. Over the last ten years, Canada has consistently run a substantial trade surplus in food products, raw materials and resource-based fabricated materials. Taken together, these groups represented a net trade surplus of nearly $23 billion in 1980. At the same time, we have experienced a sizeable and growing trade deficit in the end product category, which in 1980 accounted for a staggering trade imbalance of $18 billion.*

*The terms "end products" and "manufactured products" are not the same. The term manufactured products generally includes end products, fabricated materials and processed food products.

*The resulting trade surplus is lower than the already mentioned overall merchandise trade surplus of $8 billion because balance of payment adjustments are not included.

Foreign sales of end products rely on the Canadian ability to develop, manufacture and market on a competitive basis with other countries in the world economy. The position of the manufacturing sector has been shored up by the fact that a Canadian dollar worth approximately 85¢ US keeps comparative costs down. Our concern is that our competitive ability still falls short of what it takes to win in world markets today, and that the weak performance we see now is likely to deteriorate in the future.

Furthermore, the overall surplus in merchandise trade that Canada is able to achieve because of a strong natural resource position is more than offset by a deficit in non-merchandise transactions. Non-merchandise transactions include travel, interest and dividends, and payments for services. The Canadian current account balance for 1979 and 1980 is set out in Table p. 4.

Canada is an important player in the global struggle for export growth. Our performance to date suggests that we have been losing the battle. Moreover, as fierce as competition has been up to now, it will only grow stronger. What has been a battle for export advantage could become a war. This chapter takes a closer look at Canada's export performance and examines current trends that will influence how Canada must compete for world trade advantage and our ability to do so in the 1980s.

CANADA'S EXPORT PERFORMANCE

Canada is an active trading nation. We rank eighth internationally in terms of the value of our exports. Merchandise exports are 25 per cent of our GNP; this puts us in a position similar to that of the Federal Republic of Germany, the United Kingdom, Austria and the Scandinavian countries. Belgium and the Netherlands depend more heavily

ESTIMATES OF THE CURRENT ACCOUNT BALANCE
(in billions)

	1979	1980
Merchandise trade	$3,972	$7,953
Non-merchandise transactions	($9,070)	($9,491)
Current Account balance	($5,098)	($1,538)

Source: "Quarterly Estimates of the Canadian Balance of International Payments," Statistics Canada, Catalogue 67-001.

on exports than we do, while the United States and Japan, with their large domestic economies, are in the six to twelve per cent category.*

A closer examination of Canada's export performance over the last ten years reveals that while world trading activity has accelerated, Canada has not kept pace. Your Committee's specific concerns include: Canada's declining share of world trade, our continuing dependence on automotive trade with the United States and our underdeveloped presence in the growth areas of the world economy.

*Canada's International Trade", background paper prepared for the Committee by André Morin of the Research Branch, Library of Parliament, January 1981.

Share of World Trading Declining

World trade grew at a record 20 per cent rate during the 1980s. Although Canadian exports also expanded impressively during this period, they did not keep pace with the growth in the world economy. The result is a steady and serious erosion in Canada's share of world exports.

Regardless of the product involved, the story is the same. Share losses occurred in all categories: food products, primary products, fabricated prod-

CANADA'S SHARE OF WORLD EXPORTS*
(in percentages)

	1972	1973	1974	1975	1976	1977	1978	1979
Food Products	4.3	4.2	4.1	3.8	3.8	3.4	3.1	3.2
Primary Products	8.1	7.4	5.5	5.3	5.3	4.9	4.7	4.5
Semi-manufactured Products	3.9	3.3	3.0	3.0	3.4	3.4	3.3	3.3
Manufactured Products	4.0	3.5	3.2	3.0	3.3	3.1	2.9	2.8
TOTAL	4.9	4.4	3.9	3.7	3.9	3.7	3.4	3.4

Source: "International Trade in 1978-79" General Agreement on Tariffs and Trade.

*The product categories used here are based on U.N. commodity classifications.

ucts and manufactured products. Between 1969 and 1979 Canada suffered a 33 per cent decline in its overall share of world exports.* This performance was the worst among industrialized countries during this period. Nor do we fare any better in comparisons with the major developing countries. In the period 1969-79, Canada's average annual export growth rate was 15.1 per cent; the developing countries averaged 23.1 per cent. Canada pays a very high price for this lost market share—a price that this country can no longer afford.

Automotive Exports Dominate

Almost two-thirds of Canadian exports go to the United States. In the end product category, the proportion is even higher—an incredible 77 per cent of end product exports went to the United States in 1980.

Total 1980 exports to the United States were \$46.7 billion, with end products accounting for \$16.5 billion. Automotive exports accounted for \$9.6 billion, or 21 per cent of total exports to the US and an overwhelming 58.2 per cent of Canada's end product exports to the United States. This means that in 1980, Canada exported more automotive vehicles and parts than all other end products combined. Discounting automotive trade, Canada exported \$7 billion worth of end products to the United States and \$3.9 billion worth to the rest of the world. Thus, whether we like it or not, our trade performance will continue to be heavily influenced by the results we achieve within this sector.

Weak Presence in Growth Market Areas

Several witnesses emphasized that export market opportunities are shifting away from North America and Europe to Southeast Asia, the Middle East and Latin America. Domestic growth in the industrialized world has slowed substantially, steadily closing competitive windows on these markets. By contrast, the newly industrialized countries have become attractive markets for a variety of manufactured products, with new and existing enterprises actively carving out positions in these markets. By 1979 these shifts in trade patterns had resulted in a situation where, for the first time, trade across the Pacific exceeded that across the Atlantic.

Canada has only a minimal position in many of the emerging markets. According to International Monetary Fund data, Canada conducts less trade with Third World countries than do other major world producers. Canada must begin to aggressively redirect its trade and to develop the necessary channels to compete in a very different world. Our competitors made these decisions long ago and the challenge for Canada is to move quickly to close the gap that already exists.

TRENDS IN GLOBAL TRADE

In 1979 world trade surpassed \$1.5 trillion. Annual growth from 1969 to 1974 averaged 25.6 per cent and fell to an annual rate of 14.4 per cent between 1974 and 1979. Today, growth can at best be described as slow. These general patterns, however, are no longer an adequate description of trade, which is more appropriately depicted by the specific trends that have emerged. Your Committee has paid particular attention to trends that are changing the way countries attempt to achieve their export priorities and that influence the rules under which trade takes place. In this section we focus on the universal urgency to export, the growing involvement of governments and the increasing recourse to non-cash transactions.

The Universal Urgency To Export

In sessions with businessmen and public officials in the US and Europe, we discovered the significance our trading partners attach to changes taking place in the world economy and learned that they are making concerted efforts to take advantage of those changes. Faced with slow domestic growth, many countries have responded

*"Direction of Trade Yearbook," International Monetary Fund.

by expanding exports. The Europeans view trade as international economic warfare requiring the full deployment of public and private capabilities. In the United States, a recent report of the President's Export Council stated: "The United States urgently needs a rapid and sustained expansion of its exports of goods and services".* Exporting is now an economic imperative.

When compared with what the Committee observed in sessions outside the country, Canada's commitment to trade is only a partial response to the competitive realities of the world economy today. We must push ahead faster and more aggressively if we are to defend the significant trade base we have built. To do less is to concede to the growing forces of international competition.

Involvement of Governments

As we pointed out in our Second Report, one of the recurrent themes in Committee testimony concerned the trade-related actions of foreign governments and the need for Canadian policy makers to follow suit. Governments have become activists in seeking trade advantage and are frequently behind initiatives aimed at redefining the basis for successful trade competition in many industrial sectors. Government is becoming a growing partner with business in many countries and joint priorities and strategies are being established.

Government involvement is most apparent when new rules for trade are being devised. While stability is the goal, turbulence is the reality. The intention of the recent multilateral trade negotiations held in Tokyo was to reduce tariffs and other barriers to trade, but based on the testimony we heard, we are far from convinced that the spirit or the expectations of the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) will dictate the actual trade rules of the eighties. The United States DISC* program has been found to contravene GATT yet it remains a component of the US export package. Moreover, the United States recently indicated that it will take action under provisions of the *Trade Act* or the *Tariff Act* against foreign holdings or operations in the United States if unfair trade practices are deemed to have been undertaken by a competitor in foreign markets.

**The Export Imperative*, Report to the President's Export Council, December 1980.

*Domestic International Sales Corporation.

While these examples illustrate the aggressiveness and concern of our southern neighbour, they are in fact no more than a reaction to what has been taking place in the rest of the world. France uses its *crédit mixte*, a cut-rate interest package, to win international trade. Many countries provide tax incentives for residents working abroad and nearly all countries make full use of political clout and presence to help improve their trade balances. While it would thus appear that formal tariff and trade barriers are coming down, invisible barriers are being erected to take their place.

The real question for Canadian export policy is the extent to which it can be based on the philosophy of "beggar-thy-neighbour". Failing to keep pace will be costly in terms of lost exports. Keeping pace exacts an equally significant price—subsidies to purchasers in other countries. Because trade is no longer governed by a static set of rules, Canada must be far more careful in selecting its approach. In some cases, Canada may decide to take the lead in setting new rules for international competition. Clearly, we have to find some way to get out in front of the pack. However, there will be many instances in which it will not be in our interest to take on the high costs of head-to-head competition and in those cases we should be prepared to accept the consequences.

Recourse To Non-Cash Transactions

The Committee endeavoured to learn the extent of and prospects for countertrade.* Quite frankly, we found it difficult to discover the answers within Canada. Most witnesses appearing before the Committee had not engaged in any form of non-cash transactions. Nor did we meet or learn of countertrade specialists working in this country.

*Trade involving the ultimate use of goods rather than currency to pay for other goods.

We heard second hand about problems such as ending up with too many shoes or other products for which there is no ready market in Canada. Based on what we heard, we have to conclude that the world of countertrade is alien to most Canadian businesses and that at present the interest in or ability to enter the complex world of non-cash transactions does not exist.

Our concern in exploring this topic was to determine the extent to which the ability to engage in countertrade will be important to our longer term export performance. To this end, we conducted specific investigations in Canada and made it a major topic of inquiry in our meetings abroad. At this point, we have only sketchy information on which to base conclusions, but we are prepared to suggest that countertrade is a more significant factor in world trade than we in Canada recognize and that in the short run its importance is going to increase.

A number of forces in the world environment combine to support the growth of countertrade. Developing and East Bloc countries who are short of hard currencies seek to pay for exports through some sort of countertrade or barter arrangement. Trading houses and other international marketers compete for new business on the basis of being able to complete multiple party transactions that do not require hard cash payments in all instances. The result is that a shortage of hard currency is now less of a barrier to trade than it once was and being prepared to engage in countertrade has become a competitive factor.

The Committee has had difficulty determining the degree to which countertrade is carried on today. A recent OECD* study concluded, with significant reservations, that approximately 20 per cent of world trade was conducted on a reciprocal basis during the last 15 years, but that less than 5 per cent of trade involved barter in the narrow sense of a simple exchange of goods for goods. The study also indicated that reciprocal trade accounted for approximately 40 per cent of trade with Third World countries. The US Department of Commerce recently reported that barter currently amounts to between 10 and 20 per cent of world trade; it represented only 2 per cent in 1976. If these figures are correct and the growth trend continues, your Committee can only conclude that understanding countertrade and knowing how to deal with it will enhance the economic prospects of Canada's exporters in the eighties. However, the knowledge and skills necessary to take advantage of these opportunities have not yet been developed in Canada. Until we close this expertise gap, we will be dependent on the ability of others outside the country.

*Organization for Economic Co-operation and Development.

GROWTH OF TRADING HOUSES

The continuing growth and development of trading houses throughout the world was naturally of particular interest to the Committee. Trading houses have always played an important part in international commerce. Countries such as Japan, West Germany, Great Britain and Denmark have realized significant trade success through these vehicles. We therefore examined those institutions and their applicability to the Canadian export situation.

Many witnesses cautioned the Committee that foreign models, especially the *sogoshosha* of Japan, show no potential for adaptation within the Canadian business environment. We accept that these institutions have evolved over a long period in unique cultures and cannot be transplanted to our system. At the same time, these corporations play a significant role and, in some cases, even dominate trade channels. Our purpose in reviewing the development of trading houses is to understand how they compete, the services they offer, the functions they perform and the degree to which these activities have become key factors in successful trade performance.

Trading houses have for centuries provided international commercial networks for Japan, Great Britain, Holland, the Federal Republic of Germany, France, Denmark, Sweden and many other countries. They engage in all forms of trade: exports, imports and, increasingly, trade between countries outside of the home market of the trading company. In the case of Japan, general trading companies have served as intermediaries for groups of manufacturing companies, marketing their products and acquiring raw materials on their behalf. Today, the nine major *sogoshosha* account for 50 to 55 per cent of Japan's foreign trade; these sales amount to nearly one quarter of the Japan's GNP. In fact, total sales of the nine major *sogoshosha* equal Canada's GNP.

In contrast, the European trading houses developed from the relationship between countries and their colonies. Other suppliers were free to enter the markets and compete directly, but to be successful they had to overcome strong, often historic, relationships and the well-developed market intelligence networks that the trading houses had established. The ability to maintain supplier loyalty remains an important difference between the Japanese approach and that of European and North American trading houses. The latter neither expect nor receive supplier loyalty; when no significant benefit continues to exist in the relationship, the supplier is likely to begin marketing its own products abroad. This has not, however, stood in the way of some large and aggressive European firms, which continue to hold strong positions in world trade.

Encouraged by the success of these trading organizations, several countries have begun to develop their own institutions. Korea has come as close as any to the Japanese model, beginning to develop a general trading house system in 1975. Korea's strategy was to separate the marketing functions from existing companies and combine them into trading houses for industry groups. The designation general trading company (GTC) was used if the new organization met certain criteria: export sales were to amount to at least 2 per cent of Korea's exports; sales for each of five separate items should exceed $1 million; each GTC was to have 20 or more overseas branches; and all GTCs had to list their stock on the Korean exchange. The growth of the 13 Korean general trading companies has been impressive; their exports totalled about $4 billion in 1978, an increase of nearly $1.5 billion over 1977 and a four-fold increase since 1975. The GTCs accounted for 31.8 per cent of Korea's exports in 1978 compared with 5.3 per cent in 1975.

Brazil adopted the trading house approach but chose to create two trading organizations, Interbras and Cobec. Interbras, a wholly owned subsidiary of Petrobras, the state oil company, has focussed principally on agricultural products although it has also sold some manufactured goods. Cobec is owned in part by the national bank of Brazil and by a number of domestic and foreign commercial banks. Agriculture is a major component of its sales and manufactured products are estimated to be less than 10 per cent of its total business. Although these trading companies have grown since their establishment in the seventies, they have not had the impact on the export of manufactured products originally intended.

We know that several countries in Southeast Asia have introduced trading houses although we cannot comment first hand on their effectiveness. Singapore established a trading organization called Intraco to expand the exports of small businesses and to trade with Eastern Bloc nations. Thailand is promoting the development of 12 trading companies and Malaysia is developing trading organizations in partnership with Japanese *sogoshosha*. New Zealand has operated a national trading organization to promote exports of small and medium sized businesses for many years.

In the United States, legislation to bring about the establishment of export trading companies will soon be reintroduced in Congress. This legislation would permit substantial bank ownership of trading companies and provide less restrictive antitrust rules for export consortia. Having recognized the need to expand its exports of manufactured products, the United States is emphasizing institutional change as part of its overall program.

While trading houses are being established by many countries, the Japanese *sogoshosha* are responding to changes that could bear significantly on their future conduct. Increased protectionist measures in many countries, the expanding volume of countertrade, shifting competitive advantages in manufactured goods and growing political instability in natural resource-rich countries have all forced the Japanese trading houses to reconsider how they will compete in the eighties. The *sogoshosha* have become significant foreign investors in manufacturing enterprises, distribution organizations and natural resource projects. They are emphasizing continuity in the supply of essential raw materials. The effect of these measures will be to reaffirm the hold of the *sogoshosha* on Japanese manufacturing firms and to establish new footings in the foreign economies in which they invest.

From the evidence before your Committee we conclude that trading houses have significant strengths that ultimately benefit the home economy. These strengths include:

- comprehensive market intelligence
- expertise in developing new markets
- expertise in foreign sales
- a well-established distribution network
- a portfolio of competitive trade services
- a knowledge of new methods of trade
- expertise in procurement
- financial strength
- control of the international marketing function, allowing more of the value of the products sold to accrue to the supplier country
- diversification of export risk due to the volume of business and number of products

This is a formidable set of strengths and, as we have seen, when they are exercised through the capabilities of a trading house, they can have a significant impact on both the volume and the nature of trade.

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CHAPTER TWO

Manufactured Goods:
The Export Challenge

Chapter 2

Manufactured Goods: The Export Challenge

Increasing foreign sales of manufactured goods is the greatest export challenge facing Canadians; the ability to respond to that challenge is the focus of this chapter. The extent of Canada's potential to increase exports of manufactured goods was the first question the committee dealt with here. To answer that question we had to make some assumptions about the manufacturing sector. Using those assumptions and our research data, we have come up with an $8-12 billion opportunity for additional exports in the manufacturing sector. This chapter reviews the opportunity that exists, the challenges that must be met and the barriers that stand in the way.

THE EXPORT OPPORTUNITY

The export opportunity for manufactured goods that we have identified appears startling at first. But in view of Canada's $18 billion trade deficit in end products and its share of world exports, it is only a start at redressing the situation. The steps we could take to realize this potential are neither new nor revolutionary. They involve two fundamental objectives:

1. to encourage companies already exporting to export more so as to approach the level of exports being achieved by our better performers; and
2. to increase the number of small and medium businesses involved in exporting.

This two-pronged approach to expanding manufacturing exports is based on conclusions reached after lengthy discussions with witnesses and a detailed examination of Canada's export performance. The facts are abundantly clear; a substantial export potential exists. Pursuing and achieving this potential will require a much more aggressive approach than we have taken in the past. The facts* on which these conclusions are based are as follows:

- The bulk of Canadian exports—71.4 per cent—are made by establishments classed as large, i.e. those shipping a total of $25** million or more annually (see Chart 2a).
- Five sectors show far greater exporting intensity than the rest of the manufacturing group; transportation equipment, machinery, wood, pulp and paper and primary metals account for 75 per cent of Canadian manufacturing exports.
- When performance in the five major export sectors is factored out, large exporting firms in the other sectors do not, on average, export more products than small exporting firms. In fact, the percentage of exports by large establishments is actually less than that of smaller firms in some sectors. (Chart 2b)
- The significant difference between the export performance of small and medium businesses and that of large businesses is simply that a much greater percentage of large establishments export (Chart 2c). When smaller firms outside the export-intensive sectors export, they perform just as well as larger companies. The problem is that not enough of the smaller firms have started to export.
- The greatest potential for improving export performance exists among medium-sized companies. In that group there are close to 2,000 companies that could be encouraged to push their performance toward that of companies of the same size in the export-intensive industries. In the large company group, while only roughly 200 companies are involved, the

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*"Export Behavior of Canadian Manufacturing Establishments". Background paper by André Morin of the Research Branch, Library of Parliament, April 1981.

**These are 1975 dollars which, in today's terms, would be closer to $50 million.

Chart 2a

Percentage of Employment, Shipments and Exports in the Manufacturing Sector

Employment
Shipments
Exports

*In 1975 Dollars:
Small–Up to $1 Million
Medium–$1-25 Million
Large–Over $25 Million

Source: Manufacturing Industries of Canada: Type of Organization and Size of Establishment, Statistics Canada, Catalogue 31-210, 1975, plus data compiled by Manufacturing Division of Statistics Canada from the most recent survey on destination of manufacturing shipments (1974).

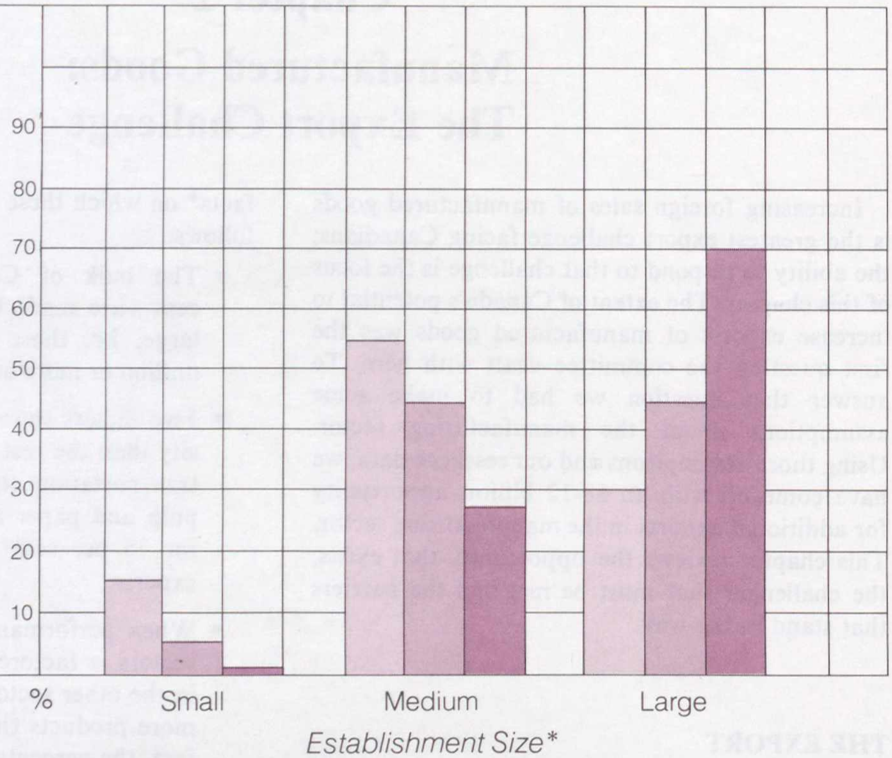


Chart 2b

Export Performance of Manufacturing Establishments, excluding The Five Export-Intensive Industries

*In 1975 Dollars:
Small–Up to $1 Million
Medium–$1-25 Million
Large–Over $25 Million

**Exports as a Percentage of Shipments (Average)

Source: Manufacturing Industries of Canada: Type of Organization and Size of Establishment, Statistics Canada, Catalogue 31-210, 1975, plus data compiled by Manufacturing Division of Statistics Canada from the most recent survey on destination of manufacturing shipments (1974).

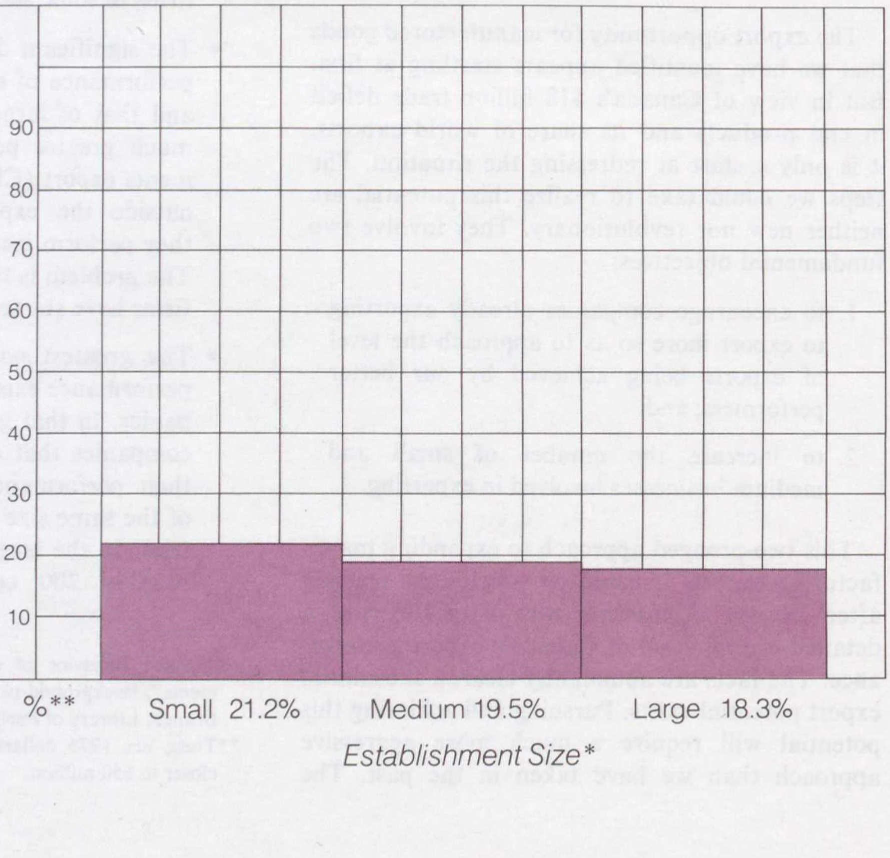


Chart 2c

Export Participation by Size

*In 1975 Dollars:
Small–Up to $1 Million
Medium–$1-25 Million
Large–Over $25 Million

**Percentage of establishments exporting

Source: Manufacturing Industries of Canada: Type of Organization and Size of Establishment, Statistics Canada, Catalogue 31-210, 1975, plus data compiled by Manufacturing Division of Statistics Canada from the most recent survey on destination of manufacturing shipments (1974).

Chart 2d

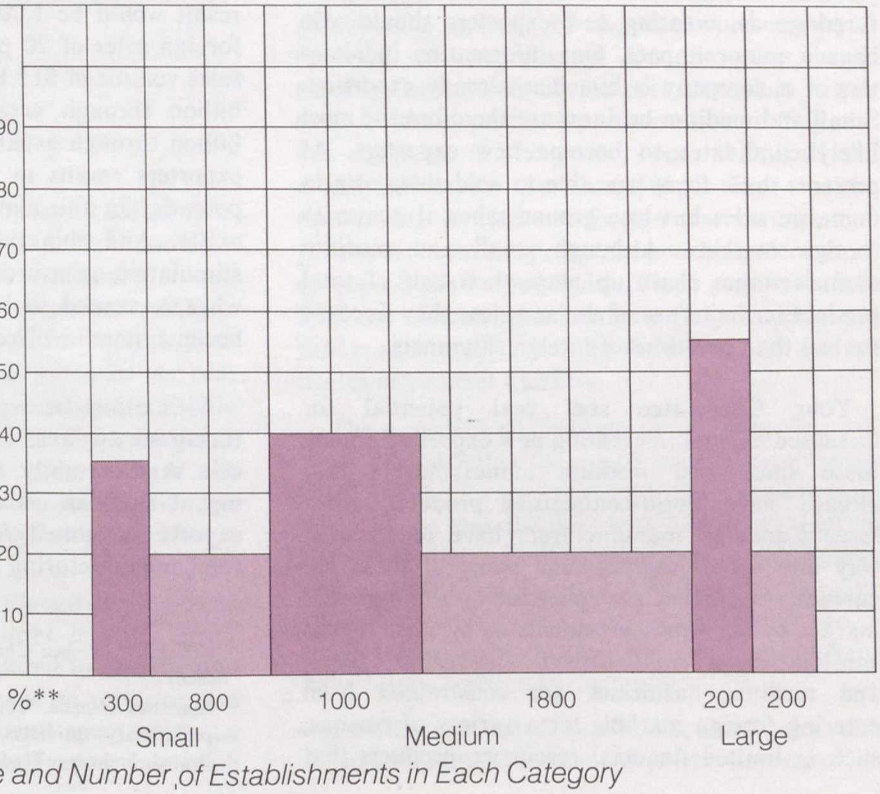
Export Performance of Export-Intensive Industries as compared with Other Exporting Industries

**Exports as a Percentage of Shipments

Export-Intensive Industries
(Transportation, Equipment, Machinery, Pulp & Paper, Wood, Primary Metals)

Other Exporting Industries

Source: Manufacturing Industries of Canada: Type of Organization and Size of Establishment, Statistics Canada, Catalogue 31-210, 1975, plus data compiled by Manufacturing Division of Statistics Canada from the most recent survey on destination of manufacturing shipments (1974).



performance gap is so wide that it attracts special attention. The potential in this group lies in the fact that the volume of sales, even for a few companies, is considerable. The performance gap is also significant for small companies and improvements here would further contribute to expanding exports. (Chart 2d)

A realistic goal for medium and large companies outside the export-intensive industries would be to export 10 per cent more of their production. The dollar value of such an increase would be significant. If 2,000 medium-sized companies with average sales of $15 million achieved a 10 per cent improvement in the proportion of exports to total sales, and if 200 large companies (average sales: $160 million) and 800 small companies (average sales: $100,000) made equivalent improvements, the result would be over $6 billion in increased export sales. Improved performance on the part of companies in the export-intensive group would push that figure even higher.

If persuading some exporters to improve their foreign sales performance by 10 per cent would yield an additional $6 billion in sales of manufactured goods, creating new exporters should also have a major impact. Our information indicates that if a company is big, it is already exporting. Small and medium business are therefore the most likely candidates to become new exporters. At present, these firms are able to hold their own in domestic sales but lose ground when it comes to foreign markets. Although small and medium manufacturers chalk up more than half of total production in terms of dollar sales, they account for less than one-third of foreign shipments.

Your Committee sees real potential for increased exports in creating new exporters among those small and medium manufacturers that already have world-competitive products. Most large Canadian manufacturers have found their way into export markets and many of those not currently exporting are restricted to the domestic market by licensing agreements or by their role as subsidiaries of multinational enterprises. Small and medium businesses are constrained from entering foreign markets for a variety of reasons, such as limited financial resources, products that are not competitive in foreign markets, disinterest on the part of ownership, insufficient production capacity and foreign ownership or licensing restrictions. Those companies that are capable of world-scale competition and interested in serving foreign markets are restricted to the domestic market by the lack of foreign marketing capability. Yet, as we have seen, when these smaller companies export, they are just as active abroad as the bigger players.

The Canadian Export Association (CEA) estimates that close to 1,000 Canadian companies meet the definition of non-exporting manufacturers who are capable of and interested in exporting. This figure is supported by a Quebec Chamber of Commerce survey* of 3,000 manufacturing establishments in Quebec that employ between 20 and 500 workers. The survey indicated that 600 of the firms export and 450 have the potential to do so.

If the 1,000 companies identified by the CEA can be encouraged to export, it seems reasonable to expect that they would ultimately achieve the export performance standard of 20 per cent of production that is achieved by Canadian manufacturers outside the export-intensive industries. The result would be 1,000 new exporters with annual foreign sales of 20 per cent of an estimated total sales volume of $15 billion. The combination of $3 billion through creating new exporters and $6 billion through expanded foreign sales by existing exporters results in at least $9 billion in export potential in the manufacturing sector as it now exists. And this estimate takes no account of stimulative measures other than trying to find what is needed to help Canadian manufacturers become more involved in the export game.

Estimating the export potential in the manufacturing sector was, of necessity, a subjective process. And certainly, there are other ways of arriving at such an estimate. For example, in 1980, exports accounted for 32 per cent of Canada's total manufacturing shipments of $166 billion.**

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*"REDEX", Quebec Chamber of Commerce, 1977. (unpublished)

** Statistics Canada, Catalogue 31-001, December 1980 and preliminary estimates from the Economics Intelligence Branch, Industry, Trade and Commerce.

An increase in exports of 5 per cent could thus mean a sales potential of $8.3 billion. Similarly, the $9 billion potential we identified earlier in this chapter relied in part on 1975 dollar calculations, which is the most recent data available. Adjusting it to allow for inflation could produce a figure closer to $12 billion.

The $8 to 12 billion range in export potential is thus no more than an estimate and our calculations may be inaccurate. Moreover, the international competitiveness of Canadian goods is nearly impossible to determine other than by testing them in the market. Despite these problems in estimating the exact amount, it is clear that there is a substantial export potential in the manufacturing sector.

Exports also have the potential to increase employment. At present, small and medium business account for 70 per cent of all manufacturing jobs; efforts that result in more sales will add impressively to employment totals. Committee research indicates that $1 billion in additional exports can generate 42,700 jobs. Thus, the export potential we identify could mean somewhere between 300,000 and 500,000 additional jobs for Canadians.

REALIZING CANADA'S EXPORT POTENTIAL

Most of the export potential just identified rests with small and medium-sized Canadian manufacturers. We have focussed on companies whose products are competitive and whose ownership is willing to expand beyond domestic markets. Furthermore, a gradual increase of 10 to 20 per cent over current levels of export performance should not be difficult to accomplish. The remaining problem is marketing. Most companies in the target group lack the resources to identify and establish an ongoing presence in foreign markets.

A firm's ability to market abroad is influenced by its size. Small companies often lack the financial and human resources required to identify and develop new markets. They have no recourse to a network of related companies and agents who can assist in gathering market intelligence. For small companies, the prospect of investing in increased production capability to serve foreign markets also carries with it the prospect of losing everything. Short production runs and high per-unit costs, particularly when combined with transportation requirements, put small companies at a cost disadvantage in foreign markets. Moreover, some company owners may prefer to "think small" or at least to "think domestic" rather than to engage in the more hazardous and time-consuming business of developing foreign markets. From their perspective, the competitive edge enjoyed by large companies is the capacity to make long-term investments in the development of export markets.

The survey on exporting conducted on behalf of the Committee by the Canadian Chamber of Commerce highlights the marketing problems of Canadian exporters. A brief description of the companies surveyed is as follows: they are located chiefly in Ontario and Quebec, rather than at the perimeters of the country; they have fewer than 500 employees, a size that is consistent with their reported sales volumes, averaging less than $50 million; and they are predominantly manufacturers, with wholesale/retail operations a distant second.

Almost a quarter of the companies surveyed reported no export sales. On the other hand, roughly the same number export more than 25 per cent of their production. Overall, including the non-exporters in the group, more than half the companies export less than 10 per cent of their production. In terms of foreign market coverage, the exporters in the group are not solely dependent on the US market for their sales. A majority sell to both the US and other markets. The remainder are fairly evenly split, selling either to the United States or to other markets.

The president or chief executive officer has primary responsibility for export sales in more than a third of the firms answering the questionnaire. That choice was the one most frequently selected from a list that also included export sales manager and general sales manager. Export sales manager ranked third in order of frequency of selection, a finding that suggests that not many respondents have such a position in the organization.

Respondents listed insufficient familiarity with export markets, shortage of production capacity, and products that are not internationally competitive as the chief deterrents to export activity. In an attempt to remedy the problem of lack of familiarity with export markets, those who do venture into foreign markets make extensive use of Canada's Trade Commissioner Service. Other government trade support services such as the Export Development Corporation and the Program for Export Market Development are also well known and used.

The export dilemma of small and medium manufacturers revealed by the survey is perhaps best summed up by this statement made to the Committee at one of its regional meetings:

"The price of the line is competitive, the design is popular and the material is cheap in Canada. On the other hand, the development of export markets is difficult. Retailers are interested in the product but we require the services of a distributor, and interested distributors are hard to find." (A Quebec-based exporter of manufactured goods).

Canadian manufacturers need access to an international marketing capability if they are to begin to realize even part of the export opportunity the Committee has described. As the Chamber of Commerce survey suggests, they need export sales managers and a corporate competence to deal with foreign markets. Government agencies like the Trade Commissioner Service cannot make the direct sales effort and nurture the ongoing relationships that a sustained market presence requires.

THE NEED FOR ACCESS TO A TRADE CAPABILITY

Canadian manufacturers might logically look to private trading houses for the international marketing expertise they require. Unfortunately, the private trading house sector is still at an early stage of development in Canada. It is now composed of a large number of small trading houses dealing in products that clearly reflect Canada's natural resource base. Most of the private sector traders are chronically short of capital and operate from a narrow position in terms of networks and product range. The point at which this sector will begin to mature—which will involve both consolidation and specialization—has not yet been reached.

Roughly 600 Canadian businesses identify themselves as trading houses. That large number is a weakness of the sector rather than a strength because each trading house does a low volume of business. Trading is a narrow profit margin business that depends on high volume and turnover to make money. The ability to use specialized trading expertise to advantage is vital to trading company profitability. The majority of Canadian trading houses are just not large enough to achieve the high resource utilization and profit that produce a major trading company. And without major status, customers are hard to attract and keep.

Fewer than 20 per cent of Canadian trading houses reported sales of over $5 million last year*. The remainder fell squarely into the small business category. A close look at the product lines carried by the medium and large operations shows that agricultural products, wood, pulp and paper, processed food, chemicals and fur predominate. The foreign trading companies operating in Canada rely on the same product lines: Mitsubishi Canada trades agricultural products, wood, ore, fish and special industrial machinery.

Number of employees can indicate the scope of a trading operation. The typical Canadian trading company in the medium and large category has fewer than 20 employees. The typical foreign trading company operating in Canada has closer to 50 employees. There is no Canadian-owned trading company on record as having more than 100 employees engaged in trade. Although various manufacturers and wholesalers that trade have large numbers of employees, the number of employees actually involved in international sales is usually small.

Traditionally, private sector trading companies in Canada respond to market opportunities rather than seek them out. It is for this reason that the Canadian Export Association describes the trading house sector as "a mirror image of the availability of Canadian products for export". This pattern of response rather than initiative goes a long way

*Data from the Business Opportunities Sourcing System, August, 1980.

toward explaining why Canadian traders are small, commodities-oriented and underdeveloped. The weakness of the Canadian trading house sector leaves manufacturers who have export potential without access to the full-scale trade services they need.

Large Canadian and foreign-owned companies have international marketing capabilities, but most are not interested in assuming these responsibilities on behalf of other companies. These companies have already developed or have access to the distribution channels and institutional framework required for large-scale international dealings. Their volume of business enables them to reduce the unit costs of marketing by concentrating a large volume of product through their marketing system. Some major manufacturers who have identified a new profit opportunity in the trading function have even created their own trading subsidiaries. In addition to its traditional trading role, a trading subsidiary secures critical supplies for the parent company, offers a full range of corporate products and can assist its manufacturer parent in disposing of goods resulting from non-currency transactions.

Big companies prefer to manufacture and market their own products; they want a sense of control and do not feel comfortable with the prospect being marketed by or marketing for other companies. Generally, the prospect of piggy-backing products that are complementary to or aligned with their own product lines does not seem attractive to them. In the face of shifting patterns and techniques of world trade, large manufacturers feel stretched just maintaining their own positions.

Multinational branch plants have a competitive trade advantage over exclusively domestic operations. Our research indicates that although the fact of foreign ownership has little connection with export performance, access to the parent company's marketing expertise and channels of distribution correlates strongly with success in foreign sales competition. In effect, the branch plant realizes the benefit of some trading company services through its connection to a larger organization with operations, agents, developed markets and distribution systems throughout the world. Market intelligence, market identification, bulk shipping and after-sales service are just some examples of the trade functions available through an international corporate network. The multinational relationship is also a benefit in sourcing raw materials and then buying in bulk for the international operation. The benefits arising from this relationship are particularly evident in the operation of world product mandates and intra-company exports.

A world product mandate confers on a branch operation the sole responsibility for producing a certain product on behalf of the parent company's world-wide distribution and sales network, thus offering the firm the chance to achieve world-competitive status. Within a multinational, competition for product mandates is tough, but once awarded, a product mandate permits a firm to piggy-back into world markets using the parent company's position as a base.

The opportunity to use the branch firm's plant and equipment to specialize in a product destined for world-wide distribution through an existing network is a desirable competitive advantage. A domestic supplier is certainly free to take the initiative and focus production on one product, but the subsequent problems of market identification, development and distribution are tremendous when compared with the situation of a branch plant. There is, quite simply, no equivalent structure that the domestic supplier can use to achieve an equal competitive footing.

The fact that branch plants depend heavily on intra-company sales for their export volume reveals how access to multinational trade services can sometimes be a trade advantage but an organizational disadvantage. Access to trade services eases the way into foreign markets, but it also forestalls the development of foreign marketing expertise, full production capability and direct market competition. Nevertheless, in a narrow trade performance sense, intra-company sales contribute to export volume and the access to the customer is accomplished with a minimum of effort and expenditure.

By comparison, a domestic operation comparable in size to the branch plant must either develop international marketing expertise or find it outside. Either route consumes both time and resources and in many cases the company can neither develop the capability nor find what it needs outside. As a result, domestic manufacturers begin with a major marketing disadvantage that many are never able to overcome.

The challenge of realizing Canada's export potential is not being met by existing institutions. Where we have identified most of the potential, firms lack the resources and the capability to market abroad. The trading house sector is not yet at the stage where it can assume such a broad responsibility and the big corporations are not interested. To enable manufacturer-exporters to increase their volume of foreign sales and to assist manufacturers in entering foreign markets for the first time, Canadian business needs an international marketing capability. The absence of such a capability on the part of many Canadian firms creates a major gap in our ability to capture the export potential that appears to exist. Our recommendations for filling this gap are addressed in subsequent chapters.

3

CHAPTER THREE

The Capital Projects Opportunity

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The Capital Projects Opportunity

Capital projects normally fall into one of two categories: industrial complexes, which produce goods—examples include oil refineries, petrochemical plants, chemical plants, pulp and paper plants, and mining facilities; and infrastructure projects, which provide a country's basic support services, such as transportation and communications systems, power generation facilities, hospitals and schools. Each project is a combination of engineering consulting, project management and construction services and the supply of machinery and equipment.

Canadian firms began to seek capital projects abroad in the late 1960s. With activity in the home market decreasing, business survival required that firms look beyond domestic boundaries. Engineering firms led the way, undertaking primarily infrastructure projects. Frequently firms won international jobs because of their ability to render independent consulting advice to clients. The nature of this role was such that procuring Canadian goods for a project fell outside the responsibilities of the engineer to the client; in some cases, to do so could have undermined the professional basis of the relationship. As a result, efforts to export capital goods through the capital project route have had to overcome existing institutional biases before being accepted as a necessary, indeed essential, component of our exporting approach.

The capital projects world changed dramatically in the 1970s when both suppliers and clients began to discover the benefits of packaged projects. When inflation began to cause serious cost overruns, clients who put projects together and managed them to completion found themselves bearing the full cost of these overruns. As a result, they turned to a new form of contracting, the "turnkey project", where the risk of inflation is assumed by the contractor. In a turnkey project, a single contracting firm provides all the project management, engineering and construction skills and the equipment necessary to complete the project. Purchasers saw turnkey projects as a means of controlling project cost and timing; the advantage to contractors lay in gaining the maximum contract value by supplying a whole project rather than a part. Today, the world market for capital projects is highly competitive and many firms have established sound positions in it. Moreover, governments in supplier countries have been encouraging firms to develop a capital projects capability as an avenue to expanding the export of capital goods.

The Committee heard estimates that place the current world market for capital projects outside Canada at about $50-70 billion annually. Growth in the number of projects initiated and inflation will increase that figure substantially over the next decade. Between 100 and 150 major projects, each with a value exceeding $200 million, are being started each year. Industrial complexes, including turnkey projects, account for about two-thirds of the total, with infrastructure projects making up the other third. If Canadian industry were to achieve in this market what it achieves in the world export market—that is, a 3.4 per cent share—then our capital projects exports would be in the $1.5-2.5 billion range, a sizeable improvement on the present performance level of about a half a billion dollars.

Canada's domestic capital projects market may have a significant impact on our ability to make that improvement. The domestic market is enormous by world standards and is likely to become an increasingly important component of the world market. Domestic demand is expected to total $200-350 billion over the course of the eighties. The domestic market thus offers an unparalleled opportunity to develop a base of experience from which to export. On the other hand, capital projects are also labour-intensive which means that Canada may not be able to come up with the technical and management personnel required to serve export markets.

AN EXPORT BEACH HEAD

Canadian industry began to make inroads into world markets for capital projects in the early 1970s. A base export business of about $400 million a year has been built and, with the exception of fluctuations caused by a few very large projects, has remained steady since 1975. A number of firms have attempted to become international suppliers but few have established themselves successfully. Among the firms that undertook capital projects exports in the period 1972-79, 36 firms did two or more jobs, but only six firms—5 per cent of the total—managed five or more capital projects. While on the surface there has been a good deal of activity, in reality few firms have established a lasting international presence.

The bulk of Canadian capital projects activity abroad has been concentrated on smaller projects. Between 1972 and 1979 nearly 90 per cent of the projects were valued at $50 million or less. Moreover, about 80 per cent were of the infrastructure type, where a supplier's potential contract value is significantly lower. To a Canadian contract supplier, an industrial complex contract is worth about 45-65 per cent of the cost of the complex, including design, construction services and equipment. By contrast, infrastructure projects offer a Canadian component of closer to 20-25 per cent because the greater part of the building materials, supplies and labour required for the project is provided locally.

Moreover, Canadian firms have not actively pursued capital projects export opportunities such as those offered by the World Bank and the Asian Development Bank. In 1977 and 1978, there were 14,200 opportunities to bid on World Bank requests to supply capital goods and projects. Canadian firms submitted only 258 bids. Our record was even worse for Asian Development Bank tender calls; during the same period, Canadian firms submitted only 23 proposals in response to 2,100 calls for bids. Your Committee cannot ascertain whether this lamentable performance was attributable to a lack of aggressiveness, insufficient capability or fewer real opportunities than the numbers suggest. Nevertheless, since Canadian firms were successful on over half the bids they made, we can only conclude that the commitment to seek these contracts more aggressively must be strongly reinforced.

Although Canadian industry has established a position in world markets for capital projects, serious gaps still exist in the large capital projects area. As we have seen, the bulk of our activity is concentrated on projects worth less than $50 million. As we look ahead it is clear that the capacity to undertake larger projects will become increasingly important to the nation's ability to export capital goods.

THE LARGE PROJECT GAP

Canadian industry has the expertise and the experience to tackle larger capital projects. Our engineering, construction and manufacturing industries—in the fields of telecommunications, oil and gas, petrochemicals, hydro-electricity, nuclear technology, pulp and paper, mining and civil works—are competitive with the best in the world. Moreover, in transportation and energy we have selected expertise that surpasses that of many countries. Our domestic experience puts Canada in a position to capitalize on existing and developing markets throughout the world.

The compelling question for the Committee is why, with this experience and competence, have we not done better? In particular, why is the bulk of our activity in the under-$50 million category and why has our total level of activity not increased? Our discussions with industry and government point to a number of reasons; when considered together, they indicate that our domestic success has been the biggest impediment to the development of an international capability. Those reasons, discussed in further detail in subsequent sections, include the following:

1. industry lacks the motivation to export;
2. individual companies do not have the financial strength to take on risks associated with large projects;

3. the consortium approach has not produced permanent capital project organizations;
4. government support is fragmented; and
5. government programs are seen to be uncompetitive with those of other countries.

Motivation Is Missing

Canadian industry has never felt the requirement or been encouraged to take an aggressive stance in seeking capital projects work in international markets. For most of the post-war period the domestic market has been more than enough for Canadian industry to handle. It has not made business sense for firms to pursue foreign markets when there was attractive work at home. This is particularly true in the construction sector; the Canadian market has attracted the branch operations of international firms and the entire industry has focussed on how to get the work done in Canada.

Several witnesses highlighted the absence of export motivation, indicating that the risks and difficulties associated with doing business abroad make it considerably less attractive than domestic work. For example, the prospect of labour problems involving negotiations in a foreign language, transportation tie-ups and major currency fluctuations are all problems that make potential exporters wary. As a result, Canadian firms tend to seek international work on their own terms rather than on the basis of what it takes to compete and win. Moreover, Canadian firms have too often resorted to export markets when business at home was slow, only to return to the domestic market once prospects improved. In addition to demonstrating a basic unwillingness to make commitments to export business, this on again, off again relationship with foreign markets also undermines the credibility of all firms looking to succeed in export markets.

Engineering firms have pursued off-shore business more aggressively than their construction counterparts, but because they carried forward the traditional separation of engineering and construction in their pursuit of foreign work, they frequently landed studies rather than projects. Although this was a natural outgrowth of the structure of the Canadian industry, this separation has been an impediment to pursuing capital projects. In fairness to the engineering community, they have made substantial progress in the last decade toward providing a full range of project services; some of the major firms are beginning to establish design and construction capabilities.

Many manufacturing companies have also been passive players in the capital projects field. Manufacturers in other countries have taken the lead in this area, but their Canadian counterparts have not shown a similar interest. On some projects, foreign ownership has restricted the activities of Canadian suppliers whose parent company is part of a competing consortium. In other cases, just identifying suppliers and co-ordinating their inputs is beyond existing capabilities and interests in Canada.

The attractiveness of the Canadian market and the fragmented nature of the capital projects industry bear far more responsibility for the motivation problem than any limitations in attitudes or capability. The absence of motivation is, nonetheless, an enormous barrier and one that must be overcome before Canada can really begin to capture its fair share of capital projects work abroad.

Individual Firms Have Insufficient Financial Strength

With the apparent unwillingness of large manufacturers to pursue the export of capital projects, this role has been filled by engineers and contractors. Most of these companies, however, lack the necessary size and financial muscle to carry out large projects. The Canadian Commercial Corporation presented the Committee with an industry study indicating that only 25 of the 1,600 Canadian consulting engineering firms are large enough to act as prime contractors for capital projects. Contracting firms appear to offer even less potential for establishing an export base. Although 25 of these firms have worked on more than three overseas projects, perhaps ten have the asset base and offshore record to establish themselves as potential project managers. The machinery and equipment group, as we have already noted, tends to be either too disinterested or too small to take the lead on capital projects.

Compounding the size problem is an attitude on the part of some firms that they must supply the entire job themselves. They show a reluctance to look for and make use of skills available from other firms. And unless a firm is growing—by developing or acquiring all the required capabilities—it does not feel capable of going after larger and more complex jobs.

Your Committee is concerned that such an approach may be self-defeating. We were particularly impressed by the ability of firms in the Federal Republic of Germany to assemble the expertise required for a job from around the world. They know where to find people with the right skills and can readily integrate them into a project team. They have concentrated on being able to put deals together, direct projects and bring to bear the best resources available. As a result, they have not built up massive organizations that seek to provide all project personnel from within the company. With heavy domestic demands for technical people in this decade, Canadian firms will have to have well-developed methods of searching the world for the right expertise if Canada is to mount a serious capital projects export effort.

Because of their relatively small size, Canadian firms have proposed that government help offset the risks they face on larger projects. Nearly all Canadian firms that are capable of exporting would encounter serious financial difficulties if faced with cost overruns on projects worth $100 million or more. In effect, industry is saying the risk/reward relationship on larger projects is wrong for their capital structures. Lacking the necessary scale, industry has turned to government as a potential risk-funding and enabling partner. Without this financial back-up, larger projects are out of reach for most of Canadian industry today.

Consortium Approach Lacks Permanence

Since no major companies outside the telecommunications field have shown the willingness to take the lead in securing and carrying out large projects, Canadian firms have either accepted part of a project package or worked through consortia to win the total job. When they do part of a job, companies benefit from the work and gain foreign experience, but they are not much further ahead in developing the competence to manage a total project. The consortium approach goes further, but its disadvantage is that if the project team breaks up after the job is completed, both the experience and reputation will likely be lost.

The Canadian approach fares badly in comparison with corporate structures that have evolved in the United States, the Federal Republic of Germany, France, Japan and several other countries. Whether we examine a massive engineering-construction firm, an industrial complex or a trading house, we find the same key success factors. All have the financial resources to take on full project responsibility. All have the capital base to undertake several projects at once and spread the risk. All are capable of bringing together and managing all aspects of the project. All have an ongoing commitment to the capital projects industry. Their methods may vary, but the capability they possess and the results they achieve are the same, and so is the customer confidence that underlies the reputations of these companies.

Government Support Is Fragmented

The federal government is involved in the capital projects area through a number of agencies and programs. The Department of Industry, Trade and Commerce (ITC) operates a Program for Export Market Development (PEMD) which includes provisions for project bidding, market identification and the study and formation of export consortia. In addition, it has focussed specific attention on the export of capital projects through the Office of Overseas Projects (OPS) and, to some degree, through the Construction Branch. The Export Development Corporation has played a major role in stimulating and supporting capital project exports through its loan and insurance programs. The Canadian International Development Agency (CIDA) finances economic feasibility studies and infrastructure projects. Finally, the mandate of the Canadian Commercial Corporation (CCC) was expanded in 1976 to include contracting with other governments and international agencies for capital projects.

On the surface, the government appears to be giving the capital projects area a good deal of support. This support is, however, unco-ordinated and confusing. Four different organizations with varying interests—the Construction Branch, OPS, CCC and CIDA—are prepared to lead and co-ordinate the export of projects. ITC, through PEMD, and CIDA, through its program for industrial co-operation, run competing and overlapping support programs. Further, companies must negotiate different kinds of financing arrangements, depending on whether they require long-term loans, parallel financing or *crédit mixte*.

Your Committee's concern is not simply that the government apparatus for capital projects appears disjointed and lacks effective co-ordination, but that the industry is itself small, dispersed and under-capitalized. In many ways the public and private sector components mirror each other and in so doing exacerbate the problems of direction and co-ordination.

Government's traditional, passive service role accounts for part of the problem. Fortunately, this posture is shifting. The Minister of State for Trade frequently leads trade missions abroad and is actively seeking new export business for Canadian firms. In comparison, however, Canada's competitors in the capital projects area have already developed strategies and marshalled governmental and corporate resources to achieve their goals. We are beginning to establish direction in the export business, but we still have a long way to go in lining up our limited resources to correspond with these targets. Furthermore, this leadership must be backed up with the necessary follow-through.

Programs Have Not Been Competitive

Witnesses expressed two prime concerns in this area, the first relating to the competitiveness of Canada's long-term loans for capital projects and the second to personal and corporate tax incentives for overseas work. We referred to these concerns in our Second Report and return to them in Chapter 7 of this report. The government has taken action on several new programs and tax measures that address some of these concerns.

THE SUCCESS CRITERIA

Our investigation of the large capital projects area produced a firmly held conviction that Canada's approach to this market must in future be different. Your Committee has focussed on what we believe to be the criteria for success. They include:

1. *A substantial capital base* The ability to undertake large projects requires an asset base that can sustain the attendant risks. Success in the capital projects business cannot be achieved if every project places the survival of the firm in jeopardy. In fact, capitalization should be much greater than that required for a single project. Many projects of different types must be carried on simultaneously so that the risk can be spread across a number of projects and activities.

2. *Corporate mandates that go beyond capital projects* European capital projects firms are usually components of much larger corporations. In this way, the capital projects group has access to a capital base that is significantly greater than its business requires; risk is viewed as an opportunity rather than a potential source of disaster. As well, the capital projects team can draw on the marketing skills, information systems, financial and sourcing expertise and key personnel of the corporation when required. In terms of both smoothing out the peaks and valleys of project work and maintaining a pool of compatible skills, the broader corporate mandate is an effective and highly competitive approach. Moreover, such an approach is well-suited to the structure of Canadian industry in which the separate functions already exist and need only be brought together as required on specific projects.

3. *Expertise in selling, financing, deal-making and project management* These activities are key competitive factors in capturing and successfully completing capital projects. They must therefore be part of the basic expertise of a successful capital projects organization. Sound project direction and control are integral parts of a competitive capital projects capability. Both the owner and supplier have to know that commitments made will be delivered according to the terms established.

4. *Track record of proven competence* Experience plays a dominant role in deciding who ultimately lands a project. This experience can be acquired through a long history of working in foreign markets, through similar projects in the home market and through expertise in the key functions required by the project. While it may not be necessary to have all the expertise in a single firm, the combination of experience often contributes to the establishment of a credible position in the project bidding process.

5. *Effective business-government relationships* To describe the capital projects world as anything less than a business-government partnership would be to misrepresent what is going on. The Canadian government provides financing, support programs, fiscal incentives and even contracts to help industry compete successfully in foreign markets. It has also made available its own expertise, such as air transportation management skills, in helping firms to land projects. The Committee discovered that business turns quickly to government for support when competitor nations unveil new initiatives. The adversary relationship between business and government has no place in today's international economic environment.

6. *Ongoing commitment to the capital projects business* Success in the export of capital projects requires a lasting commitment to international markets. Firms must establish a presence in target markets and gear their marketing and sales efforts to the long term. Owners can readily identify those who have entered the market on an opportunistic basis; their credibility and competence are usually questioned and frequently undermined. There are many dimensions of maturity in the capital projects industry, but commitment is an invaluable one.

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CHAPTER FOUR

The Major Trading House Requirement

Chapter 4

The Major Trading House Requirement

In the previous chapters we described the world trade environment and examined trends, developments and opportunities that are fundamental to the trading house question. Your Committee found that although Canada's trade performance appears satisfactory on the surface, in fact we face serious problems. Canada's share of world trade is declining steadily, we depend overwhelmingly on natural resource-related exports, and our trade picture continues to be dominated by the United States, to the near exclusion of other increasingly attractive markets. Most disturbing to the Committee is the massive and growing trade deficit in manufactured end products, a deficit that in 1980 amounted to $18 billion. When we discount our natural resource advantages and reliance on the US market, it becomes apparent that our basic ability to compete and hold a place in world markets is on the decline.

Our order of reference directs us to "examine ways in which a national trading corporation could improve Canada's export performance." We have concluded that solid opportunities to increase our exports, particularly of manufactured goods, exist in the small and medium business sector and in large capital projects. In determining what should be done to capture these opportunities, we were guided by our reference to examine trading institutions and their capacity to improve Canada's export performance. This chapter recaps hurdles that trading institutions must overcome to be effective, reviews the alternatives set out in our Second Report and discusses the need for a major trading corporation.

THE EXPORT HURDLES

For many companies in Canada, exporting presents uncertainties and risks that can surpass the anticipated gains that might arise from entering foreign markets. Although small and medium businesses that make the effort to go after exports do as well as larger companies, smaller scale and the consequent inability to take financial risks are still inhibiting many firms. Similar problems exist in the capital projects area. Larger scale organizations have a competitive advantage; smaller firms face a double hurdle—their size limits their ability even to get into the international game let alone compete in it.

Many witnesses shared a common concern: Canada has the capacity to compete more aggressively internationally, but Canadian firms lack the necesary motivation. Most companies survive quite well by concentrating on domestic markets or looking no further than the United States for export sales; the incentive to enter uncharted territory simply does not exist. It would be superficial to assume that this is a problem of attitude alone, because the response of most of these firms is appropriate to their situation. At the same time, their business potential, and therefore Canada's export potential, is greater than present achievements indicate. The question thus remains—what does it take to get firms to expand their exports?

Government has helped to expand exports by introducing a number of trade-related programs and services. Financing and insurance are provided through the Export Development Corporation, the Trade Commissioner Service offers market surveillance and assistance, and ITC delivers a range of export support measures through its Program for Export Market Development. These programs provide substantial assistance to many exporters and are credited with increasing the number of firms that become exporters. However, these programs and services do not address the problems of scale just identified. Serious marketing gaps, which render Canadian firms less than competitive, exist on several fronts:

1. *Market intelligence* Many firms do not have access to relevant export market intelligence. In fact, far too many firms do not

even know how to use the existing—albeit limited—services.

2. *Direct sales and service* Few Canadian firms can afford to maintain an international marketing operation. Agents may be a sound alternative, but good agents are hard to find, and smaller companies may not have the volume to build a lasting relationship.

3. *Solid financial base* Very few firms have the financial capacity to undertake and spread risk. No firm can afford to jeopardize its financial viability in a single transaction; firms must be able to conduct a number of deals simultaneously so that winners can be balanced off against losers. In the case of small and medium business, financial constraints limit the number of markets they can cover and the variety of services they can provide. With capital projects, these constraints affect the size and number of projects that can be undertaken.

4. *Effective trade services* Each transaction comprises a number of individual trade services. Supply must be secured, competitive costs guaranteed, quality assured, financing and insurance arranged, transportation negotiated, customs cleared, delivery completed and ongoing service maintained. Trading involves an inter-related chain of events in which the weakest link can strongly influence the outcome of the transaction. Many Canadian businesses view the trade process as a maze of activities for which they have no special competence.

5. *Government marketing* In many countries, successful marketing requires the support and involvement of the supplier's government and, in some cases, direct government-to-government negotiations. The appointment of a Minister of State for Trade has helped improve Canada's ability to deal at this level, but a lasting corporate capability is often required to close a deal and carry it through.

The gaps just identified fall within the normal functions of a trading house. They are not, however, being comprehensively filled by our existing trading houses. This puts the Canadian trade structure at a disadvantage when compared to many competitor nations in international markets. The next section sets out alternatives for strengthening Canada's general trading house capability and correcting a serious deficiency in the way we structure our export efforts.

THE ALTERNATIVES

Our Second Report identified several options for strengthening Canada's general trading and capital projects export capability. The list of alternatives was by no means exhaustive, nor did the selection of one alternative preclude the need for action in the other areas identified.

We have carefully reviewed the alternatives to determine which would best solve the trading problems we have identified. Our review of the banking and multinational alternatives identified serious impediments to immediate and significant action. Banks do not at present have any expertise in buying and selling goods and may have trouble developing it. In addition, the *Bank Act* does not permit banks to own more than 10 per cent of a trading company. Although the legislation does permit banks to set up subsidiaries specializing in export financing, it restricts their financing role to exports from Canada. This means that third-party deals and imports into Canada or countertrade arrangements would not be permitted.

As far as the multinational alternative is concerned, Canadian firms market their own products abroad but have not entered into piggy-backing the product lines of other businesses. Nor can they be expected to. Some firms, such as Alcan Aluminum Limited and Canada Wire and Cable (International) Ltd., have described their trading organizations to the Committee, explaining that their expertise is focussed primarily on in-house products. One company, Tridon International Ltd., is an exception; it has been active and sucessful in selling a family of products that complement its own product lines. But as a rule, the corporate sector does not have a compelling interest in pushing the development of trading houses at this time. Without disparaging the interest that does exist,

A. GENERAL TRADING CORPORATION ALTERNATIVES

ALTERNATIVE	CHARACTERISTICS
1. Bank-owned Trading Houses	—Banks own equity positions, possibly controlling interest —Banks use existing domestic and international capabilities to encourage rapid development of trading houses —Current policy direction of United States
2. Multinational Subsidiaries	—Multinational corporations establish subsidiaries to market their own goods and those of other companies —Corporations either use their existing marketing networks or start new companies —Trading house approach can be used to develop new markets
3. Strengthen Existing Trading Houses	—Greater scale through rationalization or individual growth —Specialization by product, function or market —Trading house start-ups encouraged
4. Government-owned Trading Company	—Organization would provide full range of trade services for existing or potential exporters —Government-to-government deals —Canadian Commercial Corporation could serve as base
5. Public/Private-owned Trading Company	—Trade organization with sufficient capitalization to compete successfully in international markets —Government and private shareholders; government ownership likely to diminish over time —Canada Development Corporation type legislation or amend *Canadian Commercial Corporation Act*

we are not confident that it is sufficient to remedy the institutional deficiencies we have identified.

As we have already indicated, the existing trading house sector does not offer a base on which to build a world-competitive general trading corporation. Although some trading organizations have successfully carved out niches in specific markets, we found no evidence of a single trading house offering an internationally competitive range of services and broad market coverage.

We also found limitations in the institutional structure in the capital projects area. More serious than the lack of motivation to pursue export business is the fact that the structure of our domestic industry is too small and too fragmented to permit the aggressive pursuit of larger capital projects. Nearly all the engineering, construction or equipment supply firms either do not have the motivation or lack the capital base to sustain the risk on larger projects. There have been efforts to form consortia but these have had trouble overcoming the problem of joint and several liability.

Government has frequently been nominated as a risk-sharing partner in major capital projects.

B. CAPITAL PROJECTS ALTERNATIVES

ALTERNATIVE	CHARACTERISTICS
1. Government-supported Project Consortia	—Organization is created in response to opportunities and is specific to the project —Private or public sector project administration —Government provides risk funding
2. Major Project Management Firm	—Large organization capable of project direction, financing, engineering and construction —Capital base sufficient to support several large projects at one time —Industry rationalization required as well as a substantial infusion of capital
3. Major Corporation	—Capital base built up through several business activities in addition to capital projects —Export of capital projects draws on equipment and service side of existing business —Bell Canada is an active example, although other corporations could perform role
4. Permanent Industrial Sector Consortia	—Organizations in industrial sector combine on a permanent basis to market and carry out capital projects —Separately funded or fall-back funding by partners —Shell company can be used where resources are drawn from partners as required, or a permanent organization with key resources can be created

Three related proposals are under discussion at this time. One would involve using a Crown corporation to share risk with Canadian capital project exporters. Under this proposal, either profits or losses arising from the contract would be shared by the Crown corporation on the basis of a pre-agreed percentage. The Crown corporation's total liability for loss would also be limited to an amount agreed upon in advance.

Another recent proposal recommends the establishment of a risk-sharing facility with a mixed public/private board of directors, private shareholders and a majority of directors from the private sector. The facility's chief responsibility would be the administration of a $100 million risk fund provided by the federal government. The fund would be used to share in the profits and risks of major projects, with percentages determined on a project-by-project basis.

Finally, an ultimate risk insurance scheme designed to insure Canadian overseas project exporters against risks not covered by any existing program has been suggested. Port delay, foreign inflation, and strikes by foreign labour are examples of such risks. Private insurance companies have considered this approach.

Your Committee has major reservations about these proposed risk-sharing schemes. All three are based on the unusual premise that risk should be covered outside the corporate financial structure rather than within. All three schemes anticipate dealing with risk on a project-by-project basis for each company, rather than a portfolio approach which would spread the risk over several projects. None of the proposed schemes provides an objective way to determine the extent to which the company involved has relied on the risk insurance to compensate for its own bidding weaknesses. Finally, all the proposed schemes expect government to be the ultimate source of risk money, but award decision-making power to intermediaries who do not have project responsibility.

THE TRADING HOUSE REQUIREMENT

Our task has been to examine the potential offered by the trading house approach to strengthen and complement our existing export capability. In specific terms, we have attempted to determine if a major Canadian trading corporation could contribute to capturing some of the export potential that has been identified. We have concluded that such a corporation will not only contribute to this end but could also help to capture the opportunities in growth markets and reshape our competitive approach to export markets.

We cannot over-emphasize the importance of a broad international perspective when dealing with this topic. While we need not repeat the sobering litany of trade challenges facing Canadians, let us stress that Canada is on the verge of ceasing to be a serious contender in many key trade areas. The concept of a major trading corporation is by no means a panacea, but it could be a significant addition to our competitive capability, to our ability to enter markets where we are barely represented and to engage in transactions that are currently beyond our expertise.

Your Committee has not met any members of the Canadian business community eager to take the lead, or for that matter even to get involved in the development of a major trading house in Canada. There were a few sparks of interest, but hardly the kind of response that would allow us to conclude with confidence that Canadian industry is moving toward filling the major trading house gap.

We are faced with the choice of either waiting for the trading house sector—or the engineering and construction sector—to evolve toward financial stability and a more aggressive stance, or moving now to establish a major trading organization. Your Committee has concluded that it is urgently necessary to strengthen Canada's trading capability now. As a major component of this initiative, we recommend that:

The federal government sponsor the development of a major Canadian trading corporation.

A major trading company will not solve all our export problems. The entire trading and capital projects sector needs strengthening, and in Chapter 7 we endorse general measures to encourage this development. We also believe that a case can be made for two or more specialized trading entities. Given success and time, this may be a reasonable evolution. However, we believe that the best starting point is a single corporation, and our proposals are directed at getting the first such organization, which we call the **Canadian Trading Corporation**, launched and underway. This initiative would demonstrate the potential and importance of the trading function to Canada, upgrade the image of trading houses generally and provide support and an approach for other corporations to follow.

Finally, we endorse the shared enterprise approach as the best way to proceed. A number of witnesses have pointed out the pitfalls of a wholly-owned government corporation. The entrepreneurial requirements of a trading house could be given short shrift if a bureaucratic management regime were selected. Moreover, witnesses indicated that the political accountability demanded of a Crown corporation might undermine its ability to compete in the international arena.

At the same time, there are a number of advantages to having government as a partner in the enterprise. Government financial backing is essential to attract the necessary private sector investors and to assure stability during the corporation's start-up years. Government involvement is also required to put together a financial base large enough to make this a major corporation. The confidence in the operation engendered by government involvement will assist the corporation in developing a coherent, competitive long-term plan. Government sponsorship will also encourage both suppliers and buyers to deal with the corporation.

The shared enterprise model has been adopted both federally and provincially. It is most effective when there is a public interest to be served and highly competitive business requirements to be met. In the case of the Canadian Trading Corporation, the public interest is the need to quickly and significantly upgrade our trading capability; the commercial requirement is the need to compete and win against solidly entrenched and highly sophisticated business organizations. Your Committee is confident that a trading corporation approach uniquely suited to meet Canadian needs can be developed. We make specific proposals to this end in the next two chapters.

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CHAPTER FIVE

The Role of the Canadian Trading Corporation

Chapter 5

The Role of the Canadian Trading Corporation

In proposing the creation of the Canadian Trading Corporation (CTC), your Committee is calling for the establishment of a corporation that will, with time and experience, become a full-service, internationally-based organization participating directly in existing and new channels of trade. We expect the corporation to be run on the basis of sound commercial practices, with an eye to minimizing costs and maximizing profits. The Committee has considered and rejected the "softer" roles that have been proposed for such a corporation, including trade facilitator, functional co-ordinator or risk insurer. Rather, what is required is an aggressive corporation, one that can compete successfully in world markets and place Canadian industry on an equal footing with international rivals in key markets outside North America and Europe.

We believe that the role of the proposed Canadian Trading Corporation will complement the existing trade capability of Canadian trading houses and exporters. We have heard trading houses described as "ten percenters" or unnecessary middlemen; too often their existence and precise role are either unknown or viewed with suspicion. Their small size and fragmented nature make it difficult for Canadian trading houses to persuade businesses that they can indeed provide effective and profitable entrées to foreign markets. Moreover, they often lack the financial muscle to take title to the goods and to ensure that products are delivered on time and in a manner satisfactory to the ultimate buyer.

We are seeking a flagship for Canadian trade, an organization that will take pride in implanting the Canadian name in the international marketplace. Many witnesses emphasized that one of our unexploited strengths is Canada's reputation in the world economy; we have failed miserably to connect our trading capability with this reputation. The CTC will correct this failure by providing an umbrella of Canadian identity for all Canadian exporters who want to use it. Further, it will demonstrate the significance and usefulness of the trading function to all Canadian business.

The specific components of the proposed role of the Canadian Trading Corporation include:

1. an essential export-import capability
2. a competitive product portfolio
3. a full service role
4. a focus on growth markets

AN ESSENTIAL EXPORT-IMPORT CAPABILITY

Central to the role of the proposed corporation is the question of whether it should focus only on exports. Our considered view is that the nature of world trade and the long-term viability of the corporation demand a role that encompasses both importing and exporting. We therefore recommend that:

The Canadian Trading Corporation be given a mandate to engage in exports, imports and third-party trade between foreign countries.

This recommendation reflects our belief that the best long-term route to expanding exports is the development of corporate vehicles that are expert in trading. Several witnesses informed the Committee that importing would be a politically unacceptable role for any trading company with government backing. We find this point of view short-sighted and ultimately counterproductive.

To preclude involvement in imports would be to deny the corporation access to one of the real advantages that Canada offers a prospective trading partner. Canada imported $51.9 billion in end products and fabricated materials in 1980. Moreover, just as Canada is seeking to change its trading patterns, the developing economies are seeking greater access to our market. The fact that we import enormous quantities of goods must be seen for what it is—both a fact of life and a strong position from which to expand our exports. Our extremely favourable import position is one of the real advantages that the Canadian Trading Corporation must be in a position to use.

We also believe that as the trading competence of the corporation develops, it should be able to engage in transactions between foreign countries; this will help to maintain that competence and will ultimately benefit Canadian trade. We have already described how international trade today often involves multiple country transactions. The Canadian trading capability falls far short of being able to undertake such complex transactions—the international organizations and information network simply do not exist.

Other countries in Canada's position rely on the expertise of the specialist countertrade houses located in Austria and Switzerland. After decades of experience in non-currency trade, those European trading houses conduct a tremendous volume of business. Because goods offered in exchange for imports often lack market attractiveness, the specialist trading houses charge a high premium to sell off these goods, and experienced traders allow for that charge when negotiating. At some time in the future, the CTC may develop the capability to engage in countertrade, but at present it is an area best left to the experts. The Canadian Trading Corporation should direct its efforts toward knowing who the experts are and how to deal with them. The Committee therefore recommends that:

The Canadian Trading Corporation develop working arrangements with trading houses specializing in countertrade.

A corporate mandate to engage in all dimensions of trade is also essential to the economic viability of the organization. The capabilities that the organization must develop, such as foreign offices, telecommunications systems, warehouses, buyers and transportation experts are costly to establish and expensive to maintain. The cost structure necessitated by these facilities can only be covered by the revenues gained by engaging in trade transactions of every type.

A COMPETITIVE PRODUCT PORTFOLIO

The priority for the Canadian Trading Corporation is to increase Canada's exports of manufactured products. We have identified the expansion of small and medium business exports and larger capital projects as areas in which the potential to expand exports exists. We have further concluded that both export activities should be accommodated within the same organization. The Corporation's marketing efforts should focus on what the customer wants, not on what we want to sell. We therefore recommend that:

The Canadian Trading Corporation ultimately be capable of selling any commercially viable product.

There are real economies of scale and significant competitive advantages in chartering the CTC to encompass a wide product line. Several of a corporation's basic functions are applicable to all its product lines. For example, market intelligence systems are expensive to establish initially, but can be adjusted to handle more information and more users for relatively small incremental costs. Similarly, corporate skills in procurement, contracting, quality assurance, transportation, insurance and financing have application across all the activities of the corporation. The trading side of the corporation will be involved in the purchase and export sale of capital equipment. That expertise will in turn complement the ability of the capital projects group to carry out its role, secure in the knowledge that a supply capability will continue to serve the completed project long after the construction team has left. Moreover, the ultimate test of what the corporation can sell will be made in the markets it enters, not here in Canada. As a result, it requires maximum scope and flexibility to determine what works best and where.

We have examined some of the capital project organizations in the Federal Republic of Germany, the United States and Japan in an effort to understand their corporate structures. In the FRG, capital project firms have evolved as a competitive outgrowth of large corporations. Faced with declining sales volumes in their core businesses, these corporations have sought capital projects work as a means of growing and improving performance. In Japan, the general trading function and capital projects operation are housed under one corporate roof. In the United States, where capital projects are the prime focus, as in the case of Bechtel Limited and Fluor Corporation, project management, engineering, procurement and construction skills are provided from within the organization. The Canadian Trading Corporation will have to rely on engineering and construction skills from outside the corporation, but within Canadian firms as well as international organizations. The approach we are proposing is closer to the model where the general trading and capital projects activities are part of of a single corporation.

A recurrent theme in Committee testimony was that a national trading corporation is not needed because our exports, particularly commodities, are already well served. If that is the case, perhaps we cannot expect the corporation to do much in those areas. At the same time, to limit the involvement of the corporation in these areas might be to impose restrictions that would ultimately inhibit its ability to compete in the world. If the corporation can sell more semi-finished, agricultural or even primary products, then it should do so. Our interest is in exporting more goods. If the proposed corporation can improve our balance of trade, why should we raise domestically-imposed export barriers that could be harmful to our economy? We have emphasized the need to expand our exports of manufactured goods; if a broader trade portfolio will contribute to this end, then we must encourage the CTC to take on a more comprehensive trading role.

A FULL SERVICE ROLE

The Canadian Trading Corporation must develop the ability and expertise to provide a comprehensive set of services. We have observed that Canadian exporters face serious problems when they try to co-ordinate all the components of a successful trade transaction. Domestic marketing ability does not necessarily provide an appropriate base of experience for entering offshore markets. Transportation, financing, foreign languages and currencies and negotiations in new countries must all be approached with consummate skill. It is neither reasonable nor efficient for each organization intending to enter the export arena to assemble the necessary skills. In most cases, in fact, it is impossible. What is therefore needed is a better Canadian capability to put together the complete trade deal. We recommend that:

The Canadian Trading Corporation provide a complete set of trade-related services covering both general trade and capital projects.

General Trade Services

Each of the trade services available from the CTC should be capable of offering new benefits to Canadian business. Specifically, we see seven functions that will compose the corporation's basic service offering:

1. *Market intelligence* Few firms in Canada can sustain the cost of a world-wide information network, yet we have been told that one of the Japanese trading houses has an intelligence system second only to that of the Pentagon. In building its own competitive system, the CTC may use the ITC market intelligence system, but should focus on the ultimate goal—the trade transaction. To this end, the system should be able to draw on many sources of information, synthesizing and evaluating opportunities so that orders can be captured. Access to such a system and the expanded knowledge of new markets it can provide at a fairly reasonable cost will represent a significant benefit for most Canadian businesses.

2. *Marketing and sales* The proposed corporation must operate a strong marketing and sales network. It must have the ability to develop market and product strategies and to integrate the components of Canadian and foreign supply into a total package. It must have the product expertise necessary to represent products first-hand in the markets and know how and when to transmit operational and strategic information to suppliers. The corporation must also be able to make the sale; this will require the freedom to negotiate, the ability to agree to

terms that can be met and the full confidence that the terms of the deal, once made, will be met.

3. *Procurement* The Canadian Trading Corporation should have the capacity to take title to goods and even to complete the transaction at the supplier's loading dock if required. Further, the corporation must be able to assure the quality of goods shipped and possess the clout to ensure that customers receive satisfaction if problems arise, even to the extent of requiring performance bonds. These capabilities may exist to a limited degree in Canada today; however, several witnesses told us that existing trading houses have neither the financial strength to take title to goods nor the customer base required to attract and hold good suppliers.

4. *Transportation* Any small or medium supplier is at the mercy of international transportation organizations when negotiating freight rates. The CTC, being well capitalized, engaged in two-way trade and backed by government, will be in a much stronger position to bargain for competitive freight rates for Canadian suppliers. Moreover, the corporation should also be able to influence timing; with present interest rates, this can represent a significant cost. Finally, the corporation should be well-versed in trade documentation, including the insurance, customs and forwarding requirements that must be met in different countries. Taken together, the transportation package offered by the Canadian Trading Corporation will substantially improve the competitiveness of Canadian firms in foreign markets.

5. *Storage and service* One major impediment to Canadian firms entering foreign markets is their inability to serve a customer beyond the first order and the attendant problems of shipping small quantities on a regular basis and providing replacement parts when required. By establishing a lasting presence and a warehousing capability, the corporation will be able to provide Canadian firms with facilities that strengthen their capacity to compete on a continuing basis in foreign markets.

6. *Financial support* The Canadian Trading Corporation will be able to offer a new financing perspective to Canadian business. Once the corporation has placed an order, a supplier will have the necessary collateral to proceed with normal banking arrangements, despite the fact that the product may be destined for foreign markets. Moreover, completing the domestic transaction by transferring title before shipment will improve the cash flow position of supplier companies. The corporation will of necessity be involved in foreign exchange transactions and will have to have the expertise to carry out this important function. Such expertise will permit the corporation to assume the attendant risks, which small and medium-size businesses might not be prepared to do for themselves. However, it should be recognized that the CTC will not provide financing to supplier companies.

7. *Government-to-government transactions* Government-to-government dealings are a growing dimension of trade. Witnesses told us that government involvement can be the key to capturing expanded export opportunities. Including the capacity to deal on a government-to-government basis in the mandate of the Canadian Trading Corporation would enable it to be of assistance while continuing to play a commercial role. We were told by people outside the country that Canada's reputation for decency and credibility in international dealings is an enormous asset. We should be capitalizing on it, using government-to-government dealings to expand Canadian trade.

As the CTC gradually builds its ability to provide this comprehensive set of services, any exporter or importer should be able to look to the corporation for assistance in one or all of the areas just described. However, we do not expect, nor do we endorse the idea, that all such services be provided in-house. When we speak of capability, we mean the ability to identify those companies with trade experience who are willing to be part of an extended network of skills on which the corporation can draw. In some areas, such as transportation, procurement, financing or quality assurance, the corporation may need to establish an internal core of expertise. But we emphasize that the purpose of the trading corporation is to expand exports by becoming a commercial trading operation.

The benefit of a full-service Canadian Trading Corporation is that companies without the motivation to sell in foreign markets will be able to make sales to the CTC as if it were simply another domestic customer. The CTC will then take on the risk of dealing with foreign customers in distant markets. Because trading expertise will be concentrated in the corporation, we expect the trade process to be more efficient and less costly than if each company were trading on its own behalf. Once the corporation builds lasting relationships with suppliers, we would expect to see the emergence of a new level of confidence that would encourage suppliers to invest in production capacity for export sales. This would be an improvement on the present situation where suppliers often use export sales to dispose of excess production when domestic demand falls off.

Capital Projects Services

The capital projects component of the Canadian Trading Corporation should pursue a parallel course in developing the ability to deliver a full range of services. In time, the corporation should be able to supply or secure all the necessary activities for capital project exports. These include:

1. *Marketing and sales* The capital projects group should use several intelligence sources to identify market opportunities and direct its sales efforts—the foreign sales offices of the CTC, the ITC market intelligence network, specific leads that other Canadian firms will provide on larger projects and finally, the group's own contacts throughout the world. The wide range of opportunities thus identified will then have to be evaluated to determine which represent the best chances before the direct sales effort begins. Once an opportunity has been identified and is being pursued, we would expect the capital projects group to take the sales lead, with the corporation's market intelligence experts playing a supporting role.
2. *Deal-making* The capital projects group must have special expertise in structuring and negotiating deals, a knowledge of world sources of financing, the ability to assemble the best team of skilled experts, an aptitude for creative financial packaging and, behind them, the corporate stability to reinforce the negotiating process. Part of the skill of putting deals together lies in the ability to attract the right engineering and construction firms within Canada or outside and to sub-contract with them to carry out key parts of the project. The capital projects group will have to be able to put together a project by using Canadian firms, the capital goods trading expertise of the CTC itself and foreign suppliers of goods and services not available from Canadian sources.
3. *Project management* Once a deal has been successfully negotiated, the capital projects group must retain an active involvement in the management of the project. It is expected that the Canadian Trading Corporation will assume full liability for the project and bear the risk of ensuring that the individual components combine to meet the requirements of the total project. With so much capital and reputation at stake, we believe that it is essential for the CTC's capital projects group to have the capacity to provide the executive direction, including the financial management, of all the large capital projects it undertakes.

A FOCUS ON GROWTH MARKETS

As we have indicated, world trade patterns have changed. Europe and North America are no longer the growth leaders; they have been supplanted by strong economic development in the countries of the Pacific Rim, Latin America and the Middle East. The result is intense competition to establish trading bases in these new and growing markets.

In many countries rapid growth means that domestic production cannot supply all product needs; external sources must be sought. Growth also means that companies are competing for new business rather than struggling against entrenched competitors where the odds of winning are slim. Growth also provides an opportunity to build new marketing channels and establish inroads for pursuing more business. In short, the competition goes after growth areas because that is where the opportunities lie.

We believe that the strength of the Canadian Trading Corporation will derive from the competence it builds up in its foreign operations. Therefore we cannot emphasize strongly enough that the identification of growth market prospects and the creation of a selected number of foreign-based operations must be a first priority of the corporation. We recommend that:

The Canadian Trading Corporation give the highest priority to establishing foreign-based operations in selected growth market regions.

Our purpose in making this recommendation is two-fold. The corporation must move immediately to establish some presence in the markets it will serve. A preoccupation with domestic organization and supply would be a misallocation of effort. The sales will be made in offshore markets; it is therefore essential to establish competence in those markets at the outset—to understand what they require and how the Canadian product portfolio can be marketed and delivered to meet these requirements. We also want to stress that the focus of the corporation should be on emerging markets with good potential where Canadian business is currently under-represented.

We do not want to rule out corporation activity in Europe and the United States. In some situations the corporation may be the most appropriate vehicle for putting together and closing deals in those markets. Nevertheless, our present marketing structures lean heavily toward these traditional markets; in today's trade environment this is no longer a winning stance. The Canadian Trading Corporation will only offer significant benefit to Canadian business and enhance our trade performance if it helps forge new trade channels and links that expand our current trade horizons.

We expect the corporation will draw heavily on existing Canadian trading strengths in each of these regions. In some markets, a suitable base for building an aggressive trading operation may not exist; it could be to the advantage of existing firms and the corporation to work together in a market. One point is clear: our trade performance suffers because we have not committed the same level and kind of resources to export markets as have our competitors. We are, therefore, less concerned with increasing competition between Canadians abroad than with improving the capacity of existing players to compete. We view the Canadian Trading Corporation as an essential contributor to the achievement of this goal.

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CHAPTER SIX

Corporate Structure, Financing and Start-up

Chapter 6

Corporate Structure, Financing and Start-up

In previous chapters we discussed the requirement for a Canadian Trading Corporation and recommended a role for the corporation that meets that requirement. In this chapter we deal with the specific questions of corporate structure, financing and start-up surrounding the establishment of the corporation.

CORPORATE STRUCTURE

The shared or mixed enterprise is a hybrid that accommodates both the public interest concerns of government and the commercial orientation and interests of private shareholders. As a substantial shareholder, government will have to ensure that the corporation has a clearly-defined mandate and that it is carried out. At the same time, government involvement in the corporation must not interfere with its operations or deny the rights of other shareholders. A corporate structure that serves the interests of all shareholders would include the following basic elements:

1. *Clearly-defined mandate* If the corporation is to represent the public interest, this must be clearly defined from the outset. Shareholders will want to understand fully the objectives and rules governing their participation and how the public interest is to be interpreted before they invest. A mandate set out in unequivocal terms will help to avoid future uncertainty about what the corporation was intended to do.

2. *Responsible board of directors* The board of directors of a shared enterprise bears responsibility for the direction and control of the corporation. As in any corporation, the board is ultimately accountable and its members liable; board members must therefore act within the mandate and in the best interests of the corporation.

   Provision should be made for shareholders to appoint directors in proportion to their ownership positions. Although shareholders will govern the make-up of the board, the ultimate responsibility of members, once appointed, is to the corporation; they should represent nothing other than the best interests of the corporation. From the government's position, this means that the Minister designated as shareholder will be able to exercise influence through the process of appointing directors but not through any special relationship with the board itself.

   We would expect the board to be made up of 10 or 12 directors; a relatively small group is required so that the board can mantain an active influence on the direction and management of the corporation.

3. *Separate positions for chairman and president* It is our view that there should be both a chairman and a president of the corporation. The chairman should be elected by the board of directors, but the selection process should include consultation with the designated Minister and representative shareholders. The position of chairman is required to ensure that the corporation, through the board, fulfills its shareholders' requirements. The chairman's duties and responsibilities—maintaining effective relationships with shareholders, ensuring that the mandate of the corporation is carried out, running the board and its committees, rendering an account on behalf of the corporation and reporting to shareholders—require the separate attention of a highly competent individual.

   The president should be the chief executive officer, responsible for the care and management of the corporation. The president should be appointed and, if necessary, removed from office by the board of directors. The Royal Commission on Financial Management and Accountability (Lambert Commission) described the necessary separation between the board and the CEO in this way: "One of the most important responsibilities of the board is to put management in place, monitor and support management's performance, and to change management when required. If the integrity of the board's responsibilities in these areas is to be preserved, then they should not be shared. In turn, management must be made responsible and accountable to the board of directors."*

4. *Generally-accepted budgeting, reporting and control procedures* Within the framework just outlined, the corporation should be managed and controlled according to the best private sector practices and standards. The proposed enterprise should have neither budgeting control from nor operational liaison with government departments or central agencies.

   The shared enterprise approach can work only if disciplined corporate procedures are followed and if the board's legal responsibilities are upheld. This means that information available to the designated Minister should be the same as that afforded any shareholder. It also means that corporate reporting and control procedures, including operating and capital budgeting processes, audit committees and generally accepted accounting procedures, must be put in place, so that the board is indeed an accountable and legally liable entity. All shareholders will have equal recourse to the board with respect to the implementation of the corporation's mandate and the performance of its duties and responsibilities. Neither the Minister nor the central agencies of government should have responsibility for or an influence on the planning, budgeting, auditing or financial management and control procedures of the corporation.

5. *Good people* Accountability regimes, corporate structures and the best of intentions may be of little value if the corporation does not succeed in retaining the right kind of people. All the evidence before the Committee suggests that Canada is short of personnel with trading skills and experience—some companies have had to go to Europe to find staff. Nor do we have the on-the-job training programs that other countries are using to develop trading personnel. Our view is that if the corporation makes a serious commitment, the right kind of people can and will be attracted, even though it may be difficult at the start. The willingness of Trade Commissioner personnel to accept foreign assignments demonstrates that Canadians are prepared to enter the international business environment and do a good job. Nevertheless, the business skills that trading company personnel must possess are quite different from those required in the Trade Commissioner Service. Marketing, selling, negotiating and deal-making are skills that have been highly developed by many of Canada's trade competitors and their institutions, but in Canada they remain in short supply. The manpower problem could therefore, represent a constraint, but it must be overcome by the proposed trading corporation and by Canadian business in general if Canada is to maintain a competitive presence in world trade.

Another aspect of corporate structure concerns the ability to create or acquire subsidiaries. There are several alternatives for establishing the corporation's foreign operations, ranging from joint ventures with other partners to subsidiary corporations to a divisional structure. We cannot prejudge this question, but believe that the corporation should be able to enter into subsidiary arrangements as long as they are consistent with the corporation's mandate and receive board approval.

We do not intend to deal here with the details of the Canadian Trading Corporation's organizational structure. These decisions are more properly the purview of the chief executive officer, once appointed. Although the Committee was encouraged to do so by its order of reference, to engage in a detailed discussion of this aspect of the corporation would be to run the risk of diverting attention from strategy and corporate fundamentals, where there are critical issues to be resolved.

* Royal Commission on Financial Management and Accountability, *Final Report*, p. 341.

FINANCING

One of the most serious problems that Canadian exporters face, whether in general trade or capital projects, is insufficient financing. Trade organizations simply have not achieved the scale necessary to provide sophisticated market intelligence, effective sales coverage of several markets, or even the required expertise in key trade functions. Financial considerations have also placed limits on the size of transactions or capital projects that can be undertaken. Lacking the scale and diversity to invest now for future returns, most exporters have sought government support to improve the results they can achieve with existing operations.

Your Committee is convinced that the key to success for the Canadian Trading Corporation lies in establishing an adequate capital base at the outset. By this we mean a capital base that will permit the corporation to establish trading offices in target markets, attract key personnel, furnish essential systems, and take on a number of large projects and sizeable transactions at the same time. As in any new venture, the Canadian Trading Corporation must be sufficiently well-financed to survive the start-up period until such time as it can capitalize on investments made and costs incurred. As a result, initial investment in the corporation must be well in excess of its immediate operational requirements. The equity base established at the beginning must be able to meet the needs of the corporation five years from now.

In terms of corporate objectives, we anticipate that in five years the corporation could be engaged in five or more capital projects, each with a value of $200 million more. In the general trade area, it is not unrealistic to expect the value of the corporation's combined export and import volume to be in the range of $1 billion. Thus, it is not unreasonable to foresee the Canadian Trading Corporation developing into a $2 billion business within five years. These figures may appear large when compared with the sales of existing manufacturing or capital projects organizations, but by world standards it is not a large enterprise. Nor is it the sole solution for capturing the trade opportunity that we pointed to in Chapter 2. Nonetheless, if the corporation can achieve a sales level of around $2 billion, it will be well on its way to becoming a significant component of Canada's trading capability.

We estimate that an equity base of at least $300 million will be required to enable the corporation to begin operations and to make the investments necessary to sustain it through the first five years and achieve the objectives we have identified. Our data on working capital to equity ratios indicates that the capacity of a company engaged in general trade and capital projects to finance its transactions is somewhere between five and ten times the capitalization of the corporation. Thus, a $300 million equity base should be sufficient to support a business volume of about $2 billion.

The corporation will not require this amount of capital in the early stages of development. Nor will it require capital to invest in plant or equipment as would a manufacturing company. The trading company needs a capital base so that it can raise working capital and undertake large projects with the assurance that it can sustain the associated risks. As a result, the full $300 million worth of equity capital will not be required when the corporation starts off, but as its business is built, the level of equity capital will have to be increased to at least that level. Moreover, part of the capital base may only be required in the form of guarantees, set out in the initial shareholder's agreement, that investors will add to the capital base if necessary. However, a basic commitment must be made at the outset that the capital will be available if the corporation performs according to plan. In this way, the corporation will have the confidence to carry on business knowing that it has the financial backing of its shareholders. Therefore, we recommend that:

The Canadian Trading Corporation be established with an initial equity commitment by the shareholders of at least $300 million.

The federal government should assume a 40-50 per cent equity position in the corporation, with private investors providing equity capital for ownership of the other 50-60 percent of the corporation. The private investors we have in mind are a few large corporations, in particular the banks and a number of large international businesses. We expect private sector participation to involve about ten corporate investors. We considered, but ultimately rejected, the possibility of encouraging individual investment at the early stages of the corporation. Once the corporation establishes a successful track record, and if it requires further equity participation, then broadening the investor group should be considered. We recommend that:

The federal government invest in a 40-50 per cent equity position in the Canadian Trading Corporation and that major corporations invest in a 50-60 per cent equity position.

Tax incentives or preferential shares might be used to encourage the necessary corporate participation. Corporate performance goals could be established, with benchmarks for gradually reducing the government's equity position and bringing in additional private sector investment as goals are reached. Several other financial considerations will also have to be settled in arriving at the most suitable arrangement between business and government. Because the agreement among investors will demand negotiation and flexibility, your Committee can do little more than suggest directions; hard and fixed proposals from us would do little to advance the process at this stage. Nonetheless, we believe that incentives may well be required to attract the essential private sector investment.

START-UP

The Canadian Trading Corporation could be established through enabling legislation or by incorporation under the *Canada Business Corporations Act*. We believe that the legislative approach is best. Because government is being asked to become a substantial investor in the corporation, it is imperative that Parliament sanction the legislation setting out its basic objectives, powers and duties. This endeavour requires a national commitment; bypassing Parliament might undermine that commitment from the start. Moreover, Parliament has given considerable attention to the study of trade and trading institutions, particularly through the work of this Committee; we hope that this would help to expedite passage of a bill to establish the Canadian Trading Corporation.

Having endorsed the establishment of the Canadian Trading Corporation through legislation, we have identified two alternatives: major amendments to the existing *Canadian Commercial Corporation Act* or a new act of Parliament.

In terms of its purposes and powers, the *Canadian Commercial Corporation Act* could constitute a suitable framework for the Canadian Trading Corporation. Sections 4 and 5 of the Act now state:

Purposes:

"(a) to assist in the development of trade between Canada and other nations;

(b) to assist persons in Canada

(i) to obtain goods and commodities from outside Canada, and

(ii) to dispose of goods and commodities that are available for export from Canada;

(c) to exercise on behalf and under the direction of the Minister any powers or functions vested in the Minister by any other Act or further exercise of which it may be employed under any other Act."

Powers:

"(1) The Corporation may do such things as it deems expedient for, or conducive to, the attainment of the purposes set forth in Section 4; and, for greater certainty, but not so as to restrict the generality of the foregoing, the Corporation may carry on the business of

(a) importing goods or commodities into Canada; and

(b) exporting goods or commodities from Canada, either as principal or as agent, in such manner and to such extent as it deems advisable to achieve the said purposes."

Although the legislation confers a trading corporation mandate, it has not been exercised; the Canadian Commercial Corporation (CCC) has operated primarily as a procurement agency for foreign governments in the defence products area.

New initiatives in government-to-government contracting and capital projects are part of the CCC's recently redefined role, but it continues to fulfill only part of its mandate. Nor is it a commercial corporation in terms of its operations. The CCC is funded through appropriations and is closely linked to government systems of financial management and control.

The CCC's legislation and method of operation would have to be altered substantially if it were to be transformed into the Canadian Trading Corporation. The financial structure would have to be changed to provide for private and public equity participation. The Minister's powers with respect to direction, reporting and intervention in the financial affairs of the firm would have to be rescinded. As well, responsibility for electing directors and appointing management and auditors would have to be transferred from the Governor in Council to the board of directors, and separate positions for the chairman and president would have to be created.

Another area of concern in converting the Canadian Commercial Corporation to a shared enterprise is the non-commercial nature of defence procurement. Unless this activity became a profit-making enterprise—or were returned to the Department of Supply and Services—the seriousness of the commitment to making the Canadian Trading Corporation a business operation would be suspect and could stand in the way of attracting private investment to the corporation.

At the same time, introducing entirely new legislation could also present problems. In effect, the result would be two trading companies—one a government-owned corporation, the other a shared enterprise. The potential for overlap and duplication is too serious to be overlooked. Nevertheless, because the Canadian Trading Corporation must be run with the best private sector leadership, standards and procedures, we have recommended the adoption of the shared enterprise approach as a corporate form. We must also emphasize that the corporation is a totally new institution, dedicated exclusively to improving Canada's trade performance. It would be misleading to view it simply as an extension or outgrowth of the Canadian Commercial Corporation. Our recommendations for the purpose, structure, ownership and size of the new corporation are—and should remain—totally distinct from those of the CCC. As a result, your Committee believes that the Canadian Trading Corporation should be established by a new act rather than by amendments to the *Canadian Commercial Corporation Act*. At the same time, the *Canadian Commercial Corporation Act* should be amended to eliminate the potential for duplication and to reflect more accurately the duties of a defence procurement agency for foreign governments. We recommend that:

The Canadian Trading Corporation be established by a new act of Parliament;

and that:

The *Canadian Commercial Corporation Act* be amended to legislate the powers, duties and responsibilities of a defence procurement agency for foreign governments and to eliminate any overlap with the proposed role and functions of the Canadian Trading Corporation.

Your Committee is fully aware that we have outlined an ambitious task for government, for potential investors, and for the Canadian Trading Corporation. We have described a comprehensive general trading and capital projects role that includes, in addition to exporting, a mandate to import and to engage in complex trade transactions. Our recommendations also envisage the creation of a corporation of a scale and scope for which no model exists in Canada. We must therefore caution those responsible for the corporation to proceed selectively and not to attempt to be all things in all markets at the outset. We believe that start-up priorities should include launching the capital projects business according to the best available opportunities and establishing a general trading operation in one, or at most two, regions—possibly the Pacific Rim and perhaps Latin America. Building on the experience gained in this phase of its operations, the corporation will be able to evolve to fulfill the comprehensive mandate we have described.

At the same time, we must stress the urgency of adopting and implementing our recommendations and beginning the task we have outlined. The Canadian Trading Corporation will require time to develop and make its competitive presence felt in world markets. Yet every indication is that time may be running out. The world struggle for export growth is a real battle; only if business and government join forces in a concerted effort can we hope to revive our industrial competitiveness. The Canadian Trading Corporation can make a significant contribution to this effort.

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CHAPTER SEVEN

General Measures for Strengthening the Trading Community

Chapter 7
General Measures for Strengthening the Trading Community

In previous chapters, your Committee proposed the establishment of a Canadian Trading Corporation, which will play an important role in expanding our trade capability and improving our export performance. At the same time, we have come to understand and appreciate the problems that exist in our trading sector and firmly believe that additional measures can be taken to strengthen the ability of individual firms to increase their contribution to our export performance.

The proposals in this chapter go beyond the Committee's mandate. However, resolving the question of a national trading corporation required a full examination of the existing situation in the trading community. In outlining their problems, many witnesses advanced proposals that are relevant to the trading community in general and to their ability to perform a strengthened role. In reviewing their suggestions and recommendations, we identified several areas that we believe merit additional support and action. In particular, this chapter addresses trade information, export funding, selected export programs and incentives, and the need to make trade a national priority.

TRADE INFORMATION

Trade information is vital to international commerce. At the business level, market intelligence enables firms to know where opportunities are and what it takes to capture them. Businesses also depend on information relating to trends and competitive developments to set strategies and map out tactical plans for foreign markets. Government needs information or market intelligence to connect domestic suppliers with buyers in foreign markets. It also uses trade information to develop and adjust policies and programs aimed at guiding and stimulating the export process.

No other factor in trade is more important than market intelligence. Competitor nations have long recognized this fact and through their agencies and firms have built information networks that serve them well. Canada has also recognized that information is critical to operational, strategic and policy effectiveness. In the view of the Committee, however, Canada has moved too slowly; we have not committed the resources necessary to close the competitive gap with other nations. Our most serious concerns relate to market intelligence and basic policy information.

Market Intelligence

We have relied on the trade commissioner "old boy" network and on trade directories for market intelligence. That approach was appropriate to a trade position based on commodities sales to traditional markets. However, changing markets and new trade techniques dictate a change in our market intelligence system. Newly evolving forms of trade, such as third-country and countertrade, demand knowledge of a wide range of products and markets. Further, shifting market opportunities have placed a new premium on the quality of market intelligence. Whereas in the past we remained on familiar terrain, today we frequently enter markets where Canadian experience and knowledge are limited.

The willingness of small and medium business to export is particularly dependent on a good public market intelligence system. In most cases, these businesses have neither the resources nor the demonstrated ability to develop their own market intelligence. The lack of motivation to export exhibited by companies in this category is partially attributable to the absence of good information about foreign markets and their profit potential.

Canada's existing market intelligence may not be capable of supporting our emerging trade performance goals. There are pockets of information of superior quality relating to world markets and domestic supply capability, but we do not have a system that successfully connects domestic and foreign information bases.

Our diagnosis is that Canada is caught in a transition phase between reliance on a network of personal contacts and directories, and computerized information-gathering and retrieval. The Business Opportunities Sourcing System (BOSS) is expected to move ITC's market information base into the computer age but during its development users of the system are being inadequately served. It is always difficult to build confidence in a new system and to wean clients away from old methods, but in the case of BOSS the situation has been aggravated by a faltering start. Although BOSS has been under development since 1978, budget constraints have kept its rate of growth down to a point where there are now only 6000 companies, out of a possible 30,000 or more, on file. Moreover, information on file is incomplete.

BOSS's clients have been using trade directories to supplement their information needs. However, the most recent trading house directory was published in 1975 and the available general product directories are just as old. The net effect of BOSS's failure to attract and serve the trading community is that attention has been focussed on the inadequacy of traditional forms of information instead of on the information delivery potential of more up to date technologies.

Our competitors use systematic information gathering to find market opportunities, to assemble packages of goods and services and to arrange financing. Canada needs a market intelligence system designed to rival those of our competitors but built on our existing information base. We need a system that provides information on foreign and domestic markets and links the two effectively. The Committee therefore recommends that:

The Department of Industry, Trade and Commerce substantially increase its commitment to rapidly developing and implementing a world-class market intelligence system.

The first step in achieving a world-class market intelligence system is the preparation and approval of a comprehensive plan and budget. While parts of a plan and budget exist, they lack the clarity in direction, firmness in timing and level of resource commitment that we believe essential to completing the job. Examples of the approaches that should be considered include:

1. *Building on existing federal trade information-gathering operations* The Department of Supply and Services has a computerized product sourcing file for government procurement purposes that has 60,000 listings. Steps to integrate this data base with BOSS have been tentatively initiated and should be accelerated. Information-gathering activities performed by the Trade Commissioner Service (TCS) should be defined and structured to meet the needs of a more comprehensive information base. It might be possible for the TCS to conduct this specialized research on a fee-for-service basis as do comparable trade services in some European countries. Trade information routinely gathered by federal agencies such as CIDA could also be funnelled to a central body for inclusion in a comprehensive information base.

2. *Filling in trade information gaps* Information available at the municipal, provincial, federal and international levels should be accessed, consolidated, and fed into the system. To build a comprehensive information base comparable to what JETRO* offers Japanese business, a review of all published trade information sources—official reports, position papers, statistical reports, newspaper and magazine articles, directories and brochures—should be conducted. Co-operative data-gathering could be undertaken with trade associations and groups such as the Canadian Chamber of Commerce and the Canadian Export Association. Complementary public or private research and survey projects could be initiated.

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*JETRO is a Japanese government-sponsored trade intelligence system designed to meet the needs of small and medium businesses. Subscription fees and payment for special services account for 20-30 per cent of JETRO's operating expenses.

3. *Connecting with target users* Small and medium business require a simple method of access to the information in the system. Big business, trade associations and groups and all levels of government might also be expected to be major users, and some form of subscription arrangement should be seriously explored.

4. *Reviewing and updating the data* The Committee found that data on file was often inaccurate and frequently incomplete. Publicity about the availability of comprehensive market intelligence may encourage those on file to update their files and prompt those who are not to participate. At present, however, insufficient effort is devoted to either obtaining information or expanding the base to ensure that it is comprehensive.

Centralization and consolidation are of real benefit to market intelligence. In addition to improving efficiency, a well co-ordinated market intelligence system can result in savings by reducing the time and effort necessary to secure information. Similarly, when all information is available in a centralized system, users can make the kind of quick responses to market opportunities that competitive situations require.

Basic Policy Information

The absence of the basic policy information is a serious shortcoming in the export trading area. Straightforward information, such as the export performance of small and medium-sized business or a profile of existing trading houses, either did not exist or was not easily accessible. In other key areas—world markets for capital projects, the form and nature of multinational exports—data were either sparse or out of date. We believe that the work of this Committee has contributed to advancing the policy information base in the export trading area.

Clearly, ITC must concentrate more analytical effort on policy and strategic matters relating to trade. Canada is trying to hold its own in a world where competitive analysis is crucial to decision-making. There are indications that much greater emphasis is being placed on international marketing within ITC, but in the areas the Committee examined we think the commitment can go much further. ITC should be monitoring changes in patterns of conduct so that decisions can be shaped by the implications of those changes. Perhaps by indicating our dissatisfaction with the existing level of commitment of resources and the resulting information base, your Committee has made sufficient comment about the quality of available policy information. Decision-markers who need this information and those who are responsible for supplying it must take the next step.

EXPORT FINANCING

The Export Development Corporation (EDC) offers financing and insurance services to Canadian exporters and to foreign buyers of Canadian goods and services. According to the Chamber of Commerce survey on exporting, 63 per cent of the businesses polled knew of EDC's services and roughly 29 per cent used then. Due to its involvement in the financial aspect of export transactions, EDC is well known to the export community.

Insurance

Canadian businesses frequently request that EDC expand its insurance offerings to make them equivalent to those offered by other trading countries. France, Italy, Sweden and the United Kingdom offer coverage for increases in production costs if the inflation rate exceeds a certain level—usually around seven per cent. Currency fluctuation or exchange rate insurance is offered by all the developed countries except the United States, Australia and Canada. The Federal Republic of Germany's approach to exchange rate coverage is particularly ingenious: exchange rate losses in excess of three per cent are reimbursed and exchange rate profits in excess of three per cent accrue to the insurer.

Export risk insurance available through EDC could be expanded to offer a more complete package. Inflation coverage and currency fluctuation insurance in particular are available to exporters in most other developed countries and EDC has already investigated the requirements for providing these services. The Committee therefore recommends that:

The Export Development Corporation investigate the applicability to the Canadian situation of insurance schemes offered in other countries for (a) foreign exchange rate fluctuations and (b) cost increases due to domestic inflation.

Short-Term Financing

Canadian traders have also expressed a need for short-term export financing. Most traders are now forced to rely on relatively slow payments of accounts receivable for the bulk of their current financing, since commercial lenders prefer to lend against fixed rather than current assets. EDC provides insurance coverage for short-term trade, but the short-term financial requirements of trading companies must still be met through internal funding and accounts receivable.

The Canadian banking community is beginning to provide exporters with new forms of short-term financing. Development of such short-term instruments as buyer's credits, the discounting of trade papers denominated in foreign currencies, and fixed-rate export financing have been suggested. The potential for an expanded role for Canadian factoring houses in short-term financing has been identified and should be pursued. In this instance, private sector initiatives are promising and may lead to solutions to problems in the short-term financing area.

One further step could advance this process—providing partial loan guarantees on loans secured by orders on export receivables. EDC already appears to have the power to guarantee loans and there have been preliminary discussions about such a service with the banking community. The Committee therefore recommends that:

The Export Development Corporation provide partial loan guarantees to financial institutions for short-term loans to exporters secured by either orders or export accounts receivable.

Long-Term Financing

The Committee received complaints that EDC's long-term rates are not internationally competitive from witnesses in Ottawa, witnesses in private regional meetings, and even in responses to the write-in question on the Chamber of Commerce survey on exporting. In trying to respond to those complaints, the Committee has learned that competition in long-term financing takes many forms: the apparent interest rate can be lowered by increasing the cost of the product; the burden of high rates can be offset by offering longer repayment terms; even the currency in which the loan is to be repaid may have an influence on the customer's response to a particular offering.

Through the use of parallel financing—a financing package available to countries eligible for CIDA aid—EDC has reduced effective interest rates by offering a low-interest aid loan paired with a conventional export loan. Since January 1981, a budget for *crédit mixte*, a blending of aid money with conventional loans, has also been available for situations where the competition is using the same approach.

The high North American interest rates reflected in EDC's current rates are certainly a disadvantage. Canada has, however, endeavoured to be competitive by offering extended terms, an approach that has met with success in some instances. Moreover, with the addition of *crédit-mixte* to our financing alternatives, it would appear that we can now be even more competitive.

PROGRAMS

The Program for Export Market Development (PEMD), administered by ITC, and CIDA's Canadian Project Preparation Facility (CPPF) are two examples of programs designed to contribute to improved export performance. PEMD was designed to provide Canadian business with a specific risk-sharing partner for export expansion—the federal government. The risks shared included bidding costs, market identification, trade fair participation and export consortia formation. The program functions like a market development insurance program, with repayment of the government contribution conditional on revenue being generated by the new export activity. The CPPF is intended to help Canadian consulting firms increase their share of world projects in developing countries by providing funds for pre-feasibility studies.

The doubling of the PEMD budget announced in January 1981 is an indication of the demand for the program. With this injection of funds the Committee expects to see those sections of PEMD that have never been funded made operational. In particular, PEMD F, the provision of funds to business for developing and implementing a foreign market penetration plan, deserves emphasis. COFACE, the French export insurance agency, offers foreign market development insurance similar in effect to PEMD F. Canadian business needs the same support and could derive significant benefit from a comparable program.

The Canadian Project Preparation Facility aims at the same export process as one of the PEMD sections—PEMD A. Two such similar programs are confusing for potential users. Moreover, a system of cross-checks is required to reduce overlap between the programs. CPPF and PEMD A fall under different departments and are funded from different budgets. It appears to the Committee that integrating the two programs could have several benefits—a larger pool of funds, clear direction and reduced administrative costs. The mechanics of accomplishing such a task and realizing those benefits warrant further investigation. The Committee therefore recommends that:

The Minister of State for Trade in consultation with his colleagues consider the advisability of integrating the Program for Export Market Development and the Canadian Project Preparation Facility.

An Export Education Program

Insufficient knowledge about foreign markets and about how to conduct international business are significant deterrents to the development of a Canadian export awareness. The development of a market intelligence system is one step toward correcting those deficiencies; practical education for exporters is another.

A number of excellent trade education courses are available. Canadian universities, community colleges and trade associations offer a wide selection of courses in international business and export management. There are short courses on how to export and academic courses on international business. But there are no courses on how to be an exporter.

The one and two-year courses in export trade offered in Finland exemplify what we mean by training in how to be an exporter. Course content includes language training and lectures as well as field work, all oriented toward the acquisition of practical skills. Government provides 50 per cent of the funding of the course, with the other half covered by tuition fees.

PEMD is an appropriate vehicle for encouraging the provision of practical courses in export trade. Part of the intent of PEMD is to give Canadians a chance to learn about foreign markets. PEMD already includes programs directed at private industry, industry associations, marketing agencies and non-profit organizations; an educational component would be consistent with this package. The Committee therefore recommends that:

The Program for Export Market Development be expanded to include cost sharing or forgivable loans for the development expenses associated with offering practical education in export trade.

Trade Specialists For Hire

Many Canadian companies do not know if their products have export potential and do not have the resources to find out. At the same time, there are companies who do not have the sales volume to support the services of an export manager. The scale of operation of the companies involved does not permit them to hire specialized personnel capable of assessing foreign market opportunities or managing export initiatives. In those firms the volume of foreign business may simply never justify the permanent employment of an export manager, even though that service would be instrumental in the development state of various markets.

A program offering export specialists for hire on a shared cost basis could assist companies in assessing the potential of their products in various foreign markets and securing actual export orders and ensuring delivery of the goods. In Sweden the Committee encountered both types of program operating with the joint sponsorship of business and government. Under the Swedish Export Diagnosis Program, companies have access to consultants who specialize in assessing the export potential of small and medium businesses. Once that potential has been established, personnel to assist in planning and implementing entry to export markets are available through an Export Manager for Hire Program. Similarly, the Finnish Export Manager for Hire Program provides private industry with a pool of eight experts who can be hired for terms ranging from one week to a year.

Access to a pool of specialists skilled in export diagnosis and management would allow Canadian businesses to defer financial investment in exporting until after the potential had been established, while being able to hire the services of trained export managers would allow companies to purchase a level of expertise beyond normal budget allowances. In effect, small and medium-sized companies hiring trade specialists from the pool would have access to and control over resources normally available only to much larger organizations.

The efficiency of government trade support programs could also be improved by the use of export diagnosis experts. At present, for example, PEMD administrators must decide on applications without particular reference to the export potential of the products involved. Nor do current PEMD rules allow for systematic encouragement of companies with potential. Hiring export diagnosis experts to assist in focussing the program on companies with potential would contribute to the effectiveness of the program. The Committee therefore recommends that:

The Department of Industry, Trade and Commerce develop export diagnosis and export manager for hire programs, to be operated either by the federal government alone, or in conjunction with a private association or group.

INCENTIVES

Incentives to improve export performance can be directed toward either the prospective seller or the prospective buyer. Tax incentives may be offered to domestic business, while foreign buyers can be encouraged to increase purchases through mutual assistance programs administered by CIDA or favourable loan arrangements administered by EDC.

Domestic Incentives

A number of witnesses proposed tax incentives to stimulate exports by small and medium businesses. Several suggested a measure already addressed by recent changes in the personal income tax provisions of the *Income Tax Act*. The February 1981 amendment provides a partial tax exemption for technical employees of Canadian companies working overseas for more than six months; the taxpayer's overseas taxable income is reduced by 50 per cent up to a maximum reduction of $50,000 annually. This amendment is expected to reduce labour costs on foreign contracts and improve the competitiveness of Canadian firms operating abroad.

Most of the tax measures suggested to the Committee were in the area of corporate taxation. We examined these possibilities:

- providing an income tax deferral plan such as the American DISC* program
- extending the tax reduction available for manufacturing and processing profits to include export services income
- deferring tax liability on export accounts receivable until payment has been received

*Domestic International Sales Corporation

- creating a 150 per cent tax deduction for export development expenditures
- allowing Canadian companies to calculate their foreign tax credits on a global rather than a country-by-country basis
- extending tax carry-back and carry-forward provisions on export sales
- permitting the creation of special tax-exempt Canadian subsidiaries for business abroad
- allowing the amortization of foreign equity investment in non-tax treaty countries as a deduction against income
- including the financing of the trading inventories of small and medium businesses, trading companies in particular, under the provisions of Small Business Development Bonds.

In our view, tax reductions have the potential to stimulate export activity. Unfortunately, almost every tax proposal before the Committee runs counter to the General Agreement on Tariffs and Trade (GATT). One of the principles of GATT is that tax reductions applicable solely to income from exports distorts normal patterns of world trade. Since 1948, direct tax incentives that reduce the price of export products, other than primary products, have been prohibited by GATT.

Your Committee is sympathetic to the views of those members of the trading community who voiced frustration over Canada's continued adherence to GATT despite the current practices of some of our competitors. However, Canada has been active in recent trade negotiations to promote freer trade. Although the problems identified by our witnesses are serious, we believe that violating the spirit of GATT today could lead to retaliatory moves by competitor nations that would not be in Canada's long term interests. As a result, it is our position that Canada must continue to support GATT. At the same time, we recognize that if free trade does not result, then Canada may be compelled to set its own rules for trade.

After reviewing the suggested tax measures in this light, we have concluded that the only option still viable was extending existing tax reductions available for manufacturing and processing profits to include trade services. The use of the broad term "trade services", which encompasses domestic and foreign trade management, commission agents, forwarding houses, brokerage and piggyback activities, reflects the constraints imposed by GATT on direct export tax incentives. Because this proposal involves both domestic and foreign trade, we do not have sufficient information about its impact on trade and tax revenues to make a final recommendation. But on the basis of our general review of possible export tax incentives, the Committee recommends that:

The Minister of Finance consider the advisability of extending the tax reduction currently available for manufacturing and processing profits to permit equivalent reductions for profits arising from the sale of trade services, with emphasis on the potential of such an incentive to significantly improve Canada's export trade performance.

Foreign Incentives

The use of aid as a trade facilitator benefits both the donor and the recipient. By encouraging the trade flows of developing nations, we are assisting them to build and strengthen their economic positions. At the same time, aid programs offer Canada the opportunity to strengthen our industrial capability by supplying products and technology to developing markets. The ability to buy and sell freely in world markets is the goal of both parties.

Earlier in this report we demonstrated that we are losing ground in our trade with Third World markets. Yet at the same time we have been spending roughly $1.2 billion per year in aid through the Canadian International Development Agency (CIDA). Approximately $500 million from the CIDA budget goes to multilateral aid channelled through international organizations, such as the United Nations, which make the granting and procurement decisions for multilateral assistance on a transnational basis. By contrast, bilateral aid, for which the budget is also a half-billion dollars, requires that 80 per cent of the goods and services involved originate in Canada. Bilateral aid draws CIDA into a trade development role and offers an excellent opportunity to expand and consolidate Canada's industrial base through participation in infrastructure and industrial projects in developing countries.

CIDA has also established the Industrial Co-operation Program which is designed to encourage Canadian companies to set up operations or establish Canadian technical standards abroad while assisting developing countries in industrializing or identifying standards. Foreign companies are assisted in the mechanics of trade with Canada through the program's Trade Facilitation Office. Industrial Co-operation also administers the Canadian Project Preparation Facility, which was discussed earlier in this chapter, as were the financial incentives, in the form of parallel financing, available through the program. The Committee wishes to commend CIDA for increasing its efforts to further the interests of the Canadian export industry.

MAKING TRADE A PRIORITY

In the course of extensive meetings with the Canadian trade community over the past year, your Committee heard repeated concerns expressed about the level of government's commitment to trade and the co-ordination of existing responsibilities relating to trade. Moreover, our examination of the approaches adopted by governments in competitor nations revealed what are, in comparison with Canada's efforts, highly innovative and aggressive strategies to focus business and government resources on achieving the maximum possible benefit from international trade. Rather than simply responding to trade challenges, our competitors actively seek to create their own opportunities where their particular trade package of government programs and goods and services can give them a competitive edge.

We have already identified Canada's trading strengths—our selected expertise, marketable goods, favourable import position and international reputation. Capitalizing on these strengths, realizing the trade opportunities we have identified, and meeting the threats we face from international competition and changing trade patterns requires strong leadership by our national government.

Our inquiry has demonstrated that government participation is not simply desirable—active government involvement is essential to trade success. We must do more than demonstrate commitment and improve co-ordination: we must make trade a national priority. And government must take the lead by devoting the fullest possible attention to ensuring that Canada can compete successfully in world markets. We therefore urge Parliament to give high priority to the consideration of the proposals and recommendations in this Report.

APPENDICES

Appendix A

Witnesses Heard During Regular Meetings of the Committee

Aetna Financial Services Limited
—Mr. Denis G. Higgins, President

Agriculture (Department of)
—Mr. Gaétan Lussier, Deputy Minister

Agrodev Canada Inc.
—Mr. Paul Gérin-Lajoie, President

Air Industries Association of Canada
—Mr. Jacques DesRoches, President
—Mr. Robin W. Butler, Chairman, Contracts and Finance Committee

Alcan Metal Marketing Ltd.
—Mr. Stuart McEvoy, President

Aluminium Company of Canada Ltd.
—Mr. Jacques Vaillancourt, Vice President

Association of Consulting Engineers of Canada
—Mr. Ken McLennan, President
—Mr. Warren McIntyre, Vice President, Exportation of Engineering Services
—Mr. Roger Pinault, Managing Director

Bank of Montreal
—Mr. N. F. Potter, Senior Vice President, International Banking
—Mr. J. D. Jenikov, Vice President, International Banking, Canada Division

B.C. Tree Fruits Limited
—Mr. Edward L. Moric, Manager, Offshore Sales

Bell Canada
—Mr. Douglas W. Delaney, Vice President (International), Chairman of the Board and Chief Executive Officer of Bell Canada International

Bennett and Wright (Eastern) Ltd.
—Mr. John Baker, President

Bevel Stamping Company
—Mr. Dick Piatkowski

Black and Decker Canada Inc.
—Mr. R. H. Campbell, President
—Mr. J. J. Beckoring, Vice President, Product Development
—Mr. A. A. Chelico, Vice President, Manufacturing
—Mr. A. S. Inglis, Secretary and Treasurer

Bombardier Limitée
—Mr. Henry Valle, Vice President, Corporate Development/Transportation

Bowell Consultants Ltd.
—Mr. G. S. J. Bowell, President

Britex Ltd.
—Mr. David A. Graham, Vice President, Sales

British Columbia Seafood Exporters' Association
—Mr. Peter Browne, Vice Chairman

A. D. Burford International Limited
—Mr. A. D. Burford, President

Canada Wire and Cable International Ltd.
—Mr. Roger Smith, General Manager of Export

Canadian Advanced Technology Association
—Mr. David Snell, Chairman
—Mr. R. Long, Executive Director

Canadian Carpet Institute
—Mr. David S. Edmonds
—Mr. Brian J. Gregory
—Mr. J. A. Stevens

Canadian Commercial Corporation
—Mr. Ralph L. Gillen, President
—Mr. J. Christopher Poole, Vice President, Planning and Liaison

Canaaian Construction Association
—Mr. R. Balfour, Deputy Chairman, Construction Exports Committee
—Mr. B. Cruikshank, Secretary, Construction Exports Committee

Canadian Export Association
—Mr. J. H. Whalen, Chairman, and President of International Paper Sales Co. Inc.
—Mr. T. M. Burns, President
—Mr. N. Fodor, Chairman of the Small Exporters Committee and President of Electrovert Limited
—Mr. M. G. Desjardins, Director, and President of CEGIR Inc.
—Mr. R. G. Hest, Director, Government and Trade Association Relations, Celanese Canada Inc.
—Mr. R. G. Keefer, President of Canalux Trading Limited

Canadian Federation of Independent Business
—Ms. Patricia Johnston, Vice President
—Mr. Jim Bennett, Director, National Affairs

Canadian Foundation Company Ltd.
—Mr. Paul G. Opler, Executive Vice President

Canadian Importers Association Inc.
—Mr. Keith G. Dixon, President

Canadian International Development Agency
—Mr. Garrett Lambert, Director General, Industrial Cooperation Division
—Mr. Peter Dawson, Regional Director, Asia Southwest, Bilateral Programs Branch
—Mr. Maurice Hladik, Director, Africa-Asia Bureau, Industrial Cooperation Division
—Ms. Mardi Weltman, Senior Policy Advisor, Bilateral Programs Branch

Canadian International Trading Co. Inc.
—Mr. L. A. Mitten, President

Canadian Manufacturers' Association
—Mr. R. L. McCallum, Chairman, CMA Export Committee
—Mr. W. D. H. Frechette, Vice President and Secretary
—Mr. D. C. Ward, Immediate Past Chairman, CMA Export Forum

Canadian Oilfield Manufacturers Association
—Mr. H. W. Godwin, President

Canadian Sportswear Co. Ltd.
—Mr. Morris Dash, President

Canedex Distributors Limited
—Ms. Vanessa Hammond, President

Canint Management Co. Ltd.
—Mr. Roy C. Bowes, Chairman of the Board
—Mr. Jean Jobin, Vice President, Finance and Operations

Cansotech International Ltd.
—Mr. Edward Valentini, President

Mr. Leonard J. Cardozo

Chambre de Commerce du District de Montréal
—Mr. Henri Heschema, Director General and President of Intrafina Ltd.
—Mr. Michel F. Bonin, Deputy Director General

Cirtex Inc.
—Mr. Paul Itzkovits, President

Coal Association of Canada
—Mr. Garnet T. Page, President

Consumer and Corporate Affairs (Department of)
—Mr. Robert J. Bertrand, Assistant Deputy Minister and Director of Investigation and Research, Combines Investigation Act

Cooper Energy Services Ltd.
—Mr. R. W. Thompson, President
—Mr. Donald Eckhart, Vice President, Manufacturing

Council of Forest Industries of B.C.
—Mr. D. A. S. Lanskail, President and Chief Executive Officer
—Mr. C. Glover, Export Sales Manager (Seabord)

Davie Shipbuilding Limited
—Mr. William White, President

deHavilland Aircraft of Canada Limited
—Mr. J. W. Sanford, President
—Mr. James Davies, Director, Government Affairs

Dominion Luggage Co. Ltd.
—Mr. H. J. Ings, Assistant to the President

Econolynx International Ltd.
—Mrs. Susanne Hill, Vice President, Research
—Mr. Patrick Ngiam, Economic Consultant

Export Development Corporation
—Mr. M. S. Cloutier, Chairman of the Board and President
—Mr. V. McKay, Executive Vice President and Chief Operating Officer
—Mr. B. R. King, Senior Vice President, Corporate Affairs
—Mr. D. A. Keill, Vice President, Regions
—Mr. J. Arès, Vice President, Operations
—Mr. B. Modin, Treasurer

Finance (Department of)
—Dr. R. Joyce, Assistant Deputy Minister

Global Trading (1979) Inc.
—Mr. A. Van Der Lee, President

Mr. Roger Hatch, Chairman, Export Promotion Review Committee

Professor K. A. J. Hay, Professor of Economics, Carleton University

Mr. Brian E. Hickey, Business Executive

Hydro-Québec International
—Mr. Guy Monty, President and Chief Executive Officer

Industry, Trade and Commerce (Department of)
—Mr. Robert Johnstone, Deputy Minister
—Mr. B. C. Steers, Assistant Deputy Minister, Trade Commissioner Service and International Marketing
—Mr. R. A. Kilpatrick, Director General, International Marketing Policy Group
—Mr. George Hazen, Regional Director for Saskatchewan

—Mr. David Horley, International Marketing Policy Group
—Mr. Gordon Keys, Acting Director General, Office of Overseas Projects
—Mr. Charles Schwartz, Senior Policy Advisor, Economic Policy and Analysis

Institute for Research on Public Policy
—Mr. Zavis P. Zeman, Program Director

Interimco Ltd.
—Mr. C. R. D. Kelly, Chairman of the Board
—Mr. Paul Labbé, President
—Mr. J. T. Morris, Vice President

Professor John Langford, School of Public Administration, University of Victoria

Lavalin International Inc.
—Mr. Marcel Dufour, President
—Mr. Peter M. Kilburn, Vice President, Project Financing

Dr. Fred Lazar, Associate Professor of Economics, York University

Mancal Ltd.
—Mr. R. M. Mears, Vice President, Corporate Development

Manitoba Fashion Institute Inc.
—Mr. Roy Winston, Executive Director

Mining Association of British Columbia
—Mr. P. R. Mathew, Managing Director
—Mr. T. R. Nicholson, Executive Assistant

Mitel Corporation Ltd.
—Mr. Les Barton, Vice President

Monenco Limited
—Mr. J. K. C. Mulherin, President
—Mr. J. G. Fredette, Vice President and Director

Mr. J. W. Morrow, Consultant and former Director of International Programs, Bureau of Competition Policy, Department of Consumer and Corporate Affairs

Mr. D. W. Paterson, Vice President and Director, Corporate Finance, Wood Gundy Limited

Petron International Trade Co. Ltd.
—Mr. Pierre T. K. Li, Managing Director

Province of Nova Scotia, Department of Development
—Mr. David C. MacKinnon, Director, Planning and Economics Branch
—Mr. Geoff Lewis, Manager, Market Planning

Regional Economic Expansion (Department of)
—Mr. David Graham, Director General for Ontario

Mr. H. Lukin Robinson, Consultant Economist

Royal Bank of Canada

—Mr. R. G. P. Styles, Executive Vice President, World Trade and Merchant Banking Division

—Mr. James M. Walker, Senior Vice President, World Trade and Merchant Banking Division

—Mr. Arthur Hogan, Manager, Government and Financial Markets, Commercial Marketing

—Mr. Frank Ballachey, Manager, Government Relations

SNC Group

—Mr. C. A. Dagenais, Chairman

—Mr. Michael Pick, Vice President, Corporate Finance and Development

—Mr. W. R. Lewis, Vice President

—Mr. Louis Burke, International Marketing Department

Socodec

—Mr. Vincent Corriveau, President

Supply and Services (Department of)

—Mr. O. I. Matthews, Director, Export Supply

—Dr. C. Vedenand, Associate Professor of Administrative Studies, Faculty of Business Administration, University of Manitoba

Versatile Manufacturing Company

—Mr. Paul Soubry, President

Appendix B

Witnesses Heard During Private Meetings Across Canada

ACA Cooperative Association Ltd.
—Mr. Karl Larsen, Vice President

Agricultural Development Corporation (Saskatchewan)

Agriculture Marketing and Economics (Department of) (Saskatchewan)

Alberta Gas Chemicals Ltd.
—Mr. K. H. MacRae, Vice President, Marketing

Alberta Wheat Board

Atlantic Bridge Co. Ltd.
—Mr. A. Eisenhauer, President

Auto Parts Manufacturers Association of Canada
—Mr. M. Bursey

Balfour-Guthrie Ltd.
—Mr. Fred Owen, President

Bee Maid Honey
—Mr. D. R. Robertson, General Manager
—Mr. A. K. Mahon, Director of Marketing

Bomem Inc.
—Mr. Bob Vail

Boss Engineering Ltd.
—Mr. John Boulanger, President

Brunette Machine Works Ltd.
—Mr. Ronald D. Pausette, President

Burns International (Division of Burns Meats Ltd.)
—Mr. L. J. Studholme

Calkins & Burke Limited
—Mr. Brian N. W. Thomas, General Manager

Campbell and Burns Ltd.
—Mr. George Wright, President

Canaban International Ltd.
—Mr. M. J. Fawcett, President

Canada World Foods
—Mr. Donald Newton, President
—Mr. David Edwards, Vice President

Canadian Association of Fish Exporters
—Mr. R. W. Bulmer

Canadian Foremost Ltd.
—Mr. J. Nodwell, President

Canadian Livestock Exporters Association
—Mr. T. C. Hays

Canam Manac Inc.
—Mr. Marcel Dutil, President

Carte Electric Ltd.
—Mr. Ken Holland, President

Centre D'Étude en Administration Internationale
—Mr. Jean-Émile Denis

Centre Electro-Technique
—Mr. Harold Le Blanc, President

Century Packers Ltd.
—Mr. C. Bouvry

Clearwater Lobsters Ltd.
—Mr. Hugh Snow, Vice President

Comeau Sea Foods Ltd.
—Mr. M. Comeau, Vice President

Cominso (Canada) Limited
—Mr. N. Hrab, President

Commerce and Development (Department of) (New Brunswick)
—Mr. Guy Lévesque, Assistant Deputy Minister

Consulting Engineers of Newfoundland and Labrador
—Mr. T. T. Rose, President
—Mr. J. Capps

Controlled Environments Ltd.
—Mr. K. Godden, President

Development (Department of) (Newfoundland)
—Mr. P. Duggan, Assistant Deputy Minister
—Mr. P. Poder, Economist

R. W. DeWolfe Ltd.
—Mr. R. O. DeWolfe, President

Economic Development (Department of) (Alberta)
—Mr. K. H. G. Broadfoot, Assistant Deputy Minister
—Mr. E. Lack, Executive Director

Export Furniture Canada Ltd.
—Mr. Gerald Wright, Managing Director

Extrade Inc.
—Mr. Ron Gervais, Associate

Fairford Industries Ltd.
—Mr. James P. Hutch, Vice President

A. M. Farmer and Assocs. Ltd.
—Mr. A. M. Farmer, President

Federal Pioneer Ltd.
—Mr. D. McIntyre

Fisheries Association of Newfoundland and Labrador
—Mr. B. Wells, President
—Mr. E. Bishop
—Mr. R. Bulmer

Fisheries Council of Canada
—Mr. K. M. Campbell

Forbex International Inc.
—Mr. A. F. Gallagher, President

Gen-Tec Inc.
—Mr. Jean-Luc Giroux, Vice President

Global Thermoelectric Ltd.
—Mr. Larry Helgersen
—Mr. Don Petersen

Global Trading Co.
—Mr. A. Van Der Lee, President

M. W. Graves and Co. Ltd.
—Mr. D. F. Leckie, President

Gurvey and Berry, Inc.
—Mr. Morris Gurvey

Harmon Corporation
—Mr. G. Kirby, Consultant

Holstein-Friesian Association of Canada
—Mr. D. Clemmens, Consultant

Imapro Inc.
—Mr. Fred Andreone, President

Imtrex Commodities Inc.
—Mr. J. Justice, President

Industries Provinciales Ltée.
—Mr. J. Métivier, Vice President

Industry and Commerce (Department of) (Saskatchewan)

Island Metal Fabricators Ltd.
—Mr. Wendell McDonald

C. Itoh and Co. Ltd.
—Mr. Harry Sherman, Consultant

K. Z. International
—Mr. Khalid Wazir

Lunenburg Foundry and Engineering Limited
—Mr. J. Kinley, President

MacDonald Dettwiler Associates (MDA)
—Dr. MacDonald

Maloney Steel-Crafts Ltd.
—Mr. Terry W. Gomke, Sales Manager

Market Development Centre (Government of Prince Edward Island)
—Mr. David Darlington, General Manager

Mersey Seafoods Ltd.
—Dr. William Murphy, President

Micro Tool and Machine Ltd.
—Mr. Fred Fraas, Manager

Minas Basin Pulp and Paper Company Ltd.
—Mr. C. H. Ivey, Executive Assistant to the President

Morris Road Weeder Co. Ltd.
—Mr. Lorne McLaren

M. & S. Metal Works Ltd.
—Mr. C. B. Koontz, Sales Representative

McNamara Industries
—Mr. H. Grabke

National Sea Products
—Mr. Fred Hart, Vice President, International Marketing

Nautical Electronic Laboratories Ltd.
—Mr. D. J. Grace, President

H. B. Nickerson and Sons Ltd.
—Mr. P. J. Nicholson, Vice President

Nova Scotia Fish Packers Association
—Mr. R. C. Stirling

Novastran Ltd.
—Mr. Gerald P. Burega, President

O.I.M. International Marketing Group Ltd.
—Mr. D. G. Bouer
—Mr. Richard Z. Corkery
—Mr. P. J. Redl
—Mr. J. Currat

Ontario Bean Dealers' Association
—Mr. Douglas Hope, Chairman

Ontario Grain and Feed Dealers' Association
—Mr. Murray McPhail, President

Oxford Frozen Foods Ltd.
—Mr. J. L. Bragg, President

P.E.I. Potato Marketing Board
—Mr. Don Anderson, General Manager

Perfection Foods Ltd.
—Mr. John Simmonds

PGL International
—Mr. Guy Gérin-Lajoie

Pirie Potato Co. Ltd.
—Mr. George Dexter, General Manager

Jos. Poitras et Fils Ltée.
—Mr. J. Poitras

Polymer International (Nova Scotia) Ltd.
—Mr. A. L. Landau, Marketing Director

Prairie Implement Manufacturers Association
—Mr. Gavin Semple, President

Quality Meat Packers
—Mr. Frank Powell, General Manager

Roy Légumex Inc.
—Mr. Richard Sabourin, President

W. H. Schwartz and Sons Ltd.
—Mr. John Sterling, Marketing Manager

Scotian Gold Co-operative Ltd.
—Mr. L. E. Power, General Manager

T. S. Sims and Co. Ltd.
—Mr. Richard Sims, Executive Director, Marketing

Société de Développement industriel du Québec
—Mr. J. Labonté, President
—Mr. G. Le Clair

Spiroll Corporation Ltd.
—Mr. F. W. Sellers, Chairman

Sprung Clindinimm Ltd.
—Mr. P. D. Sprung, President
—Mr. Vern K. Olson, Senior Vice President

Summit Shipping Ltd.
—Mr. Einar K. Smordal, President

B. Terfloth and Co. (Canada) Ltd.
—Mr. B. H. Terfloth, President

Tested Truss Systems (TTS)
—Mr. Harvey Jager, President

W. G. Thompson Ltd.
—Mr. John Thompson

Timberland Equipment Limited
—Mr. Roy S. Rabinovitch, Export Sales Manager

Tridon International Ltd.
—Ms. D. Field

Trojan Environmental Products Inc.
—Mr. Henry J. Vander Laan, Vice President and Managing Director

M. D. Tuck Limited
—Mr. M. D. Tuck, President

United Cotton Mills
—Mr. V. R. Gorman, Director

Wajax International
—Mr. George Hunter, Vice President and General Manager

Water-Eze Products Ltd.
—Mrs. Shirley Shore

Wescab Industries Ltd.
—Mr. T. Sulyma, Chairman

Westech Systems Ltd.
—Mr. G. S. Raitte, General Manager
—Mr. J. Pulford, Senior Engineer

H. B. Willis, Inc.
—Mr. Don Mackenzie, General Manager

Winpack Limited
—Mr. R. Lavery, President

Appendix C

Principal Persons with whom Committee met on United States Trip

Washington, D.C.

Mr. Andrew Carothers
Legislative Assistant
Office of Senator Adlai Stevenson.

Mr. Robert Cassidy
General Counsel
Office of the United States Trade Representative

Mr. William J. Des Rochers
International Economist
International Trade Administration
Department of Commerce

Mr. Warren W. Glick
General Counsel
Export-Import Bank of the United States

Mr. Robert Herzstein
Under-Secretary for International Trade
Department of Commerce

Mr. George Ingram
Staff Consultant
House Foreign Affairs Committee

Mr. Abraham Katz
Assistant Secretary
International Economic Policy
Department of Commerce

Mr. William Krist
Deputy Assistant United States Trade
Representative for Industrial Trade Policy
Office of the United States Trade Representative

Mr. John L. Moore
President and Chairman
Export-Import Bank of the United States

Mr. Robert Russell
Counsel for the Sub-Committee on International Finance
Senate Banking Committee

Senator Adlai Stevenson
(D-Illinois)
Sponsor of the Export Trading Company Legislation

Mr. Vincent D. Travaglini
Director
Office of International Finance Investment and Services
International Trade Administration
Department of Commerce

New York, N.Y.

Mr. Kenneth P. Morse
President
Chase Pacific Trading Association
Chase World Information Corporation

Mr. T. Tatsuno
President
Marubeni America Corporation

Mr. Paul Théberge
Deputy Consul General (Commercial)
Canadian Consulate General

Appendix D

Principal Persons with whom Committee met during European Trip

France

Mr. Armand Blum
Minister-Counsellor for Commercial Affairs
Canadian Embassy, Paris

Mr. Gaétan Bruneau
Commercial Counsellor
Canadian Embassy, Paris

Mr. Jean-Pierre Dutet
Director General
Compagnie française d'Assurances pour le Commerce extérieur (COFACE)

Mr. François Gavoty
Vice-président
Association pour les Compensations des Échanges commerciaux (ACECO)

Mr. Bertrand Larrera de Morel
Director
Crédit national

Mr. Pierre Lataillade, M.P. (RPR, la Gironde)
Commission «Production et Échanges»
Assemblée nationale

Mr. Pierre Loygue
Conseil économique et social

Mr. Alain Mayoud, M.P. (UDF, Rhône)
Vice-Chairman
Commission «Production et Échanges»
Assemblée nationale

Mr. Jean-Claude Prével
Deputy Director
Division politique financière et Coopération technique
Direction des Relations économiques extérieures
Ministère du Commerce extérieur

Mr. Pierre Sauvé
Director
Crédits acheteurs
Banque française du Commerce extérieur

Federal Republic of Germany

Dr. Gerhard Abel
General Director

Foreign Trade Directorate
Bundesministerium für Wirtschaft

Mr. R. J. L. Berlet
Consul General
Canadian Consulate General, Hamburg

Mr. W. G. Brett
Counsellor (Commercial)
Canadian Embassy, Bonn

Frau Gerda Burre
Foreign Trade Directorate
Bundesministerium für Wirtschaft

Mr. W. J. Collett
Minister and Deputy Chief of Mission
Canadian Embassy, Bonn

Mr. Günter Froening
Executive Vice-President, International Trade
Klöckner & Company

Mr. Ludwig Gelder
Head, Legal Department
Hamburg Chamber of Commerce

Mr. Kurt Greshake
Executive Vice-President, Finance
Klöckner & Company

Mr. R. Miller
Vice-Consul
Canadian Consulate General, Hamburg

Dr. T. Singer
Chairman, Board of Directors
Ferrostaal AG

Dr. Jürgen Stahlmann
General Manager
Bundesverband des Deutschen Gross und Aussenhandels

Mr. Helmuth Sternberg
Senior Partner
Coutinho Caro & Company

Dr. Günter Stolzenburg
Manager, Export Guarantees
Hermes Kreditversicherungs-AG

Mr. Jean-Guy Tardif
Trade Commissioner and Consul
Canadian Consulate, Düsseldorf

Mr. M. Thomas
Consul General
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