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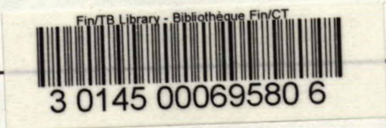
Export Financing

Consultation Paper

January 1985

Canada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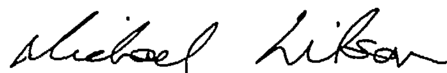
PREFACE

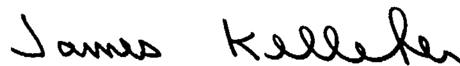
This document is designed to serve as a focus for consultations on the vital need for effective export financing support for Canadian business and industry. These consultations will be carried forward as part of the broad national consultative process set in motion with the release of a major document "A New Direction for Canada: An Agenda for Economic Renewal" on November 8, 1984.

The agenda paper identified a number of issues and questions regarding government programs for insuring, guaranteeing and financing of exports as well as programs involved in the direct sale of goods abroad. The consultations will examine the factors underlying these issues as well as possible options the government may consider. All interested parties are invited to respond to the discussion of issues and the directions for change outlined in this paper.

It is our hope that Canadians will take an active part in the discussion of the issues in an open dialogue with the government and their fellow citizens -- a dialogue dedicated to finding better ways for all of us to work and prosper together in the months and years ahead. Such open dialogue will make a positive contribution to the First Ministers Conference on the economy in February and the National Economic Conference in March.



Hon. Michael Wilson
Minister of Finance



Hon. James Kelleher
Minister for
International Trade

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I. INTRODUCTION

A) BACKGROUND

(i) The World Market for Exports

The competition for export markets is tough and getting tougher.

Economic growth in the U.S. economy has begun to moderate and, in Western Europe, governments are pursuing policies of fiscal restraint which are not conducive to more than moderate growth over the medium term. At the same time Eastern European countries can be expected to continue to limit the growth of their imports so that their debt burdens in convertible currencies remain manageable.

In the remainder of the world, with the exception of South and Southeast Asia and China, prospects are not much brighter. The Asian countries easily weathered the recession and import demand can be expected to remain strong. In Africa, on the other hand, the economic and financial situation in many countries is serious and trade prospects are dim.

Latin American countries, which were most affected by the world economic recession, have entered a phase of radical structural adjustment. This is expected to put them on a much sounder footing for sustained and viable economic growth. The process will, however, be slow and export prospects to these markets will be limited, at least during this decade.

If Canada is to maintain and expand its share of world markets, it is important to recognize that international competitiveness, particularly in Third World countries, is not simply a matter of either price or meeting technical specifications. Price and quality of goods or services are essential but not sufficient conditions for competitiveness. Equally important are: a) ability to deliver as required; b) dependability of the firm or manufacturer; c) reputation as evidenced by a track record in the market; d) detailed knowledge of the market and sensitivity to cultural and business practices; e) willingness to provide support in translating training manuals into local languages; f) availability of service and spare parts; g) ability to transfer technology through licensing, joint ventures and direct investment, and h) financial packaging -- the ability to provide competitive export financing. Exporters may also be faced with demands to become involved in various kinds of buy-back or compensation arrangements more generally referred to as countertrade.

(ii) Export Financing as a Factor in Competition

In Canada, the U.S. and other industrialized countries the private sector's current production inputs and investment are financed through the private financial market. To the extent that national savings are insufficient, the financial system or individual firms generally have the capacity to raise funds in the international financial and capital markets. Thus, government-supported export financing has been, with some exceptions, an insignificant factor in trade among industrialized countries.

It is in the Third World and Eastern Europe that government-supported export financing plays an active role in competition. For most developing and Eastern European countries, their insufficient domestic savings and limited access to international financial and capital markets has meant that our export sales to them are contingent on the availability of officially backed sources of financing.

Export financing when supported by governments has two fundamental characteristics. First, financing is made available to borrowers and buyers who do not normally have access to financial markets. Second, government intervention, particularly in the form of medium- and long-term financing at fixed interest rates, has in fact resulted in subsidies by lowering interest rates on export financing below market rates.

All industrialized countries, several developing countries (e.g. Brazil, Argentina, Korea, India), and Eastern European countries have government-supported programs for export financing. In general, financing is provided in accordance with OECD ground rules (see below), but recently there has been an increase in mixed credit or "concessional financing" competition (i.e. a combination of concessional funding, usually official development assistance, and commercial export credits).

The development argument for blending aid with export credit is that it stretches a limited amount of aid funds over a larger number of projects or markets. However, mixed credits or concessional financing have also been used to finance exports which previously had been largely financed through normal export credits. They have also been used to finance sales to countries that are on their way to being able to support commercial financing terms. This has created a number of problems, and the response has come on two fronts. Ground rules for mixed credit have been negotiated in international forums (see below), but since these have met with limited success most industrialized countries, including Canada and more recently the U.S., have resorted to "matching" programs or to modifying their aid programs to put their exporters on an equal footing.

(iii) International Ground Rules for Export Credits and Mixed Credits

Official export financing among OECD countries is subject to OECD Consensus guidelines on maximum maturity limits in a range of 8 1/2 to 10 years, minimum cash payments (down payments) of 15 per cent, and minimum interest rates for the three categories of countries classified by degree of development, with higher rates for "rich" countries. These rates are subject to adjustment semi-annually to reflect changes in market interest rates. The last changes took effect July 15, 1984 when minimum rates were increased by 1.2 per cent. They now stand at 10.7 per cent for "poor", 11.9 per cent for "intermediate" and 13.6 per cent for "rich" countries. On January 15, 1985 these rates were to decline in line with recent lower market interest rates. For currencies where market interest rates are below OECD Consensus rates, a system of commercial reference interest rates apply (e.g. for the Deutsche mark, Swiss franc, Japanese yen, Dutch guilder).

The Consensus does not cover all sectors. There is a separate agreement for nuclear power plants. Ships, other than offshore "rigs", are covered under another OECD understanding. Aircraft are not yet covered by the Consensus but it is hoped that negotiations on an agreement will be concluded in 1985. Export credits for agricultural and military products are not subject to the Consensus. Negotiations on export credits for agricultural products are underway but progress is expected to be slow.

The OECD Consensus also sets ground rules for the use of mixed credits aimed at reducing their disruptive effect on regular commercial transactions. These specify that mixed credit transactions must have a minimum subsidy element of 20 per cent and be subject to prior notification. The Development Assistance Committee (DAC) of the OECD has established guidelines for the use and reporting of "associated financing", which is any financing involving both export credits and ODA or other concessional loans. The DAC guidelines are aimed at ensuring that associated financing meets genuine developmental objectives.

B) THE FINANCING OF CANADIAN EXPORTS[1]

(i) Private vs. Government Sources

Over 90 per cent of Canadian exports are delivered by the private sector (including Crown corporations) with essentially no government intervention in financing or marketing.

(1) Also includes government programs for insurance, guarantees and direct sale of exports.

Private financial institutions account for most of the financing for Canadian exports. They do this through direct loans to buyers, lines of credit and other forms of trade financing. They also do it indirectly by refinancing Canadian exporters. Their involvement in medium- and long-term trade financing particularly to Third World countries has been limited. Unlike banks in other industrialized countries, Canadian banks have not in recent years played an important role in the government's export financing program. They have nonetheless been very active internationally in other fields of banking. Their share in international banking with Third World countries is significantly higher than Canada's share of world exports to those countries.

The bulk of government support is directed to exports to Third World and Eastern European countries. It has been estimated that roughly one-half of Canadian exports to Third World countries are supported through government programs.

When it is used, government support is provided through the Export Development Corporation (EDC) -- approximately 5 per cent of exports, of which 1 per cent is financed directly, and the Canadian Wheat Board (CWB) -- 1 to 2 per cent of exports. Other government agencies such as the Canadian Commercial Corporation, the Canadian Dairy Commission, the Canadian Saltfish Corporation and the Freshwater Fish Marketing Corporation, acting as direct sellers, account for a further 1 to 2 per cent of Canadian exports. Finally, the bilateral aid program of the Canadian International Development Agency (CIDA) finances 2 per cent of total Canadian exports, or 15 per cent of Canadian exports to developing countries. Provincial government programs also provide some support.

(ii) Overall Competitiveness and Effectiveness of Canadian Programs

Export financing and the mixed credit facilities available through EDC, CIDA and the CWB generally ensure that Canadian exporters are not at a disadvantage with respect to financing. There are, however, perceptions in the exporting community that improvements could be made. One area that is frequently mentioned is the need to improve the access of small and medium-sized business to export markets. Another is the possibility of ensuring that commercial benefits are maximized through the use of the aid program. Some exporters have also questioned the speed of EDC responsiveness and also suggested that EDC is applying overly-strict creditworthiness standards to export financing.

In certain markets, countertrade has become a factor in competition. No specific demands have been made for government assistance beyond the information and advice now provided. Indeed, it seems to be generally recognized that direct intervention by government would not only lead to significant financial risks, but could expose Canadian exporters to greater demands for countertrade and, more generally, could undermine Canada's objective of maintaining a free and open multilateral trading system. It is for consideration whether this view is accurate or whether greater thought should be given to a possible role for government in this area, for example through EDC.

In examining these questions and in considering the adequacy of existing programs, the benefits of export financing must be weighed against the economic and financial risks and costs. It is unlikely that Canada would survive an export credit war if it decided to adopt a predatory approach to export financing. In general terms, therefore, the primary objective of government export financing and marketing programs should be to put Canadian exporters on an equal footing with foreign competitors.

There is always the risk that the very existence of a government program could act as an obstacle to a more efficient and effective exporting effort by the private sector. Overall economic efficiency might be improved by a greater role for the private sector in this area. Although the Canadian Commercial Corporation fulfills certain functions which could not be taken over by the private sector, there is a need to reconsider its mandate, organization and other activities to determine whether, in its present form, it has not inhibited greater involvement by the private sector, in particular by trading houses, which would be more beneficial for Canada.

Another area where there may be a need for greater private sector involvement is that of export financing. EDC, contrary to the case in most other countries, has a virtual monopoly on subsidized export financing. There would seem to be a need to create conditions that would maximize the capacity of the Canadian banks to contribute to the financing of Canadian trade. Also, the private insurance industry has suggested that there may be scope for greater co-operation with EDC in the provision of credit and surety insurance. Finally, co-ordination must continue between the federal and provincial governments to ensure that efforts and programs remain complementary.

II ISSUES FOR DISCUSSION

A) EXPORT DEVELOPMENT CORPORATION

The Challenge

Improving the responsiveness of EDC.

Background

The Export Development Corporation is a Crown corporation established in 1969 to provide insurance and guarantees for private sector exporters and financial institutions and direct financing to buyers of Canadian exports. Currently, loans outstanding amount to more than $7 billion and insurance and guarantees to more than $2.5 billion. The bulk of EDC support is provided through insurance programs under Section 24 (Corporate Account) of the Export Development Act, for which the annual volume exceeded $3 billion in 1983. These include global insurance policies for exporters under which the exporter insures its exports with EDC to a broad range of markets. There are specific transaction policies, under which an exporter insures a single transaction for medium term credits. In addition, EDC provides bank and surety guarantees as well as foreign investment insurance.

Under Section 29 (Corporate Account) of the Export Development Act, EDC provides direct loans to foreign buyers of Canadian exports. Currently, Section 29 loans outstanding amount to nearly $6 billion. EDC also provides under Section 29 a variety of confirmed and unconfirmed lines of credit and financing protocols. Under Section 33 of its Act EDC is able to refinance exporters. Recent changes in the Act give EDC the power to finance leasing arrangements for goods to be used outside Canada.

For its Corporate Account activities under Sections 24 and 29, EDC's mandate is to provide insurance, guarantees and financing on essentially a commercial basis. Its insurance and guarantee activities are conducted on a full cost-recovery basis. Its premiums and guarantee fees are on a level consistent with those charged under similar programs in other countries. Exporters are required to bear 10 per cent of the risk.

Because of international competition, EDC's lending program must be able to deliver financing at rates as low as OECD Consensus minimum interest rates. These rates entail interest rate subsidies of as much as 2 per cent. Exporters are required to pay exposure fees as a counterpart for the risks of repayment. These fees are equivalent to those charged by similar agencies in other

countries. The government provides the financing subsidy (currently in the range of $100 million annually) by forgoing a return on its equity holding in EDC. Should EDC incur a loss on its lending operations, the government is prepared to ask Parliament to approve appropriations for a loss make-up to EDC, but this has not been required to date.

Under Sections 27 and 31 (Government Accounts) of the Export Development Act, the EDC Board may turn down insurance, guarantee or financing transactions which are for terms or amounts in excess of what EDC would normally undertake as a corporation. In cases entailing such risks for the corporation, the Governor-in-Council may approve transactions which are in the national interest. Section 31 loans outstanding currently amount to about $1 billion.

Options for Discussion

The ultimate in responsiveness would be for EDC to meet all demands. However, EDC financing has an element of concessionality with a financial cost to the government. Good management calls for creditworthiness standards for commercial and country risk, Canadian content levels, and economic benefit/cost analysis to determine "value for money" to the taxpayers on this program. The trade-offs must therefore be examined against the following considerations.

(i) Creditworthiness Standards

The question here is not one of the financial ability of exporters to meet their commitments -- these requirements seem to be generally accepted -- but rather the country risk standards. Over the last few years many countries have encountered severe external financial difficulties and have not been able to meet their obligations. In some cases, it will be many years before they return to a normal financial situation. Bearing in mind this situation and in some cases the financial capacity of the buyer, are the standards too severe? EDC has shown considerable flexibility in raising its country credit ceilings even in doubtful cases, and continuing to make loan commitments to countries with severe economic difficulties until the latest possible moment. It also has a good record on reopening credit facilities after debt reschedulings more quickly than export credit agencies in other countries. However, its country credit ceilings and lending standards need to be guided by portfolio management and risk considerations. EDC reviews regularly its ceilings bearing in mind exporters' expectations and the need to ensure an adequate degree of financial prudence.

Canada Account (insurance under Section 27 and financing under Section 31 of the Export Development Act) exists for cases where the corporation cannot provide financing or insurance either because of individual country credit ceilings or because a country is judged uncreditworthy, i.e. EDC is "off cover". It is more readily available in cases where the corporation cannot make loan commitments because it already has a large exposure in a given country. In cases of extremely poor risks, there are a number of factors which have to be taken into account before considering Canada Account or any form of official financing support by Canada. Obviously, it is difficult for the government to agree to make new commitments to governments that are in arrears with EDC, the Canadian Wheat Board or the government itself. Furthermore, there is the question of the government's co-operation and involvement with the International Monetary Fund and the World Bank and the need to ensure that Canada Account financing complements the efforts of these organizations to encourage economic and financial adjustments in debtor countries. It would not be appropriate for Canada to provide financing which, through its purposes or timing, might undermine the efforts of the IMF and World Bank to promote necessary adjustments.

Canada Account financing is also used when concessional financing is required. In principle, the government has provided exporters with concessional financing whenever this has been required to match financing offers of foreign competitors, provided that the Canadian exporter is competitive on price, quality, delivery and service.

(ii) Eligibility Considerations

Since official export credits involve a cost to the government, it stands to reason that controls on access are needed. An important control criterion is the Canadian content standard, which is inter-related with economic benefits and employment considerations. More simply put, it is undesirable in principle to subsidize the sale of goods manufactured abroad. Generally, the higher the Canadian content, the greater the likelihood of net economic and employment benefits. However, in some sectors of the economy, a trade-off exists between the goals of Canadian content and meeting competition.

Although EDC's policy is to maximize Canadian content (about a 75 per cent average has been achieved), it is in practice more flexible than many of its competitors. For example, the U.S. requires 100 per cent domestic content for Export-Import Bank financing eligibility, and EDC's counterparts in France, Britain, West Germany, Belgium, and Italy among others, require higher domestic content levels than EDC.

A further relaxation of Canadian content standards would not seem to be called for in terms of either potential net economic benefits or burden sharing, since Canada would indirectly end up financing a larger share of foreign content. However, Canadian exporters who provide goods and services with an important U.S. content would stand to benefit if we could get U.S. involvement in financing for the U.S. portion of the export. Since U.S. content is often a significant part of Canada's exports in manufactures, EDC on numerous occasions has sought participation by the U.S. EXIM Bank on a case-by-case basis, without success. However, this idea may be worth exploring further, particularly by holding out the possibility of access to Canadian financing for Canadian content in U.S. exports of manufactured goods.

(iii) Rates and Fee Structure

EDC's financing is competitive internationally and readily available to Canadian exporters. EDC terms for export financing are in line with the OECD Consensus Arrangement. EDC offers the full range of currency and rate options. Among other trading countries, the majority of official credits are offered at Consensus terms. Are EDC's exposure fees and insurance premiums in line with guarantee fees and insurance premiums charged by the competition? Is there any scope for reducing EDC's rates or fees, bearing in mind that it will be important to ensure that they remain generally competitive?

(iv) Streamline Canada Account Procedures

For Corporate Account business EDC can move fairly quickly. However, the range of considerations that apply to Canada Account business and the need for Cabinet decisions mean that considerably more time is required for processing these requests. It is for consideration whether the approval procedures for Canada Account business could be streamlined.

(v) Greater Access by Small and Medium-Sized Business

While EDC has done a fair amount to increase its business with small and medium-sized firms, the fact remains that a small number of large companies account for the bulk of EDC's financing. However, the delivery of large contracts often involves many sub-contractors, in some cases up to 200, which are usually from the ranks of small and medium-sized business. Moreover, most of EDC's insurance business is with this sector. Is there more that can be done to enhance EDC's marketing directed at small and medium-sized businesses?

A working capital guarantee program and an expansion in the delivery network for foreign credit insurance are two new programs recently introduced on a trial basis in the U.S. These programs are directed at assisting small and medium-sized business, and could be considered for adoption by EDC.

EDC could also consider increasing its volume of small and medium-sized business by introducing export lines of credit for small businesses (EDC is already discussing this issue with the banks), broadening its delivery systems for guarantees and insurance, and giving small and medium-sized businesses special treatment through increased flexibility in processing their applications. Lower fees and rates have also been mentioned. However, past experience would indicate that once such financial preferences are accorded one group (e.g. first-time exporters or small and medium-sized business), these privileges quickly would become the norm for all exporters.

While it may be helpful for EDC to introduce new programs aimed at small and medium-sized business in an attempt to broaden its client base, it may also be useful to further increase the involvement of the private sector in export financing. In particular, it will be important to explore the extent to which Canadian bankers could broaden the base of Canadian exporters through greater involvement in medium- and long-term export financing. However, bank involvement would require some subsidy arrangement to allow them to compete with EDC. On the insurance side, it may be helpful to increase involvement of the private sector through participation in EDC's current and future portfolio risk and in the delivery of insurance services, thereby widening EDC's distribution network.

B) PRIVATE SECTOR EXPORT INSURANCE

The Challenge

What can be done to increase private sector involvement in export insurance activities?

Background

In recent years Canadian insurance brokers have broadened their focus to an extent that they may now be in a position to deliver most of the insurance and guarantee programs in EDC's inventory, at competitive rates. There is an important gap in private sector capability (war or insurrection risks) but there would appear to be other cases where greater private sector involvement could be considered.

In considering any changes, close attention would have to be paid to ensuring a prudent spread of risk in EDC's insurance portfolio.

Options for Discussion

First, to the extent that private sector insurers were prepared to participate in EDC's existing and future insurance and guarantee liabilities, it would serve to reduce the corporation's and therefore the government's contingent liabilities from future claims. However, an important consideration would be to maintain an adequate diversification of risk. Otherwise, EDC would be obliged to charge higher premiums on the business that it was left with and these would be borne by exporters.

Second, to the extent that private sector insurers could deliver insurance and guarantee services to Canadian exporters either at the insurers' own risk or at the risk of EDC (either directly or through re-insurance), this might serve to broaden the distribution network, thereby providing better access to service for exporters. This broadening of the delivery and information system could have a favourable impact on the volume of Canadian exports. For most arrangements that are likely to be put forward by brokers, current EDC legislation should provide an adequate framework.

C) EXPORT FINANCING THROUGH PRIVATE FINANCIAL INSTITUTIONS

The Challenge

To increase the involvement of banks and other financial institutions in medium- and long-term export financing.

Background

For most if not all markets, private sector involvement in official export financing would require a direct interest subsidy, the assumption by the government of funding risks (or, if this risk is assumed by the private sector, a substantial additional premium in the direct subsidy amount) and coverage of default risks both commercial and political. It is clear, therefore, that the involvement of the private sector in the official export credits system would cost the government somewhat more because the private sector would face higher funding costs on its borrowings and would require a profit to shareholders on their equity invested. There is also a risk that export financing that is now or could be provided without subsidies by private

financial institutions would be shifted and delivered through a scheme which provided government support to encourage private sector involvement.

Weighed against this is the argument that private sector involvement could bring to Canadian exporters an expansion of the delivery system for official export financing and open a broad-based intelligence system, particularly the vast branch and international network of the chartered banks. While this factor cannot be demonstrated quantifiably on an *ex ante* basis, it is likely that broader delivery and intelligence systems would generate an increased volume of exports. Moreover, it is expected that a good measure of the increased export volume would be derived from an increase in the number of small and medium-sized businesses in the export field.

Options for Discussion

Assuming some involvement by private financial institutions (PFIs) is judged to be desirable, the main questions that arise are how and to what extent this can be achieved. Options for the degree of PFI involvement are discussed below but it will be important to bear in mind that each of these options will have to meet a number of tests. In this regard, the key issues of concern are the speed and timeliness of approvals, funding risks, default risks, the government's costs and risks, adequate returns and incentives to the PFIs and adequate government control where this is required.

Another very important consideration is how the subsidy is delivered. This could be done by having EDC refinance the banks or by having the government provide the export financing subsidy directly through the banks. EDC, acting either as a refinancing agency or as a credit guarantor, would apply the various tests and guidelines required to ensure adequate control of government funds. Under either mechanism, the private financial institutions would manage fully the loans from negotiation and monitoring through to their payment.

Following are three possible options for PFI involvement in official export financing.

(i) Defined Market Shares for PFIs and EDC

The objective here would be to hand over to the PFIs a specific segment of the market.

There are a number of variables by which Canadian official export financing business could be segmented. It could be divided on the basis of repayment term whether medium or long term, by size of transaction, or by "rich" versus "poor" country markets.

The banks already provide short-term trade credit, and the medium-term credit market (less than five years) would be a logical area to pass on to the PFIs. Indeed, the banks are already involved in this area in co-operation with EDC through the provision of financing under EDC's Specific Transaction Guarantee Program. However, the banks are currently in competition with medium-term official export credit financing done through EDC's forfaiting (note purchase) program, and perhaps this business could be transferred to the PFIs. Of course, for the PFIs to be able to offer the same rates as EDC did under the forfaiting program, the government would need to provide a subsidy on this lending through the PFIs.

Segmentation by size of transaction would involve setting a maximum limit per transaction for PFI involvement. It might prove quite difficult to justify any particular limit. However, if small and medium-sized business is one specific target, a $10 million limit might be a ceiling for consideration. Currently, this is EDC management's discretionary approval limit.

A division by country categories might involve reserving for the PFIs export financing in the category I market ("rich" countries) of the OECD Consensus. This includes most OECD countries, the USSR, Czechoslovakia, East Germany, and OPEC countries with a high per capita GNP.

Under the various market share approaches discussed above, the PFIs would take on the delivery of perhaps up to 20 per cent of the export financing business now done by EDC. A financing subsidy from the government would need to be delivered through the PFIs if their share of the market were to be based on the term of the credit or size of the transaction. However, if the market were divided on the basis of rich versus poor countries, it might be possible to avoid paying a subsidy without any significant loss of exports, since the rich country Consensus rate (currently 13.6 per cent) is quite close to market rates.

(ii) PFI and EDC Competition

Under this option, EDC would continue to be a direct lender but an attempt would be made to allow PFIs to provide the same direct financing at the same rates as EDC in all official export financing markets. There are a variety of ways in which this could be done, but essentially what is required is a subsidy which would represent the difference between what the PFIs would normally earn through purely commercial lending as opposed to what is prescribed under the OECD Consensus matrix of rates.

The chartered banks (as represented by the Royal Bank of Canada) have suggested in a proposal to the government that they would undertake the funding for export credits and would seek a direct interest subsidy to be delivered through them for the difference between the actual and the normal commercial returns. The costs to the government of such a scheme would be higher than under the present EDC system since PFI borrowing costs would be higher than EDC's costs, and PFIs require a profit for shareholders. However, if the government, or EDC as its agent, undertook to refinance the PFIs, it could reduce the subsidy costs related to the PFIs' higher borrowing costs.

Under this system the PFIs and EDC would compete on an equal footing (since the interest rates and term offered by both parties would be identical), provided that EDC's exposure fees on its direct lending were similar for comparable risks to the guarantee fees paid by PFIs where they served as the delivery mechanism.

Indeed, provided that financial costs to the customer and the likelihood of loan approval are the same under either source of financing, the banks might have an implicit advantage derived from their broad range of financial relations with exporters and their wide international network of branches, correspondents and agents. Banks could, in addition, continue to provide, at their own risk, cash payment financing and local cost financing, which could provide them with a competitive advantage over EDC in dealing with exporters.

Under this system, the banks could become a major conduit for official export financing, without limitations as to market share. The system would provide exporters with increased sources and services for export financing transactions which should ensure a greater responsiveness to their needs. Of course, the development of a smoothly functioning subsidy scheme for delivery through the PFIs would take some time. The approach discussed here would allow for a gradual increase in PFI involvement, without interrupting the provision to exporters of the full range of services currently available through EDC.

(iii) Taking EDC Out of Export Financing

Under this scheme, the PFIs would take over the delivery of all official export financing for capital projects. Of course, EDC would still need to stay in the picture for guarantee and insurance business, for making country risk assessments, ensuring Canadian content and industrial benefits objectives were met, and administering the subsidy mechanism for financing through the PFIs.

This approach would meet the banks' initial proposal that they take over all the export financing business. It would also allay any fears the PFIs might have in assuming market development expenses only to find that EDC was somehow still able to keep most of the direct financing business. However, it might raise fears of loss of service among exporters who have come to rely on and trust EDC.

D) CONCESSIONAL FINANCING

The Challenge

The document "An Agenda for Economic Renewal", tabled by the Minister of Finance on November 8, 1984, posed three basic questions on export financing: 1) Can Canada's aid budget, while maintaining its goal of promoting Third World economic development, play a more effective role in promoting Canadian exports in developing countries? 2) Should a greater portion of aid resources be used to support the export of goods and services, on concessional terms, of competitive Canadian firms involved in developmentally-sound projects in the Third World? 3) If an aid/trade mechanism were implemented, what should be the future role of EDC's existing mixed credit program?

Background

Among OECD countries, in recent years, there has been an intensification of competition for export projects on the basis of subsidized, highly concessional, export credits. Canada has been critical of the use of mixed credits and other similar practices on the grounds that they involve costly subsidies, distort normal competitive factors and tend to divert resources away from sectors of the economy where they may be used more efficiently. In addition, they can frustrate development objectives because they increase the incidence of "tying" aid to goods and services from the donor country, which may in turn add to the cost for the recipient country.

Canada has participated actively in efforts to stem the increasing use of aid funds to obtain comparative advantage in Third World markets. Some arrangements have been negotiated in the Development Assistance Committee (DAC) and the Export Credit Consensus of the OECD but these have met with limited success thus far. Canada will continue to seek better and more effective arrangements. In the meantime, it will be important to ensure that Canadian exporters are not operating at a disadvantage due to the financing practices of other countries.

Current Concessional Financing Programs

Currently, there are four mechanisms through which concessional financing for Canadian exports to developing countries can be provided: i) the Canadian bilateral aid program administered by CIDA; ii) CIDA's Industrial Co-operation Program; iii) parallel financing by both CIDA and the EDC; and iv) mixed credit financing administered by EDC.

(i) CIDA Bilateral: The primary objective of official development assistance (ODA) is to promote the economic development of Third World countries. However, within this overall mandate, CIDA, as the main delivery channel for ODA, has sought to respond to the growing pressures for a greater involvement of the private sector in the aid program. Currently, at least 65 per cent of ODA is used for the procurement of goods and services in Canada. More specifically, the bilateral program of CIDA makes up about 36 per cent of the Canadian ODA program, which totalled some $1.7 billion in 1983-84. About 70 to 75 per cent of the bilateral program is spent on goods and services purchased in Canada, with the remainder to cover transportation and local costs in recipient countries.

Food assistance is another large component of our aid ($325.6 million for 1983-84). Between 80 and 85 per cent of the food assistance budget is spent on Canadian procurement, with the remainder covering transportation costs and cash contributions to the World Food Program.

(ii) CIDA Industrial Co-operation Program: CIDA has set up a special Industrial Co-operation Program which provides funding to enable Canadian firms to do feasibility studies in developing countries, set up joint ventures and provide technical assistance. While the volume of resources expended through the program is relatively modest, it has nevertheless been of great help to Canadian firms in winning contracts in Third World markets.

(iii) Parallel Financing: This involves joint financing by CIDA on ODA terms and EDC on regular export credit terms. It has been essentially an ad hoc facility but has proven very useful in a number of cases where developmental and commercial interests have coincided. This mechanism has had the effect of "stretching" aid dollars and of improving the attractiveness of Canadian exports by lowering the costs of financing, which is often a deciding factor in procurement decisions by developing countries. These arrangements have also helped CIDA achieve its volume-related developmental objectives.

During the period 1966-67 to 1983-84, CIDA put in place 85 lines of credit (with commitments of close to $1 billion) with Third World countries to assist Canadian exporters in these markets. Some of these were designated parallel lines of credit with the Export Development Corporation. Over the last three years (1981 to 1983) about $150 million in CIDA assistance has been provided in parallel with EDC lending. Most of these projects have been relatively small, but in 1984 financing was arranged for a large power project in India involving some $200 million in CIDA funds and $450 million in EDC funds, to be disbursed over the next four to five years.

(iv) Mixed Credits through EDC: In 1981, Canada adopted a mixed credit program, administered by EDC. Under this program concessional loans (provided under EDC's Section 31 Canada Account) were combined with regular commercial EDC export credits.. The soft loan portions of these mixed credit financing packages have not been reported as official development assistance, even though many other OECD countries do so.

The main intent of the mixed credit program was to help otherwise competitive Canadian exporters obtain financing that at least matched foreign concessional offers. In 1983, the operating guidelines were revised to make the facility more flexible and easier for the business community to use. Since then there has been an increase in mixed credit offers by EDC, partly as a result of the changes in EDC's program but also as result of greater mixed credit competition.

Options

The use of concessional financing in support of Canadian exports to Third World markets sometimes entails very difficult trade-offs between developmental and commercial objectives. While these interests will often coincide, there are significant differences in the criteria for the selection of recipient countries, sectors and individual projects which would make it difficult to realize fully both objectives.

The allocation of a much larger portion of aid resources to support exports of goods and services on concessional terms would likely involve a departure from CIDA's current mandate. This mandate requires that resources be programmed well in advance to fit in with the long-term development plans of developing countries and calls for ODA funds to be concentrated in low-income countries and focused on key sectors such as agriculture and human resource development. Commercial objectives would require that assessments of the development impact of a project be made

quickly, and increasingly projects may be sought in higher income developing countries. This could affect the achievement of Canada's international development objectives.

In addition, it should be borne in mind that it would not serve Canada's longer-term commercial interests to become associated with too many projects that are ultimately viewed as being of limited value by the recipient countries. We also need to ensure that whatever program we set in place is not used to subsidize otherwise uncompetitive Canadian production, which ultimately could damage Canada's commercial reputation abroad.

These concerns must be set against the fact that Canadian exporters seeking to win contracts in developing countries face competitors who are often subsidized in a variety of ways, often from their aid programs. This concessional financing frequently is justified as comprising an integral part of the competing country's aid program, but the end result is still equivalent to an export subsidy as far as the Canadian exporter is concerned.

Against this background, three options might be considered, if it were concluded that some additional funds should be made available for concessional financing of Canadian exports to Third World markets.

(i) Continuation of the current CIDA bilateral program with increased emphasis on parallel financing with EDC

Under this approach, CIDA would be asked, within its current mandate, to place increased emphasis on parallel financing. Additional resources would need to be found for this purpose, principally from within the bilateral program. CIDA would be required to further its co-operation with EDC to help Canadian exporters participate where concessional financing was a factor. While CIDA would take these commercial factors into account more explicitly in deciding on its participation, it would continue to give the greater weight to developmental factors including sector priority and recipient country income levels. In particular, funds designated for parallel financing would be programmed well in advance by sector and by country and would not be used for "matching" purposes.

As a complement to the parallel financing activities of CIDA, the adequacy and effectiveness of the resources available for CIDA's Industrial Co-operation (INC) Program could be reviewed. Funds made available under this program are disbursed rapidly and could be targeted more towards development projects which open up export opportunities for Canadian firms. Over the last few years, however, CIDA has

devoted an increasing volume of resources to the INC program (more than $23 million in 1983-84) and the scope for further large increases may be limited.

(ii) Establishment of a new aid/trade mechanism

Under this approach, a certain volume of funds would be set aside from the aid program over a period of years to support development projects of interest to Canadian firms in developing countries. Unlike parallel financing, the aid/trade funds would not necessarily be programmed, could be committed quickly, and would not be restricted by the geographic, sector and income priorities that currently constrain CIDA's bilateral program. Projects would have to meet certain development criteria but in order for an aid/trade mechanism to be effective, assessments of these criteria would undoubtedly have to be made quickly.

An aid/trade mechanism could be used not just for matching other countries' concessional financing but also as a source of funds for projects developed from scratch by Canadian exporters. In addition, unlike the existing mixed credit program in EDC, the concessional funds involved could be counted against our ODA commitments.

Nonetheless, an aid-trade mechanism could create some problems. There would be a finite amount of funds available for such a program but its very existence could create unrealistic expectations about the degree of assistance that could be provided to Canadian exporters. Any screening mechanism that was put in place to assess the merits of demands for financing would have to ensure that the program was not being used to subsidize otherwise uncompetitive Canadian production. In addition, the relative lack of programming of aid-trade funds would likely make it difficult for the government consistently to meet international commitments with respect to both aid volumes and the geographic allocation of Canadian aid. Due to the lumpy nature of large capital projects, depending on when and where Canadian exporters were successful, these aid commitments could be exceeded in one year but missed in another. Furthermore, there is no assurance, particularly given the risk of matching offers of finance from other countries, that an aid-trade mechanism would result in an increase in Canadian exports to developing country markets.

(iii) Greater use of the mixed credit program administered by EDC

A third approach would be to transform EDC's mixed credit program from a matching facility to one which would actively seek out new business. Current project selection criteria could be somewhat relaxed, approval procedures

speeded up, and additional resources made available. To be consistent with our international obligations, it would be necessary to ensure that any concessional funding which went beyond "matching" could be justified on international development grounds. This would likely require the establishment, through an amendment of the Export Development Act, of a special "international development" facility within EDC similar to the CIDA-based aid/trade mechanism in option (ii). This, in turn, would ensure that developmental factors were taken into account in project selection. Given the developmental orientation of such a facility, it would be natural at a time of government expenditure restraint to report, as part of Canada's overall ODA, whatever concessional expenditures were made under the facility.

While a more aggressive approach on the part of EDC with respect to mixed credit financing might be welcomed by the business community, it would be necessary to exercise some caution to ensure that only efficient and competitive Canadian producers were assisted. Convincing development criteria would also be required to be able to justify the concessional expenditures as ODA. Because of the potentially high cost of such a program, it would probably be necessary to fix commitment and disbursement limits. Further, to the extent EDC's activities in this area were counted as ODA, the proportion of our total aid budget spent through CIDA might be reduced. At the same time, the uncertainties and long gestation periods common in large capital projects could result in significant year-to-year variations in disbursements under an EDC international development facility, thus complicating the achievement of any straight-line ODA growth targets.

This option, like the others, entails difficult trade-offs between developmental and commercial objectives and between budgetary and competitive factors. If looked at only in commercial terms, it is clear that some balance must be struck between the need to ensure Canadian exporters are not disadvantaged in the face of subsidized competition, and the need to reduce ultimately the level of subsidization taking place and install effective international disciplines in this area. From an international development standpoint, Canada must take into account other donors' practices and our own economic needs and strengths, while not losing sight of our traditional ideals.

E) CANADIAN WHEAT BOARD (CWB)

The Challenge

To ensure the continued availability of competitive financing for Canadian Wheat Board exports while avoiding undue risks.

Background

The export of grains has traditionally played a major role in Canada's overall export performance. Canada has been selling grain on credit, with government guarantees of repayment, since the 1952/53 crop year. The portion of export sales on credit has varied from year to year. About 12 per cent of total sales last year were on credit terms, most on the maximum repayment terms of three years.

The government program in this area, the Credit Grain Sales Program, operates to ensure that the CWB has the flexibility to provide credit when necessary to maintain a traditional market or gain long-term access to a new market. Following discussions with the CWB on market prospects the government annually authorizes the CWB to extend credit if necessary to a list of countries to specified ceilings. Between annual reviews new countries may be added to the list or changes may be made to the authorized ceilings relatively quickly. In many cases, it has not been necessary to utilize, either wholly or in part, the authorized ceilings, either because credit is not necessary or prospects do not materialize. Nevertheless, the potential to offer credit when and where necessary is of considerable value in maintaining the competitiveness of Canadian grain in export markets. For grains not marketed by the CWB, financing can be arranged under EDC's Corporate Account Section 24 insurance or, for medium-term credit, under EDC's Canada Account Section 27 insurance facility.

Credit grain sales by the Board involve the assumption by the government of significant contingent liabilities, which now total about $3.0 billion. When the CWB makes a sale on credit it borrows from the banks an amount equivalent to the credit sale which it uses to pay the farmer for the exported grain. These loans are repaid to the banks as the CWB receives payments from its overseas customers. The Minister of Finance, on behalf of the government, provides a 100 per cent guarantee of the bank loans. No fee is charged for the government guarantee.

The international financial environment over the last several years has been very difficult. This has generally led to increased demand for credit on grain sales and at the same time resulted in increased risks of non-payment or payment delays. Most of the CWB's credit exposure is in countries which are experiencing financial difficulties and which have recently or will soon have rescheduled their external debt. Over three quarters of the Board's 1984 credit receivables have been affected by reschedulings. As a result, credit extended originally for three years is now being repaid over a much longer period.

Where Board customers are not able to repay on time, the Board has been able to increase the size of its guaranteed lines of credit from the banks to cover the arrears and there has been no call on the government guarantee. The contingent liability assumed by the government under its guarantee therefore increases by the amounts of additional interest charged, until the customer is again able to make repayments.

The CWB program does not involve any interest subsidies on export credit sales. Financing subsidies have not been used on Canadian wheat sales since the early 1970s when sales were made to three countries on terms of from five to 10 years to meet U.S. competition in potential commercial markets. These sales were insured through EDC on Canada Account and an interest rate subsidy was paid by the government. Sales were subsequently made to those markets by the CWB without subsidized rates on a cash basis or normal CWB credit terms of up to three years.

The CWB program is comparable in terms to the main credit program of our major competitor, the U.S., which is the world leader and price setter in the grain export market. The U.S. Commodity Credit Corporation, under its GSM-102 program, provides guarantees on credits on terms of up to three years, for which the exporter is required to pay a fee. The guarantee covers 98 per cent of principal and up to 8 per cent interest.

The U.S. also has a number of other programs. Its GSM-5 direct financing facility makes possible a "Blended Credit" program, for which there is no Canadian counterpart. Under this program a limited amount of interest-free GSM-5 credit is blended with credit guaranteed under the GSM-102 program so that a lower interest rate may be offered by U.S. exporters. This program was established to counter European Common Agricultural Policy export price subsidies on grains. It has nevertheless given cause for concern and has created disruptions in some markets, particularly those where grains are now paid for in cash. The U.S. Intermediate Agricultural Credit Program is designed to provide credit of over three and up to 10 years. This program is not operating at present. The U.S. PL480 program provides credit on a concessional basis with up to a 40-year repayment period and interest rates as low as 2 per cent. It is similar to, but broader than, Canada's food aid program.

Options for Change

(i) Measures to improve the export financing capability of the Canadian Wheat Board

The current Credit Grain Sales Program enables the CWB to offer competitive financing for the export of wheat and barley and serves the Western farmers well in this respect. The process of government approval and guarantee of credit limits operates expeditiously, and credit facilities now authorized are reasonably adequate. Possible changes to the Board's authorized country credit ceilings are now being reviewed in consultation with the Board and in light of present market prospects.

(ii) Measures to improve the financial management of the Credit Grain Sales Program

Although the program is operating efficiently in supporting the export of Canadian grain on credit, there is a need to consider changes to improve the financial management of the risks assumed on export credit sales and thereby safeguard the program's financial integrity. The government's $3 billion contingent liability under this program is sizeable and could give rise to significant cash draws if there were defaults by overseas customers. With respect to new business, changes which could be considered include placing additional emphasis on a number of factors which the Board currently takes into account. This could involve more careful analysis of the creditworthiness of potential customers, increasing down-payments and shortening repayment terms. Consideration might also be given to building up a reserve against losses.

Other changes could be looked at, including developing a policy on when the government should pay the banks when the Board's credit customers are unable to repay credit on time. The question of whether to charge a fee for the government's guarantee also might be examined. Such changes would enable the government to manage its financial risk more effectively. Moreover, such technical changes to the program would align it more closely with facilities offered by the private sector as well as by the Export Development Corporation and the United States' CCC GSM-102 program, which contain both these features.

A key consideration in implementing any changes would be the need to ensure they did not affect the competitiveness of Canadian grain exports.

F) THE CANADIAN COMMERCIAL CORPORATION (CCC)

The Challenge

Would a reduction in the mandate of the CCC have a positive impact on private sector initiative, by providing scope and encouragement to groups such as private trading companies?

Background

The CCC is a wholly-owned Crown corporation established by Parliament in 1946 to "assist in the development of trade between Canada and other nations".

Its main function is to participate in export transactions where its involvement is required or seen as advantageous by Canadian suppliers and foreign buyers. It does this through back-to-back contracts with the foreign purchaser and the Canadian supplier -- or suppliers, in cases where CCC acts as a "packager". These activities involve procurement of defence goods -- with the U.S. under the Canada/U.S. Defence Production Sharing Arrangement, and with other countries either under a specific agreement or on a case-by-case basis -- as well as commercial sales to the U.S. and other countries. In these areas, CCC generally guarantees the performance of and payment to the Canadian supplier. Within its mandate, CCC has been directed by the government to avoid competing with the private sector or interfering with established export marketing and distribution efforts of Canadian firms and trade groups. Therefore, its role is responsive.

CCC contracted for $629 million of sales in 1983-84. Most sales ($529 million or 80 per cent) were to the U.S. and were mainly defence products sold under the Canada/U.S. Defence Production Sharing Arrangement under which a Canadian government agent is required to sign contracts. (About $45 million of sales to the U.S. were of commercial products.) Other sales, mainly commercial rather than military, were also made to Europe (8 per cent), Africa (6 per cent), Pacific and Asia, and Latin America and the Caribbean (2 per cent each).

In addition to the activities described above, CCC has, since 1976, been authorized to act as prime contractor in capital projects. It has had little success in this area.

CCC also helps Canadian firms pursue procurement funded by United Nations agencies and multilateral development banks, such as the World Bank. It has been particularly successful in the case of U.N. agencies, where it has signed

a substantial number of contracts. In this regard, it has helped to disseminate information to the private sector on other opportunities in those areas.

CCC deals with a wide variety of goods and services and its Canadian clients are drawn from all regions of the country. About half of the companies which CCC contracted during 1983-84 were small firms with fewer than 100 employees or less than $5 million in sales. Over three-quarters of the contracts signed by CCC were valued at less than $100,000.

CCC answers to Parliament through the Secretary of State for External Affairs and the Minister for International Trade. It is financed by annual parliamentary appropriations ($17.2 million was drawn in 1983-84) to cover administrative and operating costs. Since 1946, the government has contributed a total of $20 million of equity. The cost of CCC's operations have continued to decline and now average less than 3 per cent of the value of sales in 1983-84.

The corporation consists of two entities, a headquarters group (24 Crown corporation employees) in Ottawa, and the Export Supply Branch (ESB) of the Department of Supply and Services in Hull (98 public servants). The headquarters group is responsible for corporate matters including corporate policy, financial, information, legal and publicity questions as well as for policy direction to ESB and capital projects. ESB is responsible for managing CCC's procurement business.

Options for Discussion

(i) Reduction of CCC's mandate to its basic required role under the Canada/U.S. Defence Production Sharing Arrangement, and beyond that to responding to demands for government-to-government contracting only where required by foreign governments

Clearly a government contracting agency is required in the case of Canada's Defence Production Sharing Arrangement with the U.S. There are other cases, such as some defence sales outside the U.S. and some commercial sales, where a Canadian government agent is required. Under this option CCC would be limited to those areas and would not be involved in some defence and commercial sales with which it is now involved. Also, it would no longer be involved in its United Nations and multilateral development bank role, or in capital projects. It is for consideration whether private companies could perform some of these functions alone or in some new relationship with CCC.

Current relations between CCC and private trading houses might provide a basis for building a different relationship between them. Indeed, CCC is now seeking to identify more opportunities for sourcing and providing business opportunities to trading houses. It has in the past contracted with them for specialized requirements. It may be possible to build upon and improve this relationship substantially in the context of a strengthened trading house sector as well as the improved incentive environment which the government is now aiming to create. Further work on co-operative efforts might have potential, with CCC and trading houses working more closely, even in areas where a government-to-government deal is required. In those cases, it may be possible to make greater use of procedures currently available to provide government support without government involvement, whereby CCC provides a less direct "seal of approval" on the transaction. Further means to accomplish this should be considered.

A government task force is currently examining Canada's trading house sector. Its report is scheduled to be made public shortly. It is already apparent, however, that trading houses are substantial contributors to exports, particularly exports outside the U.S. The majority of these houses are small, highly specialized and particularly well suited to assisting small and medium-sized exporters.

The report of the task force should be very helpful in answering the question of how much potential there may be for private sector trading houses to expand their activities in this area.

CCC's capital projects activity has not had the success originally anticipated. This may be due to a number of factors, including the effects of the recession in sharply curtailing capital projects worldwide. It may also be due to a lack of a substantial market or a need for government-to-government arrangements in this area. There is a question whether or not the government should become involved with the sometimes large contingent liabilities which arise from such projects.

Another question for consideration is what CCC activities could be taken on by other government departments or agencies. For example, could EDC or the private sector offer some form of contract completion guarantee to permit Canadian companies to negotiate contracts with foreign governments without the assistance of the CCC? Could External Affairs improve its ability to inform the private sector of potential contracts with international financial institutions and assist it in the bid process?

(ii) Putting CCC on a cost recovery basis

Whether or not changes are made to CCC's mandate, the question of cost recovery for its services from the companies which it assists should be considered. CCC has in the past considered seeking cost recovery, but it has not been directed to do so.

CCC provides most of its services and assistance to its clients free of charge. These services are not duplicated in the public sector. However, it is possible that some could be made available by private agencies for a fee. On the other hand, the availability of free services and assistance from CCC has been helpful to the small companies with which it deals in helping them to enter the export market and enabling them to keep their costs down. If cost recovery were considered desirable, a fee structure could be established based on fees for similar services provided elsewhere or alternatively to cover its administrative costs.

(iii) Reorganizing the structure of CCC

Questions have also been raised about the most appropriate form of organization for CCC under its current or an altered mandate. The present arrangement, with its staff under two separate organizations, may well give rise to some inefficiencies. There may also be questions of accountability of staff to headquarters. Cost savings and a more effective delivery of services might be accomplished with a reorganization under the present mandate. If a changed mandate emerges, a different organization may be appropriate and might serve to underline and reinforce any changed mandate.

G) OTHER COMMODITY PROGRAMS

The Challenge

To ensure that competitive export financing is available which takes account of the specialized needs of particular commodities.

Background

While grains dominate Canada's agricultural exports, other farm and fish exports are of great importance. Sales abroad of most of our agricultural products are normally on a cash or short-term credit basis, as is the practice for these commodities in world markets. When Canadian exporters encounter medium-term credit competition, the government is able to ensure that matching

finance is available through EDC's Canada Account insurance. Such competition generally arises from the activities of the U.S. Commodity Credit Corporation GSM-102 program or its Blended Credit Program. These respectively provide for guarantees on credits up to three years or for a blending of interest-free financing with commercial financing to achieve a reduced interest rate.

Government marketing and credit extension for a number of specialized commodities such as dairy products and fish is provided through three specialized agencies: the Canadian Dairy Commission, the Canadian Saltfish Corporation and the Freshwater Fish Marketing Corporation. The primary objective of these agencies is to respond to particular problems posed by domestic marketing of products for which they are responsible. The question of their role in external marketing has to be subordinated to that of their basic domestic mandate.

Canagrex was established as a corporation to provide financing and guarantees exclusively for agricultural commodities. However, after a careful review of its activities and mandate, the government decided that it duplicated facilities already available through EDC and the private sector. Consequently, Canagrex is being wound down.

Options for Discussion

(i) New specialized agencies

The agencies which currently exist are operating to provide necessary financing for commodity exports. However, some concerns have been raised regarding the need for special financing facilities for products not covered by the Credit Grain Sales Program. At present EDC's normal financing facilities are available for transactions on commercial terms. Where it is necessary to match extended terms being offered by our competitors, EDC Canada Account insurance is available and its adequacy is now being reviewed.

With improvements these agencies should be adequate to meet requirements for commodities financing, all the more so as actual demands for this type of financing would not be such as to justify the creation of any specialized facility.

(ii) Improved international disciplines

Continuing to match foreign credit terms does not appear to be the most durable and financially attractive method of dealing with an area where cash sales and short-term credit are the normal commercial way of doing business.

An alternative is to seek ways in which an international agreement can be achieved to limit the use of official credits for commodities. This is now being pursued in international bodies, particularly the OECD.

H) PROVINCIAL GOVERNMENT PROGRAMS

The Challenge

To ensure that federal and provincial government export financing programs act in a mutually reinforcing manner so that Canada's overall resources in this area are most efficiently employed.

Background

Over the past few years the provincial governments, especially Quebec, Ontario and Alberta, and provincial hydro companies have taken a much more active role in developing and supporting exports. This role has been limited for the most part to market identification and promotion, consulting services and feasibility studies. A number of provinces have established offices abroad in major markets for these purposes.

Some provinces, again notably Alberta, Ontario and Quebec, have established export financing guarantee and performance guarantee programs. These programs have the potential to duplicate those offered by federal government programs.

Option for Consideration

Enhanced Federal/Provincial Co-operation: Both levels of government have an interest in ensuring that limited funds available for export support are used effectively. More frequent and enhanced consultation between federal and provincial governments could be useful in avoiding overlap or competition between the various agencies involved.