November 8, 2018

Diana Smallridge
President and CEO
International Financial Consulting LTD.
World Exchange Plaza, P.O. Box 81119
Ottawa, ON
K1P 1B1

Dear Ms. Smallridge,

On behalf of Canadian Manufacturers & Exporters (CME) and our 1,200 direct members across the country, we are writing to provide our comments to the legislative review for Export Development Canada (EDC).

Manufacturing is the largest business sector in the country, directly accounting for 11 per cent of GDP, 66 per cent of exports, and 1.7 million employees in high wage, high skilled jobs in nearly every community across the country. Manufacturing is also an export-intensive business. In 2017, global manufacturing exports totaled $361B and accounted for roughly two-thirds of Canada's overall exports shipped around the world. As a result, this review of EDC is of significant interest to our members.

When EDC underwent the last review of this kind in 2008-2009, Canada was in the middle of the great-recession. Those trying times strained Canada's and the world's financial system and greatly affected the financing available for manufacturers. Consequently, critical investments in machinery and equipment, facilities, and expanding trade were halted or put on hold. EDC, and other government institutions, helped our members through those hard times and showed the important symbiotic relationship that exists between us. While the financial system eventually recovered, Canadian manufacturers and exporters still face strong economic headwinds.

In 2016 both the Canadian Government and CME committed to plans to enhance Canadian manufacturing exports. The government set a goal of increasing Canadian exports to $540B by 2030, while in *Industrie 2030*, CME committed to the even more ambitious goal of doubling manufacturing output and exports by 2030. As we will explain below, we are not on track to reaching these targets. However, EDC can play a valuable role in changing this course to achieve our national export ambitions.

Overview of Canadian Export Performance

Value-added manufactured goods account for two thirds of Canada's overall exports. In part, this is because manufacturers are globally integrated, selling both sub-components and finished goods to consumers, other businesses, and governments around the world. However, the primary reason why manufactured goods are such an important part of our trade mix is the integration of manufacturing

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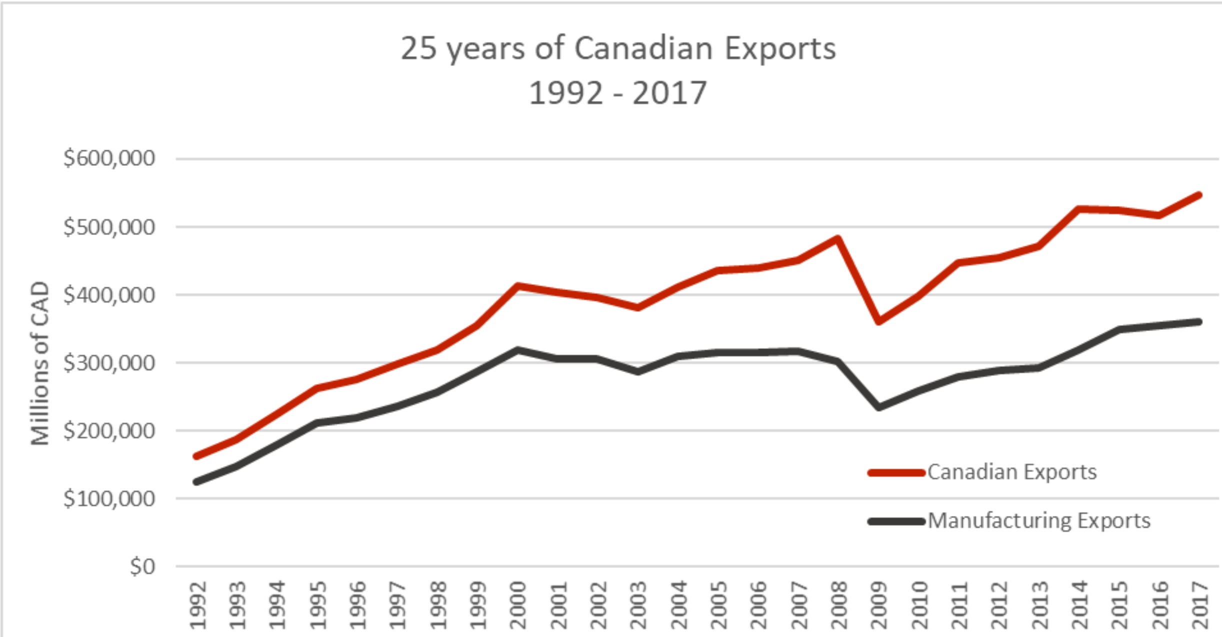
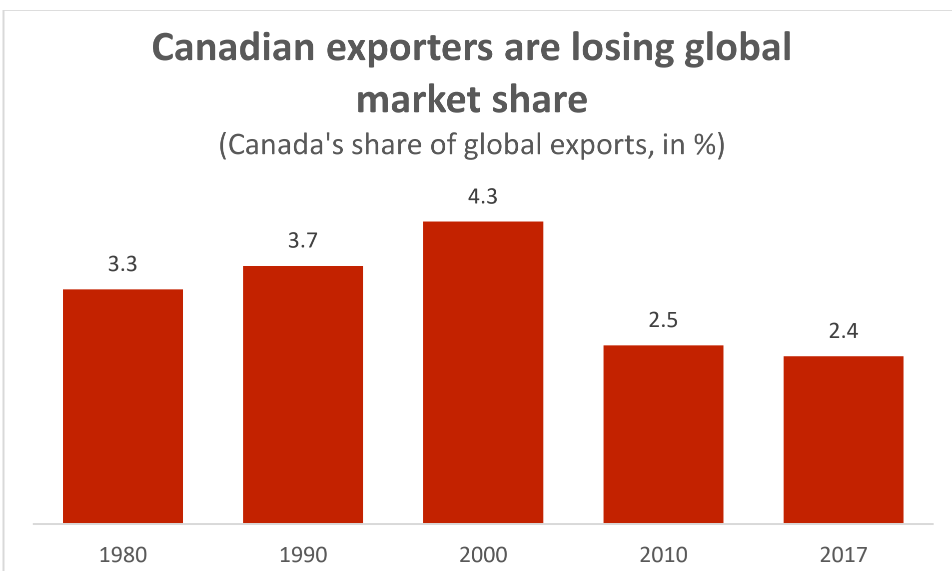
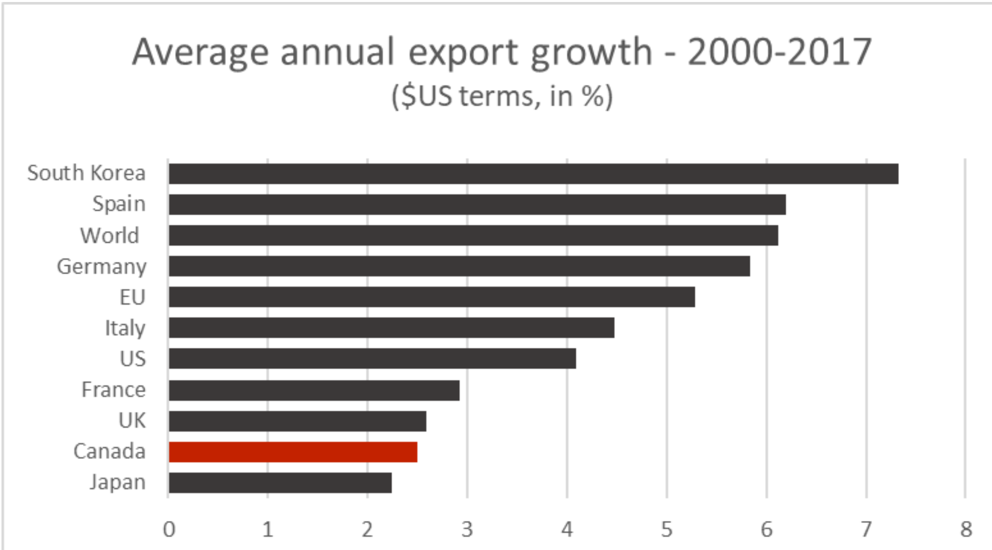
supply chains across North America. Manufacturing is therefore inextricably linked to exports. You can see this illustrated in the chart below.



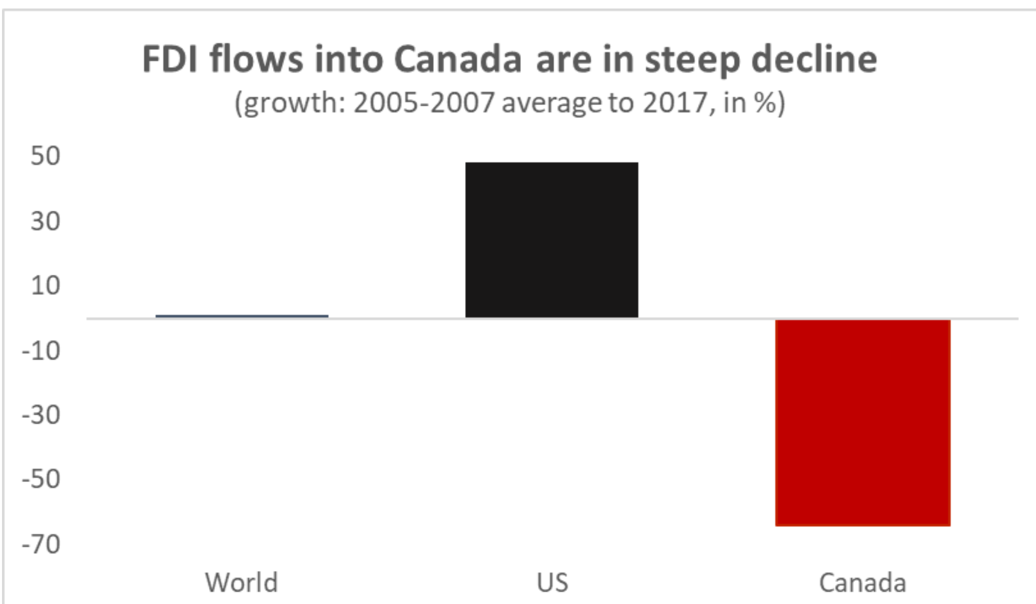
However, while Canadian manufactured goods drive our global exports, our performance on several important fronts has been waning. First, our exporters are losing global market share (below). We trace the causes of this to a failure to properly respond, from a public policy perspective, to China's rise in global markets, and to the restrictive changes brought on by 9/11.



Second, as illustrated below, Canada's performance as compared to other G7 nations has been near the bottom.



And third, we are failing to attract much needed foreign direct investment (FDI). FDI is critical for export growth as it is the type of investment that directly enhances manufacturing production within Canada. FDI and exports go hand in hand and the performance of late is troubling.

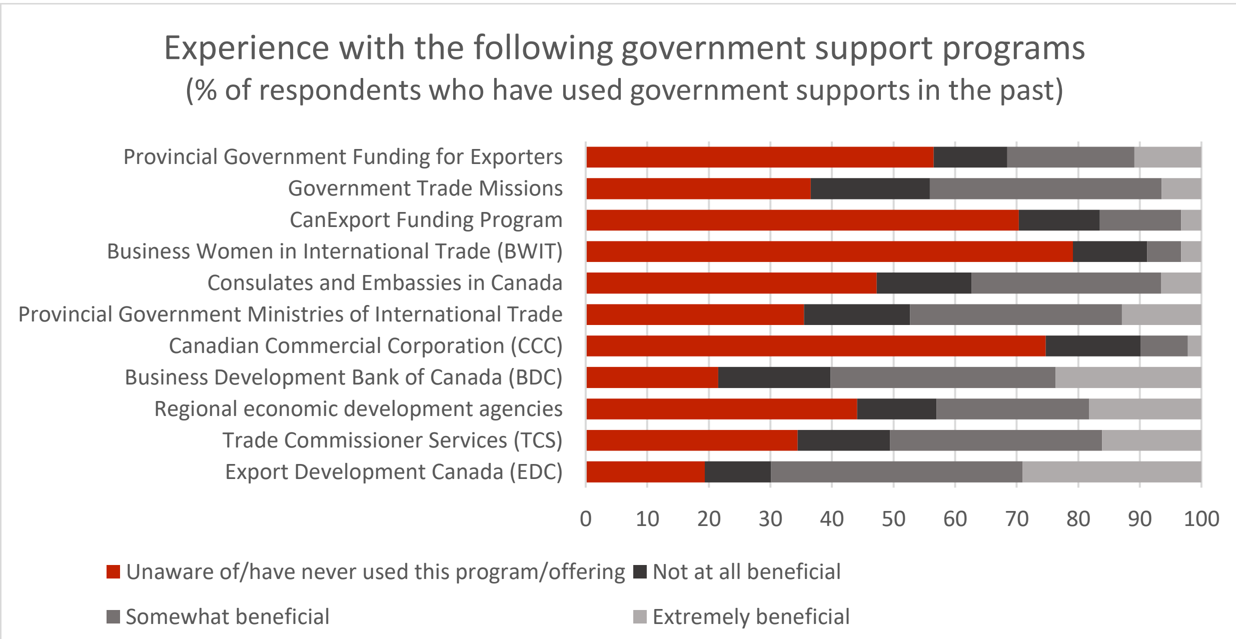


CME believes that EDC can play a role in reversing these trends.

Manufacturers, Exporters, and EDC Services

Every two years CME conducts its management issues survey (MIS). This comprehensive review gets at the key issues affecting Canada's manufacturing and export sector. This year included an expanded section on Canada's trade, exports, and government assistance programs including EDC.

As the results show below, EDC fares well compared to other government support programs. Their offerings are found to be the most beneficial. Importantly as well, their offerings are the most well-known, unlike other programs that suffer from extremely low awareness rates.



We also asked manufacturers and exporters what their biggest challenges to exporting are. As seen below, costs and risks, followed by difficulties competing with foreign producers tops the list. This does not imply that EDC's efforts to mitigate and ameliorate these conditions are failing, rather, that the costs of expanding exports are still very high despite assistance.

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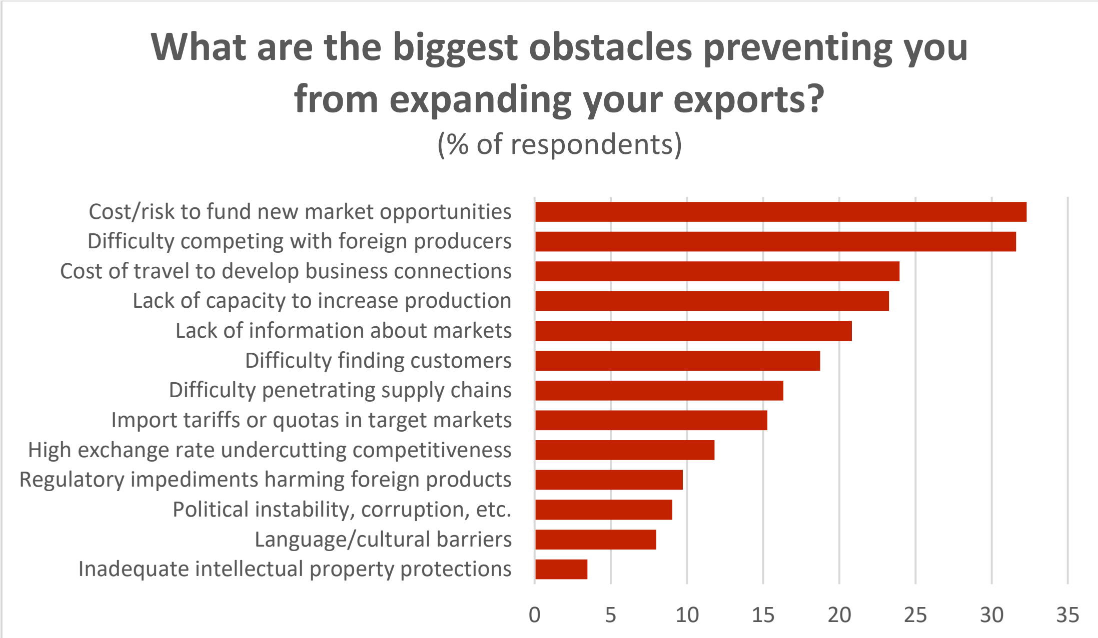

Ultimately, while manufacturers both know EDC exists and find their programs useful, basic funding/finance issues still hold back their future development. We then asked them specifically how EDC can help improve this situation.

CME Member Feedback on EDC

In addition to the MIS, CME also directly canvassed its members specifically on the EDC legislative review. We were able to get feedback from SME manufacturers and large, global manufacturing companies. We have summarized their high-level comments below.

General view of public & private export support system

In the context of this review it is important to point out that CME members are users of EDC's services and do not generally compete with EDC's service offerings from a business perspective. Many of EDC's products were, at least historically, the first of their kind and enabled exporters to enter new global markets they couldn't otherwise do on their own. Now, many noted that EDC type solutions and products (insurance, financial, etc.) are more readily available by private domestic and foreign sources.

That said, there still exists a demand for EDC's offerings even if they are now provided by other sources. Niche products such as pre-shipment financing, receivable insurance, and buyer financing still help and truly do assist exporters expand. EDC's offerings are therefore part of an ever-growing eco-system of public and private sources of financing and support. Maintaining a healthy balance between these two sides is critical to ensuring an ever-growing range of support for Canadian exporters. Data from our MIS shows that costs, risks, and foreign competition remain the top forces holding back Canadian exporters. This fact stresses the importance of the export assistance eco-system in combating those challenges.

To that end, EDC and other government-backed financial institutions must constantly avoid encroaching into the private lending space. This can happen gradually over time and unintentionally on the part of public institution. As a result, crowding out happens, private lenders are forced to retrench, and users of the services are left with fewer options. Some members stated that they believed this is already happening and other stakeholders in the insurance industry have come out strongly against this. As users of both public and private sources of export finance, CME members are concerned. This doesn't mean that private and public entities should divvy up their territories and stick to those markets. Rather, cooperation should become a formally recognized a guiding principal.

In fact, suggestions from industry promoted the idea of encouraging better coordination between EDC and private lenders. Partnerships between the two spheres could resolve much of these crowding out issues as both institutions seek mutually beneficial outcomes. Therefore, CME supports the development of formal mechanisms to encourage dialogue and cooperation between EDC and private-sector financial institutions to ensure maximum product offerings to exporters and to preserve a vital source of support.

Exporter Perceptions of EDC

Generally, members perceived EDC gravitating towards a more conservative approach to lending. Earning profit, or ensuring sound risk management, is not something they believed to be a problem- far from it. Sound financial management is a must. However, many wondered if a government backed financial institution could afford to be less risk averse.

This was most reflected in feedback on the premiums charged for the various services, particularly insurance. The argument goes like this: if EDC generates profits in the billions of dollars on a regular basis now, do they not have an obligation as a public institution to pass along those profits to users in the form of reduced premiums?

CME understands that EDC's profits cannot magically or easily result in changes to the pricing of its products that are determined through complex finance and risk calculations. As mentioned above, a lending institution cannot abandon sound fund management practices.

However, from a public policy standpoint, the argument is nevertheless valid. Could an institutional focus then not be placed on always trying to lower premiums for product offerings, whether as a company value or a written rule? This would certainly benefit all EDC customers, especially SMEs. As EDC's prices dropped, more could be enticed to using their products that have demonstrably enabled exporters to succeed in the past. This sentiment was a pervasive feeling among the users of EDCs products.

Business needs of SME exporters

As indicated in our research summarized above, CME members' top concerns when it comes to expanding exports all pertain to costs and capacity. This is a logical outcome considering most manufacturers are SMEs who, compared to larger manufacturers, have limitations on resources and staff ability.

While EDC provides excellent risk mitigation and financing products to enable exporting in later stages, for many SMEs, their challenges are far more fundamental. Lack of knowledge of government assistance programs, lack of staff resources to dedicate to expanding trade, and limited digital/e-commerce presences all prevent them from exporting first. While this may be outside the area of responsibility for EDC, it is nonetheless an important factor in determining what products can meet the basic business needs of SME exporters. Programs that can help SMEs finance export consulting advice or export plans, financing for foreign business travel, or programs to increase SME online platforms would help SME exporters with the basics.

International export credit agency comparators

While most CME members value the services offered to them by EDC there was a sense that the offerings were below standard compared to other international export credit agencies. This was particularly felt in emerging countries and markets. An example cited by one of CME's large member companies was the German Hermes cover (export credit guarantee by the German Federal Government) for a recent deal in Argentina. In this instance, Germany's agency was willing to finance the project up to $2B whereas EDC had a cap of $150M.

Therefore, EDC's capacity is falling behind the G7 standard. CME recommends that EDC align itself with like-minded export credit agencies and maintain a level of flexibility equal to that of its counterparts. This could involve EDC increasing its financing thresholds in emerging markets for large project tenders. Doing so would allow EDC to compete with its comparable OECD institutions.

Using EDC to help improve domestic export fundamentals

What CME's research has shown is that Canada's lackluster export performance of the last 15 years is mostly caused by our structural incapacity to export. Value-added manufacturing exports, which account for two-thirds of Canada's overall exports, underperform compared to all but one G7 peer (Japan). Structural issues at the root of this are that most Canadian manufacturing companies are SMEs who do not have the requisite size or expertise to export or export more. EDC should play a role in helping overcome these internal or domestic challenges.

Most policy solutions to help alleviate these structural deficits, such as creating more competitive business tax system, are outside of EDC's mandate. However, it can play a role in helping to attract more foreign direct investment (FDI) into Canada. At a high level, EDC should work with the new Invest in Canada agency that was recently launched to promote FDI investment.

Using similar products to what it offers clients seeking to invest abroad, it could create offerings that seek to de-risk investments into Canada. An example given was that of the risk associated with first nation consultations as part of larger project approvals. To a foreign investor who does not understand these complex consultative processes, and has no real way of participating in them, it presents a high risk that dissuades their investment in projects. EDC, who could be better positioned to understand such situations, could provide assurances to the foreign investor through some sort of guarantee. This way, EDC can play a constructive role in helping attract FDI to Canada. This would in turn help boost FDI rates that directly contribute to Canada's export health.

Summary and Conclusion

The health of Canada's manufacturing industry is directly tied to Canada's export performance. Value-added manufactured goods account for 66% of Canada's total trade abroad. Since its inception, Export Development Canada has played a critical role in enabling this group to expand their trade around the globe.

However, exports from this sector specifically, and of Canadian exports generally, have been underperforming for several years. This is due to a combination of factors, including structural (Canadian companies are too small), increased global competition, and a constant fall in foreign direct investment (FDI) here at home. Exporters themselves state that the biggest impediments to them growing are costs, risks, and competition from foreign producers. CME tackles these issues in more depth in *Stalled Trade: Gearing Up Canadian Exports* and provides detailed policy solutions to these challenges.

While EDC has played a positive role mitigating these challenges in the past and continues to be held in high regard by the industry, there are certain areas where improvements can be made. After consulting the CME membership, the following high-level themes and ideas emerged to help achieve that goal:

1. It is critical to avoid crowding-out private sector providers by government entities such as EDC as this reduces overall offerings to service users. CME members reported this occurrence and suggests that formal cooperation mechanisms between EDC and the private sector be established to mitigate these problems.
2. EDC profits must not come at the expense of higher costs or premiums for their services. As EDC has shown continual profits (and has government backing) there is a pervasive sense among exporters that these windfalls should be applied, generally, to reducing all the premiums charged to clients.
3. SMEs lack internal capacity and resources to export. These needs are often on the most basic and preliminary levels. Programs designed to help with export planning, funding foreign travel, and enhancing digital presences are most needed.
4. Exporters find, especially in emerging markets, that EDCs offering don't meet the standards of other G7 export credit agencies. As a result, EDC should consider increasing its finance thresholds in those markets to better compete.
5. Leverage EDC expertise to enable more foreign direct investment in Canada by alleviating domestic risk that drives away FDI.

CME believes that addressing these high-level concerns will ultimately improve EDC, ensure that it continues to meet its legislative objectives, and enable the continued growth of Canadian exports abroad. The Canadian manufacturing and export industries needs EDC to continue to succeed as it is a key tool in our exporters' arsenal. If the issues and recommendations above are addressed, then Canada will be better positioned to increase its exports to meet CME and the government's shared and ambitious exporting goals.

Should you have any questions on the above please do not hesitate to contact me directly.

Yours very truly,

Mathew Poirier
Director, Trade Policy
Canadian Manufacturers & Exporters