THE OECD EXPORT CREDIT REGIME: A BRIGHT PAST, WHAT OF THE FUTURE?

Denis Stas de Richelle

Denis Stas de Richelle is Global Head of Export Finance at Société Générale, France. Société Générale is one of the oldest banks in France; it was founded by a group of industrialists and financiers in 1864 to support the development of French commerce and industry. Société Genérale has a substantial global presence across 85 countries, in domestic and international retail banking, specialised financing services and corporate and investment banking.

The financial and economic crisis that the world has been experiencing in the wake of the sub-prime fallout – described as the most severe economic turmoil since World War II – has put the advantages of officially-backed export credits in the spotlight. When the interbank market froze after the Lehman collapse in September 2008, when the syndicated loan market vanished and underwriting disappeared, when capital markets plummeted and, finally, when the liquidity crunch got under way, export credit agencies (ECAs) stepped in. Their cover programmes and – for some of them – their direct funding or interest rate subsidy mechanisms helped sustain the global economy by enabling big long-term financing solutions.

OECD members' export credit agencies helped ease the impacts of the global crisis

The demand for OECD ECAs' risk-enhancing products has significantly increased. Furthermore most – if not all – OECD ECAs have introduced measures to improve access to liquidity and ease the stress in international trade finance markets. Such measures took on various forms: the increase of country ceilings, assistance for short tenor deals, working capital programmes to support the current liquidity needs of clients – an innovative approach, take-out options and refinancing schemes to fight against a possible liquidity squeeze. We feel that the measures taken by the ECAs and their guardian authorities were an appropriate and well calibrated response to the financial turmoil.

During this period of uncertainty, some projects were postponed and others cancelled. But there was also the stimulus measures worth USD 250 billion (agreed at the London Summit 2009 by G20 countries) that promoted global trade and investment, bringing supports for infrastructure and industrial projects among others.

Over the last two years, ECAs have been increasingly active in all industry sectors, such as oil and gas, power, transportation, telecommunications and satellites, as well as in all regions of the world – not only in emerging countries – which was a rather new outcome. Indeed, ECA-backed loans were much more frequently implemented in developed countries than in the past, specifically by automobile manufacturers, steel producers and telecommunications operators. The aircraft and shipping industries – both heavily impacted by the crisis – also took advantage of these financing tools.

As for project finance, Société Générale's strategy has been to propose systematically ECA-backed loans to its clients for their debt strategies. Not only tied financing tools (available in direct connection with the export of capital goods and services) but also untied loans, generally granted as a counterpart of a strategic interest for the lending country (secure access to natural resources, promote industrial diversification and/or address environmental issues). As a matter of fact, all recently closed "jumbo" deals have presented such a combination and benefited from official state support at levels never seen before: Papua New Guinea LNG with USD 3 billion and USD 900 million US Export-Import Bank and SACE (Italy) tickets respectively, the Nordstream pipe-line with a USD 2.2 billion Euler-Hermes (Germany) commitment, the Jubail refinery with a USD 2.2 billion covered by six ECAs and Iridium with USD 1.8 billion COFACE (France) support. Not surprisingly, business volumes reached record levels in 2009 with USD 50.6 billion. And this year should be more or less on the same trend.

Outlook for global recovery

Export finance is a counter-cyclical business. It is a means of financing that is well adapted during times of financial crisis. Thanks to the risk mitigation provided by ECA cover, it is a low-risk financing tool that does not use large amounts of capital, in contrast with other long-term lending solutions. Consequently, export finance experts have been in the spotlight working with all the global market players. We offer our clients reliable long-term financing in times when people need to have concrete solutions during a volatile evolution of economic cycles.

Given this context, one wonders about the outlook for the world economy in times to come. It is difficult to predict the outcome but we can already make a few observations. The global recovery continues. Economic activity in emerging markets has quickly resumed and is the driving force of international trade. Another major player is the United States, whose domestic demand is mainly supported by stimulus measures. The Eurozone is emerging from the recession more slowly, as several countries are confronted with a large debt burden and unemployment. Overall, the global recovery remains muted, fragile and, not least of all, uneven. Headwinds and concerns (imbalances, waves of budget austerity measures currently washing over Europe, monetary policies …) are still here. Unfortunately, we cannot yet say that we are out of the woods. Under these circumstances, Société Générale believes that export finance has a crucial role to play since ECAs provide vital international trade financing. The need for ECAs' backing is regarded as particularly important for very large projects in order to add liquidity at attractive pricing and to support new technologies and strategic sectors – such as nuclear power plants, solar and wind projects and telecommunications networks.

Beyond the immediate economic environment – likely to be volatile and uncertain – as a consequence of the deep turmoil we have gone through, we strongly believe that our clients should keep in mind that they have, at their disposal, several long-term funding solutions for going forward, export finance being one of them.

Concerns for the level playing field: Basel II, large emerging economies

However, export finance banks need to call for vigilance and a level playing field in two important areas. The first is related to the Basel Committee's proposals to strengthen the resilience of the banking sector, pursuant to the G20 recommendations (and better known as Basel III). New requirements could be damaging for the financing of international trade (notably the leverage, liquidity coverage and net stable funding ratios), either by limiting the banks' capacity to provide long-term export finance solutions and/or by pushing pricing upwards. In all cases, these measures would be detrimental to the global economy if not properly considered. This is a subject that is being closely followed by all financial institutions.

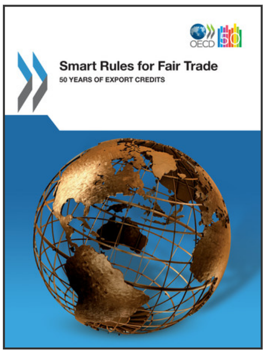
The second key issue is related to the current revision of the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits, implemented in 2003, later revised and strengthened in 2007. While we fully support measures to improve the environment and combat climate change, it is our belief that a balance between promoting exports and sustainable economic behaviour must be maintained. There is a general fear that the OECD process might go "too quickly and too far." The Equator Principles[1] can be applied in the context of project finance or limited-recourse projects – where the sponsors can have control over the whole value chain (already introduced at Société Générale) – but these prove to be a serious hindrance in most financing linked to the export of capital goods. Subsequently, these Equator Principles rules would widen the gap between OECD ECAs and non-OECD ECAs. For this reason, we believe there is a need to ensure a level playing field and to keep in mind that OECD exporters increasingly face competition from large exporting economies such as China and Brazil who are not OECD members and, therefore, not bound by the OECD Arrangement on Officially Supported Export Credits. As said by OECD Deputy Secretary-General Richard Boucher in January 2010,

"… If we are going to be the world's premier economic management organisation, we've got to have that relationship with the countries that now constitute a significant portion of the world's GDP" and "… big economies outside the OECD – with China, India, Brazil, Indonesia and Russia … complain sometimes 'why should we be expected to meet standards we didn't have a hand in making?' It's in our interest to have them in standard setting."

In December of 2010, the OECD was 50 years old; this is the age of maturity. We are pleased to wish this important Organisation a very Happy Birthday. We hope that this institution and the participants to the OECD export credit regime will continue to dedicate their energy and ideas to financing support of capital goods exports.

Note

1. The Equator Principles are a voluntary set of standards for determining, assessing and managing social and environmental risk in project financing. Project financing is a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure.



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