

Small business and CETA

SMEs views on trading with the European Union

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The Canada–European Union Comprehensive Economic and Trade Agreement (CETA) came into force on September 21, 2017 and offers new market opportunities for small and medium–sized enterprises (SMEs). For CETA to be successful, it must address the needs of Canada’s SMEs. This includes creating a trade environment which makes it easy for SMEs to find the information they need to properly conduct trade, keep costs and paperwork at a minimum, and provide easy access to resources and assistance should they experience setbacks along the way.

Introduction

Trade with Europe

Successive governments in Ottawa have made trade an important priority, both at an international level and here at home. CETA is just one of many recent free trade agreements (FTAs) that has come into force or that is currently being negotiated. As the European Union (EU) is the world’s second largest economic zone and Canada’s second largest trade partner after the U.S.,¹ many small business owners see trade with the European Union as an interesting alternative to the U.S. market, especially given the ongoing uncertainty surrounding the North American Free Trade Agreement (NAFTA) and renegotiations currently underway.

¹Government of Canada, CETA Agreement overview. Consulted on September 11th 2017:
<http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecq/overview-apercu.aspx?lang=eng>



“Canada needs to diversify away from the USA into a broader trade platform with other global countries including Europe and China.” (Auto Parts member, Alberta)

The data presented in this snapshot was collected from CFIB’s latest survey on international trade conducted in May and June of 2017. Given the recent decision by the United Kingdom (UK) to remove itself from the EU, the survey asked about the respondents experience trading with the EU not including the UK, which was asked about separately.

Out of 4,399 respondents to the survey, close to 15% indicated that they had imported goods and/or services from the EU during the past three years, while 8% indicated that they had sold goods and/or services to the EU during the same time period. For the purpose of this report, we have included mostly data from respondents who indicated they import and/or export with the European Union (not including the UK).



“The European Trade agreement should be implemented quickly.” (Home furnishings member, British Columbia)

Impact of CETA

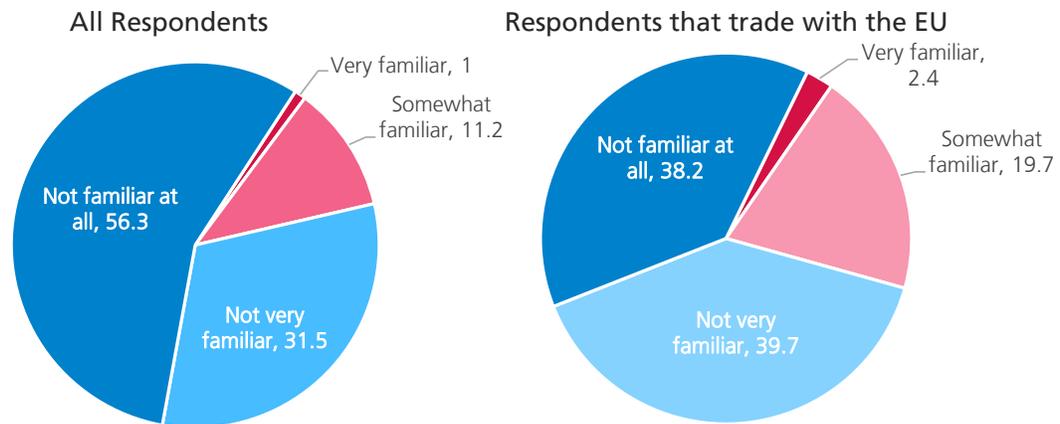
The survey revealed that over one third (34.6%) of all respondents believe that favourable free trade agreements influence their decision to increase the amount of trade they do outside of Canada.² However, when asked about their familiarity with CETA, results show that out of 4,399 survey respondents, nearly 88% of respondents are not very (31.5%) or not familiar at all (56.3%) with the Agreement, while only 12% are somewhat (11.2%) or very familiar (1%). Surprisingly, however, awareness is not much higher among respondents who are already trading with the EU. While 22% are

² CFIB, *2017 International Trade Survey*, May-June 2017. Responses from 4,399 Canadian small businesses. Results are statistically accurate within ± 1.48 percentage points, 19 times out of 20.

somewhat (19.7%) or very familiar (2.4%) with CETA, again almost 80% are not very (39.7%) or not familiar at all (38.2%) with the Agreement (see Figure 1).

Figure 1

Familiarity with CETA (% of response)



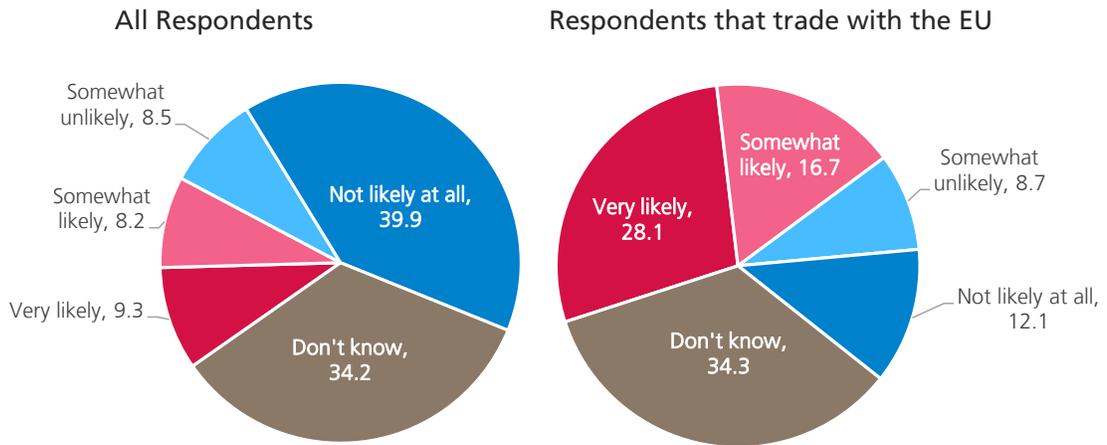
Source: CFIB, 2017 International Trade Survey, May-June 2017. Based on 4,399 responses and 865 responses.

These results indicate that even businesses that already trade with the EU are unaware that there is an Agreement in place to help facilitate their commercial activities. As a result, governments and organizations like CFIB need to do more to promote CETA with a special emphasis on how Canada's smallest firms can benefit from the Agreement and provide concrete steps on how they can take advantage of it.

Once CETA was better explained to survey respondents, results became much more promising. Almost one in five (18%) indicated that they are very (9.3%) or somewhat (8.2%) likely to trade with the EU as a result of CETA coming into effect. What's more, among businesses that already trade with the EU, the results are much higher. Almost half (45%) say they are very (28.1%) or somewhat (16.7%) likely to continue to trade with the EU (see Figure 2) which demonstrates the strong incentive created by the coming into force of CETA for those who are already engaged in commercial activities with the EU.

Figure 2

Likelihood to trade or continue to trade with the EU as a result of CETA (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017. Based on 4,399 responses and 865 responses.

Challenges to trade

Figure 3 shows that the biggest challenges among SMEs that already trade with Europe are currency fluctuations (61.2%), followed by the cost of shipping goods and services (54.3%), duties and taxes (46.4%) and understanding rules and regulations (i.e. non-tariff barriers) (29.4%). CETA should help address some of these trade barriers with 98% of tariffs being removed upon implementation and the creation of a process to streamline rules and regulations. These measures should make it easier to do business and encourage more SMEs to engage in trade with Europe.

Figure 3

Biggest Challenges to Trade (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017. Based on 865 responses.

However, it will be important for the Canadian government to continue to listen to the challenges and frustrations experienced by SMEs and find ways to address them. The following is a member comment that illustrates the kinds of issues small business owners can run into that cause frustration, and can ultimately discourage many from even trying to continue to engage in trade:

"Understand who you are at the mercy of; CBSA, Foreign affairs, USA, etc. Red tape kills. Once I was exporting a product to Germany and the Government of Canada decided to hold it back for verification. 3 months later, it finally pulled through the "system." Along the way, while it was being verified by the nuclear energy section (we have nothing to do with anything remotely close to nuclear), I remember calling foreign affairs and telling him the extent of this lunacy (politely) and him telling me, "tough, it is the nature of the beast, deal with it." I don't think I can ever forget that. My livelihood in their hands; felt ever so helpless...still do worry that happens again without just cause as in the first time." (Photography business owner, Quebec)

However, many SMEs also had ideas on what else governments could do to assist them with overcoming these challenges. Below is a sampling of suggestions from business owners on what would help them when embarking on trade with Europe:

"Need more information on rules and regulations when exporting to countries other than the USA. Also trade magazines would be helpful in finding contacts in the EU." (Manufacturing member, Ontario)

"Understand the combination/cumulative effect of European tariffs, VAT and shipping costs." (Sporting goods member, Ontario)

"A place to learn how to work with a foreign country's tax and duty regime. E.g. How to not get caught on VAT in Europe." (Electrical equipment manufacturing member, Ontario)

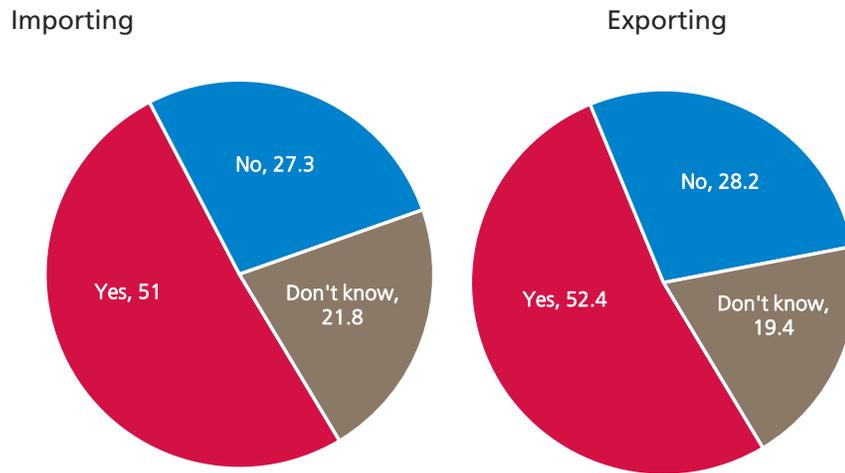
"A comprehensive list of documentation requirements for exporting to particular countries, especially in Europe as each country has different customs regulations. Ex. B13's, certificate of origins, how many invoice copies, etc." (Computer and electronic products member, Saskatchewan)

"Solid information about new agreements in order to better understand them." (Furniture manufacturing member, Quebec)

Looking towards the future

Figure 4

Plan to increase trade in the next three years (% of response)

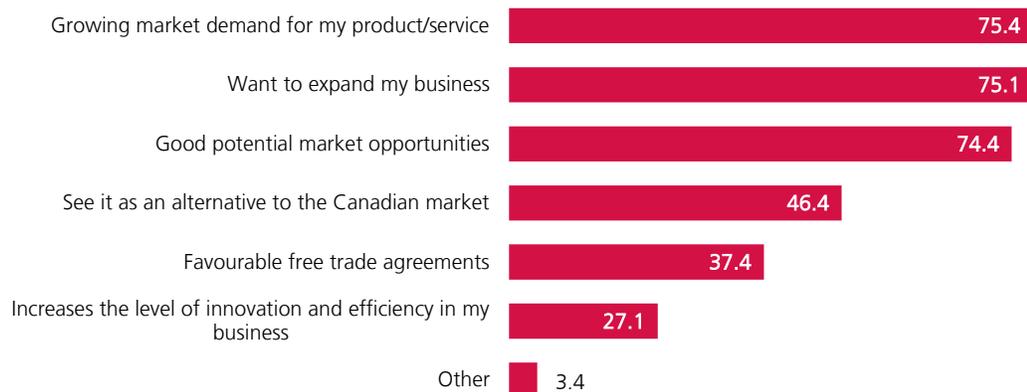


Source: CFIB, 2017 International Trade Survey, May-June 2017 based on 865 responses.

Survey results indicate that over half of respondents that trade with the EU currently plan to increase the dollar value that they import and/or export to the region in the next three years (see Figure 4). These desires are often fuelled by a growing market demand for the product and/or service (75.4%) as well as the business' desire to expand their operations (75.1%) and good potential market opportunities (74.4%). Almost one in two (46.4%) see the EU as an alternative to selling domestically and more than one-third (37.4%) are motivated by CETA (see Figure 5).

Figure 5

Reasons to increase exports (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017, based on 865 responses.

On the opposite side of the spectrum, when we look at the reasons why business owners are not exporting outside of Canada, almost half (47.8%) say it is because

their products and/or services are simply non-exportable, and about one-third suggest that domestic markets are sufficient to operate their business (35.8%). However, there are many other reasons some SMEs have not engaged in trade that governments and other trade-related entities may be able to help them overcome. These include a lack of resources or expertise to expand into foreign markets (11.4%), lack of appropriate contacts (8.6%), lack of information on trade opportunities (8.5%) and lack of appropriate financing (5.0%) (see Figure 6). Finding ways to help SMEs fill these gaps may very well encourage more of them to consider trading and CETA provides the perfect opportunity to do just that.

Figure 6

Reasons not to import or export (% of response)



Source: CFIB, 2017 International Trade Survey, May-June 2017, based on 4,399 responses.

"I've just recently started exporting. My products are currently made entirely in Canada, and we're proud of this. The popularity of and demand for my products has increased, and I plan to export to Europe because the opportunities seem more abundant there." (Speciality contracting member, Quebec)

Conclusion

These results illustrate the strong interest of business owners to further explore these markets and the growth opportunities presented by CETA. Governments have an opportunity with the implementation of CETA to engage SMEs and provide them with the tools and resources they may need to take that next step to grow and expand their business. To help them do that we would suggest government consider the following:

- **Communicate clearly and often** what CETA is about, and how small business may benefit.
- **Provide resources** aimed at SMEs that describe concrete steps on how to engage in trade with the EU.
- **Work with the EU and other trade-related entities to build tools for SMEs.** These tools can include a centralized website that provides SMEs with relevant information in plain language on what the customs processes are, what documentation they might need, what regulations may impact their specific shipments and with suggestions on how to address them.

The implementation of CETA is a significant achievement that is strongly supported by CFIB and many in the small business community. Now that the agreement is in place, it is time for the business community to learn more about its benefits and take advantage of it. CFIB is ready to work with the government on promoting and encouraging small business to look at Europe as a potential market for their goods and services, as well as provide government with feedback on how it can continue to improve the tools and resources aimed at small business.

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.