

Business at OECD

JOINT BUSINESS POSITION ON THE MODERNIZATION OF THE OECD ARRANGEMENT:

Ensuring a global level playing field



BUSINESSatOECD



Introduction

In this joint position paper from Business at OECD, the European Banking Federation and the International Chamber of Commerce, we lay out our vision for the future of the OECD Arrangement on Officially Supported Export Credits (the Arrangement).

Our vision is to ensure a global level playing field for business by reforming the Arrangement and making it an easy to understand, transparent, predictable, market-reflective and consistent framework.

We agree with the OECD, many Export Credit Agencies (ECAs) and other stakeholders that the current Arrangement is no longer fit for purpose. We need an easy to understand, transparent, predictable, market-reflective and consistent framework. This new Arrangement needs to provide a good basis for international competition and promote a global level playing field in official trade-related finance. The new Arrangement needs to be able to adapt quickly to future market changes and to close the financing gap of investment in the developing world.

We propose a parallel two-tier reform package, which contains both a number of much-needed immediate interventions and a broader modernization of the overall Arrangement to ensure a level playing field.

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Executive summary

1. Rationale

- Since its introduction in 1978, the OECD Arrangement on Officially Supported Export Credits has served as a **key tool in creation of a level playing field in international markets** by successfully ensuring that competition amongst exporters is based on the quality and price of goods and services rather than on the favorability of public financial support.
- However, as the Arrangement passes its 40th birthday, it increasingly faces important limitations in light of **key changes to the global trade and investment landscape**. Such changes relate especially to the emergence of new significant players unbound by Arrangement rules, as well as the increasing importance of global value chains.
- The changing environment has placed increasing pressure on the Arrangement and in some cases undermined its ability to fulfil its purpose, as evidenced by Participants seeking avenues to circumvent it by developing products outside the Arrangement. Today, Arrangement-regulated activity amounts to only 36% of the total Medium and Long Term Activities of Export Credit Agencies (ECAs).¹
- A **fundamental modernization of the Arrangement is much needed and must not be delayed**. Making it fit for purpose while ensuring a global level playing field is essential, and there are **several immediate updates** of particular consequence for the business community that can be implemented now.
- Businesses across the OECD commit themselves to support the OECD in its mandate to finding **solutions to social, economic and environmental challenges**. Although ECAs have no sustainable development mandate per-se, many of their activities impact sustainable development, especially within developing countries. For example, through exports OECD-businesses provide infrastructure and contribute to the creation of jobs, the provision of technology, knowledge and expertise (technology spillovers).

2. Recommendations for change

a. Much needed immediate updates

- Increase the current cover of **local costs** to 50% of total scope.
- Allow **market-reflective repayments** to better align with the nature of different projects.
- Increase the **maximum repayment term** to 18 years.
- Allow for more flexibility with regard to the **down payments** [project size and country categories].
- Implement a strong **matching tool**, controlled by notification.
- Introduce an easy to define, transparent & predictable **CIRR** to provide a level playing field.
- Revise the **premiums** applied to private borrowers in high-income OECD countries.

b. Guiding principles for fundamental modernization

- Reaffirm the **core purpose**, which is to ensure a level playing field and to include all relevant instruments for finance (ECA, but also investment guarantees and development finance), of the OECD Arrangement to ensure it can continue as a vital multilateral tool and consider all official cross-border financing.
- Better align the rules of **development and export finance** for debt products (including issues related to tied aid and sustainable lending rules and with a particular emphasis on financially non-viable infrastructure investment).
- Find answers to meet the growing financing needs for the **2030 Agenda for Sustainable Development** and the 17 Sustainable Development Goals (SDGs); this could include identifying new SDG impactful industries / sectors / technologies for support beyond what is available on official export credit terms.
- **Simplify the Arrangement** where possible while maintaining the key objective.
- Preserve the **export credit ecosystem** / **avoid crowding-out** of private finance.
- Ensure the Arrangement remains anchored in the **WTO Agreement** on Subsidies and Countervailing Measures.
- Provide solutions for **transactions below a certain size** to support SME.
- Provide **grievance mechanisms** as well as **sanctions** in case of not obeying the new Arrangement.

¹ EXIM Report to the U.S. Congress on Global Export Credit Competition, June 2019.

List of Acronyms

Acronyms

ASCM	WTO Agreement of Subsidies and Countervailing Measures
BRICS	Brazil, Russia, India, China and South Africa
Cat.o / 1 / 2	Category o / 1 / 2
CIRR	Commercial Interest Reference Rate
DAC	OECD Development Assistance Committee
DFI	Development Finance Institution
ECA	Export Credit Agency
EPC	Engineering, Procurement and Construction
EU	European Union
EXIM	Export-Import Bank of the United States
IFI	International financial institutions
IMF	International Monetary Fund
IWG	International Working Group on Export Credits
MDB	Multilateral Development Bank
MLT	Medium- and long-term
MPR	Minimum Premium Rate
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SME	Small and Medium-Sized Enterprise
TCMB	Through the Cycle Market Benchmark
The Arrangement	OECD Arrangement on Officially Supported Export Credits
US	United States of America
WTO	World Trade Organization

The Arrangement – A key tool to recreate a global level playing field

Up until the late 1970s, competition led governments, through their Export Credit Agencies (ECAs), to increasingly offer officially supported financing to their exporters in support of competition against global peers, resulting in significant market distortions.

With no single country in a position to unilaterally terminate subsidies, a multinational agreement was needed. In 1978, international negotiations resulted in a “gentlemen’s agreement”: The OECD Arrangement on Officially Supported Export Credits (the Arrangement).

The Arrangement aims to foster a level playing field in terms of export credits supported by ECAs offering credit terms of over 2 years. Competition among exporters is thereby based on the quality and price of goods and services, rather than on the favorability of terms and conditions of accompanying financial support. This is accomplished by establishing agreements on various issues such as minimum interest rates and premium levels, minimum advance payments, maximum credit periods, as well as environmental and social guidelines.² The Arrangement does not set parameters for programs outside its scope of rules, such as for provision of untied export credits, untied investment loans or untied development loans and for official support for equity investment.

The OECD Arrangement does not operate in isolation, but as part of a wider rules-based system built over the past 60 years by the international finance community. This system includes both development finance and export finance, and includes institutions such as the International Monetary Fund (IMF), Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs), the OECD Development Assistance Committee (DAC), the OECD Export Credits Group and Participants, the Paris Club, and the World Trade Organization (WTO). Importantly, OECD export credit Arrangement rules ensure that member ECAs do not interfere with functioning international markets and maintain WTO conformity.

Whilst starting with a technical focus, the Arrangement today has a strong and clear value base and promotes a rules-based international order. Gradually the horizon of all OECD activities has broadened towards sustainable growth, defined by the OECD as growth that balances economic, social, and environmental considerations with a long-term, global perspective and, generally, refers to development that meets the needs of the present without compromising the ability of future generations to meet their own.

The global landscape has changed...

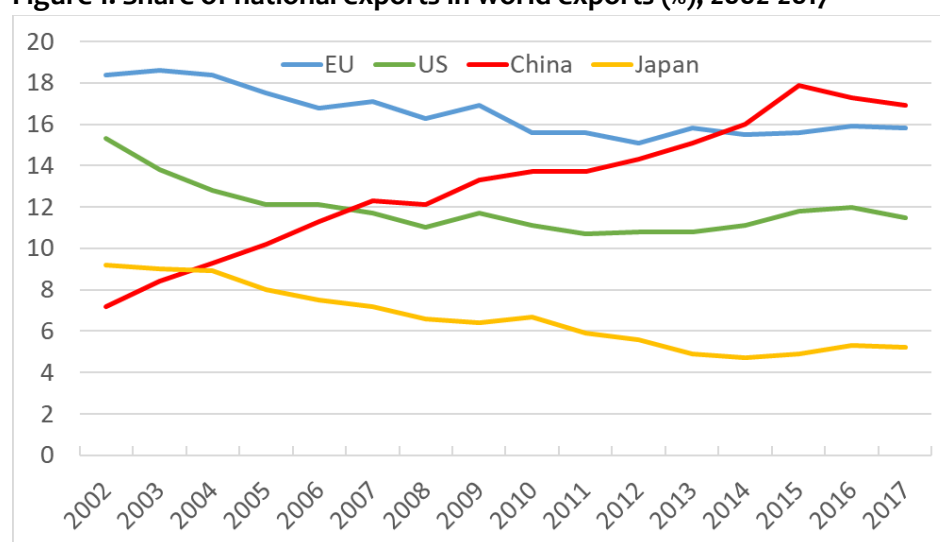
For the business community, the Arrangement has been an example of how a common goal can shape common rules for the benefit of all.

However, as the Arrangement passes its 40th birthday, it increasingly faces important limitations within a global trade and investment landscape undergoing significant changes.

² As outlined in the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the “Common Approaches”), adopted in 2012 and revised in 2016.

When the Arrangement was established in the late 1970s, high-income OECD economies accounted for almost 80% of global trade³. BRICS countries (Brazil, Russia, India, China and South Africa) were not yet major exporters. The **global trade and investment landscape has drastically changed** since then, notably with China having overtaken the European Union (EU) as the single largest exporter in 2014. By 2017, China accounted for the highest share of global exports at 17%, having grown from just 7% in 2002. During this time major OECD economies, such as the US, EU, and Japan have seen their share of global exports decline in relative terms (see Figure 1).

Figure 1: Share of national exports in world exports (%), 2002-2017



Source: Eurostat data (extracted on 27 June 2019)

Importantly, between 2011 and 2018, OECD Arrangement activity as a percentage of total trade-related official Medium and Long-Term support has fallen from more than 50% to 36%, even dipping to 27% in 2017.⁴ As the Export-Import Bank of the United States (EXIM) notes, next to a general decline in OECD ECA support, “China’s sustained provision of large volumes of non-OECD export credit, India’s emergence as a significant player in the official export finance space, and the shift among some OECD ECAs towards predominantly non- Arrangement support are other drivers of this shift.”

Next to geographical shifts in the balance and scope of global trade, **the landscape has also changed due to the increasing importance of global value chains**. Ongoing internationalization, the growing necessity of a local presence, pressure on exporters to cut costs, as well as increasing availability of local skill coupled with the demand from foreign buyers⁵ to source locally are all issues for Export Credit Agencies to address.⁶

Finally, yet importantly, **the global financial crisis as well as ensuing banking regulations have impacted the Arrangement** due to growing government involvement in direct lending (and other

³ Source: World Bank Data, current OECD composition. In 1978, OECD members accounted for 77% of global trade, with the share falling to 61% in 2017.

⁴ EXIM, Competitiveness Report, June 2019.

⁵ This concerns in particular public sector buyers, among which sovereigns, sub-sovereigns and state owned enterprises.

⁶ CESifo Forum 3/2014, “State Export Credit Guarantees in a Globalised World”.

forms of financing support) in contrast to working with commercial banks through insurance and guarantees.

... putting increasing pressure on the Arrangement

The changing global environment has put increasing pressure on the Arrangement and in some cases undermined its ability to fulfil its purpose. As a result, its goals and rules have come under threat.

Today, exporters face real competition from competitors not obliged to adhere to the rules and regulations of the OECD Arrangement. We are aware of **instances of export support** from such countries, which are **more generous than permitted under the terms of the Arrangement**, translating into substantial cost and cash flow advantages to Buyers. In some cases, public institutions are granted broad mandates permitting undertakings beyond the norm in times of economic difficulties, but such “mission creep” is not reset once the crisis is contained.

While OECD countries adhere to the Common Approaches for Officially Supported Export Credits for Environmental and Social Due Diligence, a number of transparency rules, strict anti-bribery policies and sustainable debt, non-OECD countries are sometimes less bound by such rules and recommendations. This is critical for exporters and the majority of international banks, which, next to legal requirements, face high expectations from a range of stakeholders in terms of supporting the sustainable development agenda and are subject to an overall heightened level of focus on Sustainable Development Goal (SDG) compliance at all levels. It is a particularly pressing concern for banks in those regions (e.g. in the EU) where specific regulatory action will shape how sustainable activities are defined for financing (incl. that in third countries). However, we are also aware of examples where Participants to the Arrangement offer tied aid with generous conditions in combination with export credits – probably as their only means to counteract.

Next, we are aware that some practices by public finance institutions, including DFIs and international financial institutions (IFIs), result in more or less explicit subsidies (e.g. blending), which crowd out private commercial finance. While blending can be an important vehicle for mobilizing resources towards sustainable development, adherence to the concept of additionality will avoid crowding out private sector finance.

Furthermore, it is a fact that countries outside and inside the scope of the Arrangement are providing **ECA debt in tandem with Official Development Assistance (ODA)** to win operations and maintenance contracts for the supply of infrastructure projects, thus opening up entirely new supply chains and trade flows. The new Arrangement must find answers to combining ODA and commercial funding and broaden the scope of the Arrangement. It must focus on how to provide solutions for closing the financing gap especially for the SDG.

Despite these challenges, the OECD has been **slow in reforming and enhancing the Arrangement** to reflect these changes, while we support and acknowledge the current discussion within the OECD on the modernisation of the Arrangement.

Against this background, US EXIM warned in its 2018 Competitiveness Report that “ECAs are increasingly being ‘weaponized’ – specifically organized and equipped to be maximally flexible and proactive in order to incentivize a shift in sourcing or support trade policy, particularly in key industries.”

Untied financing schemes that technically do not fall under the Arrangement as well as some that do are offered by various countries. It appears to be a reaction by OECD members to improve country competitiveness and promote national interest.

While business appreciates that these advancements are addressing the need for additional support and hence welcomes member government reactivity, **we see the integrity of the Arrangement endangered**. Whilst attempting to balance competition from outside the Arrangement, the result is unfair competition within the OECD and dilution of the benefits and merits of the OECD Arrangement. This means that in some cases, the Arrangement is not able to fulfil its purpose as intended. An additional complicating factor is that official financing or guarantee schemes not tied to exports but to other “national interests” are formally also not governed by the WTO and may thus have subsidised elements (e.g. medium- and long-term (MLT) break-even operations of export credit guarantee programs).

... opening up for different possible future scenarios

Several alternative scenarios, which we have highlighted in the below box, can be envisaged for the future, induced by changes in the global landscape and increasing pressure on the Arrangement.

Ideally, we would like to see a truly multilateral agreement under the International Working Group on Export Credits (IWG). However, as progress in the discussion prove slow, we deem a **fundamental reform of the Arrangement necessary**. Showing the ability to adapt the OECD Arrangement to market changes and hence to compete with non-OECD Members will certainly enhance the ability of the IWG to progress on a truly multilateral approach and hence enable and henceforth ensure a level playing field.

Box 1: Future scenarios

a) No Reform	b) Scrapping the Arrangement
<p>One possibility is that OECD policymakers decide to keep the Arrangement in its current form, or refine it with only minor changes.</p> <p>With global competitive pressures likely to only increase, this might lead to a situation where OECD member countries increasingly try to undercut their own rules, while matching non-member financing. In addition, we will see OECD members undercutting members once products are established outside the Arrangement. We may also see increasing litigation before the WTO.</p> <p>Protecting the rules at the cost of losing exports, jobs and growth is not, however, a real option for OECD countries over the medium term. The result would thus be an increasingly hollowed out OECD Arrangement that is rendered ineffective in fulfilling its original objective of leveling the playing field among countries’ exporters and preventing a race to the bottom via subsidized export finance.</p>	<p>An increasingly ineffective OECD Arrangement may ultimately be deemed irrelevant by its Participants and, as a result, be outrightly rejected by them.</p> <p>The risk is a return to the early 1970s, prior to formulation of the “gentlemen’s agreement”, when countries actively competed on protectionist export terms and a “race to the bottom” turbocharged by subsidization.</p> <p>One might argue, however, that if we continue to permit outperformance in terms of official support by governments located outside of the Arrangement as well as deployment of alternative financial products by OECD members, scrapping the Arrangement may be a better option than not revising it.</p> <p>Besides losing the prevention of subsidies this will also mean losing the environmental and social standards of the Arrangement and open these topics up for competition too</p>

c) <i>A truly multilateral agreement</i>	d) <i>Reform the Arrangement</i>
<p>The IWG, created in 2012 and covering not only OECD and EU countries, but also emerging market economies such as the BRICS, could offer a new way forward on a truly multilateral level.</p> <p>However, deliberation of new global guidelines has been slow and lacking in transparency. In addition, two possible risks that may arise from a multilateral agreement under IWG:</p> <ul style="list-style-type: none"> • Possible individual divergences among OECD members: Some OECD members may have different interests in defending some of the practices sought to be established as standard in the IWG negotiations. • Duplication of processes: While we understand that the IWG and the Arrangement might become complementary regimes that would allow for a more market-reflective and effective global playing field (based under the Safe Haven of the WTO), some of those issues might conflict with the status-quo of the Arrangement and will require careful considerations in order to avoid parallel negotiations reaching different results. <p>We thus recommend improving the general efficiency of the discussions, transforming them into a key forum for sharing and collaboration with non-OECD countries, which may finally reach a positive conclusion in the form of a renewed global level playing field.</p>	<p>Absent any progress at the IWG, the business community believes it is high time for the OECD, in cooperation with all relevant stakeholders, to work on a reform that reflects the changing times and aims to regain a global level playing field.</p> <p>Instead of trying to make the rules more sophisticated and complicated to cater to all needs, another option is to simplify them and enhance transparency, while at the same time adapting to the developments of both capital markets and risk mitigation tools of the last forty years. While there appears currently little appetite of key outside players to join the Arrangement, smart rules, which make ECAs more customer friendly, will eventually make it more attractive for other countries to join.</p> <p>At the same time, when reforming the Arrangement, we should ensure that the great opportunity to support the sustainable development agenda is not missed, encourage ECAs to extend beyond traditional export finance segments, and remain relevant over the long term as the world transitions to a lower carbon economy and more sustainable practices generally.</p>

Much needed immediate updates

Acknowledging that a fundamental modernization of the Arrangement is a long-term process, the business community suggests several immediate updates of importance, which can be implemented right away:

1. Increase the current cover of **local costs**
2. Allow for market-reflective **repayment profiles**
3. Increase **maximum repayment terms**
4. Allow for more flexibility with regard to **down payments**
5. Implement a strong **matching tool**, controlled by notification
6. Introduce an easy to define, transparent & **predictable CIRR**
7. Revise the **premiums** applying to private borrowers in high-income countries

1. Increase the current cover of local costs

The Arrangement currently stipulates that local costs may be supported up to 30% of export contract value.

Current treatment of local costs does not reflect market realities and is especially problematic for large-scale turnkey projects in developing markets where localisation requirements have outgrown the OECD limit, **and for the opportunity for ECAs to play a more active role supporting the global sustainability agenda.** Developments such as localisation of manufacturing and services (including public procurement requirements and “offsets”), increased international sourcing, the need to be close to customers and adjust to different market needs and better adjust offers, resource-efficient allocation of supply packages, lack of commercial long-term lending in local currency, and the changing role of ECAs, means change is needed.

The traditional OECD ECA approach towards local costs does not reflect these developments and should be updated. Just as internationalization of materials sourcing has influenced ECAs’ foreign sub-supplier policies, we strongly recommend adapting the Arrangement to reflect and support a growing industrial base in emerging markets. At the same time, a more market-reflective inclusion of foreign content could help to ensure the preservation of skilled jobs in exporting countries, especially in areas related to research and development, as well as services related to exports.

Specifically, we recommend increasing the current local costs limitation to 50% of the total scope. This change would reflect the need for market reflectiveness that the global evolution of production settings and value chains require, together with the will of emerging countries to stimulate local employment, while facing a lack of long-term funding in local currency. Our proposal for a revised solution would allow for a consistent interpretation by all OECD members and level the playing field for local contractors to participate would be easy to measure (50%) and would not be restricted to a few industrial sectors.

Regarding the **prior notification procedure** (Chapter II, 10. d) 3)), we recommend a move to 50% of total scope without requirement of prior notification. It is noteworthy that most OECD ECAs are willing and able to insure foreign content shipped directly from third countries in their export business far beyond 30%. Most OECD ECAs accept a foreign content of 50%. The current OECD restriction for local costs implies for many OECD ECAs de facto discrimination against local suppliers based in the buyer’s country. Moreover, local costs and national foreign content restrictions do not apply under untied investment schemes, which is one of the main reasons of the growth of untied investment schemes at the expense of regulated export credits.

Moreover, the nature of construction services is such that building or infrastructure “products”, such as roads, railways, ports, dams, hospitals, etc. are provided locally. For construction service companies it is therefore necessary to source construction materials, labour force and sometimes equipment locally. For these projects – that significantly contribute to the SDGs – ECA’s have the opportunity to play a more active role. Hence, we call upon the OECD to consider in future amendments to the current Arrangement to no longer differentiate between foreign content and local cost.

Finally, also in connection with local costs, we believe there is merit in exploring how the Arrangement could be extended to facilitate the mitigation of long-term currency risk involved in export finance transactions. Although local currency denominated export credits have long been argued as logical for projects that are not foreign currency revenue generating, relatively few such transactions have been concluded. Ways to stimulate this market should be explored as part of the review, including the level of local currency discount permitted in premium rates (currently 20%).

Further efforts should also be made to encourage local currency export credits by ECAs including engagement by the OECD in securing the necessary capital treatment and recognition of cover in buyer financial markets (banks and FIs) so that long-term liquidity pools may be developed.

2. Allow for market-reflective repayment profiles

We fully support the idea that the OECD consensus should be made more market-reflective with respect to financing terms such as repayment profiles and adapt to current realities.

Increased complexity in bringing a large industrial plant into production, or commissioning an infrastructure investment, clearly needs to be reflected in its financing terms. More market-reflective repayments, with the purpose of reinforcing the competitiveness of exporters on the one hand but also strengthening Borrowers' abilities to repay in a timely manner, is critical for many sectors. Positive experience with the various Sector Understandings (e.g. the Sector Understandings on Climate Change Mitigation and Adaptation, and Water Projects (CCSU) allows more market reflectivity on an exceptional basis) and Project Finance rules underline the advantage of more market-reflective repayments, especially as the financial markets seem willing and able to support them.

Against this background, we propose closer tying of loan life to asset life, and, where appropriate, of repayments to expected revenues (or budget allocations). This entails a more adequate credit definition – which reflects the commercial use of capital goods, complete plants, or factories – longer grace periods in correlation with the borrower's expected revenues, longer loan tenors coinciding with the reasonable commercial life of the underlying asset and more market-reflective forms of amortization (e.g. straight line semi-annual installments vs. digressive repayment to reflect life cycles, balloon repayment or adapting to seasonal requirements)⁷. Justification for longer repayment periods should also be weighed against transactions size. The ECA premium would be the ECA's main tool for regulating and pricing the choice of tenor.

Hence, for assets with a very long-life expectancy or a second life expectancy following rehabilitation services we propose to permit balloon structures that would not be fully amortized during loan life. This can be especially relevant to infrastructure development and benefit sustainable use of resources.

3. Increase the maximum repayment terms

When it comes to the repayment term, we propose an increase to 18 years for the scope of the Arrangement. A solution is to be found especially if it comes to terms for higher risk categories in financially not viable infrastructure, water and Engineering, Procurement and Construction (EPC) projects. Differentiation of tenor among corporate, sovereign, or bank risk loans and guarantees on the one hand, and project finance transactions on the other, should be terminated in favor of a longest possible term.

⁷ Currently the general Consensus rules foresee repayment in equal instalments at least every 6 months and first repayment at the latest 6 months after the commencement of the repayment term.

4. Allow for more flexibility with regard to down payments

The provisions of the OECD consensus currently allow up to 85% of the export contract value, including third country supply, to be covered, leaving a cash “down payment” of at least 15% of the contract value.

We agree ECAs should require a down payment when they provide support. It acts as a risk mitigant so agencies do not take a 100% financing risk with respect to the contract.

However, we would like to highlight that in some markets, such as sub-Saharan Africa, it can be difficult to source funding for 15% of the contract value, particularly for large government contracts. The consequence is often delays or, ultimately, no export, as public sector contracts tend to be subject to the political cycle, with the result that the much-needed infrastructure is not built, or it is sourced from non-OECD countries, with a negative Sustainable Growth agenda impact.

ECAs should have more flexibility to support the financing of the down payment, for example by reinsuring themselves through the commercial market. An alternative approach is a two-tranche solution – a shorter term for the down payment, with a longer term for the balance. ECAs could still reinsure with the private sector, if available, to manage risk exposure. Further investigation in this regard is welcome.

5. Implement a strong matching tool, controlled by notification

Improving the ability to match specific offers from outside the Arrangement will add market reflectivity. Provisions for matching the terms of an offer, from both inside and outside the Arrangement, are written into the Arrangement under Article 45. However, businesses report that this process remains difficult to follow in practice, especially in the case of matching with non-participants.

In particular, the requirement that “the matching Participant shall make every effort to verify such terms and conditions” appears extremely difficult if not impossible for businesses to support in practice where terms and conditions may be confidential. A strong tool controlled by notification will take of the burden of prove from exporters and **sends a strong signal to non-member countries and provide incentive to join, or associate themselves with, the Arrangement.** In order to ensure the stability and integrity of the Arrangement it will be essential to **develop an improved notification mechanism amongst member countries** to avoid internal unfair competition.

6. Introduce an easy to define, transparent & predictable CIRR

The Arrangement also stipulates that its Participants shall apply minimum interest rates, known as Commercial Interest Reference Rates (CIRRs), when providing official financing support for fixed-rate loans. No minimum interest rate requirements exist for floating rates.

The **CIRR** is regarded a competitive benchmark for fixed interest rates and is often demanded by borrowers. We therefore need to retain it, and it helps to provide a level playing field. In our view, the option of offering export credits with CIRR rates is a good tool to support export contracts, as it addresses combining the need for fixed rates with the need for market-reflectivity. Viable commercial alternatives in the private market do not yet exist for the time being and the CIRR rate closes a very real market gap.

The CIRR also plays an important role in transactional situations where borrowers and lenders have a strong preference for taking advantage of long-term cash flow stability and predictability fixed at the time of financing approval.

However, existing CIRR schemes differ from country to country, while exporters and banks act globally. We thus believe that a reform of the CIRR scheme is needed, which should not only calibrate the CIRR itself, but also recommend a consistent usage within the OECD.

As a general principles for reform, we believe the CIRR should be simple to define and understand. It must be transparent, published, predictable, competitive, market-reflective enough to meet unfixed drawing schedules, and not undercut market standards. It should also not crowd out banks in situations where the ECA is a direct lender. In addition to CIRR provided through commercial lenders in some countries, a refinancing based on CIRR rates should ideally be made available to commercial banks in all member countries of the Arrangement.

Finally, in order to address the huge financing gap for investment to be undertaken to meet SDG targets, a mechanism which allows for stronger coordination of public and commercial lending could be explored.

7. Revise the premiums applied to private borrowers in high-income countries

Premiums

The new framework for the calculation of ECA premia in Category 0 (Cat.0) countries established a level playing field amongst ECAs based on the “Through the Cycle Market Benchmark” (TCMB) model, but led to significantly higher pricing for shorter tenors.

Premia for Cat.0 borrowers are exceeding premia for Cat.1 and lesser categories’ borrowers with the same rating.

Discussion of the negative consequences of the new TCMB model should not wait until the end of the envisaged revision period. Nor would an increase of costs for Cat.1 and 2 countries be a solution.

We recommend inviting commercial banks and the export industry to a constructive dialogue to assess this issue and find a proportionate solution. In the meantime, we recommend limiting the premium at Cat 1.

Country risk classification

The current methods for country risk classification largely rely on qualitative assessment factors in addition to the model outcome. A review of relevant methodologies should be undertaken to strive for a more appropriate balance between the model-based approach and the qualitative adjustments.

Guiding principles for fundamental modernization

While such immediate updates will alleviate the situation in the short-term, the business community believes a fundamental modernization of the Arrangement is required, without

delay, to ensure that it remains fit for purpose into the future in order to foster a truly global level playing field.

As such, the time is right for Participants to consider a fundamental review of the Arrangement.

Business propose that the following principles guide a review and modernization of the Arrangement:

1. **Reaffirm the core purpose** of the OECD Arrangement to ensure it can continue as a vital multilateral tool and consider all official cross-border financing.
2. Better align the rules of **development and export finance** for debt products (including issues related to tied aid and sustainable lending rules).
3. Find answers to meet the growing financing needs for the **2030 Agenda for Sustainable Development** and the 17 Sustainable Development Goals (SDGs); this could include identifying new SDG impactful industries / sectors / technologies for support beyond what is available on official export credit terms.
4. **Simplify the Arrangement** where possible while maintaining the key objective.
5. **Preserve the export credit ecosystem / avoid crowding-out** of private finance.
6. Ensure the Agreement remains **anchored in the WTO** Agreement on Subsidies and Countervailing Measures.
7. Promote solutions **for transactions** below a certain size to support SMEs.
8. Provide a **grievance mechanisms** as well as **sanctions** in case of not obeying the new Arrangement

1. Reaffirm the core purpose

In our view, any future reformulation or replacement of the OECD Arrangement must first reaffirm its core purpose, which we see as follows:

- Be a consistent, predictable, and easily understood framework.
- Be a strong force for promoting a global level playing field: eliminating financial competition, and respecting rules on financing sustainable growth and the transition to a low carbon economy.
- Act to expand international consensus.
- Be adaptable to changing realities in international markets.
- Act to promote good business practice: eliminating corruption, promoting fair competition, and supporting sustainable, long-term business relationships.
- Ensure that similar activities are subject to similar regulation.

We believe that these core principles should guide any future review or update of the Arrangement.

2. Better align the rules of development and export finance for debt products

It would be sensible for any substantial reform to not focus on export credits alone, but to also consider all official cross-border finance in order to avoid development of alternative tools outside the Arrangement.

This means, for instance, that we need to strive for a better alignment of (multilateral and bilateral) development finance and officially supported export credits.⁸ In addition, enhanced discussions among OECD Member States, IFIs and DFIs are key. Such discussions should aim to develop a common set of eligibility criteria for debt products, categorization standards and incentive measures, aiming to foster the already existing synergies between ECAs and DFIs / IFIs, with the ultimate goal of directing them towards the common goal of meeting the SDG targets. In this regard, the export finance world needs to expand its horizons beyond renewable energy and demonstrate technology neutrality insofar as sustainability is concerned.

Such coordination effort will foster the additional benefit of protecting the level playing field and preventing commercial finance from being crowded out by more explicit or implicit subsidies, such as with blended finance used by IFIs and DFIs.

Going forward, it will be important to ensure the compatibility of rules on aid as set out in the Arrangement with new and emerging rules on ODA from the OECD DAC. **A number of priorities for a future global framework for all official finance include:**

- Common risk-based pricing system for all forms of cross border trade- or investment-related official finance / guarantees provided by multilateral and bilateral development banks and ECAs / EXIM banks.⁹
- Common terms and conditions on maximum repayment periods, maximum grace periods, repayment profiles, minimum officially supported interest rates, maximum amounts for official support for all forms of cross border trade and investment-related official finance / guarantees.
- Common regulations on all forms of tied aid and (some) untied aid (including ODA).
- Adequate and verifiable transparency on all forms of official finance with priority to (i) tied aid, (ii) export credits, (iii) untied development finance (multilateral and bilateral ODA and non-ODA), (iv) untied investment loans and guarantees and (v) other forms of official finance (e.g. equity investments).
- A recalibrated understanding of what constitutes tied and untied aid in close cooperation between Participants of the Arrangement and DAC members, given that tied aid across the OECD is on the upswing and there are indications that untied aid is often de facto tied.
- Related to this, there is a need to clarify and make compatible the application of the rules on trade-related aid. Three different sets of rules currently address tied aid issues (Arrangement/Helsinki rules, rules of the OECD DAC and the World Bank/IMF sustainable lending rules), resulting in competing methods of concessionality calculation and inconsistent eligibility criteria.
- Use of public and blended finance funds in a focused manner.

⁸ The markets are not mutually exclusive with both export credits and development financing having the potential for a positive SDG impact.

⁹ It is noteworthy that the report of the G20 Eminent Persons Group (EPG) “Making the Global Financial System Work For All” also refers to the development of some common “core standards” among leading IFI’s which includes pricing, environmental and social standards and anti-corruption policies of leading multilateral development banks. It is important that harmonized IFI pricing practices are adequately aligned with those of the international ECA community. The G20 EPG report can be found via the following link: <https://www.globalfinancialgovernance.org/report-of-the-g20-epg-on-gfg/>

3. Support the 2030 Agenda for Sustainable Development

As the world works towards meeting the SDGs as set out by the United Nations General Assembly in 2015 for the year 2030, some OECD members are emphasizing the importance of export finance to development and meeting the SDGs and appear keen to measure their contribution to those objectives.¹⁰

We understand that **private financing is critical to fulfilment of the SDGs**, as public financing cannot act alone. Thus it will be important to find answers to meet the growing financing needs for the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs) which could include identifying new SDG impactful industries / sectors / technologies for support beyond what is available on official export credit terms.

4. Simplify the Arrangement

As highlighted in box 1 on future scenarios, efforts should be made to simplify the Arrangement and enhance its transparency while at the same time adapting to the developments of both capital markets and risk mitigation tools of the last forty years.

While there is little current evidence of key outside players' desire to join the Arrangement, **smart rules, which make ECAs more customer friendly, will eventually make it more attractive for other countries to join.**

5. Preserve the export credit ecosystem

While a fundamental review of the Arrangement is necessary, we believe that any reform should preserve the export credit ecosystem, while ensuring avoidance of crowding-out private finance (e.g. by using additionality assessments when providing public financial support).

6. Remain anchored in the WTO

The Arrangement is currently anchored in the WTO Agreement of Subsidies and Countervailing Measures (ASCM). This means that officially supported export credits in conformity with the interest rates of the Arrangement benefit from the "safe haven" of the ASCM and are not considered a subsidy. This is an important role which any future framework needs to preserve.

7. Promote solutions for transactions below a certain size

A final consideration for a modernization of the Arrangement may be to promote more market-reflective rules for transactions below a certain size in order to support Small and Medium-Sized Enterprises (SMEs).

¹⁰ To help facilitate that the ICC Global Export Finance Committee has established a Sustainability Working Group, who's objectives have been to raise awareness amongst ECAs regarding the sustainable development opportunity and the potential to refresh and expand their public policy agenda.

8. Provide a grievance mechanisms as well as sanctions in case of not obeying the new Arrangement

In order to avoid Participants trying to bypass the Arrangement in order to meet domestic objectives, a grievance and sanction mechanism could be explored in case of circumvention of the rules. This would include the need for an effective enforcement mechanism.

Concluding remarks

In this joint position paper of Business at OECD, the European Banking Federation and the International Chamber of Commerce, we have laid out our common vision for the future of the Arrangement, which is to ensure a global level playing field for business by reforming the Arrangement and making it an easy to understand, transparent, predictable, market-reflective and consistent framework.

We call on political decision-makers to consider the solutions proposed and we commit to be a constructive and solution-orientated interlocutor in this debate.

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About the European Banking Federation

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The EBF is committed to a thriving European economy that is underpinned by a stable, secure and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

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