

COMMERCE 3.0: HOW TECHNOLOGY IS EMPOWERING CANADIAN ENTREPRENEURS TO GROW GLOBALLY

2014



ebay inc™

CONTENTS



4

EXECUTIVE SUMMARY

6

UNDERSTANDING THE ECONOMICS OF
TECHNOLOGY-ENABLED SMALL BUSINESS TRADE

12

POLICY SOLUTIONS TO THE OBSTACLES
TECHNOLOGY-ENABLED SMALL
BUSINESSES FACE

21

CONCLUSION

MESSAGE FROM ANDREA STAIRS COUNTRY MANAGER eBay CANADA



Canadians have been at the forefront of expansive cross-border trade, from the early fur economy to today's robust trade in energy, minerals, and forestry products.

Canadians also have a tremendous history of technological innovation, from the pioneering work of Reginald Fessenden on radiowaves in the early 1900s up through James Gosling's creation of the JAVA programming language in the mid-90s. Finally, Canada has also long had a healthy culture of entrepreneurship with famous last names like Labatt, Coutu, and Bombardier typifying the ability of small businesses to grow large in Canada. These three trends – technology, trade, and entrepreneurship – have largely grown independently of one another throughout the history of Canada. Traditionally, the high capital investments required to engage in trade meant that entrepreneurs and small businesses were cut out of the global trading system, and advances in technology could not overcome these costs. The recent growth of the global Internet, however, has enabled these three trends to converge, resulting in a tremendously positive story for the Canadian economy.

Through our eBay and PayPal platforms we have unique insights into how Canadian businesses, particularly small Canadian entrepreneurs, are using the Internet to engage in a new type of trade. The Internet's greatest strength is its ability to provide instant global scale. Any business can now offer its products and services globally with little more than an Internet connection. Our research demonstrates that Canadian businesses are taking advantage of this massive opportunity. Practically all (99.5%) of the small businesses in Canada using eBay Marketplaces, which we call technology-enabled small businesses, exported

products in 2013. These businesses exported on average to 19 different markets. In 2013, these technology-enabled small businesses had 14% greater sales than they did in 2008, while over that same time frame exports from Canada were down 2%. Moreover, the technology-enabled marketplace is far more inclusive than the traditional marketplace. Businesses selling using eBay's platforms have access to the same amount of consumers whether those businesses have 5 employees or 500 employees. So while in the entire Canadian economy the largest 3.3% of traditional exporters account for a share of 82% of all sales abroad, the share in overall exports of the largest 3.3% of technology-enabled small businesses is just 36%.

At eBay Inc., we are working tirelessly to continue to develop technology that can foster the growth of this new entrepreneurial class of traders. We have partnered with logistic providers to make the shipping and tracking processes more efficient, understandable, and cost-effective. We are working to help create a personalized connection between businesses and consumers even when they are on opposite sides of the world. Finally, our PayPal service ensures that consumers can transact with trust and businesses can receive their payments quickly and securely.

Despite these advances there remain certain policy barriers, which cannot be resolved by technology and that require policy intervention. The system for global trade, the nuts and bolts of regulation and policy, as well as the physical infrastructure, was not designed with small businesses in mind. Policymakers need to consider how to revise the global trade system to account for the rise of technology-enabled small businesses. The largest barriers come in the form of antiquated customs and shipping regimes. Postal service harmonization, an issue that has traditionally sat outside the arena of trade policy ought to be considered as technology-enabled traders utilize the posts to deliver their products. Also important is the creation of a regulatory system designed for modern financial services, which serve as the engine for technology-enabled commerce. Finally, divergent consumer protection regimes challenge the ability of the Internet to create a truly global marketplace.

I for one am very excited about the future, despite these public policy challenges. As the disparate threads of Canadian technology, trade, and entrepreneurship continue to converge there will be tremendous resultant socio-economic benefits. A traditional small Main Street business in Canada now has the opportunity to sell products and services to customers around the world, and bring the revenue from those transactions back to the local community. For the first time in history, truly global economic opportunity is open to everyone. The potential for Canadian businesses is limitless.

Andrea Stairs
COUNTRY MANAGER
eBay CANADA

SNAPSHOT
OF KEY
FINDINGS:

99.5%
of Canadian
businesses
using eBay
Marketplaces
are exporters



Sellers on
eBay in
Canada
ship to an
average of

19
markets

PayPal
ensures that
**businesses and
consumers can
transact with
trust** across
borders



**Customs
and shipping
regimes**
are the biggest
barriers to
cross-border
business



The impact
of **technology
enabled trade**
will continue
to grow

Among
traditional
exporters,
the largest
3.3%
of businesses
account for
82%
of trade


**The largest
3.3%**
of technology
enabled
small business
account for only
36%
of sales abroad

EXECUTIVE SUMMARY



The Internet offers
instant access to over

2.6 billion
people

**Technology enabled
small businesses**
export at a higher rate,
to more countries



Technology, particularly the Internet, is causing a significant shift in the way that international trade is conducted. Working with external economists, our team at eBay Inc. has spent the last four years researching this phenomenon.¹

Our research has uncovered a new segment of traders that is significantly different from traditional traders. The Internet and technology-based services are enabling these businesses, typically small businesses that we will call **Technology-Enabled Small Businesses**, to directly reach consumers in many global markets, without large scale physical operations or necessarily integrating into larger supply chains. The Internet provides instant access to over 2.6 billion people around the world; the services that sit on top of the Internet allow for low cost development, marketing, and financial services; and global logistics providers enable delivery of physical products directly to consumers in any country². These developments are transforming the face of the global trading regime.

This white paper will describe the tremendous shift that technology is causing in the international arena by focusing in on Canadian small business entrepreneurs that are using eBay Marketplaces to expand their businesses globally. This article also discusses the unique trade issues those entrepreneurs face. The economic analysis of eBay data was conducted in collaboration with economists Simon Schropp and Andreas Lendle of Sidley Austin LLP. The research findings are complemented with an assessment of the macro and micro-level trade policy implications.

The result from the economic analysis is quite extraordinary. It tells us that Technology-Enabled Small Businesses in Canada export at a higher rate and to more countries than their offline counterparts. We see that Technology-Enabled Small Businesses experience strong global growth. Moreover, the results also show that the technology-enabled marketplace is less dominated by large businesses than its traditional counterpart, meaning that Canadian technology-enabled trade is more inclusive. New Technology-Enabled Small Businesses are able to scale quickly and our research demonstrates that these newcomers have a significant share of the market in just a matter of years.

We argue that these new trends in global trade hold positive trade policy implications. In the past, the sole participants in, and beneficiaries of, international trade have been large businesses. Now that technology is enabling businesses of all sizes to enjoy the benefits of trade, trade policy could come to play an important role also for smaller businesses across Canada. Global trade has often been painted in the public sentiment as an arena dominated by large businesses, technology could help to change the prism through which global trade is analyzed and discussed.

Notably, Technology-Enabled Small Businesses face unique trade issues that were not considered in past trade discussions. The largest issues come in the form of antiquated customs regimes. Customs processes were designed to move giant shipping containers carrying the products of large companies along well-established trade corridors. These regimes need to adapt to a world where millions of small packages are being sent by hundreds of thousands of small businesses all around the world. Postal policy is an issue that has traditionally sat outside of the trade policy realm, but which could have major implications for Technology-Enabled Small Businesses. The national posts tend to operate as the trade routes by which 21st century commerce travels. Also, financial services policy has significant impact on Technology-Enabled Small Business as they are engaged in cross-border financial flows on a daily basis. Finally, consumer policy is another issue that has largely been discussed outside of the traditional trade agenda, but technology-enabled trade depends on both customers and businesses feeling confident in their rights and obligations when engaging in distance transactions across borders.

We hope that this white paper will shed light on the revolution, and now evolution, of technology-enabled commerce in Canada. The paper will proceed in two parts. Part One will describe the amazing findings of our economic research comparing technology-enabled trade with traditional trade, including case studies that shed light on the real-world impacts of technology. Part Two will lay out the obstacles that inhibit technology enabled trade and the policy solutions that could help to remove these obstacles.

¹ Professor Marcelo Olarreaga and Andreas Lendle both of Geneva University, Dr Simon Schropp of Sidley Austin LLP and Pierre Louis Vezina of Oxford University. The full range of research is available here: <http://www.ebaymainstreet.com/commerce-3>

² Mary Meeker, Internet Trends 2014 available here: <http://www.kpcb.com/internet-trends>

THE ECONOMICS OF TECHNOLOGY-ENABLED SMALL BUSINESS TRADE

99.5%
of technology enabled businesses export



The smallest

10%

of technology enabled small businesses reach an average of 11 markets



83%

of new online businesses sell to two or more markets in their first year

Just 20 years ago, if an entrepreneur were to attempt to take a business global he/she would face an innumerable amount of barriers: finding customers in another country; marketing the product or service to those consumers; getting paid for product or service; ensuring trust throughout the transaction. The Internet, and the services that sit on top of the Internet, have removed many of these obstacles and have opened up the global marketplace to individual entrepreneurs and small businesses. Our data demonstrates that these technological developments have resulted in tremendous economic efficiencies.

The analytical results shown in this paper are based on an anonymous dataset of eBay sellers based in Canada. The dataset covers the period 2008 to 2013 and contains information about sales, number of transactions, destination countries, product categories, location (province or territory) and several other indicators. The analysis was done using data only for those eBay sellers with annual sales of at least C\$10,000, whom we refer to as "Technology-Enabled Small Businesses." To allow for comparisons we describe the experience of "Traditional Businesses," which we have analyzed using a number of sources, in particular reports provided by the Canadian Government and its statistical offices and based on data similar to the eBay dataset. The comparison with traditional trade is not intended as a perfect comparison between apples and apples. Rather, the traditional trade image provides a reference point that allows us to focus in on the novelties, particularities, and different characteristics of technology-enabled trade and its traders.

This section will illustrate the economic trends that were unveiled by our analysis into technology-enabled trade in Canada; compare technology-enabled trade in Canada with technology-enabled trade in other markets; and, will provide a few case studies to bring some practicality to the amazing numbers described below.

ECONOMIC TRENDS

Our analysis has demonstrated five distinct trends when comparing Technology-Enabled Small Businesses with Traditional Businesses:

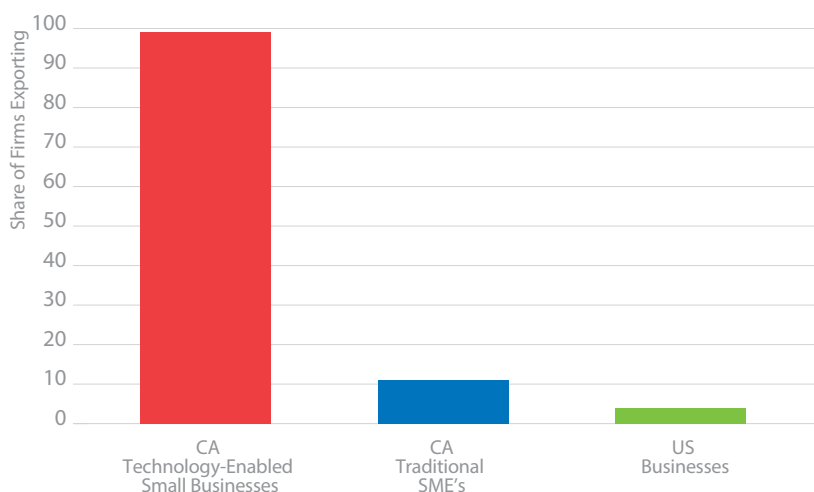
1. More Businesses Export

It is a widely established fact that most traditional firms do not export at all. This has consistently been shown across time, countries, and academic literature. Typically, it is found that far less than 50% of firms export, and many statistics show that it can be less than 10%. For example, research has shown that only 4% of US firms export, and low figures are also found across Europe.³

This is no different in Canada. Small and Medium sized Enterprises (SMEs) make up 99.8% of employer businesses in Canada.⁴ A report by Industry Canada indicates that in 2011, only 10.4 % of SMEs exported.⁵ The vast majority of Canadian businesses are not engaged in exporting.

The data from eBay Marketplaces tells a far different story. Practically all (99.5%) Technology-Enabled Small Businesses in Canada exported in 2013.⁶ These businesses are sometimes individual entrepreneurs, who are able to utilize technology to overcome traditional scale challenges and access foreign markets.

FIGURE 1: **SHARE OF TECHNOLOGY-ENABLED SMALL BUSINESSES AND TRADITIONAL BUSINESSES THAT EXPORT**



³ See Bernard et al. (2007) for the US and Eaton et al. (2009) for France. Mayer et al. (2007) report higher shares of firms exporting in other European markets, but based on a less comprehensive set of data that excludes many small firms. One should be careful comparing these shares across countries because figures for different countries are normally based on different types of data. Less comprehensive datasets that do not include the large number of small firms typically show higher shares of firms exporting.

⁴ Industry Canada, Small Business Branch, Key Small Business Statistics (August 2013) available at: [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/\\$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf).

⁵ Id.

⁶ Export is defined as having sold at least one item to a buyer who is based outside Canada.

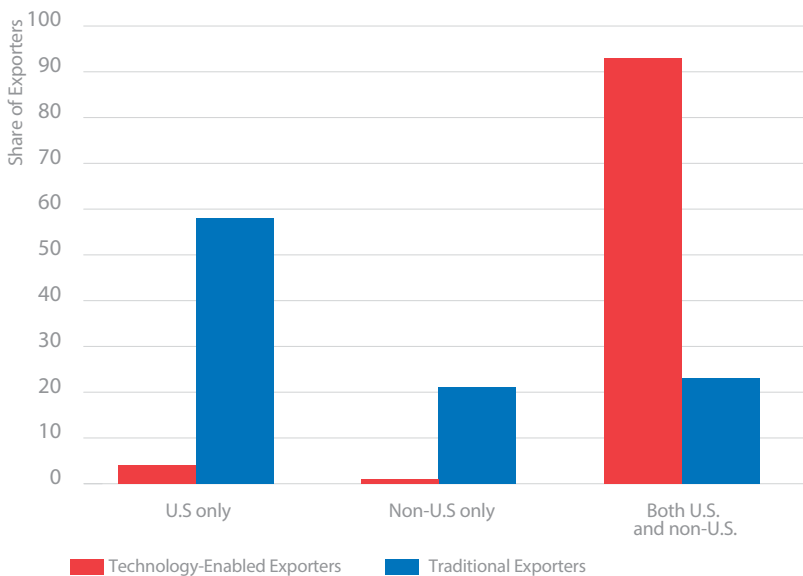
2. Exporting to More Markets

Research demonstrates that Traditional Exporters (the small share of Traditional Businesses that actually manages to export) are typically able to only reach a small number of destinations for their products. For example, a comprehensive survey by the World Bank among exporters in more than 40 countries – not including Canada – has shown that the average number of different countries reached by Traditional Exporters is very small, with only around three export markets served on average by an exporter.⁷

A publication by Statistics Canada (2011) reveals yet another interesting finding. The US and Canada have the largest bi-lateral trade relationship in the world.⁸ Most Traditional Exporters (57%) in Canada sell exclusively to the US market, and only 21% reach both the US and other markets (the remaining 23% of firms only export to countries other than the US).⁹ While it would not be surprising to see the US as the most common destination, the fact that few Traditional Exporters reach beyond the US shows how difficult it is for them to capture truly global markets.

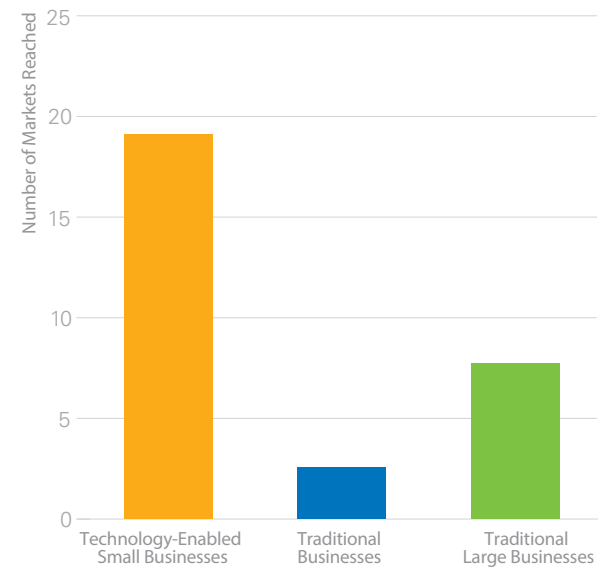
The situation for Technology-Enabled Small Exporters (i.e. those Technology-Enabled Small Businesses that export via the eBay marketplace) is quite different: only 5% of them sell exclusively to the US market with nearly all of them (94%) exporting to both the US and other countries.

FIGURE 2: **SHARE OF EXPORTERS SELLING TO US MARKET ONLY**



A research paper published by the Government of Canada and based on official data from Canadian exporters, confirms the findings by Statistics Canada. On average, Canadian Traditional Exporters sell to only 2.5 different markets. More interestingly, even large Traditional Exporters – those with 200 or more employees – reach less than 8 markets on average.¹⁰ In contrast, we find that Technology-Enabled Small Exporters on average export to 19 different markets.

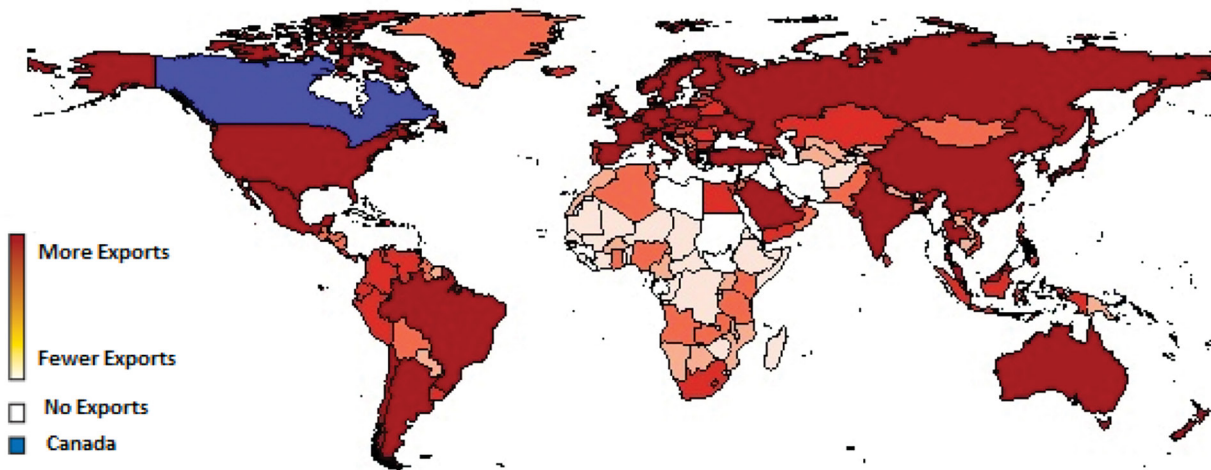
FIGURE 3: **AVERAGE NUMBER OF MARKETS REACHED**



Technology-Enabled Small Businesses export to nearly every country around the world. One Technology-Enabled Small Business has managed to sell to customers in 133 different markets. Even the smallest 10% among Technology-Enabled Small Businesses still reach on average 11 different markets, while the largest 10% of Technology-Enabled Small Businesses on average supply 38 different markets.

7 World Bank Exporter Dynamics Database, available at <http://econ.worldbank.org/exporter-dynamics-database>.
 8 Ed Gresser, The U.S.-Canada trade relationship is the largest in world history (Aug. 8 2012) <http://progressive-economy.org/2012/08/08/the-u-s-canada-trade-relationship-is-the-largest-in-world-history-2/>
 9 Statistics Canada, A Profile of Canadian Exporters, 1996 to 2009 (2011).
 10 Chen, S. & E. Yu, Export Dynamics in Canada: Market Diversification in a Changing International Economic Environment. Office of the Chief Economist, Foreign Affairs and International Trade Canada (2010)

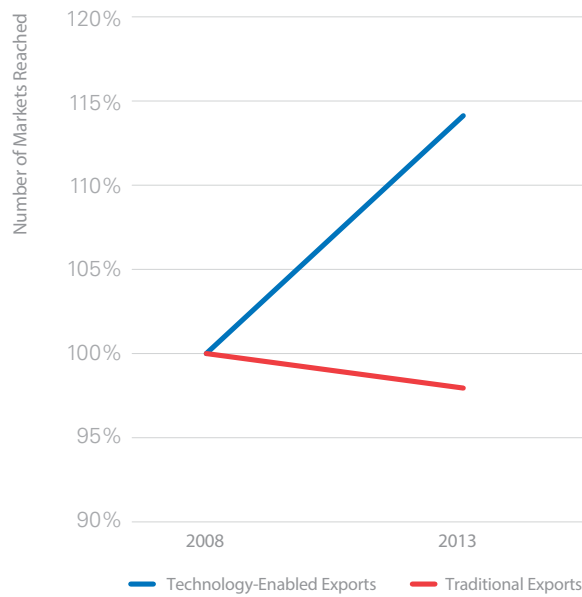
FIGURE 4: DESTINATIONS REACHED BY CANADIAN TECHNOLOGY-ENABLED SMALL EXPORTERS



3. Strong Growth Through Global Sales

Canada was able to avoid the worst of the 2008 global financial crisis.¹¹ Canadian exports, however, have struggled to grow since 2008. In 2013, exports from Canada were 2% lower than they were in 2008.¹² Meanwhile, in 2013, Technology-Enabled Small Businesses had 14% greater cross-border sales than they did in 2008; demonstrated in figure 5. Moreover, this growth has been particularly pronounced in emerging markets with, for example, Canadian Technology-Enabled Small Businesses growing their overseas sales to South America by 125%, to Asia-Pacific by 66%, and to Africa by 146%.

FIGURE 5: EXPORT SALES GROWTH



¹¹ Keith B. Richburg, Worldwide Financial Crisis Largely Bypasses Canada (October 16, 2008) available at: <http://www.washingtonpost.com/wp-dyn/content/article/2008/10/15/AR2008101503321.html>; Tim Kiladze, Tara Perkins, Grant Robertson, Jaqueline Nelson, Boyd Erman, Joanna Slater, Jeffrey Jones, Paul Waldie and Greg Keenan, The Untold Story of how Canada Survived the Financial Crisis, The Globe and Mail (Sept. 13, 2013) available at: <http://www.theglobeandmail.com/report-on-business/the-financial-crisis/article14257785/>

¹² Statistics Canada, Imports, exports and trade balance of goods on a balance-of-payments basis, by country or country grouping available at: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gblec02a-eng.htm>

4. Less Concentration of Sales

Research demonstrates that traditional cross-border trade is dominated by a small number of very large firms.¹³ For instance, World Bank cross country data reveals that the largest 5% of exporters account for between 66% (in Albania) and 99% (in Botswana) of all exports, with an average across all countries of 82% examined.¹⁴ This shows that the traditional export market is heavily dominated by established and large firms. This is not to say that entry by new firms will not occur, that newcomers never become large, or that large firms never disappear. Yet, it appears that the traditional global trade environment is particularly challenging for entrepreneurs and small firms. In Canada, this trend is certainly true where the largest 1% of businesses in Canada accounted for 59.9% of the exports in 2011.¹⁵

A detailed analysis of the composition of export activities among businesses based in Canada reveals that the technology-enabled marketplace is far less concentrated than the traditional export market. The largest 3.3% of Traditional Exporters account for an astonishing share of 82% of all sales abroad. But, as Figure 6 demonstrates, the share in overall exports of the largest 3.3% of Technology-Enabled Exporters is just 36%.

FIGURE 6: MARKET SHARE OF LARGEST EXPORTERS

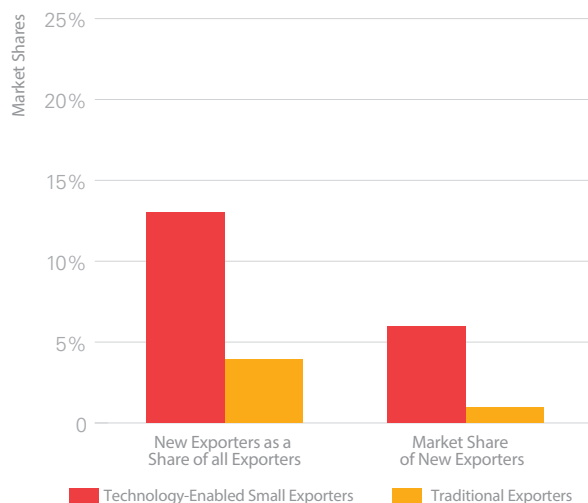


5. Higher Market Share of Newcomers

Another feature of traditional export markets is that new exporters or “newcomers” (defined as those firms that did not export in the previous year) typically account for only a miniscule share of overall exports. Around the world, most exports are made by firms that are long-established exporters – with newcomers typically accounting for about 5% of sales.¹⁶ In the case of Canada, such data on Traditional Exporters is provided by Statistics Canada (2011). Only around 4% of all exporters are “new exporters”; and their share in overall Canadian exports is only around 1%.¹⁷

For Technology-Enabled Small Businesses there are once again notable differences. Among all Canadian Technology-Enabled Exporters in 2013, newcomers make up about 13% of the marketplace and account for 14% of total exports after their first year. The results are summarized in Figure 7, below.

FIGURE 7: MARKET SHARE OF NEW EXPORTERS



Technology-Enabled Small Exporters also have the ability to immediately reach customers in a number of different foreign markets. For example, 83% of the newcomers sell to two or more markets in their first year, whereas less than 10% of newcomers among Traditional Exporters reach more than one foreign market in their first year of operation.¹⁸

13 See, for example, Mayer et al. (2007).

14 World Bank, Exporter Dynamics Database (2012)

15 Industry Canada, Small Business Branch, Key Small Business Statistics (August 2013) available at: [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/\\$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf).

16 Calculations made from World Bank (2012). Exporter Dynamics Database.

17 Statistics Canada, A Profile of Canadian Exporters, 1996 to 2009 (2011).

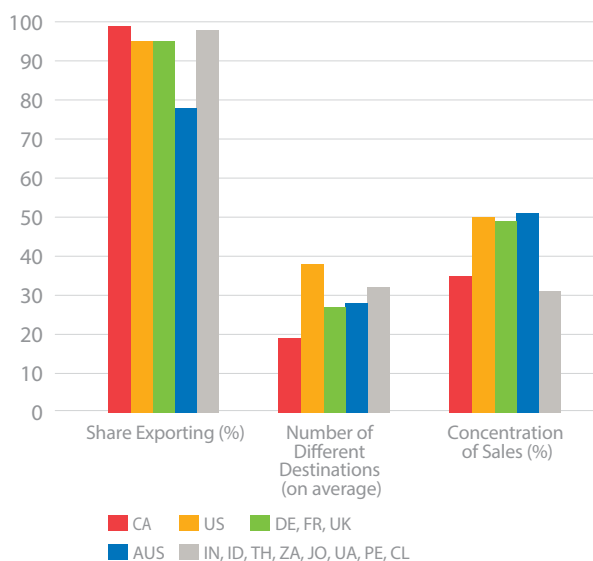
18 Chen, S. & E. Yu, Export Dynamics in Canada: Market Diversification in a Changing International Economic Environment. Office of the Chief Economist, Foreign Affairs and International Trade Canada (2010)

CASE STUDIES

COMPARING TECHNOLOGY ENABLED TRADE IN CANADA WITH OTHER MARKETS

Over the last four years eBay Inc. has studied the growth and development of technology-enabled small businesses across the world. In particular, we have analyzed the US, countries across Europe [Germany, France, and Great Britain], Australia, and developing countries around the world [India, Indonesia, Thailand, South Africa, Jordan, Ukraine, Peru, and Chile]. Our findings demonstrate that Canada compares very well to the other developed and developing markets that we have looked at. Canadian technology-enabled small businesses tend to export on a similar rate to most of the markets we have studied and at a considerably higher rate than businesses than Australia. Canadian businesses export to fewer countries on average than comparable markets, but just like other markets, to significantly more countries than their offline competitors. Finally, Canada is one of the most inclusive markets we have studied with the largest businesses making up only a small percentage of the overall sales. Figure 8 explains our findings from around the world.

FIGURE 8: **COMPARISON OF TECHNOLOGY-ENABLED BUSINESSES AROUND THE WORLD**



11 Keith B. Richburg, *Worldwide Financial Crisis Largely Bypasses Canada* (October 16, 2008) available at: <http://www.washingtonpost.com/wp-dyn/content/article/2008/10/15/AR2008101503321.html>; Tim Kiladze, Tara Perkins, Grant Robertson, Jaqueline Nelson, Boyd Erman, Joanna Slater, Jeffrey Jones, Paul Waldie and Greg Keenan, *The Untold Story of how Canada Survived the Financial Crisis*, *The Globe and Mail* (Sept. 13, 2013) available at: <http://www.theglobeandmail.com/report-on-business/the-financial-crisis/article14257785/>

12 Statistics Canada, *Imports, exports and trade balance of goods on a balance-of-payments basis, by country or country grouping available at: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gblec02a-eng.htm>*

It is important to come down from the high-level economic data discussed above to understand the actual people that are at the heart of technology-enabled trade. The beneficiaries of technology are not exclusively young tech-elite that are creating new applications, but are also traditional business owners and employees that are leveraging technology to take their businesses into the future, and around the world. The following case studies illustrate this notion.



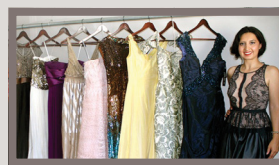
BERND EISELE
Cox International,
Williams Lake, British Columbia

Bernd grew up building and flying model airplanes powered by Cox engines, and decided to revive his passion for Cox products after discovering a niche-market opportunity. His business took off, attracting model airplane enthusiasts from around the world.

Last year Bernd sold his products to over 80 countries.

95% of the business is outside of Canada.

Bernd has found customers in countries like Vanuatu, New Caledonia, Seychelles, Sri Lanka, and Malta.



FARISHTA ZARIFY
Off Runway Gown,
London, Ontario

Farishta, a frequent guest at weddings and formal events, quickly developed a love for fashion and was inspired to turn her passion into profit when she found a gap in the online luxury gown market.

She sells a selection of new and pre-owned gowns, at fixed prices, from renowned fashion houses such as Oscar de la Renta, Carolina Herrera and Marchesa.

Over 95% of sales are outside of Canada.

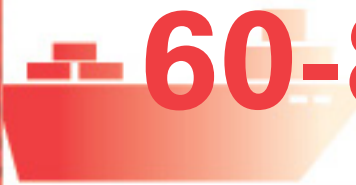
Farishta has found customers in countries like Romania, Russia, Italy, UK, and Saudi Arabia.

These businesses are growing rapidly but one of their major challenges comes from uncertainty with shipping physical goods across borders. This is a problem that technology alone cannot solve. Carefully crafted policy, however, can help to remove some of the trade barriers that technology-enabled small businesses face.

POLICY SOLUTIONS TO THE OBSTACLES TECHNOLOGY- ENABLED SMALL BUSINESSES FACE

Use of technology
platforms can boost
small business exports

60-80%



**Electronic
payments**
have driven
1/4 of GDP
growth in
Canada



The negative effect
of distance on
cross-border trade is

65%
lower on eBay



The history of Canada exhibits a society that highly values entrepreneurial small business traders. Early immigrants to Canada grew the society upon fur and fishing trade with the US and countries in Europe.¹⁹ As Canada developed, its trading profile shifted to focusing on energy, minerals, and forestry products.²⁰ These industries tend to be dominated by larger firms that have the capital to invest in the machinery required to succeed. Moreover, Canada was an early adopter of and beneficiary from globalization in the mid-to-late 20th century. This was a world where large businesses began connecting with global suppliers, distributors, and consumers. In 1987, Canada's foreign imports and exports equaled about 43% of its GDP. By 2007, that number had increased to 62% of its GDP.²¹

Naturally, Canada's policy has been focused on securing positive outcomes for its major export industries. This was illustrated by the Global Commerce Strategy (GCS); the Government of Canada's action plan, launched in 2007, to support Canadian firms as they pursued opportunities in the global marketplace.²² The GCS described the importance of the energy and metal sector to the Canadian economy, as well as concepts like foreign direct investment and global value chains. The GCS, though, had little to say on small businesses participating in global trade. Encouragingly, Canada's more recent Global Markets Action Plan (GMAP) of 2013 now entails the objective of assisting SMEs "in successfully 'making the leap' to exporting" and specifically calls out the goal of expanding their footprint in emerging markets.²³ It is important to note that none of these documents have reference to how technology can enhance the ability for SMEs to engage in the global marketplace.

Our research demonstrates that the Internet and technology-based services are important enablers of SME exporting. We have been able to describe how almost all Canadian firms that turn to technology expand their operations to multiple foreign markets. Our data indicates that technology can help break the dominance of large companies in exporting and make faraway markets attractive destinations. Research from the World Economic Forum finds that the use of technology platforms can reduce the burdens small businesses face when selling overseas, increasing cross-border small business sales by 60-80%.²⁴

While technology in the form found for instance on eBay Marketplaces reduces certain trade barriers, others remain or arise. Our assertion is that those barriers spring out of the different characteristics that technology-enabled trade exhibits compared to traditional trade.²⁵ First, Technology-Enabled Small Businesses are often significantly smaller than general definitions of SMEs.²⁶ Second, as we have reported above, these firms export to a very large number of different markets. International sales are often a very important part of a firm's business plan, but specific export destinations are not always specified and many markets are entered into as a result of customer action.²⁷ Third, this type of exporting does not entail setting up physical establishments in foreign markets. Firms and consumers enter into and conclude the transaction over the Internet. Fourth, as we have reported above, the share of newcomers is quite substantial among Technology-Enabled Small Businesses. These firms are by definition new to exporting and lack experience. Fifth, shipments can be infrequent and to varying destinations, in contrast to regular shipments to predetermined countries as in traditional trade.

24 World Economic Forum, Enabling Trade – Valuing Growth Opportunities (2013)

25 For a comparable conclusion, see the description of "e-traders" by the Swedish National Board of Trade: (1) selling into a large number of markets simultaneously, (2) seldom established in the markets they sell into, (3) small, and (4) often shipping a large number of small consignments rather than single big ones. Report 2012:4, E-Commerce: New Opportunities New Barriers, available at: <http://www.kommers.se/Documents/dokumentarkiv/publikationer/2012/skriftserien/report-e-commerce-new-opportunities-new-barriers.pdf>

26 Canada Statistics defines "small enterprise" as having 0-19 full-time employees and "medium enterprise" as having 20-99 full-time employees. Industry Canada defines a small goods-producing enterprise as having fewer than 100 employees and a small service-producing enterprise as having less than 50 employees. see: <http://ec.gc.ca/p2/default.asp?lang=En&n=D35E8873-1>

27 See the discussion by Lendle and Vezina (2013) about applying the "balls and bins" economic model to trade on eBay Marketplaces.

19 Michael Hart, A Trading Nation: Canadian Trade Policy from Colonialism to Globalization pg. 36 (2002)

20 http://www.conferenceboard.ca/temp/158d17ba-6bcc-4fd-9aa9-873d2c404c00/13-196_silkroad.pdf

21 Russell Reynolds Associates, A World of Experience: The Globalization of Canadian Corporate Leadership, 1987-2007 Study available at: <http://www.russellreynolds.com/content/world-experience-globalization-canadian-corporate-leadership>

22 Available at: <http://www.international.gc.ca/commerce/assets/pdfs/gcs-en.pdf>

23 Available at: <http://international.gc.ca/global-markets-marches-mondiaux/assets/pdfs/plan-eng.pdf>

We argue that those characteristics, derived from our research findings, have direct policy implications and that traditional trade facilitation measures do not effectively support small businesses that leverage technology for exporting. For example, the policy tool of the Free Trade Agreement (FTA) is a priority under the GMAP. Canada has signed 11 FTAs in the past 25 years, with a particularly swift uptake after 2006.²⁸ Still, between 2011 and 2012, SMEs made up 79.7% of the private labour force, but were only responsible for 41% of total exports.²⁹ The GMAP reports that of more than 1.09 million SMEs operating in Canada, only 41,000 engage in exporting. Though not studying Canadian FTAs specifically, research on technology-enabled trade published by Lendle et. al. indicates that FTAs matter more for offline than online trade.³⁰ This conclusion is not surprising in view of the specific characteristics of technology-enabled trade and the fact that technology-enabled trade is a relatively new phenomenon.

Global trade by SMEs carries tremendous positive economic, social, and political potential. From an economic perspective, a recent study by the information company IHS found that, of the SMEs surveyed, 26% of those trading internationally significantly outperformed their market compared to only 13% of those trading only domestically.³¹ Moreover, the Organization for Economic Cooperation and Development (OECD) reports that exporters usually pay higher wages than their non-exporting competitors.³² From a social perspective, businesses that have traditionally been left out of the benefits of globalization can now be brought into the global system, creating a more inclusive marketplace. Not to be overlooked, consumers are also brought into the international trading system and can potentially exercise more control over the processes of globalization. Finally, from a political perspective, the Canadian government has been criticized when making trade deals that Canadian local businesses, usually small firms, will be harmed as a result of trade agreements; the rise of Technology-Enabled Small Businesses could help to counter some of the classical criticisms of trade policy.³³

We believe that there is a great deal of room for growth of the technology-enabled trade sector in Canada with a prominent role for trade policy to complement the “trade liberalization” effect that technology has, in particular, for small businesses.

The GMAP reports that of more than
1.09 million
SMEs operating in Canada,
only 41,000 engage in exporting.

The Canadian government has recognized that policy has a role to play in promoting technology-enabled commerce. In May 2012, the Canadian House of Commons released a report out of its Standing Committee on Industry, Science and Technology on the state of electronic commerce in Canada.³⁴ The report surveyed SMEs and found that while nearly 90% of SMEs use the Internet, only 18% had reported making online sales. The report highlighted access to finance and the cost of implementing an e-commerce platform as obstacles Canadian businesses face in taking their business online. The House of Commons report, however, is focused almost exclusively on Canadian businesses using the Internet to sell products and services to Canadian consumers. The World Economic Forum finds that SMEs “face proportionately more barriers” when they attempt to build international operations.³⁵ Indeed, as will be highlighted below, Technology-Enabled Small Businesses selling abroad face unique issues. However, those are not insurmountable issues but rather an opportunity to maximize the economic, social and political potential of global trade.

Trade policy can be designed more optimally for technology-enabled trade. The starting point would be to acknowledge that this type of trade is occurring; that it is beneficial to the overall economy if this trade continues to grow; and, that trade policy can promote growth in this sector. Specific measures would then be required in a number of policy areas, and here we propose to prioritize the following four areas:

28 <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fta-ale.aspx?lang=eng>

29 Industry Canada, Small Business Branch, Key Small Business Statistics (August 2013) available at: [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/\\$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf)

30 Andreas Lendle, Marcelo Olarreaga, Simon Schropp, Pierre-Louis Vezina, There goes gravity: how eBay reduces costs, Centre for European Policy Research (Aug 2012), available at: [http://www.voxeu.org/sites/default/files/file/DP9094\(1\).pdf](http://www.voxeu.org/sites/default/files/file/DP9094(1).pdf)

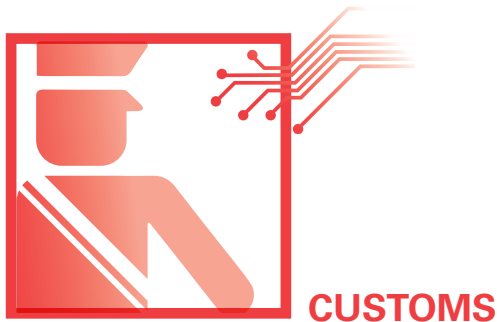
31 Internationalization – a driver for business growth, DHL and HIS (Jan 2013), available at: http://www.dhl.com/content/dam/downloads/g0/press/publication/dhl_research_internationalization_report.pdf

32 OECD, Trade Growth and Jobs available at: <http://www.oecd.org/trade/tradedev/50447052.pdf>

33 Tell Prime Minister Harper: Canadian Businesses do not want this FIPA <http://action.sumofus.org/a/FIPA-business/>; Mike Blanchfield, Harper heads to Seoul as critics warn South Korea free-trade deal could flood Canadian market with foreign cars, National Post (March 9, 2014) available at: <http://news.nationalpost.com/2014/03/09/harper-heads-to-seoul-as-critics-warn-south-korea-free-trade-deal-could-flood-canadian-market-with-foreign-cars/>; CETA — What it is and why it's bad for Canada available at: <http://citizenactionmonitor.wordpress.com/2013/10/26/ceta-what-it-is-and-why-its-bad-for-canada/>

34 Report of the Standing Committee on Industry, Science and Technology, House of Commons, e-commerce in Canada: Pursuing the Promise (May 2012) available at: <http://www.parl.gc.ca/content/hoc/Committee/411/INDU/Reports/RP5535392/indurp01/indurp01-e.pdf>

35 World Economic Forum, Enabling Trade – Valuing Growth Opportunities (2013), available at: http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf



Technology-Enabled Exporters regularly report delays in customs as the most significant barrier to trade that they face.³⁶ It would seem counter-intuitive that a major barrier to technology-enabled trade would be a non-technological barrier. But, the Internet is an interconnected global network of computers wherein any computer can communicate with any other computer regardless of its location as long as it utilizes the same standard protocols. The services that exist on top of the Internet all utilize the same web protocols so that they can communicate with users over the World Wide Web. Customs' systems were designed as national systems and they tend to use divergent data sources and systems that do not have an ability to communicate with systems in other countries. Technology-Enabled Exporters can deliver their information to customers around the world, but sometimes they cannot deliver the physical products.

One of the policy solutions that would help to facilitate cross-border exporting by Technology-Enabled Small Businesses would be to raise personal exemption limits around the world. Any international commercial transaction can be subject to an import duty. Many countries waive such taxes for small shipments when they fall below a certain value – sometimes called the low value threshold (LVT) or Personal Exemption Limitation (PEL). The thresholds for what determines waivable “small” transactions vary significantly across jurisdictions. Australia, for instance, applies a fairly high LVT of AU\$1,000 (around C\$1,200). Other countries, including the EU, apply relatively low PELs. The US – a major market for Canadian technology-enabled businesses – applies a threshold of US\$200, above which import duties may be charged (if applicable), and a handling charge of US\$5.50. Thus, although goods may benefit from a zero-tariff there may still be taxes and handling fees amounting to a significant percentage of the low product values.

36 Micro-Multinationals, Global Consumers, and the WTO: Towards a 21st Century Trade Regime http://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Report_1.pdf; eBay Seller Tells ITC that Small Businesses Face Hurdles to International Trade, eBay Main Street Blog (Oct. 16 2013).

37 Gary Clyde Hufbauer and Yee Wong, Logistics Reform for Low-Value Shipments, Petersen Institute for International Economics (June 2011)

38 Low Value Shipment Regulatory Modernization Act of 2013 S.489

Canadian technology-enabled SME traders are affected by low thresholds in their destination markets. The Canadian PEL, though, can also be a barrier for Canadian technology-enabled traders that offer overseas customers the ability to return a good. Canada applies a low PEL of only C\$20. Any shipment with a value above this amount is subject to an import duty and a handling fee of C\$9.95 is applied in addition by Canada Post. This import duty affects Canadian exporters when they offer overseas customers the ability to return the goods. When the good is returned to the Canadian Technology-Enabled Small Business it can be subject to an import duty. The ability to accept returns is an essential requirement by customers in the modern technology-enabled marketplace. Canadian Technology-Enabled Small Businesses might forego returns in order to avoid the prohibitive import duty costs.

There are additional reasons beyond cultivating Technology-Enabled Trade for raising the Canadian PEL. Collection costs for taxes on small shipments can be very high. Research from the Petersen Institute for International Economics demonstrates that it may cost customs authorities more to assess a single low-value shipment than it is able to collect duty revenue.³⁷ These excessive transaction costs are a motivator behind a widely supported piece of legislation in the US to raise its LVT to US\$800.³⁸ Moreover, the Asia Pacific Economic Cooperative found that higher LVTs can reduce the time, cost, and uncertainty of moving goods across borders.³⁹

Another policy solution that would facilitate exporting by small traders, alleviating both practical and perceived concerns, would be to better integrate micro-businesses and SMEs into trusted trader, or Authorized Economic Operators (AEO), programs. These are collaborative programs where the private sector shares in the security responsibilities of customs and are rewarded with a number of facilitation benefits. Canada's Partners in Protection (PIP) program is a trusted trader program covering exporting and importing and, following its modernization in 2008, it is compliant with the standards of the World Customs Organization (WCO) and its requirements for AEOs.⁴⁰ A key benefit as a trusted trader under these programs is faster processing of goods by customs, e.g. lower rate of physical examinations under the PIP program.

39 2011 APEC Ministerial Meeting, Ministerial Statement, Annex A - Pathfinder to enhance supply chain connectivity by establishing a baseline de minimis value available at: http://www.apec.org/Meeting-Papers/Ministerial-Statements/Annual/2011/2011_annexa.aspx

40 Another trusted trader program is the Customs Self Assessment program which covers only importing.; The standards are set out in the SAFE Framework of Standards to Secure and Facilitate Global Trade. The SAFE Framework defines an AEO as “a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration as complying with the WCO or equivalent supply chain security standards”. Pursuant to the SAFE Framework, AEOs may include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors and freight forwarders. The SAFE Framework is available at: <http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/-/media/55F00628A9F94827B58ECA90C0F847F7F.ashx>

International organizations have recognized the importance of incorporating SMEs into Trusted Trader Programs, but specifics of implementation have been wanting. The WCO underscores that the position of SMEs vis-à-vis trusted trader programs, “has been recognized as a special case.”⁴¹ The WCO points to challenges with reaching and educating SMEs about the programs as well as the cost impact of security investments “unquestionably” being proportionately greater on SMEs than on larger companies. Accordingly, when the WCO gathered at its 2nd Global AEO Conference, on 30 April 2014, to engage all relevant stakeholders in discussing the role of customs-business partnerships in securing and facilitating global trade, a key topic was ensuring the participation of SMEs.⁴² While there was agreement on giving more attention to SMEs, the solutions discussed remained education and information about trusted trader programs and providing adequate assistance to SMEs entering the AEO validation process. Moreover, the World Trade Organization’s (WTO) recent Trade Facilitation Agreement bars countries, to the extent possible, from restricting the participation of SMEs in AEO programs.⁴³ But, this language does not create specific measures that could help SMEs to take advantage of AEO programs.

One of the policy solutions that would help to facilitate cross-border exporting by **Technology-Enabled Small Businesses** would be to raise personal exemption limits around the world.

We have not found information on how Canada’s PIP program encourages the participation of micro firms and SMEs. However, a 2011 evaluation of the PIP program remarks that PIP members “represent only a small proportion of companies involved in cross-border trade.”⁴⁴ Furthermore, the evaluation report provides a breakdown of PIP members by business category, showing that in September 2010 just over half of the members (724 companies) were classified as highway carriers, importers were the next largest category (117 companies) while there were only 34 members classified as exporters. The evaluation report offers no information on the representation of SMEs.

Commenting on the fact that the PIP program represents only a small proportion of companies involved in cross-border trade, the 2011 evaluation report concludes that “there is scope to considerably expand program reach.”⁴⁵ Indeed, plans for developing the program include simplifying the application process through automation and streamlining of processes; a web portal to simplify program application, administration and information exchange; and, consulting with the private sector on developing further program benefits. In that context, we believe there is a need for new thinking about how trusted trader programs should be designed in order to be relevant also for technology-enabled trade between SMEs and consumers. This requires going beyond proposals on information, education and assistance; it demands more fundamental inquiries into how customs-business partnerships could be expanded in order to secure and facilitate global, technology-enabled, and small business trade.

We argue that a key element of reviewing the aptness of trusted trader programs for technology-enabled trade is revisiting customs risk assessment. This is also highlighted in a 2014 summary report by the OECD on better regulation to enhance trade.⁴⁶ The report suggests a renewed need for developing shared risk assessment methodologies taking a risk-based approach coupled with leveraging data sharing. This is all the more relevant in view of the changing nature of trade. We have described above some of the characteristics of technology-enabled trade that differentiate it from traditional trade. Those characteristics – trade by small firms with little exporting experience and without foreign establishments, irregularly dispatching many and small shipments to a large number of different destinations – should be attributed correct value within customs risk assessments and must not per se amount to presumptions of higher risk. Moreover, the digital environment where technology-enabled small businesses operate should be explored as an opportunity for customs risk assessment and management. There are valuable data points, not available for traditional trade, that could go to inform the trusted trader status, such as feedback scores, ratings, performance as measured by intermediaries and platforms.

44 Canada Border Services Agency, Evaluation of the Partners in Protection (PIP) Program (January 2011)

45 Compendium of Authorized Economic Operators Programmes, 2014 edition, WCO Compliance and Facilitation Directorate, available at: <http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/-/media/B8FC2D23BE5E44759579D9E780B176AC.ashx>

46 OECD International Business Dialogue 2014, Better Regulation to Enhance Trade, summary report available at: http://www.oecd.org/tad/tradedev/Summary_%20report_IBD_%202014.pdf

41 WCO SAFE Package AEO FAQ for SMEs (May 2010), available at: <http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/-/media/93162547322F462A97F8767D0987A901.ashx>

42 Press release available at: <http://www.wcoomd.org/en/media/newsroom/2014/april/customs-business-cooperation-promoted-at-madrid-conference.aspx>

43 World Trade Organization, Agreement on Trade Facilitation, WT/MIN(13)/W/8 6 Dec. 2013

Solutions to expand, or alter, the scope of trusted trader programs to capture technology-enabled SMEs and leverage those traders and their environment efficiently and correctly for purposes of securing and facilitating trade should be developed together with bilateral trading partners as well as within international organizations such as the WCO and the WTO. Ultimately, the real benefits of trusted trader programs are reaped when countries conclude Mutual Recognition Agreements (MRAs), and the WCO therefore strongly urge the conclusion of MRAs, which is generally premised on operational compatibility of trusted trader programs.⁴⁷

MRAs are agreements between countries whereby *“an action or decision taken or an authorization that has been properly granted by one Customs administration is recognized and accepted by another Customs administration.”*⁴⁸ The scope of the MRA may cover AEO validations, authorizations and customs control results, and the provision of associated trade facilitation benefits. The objective is that one customs administration recognizes the AEO status issued under the program of another customs administration and grants, ideally, reciprocal benefits and facilitation to that mutually recognized AEO.

The ultimate goal of the WCO is a global system of mutual recognition. Albeit a long-term goal, it is easy to see the benefit of such a system for technology-enabled SMEs, trading worldwide with customers in as many as 133 different countries. However, it demands an evolution of today’s trusted trader programs to encompass those businesses, and the mechanisms for doing so, on correct terms for the purpose of securing and facilitating trade. A natural fit within the GMAP, Canada could take the lead in such a process, working with and through the OECD, the WCO, and the WTO.

Finally, Canada should continue pushing for Internet-based publication obligations in FTAs, as for example in the trade agreement with Peru, to ensure that Canadian firms can read and understand foreign customs policies, LVTs and administrative fees.⁴⁹ The next step is to fully digitize the processes for customs whereby assessment, tracking, and payment can be conducted through a single electronic portal. Technology-enabled SMEs do not have the trade expertise of traditional businesses and any efforts that governments can make to simplify the process would greatly benefit smaller firms.



Postal policy has traditionally sat outside the purview of trade policy. But, technology-enabled traders regularly use postal services to serve as logistics providers facilitating the cross-border trade of their products. The development of technology-enabled traders is a potential boon to the Canadian postal industry, which has recently gone through some difficulties. Canada Post reported an operating loss of \$193 million in 2013, with a 30% drop in the volume of mail.⁵⁰ Moreover, a 2013 report from the Conference Board of Canada estimates that Canada Post will have lost \$1 billion by 2020 as a result of falling mail volumes.⁵¹ Notably, there are some positive numbers for Canada Post, with a 6.7% increase year-over-year in the amount of parcels delivered in 2013.⁵² It is in this parcel delivery segment where technology-enabled traders sit. The Conference Board of Canada highlights the shift in communications from physical to digital as a major detriment to the growth of the postal service. But, technology is also driving the rise in parcel shipments, which could be a boon for the postal system. Many of the technology-enabled shipments using the postal system are exports. There is a role for trade policy to take in building out cross-border postal policy in a manner that would facilitate cross-border parcel delivery.

The global postal system is going to become more important to global trade as technology-enabled trade continues to grow.

47 The WCO AEO Compendium 2014: “Mutual recognition is one of the major benefits for businesses applying for AEO status.”

48 Section 7 of the WCO SAFE Framework.

49 The OECD’s Checklist of Good Transparency Practice for Export Restrictions identifies publication on the Internet as the preferred option to make information accessible. See OECD Trade Policy Papers No 164 (2014).

50 CBC News, Canada Post had \$193M operating loss in 2013, CBC (May 5, 2014).

51 The Conference Board of Canada, The Future of Postal Service in Canada (April 2013)

52 CBC News, Canada Post facing ‘serious financial challenges’ in 2013, CBC (April 2013)

53 The Conference Board of Canada, The Future of Postal Service in Canada (April 2013)

The Conference Board of Canada's report highlights how postal services from other countries are recognizing gains by aggressively investing in the postal sector. The most innovative and successful investments are reported to come in the form of multi-national postal partnerships that harmonize data elements across postal services, enable terminals to operate in foreign markets, and/or enable end-to-end tracking services.⁵³ These are all multi-national arrangements where trade policy should play a significant role.

The free trade agreement between Europe and South Africa included important language on postal policy. Article 56 of the Agreement promotes cooperation on postal services through the exchange of information on regulatory and policy decisions, cooperation on technical assistance promotion, and implementation of joint projects.⁵⁴ This provision recognizes that policy, regulation, and technology all have a role to play in creating a more efficient multi-national postal regime. The global postal system is going to become more important to global trade as technology-enabled trade continues to grow. Institutions like the Universal Postal Union exist to try and improve cross-national policies on postal. But, trade policy can also help to play a role in promoting increased harmonization and simplification of postal practices. Focusing on improving the system to facilitate the movement of parcel shipments through domestic policymaking and trade agreements would benefit Canadian technology-enabled traders.



Payments is a key part of technology-enabled trade. A cross-border transaction cannot happen without a merchant accepting a trusted method for payment. Moreover, consumers will not engage in a cross-border transaction if they do not feel that their financial information can be kept secure and that payment can be delivered in a safe and secure manner.

Canada is a world leader in electronic payments. A study by HIS, and commissioned by Visa, found that electronic payments have driven one-quarter of GDP growth in Canada, or \$196 billion, in the past 25 years.⁵⁵ But, there is still a great deal of room for growth. A report drafted by the Canadian Task Force for the Payments System Review in partnership with McKinsey & Company found that a shift towards electronic invoicing and payments, and a resultant drop in the use of cheques would result in a direct annual savings of between \$7 and 8 billion by the year 2020.⁵⁶ Canadians are major users of cheques. Research from the Task force reveals that over one billion cheques are written annually. Large corporate enterprises, SMEs and governments account for almost 60% of the total volume of cheques, while consumers account for the remaining 40%.⁵⁷

The Payments Review taskforce suggests creating regulation that supports the growth of digital payments, and reciprocally resolving obsolete payments regulation that hinders the growth of digital payments.⁵⁸ The taskforce suggests six principles for future of payments policy that should be kept in mind: 1) open and inclusive; 2) standards based; 3) safe and secure; 4) responsive to consumer and merchant needs; 5) focused; and 6) sustainable.⁵⁹ These are central tenants that should be adopted in any payments policy going forward. One principle to add to these tenants would be technology

⁵⁴ Agreement on Trade, Development and Cooperation between the European Community and its Member

⁵⁵ States, of the one part, and the Republic of South Africa, of the other part I.311/3 (4-12-99) available at: http://www.wipo.int/edocs/lexdocs/treaties/en/ec-za/rt_ec_za.pdf

⁵⁶ Canada: electronic payments drive ¼ of GDP growth over the past 25 years available at: http://www.thepayers.com/news/online-payments/canada-electronic-payments-drive-of-gdp-growth-over-the-past-25-years/748569-3?utm_campaign=20120917_0720_Automatic-Newsletter_HEADLNWEEK&utm_medium=email&utm_source=newsletter&utm_content=gsutherland

⁵⁷ Available at: http://paymentsystemreview.ca/wp-content/themes/psf-esp-hub/documents/r03_eng.pdf

⁵⁸ Id.

⁵⁹ Id.

neutrality. New innovations in technology are enabling payments to be conducted in unique ways. Policy should not stem innovation, and should seek to apply a framework that applies to different actors in the ecosystem regardless of what technological solution they are utilizing.

The success of electronic payments in card form in Canada generally has not translated into the new online and mobile payment mechanisms. Data from the Canadian Chamber of Commerce, which surveyed small businesses using technology to engage in commerce, demonstrates that while 96% of Canadian companies had a website they use for business purposes, only 27% were able to accept online payments.⁶⁰ A recently published Bank of Canada Discussion Paper finds that “e-money” products are not broadly used and that most competition from cash comes in the form of debit and credit cards.⁶¹

Canada has a large rural population and online payments can enable businesses in these remote areas to connect to a global consumer base.

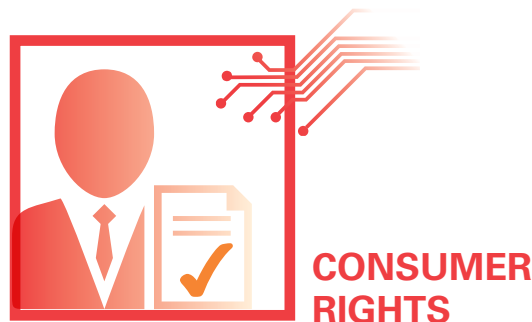
The Ministry of Finance and the Government as a whole are looking into electronic and online payments policy. There are significant benefits from increased merchant acceptance of online payment methods in the form of security, efficiency, and traceability. Former Minister of Finance Jim Flaherty recognized this stating, “*[m]ore and more, Canadians want innovative payment tools that are in step with the latest technologies, are fast and efficient, and stand up to the highest standards of safety and soundness.*”⁶² Policymakers can do more to encourage the shift towards innovation in payments by reviewing regulatory standards that were designed for classical payments transactions to determine if they apply well to the rapidly developing world of online payments. A risk-based regulatory approach that takes into account performance would be better able to achieve the important goals behind financial services regulation.⁶³

Canada has a large rural population and online payments can provide businesses in these remote areas to connect to a global consumer base. The growth of online payments will play an important role in the future of technology-enabled trade in Canada.

60 Id.

61 The Canadian Chamber of Commerce, *Power Up the Network: A Report on Small Business Use of E-business Solution in Canada* (Feb. 2010) available at: file:///C:/Users/usahmed/Downloads/100209_Powering_up_the_Network_Report_on_SME_Use_of_Ebusiness_Solutions_in_Canada.pdf

62 Ben Fung, Miguel Molico, and Gerald Stuber, *Electronic Money and Payments: recent Developments and Issues*, Bank of Canada Discussion Paper (2014) available at: <http://www.bankofcanada.ca/wp-content/uploads/2014/04/dp2014-2.pdf>



Technology-enabled trade has the potential to be borderless. Research on a dataset covering 62 countries, estimates that the negative effect distance has on cross-border trade is 65% lower on eBay Marketplaces compared to offline, which translates into lower trade costs.⁶⁴ In fact, research suggests fixed-costs to exporting are significantly lower for technology-enabled trade.⁶⁵ Technology-Enabled Small Businesses make substantial investments and efforts to reach and serve customers in specifically targeted countries, but the destination of their exporting is also determined by activity by the consumer. It is in this way, through active consumer choices made possible by the global visibility that online marketplaces afford traders, that Canadian firms on eBay find themselves serving customers in as many as 133 different countries.

Technology-enabled trade is particularly unique because consumers are directly engaged in the trade process. This type of trade pattern demands new forms of International Regulatory Cooperation (IRC). The OECD suggests in a 2013 report that modern IRC is about finding flexible options instead of being fixated with the complete harmonization of regulation.⁶⁶ We agree and argue for a multi-pronged approach where formal structures for IRC are leveraged to trial flexible solutions.

Canada has taken a pro-active stance to IRC. The 2007 Guidelines on International Regulatory Obligations and Co-operation by the Treasury Board promote developing compatible approaches with international counterparts and thinking strategically about how IRC can assist in achieving regulatory outcomes. In 2011, Canada and the US created an umbrella mechanism in the Regulatory Cooperation Council (RCC). The RCC’s mandate includes a cross-sectoral initiative in the Small Business Lens working

63 Archived - Minister of Finance Welcomes Findings of the Task Force for the Payments System Review (March 2012) available at: <http://www.fin.gc.ca/n12/12-030-eng.asp>

64 PayPal, *21st Century Regulation, Putting Innovation at the Heart of Payments Regulation*

65 Andreas Lendle, Marcelo Olarreaga, Simon Schropp, Pierre-Louis Vezina, *There goes gravity: how eBay reduces costs*, Centre for European Policy Research (Aug 2012), available at: [http://www.voxeu.org/sites/default/files/file/DF9094\(1\).pdf](http://www.voxeu.org/sites/default/files/file/DF9094(1).pdf)

66 Lendle and Vezina (2013). Under the “balls-and-bins” model, transactions can be thought of as balls thrown into bins where the width of the bin is proportionate to the probability that a bin is hit by a ball.

group aimed at collaborating on how to account for the needs of small businesses when developing regulations, minimize burdens, and achieve greater alignment. Furthermore, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU, politically agreed upon in 2013, contains the first regulatory cooperation chapter in a Canadian free trade agreement. It creates a formal mechanism to facilitate joint initiatives and earlier access to regulatory development processes.

A 2013 OECD report identifies the many benefits of IRC. It finds that increased trade flows and reduced costs on economic activity are the two most important potential benefits. In addition, the OECD recognizes important societal benefits from IRC, such as supporting joint research and promoting solidarity across countries.

We assert that consumer policy is an area well suited for flexible IRC solutions, and would, in the context of technology-enabled trade, promote societal benefits alongside economic and administrative benefits. Addressing divergences in consumer protection laws would reduce complexity and costs for firms, while at the same time strengthen consumer trust and willingness to engage in cross-border transactions. With the advent and global reach of technology-enabled trade, IRC in the area of consumer policy has a natural fit within trade policy.

The OECD describes in a 2014 summary report one possible IRC solution that we suggest could be trialed. The idea is that a non-national consumer rights and sales law would be available as an option for businesses and consumers transacting internationally. This law would sit on top of national laws and would offer an alternative in cross-border situations. The aim would be twofold: (i) make it less complex for Canadian firms to serve consumers in foreign markets; and (ii) strengthen the trust of foreign consumers when transacting across borders with Canadian firms.

We suggest that this solution be trialed between Canada and the EU, building on the regulatory cooperation structure now in place between the two trading blocks. It so happens that the EU is in the process of adopting this type of legal instrument in the Common European Sales Law (CESL). Albeit an EU instrument, Recital 14 suggests that CESL would be applicable also in international situations in order “to facilitate trade between [EU] Member States and third countries”; and so CESL could arguably in its current form (once adopted) be offered to European and Canadian firms and consumers. This would

be the first step in a process of gradually introducing this type of instrument to form part of bilateral, regional and multilateral trade regimes.

Moreover, applying a legal instrument such as CESL to trade between Canada and the EU would create a framework for further cooperation in the area of consumer policy supported by both regulatory and non-regulatory stakeholders. We envision Canada and the EU working with and through relevant international organizations, to translate the legal rights and obligations set out in the legal instrument, into symbols or icons that can be used by traders in their communications with potential and actual customers. The symbols or icons would create a common language and would facilitate for both traders and consumers when communicating via screens of computers, mobile or even wearable devices. This is not dissimilar to the informational function of apparel and textile care symbols and the process towards harmonization of such symbols carried out within the North American Free Trade Agreement.⁶⁸

The aim of translating legal rights and obligations into informational icons is of course to transform a legal instrument into a practical tool for Canadian and European traders and consumers, to facilitate uptake and to ensure comprehensibility. At the same time, there is value in the very process of reaching a common taxonomy. The 2013 OECD report highlights how “*common language and definitions contribute to trust building and form the foundations of collaborative relations*” and make up one out of ten “critical elements” of successful IRC. We propose that the taxonomy process would take place at the level of national authorities, private actors and civil society. With the process anchored in a trade policy setting, the benefits of IRC would extend to the societal benefit of making international trade recognized as an economic interest also for small businesses and individuals.

Trade patterns that have the potential to be borderless demand borderless trade rules. Technology-enabled trade has low destination-specific costs, is powered by small businesses, and consumers play a decisive role in the transaction. This new context requires the creation of flexible IRC options in the form of non-national legal instruments in the area of consumer policy (such as CESL). This option could first be trialed between Canada and the EU and thereafter be extended bilaterally, regionally and eventually multilaterally.

67 International Regulatory Co-operation: addressing global challenges, OECD 2013.

68 OECD International Business Dialogue 2014, Better Regulation to Enhance Trade, summary report available at: http://www.oecd.org/tad/tradedev/Summary_%20report_IBD_%202014.pdf

CONCLUSION

This white paper has described how the Internet has shifted the process, practice and beneficiaries of international trade. The economic, social, and political opportunities created by this shift are incredibly exciting for Canada. Technology-Enabled Small Businesses across Canada export at a higher rate to more countries, with more significant growth than their offline counterparts, and the technology-enabled marketplace is more inclusive eliminating the dominance large and established firms traditionally hold on cross-border trade.

The novel traits exhibited by these trade patterns stand out when contrasted with traditional trade patterns where only the minority export. First, the technology-enabled marketplace is populated by small businesses, whereas traditional export markets are dominated by large companies. Second, technology-enabled small businesses are able to truly be global and reach markets all around the world. Third, newcomers to exporting are common in the technology-enabled marketplace where they immediately reach several countries and gain market shares, while newcomers' footprint is negligible in the case of traditional exports.

We assert that the trade strategy of Canada does not sufficiently recognize the potential of technology-enabled trade in terms of its social, economic and political benefits. In particular, we believe that technology-enabled trade presents an opportunity to craft trade policy that brings both small businesses and consumers into the international trading system. This entails addressing, as part of Canada's trade regime, the unique issues that Technology-Enabled Small Businesses face when exporting globally. Here, our recommendation is to start by prioritizing four policy areas: the customs, postal, financial and consumer policy areas. Within each policy area, we have identified issues that could immediately be incorporated into Canada's trade strategy. For example:

- Customs import duty exemption thresholds should be increased around the world to counter excessive transaction costs for customs authorities as well as reduce the time, cost, and uncertainty of moving goods across borders.

- Trusted trade programs should be expanded and customs risk assessment methodologies amended in order to secure and facilitate technology-enabled trade.
- Postal systems should be the subject of discussion in trade policy as they are increasingly being used to engage in trade; simplification and harmonization of postal services is essential.
- A financial services policy that recognizes the importance and development of online payments systems and adopts a technologically neutral and a risk-based approach is best situated to govern the rapidly developing online payments arena.
- Flexible international regulatory cooperation solutions, such as in the form of a non-national legal instrument in the area of consumer protection law, should be trialed between Canada and the EU.

We believe the impact of Technology-Enabled Trade is only going to continue to grow. Canada has the opportunity to be a global leader in this new and exciting arena. Policymakers must make the right choices in order for this opportunity to be fully realized.



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