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