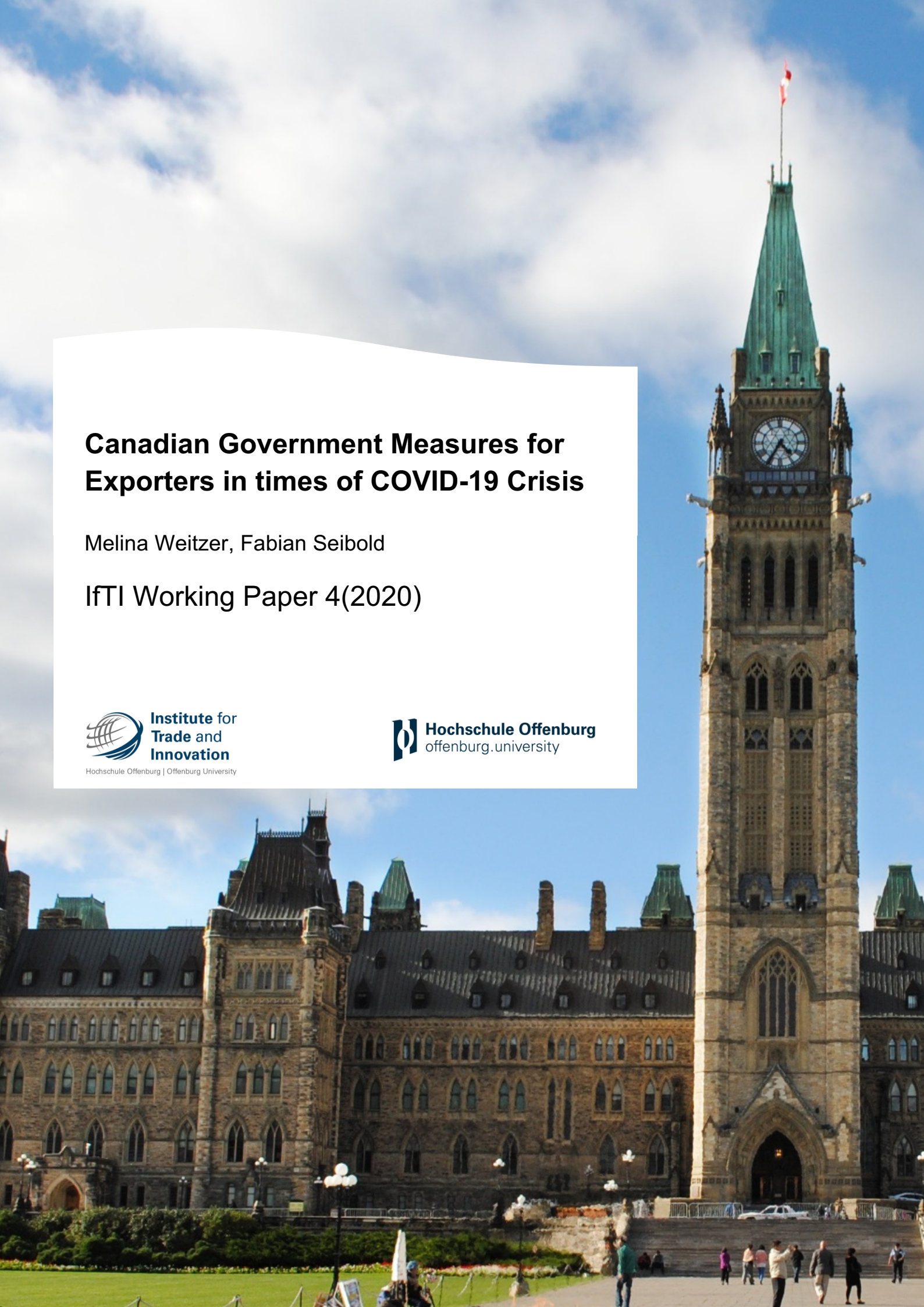


# Canadian Government Measures for Exporters in times of COVID-19 Crisis

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*By Melina Weitzer, Fabian Seibold*

## Abstract and Policy Implications

This paper gives an overview of the impact that the corona pandemic has on the export industry in Canada and analyzes the different Canadian government measures for exporters. In addition, the measures are subsequently evaluated in order to identify if the support measures can help Canadian exporters to overcome the crisis. The basis of this paper are semi-structured expert interviews with experts from the financial sector, scientific literature and studies. The results have shown that the COVID-19 pandemic has a major impact on Canada's export economy and its GDP. Trade is only possible to a limited extent, as many borders are closed. The Canadian government reacted with an economic response plan to support Canadian individuals and businesses. This paper depicts and assesses the most eligible measures for export companies.

## 1. Introduction

The COVID-19 pandemic spread throughout the globe and had an impact on nearly every country and sector in today's business world. There has never been a situation like this before, so there was no masterplan that could be followed. It was clear that there is a need for urgent policy response in order to maintain the usual economy position (OECD, 2020a). COVID-19 is affecting global trade because many countries have closed borders and strict travel restrictions, which makes it difficult for trading. The Export Development Canada agency (EDC) analyzed the global growth and resulted that the global growth will be 1.6% in 2020. This is the worst performance for the global growth since the financial crisis in 2008. Nevertheless, the EDC forecasts the global growth at 5.3% in 2021 (EDC, 2020a).

Until then, it is necessary that governments ensure that international trade is still possible. According to the Organization for Economic Cooperation and Development (OECD) there are four steps that should be followed in order to keep trade flowing. Firstly, the government should strengthen the confidence in trade and global markets. Secondly, it is necessary to keep supply chains working. Particularly, in a health crisis some goods are essential and should be available for every country for example disinfectant and face masks. Thirdly, governments should focus on necessary restrictions but try to avoid restrictions for trade barriers if possible. The fourth step mentions that it is necessary to think beyond the immediate crisis (OECD, 2020b).

Especially in Canada the risk of the COVID-19 pandemic is considered as high, as they had about 105,536 corona cases as of July 5<sup>th</sup>, 2020 (Canada, 2020a). In comparison to the US which shows more than 2.8 million cases the situation in Canada seems to be under control by now (Canada, 2020b). Nevertheless, the crisis has a remarkable negative impact on Canada's economy and different sectors, as well as on the export economy. Besides this 48%

of Canada's consumers think that they have to be careful with how they spend their money. As a result, consumers tend to be more restrained with buying new things. Consequently, it will affect Canada's trade as fewer products are needed in certain segments for example consumer goods, travel, and out-of-home entertainment. Moreover, Canadian companies are facing extreme financial challenges. Companies need financing and credit solutions to survive this crisis (McKinsey & Company, 2020).

Canada's government launched many different measures to support Canadian individuals and businesses. An inspection of every single measure would go beyond the scope of this essay. The aim of this paper is to give an overview of the impact that the crisis had on the Canadian export economy as well as the support measures that have been developed to help the export industry. Therefore, only the most effective measures for Canadian export companies are depicted and assessed. To evaluate the different programs, scientific literature, studies, and the conduct of semi-structured expert interviews are used.

## 2. The Impact of the coronavirus on the Canadian Export Economy

The global corona pandemic affected nearly every country worldwide. This new type of virus has not been sufficiently researched. It is not only affecting health systems, but also exerting pressure on the world's economy. The OECD mentioned in their report: 'In an unprecedented global health crisis, trade is essential to save lives and livelihoods; and international co-operation is needed to keep trade flowing.' (OECD, 2020b) It is necessary to ensure trade in order to deliver essential products and to make a positive contribution to the global economy (OECD, 2020b). During the corona crisis, Canadian exporters are clearly suffering. The following figure shows the Total Exports Growth from May 2019 to April 2020.

Figure 1 Canada's Total Exports Growth from May 2019 to April 2020 (CEIC, 2020)

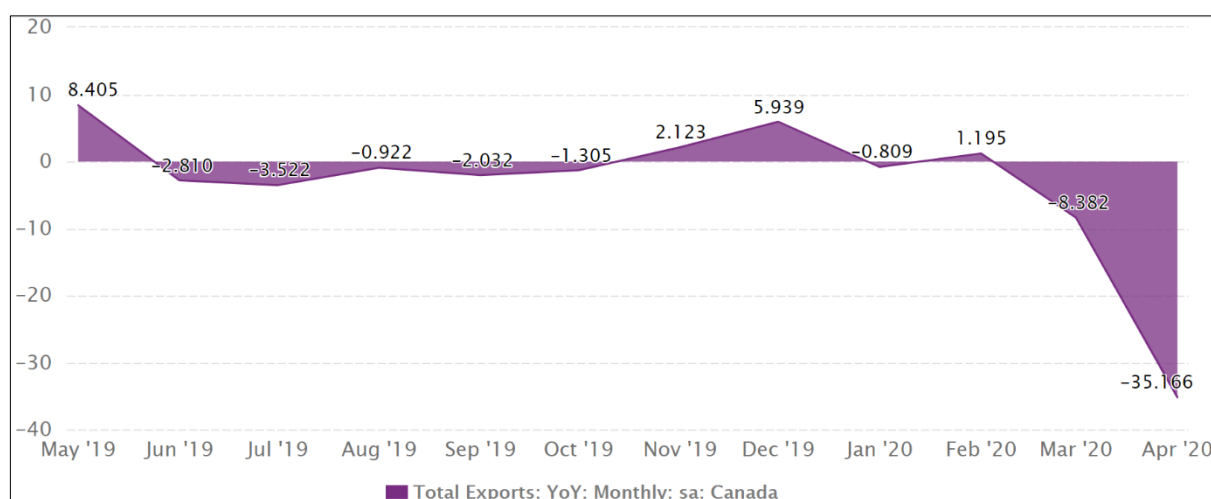


Figure 1 shows that Canada's total exports dropped by 35.2% year on year in April 2020. Thus, the all-time low of -35.3% in May 2009 is almost reached since the data collection started in 1989<sup>1</sup> (CEIC, 2020). Canada's exports fell 4.7% in March to \$46.3 Billion. The decline in exports affected 7 of 11 sectors. Sectors are separated into resource products and non-

<sup>1</sup> 'CEIC calculates Total Exports Growth from monthly Total Exports. Statistics Canada provides Total Exports, FOB, in local currency.' (CEIC, 2020)



resource products. Resource products include energy products for example gas. Non-resource products include industrial machinery & equipment, electronic machinery & equipment, motor vehicles and parts, aircraft equipment and consumer goods. A reason for the overall export decline is the lower amount of exports of motor vehicles and parts, aircraft equipment and energy products, caused by sinking demand and less global trade in general (Global Affairs Canada, 2020a: p. 1-5).

There is a correlation between the decline in export and the COVID-19 pandemic. The effects on the economy will only become clear in the next few months (Global Affairs Canada, 2020a: p. 1.5). One key driver is the Gross Domestic Product (GDP) which measures the value of economic activity within a country (Statistics Canada, 2020). The global corona crisis will also affect Canada's GDP through 'reduced movement of people, goods and services' (Statistics Canada, 2020: p.1). Moreover, the effects on the GDP will depend on the heaviness of the corona crisis in terms of duration and infection rates which makes it quite difficult to predict accurate and precise forecast figures. According to the EDC Economics team the Canada's GDP will still grow in 2020, but only on a low level of 0.4 %. In 2021 they expect a growth of about 3.8%. Main reasons for the small growth this year are 'the impacts of lower oil prices, slowing global trade and COVID-19 containment efforts.' (EDC, 2020a)

The most significant trade relation by far for Canada's economy is the trade between Canada and the US. In 2019 Canada exports to the US had a stake of 75% of the total export volume (Global Affairs Canada, 2020b). Canada and the US launched several border restrictions which ban non-essential travel between both countries. In consideration of the importance of trade relations, the two countries decided that the exchange of goods and services is essential and therefore support and trade links remain open. Prime minister Justin Trudeau emphasised the importance in one of his speeches in March 2020: 'We understand it is very important for the border to remain open because we are talking about \$2 billion worth of goods that cross that border every single day.' (Gismondi, 2020) Based on this dependency the corona situation in the US is crucial for Canada's economic development. On these grounds there raise voices which say Canada should reduce its dependence on the US, especially due to current protectionist economy policy developments in the US. Experts mention that it could be useful in a long-term point of view to become more independent and to be more capable of acting in times of a crisis in future (Hodgson, 2020).

Despite the long-term trade-off of protectionism and free trade there are several short-term problems which are payment uncertainties, contract cancellations and falling oil prices. Payment uncertainties occur because in many cases it is now possible to pay an invoice after 60 or 90 days instead of e.g. 30 days as usual (Smallridge, 2020). Besides this, many exporters are struggling with the cancellation of contracts due to financial issues and uncertainty in general. Another problem are the falling oil prices, which dipped below zero during April and May when the pandemic was at its peak. Since then, the price per barrel of oil has risen again, but due to the uncertainty of the crisis, it is impossible to predict whether there will be another collapse (Evans, 2020).

### **3. Analytical Framework**

The paper is based on scientific literature, studies and the conduct of semi-structured expert interviews. Due to the actuality of the topic, reports from the OECD, EDC and Global Affairs

Canada were used in order to ensure that the latest updates were considered. The OECD is an important source, because they have built a large knowledge platform and publish information on the topic of export and trade during the crisis. The EDC is also a relevant source because its employees are risk experts and have knowledge about trade and finance issues with a focus on Canada's exporters. Moreover, Global Affairs Canada is the ministry of foreign affairs and trade in Canada and therefore provides necessary information for exporters in times of COVID-19.

In order to collect different views on the economic impact of COVID-19 in Canada, a qualitative method was chosen. This method focuses on the content of the results and answers can be evaluated interpretatively. For the interview, two experts from the consulting company 'International Financial Consulting LTD' (IFCL) and one employee from Canada's top export credit agency EDC have been interviewed. The two experts from the consulting company IFCL were chosen, because they have an extensive experience working with governments, export credit agencies and banks worldwide. In addition to that they know about Canada's economic chances and challenges during the COVID-19 Crisis. Moreover, the EDC expert knows which challenges Canada's exporters are facing and what economic support measures the EDC has developed to support them. Semi-structured expert interviews were chosen to ensure that no aspects are forgotten and that new questions can be asked during the whole interview. In this type of interview, a catalogue of questions is defined in advance, which only provides orientation, as the order of the questions is flexible and the answer options open. All interviews were transcribed after the implementation in order to be able to interpret them afterwards.

The aim of the expert interviews was to generate new information on the current economic situation of exporters in Canada and to find out which solutions exist to improve the economic situation. Due to the actuality of the COVID-19 topic, only developments up to July 5<sup>th</sup>, 2020 will be considered.

#### **4. Canada's COVID-19 Economic Response Plan**

Canada responded to the corona crisis by launching its COVID-19 Economic Response Plan. The purpose of the program was to support Canadian individuals and businesses facing hazards due to the crisis. There are measures like rent reductions which can be considered from exporters, but which are mainly relevant for other businesses like small retailers or restaurant owners. For that reason, only strongly significant measures applying to export companies will be examined. There are several approaches to help international related companies during the crisis like avoiding layoffs or direct financial support provisions. The type and extend of the measures depend on the size of the affected company, the dimension to which the revenues have been impacted and the sector where the company is operating. The Canadian government launched certain programs in cooperation with Canada's export credit agency EDC and the federal development bank Business Development Bank of Canada (BDC) (Canada, 2020c). Due to the corona crisis both Crown corporations got broader mandates to support Canadian companies which suffered under economic challenges and losses (EDC, anonymous interview, 2020). Enlarging the directives and scopes of activities enables both institutions to provide access to liquidity and different credit and loan programs to exporting and non-exporting companies (EDC, 2020b).

## Avoiding layoffs

As a general measure that is eligible for a huge number of Canadian companies Canada released the Canada Emergency Wage Subsidy (CEWS). This measure helps companies to avoid layoffs. The companies pay wages to their employees and retrieve 75% of the remunerations. Companies are entitled when they suffer from revenue reductions in a respective period. The measure is available until August 29, 2020 as of date June 17, 2020 (Canada, 2020d).

*Figure 2 Eligible revenue reductions in respective periods (Canada, 2020e)*

Period	Start and end dates	Required revenue reduction
1	March 15, 2020 to April 11, 2020	15%
2	April 12, 2020 to May 9, 2020	30%
3	May 10, 2020 to June 6, 2020	30%

As of 29<sup>th</sup> of June 2020, subsidies with an amount of \$17.09 billion has been paid to Canadian companies. In period one more than 2.8 million and in period two more than 2.7 million employees' wages have been supported by CEWS. In period three about 2.1 million employees have been supported by this measure<sup>2</sup> (Canada, 2020f). In addition to avoid layoffs this measure is aimed at rehiring workers that have been laid off recently. Therefore, companies can rehire and pay employees and are retroactively eligible for the subsidies. In addition to that the government launched a Work-Sharing program with the aim of avoiding layoffs in times of a temporarily decreasing demand on business activities.

On the one hand, the positive effects of this approach are evident. First, financially stricken companies have access to a relief regarding payroll costs. On top of this the Canadian government wants to keep the employment rate on a high level. If the crisis led to many layoffs and unemployment the government would have to pay people in different ways, for example via unemployment insurances and payments. On the other hand, the funding question arises. This measure is very costly, and it is assumed that the CEWS cannot be maintained for plenty of months (Smallridge, 2020). Expenditures of \$17.09 billion in approximately four months is quite a number. According to the government of Canada, the total impact of this single measure for 2020 and 2021 is at a rough estimate of \$45 billion and it is hardly predictable how long Canada will afford the wage subsidies (Canada, 2020g).

## Financial support and access to credits

Canada helps its companies which need financial support with different measures. The government has extended certain income tax payment deadlines until after August 31, 2020 (Canada, 2020h). This measure equates to a short-term free of interest loan for companies. Furthermore, Canada's government launched its Business Credit Availability Program (BCAP) to support companies which suffer from cash-flow challenges. The BCAP is introduced and conducted in collaboration with EDC and BDC and is mainly targeted for small and medium-sized enterprises (SMEs). The BCAP contains of several measures. Small companies<sup>3</sup> can apply for the Canada Emergency Business Account (CEBA) program which is conducted in cooperation with EDC. If the companies are eligible, they will receive loans of up to \$40,000

<sup>2</sup> 'Employees may have been supported in more than one claim period.' (Canada, 2020d)

<sup>3</sup> 'The Borrower's total employment income paid in the 2019 calendar year was between Cdn. \$20,000 and Cdn.\$1,500,000.' (CEBA, 2020)

with zero interests and in addition to that if they repay the money in the next two years, they will be allowed to keep 25% of the total loan amount (CEBA, 2020).

Apart from the CEBA program the government launched the EDC BCAP Guarantee. The EDC provides an 80% guarantee for loans up to \$6.25 million between a company and its financial institution. The measure allows financial institutions in Canada to provide companies with term loans and positive prospects regarding liquidity and operating cost issues. The EDC describes the program on its website as 'a strong partnership between EDC and approved financial institutions across Canada' (EDC, 2020c).

### **Signalling effect**

Alongside the mentioned measures and further actions Canada's government tried to send out positive signals for the Canadian population. When prime minister Justin Trudeau announced new economic measures for Canadian individuals and businesses on March 18, 2020, he based his speech on hidden and apparent optimistic messages. As an example, Trudeau said: 'Our job is to support you. To lend a helping hand when you need it most. That is what we are doing with the measures we have announced to date, and that is what we will continue to do.' The prime minister's plan is to unite the Canadian citizens. 'Working together is how we'll get through this. As families, as a community, as a country.' He ended his speech with the following words: 'Our government is here for you. And your fellow Canadians are here for you, too. Thank you, everyone.' (Office of the Prime Minister, 2020)

This sophisticated approach is an approved political move in times of crisis. Up to the present it is not possible to envision economic aftermaths of the COVID-19 Crisis in an accurate way. Many parts of society, both individuals and businesses are faced with uncertainty. Therefore, this strong signalling effect it is an important measure in times of need to give the public hope and confidence. In addition to this optimistic point of view Justin Trudeau tries to make an appeal of solidarity to Canada's population. He accentuates teamwork in both, large scales (in the country) and small scales (in families). To sum up the Canadian political leaders try to depict a way out of the negative economic consequences of the COVID-19 Crisis while still letting the general public know that the crisis is not over yet and that individuals and businesses should not act too overconfident (Smallridge, 2020).

## **5. Summary and Conclusion**

In conclusion it must be stated that the COVID-19 Crisis is not only a health threat for Canada and its population but also an imminence concerning the economic situation of the country. Due to the crisis, the total export dropped by 35.2% year on year in April 2020, which was one of the lowest results in recent years. As a developed economy Canada is very dependent on functioning global trade in order to ensure a functioning economy. To fight against the novel virus, it is unavoidable to act cautious and to deal with global restrictions on trade. Governments should focus on necessary restrictions but try to avoid restrictions for trade barriers if possible. Canadian export businesses are greatly dependent on the corona situation in the US because most of the Canadian foreign sales take place between those countries. Moreover, supply chains of many Canadian companies are interlinked with American companies. In addition to that, many export businesses have to deal with liquidity issues which result from cancellations of contracts, delayed payments and a decreasing demand in general.

In times of a crisis, the government is compelled to introduce measures to minimize economic damage. Canada reacted to the crises quite fast by launching the COVID-19 Economic Response Plan in March 2020 in cooperation with the EDC and the BDC. One promising approach in this plan is to avoid layoffs due to the fact that a high unemployment rate would cause high costs for the public sector in another way through unemployment insurances for instance. In order to face liquidity issues of companies, the government of Canada released the Business Credit Availability Program which contains several measures like eased access to credits, loans and guarantees. According to the Canadian government the 'BCAP, other liquidity support and capital relief' have a total cost volume of approximately \$686.450 billion in 2020 and 2021 (Canada, 2020g). This equates approximately 40%<sup>4</sup> of Canada's GDP in 2019 (The World Bank, 2020). Many experts acknowledge the measures as generally positive. All in all, they approve Canada's rapidity in developing and releasing its manifold and pinpointed measures. Smallridge (2020) stated that there is no way to eliminate damage in this crisis completely, so it is much more important to be fast than accurate and to counteract upcoming problems later.

As a result, the evaluation and analysis of the different support measures that Canada has developed show that there are promising measures that could help the export industry to overcome the crisis. Furthermore, the different programs cause high costs for Canada so the question occurs how long the country can afford these measures. In a short-termism it seems to be not a big issue but in a long-term point of view there could remain financial problems if the economy will not expand again, but due to the unpredictable course of the COVID-19 pandemic it is extremely difficult to evaluate economic aftermaths accurately at the present time.

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<sup>4</sup> Calculation:  $\frac{\text{cost volume}}{\text{GDP}} = \frac{\$ 686.450 \text{ billion}}{\$ 1,736 \text{ billion}} \approx 40,1\%$



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