



Business Council
of Canada



Export Development Canada Review 2018

November 2, 2018

The Business Council of Canada welcomes the opportunity to provide views as part of the public consultation on the legislative review of Export Development Canada (EDC).

The Council submits recommendations on the following themes identified for the 2018 review:

Theme 1: EDC's complementary role with the domestic private sector

EDC's activities must be clearly limited to providing additional credit capacity without crowding out the private sector. As EDC partners with the private sector on many of its activities, and indeed also consults on a regular basis with the private sector, we would encourage this dialogue to continue and be strengthened.

EDC is the only Export Credit Agency (ECA) which operates as a direct lender rather than a guarantor, further crowding out private sector financial institutions. In order to encourage the participation of local financial institutions and international financial institutions specializing in various sectors, the Council recommends EDC use the guarantee structure as a mechanism to create mutually beneficial partnerships.

Theme 2: EDC's place within government

In the face of increasing protectionism, the government has put renewed emphasis on the need for Canada to diversify trade and investment. The Minister of International Trade Diversification's mandate letter includes the development of a Trade Diversification Strategy with emphasis on the Asia-Pacific and emerging markets.

To better align with the Minister's mandate EDC's presence in emerging markets could be enhanced. One area of particular focus is Africa where EDC has a single representative in South Africa. Given the region's economic potential, there may be merit in increasing EDC's presence in the region.

As part of the Trade Diversification Strategy, Minister Carr has been instructed to "draw from expertise in Canada's Trade Commissioner Service, Export Development Canada and Invest in Canada". Notably absent is the instruction that efforts be made to better co-ordinate EDC with BDC, responsible for supporting small and medium-sized businesses, and the Trade Commissioner Service. EDC and BDC service offerings in support of going global should be complementary and include a direct link to the services offered by the TCS. While progress has been made on co-ordination in recent years, there exists no explicit protocol between EDC, BDC and the TCS to ensure that Canadian exporters are made aware of the full range of services available to them. Sharing an integrated customer relationship management platform would be a good first step.

Theme 3: Meeting Canada's evolving business needs

Canadian businesses operating in emerging markets have faced situations where competitors have received better financing terms from their ECA. To avoid this happening, we recommend that EDC increase its financing thresholds in emerging



markets for large project tenders. The overarching objective should be to ensure a level playing field for Canadian businesses abroad, and specifically in emerging markets.

Theme 4: Role of EDC in the changing global context

The global economy has changed drastically since the last legislative review. In 2007, emerging and developing economies were responsible for 50 per cent of global GDP (based on PPP). By 2018, that share has jumped to 59 per cent. According to the IMF's Global Economic Outlook, emerging and developing economies will be responsible for 62 per cent of global GDP by 2022. If EDC is to be successful in this changing global landscape it must have the capacity and knowledge to operate in emerging economies.

EDC needs to continue to try to fill an important financing gap in support of Canadian exports. In doing so, EDC should give due consideration, as other ECAs do on a regular basis, to more innovative financing instruments. The finance market is becoming increasingly sophisticated and winning contracts requires novel and innovative financing instruments. EDC should consider benchmarking themselves to other lenders for projects where such innovative products are available.

Theme 5: Corporate Social Responsibility and Human Rights

Corporate social responsibility (CSR) and human rights issues are key challenges for EDC, particularly if EDC's focus pivots towards emerging markets where these issues can be more prevalent. For EDC to be effective in emerging markets it will need to adopt CSR best practices similar to those of financial institutions in other OECD countries. In particular, CSR should be primarily focused on know your customer (KYC) with compliance the key factor. A strong CSR policy should not be a deterrent to entering a particular market as long as compliance is adequate.

EDC has recently become much more rigorous with respect to environmental and social impact assessment (ESIA) as well as compliance. Consequently, requests for information sometimes far exceed the status of the transaction resulting in delayed EDC response times. Greater attention needs to be paid to the impact of government policy on the flexibility of EDC to support Canadian exporter success vis-a-vis competitor ECAs.

Theme 6: Comparison of the capacity of the Canadian trade financing system to the systems of OECD and non-OECD countries

EDC is among the best run and most effective ECAs in the world. Canadian business is proud of that distinction and benefits from EDC's commitment to excellence in the area of export financing. However, EDC should benchmark itself against alternative sources of financing in markets where such products exist to provide competitive financing.

The global market for financing projects has evolved with China, Japan and Korea offering aggressive financing terms. EDC should be provided with the capacity to extend more favorable terms to allow Canadian exporters to compete effectively. This is particularly important with the advent of the U.S. International Development Finance



Corporation (DFC) that will combine the Overseas Private Investment Corporation (OPIC) and U.S. Agency for International Development (USAID), with a lending ceiling of \$60B and the capability to invest in equity.

Theme 7: Domestic powers regulations review

The Business Council supported the permanent extension of domestic powers granted in 2014. In supporting this, the Council underscored that EDC's mandate must remain fully in line with EDC's legislative authorities. EDC's activities must be clearly distinguished from the role of the Business Development Bank of Canada (BDC), and limited to providing additional credit capacity without crowding out the private sector.

Theme 8: Governance of the Canada Account

To ensure a competitive playing field for small, medium and large enterprises who are trying to export Canadian knowhow and expertise, the Business Council of Canada encourages EDC and the Government of Canada to expand its usage of Canada Account transactions in more challenging markets and for large projects. Use of the Canada Account is beneficial in cases where the overall transaction risks are beyond what EDC is willing to typically assume but where the transaction would result in significant benefits for the Canadian economy. This may include training and education projects, feasibility studies, and other exports of goods and services.

Theme 9: Development Finance Institution

There is potential for the DFI to enhance its scope to allow for involvement in large infrastructure projects. For example, the Japan International Cooperation Agency provides such services and is increasingly popular in emerging markets.

As structured, FinDev is focused on smaller projects with emphasis on job creation, women's economic empowerment and climate change action. This narrow focus limits the tremendous opportunities available to make a significant impact on poverty reduction through large-scale projects.

