The chartered banks (as represented by the Royal Bank of Canada) have suggested in a proposal to the government that they would undertake the funding for export credits and would seek a direct interest subsidy to be delivered through them for the difference between the actual and the normal commercial returns. The costs to the government of such a scheme would be higher than under the present EDC system since PFI borrowing costs would be higher than EDC's costs, and PFIs require a profit for shareholders. However, if the government, or EDC as its agent, undertook to refinance the PFIs, it could reduce the subsidy costs related to the PFIs' higher borrowing costs.

Under this system the PFIs and EDC would compete on an equal footing (since the interest rates and term offered by both parties would be identical), provided that EDC's exposure fees on its direct lending were similar for comparable risks to the guarantee fees paid by PFIs where they served as the delivery mechanism.

Indeed, provided that financial costs to the customer and the likelihood of loan approval are the same under either source of financing, the banks might have an implicit advantage derived from their broad range of financial relations with exporters and their wide international network of branches, correspondents and agents. Banks could, in addition, continue to provide, at their own risk, cash payment financing and local cost financing, which could provide them with a competitive advantage over EDC in dealing with exporters.

Under this system, the banks could become a major conduit for official export financing, without limitations as to market share. The system would provide exporters with increased sources and services for export financing transactions which should ensure a greater responsiveness to their needs. Of course, the development of a smoothly functioning subsidy scheme for delivery through the PFIs would take some time. The approach discussed here would allow for a gradual increase in PFI involvement, without interrupting the provision to exporters of the full range of services currently available through EDC.

(iii) <u>Taking EDC Out of Export Financing</u>

Under this scheme, the PFIs would take over the delivery of all official export financing for capital projects. Of course, EDC would still need to stay in the picture for guarantee and insurance business, for making country risk assessments, ensuring Canadian content and industrial benefits objectives were met, and administering the subsidy mechanism for financing through the PFIs.