

Modernization of Outdated Export Controls

As Canadian companies of all sizes, increasingly look to do business outside of our borders, regulatory issues that inhibit increased domestic R&D investment must be eliminated. Increasingly, our burgeoning high-tech firms are being impeded by outdated and inefficient Canadian Export Control requirements. Currently, companies that develop and/or manufacture products containing encryption technologies are subject to export regulations that result in costly and time consuming delays in R&D projects, research mandates, and product launches. Like other exporting sectors of the Canadian economy, typically 90% – 95% of the tech sector’s revenues are earned outside of our borders.

Canada’s onerous Export Control requirements have resulted in crippling, multi-month delays for companies launching global products. In the ICT industry, where the time from concept to delivery is often less than 18 months, and multiple products are launched in a year, inserting a minimum of 45 days to approve a Canadian export to a massive, growing market like Asia, results in a grievous loss of revenue. Competitors in other countries that currently market less capable products in industries such as aerospace or consumer electronics have advantaged access to the growing economies of India and China, and are using their situation to capture market share.

Establishing successful partnerships, distribution and supply relationships is critical to determining which companies will dominate these markets once they take off, and export control requirements are denying Canadian companies that first-mover advantage. Export control approvals insert a high degree of risk into the scheduling of technology deployment projects. If a customer agrees to a 45 or 60 day delay for export permit approvals, but no permit is given after this time period, the customer’s project will be behind schedule before it even starts. Not surprisingly, customers get very frustrated; cancel orders and/or vow to never again do business with the Canadian company.

Leading edge companies also spend weeks navigating red tape just to share R&D information within their own company if one of its locations is physically located outside of Canada. Some Canadian-based subsidiaries have even been shut out of R&D activities by their parent companies due to Canadian export control requirements, moving high income, wealth generating jobs outside of Canada.

In the United States, where national security issues are given a very high priority, companies that export encryption technologies enjoy a far more permissive and efficient export control system compared to their competitors in Canada. US Export Control regulations were relaxed in 2000 and again in 2010 to the point companies are permitted to notify the government after shipping their products. To ensure success in the face of global competition, Canadian exporters must be on a level playing field with foreign competitors. That means that Canadian innovators driving a home-grown digital economy need a domestic export-control regime that does not create unreasonable restrictions and costly delays compared to countries where their competitors operate.

Recommendations

That the federal government::

1. Launch an immediate review of Canada’s Export Controls regime with a view to introducing, within 90 days, all measures required to tip the playing field in favour of Canadian companies while adhering to the spirit of its international trade obligations. This time frame is reasonable considering the numerous reviews and public consultations the federal government has undertaken in the last 18 months.
2. See that the modernization of Export Controls include a more tax-payer centric policies such as timeliness of reviews, framework of delivery guidelines, specific turnaround service standards, and the appropriate resource allocation for government to administer the program.

3. Ensure that Industry Canada lead the government's efforts in modernizing Canada's Export Control requirements.

Submitted by the Innovation Committee (formerly the E-Commerce/Telecommunications Committee)