

Small business views on NAFTA

CFIB report in response to consultations on the North American Free Trade Agreement

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Canada is a trading nation. Every year, billions of dollars of goods and services flow through our border, and many jobs depend on the vitality of our trade relationships. As our largest trade partnership is with the U.S., changes to NAFTA have the potential to seriously impact how we do business. Uncertainty in this area makes it difficult for Canada's small business owners to plan for the future. This report will include small business perspectives on trade with our North American neighbours, the U.S. and Mexico.

Setting the stage

Consultations

The North American Free Trade Agreement (NAFTA), which created one of the world's largest free trade zones, came into force on January 1st, 1994. The goal of the agreement was to eliminate barriers to trade and investment between the U.S., Canada and Mexico. Since its inception more than 23 years ago, the agreement has experienced many highs and lows, including 11 revisions to the original draft, often having to adapt to the political climate of the time.

On May 18, 2017, the United States (U.S.) formally notified the American Congress of its intention to initiate negotiations related to NAFTA with Canada and Mexico. In preparation for these negotiations, Canada is undertaking a broad consultation process with Canadians, including small and medium-sized businesses. It is our hope that the feedback received from these consultations will help inform the Government's positions and proposals on NAFTA and help in building Canada's approach to the negotiations.

Trade with the U.S. and Mexico

The interdependence of our financial and economic institutions with our southern neighbours is far-reaching and critically important to the overall economic health of all three countries. The U.S. has historically been Canada's most important trade partner, sharing a border of approximately 8,891 kilometers. According to Statistics Canada, the total bilateral investment between Canada and the U.S. was almost \$836.2 billion in 2015.¹ That same year, the total trilateral merchandise trade between all three neighbours, was approximately USD\$1 trillion –three times higher than before NAFTA entered into force.² These numbers point to the important role played by NAFTA in strengthening and facilitating commercial ties between the U.S., Canada and Mexico.

In 2015, 98% of all businesses in Canada were considered small (i.e. fewer than 100 employees), while close to 1.8% were medium-sized businesses and only 0.3% were large businesses.³ Together, small and medium-sized businesses employ over 90% of the total private sector workforce and represent the vast majority of net employment change.⁴ Given their prominent role in the Canadian economy, small and medium-sized business owners should have a big say in the future of NAFTA and any changes that may ensue.

Data from Industry Canada shows that 10% of SMEs exported goods and/or services in 2011 with a majority of exporters (89%) selling to the U.S.⁵ But of all the firms in Canada that do export, over 90% are considered small businesses.⁶ Data also shows that SME exporters generate significantly more revenue than non-exporters which helps to illustrate the importance of exports in building high growth businesses.⁷ In addition, exports were directly correlated with the size of business showing that the larger the business the more involved it likely is in trade.⁸ **SMEs are a growing part of the trade discussion and governments should make continued efforts to encourage them to develop their potential in this area.**

Imports and Exports - Overall

The data presented in this report was collected from CFIB's latest survey on international trade. For the purpose of this report, we have included solely data from respondents who indicated that they import and/or export with the U.S. and/or Mexico. The survey data results will also be used to develop other reports on

¹ Government of Canada, North American Free Trade Agreement, Fast Facts. Accessed July 4, 2017: <http://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/fta-ale/facts.aspx?lang=eng>

² Idem.

³ Government of Canada, Industry Canada. Key Small Business Statistics, June 2016. Accessed July 11, 2017: https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html

⁴ Idem.

⁵ Government of Canada, Industry Canada, SME Profile: Canadian Exporters (January 2015). Accessed July 11, 2017: https://www.ic.gc.ca/eic/site/061.nsf/eng/h_02925.html

⁶ Idem.

⁷ Idem.

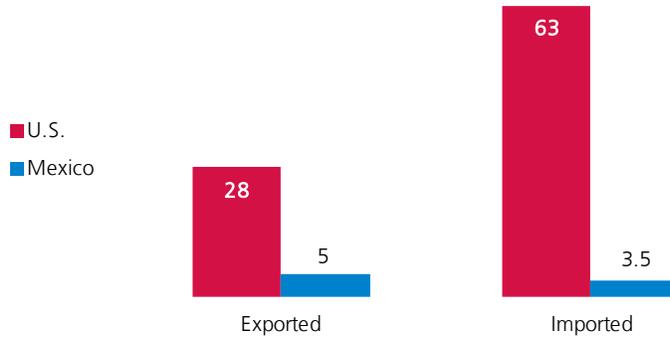
⁸ Idem.

international trade and the Comprehensive Economic and Trade Agreement (CETA) with the European Union in the near future.

Figure 1 shows that out of 4,399 responses to our recent survey on international trade, close to 28% of respondents indicated that they had exported to the U.S. and 5% exported to Mexico during the past three years. On the imports side over the course of the same period, 63% of respondents indicated that they bought goods and/or services from the U.S. and 3.5% bought from Mexico.

Figure 1

Imports and exports to and from U.S. and/or Mexico (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017.

Challenges with trade

When we asked CFIB members that trade with Mexico and the U.S. what influences their decision to increase their exports to countries outside of Canada, almost three-quarters want to expand their business or see that there is a growing market demand for their product or service. Almost as many point to good potential market opportunities, and almost half see international markets as an alternative to the Canadian market. Interestingly, more than one-third are motivated by favourable free trade agreements (FTAs), indicating that these efforts are useful in expanding trade opportunities for smaller companies (see Figure 2).

Figure 2

What influences your decision to increase the amount that your business exports to countries outside of Canada? (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017.

NAFTA is an important FTA for Canadian importers and exporters and it is vital that it works well for small business. We have many long-standing members at CFIB who have been involved in trade since before the inception of NAFTA. For these members, the FTA goes a long way to facilitate trade and reduce costs for their business so that they are able to pass these savings on to consumers. There are, however, a number of challenges and obstacles small business owners face when trading with the U.S. and Mexico.

“We're hoping that NAFTA remains relatively the same as any increase in tariffs will cause our prices to increase which results in our domestic customers hav[ing] to pay more.” - Farming Business Owner, British Columbia.

As shown in figure 3, currency fluctuations remain the biggest challenge (63%), followed closely by the cost of shipping goods and services (52%), the cost of duties and taxes (44%) and the complexity of understanding rules and regulations that are often regarded as non-tariff barriers to trade (28%). While currency fluctuations are not a direct result of government policy decisions, **government entities can provide guidance and approaches to help SMEs navigate these fluctuations that can make international trade that much more challenging for many small businesses.**

“The challenges remain with the high exchange on the US dollar. Most of our plumbing products are imported, either from the U.S. or Mexico, NAFTA has been good to us in the past. If it is renegotiated, I don't know where it will leave us.” - Plumbing and Heating Business Owner, British Columbia.

Business owners understand that there are costs involved in trade, however, they do not often foresee the many non-tariff barriers that lead to unnecessary bottlenecks in the trade process. This is an area where the government can play an important role and focus its efforts on reducing the tangible and non-tangible barriers and costs involved in trade. Business owners need to be able to plan ahead and require stability and predictability in terms of costs and overall processes in order to do so successfully.

Another major challenge is the cost of shipping goods and services. While there is no doubt that there will always be costs associated with shipping, some of these costs can balloon even further when there are border processes, rules and infrastructure limitations (e.g. waiting times, lack of personnel, limited freight capacity, etc.) added into those costs. Recently, the federal government announced they were investing [\\$2 billion](#) in additional revenues to improve international trade corridors. **CFIB recommends that these funds be invested strategically in areas which could provide the most benefit to importers and exporters, including addressing the overall costs involved in trade and helping to lower some of the ancillary costs that add to the overall costs of shipping.**

Figure 3

What would you say are the biggest challenges for your business when exporting your goods and/or services outside of Canada? (% of response)

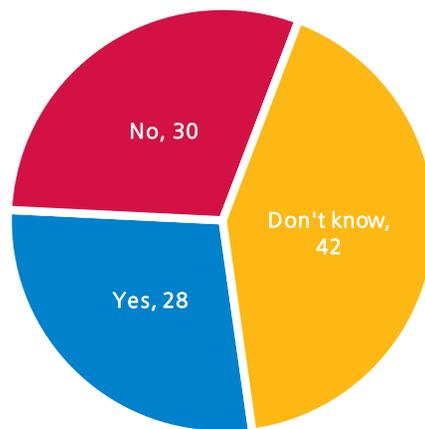


Source: CFIB, 2017 International Trade Survey, May-June 2017.

Data from our latest survey also shows that close to a third (28%) of respondents that trade with the U.S. and/or Mexico indicated that the potential renegotiation of NAFTA will alter or change their export/import plans (see Figure 4). These findings illustrate that small business owners may already be looking to other markets for their imports or exports to deal with the ongoing uncertainty with NAFTA. Another 42% of respondents did not know how to answer the question as there had not been enough information for them to make a sound decision. Only 30% stated that they had no plans to alter their current trading activities with the U.S. or Mexico.

Figure 4

Does the potential renegotiation of NAFTA alter or change your export/import plans in any way? (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017.

While we understand that negotiations require a certain amount of discretion and can make it difficult for government to share any detailed information, we **recommend that the government share as much information as they possibly can throughout the negotiation process. Immediately following the negotiation period, we would suggest focusing government efforts on providing SMEs with tailored information on any changes that would potentially impact existing trade relationships (both for better or for worse), as well as provide more detailed information on how SMEs will benefit from a renegotiated NAFTA agreement.** Below we have included a number of different priority areas that we hope the federal government will consider in their renegotiations on NAFTA.

“I think it would be very prudent for the media to educate the general public on how [NAFTA] now works, and [what] would be the result of the proposed changes. Keep the public informed.” - Construction Business Owner, British Columbia.

Small business priority areas

In reviewing the more than 4,000 responses to our survey and more than 100 pages of comments, it is clear that many SMEs have appreciated the many benefits that NAFTA has had in improving their overall trading experience with the U.S. or Mexico. There are a number of respondents who have been involved in trade even before the inception of NAFTA and say that the Agreement went a long way in facilitating and reducing costs for their business which allowed them to pass these savings on to their customers. There is also a segment of respondents who seem very cautious about what a potential renegotiation could mean for their business and advise decision-makers against making any changes at all.

“We are happy with NAFTA and a major change would be disruptive to some extent depending on the significance of the changes.” (Manufacturing Business Owner, Alberta)

“We import a number of Duty Free products via NAFTA. Less cost means cheaper prices for our customers. Unless it is going to be expanded in some way, I would not think it is an advantage to change NAFTA.” (Machinery and Equipment Business Owner, Alberta)

“I feel it will impact our business greatly. We are a small company (9 people) and it already is enough of a struggle to import supplies and export our product with the exchange rate and duties that is a part of doing business. Free trade (NAFTA) was supposed to make things easier, but it is still a bunch of costly hoops that we have to go through in every transaction. If NAFTA is renegotiated, it’s just going to get that much more difficult for little businesses to survive doing business with other countries. I feel eventually it will result in the small businesses closing the doors.” (Sporting Arms Business Owner, Saskatchewan)

“NAFTA has allowed us to keep our prices low and our customers are able to pass these savings on to their customers. Ultimately, any increases in tariffs will be passed along to Canadian consumers via higher shipping costs.” (Transportation Business Owner, Manitoba)

“Keep the border open and flowing on both sides. There is no reason it cannot be negotiated for all parties to win. We must remain respectful of each government.” (Marine Products Business Owner, Ontario)

“Our firm has been importing from the U.S. and Europe (via the U.S. now) for many years prior to NAFTA. It definitely is more cost effective and easier with the trade agreement. Anything that will slow our importing will definitely impact our business.” (Home Furnishing Business Owner, Ontario)

Movement of labour

A free trade agreement must also include the free movement of labour across borders. For many small business owners, however the issues they are facing are related more to a lack of clarity as to what visa may be required (or not) for various types of labour to cross the border. Layered on top of the lack of clarity is the uncertainty as to how border agencies such as the CBSA and U.S. CBP will react. This is often illustrated in the way officers apply rules at border crossings, sometimes on an arbitrary or inconsistent basis for individuals travelling for work-related or professional reasons, such as to install or repair equipment and can be especially problematic when dealing with equipment no longer under warranty. Members have told us anecdotally that even when their paperwork is in order, there are sometimes complications that cause delays in what should be an otherwise simple and straightforward process. This is true even in the case of intercompany transfers of engineers and other professionals. **CFIB strongly encourages the federal government to ensure that the free flow of labour remains an important component of NAFTA and work to improve and clarify labour mobility rules.**

“Clarity for Canadian exporters to the U.S. in regards to business travel to attend tradeshow, attend meetings without running into confusion regarding work status...” (Retail Business Owner, Ontario)

“NAFTA has been good for our business. As long as professional services can be traded across the U.S. Border, then [a] re-negotiation of NAFTA is a non-issue for us. However, if some form of taxation is introduced as part of a re-negotiation [...], then it could be quite a painful transition for us.” (Technology Business Owner, Ontario)

“Free trade for professional services to enable talent to travel and provide value to U.S. customers.” (Advising and Management Business Owner, Saskatchewan)

“For our business, it is important that goods be able to flow freely between Canada and the U.S. It is also critical for us to be able to send personnel down to the States in order to install and service our equipment. We have had issues the past couple of years with personnel being turned away when crossing the border for purposes of installing our equipment. We are prepared for the potential that if NAFTA was canceled, it could result in the closing of our business.” (Machine Manufacturing Business Owner, Ontario)

“Reciprocity in recognizing professional qualifications between Ontario and various American states, in order [to] provide architectural services, with or without a local architect in that state. There is no consistency in approach. Technically NAFTA was meant to smooth the process. A re-negotiated agreement risks even the certainty we currently have.” (Architectural Business Owner, Ontario)

“We find it difficult to provide after-sale service and support in the US. It would be helpful if the process of obtaining TN Visas for service technicians was less cumbersome.” (Computer and Electronics Business Owner, Ontario)

“Much of our U.S. business relies on us being able to get TN or B1 visas. The TN visas are a NAFTA provision allowing professionals to work across the border. Getting that visa should be a formality, but it is often a bureaucratic hassle. It would be nice to see that process streamlined so that visas can be pre-arranged and we are never turned back at the border due to some border agent’s mood that day.” (Computer Systems Business Owner, ON)

Sub-national governments

An issue that is sometimes left out of a discussion on international trade is the important role played by state and provincial levels of government. Some SMEs raised sub-national issues that have had a negative impact in their dealings with the U.S. and Mexico, including trying to address taxation issues stemming from multiple levels of government, and dealing with a variety of different regulations and requirements that often lead to additional costs for business owners that trade across multiple jurisdictions.

CFIB therefore recommends that NAFTA discussions include sub-national levels of government when working towards regulatory cooperation and/or harmonization of tax and regulatory systems across multiple levels of government. One way to do that would be to build on the Regulatory Cooperation Council (RCC). Since its inception in 2011, the RCC has had some success in aligning Canadian and American regulations and processes in some, mostly larger, industries. **The Canadian and U.S. governments should consider expanding the RCC to include sub-national levels of government, focusing more on issues of importance to smaller industries, and consider incorporating it into NAFTA.**

“Tax issues. For a small company exporting to various states in the U.S. we have to be very careful to not have a U.S. permanent establishment or the individual U.S. tax laws would eat us up. Restrictions on our staff providing training in the U.S. to customers are excessive.” (Manufacturing Business Owner, Ontario)

“Taxation of Canadian corporations within the U.S. While there is a tax treaty between Canada and the U.S., there is none at the provincial or state level. As a result many states tax Canadian corporations who sell into those states.” (Packaging Business Owner, Quebec)

“Double duties”

A number of SMEs have raised their concern with “double-duties”, which are duties on goods that are imported into North America where duty is paid, then later exported as is, or once modified or altered to another North American country, where duty is collected yet again. Many see this as double-dipping and should not be allowed as the duty has already been paid when entering the NAFTA zone.

We recognize that programs to refund these types of “double duties” already exist, such as the CBSA’s and CBP’s Duty Drawback program which allows SMEs to file a request for a refund of customs duties paid for imported goods. However, we have heard anecdotally from SMEs that the Canadian program in particular is extremely onerous so many do not bother to go through the process as it is too lengthy and complicated. **CFIB would recommend that there be better alignment in how the duty refund programs are administered within NAFTA and, at the very least, find**

ways to simplify it in Canada so that SMEs do not continue to absorb this unnecessary cost.

"U.S. imported goods are subject to import charges even though they were imported in the U.S. already and paid import charges there resulting in higher costs to me (double duty essentially)." (Retail Business Owner, Ontario)

"Erase the double duty when a product arrives from [Asia] in the U.S. and then is redutied when it comes into Canada." (Building Supplies Business Owner, New Brunswick)

Rules of Origin

Rules of Origin are essentially the criteria used to determine where a product was sourced. It allows NAFTA member countries to impose higher tariffs for goods brought in from outside of North America and a lower tariff (or no tariff) on goods originating from the other NAFTA countries. A number of different concerns were raised by SMEs when it comes to Rules of Origin, but many expressed alarm that the NAFTA renegotiations could further complicate what is already a daunting task for many SMEs. While others felt that they had a good handle on the Rules of Origin for the products they trade and fear any changes would disturb the balance they have been able to achieve.

We would strongly discourage changes that would complicate or tighten the Rules of Origin. Instead, we would encourage that the Rules of Origin requirements be easy to understand, clearly communicated, and include solid examples of what is required. Governments should also work towards providing smaller businesses with guidance on how to navigate the rules in an effort to encourage more trade among NAFTA countries.

"HTSUS Codes are way too complicated. Proving North American Origin on [...] goods is way too complicated. "MPF" Fee is a Default Duty that the U.S. applies on Duty Free Goods. It's nonsense and requires an often impossible amount of paperwork to waive." (Transportation Business Owner, British Columbia.)

"I deal with scrapbooking supplies - a very narrow niche market. The supplies come from all over the world, but are not well defined within the tariff coding dependent on the country of origin. Duty rates seem to be at the whim of politicians rather than reflect any actual reason why they should be set where they are..." (Retail Business Owner, Ontario)

"Unless there is a product that is unique and can be sold readily into countries outside Canada and where the bulk of the sales will be, exporting is quite daunting. Rules of origin specifically can be a problem. If I produce a product made from a particular wood, for example some countries such as the U.S. require information on chemicals used to treat the wood and where the wood was sourced..." (Retail Business Owner, Ontario)

"We like that it is duty free for North American produced products. A challenge is sometimes to know where goods are actually produced - there can be multiple countries of origin on a single unit (we deal with telecom equipment/electronics). We would like further simplification around the fee structure and the ability to enter all information online for efficiency." (Recycling Business Owner, Ontario)

"I would like to see the country of origin rules re-negotiated, because there are many ingredients for food and natural health products that are not possible to find in Canada, although we add

most of the value to the product by packaging it in Canada and making it ready to go on the retail market shelves...” (Health Foods Business Owner, British Columbia)

“Current NAFTA works very well. A major change in rules of origin could have a negative effect.” (Manufacturing Business Owner, Ontario)

“Changes to rules of origin would be very disruptive - right now we have a handle of how the use of foreign inputs into our products affects Canadian rule of origin. The rules work well and are balanced. A new blanket requirement for increased Canadian or U.S. content would be bad because the whole supply chain here has so many international components...” (Processing and Manufacturing Business Owner, Ontario)

“The Country of Origin certification for duty free imports from USA producers has worked very well for us and will hopefully be left intact.” (Agricultural Business Owner, Ontario)

“It will complicate things as we sell products into the U.S. that might be made in U.S., Canada or Mexico by the same manufacturer. Since we would then have to identify country of origin rather than just NAFTA item, it will increase paperwork and likely frustrations for our customers when items are incorrectly assessed. [It will] likely create the same frustration for our suppliers in the U.S.” (Tourism Business Owner, Ontario)

Red tape (non-tariff barriers)

One common theme that has emerged from our survey is that business owners are struggling to cope with the excessive administrative burden and red tape already involved in trading within North America, and many expressed concerns that a renegotiation of NAFTA may further complicate it. These types of barriers are also referred to as non-tariff barriers. In fact, there are SME respondents below that point to a growing number of non-tariff barriers since 2001 as the main reason why they no longer trade with the U.S. **CFIB recommends that any renegotiation of NAFTA include a chapter that focuses on simplifying rules with the aim of reducing the overall administrative burden for small businesses involved in trade. Below are many specific examples of non-tariff trade barriers we would encourage the Canadian government to raise in their discussions with the U.S. and Mexico.**

“I hope Canada will level the playing field. The U.S. is constantly imposing trade barriers above and beyond NAFTA. Here are the barriers that stopped me from exporting to the USA : 2012 Merchandise Processing Fee (MPF) payable to U.S. Customs, 2011 Food Safety modernization Act April 2011 (initiated 2 months after Harper & Obama agreed to smoother trade), 2010 bill requiring legal representation, Lacey Act Phase IV implementation and permits required, ISF-5 Filing for Freight Remaining on Board (FROB), Importer Security Filing (ISF) security initiative, the Food Safety Enhancement Act of 2009, H.R. 2749 USDA COOL Program (starting this month-fees still unknown), CT-PAT compliance, wood pallet compliance, Plant protection compliance, US continuous import bond (\$500 per year non-refundable), State Agriculture labeling approvals (\$35 to \$75 per product, per state per year), FDA food compliance (cost per shipment), USDA beef permits, plus more.” (Automotive Business Owner, Ontario)

“The biggest challenge administratively is the paperwork involved. Particularly with RMA [return merchandise authorization] equipment manufactured in the U.S. It is not as simple as getting the RMA and boxing up the goods to return to the manufacturer. Purchasing equipment poses its own challenges when considering the value of the Canadian dollar.” (Broadcasting Business Owner, Northwest Territories)

“Red tape is atrocious for a free trade agreement. U.S border agents are often very aggressive applying rules and make preparing for U.S. trade shows and business trips into the U.S. very difficult, time consuming and expensive.” (Automotive Business Owner, British Columbia)

“We need to have duty-free access to the U.S. consumer market. There are already many non-financial barriers to trade such as outer case labeling, country-of origin labeling, food colours which are different between countries, nutrition facts labeling is different, etc. We need fewer impediments to trade, not more.” (Food Product Packaging and Distribution Business Owner, Manitoba)

“One of the biggest paper burns and waste of time with exporting to the U.S. is the 'Conflict Mineral' requirements. This is a document that U.S. public companies must comply with but is impossible for small Canadian companies to comply with. What they want with this doc is a declaration of which smelter in the world made the metal for the parts that are in the equipment. Every screw, solder for wires, parts used ... Everything. An impossible barrier to cross.” (Services Business Owner, Alberta)

“TPL (Tariff Preference Level) on textiles/fabric import quantity. By august the TPL is all used up and then we have to pay 18% duty on those imports because the allocation of SME (square meter equivalents) from the U.S to Canada is in a calendar year, so whichever company that imports at the beginning of the year can make the most use of the TPL and companies who order later in the year get stuck with the duty being applied. It is not a fair method of determining [...] who benefits from the TPL.” (Retail Clothing Business Owner, Alberta)

“I would like to see the removal of the U.S. merchandise processing fee.” (Manufacturing Business Owner, Ontario)

“W8-Ben was a result of the NAFTA/FTA. We sell software over the web to companies around the world, but particularly in U.S. Even with the W8-Ben the IRS hassles our customers. Losing the effects of the W8-Ben would end our business.” (Electronics and Appliances Business Owner, Ontario)

Focus on trade facilitation and cooperation within governments

Better regulatory cooperation and alignment between and within governments will go a long way in facilitating trade for Canadian importers and exporters. Business owners require better fluidity, predictability and stability in their commercial dealings and should not have to cope with unnecessary and often unexpected fees and administrative burdens simply due to poor communication between and within governments. **Trade facilitation is an important priority area and negotiators on all sides should focus on making border processes easier for importers and exporters.**

Many members point to the importance of ensuring better alignment between government departments and agencies, such as the Canadian Food Inspection Agency (CFIA), United States Department of Agriculture (USDA), Health Canada, Food and Drug Administration (FDA), the Canadian Border Services Agency (CBSA) and Customs and Border Protection (CBP). Small business owners want to be compliant and provide what is required of them, but often find themselves in a maze when dealing with lengthy and sometimes duplicative paperwork, further compounded by long delays in getting answers to very simple requests. For many years, Canada and the U.S. have discussed a joint “single-window” initiative that would provide smaller

importers and exporters a one-stop access to all trade-related information. However, this remains out of reach for most small business owners.

Better regulatory cooperation between departments and agencies both within a national government and between governments, would help reduce the administrative burden faced by many small Canadian businesses. Improvements should include better customer service, easier and timelier access to information and available resources, as well quicker response times to business inquiries, all of which would greatly improve the overall experience of many small businesses. We would suggest that these types of commitments should even be included in any chapter focused on making trade easier for smaller businesses across North America.

"Homeland security has done a "Random Inspection" on almost all our exports (made in Canada furniture) to the U.S. and charged us U.S.\$650 each time." (Home Furnishings Business Owner, British Columbia)

"U.S. border services paper work is confusing. Their website is not logical or user friendly and has foolish details. For example, we export bulk products which are measured in cubic feet (a volume measurement) but the U.S. website does not have the correct volume measurement available to select, they insist that we have to write on the invoices "square feet" (an area measurement)." (Transportation Business Owner, British Columbia)

"Easier to understand CFIA permit, inspection & importation requirements. Less red tape and paperwork would make imports less costly." (Wholesale Business Owner, Alberta)

"The coordination of phytosanitary regulations between USDA and CFIA has always been an issue. Ironically the issue is with CFIA not USDA. CFIA is significantly more conservative in interpreting regulations than USDA (e.g. CFIA does not allow plants that went through Canadian quarantine to enter the U.S. without a phytosanitary certificate, even though USDA is fine with it)." (Greenhouse and Nursery Business Owner, Ontario)

Trucking issues

As an important means of moving goods across borders, transportation via truck is a vital aspect of free trade in North America. However, at times, business owners are faced with a very onerous process of getting their goods from point A to point B. While we understand the importance of safe and secure borders, **NAFTA should work to improve the speed at which trucks are able to cross the border.**

Multiple examinations often lead to unexpected delays and increased costs that impact a business' bottom line. Should the goods be perishable, the delays have even further consequences. **We would therefore encourage the Canadian government to consider raising the idea of removing multiple checkpoints when goods are travelling across North America so that when it has been inspected once, it can then travel right across North America without any significant barriers at the border.**

We recognize that there are currently a number of different programs that exist, including the Free and Secure Trade (FAST) program between the U.S. and Canada, however they are fairly limited in scope, are not all that accessible to smaller firms, and often do little to really improve the speed at which goods cross the border. **Therefore, we encourage governments to look at how well these programs serve**

their intended purpose, and that they are easy to access and more tailored to the needs of small firms.

“Efficient truck border crossing procedures and the ability for Canadian trucking companies to transport goods from points in the U.S. to other points within the U.S. rather than being limited to shipping from Canadian locations to U.S. or from U.S. to Canadian locations.” (Transportation Business Owner, Ontario)

“I would like to see more of the barriers removed that make crossing the border with goods harder. I should be able to easily take goods across the border with paperwork that I do myself. I should not need a broker when my own truck is carrying the goods.” (Automotive Business Owner, Ontario)

“Importing from Mexico to Canada using road freight require excessive administration: 1. Customs brokerage to exit Mexico. 2. Customs brokerage to enter USA. 3. Bonding required to truck freight through the USA. 4. Customs brokerage to enter Canada. The flat fees to do these four activities are expensive, and a large portion of a shipment freight cost. I would like to see the product movement between Mexico and Canada that must travel through the USA be without borders and not requiring repetitive customs brokerage.” (Machinery and Equipment Business Owner, Ontario)

Dispute resolution mechanism

A modern FTA must include effective dispute resolution mechanisms. SMEs have told us time and time again about the importance of this process, to ensure accountability and fairness and to help level the playing field between different parties in the trade chain. We have also heard that when filing a grievance, the process can be very cumbersome and it can be very difficult to receive a verdict in a timely manner. These types of issues can often lead to devastating consequences for small business owners that may end up having to pay large fines and penalties. **CFIB strongly recommends that a review of NAFTA include a closer look at how to improve current dispute resolution mechanisms to ensure equal treatment of all those involved and to guarantee that decisions will be respected by NAFTA members.**

“Quicker trade dispute resolution methods.” (Winery Business Owner, Nova Scotia)

“Canada needs to have a more robust dispute settlement system with the bigger U.S. government as in the past, they have raised disputes and applied tariffs that later were overturned but the cost to the industries targeted were immediate and impacted the critical mass of our sector.” (Farming Business Owner, Alberta)

The importance of duty-free

It should go without saying that a renegotiation of NAFTA must ensure that trade remain as duty-free as possible and that the current range of duty-free goods within North America remain as is or be expanded. We heard from a wide range of industries and sectors, including construction, manufacturing, agriculture, furniture makers, art dealers, boat builders, retailers and a variety of others, that if there are any changes to this particular aspect of NAFTA, it could have a significant impact on

the cost of goods and their ability to pass savings on to their customers. Below are just a few of the hundreds of comments on this subject.

“Duty-free imports of U.S.-made furniture should continue. It is the lifeline of our business, as it is for all furniture dealers in the commercial furniture industry. Duties might seem to provide an advantage to Canadian manufacturers of furniture, but the fact is that there are none in Canada with the same scope and range of products as are available in the U.S. Duties would have a significant negative impact on our customers and the customers of the industry more broadly.” (Retail Business Owner, Ontario)

“I am in the boat business and the importation of U.S. built boats into Canada, depending on the exchange rate, is a big part of my business. The reintroduction of duties would be very harmful to my business.” (Marine Business Owner, New Brunswick)

“Tariff and duty free are the important things associated with our dealings in the U.S. We've been importing for 30 years so would have a difficult time if the border dealings change.” (Automotive Business Owner, Ontario)

“Our industry, automotive high performance engine building, has no Canadian parts manufacturers. Therefore, everything we use comes from USA, or elsewhere. Any further restrictions or costs imposed on importing U.S. goods to Canada will greatly affect our business negatively.” (Metal Manufacturing Business Owner, Alberta)

Other NAFTA Issues for discussion

Keeping with the times

There are a number of different chapters that would benefit from a thorough review as society continues to evolve and technology advances. NAFTA was drafted before some types of technologies were introduced, in particular advances in digital technology. **We recommend that the federal government look at ways to modernise NAFTA so that it better reflects today's technologies and societal needs.**

E-commerce may best illustrate a technological advancement that should potentially be included as part of any modern FTA. However, any new provisions related to e-commerce should be balanced with the needs of “bricks and mortar” businesses that compete with online businesses. **We would be happy to provide further insight on how best to balance the needs of online businesses with storefront businesses in Canada, if needed.**

SME chapter

The Trans-Pacific Partnership was the first FTA of its kind to include a dedicated “*Small and Medium-Sized Enterprises*” chapter. Although the chapter was rather concise, it nonetheless represented an important first step in recognizing that SMEs may have unique needs when it comes to trade. Given the growing importance of SMEs to the economies of all three NAFTA countries, it is vital that all parties agree to certain provisions related specifically to small firms so they are able to grow and prosper in their role as importers and exporters. **We recommend that any revision**

to NAFTA include a chapter specifically addressing the needs and particular challenges faced by SMEs involved in trade.

We suggest that any such chapter include a series of principles and activities that each country agrees to implement, not only for the SMEs in their country but for SMEs across all three member states. We would be happy to work with NAFTA negotiators on what some of those principles and activities might be, but as a starting point we would suggest it could include some of the following (among others):

- Commitment to clear communication of rules that may apply.
- Provide easy access to information related to trade in goods and services (including referring to relevant materials from other member states).
- Develop a joint web site to promote benefits and explain provisions in plain language.
- Provide guidance to assist small firms with some of the more complicated aspects of the trade agreement.
- Work to ensure trade facilitation programs reflect the needs of smaller firms.
- Create a strong, influential small business committee that consults regularly with small business and reports issues to be considered by all NAFTA members in future discussions.
- Work to find solutions to non-tariff trade barriers that have a particularly significant impact on smaller companies.
- Collect relevant data on trade among small firms to monitor the success of programs/approaches to encourage trade among small companies.

Softwood Lumber

While we understand that softwood lumber is not currently part of NAFTA, many small business owners had a lot to say about this contentious issue. It is critical the Canadian government understand that there is a lot of concern, even among businesses that are not directly involved with the softwood lumber industry. Many SMEs in the survey suggest that discussions on softwood lumber should be included in the negotiations, and potentially incorporated into NAFTA. **We recognize that there have been important actions taken by the federal government in the past couple of months to help alleviate some of the burden that U.S. softwood lumber tariffs have imposed on the industry, but we also encourage the government to continue its work in finding a more permanent solution to a problem that has been keeping many business owners awake at night.**

“While my business is not directly involved in export/import, a major amount of my business (75% is with a firm that will be directly impacted by the softwood lumber tariff if it remains in place long enough to hurt the Ontario lumber industry. If lumber sales slowdown, less forest will be harvested. Less harvesting means less planning for harvesting and less forest regeneration work is needed; both are activities which form a major part of my business.”(Forestry Business Owner, Ontario)

“Softwood lumber should be included in NAFTA.” (Forestry Business Owner, New Brunswick)

"We sell 'high-end' niche market lumber (softwood) and value-added lumber (softwood flooring) into the U.S. We are caught in the broad net cast by the U.S. in their efforts to support their yellow pine construction industry. Uncertainty does not work well for us." (Home Improvement Business Owner, British Columbia)

"Free Trade without weird duties being imposed, such as currently happening unilaterally in the case of softwood lumber, as an example. Reduce the paperwork and keep tariffs to a minimum, recognizing that North America is stronger as a united trading zone." (Financial Services Business Owner, Alberta)

"We export softwood lumber to the U.S. That is not part of NAFTA but it should be. However, because of the way U.S. business is conducted (through lobbying in Washington, DC) this segment of the economy has been used, in the last 35 to 40 years, as a political football for all Canadian and American leaders to achieve their personal goals." (Forestry Business Owner, Ontario)

"I think it is critical to resolve the ongoing dispute over softwood lumber shipments to the U.S. Canadian industry needs a permanent solution to this ongoing issue." (Forestry Business Owner, Ontario)

Recommendations

CFIB has made a number of recommendations on behalf of small business owners involved in trade with the U.S. and Mexico that have been included in this report. Below is a summary as well as some additional recommendations for decision-makers to consider as part of a renegotiation of NAFTA:

- ▶ SMEs are a growing part of the trade discussion and governments should make continued efforts to encourage them to develop their potential in this area.
- ▶ While currency fluctuations are not a direct result of government policy decisions, government entities can provide guidance and approaches to help SMEs navigate these fluctuations that can make international trade that much more challenging for many small businesses.
- ▶ Ensure that government funds related to trade are strategically invested in areas which could provide the most benefit to importers and exporters, including addressing the overall costs involved in trade and helping to lower some of the ancillary costs that add to the overall costs of shipping.
- ▶ While we understand that negotiations require a certain amount of discretion and can make it difficult for government to share any detailed information, we recommend that the government share as much information as they possibly can throughout the negotiation process.
 - Immediately following the negotiation period, focus government efforts on providing SMEs with tailored information on any changes that would potentially impact existing trade relationships (both for better or for worse), as well as provide more detailed information on how SMEs will benefit from a renegotiated NAFTA agreement.

In addition, we encourage the federal government to consider including the following issues in their discussions with the U.S. and Mexico:

- ▶ **Movement of labour:** Ensure that the free flow of labour remains an important component of NAFTA and work to improve and clarify labour mobility rules.
- ▶ **Sub-national governments:** Include sub-national levels of government when working towards regulatory cooperation and/or harmonization of tax and regulatory systems across multiple levels of government.
 - Consider expanding the Regulatory Cooperation Council to include sub-national levels of government, focusing more on issues of importance to smaller industries, and consider incorporating it into NAFTA.
- ▶ **“Double-duties”:** Ensure better alignment in how the duty refund programs (e.g. Duty Drawback program) are administered within NAFTA and, at the very least, find ways to simplify it in Canada so that SMEs do not continue to absorb this unnecessary cost.
- ▶ **Rules of Origin:** Strongly discourage changes that would complicate or tighten the Rules of Origin. Instead, we would encourage that the Rules of Origin requirements be easy to understand, clearly communicated, and include solid examples of what is required.
 - Work towards providing smaller businesses with guidance on how to navigate the rules in an effort to encourage more trade among NAFTA countries.
- ▶ **Red-tape (non-tariff barriers):** Include a chapter that focuses on simplifying rules with the aim of reducing the overall administrative burden for small businesses involved in trade.
- ▶ **Focus on trade facilitation and cooperation within governments:** Trade facilitation is an important priority area and negotiators on all sides should focus on making border processes easier for importers and exporters.
 - Better regulatory cooperation between departments and agencies both within a national government and between governments, would help reduce the administrative burden faced by many small Canadian businesses.
- ▶ **Trucking issues:** Work to improve the speed at which trucks are able to cross the border.
 - Consider raising the idea of removing multiple checkpoints when goods are travelling across North America so that when it has been inspected once, it can then travel right across North America without any significant barriers at the border.
 - Look at how well trade facilitation programs, such as the Canada and U.S. joint FAST program, serve their intended purpose, and ensure that they are easy to access and more tailored to the needs of small firms.
- ▶ **Dispute resolution mechanisms:** Review ways to improve current dispute resolution mechanisms to ensure equal treatment of all those involved and to guarantee that decisions will be respected by NAFTA members.

- ▶ **The importance of duty-free:** It should go without saying that a renegotiation of NAFTA must ensure that trade remain as duty-free as possible and that the current range of duty-free goods within North America remain as is or be expanded.
- ▶ **Keeping with the times:** Look at ways to modernise NAFTA so that it better reflects today's technologies and societal needs.
 - We would be happy to provide further insight on how best to balance the needs of online businesses with storefront businesses, if needed.
- ▶ **SME chapter:** Include a chapter specifically addressing the needs and particular challenges faced by SMEs involved in trade.
- ▶ **Softwood lumber:** We recognize that there has been important actions taken by the federal government in the past couple of months to help alleviate some of the burden that U.S. softwood lumber tariffs have imposed on the industry, but we also encourage the government to continue its work in finding a more permanent solution to a problem that has been keeping many business owners awake at night.

Conclusions

For many years, CFIB has been working on ways to help improve the trade experience for Canada's small and medium-sized businesses. The ongoing negotiations represent an opportunity to strengthen an existing agreement and help improve trade relationships with our North American neighbors for many years to come.

We appreciate the opportunity to provide feedback to the consultations on behalf of our membership. We also encourage the federal government to continue to oppose any protectionist policies from our trade partners while continuing to advance what is in the best interests of Canadian businesses, including SMEs. We hope that the feedback included in this report will be helpful to decision-makers and we encourage them to keep in mind the critical importance of Canada's small business sector. We are available to answer any questions you may have on the contents of this report.

Methodology

Unless indicated otherwise, this report is based on the findings of the *2017 International Trade survey*, conducted online from May 15 – June 26, 2017.

A total of 4,399 responses were received from small business owners across Canada. Results are statistically accurate within ± 1.48 percentage points, 19 times out of 20.