European Communities

EUROPEAN PARLIAMENT

Working Documents

1983-1984

2 March 1984 DOCUMENT 1-1482/83

Report

drawn up on behalf of the Committee on External Economic Relations

on export credit subsidies

Rapporteur: Mr R. DELOROZOY

PE 87.680/fin.
Or. Fr.

English Edition

At its sitting of 17 June 1981, the European Parliament referred the motion for a resolution by Prinz zu SAYN-WITTGENSTEIN-BERLEBURG and others (Doc. 1-301/81) pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible and to the Committee on Economic and Monetary Affairs and the Political Affairs Committee for their opinions.

At its meeting of 29 April 1982, the committee decided to draw up a report and appointed Mr DELOROZOY rapporteur.

The committee considered the draft report at its meetings of 24-25 January 1984 and 21 February 1984 and at the latter meeting unanimously adopted the resolution as a whole with one abstention.

The following took part in the vote: Sir Fred CATHERWOOD, chairman; Mrs WIECZOREK-ZEUL, first vice-chairman; Mr van AERSSEN, 2nd vice-chairman; Mr DELOROZOY, rapporteur; Mr BLUMENFELD, Mrs GREDAL (deputizing for Mr PELIKAN), Mr MOREAU, Mr PESMAZOGLOU, Mr RADOUX, Mr RIEGER, Mr RIVIEREZ, Mr SEELER, Mr SPENCER, Mr VANKERKHOVEN (deputizing for Mr FILIPPI), Sir Fred WARNER and Mr ZARGES.

The opinion of the Committee on Economic and Monetary Affairs is attached.

The Political Affairs Committee has decided not to deliver an opinion.

The report was tabled on 27 February 1984.

The deadline for tabling amendments to this report will appear in the draft agenda for the part-session at which it will be considered.

C O N T E N T S

A

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on export credit subsidies

The European Parliament,

- having regard to the motion for a resolution by Mr SAYN-WITTGENSTEIN and others[1].
- having regard to the report by the Committee on External Economic Relations and the opinion of the Committee on Economic and Monetary Affairs (Doc. 1-1482/83),

A. stressing that, under Article 113 of the EEC Treaty, commercial policy falls within the Community's terms of reference,

B. pointing out that national export subsidies have a harmful effect on the Community as a whole,

C. stressing the need for the immediate harmonization of the various systems of export credit subsidies in force in the Member States,

1. Welcomes the new agreement of October 1983 on export credit within the OECD;
2. Notes that the improvements contained in this agreement include not only a reduction in minimum interest rates but also an automatic interest rate adjustment mechanism and a new system for lower interest rates;
3. Points out, however, that some problems remain unsolved particularly in the fields of mixed credit and the inclusion of subsidies on agricultural products as well as in aviation and nuclear power generation;
4. Renews emphatically its call to the Commission to draw up an inventory of these systems to ensure greater harmonization of the Member States' various export subsidy systems so that during a first stage, new national measures will be permitted only within a compulsory Community consultation procedure and during a second stage, all measures in this field will become the responsibility of the Community bodies[2];
5. Recommends that the Commission carry out a new study on the setting up of a European Export Bank which would also facilitate wider use of the ECU;

6. Instructs its President to forward this resolution to the Council and Commission.

---

[1] Doc. 1-301/81

[2] Doc. 129/77 - Cousté report

B

EXPLANATORY STATEMENT

I. Introduction

1. The continuing world-wide economic crisis with an ever-increasing number of firms collapsing and the rate of unemployment rising steeply in every country makes the failure to harmonize national export support measures in the Community seem even more detrimental than in previous years. The Committee on External Economic Relations examined these problems as long ago as 1977[1], when it deplored the lack of legal bases for Community decisions in this field and expressed the hope that an inventory of various export aid measures would be drawn up as soon as possible.

The problems which have existed since then are further aggravated by the increasing indebtedness of many countries and the need to cover balance of payments deficits, which leads among other things to a wide range of subsidized export credits at the taxpayers' expense to gain national advantage, ultimately distorting competition and provoking a credit competition which is in the long run detrimental to the Community. According to estimates, the governments of the member countries of the OECD in 1981, for example, spent 7,000 million US dollars on export credit subsidies. In view of the alarming international debt situation, such a trend constitutes an additional adverse factor, in effect exporting national problems to other countries by means of state funding.

2. A motion for a resolution[2] tabled by Mr Sayn-Wittgenstein and others offers the Committee on External Economic Relations an opportunity to take a fresh look at this area, important as it is for an exporting Community such as ours, and to urge the Commission and the Council to take new measures.

II. Forms of Export Credit Subsidies

3. We speak of export credit when the foreign buyer of exported goods or services effects payment only a certain time after the date of delivery or execution. The following are the main forms of national export credit support:

(a) in the field of financial credits
 (1) export financing programmes
 (2) foreign currency financing

---

[1] Doc. 129/77 Cousté report on the harmonization of export aid systems

[2] Doc. 1-301/81

(3) mixed credits

(4) project financing

(b) in the field of insurance

(1) export credit insurance

(2) new kinds of insurance (going beyond those under (1)).

4. To give a clearer idea of the underlying problems these different kinds of support measures are described briefly below.

Export financing programmes: Some governments support their exporters 'in the national interest' by using state funds to enable existing conditions on the credit market to be adjusted to the terms offered by international competitors. This can be done either directly by official loans or by certain subsidized refinancing procedures. There are numerous ways of applying these approaches and different countries, for example, the USA, the United Kingdom and France, combine both forms or make parallel use of them in their programmes.

Foreign currency financing: with the freely fluctuating rates of exchange the different interest rates for 'hard' and 'soft' currencies have become increasingly important in the credit competition. To offset certain competitive disadvantages, some countries with 'soft' currencies grant special interest facilities for loans in a 'hard' European currency. (Readiness on the part of an increasing number of governments to accept the risks and costs of foreign currency financing has led to a notable internationalization of export credit finance and to some extent to the simplification of project financing.)

Mixed loans: these are formed by combining state development aids with traditional export loans to bring the terms of export financing below the applicable international levels.

Project financing: the sharpest increase in recent years has been in regard to financing the costs of large-scale projects. These loans, which are mainly long-term (about 10 years) and are granted by private banks, are underwritten by governments and promoted by interest rebates or other concessions.

5. Export credit support can also, however, be provided through insurance - as is done in most countries.

Export credit insurance: insurance companies (on the whole, national companies) cover the economic and political risks for creditors of export loans. The cover provided can amount to as much as 90-95% of possible losses (including interest stipulated in contracts). Such insurance cover not only facilitates financing for the exporter, but also makes it possible to obtain money on better terms than would otherwise be available on the market.

New kinds of insurance: a number of governments have set up additional programmes for covering risks; these include

- at least partial cover of exchange rate risks
- insurance against price increases during the production period
- the covering of indemnity risks.

III. The international export credit agreement

6. There have been various attempts to reduce international competition in the credit sector. Thus, the International Union of Credit and Investment Insurers (Berne Union) tried to make the various national systems more transparent by improving the exchange of information. The most effective proposals so far, however, have been those of the OECD, which in 1976 led to an international 'consensus' on interest rates, maturities and other conditions for export loans.

In 1978, in the framework of this agreement, detailed guidelines were drawn up for publicly promoted export loans, although they were not binding in the sense of an international agreement until 1983 and consequently came under constant pressure from individual countries which repeatedly departed from them and from the agreed rates.

The conditions of the 'consensus' remained virtually unchanged from 1978 to 1981, a time of unusually large exchange rate and interest rate fluctuations. The 1982 agreement represented a compromise between countries endeavouring to reduce export credit subsidies (the USA in particular) and those wanting to have more room for manoeuvre in this field (including France). A new non-exemption clause has been included in respect of interest rates and the repayment period.

7. On 14 October 1983 after months of negotiations a new consensus on export credits was reached which, to the Community's satisfaction, improved the terms of the previous agreements (which expired on 30 April 1983 and were extended unt· 31 October 1983 or until a new consensus was agreed) and prevented a credit competition war.

The following are the main points of the new agreement:

1. The minimum interest rates have been slightly reduced, as shown in the table below, and brought into line with the lower interest rates for 1982;

2. An automatic adjustment mechanism for the minimum interest rates has been introduced. These are to be adjusted every six months on 1 January and 1 Jul; if the weighted average of the interest rates on the main currencies of the SDR basket (Dollar, Deutschmark, Yen, French franc and Pound sterling) change: by more than 0.5%. (The weighted average is based on the interest rates of t year state bonds of the countries concerned, i.e. USA, Germany, Japan, France Great Britain). This new mechanism obviates the need to adjust the relevant minimum interest rates each year.

3. A new system has been agreed for countries with interest rates lower than those specified in the consensus. At present this affects Japan, Switzerla Germany and the Netherlands: these countries can apply the current market interest rates for their export credits, increased by 0.2%, if the credits concerned are state guaranteed. So that these countries are not at an advant all other countries that are party to the consensus may offer export contract in the currency of one of the low interest rate countries on the same terms.

The new scheme of minimum interest rates is as follows:

Category of country (OECD classification)	Life of loan 2 - 5 years	5 - 8.5 years	8.5 - 10 years
	Minimum interest rates		
1st group of countries	12.15 (12.15)	12.4 (12.4)	-
2nd group of countries	10.3 (10.3)	10.7 (11.35)	10.7 (-)
3rd group of countries	9.5 (10.0)	9.5 (10.0)	9.5 (10.0)

8. Although this last 'consensus' is helping to clarify the situation and lessen international competition in the credit sector, countervailing trends are undermining its effectiveness. Thus - as observed earlier - countries such as the USA are seeking further reductions in subsidies in this sector while, by contrast, more countries are stepping up their export support measures in the face of the continuing economic crisis, so as to offset their growing expenditure on imports and strengthen their weak economic activity at home. This is particularly true of the practice of financing by mixed loans, a practice which is increasingly used by some exporting countries. In addition, a number of other problems remain unresolved, particularly the matter of including subsidies for agricultural products, aviation and nuclear power stations.

Publicly financed support (in various forms) of exports is likely to become a very serious problem for free competition in the coming years. Similar trends in the developing countries are particularly disturbing. These countries, too, are spending ever more budget resources on export support measures, although they already benefit from favourable export credits from the industrial countries. Quite apart from this, it seems wrong that they should be spending their limited resources on subsidizing exports to the markets of the rich countries.

IV. Conclusions

9. Article 113 of the EEC Treaty places commercial policy clearly within the Community's terms of reference. Nevertheless, such a policy is evolving only slowly. This is especially true of the export promotion sector. As long ago as 1975 the European Court of Justice confirmed the Commission's competence in regard to export aids[1], yet no satisfactory progress has been made in the intervening years towards integrating national policies adequately.

Under the circumstances and in view of the existing distortions of competition, which are damaging to the Community as a whole, the Commission must act more effectively than it has done so far to prevent further expansion of national export aid systems and exercise its powers fully, so that a common Community approach vis-à-vis the developing countries, the other industrial countries and the state-trading countries may be adopted in this field in the foreseeable future.

10. In this context, the Committee on External Economic Relations emphatically renews its plea for the Commission to draw up an inventory of these systems so that during a first stage new national measures will be permitted only within a compulsory Community consultation procedure and, during a second stage, all measures in this field will become the responsibility of the Community bodies.[2]

---

[1] OJ No. C 268, 22 November 1975, pp. 18-23

[2] Doc. 129/77 - Cousté report

11. In 1976, the Commission submitted a proposal for the setting up of a European Export Bank[1]. In view of the opposition of some Member States at the time, this initiative was never followed up. In the meantime, the problems of financing multinational projects have not diminished and the rapporteur therefore recommends that the Commission carry out a new study on the setting-up of a European Export Bank which should make it possible to extend the use of the ECU in export credit. It should, at the same time, work out methods for monitoring the use of mixed credits so as to prevent this practice from giving rise to surreptitious subsidies.

The conclusions of the opinion of the Committee on Economic and Monetary Affairs should be fully endorsed.

[1] See also Doc. 66/77 - NYBORG report

MOTION FOR A RESOLUTION DOCUMENT 1-301/81

tabled by Mr SAYN-WITTGENSTEIN-BERLEBURG,
Mr VAN AERSSEN and Mr SCHNITKER

pursuant to Rule 47 of the Rules of Procedure

on the Council's agreements concerning
export subsidies

The European Parliament,

- having regard to the situation on the international capital market, which the Europe of the Ten, as represented by the Council, failed to come to terms with by making joint preparations for the world economic summit,

- having regard to the failure to implement agreements adopted at the Venice summit of the European Council to the effect that, in the interests of the market economy, the capital market should not be unnecessarily distorted by subsidized export credits,

- taking a critical view of the subversion of the notion of giving particularly poor developing countries advantages independent of the market situation by means of favourable credit conditions - as a result of the fact that the interest arrangements of the Central Banks are being undermined nationally outside the group of countries concerned,

- in view of the undercutting of market interest rates substantiating this fact and amounting to about 3% in individual cases and in view of the resultant export subsidies of 10 to 15%,

- certain that such subsidies interfere permanently with the market forces, which reduces the actual export capacity of a country in a manner which in the long term curbs productivity with the result that its need for subsidies of necessity rises,

1. Expects a Council presidency to strive to promote the adoption by its members of a united position which is clear to the rest of the world, particularly in all matters relating to the agreements;

2. Urges emphatically, therefore, that the value of meetings of the European Council should not be called into question as a result of the furtherance of short-sighted national interests;

3. Considers further that the provision of unilateral subsidies for exports by means of export credit systems is a sign of lack of solidarity between the partners in the European Community which has far-reaching consequences for the world market and leads to greater protectionism to the detriment of the market economy;

4. Stresses the principle of consensus interest rates as a means of putting an end to the situation;

5. Stresses the usefulness of such agreements as a means of eliminating unproductive differences between market rates of interest and consensus rates without affecting individual binding concessions vis-à-vis individual developing countries;

6. Calls urgently upon the European Council to dispel at its next meeting any disagreements on the matter of export credit subsidies by declaring its belief in the free capital market economy;

7. Instructs its President to forward this resolution to the Governments of the Member States and the President-in-Office of the Council.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr J. PURVIS

At its meeting of 21 October 1981 the Committee on Economic and Monetary Affairs appointed Mr. Purvis draftsman of its opinion.

The Committee considered the draft opinion at its meeting of 18-19 January 1983 and adopted it by 8 votes for to 3 against.

The following took part in the vote:

Mr. HOPPER, (first Vice-chairman and acting chairman); Mr. PURVIS, (draftsman); Mr. BEUMER (deputizing for Mr. Collomb); Mr. BONACCINI; Mr. CABORN; Mr. CAROSSINO (deputizing for Miss. Forster); Mr. PURVIS (deputizing for Sir Brandon RHYS-Williams); Mr. ROGERS; Mr. SEAL (deputizing for Mr. Schwartzenberg); Mr. WAGNER and Mr. WEDEKIND (deputizing for Mr. von Wogau).

(iii) The Committee reiterates as self-evident that there is everything to be gained for Community enterprises in the world wide market if a common Community position is adopted in negotiations and agreements with the USA, Japan and the state trading countries on this matter, and that the Community should work with these blocs towards the deescalation of self-defeating competition in export subventions of all types.