support the Canadian export effort, participate in EDC's program. This is particularly alarming since, because of their thin capital base, they badly need EDC's support to expand their export activities.

During the meetings conducted by the Task Force, many small and medium-sized trading houses expressed deep concerns about the inadequacies of EDC's services and complexity and length of its approval procedures. The Canadian Export Association trading house survey confirms that small and medium-sized companies do not use EDC's services. Key problem areas were identified as bid/performance guarantees, credit insurance, working capital, pre-shipment and post-shipment financing. Small-value sales financing was also mentioned.

The remainder of this chapter focuses on the pre-shipment and post-shipment issues where considerable improvements could be made primarily for those trading houses of small and medium-size.

Pre-Shipment

Trading houses experience difficulty in borrowing during the pre-shipment period when the size of the loan required is large in relation to paid-in capital. Efforts are made to secure debt based upon the value of the goods. Resale value of specialty goods, perishables and fluctuating prices, as well as lenders' lack of familiarity with the market for goods, mean these efforts are often unsuccessful. Experience and reputation also play important roles.

EDC offers whole turnover (coverage of all sales with some exceptions) insurance protection on a shipment basis and contract basis. With contract coverage, EDC will insure the pre-shipment period of fully contracted sales to the extent of 90 per cent of the sale price. This coverage is assignable to a bank. EDC has not made active use of this facility for trading houses, primarily because performance by trading houses is judged uncertain. Banks are not fully satisfied with the assignment because the coverage is subject to many conditions — it is not a guarantee.

EDC does not issue guarantees for short-term transactions nor guarantees for medium-term transactions where trading houses are the exporters of record. Medium term guarantees are, however, available to manufacturers. Also, insurance coverage involves a sometimes costly waiting period and claim processing period in the event of non-payment, contract cancellation, etc. . . .

Post-Shipment

The bank's willingness to lend during the post-shipment period is dependent upon the credit worthiness of the buyer and the availability of foreign currency in the buyer's country. Loans can be made to the trading house on the security of the foreign receivable evidenced by a trade acceptance at face value. The exporter is subject to recourse in the event of commercial disputes. For small trading houses, buyers acceptance of the goods is therefore frequently a pre-condition.

EDC's shipment policy covers non-payment to the exporter and is assignable to the banks. While the banks give value to the policy, it is conditional and is not an unqualified guarantee. As above, short-term guarantees relating to a shipment policy are not available and medium-term guarantees covering the post-shipment period are not available for trading house transactions.

Processing Procedure

The procedures used by EDC for the insurance services and financing, in particular, are very time consuming and do not meet the requirements for the quick decisions necessary in the trading world.

In view of these factors, the Task Force recommends that:

Recommendation 19

The Export Development Corporation (EDC) provide short-term guarantees on a shipment as well as a contract basis covering 90 to 95 per cent of both commercial and political risks associated with the exports. The balance of 5 per cent to 10 per cent should be carried by the commercial bank, the trading house, or the manufacturer (or a combination of same) without EDC's concern.

Recommendation 20

The Export Development Corporation provide medium-term guarantees to banks regarding financing, on a non-recourse basis, for an amount equivalent to 85 per cent of exports to support trading house activities.

Recommendation 21

The Export Development Corporation provide guarantees to banks issuing bid and performance bonds to foreign buyers on behalf of trading houses when experience and reputation warrant it.

Recommendation 22

The Export Development Corporation, banks and the recommended trading house association co-operate in streamlining EDC procedures to facilitate routine handling and faster processing of trading house applications.

At the present time, EDC does not offer a short-term guarantee program for both the pre-shipment and post-shipment period to any suppliers. Such an innovation would be highly beneficial not only to the trading house community but to all Canadian exporters.

Underlying these recommendations is the need for EDC to develop a better understanding of the trading house sector. EDC and banks as well are generally still assessing trading houses on the same basis as manufacturers, namely, largely on the basis of equity. The "brick and mortar" criterion just does not apply to trading houses. In this context, the Task Force recommends that:

Recommendation 23

The export Development Corporation establish a focal point to develop expertise on small and medium-sized trading houses to enable the refining of their programs to meet the specific needs and peculiarities of these trading houses.

As it has been already stated in this report, there is a need for the trading house community to develop measures for accreditation. There is no doubt that such steps would facilitate the delivery of EDC's programs, and in the long run serve the interests of the trading house sector.

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)

In 1983-84 CIDA's official Development Assistance programs amounted to over $1.8 billion. Of particular importance to trading house activities is the bilateral program for which disbursements totaled approximately $750 million in 1983/84 as reported by CIDA to the Task Force (see Table V-3).