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Free trade helps Canadians

Expert: U.S. businessmen far behind

By Tom Henderson
staff writer

The Canadians are coming! The Canadians are coming!

Local experts on international trade say that American business executives are far behind their Canadian counterparts in plans to expand operations across the border to take advantage of the Free Trade Agreement between Canada and the United States, which went into effect Jan. 1.

The irony is that the agreement had sparked controversy in Canada and was the focal point of the last election for prime minister. Canadian opponents of free trade said that it could turn Canada into the 51st state.

That isn't happening, local experts say. Better, they say, that American business leaders worry about the United States becoming the 11th province.

"THE NUMBER of companies that I've dealt with with no knowledge of and no understanding of free trade is incredible," Jim Searing of the Big Eight accounting firm of Ernst & Whinney said in the firm's Business Advisory Review, published this past winter.

"Businesses here have not been as effective as they should have," said Marc Santucci, who was formerly director of international development for the state of Michigan. He is now is president of his own consulting firm in East Lansing, ELM International Inc.

"Our companies have traditionally looked at exporting as a luxury. The lack of interest in exporting in general is a serious problem.

"We're a nation of very aggressive buyers and we're not very aggressive sellers. As a company, a state or a country, we have not put the emphasis on export production."

ROBERT BUBLITZ of Livonia, an Ernst & Whinney partner, heads the firm's international services group.

"We are not doing what we ought to be doing here in the U.S. Our Canadian counterparts are way, way ahead of us. You get down to middle-sized and smaller firms (in the U.S.), and they haven't done anything with it," Bublitz said.

"Most Canadian companies are much further ahead, and that's true on a government level as well. Very much so," Bublitz said.

JEANNE PALUZZI heads JGP Marketing Group International Inc. of Livonia, a public relations and marketing firm. She is negotiating her own expansion into Canada, vis-a-vis a joint venture with a Windsor company, but she said she has been unable to convince her own clients to get moving into Canada, too.

"Everybody's talking about it, but nobody's doing much," Paluzzi said. "Those who do the work now are going to be way ahead."

Paluzzi is on the international trade committee of the advisory council to the Small Business Administration and has been aware of the Free Trade Agreement for several years, which she said has given her a head start in expanding into Canada.

Paluzzi said she and her prospective partner are about to draft a working document after having nearly completed what she termed a courtship period.

"Americans are reluctant to think exporting, traditionally because their own market is so big internally. (But) you can't just stay in Michigan borders or U.S. borders in a world that is increasing its global economy."

BUBLITZ SAID his clients have also been slow to act.

"I still find a lot of passive acknowledgement of the agreement," he said. "It seems to end up three or four notches down on the do-list of most of my clients. It ought to move higher on the list. It's on top of their Canadian competitors' list and has been there for some time — and because of that, Canadians will have a jump on competition."

The only companies who have done their homework are the Big Three — Chrysler, Ford and General Motors, Bublitz said. As for the rest, even Tier I suppliers with millions in potential business at stake "haven't done their homework," Bublitz said.

There are two reasons the Canadians are more prepared to take advantage of the Free Trade Agreement, Santucci said. One, because it was a hot political issue there, they were more aware of it and more knowledgeable about its benefits; two, Canadians, with one of the smallest internal markets of any industrial nation, have traditionally relied on exports, while Americans, with one of the largest internal markets, have tended to keep their focus close to home.

That shortsightedness may have worked until now, but is dangerous in today's global economy, Santucci said. He said companies should look at exporting not only as a way of increasing business, but as a form of the best defense being a good offense. If you keep foreign competitors busy on their soil, they have less time to come attack you on yours.

BUT HE is pessimistic that American business won't get the message until it is too late.

"As long as our economy is going good, they'll be too busy to worry about exporting. When the economy takes a dip and they have excess capacity, they'll say, 'Hey, great, Canada, fine.' But it will be too late, then.

Please turn to Page 2

Commerce: The key to the future

JIM JAGDFELD/staff photographer

Craig Barnaby, owner of Phillip's Feedback Consultant Services Ltd. of Livonia, sees the Free Trade Agreement as the passport he needed to penetrate the Canadian market. Technicians are Don Young (left) and John Bellicka.

History of trade relations

The U.S. and Canada have a long history of trade relations and attempts to limit tariffs and trade sanctions. Here is a timetable of past and future actions:

- 1854 — The Reciprocity Treaty is signed, with most tariffs removed on trade between Canada and the U.S. The U.S. abrogates the treaty during the Civil War because of England's pro-South stance.
- Mid-1930s — Two treaties are signed liberalizing trade.
- 1947 — The countries sign the General Agreement on Tariffs and Trade, which governs trade for the next 42 years.
- 1965 — The Auto Pact goes into effect, eliminating many tariffs on new cars and new-car parts. The subsequent success of the pact is influential in proceeding with the Free Trade Agreement.
- 1985 — The U.S. enters into its first free-trade pact — with Israel. Both sides consider the pact a success.
- Oct. 4, 1987 — A broad outline for a trade agreement between Canada and the U.S. is initialed by representatives of the two countries.
- Dec. 11, 1987 — The final pact is agreed upon by negotiators.
- Jan. 2, 1988 — The pact is signed.
- Jan. 1, 1989 — The pact, the focal point of a heated election for prime minister in Canada in the fall (won by proponent Brian Mulroney of the Progressive-Conservative party), goes into effect. Phase I of tariff elimination begins. It covers, among other things, computers and computer equipment, furs, leathers, whiskey, yeast, animal feeds, unwrought aluminum, skates, needles, skis and motorcycles.
- Jan. 1, 1990 — The threshold for review of business acquisitions in Canada by U.S. firms will climb from $25 million to $50 million.

— Tom Henderson

Local robotics repair firm looks eagerly to Canada

By Tom Henderson
staff writer

Craig Barnaby is one American business executive who isn't reluctant to expand into Canada and take advantage of opportunities available under the new Free Trade Agreement.

Barnaby has eagerly attended seminars on the topic, is close to completing a deal with a Chicago firm for financing his expansion into Canada and hopes to have a Windsor operation under way before the end of the year.

"When we open up, we're going to blow their socks off," he says of his current competitors.

Barnaby owns Phillip's Feedback Consultant Services Ltd. of Livonia, which repairs encoders, the brains that control factory robotic systems. He began his business 10 years ago out of the bedroom of a mobile home in Highland, later expanded into the basement of a house in Redford, and now operates out of an industrial complex on Schoolcraft in Livonia, where he recently doubled his area to 4,000 square feet and employs eight workers.

Expanding to Canada should, he says, help him meet his goal of tripling his business this year. He said he has 13 or 14 competitors in Michigan, but just three in all of Ontario.

BARNABY HAS made modest attempts to expand his business into Canada before, but until the Free Trade Agreement, tariffs, delays and other border hassles made it impractical. What few clients he would pick up, he'd usually soon lose.

Doing business there "was always a pain in the derriere," he said.

There was no next-day air or truck service to Windsor. If he wanted to carry a repaired encoder across the border, he had to wait in four-hour truck lines, pay special user fees for the bridge or tunnel and face bureaucratic hostility either going in our coming out of Canada.

UPS took two or three weeks to get packages through the border, an unacceptable delay to a company whose assembly line might be down while a part was being repaired. Then there were the forms. "If all the i's weren't dotted and the t's crossed, customs would kick it back to us," said Barnaby.

Sometimes, he said, customs would disassemble the complex units, then send them in a disassembled state to a customer who had no knowledge how to put them back together. "So we'd have to repair what customs had taken apart."

Under the old law, if Barnaby wanted to open a Canadian operation, he needed a Canadian-born, 50-percent partner. He explored several partnerships, but couldn't find anyone with whom he was comfortable.

Eventually, he gave up. Until the Free Trade Agreement, he was resigned to staying strictly American.

TIMES HAVE CHANGED. Now, the Canadians have opened a consulate in Detroit and have cooperated fully and eagerly in helping him find a Windsor location and cut through paperwork. He will, he says, be doing between $250,000 and $500,000 (U.S. dollars) a year in Canadian business within two years.

And within two years, he hopes to have seven or eight Canadian employees. (He can use American technicians for up to a year to train Canadian workers, but after that he must employ Canadians.)

Of his former customers, he says: "To get them back would not be that hard. I just have to let them know I'm right next door to them now."

Facts about U.S. - Canada trade

Here are some facts and figures involving trade between the U.S. and Canada and the Free Trade Agreement:

- Canada is this country's largest trading partner. The two nations have the largest bilateral trading partnership in the world, with estimates predicting that $170 billion in goods and $30 billion in services will be traded in 1989.
- Canada's second-largest trading partner is Japan, and its third-largest is the United Kingdom. But its trading with Michigan alone is more than that with Japan and the UK combined.
- Michigan now exports $8 billion in goods and services a year to Canada, a figure that should rise by $1 billion in the next five years, helping create 25,000 jobs, according to government and business experts. About 70 percent of the exports are in motor vehicle components. Michigan imports about $18 billion in goods and services from Canada.
- Prior to the Free Trade Agreement, which took effect in January, 75 percent of the trade between countries was already duty free. Tariffs on the remainder averaged more than 9 percent on goods going into Canada and more than 4 percent on goods going into the U.S.
- Some of the higher tariffs were 17.5 percent on U.S. telephone switching equipment, 15 percent on Canadian petrochemical goods and 19 percent on Canadian paper products.
- Seventy-five percent of Canadian exports now go to the U.S. About 20 percent of American imports come from Canada, with 25 percent of American exports heading north.
- Two million U.S. jobs currently depend on exports to Canada, 431,000 in the Great Lakes region, including 180,000 in Michigan.
- One of seven manufacturing jobs in Michigan now depend on exports, and one in nine for the U.S. as a whole.
- One of the benefits to the U.S. of the Free Trade Agreement will be to provide the U.S. a source of oil even in times of shortages or international crisis. Canada must maintain the same proportion of oil flowing south relative to supply. It must "share the hurt," said Sal Badali of the Canadian firm of Thorne, Ernst & Whinney.

In size, Canada is the second-largest country in the world, behind the Soviet Union. But it has a population of just 25 million.

— Tom Henderson