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TRADE DIRECTORATE  
TRADE COMMITTEE

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## Working Party on Export Credits and Credit Guarantees

### NOTIFICATION OF CHANGES IN THE EXPORT CREDIT SYSTEMS

#### Note from New Zealand

*This document reports on the New Zealand Export Credit Office (ECO), which commenced operations on 1 July 2001.*

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## **THE NEW ZEALAND EXPORT CREDIT OFFICE**

1. The New Zealand Government has created an Export Credit Office. The New Zealand Export Credit Office "ECO", was formally launched on 20 May 2001. A copy of the press release is appended in Annex 1. The ECO commenced operations 1 July 2001.
2. The New Zealand ECO will provide both short-term and medium to long-term insurance cover, but on a limited basis. The main purpose behind the NZ scheme is to provide cover in areas where there is evidence of private sector market failure. A copy of the National Interest requirements that must be met before the ECO can offer support is appended in Annex 2.
3. The New Zealand scheme is limited to NZ\$350 million, with \$35 million allocated to the short-term facilities and the balance to medium to long-term.
4. A key operating requirement of the NZ scheme is that it must follow OECD guidelines on the operation of ECAs and OECD and WTO guidelines on pricing. The NZ ECO must price not only to cover all operating costs and anticipated losses, but also to meet the New Zealand Government's opportunity cost of capital.
5. To ensure that the NZ ECO had the best chance of operating successfully in a market that is clearly complex and not without risk, the government contracted in the expertise to run the ECO. After an international tender, Eksport Kredit Fonden (EKF) was selected to act as the Agent for the ECO. In essence, EKF will undertake all of the operational management activities for the scheme, but the Secretary to the New Zealand Treasury will retain the final decision making authority. Since being appointed in April 2001, EKF have made a significant contribution to the NZ ECO, which became operational on 1 July 2001.
6. The NZ ECO's web page, is [www.nz-exportcreditoffice-agent.dk](http://www.nz-exportcreditoffice-agent.dk). A full list of contact information is contained within the web site and a description of the ECOs activities.

## ANNEX 1

*Sunday 20 May 2001*

*Media Statement*

### **Export Credit Office to open 1 July**

The Government's new export credit scheme will start operations on 1 July, Associate Minister of Foreign Affairs and Trade Pete Hodgson announced today.

The scheme will be run under the banner of the New Zealand Export Credit Office.

"This scheme is part of the Government's drive to improve export growth", Mr Hodgson said. "It has been developed following research and consultation with exporters showing that there are gaps in the export credit insurance market."

The scheme will provide export credit guarantees to support exporting firms with growth potential. It involves the Government working with the private sector to provide underwriting services for exporters who need finance between shipping an export order and being paid for delivery. The scheme provides a credit guarantee, rather than cash.

The Government has appointed Eksport Kredit Fonden (EKF) as its agent to operate the Export Credit Office (ECO). EKF is the Danish Government's export credit agency and was successful in an international tender.

"Export credit insurance is a specialised and complex business and we are pleased to have found an agent with EKF's expertise and experience," Mr Hodgson said.

The scheme is designed to work in partnership and share risk with existing private sector providers. The maximum liability the Government will accept through the scheme is limited to \$350m. While this will be a contingent liability to the Crown, transactions will be priced to cover all costs.

"This scheme is another election promise kept," Mr Hodgson said. "New Zealand is again offering its exporters a basic measure of support that is available to exporters in nearly every other developed nation."

Trade New Zealand will provide information to exporters on export credits as well as specific details on the ECO and its operations. This will be through its website [www.tradenz.govt.nz](http://www.tradenz.govt.nz), hotline 0800 555 888 and a series of nationwide presentations.

## **EXPORT CREDITS – QUESTIONS AND ANSWERS**

### **What is an export credit guarantee?**

An export credit guarantee is a form of insurance that covers an exporter against non-payment by the importer or its bank. The insurer – often a government agency – underwrites the risk, enabling the exporter to obtain credit from other sources as necessary. Medium- to long-term export credit guarantees cover exporters for several years: in the New Zealand scheme they are expected to average about six years. This form of underwriting is commonly associated with capital goods projects such as engineering and construction.

### **How is the New Zealand Export Credit Office Structured?**

The ECO comprises three parts.

The Secretary to the Treasury under delegation from the Minister of Finance gives final approval for any transaction or group of transactions. The Secretary is responsible to the Minister for the operation of the ECO.

A Technical Advisory Committee has been appointed to support the Secretary. The role of the Committee is to give advice to the Secretary on issues such as the operation and performance of the Agent, the effectiveness of risk management strategies and the auditing and reporting of the ECO. The Chair of the Committee is Anthony Ractliffe, Deputy Chair of ACC and ex General Manager of National Mutual New Zealand (now AXA Asia Pacific).

EKF as the Agent will carry out the operational tasks such as processing applications, portfolio management, and collections and providing recommendations on risk management and pricing.

### **Why use this structure?**

The Government saw the need to get the ECO operating quickly. Using the power of delegation from the Minister of Finance to the Secretary of the Treasury through the Public Finance Act was the best way to achieve this.

The structure and operations of the ECO will however be reviewed by the Treasury 12 months after start-up. This will include recommendations on the long-term organisational structure and operational focus of the ECO.

### **Why Use an Agent?**

The skills required to run the ECO are scarce internationally, let alone in New Zealand. Appointing an Agent to undertake its operational work means the ECO is able to benefit from the expertise of a company that offers international best practice in export credit guarantees. It also means the ECO can bypass many of the costs required to establish and run export credit agency.

EKF has been offering export credit support since the early 1900's and already manages a contingent exposure many times larger than the proposed New Zealand scheme. For further information, EKF's web site (English) is [www.ekf.dk/EngPraes/engpres.htm](http://www.ekf.dk/EngPraes/engpres.htm).

### **Isn't there a conflict of interest with the Danish export credit agency working for New Zealand?**

The potential conflict of interest has been examined. Comparing the products and countries that EKF deal in with the ECO's likely operations, there is very little chance of a conflict arising. This was one of the strengths of EKF's proposal.

The agreement with EKF establishes a standard of care that requires EKF to ensure that unacceptable conflicts of interest do not arise.

### **Who will be eligible for cover under the new scheme?**

The scheme will be targeted at firms that export New Zealand produced goods and services that are not able to self-insure. Short term trade credit reinsurance will be limited to small to medium sized firms with a capitalisation of less than \$NZ200 million and where there is a history of New Zealand export trade into the particular market.

In the case of medium to long term insurance facilities, applicants will have to be New Zealand-based producers of goods and services with the potential to generate new added-value exports.

### **How will private sector insurers be affected?**

The scheme is designed to extend, not replace, the capacity of private sector providers of export credit. The Government will be sharing underwriting with private sector providers, which will extend the business opportunities open to them. There are about a dozen active private sector providers of export credit, including major trading banks, merchant banks and insurers. Some insurance brokers are also involved.

### **Where can I get further detail on the ECO?**

Research on export credit issues showed that a lack of information on the existing private sector export credit facilities available to exporters was a significant issue. Trade New Zealand will therefore be making information and expertise on export credit more accessible to exporters – on both the private and the Government services available.

## ANNEX 2

### **Short-term Trade Credit Reinsurance for Higher Risk Countries**

- Where the extension of short-term trade credit reinsurance is necessary to support a sustained history of successful New Zealand export trade into a particular market when:
  1. The political or commercial risk of a country increases sharply as a result of economic crisis and there is a reduction in commercial insurance provision to the extent that the Government is satisfied that no ready market exists for cover to that country; or
  2. In higher risk markets, market capacity is reached, or credit conditions are slowly deteriorating.
- Reinsurance would not be provided to very high risk countries.
- Where the exporter is not in a position to self-insure.
- Where the programme can extend rather than replace the commercial providers' capacity to higher-risk markets.
- Where the goods exported are produced in whole or substantial part in New Zealand.

### **Medium to Long-Term Export Credit Guarantees (ECG)**

- Where Government assistance is required to fill a gap in the market for commercial provision of medium to long-term export credit guarantees for capital goods export contracts of between two and ten years duration.
- Where the programme can extend rather than replace commercial providers' capacity to cover medium to long-term capital goods exports.
- Where providing assistance contributes to new added value exports.
- Where the capital goods being exported are produced in whole or substantial part in New Zealand, or where any service is performed in connection with the supply, installation, erection, operation, maintenance or repair of capital goods purchased or manufactured in whole or in substantial part in New Zealand.
- Where the exporter is not in a position to self-insure.