ized that growth in exports had to become a higher national priority.

Problem grows

As the 1970s progressed, it was clear that governments of many industrialized countries had become committed to the provision of "internationally competitive" financing in upport of exports, in some cases with little, if any, regard or the costs which this imposed. Indeed, by 1980, according to an Organization for Economic Cooperation and Development report, OECD member countries as a group expended $5.5 billion in subsidizing official export credits. Besides the costs of subsidization, there was the further anomaly that levels of market interest rates in industrialized countries varied substantially, so that for considerable periods during the 1970s, at least three countries, West Germany, Switzerland and Japan, were able to provide export financing at relatively low interest rates without subsidies.

A series of attempts has been made to construct an internationally agreed framework for export credits. One of the first of these occurred in 1969 when there was an OECD agreement covering down payments, maximum length of credits, and interest rates applicable to exports of ships. At the IMF meeting of September, 1974, seven countries, including Canada, established, as a general principle, a minimum interest rate of 7.5 percent for officially supported export credits with a repayment term of over five years.

In the period between 1974 and 1976, there were intensive negotiations, not only on interest rates and length of terms, but also those related to down payments, the extent of coverage of local costs in the countries in which the capital goods concerned where to be used, *crédit-mixte,* cost escalation and exchange rate risk protection schemes, as well as special sectoral agreements (see Box). The complexity of these discussions was further complicated by internal dissension, within the EEC, as to whether or not the EEC Commission had the authority to negotiate on export credits on behalf of the member countries of the Community. An international consensus emerged in 1976 which was strengthened in 1978 and known as the Arrangement on Guidelines for Officially Supported Export Credits. The 1978 agreement was signed by all OECD countries, except Iceland and Turkey.

> *Crédit-mixte* is a system under which aid funds are blended with regular official export credits to produce a very concessionary overall rate of interest. The process is usually referred to by its French nomenclature, because France was the originator of this practice. Other countries including Canada have, however, adopted variations of this technique to keep them "competitive."
>
> "Cost escalation" insurance schemes have been adopted by some Western European countries. These are designed, in a period of differing inflation rates, to offset some of the risk which exporters assume in bidding firm prices for capital goods, the delivery period for which may be very lengthy.
>
> "Exchange rate risk protection" programs, have also been introduced by some capital goods exporting countries to reduce risks to exporters.

Again in 1980, the OECD group addressed this subject. The result of these negotiations was an agreement that for credits over five years, the minimum interest rates would range from 10 percent for exports to "relatively poor" countries, to 11.25 percent for "relatively rich" countries. For each category of countries, a maximum length of term was also prescribed. Japan, because of the low level of its market interest rates was allowed a minimum of 9.25 percent and there was established a system of prior notification. This provided that when any agreement country proposed to offer *crédit-mixte* support with a grant aid element of from 15 to 25 percent, other member countries which might be competing for the same project would have a choice to consider matching the *crédit-mixte* offering.

Latest agreement

Early in 1982, further negotiations were held in the OECD which resulted in midyear in a new arrangement. The main elements in this arrangement were:

1. Agreement that while the minimum interest rate for export credits to "poor" countries would remain at 10 percent, the rate for "intermediate" countries would be raised to 11.6 percent from 11 percent and for "rich countries," the minimum rate would be 12.4 percent, up from 11.25 percent, all of these in the category of loans with terms from five to eight and a half years.

   A qualification to this agreement on interest rates is that for the low interest rate currencies, principally Japan, the final blended interest rate, i.e. the average of commercial and official lending rates mixed together, should not be less than 0.3 percent above the current market rate in the country of origin of the funds. This had the further condition that Japan would provide reasonable access to its capital markets to other countries.

2. Agreement that a number of countries would be shifted among the three categories: Category I — relatively rich; Category II — intermediate, and Category III — relatively poor. The most important of these shifts is the move of the USSR, East Germany, Czechoslovakia, Spain and Israel from Category II to Category I, and the transfer of nearly a dozen newly-industrialized countries including Brazil, Algeria, Korea and Chile, from Category III to Category II.

3. Agreement among the participating countries that they would not offer export credits for terms longer than those included in the interest rate matrix, which for Category I and II countries is eight and a half years, and for Category III countries not longer than ten years.

4. Acceptance that no *crédit-mixte* financing be provided with a grant element of less than 20 percent. This increase, from 15 percent, makes the extension of *crédit-mixte* more expensive.

The elements of the arrangement noted above have been an important advance in efforts to reduce the trade distorting effects of officially supported financing in support of exports, with the principal benefit being the further increase of minimum interest rates. As well, if the current trend in commercial interest rates continues, this will be a further contribution towards the reduction of problems arising from export credits competition.

Canadian implications

In reviewing the impact of officially supported export