



Export Credits



Report
of the Commission on Commercial and Monetary Policy
approved by the Executive Committee of the ICC
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THE export of goods is closely bound up with credit. Even when payment is on a cash basis, namely on consignment or on loading, the banking machinery still intervenes in the opening of a documentary credit guaranteeing to the exporter immediate payment against the documents stipulated in the commercial contract.

More usually, however, payment is deferred for periods ranging from a few weeks or months (1 to 6 months) to a few years (2 to 4 years, sometimes more). Credit problems caused by these deferred payments differ according to whether the transactions are short-term or medium and long-term. They are different for the importer-debtor and the exporter-creditor and offer serious difficulties only in the case of medium and long-term.

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When is an export credit medium or long-term ?

Opinions differ from one country to another according to the banking and financial structure. In so far as it would seem to be desirable to secure in this field the observance of certain rules considered useful for sound and orderly economic development, agreement should first be reached on a classification which would be sufficiently precise to obviate discussion or misunderstanding concerning the true nature of a given credit.

The growing magnitude of the problem is due to the increased capital requirements of the underdeveloped countries for their industrialization and to the difficulty of finding the necessary capital owing to :

- a) the requirements for their own purposes of the richer countries which might normally be expected to invest abroad;
- b) the additional risks arising out of acute economic nationalism and the external disequilibrium of the importing countries.

Economic nationalism, which is often a synonym for discriminatory treatment (and at times spoliation) of foreign capital, currency inconvertibility, fears of devaluation and restrictions set up by underdeveloped countries on the repatriation of capital and profits are the most serious obstacles to the flow of capital to the regions where it can be employed to the best advantage. These factors hamper capital movements and prevent them from playing their full part in preserving international economic harmony and financial stability.

It must in fact be realized that medium-term credits, and in any case long-term credits, are operations of much the same nature as investments, owing to the similarity of the risks borne by such credits on the one hand and by more permanent investments on the other. It may in any case be said that such credits have the same economic consequences as investments properly so-called. Medium and long-term credits in fact provide the importer with capital for the period of the credit. Unless the exporter can make this available for his own resources, he will have to borrow, and as this money will be locked up for the period of the credit, it is important that it should be borrowed in an appropriate way, i. e. not at the

expense of short-term resources or to an extent likely to have an inflationary effect.

Medium and long-term export transactions should therefore find the necessary finance on the capital market rather than on the credit market. The capital market in the various countries includes subscription to public issues of company shares, to public or private issues of bonds or to public issues by the governments or domestic or foreign public authorities. There is also the possibility of borrowing from institutions of an international character such as the International Bank for Reconstruction and Development (IBRD) or the Export-Import Bank in the United States.

Who can have recourse to the capital market?

1. The Importer

It is normally up to the importer to find his own means of financing his purchase abroad. Theoretically, therefore, he is the one who should turn to the capital market, and moreover to a foreign market since by definition his domestic market lacks the necessary foreign exchange or gold for payments abroad. In actual fact, the importer is very often a foreign government or a public authority, or an industrial enterprise organized or controlled by a foreign government or public authority. The borrower will therefore frequently be a foreign public body against which there will be no recourse under ordinary commercial law in case of dispute or default.

Unfortunately, the credit-worthiness of such borrowers is often weak on the lending markets and, generally speaking, it is useless to think of any formula involving a public appeal to savings. Similarly, in the case of a private organization, to which fewer "political" risks are attached, it is clear that when it belongs to a country whose monetary stability seems uncertain, recourse to a public issue abroad is usually more or less out of the question.

The decline of the credit-worthiness of importer-borrower countries and the atrophy of the lending financial markets have reduced the possibility of financing through suppliers' credits and have thus transferred the burden of financing exclusively to the export market in the case of large-scale operations involving payments spread over several years.

II. The Exporter

The exporter is anxious to conserve his markets and acquire new ones. In industrialized countries depending on a big volume of exports, this is one of the conditions of maintaining a high standard of living. In these countries there is therefore strong pressure in favour of finding some means, particularly through credit, of keeping up a satisfactory flow of exports. The respective needs of the importing and exporting countries exercise pressures in the same direction, namely of granting medium and long-term credits usually for the export of capital goods and frequently for the export of complete production units acquired by countries in the early stages of industrialization.

These pressures may at times lead to excessive competition between countries in offering suppliers' credits or at any rate to the conviction, whether or not justified, that such excessive competition is taking place.

If the exporter finances the medium or long-term exports of his buyers, two possibilities should be considered :

- a) The supplier has personally the necessary capital or can find it through his own credit on his domestic market or on another lending market.

This is hardly a realistic hypothesis. The exporter has practically never sufficient resources to invest them in medium or long-term credits to his foreign buyers, and he is usually little inclined to risk his personal credit in operations which would moreover quickly throw his financial structure out of balance. The special risks—political and financial—inherent in such credits would turn him away from operations of that kind even if the other factors mentioned above had not already excluded them from the outset.

Experience rather goes to show that, for reasons connected with their own financial structures, exporters are too little interested in participating in the financial risks of operations designed to maintain for their advantage a high level of activity and substantial profits.

- b) Since, for reasons that are partly different and partly the same, recourse to the capital market is generally out of the question both for the importer and for the exporter, the latter turns to credit institutions, and first and

foremost to the deposit banks. Although the latter usually have large resources, these arise from liabilities at sight or at short notice and cannot be utilized systematically for medium and long-term credit operations.

The structure of the commercial banks varies, particularly as regards the composition of their resources which usually come mainly from the public's deposits and from the temporarily unemployed resources of industrial, commercial, financial and agricultural enterprises. Whatever this structure may be, however, it practically never enables them to set aside a large portion of their resources for medium or long-term transactions, least of all when these carry with them political risks and risks resulting from currency inconvertibility of external financial instability.

In most countries, commercial banks will in principle take a hand in these operations only if two conditions are observed, independently of the criteria usually applied to any credit transaction :

- a) there must be a guarantee against so-called "political" risks : war, riots, revolution, default of a public body against which no effective action can be taken by a foreign creditor; impossibility of converting a foreign currency into the creditor's currency; unilateral breach of the commercial contract, etc.;
- b) the possibility of refinancing if necessary the claims resulting from medium or long-term transactions in order to preserve a satisfactory degree of liquidity in these banking assets.

"Political" risks are necessarily "catastrophes" in the technical insurance sense of the term. They cannot therefore be insured against by institutions of the private sector. This kind of risk arises out of the economic disequilibrium and the decline of commercial morality engendered by two devastating wars.

In several exporting countries, governments have realized that the State can usefully help in insuring against risks of this type by organizing, on the basis of criteria usually established by law, a system of governmental credit-insurance to cover risks inherent in certain export trades considered useful for the national economic development, which private insurance cannot cover.

Generally speaking, the risks in question are the following :

- a) non-payment, even without justification, by the debtor, in the case of a public or semi-public body;
- b) delay or final default in payment due to political factors;
- c) delay in transfer or final impossibility of transfer of payments made by the buyer in his national currency;
- d) losses on conversion or transfer in the case of a contract concluded in the exporter's currency;
- e) cancellation of the contract before delivery.

Governmental insurance does not, as a general rule, cover the total claim of the exporter. Only seventy to ninety per cent of the value of the export is insured, the exporter remaining liable for the balance.

The way in which the premium payable by the exporter is established also varies from one country to another. Very often it takes account of the extent of the risk.

Various techniques are employed to ensure the mobilization on the money market of claims representing medium or long-term exports. In certain countries (France, Germany, Netherlands, for instance) special institutions have been set up for that purpose. In other countries, use is made of existing institutions. In all cases every effort is made to make the most of the resources of the market before calling upon the central bank, as the lender of last resort.

Almost everywhere there is clearly the praiseworthy desire to prevent medium and long-term export credit transactions from leading to credit inflation and thus contributing to an economic and monetary disequilibrium harmful to the harmonious development of international relations and currency convertibility.

The ICC is above all anxious to ensure the expansion and freedom of international trade. It holds this to be one of the conditions of economic and social progress in the world and an important factor of peace and international harmony.

Credit of every kind plays a prominent role in this field and that is why the International Chamber of Commerce has concerned itself with the extension in recent years of medium and long-term export credits.

Conclusions

MEDIUM and long-term credits for financing exports have become one of the important techniques by which countries moving towards industrialization partly cover their immense capital requirements, since they are generally unable to have recourse sufficiently to a public appeal to foreign capital markets. It is impossible for these countries to do without the substantial advantages offered by this method of financing.

Manufacturing countries, big exporters of capital goods, are equally generally unable to abandon this method of financing without the loss of important markets. In certain countries that depend heavily on exports to maintain a satisfactory level of economic activity, such a loss of markets might obviously lead to a lowering of the standard of living and perhaps to unemployment, an economic and social evil which governments in all countries strive to avert.

Credits of this kind carry with them risks which cannot of their very nature be reasonably borne either by the exporters or those who finance them nor by any private credit insurance body. Only the national community as a whole can assume such risks of a political or "catastrophic" nature.

In this connection it would be most desirable for the various national institutions that insure against political risks to intervene only in favour of importing countries that respect the rules of international fair play as regards their foreign creditors and investments of foreign capital.

Further, only those transactions should be considered which really contribute to the economic development of the importing countries and the liquidation of which would not compromise the future equilibrium of their balance of payments. With that end in view, it would be very useful to collect information, such as that already assembled by the IBRD, but broadened to include the activities of the private sector.

It is equally important that in the exporting countries the financial machinery set in motion to deal with medium and long-term export credits should give due weight to the necessity of avoiding inflationary pressures. In particular, it would be unsound to encourage transactions which, owing to the manner in which they are carried out, bring pressure to bear on the short-term money market and increase the monetary circulation, when they are really long-term transactions which should be covered by available resources over a suitable period of time.

The problem of financing exports through medium and long-term credit is very complex and difficult to solve. The solution could in the first place be sought in the improvement of the governmental institutions providing credit insurance, on the one hand, and in a close co-operation between these institutions and exporters, bankers and insurance companies, on the other hand.

(Translation)

