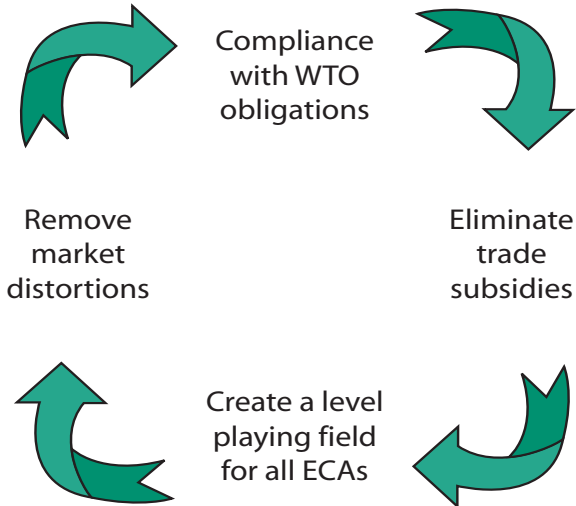


International objectives and progress

Summary

The UK's Presidency of the EU between July and December provided a platform for pursuing ECGD's objectives. Good progress was achieved during the year in a number of areas.

Consistent with Government policies, ECGD's objective in both the EU and the OECD is to strengthen the multilateral framework of export credit disciplines. The OECD Arrangement governs the work of official Export Credit Agencies (ECAs) by reference to WTO requirements, and its continuous updating is a central focus of ECGD's international work.



ECGD represents the UK at the EU Council Working Group on Export Credits in Brussels, which it chaired in the second half of 2005. The Group helps to co-ordinate the EU position as a participant in connection with the OECD Arrangement and other OECD export credit policy issues. Acting through the EU Council Working Group on Export

Credits, ECGD has continued to press for structural reform of the OECD Arrangement Fixed Interest Rate Provisions (CIRR rules) to bring them closer to market practice.

Progress in the OECD

ECGD has been active in the OECD in support of moves to reform and strengthen the OECD Arrangement. A key aim is to make it more flexible in responding to the needs of certain sectors.

In July 2005, the Arrangement was extended to include new guidelines on project finance flexibility, allowing variations of payments. The OECD also agreed revised terms for structured, non-project, finance.

ECGD welcomed moves to put the renewable energy sector on an equal footing with nuclear power. Under an OECD pilot programme promoted by the EU, ECAs can offer up to 15 year cover terms for renewable energy and water projects and more demanding environmental standards have been set for hydropower projects. The pilot will operate until July 2007.

ECGD is promoting a common approach to buyer risk pricing through statistically-based risk assessment. Central to this approach are certain high-level principles, including risk reflectiveness, sensitivity to markets, transparency and predictability.

During the year, ECGD also took part in OECD meetings held to develop enhanced standards on anti-bribery measures. Those talks resulted in a new strengthened statement by the OECD in April 2006. Common measures to eradicate bribery and corruption are

consistent with ECGD's aim of achieving a level playing field for UK exporters.

A major review is underway of the OECD Aircraft Sector Understanding. ECGD and other major ECAs supporting aircraft manufacturers are seeking an agreement that would include Brazil and would:

- deliver a level playing field for ECA support;
- include a risk differentiated pricing regime; and
- ensure that ECA support is provided on terms that complement available market finance.

The year ahead

Responsible lending to poor countries in the future is a key concern for the UK Government following the multilateral debt write-off for (many) Heavily Indebted Poor Countries (HIPCs). ECGD will be

seeking to support the establishment of a common position on the future support of finance by ECAs, so that unsustainable debt build up by post-HIPCs and other Low Income Countries does not take place and thereby recreate the debt problems that they have faced in the past.

Pursuance of a revised Aircraft Sector Understanding and a common approach on buyer risk pricing will be major themes for the year ahead. A review of the Recommendation on Common Approaches on the Environment is due to be concluded by the end of 2006.

Through the OECD's new outreach strategy, ECGD will be supporting steps to build closer relationships with major non-OECD exporting countries, such as China and India. This will strengthen the multilateral approach that is successfully applied in progressing the international agenda.



'The OECD groups 30 member countries sharing a commitment to democratic government and the market economy' (www.oecd.org/about)



The United Kingdom held the Presidency of the Council of the European Union from 1 July until 31 December 2005. (www.eu2005.gov.uk)