

WORLD TRADE ORGANIZATION

S/CSS/W/49
14 March 2001

(01-1405)

**Council for Trade in Services
Special Session**

Original: English/
French

COMMUNICATION FROM CANADA

Initial Negotiating Proposal on Small- and Medium-Sized Enterprises

The attached communication has been received from the delegation of Canada with the request that it be circulated to Members of the Council for Trade in Services.

1. Canada reserves the right to modify this proposal at any time. This proposal does not prejudice Canada's position on other service sectors, nor any future offer on this or other sectors. This proposal should be read in conjunction with the principles and objectives as outlined in Canada's initial negotiating proposal.

A. INTRODUCTION

2. The purpose of this proposal is to encourage consideration in these negotiations of barriers limiting the participation of small- and medium-sized enterprises (SMEs) in the global trade of services.

B. IMPORTANCE OF SERVICE SMES

3. SMEs are key contributors to the economic growth and employment in the global economy. They make up more than 95 percent of developed countries' enterprises and account for 60 to 70 percent of their workforce. We believe the situation is quite similar in developing countries. For example, in Latin America and the Caribbean, SMEs also make up more than 95 percent of the total number of business establishments and absorb more than 85 percent of total private sector employment in most countries in the Region. In Canada, SMEs account for almost 60 percent of Canada's private sector employment and 43 percent of private sector GDP.

4. SMEs predominate in service sectors. In Canada for example, 86 percent of services firms employ less than 50 employees. They are active in exporting services in key sectors such as professional services, computer and related services and environmental services.

5. The vast majority of service SMEs are realising new opportunities through applications of information technologies. Being on-line makes them automatically global. They are increasingly present in technology-intensive industries, such as information and communications technology, as well as in strategic business services, such as computer software and information processing or human resource development.

6. The limited number of organizations to effectively voice SME concerns and the wide range of SME interests limits their capacity to defend their collective interests.

./.

C. INTERNATIONALIZATION OF SERVICE SMEs

7. In an increasing integrated world, service SMEs will be more active in the global marketplace in order to maintain their job and wealth-creation capability.

8. Advances in communication and information technology have given them potentially more efficient tools to operate internationally. They are making use of the Internet's competitive advantages of speed, convenience and reduced costs to enter new markets.

9. To increase their participation in the international trade, service SMEs have to overcome barriers related to a discriminatory, burdensome and non-transparent regulatory environment. For example, onerous licensing, registration requirements and excessive user fees can create barriers that are particularly burdensome for SMEs.

10. We also note that smaller firms may have less capacity to devote to activities related to entering and sustaining their activities in foreign markets as they often have less available capital and time than larger firms.

11. Due to limited resources, SMEs cannot necessarily respond as quickly and effectively to market access barriers as larger firms. The development of Mutual Recognition Agreements (MRAs) that will reduce these resources demands is very important for SME service providers. Members should consider ways to facilitate the development of MRAs.

D. TRANSPARENCY

12. Market access for service SMEs can be strongly hampered by a lack of information on regulatory regimes and requirements.

E. MODES OF SUPPLY

13. Due to their size and resource constraints, we believe that SMEs export services primarily by using mode 1 (cross-border) and mode 4 (movement of natural persons) because these are the least expensive and most effective ways for them to conduct business. However, many countries require businesses to establish a commercial presence before they will allow services to be imported into their market. This makes it very difficult for service SMEs to export to these markets because they cannot afford to establish a commercial presence in the foreign market. In order to help service SME exporters, in the negotiations, Members should explore ways to remove unwarranted mandatory commercial presence requirements on the cross-border supply of a service.

14. Electronic commerce may be a preferred vehicle of delivery for many service SMEs. To the extent that they establish a commercial presence in foreign markets, entry and exit barriers in foreign markets may be barriers to their effective participation.
