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## **EXPORT DEVELOPMENT CANADA LEGISLATIVE REVIEW 2008**

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### **SUBMISSION BY THE CANADIAN CHAMBER OF COMMERCE**

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The Canadian Chamber of Commerce would like to thank the Government of Canada, Export Development Canada (EDC) and International Financial Consulting Ltd. for the opportunity to provide its input into EDC's Legislative Review. The Canadian Chamber believes it is prudent to periodically examine the operations of government programs and institutions to ensure that they are continuing to fulfill their public policy objective.

The members of the Canadian Chamber of Commerce tend to be satisfied with the products and services offered by EDC, as they recognize that EDC provides an essential and useful service. They are comfortable using EDC for their trade finance and risk management needs, as they feel EDC has a strong record of paying claims and has shown itself over the years to be a reliable partner. Further, EDC has established itself as a leader in corporate social responsibility, working alongside other Canadian companies that are leaders in this area, as well as building the capacity of other Canadian companies to address these issues.

The Canadian Chamber's comments correspond to the four themes of this legislative review, as set out in the background documents.

#### **The Changing Global and Competitive Environment**

As discussed extensively in EDC's public submission for this review, the global economy and trading environment has changed dramatically in the past ten years. New players continue to emerge and assert their presence in the global marketplace. It truly is a new and changing global commercial environment – one that Canadian companies must understand and contend with, whether or not they intend to export.

In today's global economic environment, you lead or you lose. Changes in technology and the explosion in emerging markets, like India and China, mean that competition will only get fiercer and complacency will spell disaster. That is why Canadian companies need to engage with the global marketplace and embrace the opportunities that this new commercial environment offers.

One change is well documented in EDC's integrative trade model. Global supply chains are changing the nature of trade in that companies are no longer simply producing products domestically to export internationally. Often, production is dispersed around the globe to the location where it is best suited. Numerous components need to be imported to fabricate the product that is ultimately exported (whether merely further processed or the final product).

At the same time and as a result, the profile of Canada's exports is changing. As in the past, the United States remains Canada's largest trading partner – geography cannot be changed. But Canadian companies are importing from, exporting to and investing in other markets to a

greater extent than in the past. For Canadian companies to successfully join or create global supply chains, this diversification of trade will by necessity continue.

EDC has recognized this development and has worked within its mandate, as best it can, to support these activities by Canadian companies. However, a few changes to EDC's mandate would provide greater benefits and support to Canadian business.

The posting of EDC personnel in offices abroad is very useful; it should be continued and expanded. Indeed, these personnel should be located wherever they are likely to be most helpful to Canadian companies and not restricted to Canadian diplomatic premises. In addition, the current Canadian Benefits policy needs to be more broadly interpreted. EDC should be empowered to provide services for supply chain and multinational functions. The benefits to Canada from a transaction in terms of national interest, rather than merely national content, need to be emphasized. This would be in line with the practice at many other export credit agencies. In this way, EDC should be allowed, for example, to finance imports (as a means of facilitating further exports and integration into global supply chains) and to support transactions by foreign affiliates of Canadian parents, even if Canada is not directly involved in the transaction. EDC should mostly look to fill market gaps or to provide guarantees in this area.

EDC's products and services, such as political risk insurance, are very helpful for this new commercial environment. Offering insurance and/or guarantees for certain other forms of risk involved in international transactions would also be useful.

### **Canadian Business Needs: Ensuring EDC's Ability to Meet Them**

The Canadian Chamber recognizes that there is a vital need for EDC, particularly for smaller companies. Our members believe that EDC provides a valuable service to Canadian exporters.

Our members tell us that they are very pleased with what they receive from EDC. Indeed, EDC's surveying of its customers shows that well over 80% of both large and SME customers are happy with EDC. This level of customer satisfaction has risen in recent years. Since EDC surveys its customers on an annual basis, it is not surprising that EDC should be attentive to their concerns and be able to provide a high level of customer service.

That being said, a few changes could make EDC even more responsive to Canadian business needs. EDC could look to improve upon its customer service and its product offerings by conducting exit surveys of former customers to understand why these companies have chosen not to continue using EDC. The corporation needs to ensure that it continues to properly support both large and SME customers. The current focus on SMEs, which is critically important and should continue, should not come at the expense of larger Canadian companies.

A frequent frustration cited by Canadian companies is the relative expense of EDC's products and services. In EDC's submission, the corporation indicated they continue to expect that half of their current customers could not obtain coverage through the private sector. The submission also indicates that EDC's pricing is typically 20-30% higher than that of the private sector. Indeed, many members that were able to obtain similar products and services through the private sector indicated that they had stopped using EDC due to its relative expense. In light of EDC's public policy mandate and the likely inability of many of its customers to obtain coverage elsewhere, we believe that EDC should review its cost structures to ensure the appropriate balance between cost and ability to provide coverage. While we do not feel EDC should cease to operate on a commercial basis or price their products in a manner that undercuts private

lenders, the Canadian Chamber believes that Canadian companies, often having no option other than to obtain coverage through EDC, should not be penalized for this. We stress, though, that these services should still be offered on a commercial basis and that EDC should not be providing a subsidy to Canadian companies. The Canadian Chamber is concerned that the premium for EDC coverage can make such coverage out of reach for some Canadian companies, thus exposing them to greater risk or hurting Canada by keeping these companies from growing and operating internationally.

A related concern is EDC's appetite for risk. Throughout EDC's submission, it was stressed that EDC has a greater appetite for risk than the private sector. While this may be accurate, it would appear that EDC may have the financial strength for greater risk tolerance. Although recent years have been banner years, the high net income accrued by EDC (\$1.24 billion in 2004, \$1.29 billion in 2005 and \$1.22 billion in 2006, although net income dropped to \$473 million in 2007) suggests that the corporation could handle a greater amount of risk relatively comfortably. An inability to obtain financing, particularly for SMEs, can make it difficult for Canadian companies to integrate into the global economy. EDC should strive to help fill this gap.

This high level of profit has enabled EDC to pay \$720 million in dividends to the Canadian government since 1993, including \$250 million in 2008. The Canadian Chamber believes there is a need for additional export market development support programs, particularly for SMEs. Most countries offer programs similar to Canada's former Program for Export Market Development – Industry (PEMD). For example, Italy has established a €300 million "Go India" program. However, similar programs for Canadian SMEs are no longer in place. The same House of Commons Standing Committee on International Trade report that recommended amending EDC's legislation to allow the corporation to finance imports also recommended allocating funds to a revamped PEMD. The Canadian Chamber believes that, rather than simply return EDC's dividends to the federal government's general revenues, these funds should be directed toward a new PEMD-like program for international business development. To provide certainty for Canadian business, annual program funds should be established in conjunction with the federal government; the federal government should ensure that any shortfall in revenue by EDC does not leave Canadian businesses without a source of funding. Due to EDC's strong focus on and interaction with SMEs, administration of the program could be done by EDC, possibly in conjunction with the Business Development Bank of Canada and the Canadian Commercial Corporation.

In general, the programs and services offered by the Government of Canada to assist Canadian businesses looking to expand abroad need to be better marketed to Canadian SMEs. The users usually give these programs and services high marks, but companies will not avail themselves of services, no matter how useful, of which they are not aware. There are opportunities for EDC to work with the Trade Commissioner Service, both to market their respective services and to provide export- and investment-preparation training so that Canadian companies are better prepared when they venture abroad. There may also be a role here for the Forum for International Trade Training (FITT) to provide specialized training and curriculum.

### **Canadian Private-Sector Financial Capacity for Trade and Risk Management: Is There a Role for EDC to Play to Increase this Capacity?**

As indicated previously, the Canadian Chamber recognizes that there is a need for EDC in the Canadian marketplace. Without an entity like EDC, it is likely that many SMEs would not be able to obtain the necessary financing and insurance products.

At the same time, the private sector is playing a larger role in both the trade finance and in the credit insurance markets. Indeed, in 2007, the private sector represented the majority of the Canadian market share in the short-term credit insurance market (expressed as a percentage of premium revenues). While it appears likely that the private sector market share will continue to grow, there are gaps in the private sector coverage and EDC tends to fill these gaps.

The private sector sees EDC as both a partner and a competitor. As highlighted by EDC in its submission, the corporation partners with the private sector, private insurers and others. These partnerships have helped to increase the Canadian market, creating new lines of business for Canadian banks and increasing their role in certain product markets.

As a result of the collaboration between EDC and the Canadian private sector, the private sector does not generally find that EDC's presence crowds them out of particular markets or product lines. However, as indicated above, there is some competition between EDC and the private sector, particularly in the short-term credit insurance market. It does not appear at present that there are any particular business lines where EDC's involvement should be eliminated due to the capacity of private sector financial institutions. Where, in future, there is evidence that EDC's presence is impeding the private sector from entering or fully participating in a particular business line, EDC's role in that business line should be primarily reduced to complementing the private sector by filling market gaps in private coverage (to ensure smaller companies are still able to receive coverage) and to increasing lending capabilities by sharing risk (for example, through guarantees). In any event, EDC's current role in expanding and supporting private sector capacity should be continued.

### **EDC's Place Within Government**

As a Crown corporation with a mandate to provide benefits to Canada through increasing Canada's share of global trade and investment, EDC plays a central role within the Government of Canada's overall trade strategy and portfolio. It is important that EDC continue to work closely with Foreign Affairs and International Trade Canada to advance the federal government's Global Commerce Strategy. It is also important that EDC work closely with the government agencies, Crown corporations and other organizations that make up the Government of Canada's trade portfolio. This includes the Business Development Bank of Canada and the Canadian Commercial Corporation. Each of these organizations should have a clear – and clearly articulated – role within the federal government's global commercial strategy and should work together where opportunities exist.

In addition to EDC's current public policy mandate, the Canadian Chamber believes that there is a role for EDC within the government. Canadian business needs a "Canadian trade and investment champion" within the Canadian government that understands the needs of Canadian companies engaged in integrative trade, and international commerce generally. With EDC's close working relationship with Canadian business – as financiers, insurers, partners and collaborators – as well as its commercial orientation, EDC is ideally suited for this role.

If there are any questions with respect to the above or further information is sought, please contact Brian Zeiler-Kligman at [bzeiler-kligman@chamber.ca](mailto:bzeiler-kligman@chamber.ca).