

The Export Credits Arrangement 1978 - 2008



Achievements and Challenges -
Continued!



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

FOREWORD

Angel Gurría
Secretary-General of the OECD

It is my pleasure to contribute to this commemorative publication for thirty years of the Arrangement on Officially Supported Export Credits. The Export Credit Arrangement plays an important role in the multilateral trading system, to reflect market developments and to provide a level playing field so that both OECD and non-OECD exporters compete on the price and quality of their goods and services, not on the support they receive from their governments. It also shows the strength of the OECD approach of consensus building, based on transparency and peer pressure.

The success of the agreement is shown by the level of adherence to its rules by the participating countries and its adaptability to reflect the globalisation of trade. I applaud the achievements of its Participants over these three decades, which latterly include the historic agreement on export credits for civil aircraft, signed in Rio de Janeiro last July and hosted by Brazil which is a party to the agreement. I was the proud witness of such an important event.

I am also pleased with the efforts carried out by the Participants to the Arrangement to widen participation in the export credit rules to new players through the OECD strategy of accession and enhanced engagement, as set out by the decisions taken at the 2007 OECD Council at Ministerial Level Ministerial last May: I encourage them to continue in this important endeavor.

I look forward to the continuing commitment and dynamism of the Participants to the Arrangement. I also look forward to the continuing success of these export credit rules which have established themselves in the OECD these past 30 years.



30 YEARS OF INNOVATION

Janet West

The evolution over three decades of the Arrangement on Officially Supported Export Credits, from a relatively simple to a more sophisticated market-reflective instrument, is worth commemorating, especially in the light of its continuing relevance and dynamism – due, of course, to its Participants and their energy and commitment to adapt the rules to an evolving international environment of new, powerful players, private market innovation and globalisation.

The genesis of the Arrangement was the desire on the part of some OECD governments in the early 1970s to have a ‘gentlemen’s agreement’ to bring order to official export financing, with the focus on interest rate subsidies. In 1976 the G7 summit at Rambouillet provided the backdrop for a ‘Consensus’ on official export credits among a limited number of OECD countries. Two years later, in April 1978, the Arrangement was established at the OECD in Paris with twenty participating countries. Today, we have 28 OECD member countries involved in the Arrangement plus Brazil which is a Participant to the new Aircraft Sector Understanding for Civil Aircraft.

Since its beginning in 1978, there have been a number of notable successes in the life of the Arrangement, in particular, the phasing-out of interest-rate subsidies, the implementation of tied aid disciplines, the establishment of risk-based premium fees, the more reader-friendly streamlined Arrangement text, the Project Finance Understanding, the Renewable Energies/ Water Sector Understanding, the new Aircraft Sector Understanding and most recently provisions to increase local costs support. These successes derive from the Participants’ aims to eliminate trade distortion and level the playing field, driven by economic, competitive and developmental motivations and the need to reach practical and pragmatic consensus - and consensus inevitably means compromise to some degree or other so that the benefits and the burdens are shared as equally as possible among all parties.

The Participants don’t have the export credit field to themselves: the private market, over the lifetime of the Arrangement, has developed enormously. Today the market not just complements the facilities available from official export credit agencies (ECAs) but also competes with them and this calls for the ECAs to be innovative and open to bilateral and multilateral opportunities if they want to continue be in the official support business.

As to the future, there are challenges ahead which will require the Participants’ commitment and flair to find the right solutions that will fit their national and international policy objectives and to translate these into rules that will facilitate predictability and transparency. Among these challenges are a wider OECD membership, as mentioned by the OECD Secretary-General Angel Gurría in his Foreword to this publication, competition from powerful emerging economies, the impact of globalisation, climate change and market developments (and crises!): I am sure the Participants to the Arrangement will take these and other challenges in their stride.

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Janet West, since 1993, is Head Export Credits in the OECD Trade and Agriculture Directorate.

THE ARRANGEMENT : THE MAIN CONCEPTS

The first “Consensus” was concluded 30 years ago; since then, this instrument of “soft law” has evolved in two directions: its scope has been broadened and its disciplines have been strengthened. Some of the major milestones agreed during the 30 years of the Arrangement are set out below.

The Purpose of the Arrangement

The main purpose of the Arrangement is to provide a framework for the orderly use of officially supported export credits. The Arrangement seeks to encourage competition among exporters based on the price and quality of the goods and services being exported rather than on the most favourable officially supported terms.

The Application of the Arrangement

The Arrangement applies to officially supported export credits with repayment terms of two years and more; it also includes rules on the circumstances in which official support in the form of trade-related tied and partially untied aid may be given. Military equipment and agricultural commodities are excluded from the scope of the Arrangement, whilst specific disciplines apply to ships, nuclear power plants, civil aircraft and renewable energy and water projects.

The Main Disciplines of the Arrangement

The Arrangement places limitations on the terms and conditions of export credits that benefit from official support. Such limitations include maximum repayment terms, the minimum cash payments to be made at or before the starting point of credit, minimum premium rates, minimum interest rates when a transaction benefits from official financing support, flexibilities for project finance-type transactions and minimum concessionality levels and country eligibility for tied aid.

The Participants to the Arrangement

There are nine Participants to the Arrangement: Australia, Canada, the European Community (which includes all 27 Member States), Japan, Korea, Norway, New Zealand, Switzerland and the United States.

Export Credit

An export credit, for the purpose of the Arrangement, is an insurance, guarantee or financing arrangement which allows a foreign buyer/borrower of exported goods and/or services to defer payment over a period of time.

Official Support

Although there is no definition of official support in the Arrangement, it is understood that it involves government-backed support for an export credit. Official support can take the form of direct credits/financing, refinancing, interest-rate support (where the government supports a fixed interest rate for the life of the credit), aid financing (credits and grants), export-credit insurance and guarantees. Direct credits/financing (where the loan is extended by the government of the exporter), refinancing and interest-rate support are referred to as 'official financing support'. The provision of insurance and guarantees with no official financing support is termed 'pure cover'.

Export Credit Agencies (ECAs)

The institutions which undertake official export credit activities for or on behalf of governments are Export Credit Agencies. There are many different types of ECAs: they can, for instance, be government departments or agencies, or commercial institutions administering an account for or on behalf of government, separate from the commercial business of the institution.

ECA Programmes

ECAs provide a range of different products and services¹, including guaranteeing repayment of a loan by a financial institution to an overseas buyer (for example a Buyer Credit facility), insuring against non payment of a credit extended by an exporter to an overseas buyer (for example a Supplier Credit facility), and providing direct loans or credits to overseas buyers.

Commercial Interest Reference Rates (CIRR)

The Participants, who provide official financing support, apply minimum interest rates, *i.e.* not below the relevant Commercial Interest Reference Rate. CIRRs are established for the respective currency of most OECD countries; they are adjusted on a monthly basis and are intended to reflect market rates of interest in the domestic market of the currency concerned, closely corresponding to the rate for first-class domestic borrowers. In most cases, they are based on Treasury bond yields, plus a margin. The prevailing CIRRs are available on the OECD Internet page².

Tied, Partially Tied and Untied Aid

Tied aid (including partially untied aid) is aid which is in effect tied to the procurement of goods and/or services from the donor country and to a limited number of other countries. Untied aid is aid whose proceeds are fully and freely available for procurement of goods and/or services in all OECD countries and in substantially all other countries. The Arrangement does not set rules for untied aid.

1 c.f. OECD Publication: Export Credit Financing Systems in OECD Member and Non-Member Economies.
2 <http://www.oecd.org/tad/xcred/>

THE ARRANGEMENT 1978-2008: THE MILESTONES

The Arrangement on Officially Supported Export Credits (the Arrangement) came into effect in April 1978.

1978: The “Consensus”

The original Participants to the first Consensus were Australia, Canada, European Economic Community³, Finland, Greece, Japan, Norway, Portugal, Spain, Sweden, Switzerland and the United States.

1981: Matrix of Minimum Interest Rates Increased

The minimum interest rates for providing official financing support were increased sharply.

1983: Agreement to Uniform Moving Matrix

The minimum matrix interest rates were raised and CIRRs for low interest rate currencies were introduced.

1984: Sector Understanding on Export Credits for Nuclear Power Plant

This Understanding was introduced to reflect the development of the nuclear power industry and the export, with official support, of nuclear power plants.

1985: Tied Aid Minimum Grant Element Raised and Procedures Strengthened

The minimum grant element for tied aid was raised from 20% to 25% and the notification procedures for such aid were strengthened.

1986: CIRRs Standardised and a Sector Understanding on Export Credits for Civil Aircraft

A standard formula for setting CIRRs was agreed and a Sector Understanding on Export Credits for Civil Aircraft was incorporated in the Arrangement.

1987: The Wallén Package (named after the Chairman, Axel Wallén - Sweden)

A Package of reforms on tied aid was agreed, including the increase of the minimum concessionality level to 35%.

1991: Helsinki Package (named after the capital in which the Export Credit Bureau chaired by Eero Timonen, Finland, put together the elements of the agreement)

This Package of measures, agreed in December 1991 and which came into effect in February 1992, prohibited tied and partially untied aid for richer developing countries as well as for projects which should be financed commercially and notification procedures strengthened. The Differentiated Discount Rate was refined and the Participants' Consultations Group on Tied Aid was formed to determine the commercial viability of projects. The intention of the tied aid disciplines was to redirect such aid away from richer developing countries (those whose per capita GNP makes them ineligible for 17-year loans from the World Bank), which are generally creditworthy and thus able to attract commercial credits, towards poorer developing countries. Furthermore, tied aid to the latter group (except for grants and very concessional loans) was henceforth limited to so-called commercially non-viable projects, *i.e.* for which commercial funding would not normally be available.

1994: The Schaerer Package (named after the Chairman, Kurt Schaerer - Switzerland)

This agreement, concluded in September 1994, generalised the application of the CIRR system for all countries as from September 1995. It also streamlined the classification of countries for maximum repayment terms and reduced the related number of country Categories from three to two; it also refined further the Differentiated Discount Rate. The Package included a mandate for a work programme, which would lead to the adoption of the minimum premium benchmarks in 1997, and gave the go-ahead to redraft the Arrangement – which would be the first redraft since 1991. The Participants' Working Group on Premia and Related Conditions was established.

1995: The Redrafting of the Arrangement Group (RAG)

The RAG began its work in 1995 and was concluded towards the end of 1997.

1995: The Working Group on Export Credits for Agricultural Products

The Group began technical discussions in 1995 on export credits for agricultural products; these negotiations (a left-over from the GATT Uruguay Round) were to be concluded in 1997 with a draft Sector Understanding with Options delivered to the Participants for their negotiation.

1996: *Ex Ante* Guidance for Tied Aid

After four years' experience with the Helsinki tied aid disciplines, the Participants agreed, in December 1996, to guidelines to assist aid donors and recipients, export credit and aid agencies and project planners to determine at an early stage whether projects would be eligible for tied aid. The Guidance followed the principle underpinning the Helsinki disciplines that official aid should be avoided for exports which would be commercially viable without concessional financing.

1997: The Knaepen Package (named after the Chairman of the Participants' Working Group on Premia and Related Conditions, Pierre Knaepen - Belgium)

The Knaepen Package set out guiding principles for setting premium fees for official export credit support through minimum premium benchmarks for country and sovereign risks. An agreement was concluded by the Participants in June 1997, following nearly three years of technical work in the Working Group on Premia) and this reflected two basic principles: first, pricing should be risk-based so that the premium fees charged are not inadequate to cover long-term operating costs and losses (in accordance with the WTO obligation) and second, pricing should converge and, from the exporter's perspective, reflect the differing quality of officially supported export credit products.

1997: A New Arrangement Text

A revision of the Arrangement, reflecting a complete overhaul of its provisions, was agreed in November 1997, following nearly two years of work in the RAG. The new text incorporated, in a more user-friendly style and format, the decisions and interpretations and the numerous reforms and enhancements to the Arrangement which had been agreed by the Participants since 1992, including the Knaepen Package.

1997: Understanding on Export Credits for Agricultural Products

Negotiations, as opposed to discussions, began for rules on export credits for agricultural products among the Participants plus Argentina.

1998: Project Finance Sector Understanding

In 1998, the Participants negotiated disciplines on project finance which allow, under certain conditions, official support for this financing technique to benefit from more flexible repayment conditions. These disciplines were applied first on a trial basis and were subsequently cemented in the Arrangement in 2005.

2000: Understanding on Export Credits for Agricultural Products

Final proposals were made to the Participants for a Sector Understanding for Agricultural Products, to be annexed to the Arrangement; however, full consensus could not be achieved and the issue was passed to the WTO where it is now being negotiated as one possible Annex of a revised Agreement on Agriculture in the context of the Doha Development Round.

2002: Sector Understanding on Export Credits for Ships

This Sector Understanding, annexed to the Arrangement, was modernised in 2002 in co-ordination with the OECD's Working Party 6 which has responsibility for Shipbuilding issues. The modernised Understanding also set a programme for further work, including on minimum premium benchmarks and other disciplines on minimum interest rates.

2003: *Ex Ante* Guidance on Tied Aid

A revision of the *Ex Ante* Guidance on Tied Aid was agreed by the Participants to reflect the further experience gained with the Helsinki Disciplines since the original Guidance was issued in 1996.

2004: A Revised Arrangement Text

The Participants reviewed the impact on their export credit programmes and business of WTO disputes involving export credits, mainly the aircraft cases involving Brazil and Canada. In the light of some of the findings of the WTO proceedings, the Participants modernised the Arrangement and at the end of 2003 adopted a new text, applicable as of 2004. The 2004 Arrangement clarified and strengthened the previous disciplines, whilst making these more open for application by non-Participants, with a view to avoiding discrimination.

2005: Understanding on Export Credits for Renewable Energies and Water Projects

In response, *inter alia*, to the Johannesburg Summit on Sustainable Development and the Millennium Development Goals, the Participants agreed in 2005 special terms and conditions for renewable energies and water projects which match those available for nuclear power plant. This Sector Understanding was initially applied for a two-year trial period and was extended in 2007 for another two years until the end of June 2009.

2005: *Ex Ante* Guidance on Tied Aid

A further revision of the Guidance, to reflect more recent experience with the tied aid disciplines, was agreed in 2005.

2006: Turkey became an Observer to the Arrangement

2007: A New Sector Understanding on Export Credits for Civil Aircraft

The Participants and Brazil negotiated a revised Sector Understanding for civil aircraft to replace the 1986 Understanding; the negotiations began in 2005 and were concluded in July 2007. The Understanding, which is annexed to the Arrangement, secures a more efficient level playing field among the main providers of export credits for civil aircraft; it also provides a framework for exchange of information and early resolution of export credit-related disputes. This Understanding is the first in the history of the Arrangement to include, as a participating party, a non-OECD country, *i.e.* Brazil.

2007: Local Costs

In November 2007, the Participants agreed, for a trial period until the 31st December 2010, to extend the amount of Local Costs that may be supported from 15% to 30% of the export contract value.

2008: A New Arrangement Text

A new text of the Arrangement came into effect on 1 January 2008; it incorporates all recent decisions and enhancements agreed by the Participants, including the new Sector Understanding on Export Credits for Civil Aircraft and the adjusted Local Costs rules.

THE ARRANGEMENT : THE CHALLENGES AHEAD

The disciplines of the Arrangement are now set in an exciting 21st century context, which includes some major challenges: new exporters of capital goods from emerging economies, supported by competitive official support mechanisms, sustainable development, good governance, Civil Society interests, climate change, globalisation, market developments; and there remain issues in the Doha Development Agenda which could affect its rules. Thus, the main challenge for the OECD-based disciplines applicable to export credits is to remain relevant, robust and flexible in order to meet Members' policy objectives and to be compatible with their other international obligations.

The Participants are already committed to making the Arrangement and its Annexes more inclusive for new players. The 2007 Ministerial decisions on enlargement of the OECD and on enhanced engagement with emerging economies should provide the opportunity to establish a common framework for involving emerging players more closely with the OECD export credit committees. A wider participation could bring new challenges and opportunities to the work of eliminating, as far as possible, subsidies and trade distortions in official export credits whilst maintaining the OECD as a forum of choice for designing and negotiating the international rules for export credits.

The environmental, anti-corruption, sustainable lending and Civil Society Organisations issues are, in parallel, being addressed through the OECD's Working Party on Export Credits and Credit Guarantees whose membership is practically the same as the Participants to the Arrangement; these two forums interact and inform each other's decisions.

We look forward with passion and excitement to these challenges.

**THE PARTICIPANTS
TO THE ARRANGEMENT ON OFFICIALLY
SUPPORTED EXPORT CREDITS**

CHAIRPERSONS, 1978 - 2008

MS. NICOLE BOLLEN, NETHERLANDS, 2005

MR. PEKKA KARKOVIRTA AND MR. MIKE ROBERTS, 2004

MS. BIRGITTA NYGREN, SWEDEN, 1999 – 2003

MR. KURT SCHAEERER, SWITZERLAND, 1992 – 1998

MR. EERO TIMONEN, FINLAND, 1989 – 1991

MR. JOHN COLEMAN, CANADA, 1988

MR. AXEL WALLEN, SWEDEN, 1980 – 1987

MR. GILBERT MORLEGHEM, 1978 – 1979



The 2008 Export Credits Division :

Back row :

Sothy Ly (Assistant Statistician)

Jean Le Cocguic (Senior Policy Analyst)

Michael Gonter (Senior Policy Analyst)

Julian Paisey (Policy Analyst)

Front Row :

Brigitte Young (Secretariat Assistant)

Soojin Seo (Consultant, KEXIM, Korea)

Janet West (Head of Division)

Barbara Offe (Assistant to Head of Division)

Kaori Nakajima (Consultant, JBIC, Japan)

Evelyne Guedj (Statistician and Webmaster)