

plemented to remain internationally competitive, in this case by denominating EDC's loans in foreign currencies which offer lower interest rates. Such foreign currency loan facilities are utilized when borrowers have access to these currencies and are prepared to take on the related foreign exchange obligations.

Responding to exporter needs

...For some time, Canada has been striving to achieve reasonable equilibrium in export financing by negotiating for an international agreement which would reduce the use of large subsidy elements in competing countries' export financing programs. The basic objective is a commonly agreed return to export lending rates which are based more closely on market rates of interest. In the absence of any real progress in attaining such an agreement, EDC has, in order to maintain the competitiveness of its services, continued to hold its lending rates at levels much below its funding costs, and also has continued to utilize its traditional flexible approach in negotiating the other features of EDC financing.

In order to increase the attractiveness of EDC financing to foreign buyers interested in smaller scale purchases of Canadian capital goods and services, EDC has introduced the use of renewable lines of credit with foreign banks, as well as note purchase arrangements with Canadian ex-

porters. Both of these facilities minimize processing times and documentation requirements for the financing of smaller transactions and each has gained ready acceptance in the exporting community. The rate of growth implicit in the 1980 volume and transaction levels suggests continuing success for these EDC initiatives in the future.

Over the past several years, Canadian exporters have reported the loss of business and have foregone opportunities to tender on overseas projects as a result of competitors having the advantage of "credit mixte" financing support from their respective export credit granting agencies. Credit mixte differs from conventional export financing in that it mixes a portion of the financing at rates typically less than 4 per cent, together with the balance at conventional export financing rates, to produce a very low effective interest rate on the combined credit. Because of the prospect that promising Canadian business would continue to be lost as a result of such competing facilities, the government decided late in 1980 to provide, through EDC, a facility which would be available to match on a selective government-approved basis, demonstrated credit mixte financing competition.... It is worth noting that while some Canadian export business has been reported foregone as a result of credit mixte competition, EDC's studies have determined that outside of this specialized financing area a relatively small amount of business was lost to Canadian exporters in 1980 due to the lack of competitive financing arrangements....

In the interest of enhancing the effectiveness of EDC's relationship with the private sector financial community involved in the support of Canadian exports, the corporation has initiated a dialogue with the chartered banks which is designed to identify and pursue areas where our services and working relationships might be improved....

1980 performance

Canada's trade surplus of approximately \$8 billion in 1980 represented a doubling of the 1979 figure. This increase resulted largely from the effects of inflation, but it was still substantially higher than expected. In real terms, Canadian exports increased by some 2 per cent in 1980 after a small decline in 1979. This modest growth has to be reviewed in the context of a difficult international situation



Thomas Equipment Limited of New Brunswick received EDC assistance.

characterized by a severe slowdown in growth of both output and trade.

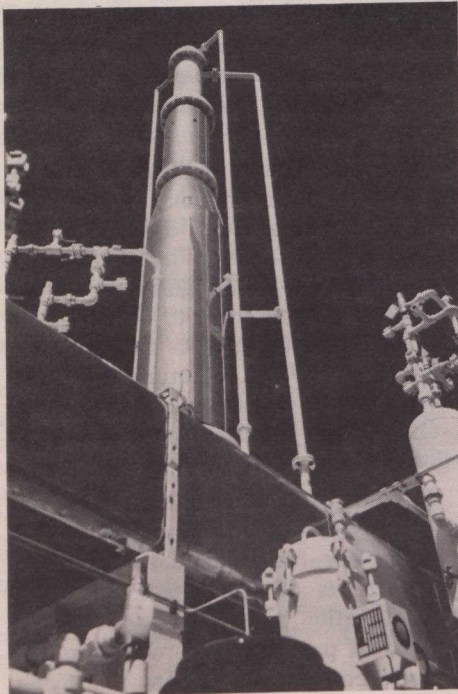
A number of significant factors have contributed to the success of Canada's exports. Manufactured goods exports benefited from a strong competitive position resulting from the valuation of the dollar. The full effect of this improved competitive position is now being felt. Capacity constraints eased significantly in 1980, and Canadian producers were able to boost their market shares. In addition, some sharp increases in commodity prices occurred in late 1979 and early 1980 so that the terms of trade improved somewhat in 1980.

At least some of the export growth experienced in 1980 can be traced to the considerable rise in the volume of sales evident in some of the principal sectors where EDC has had a traditional involvement. Offshore shipments of aircraft engines and parts, railway and urban transit rolling stock, and communications hardware and related equipment have expanded considerably over the past year. Indications are that despite strong competition, this pattern should continue to be witnessed in the next few years.

Prospects for 1981

The outlook for 1981 suggests a sluggish world market with the growth of GNP and trade rising by less than 1 per cent in real terms. This clearly will limit the growth of Canadian exports. However, as

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Propak Systems Limited of Alberta sought EDC's services.