Are Canada's businesses sufficiently prepared for trade disruption?

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Canadian companies that rely heavily on cross-border or global trade could be forgiven for feeling somewhat anxious these days.

The world of trade has experienced profound disruption over the past 18 months. From the bankruptcy of sea carrier Hanjin and the subsequent revamping of sea carrier alliances to the initiation of anti-dumping and countervailing duties against Canadian softwood lumber, to the renegotiation of NAFTA, the tense talks over Brexit and the introduction of tariffs on steel exports to the U.S., it seems as though global trade is in constant flux.

Add to this a rise in trade protectionism in the United States and elsewhere and it appears there's scant cause for celebration. Yet, despite the constant shifts in the trade landscape, Canadian businesses have remained resilient and resolute in their trade activity. Exports have climbed steadily, peaking in May 2017 at $48.5 million — the highest monthly total in almost two generations — before dipping during the summer lull and bouncing back in Q4. Imports have been following a similar trend, hitting a record high of $50 billion in November 2017 before tapering off over the past few months.

Balancing a fine line

While trade flows in and out of Canada remain steady — and there's good reason for a sanguine outlook on trade — it's critical that businesses' optimism doesn't transform into inertia. The volatility in global trade will most certainly continue for the foreseeable future and there are real risks for Canadian businesses that aren't considering how changes to international trade agreements, regulatory policy and public sentiment could affect their business.

In a study conducted by Livingston International earlier this year of businesses that currently use NAFTA, only six per cent of Canadian businesses indicated they were concerned about the potential

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outcome of the NAFTA negotiations, had considered how their businesses might be affected, and were actively making contingency plans. Meanwhile, 47 per cent said that while they were concerned about the negotiations, they haven't quite considered the impact to their businesses and had not begun contingency planning. Another 29 per cent said they weren't sure how to feel about the outcome of the negotiations but weren't making plans for a post-NAFTA world either way.

This is troubling data. While the NAFTA negotiations remain ongoing at the time of writing and recent developments are cause for optimism, a number of critical impasses remain between the parties. These include raising North American content requirements for autos from 62.5 per cent to 85 per cent; dispute resolution mechanisms; a proposed sunset clause that would see the terms of the agreement reviewed and possibly altered every five years; not to mention U.S. demands for access to Canada's dairy industry; and proposals that Mexican labour policies be refined to make investment in Mexico less attractive.

Canadian officials remain hopeful that an agreement can be reached, but continue to state that a mutually agreeable outcome is far from imminent despite U.S. demands to conclude negotiations as soon as possible lest they be politicized by the Mexican presidential election in July and the U.S. mid-term elections in November.

In the event the U.S. does choose to withdraw from the agreement, Washington is only required to provide six months' notice — hardly sufficient time to revamp a supply chain, even one that isn't terribly complex. Businesses that aren't considering today how a U.S. withdrawal could impact them and that aren't making contingencies

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will be vulnerable to a broad range of disruptions — from border delays and operational hiccups, to reduced cash flow, the loss of suppliers and even reduced market share.

Mitigating these issues will require a more generous timeline than six months and businesses that wait until an announcement of withdrawal has been made public could be putting themselves at risk.

Disruption isn't a four-letter word

It's worthwhile to note that planning for the future isn't just about preparing for a worst-case scenario. For example, the NAFTA negotiations are tackling a number of contemporary issues that will serve to modernize the 24-year-old trade pact, assuming the parties are able to reach an agreement. These include provisions around intellectual property protection, the digital economy and e-commerce, trade in services and workforce mobility. There's also tremendous progress being made on harmonizing regulatory policies so that businesses working on both sides of the 49th parallel are able to streamline product-approval processes from government partner agencies.

These changes will create new opportunities for businesses to expand their market, explore e-commerce solutions that previously seemed too onerous to consider, and reduce their administrative burden, saving time and money. However, much like the original trade deal, the opportunities embedded within a "New NAFTA" are likely to come with some level of administrative complexity. Canadian businesses will want to begin exploring the new trade prospects available to them as early as possible to ensure they're well equipped to deal the particulars of a revamped trade deal.

These potential modifications to NAFTA would be complemented by ongoing efforts at the Canada Border Services Agency (CBSA) and U.S. Customs and Border Protection (CBP) to automate the customs process and cross-border regulatory approvals so that businesses on both sides of the Can-Am border can enjoy expedited clearance at border crossings. CBP's implementation of the Automated Commercial Environment (ACE) remains in transition and CBSA's Single Window Initiative (SW) is set to begin its implementation within the next year. Once employed, these efforts will allow for the expedited release of cargo, which has become critical in the age of e-commerce and just-in-time shipping. Businesses will be able to deal with the administrative aspect of cross-border transport in a far more transparent, automated and seamless manner, reducing the amount of time they spend on trade-related tasks and allowing them to focus their energy on improving their business.

Where there's risk, there's also opportunity

While the potential withdrawal of the U.S. from NAFTA may be a hovering storm cloud, the emergence of new agreements such as the Comprehensive Economic & Trade Agreement (CETA) with the European Union and the anticipated signing of the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP) open new windows of opportunity for Canadian businesses looking to expand their global footprint and/or reduce their reliance on the U.S. market.

CETA, ratified early in 2017 and implemented last summer, eliminates tariffs on 98 per cent of merchandise goods traded between Canada and the EU while liberalizing trade in services and giving Canadian businesses access to bid on a wealth of EU government projects. However, those businesses who take advantage of CETA should be mindful that Brexit talks between the U.K. and EU are ongoing and the outcome of those talks could affect the cost-efficiency and efficacy of trans-Atlantic supply chains, particularly those that use the U.K. as their entry point into the EU.

B.C.-based businesses should be closely watching developments in the ratification of the CPTPP, the successor to the Trans-Pacific Partnership, the 12-nation trade pact that many believed to be defunct after U.S. President Donald Trump signed an executive order to withdraw from it on his third day in office. However, the agreement was resurrected last year and a recent study by the CanadaWest Foundation showed Canada's GDP could stand to gain even more with the U.S. excluded from the agreement.

The 11-nation CPTPP, which Canada signed in principle in early March, will give Canadian businesses more seamless and cost-effective access to key markets in Asia, such as Japan, Singapore and Malaysia, as well as Pacific-Rim nations, such as Australia, New Zealand and several others. The trade deal will allow Canadian businesses that have existing trade relationships in CPTPP markets to reduce their costs and improve trade flows while also giving them the opportunity to establish more expansive and sophisticated international supply chains to improve global competitiveness.

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Planning ahead

With so much change taking place in international trade, the world has become a kind of giant chess board, where the introduction of new trade agreements, tariffs or countervailing duties can have repercussions on other trade agreements, trade blocs and economic alliances. Each moving part has the potential to disrupt trade lanes, increase landed costs and create operational headaches.

Strategically thinking business leaders should be watching each development closely to ensure they're able to understand how each change might affect how they currently use trade to improve their business and to determine how best to mitigate any ill effects or capitalize on new-found opportunities.

Those who wait until the finer points are all sorted may find themselves struggling to make sense of all the change and to keep up with it.

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