



EVOLVING WITH THE CHANGING NEEDS OF EXPORTERS

Submission to the 2018 Legislative Review
of Export Development Canada

October 2018

EDC Head Office

150 Slater, Ottawa, ON Canada K1A 1K3

Tel: 613-598-2500

Fax: 613-237-2690

Toll Free: 1-888-332-9398

www.edc.ca

For more information about the Legislative Review visit:

www.edc2018.ca

CONTENTS

FOREWORD	1
EXECUTIVE SUMMARY	2
PART ONE: Understanding our customers - <i>The exporter journey and exporter needs</i>	4
1.1 Introduction.....	5
1.2 What is an exporter?.....	5
1.3 The exporter journey.....	7
1.4 Evolving exporter needs.....	8
PART TWO: Meeting global challenges - <i>The evolving environment of global trade</i>	10
2.1 Introduction.....	11
2.2 Global trade and investment patterns.....	11
2.3 The Canadian trade context.....	12
2.4 Why exporting matters to Canada.....	13
2.5 Age of discovery & the new knowledge gaps.....	13
PART THREE: Export Development Canada in 2018 - <i>Our evolving franchise</i>	15
3.1 Introduction.....	16
3.2 Key corporate developments (2008-2018).....	16
3.3 Corporate vision and planning.....	18
3.4 Role in Canada's trade portfolio.....	18
3.5 Partnering with the private sector.....	21
3.6 Role as Canada's export credit agency.....	23
3.7 Trade creation and the Pull Strategy Pillar.....	25
3.8 Credit insurance.....	26
3.9 Working capital support: Bonding and guarantees.....	28
3.10 Investments and Equity Connect.....	32
3.11 Supporting Canadian direct investment abroad.....	33
3.12 FDI promotion.....	34
3.13 Clean technology.....	35
3.14 Social and environmental responsibility.....	36
3.15 Progressive trade.....	38

PART FOUR: Export Development Canada - <i>Preparing for the future of trade</i>	39
4.1 Introduction.....	40
4.2 Ensuring that exporters "Go, Grow & Succeed".....	40
4.3 Continuing a digital transformation.....	42
4.4 Increased transparency.....	42
4.5 Priority markets and trade diversification.....	43
4.6 Meeting the emerging needs of exporters.....	45
4.7 Enhancing support of SMEs.....	47
4.8 Looking ahead: Considerations for the 2018 Legislative Review.....	49
4.9 Conclusion.....	52
 ANNEX 1: EDC REGIONAL OFFICES AND INTERNATIONAL REPRESENTATIONS	 53
 ANNEX 2: OVERVIEW OF EDC'S FINANCIAL SOLUTIONS	 54

FOREWORD

To open any discussion by reference to the pace and extent of world change is becoming cliché. But clichés become clichés for a reason, when the once insightful observation becomes the obvious one. And for EDC and our customers, the constant, accelerating change in the global trade environment, combined with rapidly advancing practices in corporate social responsibility, have indeed become the obvious reality.

The Government of Canada has initiated the 2018 Legislative Review of the *Export Development Act*, the legislation that establishes EDC's mandate and the scope of our operations. The review is required by the Act every ten years and is intended to assess how EDC has evolved and should continue to evolve to meet the needs of Canadian exporters.

A look back at EDC's evolution since the last review, a decade ago, demonstrates the profound impact of our changing operating environment. Our customer service model, our domestic, international and digital presence, our product and service offerings, and our overall corporate vision have all greatly transformed over this time to keep pace with the needs of the Canadian exporter. The profile of this modern exporter reflects a marketplace that has globalized tremendously – take, for example, the small home-based start-up who uses e-commerce to sell around the world and requires information, connections and risk management solutions of a nature un contemplated ten years ago.

Evolution is our permanent objective and is deeply ingrained in the EDC business model. To succeed, EDC must constantly adapt and improve our services to meet the needs of Canadian exporters. We should also stand ready to respond to the national interest trade-related challenges that face our shareholder, the Government of Canada. Canadian companies count on us to stay ahead of the curve with knowledge, connections and financial products to support their international opportunities. There is much work to do and, as we will describe in this Submission, much hinges on our success in helping to advance Canada's trade performance.

As a leading provider of financing and risk mitigation products and a foremost center of expertise in international trade, the EDC franchise attracts attention and will always be the subject of comment, including praise and sometimes critique. The Review provides the opportunity to hear from all stakeholders and is an excellent avenue for customers and others to share their stories about the role EDC has played helping them grow their business, and what matters to them as they aim for continued success in the future.

This review comes at an important time for Canada. EDC's services have never been in higher demand as exporters face head-on the new complexities, risks and opportunities of a transforming global marketplace. Ongoing market change is the new reality, and our customers have grown accustomed to EDC keeping pace. The 2018 Legislative Review provides an opportunity to consider and encourage the role of EDC in the years ahead and to ensure that the ecosystem of strong trade policies, ambitious engagement from exporters, as well as an agile, adaptive and resilient EDC working in partnership with like-minded private and public institutions, continues to bring prosperity to Canadians for generations to come.

Benoit Daignault
President & CEO



EXECUTIVE SUMMARY

International trade is a driver of Canada's economic growth and prosperity. But the Canadian trade ecosystem is at a crucial point. Global markets are teeming with competition, complexities and new risks abound, and sustained success in global commerce is an unprecedented challenge for Canada's exporters. In the face of this challenge, the Government of Canada has a robust trade agenda that calls for increased trade diversification, particularly to emerging markets, enhanced support for small and medium sized businesses (SMEs), and overall export growth of 30% by 2025.

For nearly 75 years, Export Development Canada (EDC) has played a key role in contributing to Canada's trade agenda. The 2018 Legislative Review of the *Export Development Act* provides an excellent opportunity for all those with an abiding interest in trade to focus on how EDC can continue to meet the needs of Canada's exporters and contribute to Canada's economic prosperity.

Understanding Exporters

In the decade since the last review, EDC has enhanced our role as a provider of financing and risk mitigation products, while also establishing ourselves as a foremost center of expertise in international trade. We have made substantial investments in research and product development and have worked with our customers to develop a more thorough understanding of exporters – who they are, how they get started, and what they need to succeed internationally. This understanding shapes the evolving franchise of EDC.

EDC is adapting its business strategy to remain relevant to exporters and have a greater impact on Canadian trade, while respecting our international obligations as Canada's export credit agency. We are reorganizing our planning and our deployment of skills, market understanding and business channels in ways that directly align with the challenges of exporters. In short, we are doing more to increase the number of Canadian companies that go, grow and succeed internationally by offering the best available knowledge, connections and financial solutions that meet the needs of Canadian companies.

Exporters are increasingly relying on EDC's expertise in trade, and our experience transacting in global markets and assisting Canadian companies successfully respond to international business opportunities. Knowledge and information are pre-conditions for exporting. Responding to the need for knowledge deepens EDC's relevance to Canadian companies, particularly to SMEs and new exporters. Facilitating the early success of exporters with our knowledge resources will ultimately result in greater demand for EDC's financial products and greater export growth for Canada.

Evolving to Meet Exporter Needs

Our traditional financing, insurance and working capital solutions have evolved to meet more complex exporter needs and to better serve Canadian SMEs. EDC is continuously adapting our programs and risk appetite to address the challenges faced by exporters and to increase our responsiveness to SMEs. We intend to continue substantial investment in our digital platform and in the creation of new digital solutions for our customers. This investment is necessary to ensure EDC's long-term sustainability and our relevance to exporters.

Today, EDC not only supports the existing business of our customers, we also proactively create new opportunities for trade by providing the knowledge, connections and financial solutions to accelerate the success of Canadian exporters and generate enduring prosperity for Canada. EDC's "trade creation" activities go beyond the current transaction flow to a more proactive identification of new opportunities in international markets or specific sectors where Canada has a competitive advantage.

EDC has developed a substantial Corporate Sustainability and Responsibility (CSR) strategy that considers the social and environmental impacts of every business decision. With an understanding that strong practices in social and environmental responsibility are drivers of innovation and sustainable business, EDC strives to balance diverse priorities by integrating principles of sustainability and good governance into our strategic framework.

Prospects for Canadian trade are bright, as recent trade agreements will open up significant opportunities for exporters (particularly in Europe and Asia) and have a sustained positive impact on trade growth. To help Canadian companies take advantage of these opportunities, EDC understands the importance of partnership and collaboration with all key stakeholders across the trade and business landscapes.

The Trade Commissioner Service (TCS) is EDC's closest partner in trade and our work together has been substantially upgraded to provide better coordinated service to Canadian exporters. Partnership with the private sector also remains a core tenant of EDC's business. EDC is investing in an expansion of our partnership business through the establishment of dedicated teams, like our Bank Channel team, which will enable significant enhancement of our service to exporters through the implementation of a national partnership strategy based on customer input and clearly defined goals.

The View Forward

The 2018 Legislative Review will look beyond the challenges of today to examine the evolving needs of Canadian companies and the ability of EDC to contribute to Canada's trade priorities in the years ahead. This examination will serve the public interest by ensuring a resilient, adaptable EDC that is well-positioned to leverage its mandate and maximize success for Canadian exporters. In terms of EDC's legal framework, we believe that a small number of regulatory changes – described in our Submission - could provide better flexibility and clarity to Canadian companies.

Over the past decade, Canadian companies have called on EDC to do more to assist in bringing their capabilities and expertise to the world. While we expect the decade to come to prove challenging to exporters, we believe that our mandate and our corporate vision for the years ahead will position us to remain a relevant partner in trade and to continue to deliver results for Canada.

PART ONE

A woman with blonde hair, wearing a bright yellow sweater, is seen from behind, adjusting a dark blue jacket on a mannequin. In the background, a man with glasses and a woman with grey hair are working at a table in a workshop or studio setting. The scene is framed by a yellow border.

UNDERSTANDING OUR CUSTOMERS

The exporter journey and exporter needs

1.1 INTRODUCTION

Canada has always had much to offer the world and today, more than ever before, we rely on international trade for growth, wealth and jobs. With trade representing sixty per cent of our national GDP, Canada's continued prosperity in large part depends on the ability of Canadian companies to go, grow and succeed internationally.

Exporters are at the center of Canada's growth agenda and, as our customers, exporters are at the center of everything we do at EDC. Significant investments in EDC's customer research over the past several years reflect our commitment to understanding exporters – who they are, how they get started, and what they need to succeed internationally. This understanding shapes the evolving franchise of EDC.

1.2 WHAT IS AN EXPORTER?

For EDC to effectively deliver on our mandate, a thorough understanding of the exporting landscape and our addressable market is essential. With that in mind, we have advanced on several pieces of foundational research that are helping to inform EDC's strategic direction. As we gain new insights into the contemporary Canadian exporter population, we come to understand that there is even more that we must do to support the success of exporters and to meet their ever-changing needs.

Canadian businesses have various methods of engaging in trade. Some sell their goods and services directly to buyers outside of Canada. Others participate indirectly by selling inputs to domestic buyers who then export finished products. Some Canadian businesses establish foreign affiliates to localize production or sales in new markets. Canada's exporters range from the micro-sized business with one employee, selling homemade goods through e-commerce, to the billion-dollar corporation with several thousand staff, selling technology around the world. Exporting can take many forms and our research shows that there are more exporters and potential exporters than previously thought. The trade environment in Canada is characterized by a mix of businesses, varying in size, industry, product and service offerings who are exploring international opportunities in many different ways.

Traditionally published numbers representing Canada's exporter population are restricted to direct exporters of merchandise goods. By that definition, Canada has only approximately 40,000 exporters today. In the modern Canadian trade context, this number is an inaccurate representation of the overall exporter population and, by extension, of EDC's addressable market.

Today, we must also consider the more than 35,000 Canadian companies that export services. Services are expected to play an increasing role in Canada's international success, and already account for more exports than energy and automotive exports combined. From there, we must also consider the 25,000 indirect exporters and the 6,000 Canadian companies with foreign investments and established international affiliates. In addition, EDC believes that we should include in the exporter community another 34,000 Canadian companies that are planning to export or are export-ready, but have not yet taken their first step onto the international stage. To promote trade growth, it is critical that we prioritize and accelerate efforts to turn these companies into active, successful exporters.

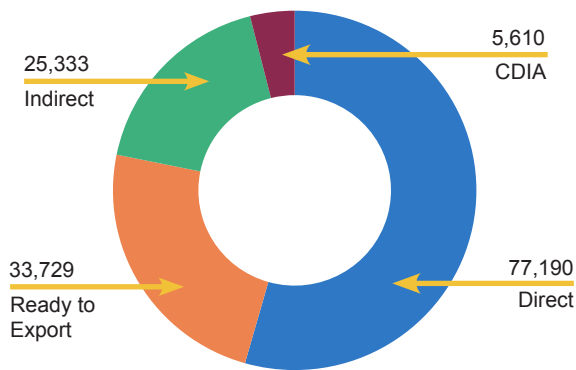
All told, the addressable market of exporters and soon-to-be exporters is approximately 140,000 companies. EDC has been staying close to this evolving definition of an addressable market through investment in ongoing research. This work is helping us to rethink how we serve the exporting community. This is exciting news for Canada, given the country's dependency on trade for economic prosperity, and it is spurring EDC to new planning and service levels.

The size of our addressable market tells us that there are many more Canadian companies that could benefit from our support. There is more we should be doing to reach them and help them grow. As noted below, many of these Canadian companies are micro-sized (revenues under \$1 million), a customer segment that has historically been underserved by the Canadian trade ecosystem and that faces complex challenges in navigating the competitive global landscape. To meet these needs, EDC is increasingly present, earlier in the exporting equation, providing the guidance, knowledge, connections and financial solutions Canadian companies need to go, grow and succeed internationally.

Exporter Population

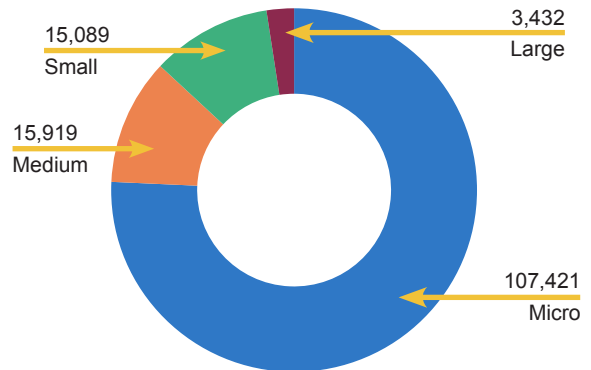


by Type of Exporter



- **Direct Exporter**
Canadian companies who sell internationally
- **Indirect Exporter**
Canadian companies who sell goods or services into a global supply chain
- **CDIA**
Canadian companies with international investments or affiliates
- **Ready to Export**
Canadian companies who plan to sell internationally in the next 1-2 years

by Company Size



- **Micro**
Less than \$1 million in annual sales
- **Small**
\$5 million to \$10 million in annual sales
- **Medium**
\$10 million to \$50 million in annual sales
- **Large**
More than \$50 million in annual sales

1.3 THE EXPORTER JOURNEY

While every exporter journey is unique, there is a path most traveled by Canadian businesses. The Exporter Journey is a major research project conducted by EDC in 2016 to improve our understanding of how Canadian companies start exporting, how they expand their global reach and the challenges they face along the way. This was essential foundational work for our strategic planning as we aim to address exporter needs at various steps along the journey and, where possible, accelerate the transition of exporters from one step to another through our knowledge, connections and financial products.

Through our research, we learned that approximately sixty-five per cent of current exporters began by selling into the United States. The U.S. provides a straightforward entry point for first time exporters and serves as a spring board into global supply chains. Exporting to another “starter” market, typically an OECD member country (Organization for Economic Co-operation and Development) such as the United Kingdom, Mexico or Japan, or other country that has a free trade agreement with Canada, is also popular as a first step, with twenty-two percent of Canadian exporters starting here. Finally, thirteen per cent of current exporters were “born global,” entering multiple markets at once.

Growth strategies and challenges vary between these exporter profiles and are summarized below. These findings have helped EDC improve our strategy to increase and diversify Canadian trade. New investments in our services to assist with US market entry, knowledge tools to understand the impacts of new trade agreements, and deeper connections in emerging markets, are examples of how EDC is leveraging this research to improve our services across the Exporter Journey.

Canadian Exporters' First Steps



Lands of Opportunity

Businesses that plan to export in the next one to two years have set their sights on...



1.4 EVOLVING EXPORTER NEEDS

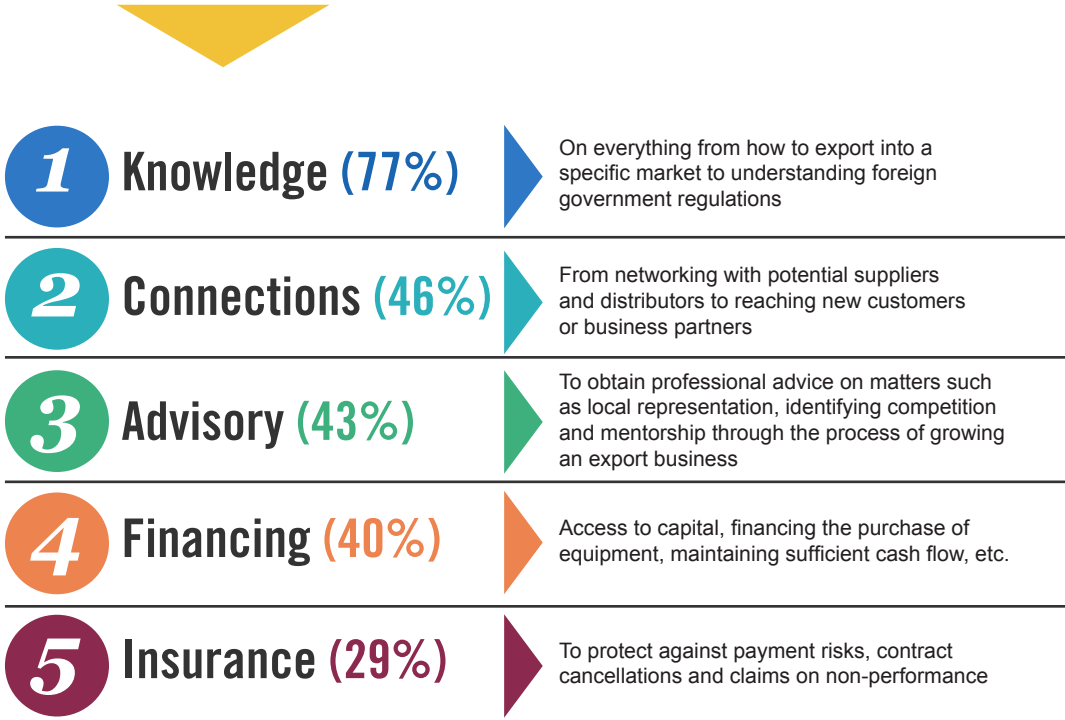
Good customer care requires that you deliver what is expected, when asked, and on time. Great customer care requires a different level of investment: to understand your customers so well that you can anticipate their future needs and evolve with them.

Since 2016, EDC has engaged with more than 1,000 Canadian companies to research what support and services they require along the exporter lifecycle to successfully engage in international business. In some ways, our insights reveal that it is easier to export today than ever before: even a small home business can sell goods or services through e-commerce to practically anywhere in the world. The converse of this, however, is that global markets are teeming with competition, complexities and new risks abound, and sustained success in global commerce is an unprecedented challenge for exporters.

No matter the export path, the needs of Canadian companies vary as the risk and complexity of international trade intensifies and our customers require more support than ever before to be competitive in global markets. As Canadian companies progress along their export journey, the support they need evolves and becomes specific to their present challenges. Early stage exporters require more knowledge about opportunities, specific markets and trade regulations. Soon, they will need connections to potential customers and partners. Later, credit insurance may provide comfort for a first sale to an international buyer. As the company grows its export sales, it may benefit from a dedicated EDC account manager to leverage a full suite of EDC products and services.

At each stage of growth, Canadian companies are seeking to leverage EDC’s knowledge and experience of transacting in foreign markets where we have developed deep connections, an understanding of international finance, the needs of foreign buyers, and the areas of opportunity for Canadian companies within global supply chains. Now, more than ever before, we are investing in careful research and listening closely to what Canadian companies are telling us they need from EDC to conduct business internationally. To meet this spectrum of needs, we will continue to enhance our franchise and offer the best available knowledge, connections and financial products to help our customers navigate the competitive global landscape.

Top 5 Identified Needs of Canadian Exporters



Source: Global Competitive Advantage Survey of 625 Canadian companies who sell internationally conducted in April of 2017.

PART TWO



MEETING GLOBAL CHALLENGES
The modern environment of trade

2.1 INTRODUCTION

The last two Legislative Reviews of EDC were carried out in times of considerable market stress. In 1998, the world was weathering the Asian financial crisis and, in 2008, an even larger and more disruptive global financial crisis was escalating.

The economic and credit environments that form the backdrop for the 2018 Legislative Review are quite different. Although global trade policy risks are elevated — notably, for Canadian firms due to a dramatic shift in the United States — the global economic outlook continues to gather momentum. After years of serial disappointments, economic forecasts have repeatedly been revised upwards since 2016 and there are strong prospects for corresponding trade growth, in Canada and around the world.

2.2 GLOBAL TRADE AND INVESTMENT PATTERNS

Global trade and investment patterns have undergone significant changes over the past few decades. The ratio of trade-to-GDP growth rose to new heights during the period of “hyper-globalization” that occurred in the 1990s and lasted until the global recession in 2008-09. During this period, trade grew dramatically as a share of world GDP, supported by successive rounds of liberalization (e.g., through bilateral, regional and multilateral agreements, such as the NAFTA and the Uruguay Round), which reduced tariffs and other trade costs. There were other factors supporting globalization, including technological advances, reduced transportation and communications costs, as well as improved logistics — all of which combined to allow companies to structure their operations around global supply chains to take advantage of vast cost differences across countries. Emerging markets became major players in international commerce, through the rise of China and India, as well as the integration of Eastern Europe into the global economy after the fall of communism. During this period, global trade helped to lift millions of people out of poverty.

Since the global recession, however, trade growth has slowed. Protectionism has increased, global growth has generally (until more recently) been weak, and trade has been lackluster. These factors have contributed to a slowdown in the growth of trade-to-GDP in the post-recession period.

Still, despite elevated geopolitical risks, a delayed global recovery is now finally gathering strength. Since mid-2016, global economic growth has repeatedly bettered expectations, leading to upward forecast revisions. Leading indicators are improving for a broad range of countries. Impressive job gains and rising wages are drawing millennials in the U.S. and Canada back into the labour market, and this has underpinned the consumption of durables and housing markets. Europe’s economy showed surprising strength in 2017, which is expected to persist this year. In emerging markets, which have become the engine of global growth, China and India together contributed nearly half of global growth in 2017. Both countries are expected to continue to grow in the range of 6-7 per cent annually over the medium term.

Despite on-going trade policy uncertainty, EDC is of the view that international trade will in fact be a key contributor to the resurgence in the global economy, with particular strengths in emerging Asia and the United States, as business confidence continues to improve, and new investments take hold. A resurgence in global trade will spread economic gains more broadly across countries.

EDC expects the acceleration in global growth that began in 2016 to continue into 2019. Canada’s surprising strength in 2017 is expected to abate this year, and the U.S. economy should assume the lead position among developed markets, with a boost from tax cuts and increased government spending and deregulation. In emerging markets, the acceleration in 2017 was mainly due to Brazil and Russia coming out of recessions. India is the growth leader for both 2018 and 2019 in our forecast, while China’s growth will also remain impressive.

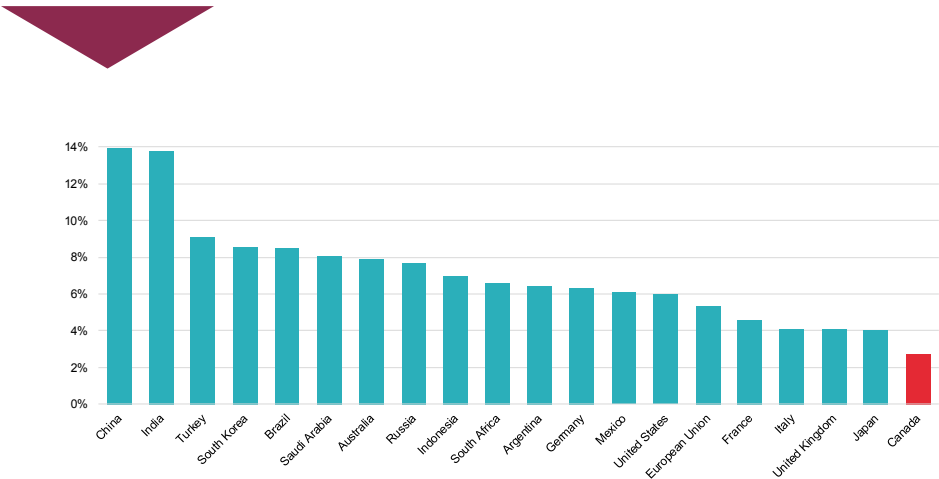
In this environment of better growth, companies are looking to expand sales abroad, but they will need to contend with a number of contemporary risks. These include increased global competition, especially from lower-cost emerging markets, who are looking to innovate and move up the value chain. Rising borrowing costs will also be a factor, as interest rates begin to normalize from historically low levels. Perhaps the most contemporary risk of all is the new uncertainty about the future of global trade rules, as a number of countries have signaled a willingness to invoke protectionist policies. If this policy risk remains contained, which is the baseline view of EDC, then global trade should continue a solid growth performance.

2.3 THE CANADIAN TRADE CONTEXT

During the 1990s, Canada’s economy adjusted positively to a major trade development in the form of the Canada-U.S. Free Trade Agreement (subsequently NAFTA). Canada experienced strong growth in both its trade as a share of GDP and its business-sector productivity. Through more recent history, however, Canada’s trade performance has disappointed. In fact, Canada’s trade performance in the 21st century has been last among the G-20 countries.

Export of Goods and Services, G-20 countries, 2002-2016

(Average annual percentage change)



This poor performance can be attributed, in part, to Canada’s relatively low level of trade diversification and an overreliance by Canadian exporters on the U.S. market, where -notwithstanding NAFTA - lower-cost countries such as China and Mexico, have dramatically increased their market share at Canada’s expense.

In this regard, there have been some important and encouraging developments, as in recent years Canada has noticeably increased the share of its international activities with emerging markets. In particular, Canadian companies are increasingly using outward investment, foreign affiliates, and services to reach consumers directly in fast-growing emerging markets, increase productive efficiency, and overcome market access barriers at the border.

The strength of the domestic economy in Canada (relative to many other post-crisis economies) has also had a role in Canada’s trade performance and EDC’s economic outlook provides reason for trade optimism for Canadian exporters. After achieving seven per cent growth in 2017, Canadian merchandise exports are forecast to have another strong six per cent expansion in 2018. Canada’s trade performance is being bolstered by a strengthening of the U.S. economy and a rebounding energy sector. In 2017, Canada’s

export gains were predominantly fueled by higher prices in the energy, ores and metals sectors. This year, both commodities and manufactured goods will make strong contributions to the bottom line. Exports of services, particularly related to finance and insurance, also figure to play an increasingly significant role in Canada's trade narrative, as will the growing role of foreign affiliate sales.

The key headwind for EDC's near-term export forecasts would be an escalation of global trade protectionism and, in particular, the prospect of new trade disputes with the United States. These risks have been substantially mitigated by the recent announcement, on September 30, 2018, of an agreement-in-principle on the new trilateral trade agreement between Canada, the United States and Mexico (newly named the United States-Mexico-Canada Agreement, or USMCA) to replace NAFTA. Further near-term upside possibilities include faster-than-anticipated trade expansion triggered by the unleashing of pent-up demand in major export markets and globally synchronized economic growth.

Long-term prospects for Canadian trade are brightened by recent trade agreements, including the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which are expected to have a sustained positive impact on Canadian exports and investment opportunities. New trade agreements are opening doors of opportunity around the world for Canadian companies.

2.4 WHY EXPORTING MATTERS TO CANADA

International trade is central to economic prosperity across the world, and especially critical for Canada. As the second largest country in the world, inhabited by a relatively small population and domestic market size, we achieve prosperity and afford a high-quality of life by selling to others. Canadian companies sell their products and services abroad in order to tap into larger markets that can allow them to specialize in their production, achieve economies of scale and increase their capacity utilization.

When Canadian companies achieve growth by entering export markets, they often accumulate capital, increase their competitiveness, invest in advanced technologies, research and development, and training. They also expand employment and production, at home and around the world, and allow Canada to learn from and adopt international best practices. Exporters disproportionately contribute to Canada's economic success. As one illustration, from 1974 to 2010, the 35 per cent of Canadian manufacturing firms that were exporters accounted for more than 72 per cent of total manufacturing employment, and their labour productivity was 13 per cent higher than that of non-exporters.

Statistics Canada estimates that Canada's direct exports contribute 22 per cent to the nation's Gross Domestic Product (GDP), and 17 per cent of jobs. When considering service exporters and indirect exports, these numbers would be even higher. Every dollar of export sales has a significant multiplier effect on the Canadian economy. The mandate of EDC – to support and develop Canada's export trade and Canada's capacity to respond to international business opportunities - reflects this critical function of trade for Canada. EDC now supports nearly 15% of Canada's total exports and direct investments abroad, contributing to \$3.8 billion in Canadian GDP and more than \$100 billion of international business for Canadian companies.

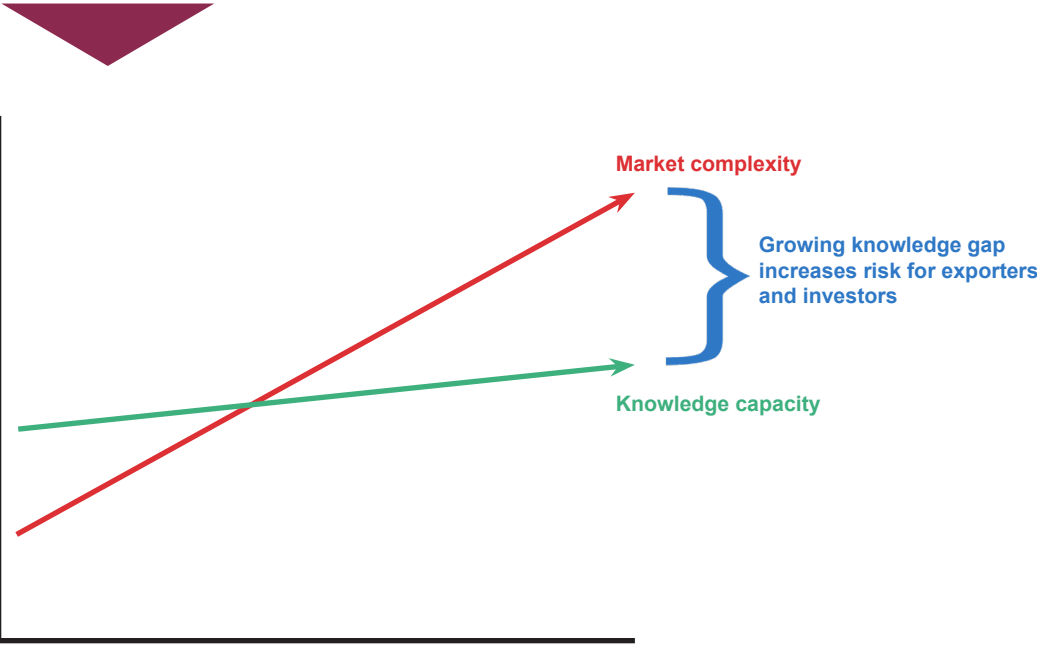
2.5 AGE OF DISCOVERY & THE NEW KNOWLEDGE GAPS

A contemporary and critical factor of success in international trade is the ability to discover and exploit the best available market information. The increasing complexity of the global economy and its supply chains and financial linkages, regulatory requirements, geopolitical risks and constant technological change are increasing the premium on timely, accurate market knowledge.

EDC expects that, as barriers to exporting, knowledge gaps will continue to grow relative to financial gaps, while global markets and economies become more complex. Unfortunately, the private sector cannot be

expected to solution this problem by collecting and sharing sufficient export-related knowledge. This is largely due to a “free rider” problem — individual companies are reluctant to share valuable experience and information with competitors, and service providers are unable to profit by investing in the collection and sale of the information given how easily, once shared, it can be reproduced by others. Larger companies are less susceptible to knowledge risks, as they can invest in their own commercial knowledge, rely on their extensive institutional experience and, when problems arise, hire experts to solve them. SMEs face higher knowledge obstacles. This limitation on “knowledge capacity” increases the risks of trade, particularly for SMEs in Canada.

Knowledge Gap grows as knowledge capacity fails to keep pace with market complexity



Source: Derived from Ian Goldin and Chris Kutarna (2016). *Age of Discovery: Navigating the Risks and Rewards of Our New Renaissance*.

In response to knowledge gaps of Canadian exporters, EDC and its trade partners, including the Trade Commissioner Service, are investing in the development of online and free-of-charge information resources available to Canadian companies to unlock the potential exporting.

EDC research show that top obstacles to exporting include a lack of market knowledge, logistical knowledge (customs procedures, tariff information, etc.) international commercial knowledge and other knowledge resources needed to establish local connections and partnerships. These challenges appear to be more significant than financial challenges for many Canadian exporters.

To deliver against these challenges, exporters (particularly SMEs) are increasingly relying on EDC’s expertise in trade and trade finance, our experience transacting in global markets and assisting Canadian companies successfully respond to international business opportunities. Knowledge and information are pre-conditions for exporting and EDC will continue to develop and deploy products and services to respond to this need and to put EDC’s expertise in the hands of Canadian exporters. Responding to the need for knowledge will deepen EDC’s relevance to Canadian companies at all stages of their journey and, we believe, will ultimately result in greater need for EDC’s financial solutions and export growth for Canada.

PART THREE



EXPORT DEVELOPMENT CANADA IN 2018

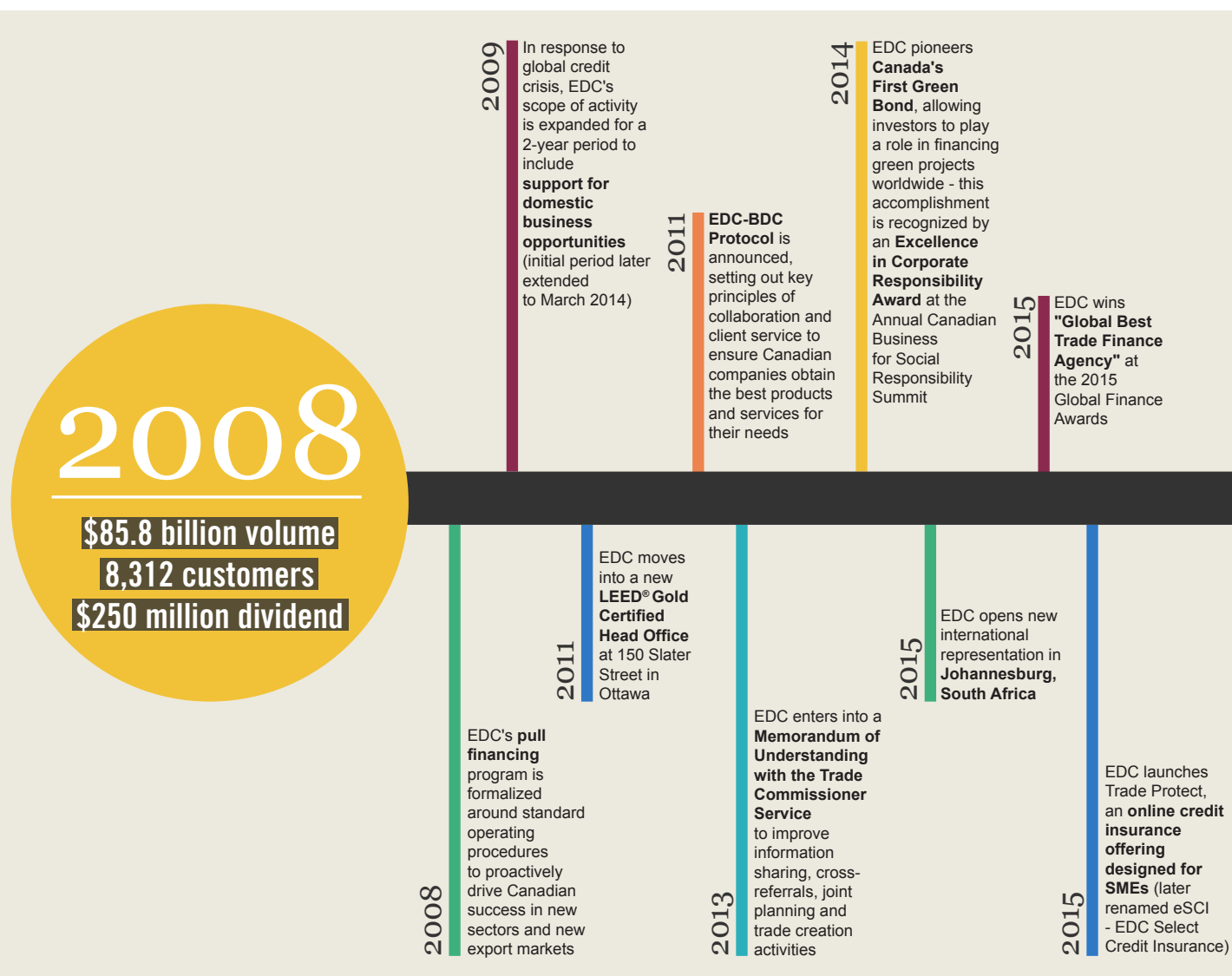
Our evolving franchise

3.1 INTRODUCTION

In 2019, we will mark the 75th anniversary of the establishment of EDC as Canada's export credit agency. From proud but humble beginnings - in 1944, our four employees served a total of 13 customers - the EDC of today is a substantial contributor to the Canadian economy and the competitiveness of thousands of Canadian companies on the world stage. Last year, we served more than 9,000 companies and facilitated more than \$100 billion of international business, representing an equivalent of more than 500,000 jobs. Our results reflect the continued success of EDC in evolving to meet the changing business needs of Canadians.

In the decade since our last Legislative Review, EDC has enhanced our role as a provider of financing and risk mitigation products while also establishing ourselves as a foremost center of expertise in international trade. Today, EDC not only supports the existing business of our customers, we also proactively create new opportunities for trade by providing the knowledge, connections and financial solutions to accelerate the success of Canadian exporters and generate enduring prosperity for Canada.

3.2 KEY CORPORATE DEVELOPMENTS (2008-2018)





2016

EDC opens a new office in **Brossard, QC** and new international representations in **London, UK** and **Jakarta, Indonesia**

2016

EDC ranks in Canada's **Top Ten Responsible Corporate Leaders** from Corporate Knights

2017

EDC Named to **Future 40 Responsible Corporate Leaders in Canada** by Corporate Knights

2017

EDC establishes **FinDev Canada**, Canada's international development agency, as a wholly-owned subsidiary

2018

EDC awarded "**Export Credit Agency of the Year**" by TXF, a leading international magazine specializing in trade and export finance

2018

\$103.7 billion volume

9,398 customers

\$970 million dividend

2016

EDC awarded "**Best Global Export Credit Agency**" at the 2016 Trade Finance Awards

2017

EDC opens a new international representation in **Sydney, Australia** and its first international corporate branch office opens in **Singapore**

2017

EDC opens new offices in **Saskatoon, SK**, and **Charlottetown, PEI**

2018

EDC named to **Best 50 Corporate Citizens in Canada** by Corporate Knights



The Government of Canada announced in its 2017 budget the decision to create a Development Finance Institution (DFI), with a mandate to achieve development objectives by providing financial services to private sector enterprises in developing countries. EDC was entrusted with creating the DFI and spent 2017 planning and preparing for its successful formal launch in January 2018. Named Development Finance Institute Canada (DFIC) Inc., the DFI operates under the business name of FinDev Canada.

FinDev Canada has been established as a wholly owned subsidiary of EDC and is headquartered in Montreal. EDC was selected to house the DFI as it has many of the capacities and skills necessary to build and oversee its operations. By drawing on EDC's financial and international expertise, FinDev Canada will be able to support private sector initiatives in places where financial services to businesses are not readily available. FinDev Canada will contribute to international development by providing financing solutions to entrepreneurs in developing countries. Through its services, it will help support long-term development by building local economic capacity, contributing to the economic empowerment of women and acting on climate change mitigation and adaptation.

Performance will be measured against three key themes: market transformation, women economic empowerment, and climate mitigation and adaptation. Achieving these types of outcomes will take time. FinDev Canada is following a phased implementation plan, with a long-term goal to drive innovation on the global development finance scene. The vision of FinDev is to be a key contributor to inclusive international development financing, offering innovative solutions that have a sustainable impact.

3.3 CORPORATE VISION AND PLANNING

As discussed in Part One and Part Two of this submission, EDC has devoted considerable time and resources to building a better understanding of our customers and the global trade marketplace that they are venturing into. We have researched the exporter community as an addressable market and studied the journey that Canadian companies go through as they evolve to become successful exporters. Our objective has been to develop a more comprehensive picture of what exporters really need to succeed – independent of the solutions that EDC has on offer.

This work, naturally, has informed an analysis of our own organization and a reevaluation of our service offerings to Canadian companies. In response, we have adjusted our business strategy and planning in order to remain relevant to exporters and have a greater impact on Canadian trade. In 2016, we adopted a new and ambitious corporate vision – EDC as the leader in helping every Canadian company go, grow and succeed internationally. Since then, we have reorganized our planning and our deployment of skills, market understanding and business channels in ways that directly align with the needs of exporters.

In short, our business strategy is focused on doing more to increase the number of Canadian companies that go, grow and succeed internationally. We will do this by offering the best available knowledge, connections and financial solutions to meet the needs of Canadian companies. As set out in our 2018-2022 Corporate Plan, we will accomplish this transformation while maintaining our strongest commitment to financial sustainability and our key contributions to the Government of Canada's trade and investment agenda.

3.4 ROLE IN CANADA'S TRADE PORTFOLIO

Contributing to Canada's Trade and Investment Agenda

The Government of Canada has been clear in its support of globalization and free trade. This sends a message to the international marketplace that Canada is open for business. The Government's upcoming Export Strategy will set the foundation for how Canada's trade portfolio partners will work together to bring more of Canada to the world. EDC has offered our full support and collaboration on the development of this strategy and expects to play a key role in implementing the strategy once complete.

Central to the strategy will be the Government of Canada's trade priorities, including efforts to strengthen the middle class, support SMEs, clean technology, and trade diversification. As demonstrated throughout this submission, EDC is committed to the successful delivery of these priorities. We will continue to work alongside our trade portfolio partners, the Trade Commissioner Service and the Canadian Commercial Corporation, as well work with other Government partners like the Business Development Bank of Canada (BDC), Innovation, Science and Economic Development Canada (ISED) and Sustainable Development Technology Canada (SDTC) to play our role in a "Team Canada" approach to international trade.

Enhanced Collaboration with the Trade Commissioner Service

The Trade Commissioner Service (TCS) is EDC's closest partner in trade. Over the past 10 years, the partnership between EDC and the TCS has been substantially upgraded and expanded to provide better coordinated service to Canadian exporters.

In 2013, EDC and the TCS signed a Memorandum of Understanding (MOU) to improve our collaboration and more efficiently deliver services to Canadian exporters and investors. The MOU, which has been renewed on successive occasions and remains in place today, focuses on communication and information sharing and the joint coordination of trade creation activities. More specifically, the MOU promotes leveraging our respective resources in international markets to expand our shared reach, develop foreign buyer relationships and maximize pooled resources for matchmaking.

In 2014-2015, EDC and TCS implemented enhancements to our joint planning efforts by enabling the regular sharing of strategic and operational plans between EDC's foreign representations and our TCS partners. Also, during this period, EDC, the TCS and several other government departments reached an agreement to jointly fund and coordinate Canadian trade development activities in the United States and Mexico under the North American Partnership Program (NAPP).

Over the past several years, EDC has become active in working with the TCS on sector advisory committees, working groups and advisory boards and we have collaborated in developing value chains and supplier lists for trade creation activities. Perhaps most visibly to exporters, EDC and the TCS are now collaborating on numerous matchmaking and trade promotion events each year; indeed, close to half of EDC's matchmaking events in recent years have been led by or co-led with the TCS.

Most recently, since 2017, EDC and the TCS have been working together on a comprehensive project to further enhance our working relationship and service delivery to Canadian exporters. This project has included a role mapping exercise facilitated by a leading international consulting firm and several working group meetings between EDC and TCS leadership. Recently, the working groups identified four priority areas to enhance our future collaboration. These are: Information Sharing, Client Referrals, Canadian Capabilities and Training. Action plans have been developed and are in the process of being executed in respect of each of these priorities. These action plans will further refine our work together towards our common objective of supporting the needs of exporters. EDC will continue to prioritize our partnership with TCS to identify areas of synergy and new opportunities to strengthen our collaboration.

Partnership with the Business Development Bank of Canada

EDC is proud to work together with our sister Crown Corporation, the Business Development Bank of Canada (BDC), to deliver seamless service and financial capacity to Canadian companies. There is considerable momentum in the partnership between EDC and BDC as we are working more closely together than ever to ensure complementary support and to position Canadian firms, most notably SMEs, for success in global markets.

BDC assists entrepreneurs in bringing their innovative products and services to market and helps them strengthen their business domestically so that they can sustain further growth. When these SMEs set

their sights on expanding internationally and begin their voyage along the exporter journey, they often transition to EDC for support in growing their global sales.

Our existing protocol with BDC ensures that Canadian companies have access to the services and financial capacity that best suit their needs. EDC and BDC have agreed to not duplicate services and have a formal referral program in place to ensure that companies are introduced to the right organization at the right time. In 2017 this program resulted in 613 referrals between our organizations, up from 408 referrals in 2016 and 313 in 2015.

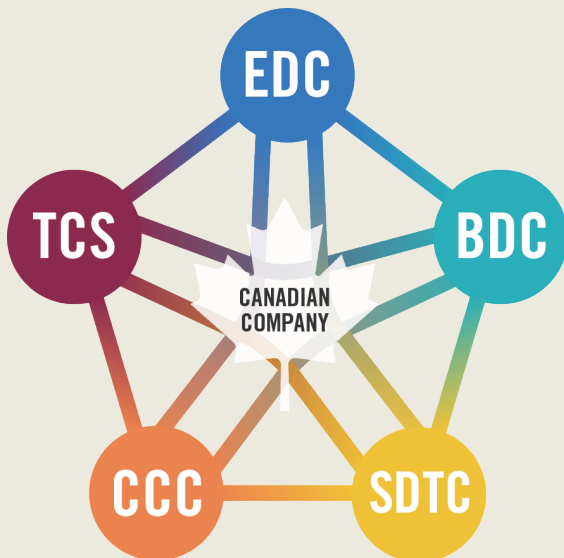
Looking forward, the EDC-BDC relationship will continue to evolve with the introduction in 2018 of a number of joint initiatives including new cross-promotion marketing efforts and enhanced training for our respective salesforces. EDC and BDC are also collaborating to develop targeted programs for entrepreneurs and exporters. Most recently, in June 2018, EDC and BDC announced a \$50 million partnership agreement to provide working capital loans to Canadian technology firms engaged in, or planning to engage in, international business. Through initiatives like this, and a clear focus on cooperation, EDC and BDC are delivering new levels of complementary support to help SMEs grow and scale their businesses and develop global markets.

Canada's Trade Ecosystem

Leveraging a "Team Canada" approach to trade:
Canadian companies stand the best chance of succeeding internationally when they have a coordinated network of support at home.



Working with key government partners



TRADE COMMISSIONER SERVICES (TCS)

We have extended our Memorandum of Understanding (MOU) with the TCS and since 2017, EDC and the TCS have been working together on a comprehensive project to further enhance our work together towards our common objective of supporting the needs of exporters.

CANADIAN COMMERCIAL CORPORATION (CCC)

EDC began piloting joint meetings with the CCC - our sister Crown corporation - to discuss potential transactions we could partner on or refer each other to. With CCC entering the cleantech space, we anticipate further engagement with it on this Government priority.

SUSTAINABLE DEVELOPMENT TECHNOLOGY CANADA (SDTC)

We are continuing to focus on information with SDTC. This has helped build a more rapid-response capacity to help cleantech companies scale up once they're ready to export.

BUSINESS DEVELOPMENT BANK OF CANADA (BDC)

The EDC-BDC relationship includes a number of joint initiatives. EDC and BDC recently announced a \$50 million partnership agreement to provide working capital loans to Canadian technology firms. In 2017, there were more than 600 referrals between our organizations, up nearly 50% since 2015.

3.5 PARTNERING WITH THE PRIVATE SECTOR

Partnership with the private sector is a core tenet of EDC's business. Partnership generally means sharing risks on commercial terms, where our level of involvement depends on the availability of private-sector capacity. EDC also provides financial solutions when gaps exist, or private sector capacity or risk appetite is limited. Examples would include foreign buyer financing in challenging markets, transactions with longer tenors, and financial solutions for smaller "breakthrough" companies in emerging areas like cleantech. Private sector risk appetite has been, and is expected to remain, more limited in the wake of the 2008-2009 financial crisis, as regulatory changes have increased capital and other requirements on financial institutions. These reforms have had a disproportionate impact on the ability of SMEs to access financing and have increased the relevance of opportunities for EDC to partner with the private sector in order to reach this traditionally under-served segment of the market.

As part of our corporate vision to reach and serve more exporters, EDC is investing in an expansion of our partnership business through the establishment of dedicated Partnership Channel teams. These new teams are responsible for leveraging EDC's network with private sector partners to reach more Canadian companies doing business internationally.

Adding Capacity - Sharing Risk

Working with private sector partners to combine our expertise and add risk capacity is the most efficient way to expand our reach and have a greater impact on Canadian investment and trade. Over the years, EDC has built extensive relationships with commercial financial institutions, in Canada and around the world. We aim to leverage these relationships and complement the activities of the private sector whenever it can bring greater value to the customer. For example, in 2017, \$11 billion representing 41% of EDC's financing transactions were done in partnership with private sector financial institutions.

In addition to our cooperation on direct lending transactions, EDC provides insurance and guarantees to private sector financial institutions in order to stretch their capacity to serve the working capital needs of exporters. In this way, EDC ensures that more Canadian companies can work with the financial institution of their choice in order to satisfy their need for financial intermediation to pursue international business.

Bank Partnerships

The overarching objective of EDC's cooperation with banking partners is to increase the capacity for international trade and investment finance in Canada. Our bank partnerships are critical to the success of our customers. Nearly all Canadian exporters have a relationship with a Canadian bank as their primary provider of financial solutions. The role of EDC is to understand how to complement and enhance these solutions in order to support the company's success in export trade. Banks refer clients of all sizes to EDC. Banks also make direct use of EDC's guarantee programs (described in Section 3.9 of this Submission) to risk share with EDC and extend greater support to Canadian companies that are pursuing international business opportunities.

The demand for EDC's support from Canada's commercial banks is a testament to the relevance of EDC to the banks and to their customers. Banks represent one of the main avenues for EDC to reach companies and, in 2017, transactions closed in collaboration with Canadian banks accounted for 4,300 customers or approximately 46% of EDC's customer count. At the same time, Canadian banks provided nearly \$47 billion of financial support to Canadian companies with the backing of EDC insurance or guarantees. In a 2016 survey of commercial banking employees of EDC's largest bank partners, nearly 100% of respondents indicated that they were likely to recommend EDC products to their customers. 92% indicated that they were satisfied or very satisfied with EDC's products and services (76% were "very satisfied") and 89% indicated that their customers were satisfied or very satisfied with transactions supported by EDC (58% were "very satisfied").

A partnership-based business model has been the key to EDC's success in building a positive, complementary working relationship with Canadian banks. Recognizing the importance of this business channel, in 2016, EDC set out to determine a more deliberate strategy and a standardized approach to our bank channel management. This has resulted in the establishment and staffing of a designated Bank Channel Management team. This new team will enable significant enhancement of EDC's bank partnerships through the implementation of an integrated national strategy based on data, customer input, and clearly defined priorities and goals.

A leading international consulting firm was recently engaged by EDC to assist with the design and management of our new Bank Channel Management Strategy. This work has resulted in more than 20 specific recommendations, a number of which have already been converted into action plans, including the roll-out of new roles and responsibilities for designated channel managers, new product development, targeted outreach and bank-centric training opportunities on EDC products. EDC anticipates that this expanded, robust approach to bank partnerships will drive higher levels of complementary business for EDC and the banks and will expand the availability of support for Canadian exporters.

Partnering with Insurance Brokers and Private Sector Insurers

EDC actively looks for new ways to support private sector insurance firms and brings value to the credit insurance market through reinsurance and partnerships. EDC supports the objective of the private sector to grow the Canadian credit insurance market by providing a stable supply of credit capacity and leveraging strategic relationships with banks, brokers and private insurers. EDC has also made significant efforts, in partnership with private insurers, to increase the awareness of credit insurance products in Canada. As noted in Section 3.8 of this Submission, EDC is focused on helping to grow the overall size of the credit insurance market in Canada, without increasing our own market share. In the period since the last Review, EDC's market share has continued to decline, from approximately 50% in 2008 to approximately 40% today.

EDC leverages private sector distribution capabilities for its credit insurance products. These include Canada's insurance brokers. Insurance brokers are an effective partner to ensure that Canadian companies understand all the insurance solutions that are available to them. EDC, together with its fellow members of the Receivables Insurance Association of Canada (RIAC) are further developing broker relationships through training and other initiatives. As part of EDC's new Partnership Channel strategy, we have renewed our broker commission structure to ensure market alignment.

Expanding the Partnership Model

EDC offers export credit insurance to protect against non-payment risk when a Canadian company sells internationally. In respect of domestic credit insurance (that is, insurance on non-payment risk for sales within Canada), EDC does not underwrite these sales, but instead leverages a successful and long-standing partnership with a private sector insurance company, Coface. Through this partnership, EDC and Coface collaborate to deliver a joint policy that allows Canadian companies to obtain comprehensive insurance coverage on their global sales (export and domestic).

EDC believes that our ability to offer a partnered, comprehensive insurance solution for both international and domestic sales is critical for Canadian SMEs, many of whom may otherwise be unable to obtain this critical domestic insurance support for their growth strategy. Approximately 40% of EDC's credit insurance customers currently take advantage of the joint policy option with Coface. In the coming years, EDC intends to expand the Coface partnership model to other private insurers, which will open a new avenue for EDC and the private sector to partner in growing the credit insurance market.

As discussed in Section 4.8 of this Submission, the Regulations currently applicable to EDC limits our ability to execute the planned expansion of the domestic credit insurance partnership model to other private sector insurers. In that section, we recommend consideration of potential regulatory amendments to better enable EDC's private sector partnership model and approach.

3.6 ROLE AS CANADA'S EXPORT CREDIT AGENCY

EDC is proud to be recognized as one of the leading export credit agencies (ECAs) in the world. Our recent "Export Credit Agency of the Year" award, at the 2018 Trade & Export Finance Conference, echoes acknowledgements that are regularly bestowed on EDC. In recent years, EDC has also been named "Best Global Export Credit Agency" at the 2016 Trade Finance Awards and "Global Best Trade Finance Agency" at the 2015 Global Finance Awards. These recognitions honour our employees, our partners and customers, as well as our shareholder, the Government of Canada.

In accepting this recognition, it is at the same time important to acknowledge that every ECA operates in its own unique ecosystem, with abilities and expectations that are particular to its organization, operational model, financial system and customer needs. While there are surely some effective best practices that ECAs should work towards, there is no "best" (or even "typical") ECA model that all others can benchmark and aspire to. Products and programs, legal forms and mandates, differ greatly between ECAs around the world and each ECA must perform against its own purpose and the specific characteristics of its market.

The Canadian Model

EDC is established as a Crown Corporation (wholly-owned by the Government of Canada) that operates on the basis of commercial principles, at arm's-length from the government, and reports to the Parliament of Canada through the Minister of International Trade Diversification. While our organizational status is relatively unique, there is in fact no form of ECA that could be considered standard. Some ECAs operate as government departments, some are public corporations, and some are private or quasi-private corporations that conduct their ECA business on behalf of (and guaranteed by) their government.

More important to the effectiveness of an ECA than its legal form is its mandate and how well the ECA has been positioned by its government to support the needs of exporters. EDC has one of the broadest mandates of all ECAs, as set out in our constating statute, the *Export Development Act* (the "**Act**")¹. The Act establishes EDC with the powers and purpose to: *support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities.*

While all ECAs support the trade of their exporters, EDC is also tasked with a more proactive mandate to "develop" export trade - and can undertake activities that support or develop trade either "directly or indirectly". The flexibility that is built into our mandate has shaped the evolution of EDC's business, particularly with respect to the advancement of trade creation financing programs (pulls, protocols and equity connect), and the knowledge and connections services that we can offer to our customers. Our mandate differentiates EDC from many other ECAs in our ability to proactively respond to Canadian companies' needs and remain relevant as those needs change over time. In areas where ECAs often struggle to satisfy customer demands (for example, national content requirements, product innovation, support to SMEs and customer service), EDC has the ability to innovate through flexibility and our responsiveness to customer challenges in the global marketplace.

¹ R.S.C., 1985, c. E-20

Given this comprehensive mandate, EDC has over time developed the broadest suite of products and services offered by any ECA. Moreover, we offer these solutions under one roof, whereas some ECAs provide only risk insurance solutions to their exporters while another national entity provides funding solutions.

In the area of buyer financing, EDC's direct lending model positions us to increase our relevance to international buyers, and allows us to provide financing support alone or in partnership with banks. This ability has served as an advantage to our customers as we can then leverage these relationships to influence procurement and connect Canadian suppliers to new international business opportunities.

EDC's extensive direct lending experience, particularly in areas such as project finance and aerospace, has enabled us to build significant risk management abilities and financing expertise to the point where EDC's presence is often seen by foreign buyers, borrowers and banks as adding value to the Canadian bid, especially when it involves large, complex transactions.

Commercial Orientation / Market Terms

While many ECAs, particularly in Europe, provide financial support structured solely in conformity with the terms of the OECD Consensus Arrangement² ("**Consensus Terms**"), EDC structures and prices its financing on Consensus Terms or on terms consistent with the commercial market ("**Market Terms**"). This ability is to the advantage of Canadian companies as it enables EDC to address financing gaps and add capacity where it matters most, regardless of structural requirements imposed by international buyers.

EDC's expertise in direct lending, on Market Terms, can therefore be contrasted with the more traditional ECA practice of providing guarantees, on Consensus Terms. One important difference is that the traditional model requires that an ECA rely on the presence of commercial banks to actively engage in international trade finance activity. In contrast, EDC can fill gaps to support exporters by adding capacity, lending alongside the market or, where necessary, we can provide financing on our own that will support Canadian companies.

An advantage to this lending model was well-evidenced during the 2008-2009 financial crisis, when EDC was able to mitigate, for the benefit of our exporters, the lending gap that arose while the global banking industry was in retreat. During the crisis, many international banks were reluctant to lend, even against ECA-guarantees, due to a lack of liquidity. This put into a favourable position those ECAs, like EDC, which could offer direct funding solutions to support export trade. Today, many international markets, borrowers and industry sectors continue to pose higher risks – risks that Canadian commercial banks are not always comfortable taking. This creates a gap in the market which EDC's financing program helps to address in support of Canadian exporters. By lending on Market Terms, EDC ensures that it is complementing the private sector, adding capacity in support of Canadian trade without providing a subsidy.

In our experience, the ability to provide direct financing on Market Terms has been instrumental in meeting the needs of Canadian SMEs and their international buyers. Our commercial approach to financing provides EDC with the flexibility to structure innovative financial solutions, including our trade creation facilities, without distorting the market and in full compliance with Canada's international obligations. This approach will continue to be critical for EDC to remain relevant to Canadian companies and deliver on our mandate to support and develop Canadian trade.

² *OECD Arrangement on Officially Supported Export Credits*

ECA Trends: Evolution of ECA Support

Since the 2008-2009 financial crisis, international banks have adapted their trade finance models to adjust for lower appetite for longer tenor export financing and to accommodate higher costs of regulatory compliance. Several ECAs have responded with considerable innovation to ensure the continued flow of global trade. One example is that more ECAs have obtained the ability to offer direct funding in order to support their country's exporters. Rules concerning national content and origin have also been relaxed while several ECAs have become more proactive in developing trade with facilities similar to EDC's pull and protocol programs. Another significant driver for change is the emergence of Asian ECAs, notably in China, whose volume of largely unregulated trade support has quickly grown to dwarf the levels of support provided by any other ECA. This has invoked a response by other countries to adopt more aggressive trade promotion as the playing field becomes increasingly competitive. The result of these factors is that more business is being done outside the terms of the OECD Consensus Arrangement.

To say that many other ECAs are converging on EDC's model would at this point be an overstatement. However, the ECA landscape is certainly shifting, mandates are being broadened and traditional ECAs are being challenged to evolve their model to keep pace with competitive pressures. EDC's ongoing scan of trends among other ECAs now often points to areas where EDC risks falling behind other ECAs and losing ground for our customers. Examples would include the ease of use of some of our products, our facility with local language documentation and local accounting standards in some markets, and our ability to re-enter challenging markets following a position closure (based on economic or political events or government sanctions).

On balance, EDC continues to compare favourably with other ECAs in our service to exporters. Staying ahead of the curve and maintaining the ability to serve the unique needs of Canadian companies will require vigilance, flexibility and ongoing innovation. EDC's corporate vision and our evolving franchise is intended to ensure that Canadian companies have the support they need to go, grow and succeed.

3.7 TRADE CREATION AND THE PULL STRATEGY PILLAR

Since the 2008 Legislative Review, business development activities at EDC have evolved significantly to the point where our value-added contributions are now distinguished between two strategic outcomes: trade facilitation and trade creation.

Trade facilitation reflects the normal flow of transactions that results from meeting customer needs with the solutions and risk capacity that EDC brings to the table. Trade creation, on the other hand, goes beyond the current transaction flow to the more proactive identification of new opportunities in international markets or specific sectors where Canada has a competitive advantage. EDC has several mechanisms and tools that are used to maximize our trade creation efforts, including protocols, equity connect initiatives (discussed in Section 3.12 and Section 3.10 of this paper, respectively) and pull transactions.

EDC's most well-known and widely-used tool for trade creation is the "pull" financing program. A pull facility is an untied financing commitment made to an international buyer, which is leveraged by EDC to influence that buyer to begin, or augment its procurement from Canadian suppliers. Pulls are most often concluded with large international buyers that are industry leaders and have expansive global or regional footprints. Pull facilities are only considered where EDC has a well-developed understanding of the buyer's procurement needs and the ability of Canadian exporters to meet those needs.

Prior to closing the financing facility, a written (though non-legally binding) commitment is made by the buyer to consider Canadian procurement and to work with EDC to better understand Canadian capabilities. For example, the buyer will commit to helping EDC to develop opportunities for Canadian

exporters by providing access to their procurement personnel, regular participation in matchmaking events with EDC and Canadian exporters, and via in-bound road shows to meet potential Canadian suppliers. Every successful pull relationship relies upon a trusted partnership between EDC and the international buyer.

The program has evolved over several generations into a key trade creation tool today. Relative to our other trade creation tools, such as the smaller protocol program and our more recent equity connect strategy, the pull program represents our most substantial investment in trade creation. The success of the pull program has been a key contributor to EDC's mandate and financial sustainability and has supported the export business of hundreds of Canadian companies in developed and emerging markets around the world. In 2017, EDC extended 51 new pull loans for total loan volume of \$7 billion. This included 16 loans to first-time pull buyers, for a total portfolio of 99 active pull relationships. During the year, just over 1,600 Canadian companies supplied to these pull relationships. The vast majority (more than 1,000) of these companies were Canadian SMEs.

Through our technical and supply chain expertise, EDC leverages the pull program to deliver highly-valued, targeted connections of Canadian exporters to our pull buyers through formal matchmaking events (industry tradeshows or inbound/outbound missions) and through "direct" introductions (in-person or virtual meetings). In 2017, EDC organized 17 matchmaking events with our pull buyers resulting in 401 introductions of Canadian companies.

In recent years, we have made considerable investments in our ability to demonstrate the success of our pull program and the resulting connections activity. In 2016 and 2017, we developed new systems to improve our data and introduced connections targets (for example, matchmaking attendance and introduction targets) for new pull relationships. Annual pull scorecards were also introduced which now report on the connection activity of each pull account. These scorecards enhance the visibility of EDC's influence on our pull buyers and the accountability of our business development staff for the success of the pull program. This year, EDC has launched a new Connections Tracking System which will capture and report on all of our connection activities, including the promotion of Canadian companies to our buyer relationships, introductions, and the exporter success stories that result from our targeted connections (including contract wins). This system will enable EDC to better demonstrate the effectiveness of our trade creation efforts and, in particular, the pull program.

3.8 CREDIT INSURANCE

Exporters use credit insurance to protect themselves from risks of non-payment by their international customers. In its most basic form, exporters purchase a credit insurance policy, pay a premium, and are then protected up to 90% of the contract value if their customer does not pay for the goods or services provided. Of critical importance to many exporters, in addition to risk mitigation, credit insurance can be used to finance a company's accounts receivable: the insured sales are used by the exporter as security in order to access additional working capital from their bank. The protections and benefits offered by credit insurance are particularly valuable to SMEs who may not be able to bear the risk of loss on a significant export sale, require working capital to manage their growth and need substantial protection to take on the risk of exporting into new markets.

In 2017, EDC's credit insurance program served more than 4,700 customers and insured more than \$55 billion of exports. Approximately 85% of our credit insurance customers were SMEs.



SOLACOM

Tracking and prioritizing 9-1-1 calls is highly complex, with calls today originating from landlines, mobile phones and computer IP addresses. Solacom Technologies provides intelligent, “next generation” 9-1-1 critical communications systems to meet these requirements, with 90 per cent of its sales going to the U.S. To succeed in this highly competitive American market, Solacom must prove its reliability, including the financial capacity to take on projects.

Solacom found that EDC’s Credit Insurance gave their bank more confidence in the company. “Because our receivables were insured for payment, our bank was comfortable providing more credit and financing,” says Pierre Plangger, Solacom’s CEO. “This ensured we could take on new contracts and continue to grow.” Solacom has grown to over 400 installations in the U.S., including some state-wide deployments. It is also selling to other countries including Canada and Australia.

The Evolution of the Credit Insurance Landscape

In establishing EDC, now almost 75 years ago, the Government of Canada recognized the need for a public instrument to serve the credit insurance needs of Canadian exporters. Since then a dominant player in the market, EDC was in fact the only Canadian provider of export credit insurance until 1990. Around the world, other ECAs occupied similar monopoly positions during this time, until the late-80s and early-90s when private sector insurance companies began to expand their businesses beyond domestic risks.

Over the past 25 years, the credit insurance market has matured and attracted private sector participation, although faster and to a greater extent in Europe than in North America. An estimated 10 to 15 per cent of companies in Europe now utilize credit insurance, compared to only 3 to 4 per cent in Canada and the United States. This has contributed to the success of three large European-based global private credit insurers (Euler Hermes, Coface, Atradius), each of whom inherited their respective country’s ECA business, and who together now dominate approximately 85% of the global credit insurance market.

These companies, and other private insurers, are active in Canada and are contributing to the development of the Canadian credit insurance market. The market position of EDC in the Canadian credit insurance market has continued to decline over time, from 100% in the 1980s to approximately 50% at the time of the last Review – increasing temporarily during the financial crisis due to a lack of private sector capacity in the market - and standing at approximately 40% (by premium volume) today.

Our Role within Canada’s Credit Insurance Market

EDC’s credit insurance program plays an important role in meeting the risk mitigation and working capital needs of thousands of Canadian exporters. We operate our program to provide a full range of solutions to all Canadian exporters with the principal objectives of providing stable credit capacity through economic cycles and growing the overall credit insurance market in Canada. Our program can be differentiated from the current offerings of the private sector in ways that tie back to our distinct public policy mandate to support and develop Canadian trade and to meet the needs of exporters.

EDC focuses significant capacity on supporting Canadian SMEs, a portfolio that is costly to underwrite and underserved by private sector insurers who operate under risk and volume thresholds that maximize profit. Minimum premium requirements of the private sector reduce the availability of credit insurance to protect the smaller sales of smaller companies. These SMEs are, on the other hand, of central priority in EDC’s mandate and Canada’s trade growth agenda.

EDC's credit appetite and stability distinguish it as an insurance partner for many exporters, and as the only partner available for some SMEs. EDC is known for its willingness to underwrite policies - large and small - in emerging markets and in sectors which represent higher levels of risk, including the automobile, forestry, agricultural and cleantech industries.

Our ability to take on risk for Canadian exporters operates hand-in-hand with our mandate to support their success. The result is a credit insurance program that offers a level of service, credit patience and credit stability that are sometimes more extensive to what is available in the private market. This was best tested during the 2008-2009 financial crisis when private sector insurers withdrew and canceled exporters' coverage limits, while EDC was called on by the Government of Canada and Canadian companies to maintain, and even increase, our coverage and to serve more credit insurance customers than ever before.

While some ECAs (in Europe and Australia) have privatized their credit insurance operations, questions were raised during the financial crisis, and can be raised still today, as to whether these privatizations have served the best interests of exporters or whether they have created market gaps where exporters cannot obtain the credit insurance they require. Certainly, there is no typical approach – markets are structured differently around the world and many of the most innovative and proactive ECAs do successfully underwrite large volumes of credit insurance. In Canada, EDC intends to remain relevant to Canadian exporters by continuing to offer credit insurance with enhanced SME coverage, risk appetite, credit stability and access to the full franchise of EDC support for other export related needs. It is important to note that EDC credit insurance is often the first EDC product that exporters are familiarized with. The product serves as a valuable introduction to EDC and the range of knowledge, connections and financial services that we make available to support Canadian companies through all stages of the exporter journey.

In the coming years, EDC will continue to expand its collaboration with private sector insurers, brokers and other partners to refine where and how EDC best brings value and growth to the credit insurance market. As discussed in Section 3.5 and Section 4.8 of this Submission, we intend to enhance our distribution of domestic insurance opportunities to private sector insurers which will contribute to our collective ability to grow the market and improve commercial returns. We will continue to bring new levels of innovation to the market, including new and creative approaches to underwriting that help develop the credit insurance industry in Canada, while orienting it to meet the ever-changing needs of Canadian exporters.

3.9 WORKING CAPITAL SUPPORT: BONDING AND GUARANTEES

Canadian exporters need access to working capital to grow their business and compete for international opportunities. SMEs can face particularly difficult challenges in accessing working capital to bid on international contracts, expand production, manage inventory, develop business in new markets, and meet customer demands.

EDC's working capital solutions; in particular, the Export Guarantee Program (EGP) and the Contract Insurance and Bonding programs (described below) are offered in partnership with Canadian banks to support Canadian SMEs. These programs enhance the ability of Canadian SMEs to obtain the financial support they need to increase capacity and take on international sales.

Export Guarantee Program (EGP)

The EGP is a guarantee program designed to enhance the ability of SME exporters to take advantage of international growth opportunities. Under this program, EDC provides a guarantee to the exporter's bank to enable the bank to extend financing to the exporter. The exporter can use this financing to buy new equipment, pursue sales in a new market, open an international office or simply assist with day-to-day working capital needs. The EGP allows the bank to share risk with EDC (in most cases, up to 75% and in some cases, up to 100%), and so encourages the bank to provide the exporter with more access to capital.

The maximum value of an EGP guarantee will depend on the credit strength of the exporter and the security associated with the loan. Under the program, EDC can offer multiple guarantees, up to \$10 million of total exposure, in support of a single exporter. Fees are determined based on the amount of the guarantee, the duration of coverage and the credit rating of the exporter. In addition to the value of the program to SMEs, EGP also helps banks grow their customer base and loyalty by providing an innovative credit solution for SME exporters that otherwise may not qualify for the bank's support.

The EGP can be offered in support of a specific export contract or where the transaction has an international market-related connection. If the transaction in question has no international market connection, EGP support is still available where 50 per cent or more of the customer's total consolidated revenues are related to their foreign business. If the customer does not meet this test, EDC can support the transaction only by seeking authorization of the Minister of International Trade Diversification and the Minister of Finance (collectively, "**Ministerial Authorization**").

In Section 4.8 of this Submission, we suggest consideration of potential regulatory amendments to address this restriction and broaden the availability of EGP support for exporters who are seeking working capital support to grow their international sales, even in cases where their current export sales volumes are lower than 50 per cent of total sales.



grace & stella

Grace and Stella is a fast-growing online skin care and beauty product company at the forefront of the e-commerce revolution. Launched in 2016 by Adi Gullia and his fiancée Kailee Fatt, it enjoyed strong early success, posting \$1.6 million in sales in its first year. However, getting financing to further grow the company and its international sales was a challenge.

Like many SMEs, Grace and Stella had more customers than cash and could not meet the growing demand for their products. EDC stepped in with the EGP program that allowed the company to obtain the financing it needed to fulfill the new orders which were flooding in.

"It's really hard to get financing as a start-up," says co-founder Adi Gullia. "Entrepreneurs get stuck as they try to expand their international sales because banks typically require a certain amount of financial history. This is where EDC came in. With the EGP program, they were willing to take a bet on us."

In 2017, EDC provided EGP guarantees to banks in support of more than 1,500 exporters. The median size of a guarantee in the EGP portfolio was approximately \$400,000 and 60% of all guarantees were smaller than \$500,000.

Contract Insurance and Bonding (CIB)

International buyers often require performance security to ensure that suppliers meet their contractual obligations. Security requirements might include bid bonds, advance payment bonds, performance bonds or warranty bonds. This security is usually provided in the form of a bank instrument (for example, a letter of guarantee or standby letter of credit) or surety bond (issued through a surety company) and covers financial or contractual obligations. Posting bonds for international contracts is difficult for many exporters as it requires them to pledge cash or a portion of their operating line as collateral; yet the ability to post these security instruments can be fundamental to an exporter's success and their ability to win new contracts.

The CIB program offers solutions which free up working capital for Canadian exporters that are required to post bonds to compete internationally. The CIB program also offers an insurance solution to protect the exporter against buyer-related risks in respect of the bond (a wrongful call of the bond).

EDC's core CIB product is the Performance Security Guarantee (PSG). The PSG provides a 100% unconditional guarantee to a bank in the event of a call against a bond issued by the bank on behalf of an exporter. EDC's guarantee serves as collateral for the bank and effectively transfers the risk from the bank to EDC. This guarantee allows the bank to forego the collateral usually required from an exporter to post the bond and/or provide additional working capital.

This solution allows companies to pursue more opportunities with the confidence that they can meet the demands of new business. For exporters that need to post bonds regularly, a PSG facility can provide a pre-approved limit to cover the exporter's guarantee needs for a period of time (often, three years). A pre-set rate provides cost certainty and allows the exporter to build the PSG costs into their contract price. The PSG is a unique offering as EDC is the sole provider of this type of support in the Canadian market and partners with financial institutions to deliver it to customers.

The PSG can be offered in support of an export or indirect export-related opportunity. If the bonding requirement is in respect of a non-export related opportunity, PSG support is still available where 50 per cent or more of the customer's total consolidated revenues are related to their foreign business. If the customer does not meet this test, EDC can support the transaction only by seeking Ministerial Authorization.

In Section 4.8 of this Submission, we suggest consideration of potential regulatory amendments to broaden the availability of PSG support for exporters who are seeking working capital solutions to grow their international sales, in cases where their current export sales volumes are lower than 50 per cent of total sales.

In addition to PSG, the CIB program offers Surety Bond Insurance (SBI), which is similar to PSG but offers reinsurance protection to surety companies in the event of a call of a surety bond. The Foreign Exchange Guarantee (FXG) and the Commodity Hedging Guarantee (CHG) are other CIB products, which address working capital requirements related to hedging for volatility in the Canadian dollar or the volatility in certain commodity prices - a key barrier to exporting identified by many SMEs. The FXG/CHG is a guarantee provided to a bank for the collateral required to secure a hedging facility for currency or commodity hedging. Finally, Performance Security Insurance (PSI) covers losses if the international buyer wrongfully demands payment on a bank-issued guarantee.

In 2017, EDC provided CIB support to nearly 1,100 customers, including nearly 700 customers served by a PSG. Approximately 75% of all CIB customers were SMEs.



baanto™

Baanto started developing its unique multi-touch screen technology soon after the iPhone came out. Their technology, ShadowSense™, uses high-performance sensors to ensure unrivaled responsiveness, accuracy and stability. Today, ShadowSense is used around the world in interactive whiteboards, as a digital canvas, in advertising, cockpit displays and even arcade games. After obtaining direct lending to scale up its manufacturing output, the company's international success kept growing. But to avoid having to pay large deposits to suppliers every time it secured a new contract, Baanto needed a solution.

In came EDC's Performance Security Guarantee (PSG), which provided Baanto's bank with a 100% guarantee on the bonds it posted for the company. This meant that Baanto's cash flow wasn't tied up for collateral. Instead of having to put down large deposits to their suppliers, the company was given better payment terms. "We were able to give our suppliers comfort that we would be able to pay them; this support allowed us to be in a much better position to grow," said Dushan Batrovic, CFO of Baanto, "EDC helped us get to the next level of growth, from a small company with a great technology to a bigger company that fulfils customer demands across the globe."

Bonding Support for Public-Private Partnership (P3) Projects

The Canadian P3 market is recognized as one of the world's most advanced. This provides a significant first mover advantage to Canadian industry leaders as they compete for projects in comparatively nascent P3 markets such as the United States.

P3 projects often have significant bonding requirements at all stages of the project. As a result, EDC's bonding support (in particular PSG) is regularly requested by Canadian companies participating in P3 projects, both internationally and in Canada.

For non-export related projects in Canada, EDC support is still available where 50 per cent or more of the customer's total consolidated revenues are related to their foreign business. If the customer does not meet this test, EDC can support the transaction only by seeking Ministerial Authorization.

3.10 INVESTMENTS AND EQUITY CONNECT

Direct and Fund Investments in Canada

EDC supports the capital needs and international growth aspirations of Canadian companies in two important ways. We invest directly in high-potential Canadian companies to help them expand into international markets. We also invest in funds to help provide export-oriented companies with access to private equity.

Until recent years, our strategy was to fill the gap, from early stage ‘stretch’ investing up to the early mid-market segments. Our more recent shift in strategy is to focus capacity on growth capital investments, in the venture capital and mid-market segments. Here, EDC is investing to address a critical market need for minority growth capital. This need has arisen from the limited institutional interest in minority equity transactions - market participants are currently more focused on control opportunities. EDC is also making larger commitments to fund partners executing strategies that are consistent with EDC’s investments strategy. In 2017, EDC committed over \$164 million in 10 direct and 3 fund investments. Our total portfolio exposure represents nearly \$2 billion in value, through direct investment in 47 Canadian companies, and indirectly, an additional 365 Canadian companies, supported through our investments in 97 funds.

EDC has the mandate to finance the growth capital needs of Canadian companies and accelerate their expansion internationally. The Regulations, however, limit our ability to act as a leading growth partner by imposing a cap on EDC’s investments of 25% of a company’s share capital. Any investments in excess of this limit require Ministerial Authorization. As our new investments strategy will put a greater focus on the relevance and impact of our investments (with a corresponding shift to more meaningful commitments and larger initial ownership positions), EDC is concerned that the 25% equity limit will create a barrier to potential investment opportunities that could support the growth and internationalization of Canadian companies. In Section 4.8 of this Submission, we recommend consideration of potential regulatory amendments to improve EDC’s ability to meet the growth capital needs of emerging exporters.



When Stuart Lombard tried to lower his family’s energy use by programming their thermostat, he found that it was too complicated. After coming home to a freezing house in the middle of winter, Lombard created the world’s first Wi-Fi-connected thermostat, controlled using a mobile device. Sales took off immediately.

Year after year, sales more than doubled. But when the Google Nest was announced, along with countless other smart devices from industry giants, ecobee faced very real competition.

To compete, ecobee needed to raise significant amounts of capital but were not yet mature enough to access traditional financing products. EDC’s Investments team played an important catalytic role in ecobee’s \$35 million equity financing. Those funds allowed ecobee to expand product development and develop the world’s first voice-enabled smart thermostat. The company is now well-positioned to compete globally with its products available through Best Buy, Lowes, Walmart, Amazon and the Apple Store.

International Investments – Equity Connect

Internationally, EDC invests in targeted private equity and infrastructure funds to develop business networks with companies in these fund portfolios and match procurement opportunities with Canadian capabilities and expertise. This network provides EDC with a unique ability to generate business flow between Canadian companies and the activities of the private capital investors and has also led to investment opportunities for Canadian companies in emerging markets.

Equity Connect is the strategy whereby EDC leverages these funds' portfolio companies and the business networks of fund managers to generate Canadian benefits and support the business of Canadian exporters. EDC assesses and measures the success of the Equity Connect strategy by collecting data and tracking the generation of Canadian benefits, including the total value of exports/purchases, signed contracts, procurement, investment in Canadian companies and other business activity between Canadian companies and the portfolio companies and business networks of the international funds. Under the current Equity Connect strategy, EDC is making a concerted effort to leverage its Asia fund relationships to introduce more Canadians to business opportunities across the region.

In 2017, the volume of signed contracts entered between Canadian exporters with international fund network companies more than doubled from 2016, with approximately CAD 400 million reported. EDC facilitated more than 225 introductions of Canadian exporters to international targets (including more than 100 introductions in Asia) in addition to the identification of 67 qualified sales opportunities which Canadian companies are actively pursuing. The fund network also identified 64 new market opportunities, which are future growth opportunities that are the focus of the fund investors and their companies where EDC has an opportunity to promote Canadian solutions.

3.11 SUPPORTING CANADIAN DIRECT INVESTMENT ABROAD

In today's integrated global economy, having a local presence in foreign markets is often a key factor in achieving international sales growth. In addition to marketing, sales and service advantages, a local presence can help eliminate trade barriers often encountered in exporting and can increase access to local partners and other resources that will help accelerate global growth.

Canadian Direct Investment Abroad (CDIA) enables Canadian companies to expand their reach and come in contact with new buyers and opportunities, thereby hedging against risk by engaging in multiple markets. Not only does CDIA help the companies that are investing abroad, it also benefits the domestic Canadian economy. In recent years, EDC has completed groundbreaking research that has shed light on the benefits of investing abroad, while challenging the myth that international investments erode domestic job numbers. Key findings of this research include the positive relationship between investment in foreign affiliates and international competitiveness (sales, customers, profits and market share), the contribution of CDIA towards trade diversification, and the benefits of CDIA to Canadian employment as companies hire more at home to support their international operations.

With trade diversification as a key objective for the Government of Canada, never has there been a more significant time for companies to leverage EDC's solutions to support international investment. EDC is uniquely positioned to facilitate CDIA and in support of this function and we offer a range of solutions to assist Canadian companies with their foreign investment activities. These include loans to help companies open facilities in new markets or participate in joint ventures, or insurance products to mitigate overseas risks, such as a customer's refusal to pay a foreign affiliate, or a foreign government taking possession of a Canadian company's overseas equipment or facility.

It speaks to the effectiveness of CDIA as a strategy that today, Canadian companies generate almost as many sales via their foreign affiliates every year as they do directly from their Canadian exporting operations. In 2017, EDC facilitated over 500 CDIA transactions. Looking forward, we anticipate a growth trajectory of the CDIA program, as more Canadian companies embrace this approach to international growth.

3.12 FDI PROMOTION

Canada has a highly skilled workforce, dynamic regional clusters and strong integration with major global value chains, providing an excellent destination for foreign investment. The Government of Canada, along with the provincial, territorial and municipal governments, offers a variety of programs to support multinational expansion in Canada. EDC's financing programs contribute to this solid value proposition.

EDC plays a complementary role in FDI promotion. International companies that are starting a business in Canada, acquiring a Canadian business, or expanding their existing Canadian investments may be eligible for EDC support. Our mandate enables us to support FDI in cases where global companies invest, maintain or grow their presence in Canada and, in doing so, develop Canadian exports or Canada's capacity to export.

While EDC has the ability to support investments in single export-enabling projects in Canada (for example, a foreign investment in a new Canadian export production projects, or the start-up of a new Canadian business enterprise where the investor will integrate the Canadian business into its global operations), most of our support for FDI is accomplished through our Protocol Financing Program.

Protocol Financing Program

A protocol arrangement is the provision of uncommitted financing capacity to support a non-Canadian multinational company with operations in Canada. A protocol relationship is designed to influence the multinational to increase its economic activity in Canada and to integrate more Canadian suppliers into its global supply chain.

A protocol arrangement is not, in itself, a financing transaction. Rather, it is an unfunded, uncommitted, indication of financing capacity available from EDC to support the multinational. Protocol financing occurs when, under the terms of the protocol arrangement, the company requests EDC support of a particular transaction. Financing support may take one of two forms. The protocol company may request that EDC finance a sale by the company to a customer (buyer financing). Alternatively, the company may request that EDC finance its own global operations or those of its affiliates. In either case, EDC will assess and consider each transaction on its merits, including credit, CSR and other due diligence.

The amount of EDC financing capacity available to a protocol client is determined in an amount sufficient to produce a positive influence on the targeted protocol customer, considering the value of expected benefits to Canada and historical protocol scorecard results. The protocol arrangement is reviewed annually, and the success of a protocol is measured against a number of factors, including the company's willingness to engage with EDC and to consider new Canadian suppliers as well as the amount of investment by the multinational in Canada.

In 2017, EDC added three new protocols, for a total of 10 protocol arrangements with multinationals that contribute significant economic benefits for Canada. During the year, \$2.2 billion of financing was allocated under these protocol agreements. The focus for the protocol program in 2018 will be to optimize the number of protocols and more importantly augment the amount of financing disbursed under existing protocols, to increase EDC's value add to our borrowers and Canadian suppliers. In this way, we will continue to align the Protocol program with the Government of Canada's strategy for encouraging foreign direct investment into Canada by focusing on maintaining and/or expanding the footprint of our protocol clients in Canada.

3.13 CLEAN TECHNOLOGY

As international demand increases for technologies that mitigate environmental impacts and allow for a more efficient use of natural resources, clean technology (“**cleantech**”) has become an increasingly important opportunity for Canada and for EDC. Since our last Legislative Review, EDC has made cleantech a corporate priority, deploying our capital and building our knowledge to meaningfully support this emerging industry. Today, EDC is Canada’s largest financier of Canadian cleantech companies.

EDC’s leadership in this sector is focused on identifying and supporting cleantech champions: Canadian companies that have the potential and ambition to grow internationally by providing them with the financial solutions they need to grow. By doing this, we are playing our role in developing the international global champions of the new economy. In order to execute on this objective, EDC has adopted a broader risk appetite for the cleantech industry, recognizing that many companies in the early commercialization stage will struggle to access bank financing or other financial support needed to scale up. We have identified that the industry has a higher overall risk profile, which includes higher degrees of technological risk, market risk and financial risk. EDC has adapted its financial solutions and approaches to better serve the risk profile of cleantech companies. Since launching our initial cleantech strategy in 2012, we have supported close to 200 cleantech exporters for total business volume of just under \$5 billion.

In 2016, EDC put forward our Cleantech Strategy 2020 and significantly enhanced our internal resources by building a dedicated team, solely focused on serving cleantech customers and building specialized knowledge of the sector. EDC now has cleantech focused representatives across Canada and dedicated sector experts and underwriters who understand the specific needs of the sector. EDC collaborates closely on cleantech initiatives with partners at Global Affairs Canada (GAC), Sustainable Development Technology Canada (SDTC) and Business Development Bank of Canada (BDC), playing to our respective mandates and strengths, facilitating seamless inter-agency handovers while supporting the commercial preparedness and growth of Canadian companies.

Our Cleantech Strategy 2020 includes a growth target to serve more than 275 customers each year and support annual business volume of \$2 billion by 2020. In the same timeframe, we also plan to mobilize \$450 million in project financing capital and to provide at least \$220 million in working capital and \$30 million of equity support to the industry, all as provided for in the 2017 Federal Budget. Recognizing that there are specific knowledge and connection gaps in this industry, EDC will also offer targeted connections and knowledge resources that help cleantech companies move through their development cycle and export journey. Our strategy is aligned around these specific targets, a customer delivery model directed to the industry’s needs, enhanced risk appetite and close collaboration with government partners.

3.14 SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Expectations and practices in the area of Corporate Sustainability and Responsibility (“**CSR**”) have advanced significantly in recent years and will continue to do so in the years ahead. EDC is committed to applying best-in-class commercial CSR practices and has developed a substantial CSR strategy that considers the social and environmental impacts of every business decision. With an understanding that strong practices in CSR are drivers of innovation and sustainable business, EDC strives to balance diverse priorities by integrating principles of sustainability and good governance into our overall strategic framework.

In the decade since our last Legislative Review, EDC has invested significantly in the maturation of our CSR function to ensure that we are equipped to tackle increasingly complex issues and drive change on a broad scale. During this period, we have increased the size of our CSR team by more than 75% and significantly enhanced our policies, practices and expertise. We have continued to leverage our expertise in human rights, environmental assessment, business integrity, anti-corruption, financial crimes and international frameworks. Since 2010, we have served on the Equator Principles Steering Committee (playing a key role in 2013 revisions to the Equator Principles, which guide how the financial industry looks at the environmental and social impacts of large infrastructure projects), and since 2014, EDC has served as Chair of the Environmental and Social Practitioners of the OECD Working Party on Export Credits and Guarantees — a multilateral group of experts to promote good practice in transaction due diligence and to ensure a level playing field in the implementation of OECD Common Approaches.

As an ECA, and as a financial institution, we believe that EDC remains at the forefront of environmental and social risk management practices.

CSR as a Strategic Priority

Our CSR practices aim to help companies we work with to differentiate themselves in terms of their sustainable business practices. When EDC is part of a transaction, we want our financial partners and customers to know that best commercial practices are being upheld. This cannot always mean saying “no” to transactions and leaving opportunities for Canada behind. Sometimes it means being a force of positive influence for the companies we work with, and helping our customers achieve long-term responsible business success. It also means making responsible choices and occasionally declining transactions that do not meet, or that are unlikely to achieve, our high standards.

To ensure we continually improve our social responsibility practices, EDC engages with external experts to help guide our strategy. One important way we seek input is through EDC’s Corporate Social Responsibility Advisory Council. Created in 2006, the council is comprised of leaders from business, civil society and academia. The CSR Advisory Council meets twice a year to share insights with our CEO and CSR leadership team, and to serve as a sounding board for our CSR strategy and key policies. To further support EDC’s commitment to CSR, EDC created the role of Director of CSR Strategy and Planning in 2017.

In late 2017, we embarked on a process to review and update our Environmental and Social Risk Management Policy (last revised in 2010) and related documents to ensure consistency with changes to our current practices, our international obligations such as the OECD Common Approaches and Equator Principles, and to align our commitments with current and emerging international environmental and social risk management best practices. This process has continued in 2018 and will include consultation with external stakeholders and experts.

In the area of environmental responsibility, our Environmental Advisory Services (EAS) team works closely with companies to review transactions, provide guidance, propose risk mitigation plans, and monitor progress against required benchmarks for the duration of our support. Underpinned by the

OECD Common Approaches, the UN Guiding Principles, and various other international agreements and standards, our environmental and social risk management framework is applied to all of the business we support. For EAS reviews of project finance transactions (which are transactions where EDC commits financing to international projects such as wind farms and mines) we apply the Equator Principles – a rigorous set of standards that apply to commercial banks and other international financial institutions to assess and manage environmental and social risks in financing transactions and project-related corporate loans.

EDC considers it our responsibility to understand the actual and potential risks and impacts on human rights of any business we support and to ensure that our decisions and actions respect internationally recognized human rights. In 2015, EDC implemented a strategy based on UN Guiding Principles on Business and Human Rights (UNGPs). This strategy saw EDC adjust country-based thresholds for human rights due diligence and establish an internal committee that has sharpened EDC’s human rights due diligence tools. We continually track developments in this area and work to align our approach with the UNGPs, the authoritative global standard on business and human rights.

In the area of business integrity, EDC is developing improved capabilities to deter, prevent, detect, assess and mitigate financial crimes risks. Our current transaction due diligence already exceeds the requirements of the OECD Recommendation on Bribery and Officially Supported Export Credits and through enhancements to our “know your counterparty” processes, EDC intends to deepen our understanding of the companies we support and improve our ability to manage risk and positively influence our customers’ business practices.

Community Investment

A key element of EDC’s CSR efforts is investing our time and resources to strengthen our local, national and international communities. EDC donates to charities where our employees volunteer their time. In 2017, EDC and our employees made special donations to flood relief efforts in Ontario and Quebec and, in total, supported more than 40 charitable organizations across Canada. At EDC’s annual community investment day, more than 1,000 EDC employees volunteer each year in support of more than 50 charities in Canada and, from our international representations, in communities around the world.

At the time of EDC’s last Legislative Review, EDC was embarking on a new partnership with CARE Canada to contribute to initiatives supporting financial inclusion, small enterprise development and women’s economic empowerment. Since then, EDC has placed 38 employees, each in four-month placements, at CARE offices around the world to support projects that have benefited thousands of people globally. In the years ahead, EDC will continue to invest in our communities and hold ourselves accountable to CSR standards that make a meaningful difference to our customers and other stakeholders.

3.15 PROGRESSIVE TRADE

Exports create jobs, promote innovation and grow industries. But there's more. Viewed through a progressive lens, exporting can advance the interests of groups that have previously been underrepresented in trade. While EDC's solutions are available and accessible to all Canadian exporters, we believe that targeted support for historically underrepresented groups will help ensure that more Canadians benefit from engaging in trade.

Women-led Exporters

Only 35 per cent of Canada's SMEs are majority-owned by women, evidencing an underrepresentation in both domestic and global trade. To help address this issue, EDC is supporting the Government of Canada's Women's Entrepreneurship Strategy. In Budget 2018, EDC announced a \$250 million financing envelope, available on commercial terms, to provide financing and insurance solutions to women-owned and women-led businesses that export or have plans to export. This envelope is available through 2020 and helps these businesses overcome barriers to obtaining capital for international market expansion. This initiative is supported by a broader strategic roadmap of initiatives focused on solving the unique barriers women entrepreneurs face, including targeted knowledge products, training sessions, and connections with foreign buyers. In March 2018, as part of our Women in Trade month, we hosted a webinar on the topic of women in international trade for which we had close to 500 registrants. This confirms to us the interest by women exporters in EDC's knowledge resources and we are committed to delivering more of this targeted and knowledge-rich support in the years ahead.

Indigenous Exporters

EDC is committed to supporting Canadian Indigenous-led companies in their international business. As Canada's fastest-growing population, Indigenous peoples are a key factor in Canada's economic success. EDC is aiming to improve our relevance to Indigenous-led businesses and to better facilitate their success through international opportunities.

In 2018, EDC undertook a review of our accessibility to Indigenous-led businesses with the goal of improving the awareness and use of our products and services by Indigenous exporters. We have been working with the Indigenous practice lead of a leading consultant firm in this area to conduct the review and have engaged with a number of key stakeholders to assess how EDC can most effectively promote Indigenous exports. In 2019, EDC will work to implement the recommendations stemming from this review in order to strengthen and better communicate EDC's value proposition to Indigenous-led companies.

PART FOUR



Export Development Canada
Preparing for the future of trade

4.1 INTRODUCTION

In the context of today’s global economy, Canada faces key strategic issues as it endeavours to promote exports and increase trade diversification. These include a business culture of complacency resulting in disappointing trade performance and growing international trade tensions and uncertainty. It is incumbent upon EDC and all federal partners within the trade ecosystem to work collaboratively to help our exporters grow and diversify. The degree to which Canada is able to accomplish this directly impacts the ability of Canadian companies to compete against exporters from other countries who benefit from this type of support at home. Along with our partners in the trade ecosystem, EDC must encourage more Canadian companies to start exporting and support those that are to export more and into diversified markets.

4.2 ENSURING THAT EXPORTERS “GO, GROW & SUCCEED”

EDC is uniquely positioned to help Canadian companies go, grow and succeed internationally. Our comparative strength is our unique experience in trade, in transacting and building relationships in foreign markets, and our intimate awareness of the complex challenges faced by our customers. Our experience and expertise means that we are a credible source of advice, knowledge, and financial intermediation and a trusted partner when our customers need us most.

As Canada’s export credit agency, the strategic issues facing Canada impact and inform those facing EDC. Understanding the forces that are exercising the most influence on global trade is essential to the success of Canadian businesses, and to the success of EDC in delivering on our mandate. It is the nature of EDC’s evolving franchise that we are continuously reshaping ourselves to offer solutions that are tailored to the present challenges facing exporters today, while anticipating those next challenges, looming on the horizon of tomorrow. And while EDC is always well-positioned to help companies take advantage of the best opportunities for success, it has often been in the face of challenge that EDC has been most relevant to Canada.

Challenges and Opportunities

Highlighted below are some key challenges that we expect will play a major role in Canada’s near-term trade performance, along with opportunities that EDC is mobilizing to help Canadian companies take advantage of.

CHALLENGES	
Trade Tensions & Protectionism	The increasingly protectionist stance of some economies has the potential to give rise to a global spread of trade barriers that would impede and increase the cost of global trade flows. As a nation that is dependent on trade for economic prosperity, such actions would present a serious challenge for Canadian companies looking to do business around the world. It will be imperative for exporters to remain abreast of new developments in this regard, and further mitigate risks of dealing internationally during these uncertain times. There is great opportunity for EDC to continue to support these efforts, through our awareness, knowledge and risk mitigation tools.
Shifting U.S. Trade Policies	Uncertainty around trade relations with the United States and NAFTA re-negotiation has been a top concern facing Canadian exporters. Contention over rules of origin, sector specific risks such as automotive, and the ability of workers to move across the border are key areas of interest for Canadian companies dealing with the U.S. These risks have been substantially mitigated by the recent announcement of an agreement-in-principle on the new trilateral trade agreement between Canada, the United States and Mexico (newly-named the United States-Mexico-Canada Agreement, or USMCA) to replace NAFTA.
Reluctance to Export	With Canada’s economy being so heavily dependent on trade, more Canadian companies need to be engaged internationally. But the prospect of doing business abroad can be daunting, particularly for micro and small-sized enterprises. It requires them to dedicate considerable time and resources, which are generally in short supply for smaller companies. These barriers faced by Canadian SMEs need to be overcome so that they may seize the many advantages of expanding internationally. EDC sees tremendous opportunity in the role we can play in demystifying exporting to help Canadian companies of all sizes go global.

OPPORTUNITIES

Trade Diversification	Diversification into new markets presents significant opportunity for Canadian companies to mitigate concentration risk and grow. EDC continues to have a significant role in ensuring that more exporters are doing more business in a larger number of markets around the world. There is greater opportunity for Canadian companies to leverage our solutions to diversify successfully. In addition to those emerging markets already popular with Canadian exporters, such as Mexico, China and India, there are also significant opportunities in a number of frontier markets that still offer very competitive entry points for Canadian companies such as Peru, Hungary and Colombia – countries that have needs in sectors where Canada has substantial capabilities and expertise.
CDIA	Having a local presence within global markets helps eliminate trade barriers often encountered in exporting and can increase access to resources that will help accelerate global growth. Setting up a foreign affiliate can enable access to preferential trade agreements specific to that country. CDIA enables Canadian companies to expand their reach and come in contact with new buyers and opportunities, thereby hedging against risk by engaging in multiple markets.
Free Trade Agreements	The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) gives Canadian companies preferential access to a \$20 trillion market. CETA eliminates 99 per cent of tariffs for Canadians exporting to the E.U. It will also help place Canada in a unique position to become a supply chain leader in Europe. Key Canadian exports like agri-food and automotive products stand to gain from the deal. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership Agreement (CPTPP) is expected to boost Canada's exports to CPTPP countries by up to \$2.7B. The largest positive impact will come from trade with Japan, and Australia, with benefits to key Canadian exports including pork and beef, wood products, machinery and equipment and transportation supplies.
Canada Brand	Wherever a Canadian company chooses to go in the world they will carry with them an increasingly powerful marketing tool – the Canadian brand. Behind the maple leaf is a reputation for being reliable, responsible, innovative, and producers of quality goods and services. A land of extraordinary natural space and resources, Canada - and its businesses - are committed to sustainability and green growth. These things have made Canada an ideal international partner to trade with.

EDC in the Next Credit Cycle: Lessons from the 2008-2009 Financial Crisis

During the 2008-2009 financial crisis, credit risks rose sharply, many lenders and insurers retreated from the market, and EDC leveraged its balance sheet to help Canadian business and the overall economy address critical market shortfalls. In the face of such vexing challenges, it is remarkable how the key players came together so quickly to lend support to Canadian businesses. EDC, the Government of Canada and the Canadian financial sector collaborated in ways unseen in other countries. No new institution had to be created, nor any complicated new processes. EDC had in place the financial solutions and relationships to work with the public and private sectors to tackle the challenges.

In today's more sanguine economic environment, how should EDC be positioned for the future? It is the submission of EDC that the credit risk cycle has not gone away. Future economic downturns and episodes of sharply heightened risk are inevitable. It is not a question of if they will occur, but rather when, and what will be the broader economic fallout. After the experience of 2008-2009, EDC expects that private banks and insurers will be more risk averse in the next crisis than they were in the last one. More stringent capital requirements will likely rein in lending activity, creating even larger credit gaps. These circumstances may come to pass years from now, or sooner than we think, but in either case EDC must stay well positioned to play a key role in maintaining credit market continuity for Canadian exporters and investors across business cycles, in good times and bad.

4.3 CONTINUING A DIGITAL TRANSFORMATION

The needs and expectations of Canadian companies are changing, and digital technologies are essential to providing them with relevant, personalized and accessible solutions to support their international business abroad. EDC's ongoing and significant investment in our digital transformation is about increasing exporter awareness of, and access to, EDC's solutions online, in particular on mobile devices and applications.

Already contributing to nearly fifty per cent of EDC's new customer acquisitions, the digital channel is the most scalable way in which EDC can deliver appropriate content, solutions and services to companies at all stages of the exporter journey. The two-way nature of digital communication also allows EDC to learn more about companies interested in exporting, thereby enabling the evolution of our strategy and solutions to better meet their needs.

The ongoing success of our first online self-service products, including "eSCI", our digital Select Credit Insurance program launched in 2015 (described in more detail in Section 4.7 of this Submission), is a key example of our digital strategy at work.

EDC intends to continue substantial investment in our digital platform and in the creation of new digital solutions for our customers. These are necessary costs to ensure EDC's long-term sustainability and our relevance to Canadian exporters who expect, and require, digitally accessible products and services. With the completion of our new mobile-friendly website and new mobile application (anticipated by the end of 2018), EDC will continue to advance our digital presence and capabilities in 2019 and in the years ahead.

4.4 INCREASED TRANSPARENCY

It is imperative for EDC to operate ethically and transparently, to maintain the trust and confidence of our stakeholders and to ensure sustainable business success.

Over the last 10 years, EDC has put into motion a number of initiatives to improve our transparency. This has involved greater outreach to stakeholders, increased discussions and interaction with key Non-Governmental Organizations (NGOs) and other stakeholders on priority issues, and improved transparency on the environmental and social impacts of certain types of projects (designated by the OECD as "Category A" projects) by publishing our Project Review Summaries. Our improved disclosure practices have increased stakeholders' understanding of what we do, and how we analyze issues prior to deciding to support Canadian exporters and investors.

Looking forward, new efforts to bring increased visibility to what we do are ongoing as a key area of focus for EDC. These efforts are intended to remove barriers to information for the public and to help further embed transparency within EDC's corporate culture, enabling discussions that support sustainable business decisions at all levels of the organization.

New and important initiatives currently underway include the development and publication of our Due Diligence Transaction Roadmap on our website. This infographic will provide increased clarity around our due diligence process for corporate loans, and will highlight several different factors of review including financial, environmental, social and governance risks. The infographic will help our stakeholders understand the numerous and important checks and balances that exist when we assess opportunities for support.

A second significant effort to bolster our commitment to transparency and better align our practices with civil society is our recent call to the public to provide input and constructive feedback on EDC's Environmental and Social Risk Management policies as part of our ESRM Policy Review. This public

consultation part of the review will conclude in Q3 2018 and, towards the end of the year, EDC will issue a summary of the principal areas of stakeholder comments and feedback which will feed into the final policy reviews expected early in 2019.

As part of the ESRM Policy Review, we have been seeking feedback and intend to update our disclosure policies. Through feedback from our CSR Advisory Council and other channels, EDC recognizes the need to update certain transparency practices in order to meet the needs of key stakeholders. In addition to our transaction-specific disclosures, EDC is exploring ways in which it can improve its transparency and provide more information about our policies and procedures related to more sensitive CSR sectors such as military/defence and controlled substances. EDC is working towards the implementation of revised disclosure policies by the end of Q1 2019.

4.5 PRIORITY MARKETS AND TRADE DIVERSIFICATION

The United States will remain Canada's largest export market for the foreseeable future and will continue to offer excellent sales opportunities for Canadian exporters. But an important shift is underway. Canadian trade is diversifying, as the proportional growth of exports to the U.S. is declining, outpaced by the growth to other export destinations, especially to emerging markets. EDC is playing an important role in helping more Canadian companies pursue opportunities in a wider range of markets. Our research indicates that reluctance to diversify export sales stems from a range of factors, including lack of awareness of opportunities, heightened perception of risk, and the time and cost involved in converting overseas business prospects. EDC will continue to help Canadian companies adapt and overcome these obstacles through our expanded product and service offerings and our growing network of international representations located in major business centers worldwide. Closer to home, we will at the same time be expanding our support to exporters in the U.S., particularly for SMEs and for companies selling outside of Canada for the first time.

The United States

The future of Canada's trade with the United States should be viewed in the long-term context of a deeply integrated and resilient economic partnership, and one of the most successful bilateral trading relationships in the world. Still, EDC recognizes that recent shifts in U.S. trade policy have made it more complicated for some Canadian companies to do business in the U.S. Trade tensions between Canada and the U.S. are a concern for large and small exporters alike. EDC is also concerned that some ready-to-export companies may be dissuaded from using the U.S. as a springboard to their first international sales which, as described earlier in this Submission, has been a successful strategy for many new Canadian exporters.

A resurgent U.S. economy will continue to present a strong market for Canadian products and so, in light of these new challenges, there is even greater demand for EDC to support exporters in navigating U.S. trade opportunities. EDC will be taking specific steps to help non-exporting SMEs achieve their first sales in the U.S. and to help SMEs already present in the market grow their sales.

Our U.S. strategy includes greater collaboration with the Trade Commissioner Service with the goal of identifying new opportunities and connecting SMEs to potential buyers. EDC webinars and knowledge resources will be designed with an SME audience in mind, to offer timely information and expert advice about the U.S. market. EDC will also establish its first U.S.- based representations, in Chicago and Atlanta, and will continue to identify opportunities for additional offices in 2019 and beyond. We will continue to leverage our knowledge, presence and connections within the U.S. to the utmost benefit of our customers.

Western Europe

Since the last Legislative Review, Western Europe has emerged as a priority EDC market with steady growth in customers served and business volume. In 2010, we opened a representation in Dusseldorf, Germany, our first in a developed market. In 2016, we expanded our presence in Western Europe by opening a representation in London, U.K., which now includes a locally-based Regional Vice President. Our increased presence in Europe has helped to deepen our relationships with local buyers and financial institutions, identify prospective Canadian supply, and offer market-specific financial solutions (such as the *Schuldscheindarlehen* loan structure in Germany) to benefit Canadian exporters. Our representation in the U.K. also offers on-the-ground resources to help customers manage Brexit uncertainties.

CETA, Canada's historic new trade agreement with the European Union, gives Canadian companies preferential access to the EU, a dynamic \$20 trillion market. CETA eliminates 99% of tariffs for Canadian companies exporting to the EU while improving mobility, investment protection and the recognition of common product standards and certifications. EDC has dedicated resources to ensure that Canadian companies are well-positioned to take full advantage of the preferential access created by CETA and to maximize the Canadian benefits of the accord. In partnership with the Trade Commissioner Service we are hosting events in Europe and Canada to promote the market for Canadian exporters. While access to financing remains critical, we are also hearing from Canadian exporters about the importance of EDC's market knowledge and connections. EDC expects to provide more financial and non-financial services to an increasing number of companies, as Canadian exporters turn their eyes to the expanding opportunities in Europe. We will continue to work closely with the Trade Commissioner Service to assist exporters in converting Canada's enhanced market access into new market opportunities.

Trade Diversification: Asia Spotlight

EDC's international market strategies span the globe, including in emerging markets where we play an important role in encouraging and empowering Canadian companies to diversify their sales and expand into new, high growth, high potential markets. Recently, of particular importance, we have assisted in the development and execution of the Government of Canada's targeted strategy to promote trade and investment in Asia, with a focus on China and India.

Over the last five years, EDC has helped facilitate close to \$50 billion in business between Canada and Asia. Since the opening of our first international representation in Beijing over 20 years ago, Asia has been a strategic region for EDC. In recent years, we have expanded our presence, most notably launching our first-ever, stand-alone branch office in Singapore in 2017. This strategic step was taken in line with the Government of Canada's focus on the region to provide Canadian companies with a competitive advantage and to help them respond to significant business opportunities in the fastest growing economic region in the world. In late 2017, we opened our first representation in Australia which has long been an attractive market for Canadian exporters for its strong business ties and proximity to the high potential markets of Asia. Looking ahead to 2019, EDC will explore the possibility of establishing a representation in Hong Kong; a key regional financial center for China and one of two major financial centers in Asia which can serve as an excellent spring board for EDC to diversify and grow our financing support in the region.

More specifically, in China, EDC is taking a strategic and targeted sector approach, focusing on areas where Canadian capabilities are strong, such as agri-food, automotive and infrastructure. E-commerce will also be a focus for EDC in China, as we have already seen convincing evidence that this platform can be a successful avenue of entry for Canadian companies entering the Chinese market. While the opportunities are many, Canadian exporters face obstacles and risks that can hinder their ability to succeed in China. EDC is working to support these companies with knowledge, financial products and connections. Through our local presence in China we work very closely with the Trade Commissioner Service, adopting a Team Canada approach to creating connections and providing support for Canadian suppliers and Chinese buyers to increase awareness of the Canadian brand and trade between the two countries. In 2017, EDC facilitated over CAD \$5.5 billion in trade between Canada and China, supporting

704 companies in the market. In addition, EDC supported 35 Canadian companies in establishing manufacturing and regional offices in the market.

In India, EDC facilitated nearly \$3 billion in trade in 2017, accounting for over 70 per cent of total Canadian exports to the market. EDC believes that India will continue to offer tremendous opportunity for Canadian companies with high demand for infrastructure, engineering, information and communications technologies and agri-food; all which align well with Canadian capabilities. We also see strong opportunity in the cleantech sector, specifically as it relates to solar and wind power. These areas will be in high focus given the country's power generation needs and the current administration's 5-year renewable energy commitments. In 2018, EDC concluded its first renewable energy financing in India, and we are continuing to pursue additional opportunities in this space. As part of our strategy for the market, we are also aiming to participate in more local currency lending transactions, as many new projects in India expect Indian Rupee financing. Participating in these local currency transactions will enhance EDC's visibility, relevance and influence in the market and should well position Canadian suppliers to compete for business.

Our International Footprint

Core to EDC's trade diversification strategy is our own international footprint. Within the global ECA community, we believe that EDC has the largest international network, with nearly 50 internationally-based staff in 20 representations around the world. Our ability to align our solutions to meet the needs of Canadian exporters and local buyers is a comparative advantage and allows us to maintain current, on-the-ground knowledge of markets of importance to Canada's trade environment. Our international representatives include seasoned bankers, financiers and business development staff with deep networks of local buyers, borrowers, and financial institutions, who provide on-the ground market information and intelligence to Canadian exporters and investors in close collaboration with the Government of Canada and, in particular, the Trade Commissioner Service.

4.6 MEETING THE EMERGING NEEDS OF EXPORTERS

As illustrated throughout this Submission, Canadian exporters have tremendous opportunities to compete in the global marketplace. At the same time, the expansive rules and risks of trade can make exporting a complex endeavour. Global competition is also intensifying. New technologies defy borders, while the same forces of globalization that are helping to bring Canadian products to the world are inviting more international competition to Canada. This is forcing Canadian companies to adapt, innovate, and find new routes to growth. Prospering in the modern global trade environment requires the constant breaking of new ground.

So too for EDC. To stay relevant to our customers, EDC is constantly innovating to improve our line of services and solutions across the full spectrum of exporter needs. Over the decade since the last Legislative Review, we have evolved to meet the challenges of our customers with substantial investments in research and the ongoing development of new products and services. The expansion of the pull program, matchmaking connections, and exporter knowledge resources are examples of proactive initiatives - beyond the traditional ECA role to support and facilitate current trade - that are helping exporters create new international opportunities and develop trade growth for Canada.

Responding to the Need for Innovative Financial Solutions

EDC's traditional financing and risk mitigation products have long served the needs of Canadian companies to be competitive and protected in their international trade journey. These financial products enable exporters to access working capital, offer competitive repayment terms, and to protect themselves against international risks. However, to keep up with the ever-changing customer environment, EDC must constantly enhance and broaden our traditional financing and insurance products, allowing for new insured interests and security types such as foreign currency and fuel hedging instruments, foreign inventories and R&D tax credits. Occasionally, new underwriting approaches are also required, for example, to keep up with the rise in and demands from the Software as a Service (SaaS) Industry.

If our products or processes fail to keep pace with shifting market dynamics, the immediate effect is a market gap and unmet exporter needs which can put Canadian companies at a disadvantage. This is especially true as EDC seeks to increase its relevancy in the micro and small business segment, which may require innovative approaches to credit analysis and transaction volume. Our ability to innovate quickly to respond to imminent exporter needs requires ongoing investment in many areas of our business including digital capabilities, human resources and risk management.

Responding to the Need for Connections

In our ongoing research, the connection has often been cited as one of the most difficult and expensive obstacles to overcome in pursuit of international sales. As discussed elsewhere in this Submission, EDC brings value to Canadian companies by leveraging our trade creation programs to deliver highly-valued, targeted connections of Canadian exporters to international buyers through formal matchmaking events and other introductions. In this way, our customers can benefit from our deep understanding of Canadian capabilities along with our financing relationships and specific knowledge of the procurement needs of major international buyers.

In the future, to expand the relevance of our connections capabilities, we will need to augment our traditional person-to-person introductions with virtual and digital connections programs. As new procurement models emerge, such as platforms and networks that connect open supply and demand, EDC's role as a connector of Canadian capabilities into foreign supply chains will need to evolve alongside these trends. In this regard, a number of potential projects are being evaluated that would present exporters with new connection experiences – these may include connections to potential customers (a virtual matchmaking program was piloted for the first time in 2017), but also connections to potential partners and suppliers, and a more seamless digital connection to other government programs and services that are relevant to the exporter.

Responding to the Need for Knowledge

As set out in Section 2.5 of this Submission, timely and accurate trade knowledge is of critical importance to Canada's exporters. EDC is an organization with extensive knowledge and expertise in international trade. Sharing this knowledge will help more Canadian SMEs go global, grow and diversify into new markets. This will also lead to increased demand for EDC financial products, as our resources will help to support the exporting success of Canadian companies and trade growth for Canada.

EDC is leveraging substantial investments in our digital platform to build and deliver knowledge solutions that are tied to our international experience, core competencies and the most pressing information needs of our customers. These include seminars, webinars and other events, research and insight from our Economics team, country information and market analysis, and access to advice from international experts. Many of these resources are being designed and delivered in collaboration with the Trade Commissioner Service, other government partners, and experts from the private sector and all of our offerings will contribute to the public policy objectives of the Government of Canada.

In 2017, EDC focused on expanding its capacity to produce high quality webinars and premium content, many of which provided a platform to showcase relevant expertise from the Trade Commissioner Service and other partners. In parallel, we began developing new knowledge products based on internal experience and expertise. Products in development include risk assessment guides and tools that would allow an exporter to better assess and mitigate the potential risks (financial, social and environmental) associated with a new contract or business relationship. Others include data driven tools to allow companies to better assess suitable markets for future growth with attendant guides and expertise on successful market entry. As part of our development strategy, new products anchor to the exporter journey and link to EDC financial products.

In building our knowledge resources, EDC is complementing our own offerings with tools and content from our partners in trade, including the Trade Commissioner Service, other federal and provincial service providers, and our partners in the private sector. This will ensure the best and most relevant selection of curated information available for Canadian companies. In the years to come, this knowledge platform will make exporting easier for Canadian companies and should also serve as a valuable resource for front-line EDC staff, Trade Commissioners, and other trade partners in the field.

4.7 ENHANCING SUPPORT OF SMEs

Nowhere are the needs, and rewards, of adapting to today's complex global trade environment more apparent than among Canada's small business community, which accounts for almost 70% of Canada's private sector jobs and the majority of our exporters.

Together, small and medium-sized businesses (SMEs) represent more than 80% of EDC's customers. In 2017, our financial products facilitated 5,500 transactions for SME exporters in developed and emerging markets around the world, a 6% increase from 2016. In the period since the last Legislative Review and, particularly, over the past five years, EDC has invested heavily in new programs and initiatives to help more companies in the SME segment.

EDC is continuously adapting our programs and risk appetite to address the range of challenges faced by SMEs. For example, over the last several years we have sought to increase our responsiveness to SMEs by expanding parameters for support under the EGP program (described in Section 3.9 of this Submission) and are continuously seeking to improve our processes to respond to the need for simplicity and speed in the SME space. In 2017, we added a CDIA guarantee to the EGP program as this was a particularly limiting constraint in terms of availability of credit for small and commercial banking customers. And this year, we are piloting in Quebec an "EGP Express" program that will allow EDC to serve a larger portfolio of borrowers in collaboration with our partner banks. The EGP Express program is scalable, cost-effective and is being specifically designed for the underserved micro-exporter segment, defined by EDC as businesses with total export sales of less than \$1 million.

To better serve the diverse needs of Canada's SMEs, EDC is reconfiguring its national direct sales force. Changes to our account management model will allow us to deliver the right amount of touch at the right time, providing companies with high value, personalized consultations on exporting and EDC product advice when they need it most. These changes are expected to result in new efficiencies, allowing EDC to scale-up prospecting activities to enable connections with more companies.

Beyond our own sales force, EDC’s ability to serve a range of SME needs in a scalable way rests on the strength and breadth of our channels, most importantly, our partner channels and digital channel. EDC has identified the need to reach more SMEs by expanding its sales and delivery channels beyond its well established regional sales teams of client relationship managers. In Part III of this Submission, we explored how EDC is enhancing a number of partnership channels (including with banks, brokers and private insurance providers). By expanding the delivery of our SME support through these partners, EDC can reduce the number of touch-points required from exporters to access relevant EDC products throughout their international trade journey.

Of course, in addition to attentive personal service, today’s SMEs require fast, simple, easy to-access digital solutions. By maturing our digital delivery channel, EDC intends to meet SME expectations, wherever possible, for web-based, 24/7 availability of automated service. Our earliest example is “eSCI,” EDC’s first online self-serve product launched in 2015. eSCI is an innovative insurance product that provides exporters with the ability to obtain selective buyer coverage in a matter of minutes. This solution closes a significant gap in the market by allowing Canadian businesses the option of committed coverage for a single buyer – a unique offering in the insurance space. eSCI is designed for SMEs, particularly at the micro-end of the SME spectrum, who are looking for protection against specific buyer risks but do not want to pay for a larger policy. This solution provides SMEs with a simple and effective way to obtain the confidence they need to step out of Canada and into new markets.

EDC is continuing to enhance and build awareness of eSCI and explore opportunities to make it available through selected partners. Our ongoing investment in new digital programs like eSCI improving the access to, convenience, and speed of delivery of our solutions, commensurate with the expectations of our SME customers in the digital age.



SMART SWEETS

Tara Bosch learned to cook in her grandmother’s kitchen. But these culinary lessons weren’t the only thing the two shared — both had a sweet tooth, with gummy bears at the top of the list. When her grandmother’s health began to fail, Tara was inspired to create Smart Sweets, a candy company that doesn’t use any sugar, sugar alcohols or artificial sweeteners at all.

Despite an initial investment of \$15,000 from Tara’s personal savings, the banks she approached were cautious. They wanted to see multiple years of financials which Tara did not have. She turned to EDC for help. “Without EDC, we wouldn’t have been able to access debt financing...and without that financial support we would not have achieved the international and national success story we are today.” Smart Sweets is now an industry leader with strong financials and a fast-growing distribution chain.

4.8 LOOKING AHEAD: CONSIDERATIONS FOR THE 2018 LEGISLATIVE REVIEW

The 2018 Legislative Review provides the opportunity to ensure that EDC is equipped for the decade to come. The review process is critical to enable EDC to continue to evolve as necessary so that exporters have the support they need to bring Canadian capabilities to the world and contribute to Canada's prosperity and growth.

Our own considerations for the 2018 Legislative Review are neither numerous nor far-reaching. This submission has not, for example, proposed enhancements to EDC's mandate or suggested legislative changes to the *Export Development Act*. Rather, we generally support a conclusion that EDC's mandate has well stood the test of time, providing the flexibility and scope needed to meet successive generations of exporter challenges. Evolution is and always has been a constant state for EDC.

The 2018 Legislative Review will look beyond the challenges of today to examine the evolving needs of Canadian companies and the ability of EDC to contribute to Canada's trade priorities in the years ahead. This examination will serve the public interest by ensuring a resilient, adaptable EDC that is well-positioned to leverage its mandate and maximize success for Canadian exporters.

In terms of EDC's legal framework, we believe that a small number of regulatory changes could provide better flexibility and clarity to Canadian companies.

These considerations are set out in more detail below.

Affirming the Business Model

As the only Canadian financial institution exclusively devoted to supporting exporters, EDC has always enjoyed dedicated support from our customers, financial partners, and our sole shareholder, the Government of Canada.

Our business model is unique among ECAs. We are highly proactive and visible. We can leverage financial resources and a flexible mandate to innovate and offer a variety of products and services that serve new customers in new ways while growing our business to ensure that we can continue to serve the exporters of tomorrow.

While providing the best possible service to our customers, it is also critical that EDC continues to focus on its commercial fundamentals – the business essentials that enable us to move at the speed of business and increase our impact by partnering with the private sector and ensuring EDC's financial sustainability. The commercial orientation of our model is one of EDC's most significant advantages and generates the capital needed to do what is most important – help Canadian companies take advantage of international trade opportunities. EDC's prudent business model also provides a financial benefit to all Canadians through the payment of dividends to our shareholder, the Government of Canada, which have totaled more than \$5.5 billion in the decade since the last Legislative Review.

In carrying out our business activities, EDC balances our commercial approach with a public policy mandate. In many cases, we exercise public policy considerations in the normal run of our business, for example, by enhancing our focus and risk appetite to serve SMEs. In addition, EDC is often called upon to support, and sometimes to take a leadership role, in respect of specific government priorities. Our business model reserves capacity to contribute to these priorities using our existing systems and skills, without budgetary allocation or funding from the government.

To calibrate this balance, there are important governance mechanisms in place, including an annual Statement of Priorities and Accountabilities (SPA) from the Minister of International Trade Diversification and EDC's annual Corporate Plan. These documents are critical to the good governance of EDC and ensure that we are able to align capacity and provide support to the identified shareholder priorities without adversely impacting core commercial operations. Effective coordination on governance also protects the Minister's role, the functioning of the arms' length relationship between the government and EDC, and the principle of operating autonomy - which are also important aspects of the business model.

The EDC business model is able to offer more trade-related financial and non-financial products to exporters than other financial institutions. Our infrastructure also supports a careful balance between customer service, contributions to Canadian public policy, and financial self-sustainability.

Consideration of Regulatory Amendments

As explored throughout this Submission, EDC is mandated to support and develop, directly and indirectly, Canada's export trade and Canada's capacity to engage in that trade and respond to international business opportunities.

Our legislative parameters are set out in the *Export Development Act*. These have been expanded over time to offer sufficient flexibility for EDC to evolve and keep pace with the changing needs of our customers. However, EDC's powers to serve customers in furtherance of our mandate are limited through the operation of the Regulations. These regulatory restrictions prescribe the manner in which EDC can exercise certain of its powers, including the acquiring of equity interests and the entering into of domestic transactions. In previous sections of this Submission, we have identified certain areas where the Regulations are restricting EDC's ability to serve customers and may be impeding policy objectives to help exporters succeed. We recommend consideration of amendments to the Regulations, which are outlined in more detail below.

A. Equity Investments

EDC has the statutory power to provide equity financing to Canadian companies and we use this power to finance the growth capital needs of Canadian small businesses and accelerate their expansion internationally. The Regulations, however, limit our ability to act as a leading growth partner by imposing a cap on EDC's investments of 25 per cent of a company's share capital. Any investments in excess of this limit require Ministerial Authorization.

As illustrated in Section 3.10 of this Submission, EDC's new Investments Strategy will put a greater focus on creating benefits for SMEs by improving the relevance and impact of our investments, with a corresponding shift to more meaningful commitments and larger initial positions to address the growth capital needs of SMEs. The 25 per cent equity threshold restriction is expected to create a barrier to potential investments and the achievement of these investment objectives. We believe that this restriction will limit EDC's ability to address the needs of Canadian SMEs. The restrictions may also complicate our ability to contribute to the Government of Canada's Cleantech Strategy, given that many promising cleantech companies are early stage and have a low valuation attributed to their business.

An amendment to the Regulations could increase the limit applicable to EDC's equity ownership, thereby enhancing our ability to meet the needs of SMEs and act as a stable source of growth capital for emerging exporters. This would increase the effectiveness of EDC's support to Canadian companies.

B. Domestic Insurance and Working Capital Solutions

The Regulations stipulate that EDC can offer domestic insurance and working capital solutions where the transaction in question relates to a company whose annual export sales (and other foreign market business volumes) are at least 50 per cent of total consolidated business volume (the “Export Sales Test”). If the Export Sales Test is not met, EDC must seek Ministerial Authorization in order to support the transaction.

The Export Sales Test affects the ability of EDC to offer, grow and scale our insurance and working capital solutions to Canadian companies. Some examples of the impact of this restriction were provided in earlier sections of this Submission.

In Section 3.5, we discussed the importance of EDC’s ability to offer a partnered, comprehensive credit insurance solution for both export and domestic sales and the intention of EDC to expand our existing partnership model to grow the credit insurance market. To achieve this partnership model, EDC anticipates a requirement from our partners to exercise certain underwriting and decision-making authorities in respect of the domestic portfolio and to share in the risk through re-insuring part of the portfolio. EDC anticipates the need to provide a stop-loss mechanism that would allow EDC to stand behind our own underwriting on behalf of the private sector insurers and protect those insurers to the extent that domestic losses exceed a threshold to be agreed as a term of the partnership. This proposed model would require EDC to enter into domestic insurance transactions that are not enabled by the Regulations, specifically, the Export Sales Test.

In Section 3.9, we noted the impact of the Regulations on EDC’s ability to offer working capital support (including EGP and PSG) to SMEs who are seeking to grow their international sales, but whose current export volumes are lower than 50 per cent of total sales. EDC regularly turns down customer requests for working capital support, even for strong exporters, because the transaction in question is domestic and the customer cannot meet the Export Sales Test.

For the 2018 Legislative Review, consideration can be had as to whether the Export Sales Test, set out in the Regulations, is meeting policy goals or any other objectives. The practical impact of the test is that many of EDC’s working capital solutions can be readily accessed by large, long-standing and established exporters, but often not SMEs, even those with strong export plans and financial institutions that are seeking to partner with EDC to support those plans.

Already, the Regulations include a separate “complementarity” test that requires EDC’s domestic transactions to complement “the products and services available from commercial financial institutions, commercial insurance providers and the Business Development Bank of Canada.” EDC supports this policy objective and is continuously developing and improving our partnerships to ensure that our solutions are complementary. Considering this, the additional restrictions provided by the Export Sales Test appear to create unnecessary limitations that restrict many exporters from better access to EDC’s working capital solutions and EDC’s ability to partner with other providers on complementary solutions to serve all exporters.

4.9 CONCLUSION

Over the past decade, Canadian companies have called on EDC to do more to assist in bringing their capabilities and expertise to the world. EDC has responded, through investments in our own business operations, greater relationship building with international buyers, and improvements in our collaboration with partner financial institutions and with our shareholder, the Government of Canada.

In addition to the many significant developments in our financing, insurance and bonding solutions that mitigate the risks associated with exporting, EDC is doing more to raise awareness about exporting opportunities. We provide Canadian companies with the knowledge, expertise and connections they need to create international success. This enables us to engage companies much earlier in their exporting journey, whether they are getting ready for their first export, or just considering it for the future of their business.

In short, the EDC of today is supporting more Canadian companies, with more solutions, and through more partnerships than ever before.

But numbers alone will never tell the whole story. The best measurement of our achievements is the success of our customers. The 2018 Legislative Review will provide the opportunity to engage with EDC's customers and other stakeholders in a discussion of our contributions, and our potential to contribute more, not only through the lens of the present global trading market, but for the long term.

The world is changing; so are our exporters; and EDC is changing too. This Submission documents our evolution since the last Legislative Review, and our corporate vision for the years ahead: to be the leader in helping every Canadian company go, grow and succeed internationally. We have the experience, the resources and the expertise to make that difference for Canadian companies and we encourage a Review that will validate and affirm our strong mandate to support their success and maximize their international opportunities.

ANNEX 1

EDC REGIONAL OFFICES



EDC INTERNATIONAL REPRESENTATIONS

* = branch office



ANNEX 2

OVERVIEW OF EDC'S FINANCIAL SOLUTIONS

INSURANCE

Helps exporters protect their international business whether they have one contract, one customer or want support for their entire book of business.

EDC Portfolio Credit Insurance	Insures accounts receivables for up to 90%. Flexible coverage: can include all sales or just a portion.
EDC Select Credit Insurance (eSCI)	Insurance for select account receivables for up to 90%. Ideal for new or occasional exporters, or for those exploring new markets and relationships with a few customers. Fast and simple coverage exclusively online.
Political Risk Insurance	Insurance for companies with assets or investments in emerging markets where political risks such as illegal seizure of assets, outright nationalization, political violence, etc. are possible. Coverage at up to 90%.
Performance Security Insurance	Insures Canadian companies against a wrongful call against a letter of guarantee or if there are political risks at play preventing the company from meeting their contractual obligations. A complement to EDC's Account Security Performance Guarantee.

BONDING & GUARANTEE SOLUTIONS

Posting bonds and letters of guarantee can be expensive and risky, since financial institutions typically freeze operating lines or ask for collateral equivalent to the amount of the bond. With EDC's solutions in place, collateral is not usually required, helping companies free up much-needed working capital.

Performance Security Guarantee (PSG)	Companies can post letters of guarantee without putting up cash or credit to their bank as collateral. We provide a 100% guarantee to the bank that they will be repaid.
Surety Bond Insurance	Similar to the PSG, this insurance encourages the surety company to provide Canadian companies with the bonding capacity needed because we are protecting them against loss if a customer demands payment against the bond.
Foreign Exchange Facility Guarantee	Canadian companies can avoid posting collateral with their foreign exchange contract providers because we are guaranteeing they will be repaid.
Commodity Hedging Guarantee	A 100% guarantee provided to a Canadian company's bank or broker to free up collateral requirements tied to commodity hedging contracts.

FINANCING

EDC offers a variety of solutions, including bank guarantees and loans so that Canadian companies have the financing they need to grow.

Export Guarantee Program (EGP)	Our Export Guarantee Program can help banks provide Canadian companies with additional access to financing. We share the risk with the bank by providing a guarantee on the money borrowed, encouraging them to increase companies' access to working capital.
Buyer Financing	Buyer Financing can help give a Canadian company a competitive advantage by providing their international customers with flexible payment options.
Structured and Project Finance	EDC can act as a partner in international financing syndicates to advise, arrange and underwrite financing to execute a large-scale global project that clearly demonstrates benefits to Canada. The team can also provide support for a project's technical, environmental and social or documentation needs.
Direct Lending	Direct Lending helps Canadian companies with financing by way of a secured loan made directly to the company in support of its international investment or directly to its foreign affiliate, secured by the foreign assets.
Investments	We invest directly in high-potential Canadian companies to help them expand into international markets. We invest in domestic funds to help provide export-oriented companies with access to private equity. Select international fund investments are leveraged to identify opportunities to connect Canadian companies with international buyers.

EDC is the owner of trademarks and official marks. Any use of an EDC trademark or official mark without written permission is strictly prohibited. All other trademarks appearing in this document are the property of their respective owners. The information presented is subject to change without notice. EDC assumes no responsibility for inaccuracies contained herein.

Copyright © 2018 Export Development Canada. All rights reserved.