

December 21, 2018

The House of Commons Standing Committee on International Trade
The Honourable Mark Eyking, Chair
House of Commons
Ottawa, ON K1A 0A6

Re: Submission to The House of Commons Standing Committee on International Trade regarding new market opportunities for small and medium-sized businesses

Dear Mr. Eyking,

Thank you for the opportunity to provide a written submission to The House of Commons Standing Committee on International Trade on how Canadian small and medium-sized businesses can take advantage of trade agreements such as the Canada–European Union Comprehensive and Economic Trade Agreement (CETA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to access new markets.

About the Calgary Chamber

The Calgary Chamber is a member driven organization representing Calgary’s business community. From its inception in 1891 as the “voice of business,” the Chamber has grown and evolved into the preeminent representative of the city’s business community. The Calgary Chamber of Commerce is a non-profit, non-partisan organization that has acted as our city’s main connector of people, ideas, and business for 128 years. We bring together the brightest minds from Calgary and across the country, to solve business challenges and debate critical issues of public policy.

Representing nearly 400,000 employees, and businesses ranging from small owner-managed to large multinational companies, the Chamber represents and promotes the area’s economy, encourages business and industrial investment, and is the business community’s public representative on issues impacting our members.

Fall Economic Update

The Calgary Chamber acknowledges and supports the government’s efforts to address business competitiveness in the Fall Economic Statement, including full expensing of machinery and equipment, the Accelerated Investment Incentive, additions to the Strategic Innovation Fund, and the Export Diversification Strategy. These are important first steps in developing a competitive business environment, especially for small to medium-sized businesses (SMEs).

We remain concerned the government still has not addressed the fundamental market access and competitive issues impacting the Canadian economy and the investment climate. We continue to urge the federal government to take actions to remove regulatory barriers that are preventing Canada’s products from reaching new markets, depressing oil prices and stifling investment in all industries.

Until these issues are addressed, small and mid-sized businesses will not be able to take full advantage of follow-on benefits that come from a free and competitive market.

Further complimentary initiatives to support SMEs in taking advantage of Canada’s effort to secure international trade deals are needed. We contend that growth and trade are linked, with one positively reinforcing the other. The Chamber believes that one of the best ways for SMEs to increase international trade is to scale up. However, businesses face significant barriers in today’s market conditions.

OECD data shows that as companies grow, their contribution to overall exports for Canada grows with them (Figure 1). It is important to note SMEs account for 99 per cent of all business in Canada and employ nearly 71 per cent of all private sector jobs.¹ Simply put, a minority of businesses are contributing to a majority of all exports. The Chamber believes that assisting SMEs in scaling up across Canada will enable them to capitalize on opportunities for trade. The Government of Canada needs to take concrete policy steps to help foster business growth to increase access to trade opportunities.

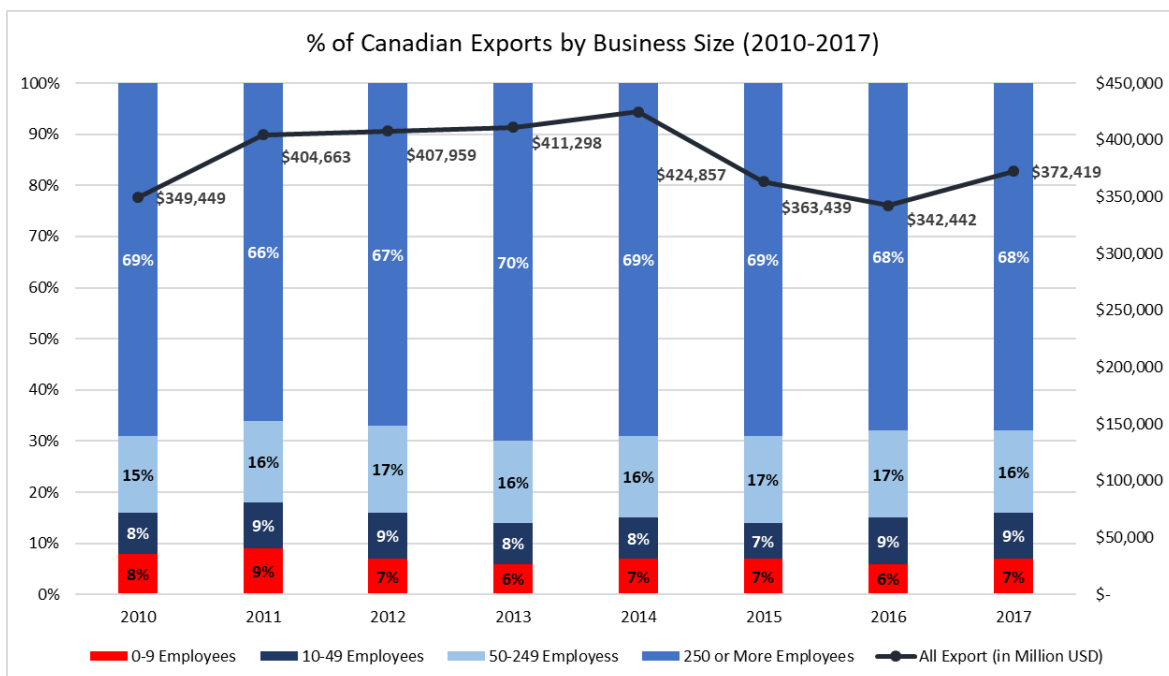


Figure 1: Share of Exports by Business Size²

A recent survey of Alberta SMEs found that over half of the businesses in the province are locked into their local or provincial markets. The high levels of regional competition faced by these firms make them more likely to experience plateaued or declining growth, due to the difficulty of getting their products to new and expanding markets.

¹ The Canadian Chamber of Commerce, “10 Ways to Build a Canada that Wins,” February 2018, <http://chamber.ca/advocacy/10-ways-2018/>

² OECD (2018), “International Trade – Exports by Business Size,” Accessed December 2018, <https://data.oecd.org/trade/exports-by-business-size.htm>

The same survey also found SMEs that actively diversified their active market presence geographically, are more likely to achieve steady or higher growth.³ These results highlight the importance of both trade opportunities and the importance of growth for Alberta's firms. Access to trade opportunities must be provided in conjunction with lowering challenges for scaling up to allow the market to function effectively.

The Chamber recommends the Government of Canada include consideration for the following recommendations to enable Canadian SMEs take full advantage of new international trade opportunities:

1. Canadian SMEs face challenges scaling up to medium and big businesses. These challenges need to be removed or lowered to allow business success. Some ways to lower these barriers are to:
 - a. Address broad business issues including regulatory inefficiency, lagging productivity, and market access.
 - b. Encourage capital investment for business growth.
 - c. Reduce Small Business Income Tax Rate.
2. Remove retaliatory tariffs and continue to advocate for business relationships with the United States.
3. Provide certainty to SMEs by providing details of trade infrastructure spending.

Helping Canadian Businesses Grow

Address regulatory inefficiency and lagging productivity

An OECD survey of global business leaders identified "inefficient government bureaucracy" as the single most problematic factor for doing business in Canada.⁴ Regulatory uncertainty and inefficiency have been key factors deterring large capital investment. SMEs experiencing growth depend on external sources of finance to fuel ongoing success and a lack of capital investments harms the sources of funding for SMEs. To attract future investment, Canada must have a regulatory environment that offers stability, minimizes duplications and does not layer costs on business.

Harmonizing regulations for exporters should also be a focus for Canada. For example, recent reports suggest that the gain in trade with the European Union post CETA has been one sided. Imports from the European Union (E.U.) have increased at the rate of 12.9 per cent while exports only increased by 3.3 per cent as of July 2018.⁵ The report highlights that there are still issues with one side not recognizing the other's regulations, specifically Canadian beef and pork, both priority exports, as products being bogged down by scientific reviews in Canada despite the trade deal being active.

Non-harmonized requirements and legislation slows down businesses' ability to get their products to market and hinders long-term planning, reducing certainty. In order to ensure SMEs can take full

³ Simon Raby, "What Drives SME Growth?" September 2017, https://www.researchgate.net/publication/320191326_What_Drives_SME_Growth_Introducing_the_Leader's_Growth_Minds_et

⁴ World Economic Forum, Global Competitiveness Report 2017-2018, October 2018, <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>

⁵ CBC News, "Canada-EU trade, one year on: Canada's imports are rising faster than exports," September 2018, <https://www.cbc.ca/news/politics/ceta-anniversary-imports-exports-1.4823822>

advantage of new trade agreements, we must ensure that once the trade deals are active, businesses from all economic sectors are able to access the benefits. Removing redundancies and ensuring policies are harmonized to ensure smooth flow of products and increase exports for SMEs.

Encourage Capital Investment for Business Growth

According to the World Bank, Canada is the third easiest country in the world to start a business,⁶ but Canadian businesses face issues scaling up.⁷ Canada must not only be a great place to start a business, but also a great place to grow a business. Unfortunately, as of 2016 only 1.4 per cent of Canadian medium-size companies become big businesses⁸ which are a key driver of workforce productivity, job growth, and business efficiency. Twenty per cent of the labour productivity gap between Canada and the United States is due to lack of scale in Canadian businesses. In Canada, the average business with less than 100 employees generates roughly \$500,000 in economic activity, while the average business with 100-499 employees generates roughly \$15 million in GDP.⁹

Limited access to value-added capital has reduced Canadian businesses ability to scale up production.¹⁰ A policy environment must be established not only to help entrepreneurs access the capital they need to start a business, but to encourage capital investments in businesses looking to expand production and grow.

Reduce Small Business Income Tax Rate

SMEs already face relatively higher interest rates on their loans than larger enterprises, making it more expensive for them to access financing. The OECD estimated that in 2015 the median interest rate for SMEs was 14.9 per cent higher than big business.¹¹ Given the high costs associated with running a small business, reductions in Small Business Income Tax Rate will lower the overall costs faced by SMEs, allowing them to reinvest in production, wages, and job growth while ultimately contributing to scaling up and expanding to new markets.

Remove Retaliatory Tariffs and Advocate for Business Relationships with the United States

We understand the effort made to strategically design and target tariffs that are both geographically and monetarily equivalent to the expected impact from United States tariffs not resolved through the United States-Mexico-Canada Agreement (USMCA). However, we support open and free trade. We are concerned about the further escalation and potentially wider and deeper impacts these tariffs can have

⁶ WorldBank, "Doing Business 2019: Training for Reform," May 2018,

http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

⁷ Advisory Council on Economic Growth, "Unlocking Innovation to Drive Scale and Growth," February 2017,

<https://www.budget.gc.ca/aceg-ccce/pdf/innovation-2-eng.pdf>

⁸ The Canadian Chamber of Commerce, "Canada's Top 10 Barriers to Competitiveness in 2016," February 2016,

<http://www.chamber.ca/media/blog/160218-top-10-barriers-to-competitiveness-for-2016/>

⁹ Advisory Council on Economic Growth, "Unlocking Innovation to Drive Scale and Growth," February 2017,

<https://www.budget.gc.ca/aceg-ccce/pdf/innovation-2-eng.pdf>

¹⁰ Ibid

¹¹ OECD, "Financing SMEs and Entrepreneurs 2017," April 2017,

https://www.oecd.org/cfe/smes/Financing%20SMEs%20and%20Entrepreneurs%202017_Highlights.pdf

on Canadian businesses. One third of Alberta SMEs hold an export relationship with the United States¹², as such business-friendly responses should be used to encourage continued free trade with the United States.

The steps taken by the federal government to find and provide access to new markets for SMEs through international trade agreements are to be commended. However, in order to export to new markets efficiently, SMEs in Canada must be given a pathway to understand their supply chain, processes, and capacities to find efficiencies. Restricting trade with Canada's closest and most prominent trading partner does not allow these businesses a cost-effective opportunity to find efficiencies and learnings that would help them expand to new markets made available to them.

Open markets benefit business by providing access to competitive inputs reducing business costs and increasing funds available for reinvestments. Integrated supply chains, greater specialization, new customers, increasing of consumer disposable income, and encouraging competition are all benefits of free trade and are drivers of economic progress. Through open and free trade, SMEs can take full advantage of the open marketplace to create long term and sustained growth.

Provide certainty to SMEs by providing details of trade infrastructure spending

Quality physical infrastructure and the efficiency of procedures followed in their operation are crucial in allowing SMEs entry into foreign markets. Poor infrastructure not only deters SMEs from entering the global market, they also harm operating efficiency and increase costs for SMEs; decreasing their global competitiveness.¹³ This makes the Government of Canada's commitment to accelerate infrastructure spending on ports and trade transportation corridors to Asia and Europe a benefit to Canadian businesses.

The Chamber recommends that the Government of Canada highlight where these investments will be made. Making this information public will allow SMEs to formulate long-term plans and provide certainty that export capacity will be available for companies looking to increase production.

Encourage SMEs to scale up

This submission provides rationale for why the Government of Canada should consider complimentary policy strategies to help SMEs grow as a key element of the strategy to foster international trade. Scaling up increases the amount of international trade businesses engage in. The recommendations in this submission provide some tools that can be used by the Government of Canada to allow SMEs to be more productive at a global scale.

Thank you for the opportunity to submit our recommendations on how Canadian small and medium-sized businesses can take advantage of trade agreements such as the Canada–European Union

¹² Simon Raby, "What Drives SME Growth?" September 2017, https://www.researchgate.net/publication/320191326_What_Drives_SME_Growth_Introducing_the_Leader's_Growth_Minds_et

¹³ OECD, "Enhancing the Contributions of SMEs in a Global and Digitalised Economy," June 2017, <https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>

Comprehensive and Economic Trade Agreement (CETA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to access new markets.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dr. Sandip Lalli', with a stylized flourish at the end.

Dr. Sandip Lalli
President and CEO
slalli@calgarychamber.com