CANADIAN MANUFACTURERS & EXPORTERS

MANUFACTURIERS & EXPORTATEURS DU CANADA

Standing Committee on International Trade
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Good afternoon. Thank you for inviting me to participate in today's discussion. It is my pleasure to be here on behalf of Canada's 90,000 manufacturers and exporters, and our association's 2,500 direct members to discuss the transitional trade agreement with the United Kingdom, the implications for Canada's manufacturing and exporting sector, and the future of this vital sector.

Our association's members cover all sizes of companies, from all regions of the country, and all industrial sectors. We represent the majority of Canada's manufacturing output as well as Canada's value-added exports.

My plan is to outline the challenges manufacturers and exporters face with this situation, but also more generally. I will share our solutions that I hope we can discuss further in the Q&A session.

As the committee knows, with over $20B in exports, the UK is Canada's third largest export market after the US and China. Canada-UK trade was one of our very first trade relationships and traditionally has been our doorway to the European market. According to CME's Management Issues Survey, a large, biennial survey of Canadian manufacturers, the European Union and the UK in particular is a top three market exporters see as having the most potential in the next 5 years.

So, it is vital that we protect our market access to the UK. We were therefore relieved to hear last week that Canada and the UK inked the new Canada-United Kingdom Trade Continuity Agreement, that largely copies CETA. Obtaining a permanent Canada-UK trade agreement is clearly important, and the end goal, but having this transitional agreement in place for January 1, 2021 to avoid any disruption was paramount.

Obviously, not having this transitional agreement in place would be bad, especially in a year where we can least afford it economically. CME stands ready to help this committee and the government avoid that scenario. We urge the government and all parliamentarians to work together to move this agreement through parliament as quickly as possible and to meet that January 1st deadline.

But beyond these mechanical trade agreement issues lies an even bigger problem that I must raise. That is the problem of our declining value-added export performance. A decline that has been accelerating despite signing more and more free-trade agreements.

Let me explain what I mean. Two-thirds of Canada's value-added exports, the type of exports that Canada makes the most money off of, are manufactured goods. In other words, Canadian manufacturers take raw ingredients, transform them into something of higher value, then sell these goods abroad. This, "bigger-bang-for-your-buck" type of trade has been declining for years.

In fact, with the UK, manufacturing exports have been declining steadily for five years, even after we signed CETA. We have a ten year streak of negative trade balances with the UK in manufactured goods. Last year, this deficit ballooned to be 4 times larger than it was in 2010.

Now I know in some circles it is considered gauche to point to trade balances as cause for concern. Sure, consumers may be winning, but we cannot ignore the lost economic potential the decline in value-added exports represents. It would be like me being happy with the price of things going down a bit while my take-home pay is cut year after year. It is simply not sustainable.

So, why is this happening and how do we fix it?

Simply put, Canada's manufacturer exporters are too small, and, at full capacity. Generally speaking, Canada has a higher proportion of its businesses being small SMEs than most of our global competitors. From a fundamental, structural perspective then, we need to get our companies to invest in their businesses and help them to grow and scale up. Larger companies are simply better positioned to take advantage of global trade.

CME's 2020 manufacturing survey results backs this up. When asked what is holding them back from exporting to new markets they told us that the risks are too high because they lack a competitive edge with foreign companies. They simply feel they can't compete, and don't bother.

It is important that we agree that this structural, domestic business problem is driving our export underperformance. Landing new global customers through FTA's is rather pointless if we cannot produce the goods to sell to them at competitive prices.

Now, you may ask yourselves, isn't this the point of EDC, BDC, CCC, and the Trade Commissioner Service? Aren't they supposed to help de-risk exporting and help SMEs get out there? The answer is yes, and we would argue, they are all quite good at doing that. The problem is the disconnect between these great programs and exporters knowing they exist.

When we polled manufacturers, we found that those who used these agencies and programs loved them. But a majority of respondents couldn't even identify some agencies, let alone the programs they offer. This is a big problem.

So, we have the dual challenges of our exporting companies being small, underinvested in, and uncompetitive, AND, a big gap between government assistance and companies using that assistance. How do we fix it?

Here are some concrete actions we believe the government should take to help Canada's exporters:

1. Create a manufacturing strategy for Canada that focuses on modernizing and growing the sector. It needs to help companies invest in the technology that will help them scale up and truly become global players. We happen to have such a plan that we discussed with many of you in the spring, and I will leave it with the clerk to have entered into the record.
2. Launch a Made in Canada branding exercise at home and in international markets to celebrate our manufactured goods. This will boost awareness of Canadian capabilities and technologies as well as sales and exports. As my friends here in the food and agricultural sectors can attest, the Maple Leaf is a global brand with a sterling reputation that we don't take advantage of enough.
3. Bridge government export agencies and exporters by leveraging the vast networks of business trade associations. This can be done by investing in Canada's trade associations' capacity to link the two sides and act as a

concierge service for exporters. The government used to support these types of initiatives to great effect, and we think they should again.

4. Expand our efforts on SME exporter mentorship. Organizing and managing private, peer mentoring networks is another way Canada's trade associations can be used to maximize company to company learning.

All these actions are table stakes if we want Canada to play a bigger role in global trade. They will also go a long way to helping current manufacturers maximize their export potential for years to come.

However, while we at CME believe these solutions are something we need to work on now, the priority of course is ensuring we maintain current global market access.

Let me reiterate that CME stands ready to assist you to make certain that a transitional agreement is in place between Canada and the UK before the end of this year. And in time, a permanent trade agreement between our two nations.

Thank you again for inviting me, I look forward to the discussion.