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PRACTITIONER COMMENTARY

The new OECD arrangement on export credits: Breakthrough or bad compromise?

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Abstract
Public export credits and trade insurance require a global framework of institutions, rules and regulations to avoid subsidies and a race to the bottom. The extensive modernisation of the Arrangement on Officially Supported Export Credits (Arrangement) of the Organisation for Economic Co-operation and Development intends to re-level the playing field. This Practitioner Commentary describes the demand for adequate government interventions, considers the need for the reform and discusses key aspects of the new Arrangement. We argue that there is a breakthrough in several important areas such as tenors, repayment terms and green finance. However, we also find that the modernisation falls short in areas such as the interplay between different rulebooks, pre-shipment instruments' regulations and climate action.

Export finance and trade credit insurance are vital components for enabling international trade. Exporters require sufficient, reliable, predictable and affordable sources of financing as over 80% of global trade relies on loans or risk mitigation solutions. Demand encompasses both funded and non-funded products, as well as pre-shipment and post-shipment offerings. Nevertheless, large trade finance gaps result in barriers to exports and an unstable, insufficient range of commercial offerings (Auboin, 2015; Chor & Manova, 2012). Governments play a significant role in bridging these market gaps by offering officially supported export financing through equity, loans, insurance and guarantees. By offering existing and implementing new export promotion instruments, export-oriented government strategies help economies to leverage positive externalities and enhance economic growth (Wilkinson et al., 2000).

Government interventions through export credit agencies (ECAs) and export–import banks (EXIMs) furnish financial support to firms with an international orientation, encompassing pre-shipment and post-shipment stages (Blackmon, 2016; Chatterjee et al., 2020). Originally countercyclical public instruments and so-called lenders or insurers of last resort for many years, governments are now expanding the scope and roles of EXIMs and ECAs. Mandates, principles of intervention, as well as products are changing, focusing on trade facilitation and trade creation with complementarity to the market. ECAs and EXIMs finance, insure or guarantee more than USD 2.5 trillion cross border trade and investment together with private insurers. This is equivalent to 13% of world cross-border trade for goods and services (Hale et al., 2021). Empirical studies, for example by Felbermayr and Yalcin (2013), demonstrate the positive economic impacts resulting from ECAs and EXIMs.

1 | REGULATING OFFICIALLY SUPPORTED EXPORT CREDITS

Officially supported exports need a framework of institutions, rules and regulations to avoid subsidies and a race to the bottom. In providing a sound regulatory framework for international commerce, governments not only support cross-border trade flows by removing obstacles but also ensure transparent and predictable rules of global trade. The Agreement on Subsidies and Countervailing Measures (ASCM) of the World Trade Organisation (WTO) addresses multilateral disciplines regulating the provision of subsidies. For export credits, the Arrangement on Officially Supported Export Credits (the Arrangement) of the Organisation for Economic Co-operation and Development (OECD) plays a crucial role.

The Arrangement is a gentlemen's agreement between the Participants, that is, Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom and the United States. The scope of application is official support provided by or on behalf of a government, for example via export credit guarantees or insurance, as well as direct credits, refinancing or interest rate support. The Arrangement does not only contain interest rate provisions but also has, for example, requirements in relation to down payments, limitations on repayment terms, minimum premium rates (MPRs) for credit risk and inter-participant transparency. Furthermore, it regulates actions Participants can take if countries do not abide by the rules, such as a matching process (Dawar, 2020; Jennekens & Klasen, 2023). Recommendations of the OECD Council go beyond the individual transaction level in terms of complying with good governance regarding environment, human rights and anti-bribery measures, as well as sustainable lending principles.

2 | NEED FOR REFORMS AND NEW ARRANGEMENT

For years, the global regime for export credits has faced challenges (Vassard, 2015) and exporters have urged governments to reform the Arrangement. Since 1978 and amended several times in recent decades, the Arrangement seeks to level the playing field by taking away the possibility to provide officially supported export credits below a minimum level. However, a broader reform not only for updates but for fundamental modernisation was requested by many stakeholders. This was due to limitations not reflecting disruptive change in times of poly-crises, the weaponisation of the global trade landscape, the emergence of new players such as China and India not bound by the Arrangement, different Participants' approaches to circumvent Arrangement rules, as well as the climate crisis (Jansen, 2022; Liao, 2021; Michie, 2022).

In spring 2023, the Participants finally agreed on an extensive modernisation of the Arrangement. In addition to a simplification of the text through streamlined provisions and a more robust transparency regime, the aim of the reform was to re-level the playing field with more flexible financing terms and conditions. This includes extended repayment terms of 15 years for most transactions depending on the useful life of goods and services (from 8.5 years to 12 years previously), repayment flexibilities, as well as an adjustment of MPRs for credit risk for longer repayment terms and obligors with a higher credit risk rating.

Furthermore, the expansion of the scope of 'green' projects is a core element of the new Arrangement. Participants agreed that the scope of projects eligible for longer repayment terms of 22 years (from 18 years) under the Climate Change Sector Understanding (CCSU) is expanded. It now covers environmentally sustainable energy production, CO2 capture, storage and transportation, transmission, distribution and storage of energy, clean hydrogen and ammonia, low emissions manufacturing, zero and low emissions transport, as well as clean energy minerals and ores (OECD, 2023).

3 | A BREAKTHROUGH

After many years of negotiation and several unsuccessful attempts, the Participants were able to agree on a landmark modernisation package reforming the Arrangement. Facing significant competition from emerging economies, exporters based in OECD countries now have an up-to-date regulatory framework for the orderly use of officially supported export credits. Internationally oriented businesses benefit from competitive regulations because the new Arrangement delivers on many relevant aspects such as longer repayment terms, flexibility regarding repayments and premium adjustments.

A huge benefit is the regulation concerning only two and much longer maximum terms, that is, 15 years for standard transactions and 22 years for climate-related projects without a distinction between different country categories. The new Arrangement only has four specific sector understandings; specifics for project finance and rail infrastructure transactions disappear. Furthermore, longer tenures have the potential to withdraw the competitive disadvantage of better payment conditions from non-Participants. Standard repayment now includes annual equal instalments and annual interest payments. In addition, the possibility of adjusting repayment profiles more closely to cash flows has been expanded. For non-standard repayment clauses, the weighted average life is relevant. Premium adjustments lead to a flattening of premium curves for long maturities.

Furthermore, the Arrangement reform has the potential to boost ECA and EXIM financing for climate change mitigation and adaptation projects. Although export credits are essentially demand driven and a necessary but not sufficient element in climate finance, green finance has become a key topic for officially supported export credits. Based on climate finance-related mandates, many ECAs and EXIMs introduced ambitious climate strategies in recent years. Previous research showed that institutions supported climate finance amounting to up to EUR 8.4 billion in 2020, that is, up to 1.5% of total climate finance flows (Klasen et al., 2022). ECAs and EXIMs also created new or amended existing products for climate finance such as green loans and guarantees. The expansion of the scope of green transactions and climate-friendly projects eligible for longer repayment terms now allows for a substantial increase in the role of ECAs and EXIMs in the green transition.

4 | IS IT ENOUGH?

Although the Arrangement modernisation can be a game changer in many fields, the reform falls short in several other areas. With the existence of two interconnected but very different set of global disciplines, a continuous uncertainty concerning the interplay between WTO regulations and Arrangement provisions remains. Multipolarity and fragmentation were key drivers for the modernisation—hence a step away from a global regulatory regime. True global standards are a distant prospect and broader reforms for a new, comprehensive 'safe haven' are still desperately needed. Furthermore, term loans, mezzanine financing, equity and working capital guarantees granted by or on behalf of a government to exporters or their banks continue to fall outside the Arrangement's scope. These instruments are now extensively provided to exporters by many ECAs and EXIMs but are still not on a level playing field.

In addition, several green aspects of the reform package fall short. Despite many positive developments on climate finance, some definitions of green projects such as clean hydrogen allow a (too) broad range of applications. Existing loopholes regarding the coal-fired power prohibition remain. More importantly, there is no broad net-zero commitment of Participants. Only a small number of institutions such as Export Development Canada, the Export and Investment Fund of Denmark, the Swedish ECA EKN and UK Export Finance have pledged individual commitments and are currently working on a broader Net-zero Export Credit Alliance outside the Arrangement.

5 | CONCLUSIONS

The new Arrangement is a game changer and can inspire other players to modernise multilateral regulations in other policy areas such as development finance. Undoubtedly, it is a big step forward to restore the level playing field for exporters in highly industrialised countries. As governments failed to build new global standards in an International Working Group on Export Credits in a multipolar and fragmented world, Participants were forced to take it upon themselves to review rules and regulations for officially supported export credits and preserve the Arrangement's relevancy. Streamlined provisions, better transparency, more flexible financing terms, as well as pricing adjustments in the new Arrangement will encourage global competition among exporters based on the quality and prices of goods rather than on the most favourable officially supported export credits. However, additional reform pressure remains. The question, of how 'safe' a 'safe haven' in a broader sense can be, is not resolved. Financing provided by the government in a pre-export phase is still not covered by the Arrangement despite its growing importance. Significant doubts remain if green aspects are precise and sufficient due to a lack of highly ambitious approaches to align support with a 1.5°C warming limit. At last, implementation and monitoring of the new Arrangement are key success factors for the future level playing field. The litmus test is to what extent exporters, foreign buyers and banks are capable of and willing to apply expanded financing opportunities.

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The authors declare no conflict of interest.

DATA AVAILABILITY STATEMENT

Data sharing is not applicable to this article as no new data were created or analysed in this study.

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