Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of almost 5000 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU only.


**Main Points**

Many of the European banks represented by the European Banking Federation (EBF) are active in providing finance for trade, not only through short term trade financing but also by participating in medium and long-term (MLT) export credit insured transactions. As requested in the Consultation, the remarks here concern both the short term and the MLT business. However, the nature of the risks in the two categories is very different, as are their implications for competition policy.

On the one hand, government support for the MLT export credit insurance business is designed to address the longer term, large scale political and financial risks that the commercial markets do not have the capacity to cover. The terms of this support within the EU are governed by a detailed framework established within the OECD, the OECD “Arrangement”, which is itself subsequently integrated into EU law. On the other hand, the bulk of the short term export finance business is such that, under normal market conditions, it should be covered by the commercial market. The current Communication is needed in this area, to ensure a level playing field free of government intervention in the coverage of risks that are commercially viable.

Around the world, governments recognize the importance of trade for economic and social development. Public support, through insurance or guarantees, for the risks implicit in trade and export transactions is an important instrument for sustaining trade. The financial and economic crisis triggered in 2008 continues to have serious repercussions. EBF members’ analysis of market conditions lead them to two main conclusions, as follows.

(i) In the MLT market, increased political and economic risk, and banks’ own funding constraints, have increased the need for public support.

(ii) Many previously “marketable” short term risks have become “un-marketable” for the time being. The seismic shift in market conditions caused by the crisis has highlighted the need for easily-operable flexibility to be built into the Communication.

---

1 Council Directive 98/29/EC of 7th May 1998 on harmonization of the main provisions concerning export credit insurance for transactions with medium and long-term cover:

The EBF’s remarks are limited to the sections of particular relevance to its member banks.

SECTION A: GENERAL QUESTIONS

A. 3. Market developments

- Please provide factual information about the latest market trends both as regards the short- and medium to long term segments, and covering different forms of financing (insurance, guarantee, direct financing etc.).
- What was the impact of the global economic crisis as regards the availability of private trade financing and credit insurance? Has the need and/or form of State intervention changed? Has the crisis affected on a lasting basis the scope of risks taken on by the market (i.e. the risks considered ‘marketable’)?
- What are the forecasts for the years to come? Do these trends affect all types of trade financing and credit insurance equally? Do they affect all sectors equally? Please explain any differences.
- Are there any specificities as regards domestic trade financing and credit insurance (covering transactions within one Member State), both in terms of latest market trends, the impact of the crisis and the forecasts for the years to come?

**Impact of the global economic crisis, latest market trends:**

The global crisis has dramatically impacted both trade and export financing, due to the fact that funding and liquidity became scarce resources, and the need experienced by banks in some countries to deleverage the amount of credit granted in order to reduce the credit/deposits ratio. Credit insurance has similarly decreased, although to a lesser extent.

The need to have recourse to some sort of State intervention has increased: in the form of direct credit lines to support internationalization and exports, as well as State-backed credit insurance, both short term and medium term.

**In the short term market**, private credit insurance, mainly under “whole turnover” policies slightly decreased the percentages of the risk insured and/or countries covered. Price (in terms of premium charged) increased significantly. Risks accepted by the market also suffered a dramatic change. Some of the countries previously integrated in the “marketable risk” list are clearly under pressure and should be addressed on an exceptional basis.

As a result of the crisis, **in the MLT market** demand for public insurance has been, and still is, strong. Both exporters and banks have become more risk-sensitive. Nevertheless, there continues to be a strong interest in reasonably priced transactions with an appropriate risk profile, when Export Credit Agency (ECA) cover is available as usual. Recently the market has been characterised by: a lack of peer consistency on pricing; liquidity problems; and, for some banks, business volumes noticeably lower than in 2010.
Forecasts for the years to come:

**Both markets can be expected to remain** under pressure for some time, affecting mostly credit but also credit insurance. Some sectors/industries (eg construction and public works) may be more affected than others and large buyers/importers may also suffer due to high risk concentration. It remains to be seen what impact the new capital and liquidity requirements for banks (Basel III, to be transposed into EU law by 1 January 2013 via Capital Requirements Directive IV) will have.

**In the MLT market** in particular, apart from a potential increase in costs, banks will be obliged to obtain long-term refinancing for long-term loans. Given that refinancing facilities have become more expensive over the last two years and are not always easily available, banks might face difficulties providing long-term finance to exporters. Additional uncertainties arise from the current debt crisis and the struggle to keep the euro area intact.

A. 4. Rationale of public intervention

*Under which circumstances would you consider there would be a potential need for public intervention in the area of short-term and/or medium to long-term trade financing and credit insurance? In other words, are there specific situations (e.g. type of instrument, duration, sector etc.) where the market is not able to provide trade financing or export insurance? Please explain what these situations would be.*

Insurance is sensible and even necessary in export business, since both economic and political risk may result in the loss of receivables. At the very worst, export business with certain countries such as developing and emerging markets would not be carried out at all if insurance were not available. In a scenario of global economic and financial crisis or recession, ECAs may play a pivotal role by contributing to facilitate financing of new projects, start-ups and pure trade finance. Additionally credit insurance is frequently used as a building block to attract financial solutions, such as invoice discounting and/or factoring, particularly in the case of smaller or weaker companies. This is all the more so in critical times when risk aversion is more evident.

Whereas a broad range of private insurance products exists for **short-term finance** for both industrialised and developing/emerging countries, the choice of products for **medium to long-term projects** is very limited due to the generally higher and more complex risk profile of transactions. Moreover, private insurance usually does not cover political risks, which are difficult to predict for a long period of time. Consequently, an exporter who considers the political risk to be high would probably not find a satisfactory solution offered by private insurers. Economies of scale and information asymmetries may also contribute to imperfection of private financial markets.

In other words, public intervention is justified where no satisfactory products are offered by the private sector. This is the case in the area of **medium to long-term finance**. Since 2008, demand for state-backed export credit insurance in this area has grown significantly. To prevent public export credit insurance in the medium to long-term area becoming a subsidy-distorting competition in the...
free market economy, and to prevent a State subsidy race, OECD members agreed on the “Arrangement”, which sets forth the most generous export credit terms and conditions that may be supported by its Participants. The EBF supports this OECD framework. Indeed, premiums charged by ECAs for their cover are calculated in such a way that they are adequate to cover the long-term operating costs and losses on programmes so that no further subsidy out of the public budget is needed. Consequently, many ECAs have generated substantial surpluses for the public budget over the past years.

The markets have proven that in the absence of severe disturbances they are in a position to provide appropriate financing sources on the basis of traditional export credit insurance schemes. However, the last crisis has shown that additional political/public support may be advantageous if channelled efficiently. Accordingly, ECAs and their political authorities should monitor up-coming developments concerning the debt- and euro-crisis closely in order to provide additional assistance should the need arise.
SECTION B: THE COMMUNICATION

B.1. Scope

The current Communication only covers one instrument, i.e. short-term export credit insurance.

- Do you see a need to broaden it to include other types of State interventions? Please specify for what instruments and why.
- Do you see a need to broaden it to include medium to long-term financing? Please explain why.

We reject broadening the scope of the Communication to include medium and long-term financing.

First, the distinction made between short-term financing on the one hand and medium to long-term financing on the other is well justified, as explained in section A.4.

Second, allowing ECA cover only for exports to non-EU and non-OECD countries would put European companies and banks at a competitive disadvantage compared with the US or Japan, of which the ECAs would still be able to cover exports to these countries.

Finally, such a new provision would aggravate the difficult position that European companies and banks are already in today compared with Chinese enterprises and financial institutions, which do not have to respect the OECD Arrangement, given that China is not an OECD member. Instead of further tightening the availability of public export credits, EBF members recommend that the EU should engage in negotiating global standards for export credits in order to achieve a level playing field throughout the world.

B.2. ‘Marketable’ and ‘non-marketable’ risks

- Do you consider the definition of the marketable countries/risks appropriate? Please explain why/why not.
- Does the scope of marketable risks differ for different types of instruments or policy holders (in particular in terms of duration, countries, sectors, type of companies)?
- Please explain what, in your view, are the decisive elements to qualify a risk as marketable or non-marketable.

Definition of marketable countries/risks

The current scheme of marketable countries/risks has the important advantage of being simple, clear, unambiguous and predictable. This is necessary for both exporters and credit institutions.
However, the distinction does not always seem adequate given the wide differences among EU countries regarding the quality of public contracting bodies.

In the current global crisis the “marketable risks” list of countries should be readjusted to reflect the present situation. Countries where ratings have been downgraded almost to speculative levels are clearly temporarily non-marketable risks.

The size of projects, and the limited capacity of insurers, particularly for some difficult names, may affect the availability of insurance and can make it impossible to cover large deals fully.

Accordingly, it might be worthwhile trying to establish a clear mechanism whereby also for EU/OECD countries a risk is considered "non-marketable" if one (or several) private insurer(s) have declined to provide appropriate cover.

**Scope of marketable risks**

This is not seen to differ.

**Decisive elements to qualify a risk as marketable or non-marketable**

The ability to obtain financing and/or extensive credit insurance from private market sources, at affordable conditions, would appear crucial.

**B.3. The escape clause**

Recent exceptional market conditions seem to have shown that greater flexibility is required in the conditions for demonstrating the unavailability of cover. Sources of evidence of non-marketability could include - as in the past - a demonstration by exporters that one or more private insurer(s) have declined to provide appropriate cover.

The intervention of the State under the escape clause should not lead to distortions of competition at the level of the companies obtaining insurance as long as the insurance premium is kept close to market levels.
SECTION C: OPTIONS FOR THE FUTURE OF THE SHORT-TERM EXPORT CREDIT INSURANCE
COMMUNICATION/OTHER ISSUES

Based on the above, we believe the Communication should be extended for a further 2 year period. With the lesson of the crisis, we recommend that increased flexibility be incorporated to allow a greater ability to react to changing conditions, particularly with regard to marketability.