THE EXPORT DEVELOPMENT CORPORATION
ITS ROLE AND EFFECTIVENESS
IN BRITISH COLUMBIA

by

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ABSTRACT

The objective of this thesis is the evaluation of the Export Development Corporation's effectiveness in British Columbia. This objective is readily devisable into two tasks, an examination of the Corporation's programs in terms of its objectives, and the assessment of the performance and potential of the programs in British Columbia.

In Chapter I, a theory of the role of export credit in trade expansion is developed. The importer's demand for export credit and the exporter's supply of that credit are examined separately, and the joint effect of both on trade volume is considered. The effect of export credit insurance and financing in altering trade volume is also presented. The questionnaire, sample, and method of analysis are described.

In Chapter II, a profile is presented of British Columbia exporters answering the questionnaire. Six characteristics are examined: industry sector, export experience, sales volume, number of export markets, relative importance of exports and domestic sales, and the relative profitability of exports and domestic sales as perceived by the respondent.

In Chapter III, risk perception and compensation are considered. Sample data are presented regarding the relative risk of exports and domestic business, the explanation of that risk, and the difference in selling terms which is deemed in part to compensate for risk differentials. A theory of the effect of risk on profitability is presented and a joint relationship of credit terms, profitability, and risk developed.

The theory and data of the first three chapters suggest that the Corporation's services should greatly enhance the export profitability of B.C. firms. However, the response to these services has not been as positive as is to be expected. Chapter IV presents respondent attitudes toward EDC programs. Information sources are suggested as a possible explanation for negative attitudes, and evidence is presented to suggest that the confidence of firms in sources from which they learn of EDC is suspect.

Three appendices are included to provide background for the study; the questionnaire, export credit services in other major trading countries, and a description of the historical performance and present status of the Export Development Corporation.

This study concludes that the programs of the Corporation are rational in view of its objectives, and that the potential for export expansion in British Columbia is considerable. However, acceptance to date has been poor as a result of an information gap which can be overcome to a great extent by efforts of the Corporation.

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CHAPTER I

INTRODUCTION

Export Development Corporation

The Export Development Corporation was established by act of Parliament, June 27, 1969, "... for the purposes of facilitating and developing trade between Canada and other countries by means of the financial and other powers provided in the act".[1] To perform its role in trade expansion, the Corporation engages in a program of:

1. Insurance for exporters against non-payment by foreign buyers for commercial or political risks beyond the control of either party, and guarantees to facilitate the financing of exports.

2. Loans to foreign buyers of capital goods and major technical services - whether they are related to the supply of equipment or not, for which extended credit not available from regular commercial sources are required.

3. Insurance for Canadian investment against loss due to non-commercial credit risks.

The Export Development Corporation succeeded the Export Credit Insurance Corporation, established in 1946.

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[1]Section 10 (1), Export Development Act.

The change in name and structure reflects a change of emphasis among the functions of ECIC. Export credit insurance was the key service, and until November 1960, the only service of ECIC. In 1960, the provisions of Section 21A of the Export Insurance Act were implemented whereby loans could be made to foreign buyers of Canadian capital goods and services. However, the conditions of qualification and the maximum credit allowable under Section 21A were such that loans never accounted for a significant portion of ECIC's activities. Foreign investment insurance was not included at all in the Export Credit Insurance Act.

The Export Development Act of 1969 recognized the increasing potential for sales abroad of Canadian capital goods and technical services. It further recognized the growing involvement of Canadian capital in foreign countries. To facilitate the exploitation of these growing opportunities, both export financing and foreign investment insurance were incorporated into the Act, not as supplementary to the insurance function, but as separate elements of an expanded approach to servicing Canadian exports.

Thesis Objective

The objective of this thesis is the assessment of the Corporation's finance and insurance programs with specific regard for the needs of the export community of British Columbia. The importance of this evaluation hinges on the

importance of EDC itself. Its services are capable of influencing the magnitude, the components, and the pattern of Canadian exports. Export credit insurance, by reducing the cost of losses, increases the expected value and hence the volume of exports. Both financing and foreign investment insurance cause a shift toward trade with developing economies. EDC financing is restricted to capital goods and technical services, thereby encouraging the growth of these sectors relative to total exports. Are these forces optimal for the development of BC industry, and if so, are the regulations and practices of the Corporation enabling businesses to realize the potential benefit of this assistance?

The existence of regional differences in Canadian industry suggests variation in the effectiveness of a blanket program extended to all regions. The first step in the evaluation of the Corporation's performance is, therefore, the identification of the needs and characteristics of industry in British Columbia. To accomplish this, and to acquire other information essential to the evaluation, a questionnaire was sent to 250 exporting companies. One hundred and eleven replies were received, accounting for approximately 30% of the active export population in

the province.[1]

Role of Export Credit in Trade Expansion

Export Credit Insurance Act - "An Act ... to promote the revival of trade by the provision of Dominion Government guarantees to encourage exports from Canada".

Export Development Act - "An Act .... to facilitate and develop export trade by the provision of insurance, guarantees, loans, and other financial facilities."

---

[1] Defining the BC exporter population poses considerable difficulty. Ought one to distinguish between companies which have actually exported and those which are actively seeking their first customers? And of those companies which have actually exported, ought one to include only those which have engaged in foreign transactions within an arbitrarily set time period? To complicate the issue, companies engaged in exporting are not required to register that fact with any government or industry body. Furthermore, it is unlawful, under the Canada Secrecy Act, for the Dominion Bureau of Statistics or other government agencies to publish export data in any form which might permit the identification of individual companies.

For purposes of this study, the BC exporter population is defined as being companies which have voluntarily registered their interest and/or activity in the export market with the Canadian Department of Industry, Trade and Commerce. That department's 1970 Exporters Directory lists 552 such companies. However, of that number, approximately 375 reported exports in the previous corporate fiscal period.

It is evident from these titles that the basis of trade promotion in both acts is an increase in export credit extended to foreign buyers of Canadian products. Whether insuring export credit extended by commercial sources, or providing the credit themselves, ECIC and its successor EDC, have increased the volume and improved the terms of Canadian export credit.

Implicit in these programs has been the assumption that credit terms influence trade volume. While intuitively acceptable, this hypothesis warrants investigation.

Demand for Export Credit

Carlson (1969)[1] states that the demand for export credit is a function of several variables: export price, P_E; the cost of capital in the importing country, r_I; and the resale credit period, t_I. The relationship among these variables is apparent in a statement of net income for the importer, which he is assumed to maximize.

$$N_I = P_I Q_I - P_E Q_I \left[1 + r_I(t_I - t_E)\right] \qquad (1 - 1)$$

Where P_I = resale price
Q_I = quantity purchased and resold
P_E = export price (in currency of importing country)

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[1]Carlson, Sune, International Financial Decisions, North Holland Publishing Company, London, 1969.

Where r = cost of capital for importer
t_E = export credit period
t_I = resale credit period
N_I = net income of the importer

Another variable implicit in (1 - 1) is the importer's elasticity of demand with respect to price, e_{PI}, which dictates changes in Q_I with a change in P_E. In the case of capital goods, P_I is not precisely resale price, but rather the value of future net cash flows attributable to the imported equipment, discounted to the date of purchase.

The net income of the importer varies directly with export credit, assuming the cost of credit is born by the exporter. In a competitive market, increases in export credit will reduce the importer's cost structure, enabling him to lower P_I and gain additional Q_I.[1] The limiting factor in the importer's demand for export credit is therefore the consumer's elasticity of demand with respect to price, for the product in question. The importance of export credit to the individual importer depends upon his cost of capital, r_I, and his usual selling terms, t_I.

---

[1]This argument assumes that P_E remains constant; in other words, that the cost of financing export credit is not concealed in a price change by the exporter.

The demand for export credit in developing countries is greatest in the capital goods and technical services sectors. Ambitions for economic growth greatly exceed the purchasing power necessary for the realization of those ambitions. Low marginal propensities to save, and high marginal propensities to import result in inadequate domestic funds, and the international flow of long-term capital is insufficient to fill the gap. The introduction of foreign exchange restrictions and import controls is designed to minimize the purchase abroad of non-essentials and to ensure the maximum of deferred payments in all purchases. Capital goods are readily admitted because of their ability to produce income in excess of their import costs. However, even in the capital goods sector, the source of imports will depend to a great extent upon the credit terms offered by the exporter.

Supply of Export Credit

In Carlson's terminology, the income function of the exporter is:

$$N_E = \mathcal{E} P_E Q_I (1 - X_E t_E) - C_E Q_I \qquad (1 - 2)$$

Where $\mathcal{E}$ = exchange rate
X_E = exporter's cost of capital[1]
t_E = period of export credit
C_E = cost of production per unit

and the other symbols are as in Equation (1 - 1).

---

[1] Carlson defines X_E as the sum of: insurance premium, on insured portion; risk premium, on uninsured portion; discount rate, on discounted portion; and the cost of financing undiscounted portion. For purposes of this study it is more useful to define X_E as the firm's weighted average cost of capital, and to reintroduce other costs separately. Insurance premiums appear in Equation (1 - 4) as i. Risk is discussed on page 1 , and defined in Equation (3 - 1) as 1, the expected value of future payments. For simplicity, the exporter is assumed not to discount his export receivables, although his doing so would involve merely weighting X_E and the discount rates by the relevant portions of $P_E Q_I$.

There are several advantages to this definition of X_E over that used by Carlson:

a) The effects upon net income of risk, cost of capital and cost of insurance are separated. The effect of changes in any one is not concealed in an aggregate factor.

b) By including risk in X_E, a discounting factor, Carlson ignores valuable information, namely the probability distribution of expected receipts from a transaction. There is also the inherent error of an increasing risk element in future periods. For example, a risk premium of 1% in the discount rate results in an effective risk premium of 1.045% when applied to cash flows in the second period. A third weakness is the subjective nature of the assessment of the risk factor in this method.

For a further discussion of adjustment for risk, see J. C. Van Horne, Financial Management and Policy, Prentice Hall Inc., Englewood Cliffs, 1968. The effect of this change of definition on Carlson's model is merely to reduce the magnitude for one variable, X_E, and to add two factors, E_E, the expectation of $\mathcal{E}P_E Q_I$, and $i(\mathcal{E}P_E Q_I)$, the cost of insurance. Equation (1 - 2) becomes

$$N_E = E_E \mathcal{E} P_E Q_I (1 - X_E t_E) - C_E Q_I - i(\mathcal{E} P_E Q_I)$$

The effect on net income of changes in any variable will be identical, whether expressed in Carlson's terminology or as above.

For a given volume, Q_I, the exporter may increase net income by increasing the export price, P_E, or by decreasing the export credit period, t_E. However, Q_I is dependent upon the selling terms. If t_E is held constant, then the optimum price[1] is dictated by the importer's price elasticity of demand, which in turn is derived from the resale demand faced by the importer.[2] This elasticity, and hence the exporter's range of price discretion, will depend upon the substitutability of products from other suppliers. In any event, for a given set of external conditions, there exists only one optimal price.

An optimum period of export credit also exists if price is held constant. As in the case of price, this optimum is dependent upon the importer's elasticity of demand. However, since price, P_E, is constant, this elasticity is with respect to changes in t_E.

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[1]For optimum P_E, let the first derivative of Equation (1 - 2) with respect to P_E equal 0, and solve for P_E.

[2]Elasticities are identical in the absence of competition.

$$e_{t_E} = \frac{d_{Q_I}}{d_{t_E}}$$

Where e_{t_E} is importer's elasticity of demand with respect to export credit period.

The first derivative of Equation (1 - 2) with respect to t_E, when equated to 0, yields the optimum period of credit. Rasmussen (1955)[1] has summarized this optimum in the following manner: export credit period (volume being given by $P_E Q_I$) will be increased until the unit cost of credit is equal to the sales elasticity with respect to t_E, or

$$\frac{\mathcal{E} P_E X_E t_E}{(P_E - C_E) - \mathcal{E} P_E X_E t_E} = e_{t_E} \qquad (1 - 3)$$

Where e_{t_E} = the elasticity of demand with respect to credit period; other symbols are as in Equation (1 - 1) and (1 - 2).

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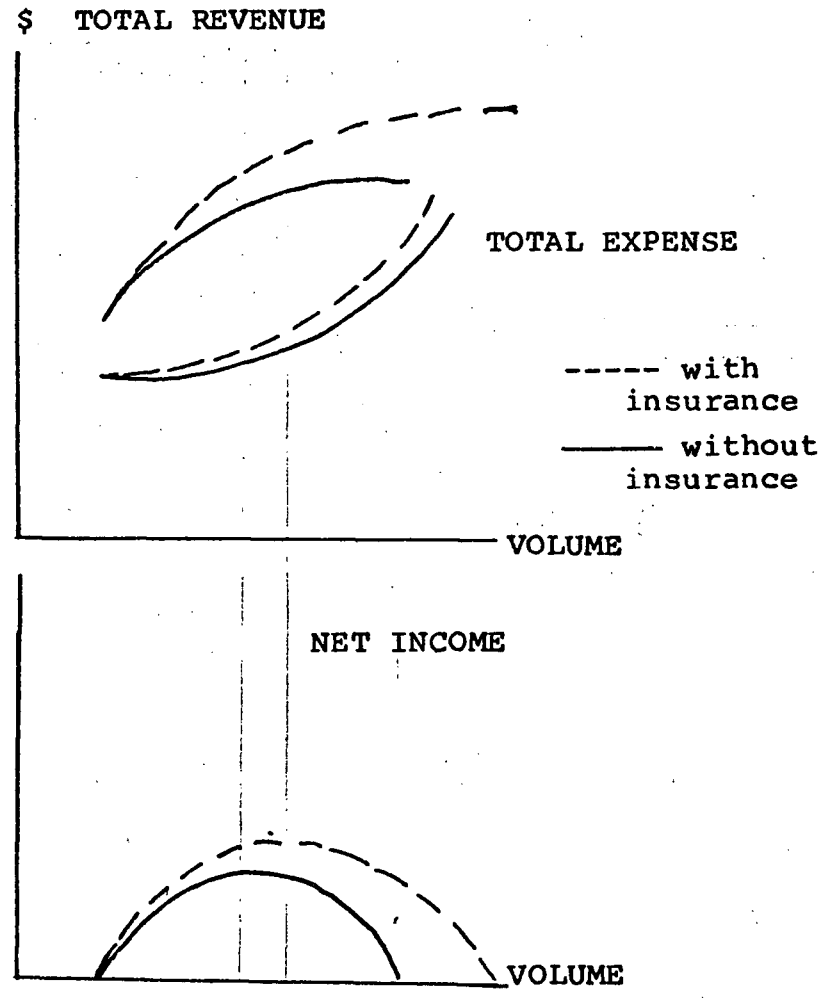
[1] Rasmussen, Arne, Pristori Eller Parameteroeri, Studier Omkring Virksonhedens Afsoetning, Copenhagen, 1955, Chapter VII, as discussed in Carlson (1969)

Upon examination, it is apparent that this statement and formula constitute marginal analysis of revenues and costs, and that the optimum occurs when marginal revenue equals marginal cost. Figure (1 - 1) depicts the relationship discussed to this point.

FIGURE 1 - 1



Since the function of the variable we seek to maximize, N_E, is the difference between two sub-functions, those of total revenues and total costs, optimization occurs when the two sub-functions are parallel. Since, from Equation (1 - 1), the import demand elasticity with respect to credit is always positive, the total revenue curve will increase with the introduction or increase of export credit. Credit increases both the optimum export volume, Q_I, and the maximum net income of the exporter.

Demand for Export Credit Insurance

Equation (1-2) may be amended as follows for an exporter purchasing export credit insurance:

$$N_E = \mathcal{E} P_E Q_I (1 - X_E t_E) - C_E Q_I - i(\mathcal{E} P_E Q_I) \qquad (1 - 4)$$

Where i is equal to premium rate,
and the other symbols the same as equation (1-2)
Since insurance premiums are added costs, certain positive changes must be expected in other factors if the business is to benefit from its use.

The expression $\mathcal{E} P_E Q_I (1 - X_E t_E)$ represents the value of the exporter's future revenues from a contract, discounted to the date of sale.[1] For any t_E, the value of the expression

[1] or the time of delivery, depending upon the time at which financing costs are first incurred.

may be increased by increasing $\epsilon P_E Q_I$, or decreasing X_E. It will be argued that export credit insurance performs either or both of these changes.

1) Increasing $\epsilon P_E Q_I$

To this point, gorss revenues have been expressed as the face value of contracts. Because of the risk of default by the importer, revenues should more correctly be expressed in terms of the expected value of future payments, $E(\epsilon P_E Q_I)$. Without insurance, values associated with a range of probabilities could vary from the face value of the contract to zero.[1] With insurance, these values may only vary between the face value and that percentage of the face value guaranteed by the insurer. In the case of the Export Development Corporation, this is 90%. It follows that all values below 90% of the face value of the contract have a probability of 0. The importance of this effect upon the operations of the firm depends upon the proportion of exports in total sales, and upon the responsiveness of the firm's cost of capital to changes in risk.

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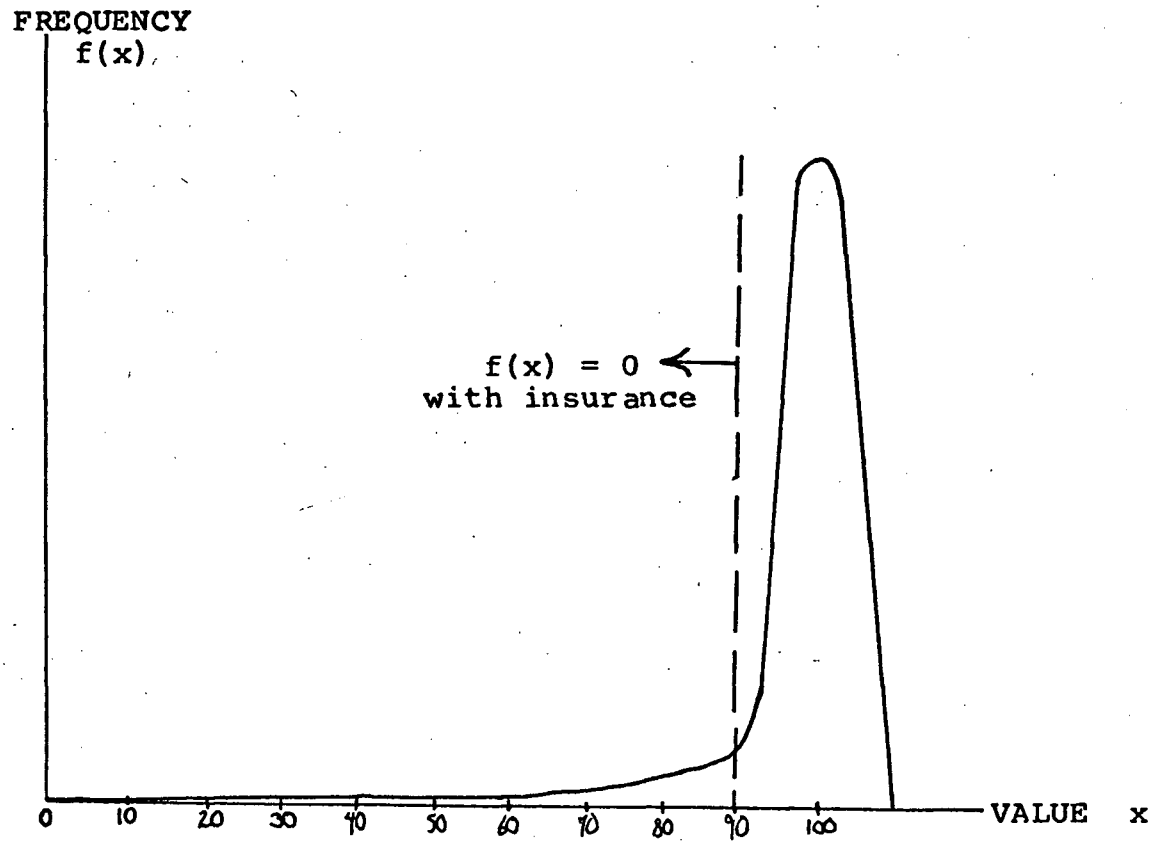
[1] For a more detailed discussion of expectation theory, see William R. King, Probability for Management Decisions, John Wiley & Son Inc., New York, 1968.

The following example illustrates the effect on expected value of reducing downside risk through the use of export credit insurance.

FREQUENCY DISTRIBUTION OF

POSSIBLE OUTCOMES

CONTRACT VALUE: $100



Probability	Value	E(X)[1]	Probability	Value	E(X)
.001	0	.00	.000	0	.00
.001	10	.01	.000	10	.00
.004	20	.08	.000	20	.00
.004	30	.12	.000	30	.00
.005	40	.20	.000	40	.00
.005	50	.25	.000	50	.00
.010	60	.60	.000	60	.00
.020	70	1.40	.000	70	.00
.040	80	3.20	.000	80	.00
.060	90	5.40	.150	90	13.50
.850	100	85.00	.850	100	85.00
	$\sum_{\text{all } x} xf(x)$ =	$96.26		$\sum_{\text{all } x} xf(x)$ =	$98.50

2) Reducing Cost of Capital, X_E

A firm's cost of capital depends upon its risk characteristics as perceived by the suppliers of capital. Although individual projects or transactions often have unique risk characteristics and appropriately different costs of capital, firms are not always able to acquire and allocate packages of funds for specific projects. Furthermore, the existence of a very risky or very certain project at the margin alters the firm's overall risk complexion, and thereby its cost of capital to refinance existing investments. Since the effects of risk on cost of capital are not limited to a specific project, the marginal rate for financing that

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[1] For continuous variables, $E(X) = \int_{x=0}^{x=M} xf(x)dx$ for $x_0 \leqslant X \geqslant x_M$

project is not an appropriate estimate of the true cost of capital. The weighted average cost of capital for the firm as a whole is a superior measure since it accommodates the total effect of the transaction or the firm's financing costs. Such a cost ought not to be calculated from actual costs prior to the proposed investment (project) but rather, based on estimates and quotations, should the venture be included in the firm's activities. X_E, therefore, is the post-transaction, weighted average cost of capital for the firm.[1]

In the previous section, the effect of export credit insurance in reducing downside risk was discussed. By reducing risk and increasing expected value, insurance improves the firm's risk complexion, thereby reducing its cost of capital. If a guarantee is issued in conjunction with this insurance, an additional benefit may accrue to the exporter; his cost of capital for financing the insured transaction will probably be less, thereby increasing the present value of revenues and reducing the cash requirement for interest payments.

The importance of export credit insurance to the

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[1]This definition differs from that used by Carlson. For a discussion of these differences, and the reasons for the modification, see footnote 1, page 8.

individual firm depends upon the degree of risk associated with its transaction, and also the responsiveness of its particular capital costs to that risk. One would expect insurance to be used to the point where the cost of premiums, $i(\mathcal{E}P_E Q_I)$, was just offset by the increase in expected value of revenues, $E(\mathcal{E}P_E Q_I)$ plus the decrease in the cost of capital, $(X_E t_E P_E Q_I)$.

Demand for Export Credit Financing

Export Development Corporation financing is extended as a loan to foreign buyers for the purchase of Canadian capital goods and services. The exporter is therefore relieved of the cost of export credit, $X_E t_E P_E Q_I$. Higher net income results from the absence of this cost, but also from an increase in the expected value of revenues, since payment is assured.

In a competitive market, an increase in the expected value of revenues and a decrease in costs will result in a lowering of the export price, $\mathcal{E}P_E$. One would expect, therefore, that exporters would seek credit financing until its benefits were just offset by a change in gross revenues, $\mathcal{E}P_E Q_I$. Such an optimum would depend upon the importer's elasticity of demand with respect to price.

B.C. Industry Demand for Credit Services

It is on the basis of relationships discussed in the above sections that government organizations such as the Export Development Corporation can justify the provision of export credit insurance and financing. The resultant increases in export trade benefit both individual exporters and the economy as a whole through increased Gross National Product and positive contributions to the Balance of Payments.

The theory discussed to this point has alluded in a general sense to benefits accruing to individual companies through the use of export credit services. In the specific instance of companies in British Columbia, several inherent characteristics amplify these benefits, and suggest that firms would exploit such services to the extent that they met the perceived need.

1) Small local market

The consumer and industrial markets in British Columbia are separated from other Canadian markets by an often prohibitive transportation cost barrier. As a result, most companies face small markets, domestically, and costs of production are correspondingly high. The development of export trade provides an opportunity for production expansion towards more efficient levels, thereby

reducing costs and increasing gross margin. Relatively inexpensive water transport makes shipment to export markets much less prohibitive in most cases than to other domestic markets.[1]

2) Industry Structure

As will be discussed in Chapter II, B. C. industry consists primarily of capital goods manufacturers and suppliers of industrial materials. The domestic demand for these products is much less than production capacity and foreign demand is very great. In the first category, many opportunities exist for assistance through EDC financing. In the second category, products from different sources are often homogeneous, and credit terms, rather than price, are the critical factor in the award of contracts.

3) Cost of Financing

Although costs vary considerably from period to period, the provision of export credit constitutes a major cost for B.C. industry. The effect on net income is

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[1] For example, B.C. Honey Ltd., New Westminster, B.C. has claimed that its product cannot compete in Calgary, Alberta, but sell successfully in over 30 foreign markets. Shipping costs to Amsterdam, for instance, are less than to Calgary. Source: Mrs. Ruth Bird, President, B.C. Honey Ltd.

evident from Equation (1 - 2), and the benefits of EDC's services in reducing this effect have been discussed.

Potentially, the benefits to industry in this province of exporting, and of exploiting credit services such as those of EDC, are great. The balance of this thesis is devoted to an assessment and explanation of the degree to which that potential has been realized.

Questionnaire

General Design

In the general design of the questionnaire, care was taken to ensure ease of response and thereby increase the probable number of responses. Only twelve questions were asked; multiple choice, check-off responses were chosen over narratives; and only seventy-eight alternatives were to be considered in total. The basic response required only twelve checks, and a statement of company products. However, to facilitate the replies of those wishing to provide additional information, spaces were provided for explanations and elaborations wherever appropriate.

A covering letter, written on University of British Columbia letterhead and signed by Dr. W. Winiata, explained the purpose of the study, and related it to a forthcoming seminar to be conducted in Vancouver by executives of the

Export Development Corporation. Whereas the questionnaire format created an impression of the ease of response, the covering letter was designed to show the importance of the study and hence of the response of the recipient.

A specimen of both the questionnaire and the covering letter appear as Appendix I.

Sample

The list of companies chosen to receive the questionnaire was provided by the Vancouver office of the Export Development Corporation. It consisted of companies that were exporting, or actively seeking export sales. Furthermore, these companies were aware of EDC services, but had not, at the date of mailing, used them. To the extent that characteristics of the sample differ from those of the export population as a whole, inductive conclusions regarding the population may be invalid. Such differences, and their potential impact on the conclusions of this study, are discussed in Chapter II.

Method of Analysis

> "It is a valuable and instructive discipline, after every investigation, to divide the conclusions into three groups: a) the ones that are well known to start with, b) the

> ones that confirm or refute previous 'hunches' and c) the ones that no one ever thought of, and possibly cannot be believed in some cases."[1]

The objective of this study may be interpreted in terms of finding relations between and among characteristic and attitude variables. From these relationships, it is hoped that explanations of the poor responses to EDC will be apparent, and that courses of action will be implicit to improve the response to present programs and to render them more effective. Analysis of the data received in response to the questionnaire will consist primarily of constructing frequency distributions among responses to individual questions, and establishing contingency coefficients between selected pairs of variables. These results will test hypothesised relationships such as that between risk perception and credit. In addition, evidence of new relations is expected, hopefully of a nature useful to the increased effectiveness of the Corporation.

> "It is perhaps unnecessary to stress that we should take into account knowledge about our population derived from other sources."[2]

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[1] M. J. Moroney, Facts from Figures, Penguin Books, Baltimore, 1962, page 123.

[2] Ibid, page 122.

The interpretation of data received from questionnaire responses, and recommendations thereupon, will be undertaken in light of information accumulated from a number of additional sources. Such information will be introduced in the areas of:

1) population characteristics,
2) EDC performance,
3) comparable insurance and finance programs in other countries.

References will be identified as they are introduced into the text.

The basis of analysis for this study is the MVTAB program.[1] This program is capable of calculating univariate and bivariate frequency tables, and of performing horizontal, vertical and total percentages in relation to these tables. The chi-square test of independence is also performed on data. In order to use this program for the current study, one modification was necessary. Since MVTAB only considers single response to questions, the treatment of multiple responses could only be performed by creating "dummy" individuals whose responses were zero

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[1] Bjerring, Boyes, Campbell & Starkey, Multivariate Contingency Tabulation, U.B.C. Computing Center, 1970.

to all variables except that for which the "real" response was multiple. A separate "individual" was created for each of the multiple responses.[1] "Dummy" individuals do not distort chi-square calculation since all zero responses are ignored under the "X" option (MVTAB, page 24). Nor do they distort frequency distributions since zero responses are ignored in table construction under the "Z" option (MVTAB, page 24).

---

[1]For example, variable A assigned values 2 and 3, variable B assigned values 1, 3 and 5, and variable C assigned value 5.

	A	B	C
Card 1	2	1	5
Card 2	3	0	0
Card 3	0	3	0
Card 4	0	5	0

CHAPTER II

PROFILE OF RESPONDENTS

The questionnaire included 5 items pertaining to company characteristics; industry sector, number of years export experience, sales volume, export/total sales ratio, and number of export markets. While other characteristics would be essential for the development of a detailed profile, these were deemed relevant and adequate for purposes of this study.

I Industry Sector

Question 7: What types of products do you export?

Responses to this question were grouped into five categories: consumer non-durables, consumer durables, capital equipment, industrial materials, and services. Companies dealing in more than one category were assigned to that category in which the majority of their revenue was earned.

The objective in determining the industry sector of respondents was to test this variable as a determinant of attitudes toward exporting in general, and toward the

programs of the Export Development Corporation. Differences might be suspected among sectors, given the variations that exist in the traditional importance of exporting, as well as pre-contract costs, type and number of customers, and the probability of repeat business with customers.

If differences exist according to industry sector, then the Corporation might be most effective in the promotion of its services if it engages in market segmentation along product lines.[1] For example, if a correlation is established between product category and sources of general information (Question 2), the information vehicle most effective for the dissemination of EDC information will depend upon the category to be reached. The risk with which exporting is associated, and its explanation (Question 4 and 5), may also depend upon industry sector, and will suggest the perceived need for EDC services in each case.

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[1]Such segmentation would be in addition to that dictated by the specific objective of the finance program to assist only the capital goods and technical services sectors.

TABLE 2 - 1

INDUSTRY SECTOR DISTRIBUTION OF RESPONDENTS
(Frequency and Percentage Distribution)

	Cons. Dur.	Cons. Non-dur.	Capital Equip.	Ind'l. Materials	Services
Frequency Total 113	1	10	50	32	20
Percent Total 100	.88	8.85	44.25	28.32	17.70

As indicated in Table 2-1, capital equipment manufacturers accounted for the largest share of respondents, at 44.25%, followed by industrial materials manufacturers, services (which consisted entirely of professional technical services), and consumer goods, in that order. It is apparent from this distribution, that the customers of BC exporters will not be individual consumers, but rather, industries and governments.

Within individual industry sectors, the responses to other characteristics questions varied considerably.[1]

Consumer Non-Durables

Eight out of 10 respondents in this category had been exporting longer than five years; 5 had sales in

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[1]There was only one respondent in the Consumer Durables category.

excess of $2 million; 5 exported less than 25% of their total sales; 9 exported to more than 2 foreign countries; and respondents were evenly divided regarding their view of the relative profitability of exports and domestic business.

Capital Equipment

Twenty of the 50 respondents indicated that they had been active in export business for more than 5 years; 18 had sales in excess of $2 million; 29 stated that exports accounted for less than 25% of total sales; 28 did business in more than 2 countries; and respondents were evenly divided regarding export profitability.

Industrial Materials

Twenty-six of the 32 respondents had been exporting for more than 5 years; 25 had sales in excess of $2 million; 23 exported more than 50% of total sales; 27 exported to more than 2 foreign markets; and of the 17 that answered the question regarding profitability, 12 indicated that exporting was more profitable than domestic business.

Services

The 20 respondents were evenly distributed regarding years experience and sales volume; 10 exported less than 25% of total sales; 12 exported services to more than 2 foreign markets; and of the 13 that responded to the

TABLE 2 - 2

MOST FREQUENT RESPONSES BY INDUSTRY SECTOR

(percent)

	Consumer Non-durables	Capital Equipment	Industrial Materials	Services
Years Experience	80% more than 5 years	40% more than 5 years	82% more than 5 years	even distribution
Sales Volume	50% more than $2 million	36% more than $2 million	80% more than $2 million	even distribution
Exports/ Total Sales	50% less than 25%	58% less than 25%	72% less than 25%	50% less than 25%
Number of Foreign Markets	90% more than 2	56% more than 2	84% more than 2	60% more than 2
Profitability	even distribution	even distribution	70% exports more profitable	46% exports less profitable

profitability question, 6 indicated that exporting was less profitable than domestic business.

A summary of most frequent responses appears in Table 2 - 2.

Industry Sector Distribution of Population

Since the group of companies chosen to receive the questionnaire was not a random sample (See Sample, page 19), it is possible that the distribution described in Table 2 - 1 is not representative of the BC export community as a whole. As a means of comparison, companies listed in the 1970 Exporters Directory of the Department of Industry, Trade and Commerce were grouped into similar categories. The frequency and percentage distribution of these companies appears in Table 2 - 3.

TABLE 2 - 3

INDUSTRY SECTOR DISTRIBUTION OF POPULATION
(Frequency and Percentage Distribution)

	Cons. Dur.	Cons. Non-dur.	Capital Equip.	Ind'l. Materials	Services
Frequency Total 552	27	110	188	195	32
Percent Total 100	4.88	19.80	34.16	35.40	5.79

A chi-square test for independence was performed on the data in Tables 2 - 1 and 2 - 3.[1] The study sample and the BC exporter population as a whole were found to be independent with respect to distribution by industry sector at the 99.5% level of confidence.[2] Inductive conclusions pertaining to industry sector distribution would therefore be invalid based on sample data. However, it is not the purpose of this study to make recommendations regarding the population as a whole, but rather, to establish relationships between population characteristics and population attitudes. Thus the precise population distribution, and the question of independence do not jeopardize its value. The relative importance of conclusions in this study may be guaged by the size of that industry sector to which they apply.

II Export Experience

Question 8: How many years have you been active in the export market?

Table 2 - 4 contains the frequency and percentage distribution of responses to this question.

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[1]Data from these tables were organized in the general form:

	1	2	3	4	5
A					
B					

and a chi-square value of approximately 29.1 determined. This exceeded the chi-square value 9.49 at the 99.5% level of confidence for 4 degrees of freedom.

[2]In this study, the chi-square test is used for

Footnote 2 continued from page 31

contingency table analysis. In all cases, the null hypothesis is that given sets of data are independent. Implicitly, the alternate hypothesis is that the data are not independent. This does not, of itself, mean dependence exists since the test may be invalid if the presumption of independence is not met.

The purpose of chi-square testing in Table 2 - 1 and 2 - 3 is to determine whether or not sample data may be interpreted as representative of the population with respect to industry sector distribution. Since independence is shown, we conclude that the distribution of the sample is not representative of that of the population as a whole. It is therefore not correct to make statements about the population based on the study sample, if sector distribution is the determining variable. If other characteristics are coincidentally homogeneous among industry sectors, such statement might be true, but this does not alter the fact of their invalidity based on known data.

Information regarding the characteristics of the population as a whole were not available for incorporation into this study.

TABLE 2 - 4

EXPORT EXPERIENCE OF RESPONDENTS
(Frequency and Percentage Distribution)

	Less than 2 years	2 to 5 years	More than 5 years
Frequency Total 109	21	27	61
Percent Total 100	19.27	24.77	55.96

More than half of the respondents indicated that they had been active in exporting for more than 5 years, suggesting that they have acquired considerable experience in its pecularities and problems. As indicated in Table 2 - 5, there is a marked difference in experience level by industry sector. Exporters of consumer non-durables and industrial materials have much more experience than do capital equipment and services exporters.

Table 2 - 6 provides a comparison of export experience and sales volume. Although the chi-square test is invalid because 5 of 12 cells contain less than 5 responses, there is an apparent relationship between these two variables. If several of the rows and columns of Table 2 - 6 are combined, it becomes apparent that there is a positive relationship between export experience and sales volume.

The ratio of inexperienced to experienced exporters decreases markedly as sales volume increases, indicating

TABLE 2 - 5

EXPORT EXPERIENCE - INDUSTRY SECTOR
(Percentage Distribution)

	Less than 2 years	2 to 5 years	More than 5 years	Number of respondents
Consumer Durables	100.00	.00	.00	1
Consumer Non-Durables	10.00	10.00	80.00	10
Capital Equipment	22.00	38.00	40.00	50
Industrial Materials	6.67	6.67	86.67	30
Services	33.33	27.78	38.89	18

TABLE 2 - 6

EXPORT EXPERIENCE - SALES VOLUME

(Percentage Distribution)
($'000)

	less than 100	100 to 500	500 to 2,000	more than 2,000
less than 2 years	36.84	15.79	26.32	21.05
2 to 5 years	.00	22.22	37.04	40.74
more than 5 years	6.67	11.67	20.00	61.67

TABLE 2 - 6a

EXPORT EXPERIENCE - SALES VOLUME

	500	500-2,000	2,000
I $\leqslant$ 5 yrs.	12	5	4
II > 5 yrs.	6	10	11
Ratio of I:II	2:1	.5:1	.36:1

The ratio of inexperienced to experienced exporters decreases markedly as sales volume increases, indicating that large firms have, in general, more export experience than small firms.

Also of interest is the relationship between years of experience and export share of total sales, Table 2 - 7.

TABLE 2 - 7

EXPORT EXPERIENCE - EXPORT/TOTAL SALES RATIO
(Percentage Distribution)

	less than 25%	25 to 50%	more than 50%
less than 2 years	65.00	.00	35.00
2 to 5 years	50.00	38.46	11.54
more than 5 years	36.67	15.00	48.33

Fifty-eight decimal five zero percent of respondents having 5 years export experience or less exported less than

25% of total sales, while 48.33% of those with more than 5 years experience exported more than 50% of total sales. This relationship suggests that familiarity with export business increases its attractiveness and expands the identified opportunities for sales abroad.

Although chi-square tests for independence were invalidated by the presence of cells in the contingency tables with too few responses, there is evidence from the relevant tables that the following statements are valid.

TABLE 2 - 6	Sales volume is positively correlated with export experience.
TABLE 2 - 7	Export/total sales ratio is positively correlated with export experience.
TABLE 2 - 10[1]	Sales volume is positively correlated with export/total sales ratio.

On the basis of these statements, the following conclusion is suggested:

> The rate at which sales growth of the exporter occurs is dependent upon the relative importance of exports to total sales.

Reluctance for one reason or another to engage in, or to expand, exports limits the growth potential of the firm. Such a statement is intuitively acceptable in the case of firms in British Columbia. The local market is small, and other domestic markets inaccessible. Demand is

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[1] See page 36.

not expanding quickly enough to support major growth, and competition is well established. Export markets, on the other hand, offer much greater total demand, and since suppliers are small in relation to the market, there is more flexibility in any one supplier's competitive position.

III Sales Volume

Question 9: What is your annual sales volume?

The frequency and percentage distribution of responses to this question appear in Table 2 - 8. Sales volume by industry sector appear in Table 2 - 9.

TABLE 2 - 8

SALES VOLUME OF RESPONDENTS

(Frequency and Percentage Distribution)
($'000)

	less than 100	100 to 500	500 to 2,000	more than 2,000
Frequency Total 107	11	16	27	53
Percent Total 100	10.28	14.95	25.23	49.53

TABLE 2 - 9

SALES VOLUME - INDUSTRY SECTOR

(Percentage Distribution)
($'000)

	less than 100	100 to 500	500 to 2,000	more than 2,000
Consumer Dur.	.00	.00	100.00	.00
Cons. Non-dur.	20.00	10.00	20.00	50.00
Capital Equip.	10.00	22.00	32.00	36.00
Industrial Mat.	.00	.00	13.79	86.21
Services	23.53	23.53	23.53	29.41

While half of the total respondents had sales in excess of $2 million, there was considerable variation among industry sectors. Of industrial materials suppliers, 86.21% had sales in excess of $2 million, while exporters in the consumer non-durables, capital equipment, and services sectors had, in that order, fewer respondents in the largest category.

TABLE 2 - 10

SALES VOLUME - EXPORT/SALES RATIO
(Percentage Distribution)

	less than 25%	25 to 50%	more than 50%	respondents
less than 100	90.91	.00	9.09	11
100 to 500	43.75	25.00	31.25	16
500 to 2,000	57.69	11.54	30.77	26
more than 2,000	30.77	25.00	44.23	52
				105

The frequency distribution from which Table 2 - 10 was derived cannot be tested for independence with the chi-square in its present form since 1/3 of its cells have fewer than five responses. However, a relationship is apparent, since 63% of respondents with sales below $500,000 exported less than 25% of those sales, while of firms with sales exceeding $2 million, 44% exported more than 50% of sales. For a comparison of sales volume and export experience, see Table 2 - 6.

IV Importance of Exports in Total Sales

Question 10: What proportion of your annual sales volume is in exports?

The frequency and percentage distribution of responses to this question appear in Table 2 - 11.

TABLE 2 - 11

EXPORTS AS PERCENT OF TOTAL SALES
(Frequency and Percentage Distribution)

	Less than 25%	25 to 50%	More than 50%
Frequency Total 107	48	20	39
Percent Total 100	44.86	18.69	36.45

The relative importance of exports in total sales varied considerably among the response categories of other characteristic questions. These distribution patterns are depicted in Table 2 - 12 to 2 - 15.

TABLE 2 - 12

EXPORTS/TOTAL SALES - INDUSTRY CATEGORY

(Horizontal Percentage Distribution)

	Less than 25%	25 - 50%	More than 50%	Number of Respondents
Consumer Durables	100.00	.00	.00	1
Consumer Non-Durables	50.00	20.00	30.00	10
Capital Equipment	58.00	26.00	16.00	50
Industrial materials	10.34	10.34	79.31	29
Services	58.82	11.76	29.41	17

TABLE 2 - 13

EXPORTS/TOTAL SALES - EXPORT EXPERIENCE

(Horizontal Percentage Distribution)

	Less than 25%	25-50	More than 50%	Number of Respondents
Less than 2 yrs.	65.00	.00	35.00	20
2 - 5 yrs.	50.00	38.46	11.54	26
More than 5 yrs.	36.67	15.00	48.33	60

TABLE 2 - 14

EXPORTS/TOTAL SALES - SALES VOLUME

(Horizontal Percentage Distribution)

($'000)	Less than 25%	25-50	More than 50%	Number of Respondents
Less than 100	90.91	.00	9.09	11
100-500	43.75	25.00	31.25	16
500 - 2,000	57.69	11.54	30.77	26
More than 2,000	30.77	25.00	44.23	52

TABLE 2 - 15

EXPORTS/TOTAL SALES - NUMBER OF EXPORT MARKETS

	Less than 25%	25 - 50	More than 50%	Number of Respondents
1	65.00	15.00	20.00	20
2	88.89	.00	11.11	9
Several	34.25	23.29	42.47	73

TABLE 2 - 16

EXPORTS/TOTAL SALES - EXPORT PROFITABILITY

(Horizontal Percentage Distribution)

	Less than 25%	25 - 50	More than 50%	Number of Respondents
More Profitable	26.47	23.53	50.00	34
Same	65.00	20.00	15.00	20
Less Profitable	64.29	21.43	14.29	28

Although chi-square test for independence were invalidated in each Table except 2 - 16, several relationships are apparent.

Of the manufacturers of consumer goods and capital equipment, and suppliers of technical services, more than half-54.00%, 58.00%, & 58.87% respectively, export less than one quarter of their total sales. Of the industrial materials manufacturers, on the other hand, 79.31% export more than

50% of their total sales.

TABLE 2 - 13 There is no apparent relationship between the ratio of exports to total sales, and export experience.

TABLE 2 - 14 The importance of exports to total sales increases in direct proportion with sales volume.[1]

TABLE 2 - 15 For firms exporting to only 1 or 2 foreign markets, exports accounted for a smaller per cent of total sales than for firms exporting to several countries.[2]

TABLE 2 - 16 There is a strong relationship between exports/total sales, and the perceived relative profitability of exports to domestic sales. One half of those firms indicating greater profitability in exports

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[1]This is consistent with the argument that the local market is too small to afford opportunities for large sales volumes, so that growth oriented firms must eventually seek foreign markets, especially in view of the competitive disadvantage of entering other domestic markets.

[2]This suggests either an increase in the number of export opportunities or an increase in the attractiveness of existing opportunities on the basis of broader risk distribution.

earn more than 50% of their total revenues through exports. Of those indicating less profitability, 64.29% sell less than 25% of their total sales abroad. The chi-square test confirms that these variables are not independent at the 99.5% level of confidence.

V Number of Export Markets

Respondents were asked to indicate whether their exports were to 1, 2 or several countries. This question was asked in the belief that the number of export markets reflects the scope of the base upon which export experience is being gained. Furthermore, risk perception may well be influenced by the number of markets to which exports are made.

TABLE 2 - 17

EXPORT MARKETS

(Frequency and Percentage Distribution)

	1	2	Several
Frequency Total 106	21	9	76
Percent Total 100	19.81	8.49	71.70

In comparing this distribution with other characteristics, there is only one noteworthy deviation from the

pattern: 8 of 18 respondents who have exported for less than 2 years exported to only one market. Otherwise, the majority of respondents in all instances exported to more than 2 countries.

VI Relative Profitability of Exports to Domestic Sales

Respondents were asked to indicate whether they thought exporting was more, or less, profitable than domestic business. Responses to this question will reflect the firm's predisposition regarding exports. The profitability index discussed below is to some extent a measure of that predisposition. Many respondents wrote in reply to the effect that the two were the same. Table 2 - 18 describes the frequency and percentage distributions.

TABLE 2 - 18

RELATIVE PROFITABILITY OF EXPORTING AND DOMESTIC BUSINESS

	Exports More Profitable	Exports Less Profitable	No Difference
Frequency Total 83	34	29	20
Percent Total 100	40.96	34.94	24.10

This distribution suggests that exports are, for the population as a whole, slightly more profitable.[1] However there are marked differences in attitudes in this section depending upon the response to other characteristics that were determined.

To facilitate comparison among categories, a profitability index was determined in the following manner. Each response indicating exports more profitable was assigned "+1"; each indicating less profitable, "-1"; and each indicating the same, "0". The vertical sums were then divided by the total responses in the columns. Indices therefore range between - 1 and +1, the extremities reflecting strong agreement as to the relative profitability of exports and domestic sales.

Of particular significance are Table 2 - 19 and 2 - 22, where a very strong relationship is revealed between export profitability and industry sector, and export/sales ratio respectively.

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[1]Data interpretation is complicated in this section by the existence of alternative measures of profitability. Profit could be viewed as a percentage margin, as sales volume, as dollar margin on sales, or as a rate of return. For purposes of this study, profitability is defined as the dollar margin on sales. This definition is consistent with the results of the questionnaire data, and is assumed in all theoretical relationships to be hypothesized.

TABLE 2 - 19

EXPORT PROFITABILITY - INDUSTRY SECTOR

(Percent of Respondents)
(Profitability Index)

	Consumer Durables	Consumer Non-durables	Capital Equipment	Industrial Materials	Services
More	.00	25.00	36.36	70.59	30.77
Less	1.00	50.00	34.09	17.65	46.15
Same	.00	25.00	29.55	11.76	23.08
PI	-1.00	-.13	+.02	+.53	-.02

TABLE 2 - 20

EXPORT PROFITABILITY - EXPORT EXPERIENCE

(Percent of Respondents)
(Profitability Index)

	2 yrs.	2-5 yrs.	5 yrs.
More	35.71	33.33	47.73
Less	35.71	37.50	31.82
Same	28.57	29.17	20.45
PI	.00	-.04	+.16

TABLE 2 - 21

EXPORT PROFITABILITY - SALES VOLUME

(Percent of Respondents)
(Profitability Index)

		100-500	500-2,000	2,000
More	25.00	50.00	28.57	50.00
Less	37.50	35.71	38.10	31.58
Same	37.50	14.29	33.33	18.42
PI	-.13	+.14	-.09	+.18

TABLE 2 - 22

EXPORT PROFITABILITY - EXPORTS/SALES RATIO

(Percent of Respondents)
(Profitability Index)

	Less than 25%	25 - 50%	More than 50%
More	22.50	44.44	70.83
Less	45.00	33.33	16.67
Same	32.50	22.22	12.50
PI	-.23	+.11	+.55

TABLE 2 - 23

EXPORT PROFITABILITY - NUMBER OF EXPORT MARKETS

(Percent of Respondents)
(Profitability Index)

	1	2	Several
More	35.29	12.50	45.61
Less	35.29	50.00	33.33
Same	29.41	37.50	21.05
PI	.00	-.38	+.12

CHAPTER III

Risk Perception and Compensation

The presence of risk in any transaction reduces its expected value, and hence its attractiveness, to the seller. Consequently, the Export Development Corporation's promotion of exports consists of services which are believed to reduce risk. Two assumptions are implicit: one, that exporters perceive a risk in exporting; and two, that this risk is attributable to a cause which can be negated by EDC services. While it is acceptable to assume the perception of some risk in all business transactions it is important to establish the relative degrees of risk between exporting and domestic business. Firms which perceive greater risk in exporting are more likely to seek insurance protection for their foreign transactions.

SECTION A

Risk

Risk Perception of Sample

To assess relative risk and the explanation of differences as perceived by B.C. exporters, recipients of the questionnaire were asked:

Question 4: With respect to the risk of not being paid by your customers or of other things going wrong would you say that export business is

much riskier than domestic business ( )
slightly riskier than domestic business ( )
about as risky as domestic business ( )
slightly less risky than domestic business ( )
much less risky than domestic business ( )

and

Question 5: To what do you attribute any difference in risk?

selling terms (explain) ( )
credit standing of customers (explain) ( )
complexity of documentation (explain) ( )
communications
- distance ( )
- language ( )
Perishability of product (explain) ( )

The results of these questions appear in Table 3 - 1 and 3 - 2 respectively. The relationship between risk perception and explanation is described in Table 3 - 3.

TABLE 3 - 1

RELATIVE RISK OF EXPORT AND DOMESTIC BUSINESS

(Frequency and Percentage Distribution)

	Much Riskier	Slightly More Risky	About As Risky	Slightly Less Risky	Much Less Risky
Frequency Total 100	22	34	28	9	7
Percent Total 100	22.00	34.00	28.00	9.00	7.00
Risk Coefficient +.55					

As a measure of the relative risk of exporting and domestic business, a coefficient was calculated in the following manner: responses indicating exports much riskier were multiplied by a factor of +2; those indicating slightly more risky, +1; about as risky, 0; slightly less risky, -1; and much less risky, -2. The total was then divided by the number of responses. Thus a coefficient of 0 indicates identical risk, more than 0, more risk in exporting and less than 0, less risk in exporting. The risk coefficient for the population as a whole, derived from Table 3 - 1 was +.55.

TABLE 3 - 2

EXPLANATION OF RISK DIFFERENTIALS

(Frequency and Percentage Distribution)

	Selling Terms	Customer Credit Rating	Complexity of Documentation	Communication Distance	Communication Language	Perish-ability
Frequency Total 97	19	20	17	29	9	3
Percent Total 100	19.59	20.62	17.53	29.90	9.28	3.09

TABLE 3 - 3

RISK DIFFERENTIALS - EXPLANATION

(Horizontal Percentage Distribution)

	Selling Terms	Customer Credit Rating	Complexity of Documentation	Communication Distance	Communication Language	Perishability
Much Riskier	28.57	42.86	14.29	14.29	.00	.00
Slightly More Risky	17.86	3.57	25.00	50.00	.00	.00
About As Risky	12.50	50.00	12.50	25.00	.00	.00
Slightly Less Risky	50.00	33.33	16.67	.00	.00	.00
Much Less Risky	66.67	33.00	.00	.00	.00	.00
Risk Coefficient	.32	.71	1.00	1.05	N/A	1.00

The explanation most frequently given for risk differences was communication problems due to distance, 29.9% of responses. Customer credit rating and selling terms also ranked high with 20.62% and 19.59% respectively. However, as with other data in this study, there are significant variations in both risk perception and explanation depending upon responses to other characteristic questions. Table 3 - 4 through 3 - 9 contain risk perception data by different characteristic categories.

While chi-square tests for independence were invalidated in each case by the presence of cells with fewer than 5 entries, the following statements can be made about respondents with respect to the relationship described in each table.

TABLE 3 - 4 Industry categories each perceive exporting as having different risk relative to domestic business. Industrial materials manufacturers see only a slightly greater risk to exporting, while suppliers of technical services perceive much more.

TABLE 3 - 5 Companies in all experience categories perceived more risk in exporting than domestic sales, However, those with more than 5 years experience saw much less difference than those with fewer years experience.

TABLE 3 - 4

RISK PERCEPTION - INDUSTRY CATEGORY

(Vertical Percentage Distribution)

	Consumer Durables	Consumer Non-durables	Capital Equipment	Industrial Materials	Services
Much More Risky	.00	22.22	25.58	10.71	.00
Slightly More Risky	100.00	33.33	27.91	21.43	66.67
About As Risky	.00	22.22	27.91	50.00	.00
Slightly Less Risky	.00	.00	11.63	14.29	.00
Much Less Risky	.00	22.22	6.98	3.57	.00
Number of Respondents	1	9	43	28	18
Risk Coefficient	1.00	.21	.54	.11	1.00

TABLE 3 - 5

RISK PERCEPTION - EXPORT EXPERIENCE

(Vertical Percentage Distribution)

	Less than 2 yrs.	2 - 5 yrs.	More than 5 yrs.
Much More Risky	12.50	42.31	14.55
Slightly More Risky	50.25	34.62	27.27
About As Risky	25.00	15.38	36.36
Slightly Less Risky	6.25	.00	14.55
Much Less Risky	.00	7.69	7.27
Number of Respondents	16	26	55
Risk Coefficient	.75	1.05	.28

TABLE 3 - 6

RISK PERCEPTION - SALES VOLUME

(Vertical Percentage Distribution)

($'000)

	Less than 100	100 - 500	500 - 2,000	More than 2,000
Much More Risky	.00	23.08	13.04	30.61
Slightly More Risky	66.67	46.15	34.78	22.45
About As Risky	22.22	15.38	39.13	28.57
Slightly Less Risky	11.11	7.69	4.35	12.24
Much Less Risky	.00	7.69	8.70	6.12
Number of Respondents	9	13	23	49
Risk Coefficient	.57	.70	.39	.60

TABLE 3 - 7

RISK PERCEPTION - EXPORTS/TOTAL SALES RATIO

(Vertical Percentage Distribution)

	Less than 25%	25 - 50%	More than 50%
Much More Risky	19.05	36.84	15.15
Slightly More Risky	42.86	26.32	27.27
About As Risky	26.19	26.32	33.33
Slightly Less Risky	7.14	5.26	15.15
Much Less Risky	4.76	5.26	9.09
Number of Respondents	42	19	33
Risk Coefficient	.65	.82	.24

TABLE 3 - 8

RISK PERCEPTION - NUMBER OF EXPORT MARKETS

(Vertical Percentage Distribution)

	1	2	Several
Much More Risky	33.33	42.86	18.57
Slightly More Risky	27.78	28.57	32.86
About As Risky	27.78	14.29	31.43
Slightly Less Risky	5.56	14.29	10.00
Much Less Risky	5.56	.00	7.14
Number of Respondents	18	7	70
Risk Coefficient	.77	.86	.45

TABLE 3 - 9

RISK PERCEPTION - EXPORT PROFITABILITY

(Vertical Percentage Distribution)

	More Profitable	Same	Less Profitable	Number of Respond.	Profit-ability Index
Much More Risky	20.59	21.05	34.62	20	
Slightly More Risky	20.59	26.32	46.15	24	-.16
About As Risky	32.35	42.11	11.54	22	+.36
Slightly Less Risky	14.71	10.53	.00	7	
Much Less Risky	11.76	.00	7.69	12	+.44
Number of Respondents	34	19	26		
Risk Coefficient	.23	.58	1.00		

TABLE 3 - 6 Sales volume apparently is not related to risk perception.

TABLE 3 - 7 Companies exporting more than 50% of total sales perceive less risk in exporting than those exporting lesser shares, but still more than domestic business.

TABLE 3 - 8 Companies exporting to more than 2 countries perceive slightly less risk in exporting than do companies shipping to fewer export markets.

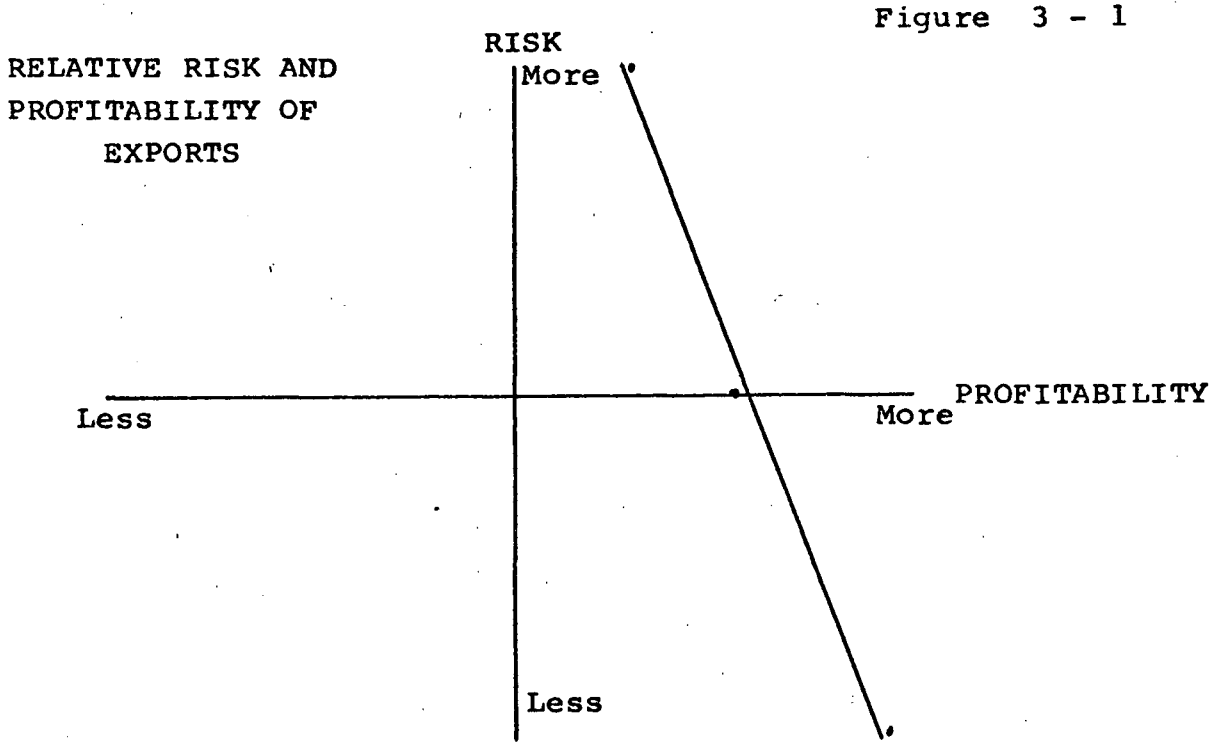
TABLE 3 - 9 There is a strong inverse relationship between the relative risk and relative profitability of exports and domestic sales.

Risk and Profitability

Companies viewing exports as more profitable than domestic sales see only a slight risk disadvantage, while those to which exports are less profitable view them with much greater risk. But, while the relationship is consistently negative, why does export risk remain greater while profitability shifts from greater to less? In an attempt to answer this question, one must recognize that, although the data of this study has only been assigned categorical values, relative profitability could be expressed numerically,

as could risk. The former could be expressed as a percent of a contract's face value, the latter as a discount factor - the aggregate of probabilities for each possible value of a contract. In this context, a regression coefficient takes on meaning, and a regression line of the general form $Y = MX + b$ can be defined, where Y is the measure of relative profitability and X, the measure of relative risk. M, the slope of the regression line, is negative. b, the intercept is positive, since, when profitability (Y) is identical for export and domestic lines (column 2, Table 3 - 9) the risk coefficient is still positive, 0.58. If risk was the only independent variable influencing export profitability, b would be zero, and there would be no apparent irrationality in the responses of exporters. The sample data and an estimated regression line appear in Figure 3 - 1.

Figure 3 - 1



The loss due to the risk of exporting relative to domestic business could be expressed as:

$$\left[(1 - E_E) - (1 - E_D)\right] \quad P_E \qquad (3 - 2)$$

Where E_D is equal to the expectation of selling price for domestic transactions.

The test data show that for our sample, (3 - 2) is always positive.

The profit margin for export sales of one unit is:

$$(P_E - C_E) \qquad (3 - 3)$$

The relative profitability of exporting and domestic business could be expressed as:

$$(P_E - C_E) - (P_D - C_D) \qquad (3 - 4)$$

Where P_D is equal to the domestic selling price, and

C_D is equal to the cost of production for domestic sale.[1]

---

[1]For a discussion of variables which determine differences between costs of production for domestic and foreign sale, see O. M. Hill, How to Win World Markets, Queen's Printer, Ottawa, 1967. Export and domestic price may also differ depending upon the relative magnitudes and elasticities of the domestic and foreign demand curves with respect to price.

When (3 - 4) equals (3 - 2), companies should be indifferent between exporting and domestic business.

A firm may be expected to export, therefore, if

$$(P_E - C_E) - (P_D - C_D) \geqslant \left[(1 - E_E) - (1 - E_D) \right] P_E \qquad (3 - 5)$$

However, in Table 3 - 9, 30.9% of the exporters indicated that exports were both more risky and less profitable; in other words, that (3 - 5) did not hold for them. Why do they export? One is faced with several explanations, assuming that these firms make rational decisions.[1]

1. The attitudes expressed in this questionnaire could relate to exporting in general, and these firms only export under mitigating circumstances such as selling to parent or subsidiary firms, or selling to brokers, which constitutes in essence a domestic sale.

2. While the relative profitability and risk of exports and domestic sales may not indicate the superiority of an export transaction, it may still be undertaken rationally if:

1) all domestic opportunities have been exploited

---

[1] Rational in this context is definable as maximizing return for a given level of risk, or minimizing risk for a given level of return.

and 2) the expected return from the export exceeds the firm's cost of capital.

3. A more widely applicable explanation however is that exporting causes changes in the cost structure of domestic transactions. Exporting increases sales, and hence production volume. Economies of scale can be realized in more efficient operating costs, in a wider distribution of fixed costs, and also in the reduction of seasonal fluctuations in production volume. The extent to which this effect would be realized is dependent upon the limitations of the domestic market. The decision to export will be positive under these circumstances if the following inequality holds true.

$$(P_E - C_E) - (P_D - C_{DD}) + (C_{DE} - C_{DD}) \geqslant \left[(1 - E_E) - (1 - E_D)\right]P_E \qquad (3 - 6)$$

Where C_{DE} is cost of production for domestic sale when exports are occuring, and

C_{DD} is cost of production for domestic sale when no exports are occuring.

It is apparent from inequality 3 - 6, that exporting can be attractive even if it is both more risky, and less profitable than domestic sales. b in Figure 3 - 1, page a measure of the impact of export sales on domestic profits, and it provided the incentive to export even when the explicit profits on that transaction will be less than on a similar domestic sale.

An Example

A manufacturer of light refractors for educational use has the choice of exporting his product or selling exclusively in the domestic market. The competitive domestic price for the product is $50 F.O.B. plant and the cost of production, sales and administration, $40. In the export market, the firm is confident that contracts could be won at a price of $55 F.O.B. plant. Costs for export are $38[1]. However management perceives a difference in risk such that the expected value of the domestic sale is .95 of the contract while that for the export is .75.

The expected profit from the domestic sale is therefore

$$(.95 \cdot \$50) - \$40 = \$7.50 \text{ and,}$$

the expected profit from the export sale is

$$(.75 \cdot \$55) - \$38 = \$3.25$$

From Equation (3 - 5),

$$\phi_{17} - \phi_{10} < (.25 - .05) \cdot \$55$$

$$\phi_7 < \phi_{11}$$

Therefore this company would choose not to export.

---

[1]Could be less than domestic cost for several reasons: eg.; no 12% federal sales tax; duty drawback on imported components.

But, the entrance of this firm into the export market would result in a reduction in the costs of production for domestic sales. Volume purchase discounts and broader distribution of fixed costs would result in a domestic cost of $35 rather than $40.

From Equation (3 - 6), then,

$$7 + 5 > 11$$

and, it would be wise for the firm to export, even though the expected profit of that export is less than that of a similar domestic sale.

Risk Explanation

Table 3 - 2 contains the distribution of responses to the question of risk explanation. Although differences do occur among categories in characteristic questions, they are not as great as differences in some other responses categories. These appear in Table 3 - 10 through 3 - 15.

It is interesting that no respondents in any category attributed risk difference to language problems. With that exception, the distribution of responses by characteristic category is relatively even, with major differences occuring only in columns with small total responses.

In summary, from Table 3 - 2, 49 of the 69 total respondents said exporting was more risky than domestic business. Of this 71%, 17 blamed distance of communication as the cause of the risk difference, 11 selling terms, 10 credit rating of the customer, 10 complexity of documentation, and 1 perishability of product. Distance of communication then, with 35% of all greater risk respondents is the major cause of the positive risk differential between exports and domestic sales. Since distance is, of itself, irrelevant, it seems correct to assume the actual cause to be the timing and uncertainty of communications caused by distance. Another element in distance is intermediaries. Middlemen

such as trade agencies, regulatory bodies, and communication companies fall between the exporter and the importer, and the risk of inaccurate communication is greatly increased by their presence.

Exchange rate fluctuation is one type of risk associated with selling terms, if quoted in the importer's currency. The risk of not meeting all the terms of a draft or letter of credit is also substantial. Several firms claiming risk differences due to customer credit rating explained that the problem was one of obtaining dependable credit references. Credit rating, for them, was not so much poor as unknown. Firms claiming complexity of documentation indicated that the number, sources, and detail of required documents posed particular timing and coordination problems.

TABLE 3 - 10

RISK EXPLANATION - INDUSTRY SECTOR

(Vertical Percentage Distribution)

	Consumer Durables	Consumer Non-durables	Capital Equipment	Industrial Materials	Services
Selling Terms	.00	50.00	37.50	22.22	.00
Credit Standing of Customer	.00	.00	25.00	38.89	23.08
Complexity of Documentation	.00	33.33	15.63	11.11	30.77
Communication - distance	100.00	16.67	18.75	27.78	46.15
Communication - language	.00	.00	.00	.00	.00
Perishability of Product	.00	.00	3.13	.00	.00
No. of Respondents	1	6	32	18	13

TABLE 3 - 11

RISK EXPLANATION - EXPORT EXPERIENCE

(Vertical Percentage Distribution)

	Less than 2 years	2 - 5 yrs.	More than 5 years
Selling Terms	8.33	33.33	27.14
Credit Standing of Customer	.00	28.57	25.71
Complexity of Documentation	33.33	9.52	18.57
Communication - distance	50.00	28.57	27.14
Communication - language	.00	.00	.00
Perishability of Product	8.33	.00	1.43
Number of Respondents	12	21	37

TABLE 3 - 12

RISK EXPLANATION - SALES VOLUME

(Vertical Percentage Distribution)

	Less than 100	100 - 500	500 - 2,000	More than 2,000
Selling Terms	.00	27.27	25.00	34.29
Credit Standing of Customer	.00	18.18	31.25	28.57
Complexity of Documentation	40.00	18.18	25.00	14.29
Communication - distance	40.00	36.36	18.75	22.86
Communication - language	.00	.00	.00	.00
Perishability of Product	20.00	.00	.00	.00
Number of Respondents	5	11	16	35

TABLE 3 - 13

RISK EXPLANATION - EXPORT/SALES RATIO

(Vertical Percentage Distribution)

	Less than 25%	25 - 50%	More than 50%
Selling terms	21.21	41.67	27.27
Credit Standing of Customer	18.18	33.33	31.82
Complexity of Documentation	15.15	16.67	27.27
Communication - distance	45.45	8.33	9.09
Communication - language	.00	.00	.00
Perishability of Product	.00	.00	.00
Number of Respondents	33	12	22

TABLE 3 - 14

RISK EXPLANATION - # EXPORTS MARKETS

(Vertical Percentage Distribution)

	1	2	Several
Selling terms	28.57	16.67	29.17
Credit Standing of Customer	35.71	16.67	25.00
Complexity of Documentation	21.43	16.67	16.67
Communication - distance	14.29	50.00	29.17
Communication - language	.00	.00	.00
Perishability of Product	.00	.00	.00
Number of Respondents	14	6	48

TABLE 3 - 15

RISK EXPLANATION - EXPORT PROFITABILITY

(Vertical Percentage Distribution)

	more profitable	same	less profitable
Selling terms	21.74	30.00	31.82
Credit Standing of Customer	43.48	30.00	13.64
Complexity of Documentation	17.39	20.00	13.64
Communication - distance	13.04	20.00	40.91
Communication - language	.00	.00	.00
Perishability of Product	4.35	.00	.00
Number of Respondents	23	10	22

SECTION B

Selling Terms

Selling Terms as Risk Compensation

The terms of an export sale, specifically the credit element, may reflect the risk perceived by the exporter. The discussion of risk and credit in Chapter I revealed the role of both in determining the exporters net income. Risk reduces net income by reducing the expected value of revenues.

$$N_E = f\,(1 - E_E)^{-1} \qquad (3 - 7)$$

Where E_E = expectation for export transaction (see definition, Equation 3 - 1)

Credit, while a direct cost, increases export volume, and thereby, revenues. The extent to which this relationship hold true depends upon the price elasticity of demand for the exports, and the cost of capital. From Chapter I, credit will only be extended when:

$$e_{t_e} \geq \frac{\sum P_E X_E t_e}{(P_E - C_E) - \sum P_E X_E t_e} \qquad (3 - 8)$$

Where e_{t_e} = export demand elasticity with respect to credit
$\sum P_E X_E t_e$ = cost of extending credit
$(P_E - C_E)$ = net income except credit costs.

Within the range described above, net income is a direct

function of credit:

$$N_E = g(t_e) \qquad (3 - 9)$$

But the extension of credit increases risk:

$$(1 - E_E) = h(t_e) \qquad (3 - 10)$$

Recognizing that revenues, $P_E Q_I$, and thus net income, consist of both a quantity and price factor, the following statement is valid regarding the use of credit:

> Export credit will be extended by the exporter as long as the increase in revenues due to increased Q_I is equal to or greater than the sum of 1) the decrease in revenues due to lower P_E caused by increased Q_I, 2) the decrease in revenues caused by the effect of added risk on the expected value of P_E, and, 3) the cost of extending credit.

The ex ante optimum volume of export credit, that point at which 3 - 8 is an equality, is dependent upon several factors:[1]

1. The perceived risk - $f(1 - E_E)$
2. The effect of credit on risk - $h(t_e)$
3. The cost of capital-X_e.[2]

---

[1]The credit elasticity of demand is assumed given The effect of changes is discussed in Chapter I.

[2]The reader is referred to the definition of X_E in footnote

Question 6: With respect to your terms of sale please indicate which of the following are relevant for domestic and foreign sales:

	Domestic	Foreign
documentary sight draft	( )	( )
letter of credit	( )	( )
cash in advance	( )	( )
up to 90 days' credit	( )	( )
91 to 180 days' credit	( )	( )
other (specify)	( )	( )

The responses to this question are presented in a bivariate frequency form in Table 3 - 17.

The columns and rows of Table 3 - 17 are arranged in order of increasing credit content right to left and top to bottom. The maximum credit differential is 5 categories, and Table 3 - 18 contains the frequency distribution of all differentials.

TABLE 3 - 17

SELLING TERMS OF DOMESTIC
AND FOREIGN TRANSACTIONS

(Frequency Distribution)

	Cash in Advance	Progress Payments	Sight Draft	Letter of Credit	Up to 90 days credit	Up to 180 days credit	No. of Respon.	Vert. %
Cash in Advance	3	0	7	2	0	0	12	13.8
Progress Payments	0	5	2	4	1	0	12	13.8
Sight Draft	0	0	7	1	0	0	8	9.1
Letter of Credit	0	0	0	0	0	0	0	0.0
90 days credit	0	4	12	17	21	0	54	62.1
180 days Credit	0	0	0	0	0	0	1	1.2
No. of Respond.	3	9	28	24	22	1	87	
Horiz. %	3.3	10.0	32.1	27.3	25.1	1.2		100.0

TABLE 3 - 18

CREDIT DIFFERENTIALS - EXPORT RISK

BY TABLE 3 - 17 CATEGORIES

	Less Credit in Exports						More Credit in Exports				
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Total 89	0	0	4	12	17	37	3	11	3	0	0
Much More Risky 16	0	0	1	0	6	4	0	2	3	0	0
Slightly More Risky 29	0	0	1	5	5	15	0	3	0	0	0
Same 22	0	0	0	4	3	10	2	3	0	0	0
Slightly Less Risky 6	0	0	0	1	2	1	1	1	0	0	0
Much Less Risky 6	0	0	1	0	1	2	0	2	0	0	0

The independence of these data cannot be tested by the chi-square in their present form, since many cells contain less than 5 responses. Combining columns and rows removes this problem, but usually causes loss of meaningful information. However in this instance, the value of category distinction can be questionned on several grounds.

Rows: The thought process of the respondent in deciding the degree of risk difference he will indicate is not known. Furthermore, the category limits depend upon the respondents aversion to risk, and are therefore different for each individual.

Columns: Although the incorporation of multiple responses into the analysis[1] allows for the selection of more than one column, there is no means of weighting these according to the proportion of total exports in each.

On the basis of these weaknesses, it would not appear that combining columns and categories as in Table 3 - 19 results in the loss of meaningful information. The benefit of statistical testing therefore warrants such grouping.[2]

---

[1] See footnote, Chapter I, page

[2] Although 2 cells still contain less than 5 entries, this weakness is within acceptable limits for chi-square testing.

TABLE 3 - 19

RELATIVE RISK OF EXPORTS - RELATIVE CREDIT FOR EXPORTS

(Credit)

Risk	Less	Same	More	Horizontal %
More	18	19	8	56.8
Same	7	10	5	28.0
Less	5	3	4	15.2
Vertical (%)	37.8	40.2	22.0	100.0

A chi-square value of 3.13 was calculated for the data of Table 3 - 19. This is less than the value 9.49 of chi-square at the 99.5% level of confidence for 4 degrees of freedom. It is therefore concluded that, at that confidence level, these data are not independent. The relationship between risk and credit can be demonstrated in the following manner: Respondents extending less credit to foreign customers were assigned a value of -1; those extending the same credit terms, 0, and those extending more credit, +1. This coefficient is determined for each category of perceived relative risk.

TABLE 3 - 20

CREDIT COEFFICIENT - RELATIVE RISK

Perceived Risk of Exports/Domestic Business	more	same	less
Credit Coefficient	-.22	-.09	-.08

As in the case of risk and profitability, credit can be assigned numerical values[1] even though it has only been examined by category in this study. Regression analysis is therefore meaningful, and the relationship of Table 3 - 20 can be depicted as in Fugure 3 - 2.[2]

EXPORT RISK
AND EXPORT CREDIT TERMS

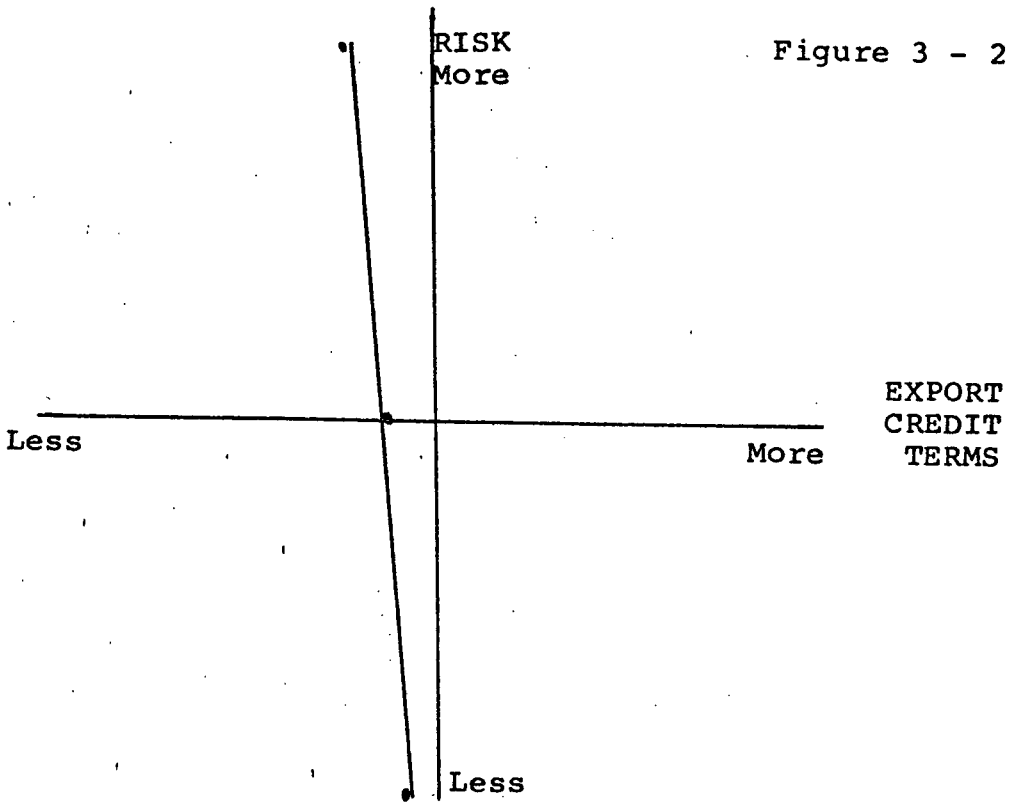


Figure 3 - 2

[1]Credit is measured in units of time, and expressed in Carlson's terminology as t_E.

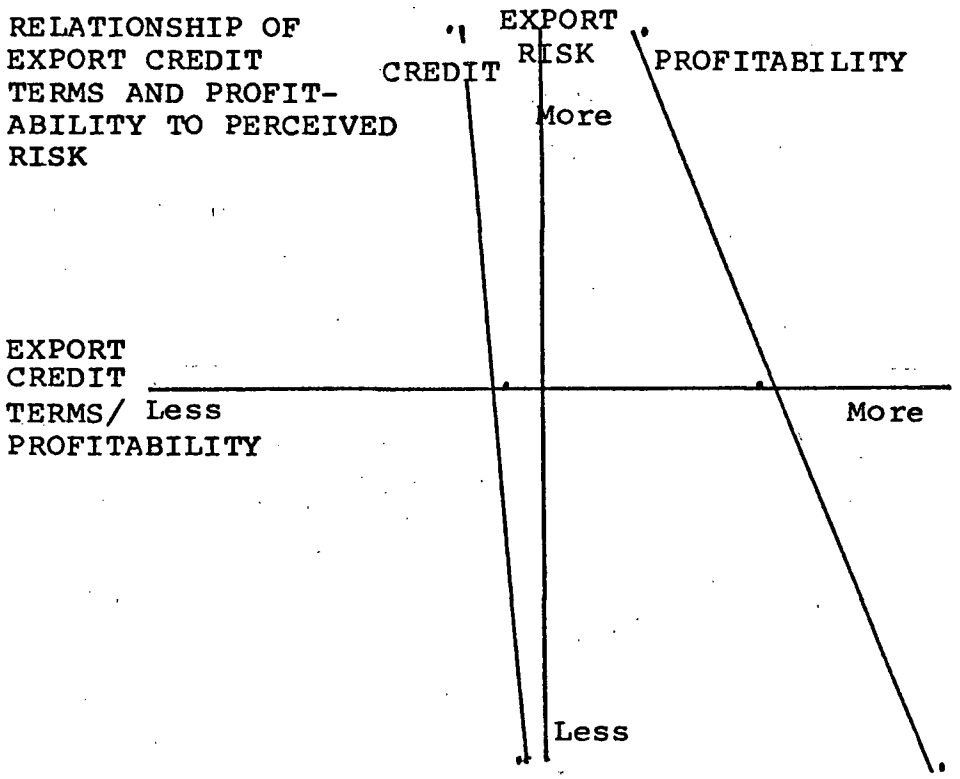
It is not the purpose of this paper to measure the strength of relationships, but rather to establish their existence and importance to the theory and practice of export credit services. Regression equations and coefficients are therefore not specifically determined.

The causes of perceived risk in exporting are numerous, but may generally be grouped into political, such as war or insurrection; economic, such as exchange rate fluctuations; and commerical, such as default of the buyer. Assuming price to be given by international competition, exporters attempt to compensate for risk by adjusting credit terms. Figure 3 - 2 illustrates that this is true for firms in our sample.

Synthesis

The export credit index with respect to risk, (Table 3 - 20; Figure 3 - 2), and the profitability index with respect to risk, (Table 3 - 9; Figure 3 - 1), are compared in Figure 3 - 3.

Figure 3 - 3



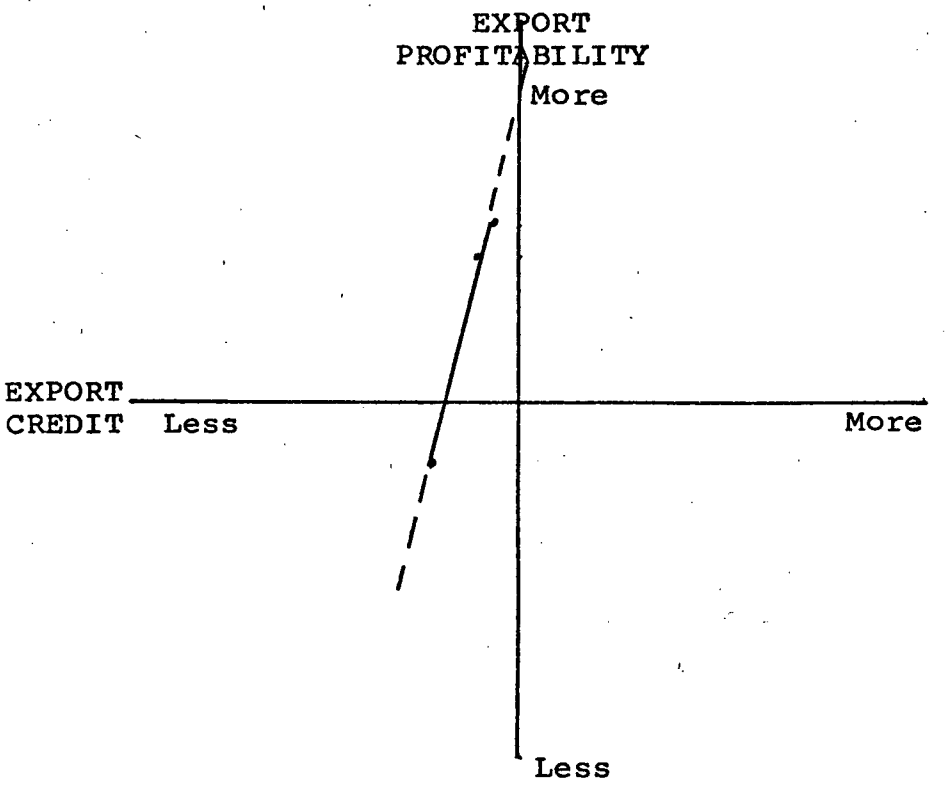
To this point, profitability and credit terms have both been viewed as dependent variables influenced by perceived risk. If a dependency relationship could be established between credit terms and profitability, then it could be shown that the exporter is capable of influencing the profitability of exports at a given level of risk by

altering credit terms. But this has already been established in the discussion leading to Equation 3 - 9.

Since all variables in Figure 3 - 3 are represented by pure numbers between the limits +1 and -1, the values for credit and profitability indices may be compared. Figure 3 - 4 depicts the relationship between credit and profitability in the absence of risk.

Figure 3 - 4

CREDIT TERMS AND RELATIVE PROFITABILITY OF EXPORTS[1]



[1]Coordinates for Figure 3-4 were determined from 3-3 in the following manner. Coordinates in Figure 3-3 are of the general form: credit, (credit coefficient, risk coefficient) and profitability, (profitability index, risk coefficient). In Figure 3-4, coordinates are $(CC,PI)_{\text{risk more}}$ $(CC,PI)_{\text{risk same}}$, and $(CC,PI)_{\text{risk less}}$.

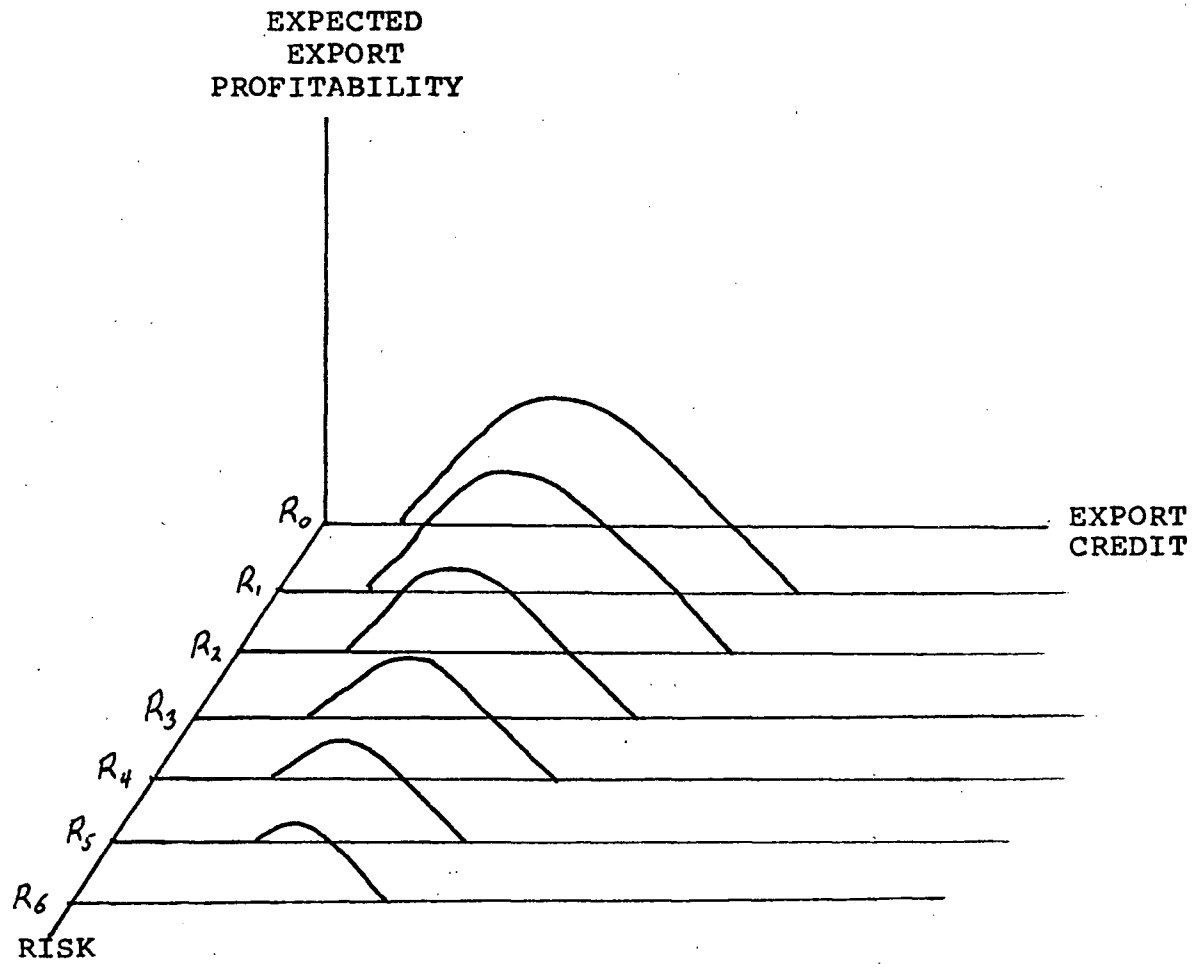
But in the absence of several key elements there is the absurd conclusion that infinite credit terms will result in infinite profits. The first element to be re-introduced is the cost of capital to exporter, X_E, taken to be the firm's overall cost of capital. X_E will increase with increasing credit, since the firm's liquidity is reduced. This, combined with the changes in the importer's demand elasticity with respect to credit, causes the curve to reach some maximum profit level and then recede. Figure 3 - 4 also assumes the absence of risk, and to re-introduce it required the use of a third axis. Risk, $(1 - E_E)$, reduces the expected profit in all transactions. It also causes increases in the cost of capital.[1] Its presence therefore reduces both the maximum profit, and credit outstanding at that profit level. Figure 3 - 5 contains the family of credit/profitability functions that develop under these limiting conditions.

---

[1]Risk alters the firm's cost of capital only to the extent that it is perceived by the suppliers of capital. As perceived by the exporter, it alters the expected value of gross revenues. These are independent effects on net income, and must both be included in the analysis.

Figure 3 - 5

RELATIONSHIP AMONG EXPORT PROFITABILITY, RISK, AND EXPORT CREDIT[1]



[1]Export price and cost of production are held constant. If, as the economist, we define profit as a return to risk, then the expected value of an export should be constant over all risk levels. However, price is not freely adjustable to compensate for risk, but rather, is dictated by international competition. Expected value therefore decreases with risk.

It has been stated that the extension of export credit is dependent upon perceived risk. But the extension of credit creates risk. This reversal of dependencies creates an apparent inconsistency which may be resolved by the division of risk into two basic elements such that:

$$R_{total} = \alpha + b_{t_E}$$

Where α = residual risk in absence of credit,

b = risk factor dependent upon credit terms.

will always be equal to, or greater than, 0, since, for example, the complexity of documentation may result in losses even with prepayment or C.O.D.[1]

b will also be positive, since commercial, political, and economic risk factors exhibit some frequency distribution with respect to time. Credit increases the time of payment and consequently the aggregate probability of loss.

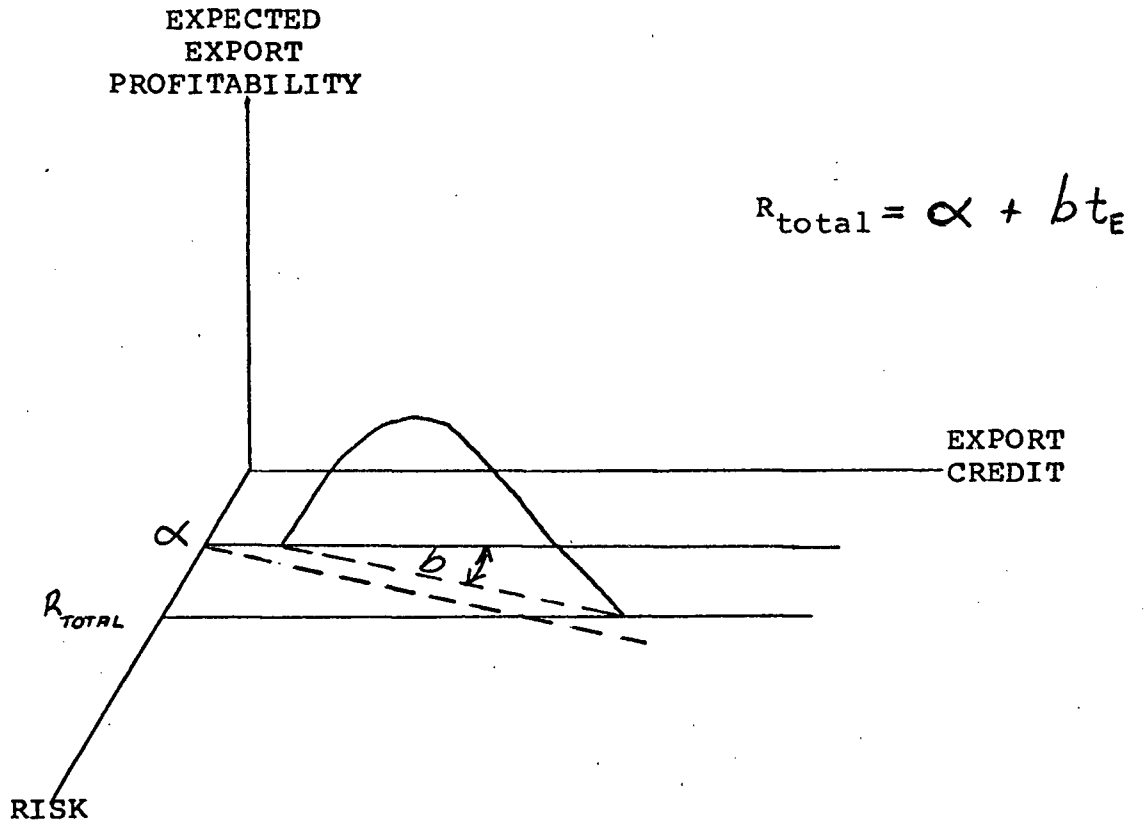
---

[1]Product, packaging, or shipping specifications may not be exactly followed, and could result in the rejection of goods by the importer and a subsequent suit for the recovery of funds.

The effect of these elements in Figure 3 - 5 is depicted below.

Figure 3 - 6

ELEMENTS OF RISK



We therefore conclude that, for a given export price and cost structure, there exists a level of export credit which will maximize expected profits and that this level is dependent upon the relationship between risk and credit.

SUMMARY

The objective of the Export Development Corporation is "...to facilitate and develop export trade".[1] Based on the following series of functions developed in this and other chapters, it is concluded that the insuring and extending of export credit will accomplish this objective. In the following statements, unmentioned factors are assumed constant.

$$D_X = f(t_E) \qquad (3 - 11)$$

The demand for exports is a function of export credit.[2]

$$S_X = g(N_E) \qquad (3 - 12)$$

The supply of exports is a function of the net income realizable from exports.

$$N_E = h(1 - E_E)^{-1} \qquad (3 - 13)$$

The profitability of exports is an inverse function of the risk associated with exports.

$$1 - E_E = j(t_{EE}) \qquad (3 - 14)$$

Risk is a function of the export credit extended by the exporter.

$$S_X = k(t_{EE})^{-1} \qquad (3 - 15)$$

From (3 - 11), (3 - 12), (3 - 13)

---

[1] Title, Export Development Act, July 26, 1969.

[2] Export credit must often be provided either to meet competition from other suppliers, or to induce the importer to buy; see Chapter I, Equation (1 - 1).

The supply of exports is an inverse function of the export credit that must be provided by the exporter.

$$t_E = t_{EE} + t_{EG} \qquad (3 - 16)$$

The total export credit available to the importer is the sum of that provided by and at a cost to the exporter, and that provided by third parties at no cost to exporter or importer.

Export credit insurance increases the supply of exports by reducing the risk associated with credit, and thereby increasing the profitability of transactions. Reduces the effect of (3 - 14) on (3 - 15) . Both the volume of credit and the level of profits can be expected to increase.

Export credit financing meets the importer criterion for increased demand without imposing a credit burden on the exporter. Demand for exports will therefore increase (with limits of e_{t_E}) and the supply of exports will not decrease in accordance with (3 - 12) and (3 - 13).

Based on both theoretical relationships and those evident from the sample data, EDC programs are rational in view of the stated objective. Exporting is perceived as riskier than domestic business, and that risk is directly related to credit terms. Reducing that relationship through

insurance, or reducing the exporters need to supply credit by third-party financing can both be expected to increase export trade.

CHAPTER IV

ATTITUDES TOWARD THE EXPORT DEVELOPMENT CORPORATION

In preceding chapters, a theory of the role of export credit in trade expansion has been developed; a profile of questionnaire respondents presented; and a theory of the relationship of risk and credit developed, and tested for the sample. The conclusions, have been that credit does expand trade and that B.C. exporters responding to the questionnaire perceive the risk of exports as dependent upon credit terms. Under such conditions, one would expect an enthusiastic response to a program which, in the case of insurance, reduced the risk of extending credit, and in the case of finance, provides the expansionary effect of credit while assuring the exporter of immediate payment. However, the response to the services of the Export Development Corporation has not been as positive as was expected. All 250 firms which received the questionnaire, for example, are active exporters, eligible for 1 or more of EDC's services, but none has become a client of the Corporation. In this chapter, attitudes toward the Corporation's programs are presented.

In addition, it is hypothesized that the negative response of some firms is, at least in part, attributable to the means by which they learned of these programs. Although the data available to this study is insufficient to conclusively test such a hypothesis, evidence will be presented to show that information sources are suspect. It will fall to subsequent studies to establish the cause and the effects of perceptual biases caused by information sources.

A Attitudes Toward Insurance Programs

Question 3: If you are aware of the services of E.D.C. what reasons would you give for not exploiting its:

(a) insurance services

hunch that premiums and other costs are too high ( )

do not qualify (explain) ( )

too much red tape ( )

procedure too time-consuming ( )

incompatible with E.D.C. representative ( )

reluctance to deal with a government agency ( )

inadequate coverage ( )

other (specify) ( )

no need for insurance because

- sales are to a subsidiary ( )
- sales are to reliable accounts ( )
- its a seller's market ( )
- the bank did not require it ( )
- other (specify) ( )

(b) long-term financing services

do not qualify (explain) ( )

terms inadequate ( )

too much red tape ( )

procedure too time consuming ( )

incompatible with E.D.C. representative ( )

reluctance to deal with a government agency ( )

other (specify) ( )

The responses to Question 3 revealed attitudes toward EDC's insurance services. Table 4 - 1 contains the distribution of these responses. There were significant variations in response distribution according to several characteristics, and these are revealed in Table 4 - 2 through 4 - 8.

The most frequently identified reason for not using EDC insurance was that there was no need since sales were only made to reliable accounts. It is noteworthy that, from Table 4 - 3, 50% of respondents indicated both reliable accounts and greater risk in exporting. This tends to confirm, for these companies, the hypothesis of page 64 that exports are undertaken only in circumstances which differ from those imputed to foreign trade in general. The second most frequent response was that EDC services involved "too much red tape" followed by "no need for insurance because ..." and "hunch that premiums and other costs are too high".

Statements of degree such as those pertaining to paperwork, time, and costs are very subjective and difficult to assess in the form in which they were presented

in the present questionnaire. For this study, it will suffice to define "too much" resource committment as being "greater than that to which firms are accustomed". A respondent's decision in this regard is made either upon personal investigation, or on the basis of attitudes expressed to him by persons informing him of EDC's services. Statements from the B.C. branch office of the Corporation reveals that many respondent's have not directly sought details of available services. Opinions are thus based on incomplete and/or biased information collected from third parties. Section C of this chapter discusses the effect of the information source on attitudes.

Chi-square tests of independence were invalidated by the presence of small cells in all the contingency tables. However, certain distribution patterns are evident in the joint responses to Question 3 and other attitude and characteristic questions, as detailed in the relevant tables.

TABLE 4 - 2 Industry Sector Consumer non-durables manufacturers most frequently indicated "no need - reliable accounts" as their reason for not using EDC insurance. This accounted for 42.86% of responses, followed by "hunch that .....costs are too high", 28.57%. Capital equipment manufacturers also chose "no need - reliable accounts" most often, 27.03%, followed by "too much red tape" and "no need for insurance because...", 16.22% each.

Industrial materials companies most frequently indicated a "hunch that ... are too high", 21.74%, and were fairly evenly distributed across other responses. Suppliers of technical services explained their decision not to use EDC insurance as follows: 23.53% "too much red tape"; 23.53% "no need for insurance because ..."; 17.65% "do not qualify"; other responses evenly distributed.

TABLE 4 - 3 Risk Perception Of those respondents perceiving much more risk in exporting than domestic business, one-third indicated there was "too much red tape" to EDC insurance. Of those indicating slightly more risk, 29.17% said there was "no need" since they shipped only to reliable accounts. Those perceiving similar risk were fairly evenly distributed among responses, although 25% indicated "no need - reliable accounts". Only 11 respondents perceived less risk in exporting than domestic business. Of these, 3 said costs were too high, and 3 said there was no need since shipments were only made to reliable accounts.

TABLE 4 - 4 Export Experience In the case of firms with less than 2 years experience, "too much red tape" and "no need - other" were, in that order

the most frequent responses, accounting in total for 53.85% of responses. Firms with 2 to 5 years experience most frequently chose "no need - other" and "hunch that ... costs are too high", 27.27% and 22.73% respectively. Of firms with more than 5 years experience, 26.09% indicated "no need - reliable accounts" while the remainder were fairly evenly distributed.

TABLE 4 - 5 Sales Volume Firms with less than $500,000 total sales most frequently indicated "no need - reliable accounts", "other", each 23.70%, and "too much red tape, 19.00%. Firms with sales volumes between $500,000 and $2 million were fairly evenly distributed among responses, as were those with sales in excess of $2 million, although 25.64% of the latter claimed "no need - reliable accounts".

TABLE 4 - 6 Export/Total Sales Firms exporting 50% or less of total sales most frequently identified no need because sales were made only to reliable accounts as their reason for not using EDC insurance (26.90%). Of those exporting more than 50%, 21.43% identified excessive costs, and the same number, miscellaneous reasons as deterents against the use of EDC insurance.

TABLE 4 - 7 Number of Export Markets Of those firms exporting to only one market, 26.67% indicated "no need - reliable accounts" and the same number indicated "no need - other". Only 6 firms exporting to 2 countries responded to this question, and they were evenly distributed except that 2 said there was "too much red tape". Of respondents who exported to more than 2 countries, 22.41% said "no need - reliable accounts" and 17.24% responded to each of "hunch that ... costs are too high" and "too much red tape".

TABLE 4 - 8 Export Profitability Firms that said exports are more profitable than domestic business were fairly evenly distributed in their responses. Those indicating similar profitability most frequently said "no need - reliable accounts", 28.57%. Of those perceiving exports as less profitable, 30.43% chose "no need - reliable accounts", and 26.09% said "hunch that ... costs are too high".

It is not within the scope and objective of this study to explain these variables in attitudes. However, it is of interest to recognize different patterns, and efforts by the EDC to promote its services should be undertaken with consideration of the probable attitudes of those

TABLE 4 - 2

REASONS FOR NOT INSURING - INDUSTRY SECTOR

(Horizontal Percentage Distribution)

	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	no. of respondents
Consumer Non-durables	28.57	.00	14.29	.00	.00	.00	.00	42.86	14.29	7
Capital Equipment	13.51	8.11	16.22	2.70	2.70	8.11	5.41	27.63	16.22	37
Industrial Materials	21.74	17.39	13.04	.00	.00	17.39	.00	17.39	13.04	23
Services	5.88	17.65	23.53	.00	5.88	11.76	5.88	5.88	23.53	17
										84

TABLE 4 - 3

REASONS FOR NOT INSURING - RISK PERCEPTION

(Horizontal Percentage Distribution)

Exports	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	no. of respondents
Much more risk	11.11	.00	33.33	5.56	11.11	5.56	5.56	11.11	16.67	18
Slightly more risk	4.17	12.50	12.50	.00	.00	16.67	8.33	29.17	16.67	24
About as risky	16.67	20.83	12.50	.00	.00	12.50	.00	25.00	12.50	24
Slightly less risk	20.00	20.00	40.00	.00	.00	.00	.00	20.00	.00	5
Much less risk	33.33	.00	.00	.00	.00	.00	.00	33.33	33.33	6
										77

TABLE 4 - 4

REASONS FOR NOT INSURING - EXPORT EXPERIENCE

(Horizontal Percentage Distribution)

	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable account	No Need: other	number of respondents
Less than 2 years	.00	7.69	30.77	7.69	.00	15.38	.00	15.38	23.08	13
2 - 5 years	22.73	4.55	9.09	.00	4.55	9.09	4.55	18.18	27.27	22
More than 5 years	17.39	15.22	15.22	.00	2.17	10.87	4.35	26.09	8.70	46
										81

TABLE 4 - 5

REASONS FOR NOT INSURING - SALES VOLUME

(Horizontal Percentage Distribution)

($'000)	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	number of respondents
less than 100	.00	11.11	22.22	.00	.00	11.11	11.11	44.44	.00	9
100 to 500	16.67	8.33	16.67	.00	.00	33.33	.00	8.33	16.67	12
500 to 2,000	25.00	15.00	15.00	.00	10.00	.00	.00	15.00	20.00	20
more than 2,000	15.38	10.26	12.82	2.56	.00	7.69	5.13	25.64	20.51	39
										80

TABLE 4 - 6

REASONS FOR NOT INSURING - EXPORTS/TOTAL SALES

(Horizontal Percentage Distribution)

	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	number of respondents
less than 25%	14.29	8.57	17.14	2.86	2.86	2.86	5.71	28.57	17.14	35
25 - 50%	11.76	5.88	23.53	.00	.00	11.76	.00	29.41	17.65	17
more than 50%	21.43	17.86	7.14	.00	3.57	21.43	3.57	10.71	14.29	28
										80

TABLE 4 - 7

REASONS FOR NOT INSURING - NUMBER OF EXPORT MARKETS

(Horizontal Percentage Distribution)

	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	number of respondents
1	6.67	20.00	13.33	.00	.00	6.67	.00	26.67	26.67	15
2	16.67	16.67	33.33	.00	16.67	16.67	.00	.00	.00	6
Several	17.24	8.62	17.24	1.72	1.72	10.34	5.17	22.41	15.52	58
										79

TABLE 4 - 8

REASONS FOR NOT INSURING - EXPORT PROFITABILITY

(Horizontal Percentage Distribution)

	cost too high	do not qualify	red tape	too time consuming	inadequate coverage	other	No Need: subsid.	No Need: reliable accounts	No Need: other	number of respondents
more profitable	14.81	18.52	14.81	3.70	3.70	18.52	.00	7.41	18.52	27
same	7.14	14.29	14.29	.00	.00	7.14	14.29	28.57	14.29	14
less profitable	26.09	.00	17.39	.00	4.35	.00	4.35	30.43	17.39	23
										64

firms it is seeking to reach. It is somewhat disconcerting that 58% of all respondents (Table 4 - 1) indicated that, for various reasons, they saw no need for EDC insurance. The theory developed in previous chapters would not have led to the same conclusion. While this is consistent with the Corporation's less-than-enthusiastic response in British Columbia, it alludes to a major discrepancy between the actual usefulness of export credit insurance, and its assumed usefulness.

B. Attitudes Toward Finance Program

Question 3 (b): If you are aware of the services of EDC what reasons would you give for not exploiting its:

(b) long-term financing services ( )
do not qualify (explain) ( )
terms inadequate ( )
too much red tape ( )
procedure too time consuming ( )
incompatible with EDC representative ( )
reluctance to deal with a government agency ( )
Other (specify) ( )

The distribution of responses to Question 4 is described in Table 4 - 9.

TABLE 4 - 9

REASONS FOR NOT USING EDC FINANCE[1]

(Frequency & Percentage Distribution)

	Do Not Qualify	Inadequate Coverage	Red Tape	Too Time Consuming	Incompat. Rep.	Govn't. Agency	Other
Frequency Total 71	25	1	7	9	2	2	25
Percent Total 100	35.21	1.41	9.86	12.68	2.82	2.82	35.21

[1]Technically, Canadian exporters are not the clients for EDC financing. As outlined in Appendix III, the foreign buyer becomes the debtor. However, the exporter who perceives the potential of such services can be expected to promote it to his prospective client, and to initiate inquiries which might lead to contract financing.

TABLE 4 - 10

REASONS FOR NOT USING EDC FINANCE - RESPONDENT CATEGORY

(Percent of Category and Rank)

	Do Not Qualify		Inadequate Coverage		Red Tape		Too Time Consuming		Govn't. Agency		Other	
RISK	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
More	41.45	1	3.45	4	10.35	3	3.45	4	.00	-	34.50	2
Same	35.00	2	.00	-	5.00	4	10.00	3	.00	-	50.00	1
Less	55.75	1	.00	-	22.17	2	.00	-	.00	-	22.17	2
INDUSTRY SECTOR												
Non-durable	60.00	1	.00	-	.00	-	20.00	2	.00	-	20.00	2
Capital	32.14	2	.00	-	10.71	3	10.71	3	3.57	5	42.86	1
Industrial	44.44	1	.00	-	5.56	3	5.56	3	.00	-	44.44	1
Services	41.67	1	8.33	4	16.67	3	.00	-	.00	-	33.33	2

TABLE 4 - 10 continued

SALES ($'000)												
Less than 100	16.67	3	.00	-	33.33	1	16.67	3	.00	-	33.33	1
100 to 500	36.36	1	.00	-	9.09	4	18.18	3	.00	-	36.36	1
500 to 2,000	35.71	2	7.14	3	.00	-	.00	-	.00	-	57.14	1
More than 2,000	46.67	1	.00	-	6.67	3	6.67	3	3.33	5	36.67	2
EXPORTS/TOTAL SALES												
Less than 25%	33.33	2	.00	-	8.33	4	16.67	3	.00	-	33.33	1
25% to 50%	38.46	1	.00	-	15.38	3	.00	-	7.69	4	38.46	1
More than 50%	45.83	1	4.17	3	4.17	3	4.17	3	.00	-	41.67	2
EXPORT MARKETS												
One	33.33	2	.00	-	8.33	3	.00	-	.00	-	58.33	1
Two	40.00	1	.00	-	20.00	2	20.00	2	.00	-	20.00	2
Several	43.18	1	2.27	5	9.09	3	9.09	3	2.27	5	34.09	2
EXPORT PROFITABILITY												
More	31.82	2	4.55	4	18.18	3	4.55	4	.00	-	40.91	1
Same	36.84	1	.00	-	5.26	4	15.79	3	5.26	4	36.84	1
Less	40.00	2	.00	-	10.00	3	.00	-	.00	-	50.00	1

Since the financing of exports by EDC is limited to capital equipment and technical services, and since there are minima regarding the size and Canadian content of financed transactions, it is not surprising that 35.21% of respondents indicated that they do not qualify for this service. However, the same number also selected the category "other"; of those 25 firms, 6 said they did not know of such financing, and another 7 made statements which revealed that they lacked even rudimentary knowledge of EDC financing. Of all respondents, then, 18% are unaware of EDC's role as a source of export financing. "Too much red tape" and "procedure too time consuming" were the next most frequent responses with 12.68% and 9.86% of the total, respectively.

There was only slight variation in the frequency and ranking of these responses according to respondent categories. The percentage of responses and the rank of each appears in Table 4 - 10.

Firms that are aware of the Corporation's financing program most frequently said there is "too much red tape" or the "procedure is too time consuming". The relative frequency did not vary significantly among respondent categories, and, of the total replies of 71, (Table 4 - 9) 16, or 22.52% chose these responses. If, upon a review of its procedures, the Corporation is satisfied that these

statements are not valid, then it will be apparent that information sources have produced an inaccurate perceptual bias.

In summary, 35.21% of respondents stated that they do not qualify for the Corporation's financing program. But 40.52% either are unaware of this service, or have detering attitudes the validity of which is suspect. There is, therefore, a definite need for efforts to educate potential users about the scope and the procedures of EDC export financing.

C. Information Sources

The source from which information is received influences the response to that information. If confidence is placed in the source, information is likely to be incorporated as knowledge by the recipient and made immediately available for use. If there is doubt about the reliability of the source, information will be held in abayance, pending confirmation and further refinement. It is not the objective of this chapter to define what conditions lead to dependability in an information source. However, it is useful in the present study to identify sources deemed dependable by respondents, and those from which information

pertaining to the Export Development Corporation was first obtained. If differences occur between these categories, a possible explanation is made for the reluctance of some firms to use the services of EDC, even though their businesses would profit from so doing.

Firms were asked:

Question 1: If you are aware of the services offered by the Export Development Corporation (E.D.C.), from what sources did you first learn about the Corporation?

Newspapers	( )	Business colleagues	( )
Business publications	( )	Your bank	( )
Direct mail	( )	Agents/brokers	( )
Telephone call from an E.D.C. representative	( )	Department of Industry, Trade & Commerce	( )
Visit from an E.D.C. representative	( )	Other (specify) _____ _____	( )

Question 2: Whether or not you are aware of the E.D.C. what sources do you rely on most heavily for information on insurance, financing and other services relating to your export business?

Newspapers	( )	Your bank	( )
Business publications	( )	Agents/brokers	( )
Direct mail	( )	Department of Industry, Trade & Commerce	( )
Business colleagues	( )		
Industry associations	( )	Other (specify) _____ _____	( )

Table 4 - 11 and 4 - 12 contain the distribution of responses to questions 1 and 2 respectively.

The most frequently acknowledged source of information regarding EDC was the Department of Industry, Trade and Commerce with 32.28% of responses. This is not surprising in view of Industry, Trade and Commerce's active export promotion program, its affiliation with EDC[1] and the size and scope of its export activities. Through direct mail as well as contact by telephone and personal visits, the Corporation itself accounted for 24.41% of responses. Business colleagues and business publications followed with 16.54 each.

It is noteworthy at this point that banks accounted for only 2.36%, 3 of the 127 responses. Only two explanations are possible for this poor showing: either the banks themselves lack adequate information about the programs of the Corporation or, they are apprehensive of promotion its services. The problem is more perplexing since the Corporation's insurance policy holders reduce their business risk and should therefore be more attractive bank clients. The

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[1]EDC is a crown corporation, which reports to Treasury Board and Cabinet through the Minister of the Department of Industry, Trade and Commerce.

TABLE 4 - 11

SOURCE OF FIRST INFORMATION
REGARDING EXPORT
DEVELOPMENT CORPORATION

(Frequency and Percentage Distribution)

	News-papers	Bus. Pub'n	Direct Mail	Tel.	Visit	Bus. Coll.	Bank	Agents/ Brokers	IT&C	Other
Frequency Total 127	6	21	4	6	21	21	3	0	41	4
Percent Total 100	4.72	16.54	3.15	4.72	16.54	16.54	2.36	0	32.28	3.15
Rank	5	2	7	5	2	2	8	9	1	7

TABLE 4 - 12

MOST DEPENDED SOURCE OF
EXPORT INFORMATION

(Frequency & Percentage Distribution)

	News-Paper	Bus. Pub'n	Direct Mail	Bus. Coll.	Ind. Assoc'n	Bank	Agents/ Brokers	IT&C	Other
Frequency Total 180	1	14	3	16	23	49	36	35	3
Percent Total 100	.56	7.78	1.67	8.89	12.78	27.22	20.00	19.44	1.67
Rank	9	6	7	5	4	1	2	3	7

financing activities of the Corporation are not competitive with those of banks since the former generally applies to transactions in which banks have expressed little interest. Sales under EDC financing expand corporate activity without increasing risk and ought, again, to enhance the attractiveness of business clients to banks.[1]

In Table 4 - 12 four institutions accounted for four-fifths of all responses: bank 27.22%; agents and brokers, 20.00%; Industry, Trade and Commerce, 19.44%; and industry associations, 12.78%. Firms place their greatest confidence in these sources, and one would expect that information from them would be, in that order, most quickly adopted into the working knowledge of the recipient.

A comparison of Table 4 - 11 and 4 - 12 reveals a considerable difference in frequency distributions. Only 18.36% of respondents indicated that they first heard about EDC services from the source upon which they rely most heavily. Before discussing the potential impact of this situation, it is interesting to note differences that exist

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[1]For a discussion of the Corporation's insurance and finance procedures, see Appendix I.

among industry sectors.[1]

Consumer Non-Durables

The eight respondents were fairly evenly distributed regarding general sources of information although newspapers, business pulbications, and Industry, Trade and Commerce were not mentioned. But 4 of the 8 stated that they first heard of EDC through a visit from a Corporation representative. Other sources of EDC information were business publications, business colleagues, and Industry, Trade and Commerce.

Capital Equipment

Seventeen of the 45 respondents indicated banks as their most relied upon source of information. Other responses included: business publications and industry associations, 7 each; agent/brokers and Industry, Trade and Commerce, 6 each; and business colleagues, 1. Industry, Trade and Commerce and business publications were most frequently mentioned as sources of EDC information with 13 and 10 responses respectively. Other important sources were business colleagues, 8, and EDC representative, 6.

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[1]Only 1 response in Consumer Durables category.

Industrial Materials

Chartered banks were named as the most relied upon source by 11 of the 26 respondents, followed by industry associations, 6, business colleagues, 4, and others, 5. Business colleagues and industry associations were each named by 6 respondents as their first source of EDC information, followed by Industry, Trade and Commerce, 5, EDC representative, 4, and others, 5.

Services

Six of the 18 respondents indicated that the Department of Industry,Trade and Commerce was relied upon most heavily for export information. Other responses included business publications, 4, business colleagues and agents/brokers, 3 each, and industry associations and agents/brokers, 1 each. Industry, Trade and Commerce was named by 5 respondents as the first source of EDC information. Other responses were evenly distributed except that EDC contact by telephone and visit were each identified by 3 firms.

One test of the Corporation's past performance in reaching exporters with information regarding its programs is the comparison of budget allocations among information sources, and the relative frequency with which those sources were identified in Table 4 - 11. It is evident from the industry sector comparisons above that efforts to reach

each sector ought to be directed through different intermediaries. For instance, capital equipment manufacturers place greatest confidence in banks; suppliers of industrial materials also depend most on banks, but are more widely distributed in their choices; suppliers of technical services depend most on Industry, Trade and Commerce, although business publications are also important. Consumer goods manufacturers do not prefer any one source, and are widely distributed in their dependence upon information sources.

It has been suggested that information received from sources not held in confidence is not readily accepted or utilized. Opinions resulting from such information may also reflect a perceptual bias which discourages further investigation or utilization.[1] In the responses to question 10, several options were included which were suspected of having discouraged potential users of EDC services.

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[1]Such a bias may also be built in by the intermediary and merely passed on to the recipient regardless of any confidence factor. This distortion cannot be tested on the basis of the present questionnaire.

"Hunch that premiums are too high", "too much red tape", and "procedure too time consuming" were deemed by the author to be invalid, on the basis of a study of the Corporation's procedures and cost as described in Appendix III, and a comparison with similar services in other countries. Respondents choosing these explanations either perceive the benefits as less than suggested by the theory developed in preceeding chapters, or they assess the Corporation's financial, documentation, and time requirements differently than the author. The former is unlikely, since the data in Chapter III revealed the perception of greater risk in exporting than domestic business and the direct relationships of that risk to credit terms. Why then do firms perceive excessive resource costs in the use of EDC services? There were insufficient joint responses to test information sources against "too much red tape" and against "procedure too time consuming". However, a comparison was made between general and EDC information sources for firms not using insurance because of a "hunch that premiums and other costs are too high".

Information sources were grouped into 4 general categories: publications, business associates, banks and government. Table 4 -13 contains the distribution of response to Question 1 and 2 for firms that do not use EDC insurance because costs are too high.

TABLE 4 - 13

INFORMATION SOURCES FOR NON-USERS

"COSTS TOO HIGH"

	Assoc.	Public'n	Bank	Govn't.	# Resp.
Assoc.	1	0	0	0	1
Public'n	1	1	1	0	3
Bank	0	0	0	0	0
Govn't.	2	0	3	1	6
# Resp.	4	1	4	1	10

Only 3 respondents in this group indicated the same source for both general and EDC information. Considerable difference is evident from the table, particularly for banks, 4 general - 0 EDC, and government, 0 general - 6 EDC.

The data regarding information source differences is not conclusive as an explanation for failure to use EDC services. However, differences are frequent. On the assumption that dependence on information sources is a

reflection of confidence, and that the reaction to information depends upon confidence in the source, information regarding the Corporation's programs has not been effectively communicated. As a result, firms have not had full and objective information upon which to base decisions regarding the use of EDC services. One would expect that efforts to improve communications with prospective clients would result in greatly improved acceptance of the Corporation.

SUMMARY AND CONCLUSIONS

The services of the Export Development Corporation are viable tools for the expansion of Canadian exports. Foreign demand for goods and services is contingent, to a considerable extent, upon the extension of credit, while exporters hesitate to extend credit because of the inherent additional costs and risk. Export credit insurance reduces risk, and ultimately the exporter's cost of capital. Export credit guarantees facilitate financing at reasonable costs. Export credit financing eliminates credit risk. All three services increase the level of credit acceptable to exporters, and thereby attract greater foreign demand.

Industry in British Columbia is faced with a limited local market and inaccessible alternative domestic markets. Major sales growth can therefore only occur with the development of export business. But greater risk is perceived in exporting than in domestic business. To develop markets, firms must extend credit, but credit adds to risk, and risk reduces profitability. The need and the potential then, for EDC services in British Columbia is substantial.

However, it has been the experience of the Corporation that most active exporters in this province have chosen not to use its services even though there would be a distinct dollar benefit from so doing. A review of companies attitudes toward the Corporation reveals distinct perceptual inaccuracies. Many claim no need, but indicate that their exports are riskier than domestic business, and attribute that risk to causes which are covered by EDC policies. Others attribute characteristics to the Corporation which arepprobably not correct. Some claim ignorance of these programs, or reveal it in their statements.

The conclusion of this study is that the potential of the Export Development Corporation has not been realized in British Columbia because exporters have not had adequate objective information upon which to base their participation decision. Information sources have played a key role in this failure, since a distinct difference was revealed between sources in which greatest confidence is placed, and sources from which information was received regarding the Corporation's programs. The need for credit services has been established, as has the ability of EDC to meet that need. It remains for the Corporation to ensure the effective, and objective, communication of that ability.

APPENDIX I

SURVEY QUESTIONNAIRE

AND

COVERING LETTER

THE UNIVERSITY OF BRITISH COLUMBIA

VANCOUVER 8, CANADA

FACULTY OF
COMMERCE AND BUSINESS ADMINISTRATION
Ponderosa Office Annex - Block C

September 28, 1970

Gentlemen:

The University of British Columbia, in co-operation with the Export Development Corporation, is conducting a survey of export-conscious firms in B.C. As you may know, the Export Development Corporation is a federal crown corporation engaged in the insuring of exports and long term financing.

The objectives of this survey are:

1) To determine the extent of knowledge in the B.C. business community of the insurance and finance services of the EDC.

2) To determine why the services of the EDC are not being used more extensively.

The survey data will be incorporated into a report to be presented at a forthcoming seminar on the role and effectiveness of the Export Development Corporation in Canada's international business relations. This seminar will coincide with a visit to Vancouver by officials of the Export Development Corporation.

We should appreciate your assisting in this survey by completing the attached questionnaire and returning it to:

by October 9, 1970.

Regards,

W. Winiata
Assistant Professor

Attach.

QUESTIONNAIRE

To be completed by exporters in British Columbia

PLEASE RETURN BY OCTOBER 9, 1970 TO:

Dr. W. Winiata,

Should there be questions which you are unable or unwilling to answer please omit these but complete the remaining questions.

1. If you are aware of the services offered by the Export Development Corporation (E.D.C), from what sources did you first learn about the Corporation?

Newspapers	( )	Business colleagues	( )
Business publications	( )	Your bank	( )
Direct mail	( )	Agents/brokers	( )
Telephone call from an E.D.C. representative	( )	Department of Industry, Trade and Commerce	( )
Visit from an E.D.C. representative	( )	Other (specify)	( )

2. Whether or not you are aware of the E.D.C. what sources do you rely on most heavily for information on insurance, financing and other services relating to your export business?

Newspapers	( )	Your bank	( )
Business publications	( )	Agents/brokers	( )
Direct mail	( )	Department of Industry, Trade and Commerce	( )
Business colleagues	( )		
Industry associations	( )	Other (specify) ___	( )

3. If you are aware of the services of E.D.C. what reasons would you give for not exploiting its:

(a) insurance services

- hunch that premiums and other costs are too high ( )
- do not qualify (explain) _____ ( )
- too much red tape ( )
- procedure too time-consuming ( )
- incompatible with E.D.C. representative ( )
- reluctance to deal with a government agency ( )
- inadequate coverage ( )
- other (specify) _____ ( )
- no need for insurance because
  - sales are to a subsidiary ( )
  - sales are to reliable accounts ( )
  - its a seller's market ( )
  - the bank did not require it ( )
  - other (specify) _____ ( )

(b) long-term financing services

- do not qualify (explain) _____ ( )
- terms inadequate ( )
- too much red tape ( )
- procedure too time consuming ( )
- incompatible with E.D.C. representative ( )
- reluctance to deal with a government agency ( )
- other (specify) _____ ( )

4. With respect to the risk of not being paid by your customers or of other things going wrong would you say that export business is

. much riskier than domestic business ( )

. slightly riskier than domestic business ( )

. about as risky as domestic business ( )

. slightly less risky than domestic business ( )

. much less risky than domestic business ( )

5. To what do you attribute any difference in risk?

. selling terms (explain) _____

_____ ( )

. credit standing of customers (explain) _____

_____ ( )

. complexity of documentation (explain) _____

_____ ( )

. communications

- distance ( )

- language ( )

. perishability of product (explain) _____

_____ ( )

6. With respect to your terms of sale please indicate which of the following are relevant for domestic and foreign sales:

	Domestic	Foreign
. documentary sight draft	( )	( )
. letter of credit	( )	( )
. cash in advance	( )	( )

	Domestic	Foreign
. up to 90 days' credit	( )	( )
. 91 to 180 days' credit	( )	( )
. other (specify) _____	( )	( )

7. What types of products do you export?

(Please specify) _____

_____

_____

_____

8. How many years have you been active in the export market?

. less than 2 years ( )

. 2 to 5 years ( )

. more than 5 years ( )

9. What is your annual sales volume?

. less than $100,000 ( )

. $100,000 to $500,000 ( )

. $500,001 to $2,000,000 ( )

. more than $2,000,000 ( )

10. What proportion of your annual sales volume is in exports?

. less than 25 percent ( )

. 25 to 50 percent ( )

. more than 50 percent ( )

11. To how many countries do you export?

. one ( )

. two ( )

. several ( )

12. With respect to profitability is your export business more or less attractive than domestic business?

. more (please explain) _____ ( )

_____

. less (please explain) _____

_____ ( )

APPENDIX II

SURVEY OF NATIONAL EXPORT CREDIT SERVICES

One might well question the equitability of government assistance in the insuring and financing of Canadian exports were it not for the existence of similar programs in most countries with which Canadian exporters compete. The following brief survey is designed to provide a comparison of export credit services offered by the public sector in several major trading nations.[1] It is not intended as a detailed study, and the descriptions of individual programs are of necessity abridged.[2]

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[1] With the exception of Japan, export credit financing is limited to the export of capital goods and technical services.

[2] For a more detailed study, see Lee C. Nehrt, Financing Capital Equipment Exports, International Textbook Co., Scranton, 1966.

United Kingdom

Insurance

The Export Credit Guarantee Department insures exports from the United Kingdom. It is wholly government owned and operated, and its insurance covers exporters against commercial, political, and economic loss. Four basic types of policies are offered:

1. Comprehensive Guarantee. Covers all exports of a company for a specified period of time.
2. Specific Guarantee. Covers individual shipments.
3. Direct Bank Guarantee. For goods valued at greater than £ 100,000, and for which payment terms exceed three years. The Guarantee is issued direct to exporter's bank in return for which the bank agrees to finance 90% of the export contract value, without recourse to the exporter.
4. Shipbuilding Guarantee. Covers 95% of contract value, with very low premiums, upon securement of a ship mortgage. The builder assumes all preshipment risk, and at least 40% of the contract price must be paid prior to delivery.

Premiums for ECGD coverage depend upon individual circumstances. Considerations include the credit rating of

the importer, whether it is a private or public organization, the nature of the goods, and the economic, and political conditions of the importing country. Exports to some countries are not insured since, in the view of the ECGD, such countries are overextended and premiums proportionate to risk would be so large as to distort the overall premium structure.

Finance

In addition to commercial sources of export financing, the Bank of England has, since 1961, operated a rediscount service for joint-stock banks holding export paper. In effect, this has reclassified eligible securities as liquid assets, resulting in improved liquidity ratios for participating banks. The volume of credit available to exporters is increased therefore not only by the supply of public funds, but by the guaranteed accessibility to such funds, and the resultant increase in attractiveness of export paper to commercial financiers.

Japan

Insurance

Export credit insurance is a government controlled function administered by the Export Insurance Section of the Ministry of International Trade and Industry. There are two types of insurance policy available to the Japanese exporter:

1. Prefinancing Insurance. Cover the manufacturer of capital goods from loss in the event that goods manufactured for export are produced but delivery is not possible.
2. Export Credit Insurance. Covers the exporter after shipment.

Both types of policy protect the exporter against commercial and political risk, up to 90% of the contract value. Premiums depend upon the product, the terms of sale, the importing country, and the credit rating of the importer. Premiums are reduced to half if one or both of the following conditions is met; a letter of credit or guarantee is issued by an "approved" bank in the importing country, or, the importer is a government institution.

Finance

The Export-Import Bank, a government agency, was established in 1950 to alleviate the shortage of funds in commercial banks available to finance international transactions, domestic demand being very great. Since 1962, consumer durables have been eligible for financing as well as capital goods. The Bank participates in transactions to an extent determined by a percentage of the contract value, less downpayment, less profits. This percentage ranges from 70% to 80% depending upon the nature of the goods, and the credit period.

In determining interest rates, the Bank gives due regard to the product, the importer, and the terms of sale, but also to the degree of urgency in developing or securing export markets for Japanese products.

France

Insurance

All export credit insurance in the public sector is provided by the Companie Francaise dAssurance pour le Commerce Exterieur (COFACE). The shares of COFACE are all held by financial institutions in the public sector. Two basic types of policies are offered to the exporter:

1. Global. Covers all exports by the insured for a period of one year and is renewable.
2. Specific. Covers only an individual export contract, and is available for periods of 6 months to 2 years.

Policies protect the exporter against prefinancing, commercial, political and catastrophic risk. Premiums are determined on the usual basis of product, importing country, terms of sale, and the importer's credit rating. Coverage rate is dependent upon the country of destination, and the risk type, varying between 70% and 90% of the contract value.

Finance

The Banque Francaise de Commerce Exterieur, a government owned facility founded in 1946, finances exports by way of acceptances and discounting. Promissary notes accepted by the Banque may be discounted by commercial banks at the Banque de France.

Germany

Insurance

Export credit insurance for German exporters is provided by the federal government, but through two private trust companies, Hermes Kreditversicherungs - AG, and Deutche Revisions un Treuhand - AG. These companies act as agents for the government in return for a fee, although only "Hermes" deals directly with the public. Two types of policies are offered through Hermes, and both cover commercial and political risk:

1. Einzelgarantie. Covers single transactions.
2. Revolvierende Deckung. Covers all export transactions of the insured during a stipulated period of time.

Coverage is dependent upon the nature of the risk; 80% for commercial, 85% for political due to foreign exchange restrictions, and 90% due to other political risk. The cost of coverage depends upon the terms of sale and the period of coverage. A unique feature of the German insurance program is that the premiums do not vary with the country of destination, or the credit rating of the importer. This affords a decided advantage to German exporters to countries or customers of high risk. Exporters may insure either for the predelivery period, or the full

duration of the credit period.

Finance

Government involvement in the financing of German exports is undertaken via the Kreditanstalt fur Weideraufbau, established in 1948. Financing is undertaken in conjunction with a commercial consortium, Ausfurrkredit - AG, and is usually limited to 25% of the contract value. In addition, replacement loans may be extended in the event that the credit terms extended to the importer are greater than those of loans to the exporter by the consortium. Although rediscount facilities exist through the Deutche Bundesbank, these have not been developed. The cost of credit for exports is not subsidized by the government, and as a result, rates are higher than those faced by French and British competitors.

Italy

Insurance

Export Credit Insurance in Italy is the responsibility of the Technical Administrative Committee, made up of representatives from relevant government ministries. This committee determines whether or not to accept each application, and in the event of acceptance, sets the premium rate. The actual insurance policy and the financial transactions arehhandled by the state owned Instituto Nationalle delle Assicurazioni. One unique feature of Italian export credit insurance is the provision for foreign subsidiaries of Italian companies to be named as beneficiaries. In such a case, however, the percentage of insurance cover is limited to the proportion of Italian ownership in that subsidiary.

Government insurance does not protect the Italian exporter against commercial risk such as the bankruptcy of the importer. Consequently, most exports from Italy are covered by a bank guarantee issued in the importing country.[1] Coverage is extended for political and catastrophic risk after shipment, and loss due to cancellation

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[1]If the importer is a government agency, then commercial risks are in fact political, and the exporter is covered.

or suspension of the order prior to shipment. This latter risk may be insured separately. Exporters may also insure against economic loss on "fixed-price" contracts due to inflation in Italy which increases cost of production after the date of sale.

In all cases, the exporter may cover up to 85% of the principal and interest of the extended credit to a maximum of 100% of the principal. The cost of insurance varies with the nature of the goods to be exported and the risks to be covered.

Finance

In 1952, the government owned Instituto Central per il Credito a Medio Termine (Mediocredito) was established to augment commercial sources of export financing. Mediocredito is a re-discount facility for exporters' notes discounted by medium-term banks. Because of limited resources, the Instituto has restricted its service to 25% of the insured portion of any contract. To compensate for this limit, an interest rate contribution of 1.7% is made to the exporter for an additional 50% of the credit portion of a transaction. With additional funds acquired in the mid-1960's Mediocredito has been able to re-discount approximately 25% of the total insured credit extended to importers of Italian capital goods.

United States

Insurance

Prior to 1962, export credits insurance was a function of the Export-Import Bank, a government owned agency. But in 1962 the Foreign Credits Insurance Association was formed, (FCIA) consisting of private insurers of export credit. Insurance is now a joint function of the Bank and FCIA. FCIA covers the first $150,000 for commercial risk, beyond which the Bank assumes commercial risk. All political risk is also assumed by "Eximbank".

Insurance usually covers 90% of financed portion of the contract value, although Eximbank reserves the right to reduce this coverage in the event of unusually high risk. Exporters may insure for only political risk if they so choose. Policies are usually issued for specific transactions, although "revolving-sales" policies may be issued for repeated sales to the same customer. Exporters may also purchase "whole turnover" policies covering total sales during a stipulated period. Through a special endorsement of the policy, preshipment coverage is available.

The cost of coverage is primarily a function of the country to which the shipment is to be made. Political risks have been found to be greater than other types of risk, and exporters seeking to cover only political risk

pay 75% of the comprehensive rate.

Finance

The Export-Import Bank is the only government agency engaged in export financing in a general sense, although certain types of contracts may be covered under aid or agricultural programs. Eximbank funds are only made available for the sale of capital goods for which private sector financing is not available.

In addition to financing individual export sales, the Bank has loaned funds to foreign countries to finance a variety of purchases during a time of economic hardship, and also to finance purchases in connection with major projects. This latter type of loan has constituted the largest portion of the Bank's transactions in recent years. The financing of individual contracts has gradually been reduced, the Bank preferring instead to offer guarantees which make financing more attractive to commercial sources. Several prerequisites are mandatory for the extension of such a guarantee; the importer must pay between 10 % and 20% as a downpayment; the contract must be in English and payable in US dollars; and, terms must be less than the expected economic life of the purchased goods. The exporter then agrees to carry 19% of the financed portion, and a commercial bank to accept, on a non-recourse basis, the

remaining 90%. Eximbank then guarantees the 90% held by the commercial bank against political risk for the entire credit period, and against commercial risk during later maturity. Alternatively, coverage may include all political risk and 50% of the commercial risk for the entire credit period. Preshipment coverage is available, but only if postshipment guarantees are sought by the exporter.

The survey has dealt only with the credit and insurance facilities available to exporters from the public sector at the national level. There exist also a number of international agencies from which either or both of these services are available. Only a partial list of these organizations appears below; for a detailed discussion see Bank of America, Sources of Capital and Credit Insurance for International Transactions.

International Agencies
Providing Export Credit Services

- International Monetary Fund
- International Bank for Reconstruction and Development
- International Finance Corporation
- International Development Association
- Inter-American Development Bank
- Bank for International Settlements
- European Investment Bank
- European Development Fund

Berne Union

L'Union d'Assureurs des Credits Internationaux (the Berne Union) is an international association of export credit insurers. Its 20 member countries, including Canada - EDC, represent the majority of the large trading nations of the world. The principal objective of the union is "... to work for rational development of credit insurance in the international field".[1] Members exchange information on credit terms for various commodities, and undertake to thold such terms within predetermined, reasonable limits. Through regular correspondence and annual meetings, members also discuss their experience in various importing countries, and the general economic outlook in countries to which insured shipments are made.

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[1]EDC Annual Report, 1969, page 9.

APPENDIX III

EXPORT DEVELOPMENT CORPORATION
HISTORICAL DEVELOPMENT AND CURRENT STATUS

"The Export Development Corporation, a Crown Corporation, is the focal point of government interest in the financing of exports and the insuring of private investment abroad. This new Corporation succeeds the Exports Credits Insurance Corporation which had operated in Canada for the past 25 years. EDC has achieved more flexibility than ECIC through a broader range of functions, more substantial financial resources, and greater discretionary powers."[1]

Historical Development

The Export Development Corporation's predecessor, the Export Credits Insurance Corporation, was created by Act of Parliament in 1944, and began operations in October 1945.

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[1] Information booklet, Export Development Corporation, page 1.

ECIC's executive and management structure consisted of:

Board of Director:	six senior civil servants including the Deputy Minister of the Dept. of Finance, the Governor of the Bank of Canada, and the General Manager of ECIC.
Advisory Council:	fourteen senior businessmen drawn from across Canada.
Officers:	a general manager, a chief credit officer, and a secretary.

The business of the Corporation was "... to provide insurance, at a suitable premium, for Canadian Exporters who wished to cover themselves against certain risks of non-payment for goods sold to buyers in foreign countries".[1] Specifically, coverage was offered against:

1. The risk of a foreign buyer becoming insolvent.
2. The risk of cancellation of an import license.
3. The risk of adverse charges in foreign exchange regulations in the buyers country.

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[1]ECIC Annual Report, 1946, page 2.

Policies were issued to cover the export of general commodities and capital goods. In the case of general commodities, the exporter had the option of a "shipments type" policy which covered the transaction only from the date of shipment, or a "contract type" policy which covered the transaction from the date the exporter accepted an order. Capital goods coverage was all of the contract type. General commodities coverage consisted of "whole turnover" policies covering all transactions for a specified period. Capital goods policies are "Specific", applying to only a designated transaction.

By the end of the first full fiscal year of operations, December 31st, 1946, 95 policies had been issued covering an estimated export volume in excess of $22 million. Of this approximately 98% consisted of general commodities, and the majority of coverage was of the shipment type.

Following is a synopsis of major legal and stuctural changes in ECIC from 1946 to 1969.

1947 - Branch offices in Montreal and Toronto.

1948 - Act amended to add Section 20A. Whereas the Corporation had previously been limited to a maximum liability of 10 times its paid-up capital and surplus[1]

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[1]Paid-up capital amounted to $5 million.

it could now, with the approval of the Governor in Council, exceed that limit. Such action could only be taken when "in the opinion of the Minister (of Trade & Commerce) it (was) in the national interest that a proposed contract of insurance be entered into".[1]

1952 - First attended meeting of L'Union d'Assureurs pour le Controle des Credits Internationaux (Berne Union).

1954 - Act amended to increase capital from $5 million to $15 million.

1954 - Vancouver representation by officer of Department of Trade and Commerce.

1957 - Act amended to extend coverage to

1. goods shipped abroad for exhibition or consignment and sale of such goods
2. sales made abroad by foreign subsidiaries of Canadian companies
3. payment for engineering, construction, technical or similar services in foreign countries.
4. expenses incurred abroad for installation, servicing procurement of materials and labour by Canadian exporters of capital goods or

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[1] ECIC Annual Report, 1948, page 5.

services....

1959 - Act amended to allow Corporation to give direct guarantees to lenders covering payment of negotiable instruments given to Canadian exporters by foreign buyers in respect of export transactions. Minimum value - $250,000; Minimum time - 2 years; Minimum Canadian content - 80%.

- Governor of Bank of Canada removed from Board of Governors.

1960 - Implementation of Section 21A of Act for provision of long term financing for export sale of capital goods. Limited to countries unable to meet 5 years customary terms. Maximum credit $200 million.

- Increase in Section 21A ceiling to $300 million.

1962 - Maximum insurance liability under Section 21 increased from $200 million to $400 million.

1963 - Representation by officers of Dept. of Trade and Commerce in Halifax and Winnipeg.

1964 - Maximum liability under Section 21 increased to $600 million.

- Co-insurance rate (ECIC coverage) increased from 85% to 90%.

- Waiting period for settlement shortened.

- Maximum credit under Section 21A increased to $400 million.
- Working basis established with Inter American Bank for future joint financing.
- ECIC now tax exempt.
- Act amended to provide for re-insurance arrangements with foreign exports credit insurers.
- Represented in Edmonton by officer of Department of Trade and Commerce.

1965 - Act amended to allow ECIC to issue unconditioned guarantees to banks in return for non-recourse financing of capital equipment exports.
- Section 21A financing amended to allow transaction of $1 million or more to qualify.
- Negotiations now bilateral between ECIC and foreign buyers.
- ECIC may now make loans to national development banks for re-loaning and subsequent pruchase of Canadian capital goods.

1966 - Act amended to allow direct bank guarantees to be issued under Section 14, thereby reducing the demands on funds under Section 21A.
- Section 21A total credit ceiling raised to $500 million.

1967 - Exports to U.S.A. now insurable.

- Opened regional office in Vancouver.

1969 - Legislation passed introducing Export Development Corporation. EDC assumed all assets, liabilities and obligations of ECIC. Provides all services of ECIC but terms of reference much expanded.

Current Status

The objective of the Export Development Corporation stated in the title of its founding Act was "... to facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities".

The executive structure of EDC consisted of:

Board of Directors: 8 senior public servants, including Deputy Ministers of the Department of Finance, and Industry, Trade & Commerce, Governor of the Bank of Canada, President, Candian International Development Corp., and the President of the Corporation. Also on the Board of Directors, 4 senior businessmen.

Executive Officers: President, 2 Vice-Presidents, (Insurance and Finance), and Secretary.

To accomplish its objectives, the Corporation engages in 4 financial activities; exports credit insurance, export credit guarantees, foreign investment insurance, and export financing.

I Export Credit Insurance (Sections 24 and 27)

The nature of the policies and procedures for insurance did not change significantly from those of ECIC. However, the scope of coverage was enhanced to include "...any risk of loss under or in respect of an export transaction, from any cause not avoidable by (the exporter) or his foreign affiliate ...".[1] Examples of application for "Shipment" and "Contract" policies appear as Exhibits 1 and 2, accompanied by copies of policy forms, Exhibits 1a and 2a.

It is not the practice of EDC to publish rate structure, or to reveal the specific manner in which rates

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[1] Export Development Act, Section 24, Subsection (1) paragraph (a).

are determined. Rates depend upon the product, the destination, and the credit rating of the customer, but specific quotes are only made, in confidence, to the exporter upon the provision of details of the pending transaction. Such details are provided in an application for a policy. This application does not constitute any obligation on the part of the exporter. If, upon receipt of the premium quotation, he decides to accept coverage, the exporter deposits approximately 10% of the annual premium. Presmiums are payable monthly based on a declaration of the contracts and shipments made during the previous month. A Specific Contract Policy may also be issued by EDC. A specimen of the Application for a Policy Covering a Specific Contract appears as Exhibit 3 of this appendix.

Section 27 of the Act provides for the extension of insurance beyond the statutory limits, upon the approval of the Governor in Council under conditions which are in the national interest. Funds to pay losses from such insurance come from the Consolidated Revenue Fund of the federal government.

II Export Credit Guarantees (Sections 24 (b) and 29 (b))

EDC is authorized to provide unconditional guarantees to banks in cases where insured Canadian exporters have sold capital equipment on medium-term credit. Such guarantees cover 100% of the contract price, and are issued in return for non-recourse financing of the exporter by the bank.

III Foreign Investment Insurance (Section 34)

Foreign investment insurance is designed to protect Canadian investors abroad from political risk. Specific causes of loss which are covered are, war or revolution, confiscation or expropriation, or the inability to repatriate capital or transfer earnings. To qualify, investments must be new[1], and made in developing countries. One further condition has limited the effectiveness of this program to date. Bilateral agreements must be signed with the host country, as a prerequisite to insuring projects in that country.[2]

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[1] A waiver letter may be issued at the time of investment, to permit future consideration of coverage, although the investment is no longer new.

[2] At the time of writing, plans were being made to reduce the stringency of the term of these agreements.

The maximum volume of investment covered at any one time cannot exceed $150 million.

IV Export Financing

"The purpose of long term export financing is to enable Canadian exporters of capital equipment and related services to offer the same scope of financial, credit facilities available from major foreign competitors when the terms required extend beyond those normally available from commercial sources."[1]

It is the foreign customer, and not the Canadian exporter, who becomes debtor to the bank. However, the prime exporter must make the initial application for financing, on behalf of the foreign borrower. A specimen of the directions for making such an application appears as Exhibit 4.

The volume of credit outstanding at one time cannot exceed $600 million on EDC's account. An additional $200 million can be made available, upon approval of the Governor in Council, for transactions in the national interest.

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[1] EDC Annual Report, 1969, page 8.

Performance

In 1945, ECIC insured $2 million of exports at its own risk. By 1968, this figure had risen to $247 million. In that period of time, at total of $2,862 million had been insured, $1,888 million at ECIC's own risk, the balance covered under Section 21 by the Consolidated Revenue Fund of the federal government. Financing, introduced in late 1960, has fluctuated in volume due to the changing demand for, and competitive position of, Canadian capital goods in developing countries.[1]

A summary of insurance and financing volumes appears in Exhibits 5 and 6 respectively.

[1] Although financial statements have not been released for 1970 as of the date of writing, the author was advised by a representative of the Corporation that contracts worth $100.8 million were financed in 1970. In the first quarter of 1971, contracts amounted to $93.6 million.

EXHIBIT 1

To EXPORT DEVELOPMENT CORPORATION,
(EDC)
P.O. Box 655, Ottawa, Canada.

APPLICATION FOR A SHIPMENTS POLICY

We have read a specimen of your Shipments Policy "CS" and request that you will inform us of the terms on which you are prepared to insure us in accordance with the terms and subject to the conditions of the said Policy against a proportion of the loss as therein defined that we may sustain in respect of goods shipped from Canada during the period from.....19....., to.....19....., inclusive under contracts entered into by us.

DECLARATION

1. The goods the subject of all the shipments above-mentioned will be.....

---

2. We have not assigned or pledged, without full recourse against ourselves, or insured any part of the purchase price receivable under any such contract as aforesaid or any right or interest acquired by virtue thereof or received any indemnity or security whatsoever in respect thereof and we will not effect any such assignment, pledge or insurance without your prior consent in writing and will promptly notify you of any such indemnity or security received by us.

3. We are not aware of any circumstances relating to any particular buyer or shipment which might adversely influence your acceptance of any of the risks on which we are hereby requesting insurance.

4. Unless otherwise agreed in writing by EDC, the Policy for which we are asking you to quote is not to attach:

(a) to any shipment made to any buyer in whose profits we have any interest, direct or indirect, or who has any interest in our business, or

(b) to any shipment made to any buyer after we have received information that he is in financial difficulties or that his position appears to be such as to make shipments to him undesirable.

5. We undertake to carry on our business with due care in making contracts and in regard to the conditions of the contract and the trustworthiness of the buyer, and we further undertake to declare in accordance with the terms and conditions of the Policy ALL shipments made to any and every buyer to which the Policy will apply.

6. All discussions and correspondence in connection with this Application and with any Policy arising therefrom are to be treated by both sides as confidential, and we undertake not to disclose any of the details to our agents or to the buyers or to any other person or concern, other than in confidence to our bankers, without the prior consent in writing of EDC.

7. We certify that the representations made and facts stated by us are true, and that we have not misrepresented or omitted any material fact which might have a bearing on the Policy, and we agree that such representations and facts shall form the basis of and be incorporated in the Policy and that the truth of such representations and facts and due performance of each and every undertaking contained herein or in the Policy shall be a condition precedent to any liability of EDC thereunder and to the enforcement thereof by us.

SPECIMEN

8. We anticipate that our total export business with ALL countries in the period stated will be:

COUNTRY (Applicable to Paragraphs 8 & 9)	CREDIT PERIOD		TOTAL AMOUNT	CASH IN ADVANCE (Include irrevocable letters of credit)
	USUAL	MAXIMUM		
			$	$
TOTAL			$	$

9. Our export turnover and bad debts, (actual losses incurred on all export buyers, exclusive of compensation received from agents, insurers and any other source) for the previous three completed years and the subsequent period to date, have been as follows:

For each of the last three (completed) financial years ending 19						Subsequent period to date	
Turnover			Bad Debts Written Off			Turnover	Bad Debts Written Off
19	19	19	19	19	19		
	$	$	$	$	$	$	$
	$	$	$	$	$	$	$

10. We append (if "none" please state):

    (a) a note of any exceptional losses on individual firms or countries;

    (b) a statement of overdue accounts with an estimate of possible losses thereon.

11. The approximate number and credit limits of our export accounts are as follows:

No.	Credit Limits	No.	Credit Limits
	Up to $ 500		$ 2,501/$ 5,000
	$ 501/$1,000		$ 5,001/$10,000
	$1,001/$2,500		$10,001/$25,000

12. The sources from which we obtain information regarding prospective buyers are:

_____

_____

_____

Exporter's Name _____

Per Authorized Signing Officer _____

Address _____

_____

Date _____ 19____

No. CS

EXPORT DEVELOPMENT CORPORATION

OTTAWA, CANADA

SHIPMENTS POLICY

POLICY made 19 , between

who carries on business at
(hereinafter called the "Exporter") of the one part and the Export Development Corporation (hereinafter called "EDC") of the other part.

WHEREAS the Exporter has made an Application dated 19
(hereinafter called the "Application") requesting EDC to insure the Exporter against a proportion of the loss which may be sustained by reason of certain risks involved in the export of goods from Canada;

NOW THEREFORE in consideration of the premium paid and to be paid by the Exporter to EDC as hereinafter set out, EDC hereby insures the Exporter in accordance with the terms and subject to the conditions hereof against a percentage of the amount of any loss as hereinafter defined which may be sustained by the Exporter in respect of shipments of goods from Canada hereinafter specified by reason of the occurrence of any of the following causes (hereinafter called the "risks insured"):

Risks insured

(i) the insolvency of the buyer as hereinafter defined,

(ii) the failure of the buyer to pay to the Exporter within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer,

(iii) the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the gross invoice value is to be made:

(a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

(b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

(iv) the occurrence of war between the buyer's country and Canada,

(v) the occurrence of war, hostilities, civil war, rebellion, revolution, insurrection, civil commotion or other disturbance in the buyer's country,

(vi) the incurring in respect of goods shipped from Canada of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside Canada and the continental United States of America and which are due by the buyer, but which it is impracticable to recover,

(vii) the cancellation or non-renewal of an Export Permit or the imposition of restrictions on the shipment from Canada of goods not subject to permit or restriction prior to the date of the shipment,

(viii) the failure or refusal of the buyer to accept goods which have already been exported from Canada, and are not within the continental United States of America, where such failure or refusal is not excused by and does not arise from or in connection with any breach of contract on the part of the Exporter or from any cause within his control, provided that EDC is satisfied that no good purpose would be served by the institution of proceedings against the buyer in respect of such failure or refusal, or

(ix) any other cause not being within the control of the Exporter or of the buyer, which arises from events occurring outside Canada and the continental United States of America;

Provided that the said risks insured, shall not under this Policy include any risk which at the date when any shipment is made can be and normally is insured with commercial insurers.

SPECIMEN

TERMS AND CONDITIONS

REPRESENTATIONS AND DISCLOSURES BY EXPORTER

Application

1. The Application shall be incorporated with this Policy as the basis thereof and if any of the statements contained in the Application be untrue or incorrect in any respect this Policy shall be void, but EDC may retain any premium or deposit that has been paid.

Disclosure of facts

2. Without affecting the operation of any rule of law it is declared that this Policy is given on condition that the Exporter has at the date of issue of this Policy disclosed and will at all times during the operation of this Policy promptly disclose all facts in any way affecting the risks insured.

SHIPMENTS COVERED AND EXCEPTIONS

Shipments covered

3. Subject to the terms and conditions contained herein, this Policy shall apply in respect of all shipments of goods from Canada made pursuant to any contract or agreement for the sale thereof to any buyer in the countries specified in the Schedule hereto, during the period from 19 to 19 inclusive. The shipment of goods from Canada shall be deemed to include the despatch of goods within Canada by the Exporter to the buyer.

Shipments not covered

4. Except with the approval in writing of EDC this Policy shall not apply to any shipment which:

(i) is invoiced to the buyer in any currency other than that approved by EDC, or

(ii) involves the granting of credit by the Exporter to the buyer for a longer period than the maximum indicated in respect of the buyer's country in the Schedule hereto, provided that the Exporter shall be entitled, except in the case of cash against documents, documentary sight draft or documents against payment transactions, in the event of need arising at or shortly before the due date, to extend the due date of any payment for a period not exceeding 90 days from the original due date, but in any event such extended due date shall not be a date occurring later than 180 days from the date of shipment.

Withdrawal of coverage

5. EDC shall be at liberty at any time to give written notice to the Exporter that on and after such date as may be specified in the notice this Policy shall not apply in respect of shipments that may be made to a buyer specified in the notice or to all buyers in a country specified in the notice notwithstanding that the country in which the said buyer is or the said buyers are situated is specified in the Schedule hereto.

Schedule conditions

6. The application of this Policy to shipments made to buyers in any of the countries specified in the Schedule hereto shall be further subject to the special conditions (if any) stated in the Fourth Column of the Schedule opposite the name of that country.

MONTHLY REPORT BY EXPORTER

Declarations

7. The Exporter shall declare to EDC on or before the tenth day of each calendar month:

(i) all shipments made by him during the previous month to which this Policy is, or may be, applicable, provided that the first declaration hereunder shall include all the said shipments made in the previous month or earlier, and

(ii) all amounts which at the end of the previous month remained wholly or partly unpaid for more than three months from the original due date in respect of shipments previously declared.

PREMIUMS

Deposit

8. The Exporter shall, on his acceptance of EDC's letter of quotation dated 19 , pay by way of premium the sum of $ which shall be treated as a deposit and returned to the Exporter on the expiry of this Policy or carried forward in the event of renewal.

Premiums

9. The Exporter shall be liable to pay premium on all shipments to which this Policy applies forthwith upon the making of such shipments at the rates set out in the Third Column of the Schedule hereto (or, as the case may be, at any varied rates for the time being in force) on the gross invoice value of such shipments and shall pay the said premium as and when the shipments are required to be declared under this Policy.

Gross invoice value

10. In this Policy the gross invoice value of shipments shall include any insurance, freight or other charges paid or to be paid by the Exporter on the buyer's behalf but exclude any payments secured by irrevocable letters of credit or cash received from the buyer prior to the date of shipment.

Variation of rates

11. Any premium rate set out in the Schedule hereto may be varied upon written notice to that effect being given to the Exporter by EDC. In such a case, the change will take effect on and after the date specified in the notice, but will apply only to shipments made on or after that date.

Exporter's privilege

12. If the rate of premium for any country set out in the Schedule hereto for the time being in force is increased, the Exporter shall be entitled within 14 days after notification to him of the increase to exclude that country from this Policy and in that event no premium shall thereafter be payable in respect of any shipments made to buyers in that country nor shall EDC be liable in respect of any such shipments made subsequent to that date.

DUTIES OF EXPORTER

Exporter's obligations

13. The Exporter shall:

(i) use all reasonable and usual care, skill and forethought, and take all practicable measures, including any measures which may be required by EDC, to prevent or minimize loss;

(ii) notify EDC in writing of the occurrence of any event likely to cause a loss within 30 days of his becoming aware of any such occurrence.

LOSSES

Percentage of loss payable

14. Subject to the terms and conditions hereof, in respect of any loss, as hereinafter defined, which is sustained by the Exporter under any shipment to which this Policy applies by reason of any of the risks insured, EDC hereby agrees to pay to the Exporter immediately after the time hereinafter specified for ascertainment of the amount of the loss:

(i) 90% of the loss, where the loss is due to the occurrence of any of the causes specified in paragraphs (i), (ii), (iii), (iv), (v), (vi), (vii) and (ix) of the risks insured; or

(ii) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured, the Exporter shall bear a first loss equal to 15% of the gross invoice value of the goods, and 90% of the balance of the loss shall be payable by EDC, save that in no case shall EDC pay a sum in excess of 40% of the gross invoice value of the goods.

15. In this Policy the amount of the loss sustained by the Exporter in respect of any shipment shall: **Amount of loss**

(i) as regards goods delivered, be the gross invoice value of those goods less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has received in respect of them and less any sums or credits in the possession of the Exporter which the buyer would have been entitled to have taken into account by way of set-off or counter-claim or which the Exporter is entitled to appropriate in whole or part payment of the price of the goods;

(ii) as regards goods not delivered, or delivered to but not accepted by the buyer, be the gross invoice value of those goods less any expenses saved by non-fulfilment of the contract of sale, and less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has recovered from any source, including payment of any part of the gross invoice value, realization of any security, and resale of any goods or materials.

16. The amount of any loss in respect of any shipment shall be ascertained: **Time of loss**

(i) where the loss is due to the buyer's insolvency as hereinafter defined, immediately after the occurrence of such insolvency;

(ii) where the loss is due to the failure of the buyer to pay within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer, immediately after the expiry of the said period of six months;

(iii) where the loss is due to the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the gross invoice value is to be made:
(a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or
(b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,
four months after the due date of payment;

(iv) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured one month after the date on which, with EDC approval, the goods have been resold or otherwise disposed of by the Exporter;

(v) in all other cases, four months after the occurrence of the event which is the cause of the loss.

PAYMENTS IN CANADIAN CURRENCY

17. Payment of premiums and losses hereunder shall be made in Canadian dollars and for the purpose of such payment the gross invoice value of shipments invoiced in a foreign currency shall be converted to Canadian dollars at the bank buying rate of exchange at noon on the date of the relative shipment. **Rates of exchange**

LIMITATIONS ON EDC'S LIABILITY FOR LOSSES

18. EDC shall not be liable for loss: **Limitation of liability**

(i) in respect of a shipment if all or any part of the gross invoice value thereof receivable by the Exporter has been assigned without full recourse against the Exporter unless the prior approval in writing of EDC has been obtained;

(ii) in respect of a debt as to which the Exporter has accepted a composition arrangement with the buyer without the prior approval in writing of EDC;

(iii) which occurs due to the fault of the Exporter, or any agent of the Exporter or of any collecting bank, or due to the insolvency of such agent or bank; or

(iv) unless a claim for the loss is made in writing to EDC by the Exporter on or before 19

19. The liability of EDC under this Policy for losses sustained by the Exporter in respect of the total gross invoice value of shipments to any one buyer which is outstanding at any one time is limited:

(i) in respect of goods delivered to the buyer on credit terms or in respect of shipments of goods which have been tendered to the buyer on payment terms of cash against documents, documentary sight draft, or documents against payment, to the amount hereinafter defined as the Credit Limit for the buyer, and **Credit Limit**

(ii) in respect of all goods in the course of shipment to the said buyer, to the amount hereinafter defined as the Trading Limit for the buyer. **Trading Limit**

20. The amount of the Credit Limit for any buyer shall be: **Amount of Credit Limit**

(i) a maximum of $ for credit transactions or $ for cash against documents and/or documentary sight draft and/or documents against payment transactions,
BUT IN NO CASE shall the amount of the Credit Limit exceed:

(a) the highest amount at any one time outstanding during the two years preceding the date of this Policy, or

(b) such amount as may be justified by up-to-date information as to the credit-worthiness of the buyer obtained by the Exporter from at least two reliable sources;
or

(ii) the amount approved in writing by EDC upon application for that purpose by the Exporter.

21. The amount of the Trading Limit for any buyer shall be two times the amount of the Credit Limit for the buyer, and shall be subject to the same terms and conditions as those on which EDC has approved the Credit Limit. **Amount of Trading Limit**

22. The total liability of EDC under this Policy shall be limited to $ or such other total sum as may be agreed in writing between the Exporter and EDC. **Maximum liability**

RECOVERIES

Action after payment of claim

23. Upon payment by EDC the Exporter shall take all steps to effect recoveries from the buyer which may be necessary or expedient or which EDC may at any time require, including if so required the institution of legal proceedings against the buyer by and in the name of the Exporter, and EDC shall have the right at any time to require the Exporter to transfer to EDC his rights under any contract of sale in respect of which payment has been made as aforesaid for the purpose of effecting recoveries in such manner as EDC may consider necessary or desirable.

Recoveries

24. In respect of a loss paid by EDC, any sums recovered by the Exporter or EDC from the buyer or any other source shall be divided between the Exporter and EDC in the proportions in which they bore the loss. The Exporter shall pay all sums so recovered to EDC forthwith upon their being received by him or on his behalf, and until such payment is made to EDC he shall receive and hold such sums in trust for EDC.

Where the gross invoice value of shipments is expressed in a foreign currency, amounts recovered in that currency shall not be converted to Canadian dollars but shall be divided between the Exporter and EDC as herein provided. This division shall be made notwithstanding that the aggregate amount of such currency paid to EDC in respect of the loss would, if converted to Canadian dollars at the bank buying rate of exchange at noon on the date when the payment is made to EDC, exceed the amount of the payment made by EDC to the Exporter in respect of the loss, and notwithstanding any rule or principle of law to the effect that an insurer who has indemnified an insured for loss may recover from any third party responsible for the loss only what the insurer has paid as indemnity.

GENERAL

Insolvency

25. The buyer shall be deemed to be insolvent for the purpose of this Policy when:

(i) he is declared bankrupt; or

(ii) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(iii) a Receiver has been appointed to manage his estate; or

if an incorporated body:

(iv) an order has been made for compulsory winding-up; or

(v) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction or amalgamation; or

(vi) an arrangement binding on all creditors has been sanctioned by the Court; or

whether incorporated or unincorporated:

(vii) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Assignment

26. This Policy, or any amount payable hereunder, is assignable only with the approval in writing of EDC.

Fraudulent claims

27. If the Exporter makes any claim hereunder knowing the same to be false or fraudulent the liability of EDC hereunder shall thereupon cease and the Exporter shall have no claim hereunder, and shall repay to EDC on demand all sums paid by EDC and EDC shall be entitled to retain all payments made to it by way of premium or deposit.

Observance of Conditions

28. The due performance and observance of each term and condition contained herein or in the Application shall be a condition precedent to any liability of EDC hereunder and to the enforcement thereof by the Exporter.

Failure to comply with Conditions

29. No failure by the Exporter to comply with the terms and conditions of this Policy shall be deemed to have been excused or accepted by EDC unless the same is specifically so excused or accepted by EDC in writing.

SCHEDULE

Countries covered (1)	Maximum period of credit (2)	Premium rate per $100* (3)	Any special conditions applicable (4)

*Premium rate means the rate per $100 of the gross invoice value as defined in Condition 10 of this Policy.

EXPORT DEVELOPMENT CORPORATION

EXHIBIT 2

CC
171

To EXPORT DEVELOPMENT CORPORATION,
(EDC)
P.O. Box 655, Ottawa, Canada.

APPLICATION FOR A CONTRACTS POLICY

We have read a specimen of your Contracts Policy "CC" and request that you will inform us of the terms on which you are prepared to insure us in accordance with the terms and subject to the conditions of the said Policy against a proportion of the loss as therein defined that we may sustain under contracts for the export of goods from Canada:

(i) already entered into by us excluding any shipments thereunder made before the date of this Application, namely.....19.....;

(ii) hereafter entered into by us during the period from.....
19.....to.....19....., inclusive.

DECLARATION

1. The total gross invoice value of the goods yet to be shipped under all our existing contracts at this date is $.....as declared (per country) in the Schedule hereto.

2. The goods the subject of all the contracts above-mentioned are and will be

SPECIMEN

3. We have not assigned or pledged, without full recourse against ourselves, or insured any part of the contract price receivable under any such contract as aforesaid or any right or interest acquired by virtue thereof or received any indemnity or security whatsoever in respect thereof and we will not effect any such assignment, pledge or insurance without your prior consent in writing and will promptly notify you of any such indemnity or security received by us.

4. We are not aware of any circumstances relating to any particular buyer or contract which might adversely influence your acceptance of any of the risks on which we are hereby requesting insurance.

5. Unless otherwise agreed in writing by EDC, the Policy for which we are asking you to quote is not to attach:

(a) to any contract entered into with any buyer in whose profits we have any interest, direct or indirect, or who has any interest in our business, or

(b) to a contract entered into with any buyer or to any shipments to such buyer after we have received information that he is in financial difficulties or that his position appears to be such as to make shipments to him undesirable.

6. We undertake to carry on our business with due care in making contracts and in regard to the conditions of the contract and the trustworthiness of the buyer, and we further undertake to declare in accordance with the terms and conditions of the Policy ALL contracts made with any and every buyer to which the Policy will apply.

7. All discussions and correspondence in connection with this Application and with any Policy arising therefrom are to be treated by both sides as confidential, and we undertake not to disclose any of the details to our agents or to the buyers or to any other person or concern, other than in confidence to our bankers, without the prior consent in writing of EDC.

8. We certify that the representations made and facts stated by us are true, and that we have not misrepresented or omitted any material fact which might have a bearing on the Policy, and we agree that such representations and facts shall form the basis of and be incorporated in the Policy and that the truth of such representations and facts and due performance of each and every undertaking contained herein or in the Policy shall be a condition precedent to any liability of EDC thereunder and to the enforcement thereof by us.

9. We anticipate that our total export business with ALL countries in the period stated will be:

Country (Applicable to Paragraphs 9 & 10)	Credit Period		Total Amount	Cash in Advance (Include irrevocable letters of credit)
	Usual	Maximum		
			$	$
TOTAL			$	$

10. Our export turnover and bad debts, (actual losses incurred on all export buyers, exclusive of compensation received from agents, insurers and any other source) for the previous three completed years and the subsequent period to date, have been as follows:

or each of the last three (completed) financial years ending 19						Subsequent period to date	
Turnover			Bad Debts Written Off			Turnover	Bad Debts Written Off
19	19	19	19	19	19		
	$	$	$	$	$	$	$
	$	$	$	$	$	$	$

11. We append (if "none" please state):

    (a) a note of any exceptional losses on individual firms or countries;

    (b) a statement of overdue accounts with an estimate of possible losses thereon.

12. The approximate number and credit limits of our export accounts are as follows:

No.	Credit Limits	No.	Credit Limits
	Up to $ 500		$ 2,501/$ 5,000
	$ 501/$1,000		$ 5,001/$10,000
	$1,001/$2,500		$10,001/$25,000

13. Schedule of outstanding contracts.

Country	Approximate total gross invoice value of goods yet to be shipped (per country)	Remarks (Terms, Date of Shipment, etc.)

If any contract included in the above Schedule provides for a period of shipment extending beyond twelve months from the date of the relative contract the date at which such period of shipment ends and No. of the relative contract (or other means of identification) must be noted under "Remarks" above.

14. The sources from which we obtain information regarding prospective buyers are:

.....

.....

.....

Exporter's Name.....

Per Authorized Signing Officer.....

Address.....

.....

Date.....19.....

EXHIBIT 2 A

No. CC

EXPORT DEVELOPMENT CORPORATION

OTTAWA, CANADA

CONTRACTS POLICY

POLICY made 19 , between

who carries on business at
(hereinafter called the "Exporter") of the one part and the Export Development Corporation (hereinafter called "EDC") of the other part.

WHEREAS the Exporter has made an Application dated 19
(hereinafter called the "Application") requesting EDC to insure the Exporter against a proportion of the loss which may be sustained by reason of certain risks involved in contracts for the export of goods from Canada;

NOW THEREFORE in consideration of the premium paid and to be paid by the Exporter to EDC as hereinafter set out, EDC hereby insures the Exporter in accordance with the terms and subject to the conditions hereof against a percentage of the amount of any loss as hereinafter defined which may be sustained by the Exporter under contracts for the export of goods from Canada hereinafter specified by reason of the occurrence of any of the following causes (hereinafter called the "risks insured"):

Risks insured.

(i) the insolvency of the buyer as hereinafter defined,

(ii) the failure of the buyer to pay to the Exporter within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer,

(iii) the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the contract price is to be made:

  (a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

  (b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

(iv) the occurrence of war between the buyer's country and Canada,

(v) the occurrence of war, hostilities, civil war, rebellion, revolution, insurrection, civil commotion or other disturbance in the buyer's country,

(vi) the incurring in respect of goods shipped from Canada of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside Canada and the continental United States of America and which are due by the buyer, but which it is impracticable to recover,

(vii) the cancellation or non-renewal of an Export Permit or the imposition of restrictions on the export from Canada of goods not subject to permit or restriction prior to the date of the contract,

(viii) the failure or refusal of the buyer to accept goods which have already been exported from Canada, and are not within the continental United States of America, where such failure or refusal is not excused by and does not arise from or in connection with any breach of contract on the part of the Exporter or from any cause within his control, provided that EDC is satisfied that no good purpose would be served by the institution of proceedings against the buyer in respect of such failure or refusal, or

(ix) any other cause preventing performance of the contract by the Exporter or the buyer and not being within the control of either which arises from events occurring outside Canada and the continental United States of America;

Provided that the said risks insured, shall not under this Policy include any risk which at the date when any contract is made can be and normally is insured with commercial insurers.

SPECIMEN

TERMS AND CONDITIONS

REPRESENTATIONS AND DISCLOSURES BY EXPORTER

Application

1. The Application shall be incorporated with this Policy as the basis thereof and if any of the statements contained in the Application be untrue or incorrect in any respect this Policy shall be void, but EDC may retain any premium or deposit that has been paid.

Disclosure of facts

2. Without affecting the operation of any rule of law it is declared that this Policy is given on condition that the Exporter has at the date of issue of this Policy disclosed and will at all times during the operation of this Policy promptly disclose all facts in any way affecting the risks insured.

CONTRACTS COVERED AND EXCEPTIONS

Contracts covered

3. Subject to the terms and conditions contained herein, this Policy shall apply to all contracts for the export of goods from Canada to buyers in the countries specified in the Schedule hereto:

(i) declared by the Exporter in the Application, excluding any shipments thereunder made before 19 , and

(ii) entered into by the Exporter during the period from 19 to 19 , inclusive.

Contracts not covered

4. Except with the approval in writing of EDC this Policy shall not apply to any contract which:

(i) does not specify the nature and quantity of the goods sold, the terms of payment and a currency approved by EDC in which payment is to be made;

(ii) provides for the shipment of any of the goods thereunder during a period extending beyond twelve months after the date of the contract; or

(iii) involves the granting of credit by the Exporter to the buyer for a longer period than the maximum indicated in respect of the buyer's country in the Schedule hereto, provided that the Exporter shall be entitled, except in the case of cash against documents, documentary sight draft or documents against payment transactions, in the event of need arising at or shortly before the due date, to extend the due date of any payment for a period not exceeding 90 days from the original due date, but in any event such extended due date shall not be a date occurring later than 180 days from the date of shipment.

Withdrawal of coverage

5. EDC shall be at liberty at any time to give written notice to the Exporter that on and after such date as may be specified in the notice this Policy shall not apply to any contract that may be made with a buyer specified in the notice or with all buyers in a country specified in the notice notwithstanding that the country in which the said buyer is or the said buyers are situated is specified in the Schedule hereto.

Schedule conditions

6. The application of this Policy to contracts entered into with buyers in any of the countries specified in the Schedule hereto shall be further subject to the special conditions (if any) stated in the Fourth Column of the Schedule opposite the name of that country.

MONTHLY REPORT BY EXPORTER

Declarations

7. The Exporter shall declare to EDC on or before the tenth day of each calendar month:

(i) all contracts entered into by him during the previous month to which this Policy is, or may be, applicable; and

(ii) all shipments made by him during the previous month under contracts to which this Policy is, or may be, applicable; and

(iii) all amounts which at the end of the previous month remained wholly or partly unpaid for more than three months from the original due date in respect of shipments previously declared;

Provided that the first declaration hereunder shall include all contracts, or shipments thereunder to which this Policy is, or may be, applicable, entered into or made in the previous month or earlier.

PREMIUMS

Deposit

8. The Exporter shall, on his acceptance of EDC's letter of quotation dated 19 , pay:

(i) by way of premium the sum of $ which shall be treated as a deposit and returned to the Exporter on the expiry of this Policy or carried forward in the event of renewal, and

(ii) a premium calculated at the rates set out in the Third Column of the Schedule hereto (or, as the case may be, at any varied rates for the time being in force) on 20% of the contract price of goods remaining to be shipped under the contracts declared in the Application, no part of which premium will be returnable in any event.

Premiums

9. The Exporter shall be liable to pay premium on all contracts, and shipments thereunder, to which this Policy applies forthwith upon the making of such contracts and shipments and shall pay the said premium at the rates set out in the Third Column of the Schedule hereto (or, as the case may be, at any varied rates for the time being in force):

(i) on 20% of the contract price of such contracts, no part of which premium will be returnable in any event, at the time of declaration of the contracts, and

(ii) on 80% of the gross invoice value of such shipments as and when the shipments are required to be declared under this Policy;

Provided that when any loss is sustained under a contract the unpaid portion of the full premium on the contract price of the goods not then shipped thereunder will forthwith become due and payable.

Contract price and gross invoice value

10. In this Policy:

(i) the contract price, and

(ii) the gross invoice value of a shipment

shall include any insurance, freight or other charges paid or to be paid by the Exporter on the buyer's behalf but exclude any payments secured by irrevocable letters of credit or cash received from the buyer at the date of the contract.

Variation of rates

11. Any premium rate set out in the Schedule hereto may be varied upon written notice to that effect being given to the Exporter by EDC. In such a case, the change will take effect on and after the date specified in the notice, but will apply only to contracts entered into on or after that date.

Exporter's privilege

12. If the rate of premium for any country set out in the Schedule hereto for the time being in force is increased, the Exporter shall be entitled within 14 days after notification to him of the increase to exclude that country from this Policy and in that event no premium shall thereafter be payable in respect of any contracts entered into with buyers in that country nor shall EDC be liable in respect of any such contracts entered into subsequent to that date.

DUTIES OF EXPORTER

Exporter's obligations

13. The Exporter shall:

(i) use all reasonable and usual care, skill and forethought, and take all practicable measures, including any measures which may be required by EDC, to prevent or minimize loss;

(ii) notify EDC in writing of the occurrence of any event likely to cause a loss within 30 days of his becoming aware of any such occurrence.

LOSSES

Percentage of loss payable

14. Subject to the terms and conditions hereof, in respect of any loss, as hereinafter defined, which is sustained by the Exporter under any contract to which this Policy applies by reason of any of the risks insured, EDC hereby agrees to pay to the Exporter immediately after the time hereinafter specified for ascertainment of the amount of the loss:

(i) 90% of the loss, where the loss is due to the occurrence of any of the causes specified in paragraphs (i), (ii), (iii), (iv), (v), (vi), (vii) and (ix) of the risks insured; or

(ii) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured, the Exporter shall bear a first loss equal to 15% of the gross invoice value of the goods, and 90% of the balance of the loss shall be payable by EDC, save that in no case shall EDC pay a sum in excess of 40% of the gross invoice value of the goods.

Amount of loss

15. In this Policy the amount of the loss sustained by the Exporter in respect of any contract shall:

(i) as regards goods delivered, be the gross invoice value of those goods less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has received in respect of them and less any sums or credits in the possession of the Exporter which the buyer would have been entitled to have taken into account by way of set-off or counter-claim or which the Exporter is entitled to appropriate in whole or part payment of the price of the goods;

(ii) as regards goods not delivered, or delivered to but not accepted by the buyer, be the contract price for those goods or the gross invoice value thereof, as the case may be, less any expenses saved by non-fulfilment of the contract, and less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has recovered from any source, including payment of any part of the contract price or the gross invoice value, as the case may be, realization of any security, and resale of any goods or materials.

Time of loss

16. The amount of any loss in respect of any contract shall be ascertained:

(i) where the loss is due to the buyer's insolvency as hereinafter defined, immediately after the occurrence of such insolvency;

(ii) where the loss is due to the failure of the buyer to pay within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer, immediately after the expiry of the said period of six months;

(iii) where the loss is due to the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the contract price is to be made:

(a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

(b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

four months after the due date of payment;

(iv) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured one month after the date on which, with EDC approval, the goods have been resold or otherwise disposed of by the Exporter;

(v) in all other cases, four months after the occurrence of the event which is the cause of the loss.

PAYMENTS IN CANADIAN CURRENCY

Rates of exchange

17. Payment of premiums and losses hereunder shall be made in Canadian dollars and for the purpose of such payment the contract price for the sale of goods and the gross invoice value of shipments invoiced in a foreign currency shall be converted to Canadian dollars at the bank buying rate of exchange at noon on the date of the relative contract of sale.

LIMITATIONS ON EDC'S LIABILITY FOR LOSSES

Limitation of liability

18. EDC shall not be liable for loss:

(i) in respect of a contract if all or any part of the contract price thereof receivable by the Exporter has been assigned without full recourse against the Exporter unless the prior approval in writing of EDC has been obtained;

(ii) in respect of a debt as to which the Exporter has accepted a composition arrangement with the buyer without the prior approval in writing of EDC;

(iii) which occurs due to the fault of the Exporter, or any agent of the Exporter or of any collecting bank, or due to the insolvency of such agent or bank; or

(iv) unless a claim for the loss is made in writing to EDC by the Exporter on or before 19 .

19. The liability of EDC under this Policy for losses sustained by the Exporter in respect of the total contract price under one or more contracts outstanding at any one time in respect of any one buyer is limited:

Credit Limit

(i) in respect of goods delivered to the buyer on credit terms or in respect of shipments of goods which have been tendered to the buyer on payment terms of cash against documents, documentary sight draft, or documents against payment, to the amount hereinafter defined as the Credit Limit for the buyer, and

Trading Limit

(ii) in respect of all goods in the course of preparation for or shipment to the said buyer, to the amount hereinafter defined as the Trading Limit for the buyer.

Amount of Credit Limit

20. The amount of the Credit Limit for any buyer shall be:

(i) a maximum of $ for credit transactions or $ for cash against documents and/or documentary sight draft and/or documents against payment transactions,
BUT IN NO CASE shall the amount of the Credit Limit exceed:

(a) the highest amount at any one time outstanding during the two years preceding the date of this Policy, or

(b) such amount as may be justified by up-to-date information as to the credit-worthiness of the buyer obtained by the Exporter from at least two reliable sources;

or

(ii) the amount approved in writing by EDC upon application for that purpose by the Exporter.

Amount of Trading Limit

21. The amount of the Trading Limit for any buyer shall be three times the amount of the Credit Limit for the buyer, and shall be subject to the same terms and conditions as those on which EDC has approved the Credit Limit.

Maximum liability

22. The total liability of EDC under this Policy shall be limited to $ or such other total sum as may be agreed in writing between the Exporter and EDC.

RECOVERIES

Action after payment of claim

23. Upon payment by EDC the Exporter shall take all steps to effect recoveries from the buyer which may be necessary or expedient or which EDC may at any time require, including if so required the institution of legal proceedings against the buyer by and in the name of the Exporter, and EDC shall have the right at any time to require the Exporter to transfer to EDC his rights under any contract of sale in respect of which payment has been made as aforesaid for the purpose of effecting recoveries in such manner as EDC may consider necessary or desirable.

Recoveries

24. In respect of a loss paid by EDC, any sums recovered by the Exporter or EDC from the buyer or any other source shall be divided between the Exporter and EDC in the proportions in which they bore the loss. The Exporter shall pay all sums so recovered to EDC forthwith upon their being received by him or on his behalf, and until such payment is made to EDC he shall receive and hold such sums in trust for EDC.

Where the contract price for the sale of goods or the gross invoice value of shipments is expressed in a foreign currency, amounts recovered in that currency shall not be converted to Canadian dollars but shall be divided between the Exporter and EDC as herein provided. This division shall be made notwithstanding that the aggregate amount of such currency paid to EDC in respect of the loss would, if converted to Canadian dollars at the bank buying rate of exchange at noon on the date when the payment is made to EDC, exceed the amount of the payment made by EDC to the Exporter in respect of the loss, and notwithstanding any rule or principle of law to the effect that an insurer who has indemnified an insured for loss may recover from any third party responsible for the loss only what the insurer has paid as indemnity.

GENERAL

Insolvency

25. The buyer shall be deemed to be insolvent for the purpose of this Policy when:

(i) he is declared bankrupt; or

(ii) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(iii) a Receiver has been appointed to manage his estate; or

if an incorporated body:

(iv) an order has been made for compulsory winding-up; or

(v) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction or amalgamation; or

(vi) an arrangement binding on all creditors has been sanctioned by the Court; or

whether incorporated or unincorporated:

(vii) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Assignment

26. This Policy, or any amount payable hereunder, is assignable only with the approval in writing of EDC.

Fraudulent claims

27. If the Exporter makes any claim hereunder knowing the same to be false or fraudulent the liability of EDC hereunder shall thereupon cease and the Exporter shall have no claim hereunder, and shall repay to EDC on demand all sums paid by EDC and EDC shall be entitled to retain all payments made to it by way of premium or deposit.

Observance of Conditions

28. The due performance and observance of each term and condition contained herein or in the Application shall be a condition precedent to any liability of EDC hereunder and to the enforcement thereof by the Exporter.

Failure to comply with Conditions

29. No failure by the Exporter to comply with the terms and conditions of this Policy shall be deemed to have been excused or accepted by EDC unless the same is specifically so excused or accepted by EDC in writing.

SCHEDULE

Countries covered (1)	Maximum period of credit (2)	Premium rate per $100* (3)	Any special conditions applicable (4)

*Premium rate means the rate per $100 of the contract price or gross invoice value as defined in Condition 10 of this Policy.

EXPORT DEVELOPMENT CORPORATION

No. CC

EXPORT DEVELOPMENT CORPORATION

OTTAWA, CANADA

CONTRACTS POLICY

POLICY made 19 , between

who carries on business at
(hereinafter called the "Exporter") of the one part and the Export Development Corporation (hereinafter called "EDC") of the other part.

WHEREAS the Exporter has made an Application dated 19 (hereinafter called the "Application") requesting EDC to insure the Exporter against a proportion of the loss which may be sustained by reason of certain risks involved in contracts for the export of goods from Canada;

NOW THEREFORE in consideration of the premium paid and to be paid by the Exporter to EDC as hereinafter set out, EDC hereby insures the Exporter in accordance with the terms and subject to the conditions hereof against a percentage of the amount of any loss as hereinafter defined which may be sustained by the Exporter under contracts for the export of goods from Canada hereinafter specified by reason of the occurrence of any of the following causes (hereinafter called the "risks insured"):

Risks insured

(i) the insolvency of the buyer as hereinafter defined,

(ii) the failure of the buyer to pay to the Exporter within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer,

(iii) the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the contract price is to be made:

  (a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

  (b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

(iv) the occurrence of war between the buyer's country and Canada,

(v) the occurrence of war, hostilities, civil war, rebellion, revolution, insurrection, civil commotion or other disturbance in the buyer's country,

(vi) the incurring in respect of goods shipped from Canada of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside Canada and the continental United States of America and which are due by the buyer, but which it is impracticable to recover,

(vii) the cancellation or non-renewal of an Export Permit or the imposition of restrictions on the export from Canada of goods not subject to permit or restriction prior to the date of the contract,

(viii) the failure or refusal of the buyer to accept goods which have already been exported from Canada, and are not within the continental United States of America, where such failure or refusal is not excused by and does not arise from or in connection with any breach of contract on the part of the Exporter or from any cause within his control, provided that EDC is satisfied that no good purpose would be served by the institution of proceedings against the buyer in respect of such failure or refusal, or

(ix) any other cause preventing performance of the contract by the Exporter or the buyer and not being within the control of either which arises from events occurring outside Canada and the continental United States of America;

Provided that the said risks insured, shall not under this Policy include any risk which at the date when any contract is made can be and normally is insured with commercial insurers.

SPECIMEN

TERMS AND CONDITIONS

REPRESENTATIONS AND DISCLOSURES BY EXPORTER

Application

1. The Application shall be incorporated with this Policy as the basis thereof and if any of the statements contained in the Application be untrue or incorrect in any respect this Policy shall be void, but EDC may retain any premium or deposit that has been paid.

Disclosure of facts

2. Without affecting the operation of any rule of law it is declared that this Policy is given on condition that the Exporter has at the date of issue of this Policy disclosed and will at all times during the operation of this Policy promptly disclose all facts in any way affecting the risks insured.

CONTRACTS COVERED AND EXCEPTIONS

Contracts covered

3. Subject to the terms and conditions contained herein, this Policy shall apply to all contracts for the export of goods from Canada to buyers in the countries specified in the Schedule hereto:

(i) declared by the Exporter in the Application, excluding any shipments thereunder made before 19 , and

(ii) entered into by the Exporter during the period from 19 to 19 , inclusive.

Contracts not covered

4. Except with the approval in writing of EDC this Policy shall not apply to any contract which:

(i) does not specify the nature and quantity of the goods sold, the terms of payment and a currency approved by EDC in which payment is to be made;

(ii) provides for the shipment of any of the goods thereunder during a period extending beyond twelve months after the date of the contract; or

(iii) involves the granting of credit by the Exporter to the buyer for a longer period than the maximum indicated in respect of the buyer's country in the Schedule hereto, provided that the Exporter shall be entitled, except in the case of cash against documents, documentary sight draft or documents against payment transactions, in the event of need arising at or shortly before the due date, to extend the due date of any payment for a period not exceeding 90 days from the original due date, but in any event such extended due date shall not be a date occurring later than 180 days from the date of shipment.

Withdrawal of coverage

5. EDC shall be at liberty at any time to give written notice to the Exporter that on and after such date as may be specified in the notice this Policy shall not apply to any contract that may be made with a buyer specified in the notice or with all buyers in a country specified in the notice notwithstanding that the country in which the said buyer is or the said buyers are situated is specified in the Schedule hereto.

Schedule conditions

6. The application of this Policy to contracts entered into with buyers in any of the countries specified in the Schedule hereto shall be further subject to the special conditions (if any) stated in the Fourth Column of the Schedule opposite the name of that country.

MONTHLY REPORT BY EXPORTER

Declarations

7. The Exporter shall declare to EDC on or before the tenth day of each calendar month:

(i) all contracts entered into by him during the previous month to which this Policy is, or may be, applicable; and

(ii) all shipments made by him during the previous month under contracts to which this Policy is, or may be, applicable; and

(iii) all amounts which at the end of the previous month remained wholly or partly unpaid for more than three months from the original due date in respect of shipments previously declared;

Provided that the first declaration hereunder shall include all contracts, or shipments thereunder to which this Policy is, or may be, applicable, entered into or made in the previous month or earlier.

PREMIUMS

Deposit

8. The Exporter shall, on his acceptance of EDC's letter of quotation dated 19 , pay:

(i) by way of premium the sum of $ which shall be treated as a deposit and returned to the Exporter on the expiry of this Policy or carried forward in the event of renewal, and

(ii) a premium calculated at the rates set out in the Third Column of the Schedule hereto (or, as the case may be, at any varied rates for the time being in force) on 20% of the contract price of goods remaining to be shipped under the contracts declared in the Application, no part of which premium will be returnable in any event.

Premiums

9. The Exporter shall be liable to pay premium on all contracts, and shipments thereunder, to which this Policy applies forthwith upon the making of such contracts and shipments and shall pay the said premium at the rates set out in the Third Column of the Schedule hereto (or, as the case may be, at any varied rates for the time being in force):

(i) on 20% of the contract price of such contracts, no part of which premium will be returnable in any event, at the time of declaration of the contracts, and

(ii) on 80% of the gross invoice value of such shipments as and when the shipments are required to be declared under this Policy;

Provided that when any loss is sustained under a contract the unpaid portion of the full premium on the contract price of the goods not then shipped thereunder will forthwith become due and payable.

Contract price and gross invoice value

10. In this Policy:

(i) the contract price, and

(ii) the gross invoice value of a shipment

shall include any insurance, freight or other charges paid or to be paid by the Exporter on the buyer's behalf but exclude any payments secured by irrevocable letters of credit or cash received from the buyer at the date of the contract.

Variation of rates

11. Any premium rate set out in the Schedule hereto may be varied upon written notice to that effect being given to the Exporter by EDC. In such a case, the change will take effect on and after the date specified in the notice, but will apply only to contracts entered into on or after that date.

Exporter's privilege

12. If the rate of premium for any country set out in the Schedule hereto for the time being in force is increased, the Exporter shall be entitled within 14 days after notification to him of the increase to exclude that country from this Policy and in that event no premium shall thereafter be payable in respect of any contracts entered into with buyers in that country nor shall EDC be liable in respect of any such contracts entered into subsequent to that date.

DUTIES OF EXPORTER

Exporter's obligations

13. The Exporter shall:

(i) use all reasonable and usual care, skill and forethought, and take all practicable measures, including any measures which may be required by EDC, to prevent or minimize loss;

(ii) notify EDC in writing of the occurrence of any event likely to cause a loss within 30 days of his becoming aware of any such occurrence.

LOSSES

Percentage of loss payable

14. Subject to the terms and conditions hereof, in respect of any loss, as hereinafter defined, which is sustained by the Exporter under any contract to which this Policy applies by reason of any of the risks insured, EDC hereby agrees to pay to the Exporter immediately after the time hereinafter specified for ascertainment of the amount of the loss:

(i) 90% of the loss, where the loss is due to the occurrence of any of the causes specified in paragraphs (i), (ii), (iii), (iv), (v), (vi), (vii) and (ix) of the risks insured; or

(ii) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured, the Exporter shall bear a first loss equal to 15% of the gross invoice value of the goods, and 90% of the balance of the loss shall be payable by EDC, save that in no case shall EDC pay a sum in excess of 40% of the gross invoice value of the goods.

Amount of loss

15. In this Policy the amount of the loss sustained by the Exporter in respect of any contract shall:

(i) as regards goods delivered, be the gross invoice value of those goods less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has received in respect of them and less any sums or credits in the possession of the Exporter which the buyer would have been entitled to have taken into account by way of set-off or counter-claim or which the Exporter is entitled to appropriate in whole or part payment of the price of the goods;

(ii) as regards goods not delivered, or delivered to but not accepted by the buyer, be the contract price for those goods or the gross invoice value thereof, as the case may be, less any expenses saved by non-fulfilment of the contract, and less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has recovered from any source, including payment of any part of the contract price or the gross invoice value, as the case may be, realization of any security, and resale of any goods or materials.

Time of loss

16. The amount of any loss in respect of any contract shall be ascertained:

(i) where the loss is due to the buyer's insolvency as hereinafter defined, immediately after the occurrence of such insolvency;

(ii) where the loss is due to the failure of the buyer to pay within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the buyer, immediately after the expiry of the said period of six months;

(iii) where the loss is due to the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the buyer prevents, restricts or controls, where payment of the contract price is to be made:

(a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

(b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

four months after the due date of payment;

(iv) where the loss is due to the occurrence of the cause specified in paragraph (viii) of the risks insured one month after the date on which, with EDC approval, the goods have been resold or otherwise disposed of by the Exporter;

(v) in all other cases, four months after the occurrence of the event which is the cause of the loss.

PAYMENTS IN CANADIAN CURRENCY

Rates of exchange

17. Payment of premiums and losses hereunder shall be made in Canadian dollars and for the purpose of such payment the contract price for the sale of goods and the gross invoice value of shipments invoiced in a foreign currency shall be converted to Canadian dollars at the bank buying rate of exchange at noon on the date of the relative contract of sale.

LIMITATIONS ON EDC'S LIABILITY FOR LOSSES

Limitation of liability

18. EDC shall not be liable for loss:

(i) in respect of a contract if all or any part of the contract price thereof receivable by the Exporter has been assigned without full recourse against the Exporter unless the prior approval in writing of EDC has been obtained;

(ii) in respect of a debt as to which the Exporter has accepted a composition arrangement with the buyer without the prior approval in writing of EDC;

(iii) which occurs due to the fault of the Exporter, or any agent of the Exporter or of any collecting bank, or due to the insolvency of such agent or bank; or

(iv) unless a claim for the loss is made in writing to EDC by the Exporter on or before 19 .

19. The liability of EDC under this Policy for losses sustained by the Exporter in respect of the total contract price under one or more contracts outstanding at any one time in respect of any one buyer is limited:

Credit Limit

(i) in respect of goods delivered to the buyer on credit terms or in respect of shipments of goods which have been tendered to the buyer on payment terms of cash against documents, documentary sight draft, or documents against payment, to the amount hereinafter defined as the Credit Limit for the buyer, and

Trading Limit

(ii) in respect of all goods in the course of preparation for or shipment to the said buyer, to the amount hereinafter defined as the Trading Limit for the buyer.

Amount of Credit Limit

20. The amount of the Credit Limit for any buyer shall be:

(i) a maximum of $ for credit transactions or $ for cash against documents and/or documentary sight draft and/or documents against payment transactions,
BUT IN NO CASE shall the amount of the Credit Limit exceed:

(a) the highest amount at any one time outstanding during the two years preceding the date of this Policy, or

(b) such amount as may be justified by up-to-date information as to the credit-worthiness of the buyer obtained by the Exporter from at least two reliable sources;

or

(ii) the amount approved in writing by EDC upon application for that purpose by the Exporter.

Amount of Trading Limit

21. The amount of the Trading Limit for any buyer shall be three times the amount of the Credit Limit for the buyer, and shall be subject to the same terms and conditions as those on which EDC has approved the Credit Limit.

Maximum liability

22. The total liability of EDC under this Policy shall be limited to $ or such other total sum as may be agreed in writing between the Exporter and EDC.

RECOVERIES

Action after payment of claim

23. Upon payment by EDC the Exporter shall take all steps to effect recoveries from the buyer which may be necessary or expedient or which EDC may at any time require, including if so required the institution of legal proceedings against the buyer by and in the name of the Exporter, and EDC shall have the right at any time to require the Exporter to transfer to EDC his rights under any contract of sale in respect of which payment has been made as aforesaid for the purpose of effecting recoveries in such manner as EDC may consider necessary or desirable.

Recoveries

24. In respect of a loss paid by EDC, any sums recovered by the Exporter or EDC from the buyer or any other source shall be divided between the Exporter and EDC in the proportions in which they bore the loss. The Exporter shall pay all sums so recovered to EDC forthwith upon their being received by him or on his behalf, and until such payment is made to EDC he shall receive and hold such sums in trust for EDC.

Where the contract price for the sale of goods or the gross invoice value of shipments is expressed in a foreign currency, amounts recovered in that currency shall not be converted to Canadian dollars but shall be divided between the Exporter and EDC as herein provided. This division shall be made notwithstanding that the aggregate amount of such currency paid to EDC in respect of the loss would, if converted to Canadian dollars at the bank buying rate of exchange at noon on the date when the payment is made to EDC, exceed the amount of the payment made by EDC to the Exporter in respect of the loss, and notwithstanding any rule or principle of law to the effect that an insurer who has indemnified an insured for loss may recover from any third party responsible for the loss only what the insurer has paid as indemnity.

GENERAL

Insolvency

25. The buyer shall be deemed to be insolvent for the purpose of this Policy when:

(i) he is declared bankrupt; or

(ii) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(iii) a Receiver has been appointed to manage his estate; or

if an incorporated body:

(iv) an order has been made for compulsory winding-up; or

(v) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction or amalgamation; or

(vi) an arrangement binding on all creditors has been sanctioned by the Court; or

whether incorporated or unincorporated:

(vii) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Assignment

26. This Policy, or any amount payable hereunder, is assignable only with the approval in writing of EDC.

Fraudulent claims

27. If the Exporter makes any claim hereunder knowing the same to be false or fraudulent the liability of EDC hereunder shall thereupon cease and the Exporter shall have no claim hereunder, and shall repay to EDC on demand all sums paid by EDC and EDC shall be entitled to retain all payments made to it by way of premium or deposit.

Observance of Conditions

28. The due performance and observance of each term and condition contained herein or in the Application shall be a condition precedent to any liability of EDC hereunder and to the enforcement thereof by the Exporter.

Failure to comply with Conditions

29. No failure by the Exporter to comply with the terms and conditions of this Policy shall be deemed to have been excused or accepted by EDC unless the same is specifically so excused or accepted by EDC in writing.

SCHEDULE

Countries covered (1)	Maximum period of credit (2)	Premium rate per $100* (3)	Any special conditions applicable (4)

*Premium rate means the rate per $100 of the contract price or gross invoice value as defined in Condition 10 of this Policy.

EXPORT DEVELOPMENT CORPORATION

EXHIBIT 3

CC (Spec)

To EXPORT DEVELOPMENT CORPORATION,
P. O. Box 655, Ottawa, Canada.

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APPLICATION FOR A POLICY COVERING A SPECIFIC CONTRACT

We have read a specimen of your Policy "CC(Spec)" attached hereto and request that you will inform us of the terms on which you are prepared to insure us in accordance with the terms and subject to the conditions of the said Policy against a percentage of the amount of any loss as therein defined that we may sustain under the Contract for the export of goods from Canada specified in the Schedule hereto with the Buyer named therein (hereinafter called the "Contract" and the "Buyer" respectively), excluding any loss in respect of shipments made pursuant to the Contract prior to the date of this Application. Payment under the Contract is to be made in_____(currency) to a total estimated gross invoice value of_____being Canadian $_____

DECLARATION

1. The goods the subject of the Contract will be_____

2. We have not assigned or pledged, without full recourse against ourselves, or insured any part of the Contract price receivable under the Contract or any right or interest acquired by virtue thereof or received any indemnity or security whatsoever in respect thereof and we will not effect any such assignment, pledge or insurance without your prior consent in writing and will promptly notify you of any such indemnity or security received by us.

3. We are not aware of any circumstances relating to the Buyer or the Contract which might adversely influence your acceptance of any of the risks on which we are hereby requesting insurance.

4. We certify that

(a) we have no interest, direct or indirect, in the profits of the Buyer's business, nor has the Buyer any such interest in our business, and

(b) we will not make any shipments to the Buyer after we have received information that he is in financial difficulties or that his position appears to be such as to make shipments to him undesirable.

5. All discussions and correspondence in connection with this Application and with any Policy arising therefrom are to be treated by both sides as confidential, and we undertake not to disclose any of the details to our agents or to the Buyer or to any other person or concern, other than in confidence to our bankers, without the prior consent in writing of EDC.

6. We certify that the representations made and facts stated by us are true, and that we have not misrepresented or omitted any material fact which might have a bearing on the Policy, and we agree that such representations and facts shall form the basis of and be incorporated in the Policy and that the truth of such representations and facts and due performance of each and every undertaking contained herein or in the Policy shall be a condition precedent to any liability of EDC thereunder and to the enforcement thereof by us.

SPECIMEN

Exporter's Signature_____ Address_____

_____ Date_____19____

SCHEDULE

(Particulars of the Contract)

1. Name and Address of the Buyer
2. Date of Contract
3. Shipment Period (If the actual dates are not known, the approximate dates should be given and noted to this effect)

TERMS OF PAYMENT
(Specify currency)

4. (a) Total Contract price
   *(b) Total estimated gross invoice value of Contract
   (c) Amount payable with Contract
   (d) Amount payable on shipment
   (e) As to balance payable

* Include any insurance, freight or other charges to be paid on the Buyer's behalf

EXPORT DEVELOPMENT CORPORATION

OTTAWA, CANADA

SPECIFIC CONTRACT POLICY

POLICY made 19 , between

who carries on business at
(hereinafter called the "Exporter") of the one part and the Export Development Corporation (hereinafter called "EDC") of the other part.

WHEREAS the Exporter has entered into a contract dated 19
for the sale of certain goods, to be exported from Canada, to

(hereinafter called the "Buyer") particulars of the said contract of sale (hereinafter called the "Contract") being specified in the Schedule to the Application hereinafter mentioned;

AND WHEREAS the Exporter has made an Application dated 19
(hereinafter called the "Application") requesting EDC to insure the Exporter against a proportion of the loss which may be sustained by reason of certain risks involved in the Contract, excluding any loss in respect of shipments made pursuant to the Contract prior to the date of the Application;

NOW THEREFORE in consideration of the premium of $ paid by the Exporter to EDC (receipt of which EDC hereby acknowledges) EDC hereby insures the Exporter in accordance with the terms and subject to the conditions hereof against a percentage of the amount of any loss as hereinafter defined which may be sustained by the Exporter under the Contract by reason of the occurrence of any of the following causes (hereinafter called the "risks insured"):

Risks insured

(i) the insolvency of the Buyer as hereinafter defined,

(ii) the failure of the Buyer to pay to the Exporter within six months after the due date of payment the gross invoice value of goods delivered to and accepted by the Buyer,

(iii) the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the Buyer prevents, restricts or controls, where payment of the Contract price is to be made:
  (a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or
  (b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

(iv) the occurrence of war between the Buyer's country and Canada,

(v) the occurrence of war, hostilities, civil war, rebellion, revolution, insurrection, civil commotion or other disturbance in the Buyer's country,

(vi) the incurring in respect of goods shipped from Canada of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside Canada and the continental United States of America and which are due by the Buyer, but which it is impracticable to recover,

(vii) the cancellation or non-renewal of an Export Permit or the imposition of restrictions on the export from Canada of goods not subject to permit or restriction prior to the date of the Contract, or

(viii) any other cause preventing performance of the Contract by the Exporter or the Buyer and not being within the control of either which arises from events occurring outside Canada and the continental United States of America;

Provided that the said risks insured, shall not under this Policy include any risk which at the date when the Contract is made can be and normally is insured with commercial insurers.

REPRESENTATIONS AND DISCLOSURES BY EXPORTER

Application

1. The Application shall be incorporated with this Policy as the basis thereof and if any of the statements contained in the Application be untrue or incorrect in any respect this Policy shall be void, but EDC may retain any premium or deposit that has been paid.

Disclosure of facts

2. Without affecting the operation of any rule of law it is declared that this Policy is given on condition that the Exporter has at the date of issue of this Policy disclosed and will at all times during the operation of this Policy promptly disclose all facts in any way affecting the risks insured.

DUTIES OF EXPORTER

Exporter's obligations

3. The Exporter shall:

(i) furnish to EDC on or before the 10th day of each calendar month such information as may be required by EDC;

(ii) use all reasonable and usual care, skill and forethought, and take all practicable measures, including any measures which may be required by EDC, to prevent or minimize loss;

(iii) notify EDC in writing of the occurrence of any event likely to cause a loss within 10 days of his becoming aware of any such occurrence.

CONTRACT PRICE AND GROSS INVOICE VALUE

Contract price and gross invoice value

4. In this Policy:

(i) the Contract price, and

(ii) the gross invoice value of a shipment

shall include any insurance, freight or other charges paid or to be paid by the Exporter on the Buyer's behalf but exclude any irrevocable payments received from the Buyer at the date of the Contract in accordance with the terms of the Contract.

LOSSES

Percentage of loss payable

5. Subject to the terms and conditions hereof, EDC agrees to pay to the Exporter % of the loss, as hereinafter defined, sustained by him in respect of the Contract, excluding any loss in respect of shipments made pursuant to the Contract prior to the date of the Application, by reason of any of the risks insured immediately after the time hereinafter specified for ascertainment of the loss.

Amount of loss

6. In this Policy the amount of the loss sustained by the Exporter in respect of the Contract shall:

(i) as regards goods delivered to and accepted by the Buyer, be the gross invoice value of those goods less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has received in respect of them and less any sums or credits in the possession of the Exporter which the Buyer would have been entitled to have taken into account by way of set-off or counter-claim or which the Exporter is entitled to appropriate in whole or part payment of the price of the goods;

(ii) as regards goods not delivered, be the Contract price for those goods less any expenses saved by non-fulfilment of the Contract, and less the amount which prior to the time hereinafter specified for ascertainment of the amount of the loss the Exporter has recovered from any source, including payment of any part of the Contract price, realization of any security, and resale of any goods or materials.

Time of loss

7. The amount of any loss in respect of the Contract shall be ascertained:

(i) where the loss is due to the Buyer's insolvency as hereinafter defined, immediately after the occurrence of such insolvency;

(ii) where the loss is due to the Buyer's failure to pay within six months of the due date of payment the gross invoice value of goods of which delivery has been duly accepted by the Buyer, immediately after the expiry of the said period of six months;

(iii) where the loss is due to the operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter or of the Buyer prevents, restricts or controls, where payment of the Contract price is to be made:

(a) in Canadian dollars, the transfer thereof to the Exporter in Canada, or

(b) in any other currency, the transfer thereof to the Exporter in Canada and its conversion into Canadian dollars,

four months after the due date of payment;

(iv) in all other cases, four months after the occurrence of the event which is the cause of the loss.

PAYMENTS IN CANADIAN CURRENCY

Rates of exchange

8. Payment of premiums and losses hereunder shall be made in Canadian dollars and for the purpose of such payment the Contract price for the sale of goods and the gross invoice value of shipments invoiced in a foreign currency shall be converted to Canadian dollars at the bank buying rate of exchange at noon on the date of the relative Contract of sale.

LIMITATIONS ON EDC'S LIABILITY FOR LOSSES

Limitation of liability

9. EDC shall not be liable for loss:

(i) if any alteration is made in the Contract without the prior approval in writing of EDC;

(ii) if all or any part of the Contract price receivable by the Exporter has been assigned without full recourse against the Exporter unless the prior approval in writing of EDC has been obtained;

(iii) if the Exporter has accepted a composition arrangement, in respect of the whole or any part of the Contract price, with the Buyer without the prior approval in writing of EDC;

(iv) if the Exporter acquires any interest, direct or indirect, in the profits of the Buyer's business, or the Buyer acquires any such interest in the Exporter's business during the life of this Policy;

(v) which occurs due to the fault of the Exporter, or any agent of the Exporter or of any collecting bank, or due to the insolvency of such agent or bank; or

(vi) unless a claim for the loss is made in writing to EDC by the Exporter on or before 19

Maximum liability

10. The total liability of EDC under this Policy shall be limited to $ or such other total sum as may be agreed in writing between the Exporter and EDC.

RECOVERIES

Action after payment of claim

11. Upon payment by EDC the Exporter shall take all steps to effect recoveries from the Buyer which may be necessary or expedient or which EDC may at any time require, including if so required the institution of legal proceedings against the Buyer by and in the name of the Exporter, and EDC shall have the right at any time to require the Exporter to transfer to EDC his rights under the Contract in respect of which payment has been made as aforesaid for the purpose of effecting recoveries in such manner as EDC may consider necessary or desirable.

Recoveries

12. In respect of a loss paid by EDC, any sums recovered by the Exporter or EDC from the Buyer or any other source shall be divided between the Exporter and EDC in the proportions in which they bore the loss. The Exporter shall pay all sums so recovered to EDC forthwith upon their being received by him or on his behalf, and until such payment is made to EDC he shall receive and hold such sums in trust for EDC.

Where the Contract price for the sale of goods or the gross invoice value of shipments is expressed in a foreign currency, amounts recovered in that currency shall not be converted to Canadian dollars but shall be divided between the Exporter and EDC as herein provided. This division shall be made notwithstanding that the aggregate amount of such currency paid to EDC in respect of the loss would, if converted to Canadian dollars at the bank buying rate of exchange at noon on the date when the payment is made to EDC, exceed the amount of the payment made by EDC to the Exporter in respect of the loss, and notwithstanding any rule or principle of law to the effect that an insurer who has indemnified an insured for loss may recover from any third party responsible for the loss only what the insurer has paid as indemnity.

GENERAL

Insolvency

13. The Buyer shall be deemed to be insolvent for the purpose of this Policy when:

(i) he is declared bankrupt; or

(ii) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(iii) a Receiver has been appointed to manage his estate; or

if an incorporated body:

(iv) an order has been made for compulsory winding-up; or

(v) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction or amalgamation; or

(vi) an arrangement binding on all creditors has been sanctioned by the court; or

whether incorporated or unincorporated:

(vii) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Assignment

14. This Policy, or any amount payable hereunder, is assignable only with the approval in writing of EDC.

Fraudulent claims

15. If the Exporter makes any claim hereunder knowing the same to be false or fraudulent the liability of EDC hereunder shall thereupon cease and the Exporter shall have no claim hereunder, and shall repay to EDC on demand all sums paid by EDC and EDC shall be entitled to retain all payments made to it by way of premium or deposit.

Observance of Conditions

16. The due performance and observance of each term and condition contained herein or in the Application shall be a condition precedent to any liability of EDC hereunder and to the enforcement thereof by the Exporter.

Failure to comply with Conditions

17. No failure by the Exporter to comply with the terms and conditions of this Policy shall be deemed to have been excused or accepted by EDC unless the same is specifically so excused or accepted by EDC in writing.

EXPORT DEVELOPMENT CORPORATION

EXHIBIT 4

EXPORT DEVELOPMENT CORPORATION

INFORMATION REQUIRED IN AN APPLICATION FOR SECTION 29 OR 31 FINANCING

TO BE SUBMITTED IN TRIPLICATE TO:

EXPORT FINANCE DIVISION, EXPORT DEVELOPMENT CORPORATION,

P.O. BOX 655, OTTAWA 4.

Commitments of long term export financing under Sections 29 or 31 of the Export Development Act are given only on the basis of an application submitted by the Canadian prime exporter requiring long term financing to obtain a major order of capital equipment, and/or engineering services for a sound transaction or project abroad. No commitment of any kind can be given by the Export Development Corporation until full particulars of the transaction or project have been submitted. The Canadian exporter applies for the credit on behalf of the foreign borrower; therefore the application must include complete and detailed information which may be obtained only from the borrower.

This form is to be regarded as a guide to the information required and not as a questionnaire to be completed with brief answers. Any additional relevant information not specifically called for under the listed headings should definitely be included in the application.

It is essential that satisfactory feasibility studies, tender specifications and/or other reports be presented with the application to establish the technical and economic soundness of the transaction requiring financing.

Detailed answers to the questions asked hereunder do not preclude EDC from requesting further information relating to the transaction at a later date.

SPECIMEN

GENERAL SUMMARY

1. Name of Exporter:
   (a) Head Office address
   (b) Plant address
2. Name and address of prospective foreign buyer.
3. Outline of the project indicating the total cost, total foreign exchange cost and the amount of EDC financing requested. List the major equipment, materials and services to be supplied from Canada showing their dollar value.

INFORMATION CONCERNING EXPORTER

4. Describe exporter's corporate history and operations, including subsidiaries, affiliates, major shareholders and parent company (if any.)
5. If the exporter is a subsidiary, *does it have complete freedom to initiate export business?* If not *what manufacturing and/or selling limitations are placed on its operations by the parent company?*
6. Attach audited financial and ancillary statements of exporter for the past five years. For each of the past five years list exporter's total domestic and export sales, domestic and export sales of equipment of the type requiring present financing.
7. On the basis of existing plant capacity state in dollar value: a) maximum output, b) optimum output, c) normal output, d) present output, e) level of output if proposed project undertaken.

8. Show the number of employees of exporter as of the latest available date and as of at least one year ago. Give exporter's average annual employment over the past five years.

9. Describe the employment situation in the area where production facilities are located, giving the latest number and percentage of unemployed, and for the last three years.

10. INFORMATION CONCERNING BORROWER

(IF IN PRIVATE SECTOR)

(a) Describe borrower's corporate history and operations, including subsidiaries, affiliates, major shareholders and parent company (if any).

(b) Attach audited financial and ancillary statements of borrower for the past five years, including details of payment terms and interest rates of borrower's present outstanding debts.

(c) Attach borrower's forecast:

(i) balance sheet

(ii) income statement

(iii) statement of source and application of funds including working capital

(iv) capital expenditure schedule

(N.B.: forecast should cover the period of construction and extend for a further period of at least five years)

(d) Provide details of additional equity and debt financing contemplated by the borrower during the above forecast period.

(e) If borrower is undertaking a new venture, or entering a new field of activity, supply in complete detail provisions which will be made for supply of experienced management during the first five years of borrowers proposed operations.

11. INFORMATION CONCERNING BORROWER

(IF IN PUBLIC SECTOR)

(a) Provide the exact name of government department, agency or entity that will be acting as borrower.

(b) If borrower is a government owned or controlled agency or entity, supply a copy of the statute or decree etc. establishing the organization.

(c) Does the central government guarantee the payment of all the borrower's capital debts?

If not provide the information requested in Section 10(a) to (d) inclusive.

12. INFORMATION CONCERNING PROJECT

Describe the project fully, giving detailed information on the following:

(a) nature of project

(b) location

(c) economic and technical soundness

(d) viability

(e) national and regional importance in the importing country

(f) further engineering before construction commences

(g) whether sale will be on a f.a.s. or c.i.f. basis — if f.a.s., will insurance claims be paid in Canadian or U.S. dollars?

(A) TIMING

State the anticipated periods and/or dates for the following with reference to the project:

(a) completion and/or start up

(b) construction period

(c) delivery period of the equipment/material at site

(d) placing of orders

(e) signing of a commercial agreement.

(B) COSTS

Provide details of project costs as follows:

(a) total cost of project

(b) local costs and how financed

(c) foreign exchange costs (Canadian)

(d) foreign exchange costs (Non-Canadian) and how financed

(e) foreign agents commission, other commissions, fees and royalties (if any) and how financed

(f) exporter's anticipated net profit after income taxes.

(C) CANADIAN CONTENT

State the overall percentage of Canadian content of the project calculated according to EDC criteria.

Indicate the equipment, material and/or services to be supplied by the exporter and by his main suppliers, giving names of suppliers, and dollar values. For equipment or materials purchased in Canada it should be recognized that most items have non-Canadian content which should be considered when computing the overall Canadian content of the project.

(D) TERMS OF FINANCING REQUESTED

(a) state financing terms required for project

(b) supply detailed and verified information justifying the financing terms requested (i.e. what is foreign competition offering?)

(c) state name of agency or department of government which will provide guarantee of principal and interest

(d) state name of central bank, etc., which will provide guarantee of foreign exchange availability.

13. BENEFITS OF THE PROJECT TO THE ECONOMY OF THE IMPORTING COUNTRY

(a) As a result of this project coming into production what economic benefits will the importing country derive, including employment, use of domestic raw materials, additional revenue to the government and foreign exchange savings?

(b) If the importing country has a National Development Plan, attach a copy of the Plan and give the priority of this project under the Plan.

14. BENEFITS OF THE TRANSACTION TO THE CANADIAN ECONOMY

(a) Describe any special industrial advantages to be derived from this transaction in terms of utilization of labour force and plant capacity, of assistance or encouragement in developing new designs or lines of production, and of increasing Canadian manufacture of equipment or component parts.

(b) Specify the export trade promotion benefits that may be expected to result from this transaction with regard to:

(i) direct market development prospects in the country of purchase and in the general area; and

(ii) continuing market for replacement parts of Canadian origin.

(c) What will be the direct and indirect labour effects in Canada:

(i) for the applicant company

(ii) for each of the main associated firms and sub-contractors; and

(iii) for the total transaction

15. CERTIFICATION

Please certify as follows:

We certify that the representations made and facts stated by us are true, and that we have have not misrepresented or omitted any material fact which might have a bearing on this application, and further certify that no fees, commissions, grants, gifts or payments of any kind other than those listed in this application have been paid or will be paid to anyone in Canada or abroad in connection with this transaction or application for financing.

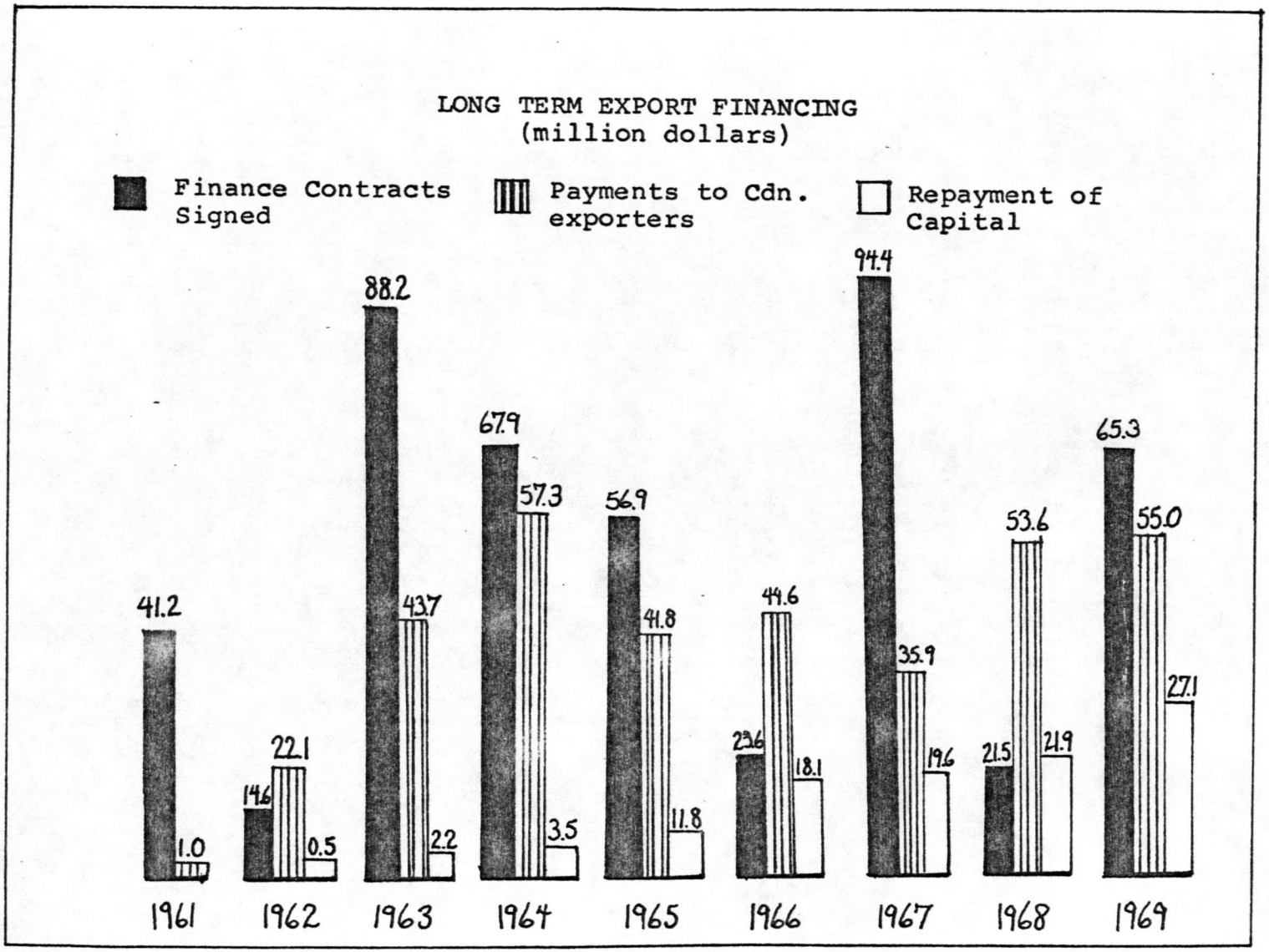
Name of Company.....

Signature.....
(TITLE)

Address.....

.....

Date.....19.....



Adapted from EDC Annual Report, 1969

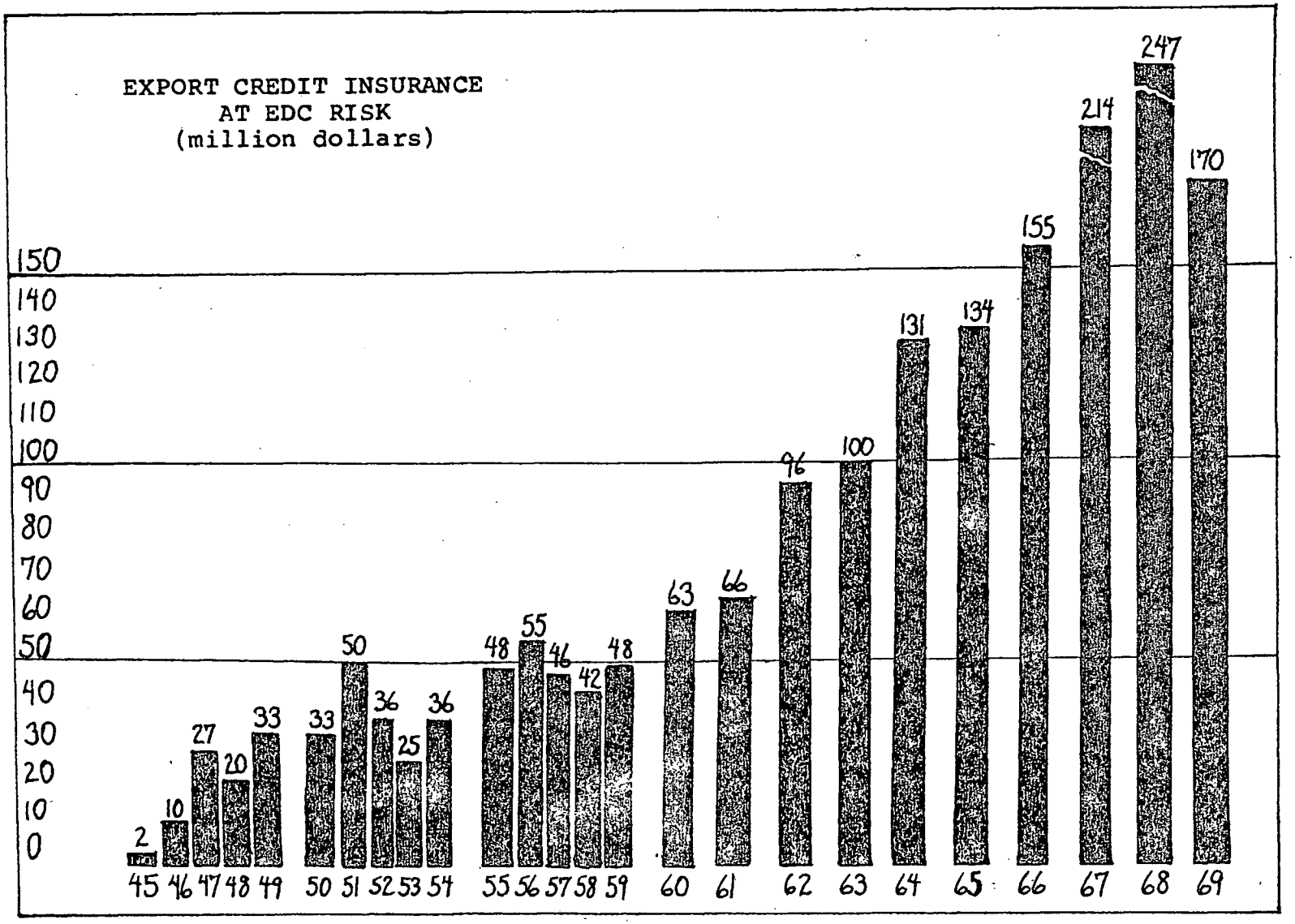


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EXHIBIT 6

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