EDC Review 2018
Team Leader, Review Team
Diana Smallridge
Stakeholder Liaison, Review Team
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Re: Legislative Review of Export Development Canada

Dear Ms. Smallridge and Mr. Hodgson,

Refraction Asset Management is pleased to provide feedback and comment with respect to the *Legislative Review of Export Development Canada (EDC)* and the nine themes for consideration adopted by the review team.

Refraction Asset Management (RAM) is an Alberta Securities regulated Investment Fund Manager based in Calgary, Alberta. Specifically, we provide money management expertise focused on security selection in the energy, engineering, and technology sectors. Through our subsidiaries, we also manage sophisticated operations in the renewable energy sector, and notably, were the first Canadian investor under the auspices of the Canada-Ukraine Free Trade Agreement (CUFTA) in Ukraine, which took effect in August 2017. This initial investment in solar energy was valued close to $16 million CAD.

We have engaged EDC on nine separate occasions. The subject matter of our discussions related to key sectors identified by the Canadian Government as core trade priorities, including: Oil & Gas, Renewable Power and Exports to Ukraine. In all cases, the EDC framework prevented the issuance of trade credit.

As such, we could not qualify for "*Canadian Content*" in our projects overseas or in support of the Free Trade Agreement. In practice, our experience with EDC was contradictory to its stated support of Government of Canada strategic priorities.

We are not the first to advocate for reform. We believe a comprehensive review is necessary so that in future, the institution may align their practices and decision-making framework with other global competitors and other international development lending agencies and development finance institutions (DFI's) competing for investor capital and trade flows.

What will follow is a more comprehensive response to the nine themes referenced above. In summary, we believe EDC in its current form inadequately meets the strategic priorities assigned by the Government of Canada and does not adequately support and develop Canada's export opportunities. In our experience, this is a widely held view across those in corporate Canada that engage in international business. EDC must become more dynamic in its support of Canadian exports by issuing more trade credits, political risk insurance (PRI), currency instruments and sovereign "hard" trading guarantees on export payments. Until more comprehensive reform is undertaken, Canadian business will continue to leave Canada, and the economic benefits generated by its investments will disproportionately benefit other jurisdictions.

<u>EDC's complimentary role with the domestic private sector</u>

In our experience, EDC does not play a complimentary role with the domestic private sector. Their role, by *charter* is to provide services to export companies and investment funds. To date, we are familiar with the challenge to adequately syndicate "Green Bonds" in emerging markets, respond to the institutional investor community for PRI (on a global level), and a lack of support for risk lending in non-OECD markets. Additionally, we believe there is a limited ability to provide competitive guarantees vs. those offered by European, US (OPIC), British, and Asian competitors. Our experiences are confirmed by our partners, and multiple oil and gas service and aerospace companies that also highlight a frustration with the existing framework.

Of the products issued by EDC, many overlap with commercial banking products; such as domestic renewable power debt placement, which is done at more competitive rates by domestic wholesale banks and multinational "*bulge bracket*" commercial banks.

We cannot identify or are not aware of a single case, in our relationship network, or in our experience engaging with EDC for several years: where EDC provided a positive role support, was an active catalyst in the creation of private market enterprise in Canada to trade in *African*, b) *European* or c) *Asian* marketplace where existing Canadian commercial banks did not already have established syndicate and local partners providing more competitive services.

<u>EDC's place within the Government</u>

We believe EDC does not act in accordance to its mandate. In multiple discussion with EDC staff, RAM has been told their role is to be a commercial bank, and they are not responsible to cater to Government of Canada's enumerated priorities for export development. In our opinion, this conflicts with the response the Government of Canada states is the mission of EDC. We believe more flexibility is needed – whether through legislation or internal governance – to allow for a more fulsome ability to align with those enumerated priorities. Indeed, the current approach makes it difficult for foreign companies to accept Canadian exports on competitive terms.

This existing approach is diametrically opposite to all other experiences we have had with DFI banks, including small export-oriented countries like Norway and larger economies like Japan. In those jurisdictions, there is a clear understanding that Government DFI's are funded by taxpayers to fill gaps in capital markets, as well as to support Commercial banks foreign market entry, by underwriting risk insurance and / or supporting trade credit. Canada needs to fix EDC's mandate and mission statement outlook. The existing approach and EDC's view of their duties vis-à-vis the Government of Canada both hurt Canada's reputation abroad, and the perception of Canadian free trade policy instruments. Indeed, in these eyes of foreign consumers there are more aligned and sophisticated sovereign DFI exports and trade facilities.

<u>Meeting Canada's evolving business needs</u>

In our view, EDC does not meet Canada's evolving business needs. The offshoring of the Canadian aerospace, industrial fabrication and solar manufacturing industries are indicative that EDC does not have the capabilities to promote Canadian trade in "strategic" industries, let alone develop new trade markets, or support capital market expansion into foreign jurisdictions.

In the case of our subsidiary, TIU Canada, despite being a 100% Canadian owned, 100% female led, managed and veteran supporting, Canada-Ukrainian company; we were unsuccessful in meeting the thresholds for EDC support. This story is common, with over 80% of SME/MME's (Small and Medium Sized Enterprises) in our business chambers electing to use other providers, knowing full well EDC will not meet their business solutions needs for overseas growth.

Role of EDC in the changing global context

In our opinion, EDC is not competitive in the global banking community. EDC has little or no mandate to support Japanese, Chinese, Ukrainian or many Latin American banking or risk capital investing. This makes Canadian Free Trade Agreements underfunded and underwhelming when compared against similar free trade initiatives offered by Israeli, Chinese, American and European Union agreements. This is reflected in subsequent relisting of Canadian companies into new jurisdictions.

We believe EDC has no active mandate, or to our knowledge a track record of success in the area of financial intermediation since 2008. EDC's commercial and "soft guarantees" are viewed as ineffective instruments, and more dangerously, unenforceable, in high risk jurisdictions where guarantees are issued.

Given a lack of support, many Canadian business utilize English law in completing international transactions, to offset the lack of competitive Canadian policy. Ultimately, Canada, and its companies are uncompetitive when compared to more sophisticated and trade savvy competitors abroad.

Corporate Social Responsibility and Human Rights (CSR)

EDC has been subject to several mishaps over the past four years involving poor counter party due diligence, limited loan monitoring, and major counter party scandals. EDC has also been involved and shown a delayed response to escalating conflicts, destabilizing conditions, and slow response time to addressing Canadian risk lending and lender of first resort services to frontier economies. EDC has demonstrated a lack of interest in CSR programs, impact investing initiatives, and limited interest in partnering with microlending or World Bank IFC (International Finance Corporation) programs since 2008. In our experience operating in high risk theatres and engaging with our market peers, responses to our survey questions we have seen no presence or operating reputation of EDC in the world of impacting lending, green banking or emerging markets.

Comparison the capacity of the Canadian trade financing system of OECD and non-OECD countries

Unfortunately, in our experience, EDC does not seem to provide a relevant set of services for Canadian companies looking to compete in global markets. We urge the Canadian Government to look at the services offered by competitor nation development and lending banks that have conduits and sovereign balance sheet access versus that of EDC. Competitor banks which we urge the review team to compare and contrast are: Japan Cooperation Bank (JICA), Overseas Private Investment Corporation (OPIC), Nordic Development Fund (NDF), Investment Fund for Developing Countries (IFU), and French Development Agency (AFD).

In an effort to become more competitive in an ever-globalized world, we believe EDC should offer the following;

1. Competitive trade lending for use of Canadian content abroad
2. Recognition of Canadian labour and soft advisory labour in content quotas
3. Sovereign Guarantees on Trade and Logistics
4. Construction financing in strategic sectors and countries deemed a national priority by the Government of Canada
5. Foreign Exchange settlement and Lending conduits for Canadian companies via the World Bank where commercial market carriers from Canada do not exist
6. Foreign banking Custodian Services so Canadian Banks can open franchises
7. Political Risk underwriting and loan syndication
8. Emerging risk bond packages and syndication services
9. New venture risk capital and frontier economy “lead order” equity investing mandates

Domestic powers regulations review

EDC is an export bank. It is recognized and understood to be an Export Bank by global capital markets. Domestic lending allows EDC to ignore its primary policy mission statement and compete against Canadian commercial banks in Canadian established banking sectors, using a Sovereign Credit rating to undercut Commercial banking lending rates and standards. This is done to the detriment of foreign exporters and entrepreneurs. We have been consistently told by EDC case officers and branch managers there is no credit or service available for foreign lending; confusing SME/MME and foreign market participants.

Governance of the Canada Account

The framework for use of the Canada Account is both cumbersome and impossible to access, even for deemed strategic priority programs supported by the Privy Council of Canada. In our experience, working on a multi-national Special Program file, we were told that even with the full support of Cabinet, plus endorsements from Canada’s chambers of commerce, it would be unlikely we would be able to unlock Canada Account. Because EDC does not have deep enough syndication and debt capital market staff to support PRI underwriting, and the process of PRI issuing at World Bank IFC requires a sponsor; the only way EDC can compete against OPIC and AIIB (Asian Infrastructure Investment Bank) is if the process for PRI is streamlined, or a standing facility is created at EDC, which allows EDC to underwrite Political Risk Insurance using Canada Account, by credit committee review vs. Cabinet Ascent.

Currently, Canada does not benefit from key strategic overseas programs and ventures because it requires a literal act of government to do what other export agencies are able to achieve in short order.

Development Finance Institution

In our view, EDC is failing at this objective. If the review team considers the impact investing, frontier market indexes and new business trade credit issues found on public capital market databases, EDC does not rank highly; they are listed after commercial lenders from G20 countries. As a DFI, EDC has no constructive mandate in the majority of non-OECD countries. As a Sovereign Commercial Bank, they fall short of competing against their private market commercial peers. In our experience working in Ukraine,

and trading equities and commodities, we have never encountered anyone who has used EDC instruments since 2015. We have never seen an EDC product offered by the capital markets either as a "best in class" or "backstop" solution. In the institutional equity space, we can reference certain Canadian fund managers who shuttered their Canadian fund listings and decided to reincorporate in the United States in an effort to use OPIC facilities, taking Canadian jobs with them, as a result of EDC's conservative interpretation of its mandate. Since 2018, we have seen no significant change in EDC, a willingness for EDC to issue export or trade credit to support Canadian companies or an interest in opening a dialogue with Canadian growth champions.
We would strongly advise the review team to encourage the government to commission a study, whereby EDC is benchmarked against competitors and to institute a total overhaul of EDC for the benefit of the Canadian economy.

Conclusion

We sincerely hope our efforts to highlight these challenges will positively impact how EDC is evolving and should continue to evolve to address the demands and challenges that Canadian companies face abroad. We believe EDC can play an immensely positive role in growing the Canadian economy should steps be taken to address the aforementioned concerns over the course of the legislative review. We truly believe this is of utmost importance.