Structured Finance
Export & Trade Finance

Export Credit Arrangements
Productivity Commission
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In addition to my function of Global Head Origination – Export & Trade Finance at Crédit Agricole CIB, I am also chairing the Export Credit Group at the European Banking Federation. I am then pleased to contribute to your debate on the role of EFIC

The role of ECAs has been regularly questioned in many countries over the last 30 years.

The Knaepen package introduced at the OECD level in the 90's brought discipline among ECAs as it prevented competition through low risk premiums for loans made with public borrowers. Since then the level of premium is fixed in such a way that ECAs as a whole should cover their costs and indemnifications through premiums and recoveries. And with the data provided by the Bern Union we see that over the last 20 years, this objective, important for the tax-payers, was reached. In addition, we clearly notice that the rate of defaults in this industry is a very low one. Some large international banks active in Export Finance will launch in the coming weeks the creation of a Register in order to collect detailed evidences on the quality of their portfolio. This discipline was recently reinforced by measures which now apply to the deals made by ECAs with private companies.

I am not aware of any ECA being asked to offer rate of return on equity similar to the one expected from listed companies. When an ECA, like ECGD 10 years ago, was asked to be as profitable as a public company, this objective was generally removed as it is fully contradicting their first goal which is to support exporters which do not find a solution on the private markets. One good comparison on this point might be made with EDC of Canada which develops a business model close to the one of EFIC.

The present economic crisis has shown over the last 4 years that ECAs had a crucial role to play to support both SMEs and large groups in their efforts to export (and sustain the growth in their country of origin). In most countries the volume of covered deals has grown substantially, which confirms the need for their involvement as a response to a market gap.

- In some cases, the presence of a public ECA is a way to bring a moral protection to a project in a difficult country that could not be given by a private insurer. As the Russian crisis in the 90's or the Argentinean one in the 00's show, this is effective as loans covered by ECAs were exempted from transfer restrictions, which was not the case for loans by private insurers.
- The presence of an ECA is also sometimes the best tool to convince commercial banks to extend loans with large repayment period in accordance with the economic life and performance of an investment. Private insurers are very often unable to offer these large

durations and with shorter maturities, some investors would be faced with a refinancing risk, considered as unacceptable by lenders; then some projects could not materialize.

- The presence of ECAs is crucial in developing countries where the capacity of financial markets to offer large durations is reduced; ECAs play then a critical role in supporting new investments in these countries.
- For some large projects (in the petrochemical industry, in mining,…) the amount of financing is so huge that the private sector cannot accommodate it alone. Without any ECA, some projects like Jubail would have not materialized.
- Several products for SMEs were developed recently in most ECAs in order to better support them and these products (cover of technical bonds, higher rate of cover for SMEs than for large groups,…) often do not exist on the private market. There is a real demand even from SMEs which has been active exporters for years.

The recent history in Europe also shows two things

1. when a public institution was dismantled in bullish years, it is very difficult to re-establish it in a period of crisis. We have to keep in mind that ECAs are contra-cyclical.
2. most European ECAs were able to implement emergency solutions in 2008 to substitute to failing private insurers to cover short-term receivables, with the agreement of the European Commission (DG Competition). All these programs were cancelled as requested in advance and without complaint when the private market recovered.

The introduction of Basel III is generally considered as a threat for the financial instruments supporting International Trade (export credits, technical guarantees, letters of credit,..) and several commercial banks, especially in Europe, which have to manage deleveraging plans are clearly mentioning Export Finance as an activity which will be reduced. Most European countries are now considering the implementation of solutions which would ease the refinancing of banks active in Export Finance as it will be a requisite to support exports from their home countries. Some solutions, which were used in the 80's like public refinancing banks and when then dismantled, are now reconsidered.

In order to better use the complementarity between an ECA like EFIC and commercial banks, it might be important that EFIC introduces a refinancing scheme to commercial banks in addition to its pure cover program. No large commercial bank active in Export Credit enjoys today a AAA rating and then banks can not compete in terms of pricing with a AAA rated ECA. An efficient refinancing scheme offered by EFIC as it exists in the Nordic countries, in Germany or Austria might help banks to offer more attractive financings.

In conclusion, I consider that the capacity of EFIC to support large and small companies in their efforts to export could only be beneficial to the Australian exporters without being a burden to the tax-payer as long as it remains carefully managed within the guidelines provided by the OECD.

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