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Submission to the House of Commons Standing Committee on International Trade
Federal Support for the International Trade Activities of Small and Medium Sized Firms

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Thank you for the opportunity to comment on the challenge you have set for yourselves as Canada continues to grapple with an unusual level of chaos in the global marketplace caused by political, technological and accidental disruptions. I write this in the full knowledge that in various important ways the Canadian government has under represented the importance of our global trade performance on the lives and livelihoods of all Canadian families.

If you ask Global Affairs economists to provide a number of Canadian whose jobs depend on international trade they will report a very conservative number of 20%. 1 job in 5. While I am not an economist with goods and services imports and exports accounting for more than 60% of Canada's GNP I think a larger number is warranted. At 60 % of GNP it is not much of a stretch to conclude that in the Canadian economy there is room for only two kinds of businesses – those which create goods and services for export or import and those who create value for those who do. The Committee's work is therefore critical to all Canadians as we navigate this challenging time.

The Canadian Government over the years has succeeded in creating an international trade policy environment which favours the free flow of goods and services between Canadian businesses and the global marketplace. Indeed at a time of extraordinary pressure from the US our trade policy experts led by the Prime Minister and the Minister of Global Affairs have achieved, if not perfection, what most would see as best possible results for Canadian business and thus all citizens. CETA, the New NAFTA and resuming our seat at the TPP table are but three critical achievements in this regard.

But your study focuses elsewhere and in my view the most critical area of all – **translating the buying power of the global marketplace into jobs in Canada**. Your focus is SMEs for good reason and your interest is *ways in which the Government of Canada can help SMEs overcome challenges that limit their ability to trade internationally*.

Let us begin with the understanding that by international standards the vast majority of Canadian SMEs are in fact tiny enterprises with less than ten employees (97-98%). These are businesses in which the most important asset is the time of the owner- manager; businesses for whom each choice they make going forward will provide the return foreseen or risk bankruptcy. These are not choices faced in larger companies whose capital structure and position in the market give them the luxury of time and perhaps a level of protection. Any support system for SMEs must be designed with this reality in mind.

Now let us look at how the Canadian economy really functions –

1. **Prosperity** in any economy is created only through the private sector with business people taking risk to create value for customers through whom profit – the only measure of sustainability – is generated by the enterprise.

2. **Governments cannot create jobs.** However, government in plays a critical role in the economy providing education, health care, physical infrastructure, laws, regulations, peace and order, all of which are essential to job creation.

3. **Companies do not create jobs.** Never in the history of any successful business did the Board of Directors instruct the CEO to hire people.

4. **Only Customers create jobs.** Sustainability of any business is based fundamentally on its ability to create value for a loyal and growing customer base. 5. **Opportunities in the global marketplace** far exceed any jurisdiction or company's ability to supply.

6. **Growing exports** is at least as dependant on increasing capacity as it is on capturing new opportunity.

7. **Knowledge is power** in all-human activity but particularly so in international trade. Market intelligence translates directly into market power. Value added exports create higher margins the closer the producer gets to the customer. Disintermediation of information is, therefore, critical to export growth, sustainability and job growth in Canada.

8. **All business is local**, based in cities, towns or rural municipalities. Business conditions in these jurisdictions will have the most significant impact on their interest and success in doing business internationally.

The success of Canada's ability to shape the **trade policy framework** to the needs of the Canadian economy will only become reality through actual transactions which flow from the access negotiated. The late Len Dunning, my most important mentor, created the Hong Kong Trade Development Council in 1968. The HKTDC was designed to link Hong Kong export businesses to buyers around the world. His mantra from day one to his staff was very simple – "**In business, nothing happens until someone buys someone buys something that someone else is selling.**"

While this sounds so self-evident he knew that the focus of his publically funded agency had to be on **incremental transactions** by Hong Kong exporters or the TDC would fail in its mandate to strengthen the economy. In your deliberations you need to keep this factor in mind as well.

How to achieve such an outcome in Canada was devised a very long time ago. In 1894 the first Canadian Trade Commissioner, John Larke was sent to Sydney Australia –

1. To collect and send to the department (Trade and Commerce) information both on the general trading requirements in Australia and on **specific trade opportunities**.
2. To report the names and addresses of firms dealing in **products made in Canada**
3. To pass on to dealers in Australia the names of **Canadian firms anxious to sell products in which they might be interested**
4. To **report to the Minister each month on the demand for goods that Canada could supply** and on related trade matters

In the year it was established and for the next ten years the first government funded foreign trade service in the world was called the **Commercial Intelligence Service**. By 1904 the CIS had become **Trade Commissioner Service (TCS)** which today spans the globe in 150+ posts serving the needs Canadian businesses of for 114 years. TCS remains the most potent asset for any Canadian company seeking to expand in an existing offshore market or enter a new one.

Canada's network of embassies and consulates around the world allow a Canadian business of any size to leverage the practical and existential strengths of this country to gain instant credibility with foreign buyers, investors and/or governments. This leverage is literally priceless when skillfully used both by the Canadian company and the resident diplomat.

Canada is a trading nation, a successful one at that. But we have to do better. You have been asked to look at how this can happen through the energy, innovation and success of SMEs. The really good news for the members of this committee and for the country is the existence of a suite of public agencies **beyond TCS**, at the Federal and provincial level designed to facilitate our success abroad – EDC, BDC, CCC to name a few. The **Forum for International Trade Training (FITT)** www.fitt.ca has developed the world's best body of knowledge to create skilled trade practitioners. Furthermore one particular provincial agency, the **Saskatchewan Trade and Export Partnership** (www.sasktrade.sk.ca), is truly best in class at servicing the needs of a diverse range of exporters large and small.

In September 1995 **the House of Commons Standing Committee on Foreign Affairs and International Trade** published a very interesting research paper, **Small and Medium Sized Enterprises in the globalized Economy: The Canadian Experience**. The report is interesting not because it sought to be a definitive answer to questions posed but for the data researchers extracted from the dozens of interviews they conducted with SMEs successfully engaged in international trade. Among other lessons what became clear was that the largest number of companies in their sample of 50+ became involved in international trade through the receipt of an unsolicited request for their product. I commend this report to your attention.

All the research I have seen indicates that exporters are looking for qualified trade leads, competitive intelligence and access conditions before committing to a new market or expanding in an existing one.

In designing enhanced support for SMEs today my **first recommendation** is to focus on strengthening the sales cycle. Trade leads, qualified trade leads are the most powerful motivator for any business. The

Trade Commissioner Service is ideally situated to deliver such a product which will have its strongest impact if it can be delivered in a timely fashion to an interested and capable exporter.

This leads to my **second recommendation** that TCS develop to capacity to carry out short, customized market research reports at the request of individual exporters. These should answer questions posed by the Canadian company. To state the obvious, knowledge is power in any transaction. The more competitive intelligence the SME receives from a trusted and reliable source the greater the chance the company will respond to an opportunity and far greater the chance it will make a profit in the process. Such reports would be confidential to the requesting company.

As currently structured the Trade Commissioner Service selects its clients from designated priority sectors and provides extra service in priority markets. There should be neither. Services should be available to all serious and prepared export companies. A true sense of priority will emerge quickly enough and resources can be adjusted accordingly.

Recommendation three If the Canadian Government is to successfully encourage growing numbers of SMEs to succeed in international trade an opportunity lead sector neutral approach will yield the best results as can be clearly seen in the work of the **Saskatchewan Trade and Export Partnership** which was created in 1996 following the visit of the Minister of Economic Development to Hong Kong and lengthy discussions with senior managers of the Hong Kong Trade Development Council, mentioned above.

My **fourth recommendation** is support for the new strategic direction **Export Development Canada** announced earlier this year. They currently serve a client base of 5,000 exporters and have announced their intention to grow this to 35,000 companies. In pursuit of this goal they have formed a strategic Partnership with the **Forum for International Trade Training** from whom you have already heard. To succeed however EDC and its partners will have to reach into every community in the country, a massive undertaking by any measure. As the Speech from the Throne February 28th, 1996 phrased the challenge

“Team Canada worked well in Beijing or Bombay or Brussels. It can work just as well in Burnaby or Brampton or Bromont”

To sum up - Any renewed approach to growing exporters must 1. Focus on services for **tiny businesses** 2. Deliver **custom export services** to these companies 3. Motivate through **qualified trade leads** and nourish through the provision of **custom market research**. 4. **Trade practitioner skills** available through FITT for service providers and employees of participating businesses are essential to the success of all of the above.

About the author – I served as a **Canadian Foreign Service Officer** in the Trade Commissioner Service from 1968-2000. Postings included Sao Paulo, San Juan, Puerto Rico, London, San Jose Costa Rica, Hong Kong, Tokyo and Manila, the latter as Canada’s Ambassador to the Philippines. In the early 1990s I led a broad effort across federal and provincial governments to restructure the shape and delivery of the trade development agenda, published annually **Canada’s International Trade Business Plan** and was responsible for the operations of the **Sector Advisory Groups on International Trade**. In 2000 I left the Federal Government and joined the **Saskatchewan Trade and Export Partnership** as President and CEO,

a position I held until 2005 when I established the Treleaven Consulting Group Limited in Sidney BC. I am a Director of **the Forum for International Trade Training**, Director and Past President **the Saanich Peninsula Chamber of Commerce**, **Vice Chair-Mercy Ships Canada**, a Founder and Life Member of the **Hong Kong-Canada Business Association**