CONCESSIONAL EXPORT FINANCING

Proposal by Canada

1. The concessional export financing practices of several industrialized countries on transactions among themselves were notified in the NTB Inventory (COM.IND/4/75) as export subsidies. At the last meeting of Working Group 1 Canada undertook to prepare a background paper for discussion and this was confirmed at the July CTIP meeting.

2. Export financing has been provided by the governments of major industrialized countries for many years. The tendency of governments of industrialized countries to support export credit on concessional terms on transactions among themselves leads to costly competition between national treasuries and causes distortions to trade patterns in those cases where there is a source of supply for the product in question in the importing country or in a third country with an export interest in this product. The Canadian Government has already found it necessary to amend its anti-dumping legislation to bring within its scope concessional financing practices where they have injurious effects on its domestic industry.

3. Concessional financing could be defined to embrace those instances in which direct or indirect government action results in export credits being provided at interest rates or other credit elements more favourable than those prevailing in the market of the country of export.

4. In the GATT, the list of practices agreed upon for purposes of the Declaration giving effect to Article XVI:A which prohibits export subsidies on non-primary products includes, inter alia, the following:

   (f) In respect of government export credit guarantees, the charging of premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions;

   (g) The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed;

   (h) The government bearing all or part of the costs incurred by exporters in obtaining credit.
In addition, the secretariat identified in COM.IND/W/73 the following practices for consideration:

(i) The accordance by governments of special advantages to exporters in obtaining credit;

(ii) The government bearing all or part of the costs incurred by exporters in obtaining insurance cover.

In view of the many diverse financial systems under which export credits are made available, this list does not adequately cover all practices which have the tradedistorting effects referred to above.

5. In the OECD Group on Export Credit and Credit Guarantees two agreements have been developed and recently implemented. These are:

(a) Voluntary exchange of information for officially supported export credits in excess of five years to all countries other than those outlined in (b) below.

(b) A mandatory system of prior consultations for officially supported export credits in excess of five years granted between highly industrialized OECD countries.

These agreements represent a limited first step towards reducing costly international competition between industrialized countries in the field of export financing.

6. Adequate international solutions to this problem should take into account the extent of direct or indirect government influence on the terms of repayment including the interest rate and include the participation of all industrialized countries. In seeking to arrive at internationally agreed rules on concessional financing between themselves, industrialized countries should therefore consider the following elements:

(1) The interest rate
(2) The credit period
(3) The repayment schedule
(4) The downpayment
(5) Possible exceptions
(6) Membership and country coverage.

7. With regard to institutional arrangements it would seem that there are two alternatives:

(a) The existing list of prohibited practices pursuant to Article XVI.4, could be refined with respect to elements listed in (6) above;

(b) A separate set of rules - which could take the form of a contractual code - could be developed to cover the elements referred to in (6) above.