

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.