

Taking the export strain



NIGEL ADDISON SMITH EXPLAINS HOW THE GOVERNMENT'S EXPORT CREDIT AGENCY IS DEVELOPING PRODUCTS AND APPROACHES TO ENSURE THE EXPORT CREDIT MARKET REMAINS VITAL AND DYNAMIC.

During the credit boom, demand for export credit guarantees fell away, as the banks and credit insurers could meet the demands of UK exporters in other than specialist areas. But then came the credit crunch and with it the withdrawal of capital from the market by insurers and banks. Businesses now wish to be less dependent on credit insurers and obtaining longer-term bank financing is likely still to prove challenging to source because of Basel III.

Until 1991 UK government agency the Export Credit Guarantee Department (ECGD) covered all types of UK exports – consumer goods, commodities, light manufactures, capital goods and services. At its peak in the 1960s ECGD supported more than 30% of visible UK exports. But in 1991 the government privatised most of ECGD's business (based in Cardiff) dealing with consumer goods and other exports sold on short terms of payment. This business was bought (and is still operated) by Dutch insurer NCM, which subsequently merged with Gerling Kreditversicherung, and eventually rebranded as Atradius.

POST-PRIVATISATION After this privatisation, ECGD focused exclusively on supporting exports of major capital and semi-capital goods and project-related services sold usually (though not always) on extended credit of two years or more. ECGD aims to complement rather than compete with private sector lenders and credit



insurers. Against this background, business volumes during the period leading up to the credit crunch declined.

Most of its business related to major contracts and projects, although ECGD's services have also been available for contracts with a value as low as £25,000. The largest single sector has been large commercial aircraft (mainly Airbus aircraft and Rolls-Royce engines), but last year ECGD supported business in the construction, oil and gas, power, healthcare, water treatment,

petrochemicals, industrial processing, satellites and automotive sectors.

ECGD's main product is the guarantee of the repayment of a loan made available by a UK-based bank to an overseas buyer to support a UK export. An example is the loan guaranteed by ECGD for a \$400m contract awarded by Gazprom to Rolls-Royce to supply eight industrial gas turbines driving centrifugal compressors for the underwater section of the new 1,200km Nord Stream pipeline that will run beneath the Baltic

from Russia to Germany. At a lower end of the scale ECGD also assisted Rolls-Royce with a \$14m loan guarantee for a power station operator in Slovakia.

Alan Semple, deputy group treasurer at Rolls-Royce, says: "ECGD has been very supportive on the aero-engine side but also has the expertise and capability to provide us with the financing support we need in our other export deals."

ECGD expects higher levels of demand from larger exporters involved in major overseas projects to continue. But, since the economic downturn, we have also received many approaches for support from smaller exporters and their representatives, who complain that, in current market conditions, they are no longer receiving adequate service from the private sector credit insurance and banking markets, due to falls in their risk appetite.

During the downturn ECGD launched a letter of credit confirmation scheme to support banks assisting exporters in emerging markets where they were capacity-constrained. It also allowed its guarantee to be used for the first time in many years to raise funds in the capital markets. Two aircraft asset-backed transactions were completed under this guarantee and the scheme has now been made permanent.

NEW PRODUCTS ECGD has now launched a bond support product and an export working capital product, and has relaunched its export insurance policy to cover all export categories other than consumables; all products are on a pilot basis. Launch of an FX credit risk support mechanism is also under discussion.

The bond support product covers 50-80% of the contract bond requirement, sharing risk with banks on the exporter and relying primarily on contract-based security.

The export working capital product is for up to two years on specific export contracts. It is assumed that small and medium-sized enterprises (SMEs) will be the main beneficiaries. The FX product would support the capacity of banks to provide specific FX hedging for export contracts receiving support from another ECGD product.

Coinciding with the relaunch of the export insurance policy, ECGD has agreed to pay commission to insurance brokers for introducing business that cannot receive support from the trade credit insurers and is for a risk acceptable to ECGD. If the

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overseas buyer risk is creditworthy, then ECGD will issue the policy to the exporter and pay the broker. By means of this mechanism, ECGD will be able to satisfy itself that exporters' needs are being reasonably met. It is likely that take-up will mainly be among SMEs.

Lord Green, the trade minister, says: "These new initiatives will offer an expanded, better co-ordinated range of products to large and small businesses alike, widening access to the capital and credit insurance exporters need to make the most of their opportunities."

Semple says: "It's good to see that ECGD has widened its product range and I would expect the bond support scheme has the potential to bring more banks to the market."

ECGD supported a total of £1.5bn of exports in 2008/09, rising to £2.2bn in 2009/10 and £2.9bn in 2010/11. It is quite possible that ECGD will support an even higher amount in 2011/12, whether as a result of the growth of its existing products or due to the new products. ECGD may also be supporting significantly more transactions as a result of additional focus on support for SMEs.

An exporter product awareness campaign across the UK has been launched through UKTI, the British Chambers of Commerce and other industry trade associations. The Foreign & Commonwealth Office is also working to support export growth with ministerial support on major contracts.

Like other export credit agencies (ECAs),

ECGD has its activity governed by international agreements between OECD member countries. These cover products, pricing and other terms, anti-bribery and corruption, and regulation of environmental and social impacts. There are also agreements for certain sectors such as commercial aircraft (where Brazil is also a signatory).

BIGGEST CUSTOMERS Airbus and Rolls-Royce are among ECGD's largest exporter customers. It is estimated that airlines require \$77bn of financing for new aircraft deliveries in 2011 to be met by the banks, capital markets, the leasing companies and the ECAs. ECGD takes it in turn to be the lead guarantor, reinsuring Coface of France and Euler Hermes of Germany when it is not in the lead.

Other major customers include Carillion (construction), Siemens VAI (steel works), Balfour Beatty (construction), Cleveland Bridge, Astrium (satellites) and Motorola (mobile phone masts). Recent deals have been the Football Association selling Premiership match TV rights to a Middle Eastern TV station and potash exports by Cleveland Potash. ECGD has also provided loan guarantees on some major project financings, including for the construction of the Yanbu and Saudi Kayan petrochemical plants in Saudi Arabia.

ECGD has liberalised its foreign content rules to enable up to 80% foreign content to be guaranteed. This gives UK exporters greater flexibility in winning contracts as prime contractor or where a significant regional or local content to the contract is required. Prime contractor exporters, having won the contract, can then subcontract work to other UK businesses, many of which are SMEs that may not otherwise be able to access export markets.

CONTACTS Corporate treasurers should consider making contact with John Snowdon at ECGD if they are experiencing difficulties in obtaining export finance or credit insurance. His telephone number is 020 7512 7621 and his email address is john.snowdon@ecgd.gsi.gov.uk

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The Treasurer is working on an article on OECD export credit agencies' pricing, which will appear in a forthcoming issue.