

BACKGROUND

Concessional financing is intended to provide an incentive to buyer countries to purchase exports from the offering country. In practice, concessional financing is applied in two types of situations. The first application involves providing support to export transactions that were being negotiated originally at commercial or "consensus" credit terms, but where one or more bidders offered the buyer concessional terms as an incentive. In this situation, the Canada Account is used to "match" the foreign credit competition with concessional financing. This first application is used to neutralize export credit competition in a market where concessional financing is not a prerequisite to a sale. The second application, to which the first application often contributes, involves providing concessional financing support for sales to a market where it is known ahead of time that the borrower will demand such financing. These markets are termed "spoiled" markets.

Concessional financing, which by OECD Consensus agreement includes a minimum 35% grant element, is extremely costly to maintain over time. Canada's program has endeavoured through the application of significant resources, to keep pace with competitors's efforts. Indeed, some Cdn. \$588.7 million in concessional funds had been committed as at March 31, 1990. (Source: "Report On the Accounts Administered For the Government of Canada By the Export Development Corporation Covering Fiscal Years 1988-89 and 1989-90" - Report attached at Annex A) and funding remains in place over the next five year period to 1996 and beyond.

However, in the current climate of economic constraint it has been decided to freeze concessional funding levels for the next five years. As available funds are for all intents and purposes fully committed, the effect of the full utilization and the freeze has been to curtail the ability of Canadian exporters to compete in the market situation described above. Moreover, Consensus discussions on achieving a greater degree of discipline in the application of concessional financing have met with little success; indeed, spoiling has increased, thereby compounding the difficulties faced by Canadian exporters in many developing country markets.