



## AIAC Issue Position

---

### Sales Financing for Aircraft and Other Aerospace Goods & Services

#### ISSUE:

Sales financing capacity is an important competitive discriminator in global aerospace markets, particularly for the sale of aircraft, which are unique, 'big ticket', low volume products, with extremely long service lives (20+ years). National governments, through their export credit agencies, play a vital role in working with commercial lenders to create this capacity. The aircraft sales financing activities of Export Development Canada (EDC) have helped build a world class Canadian aerospace industry, while earning sustained profits for the corporation that have supported the export performance of other industrial sectors. The role of export credit agencies like EDC is especially important in periods of market turmoil like that experienced since September 2001. While foreign nations' export credit agencies have continued to provide financing to their aerospace/aircraft industry at historic highs, EDC risk management policies on individual airline exposures have limited new EDC Corporate Account aircraft financing support in the last three years, putting increased pressure on other government financing vehicles, such as the Canada Account and the Regional Aircraft Credit Facility, both of which are more reactive, complex and time consuming channels, with greater uncertainty and delay in the assessment and decision-making process.

#### OBJECTIVE: A STAND-ALONE AIRCRAFT SALES FINANCING FRAMEWORK FOR COMPETITIVE SALES FINANCING

The Federal Government should move quickly to establish a new Aircraft Sales Financing Framework that fully exploits EDC's financing capacity as an instrument of public policy in addressing 'capacity gaps' in the commercial banking sector. EDC sales financing of aircraft and other aerospace goods and services should be competitive with that provided by export credit financing agencies of competitor nations (e.g. United States, European Union, Brazil) and provide Canadian aerospace companies with a level international 'playing field' while not distorting international trade.

#### RECOMMENDED IMPLEMENTATION ACTIONS FOR THE FEDERAL GOVERNMENT:

1. Mandate the merger of current aerospace financing instruments into one structure (EDC is the most appropriate entity to take leadership of this unified program), with multiple facets that provide for:
  - a long-term, permanent export financing program that allows for different types of financing structures and vehicles, including interim financing.
  - 'market-based' financing terms.
  - OECD-type consensus financing, as appropriate.
2. Ensure financing capacity is adequate to meet market demand, and explain internal Government capacity constraints.
3. Provide a clear policy framework and supporting criteria for assessing financing requests, consistent with manufacturers' sales strategies, and that align at an early stage with future order commitments.
4. Within this framework, delegate the management of individual transactions to the new structure/entity.

*April 2006*