

II ISSUES FOR DISCUSSION

A) EXPORT DEVELOPMENT CORPORATION

The Challenge

Improving the responsiveness of EDC.

Background

The Export Development Corporation is a Crown corporation established in 1969 to provide insurance and guarantees for private sector exporters and financial institutions and direct financing to buyers of Canadian exports. Currently, loans outstanding amount to more than \$7 billion and insurance and guarantees to more than \$2.5 billion. The bulk of EDC support is provided through insurance programs under Section 24 (Corporate Account) of the Export Development Act, for which the annual volume exceeded \$3 billion in 1983. These include global insurance policies for exporters under which the exporter insures its exports with EDC to a broad range of markets. There are specific transaction policies, under which an exporter insures a single transaction for medium term credits. In addition, EDC provides bank and surety guarantees as well as foreign investment insurance.

Under Section 29 (Corporate Account) of the Export Development Act, EDC provides direct loans to foreign buyers of Canadian exports. Currently, Section 29 loans outstanding amount to nearly \$6 billion. EDC also provides under Section 29 a variety of confirmed and unconfirmed lines of credit and financing protocols. Under Section 33 of its Act EDC is able to refinance exporters. Recent changes in the Act give EDC the power to finance leasing arrangements for goods to be used outside Canada.

For its Corporate Account activities under Sections 24 and 29, EDC's mandate is to provide insurance, guarantees and financing on essentially a commercial basis. Its insurance and guarantee activities are conducted on a full cost-recovery basis. Its premiums and guarantee fees are on a level consistent with those charged under similar programs in other countries. Exporters are required to bear 10 per cent of the risk.

Because of international competition, EDC's lending program must be able to deliver financing at rates as low as OECD Consensus minimum interest rates. These rates entail interest rate subsidies of as much as 2 per cent. Exporters are required to pay exposure fees as a counterpart for the risks of repayment. These fees are equivalent to those charged by similar agencies in other