Will Canadian businesses use a free-trade agreement with the EU?

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For the longest time, Eric Beauregard saw exporting to Europe as an attractive but not-so-urgent opportunity. The chief executive of Montreal-based AV&R Vision & Robotics — a maker of advanced automated systems for the aerospace industry and others — was content to limit his export activity to the U.S. where demand for automation was high and buyers were plentiful. All that changed in September 2008.

"It was always a place we were looking to go but we thought you not only have the distance but the time zone and culture differences," he says. "We thought that until we were really ready to go, we wouldn't cross the sea and would be satisfied with Canada and the United States."

When the global economic downturn made U.S. buyers disappear, Mr. Beauregard found himself looking to Europe much sooner than he had anticipated. To his surprise, he found a divergently receptive market that wasn't nearly as homogenous as he had anticipated.

"When I got there, I found out that when you talk about the 'European Community,' it's more of a marketing thing and less of an operating thing because each country has its own culture."

The entrepreneur's reference to "culture" goes far beyond history, linguistics or even gastronomic preferences. He discovered French businesses at the mercy of labour unions were initially reluctant to adopt what had traditionally been seen as job-vanquishing automation processes, while German companies hell bent on achieving optimal efficiency were all too eager to snatch up his offerings.

Despite the cultural variations, AV&R was able to find a foothold in both countries, as well as Italy and England … and Turkey and Israel and Singapore. Today, the company's sales are evenly quartered in Canada, the U.S., Europe and Asia.

Mr. Beauregard's story is one the federal government and Export Development Canada (EDC) hope will become much more commonplace should the former succeed in finalizing a free trade agreement with the European Union.

Now three years in the making, the agreement is expected to break down trade barriers such as red tape and obstructive tariffs while opening up new markets to Canadian businesses desperately in search of alternatives to the U.S. and, increasingly, China.

"[In terms of] the proportion of Canada's exports around the world, the proportion that represents the European Union is about 14.5% — we can do better than that," says federal trade minister Ed Fast. "This is the largest trading block in the world — we don't have as large of a piece of that trading block as we should."

The federal government is hoping the soon-to-be-finalized agreement with the EU will boost trade with the other side of the pond by 25% or $12-billion.

But many argue the agreement may be concluded at an inopportune time. Europe's sovereign debt crisis has left traditionally risk-averse Canadian entrepreneurs nervous about investing in the continent's volatile economies — and for good reason. Trade Confidence Index (TCI) data from the fall of 2012 show 42% of Canadian businesses exporting to France have seen a decrease in sales as a result of the euro crisis while 41% of exporters to Germany have seen similar declines. In the U.K., the situation isn't quite as dire, with only 27% reporting a drop in sales.

Yet, despite all the bad press Europe has received over the past two years, many of Canada's small and medium-sized enterprises (SMEs) still see the EU as a desirable market. A 2011 study by the Canadian Federation of Independent Businesses (CFIB) of its members shows 54% intend to increase their trade with the EU over the course of three years. Whether that optimism holds firm today is difficult to determine.

Many of these businesses had been previously reluctant to explore European trade opportunities, citing fluctuating exchange rates, the high cost of shipping and prohibitively high tariffs and duties as key obstacles.

In response, the federal government has made an effort to emphasize within the agreement the elimination of red tape and a more harmonized approach to regulations. In addition, the federal trade commission is already gearing up to provide on-site support to Canadian businesses interested in exploring European markets, offering them more transparent information about potential challenges they may encounter, but also to introduce them to prospective business partners in their target markets.

SMEs have traditionally been more reluctant to venture into foreign markets than big business. For the latter, a prospective free trade agreement with Europe will have unquestionable benefit. Opportunities will abound for large-enterprise operations in numerous industries, including telecom, aerospace, beef and several others. For SMEs, the opportunities will also be plentiful, though more difficult to identify and seize.

Mr. Fast believes the agreement will also introduce a shift in the makeup of Canada's trade from what has been almost entirely finished goods or commodities to services, such as engineering.

When it comes to SMEs, however, David Detomasi, professor of international business at the Queen's School of Business, believes the EU agreement will have a negligible effect, noting Canadian SMEs will continue to be drawn to the geographically accessible and culturally similar U.S. market.

The best-case scenario, says Prof. Detomasi, would be for Canadian SMEs to find a way of making themselves an integral part of a European multinational's supply chain.

"EDC has talked about this idea of 'integrative trade,' " he says. "It's not just about finished products or commodities; it's about pulling small and medium-sized enterprises into bigger supply chains that may or may not be Canadian."

Corinne Pohlmann, vice-president of public affairs at the CFIB, is more optimistic. "Will it go from 5% [of exporting SMEs targeting Europe] to 25%? Probably not; but it might go from 5% to 10%.... Even a small percentage increase would be a good thing."

Ms. Pohlmann's optimism isn't unfounded. According to data from Industry Canada, SMEs generated 37.5% of trade with Europe in 1999. By 2009 that number had climbed to 54.9%.

SMEs' contribution to increased European trade is symptomatic of a larger trend of trade diversification spurred by the lagging U.S. recession. In 1999, the EU represented only 4.6% of Canada's total exports. By 2009, it was 8.7%. Conversely, exports to the U.S. had fallen to 74.9% from 87% during the same period.

Many trade experts believe a greater influx of immigrants to Canada — many of whom will become entrepreneurs — will spur interest in global markets because these immigrants will feel comfortable doing business with their countries of origin. While any increase in export is welcomed by EDC, its hope is that such activity will serve merely as a stepping stone to more diverse trade.

"We can't go to the path of least resistance; you have to go beyond where you have cultural affinity," says EDC corporate spokesperson Phil Taylor, adding that many first-time exporters should use the first country with which they trade as a gateway to other opportunities. "Turkey offers a gateway to the near east, for example, so when you think about destination markets, you also have to think about the trampoline effect."

Mr. Taylor's colleague Chris Dallaire, vice-president of small business solutions at EDC, also believes an EU agreement will help Canadian businesses resolve some of their labour woes, opening up new labour-market opportunities and access to skilled workers currently in short supply in Canada.

The degree to which Canadian businesses will make use of an EU-Canada trade agreement will depend on wide-ranging factors, not least of which is the evolution of the European debt crisis and the union's political stability.

However, what is and isn't stable is entirely relative and in the near future Europe's challenges may very well pale in comparison with those in other global markets. Or, as Mr. Beauregard puts it: "There are worse places to be than Paris, Copenhagen and Rome."