



## Consultation between stakeholders and members of the OECD Working Party on Export Credits and Credit Guarantees and the Participants to the Arrangement on Officially Supported Export Credits

### BIAC POSITION PAPER

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#### Why business regards officially supported export credits as necessary

1. Supported export credits perform useful role in financing investments in capital goods particularly in developing countries and transition countries. OECD businesses export to customers in industrialized countries a considerable volume of capital goods.
2. In the past decade, the conditions for exports to a number of developing and emerging countries have improved significantly. Economic and political reforms in Asia, Latin America and Eastern Europe have opened new markets and improved export chances for business located in OECD countries. For example, the OECD has significantly raised its share of exports to China; whereas OECD exports represented only 1.3% of imports to China in 1990, figures from 2003 show that this share has risen to 5.5%.<sup>1</sup> OECD exports to Bulgaria have nearly doubled since 1997, climbing in value from US\$262.7 million to reach US\$529 million in 2004.<sup>2</sup> This trend is reflected by a doubling in value of trade with Brazil over the same time period, with OECD exports to that country climbing in value from US\$2,744.5 million in 1998 to US\$5,120.2 million six years later.<sup>3</sup> Improved export opportunities in emerging and developing countries have allowed OECD-based companies to diversify their export strategies.
3. Business activity in new markets bears always significant risks. In many emerging markets significant political and economic instability as well as legal uncertainty are inherent features of the market. In particular for business with these markets reliable tools that mitigate prevalent risks are indispensable. Commercial insurers cannot cover – or will not cover at a sustainable rate of premium – political, financial and credit risks in these markets for projects that are high in value, involve a long manufacturing period and/or require a long credit period in order to make them affordable from limited budgets. In order to preserve international trade in capital goods without constantly having to resort to concessional funding, it is important that the ECAs of OECD countries cover these risks and support the financing of viable projects.
4. Officially supported export credits provide risk coverage mainly by

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<sup>1</sup> OECD (2004), *International Trade by Commodity Statistics*, OECD

<sup>2</sup> OECD Statistics Directorate (2004), *Total Trade in value by partner countries (1960 - 2004)*, OECD

<sup>3</sup> *ibid.*

- insuring credit and contract risks caused by certain political (e.g. shortage of foreign currency in the recipient country, war, unrest) or economic incidents (default of payment, customer insolvency); and
  - by supporting medium and long term financing thereby making infrastructure projects more affordable, and in some cases enabling fixed interest rate to be offered, which makes the cost of financing those projects more certain.
5. Without officially supported export credits, exports to less developed regions would often be much more difficult to justify, and therefore not take place. Studies illustrate this clearly. With regard to Germany for instance studies indicate that 2/3 of the German companies that are exporting into developing and emerging countries would not have started to ship their goods into the countries without the possibility of drawing on officially supported export credits. The more companies can explore new markets with officially supported export credits the more positive is also the impact on international trade, and on job security and employment in OECD countries. In Germany, a six-digit number of jobs depend on export credits supported business.
  6. From the buyer's perspective, the availability of ECA support provides a degree of certainty of funding that would not always be available through commercial banks or the private insurance market due to the volatility of their risk appetite. This is particularly important where buyers are making purchase commitments a number of years ahead of delivery, and they would not have the confidence to place an order without a high degree of certainty.
  7. Contrary to false allegations often voiced by NGOs, export credits are by no means a domain of large multinational companies. Although the major share of export credits is demanded by larger companies, small and medium sized firms clearly also reap the benefits as a number of SME is usually involved as subcontractors and suppliers in the supply chain for large export credit financed projects. Many SMEs are reliant on this work, and would probably not be able to continue in business without it. The support that export credit agencies provide to main contractors filters down very effectively to the SMEs, and this is probably the most cost-effective way in which export credit agencies can help SMEs to exploit export opportunities. A major user of officially supported export credits in the UK for example estimates that there may be 1,500 companies in the supply chain each time they secure a major overseas order, with 75% of these employing between 10 and 250 people. For many SMEs public ECA-cover has become increasingly important in their international activities in recent years. This is the case because their customers in emerging and developing markets are expecting an ever greater payment flexibility which the SMEs can only grant if they have ECA cover. In addition, commercial banks in the home countries have reduced their activities in this area, especially for smaller orders/sales, and are often not interested in these transactions which again increases the need for public ECA-credit/cover.
  8. Officially supported export credits are also important for the recipient countries of the exports. They play a useful role in complementing the flows of direct investments and official aid to smaller countries, sometimes co-financing MDBs' projects or supplementing soft loans in mixed credits. Many infrastructure and development projects would be impossible without the support from export credits. If official support were not available, it is possible that ways would be found to finance some of these projects, but their financial viability might be compromised and the OECD's standards on environment and anti-corruption would become more difficult to enforce. As a result, many projects in developing countries would be less sustainable and less beneficial for the local society than with officially supported export credits.
  9. Finally, export credits are not a subsidy. Commercial Interest Reference Rates are, as the name implies, set at market rates, which the ECAs can hedge in order to achieve

certainty of avoiding subsidy. Moreover, a growing proportion of ECA supported finance now takes the form of “pure cover” which does not involve any form of interest rate support. And the provision by ECAs of insurance against political and commercial risks can only be provided at premium rates based on commercial pricing, therefore not involving any subsidy.

### **Conclusions for the further development of export credit rules**

10. Officially supported export credits are an important instrument that helps OECD based companies to win export business and to invest overseas. With regard to ongoing and future developments in the Arrangement on Officially Supported Export Credits and in other export credit accords, the business community asks OECD countries to fully respect the following basic principles in order to ensure the practicability and efficiency of the officially supported export credits:
  - The goal of officially supported export credits is to support exports and investment abroad. Rules and procedures for the granting of officially export credits all have to meet criteria of practicability and must not affect the efficiency of officially supported export credits as a tool for export promotion.
  - OECD business actively supports the observance of environmental standards, the respect for human rights, the fight against corruption and sustainable development. However, each policy goal needs to be pursued by the appropriate instrument. The purpose of export credits is export and foreign investment promotion. Officially supported export credits can therefore only to a very limited extent be used in order to support additional policy goals. Social, environmental and development policy goals have to be pursued with the instruments designed for these purposes. If officially export credits would be linked to such policy goals beyond the already existing linkages the instrument would lose value for business.
  - With its activities in developing and emerging countries OECD business actively promotes improved local living conditions. This includes the establishment of infrastructure projects, the creation of jobs and the provision of energy. The definition of the projects is the responsibility of the contractors and customers in the target countries though. Their sovereign decisions need to be respected and their autonomy must not be restricted against their own will.
11. The practicability and efficiency of officially supported export credits need to be preserved and OECD countries' export credit agencies need to remain competitive.