Parliamentary Standing Committee on International Trade

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Room 410, 197 Sparks Street, Ottawa, Ontario

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Good morning and thank you for inviting me to appear before the Committee again. I am here today on behalf of Canada's manufacturing and exporting industries, and our association's 2,500 direct members, to talk about how we can get our small and medium sized enterprises to export more and take advantage of recently signed trade deals.

Canadian Manufacturers & Exporters (CME) represents the largest business sector in the country. Manufacturing directly accounts for 11 per cent of GDP, two-thirds of Canada's exports, and 1.7 million employees in high wage, high skilled jobs in nearly every community across the country. While we represent some of the country's largest companies, the vast majority of CME's members from coast to coast are SMEs.

First, we want to applaud the Committee for taking the time to study the issue of SME exports and trade deals. This is a critical issue the growth of our manufacturing sector and for prosperity of the country as a whole.

In 2016 CME called on the federal government to support a plan that would double manufacturing output and exports by 2030 as part of our Industrie 2030 strategy. Over the past several years, the government has implemented many elements of our plan. However, the focus on exports has not been as sharp as the focus on innovation. As a follow-up to that initial strategy CME recently published a paper called **Stalled Trade: Gearing up Canadian Exports** which focused on the issues this committee is targeting in your current study. I have brought a copy today to be entered into the record and I will outline several of our findings and recommendations for actions with the remainder of my remarks.

In 2017 Canada reached an all-time record high for both total goods exports and manufactured goods exports – with $550 and $360 billion in exports respectively. However, since 2000 – really since China entered the WTO – Canada's export performance has been near the bottom in the world. Average annual export growth has been 2.5%. However, removing crude oil exports, Canada's export performance has been at or below inflation for almost 20 years. Meanwhile global trade has expanded at a rate of over 6% a year and our closest competitors are expanding much closer to global averages – US export growth has been over 4% annually and Germany is nearly 6%. Since 2000 only Japan has had a worse export performance across the G7.

So, how do we reverse this worrying trend? For starters, the government took a huge step in the right direction yesterday in the Fall Economic Statement. The $1.1 billion investment in an export diversification strategy with the stated goal to increase exports by 50% by 2025 is a bold and welcomed initiative – and aligns directly with CME's stated goal.

But how do we now meet this targeted goal? Based on our detailed research and consultation with members, we believe our resources should be focused on three export growth pillars.

First, Canada must strengthen its export foundations with a focus on building from existing trade agreements, especially the USMCA. Expecting companies who have never exported to begin exporting to countries with different cultural, legal and business norms is expecting too much. A better approach is to get more companies to take advantage of what is more readily available in our neighborhood – and very few companies are doing that today.

Second, companies can't export if they don't have capacity – which most manufacturers do not have right now. We need to address Canada's investment climate to attract more global production mandates from large multi-national companies and then connect more SME's into these supply chains. The measures taken in yesterday's fall economic statement on immediate Accelerated Capital Cost Allowance, along with a promise to address regulatory barriers, were very welcome steps in this regard.

Third, and most importantly for this study, we must scale-up SMEs by developing stronger support programs to encourage domestic investment and expand international growth opportunities. Let me expand on this last point.

Over 95% of Canadian manufacturers are SME's – and 75% have fewer than 10 employees. By comparison, in the US roughly 55% of manufacturers have fewer than 10 employees. This is a huge structural and resource gap that undermines Canada's performance. At this size, SMEs lack the scale and resources to compete globally to any meaningful degree. And this is where the focus should be – filling the resource gap of companies. There are four steps in this regard I will quickly touch on:

- First, fund not-for-profit associations to create export concierge programs to take SMEs by the hand and link them to the very helpful government programs that currently exist. We were very happy to see large investments yesterday for CanExport and the TCS. These are excellent services that needed additional funding to support SMEs. However, the problem isn't the services, it the complete lack of visibility in the SME exporter community and their ability to find the support they need.
- Secondly, creating mentorship councils to provide direct leadership support, training, and knowledge transfer from SMEs to SMEs is something we recommended – and we were very pleased to see announced the creation of mentorship councils in yesterday's FES. Now we need to see rapid implementation.
- Third, focused training support for companies and their employees to boost their export knowledge and competencies through training tax credits or resource sharing funds; and,
- Fourth, targeted export tax support programs including lower corporate tax rates on exports to directly support export growth.

The measures noted yesterday in the FES were a good start, but much more is necessary to reverse Canada's lackluster export performance, especially amongst our vital SME manufacturing community. Thank you again for the opportunity to come and discuss these issues with you, I look forward to the questions and discussion.