Finance for exports

Introduction

An article in the June 1961 issue of this *Bulletin* reviewed the facilities available in the United Kingdom for financing exports, and subsequent articles[1] have given details of improvements in them. Credit facilities have come to play an increasingly important part in supporting the effort to strengthen the balance of payments through a high and rising level of exports. The Government therefore keep all aspects of export credit under continuous review; the Bank of England's particular concern is with the availability and cost of finance. This article reviews some of the special features of the system of finance for export credit and the way in which they have evolved against a background of growing international competition in credit terms.

General background

Because most export contracts are won in the face of international competition, including competition on credit terms, post-shipment finance may have to be provided by the exporting country. If the United Kingdom's experience can be taken as a guide, most of this finance is of a short-term nature but the United Kingdom, like other countries exporting capital goods, has in recent years provided an increasing amount of medium and long-term finance. The demand for this stems mainly, but by no means entirely, from developing countries, where the process of economic growth has generated a need for capital in excess of domestic resources and a need for foreign exchange for which the level of official reserves has generally been inadequate; large-scale industrial and social projects, and imports of capital goods generally, have therefore to some extent depended on finance from the industrialised countries.

It is impossible to calculate with any degree of accuracy the value of world imports made possible by foreign capital as this finance takes a variety of forms, of which export credit is only one. For example, direct investment, including reinvested profits, may finance the import content of the recipient's expansion programme; and even if the funds are required only for domestic purposes, the boost to the recipient country's official reserves may lead to a more expansionist import policy for the country as a whole. Similarly, imports may also be directly or indirectly financed by overseas portfolio investment, by the floating of bond issues on foreign capital markets or the euro-bond market, by short or medium-term euro-currency borrowing, by foreign aid programmes and lending by international agencies. Estimates are, however, available of capital flows to the developing countries from members of the Development Assistance Committee of the O.E.C.D. Figures published by the O.E.C.D.[2] show that the net inflow[3] (only part of which would be related directly to the financing of imports)

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1 March 1962; March 1965; June 1966; December 1967; September 1969.

2 O.E.C.D. Press Release, Press/A(69)33, Paris, 11th July 1969.

3 Including contributions from donor countries to multilateral agencies but excluding export credit of up to one year.

rose from $8,100 million in 1960 to $12,900 million in 1968, a rise of nearly 60%, although in real terms the rise would have been smaller. Official bilateral flows (which include some official export credits) accounted for 40% of this $4,800 million increase. The remainder was accounted for mainly by increased flows of private capital, including borrowing through bond issues on the international capital markets and export credit of over one year; this latter element grew strikingly from $500 million in 1960 to $1,100 million in 1967 and about $1,800 million in 1968 – a rise over the period of 260%.

For the industrialised countries the giving of export credit means forgoing, for the time being, receipts which (had it been possible to secure earlier payment) would have gone either to increase the reserves or to reduce short-term liabilities. In the United Kingdom the amount of credit outstanding has tended to rise with the growth of exports and, to some extent, the lengthening of credit – a rise which has added to the United Kingdom's total financing requirement.

However, the United Kingdom still sells a very high proportion of its exports for cash or on very short credit; according to the latest Board of Trade analysis of trade credit extended to other countries by traders and banks,[1] some 56·4% of exports in 1967 were on terms involving cash or credit of up to 60 days, 31·2% on terms involving credit of 61–180 days, and 5·8% on terms involving credit of 181 days to one year, making a total for these categories of 93·4%. It is estimated that over the past five years the annual increase in the amount of net credit extended on exports (*i.e.* the amount of credit extended after deducting advance and progress payments received before shipment) has been:

	£ millions
1964	97
1965	116
1966	179
1967	196
1968	334[a]
Total	**922**[a]

[a] Provisional estimate.

At the end of 1968 net credit extended and still outstanding is provisionally estimated to have amounted to £1,985 million.[2] The size of these figures is such that, in the United Kingdom's reserves position, it must be an object of policy both to avoid any unnecessary softening of trade credit terms and to keep the growth of this credit to the minimum compatible with maintaining the competitiveness of exports.

The special schemes for finance for export credit in the United Kingdom

The special schemes in the United Kingdom for bringing forward finance for export credit at favourable rates have grown out of established banking arrangements. They therefore supplement the basic overdraft and other lending facilities of the deposit banks and the other institutions – notably the

1 *Board of Trade Journal*, 3rd September 1969, page 614, and *United Kingdom Balance of Payments 1969*, H.M.S.O., August 1969, page 51. The analysis excludes oil companies and public sector enterprises.

2 Of £1,651 million outstanding at the end of 1967 £504 million, or just over 30%, was due from overseas affiliates of British companies (*i.e.* overseas branches, subsidiaries, associate or parent companies).

accepting houses, overseas banks, export finance houses, confirming houses and export factoring companies – which specialise in the financing of exports. There has been no attempt at structural change and consequently the minimum interference with the banks' existing relationships with their customers. Arrangements of three kinds are involved in the special schemes: the issue of guarantees by the Export Credits Guarantee Department direct to banks; the provision by the banks of finance at favourable rates against such guarantees; and refinance facilities at the Bank of England. Although these arrangements are inter-related, it is simplest to trace their evolution separately. A summary of the special schemes follows on page 433.

E.C.G.D. guarantees to banks

E.C.G.D. guarantees to banks were first introduced to assist with the financing of medium-term export credit. Their use was later extended to longer-term financing and more recently to short-term financing. Originally they were available only in association with supplier credit but they have since formed the basis of a new system of buyer credit. Under supplier credit the exporter extends credit to the buyer and himself arranges finance where he cannot finance the credit out of his own resources. Under buyer credit finance is arranged directly between the overseas buyer or borrower, and a bank or similar institution in the United Kingdom; the finance is tied to the export of specified goods but the supply contract between buyer and seller and the loan contract are separate.

In the early post-war years most of the demand from overseas buyers for medium-term credit from exporters of capital goods was met initially by supplier credit. As the range of goods selling on credit widened to include heavier capital equipment and contracts for the supply and installation of complete plants, credit was needed for longer periods and larger amounts, and credit terms became a more important element in winning contracts. Buyer credit was part of the response to this change in the pattern of demand for credit. Its emergence as an important part of the export finance system is a reversion in some ways to an earlier system of finance where the onus for mobilising finance did not rest with the exporter.

Specific guarantees to banks

One of the difficulties in meeting the post-war demand for medium-term export finance was the traditional reluctance of the banks to engage in term lending. They were, however, willing to employ some of their resources in this way, and in the arrangement of these facilities the security provided by an E.C.G.D. credit insurance policy, the rights in which could be assigned by the exporter to his bank, was frequently, and especially for certain markets, of material assistance. However, although E.C.G.D. policies covered all major risks, assignment arrangements did not offer more than collateral security and much still depended on the exporter's competence and observance of policy conditions. It could therefore be necessary, particularly for longer-term lending, for the bank also to take full recourse to the exporter and, when

this recourse liability was relatively large, it could restrict the other facilities which an exporter might require from his bankers. In 1954, the Chancellor of the Exchequer announced[1] that, in parallel with the credit insurance guarantee given to the exporter, E.C.G.D. would now be prepared to give a guarantee direct to the financing bank; and that, where such a guarantee was given, the City would find the finance, from the stage of acceptance of the goods, without recourse to the exporter. The guarantees were initially available for contracts of a minimum value of £500,000 for credit periods of three years or longer from shipment and for up to 85% of the credit given to the overseas buyer. Later, the minimum contract value was successively reduced and dropped altogether in March 1966; the proportion of the credit covered by the guarantee was raised to 90% in April 1958 and to 100% in April 1965, at the same time as the minimum credit period was reduced to two years.

These *specific guarantees to banks,* for which the exporter pays a relatively small additional premium, promise unconditional payment to the banks, three months after the due date, in the event of the buyer's non-payment for any reason. They therefore provide the banks with complete security irrespective of the circumstances in which a default arises. From the exporter's viewpoint, they help with the arrangement of finance, frequently without correspondingly reducing his borrowing powers. There is, however, a separate recourse agreement between E.C.G.D. and the exporter, on which E.C.G.D. calls when it has to meet a claim from the bank under the bank guarantee arising from a cause of loss not covered by the exporter's credit insurance policy.

Financial guarantees

For very large projects the demand for credit did not stop at the medium term, and United Kingdom exporters encountered a growing volume of officially supported foreign competition on longer terms. To meet this in a way which relieved the exporter of financing and recourse problems, E.C.G.D. introduced in 1961 *financial guarantees* to cover business financed on a buyer credit basis. Under these arrangements, E.C.G.D. guarantees a loan made by a bank direct to an overseas buyer or borrower, to enable payment to be made to the supplier on 'cash' terms. A financial guarantee covers the full amount of capital and interest under the loan against non-payment for any reason. The overseas buyer out of his own resources is normally required to pay direct to the supplier not less than 20% of the contract price, including an adequate down-payment on signature of the contract and a further instalment on or after shipment of the goods or commissioning of the plant. The remaining 80% is paid to the exporter from the guaranteed loan, which is given by the bank without recourse to the exporter. Financial guarantees are not normally available for projects costing less than £2 million, excluding local expenditure, or £1 million in the case of ocean-going ships. The guarantee does not relieve the exporter, lender or buyer of any commercial responsibilities towards each other, but the supply contract is separate from the loan contract and the borrower accepts full liability for repayment from the

1 *Hansard*, 6th April 1954, columns 212–13.

moment he draws any part of the loan. For its guarantee of the loan E.C.G.D. charges the exporter a premium which is similar to the premium for supplier credit cover.

Comprehensive guarantees to banks

The guarantees to banks already described are available for post-shipment credit of two years or longer. In 1966 and 1967 new schemes[1] were introduced extending the use of this type of guarantee to shorter-term financing. Most export credit falls into this category and financing may be either by the discounting of bills or by way of overdraft facilities. Whatever the method, exporters may have difficulty in finding security to cover bank finance, and the bank has to take account of the possibility that payments from overseas buyers may not in fact be received. As with longer-term credit, insurance against non-payment can assist an exporter in arranging finance, and access to the additional security of a guarantee issued direct to his bank may enable the exporter to obtain finance without correspondingly reducing his borrowing powers. Under the short-term schemes these guarantees are of two kinds. The *comprehensive bill guarantee,* introduced in 1966, is available where the credit is more than 30 days but less than two years from the date of export and the buyer gives a promissory note or accepts a bill of exchange. In these circumstances E.C.G.D. can give an unconditional guarantee to the exporter's bank that it will pay 100% of any sum three months overdue on a bill or note. To qualify for this form of guarantee the exporter must have held comprehensive cover for at least twelve months. A revolving limit based on experience during that period and on the exporter's general standing is agreed by E.C.G.D. for the finance it will guarantee during the following twelve months. The exporter pays a premium in advance of ⅛% of the agreed borrowing limit and signs a recourse undertaking giving E.C.G.D. the right to recover from him should the bank claim sums due in advance of, or in excess of, claims payable under his policy.

The second kind of guarantee is the *comprehensive open account guarantee* introduced in 1967. This is available for exports on open account unsupported by bills or notes on terms of up to six months' credit or cash against documents overseas. The conditions of the open account scheme are similar to those of the bill scheme (the exporter must have held comprehensive cover for at least twelve months), except that the guarantee is of a loan for 90% of the net invoice value of insured exports within a borrowing limit approved by E.C.G.D. To borrow against the guarantee, the exporter gives the bank a promissory note to cover repayment of his loan shortly after payment is due from his buyer; his obligation to repay the loan is independent of the actual date on which he may receive payment from the buyer. Should the exporter not honour his promissory note, E.C.G.D. pays the bank and has the right to recover from the exporter.

Buyer credit guarantees to banks

The most recent extension of the system of guarantees to banks enlarges the area of buyer credit so as to cover medium-term as well as longer-term credit. As announced

1 See *Bulletins* for June 1966, page 149, and December 1967, page 379.

by the President of the Board of Trade on 23rd May 1969[1] E.C.G.D. is now prepared to give *guarantees to banks for buyer credit* relating to capital goods with a minimum contract value of £1 million, and a further extension by stages to contracts of a lower value is intended in the light of demand. The effect of this new facility is to give exporters, buyers and banks greater freedom of choice in the method of financing exports on terms of two years or more from shipment. The decision to widen the scope of buyer credit facilities meets a growing demand for a form of financing which avoids most of the recourse problems inherent in supplier credit arrangements; it also reflects E.C.G.D.'s increased experience of operating the buyer credit technique. However, in extending the use of buyer credit there is no intention of altering normal criteria for determining the appropriate length and amount of credit for particular orders. The loan, which will normally be for 80% of the cost of the U.K. goods and services (the remaining 20% being found from the buyer's own resources) will be fully covered as to capital and interest by the buyer credit guarantee and will be used to help finance payments to the supplier on 'cash' terms.

In parallel with this extension of buyer credit, E.C.G.D. has been making greater use of buyer credit guarantees to banks to support 'lines of credit' to counter foreign competition in this form in important or potentially important markets. These credits give access to a variety of British suppliers on terms agreed in advance and available only for a specified period. The normal procedure is for E.C.G.D. itself to seek out with an overseas buyer or borrower the basis of business, define its industrial scope and arrange in outline the financial terms of the credit. In this way, arrangements are negotiated in principle before buyers and borrowers enter into direct commercial negotiations as regards both purchases and banking services. The financial agreement is entered into by a managing bank (often a London clearing bank but sometimes an accepting house or an overseas bank), and the finance is provided by the London clearing banks and the Scottish banks, each contributing in ratio to the value of the business which its own exporting customers obtain within the terms of the credit. Access to the credit is confined to purchases from exporters holding comprehensive cover with E.C.G.D. or exporters whose orders would be eligible for specific underwriting.

Arrangements with banks regarding availability and cost of finance

A system of export finance based on finance from the banks but incorporating special features depends for its smooth working on close relations between the authorities and the banks, and consultations at each stage of development. As early as 1954 the banks had indicated readiness to find finance without recourse to the exporter to the extent that E.C.G.D. was prepared to give a specific guarantee direct to the exporter's bank. Under these arrangements, supplemented in 1961 by the Bank of England's refinance facility described later in this article, a substantial volume of export financing on terms of up to five years post shipment was made available,

1 *Hansard*, 23rd May 1969, column 171.

the greater part from the deposit banks. The normal rate for this lending prior to 1962 was 1% above Bank rate, minimum 5%. A supply of longer-term finance became more important with the extension of E.C.G.D. cover under financial guarantees to credit of over five years from delivery; and at about the same time it became apparent that U.K. exporters were experiencing difficulties because of the reluctance of overseas buyers to commit themselves to a rate of interest fluctuating with Bank rate. The response to these problems was provided by arrangements negotiated in the autumn of 1961 with leading banks and insurance companies and announced[1] by the Chancellor of the Exchequer on 23rd January 1962. The London clearing banks and the Scottish banks agreed to provide, at a fixed rate of 5½%, finance which would be repayable within seven years from the date of the commercial contract, and a group of member companies of the British Insurance Association agreed to lend up to a total of £100 million at a fixed rate of 6½% where longer-term finance was needed; for the latter purpose the Insurance Export Finance Company was formed. A once-for-all commitment fee of 1% was payable on both the medium and the longer-term lending. These arrangements were not free from difficulties in practice and in January 1965 the Bank of England announced[2] that the London clearing banks and the Scottish banks had agreed in the national interest to take over the financing hitherto provided by the Insurance Export Finance Company and provide funds at the interest rate of 5½% for the whole period of a financial guarantee contract when this exceeded seven years.

The fixed rate arrangements for export finance[3] apply where the credit period is two years or more from shipment and the facility is covered by a guarantee given by E.C.G.D. direct to a bank *i.e.* a specific guarantee to the bank in association with a supplier credit guarantee, a financial guarantee, or a buyer credit guarantee. The agreement of the London clearing banks and the Scottish banks to lend at a fixed rate of 5½% was originally for a five-year period. The rate was an estimate based on past experience of an average lending rate appropriate, given the E.C.G.D. guarantee and the liquidity arrangements referred to later, to the whole term of a credit. Since the expiry of the five-year period, the arrangements have been subject to periodic review and the banks have agreed to continue to lend at 5½% for the time being. This rate is low in relation to the current level of interest rates, and there is no doubt that the willingness of the banks to continue to provide finance at 5½% for the whole term of an eligible credit is of great benefit to exporters.

For shorter-term financing under the bill and open account schemes, the arrangements with the banks are of a slightly different kind. Under these schemes the London clearing banks, the Scottish banks and the Northern Ireland banks have undertaken to make finance available against a direct E.C.G.D. guarantee (either a comprehensive bill guarantee

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1 *Hansard*, 23rd January 1962, columns 52–3.

2 See the March 1965 *Bulletin*, page 30.

3 The extension of the arrangements to lending for domestic shipbuilding was described in the June 1967 *Bulletin*, page 157.

or a comprehensive open account guarantee) at Bank rate, minimum 4½%; the rate is therefore open to fluctuation during the period of the credit. Certain other banks also participate in these schemes. In the case of the bill scheme the banks make no charge for the facility apart from the interest on outstanding advances; but for the open account scheme, the banks charge ten shillings for handling each promissory note in addition to the interest charged.

Lending under the fixed rate arrangements is not subject to credit restriction. All other finance for exports, including finance at Bank rate against comprehensive bill or open account guarantees, is subject to credit restriction although it ranks as a priority category together with finance for the production and investment necessary to sustain or increase exports.

Refinance facilities

The report of the Committee on the Working of the Monetary System[1] issued in August 1959 foresaw the possibility that a lack of export credit might arise because considerations of liquidity would make the banks reluctant to stretch their facilities for export credit, or that the banks, while feeling no hesitation on the score of liquidity, might be so fully lent as to be reluctant to add to their existing commitments on export credit. The first possibility became an actual problem within a relatively short space of time, with the result that in February 1961 the Bank of England, after discussion with the Committee of London Clearing Bankers and the representative banking organisations of Scotland and Northern Ireland, introduced a refinance facility[2] to promote the availability of medium-term export credit. The transactions eligible for refinance under this facility (which corresponds to Part I of the facilities as subsequently revised[3]) are export credits extended for at least two years from the contract date and supported by an E.C.G.D. guarantee issued either direct to a bank or to the exporter and assigned to a bank. The part of the finance which the Bank of England stand ready to refinance is the amount of an outstanding credit repayable within the next eighteen months or 30% of the total amount outstanding, whichever is the greater. Because refinanceable amounts may be treated by the bank as liquid assets, the facility provides relief to the bank's liquidity whether or not refinance is sought. For this reason the facility has not been used, and it is in fact intended to be used only if a bank represents that it needs in the last resort to raise cash to meet a withdrawal of deposits, or that its operations are being hampered by a shortage of immediately available liquid assets.

When the banks agreed in 1965 to take over the longer-term financing previously provided by the Insurance Export Finance Company, it was recognised that, despite the existing refinance facility, they might not find it prudent to commit their resources to such long-term lending without some arrangement to enable them to obtain repayment, in case of need, after a reasonable period. To meet this difficulty

1 Cmnd. 827, paragraph 896.

2 See *Bulletins* for March 1961, page 15, and June 1961, page 21.

3 See the September 1969 *Bulletin*, page 292.

a supplementary refinance facility[1] was provided under which the Bank of England stood ready to refinance the whole of the outstanding balance of an export credit five years or more after its origin, provided that the credit was eligible under the original scheme and carried interest at the fixed rate. This supplementary facility (since replaced) applied only to new transactions, and would not therefore have become operative before 1970.

More recently the rapid growth, both actual and prospective, in the volume of fixed rate lending, has made it necessary to find a solution to the second of the two problems mentioned above and foreseen by the Committee on the Working of the Monetary System. The banks were increasingly concerned at the possibility that fixed rate lending would absorb a disproportionate share of their resources, and it was recognised that some means was needed to relieve this pressure. Discussions with the banks led to agreement in principle in November 1968 to certain modifications in the earlier refinancing arrangements, the main effect of which is to provide the London clearing banks and the Scottish banks with access to refinance where fixed rate lending for exports and shipbuilding is absorbing more than a defined share of their total resources. Final agreement on a new scheme[2] was reached in May 1969. Part I of this retains the liquidity provisions of the original refinance scheme, and amounts refinanceable under it may as before be treated as liquid in a bank's balance sheet. Part II replaces the supplementary facility introduced in 1965 and gives effect to the new facility agreed in principle in November 1968. It applies only to lending at the agreed fixed rate. To the extent that such lending may not be treated as liquid under Part I the Bank of England stand ready to refinance any amount in excess of 5% of the bank's total gross deposits calculated as an average over the previous twelve mid-month make-up days. Interest is payable at the rate currently applying to the fixed rate schemes. The extent of the commitment to provide refinance under Part II will depend on the growth of fixed rate lending relative to bank deposits; at 19th November 1969 the facility had been used to the extent of £23 million. The amounts refinanceable under Part I are indicated on page 434.

Lending under the bill and open account schemes is not covered by refinance facilities but the schemes were not intended to affect adversely the banks' liquidity. The Bank of England have therefore agreed that bills of six months' original tenor or less covered by the bill scheme (or advances secured by such bills), and promissory notes with a tenor of six months or less drawn under the open account scheme, may be counted by banks as liquid assets for the purpose of calculating their liquidity ratios.

1 See the March 1965 *Bulletin*, page 30.

2 See the September 1969 *Bulletin*, page 292.

Summary of special schemes

	Credit period covered (from shipment)	Minimum contract value	Interest rate (per cent per annum)	Other banking charges usually made	E.C.G.D. charges	Liquidity arrangements
Short-term credit (supplier credit)						
Lending supported by:						
Comprehensive bill guarantees	30 days–2 years	None	Bank rate, minimum 4½	None	Normal rates plus charge of ⅛% flat on borrowing limit	Bills or notes of 6 months' tenor or less may be treated as liquid
Comprehensive open account guarantees	Up to 6 months	None	Bank rate, minimum 4½	10*s.* for each promissory note handled		
Medium-term credit (supplier or buyer credit)						
Lending supported by:						
Specific guarantees to banks (supplier credit)	2–5 years (or longer in matching cases)	None	Fixed rate, at present 5½	Commitment fee of 1% flat plus, in most cases, a negotiation and, in some cases, a management fee	Normal rates plus supplementary premium	Amounts refinanceable under Part I of refinance scheme may be treated as liquid (Part II also applies)
Buyer credit guarantees	2–5 years (or longer in matching cases)	£1 million	Fixed rate, at present 5½	Commitment fee of 1% flat plus, in most cases, negotiation and management fees	Normal rates	
Longer-term credit (buyer credit)						
Lending supported by financial guarantees	Usually at least 5 years	£2 million (£1 million for ocean-going ships)	Fixed rate, at present 5½	Commitment fee of 1% flat plus, in most cases, negotiation and management fees	Normal rates	

Use made of special schemes

The following figures illustrate the use made of guarantees to banks under the special schemes; the net amounts advanced by the banks against these guarantees; and the amounts eligible for refinance.

	Specific guarantees to banks and financial guarantees					*of which:* eligible[a] for refinance under Part I of Refinance Facilities (as since revised)
	Guarantees issued during year		Guarantees current at end of year		Net bank finance outstanding at end of year	
	Number	£ millions	Number	£ millions	£ millions	£ millions
1961	38	28	165	178	85	*42*
1962	50	44	165	223	109	*54*
1963	89	98	235	309	124	*59*
1964	49	145	267	433	140	*68*
1965	89	123	332	532	171	*81*
1966	189	197	492	686	236	*107*
1967	502	252	961	874	347	*146*
1968	720	442	1,653	1,279	500	*208*

(To the limited extent that buyer credit guarantees were issued prior to May 1969, they are included in the above figures.)

	Comprehensive guarantees to banks				
	Guarantees issued during year		Guarantees current at end of year		Net bank finance outstanding at end of year[b]
	Number	£ millions	Number	£ millions	£ millions
1966[c]	396	65	378	61	. .
1967[d]	745	117	741	93	45
1968	1,018	201	855	141	95

. . not available.

a For the reasons given on page 431 this facility has not been used.

b Figures relate to the clearing banks and Scottish banks only; finance extended by other participants in the scheme is not thought to be very large.

c Bill scheme introduced in March 1966.

d Open account scheme introduced in July 1967.

The above figures show that the use of the special schemes has expanded rapidly in the last three years. This was to be expected with a rise in exports and some lengthening of credit terms, but the availability of finance under the schemes and the interest rate advantages they offer have probably also induced a switch to these forms of bank finance from other forms of finance. This is especially likely in the case of fixed rate finance for credit of two years or more, where there has for some time been an appreciable interest rate advantage in relation to other bank lending rates. A large part of the finance for export credit, particularly short-term credit, is, however, provided by banks and other institutions outside the special schemes in the ordinary course of business. Where such finance forms part of the working capital of companies, it cannot be separately identified.

International competition in credit terms

The risk of unrewarding competition in credit terms is inherent in a system of international finance tied to the purchase of goods. Competition in credit terms has in fact intensified with the increased use of export credit. For exporters of capital goods, price, quality and delivery are no longer necessarily sufficient on their own to the winning

of contracts; credit terms can sometimes be a crucial factor. However, as most countries exporting capital goods have developed systems of export credit insurance and export finance designed to maintain the competitiveness of their exports, none is likely for long to gain from taking a lead in stretching out credit terms. Nevertheless a stretching of terms has taken place in the last decade, although there has been continuing co-operation between supplying countries aimed at keeping competition in credit terms within reasonable bounds. The developments outlined above in the United Kingdom's credit insurance and export finance facilities have taken place against this international background.

Competitiveness in credit terms, particularly for large export projects, is unlikely to be simply a matter of being able to offer the same length of credit as competitors; for most business on financial guarantee terms, for example, the exporter will need to be able to offer a competitive package of terms which will include proposals on length and cost of credit for a specified proportion of U.K. goods and services (leaving a balance to be provided by direct payments out of the buyer's own resources, partly before and partly on shipment), security satisfactory for underwriting and, possibly, credit for associated local costs. In most countries an exporter's ability to offer a package of this kind depends to a large extent on the availability of official credit insurance or financing facilities, although there may be possibilities for some private financing without such support.

The cost and availability of credit are likely to be important elements in any package of credit terms. In this area international comparisons are rendered difficult by differences in export finance systems. In some countries the system is more complex than in the United Kingdom, where finance from the banking system under the special schemes has resulted in a comparatively simple and uniform interest rate structure. By contrast, in some important competitor countries finance from the banking system is supplemented by substantial use of rediscount or refinance facilities provided by central banks or other official institutions, in some instances at preferential rates, and by financing through specialised official institutions such as the Export-Import banks of the United States and Japan; there may therefore be a combination of finance from official institutions and the banking system together with some finance from the exporter's own resources, with the rate of interest varying both according to the source of the finance and the length of credit. In some countries there is also greater scope than in others for the effective cost of export credit to the foreign buyer (which will include banking charges) to vary from transaction to transaction. Moreover, there may be less difficulty in some than in others in obtaining access to finance; in the United Kingdom the availability of export finance is generally no problem where E.C.G.D. is able to provide guarantees direct to banks, as these bring forward finance for the whole amount of the credit (except in the case of the open account scheme where the proportion is 90%).

A further consideration is that the cost of credit becomes a more important element in competitiveness the longer the credit period.

Decisions on the credit terms to be supported by official credit insurance tend to be a matter of fine judgment for the authorities even where the package is not as complex as is usual for major projects. In the United Kingdom it is primarily for E.C.G.D. to weigh the possibly conflicting aims of, on the one hand, putting British exporters on level terms with foreign competition and, on the other, avoiding an excessive stretching of credit terms. The delays involved in a policy of matching, but not outstripping, the terms of credit offered by overseas competitors with official credit insurance or equivalent support can be a source of difficulty for exporters, but difficulties of this kind can, to a large extent, be overcome by co-operation between exporters and E.C.G.D. Because buyers often seek to play off one exporter against another, it is usually possible for British exporters to give E.C.G.D. some information on the credit terms being offered by their competitors. Although this information is not always accurate, E.C.G.D. can follow it up through its Berne Union and other contacts and so establish what terms are in fact being offered with official support.

Consultation about credit terms between credit-giving countries takes place under the arrangements that have been built up over many years between members of the Berne Union (Union d'Assureurs des Crédits Internationaux). Members of the Union are official and private credit insurance organisations; there are twenty-seven full members from twenty-one countries. Although the Union is concerned with various aspects of credit insurance, the most urgent question which engages it is the terms of payment for goods and projects. In general, no credit-insurer wishes to encourage abnormally long credit terms or competition in credit giving. Any departure by members from standards recommended by the Union must be formally reported to that organisation, but these understandings are not binding on the governments of the countries concerned and in most countries the control of credit terms rests ultimately with the government. If an exception to the generally established pattern is agreed for a particular case, exceptions of a similar kind are likely to be made by competitor countries in other comparable cases.

The Union has an intergovernmental counterpart in the Group on Export Credits and Credit Guarantees of the Trade Committee of the O.E.C.D. This Group was established in 1963 to evaluate national policies relating to export finance and insurance, examine the problems which arise and seek to relieve or mitigate these problems by multilateral discussion and co-operation. Following discussions over nearly three years in another O.E.C.D. group, a working party of shipbuilding countries, fourteen nations including the United Kingdom have subscribed to an O.E.C.D. Understanding on Export Credits for Ships.[7] This relates to the export of new ships and with effect from 1st July 1969 limits to eight years after delivery the period over which credit may be offered,

7 O.E.C.D. Press Release, Press/A(69)26, Paris, 4th June 1969. Certain agreed derogations are included in country protocols which form part of the Understanding.

sets a minimum down-payment by delivery of 20% of the contract price and fixes a minimum interest rate of 6% per annum[1] net of charges on the sum outstanding after delivery. There are also understandings on the terms for large jet aircraft (maximum length of credit ten years from delivery) and ground satellite stations (maximum length of credit eight years from delivery). These arrangements deserve to be welcomed as steps towards wider international agreement to restrain competition in credit terms.

Conclusions

A year-to-year increase in the outstanding amount of gross export credit seems likely to continue to be an element in the United Kingdom's total financing requirement. This is because export credit outstanding must be expected to be an increasing quantity when exports are rising, unless the proportion of exports sold on credit, or the average length of such credit, were to fall. A high proportion of total United Kingdom exports continues to be sold for cash or on very short credit but there is evidence of some lengthening of the average period of credit in the medium and longer-term credit band and, given the highly competitive conditions in export markets, this trend may well continue.

To enable United Kingdom exporters to be competitive where credit is required to win export orders there has been a series of changes in the system of credit insurance and export finance, and the available information suggests that these have been largely successful in meeting the needs of exporters. Thanks to the co-operation of the banks it has been possible to effect these changes without any alteration of a structural kind in the system of finance. It will, however, continue to be necessary to keep the situation under constant review.

It is to be hoped that the governments of the credit-giving countries will support the efforts of credit insurance organisations through the Berne Union to keep competition in credit terms within reasonable bounds, and will find it possible to make further progress in the field of intergovernmental understandings on credit terms.

[1] The U.K. protocol indicates that in the United Kingdom the effective cost of export credit for ships will be 6% or more only on a gross basis *i.e.* only if the calculation includes additional banking charges and the credit insurance premium as well as the basic interest rate.