



# ***Encouraging Export Diversification for Canadian Small and Medium-Sized Businesses: Quantitative and Qualitative Research on Free Trade Agreements***

## **Executive Summary**

### **Prepared for Global Affairs Canada**

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June 2019

This public opinion research report presents the results of an online survey of 507 export-oriented companies and set of 40 in-depth telephone interviews conducted by Phoenix SPI on behalf of Global Affairs Canada. The fieldwork for the research took place between March and April 2019.

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## **Executive Summary**

Phoenix Strategic Perspectives Inc. (Phoenix SPI) was commissioned by Global Affairs Canada (GAC) to conduct quantitative and qualitative research in support of export diversification.

### **Background and Objectives**

In alignment with the Minister of International Trade Diversification's mandate letter, GAC is pursuing efforts to help Canadian companies diversify their exports abroad. The Free Trade Agreement Promotion Task Force was established to promote Free Trade Agreements (FTAs) through outreach to Canadian companies and training Canada's trade commissioners. The Task Force had been in place for three years. GAC, therefore, wanted to collect baseline data on Canadian small and medium-sized businesses' (SMEs) awareness of Canada's FTAs, the extent to which these businesses are taking advantage of FTAs already in place, and the challenges SMEs see vis-à-vis diversifying their export markets.

The objectives of the research were to determine:

- Canadian SMEs' awareness of Canada's free trade agreements, with a focus on the Canada-EU Comprehensive Economic and Trade Agreement (CETA), the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the Canada-Korea Free Trade Agreement, the Canada-Israel Free Trade Agreement, and the Canada-Ukraine Free Trade Agreement;
- businesses' intentions regarding FTA utilization;
- the level of understanding by SMEs of the benefits and requirements of Canada's FTAs (in terms of tariffs, rules of origin, procurement, labour mobility etc.);
- Canadian SMEs' experience using FTAs, including the impact of FTAs on decision processes, and the barriers that prevent businesses from using FTAs;
- what information and programming support Canadian companies require to diversify their exports; and
- from which sources Canadian companies prefer to receive business-related information.

The findings from this research will be used by GAC to shape its FTA promotion strategy to better meet the needs of SMEs and provide a better client experience for Canadian companies that would like to diversify their exports.

### **Methodology**

Qualitative and quantitative research was conducted with the target population: Canadian SMEs that export. This included an online survey administered to 507 Canadian SMEs that export and a set of 40 in-depth, one-on-one telephone interviews conducted with a sub-sample of survey respondents. Specifically:

- The online survey averaged 15 minutes to complete. The sample was drawn from the business panels of Dynata and Maru/Blue. Panellists were invited to participate in the

survey through an email invitation which contained a password-protected URL to access the survey. Survey data was weighted by region and business size to reflect the composition of the target population. Surveys that use samples drawn from online panels cannot be described as statistically projectable to the target population. No estimates of sampling error can be calculated because the sample is based on those who initially self-selected for participation in the panel. The fieldwork was conducted between March 19 and April 1, 2019.

- A set of 40 in-depth, one-on-one telephone interviews were conducted with a sub-sample of survey respondents. Interviews were conducted in the individuals' official language and averaged approximately 30 minutes. All interviews were completed between March 28 and April 10, 2019. Participants received an honorarium of \$150 in appreciation of their time.

Additional methodological information is available in the appendix.

## Summary of Findings

### Exporting Activities

#### *Majority of SMEs export to the U.S. and other foreign markets.*

- More than half (59%) the companies surveyed export to the United States (U.S.) and other foreign markets. In contrast, approximately three in ten (29%) export only to the U.S. and 12% to foreign markets, excluding the United States.
  - Most interview participants indicated that their company began with a domestic focus and then later developed an international focus. Reasons for companies to begin immediately with an international focus included: the fact that the markets for the company's products are primarily outside Canada, the opportunity to 'piggy-back' on large international companies, the need for larger market opportunities to offset production costs, and personal experience or contacts.
- Among companies that export goods or services, North America (71%) is the top destination, followed by Europe (67%) and the Asia-Pacific region (55%). Fewer companies currently export to countries in Central or South America (27%) and to the Middle East or Africa (22%).
- At the country level:
  - The U.S. (97%) is the top export destination among companies that currently export to North America.
  - The United Kingdom (55%), followed by France (41%), and Germany (38%) are the top destinations among companies that currently export to Europe.
  - Among companies currently exporting to Asia-Pacific region, 49% export to Australia. Following Australia are China (36%), Japan (32%), New Zealand (26%), Hong Kong (20%), India (20%) and Taiwan (17%).
  - Brazil is the top export destination in Central and South America—42% of respondents said their company currently exports to Brazil, while 26% export to Chile, 22% to Argentina, and 22% to Colombia.

- The United Arab Emirates (36%), Israel (35%), and South Africa (32%) are top export destinations in the Middle East and Africa.
- In terms of export diversification, one-third of companies are not interested in any other markets at this time. Among those companies that are planning to enter new markets, Australia (20%), followed by New Zealand (15%) and the United Kingdom (14%), were the top destinations.

## **Exporting Obstacles and Assistance**

***Canadian SMEs face numerous challenges in relation to their activities in international markets.***

- The value of the Canadian dollar is the top challenge experienced by companies—for 69% of companies, it is at least a minor obstacle to their company’s activities in international markets. Other challenges experienced by majorities of companies when it comes to their activities in international markets include: uncertainty of the regulatory requirements in other countries (67%), lack of market contacts (64%), foreign tariffs and trade barriers (63%), lack of information on business opportunities (62%), linguistic or cultural obstacles (57%), lack of access to financing and funding (53%), and Canadian export taxes or permits (53%).
  - Interview participants echoed, as well as elaborated on, these challenges. In particular, for smaller firms, and companies that recently started international activities, making connections and networking as well as financial assistance were described as important challenges—the former because it is important to have knowledgeable ‘people on the ground’ to facilitate entry into a foreign market, and the latter because smaller firms many not have the cash flow available to support international business opportunities.

***Canadian SMEs require at least a little assistance in many areas when developing business in markets outside of Canada.***

- Areas in which Canadian SMEs were more likely to require some or a great deal of assistance include market intelligence and information (48%), referrals to international sales leads (47%), understanding business practices in foreign markets (45%), and information about companies in foreign markets (43%).
  - Interview participants provided more detailed insights into the types of assistance that would help their company address challenges related to their international business activities. Specifically, participants mentioned advice on legal issues, taxation, use of free trade agreements, international standards for products and services, and general information about how to operate in different regions.
  - Other types of assistance mentioned with frequency were financial assistance to help expand to international markets, foreign contacts to implement market plans (“boots on ground”), competitive intelligence, as well as business leads and foreign contacts.
- Areas in which companies are less likely to require assistance are referrals of technology and/or R&D partnership opportunities (47% of companies require no assistance), information or advice on locating financial/funding assistance financial advice (45% require no assistance), and practical advice on timing and organizing your business trip (44% require no assistance).

## Awareness and Use of Free Trade Agreements

*Among Canadian SMEs, there was fairly low awareness of Canada's free trade agreements.*

- Representatives of exporting companies were most likely to be aware of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) (74%) and the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) (72%). That said, only 7% of respondents said they are aware of the details of these free trade agreements.
- The majority of respondents have never heard about the Canada-Ukraine Free Trade Agreement (CUFTA) (64%), Canada-Israel Free Trade Agreement (CIFTA) (57%), Modernized Canada-Chile Free Trade Agreement (CCFTA) (54%), and Canada-Korea Free Trade Agreement (CKFTA) (52%).

*Few companies use any of these free trade agreements; the exception is NAFTA.*

- One-third (33%) of companies currently use the North American Free Trade Agreement (NAFTA) and 22% said their company is planning to start using the agreement in the next year.
- Nine percent of surveyed companies use CETA and 17% are planning to use this agreement, while 7% use CKFTA and 14% are planning to use it. Seven percent of companies are using the Canada-European Free Trade Association Free Trade Agreement and 20% are planning to use the agreement in the next year. Five percent are using CUFTA, CCFTA, and CIFTA.
- The majority of companies are not using and have no plans to use the following free trade agreements: Canada-Honduras Free Trade Agreement (65%), Canada-Jordan Free Trade Agreement (65%), Canada-Colombia Free Trade Agreement (63%), Canada-Peru Free Trade Agreement (60%), Canada-Costa Rica Free Trade Agreement (60%), and Canada-Panama Free Trade Agreement (56%).
- Topping the list of reasons why companies do not use Canada's free trade agreements were perceptions that there is no benefit for their company to be derived from using a free trade agreement (34%) and that free trade agreements are difficult to take advantage (30%).
  - Among interview participants, the following reasons were offered: free trade agreements do not apply to them (the assumption being that such agreements apply exclusively or mainly to providers of goods or products); their line of business is unaffected by free trade agreements (e.g., photography, publishing, consulting); lack of need; company size (i.e., the perception that free trade agreements are designed for large companies); and lack of information.

## Impact of Free Trade Agreements

*Tariff reduction is the top perceived benefit of using free trade agreements.*

- Nearly six in 10 (58%) companies that use free trade agreements have benefited from tariff reduction or elimination on goods. Significantly fewer have benefitted from better conditions for exporting services (23%), easier access to government procurement

opportunities (20%), greater business stability due to investment clauses in the agreement (17%), and labour mobility clauses/temporary entry (16%).

- When interview participants were asked about the benefits of free trade agreements, there was a noteworthy difference in feedback by the type of exporter. While companies exporting goods could readily identify benefits (e.g., business expansion, client diversification, access to new markets, increased profits, etc.), most service providers said that free trade agreements apply primarily or exclusively to products not services.
- Challenges of free trade agreements were also identified by interview participants: increased competition domestically and internationally, unfair trade practices (e.g., protectionism, corruption), and understanding the terms of the agreements (e.g., which products and services are included, how to settle disputes), among others.

***Free trade agreements influence companies' export strategy in various ways.***

- Most respondents said free trade agreements influence their company's export strategy at least a small amount. Specifically, 14% are influenced a great deal by free trade agreements, 27% a moderate amount, and 33% a small amount.

## **Communication Preferences and Information Needs**

***Top information sources for doing business abroad – associations and colleagues.***

- When asked where they get their information and advice on doing business abroad, such as exporting and using free trade agreements, approximately one-third each mentioned industry or business associations (32%) and business associates, colleagues, or partners (32%). Twenty-nine percent use the websites or free online tools of trade promotion organizations.
  - Interview participants pointed to the following information needs: market analyses, strategic advice on entering foreign markets, 'dos and don'ts' of conducting business in a country or region, information on the political climate in a country or region, advice on risk management, business leads and foreign contacts, and information about international rules, regulations, policies, among others.
  - Their main challenges in obtaining this type of information are lack of time, lack of expertise, lack of qualified staff (or resources in general), costs, and getting information in a timely manner,

***Vast majority uses the internet to stay on top of industry trends and general business information.***

- Just over three-quarters (77%) of respondents said they look to the internet when it comes to staying on top of industry trends and general business information. Following this, 46% use social media.

***Reading articles, getting answers from experts – top methods to consume information***

- When learning or researching something new, 59% of respondents prefer to read articles and 46% to get answers from an expert.



## **Notes to Readers**

- The report is divided into two sections. The first section presents the results of the online survey (the quantitative component), and the second section presents the results of the in-depth interviews (the qualitative component).
- Regarding the qualitative results:
  - The results provide an indication of participants' views about the issues explored, but they cannot be generalized to the full population of Canadian SMEs that export.
- Regarding the quantitative results:
  - All results in the report are expressed as percentages, unless otherwise noted. Throughout the report, percentages may not always add to 100% due to rounding.
  - In graphs, "DK" stands for "Don't know" and "NR" for "No response."
- Where base sizes are reported in tables and graphs, they reflect the actual number of respondents who answered or were asked the question.
  - The number of respondents changes throughout the report because questions were asked of sub-samples of survey respondents. Readers should be aware of this and exercise caution when interpreting results based on smaller numbers of respondents.
  - Subgroup differences are identified in the report. When reporting subgroup variations, only differences that are significant at the 95% confidence level are discussed in the report. If one or more categories in a subgroup are not mentioned in a discussion of subgroup differences, it can be assumed that significant differences were found only among the categories reported.
  - The results are reflective of Canadian SMEs that export, but they cannot be considered representative of the target population because random sampling was not used. When non-probability sampling is used, the extent to which the survey sample represents the target population is not known (because probability theory cannot be applied).
- The tabulated data is available under separate cover and the research instruments can be found in the appendix.

The contract value was \$132,465.95 (including HST).

I hereby certify as a Senior Officer of Phoenix Strategic Perspectives that the deliverables fully comply with the Government of Canada political neutrality requirements outlined in the Policy on Communications and Federal Identity of the Government of Canada and Procedures for Planning and Contracting Public Opinion Research. Specifically, the deliverables do not contain any reference to electoral voting intentions, political party preferences, standings with the electorate, or ratings of the performance of a political party or its leader.



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