FOREIGN WAREHOUSING

FOR

AUTOMOTIVE PARTS

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FOR

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FOREWARD

The Appendices form an integral part of this study and should be reviewed wherever reference is made.

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Transportation Industries Branch
Department of Industry, Trade & Commerce

30 July 1973

A PRELIMINARY STUDY INTO THE FOREIGN WAREHOUSING CONCEPT

BACKGROUND

The department's continuing interest in the activities of the automotive parts manufacturing sector and the close cooperation with its principal spokesman, the Automotive Parts Manufacturers Association, has resulted in increased industry exposure in various international trade fairs and missions.

The possible need for organized warehousing facilities in external markets has come into perspective as a result of these activities.

The recent series of foreign currency revaluations have added a direct impetus to the industry's interest in off-shore markets as reportedly Canadian prices have become more attractive to potential foreign buyers.

Due to the foregoing it was decided the division initiate a preliminary study to investigate the basic feasibility of this "Foreign Warehousing" concept.

THE NATURE AND SCOPE OF THIS STUDY

The general parameters accorded this study were to investigate this foreign warehousing concept in order to determine its basic feasibility and to make specific recommendations for procedures or programs that would be necessary to put it into effect. While no time frame was established for any possible implementation date it was generally agreed the need for foreign warehousing could exist commencing in the fall of this year or by early spring of 1974.

No determination was to be made regarding the basic validity of the export markets selected or any specific product applicability therein. The countries specified were the United States of America, United Kingdom, France, Germany and Sweden of the European Economic Community and Japan.

METHOD OF APPROACH

The wide spectrum of parts and components manufactured by the over 1,000 parts manufacturers and suppliers listed in the Canadian Automotive Parts Directory certainly added a complexity of conceptual perspective and frame work of the study. This was in addition to some of the basic characteristics of this industry sector such as the different sizes of manufacturers, the question of domestic or foreign ownership, whether their products are to be sold for the OEM or Aftermarket or both and the overall implications of the general market characteristics in the three country areas selected for investigation.

For the applicability purposes of this study the sizes and types of manufacturers were categorized into the following general groupings:

(a) those companies contemplating entering into the export market for the first time,

(b) those companies who are currently exporting but have restricted their efforts to only one country and/or one type of market or buyer therein (i.e. OEM or Aftermarket, motor vehicle assembler or prime vendor thereto, retail vendor or warehouse distributor),

(c) those companies who have demonstrated their success in export markets and enjoy considerable volume in more than one country and more than one type of market.

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After initial research and exploratory discussions with some of the individuals and organizations listed in Appendix "A" it became increasingly clear that examination into warehousing alone may not provide a proper basis for ultimate recommendations as it became difficult to abstract this one item out of a product movement model.

As a result of several contacts, some of the more obvious advantages of having foreign warehousing were extolled unanimously. The two key aspects were its effects on the initial credibility of Canadian manufacturers in their attempts to penetrate foreign markets whereby they could ensure their potential buyer of a readily available inventory upon which they could draw as required. The second aspect related to basic production scheduling whereby goods for export could be produced during slack production periods thereby stabilizing employment levels, it allowed for longer production runs of certain products thereby adding to the economies of scale and also any unique factors required of the foreign market such as machinery changeover for working in the metric system, different voltages for electrical components, etc.

These comments regarding production scheduling were particularly germane as the automotive parts manufacturing industry is currently operating at, or very near, its production capacity.

All those contacted expressed agreement of the need and applicability of foreign warehousing for a large number of other industries and sectors.

Further consideration that arose was that as most automotive parts are relatively small in size the warehousing space required would not be extensive.

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As a result of the foregoing, certain hypotheses were formulated and their validity tested in further discussions with officers in the branch, other branches of the department and selected automotive parts manufacturers.

THE HYPOTHESES - PROBLEM OR SYMPTOM

Appendix "B" could be considered illustrative of an overview of the role foreign warehousing plays in a basic manufacturing and distribution model for the automotive parts manufacturing sector.

This very basic model highlights the two interrelating variables of distance and time. While this could be regarded as a somewhat trite observation their implications suggest far more subtle applicability.

The variable of distance relates to a further twinned sub-problems of methods of distribution for servicing existing foreign sales and the basic credibility of a Canadian automotive parts manufacturer when he is stating his ability to ensure reliable delivery of his products when negotiating with potential foreign buyers.

The variable of time interrelates with the distance factor in that foreign sales, identical with all sales, cannot be considered consumated until the manufacturer receives payment for his goods. In some cases relating to aftermarket, this time frame was stated to be up to 180 days.

It became increasingly clear that the stated problem of foreign warehousing, in my opinion, was only a symptom of what can be regarded as essentially an international marketing problem with domestic financial overtones.

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The problem and the attendant financial overtones may represent a genuine impediment to the export of Canadian automotive parts for off-shore OEM markets and is particularly present in the international sale of products for the aftermarket.

The financial overtones were considered particularly significant among the export volume manufacturers interviewed as it was unanimously stated to be a principal hinderance in their initial penetration of, and expansion of existing, export markets due to the inordinate pressure placed upon a manufacturer's financial working capital position. A frequent phrase heard among the manufacturers contacted was they literally could not afford increased export success as the Canadian company was unable to raise any support for its finished products for basic inventory build-up in foreign markets and maintenance of what can be colliqually referred to as "The Pipeline" (see Appendix "C"). The "Pipeline" hypothesis was considered valid by the manufacturers as it represents the maximum spectrum of finished goods activity attendant with export sales in volume.

This aspect was considered serious by the manufacturers due the absence of any economic and/or expeditious arrangement available in Canada for the financing of a manufacturer's finished products. This was true for not only export sales but also for domestic sales.

I feel the philosophy of the manufacturers on this aspect can be summarized in a remark made by one volume exporting manufacturer:

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> "Why is it that, when on any one day, my finished goods inventory is worth virtually nothing by way of tangible bank collatoral then conceivably the next day, after it is sold, it suddenly becomes worth 60 - 80% of its sales (inflated) value for banking purposes?"

OTHER PARALLEL STUDIES

The Pulp and Paper Division of the Department's Resource Industries and Construction Branch reported that a study is underway on behalf of the Fine Paper Industry Sector. This study was undertaken in response to various public announcements regarding the continued existance of this industry sector in Canada.

Apparently five manufacturers have voluntarily formed a consortia and in conjunction with Canadian National undertook a preliminary distribution and warehousing study for its major market in the U.S. This preliminary study was reported to have cost $300,000.

The results of the preliminary study appeared to indicate certain feasible avenues of reducing the transportation costs and permit the operations of what we know as a warehousing distributor in the U.S. where their bulk shipments could be cut to size, packaged, etc. in immediate response to local orders.

A major study has been initiated by this consortia to determine specifically the methods and costs attendant with the concept. This is being undertaken on their behalf by Canadian National and its reported total cost is $1,250,000 of which the department is paying 50%. The study is expected to be completed by March 31st, 1974.

A few years ago the Ontario Government had created an extensive study group to examine the feasibility of a Trading Corporation to assist the exports of Ontario manufacturers. Part of this examination included the role foreign warehousing could play in the Trading Corporation.

For some undetermined reason the project was cancelled and there has not been any activity on this subject for over 6 months. Apparently no conclusions were reached regarding the role of foreign warehousing as the examination was limited to general enquiry.

The market development group of the department made a rather interesting proposal entitled "Export Middlemen Assistance Program" in a paper dated August 10, 1972. The thrust of the program was to promote the development and use of Canadian Export Middlemen facilities. Their reference to Export Middlemen can be equated with the operations of a manufacturer's agent service. The program envisaged a 50% government grant for the establishment or use of existing Export Middlemen which could be accomplished through manufacturing consortia, conventional trading houses, manufacturers' agents, customs brokers, etc. No mention was made of foreign warehousing. In summary the program clearly alluded to the penultimate step in the operation of a Canadian Trading Corporation. It was not possible to determine the current status of this proposal, however, additional specific information has been requested.

The Export Development Corporation is currently investigating the possibilities of what they refer to as a "re-lending" program. The highlights of this possible program centers around a line of credit made available to the foreign correspondent of a Canadian bank. These funds are ear-marked for purchase of Canadian goods by local distributors. Unfortunately the traditional

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EDC concepts are being maintained in that it is addressed to capital goods and requiring an 80% Canadian content. There does not appear to be any applicability of this program to the Canadian automotive parts manufacturing industry.

EXISTING ARRANGEMENTS

General

A term almost synonomous with foreign warehousing is "Free Port". The following extract from a paper on the Ste. Scholastique Airport project is illustrative of this term.

The terms "Free Port" or "Free Trade Zone" can be interpreted in a number of ways. In essence, a "Free Trade Zone" is a fenced bonded area in and around a port of entry, air, land or water. Goods can be entered, stored duty-free and re-exported without ever having passed through Customs officials. These goods can be mixed, blended, manipulated, processed or manufactured in isolation from surrounding areas. All commercial charges apply to the activities carried on; the only exception being that the "Free Trade Zone" is free of customs duties, taxes and customs controls.

Successful free ports usually have special geographical characteristics and are either gateways to several adjacent or nearby countries or on the direct trade route between two major market areas comprised of many countries where it can be economical to bring in components from various countries to a central location for fabrication and transshipment.

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For example, in Europe, free ports are generally created for export purposes. In contrast, the U.S. Trade Zones have been used mostly to assist European or Asian Exporters in developing markets in the United States, although an important function of many of the zones has been to circumvent quota restrictions.

If international free port operations are examined in more detail, it is found that the principal fundamental purposes for a free port or foreign trade zone are to provide the following functions:

a) Storage of goods subject to high customs tariffs and taxes and/or burdensome customs formalities which may be held in storage for prolonged periods of time before delivery or resale in the domestic market, with the intent of saving on the cost of customs duties until final disposition.

b) Re-export of dutiable goods or storage of products manufactured from dutiable import materials with the exemption from local domestic duties and taxes or the earliest recovery of duties through drawback procedures, when the materials are entered into the free zone.

c) Storage of dutiable foreign goods for manipulation, including inspection and repackaging, or culling to reduce unit duties or reclassify goods to lower tariff classes. This practice is more pronounced in countries which levy specific rather than ad valorem rates of duty.

d) Goods subject to domestic import quotas which can be stored in the free zone, free from quota restrictions, until they become eligible for entry. This appears to be an important function of United States free zones where numerous quota restrictions apply.

e) Manufacturing or assembling within the zone using foreign dutiable imports or combinations of domestic and foreign dutiable goods for the purpose of re-export. This use results in the savings on duties tied up under drawback procedures and avoids the costly and cumbersome customs clearance and duty drawback procedures.

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In the United States of America, there are Free Trade Zones located at Sault Ste. Marie-Michigan, New York City, New Orleans, San Francisco, Seattle, Puerto Rico, Toledo, Honolulu, Bay City-Michigan, McAllen-Texas, Little Rock-Arkansas, Kansas City.

In the European Economic Community, there are many Free Ports at a variety of locations. The most notable are: Hamburg, Antwerp and Rotterdam (see Appendix "F").

Enquiries have failed to establish the status of Japan regarding Free Ports. While consensus indicate there are none, Japan does have a "bonded warehouse" system, however, no comment was available if these warehouses are owned and/or used exclusively for their trading corporations.

INTERVIEW RESULTS

None of the manufacturers interviewed were using Free Port facilities in any country. All were either shipping directly to the vehicle assembler or a prime vendor thereto, to a buyer with his own warehousing facilities, or to a parent, subsidiary or affiliate company of the Canadian manufacturer.

Several successful Canadian export manufacturers have attempted to circumvent the rigidities of the traditional impediments to export by either restricting their potential buyer population to those large firms who have their own warehousing facilities or by the creation of a foreign subsidiary which operates as a combination sales agency, warehousing and distribution point (see Appendix "D").

The opinions of the Canadian manufacturers interviewed were that this seemed to be a realistic manner of operation for the United States market, however, those who were dealing in the EEC (i.e. U.K., France, Germany) stated that they were unable to raise the necessary working capital support for their foreign subsidiary accounts receivable in the country of location due to their status as a sales agency vis-a-vis a manufacturer.

The foregoing situations encountered by experienced, large volume exporters must therefore appear quite formidable to a Canadian manufacturer contemplating entering the export market for the first time as invariably they do not possess the export traffic expertise. Their current minimal level of exports could not warrant active expansion without the services of an "export traffic manager" and ancillary staff, expenses, etc.

On the financial side, Letters of Credit were used by some manufacturers in their initial dealings in automotive parts for the aftermarket in England, Germany and Japan. Export Development Corporation insurance was not used by any of the manufacturers interviewed.

In the United States, payment for goods for both the OEM and Aftermarket did not pose any current problems, however, consistent mention was made that if exports to the U.S.A. for aftermarket parts are to increase substantially it would probably be accomplished by broadening the customer base thereby requiring the Canadian manufacturer to meet the generous terms consistently offered by their U.S. competitors. Also mentioned was the need for regional warehousing in the U.S. should the foregoing shift in marketing emphasis occur.

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Average cost of shipping, brokerage, customs papers and duties of aftermarket parts were estimated to be 12% of the value of yearly shipments.

Prices quoted by a company shipping parts to Japan were on a C.I.F. basis at a dock in Japan.

Shipping times by boat to the EEC and Japan were stated to be 10 days and two weeks respectively.

One parts manufacturer currently shipping OEM parts to Germany was recently successful in quoting F.O.B. his plant in Canada. The European manufacturer undertook to ship the parts by a Freight Forwarder of its choice. No import duties were applicable as all purchases of Canadian parts were for re-export. Prior to this arrangement, the Canadian manufacturer was able to negotiate a reduced quote of $1,200. per container with the same Freight Forwarder currently used by the European vehicle assembler. (Refer to Appendix "E" for a basic illustration of the role of a Freight Forwarder).

None of the manufacturers interviewed are currently or contemplating the use of Freight Forwarders. While they were unanimous in their views on the comprehensive expertise of these organizations, the attendant costs were regarded as too expensive. This situation is very apparent when, during the initial penetration on export market, particularly in Europe, the small "trial order" volumes make the costs of the service prohibitive.

The manufacturers interviewed did not see any significant advantage in locating in a Free Trade Zone for further processing of its products.

Packaging is done in the Canadian plant and the opinions expressed reinforced continuing this practice unless there was significant volumes for more than one "brand name" in a foreign country.

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CONCLUSIONS

In general, the study has confirmed the need for a contingency plan for the creation and operations of warehousing for automotive parts in the selected three country areas.

No.1

Sufficient evidence exists to support the view that the credibility of a Canadian parts manufacturer (during its attempt to penetrate off-shore markets) would be considerably enhanced if it can assure potential buyers of reliable delivery by the ability to economically forward and warehouse parts in the recipient country. Economical freight forwarding has the bonus feature of clarifying the pricing of goods for export.

No.2

Regional warehousing in certain U.S. cities could contribute significantly to an increase in exports of Canadian automotive aftermarket parts for certain Canadian owned manufacturers.

The degree of significance is a most difficult aspect to measure as most of the Canadian manufacturers of aftermarket parts are subsidiaries of U.S. corporations and therefore do not have a need for an additional distribution network.

Lack of statistical data and a comprehensive list of manufacturers, their products, ownership and current level of export success with attendant product mix precludes anything but speculation.

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No.3

The evidence clearly suggests products for the OEM market in the United States do not require warehousing facilities provided by the Canadian manufacturer.

No.4

There is the suggestion this same view is not true for the European and Japanese OEM market, however, due to the industry's very limited experience in these markets no firm conclusions can be drawn. The applicability of the "Pipeline" hypothesis (Appendix "C") would appear to be valid for exports to these countries in any significant volume and the ability to warehouse parts in these countries could be considered vital for initial and effective market penetration.

No.5

There definitely exists a need for expeditious and inexpensive export (as well as domestic) factoring of inventories for the aftermarket in U.S.A. and Europe to provide an incentive for export and to encourage expansion of existing export success.

While existing governmental programs and private industry services can be regarded as fairly comprehensive, they are so fragmented they do not offer any guidance or incentives for genuine, sustained off-shore market interest for any automotive parts manufacturer with Canadian ownership other than a very few well financed and highly energetic entrepeneurs.

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ACTION ALTERNATIVES

Before considering the alternatives it is necessary to refocus on a fundamental principle of the nature of government interest, support and attendant programs.

The question that must be decided initially is on the relative merits of "Incrementalism versus Reinforcement of Success".

In this question, it could appear to industry the major thrust inherent in most of the departmental programs designed to assist them is the persistent outlook that only incremental activity is deserving of support. (i.e. IRDIA, PEMD, restrictions on PAIT, etc).

The net effect of this outlook could appear to penalize the effective entrepreneur who has proven his ability to succeed in the marketplace in spite of the absence of government support whereas others, more lethargic or without all of the necessary abilities, appear to be eligible for the support.

While it could be argued the incremental approach does reinforce success, invariably there is a base that is not included in a program's coverage, however, new entrants without the credibility of experience and skills do not appear to encounter this handicap.

In summary, regardless of which school of theory is subscribed to, there should not be any "base" amount or period that should enter into any considerations attendant with eligibility for coverage in any of the alternatives proposed.

There are several action alternatives that can be considered in isolation or in combinations or by variations in the groupings.

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These groupings have been constructed to reflect comprehensive but certainly not exhaustive activities in whichever role the division, branch and department feels is correct under these circumstances.

ALTERNATIVE NO.1 - (Passive Role)

a) Publicize and encourage the use of the Ontario Government's Export Support Program

This vehicle appears to be admirably suited to accommodate the financial needs attendant with exports to the U.S., E.E.C, and Japan particularly for a manufacturer entering into export markets for the first time or for those with a minimal volume level. (See Appendix "G").

The reservations regarding this Program relate to its maximum loan level ($1 million) per company, its eligibility restriction to Ontario companies, and the processing time of its applications (3 to 5 months).

b) Encourage the use of private factoring companies services

This would accommodate the financial needs, however, the traditional stigma attached to a company requiring these services tends to diminish its attractiveness, particularly for dealings in the U.S. market. Additionally, the cost of the services (12 to 16%) for inventories, partly offset by the Accounts receivable financing (2% over Bank prime rate plus 1% of sales - maximum level of 80% of the accounts receivable) is prohibitive for most manufacturers.

c) Encourage the creation of foreign subsidiaries

This would appear to be an obvious approach for resolution of the need for foreign warehousing. Its attraction would be greatest for those medium-sized companies who have some export success and is in keeping with several public statements by the Minister regarding encouragement of the creation of Canadian multi-national corporations. However, this would not be attractive to the smaller manufacturer contemplating the export market for the first time or for those relatively successful exporting companies who have already found it necessary to create a foreign subsidiary to act as a sales agency and distribution point and who are deserving of recognition of their previous efforts together with practical encouragement to increase their activities.

ALTERNATIVE NO.2 - (Co-ordinating Role)

a) Directly assist manufacturers to form voluntary consortia for export

Working in conjunction with the appropriate manufacturers' associatinns, assist in the coordination of soliciting interest among the manufacturers, provide technical and economic advice regarding possible locations and costs of warehousing in various countries, and through our Trade Commissioner Service, arrange meetings with appropriate government and industry officials in those countries. Possible joint ventures could also be explored and coordinated. The determination of scope of activities, services to be provided, cost structure would be left entirely to the participants while the government's posture would be one of an "interested observer". The drawback to this proposal is the less than successful experience the department has encountered in similar attempts to form consortia in other manufacturing industry sectors. The problems of who will be the President or decision making body, the initial costs and pro-rating of the use of any services provided, and the natural secretative tendencies of some manufacturers regarding their sales volumes, customers, etc. invariably combine to breed apprehension followed by distrust and resignation from the consortium.

b) Embark upon an extensive campaign to publicize the possible uses of the revised General Adjustment Assistance Program

The enlarged eligibility of the revised GAAP program encompasses manufacturers of automotive parts for the aftermarket as well as OEM and could be used for the purchase of land and buildings in a foreign country for warehousing purposes. Additionally, term loans to strengthen working capital could be used to finance foreign inventories.

A drawback to this proposal is the already overloaded term debt to equity position of most of the manufacturers, particularly OEM, and, since the industry is already operating at or near its production capacity, there would be a natural reluctance to proceed with active exploration of off-shore markets when any remaining financial leverage may be needed to finance expansion to service the U.S. OEM market.

This reluctance takes on significant dimensions as a large number of the manufacturers produce products for both the OEM and Aftermarket.

c) <u>Coordinate a "package" arrangement for the use of a Freight Forwarding Service</u>

Freight Forwarders, such as Kuhne & Nagel Ltd., already provide facilities for composite shipment, preparation of customs documents and insurances, transport to the majority of countries in the world, arrange customs clearance, break bulk, packaging services, storage and onward distribution and collection of bills and drafts.

They are only one step away from being a Trading Corporation as they do not provide marketing and manufacturer's agent services.

Undoubtedly, economies of scale with attendant lower costs could accrue to individual companies and could dispel a good portion of the "mystique" of international exports held by the smaller and medium-size manufacturers.

This could provide a strong stimulus for export market interest on behalf of the foregoing types of companies.

The disadvantage in this proposal is the administrative details attendant with establishing the possible volumes with a number of individual manufacturers, delivery dates, locations, etc. Also it may only have marginal attraction to those large exporting manufacturers possessing their own competant shipping departments and foreign subsidiaries. Participation in such an arrangement by these volume exporters is considered highly desirable in order to obtain the best possible financial package as volume is the obvious key to cost in transportation particularly off-shore.

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ALTERNATIVE NO.3 - (Innovative Role)

The following are highlights of a possible two part proposal.

PART "A" - "Freight Forwarding" Service

A manufacturer ships his product to "a central point" for:

(a) composite shipment - probably containers in the case of off-shore markets.

(b) the customs clearance papers will be prepared at the point but not by the manufacturer.

(c) from composite shipment it will go to a central warehouse in the export market for breaking bulk, storage, onward distribution, etc.

(d) an attendant service that makes for interesting speculation is perhaps a "Trading Company Service" which could be made available to individual manufacturers at an extra negotiated charge.

(e) the operations of the co-ordinating agency that provides this comprehensive service could be handled in the following manner:

(i) on a monthly billing basis the manufacturer pays a percentage of the value of his monthly shipments - probably about 6%.

(ii) this is paid to, what I refer to, as an "Export Factoring Agency". The name merely suggests the role and function of an organization that will co-ordinate inputs from the various participants.

(iii) this agency would pay the freight forwarder on the same monthly billing cycle for the service provided which could be estimated at 12%. (These figures must be regarded only in a relative sense pending a specific determination, however, detailed determination is expected to be somewhat complicated, as it appears the cost of freight-forearding depends upon volume, country of destination, extra services, etc).

(f) the difference between what the manufacturer pays and the actual cost could be absorbed in a variety of ways such as:

(i) from the capital of the agency which could be raised by the participating manufacturers paying, say $5,000 each to purchase a share and a further entrance fee of 1/2% to 1% of their previous year's export sales. This should satisfy the common complaint against consortia that while there is a uniform initial cost, some companies would make far greater use in volume of the service than others which invariably leads to mutual distrust, counter-accusations, etc.

(ii) the "Actors" in this organization could be ourselves (via GAAP) the Ontario Government (because of the existance of their Export Support Program), the individual manufacturers, the Export Development Corporation and one or more representatives from the Canadian Banking Community.

(iii) it could be carried on the books of the coordinating organization as an account receivable that would continue for a period of two to three years. The difference between 6% receipts and 12% payment represents the forgiveable portion which would show on the participating manufacturers' financial statement as a contingent liability. It is estimated that in this fashion the operations would not attract any foreign government countervailing duties.

PART "B" - Foreign Receivables/Inventory Financing (i.e. Export or Domestic Inventory Factoring)

A manufacturer would estimate his receivable/inventory financing requirement and present this to an appropriate government body:

The program's criteria could be along the lines of:

(i) the average of manufacturers' previous two to three year's export volume in relation to his current year's forecast plus 50% of his foreign inventory needs minus his amount for bad debt, etc.,etc.,etc.

(ii) the output of this activity would be manifest in the approval of a line of credit at a Bank for his foreign receivables and inventory which is supported by a government guarantee and serviced by foreign exchange futures.

(iii) the control element would be by a monthly reporting of the amount of goods in warehouse, foreign receivables and supported by warehouse receipts, bills of lading, etc.

> Any account over 180 days would automatically
> be for recourse to the manufacturer for payment.

Both "A" and "B" parts of this foreign warehouse program could be effected rather swiftly under existing departmental programs, existing Ontario Government programs, but requiring the least the tacit understanding of the Canadian Banking Community. The basic feasibility of the program revolves around the actors of the co-ordinating agency in that there is no requirement for them to change their customary methods of operation. Additionally, there will not be a need for immediate government funding, however, some ultimate financial visibility of interest and support may be required when the political and economic climates suggest a favourable reception.

Part "A" of this proposal would be attractive to all manufacturers including the Canadian subsidiaries of foreign companies as the reduced shipping costs to off-shore markets made available to the Canadian manufacturer (thereby enhancing its price competitiveness) may open up previously excluded world markets that are currently serviced by the U.S. parent company.

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RECOMMENDATION

Due to the preliminary nature of the study with its restricted analysis base, the need, desirability or attractiveness of the action alternatives and, more importantly, the combinations thereof must be clearly established.

It is considered essential that appropriate parties meet as soon as they have had an opportunity to examine the study in order to act as a "Project Team" or Steering Committee.

The ultimate composition of the participants will naturally depend upon the alternative(s) selected, however, at a minimum could include:

a) Representatives of the Auto Parts Division
b) Representatives of the Automotive Parts Manufacturers Association (perhaps its Government Liaison Committee)
c) Representative of the Chartered Banking Community.

The object of the meetings would be to document a schematic "Route Map" reflecting the timings and scope of activities of the existing (or any future) participants attendant with a necessary Pilot Project to test the feasibility of any solution.

For initial discussion purposes, the following combination of action alternatives is recommended:

Freight Forwarding Service and Foreign Inventory Financing - Alternative No. 3

Package arrangement for a Freight Forwarding Service - Alternative No. 2 (c)

The creation of Foreign subsidiaries - Alternative No. 1 (c)

Voluntary Consortia - Alternative No. 2 (a)

Use of Section "B" of PEMD - Appendix "H" - By Trading Companies or Agents

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ADDENDUM

While the final pages of this study were being written, certain information became available from the Office of International Special Projects. Due to their relevancy they are attached to this study as Appendices "H", "I" "J".

Appendix "H", a study in "Trading Companies/Export Middleman", is of more than passing significance as its macro view reinforces the observations of this study and adds credibility to the "action alternatives".

Appendix "I" is a direct result of the Trading Company study, however, its lack of publicity and initial applicability to the former Mechanical Transport Branch obscured its very existance. It now comes into a quite relevant perspective for this study.

Appendix "J" is a proposal for a "Consortia Assistance Program" that has direct relevance to some of the action alternatives proposed. As this proposal is now in Treasury Board for approval, its details should be kept confidential. No prognosis was available regarding a possible approval date or favourable reception to date.

The substance of these documents does not alter in any way the conclusions, action alternatives or recommendation of this study - indeed, they add considerable support and empirical evidence to these areas.

R.P. Watters

APPENDIX "A"

The following alphabetical list specifies the organizations contacted during the study.

The individuals interviewed are not named due to the exploratory nature of the study and no attempt was made to solicit the "official" postures of the organizations named regarding the conclusions or alternatives.

AIMCO LTD.

CANADIAN EXPORT ASSOCIATION - Finance Committee

CANADA - JAPAN TRADE COUNCIL

DOMINION AUTO ACCESSORIES LTD.

EMBASSY OF JAPAN

EUROPEAN BUREAU - I.T.&C.

EXPORT DEVELOPMENT CORPORATION

GAAP PROGRAM OFFICE

GIDON LTD.

INTERNATIONAL FINANCING BRACH - I.T.&C.

KUHNE & NAGEL (CANADA) LTD.

OFFICE OF THE INDUSTRIAL POLICY ADVISER

OFFICE OF INTERNATIONAL SPECIAL PROJECTS - I.T.&C.

OFFICE OF THE TRANSPORTATION POLICY ADVISER - I.T.&C.
OLSONITE LTD.
ONTARIO DEVELOPMENT CORPORATION

ONTARIO MINISTRY OF TRADE & TOURISM

PACIFIC, ASIA & AFRICA BRANCH - I.T.&C.

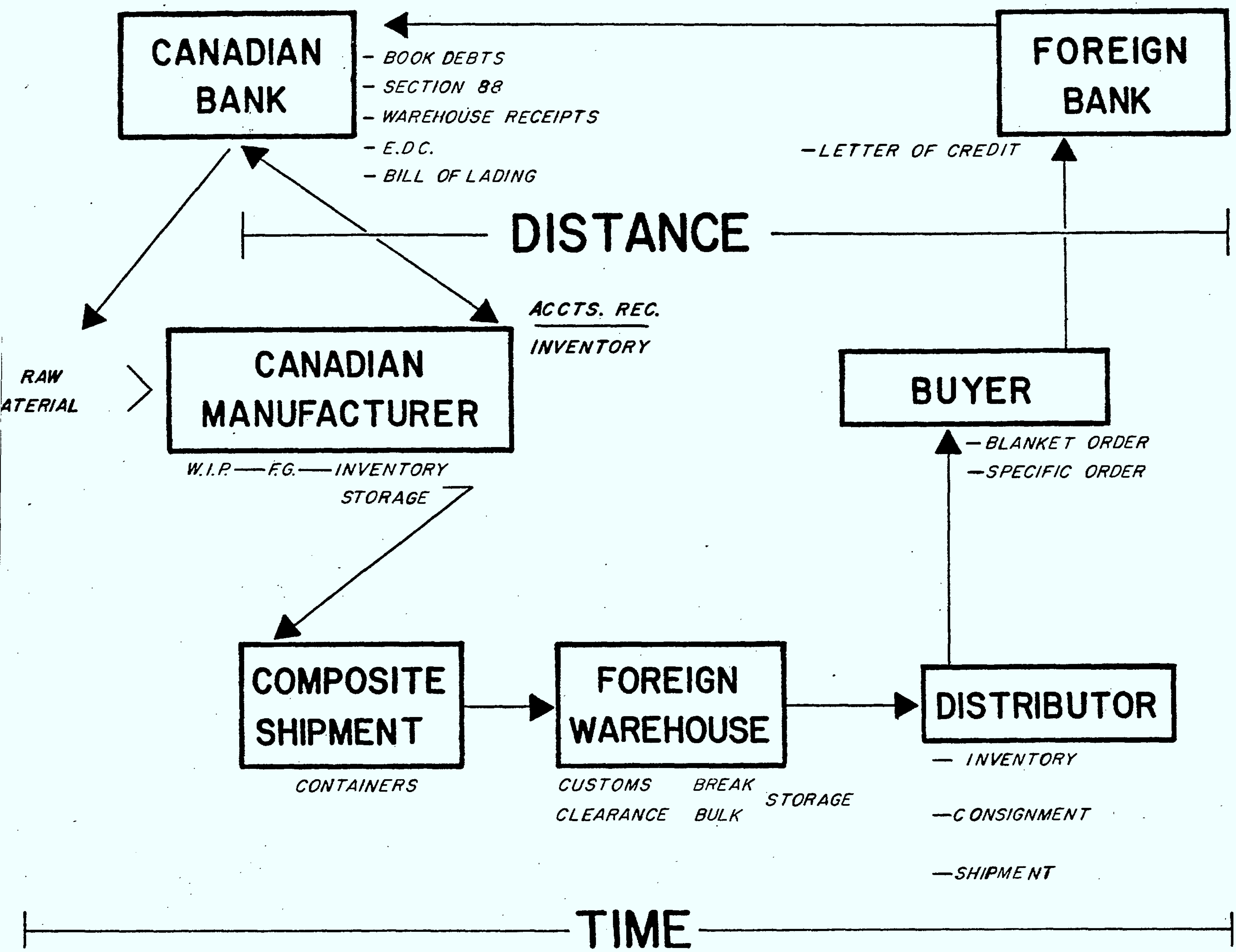
RESOURCE INDUSTRIES AND CONSTRUCTION BRANCH - I.T.&C.

ROYAL BANK OF CANADA

TRIDON LTD.

WESTERN HEMISHPERE BUREAU - I.T.&C.

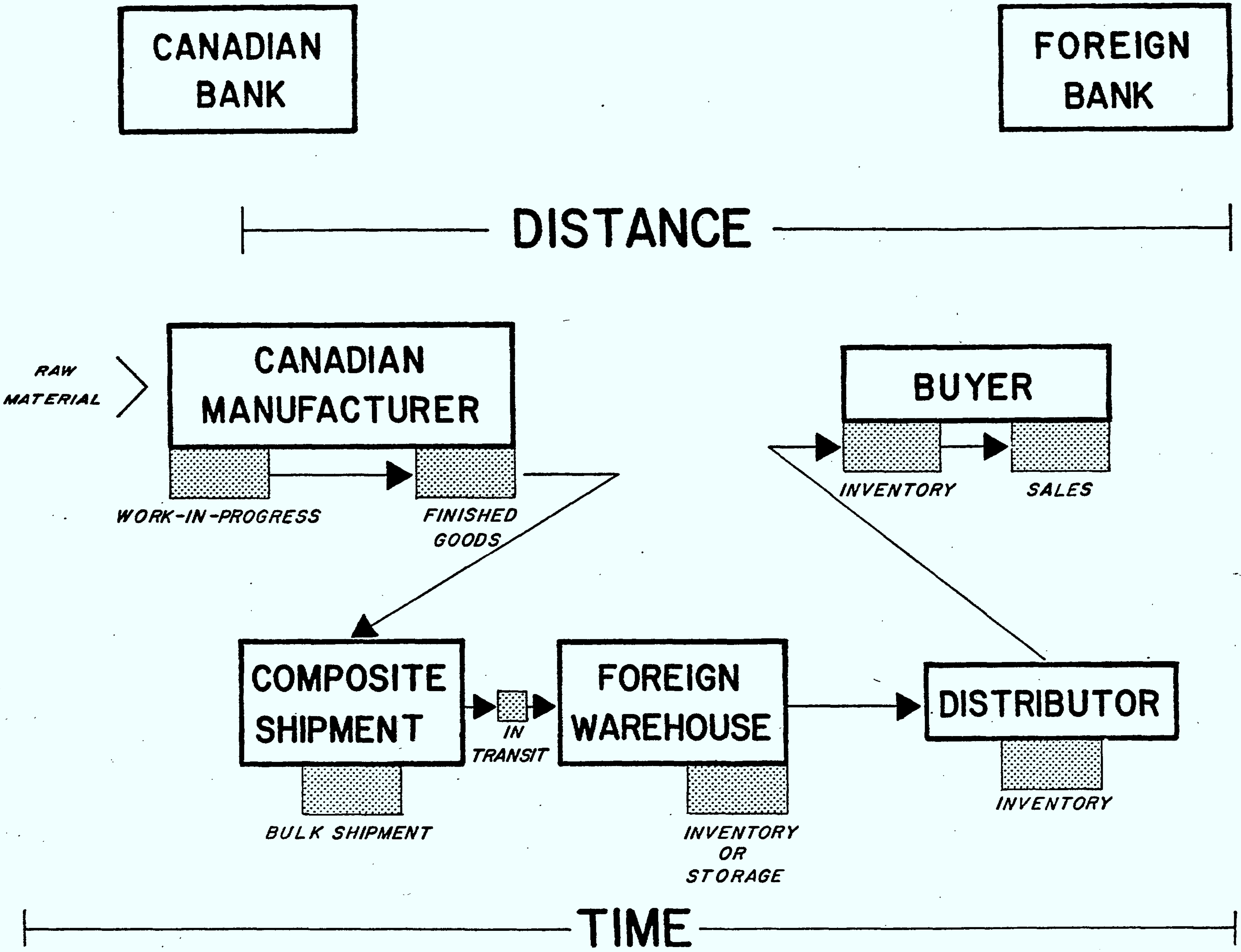
In addition to the above, the customary basic research was conducted by the review of various papers, newspaper articles, trade journals, etc. plus conversations with almost all of the officers in the Automotive Parts Division and other officers within the Branch.

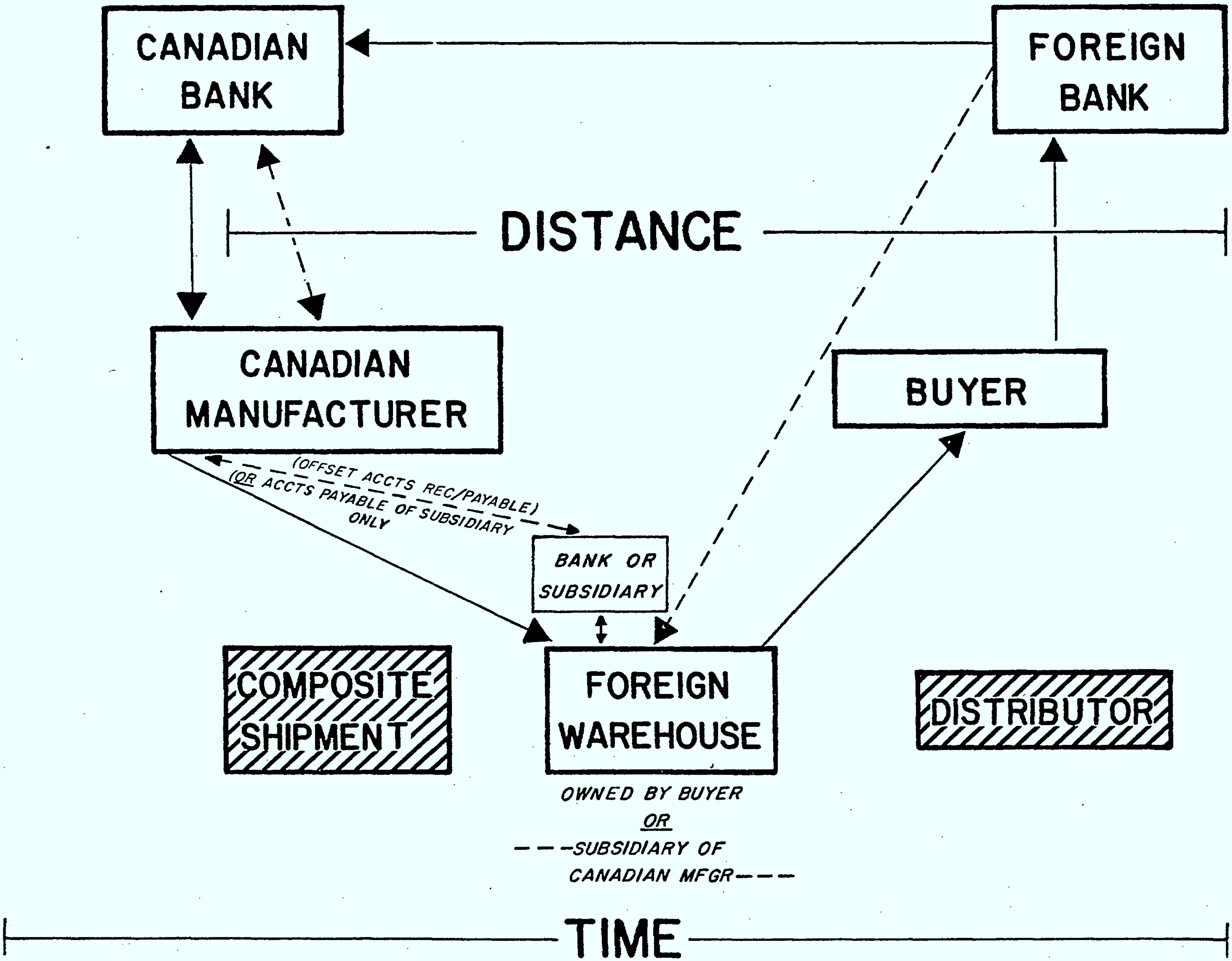

CANADIAN BANK
- BOOK DEBTS
- SECTION 88
- WAREHOUSE RECEIPTS
- E.D.C.
- BILL OF LADING
FOREIGN BANK
—LETTER OF CREDIT
DISTANCE
ACCTS. REC.
INVENTORY
RAW
ATERIAL
CANADIAN MANUFACTURER
W.I.P.—F.G.—INVENTORY
STORAGE
BUYER
—BLANKET ORDER
—SPECIFIC ORDER
COMPOSITE SHIPMENT
CONTAINERS
FOREIGN WAREHOUSE
CUSTOMS CLEARANCE
BREAK BULK
STORAGE
DISTRIBUTOR
— INVENTORY
—CONSIGNMENT
—SHIPMENT
TIME

APPENDIX "B"

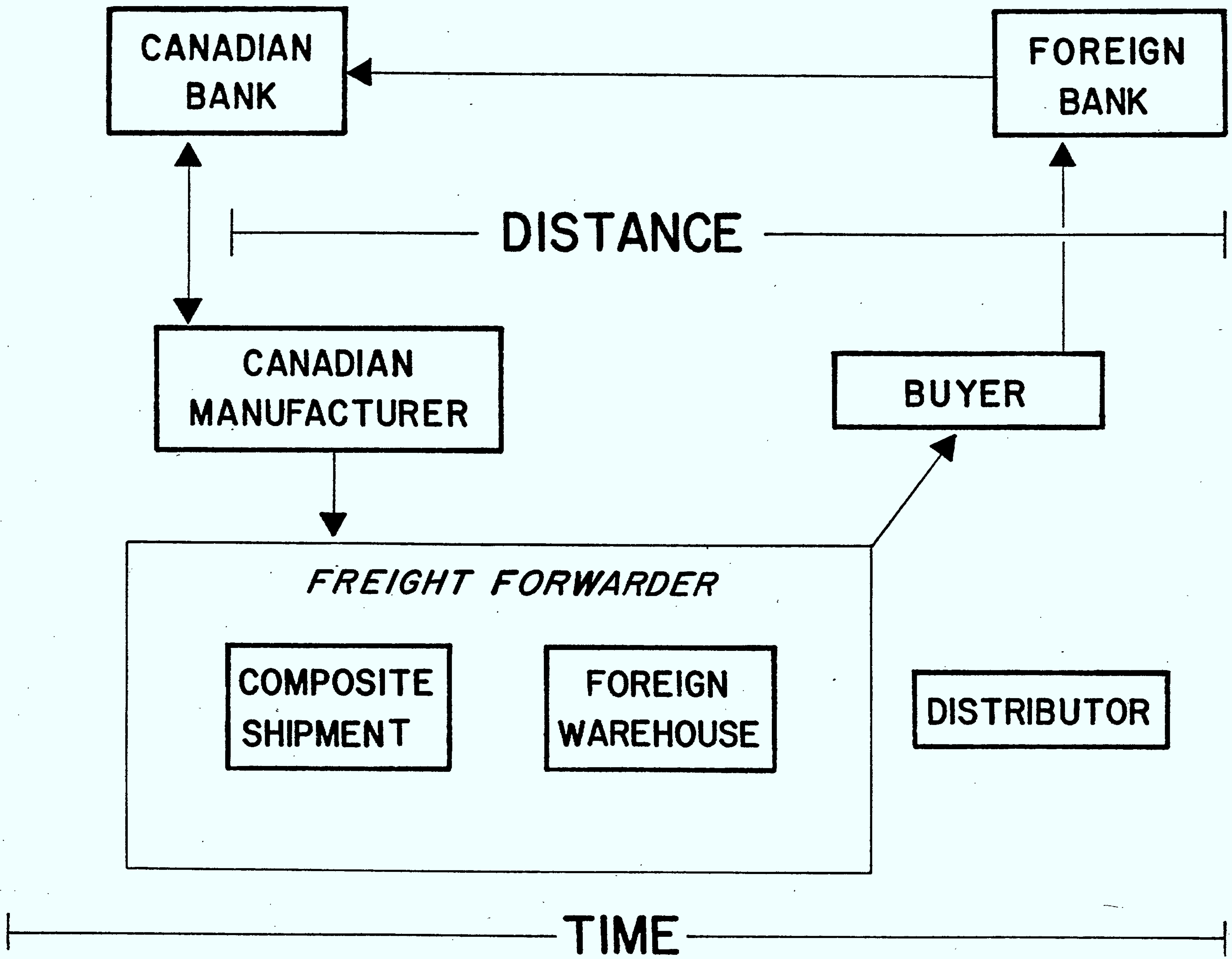
APPENDIX "C"

"PIPELINE"




CANADIAN BANK
FOREIGN BANK
DISTANCE
CANADIAN MANUFACTURER
BUYER
(OFFSET ACCTS REC/PAYABLE)
(OR ACCTS PAYABLE OF SUBSIDIARY ONLY
BANK OR SUBSIDIARY
COMPOSITE SHIPMENT
FOREIGN WAREHOUSE
DISTRIBUTOR
OWNED BY BUYER
OR
SUBSIDIARY OF CANADIAN MFGR
TIME

APPENDIX "D"


CANADIAN BANK
FOREIGN BANK
DISTANCE
CANADIAN MANUFACTURER
BUYER
FREIGHT FORWARDER
COMPOSITE SHIPMENT
FOREIGN WAREHOUSE
DISTRIBUTOR
TIME

APPENDIX "E"

FREE TRADE ZONES AND RELATED FACILITIES ABROAD

FEBRUARY 1973

Issued By

WORLD TRADE DEPARTMENT

VINCENT J. BRUNO, Director

COMMERCE AND INDUSTRY ASSOCIATION OF NEW YORK, INC.

99 Church Street, New York, N.Y. 10007

Telephone: 732-5200

AFARS AND ISSAS:	Free port. Transit zone at Djibouti (for Ethiopia).
ANGOLA:	Transit zone at Lobito (for Zaire and Zambia).
ARGENTINA:	Transit zones at Barranqueras, La Quiaca and Pocitos (for Bolivia); Buenos Aires, Jujuy, Mendoza, Rosario, Salta and San Juan (for Bolivia and Chile); Empedrado and Paso de los Libres (for Brazil); Monte Caseros (for Brazil and Paraguay); Concordia (for Brazil, Paraguay and Uruguay). Free perimeter at Tierra del Fuego.
AUSTRIA:	Free trade zones at Graz, Linz, Solbad Hall and Vienna.
BAHAMAS:	Free trade zone at Freeport (Grand Bahama Island).
BAHRAIN:	Free trade zone at Mina Sulman.
BELGIUM:	Bonded warehouses at Antwerp, Brugge-Zeebrugge, Brussels, Ghent, Ostend and National Airport in Zaventem near Brussels.
BERMUDA:	Free trade zone at Freeport (Ireland Island).
BRAZIL:	Transit zones at Belem (for Bolivia and Peru); Corumba and Porto Velho (for Bolivia); Manaus (for Ecuador); Paranagua (for Paraguay); and Santos (for Bolivia and Paraguay). Free port at Manaus.
CHILE:	Transit zones at Antofagasta (for Bolivia and Paraguay) and Arica (for Bolivia). Free perimeters at Arica, Aysen, Chiloe and Magallanes.
COLOMBIA:	Free trade zones at Barranquilla, Buenaventura and Palmira. Free ports at Providencia and San Andres Islands. Free perimeter at Amazonas.
DENMARK:	Free trade zone at Copenhagen.
Dominican Republic:	Free zone at La Romana and San Pedro de Macoris.
FINLAND:	Free trade zones at Hanko, Helsinki and Turku. Lappeenranta
GERMANY:	Free trade zones at Bremen, Bremerhaven, Cuxhaven, Emden, Hamburg and Kiel.
GIBRALTER:	Free port.
GREECE:	Free trade zones at Piraeus and Thessaloniki. Transit zone at Thessaloniki (for Yugoslavia).
GUATEMALA:	Free trade zone at Santo Tomas de Castilla.
HONG KONG:	Free port.
INDIA:	Free trade zone at Kandla. Transit zone at Calcutta (for Nepal).
IRAN:	Transit sones at Khorramshahr (for Afghanistan).
IRELAND:	Free trade zone at Shannon International Free Airport.
ITALY:	Free trade zones at Brindisi, Genoa, Messina, Naples, Trieste and Venice. Free depots at Bari, Genoa, Imperia, Leghorn, Naples and Palermo.
IVORY COAST:	Transit zone at Abidjan (for Mali, Niger and Upper Volta).
JAPAN:	Bonded warehouses at Hakodate, Kobe, Moji, Nagasaki, Nagoya, Osaka, Tokyo and Yokohama.
KOREA:	Free trade zone at Masan.

LEBANON:	Free trade zones at Tripoli, Beirut and Beirut International Airport.
LIBERIA:	Free trade zone at Monrovia.
LIBYA:	Free trade zone at Tripoli.
MALAYSIA:	Free ports at Penang and Labuan Islands.
Mauritius:	Free zone at Port Louis.
MEXICO:	Free trade zones at Coatzacoalcos (Puerto Mexico), Salina Cruz, Quintana Roo, Baja California. Partial free zone in the State of Sonora.
MOZAMBIQUE:	Transit zones at Beira (for Katanga, Malawi, Rhodesia and Zambia); and Lourenco Marques (for Rhodesia, Swaziland, South Africa and Zambia).
NETHERLANDS:	Bonded warehouses at Amsterdam, Rotterdam and Schiphol Airport.
NETHERLANDS ANTILLES:	Free trade zones at Aruba and Curacao.
OKINAWA:	Free trade zone at Naha (Ryukyu Islands).
PAKISTAN:	Transit zone at Karachi (for Afghanistan).
PANAMA:	Free trade zone at Colon.
PARAGUAY:	Transit zones at Concepcion and Encarnacion (for Brazil); at Asuncion (for Germany and Spain); and at Villeta (for Spain).
PERU:	Transit zones at Matarani and Mollendo (for Bolivia). Free perimeter in eastern Amazon region.
PHILIPPINES:	Free trade zone at Mariveles.
SENEGAL:	Transit zone at Dakar (for Mali).
SINGAPORE:	Free trade zones at the Port of Singapore Authority area and at the Jurong Wharf. Free port. Transit zone for Southeast Asia.
SOUTH YEMEN:	Free port at Aden.
SPAIN:	Free trade zones at Barcelona, Cadiz and Vigo. Free ports at Canary Islands, Ceuta and Melilla. Free deposit facilities at Algeciras, Alicante, Bilbao, Pasajes and Santender. Commercial deposit facilities at Huelva, La Coruna, Las Palmas (Canary Islands), Malaga, Seville and Valencia.
SWEDEN:	Free trade zones at Gothenburg, Malmo and Stockholm.
SWITZERLAND:	There are 18 free port facilities in Switzerland, located in or near major transportation centers. The largest are situated in the Basel, Chiasso, Geneva and Zurich areas.
TAIWAN:	Free trade zone at Kaohsiung.
TANZANIA:	Transit zones at Dar es Salaam and Kigoma (for Burundi, Zaire, Rwanda and Zambia).
THAILAND:	Transit zone at Bangkok (for Laos).
TOGO:	Free trade zone at Lome.
URUGUAY:	Free trade zones at Colonia and Nueva Palmira.
VENEZUELA:	Free port at Margarita.

DEFINITIONS

A free trade zone is an area where goods of foreign origin may be brought in for re-export or transshipment without the payment of customs duty. Free trade zones allow international traders to store, exhibit, sample, blend, mix, sort and repack the merchandise.

A free port is an area generally encompassing a port and its surrounding locality, into which goods may enter duty-free or subject only to minimal revenue tariffs, whether such goods are for re-export or for local consumption.

A free perimeter is similar to a free port but is generally confined to a remote or underdeveloped region in a country.

A transit zone is a port of entry in a coastal country established as a storage and distribution center for the convenience of a neighboring country lacking adequate port facilities or access to the sea. Goods in transit to and from the neighboring country are not subject to the customs duties, import controls, or many of the entry and exit formalities of the host country.

A free deposit is a limited area in a major port containing the office of a maritime customs authority and is operated by a concessionary company under the general supervision of the customs authorities. Goods may be held in free deposit without payment of customs duties or other taxes. General operations permitted in free deposits include storing, repacking, division of goods from bulk to commercial quantities, mixing, and all other operations which increase the value of goods deposited without changing the essential nature of the goods.

A commercial deposit is similar to a free deposit but offers more limited privileges.

A free depot is an area where foreign goods may be stored, unpacked and repacked without payment of customs duties; but no processing is permitted.

A bonded warehouse is generally under the control of custom authorities and goods for re-export may be stored for extended periods of time (usually up to two years) without payment of duties or other taxes. In addition to storage, certain operations, such as repacking, sorting, sampling, blending, mixing, etc., are generally permitted.

WORLD TRADE DEPARTMENT

Vincent J. Bruno, Director

The World Trade Department, one of the specialized service units of the Commerce and Industry Association, serves the needs of the export and import community of the Port of New York, especially the smaller firms constituting a large proportion of the more than 3,500 companies on the Association's membership roles.

With its staff of specialists, the Department provides a wide range of direct service to members through its Export Division, Import Division, Trade Opportunity Division and Document Certification Offices.

APPENDIX — G

Export Support Program

This publication describes the Export Support Program administered by the Ontario Development Corporation. The program provides assistance to Ontario based exporters encountering difficulties in financing exports of capital and consumer goods.

The program is not intended to duplicate the services offered by the Export Development Corporation, the chartered banks, and other financial institutions. Its aim is to supplement the services provided by these institutions.

What services are available under the Program?

Short Term Financing of Production of Goods for Export –
Financing the **production** of goods for export against specific orders.

Short Term Financing of Export Goods Held in Warehouse –
Financing of goods held in **warehouse** for export against specific orders.

Medium Term Export Financing of Capital Goods –
Financing the sale of **capital goods** at the date of shipment where other sources of export financing are not available.

Short Term Financing of Consumer Goods –
Financing the sale of **consumer goods** at the date of shipment where other sources of export financing are not available.

What are the basic requirements for consideration?

An applicant company must demonstrate that:–

It is Ontario based.

It is unable to obtain the necessary export financing from the Export Development Corporation or other financial institutions on reasonable terms and conditions.

The goods for export have a significant Canadian content.

Management is capable of operating in an acceptable businesslike manner.

Basic requirements *(cont'd)*

It is not insolvent or in bankruptcy.

Acceptable security is available.

What are the terms and conditions of the loans?

A line of credit will be established for a specific period for each exporter in regard to the short term financing of the sale, the production, or the warehousing of consumer goods for export.

For short term financing of the sale of consumer goods for export, the normal maximum term of each advance within the line of credit will be up to 180 days from the date of shipment.

For financing the sale of capital goods for export, the term of the loan is normally up to five years.

The rate of interest is set from time to time by O.D.C.'s Board of Directors. The current rate may be ascertained from the O.D.C.

Export Development Corporation insurance or other satisfactory credit insurance should normally be obtained.

How will the loan funds be disbursed?

There must be evidence that a firm export order, acceptable to O.D.C., has been obtained.

For financing the sale of consumer goods, O.D.C. may advance up to 90% of the value of the shipment.

For financing the sale of capital goods, O.D.C. may advance up to 95% of the value of the shipment less the down payment. A down payment of at least 10% is normally required.

For financing the production of either consumer or capital goods for export, up to 75% of the value of the order may be advanced.

For the short term financing of goods held in warehouse for export, up to 75% of the value may be advanced at the date of issue of the warehouse receipts.

What security will be required?

Security will normally take the form of:

Assignment of shipping and/or transaction documents or warehouse receipts.

Assignment of credit insurance and cargo insurance.

Such other security as O.D.C. may deem appropriate.

How will the loans be repaid?

Payments will normally be made by the purchaser of the goods directly to O.D.C. or its agents.

How to apply for loans?

Enquiries should be made to the:–

Ontario Development Corporation
Mowat Block, Queen's Park
900 Bay Street
Toronto, Ontario
M7A 1T5
Telephone:
Area Code 416—965-4622

EXPORT SUPPORT PROGRAM

Ontario Development Corporation

The Ontario Development Corporation was established in June 1966 by the Government of Ontario to provide financial and advisory services to business in order to stimulate industrial growth, economic development and employment opportunities in the Province.

Reporting to the Legislature through the Minister of Industry & Tourism, the Corporation's activities are governed by a Board of Directors composed of representatives from the business and financial communities and labour.

The Honourable
Claude F. Bennett
Minister, Industry and Tourism

Donald C. Early
Chairman

Alan Etchen
Managing Director

Ontario Development Corporation
Mowat Block, Queen's Park
900 Bay Street
Toronto, Ontario
M7A 1T5

TRADING HOUSES/EXPORT MIDDLEMEN

Market Development Group,
Department of Industry, Trade
and Commerce,
OTTAWA, Canada.

May 1972

TRADING HOUSES/EXPORT MIDDLEMEN

The terms "trading houses" and "export middlemen", can be interpreted to embrace a variety of functions. For purposes of their definition in the study, the prime criteria have been taken to be continuity and independence i.e., the performance of a continuing function by an agency on a basis which is independent of both producer and consumer. This excludes ad hoc export consortia, those groupings which are formed to take advantage of a specific marketing opportunity and then subsequently disbanded. The focus is primarily on those operations performed under the standard titles of "export commission agent" and "export merchant" although some attention has been directed to confirming houses. The latter have been included because they represent a significant British category and the most important financial service tied to marketing services.

The study examines the use of middlemen in three main functional areas:

- in capital projects marketing; to act as a "prime" in assembling project packages, rationalize company participation, minimize risk, etc.

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- to provide export marketing expertise for small to medium-sized companies that do not have or cannot develop "in house" expertise, and
- in bartering and switch trading.

STUDY OBJECTIVES

Within these definitions the objectives of the study are:

- to assess use made of trading houses/export middlemen in the export trade of selected countries, notably Japan, Britain, and various European countries,
- to identify Canadian export middlemen and assess the use made of their operations in Canadian export trade,
- to assess problems faced by Canadian-based export middlemen in order to determine how their development might be encouraged to promote Canadian exports.

JAPAN

The 5,000 Japanese trading corporations presently account for 70% of total Japanese exports and 80% of total Japanese imports. Of these, the 21 firms with sales in excess of ¥100 billion account for 63% of total Japanese exports and 74% of total Japanese imports. The 13 firms with assets of more than

¥100 billion account for 58% of total Japanese exports and 67% of total Japanese imports. The top ten firms (by 1970 sales) are Mitsubishi with sales of $11.3 billion, Mitsui with sales of $10.4 billion, Marubeni-Iida with sales of $7.5 billion, C. Itoh with sales of $7.1 billion and (in descending subsequent order) Nissho-Iwai, Sumitomo, Toyomenka, Nichimen, Kanematsu-Gosho and Ataka.

An interesting aspect of the business activities of Japanese trading corporations is that, although they are better known for their foreign operations, their domestic business exceeds their foreign business. Thus, in 1970 domestic transactions handled by Japanese trading corporations represented 55% of their total business as compared to 40% for export/import trade (of which 18% was exports and 22% imports) and 5% for triangle trade. The domestic portion not only involves them in domestic trading but also in large venture capital undertakings such as housing and land development, ecology restoration, underseas resource development and the knowledge industry.

While trading corporations have in themselves undergone a unique development in Japan, a more significant aspect of the Japanese business structure is the unique series of inter-relationships which exist between government/banking/manufacturing and trading corporations. The first significant relationship is that between trading corporations and specific groups of

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companies, Mitsubishi and the Mitsubishi Group, Mitsui and the Mitsui Group, Marubeni-Iida with Fuji Group, Sumitomo with the Sumitomo Group, etc. The relationship is of course not in all instances exclusive. Clientele in many instances tends to overlap, one notable example of this being that both Marubeni and Mitsubishi service Mitsubishi Heavy Industries and Ishikawajima-Harima Heavy Industries and another in the use by other trading corporations of Nichimen for trade into Communist China. The relationships do however provide a fairly stable clientele core and a similarly stable core of trading income. This is also the case with smaller trading corporations which do not have a formal affiliation with a particular group of companies.

The second significant relationship is that which exists between trading corporations and Japanese banks. This is best illustrated by the fact that the Mitsui and Marubeni are the first and second largest borrowers from the Fuji Bank, Mitsubishi is the largest borrower from the Mitsubishi Bank, Sumitomo is the largest borrower from the Sumitomo Bank, Mitsubishi and Nichimen are the first and second largest borrowers from the Sanwa Bank, and Itoh and Nissho are the first and second largest borrowers from the Dai-Ichi Bank. The trading corporations thus operate as financial intermediaries. This position of influence started in post 1945 re-construction when corporate self-financing was difficult and banks imposed as a condition of lending that trading houses act as lending intermediaries to guarantee repayment.

Trading houses have as a consequence become involved in both export and production financing of small to medium-sized firms. This privileged financial resource position has also permitted trading companies to obtain equity holdings in Japanese growth industries and thus consolidate their marketing positions. An interesting aspect of their ability to pool financial risks through diversified operations is that this makes of them prime candiates for loans not only in domestic markets but also in international money markets, notably in the U.S. and Eurodollar markets. One of their main strengths has therefore been their ability to secure and channel financial resources in both domestic and international financial markets.

The third significant relationship is with manufacturing companies in general. Influenced both by lending positions and equity holdings of trading corporations, Japanese manufacturers have tended to specialize in production, leaving both raw material purchases and product sales to trading corporations. This is equally true both domestically and abroad although a higher proportion of foreign sales is channeled through trading corporations.

The fourth significant relationship is among trading corporations themselves. This is institutionalized in monthly meetings of representatives of the major trading corporations, with government representatives in attendance, to discuss common problems and progress in meeting the government growth goals.

One example of this co-operative relationship is in the response to a 1970 Chinese announcement cancelling dealings with trading corporations involved in trade to South Korea and Taiwan. In response to this announcement it was jointly agreed among trading corporations to split their trade, Nichimen dropping Korean and Taiwanese trade to concentrate on China, other trading corporations operating through Nichimen or other designate companies and the remainder dropping Chinese trade entirely.

The fifth significant relationship, and undoubtedly the most important in the Japanese economic structure, is that which exists between Japanese business and the Japanese government. The most obvious manifestation of this relationship is in the Supreme Trade Council. This organization, chaired by the Japanese premier, consists of thirty members drawn from government economic departments and from major business sectors and has as its function the allocation of world markets and the setting of export targets for every major product and country. This government/business relationship is continually maintained by officials from the Ministries of International Trade and Industry and Finance who confer periodically with business representatives on progress towards the attainment of goals. The Ministry of International Trade and Industry can even set standards on minimum plant size when it feels economies of scale are vital. The government position in the relationship is strengthened by the fact that the Ministry of Finance, through the Bank of Japan, can ensure that funds are channelled to areas of greatest growth and potential; since debt financing normally represents some 80 per

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cent of financial sourcing in Japan, this influence is paramount in structuring the industrial expansion that leads to export production. The relationship between business and government is also re-inforced by a close relationship between government and labour. Labour awards are made either on achievement or assumption of achievement of certain productivity increases (at least comparable to the awards granted). There has as a consequence not been a major strike since 1945.

The strength of the government/business relationship is also indicated from the legal right which exists with the Ministry of International Trade and Industry to prevent Japanese companies not members of a designated cartel from selling in an exclusive cartel market. With MITI sanction and protection these export cartels are developed by association between selected manufacturers and a trading corporation or a number of trading corporations to co-operate on penetration pricing and competitive tactics in a particular market. Through these cartels, companies that normally compete in Japan cooperate to rationalize export marketing. Examples include the combination of seven trading corporations with three companies to obtain a $100,000,000 pipe order for a trans-Alaskan pipe line. Another is a combination between Sumitomo and Mitsubishi to obtain a similar pipe contract in Ecuador.

These relationships support effective use of a variety of marketing techniques both by Japanese manufacturing companies independently and by Japanese trading corporations. The most notable of these include penetration pricing, joint venturing, triangle trade, and bartering.

Examples of penetration pricing include reports of a Japanese trading company selling at low prices for three years in Europe in order to establish an air conditioner market. Another example is that until 1967 it appears that the Japanese ship building industry used marginal pricing for export; since 1967, with half the annual tonnage in the world, pricing policies have been directed to recouping earnings. A final example is in the introduction of Toyota to the Philippines under initial terms to fleet owners of no down payments and a six month moratorium on payments; after an initial two years of operation, Toyota now has 25 per cent of all auto sales in the Philippines. In all these instances the Japanese stress that such export pricing policies should be determined in the perspective of total production and that income from developed markets can legitimately be used to support development costs in other markets. The significance of these tactics gains emphasis when considered in relation to the major complaint from Canadian trading houses that Canadian export pricing is unrealistic.

The existence of Japanese trading corporations also permits more effective joint venturing both for off-shore manufacture and resource development. For example, Mitsui by 1970 had invested in 95 distinct foreign ventures mostly directed to taking advantage of cheaper foreign labour, to semi-process imports and to

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provide markets for machinery and parts. The most important joint-venturing area is however of course in overseas resource development, the most familiar examples being loan financing of Canadian copper and coal developments, the former by six Japanese mining companies and three trading corporations and the latter by two trading corporations. Other major examples include the Mount Newman iron ore project in Australia in which 10% of the equity financing was provided by two trading corporations, uranium development in Niger, lead in Peru, iron ore in Chile, etc.

Another instance where Japanese trading corporations have significant marketing advantages is in the use of their foreign operations to identify Japanese export opportunities resulting from sales between third countries. One example of this is in a relationship through which Marubeni handles U.S. sales of a number of Philippine sugar mills and through these contacts is able to identify, for Japanese procurement, the machinery and parts required in the milling operations.

A particularly significant advantage which accrues to Japan through the existance of their trading corporations is in bartering. One example of this is in the construction by Sumitomo, using Japanese equipment and services, of a $30,000,000 Indonesian refinery. This was financed by the Japanese government and Japanese commercial banks, with repayment over an extended contract period in refined petroleum at current prices.

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Benefits accrue to Sumitomo through this transaction both in commissions on machinery and service exports and in commissions on oil imports. Substantially the same arrangements have been concluded in Singapore (again through Sumitomo) with the construction of a $50,000,000 refinery for Singapore Petroleum; repayment is scheduled through the provision of 1½ million tons of naphtha and low sulphur petroleum a year for five years from the date of construction.

UNITED KINGDOM

The British organizations most similar to Japanese trading corporations are the old colonial trading companies (East India Company, Hudson's Bay Company, Levant Company, Russia Company, etc.) of which the major survivor is the United Africa Company. The latter, particularly with its relationship to the Unilever Group, and such other British-connected organizations as Jardine Matheson represent the present existing trading agencies most comparable to the Japanese. The study has however not devoted any attention to these agencies because the circumstances of their creation in colonial trade and the present operation particularly of United Africa as an outgrowth of colonial trade are obviously different to anything which can be developed in Canada. Therefore attention has been directed primarily to the smaller British houses, specifically British export commission agents and British export merchants.

The major use made of British export houses was before 1914 when such agencies handled by far the greatest proportion of British export trade. As late as 1951 British trading houses still handled some 35% of British export trade. While the volume of turnover has increased, the proportion of British export trade now handled by trading houses has been reduced to a level of 20% of total export trade. Statistics on the structure of clientele and destination of trade handled by export houses are not available but it has been inferred that the change results from an increasing amount of trade of larger exporters being handled independently, relying upon trading houses primarily for assistance in abnormal marketing circumstances or where they offer a financial or marketing service that is not otherwise available or would be too costly to develop in-house. Trading houses are however still relied upon for general trade by small to medium-size exporters. Examples of specialized facilities are in extra-bank financing and particular export market expertise, the latter being most evident from the number and size of specialist companies focussed on COMECON trade. This is in fact held as a particular strength of the British export house structure: that the variety of houses in existence provide a range of expertise for nearly every trading eventuality. The result is however that British export merchants handle 25 per cent of British export house turnover with a downward trend,

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buying agents and confirming houses handle some 55 per cent with an upward trend, and the remainder are fairly stable at 20 per cent of total trade.

There are presently some 800 British export houses providing services as export merchants, commission agents, buying agents, confirming houses, export finance houses, etc. The total aggregate employment is approximately 10,000, or somewhat less than the total employment in Mitsui or Mitsubishi. Some relationships exist between export houses (through the British Export Houses Association) and the Department of Trade and Industry but no British government policies are specifically directed to promoting export house business. Before the Bland Committee (Committee on Invisible Exports) studies in 1967 and the subsequent 1969 study on the impact on invisibles of joining the European Common Market no aggregate statistics were even developed on export house operations. Within the last year however the British Export House Association has strergthened its position through a formal affiliation with the London Chamber of Commerce and has initiated discussions on a European association of export houses. The association will be based in London and will formalize the present "Stockholm Club" which is an informal grouping of trading house associations in the EEC, Sweden, Denmark, Norway, and Britain with Switzerland having observer status. The BEHA has proposed providing the base and initial financing for the new association. It is expected that the new association will have a stronger voice in the development of export policies.

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Just as there is a significant proportion of Japanese trading corporation business in triangle trade it is estimated that some 25% of British export house turnover resulted from triangle trade. Total annual export house turnover in 1968 was $2.73 billion, of which $681 million was in triangle trade. Estimated annual contributions to British invisible earnings by export house operations in 1968 were $112 million. Earnings are obtained from the main services of work done in handling goods on documents and risk taken in granting credit. Earnings normally average 2½% of invoice value although they can vary between 1% and 10%.

Refinancing is normally done through London merchant or clearing banks (in the case of export finance houses, normally because of an association between the house and a bank) and therefore financing rates are usually higher than a bank advance. However, export houses still offer financing advantages in that cash is usually provided immediately, leaving the exporter's overdraft facilities free for manufacturing and home sales.

Of the largest houses, eight merchants, four purchasing agents or indent houses, nine confirming houses, three export management firms and eight export finance houses all have annual turnovers exceeding £3 million. Together these firms handle nearly 75% of total export house turnover. The largest British export house, both in terms of volume and geographical spread is Tozer Kemsley Millbourne. This company has until recently concentrated in Commonwealth countries and acts both as an export merchant and confirming house. Another house of interest is

United City Merchants which with its associated group comprises some 30 companies engaged in a range of activities from exporting its own products to agency business and confirming. This group has concentrated on trade with the COMECON countries and China and has developed a particular expertise in barter trading and switch trading. The group's future intention is to apply this expertise to trading with developing countries. Another house of interest is Wogau Brameast which has concentrated on industrial goods marketing to the COMECON countries and which has similarly developed a special expertise in barter and switch trading. Although its emphasis will continue to be Eastern Europe (especially since the company has now become extensively involved in the export of U.S. goods to the area) it has currently entered into a phase of expanding into the Far East and Africa, using its existing barter expertise. Other major companies of interest are Dodwell and Co., Lewis and Peat, (both of whom won the 1971 Queen's Award for export performance) and Adam and Harvey.

A joint private/government enterprise still under investigation is the British Overseas Marketing Corporation which was established in 1967 to provide a supplement to the functions of existing private export houses. The Corporation was initially capitalized at £500,000, ten subscriber companies providing equity capital of £100,000 and the government providing loan capital of £400,000. Its functions are to provide a vehicle for making available to small to medium-size British companies the export expertise which they do not have available in house. In accord with this function, the official objective of the Corporation is to explore overseas markets for new opportunities for British exports and to ensure that adequate marketing efforts are made to exploit them, initially in particular product groups. To achieve this objective the Corporation recruited overseas sales personnel in 1968 and initially concentrated its activities in the European market, opening offices in Italy, France, West Germany and Sweden during its first 18 months of operation. The products initially promoted included agricultural machinery to France, hospital equipment to Italy, electronic and electrical equipment to Germany, and fashion textiles to Denmark and Sweden. After two years of operation the Corporation encountered some criticism since it had still to announce its first major deal. As a result of the government subsidy not being renewed in 1970 export operations throughout Europe were curtailed. The Corporation however has again expanded its operations into Europe, having opened a Technical Information Centre in Warsaw in 1971 focussed on expanding British technological exports to Poland.

One of the main reasons which has been given for the Corporation's marketing difficulties is that smaller firms that form its clientele very often not only have insufficient cash for foreign marketing ventures but also do not have production facilities to meet sizable foreign orders. However the fact that the Corporation is still being supported by its private backers, which include some of the major British trading firms, indicates that there is still private acceptance for the function that it is designed to perform. Shareholder companies include British Metal Corporation, C. Tennant & Sons, Harrisons & Crosfield, Inchcape & Co., Mitchell Cotts Group, Tozer Kemsley & Milbourne, James Finlay & Co., Cory Brothers & Co. and United Dominions Trust. The Corporation's marketing services in Poland are presently used by some twenty British companies including ICI Plastics, the Pye Group, Ferranti Instruments and Racal Electronics Group; it is anticipated that these will produce annual turnover of some £ 5 million within two years, producing a 10% increase in British exports to Poland.

Another British organization which was developed to achieve essentially the same objective is Export Joint Ventures Limited (Export Marketing Partnerships). This agency was initiated in 1965 by the British Institute of Marketing as a result of a BIM survey which indicated that some 600 companies contributed two-thirds of all British exports whereas 40,000 additional firms produced exportable product but were either not exporting or were marginal exporters; the study suggested that this situation derived from two problems, lack of financing and lack of knowledge. Export Joint Ventures Limited was developed in response to the latter problem. Its function was defined as providing "for manufacturers and exporters alike a considerable and impartial collective experience sufficient to bring about an export marketing partnership between a manufacturing exper-

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tise and an export expertise", the latter involving either a trading house or exporting manufacturers. It was initially developed as a non-profit organization and provided its services at minimal cost, with an annual government subsidy of £20,000. With the termination of this subsidy in 1970 however a new service charge policy was introduced whereby a small charge appropriate to size of turnover is made to enable EMP to recover costs once a partnership begins trading; this now is at the level of a fee £50 from each party to the partnership established and a percentage of export turnover ranging between ½% to 2½% depending on commodity and volume. EMP itself acts as a signatory to a partnership agreement and provides services through scrutinizing monthly accounts and acting as arbitrator between parties where disputes occur. An interesting part of the package offered is in pricing advice, in calculating export prices on the basis of additional direct costs (raw material, parts, labour needs for the order, direct production costs, etc.) but not including plant and equipment costs where orders are filled through unused capacity. The company now operates on a fully commercial basis, having severed its connection with the British Institute of Marketing, and appears to be quite successful in its operations: during its first year some 45 manufacturing firms were joined with already successful exporting companies in acceptable co-operative arrangements whereas some 30 partnerships have already been effected during the first three months of 1972.

EUROPE

Although Dutch and German trading houses occupy positions of some significance in the export trade of their respective countries (one estimate suggests that 30 per cent of German exports are handled by German export merchants) the study has emphasized agencies resulting from export groupings in Europe rather than independent export houses because of the availability of some information on such agencies and because they demonstrate some interesting forms of export co-ordination. Outlined following are details of such agencies in France, Belgium, Switzerland, the Netherlands, Austria, Norway, Denmark and Italy. Further detail on their operational procedures has been requested.

As with British and American analyses, studies by the French Centre National du Commerce Exterieur have indicated that a small proportion of French companies are responsible for the larger proportion of French export trade (4,500 companies being responsible for 72% of exports) and the major part of French export expansion will have to be developed from medium-size companies. The requirement for export middlemen agencies implied by these findings has however resulted in a different approach than that developed in British trade. Whereas independent trading houses occupy and have occupied positions of some significance in Japanese, German and British export trade such agencies are used in less than 10 per cent of French export trade. The functions normally performed by export houses in Japan, Britain, and Germany are in France performed for the

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most part by export groups. These consortia are used in nearly every French industrial sector with presently somewhat more than 100 major consortia in industrial sectors ranging from machine tools and agricultural equipment to lace and chocolates. The functions performed by these organizations range from joint marketing in a particular market area to general export marketing and rationalized production and purchasing. Advice has been requested on French government programs directed to supporting export consortia.

While export consortia are not quite as significantly developed as export marketing media in other European countries as they are in France, there are some interesting instances of their use.

One such instance is the group of export consortia associated with the Federation of Belgium Metal Working Industries (Fabrimetal). Among these are Symatex which is a limited company with the function of promoting development in package orders among thirteen Belgian companies manufacturing machines for the textile industry. Others are Sycomom which performs the same functions with machine tools and Sobeled which has as its purpose the export promotion of complete plants, mostly to Eastern Europe and the developing countries. Similar such groups have been developed by other major Belgian trade associations such as the Federation of Chemical Industries, the Federation of Food Industries, the Federation of Textile Industries, etc.

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It appears that this pattern is repeated throughout Belgian industry, that the function of providing export services to small to medium-size companies is vestedin trade associations and that, where export groups are developed, they are developed at the initiative of the relevant trade association.

Another instance, in Switzerland, is Biscoswiss S.A. which is a limited company acting as exclusive export agent in European markets for twenty-two Swiss biscuit and sugar confectionery manufacturers. All products are marketed under the name of Biscoswiss and the company controls quality, packing and labelling. The company has also been involved in the arrangement of licensing agreements and in the purchase and construction of foreign production facilities, the latter presently involving subsidiaries in France and Germany. Present capitalization is $50,000 and operating costs are covered by export sales commissions charged to participating companies. The initiative for development of the company came from the Swiss biscuit and sugar confectionery trade association.

A Dutch example is the Central Organ for Arts and Crafts Makers which acts as an export agent for some 500 Dutch industrial art firms. Client companies have an option to use the services of the group or not, subject to the proviso that they cannot engage in independent marketing in a market where a group agent has been appointed, but in fact the group handles virtually all exports, client companies usually being too small to develop independent export capability. Products are exported under group name and export promotion is centralized in the group. The group is funded by annual government grants.

An Austrian example, Gablonzer Genossenschaft, involves both common marketing and procurement. This consortium acts as an export merchant, buying the products of 236 glass jewelry firms and exporting under its own name. It additionally provides a joint purchasing facility in the purchase of raw materials, tools and machinery, etc. It engages in export promotion at a charge of some 3% of sales and was initially financed through a commission of 5% of sales; its present financing comes from profits, loans, and fixed monthly contributions from client companies. Other Austrian groups include Top-Team which is a voluntary association of ski boot, ski equipment, and winter clothing manufacturers for the purpose of common advertising only; Export Ring, a co-operative of small manufacturing companies primarily from province of Styria acting as an export agent for its members (recently opening a showroom in Toronto); Oehag and Oemolk which are associations for exporting milk and milk products, one to the Common Market area and the other world wide; and the Association of Vorarlberg Embroiderers which has been set up on the same basis as Export - Ring. No particular

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Austrian government assistance is provided to such consortia except that they are eligible for an export traders tax refund which can vary between .82% and 8½% based on the commodity involved.

With the exception of Salesco A/S which is a consortium of Danish furniture manufacturers using common design there are no present Danish consortia of any significance. Of interest however is the Danish government Trade Fund from which 50% subsidies are available to export groups to cover the costs of export managers and consultants salaries, major foreign promotions, film productions, distribution, advertising abroad, etc. as well as the normal expenses involved in foreign travel and catalogue development and printing.

A Norwegian example is Modern Norway A/S which was established in 1967 as an exlusive export agent (for areas outside Scandinavia) for thirteen manufacturers of home furnishings. The company is entirely independent with no government support or participation nor are clientele manufacturers permitted to hold shares in the company. Client firms each sign contracts for varying numbers of years designating Modern Norway as their sole export management agency. The contracts contain termination clauses in case of abuse on either side. On signing the contract each client firm joining the organization pays Modern Norway a lump sum to cover expenses involved in introducing its products into the export product range of the com-

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pany and Modern Norway in turn contracts with each firm to take over export management inside and outside the factory, including advice on production volume requirements, export promotion, travel, exhibiting, selling, catalogues and posters, appointment of foreign retailers and distributors, combination of shipment, etc. The company also has its own design consultants who work together with the various client firms advising their design and production divisions and feeding back foreign information on best-selling designs and projected future design requirements in individual markets. Group members may not copy each others designs but may be advised of the desirability of similarity in certain markets. Forms of settlement vary with contract terms established by each member. The most common form of settlement is "no sale, no pay" with each member charged a flat percentage rate on sales made for him. Individual firms sales and settlements are not disclosed to other members. The company's present organization requires 65% of its resources to be devoted to export management for client firms and 35% to export sales promotions; it is anticipated that these figures can be reversed in the near future. The company is now selling to twenty five countries.

Two more familiar examples of joint marketing, this time in the particular field of capital goods and capital projects, are in the Italian organizations, Gruppo Industrie Elettromeccaniche Per Impianti All'estero and Generale Impianti.

The former is a joint government/private company in which two state-owned companies are associated with seven private companies. The companies involved include virtually all major Italian companies which produce equipment for thermal and hydroelectric power plants - Ansaldo Meccanico-Nucleare, Asgen, Ercole Marelli, Franco Tosi, Officine Elettromeccaniche Galileo, Battaglia Terme, Fabbriche Riunite Magrini, Riva Calzoni and Sicom. The function of the group is to tender to prospective customers, to draw up construction plans, to coordinate member company activity and to exercise financial and technological control over the execution of a project on major thermal and hydroelectric power projects outside Italy. The close collaboration also permits rationalization between participating companies of production and design of machinery. The group is financed so that it has no profits with expenses fully covered by members and surplus funds returned to member companies. General costs are assigned on an equal basis to member companies while companies contribute to expenses incurred in specific projects in relation to their participation in the project. In cases where two or more member companies are able to supply equipment for a particular project an internal selection is made based on competitiveness before a group bid is submitted. All credits are insured with the Italian government and costs are apportioned in relation to direct project participation; if one firm is responsible for the group being unable to fulfil a contract this firm alone bears the cost of subsequent penalties. While the

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group has general marketing responsibility in the product sector on a world-wide basis, specialization has been in the developing countries and particularly in Latin America. The success of the approach is indicated by the company having obtained 37% of all contracts it bid on in its first 13 years of activity, for a total of $400,000,000 in sales.

In the second company, Generale Impianti, the consortium acts only as a co-ordinator. All participating companies in the consortium are not necessarily involved in each contract. After a bid by the consortium is accepted, supplies may be drawn from members and non-members alike. Prior to the consortium making a tender for a contract, the member companies sign an accord outlining the terms under which the bid shall be made and which companies shall be involved. If the bid is accepted, the contract is managed by the consortium on behalf of the firms that participate. General operating expenses are borne by member companies and are reimbursable from the profits of the consortium. The consortium charges a flat percentage rate on each contract and operating expenses incurred in the management of each contract are charged to individual participating companies. This consortium consists of Instituto Mobiliare Italiano, Fiat, Finmeccanica, Montecatini-Edison, Pirelli, Innocenti, Italceminti, and La Centrale.

BARTER & SWITCH TRADING

Because of the importance of bartering and switch transactions in trade with Eastern Europe and various developing countries some attention was directed to the bartering facilities which exist in other countries. As expected, the requirement for compensation trade with COMECON countries has created a number of companies with particular expertise in bartering and switch trading, especially in Austria, Germany, Switzerland, France and the United Kingdom. Examples of these include Golodetz Sugar Brokers and Biddle Sawyer in London, BAFAG in Munich, Werth & Co., in Cologne, Bankhaus in Hamburg, Waltrade and COMEX in Dusseldorf, Bank Cantrade and Andre et Cie. in Lausanne, and such houses as Allgemeine Warentreuhand, Bankhaus Schoeller, Winter & Co., and Internationale Handels-und Treuhand in Vienna. While the highest proportion of the business of these companies is still in COMECON trade increasing proportions are involving trade with developing countries, particularly in switch deals. In light of the compensation deals between the Soviet Union and various western European countries for pipeline construction against future natural gas deliveries, it is estimated that pure barter trade has reached levels of $5 billion annuallly, or nearly 2% of total world trade. Major European houses such as Allgemeine Warentreuhand and Winter & Co. have annual barter turnovers of respectively $100 million and $80 million, on which they expect to clear revenues of between $400,000 and $500, 000 each. More information has been requested on the operations of these houses.

Three interesting responses to barter requirements have come to light, in supplement of the services provided by professional barter houses. The first is that a number of companies in western Europe that have substantial business with COMECON countries and are substantially involved in compensation trade have set up special departments or subsidiaries to handle the resale of barter products. Examples are Fiat, Renault, SKF and the large Swiss and German chemical companies. Another example is in a German textile company which sells some DM 18 million of dresses into the Soviet Union and in turn sells through a subsidiary such barter commodities as rifles, pianos, cement and marble. The second is a barter register which is now being compiled by the London Chamber of Commerce, in response to requests from Chamber members. When complete this register will list several hundred existing or potential importers, their product requirements, their normal sources of supply, and their supply arrangements. It is intended to provide exporters with a handy reference to potential buyers for goods that they might be offered in exchange for their own products. It is above all an information and intelligence service for British firms involved in barter trade with other countries. The third instance is EVIDENZBURO which is an Austrian association for firms involved in east-west trade, founded in 1968 by the Austrian Ministry for Trade, Commerce and Industry, the Federal Chamber and Association of Austrian Industrialists, and various specialist

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houses in east-west trade. The Bureau is an independent self-sufficient association of firms on the basis of voluntary membership and is supported by fees from members which are determined annually. It is a non-profit organization. The Bureau's purpose is to provide a facility through which exporters, particularly to eastern Europe, can find outlets for the product they are required to take in compensation for export orders. Because the membership of the Bureau includes a number of import or transit trade firms a connection can be established between an exporter and a potential importer of compensatory products through the Bureau. The exporter can, before contract conclusion, be advised through the Bureau which counter products he can commit himself to take, ie. which outside trade agency he can accept as a partner for delivery of compensatory products. In this function the Bureau performs essentially a liaison role between exporter and importer and does not itself engage in any acquisition.

Another barter activity of some interest is that of which is performed under the U.S. Commodity Credit Corporation barter program, administered by the Office of Barter and Stockpiling of the U.S. Department of Agriculture. This program had its birth in barter exchanges of agricultural commodities for strategic materials. It presently involves making available for local procurements by U.S. government agencies operating

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abroad (particularly the Department of Defence and the Agency for International Development) those credits which are generated in non-convertible funds through sales of U.S. agricultural commodities in the countries of agency operation.

CANADA

The Canadian portion of the study has been directed to determining what proportion of Canadian export trade is handled by export middlemen and how their services are used by Canadian exporters. It has been pursued through analysis of trade statistics, a review of export middlemen files in the Department's Exporters Directory, and direct discussions with selected middlemen and client companies.

It is estimated as a result of these surveys that export middlemen handle nearly 20% of Canadian export trade. By far the greatest proportion of this has been in trade in primary products with by far the largest traders being Cargill, Dreyfus, Continental, Bunge and Agro, the largest commission agents in the Canadian grain trade.

While there would appear to be several hundred companies that can be characterized as export middlemen in Canada the major business is quite concentrated, with only 19 companies having sales in excess of $5 million. The majority of these are again for the most part involved in primary products trade. They are listed as follows:

Agro Company of Canada
East Asiatic Co. (Canada) Ltd. (Danish)

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[illegible] — [illegible], mining & [illegible]
Eastern Bloc & China

Mitsui & Co. Ltd., (Japanese)

Seaboard Lumber Sales Co. Ltd.,

Balfour Guthrie (Canada) Ltd., (U.K.) ?

Eacom Timber Sales Ltd., (Danish)

Cansulex Ltd., Sulphur

Terfloth Kennedy & Co. Ltd., ?

Price and Pierce (Canada) Ltd., (U.K.) ?

G. Solway & Sons Ltd., iron & steel scrap

Ancore International Ltd., [illegible] +

Brimstone Export Ltd.,

B.C. Tree Fruits Ltd.,

Calkins & Burke Ltd.,

Michael Doyle & Associates Ltd.,

Mitsubishi Canada Ltd., (Japanese)

Mullerin Meats Ltd.,

Shafer - Haggart Ltd.,

Toyomenka Inc. (Japanese)

It was generally accepted among all those surveyed that a need existed for improving the export performance of small to medium-size Canadian companies and that this could be best accomplished by the provision of joint marketing facilities, whether through a trading house or export group. However, discussions with Canadian export middlemen revealed five basic problems which inhibit the growth of their business:

1. Export prices by Canadian manufacturers are too often not competitive. Pricing is seldom developed on the basis of covering variable costs plus a reasonable profit margin and export orders are seldom regarded as incremental business that would not otherwise be available to fill below-capacity plants. It was felt that more aggressive pricing on the part of Canadian manufacturers could improve both direct exports and exports through middlemen.

2. Attitude by Canadian manufacturers that a middleman is an unnecessary layer in the distribution channel. There is a general failure to recognize that many world markets require special skills and knowledge to penetrate and to minimize payment risks. This can be particularly the case with smaller companies that have a competitive product but may be too thin managerially to handle their own export business. Despite this many prefer simply to grant commission on orders sent in rather than make advance financial contributions to a middleman to develop and handle offshore business.

3. Attitude by Trade Commissioner posts that orders should always be referred directly to the manufacturer, bypassing the middleman. This again fails to recognize the market expertise that a middleman can bring to bear in particular

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markets. There was however another resulting problem identified in that without being able to combine orders there is no opportunity for a middleman to consolidate shipments and thus negotiate better routings and better freight charges.

4. Inadequate sourcing assistance from the federal government. It was suggested that Industry, Trade and Commerce line branches could more actively assist middlemen in their attempt to source in Canada for given export orders.

5. Ownership Structure of Canadian industry. It was suggested that foreign ownership of Canadian manufacturing companies represents a serious problem for middlemen development where the subsidiary has no marketing autonomy and is only willing to operate through a middlemen if the latter takes title to the goods.

Conversally there are a number of significant advantages suggested in the survey which can be offered to clientele companies through joint marketing, whether through independent export middlemen or various forms of export association. These of course vary between joint marketing from small to medium-size manufacturers and capital projects marketing as well as between various products and services handled. The suggested advantages are as follows:

1. Reduction in transportation costs - the control of large volume sales permitting negotiation of reduced freight costs and of improved routing.

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2. Reduction in handling costs - the resources derived from large volume marketing permitting the negotiation of, use of, or construction of appropriate handling facilities.
3. Market control - forward market planning and control to ensure orderly marketing of product.
4. Reduction in selling costs - reduction in unit sales costs through large sales volume.
5. Continuity of supply - through access to a number of suppliers.
6. Price stability - centralized selling and production policies to prevent wide price fluctuations.
7. Quality control - centralized inspection to maintain quality control and quality assurance to buyers.
8. Market research and development - greater marketing resources to reduce per-unit R. & D. costs permitting more effort to be directed to market research and development.
9. Rationalized production - the ability to engage in production specialization on the basis of forward market planning and expected market allocations.
10. Reduced servicing costs - the ability through joint sales and servicing to maintain after-sales service operations in areas which would be uneconomical for individual companies.
11. Selecting-out - the ability to prevent competition among domestic suppliers for foreign business by designating who should get the business.

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12. Innovative marketing - the marketing expertise developed and greater resources available permitting the effective use of marketing techniques such as bartering, leasing etc.

13. Improved marketing management - the ability to train personnel specialists in particular areas or particular phases of the joint marketing operation.

R. B. FOURNIER,
MARKET DEVELOPMENT GROUP,
DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE,

MAY 4, 1972.

APPENDIX "I"

Paper Reference PEMD/17

February 27, 1973

Information for Industry

PROGRAM FOR EXPORT MARKET DEVELOPMENT

USE OF SECTION "B" BY TRADING COMPANIES AND AGENTS ON BEHALF OF MANUFACTURERS

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

OTTAWA, ONTARIO

INTRODUCTION

Although Section "B", Market Identification and Marketing Adjustment, of the Program for Export Market Development (PEMD) was originally designed for the use of manufacturers, nevertheless in some cases agents or companies other than the manufacturers may be eligible.

Companies which take title to goods prior to the receipt of orders will be treated as manufacturers and may apply as such. (Details for doing so are contained in the Paper Reference PEMD/6). The notes below are intended for those companies which do not take title to goods, or take title only after the receipt of orders.

Although this note is directed specifically to Section B, similar requirements and procedures will be employed in the case of an agent's application for other sections of PEMD.

PROCEDURES

The objective of the procedure described below is to allow a single company (e.g. an agent or trading company) to act on behalf of several client manufacturers in the exploration of opportunities in export markets, and to employ PEMD Section "B" while doing so.

All the requirements of Section "B" are still essentially applicable, but procedures and terms have been adjusted.

The agent company will make arrangements with client companies in the form of the agreement in PEMD/17A, attached. He will prepare the proposal for the work which he will carry out on behalf of clients, and make application to PEMD. The costs of the work will normally be shared as follows:-

Client manufacturers	25%
Agent	25%
Department	50%

If the application is approved, agreements of the form of PEMD/17B attached, will be signed between the parties.

After the work has been performed, the Department stands to recover all or part of its contribution (but not more) from the manufacturers, on the terms already established for Section "B", namely 1% of sales resulting from the work during an agreed period. The agent will make his own private arrangements with his clients to recover his contribution.

Because the agent's costs are shared among a number of companies, this method should provide an economical method for the study of export markets, appropriate to the smaller company which has adequate production strengths but no export organization.

The system whereby each client company will bear a fair allocation of total cost will be apparent from the Agent's Work Sheet PEMD/17C.

CRITERIA OF ELIGIBILITY:

APPLICANT ELIGIBILITY

The applicant company must:

(a) be currently established and operating in Canada;

(b) have satisfactory financial and management strengths;

(c) have demonstrated skills and abilities in respect of:

(i) general export trade practice, documentation, and procedures;

(ii) the region(s) concerned in the proposal; and

(iii) the product(s) or the market(s) concerned;

(d) have obtained signed copies of PEMD/17A from each of the client companies.

CLIENT COMPANY ELIGIBILITY

The client companies must each conform to the terms of Company Eligibility - Paper Reference PEMD/6.

PROJECT ELIGIBILITY

The project must be demonstrated to fulfil the criteria of Project Eligibility as outlined in Paper Reference PEMD/6.

COSTS TO BE SHARED

In general all reasonable costs to the agents which are incurred in carrying out the specific marketing project with respect to the client companies, products and countries would be eligible for inclusion. It is recognized in these types of operations some negotiation and planning with various companies as well as product familiarization in Canada may be necessary.

For further details see Eligible Costs - Paper Reference PEMD/3.

THIS AGREEMENT made this day of 19 .

BETWEEN

hereinafter called "the Company"

OF THE FIRST PART

AND

hereinafter called "the Agent"

OF THE SECOND PART

WHEREAS in order to promote and increase Canadian exports the company is prepared to contribute to the costs incurred by the Agent in undertaking and performing on behalf of the Company, certain kinds of work necessary to penetrate foreign markets.

AND WHEREAS it is intended that the Company through the services of the Agent will apply to the Department of Industry, Trade and Commerce (hereinafter called "the Department"), Program for Export Market Development for a contribution toward such costs.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH that in consideration of the premises, convenants and agreements herein contained the parties hereto convenant and agree as follows:

1. (1) The Company authorizes the Agent on behalf of the Company to apply to the Department for a contribution.

(2) The Agent will reveal to the Company all other principals for such application to the Department.

2. If the Department grants financial assistance to the Agent for the work of Market Identification/Marketing Adjustment for the product(s)...
in the region(s)...
hereinafter called "the Work" the following conditions will become effective.

(1) The Company undertakes to pay to the Agent an amount equal to one half of the amount paid by Her Majesty to the Agent for the Work described in section (2) above.

(2) The Company's liability to the Agent for the cost of the Work shall not exceed the sum of
dollars ($).

(3) The Company will execute a written contract with Her Majesty in the standard form known for purposes of the Department of Industry, Trade and Commerce as PEMD/17B.

IN WITNESS WHEREOF this Agreement has been executed on behalf of the Company by an officer duly authorized having its corporate seal affixed hereto and by the Agent, if a body corporate and politic under the hands of its officers duly authorized having its corporate seal affixed hereto, and if an individual then under the hands and seal of such individual.

SIGNED, SEALED AND DELIVERED

In the presence of (Name of Company)

____________________ Per: ____________________

(Corporate Seal)

Per: ____________________

(Name of Agent)

Per: ____________________

Per: ____________________

COMMERCIAL CONFIDENTIAL

ITC Project No. ____________________

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

PROGRAM FOR EXPORT MARKET DEVELOPMENT

THIS AGREEMENT made this day of 19 .

BETWEEN: HER MAJESTY THE QUEEN in right of Canada (hereinafter called "Her Majesty") herein represented by and acting through the Minister of Industry, Trade and Commerce,

hereinafter called "the Minister",

- OF THE FIRST PART -

AND:

hereinafter called "the Agent",

- OF THE SECOND PART -

AND:

hereinafter collectively called "the Company",

- OF THE THIRD PART -

WHEREAS in order to promote and increase Canadian exports Her Majesty is prepared to contribute to the costs incurred by Agents in undertaking and performing on behalf of companies certain kinds of work calculated to penetrate foreign markets;

AND WHEREAS the Agent requires financial assistance to perform such work and is prepared to undertake and perform the work hereinafter described and Her Majesty is prepared to contribute to the costs thereof on the terms and conditions hereinafter mentioned.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH that in consideration of the premises, convenants and agreements herein contained, the parties hereto convenant and agree as follows:

1. (1) The Agent will proceed diligently and in a good and workmanlike manner, using qualified personnel therefor, with the work described in Schedule #1, hereto attached, hereinafter called the "Work".

(2) The Company does hereby constitute and appoint the Agent, an exclusive Agent for the purposes specified in Schedule #1 for the period of time specified therein.

(3) The Agent will not change or enlarge the general scope of the Work without the prior written approval of the Minister.

2. (1) Subject to subsection (2) Her Majesty will contribute to the Agent an amount equal to percent (%) of the necessary and reasonable costs of the Work incurred and paid by the Agent on and after the day of 19 , the effective date of this Agreement, such costs to be determined in accordance with the paper reference PEMD/3 dated hereto attached as Schedule #2 and may, in the discretion of the Minister be audited by a person authorized by the Minister.

(2) Her Majesty's liability for the payment of monies hereunder shall not exceed the total sum of dollars ($).

(3) Her Majesty shall only be liable for fifty percent (50%) of the cost of the Work for each Company listed in Schedule #1. The sum of these liabilities shall be the sum referred to in subsection (2).

3. (1) During the course of the performance of the Work the Agent will complete and submit to the Department of Industry, Trade and Commerce, hereinafter called the "Department", a certified progress claim on paper reference PEMD/5 annexed hereto as Schedule #3 showing the necessary and reasonable costs of the Work incurred and paid, together with such relevant vouchers, invoices and other documents as the Department may require.

(2) Upon approval by the Department of each progress claim submitted pursuant to subsection (1), Her Majesty will pay to the Agent all of Her Majesty's share thereof, until the amount payable by Her Majesty pursuant to section (2) shall have been paid.

(3) Within one year next following the effective date of this Agreement, or upon completion of the Work whichever shall occur first, the Agent will submit to the Department a report in writing on the performance of the Work sufficient to satisfy the Minister.

(4) Upon completion or cessation of the Work the Agent will submit a final report following the format of PEMD/10 hereto annexed as Schedule #4.

4. (1) If the Company, its successors, assigns or licensees obtains a contract or contracts directly or indirectly for the provision of goods, services or other products for a foreign market which, in the opinion of the Minister, is or are obtained as a result of the Work or part performance thereof the Company shall forthwith advise the Minister thereof and repay to Her Majesty an amount equal to one percent (1%) of the gross value of sales made pursuant to such contract or contracts in consecutive annual instalments;

(1) for a period of three (3) consecutive years from the effective date of this Agreement;

or (2) until such amount is equal to the amount paid by Her Majesty pursuant to section (2).

Whichever event shall occur first.

(2) Notwithstanding subsection (1) if the Company, for reasons acceptable to the Minister, ceases or is unable to provide goods, services or other products as contemplated in subsection (1), the Minister may in his discretion, suspend or postpone repayment by the Company for an appropriate period, or if he considers that the circumstances so warrant dispense with repayment and release the Company from its obligation to repay pursuant to this Agreement.

(3) Upon request by the Company the Minister may, in his discretion, alter the terms of repayment to Her Majesty.

5. The Agent, in purchasing goods or services for the performance of the Work, will use Canadian suppliers and subcontractors to the extent that they are capable of providing such goods and performing such services in an economic and expeditious manner and will use Canadian goods and products to the extent that it is economically feasible to do so.

6. (1) The Company will keep proper books, accounts and records of the cost of the Work and will keep them available for examination by any person authorized by the Minister for a period of at least five (5) years following the completion or cessation of the Work.

(2) The Company will keep proper books, accounts and records of the sales made pursuant to this Agreement for a period of at least five (5) years following the completion or cessation of the Work and the Minister may have them audited and examined at any time.

7. The Minister will maintain normal commercial security and privacy in respect to the Work and will not disclose any information relating to the Work to any person outside the Canadian Federal or Provincial Government Departments and Agencies without prior written consent of the Agent and the Company.

8. If the Agent, in the opinion of the Minister, fails to proceed diligently with the Work, or is otherwise in default under this Agreement the Minister, by giving notice in writing to the Company and Agent, may terminate the obligations on the part of Her Majesty to contribute or to continue to contribute to the costs of the Work and may further direct the Company to repay (and the Company shall thereupon forthwith repay) all monies contributed by Her Majesty.

9. For so long as this Agreement is in force the Company will, to the satisfaction of the Minister, submit to the Minister periodic reports on the progress and results of the Work, and such other information as may be requested by the Minister.

10. Unless otherwise agreed to in writing by the Minister this Agreement shall remain in full force and effect for a period of five (5) years commencing on the effective date hereof.

11. (1) If, during the currency of this Agreement, the Company determines on the basis of technical, marketing, financial or other considerations that the Work should not be proceeded with, the Company will consult the Minister with respect to such determination and may then request that the Agreement be terminated.

(2) The Minister may, in terminating this Agreement pursuant to subsection (1), require the Agent to accept such terms and conditions not inconsistent with this Agreement as the Minister considers necessary.

12. No member of the House of Commons shall be admitted to any share or part of this Agreement or to any benefit to arise therefrom.

13. This Agreement shall not be assigned either by the Agent or the Company without the prior written consent of the Minister.

14. (1) Any notice to either the Agent or the Company hereunder shall be effectively given if sent by letter or by telegram, postage prepaid or with charges prepaid as the case may be, addressed to the Agent or Company at the address as given in this Agreement or if no address is so given at the address as shown by the records of this Department.

(2) Any notice given pursuant to subsection (1) shall be deemed to have been received by the Agent or the Company at the time when, in the ordinary course, such letter or telegram should have reached its destination.

15. This Agreement including Schedule #1, #2, #3 and #4 constitutes the entire contract between the parties hereto with respect to the subject matter hereof and supersedes all previous negotiations and documents relating thereto.

IN WITNESS WHEREOF this Agreement has been executed on behalf of Her Majesty the Queen in right of Canada by an officer of the Department of Industry, Trade and Commerce, duly authorized by the Minister of Industry, Trade and Commerce and by the Company having its corporate seal affixed hereto attested by the hands of its proper officers duly authorized in that behalf and by the Agent if a body corporate and politic under the hands of its officers duly authorized having its corporate seal affixed hereto and if an individual then under the hand and seal of such individual.

FOR DEPARTMENT USE ONLY

SIGNED, SEALED AND DELIVERED in the presence of

DEPARTMENT OF INDUSTRY TRADE AND COMMERCE

____________________ ____________________

AGENT

(Corporate Seal)

(Name of Agent)

Per: ____________________

Per: ____________________

COMPANY

(Name of Company)

Per: ____________________

Per: ____________________

AGENT'S WORKSHEET

1. General Summary of Work by Agent:-

Company Name and Address	Product(s)	Region(s)	Note on the Nature of the Work Proposed

2. General Statement of Work by Agent:-

3. Overall Cost Estimate by Agent:-

4. Cost Breakdown by Client, Product(s) and Region(s):-

Company	Product	Region	# of Days @______	Estimated Shares of Cost			
				Client	Agent	Dep't	Total
ESTIMATED COST (TOTALS)							

EXAMPLE

PEMD/17C

AGENT'S WORKSHEET

1. General Summary of Work by Agent:-

Company Name and Address	Product(s)	Region(s)	Note on the Nature of the Proposed
Rex Co. Ltd. Agricola, Ontario	Mini-Tractors	Romania Hungary Bulgaria Poland	Market Identification - Special Purpose Mini-Tractors for Farm and Industrial Uses
Regis Corp. Villa, Quebec	Fertilizers, Fungicides	Hungary Bulgaria	Market Identification - Fertilizers and Fungicides
Aqua Co. Ltd. Seaside, N.B.	Fish Meal	Romania Hungary Bulgaria	Market Identification - Fish Meal for Animal Feed
Equin Co. Ltd. Pax, Ontario	Fertilizers, Industrial Chemicals, Feed Mixes	Romania	Market Identification - Fertilizers, Industrial Chemicals, and Feed Mixes

EXAMPLE

2. General Statement of Work by Agent:-

The work will be undertaken by Mr. Black, President of X-M Ports, during May. He will visit the State Trading Agencies, Ministries of Agriculture, as well make visits to different agricultural regions to determine the market potential for the various products.

3. Overall Cost Estimate by Agent:-

Airfare	$1,500.00
Salary 14 days @ $125.00	$1,750.00
Hotel & Meals 14 days @ $50.00	$ 700.00
Transportation & Communication	$ 250.00
Total	$4,200.00
Estimated Cost Per Day	$ 300.00/day

EXAMPLE

4. Cost Breakdown by Client, Product(s) and Region(s):-

Company	Product	Region	# of Days @ $300	Estimated Shares of Cost Client	Agent	Dep't	Total
Rex Co. Ltd.	Mini-Tractors	Romania Hungary Poland	4	$300	$300	$600	$1,200
Regis Corp.	Fertilizers Fungicides	Hungary Bulgaria	4	$300	$300	$600	$1,200
Aqua Co. Ltd.	Fish Meal	Romania Hungary Bulgaria	3	$225	$225	$450	$900
Equin Co. Ltd	Fertilizers Industrial Chemicals, Feed Mixes	Romania	3	$225	$225	$450	$900
ESTIMATED COST (TOTALS)				$1,050	$1050	$2,100	$4,200 / $4,200

INFORMATION FOR INDUSTRY

Paper Reference: PEMD/6

PROGRAM FOR EXPORT MARKET DEVELOPMENT - SECTION "B"

Part I : Market Identification

Part II: Marketing Adjustment

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

OTTAWA, CANADA

JANUARY 13, 1972
(Replacing issue of November 9, 1971)

INDEX

ATTACHMENTS

Note: This paper describes Section "B" of the Program for Export Market Development. Available separately is:-
Paper reference PEMD/2 Section A: Incentive for Participation in Capital Projects Abroad.

0700-20.1 (02/72)

PROGRAM OBJECTIVE:

The objective of Section "B" of the Program for Export Market Development is to bring about a sustained increment in the export of Canadian products, especially manufactured goods. The Department will share, with Canadian companies, eligible expenses incurred in previously approved projects which aim to:

Part I - Market Identification

- identify and more precisely define a potential export market opportunity, appropriate to the abilities of the Canadian company;

Part II - Marketing Adjustment

- adapt the Canadian company's marketing methods to the requirements and practices of an export market.

The incentive is applicable to all markets outside North America, (i.e. outside Canada and U.S.A.). Collaborative applications involving more than one company or trade associations are eligible.

The term "Canadian products" is intended to describe all goods which contain a significant level of manufacturing activity in Canada.

Applications concerning Canadian services will be eligible where it is shown that they could result in a subsequent increase in purchases of Canadian products.

Part I, Market Identification, is intended to cover those situations where a company is generally aware of an opportunity in a foreign market, but is unable to make more definite plans without special study, the cost of which represents a barrier.

Part II, Marketing Adjustment, is intended to cover the initial adaptation to unfamiliar marketing practices. Examples are such things as translation of sales literature; provision of specialist technical advice; establishment of after-sales service; study of special sourcing requirements set by potential customer; unusual product demonstration requirements.

In neither part is it intended to share recurring, or routine sales expenses.

Applications will be assessed against the criteria set out in this paper and also relative to other demands in respect of probable effectiveness in the use of available Program resources.

..../4

FINANCIAL AND LEGAL TERMS:

The expenses eligible for sharing with the Department will be those incurred in undertaking work necessary for market identification or marketing adjustment as described under Program Objective, subject to the definitions contained in the paper reference PEMD/3, of latest issue.

The Department's contribution will normally be 50% of eligible costs incurred on defined work previously agreed upon.

In the event that a company that has received assistance is successful in obtaining export business of the kind described in the application, repayment of Department's contribution will be required at a rate of 1% of sales of the product identified made in the region concerned during a period of up to three years, to the total of the contribution.

Repayment is not required in instances where a company is not successful in obtaining export business of the kind described in the application.

Progress payments will be available from the Department during the course of the work. A specimen claim form is attached.

Financial and other legal requirements will be formally stated in an agreement between applicant and the Department. A pro-forma, paper reference PEMD/8, is attached.

CRITERIA OF ELIGIBILITY:

Except as indicated below*, these criteria apply to applications under both Part I and Part II:

Company Eligibility

The applicant company must:

a) be currently established and operating in Canada;

b) have ability, or demonstrated potential, for competitive performance in foreign markets for the products or services concerned;

c) have satisfactory financial and management strengths.

Project Eligibility

The project must:

a) be specific (actual or potential) in respect of the products or services and regions concerned;

b) apply to goods or services for which competent Canadian sources and/or capabilities already exist;

c) promise significant Canadian content;

* d) have a reasonable probability of success;

* e) appear financially sound;

* f) form part of an overall company plan which, if carried through, should result in sustained sales for a term of at least several years;

g) make "good business sense" in terms of the costs to be shared;

h) represent an extension of the normal efforts of the applicant in the export field.

j) promise a net increment in exports, to the region concerned, from Canadian sources taken as a whole.

* These criteria apply only to applications under "Part II, Marketing Adjustment".

..../6

METHOD OF APPLICATION:

The application format is given below. The company should prepare its application on company stationery, employing the headings shown. It is intended that the application be as brief as possible, but all details indicated under each heading should be given where applicable. Since applications have to be duplicated, compact presentation is desirable. "Part 3" of the application, "Statement of Work and Estimated Costs", will form the basis of any resulting agreement involving assistance.

The application should be sent to, and further information may be obtained from:

Program Office (Market Activity),
Department of Industry, Trade and Commerce,
112 Kent Street,
Ottawa, Ontario. K1A OH5

Telephone: 613 - 992-0192 or 613 - 995-6892

It is generally advisable to contact a departmental representative informally before preparing an application, and companies should check that they have the most recent information on the program.

PROGRAM FOR EXPORT MARKET DEVELOPMENT - SECTION "B"

Application Format

Application to be Marked COMMERCIALLY CONFIDENTIAL

1. TITLES

1.1 Applicant Company Name . . . .

1.2 Address . . . .

1.3 Company Officer Concerned . . . .

1.4 Telephone . . . .

1.5 Proposal Class . . . .
(i.e. whether "Market Identification" or
"Marketing Adjustment" is concerned.)

1.6 Proposal Title . . . .

1.7 Date of this Application . . . .

2. PROPOSAL OUTLINE

Use group of headings appropriate to "Market Identification" or "Marketing Adjustment", depending on nature of application.

Market Identification

2.1 Product(s), commodity(ies) or service(s) concerned.

2.2 Region of world concerned.

2.3 Applicant's qualifications to supply any resulting market of the kind to be investigated. Brief description of present company organisation in respect of exports.

2.4 Market information to be sought and questions to be answered.

2.5 Brief summary of information presently available; indications that the work proposed is justified on the basis of a reasonable probability of identifying a market for the goods or services described.

2.6 Estimates of (a) Canadian content of product etc. and (b) business likely to accrue to other Canadian suppliers if there were increased exports of the goods concerned.

2.7 Any other potential benefits, either indirect or direct.

2.8 Reason why this proposal represents either an increase in the normal level of applicant's exploratory activities or an extension of the normal efforts in the export field in terms of the region or market to be penetrated.

Marketing Adjustment

2.1 Product(s), commodity(ies) or service(s) concerned.

2.2 Region of world concerned.

2.3 Applicant's qualifications to supply any resulting market. Brief description of present company organisation in respect of exports.

2.4 Brief description of reasons why existing marketing methods of applicant are not applicable in the region and, therefore, of specific adjustments required.

2.5 Brief statement of overall marketing plan of which the proposed work forms a part. Sales objectives for product concerned (quantities, time-scale). Assessment of competition.

2.6 Estimates of (a) Canadian content of product etc. and (b) business likely to accrue to other Canadian suppliers if there were increased exports of the goods concerned.

2.7 Any other potential benefits, either indirect or direct.

2.8 Reason why this proposal represents either an increase in the normal level of applicant's exploratory activities or an extension of the normal efforts in the export field in terms of the region or market to be penetrated.

3. STATEMENT OF WORK AND ESTIMATED COSTS

(Paragraphs 3.1, 3.2 and 3.3 form part of any resulting agreement between the Crown and the applicant).

3.1 Objective of work for which cost sharing is proposed. (E.g. "To carry out a market study ...", etc.)

3.2 Summary of work for which cost sharing is proposed. (By whom; where; how; when; etc.)

3.3 Estimate of total costs to be shared, to be preceded by the statement "Estimates made in accordance with document reference PEMD/3 dated ...." (Broken down by kind; time; rates; etc.)

3.4 Forecast of amounts to be claimed in:

a) Current government fiscal year (ending March 31).

b) Future fiscal years.

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

PROGRAM FOR EXPORT MARKET DEVELOPMENT

ELIGIBLE COSTS

PART 1 - GENERAL

1.1 This memorandum is a guide for use in proposing and claiming costs to be shared, between applicant and Department, under the Program for Export Market Development.

1.2 At the time an application is considered, the Department must assess the forecast of costs, relative to the work proposed. The application should therefore break down the proposed costs into elements such as:-

- Grades of personnel.
- Salaries.
- Fringe Benefits.
- Overhead (when applicable according to 2.7 below) including the elements, and computation of the rate.
- Time in hours or days.
- Rates, per hour or day.
- Nature of other costs (travel, etc.).

In compiling costs, the criteria below must be used.

1.3 When an application is approved, the agreed forecast of costs will be included as part of a Formal Agreement between the applicant and the Department.

1.4 When claims are made to the Department for the costs of work carried out by an applicant on an approved project, payment will be made only against costs actually and necessarily incurred, and paid for by the applicant. Claims are to be made on Paper Reference PEMD/5. Applicants should note that their external auditors are required to sign Part 3 of this form at the time that the final claim is made.

1.5 Reasonable variations from the forecast estimates will be acceptable to the Department, provided the overall maximum in the Formal Agreement is not exceeded, and the nature and objectives of the work done are substantially unchanged.

PART 2 - CRITERIA

The following criteria will be used to determine the eligibility of proposed or claimed costs:-

.../2

2.1 Eligible costs are those which are necessary and reasonable for the work approved.

2.2 Costs incurred before the effective date of the Formal Agreement are not eligible.

2.3 Costs are to be computed using generally accepted and consistently followed accounting practices.

2.4 Costs are to be compiled on the basis that the Department is an equal partner in the venture. No kinds of costs should be included which would not be included if the applicant were recording such expenses for internal purposes.

2.5 No element of profit on the applicant's own work is eligible. Services bought from organizations independent of the applicant must be so indicated and will be eligible at rates not exceeding those laid down by any appropriate governing professional body.

2.6 Costs of entertainment are not eligible, except where they form a necessary element of a seminar or presentation to the potential customer, and have the prior approval of the Department or the Trade Commissioner concerned.

2.7 Overhead may be applied only when:-

2.7.1 All elements of the overhead rate are shown to be directly applicable to the approved work.

2.7.2 Such overhead is normally applied to personnel of the grade concerned when the applicant is costing work, of this type, for internal purposes.

Fringe benefits, applied to salaries, are eligible. In no case, however, will a per diem cost (including fringe benefits and overhead) be eligible at a rate higher than the lesser of the following:-

2.7.3 The most recent rate used by the applicant for personnel of the grade concerned when costing work, of this type, for internal purposes.

2.7.4 $125 per day.

2.8 Travel costs will be eligible only at economy rates. Daily expenses (including hotels, meals and local transport) shall be at reasonable levels, appropriate to the region.

2.9 In the case of Section "D" of the Program, the contribution made by the Department will be one half of the round-trip economy air fare for the buyer(s) from the country of origin to an agreed destination in Canada and $25.00 per buyer - day while in Canada.

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

– PROGRAM FOR EXPORT MARKET DEVELOPMENT –

CLAIM FOR PROGRESS PAYMENT

COMMERCIAL CONFIDENTIAL | PEMD/5

Claim No.	Check
Period Covered	If Final Claim

INSTRUCTIONS. A single typewritten copy to be submitted to IT&C project officer.

français au verso

PART 1 – IDENTIFICATION

Name of Company	Telephone No.
Address	

Company Reference (if applicable)	AS STATED IN FORMAL AGREEMENT				IT&C PROJECT NO.
	Estimated Total Cost	HER MAJESTY'S SHARE OF COST			
	$	%	$	Effective Date	

PART 2 – CLAIM

	Previous Claims	Current	Total to Date	
TOTAL				Control Point (for IT&C use only)
Deduct Company Share				%
HER MAJESTY'S SHARE				$

DETAILS: Provide details of costs claimed in Part 2

PART 3 – CERTIFICATION

I certify that the costs described in this claim were incurred under the contract, that generally accepted and consistently followed accounting practices have been used and that Her Majesty's payment will be applied to the project.

Date

Signature and Title of Authorized Company Officer

I have examined the cost records of this project and have made such tests as seemed necessary. To the best of my knowledge, the costs have been determined in accordance with generally accepted and consistently followed accounting practices, and all invoices claimed have been paid. In my opinion, the costs are a proper charge against the project and are in accordance with the principles contained in paper reference PEMD/3, which forms part of the Formal Agreement.

Date

Signature and Title of External Auditor (Final Claim only)

I certify that this claim arises out of work performed in conformity with the terms of the contract, that the work is satisfactory, and that payment of Her Majesty's share of costs is in accordance with Section 27 of the Financial Administration Act.

Date

Signature and Title of Authorized IT&C Project Officer

MINISTERE DE L'INDUSTRIE ET DU COMMERCE

— PROGRAMME DE DEVELOPPEMENT DU MARCHE DES EXPORTATIONS

[illegible]

DEMANDE DE PAIEMENT PROGRESSIF

Nº de la réclamation	Cocher si [ ] réclamation finale
Période visée	

• INSTRUCTIONS : Un exemplaire unique sera dactylographié et soumis à l'agent de projets du MIC.

• English on reverse side.

PART. 1 – IDENTIFICATION

Nom de la société	Nº de téléphone
Adresse	

Référence de la société (s'il y a lieu)	SELON INDICATION DANS L'ACCORD FORMEL				
	Coût total approximatif	PART DES COÛTS PAYÉE PAR SA MAJESTÉ			Nº DE PROJET DU MIC
	$	%	$	Date d'application	

PART. 2 – RÉCLAMATION

	Demande précédente	Courante	Total à ce jour	
TOTAL				Point de contrôle (Réservé au MIC)
Déduire la part de la société				%
PART DE SA MAJESTÉ				$

DÉTAILS: Détailler les coûts inscrits à la partie 2

PART. 3 – ATTESTATION

Je certifie que les coûts décrits dans cette réclamation ont été encourus aux termes de notre contrat, que les pratiques de comptabilité utilisées sont celles généralement acceptées, qu'elles ont été contrôlées périodiquement et que le paiement de sa Majesté sera appliqué au projet stipulé.

Date ____________________ Signature et titre de l'agent autorisé de la société ____________________

J'ai examiné le dossier des coûts du projet ci-dessus et ai fait les vérifications qui m'ont semblé nécessaires. Au meilleur de ma connaissance, les coûts ci-dessus ont été établis selon des pratiques comptables généralement acceptées, qu'ils ont été soumis à un contrôle régulier et toutes les factures inscrites dans la réclamation ont été payées. A mon avis, les coûts sont sans aucun doute imputables au projet et sont conformes aux principes énoncés dans la référence documentaire PEMD/3, qui fait partie de l'Accord formel.

Date ____________________ Signature et titre de l'expert-comptable (Réclamation finale seulement) ____________________

J'atteste que cette réclamation découle d'un travail exécuté conformément aux termes du contrat, que le travail est satisfaisant et que le paiement de la part de Sa Majesté est conforme à l'article 27 de la Loi sur l'administration financière.

Date ____________________ Signature et titre de l'agent de projet MIC autorisé ____________________

700 T7.3 (01/72)

PROGRAM FOR EXPORT MARKET DEVELOPMENT

FINAL REPORT

In accordance with the agreement into which a company enters with the Department for assistance under the Program for Export Market Development a written report is requested upon completion of the project.

Such reports will provide the best information from which guidelines can be offered to other Canadian firms and from which future Departmental policies and programs can be shaped with respect to Canadian export promotion.

Following are a series of questions which the company may wish to use as a guide in the preparation of this report. In any event the desire of the Department is to have a company prepare a brief report with a view to providing a guide to other Canadian companies and the Department for future activities in foreign markets.

Please note that all information relating to the specific operations of your company will be held in confidence.

PART 1

Information provided in this part is for departmental use only.

1. To what degree do you feel your company's efforts in obtaining export business of the kind described in your application was a success?

2. What factors govern success or lack of success for your products in the market examined? Below are some examples.

   - transportation costs and facilities
   - availability of financing
   - potential market growth
   - market size
   - government regulations
   - agents (availability)
   - product modifications required
   - other incentives offered by this department.

3. In retrospect, what alternative strategy could have been applied to the area examined which might have resulted in greater success for your venture?

.../2

PART II

Information provided in this part may be distributed to other interested firms.

1. What difficulties did you encounter that you feel are inherent in the geographical area examined? Below are some examples.

    - language
    - patronage
    - accessability (travel)
    - accessability of officials
    - indigenous social customs
    - cost estimates (was the amount set out for travel, accommodation, etc. sufficient)

2. Are any of these problems specific to the industry or industries you are examining?

3. What specific suggestions would you offer other Canadian firms entering this market?

4. In addition to the above information some firms in your area might appreciate having an opportunity to discuss with you, or others directly involved in your project, your experiences in working in foreign markets. Would you be prepared to meet informally with parties that express such interests? (Arrangements would be made through the Department of Industry, Trade and Commerce)

APPENDIX "J"
(SINCE APPROVED)
~~CONFIDENTIAL~~

Industry, Trade and Commerce
Department – Ministère

File – Dossier

Date

SUBJECT: PROGRAM APPROVAL

PROPOSAL: To approve a Consortia Assistance Program, the object of which will be to improve the export performance of Canadian manufacturers, particularly small to medium size companies, by promoting the development and use of Canadian export consortia.

To authorize the Department of Industry, Trade and Commerce to administer the Program in accordance with the attached Terms and Conditions.

COST: Costs during fiscal year 1973/74 are estimated at not more than $360,000. Future requirements will be provided for in Departmental Submissions for Program Forecast and Main Estimates.

CHARGEABLE TO: Department of Industry, Trade and Commerce, Trade Industrial Program, Vote 10 Grants and Contributions, Market Development Activity.

SUMMARY: The attached memorandum describes a proposed incentive program, the object of which will be to improve the export performance of Canadian manufacturers, particularly small to medium-sized companies. It recognizes that in many instances the export efforts of smaller companies with exportable products are inhibited because of problems stemming from lack of marketing expertise, high sales development expenses, and possible low initial return on investment. It is proposed that government support be provided to assist in promoting and supporting the development of group marketing efforts through the use of export consortia. Normally the consortia supported will be those developed through the association of about five or more

. . . /2

companies producing allied products, who agree to market through a common facility, for an extended period of time, to a specified market area or areas. Government financial assistance will be contingent basically upon demonstration by participating companies of the likelihood of achieving a substantial increase in their level of exports through the use of consortia marketing. Support will be provided by making available from the Grants and Contributions Vote within the Department's Trade/Industrial Program contributions to expenses incurred by participating companies in the initiation and development of export consortia. The expenses eligible to be underwritten will be those related to the two main phases of consortia development, namely:

<u>Phase 1</u> - feasibility phase; including market analysis; preparation of a consortium organisational plan; development of a marketing plan and budget.

<u>Phase 2</u> - market development phase; including the establishment and normally the first year of operation of the consortium.

Departmental contributions will involve reimbursement to participating Canadian manufacturers of up to 50% of relevant consortia development expenses during the feasibility phase and the first year of operation. Under normal circumstances, it is considered that an annual limit of $50,000 for any one consortium should be established as a ceiling. Continued support of a consortium after the first year will be subject to annual review. For example, in some cases, such as the introduction of new types of products in a new market, the sophistication or peculiarities of the market and/or the products may require complex arrangements and special promotions over a lengthy period before the products gain significant customer acceptance. Such special circumstances may require a period longer than one year for a consortium to become reasonably established, and for which government contributions may be justified. Contributions will be granted contingent upon repayment, on the basis of a levy on sales resulting from the marketing arrangement.

Since it is the aim of the Department of Industry, Trade and Commerce to promote the long term export sales of Canadian manufactured products it is intended that support be directed to the development and initial operation of continuing export consortia. Support will not be extended to ad hoc consortia, i.e., those associations established to exploit a specific market opportunity and disbanded thereafter.

REMARKS:

This incentive plan will be an integral part of the Department of Industry, Trade and Commerce Programs for Export Market Development. It will be generally complementary to the Section B - Market Identification and Marketing Adjustment Program in that it will be directed to enhancing exports through combining the export marketing of a number of companies rather than supporting the independent export efforts of individual companies. It is expected that the plan will extend the application of the Program for Export Market Development to manufacturers who have otherwise been inhibited from independent export promotion. The Market Identification and Marketing Adjustment Program has to date been used by some 600 companies. It is anticipated that the establishment of a consortia support program will make government export promotion assistance available to a larger proportion of the manufacturing companies in Canada. In addition to attracting those companies which have not heretofore engaged in exporting due to cost deterrents, the plan should also appeal to a number of current exporters who may view the establishment of marketing consortia as a means of improving their competitive capability and increasing sales.

DEPARTMENTAL OBJECTIVES

The objective of the Trade/Industrial Program of the Department of Industry, Trade and Commerce is defined as "to achieve efficient and sustained growth in the production and trade of Canadian goods and services". One of the key elements of the program is that concerned with market development, "to increase the total effective market for goods and services produced by the Canadian economy".

Departmental assistance is directed to providing the supplemental promotional effort required for successful export marketing ventures which individual firms cannot independently establish themselves. This assistance is given within the constraint that its purpose is not to support non-competitive ventures, but rather to help in the development of the export capabilities of self-reliant Canadian industries.

Assistance provided within the Market Development Activity is therefore based on two premises: (a) Departmental efforts are to supplement rather than replace industry initiatives in export marketing - specifically in making generally available marketing services which Canadian exporting companies cannot independently support and, (b) departmental financial assistance is developmental rather than continuing - i.e., directed to assisting in the resolution of export development problems of otherwise commercially viable marketing initiatives.

ECONOMIC AND MARKET FACTORS

As in previous submissions to Treasury Board on the subject, notably Treasury Board Submission Number 708179 of October 15, 1971 requesting and obtaining approval for Incentives for Export of manufactured goods, promotional emphasis of departmental efforts in the Market Development Activity is being directed primarily to manufactured goods.

While the proportion of Canada's total exports consisting of manufactured products has more than tripled in the last decade the preponderant part of the increase has occurred in a few areas such as in certain equipment-producing industries where a large domestic requirement has fostered the development of internationally competitive operations and in automotive products and defence equipment. Thus, of the increase in total Canadian exports of $7.4 billion in the five-year period 1966-71, some $3.1 billion, or 42%, is accounted for by the rise in export of automotive products and defence-related equipment to the United States. All other product categories have been increasing at a rate of about 8% which is scarcely up to the growth trend of world trade and well below the growth trend of trade for industrial countries.

By far the sharpest increases in recent world trade have been within the European Economic Community and the European Free Trade Association, and in the category of highly manufactured products. These arrangements have permitted member states of these groups access to tariff free or preferred tariff markets of sufficient size to foster the development of production complexes able to capitalize on most of the economies of scale and specialization permitted by modern technology. On the basis of competitive strength established in the home base, producers in these countries enjoy competitive advantages in their export markets. Similar circumstances pertain in the case of the United States and Japan where markets of comparable size are available within their own respective borders. This lack of a large domestic market, which tends to place Canadian manufacturers at a competitive disadvantage in their export markets, may be offset in part by improving Canadian skills in export marketing.

One of the functions of the Department of Industry, Trade and Commerce is of course to make generally available the additional export marketing information and expertise which Canadian companies might need in their marketing efforts abroad. Departmental assistance is however limited; decisions on assistance of necessity have to be made on a cost/benefit basis in terms of expected export results. An important objective in the longer run is to identify and bring "on-stream" those smaller companies whose potential growth will make them substantial exporters in the future. Of the approximately 22,000 manufacturing companies in Canada, only about 4,000 are registered in the Department's Exporters Directory and most of these are not continuing and substantial exporters.

The expansion of exports must therefore necessarily depend to a large extent on attracting a greater number of qualified Canadian companies to venture into the export market. However, many of the smaller or medium-sized companies are inhibited by the relatively substantial investment involved in establishing independent export marketing facilities. The more that the foreign marketing environment differs from that of the domestic market, the more costly will be the investment for these companies. Cooperative marketing by the formation of export consortia could provide an attractive and economical means of entering the export market for many of these companies.

CONSORTIA

A significant aspect of consortia marketing is the advantage of flexibility of operation. Cooperation can be limited or extensive depending upon the requirements of the companies concerned. It can for example involve only the joint procurement of detailed market information or can extend to include all or some of the following activities: collective promotion; joint advertising; exhibiting and publicity distribution; sales of individual products under a common brand name; use of common marketing channels and distribution facilities; and common promotion through a singular organization. It would appear that market research, collective advertising, and sales promotion are usually the initial basis for such associations. Field studies, branded goods policy, and product development can follow later as cooperation develops, the ultimate goal being to eventually provide a full range of marketing services. These can be supplemented at later stages by other joint operations in fields like basic technical research. In summary, the following are a number of the more significant advantages that can accrue to companies involved in consortia marketing:

(a) Improved marketing operations:

- reduced unit sales costs through increased sales volume
- capability to carry out forward market planning to ensure orderly marketing of products
- more effective control of product supply, price stability, and quality assurance resulting from centralised market planning and access to a number of suppliers .
- reduced unit market research and development costs
- the ability to use and train specialists in particular phases of the marketing operation, e.g. export market research, planning and budgeting, export financing, transportation, distribution, export documentation, barter, switch transactions
- effective use of marketing techniques such as leasing, barter, switch trade, etc.
- reduction in costs through collective purchasing

(b) Improved sales processing:

- larger volume sales permitting negotiation of reduced freight costs or improved routing
- larger volume sales permitting reductions in handling costs
- the ability through joint sales and servicing to maintain after-sales service in areas uneconomical for individual companies.

CANADIAN EXPERIENCE

These benefits are generally recognized in the primary and the services sectors of Canadian industry, to the extent that a number of successful consortia have been organized for the export of primary products and services. Examples of the areas involved include sulphur, potash, lumber, engineering services and design services. These types of consortia appear to have been able to develop successfully for two main reasons: (a) the principals are usually in industry sectors where export markets are a critical need if they hope to survive and maximise returns on investments, and, (b) the owners' products are usually homogenous commodities.

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On the other hand, while some Canadian consortia have been developed for the export of secondary manufactures very little has been achieved compared to the primary sector. Nevertheless there is still considerable attention and earnest interest now being given to such forms of marketing by Canadian secondary manufacturing companies. Of the eighteen major industry associations recently contacted in current consortia research, fourteen have at one time or another discussed consortia development, and nine are presently engaged in serious discussions among their membership on consortia establishment (a list of trade associations is attached as Annex A). For example, the Canadian Textiles Institute is giving consideration to establishment of Household Furnishings consortia; the Canadian Electrical Manufacturers Association to a Transformer consortium; the Society of Plastics Industries to a Plastic Processors consortium; the Automotive Parts Association to a Warehousing consortium; the Oil Heating Association and Heating, Refrigeration and Air Conditioning Institute to a Furnace consortium; the Canadian Gas Association to a Gas Appliance consortium; and the Machinery and Equipment Manufacturers Association and Electronic Industries Association to various consortia. The Canadian Manufacturers Association was also independently reviewing the subject and has expressed support for any efforts which would assist in the development of export consortia. This general support has been reinforced also in discussions with an advisory group of businessmen with whom the Department met to review general middlemen marketing.

Most of the Associations and a cross section of Canadian business interviewed indicated that an incentive provided by a government support program such as described hereunder would have considerable weight in attracting Canadian companies to form consortia. It would have the effect of helping to overcome some of the impediments which are inhibiting the formation of operating consortia. In this connection there appears to be four main areas of concern:

(a) relations between participating companies (the difficulties involved in cooperating for export purposes with the same companies that are competitors domestically)

(b) relations between participating companies and the consortium (the difficulties involved in defining and ensuring equitable assignment of costs, distribution of benefits, participation in promotional initiatives, participation in consortium management, etc.)

(c) attitudes to exporting (some participants consider export markets only as an outlet for occasional surplus domestic production rather than an area of continuing marketing activity)

(d) finances (the reluctance or inability of participants to risk funds over the two or three year period which may be required to develop the necessary business before export sales produce a significant continuing payback).

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The first two problems are not insignificant but they are operational matters and given the necessary goodwill can be resolved through adequate definition of the terms of cooperation (in sales and cost sharing, in the functions of the consortium vis-a-vis participants, etc.) and through the selection of an effective consortium manager. The latter two problems are much more basic since they establish whether a consortium is to be a viable continuing operation, possessing the necessary resources to underwrite its continuing marketing operations. It is in the resolution of these problems that a requirement for government assistance is suggested.

Government financial participation in the development of consortia can provide the supplemental funds required to ensure an adequately financed marketing operation. It can also provide the impetus to induce a long-term commitment by participating companies. Government financial participation can similarly ensure that consortia meet basic requisites for success - by, for example, making support contingent upon the establishment of long-term marketing plans and commitment of all participants to such plans. Finally, such participation can minimize the risk in consortia development to the point that participating companies are prepared to make a larger independent financial commitment - and therefore develop a greater interest in the success of the operation -- than would be the case without government involvement.

An example of where such assistance has provided a major impetus in consortium development is in the recent case of the Quebec Office and Contract Furniture Manufacturers Consortium, a consortium developed as a result of a departmental study on improved Canadian furniture marketing. Discussions on this study were held in Manitoba, Ontario and Quebec but the only initiative taken was in Quebec where the formation of a consortium was assisted financially by the Quebec Government, particularly through a $40,000 grant on the $200,000 initial annual budget. It is expected that the consortium will be independent during its second year of operation but further support during this period will be forthcoming from the Quebec Government if required. Operations to date are encouraging in terms of sales achieved.

EUROPEAN EXPERIENCE

According to studies by both the Department and the Organisation for Economic Cooperation and Development (OECD), the consortia technique is used much more extensively in Europe for secondary manufactures marketing than in Canada. It also appears that where European consortia have discontinued operation it has not been because of failure but rather because they evolved into mergers resulting in one operating company with multiple plants.

In France, export consortia are used in nearly every industrial sector with more than 100 major consortia in sectors ranging from machine tools and agricultural equipment to lace and chocolates. The functions performed by these groups range from joint marketing in a particular market area to general marketing (inclusive of joint venturing and licensing) and rationalized production and purchasing. While use elsewhere in Europe is not as extensive as in France there are similar and successful examples of reliance on consortia marketing in Belgium, Switzerland, the Netherlands and Austria. The extensive European use of consortia marketing is an indication that the benefits to be derived from this approach are recognized and achievable in Europe.

SUMMARY

In summary, the reasons for lack of consortia development for Canadian secondary manufactures do not reflect on the potential success of consortia, but relate rather to some basic operational attitudes and to the risks involved in relatively heavy development expenses and the length of time required to generate a satisfactory return on investment. What is proposed to resolve these problems is essentially a facility for sharing the financial burden of development expenses over the initial period until sales reach a level that will assure the continuing viability of the consortia.

TERMS AND CONDITIONS - CONSORTIA ASSISTANCE PROGRAM

OBJECTIVE

The objective of a consortia assistance program is to improve the export performance of Canadian manufacturers, particularly small to medium size companies, by promoting the development and use of Canadian export consortia to achieve economies of marketing scale.

METHOD OF OPERATION

The program will involve the Crown in sharing up to 50% of the costs incurred by participating companies in the development and initial operations of an export consortium.

Expenses eligible will be those incurred in the two main phases of consortium development:

Phase 1 - Feasibility phase; including definition of market size, determination of potential market share, development of a marketing plan and budget covering the period until anticipated revenue exceeds expenses, and preparation of a consortium organization to effect the marketing plan.

Phase 2 - Market development phase; covering the establishment and the initial period of operation of the consortium.

Normally, marketing consortia supported will be those developed through the association of five or more companies producing allied products, who agree to consider export marketing through a common facility, for an extended period of time, to specified market areas. Crown contributions will be repaid on the basis of a percentage levy on sales to the extent that the volume of sales permits.

CRITERIA FOR ELIGIBILITY

Phase 1

The basic prerequisite for a government contribution for sharing the costs involved in the feasibility phase is an agreement in principle among a number of reputable manufacturers, normally a minimum of five, that are prepared to contribute to the costs of studying the feasibility of establishing a marketing consortium. This preliminary work should include:

- establishing prima facie evidence of the export marketability of product lines involved in selected world markets in adequate volume over an extended period; proposed sales must be incremental to the present business of participants.

- preparation of a clearly articulated marketing plan including promotional initiatives required to achieve adequate market penetration and specification of market development costs related to sales forecasts;

- preparation of consortium organization and staffing plan;

- establishment of the legal, financial, and administrative procedures necessary for the formation of a viable consortium.

Phase 2

Participating manufacturers may apply to the Department of Industry, Trade and Commerce for financial assistance relative to the costs to be incurred in the development and the initial operations of a marketing consortium. To be eligible for assistance in this market development phase, the group of manufacturers must have completed the work described in Phase 1 to the satisfaction of the Department, either with or without government financial assistance, and fulfill the following criteria:

- undertake to establish a Canadian company with the financial responsibilities of participating companies clearly defined. Normally, the consortium should comprise not less than five recognized Canadian manufacturers.

- the terms of association must be defined contractually, both in relations between participants and with the consortium.

- the terms of association must include production commitments by participating companies to a clearly defined consortium marketing plan.

- the products involved must have a significant overall Canadian content

- anticipated export sales must be incremental to the present business of participating companies

- the proposal should make good "business sense".

COST ELIGIBILITY

Costs eligible for support in the two consortia development phases will normally include all related and reasonable expenses such as:

Feasibility Phase - salary and travel costs involved in related market research and planning, fees of agencies engaged to conduct or supplement market research and planning, legal fees.

Market Development Phase - operating costs shown to be essential in the Phase 1 study including salaries of consortia staff, travel costs, agents' fees and expenses, office rental, promotion, catalogues, warehousing charges, transportation charges, office expenses, legal and audit fees.

FINANCIAL TERMS

Financial assistance will be provided by the Crown as contributions on the basis of up to 50% of eligible costs related to the feasibility phase of the consortium development, and up to 50% of the market development costs. Such contributions to market development costs will normally cover the first year of consortium operation. However, subject to annual performance reviews by the Department, Government contributions may be continued until the consortium achieves market viability up to a maximum of three years.

Maximum Government contribution in any one year to any one consortium normally will be $50,000. Repayment of the Government contribution will be on the basis of a levy on sales achieved by the consortium to the total of the Crown contributions.

ADMINISTRATION

This plan will become a section of the Program for Export Market Development and be administered in a similar manner to existing sections. Applications for assistance will be appraised by appropriate industry sector branch representatives and marketing specialists, and will be reviewed by an advisory committee on behalf of the appropriate Assistant Deputy Minister.

PROGRAM COSTS

On the basis of the potential formation of twelve consortia at an average cost per consortium of $30,000 during fiscal year 1973/74, it is estimated that the cost of an export consortia assistance program during its initial year of operation will be approximately $360,000.

PROGRAM BENEFITS

Experience with existing sections of the Program for Export Market Development has shown that a return of $20 to $40 of Canadian value added for each dollar contributed by the Crown can be reasonably anticipated. Expected minimum annual incremental sales resulting from the proposed $360,000 consortia program costs would therefore be in excess of $7 million.

CANADIAN INDUSTRY ASSOCIATIONS

Canadian Electrical Manufacturers Association

Society of the Plastics Industries of Canada

Oil Heating Association of Canada

Bakery Council of Canada

Canadian Toy Manufacturers Association

Canadian Tanners Association

Heating, Refrigeration & Air Conditioning Institute of Canada

Canadian Business Equipment Manufacturers Association

Canadian Gas Association

Canadian Sporting Goods Association

Canadian Textiles Institute

Machinery and Equipment Manufacturers Association

Canadian Food Processors Association

Electronic Industries Association

Automotive Parts Manufacturers Association

Association of Canadian Biscuit Manufacturers

Confectionery Association of Canada

Grocery Products Manufacturers of Canada

CANADIAN TRADE ASSOCIATIONS

Canadian Manufacturers Association

Canadian Export Association

Canadian Importers Association