



Credit Terms

In bidding for capital goods and services contracts and projects overseas, credit and financing terms are often a major factor. ECGD's aim is to help UK exporters win business, and ECGD will always try to help exporters to construct the best possible credit package. As well as protecting exporters and banks against political and commercial risks, ECGD guarantees can give access to fixed rate finance

The precise terms that ECGD can support for a particular transaction will vary according to the size and nature of the contract and the buyer's country.

This section explains the kind of terms that you can expect in support of business where the buyer requires credit of two years or more. Whilst it will always try to provide the best possible support for UK exporters, ECGD, like similar organisations in other countries, is subject to certain commercial constraints and international obligations, as set out below.

Commercial

ECGD is expected to run insurance operations so as to generate sufficient reserves to give the level of assurance of breakeven required by Ministers. To achieve this, like any other insurer, ECGD has to take in enough premium to cover its claims and overheads. ECGD has to examine the risks on each piece of business very closely and price them accordingly. While ECGD will always try to help exporters, the risks of non-payment in some countries are so high that ECGD cannot consider insuring them at all, or it may have to limit its exposure and allocate cover on a first come first served basis. Similarly, not all buyers or projects represent acceptable commercial risks.

International

As the UK is a member of the European Union and the Organisation for Economic Co-operation and Development (OECD), ECGD is bound by the OECD Arrangement on Guidelines for Officially Supported Export Credits (known as the 'Arrangement' or 'Consensus'), which underpins elements of the Subsidies Code in operation at the World Trade Organization (WTO). The Arrangement has been incorporated into EC law. This agreement was designed to stop the 'credit race', which was speeding up during the early 1970s, and later to regulate the increasing use of tied aid finance. The Arrangement regulates levels of risk premium, maximum repayment terms and officially supported interest rates for goods and for services involving two or more years credit. This section concentrates on the maximum terms as set out by the Consensus, including special sectors covering large aircraft, ships and nuclear power stations.



ECGD is also a founder member of the Berne Union, – the worldwide association of credit insurers, which promotes the international acceptance of sound principles of export credit insurance and the establishment and maintenance of discipline in the terms of credit for international trade. This body also acts as a forum for exchanging information and, to a more limited extent than the Consensus, also acts as a brake on escalating credit terms.

So, what terms can ECGD support for a sound project with a creditworthy buyer?

The credit terms

By making use of ECGD, the credit terms offered to a buyer are usually longer than those available on the commercial market.

Starting point of credit

The Arrangement mirrors the Berne Union rules on the point at which the credit period starts. This starting point of credit fixes the date at which the buyer has to start repaying the credit in relation to the type of goods or services being supplied. For parts and components, quasi-capital goods, and capital goods consisting of individual items usable in themselves, the latest date is the date of acceptance of the goods or the weighted mean date of acceptance. For services the latest date is submission of invoices or acceptance of the service by the client. For parts and components, quasi-capital goods, capital goods and project services and complete plants or factories where the exporter has responsibility for commissioning, the latest starting point is at commissioning. For complete plants or factories where the exporter has no responsibility for commissioning, the latest starting point is the date of physical possession of the equipment by the buyer(s).

Length of credit

The period over which a buyer can pay for the goods and services is governed by the three constraints mentioned above: the Arrangement, the Berne Union and ECGD's underwriters' commercial judgement. The Arrangement sets out maximum credit periods according to the buyer's country. There are two categories of country, set out below, for which the following maximum credit periods apply:

- Category I countries – normally five years but after prior notification up to eight and a half years.
- Category II countries – up to 10 years.

The OECD Country Classification listings are set out below. A few countries have not been classified as yet by the OECD. If you have a prospective contract in any one of these countries please speak to the underwriter for your sector.



ECGD cannot support credit terms for general capital projects longer than those set out above. Longer credit terms up to a maximum of 15 years can be supported for renewable energy and water projects. These special financial terms were agreed by the OECD in April 2005 and came into effect on 1 July 2005, for a trial period of two years further extended by two years until July 2009. These new terms allow borrowers up to 15 years credit. This compares to 12-year terms available for other non nuclear power projects. For project financing cases ECGD is able to tailor the repayment terms to the cashflow of the project up to a maximum credit period of 14 years. For further details, please see the section on Project Financing.

The Berne Union has established maximum credit terms for particular categories of goods that also take into account contract values. There are far too many of these to list here, but it is worth bearing in mind that for exports of particular goods or for particular contract values, the payment terms may be shorter than those in the Arrangement. ECGD underwriters will also use their commercial judgement to determine whether these maximum credit terms are appropriate for a particular piece of business.

Repayment of the credit must be in equal half-yearly, or more frequent, instalments. The first is payable six months from the starting point of credit. Interest also has to be paid at least semi-annually and is usually paid on the reducing balance of the principal outstanding.

Cash/direct payments

The Arrangement requires that the buyer must pay at least 15 per cent of the contract value before the starting point of credit. This means that the credit terms outlined above apply to a maximum of 85 per cent of the contract value. ECGD also requires that at least 5 per cent of the contract value to be paid on or before the date on which the supply contract becomes effective.

Interest rates

A fixed interest rate may be supported by ECGD throughout the period of an export credit, – see Officially Supported Rates below – or ECGD may provide a ‘pure cover’ only guarantee under which it guarantees repayment of the loan at a commercial interest rate agreed by the lending bank and the Borrower, this may be fixed or floating – see Pure Cover below.

Officially supported rates

ECGD’s support for fixed interest rates is given through the Fixed Rate Export Finance (FREF) scheme in which approved UK banks participate. This enables fixed interest rates to be offered to overseas buyers while ensuring that the lending bank’s floating rate funding costs are covered. When the bank’s funding costs are higher than the fixed rate (which the borrower pays), ECGD pays the difference to the banks (and vice versa).



The Arrangement regulates the minimum fixed interest rates that can be made available with support from exporters' governments. These rates are known as Commercial Interest Reference Rates ("CIRRs"), which vary according to the currency of finance, and are available for three maturities: up to five years; over five and up to and including eight and a half years; and over eight and half years.

CIRRs are calculated each month for most of the main trading currencies and, once fixed, remain valid over the full repayment term of the relevant loan. They are calculated according to criteria specified in the Arrangement and are designed to reflect what the market rate would be for long-term, fixed-rate export finance for a first class corporate borrower, if such finance were commercially available.

CIRRs are revised on the 15th of each month. The current CIRR rates can be obtained from ECGD's website (www.ecgd.gov.uk). For a particular transaction, please contact the ECGD Helpline on +44 (0) 20 7512 7887 for details of the relevant underwriter for your sector.

Under revised FREF arrangements introduced on 1 April 2005 (the "revised scheme") ECGD no longer provides interest rate support on the basis of Pre-Contract CIRRs; only the option to set a contract CIRR is now available.

The interest rate that ECGD may agree to support under the revised scheme will therefore be the CIRR prevailing at or about the time the lending bank releases the relevant loan agreement for signature by all parties. In most cases the interest rate specified in the loan agreement will only be applicable if the loan agreement is signed by all parties within the initial 30-day period. If, within that 30-day period the loan agreement has not been signed by all parties, then the held rate will no longer apply. At this point if ECGD's offer of support, is still valid, a new supported rate will be determined on that day and held for a further 30 days and again on each successive thirtieth day within the validity period of ECGD's offer of support. If the offer of support is no longer valid, ECGD's commitment to provide fixed rate export finance support ceases.

However, for contracts with public or sovereign buyers in certain specified countries the initial period for which the rate will be held is 60 days. The countries concerned are: Mexico, Iran, Brazil, Turkey, Vietnam Libya and Uzbekistan. ECGD will also consider, on a case-by-case basis, other markets for holding of the CIRR for 60 days, subject to customers at that time providing ECGD with legitimate reasons for this proposed concession.

In addition, the initial period for which the rate will be held will be 60 days for Supplier Credit Finance facilities where either the premium is being paid out of the loan or the transaction involves the use of bills or notes, irrespective of the identity of the borrower or the country where it is established.

Further information about the revised scheme, and any changes made to it from time to time, will be posted on our website (www.ecgd.gov.uk).



Currency of finance

ECGD can provide FREF support for loans denominated in the following currencies – UK sterling, US dollars, Euros and Japanese yen and is limited to contracts not exceeding a threshold of £50m in UK Sterling, \$90m in US Dollars, €70m in Euros or ¥10,000m in Japanese yen; the thresholds will be reviewed from time to time. For more information please contact Iain Phillips on +44 (0) 20 7512 7560.

Pure cover

ECGD can give guarantees for the repayment of finance without FREF support – this is known as 'pure cover'. Banks are usually only willing to offer finance subject to pure cover when the borrower agrees to pay an interest rate that matches the bank's funding costs.

This often means the borrower will have to pay a floating rate of interest, although fixed-rate commercial financing may be available in some currencies.

Contracts financed on a pure cover basis are not bound by the minimum interest rate rules of the Consensus. However, they are subject to all the other points on credit terms set out in this section.

Foreign content

ECGD recognises that UK exporters may source goods and services from a variety of countries. However, ECGD's role is to encourage UK exports and therefore ECGD can only support limited amounts of foreign content in a UK contract.

ECGD announced simplified and more flexible rules for UK exporters looking for support for export contracts involving the sub-contracting of work to non-UK firms. The main points of the simplified rules are:

- For all contracts (credit or cash) the maximum level of support for foreign content will be 80% of the contract value, where ECGD risk capacity is available:
- The distinction between contracts valued at £10m and below or above £10m will be removed:
- The distinction between goods originating from the EU or Japan and other countries is removed: and
- Software and related services originating in the UK and exported electronically will be regarded as UK content.

For further information on ECGD's reinsurance agreements with other export credit agencies, please contact Robin Mayer on +44 (0) 20 7512 7569.

OECD Consensus country classifications can be found at:

<http://www.oecd.org/dataoecd/45/48/37124663.pdf>

