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) <u>PFI and EDC Competition</u>

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.