WORKING WITH EDC & TARIFF RISK MITIGATION

Excellence in Manufacturing Consortium
May 14, 2025

EDC

EXPORT DEVELOPMENT CANADA

IS CANADA'S EXPORT CREDIT AGENCY.

For over **80 years** we've helped Canadian companies of all sizes, industries and sectors succeed in international markets.

WHICH COMPANY IS AN EXPORTER?

A regional **machining** company building specialized components for a Canadian mining equipment manufacturer

An **art** installation firm that has just won its first contract to support a gallery in Germany

An **engineering** firm consulting on projects in South America

A growing **software** maintenance company with customers outside of Canada

A **farming company** whose lentils end up on international grocery shelves

A **transportation/logistics** company that carries Canadian goods overseas

A **distributor of consumer goods** looking to open a warehouse in the US

A **tech** company with a proven commercialized concept, engaged for the first time by a non-Canadian business

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TARIFF RISK MITIGATION CHECKLIST FOR CANADIAN BUSINESSES

- Conduct a thorough review of your supply chain and mitigate contract risk
- Maximize available credit and working capital
- Review your credit practices and receivables insurance policies
- Adopt foreign exchange rate hedging strategies
- Consider expanding into new markets

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CONDUCT A THOROUGH REVIEW OF YOUR SUPPLY CHAIN AND MITIGATE CONTRACT RISK

- Identify potential risks beyond immediate suppliers, covering all links in the chain.
- Consider diversifying your suppliers and source countries to mitigate exposure.
- Understand the cost of your inputs in Canadian dollars, particularly for components priced in foreign currencies
- Review your contracts for clauses that could expose you to price volatility, such as fixed price contracts.
- Amend current contracts and ensure future contracts specify who’s responsible for paying current and future tariffs.
- Tip: Set up an automated clearing house (ACH) account with the U.S. Customs and Border Protection ahead of time to streamline possible tariff payments.

MAXIMIZE AVAILABLE CREDIT AND WORKING CAPITAL

- Offer a supplier bond (Stand-By Letter of Credit) in exchange for extended payment terms with suppliers. Offer an advanced payment bond in exchange for pre-payment from customers.
- Approach your bank for an increased Line of Credit to provide working capital to bridge short term liquidity deficits.
- If you have Cash Secured or Line of Credit carve outs collateralizing obligations (first and last month’s rent, letters of credit, etc.) consider ways to remove these restrictions on your working capital availability.

EDC CAN SUPPORT WITH:

- Guarantee to your financial institution to support an increase in your line of credit or term loan
- Guarantee–up to 100% (foreign assets)
- Maximum US$25MM (per borrower)
- Simple solution with multiple applications and uses of funds
- Financial Institution & EDC share the risk “pari-passu” (based on risk share %)

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EDC CAN SUPPORT WITH:

- Irrevocable & unconditional Financial Institution guarantee to bank in support of a standby letter of credit facility.
- Risk transfer–100% (EDC ‘AAA’ rated)
- Collateral replacement instrument
- Wide variety of standby instruments– Letters of Credit, Bonds, Letters of Guarantee
- Doesn’t support payment-related Letters of Credit

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REVIEW YOUR CREDIT PRACTICES AND RECEIVABLES INSURANCE POLICIES

- Assess your credit issuing practices. Are you performing satisfactory checks before granting payment terms to customers?
- Are any of your customers and their receivables potentially at risk of non-payment due to tariffs?
- Consider purchasing accounts receivable insurance to cover the risk of non-payment.
- Consider purchasing specialized policies that offer contract repudiation indemnity.
- Ask your bank if insured receivables will improve your margining and offer access to more credit.

EDC CAN SUPPORT WITH:

- Insurance covering non-payment of receivables or costs incurred when a contract is cancelled.
- Discretionary limits available
- Coverage up to 90%, including for repudiation
- Coverage period–typically 12 months for receivables policies or 24 months for costs and receivables
- Benefits may be assigned to a bank

ADOPT FOREIGN EXCHANGE HEDGING STRATEGIES

- Plan for possible exchange rate volatility and take steps to protect your business.
- Use forward contracts or currency options to lock in future exchange rates.
- Stay competitive by knowing how much you'll pay in Canadian dollars for purchases (or receive for sales) when quoting new business in foreign currencies.

EDC CAN SUPPORT WITH:

- Irrevocable & unconditional Financial Institution guarantee to bank or FX broker to backstop margining requirements or contingency.
- Risk transfer–100% (EDC ‘AAA’ rated)
- Collateral replacement instrument
- Streamlined claims process
- Coverage–all contracts entered into during validity period
- Doesn’t guarantee foreign exchange risk
- Not to be used for speculative purposes

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CONSIDER TRADE DIVERSIFICATION

- Once you've resolved your any immediate challenges in your market, consider expanding into new markets to de-risk your global market exposure.
- Apply to the CanExport program to share the costs of certain international business development activities, thereby reducing risk associated with entering new markets.
- Open a sales office, distribution center or location in a foreign market.
- Consider acquiring a foreign competitor or vertically integrated business to kick start your market entry strategy.

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TAKE ON THE WORLD

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