

## Global social and environmental standards for officially supported export credits: development, status, and future perspectives of sustainability standards in export credits

Schöne-Alaluf, Edna; Bittner, Victoria; Waldenfels, Pablo von

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

### Empfohlene Zitierung / Suggested Citation:

Schöne-Alaluf, E., Bittner, V., & Waldenfels, P. v. (2011). Global social and environmental standards for officially supported export credits: development, status, and future perspectives of sustainability standards in export credits. *Zeitschrift für Wirtschafts- und Unternehmensethik*, 12(1), 123-138. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-429355>

### Nutzungsbedingungen:

Dieser Text wird unter einer Deposit-Lizenz (Keine Weiterverbreitung - keine Bearbeitung) zur Verfügung gestellt. Gewährt wird ein nicht exklusives, nicht übertragbares, persönliches und beschränktes Recht auf Nutzung dieses Dokuments. Dieses Dokument ist ausschließlich für den persönlichen, nicht-kommerziellen Gebrauch bestimmt. Auf sämtlichen Kopien dieses Dokuments müssen alle Urheberrechtshinweise und sonstigen Hinweise auf gesetzlichen Schutz beibehalten werden. Sie dürfen dieses Dokument nicht in irgendeiner Weise abändern, noch dürfen Sie dieses Dokument für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen.

Mit der Verwendung dieses Dokuments erkennen Sie die Nutzungsbedingungen an.

### Terms of use:

This document is made available under Deposit Licence (No Redistribution - no modifications). We grant a non-exclusive, non-transferable, individual and limited right to using this document. This document is solely intended for your personal, non-commercial use. All of the copies of this documents must retain all copyright information and other information regarding legal protection. You are not allowed to alter this document in any way, to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public.

By using this particular document, you accept the above-stated conditions of use.

# Global Social and Environmental Standards for Officially Supported Export Credits

## Development, Status, and Future Perspectives of Sustainability Standards in Export Credits

EDNA SCHÖNE-ALALUF, VICTORIA BITTNER UND  
PABLO VON WALDENFELS\*\*

### 1. The Role of Export Credit Agencies

Exports are a crucial backbone of a country's economy. Therefore, a functioning export industry is of fundamental political interest not only in Germany which has been one of the world's leading export nations for many years. There are foreign markets where unstable or unpredictable political circumstances and/or insufficient economic conditions exist. This may lead exporters to refrain from entering the market or putting their business relationships on hold (Scheibe 2008: 2214). To overcome this dilemma many states have established official export credit agencies (ECAs). ECAs provide official export credit guarantees amongst others to support domestic enterprises in their efforts to open up difficult markets and expand traditional markets in unfavourable times. By making use of official guarantees, exporters and banks protect themselves from the country and buyer risks involved in export transactions. During and after the recent financial crisis export credit guarantees have proven to be of greater importance for many countries' export industry than ever before. Export credit guarantees can stabilise foreign trade relations, something which is also in the interest of developing countries. In cases where insurance for export finance from the private market is not forthcoming and official support would not be available, export trade relation would either not exist, be discontinued or only maintained on a very low level (Scheibe 2008: 2215).

Today different types of ECAs are known. In some countries ECAs are government departments or agencies, in other cases commercial institutions have been mandated to manage the official export credit guarantee scheme on behalf and for account of their governments. In Germany, the management of the German export credit guarantee scheme is entrusted to Euler Hermes Kreditversicherungs-AG and Pricewater-

---

\*\* Edna Schöne-Alaluf, Euler Hermes Kreditversicherung, Exportkreditgarantien der Bundesrepublik Deutschland, Head of Division Berlin, Friedrichstraße 69, 10117 Berlin, Tel.: +49-(0)30-2094-5319, Fax: +49-(0)30-2094-5340, E-Mail: edna.schoene-alaluf@eulerhermes.com.

Victoria Bittner, PricewaterhouseCoopers AG WPG, Exportkreditgarantien der Bundesrepublik Deutschland, Department International Cooperation, 22746 Hamburg, Tel.: +49-(0)40-8834-9537, Fax: +49-(0)40-8834-9036, E-Mail: victoria.bittner@de.pwc.com.

Pablo von Waldenfels, PricewaterhouseCoopers AG WPG, Exportkreditgarantien der Bundesrepublik Deutschland, Department Sustainability, 22746 Hamburg, Tel.: +49-(0)40-8834-9523, Fax: +49-(0)40-8834-7183, E-Mail: pablo.von.waldenfels@de.pwc.com.

houseCoopers AG Wirtschaftsprüfungsgesellschaft who act in a consortium on behalf and for account of the Federal Government.

For trade receivables, the following political and commercial risks are covered by German federal export credit guarantees:

- Bad debt losses due to legislative or administrative measures, war, civil commotion or revolution abroad (the general political risk)
- Losses due to non-conversion and non-transfer of amounts paid by the debtor in local currency due to restrictions in the international payment system (in the past the most frequent cause of loss)
- Loss of the right to receive payment due to frustration of contract for political reasons
- The loss of goods before the risk has passed to the foreign buyer due to political circumstances (e.g. the goods are confiscated, destroyed, etc. before reaching the buyer)
- Loss of receivables due to non-payment after a certain period (protracted default)
- Loss of receivables due to the bankruptcy of the buyer, a composition settlement in or out of court, an unsuccessful judgment execution or suspension of payments by the buyer

The range of products and services ECAs provide is manifold. Basic products include supplier credit cover, i.e. insuring trade receivables arising from a single export transaction (delivery of goods or rendering of services), buyer credit guarantees, i.e. insuring banks receivables arising from the financing of an export transaction as well as providing direct loans or credits to overseas buyers (OECD 2008)<sup>1</sup>.

## **2. Development of International Standards for Officially Supported Export Credits**

### **2.1 The OECD Arrangement on Officially Supported Export Credits**

At the beginning of the 1970s and even intensified by the first oil crisis in 1973, competition in export financing increased dramatically. Governments in exporting nations competed in providing the most attractive financial terms for official export guarantees in support of their respective exporters competing for overseas sales (Moltrecht 2007: Register 16 - Tz. 7; Geberth 1998: 27). This led to the following developments:

- Export credit agencies challenged the market by taking exaggerated risks and offering extremely low premiums. This was often inadequate to cover the long-term operating costs and losses, thereby risking the financial viability of the guaranteeing country's budget and their ability to repay the loans.
- Often bids were successful which offered the most generous financial conditions but probably not the latest technology thus hindering innovations to enter the market.

---

<sup>1</sup> In Germany the system provides only pure cover but no direct lending.

- Buyer countries naturally looked out for the best financial conditions. But cheap deals involve the risk of entering liabilities exceeding their assets, leading to over-indebtedness of the country. That backfired on the country which had issued export credit guarantees as buyer countries could not pay and ECAs had to indemnify their exporters.
- Subsidised interest rates and tied aid credits were usual practice in officially supported export credits.

This strategy led to financial subsidies and potential trade distortions as well as unnecessary risks for both guaranteeing and buying countries' budgets.

When the ministers of finance of Germany, France, Italy, Japan, the United Kingdom and the United States met during the International Monetary Fund conference in Nairobi in 1973, discussions started on limiting the disproportionate bargaining power of buyer countries (Geberth 1998: 27). It was agreed to further consider common action. Following several multilateral high-level meetings, discussions, propositions, first agreements and compromises, a consensus was reached in June 1976 intended to be applied as a voluntary exercise for a period of one year (Geberth 1998: 30). Finally in 1978 the OECD Arrangement on Officially Supported Export Credits, also known as the 'OECD Consensus' or the 'Arrangement' was agreed between 20 participating countries<sup>2</sup>.

The current Arrangement (effective for transactions with credit periods of two years or longer) defines the terms and conditions of officially supported export credits (e.g. local content, risk fees and maximum repayment terms including minimum down payment and at least semi-annual instalments) and of the provision of tied aid. It includes procedures for prior notification, consultation, information exchange and review for export credit offers that are exceptions to or derogations from the rules as well as tied aid offers.

The Arrangement has not been signed by any of the member states. It has been operating on the basis of a gentlemen's agreement. Thus there has been no ratification procedure nor is it legally binding. Yet, the adherence to it is extremely high. As Jacques de Lajugie states, "it is one of the very few lasting and effective examples of 'soft law'" (de Lajugie 1998: 107). In this case, multilateral economic issues were solved through discussion, negotiation and collaboration (Geithner 1998: 87). Due to setting the rules of the Consensus informally but based on a common understanding the participants see mainly two advantages in adhering to the agreement. First, the Arrangement is flexible and can be adjusted, guaranteeing that the Arrangement reflects market realities at all times. Second, it provides a forum for a broad exchange of information and the sharing of knowledge as well as experiences (de Lajugie 1998: 107). The Arrangement is a blueprint for subsidy-free export support. Export credits in conformity with the interest rate provisions of the Arrangement are not considered to be a subsidy according to WTO rules.

---

<sup>2</sup> Australia, Canada, the then European Economic Community (Belgium, Denmark, France, Germany, Italy, Ireland, Luxembourg, the Netherlands and UK), Finland, Greece, Japan, Norway, Portugal, Spain, Sweden, Switzerland and the US.

The evolution of the Arrangement and the vital role it still plays today has shown that a level playing field has - in this case - been voluntarily achieved by close cooperation combined with frequent exchange on application and the possibility for adjustments if necessary. This can mainly be attributed to the benefits recognised by all participants in such an agreement.

## **2.2 The OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits**

Already at the end of the 1980s the issue of environmental protection became relevant to export credits. Germany ratified the “Montreal Protocol on substances that deplete the ozone layer” in December 1988. The Montreal Protocol included a paragraph in which the participating countries committed themselves to dissuade the export of technologies for the production and use of these substances and thus to refrain from providing “new subsidies, aid, credits, guarantees or insurance programmes for the export to States not party to this Protocol of products, equipment, plants or technology that would facilitate the production of controlled substances” (UNEP 2000: 23). This was the main trigger for the Interministerial Committee<sup>3</sup>, the decision making body for export credit guarantees in Germany, to attach greater importance to environmental issues when deciding on eligibility for support (Moltrecht 2007a: Register 15 - Tz. 52).

At the end of 1990s different reasons led Germany and other countries to increasingly consider how to approach environmental issues in a more systematic way within the framework of export credits:

- Growing environmental awareness in Germany due to growing environmental pollution and resulting problems for the environment (dying of forests, acid rain)
- Growing awareness with regard to international issues/environmental and social issues in other countries (e.g. major resettlements resulting from dam projects)
- Pressure from non-governmental organisations (NGOs) and increasing criticism in the public due to negative environmental impacts of supported projects reported on in TV documentaries and news programmes (e.g. pulp and paper projects in Indonesia)
- Reputational risk for the government granting cover
- Risk management as poor environmental and/or social performance can harm cash flow generation, particularly in project finance cases <sup>4</sup>

For these reasons Germany developed national Guiding Principles for assessing environmental and social aspects, which were adopted by the Interministerial Committee

---

<sup>3</sup> The Interministerial Committee consists of the Federal Ministry of Economics and Technology (lead), Federal Ministry of Finance, Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development.

<sup>4</sup> If not anticipated, environmental and social impacts can lead to additional costs or put the project on hold, resulting in even more costs. Examples include fines for not adhering to local environmental standards, the sudden identification of rare species, protests by stakeholders or the miscalculation of resettlement and compensation costs. All this can cause the supported project to fail, resulting in a loss for the exporter, and thus indemnification for the exporter.

in April 2001. One important target was to identify – out of thousands of applications each year – those projects requiring in-depth review due to potential adverse effects on their environment. Secondly, the guidelines aimed at safeguarding a responsible assessment against a defined set of principles. Prior to the adoption of the Guiding Principles, an intense discussion with the export industry and German NGOs had taken place. Even though the Guidelines were established as governmental guidelines, they were discussed in German parliament and their implementation supported by a majority.

At the same time, Germany was actively involved in preparing an international policy statement (Statement of Intent on Officially Supported Export Credits and the Environment) which was adopted by the member states of the OECD in April 1998. The statement contained six principles with which the member states laid the foundation for taking environmental factors into account when deciding on the eligibility of the projects seeking cover (Moltrecht 2007a: Register 15 - Tz. 56). Environmental aspects remained a frequent discussion topic within the OECD in the following years. The export credit group of the OECD (ECG) was mandated by the OECD Council of Ministers as well as by declarations of the G7/G8 to develop ‘common approaches’ for the identification and evaluation of environmental aspects in export credit guarantees. Thus, the first policy statement was followed by the Agreement on Environmental Information Exchange for Larger Projects in 1999 and a work plan being set up in April 2000 in which member states committed themselves to establish procedures, within the framework of their individual national systems, to competently assess the environmental impacts of the submitted projects. Furthermore, experiences should be exchanged amongst the member states and based on this experience “ways to synthesise common elements and best practices related to environmental review and impact assessment” (OECD 2000) should be explored (Moltrecht 2007a: Register 15 - Tz. 57).

In November 2001 nearly all member states agreed on the voluntary application of the “Draft Recommendation on Common Approaches on Environment and Officially Supported Export Credits”.<sup>5</sup> This Draft Recommendation was an important landmark on the way to global environmental<sup>6</sup> standards for ECAs. Several reviews and amendments followed, beginning with the first revision in 2003 which led to the adoption of the Recommendation by all member states. At present, the third review of the Common Approaches is taking place and is expected to be concluded in 2011. The objectives of the Common Approaches are to (OECD 2007: 3):

- Promote coherence between policies related to export credits and environmental protection and contribute to sustainable development

---

<sup>5</sup> Turkey and the US did not adopt the Common Approaches in 2001 due to different reasons. From the point of view of the US the Common Approaches were too weak as they did not refer to any common binding environmental standards. Furthermore, they had sought for more transparency in the decision process (Moltrecht 2007: Register 15 - Tz. 60).

<sup>6</sup> This, by definition, included the impact on resettlement, indigenous or vulnerable groups and cultural heritage.

- Develop common procedures and processes for the environmental review, thus achieving equivalence amongst the members and reducing the potential for trade distortions
- Ensure that the administrative burden of exporters and ECAs is commensurate with the environmental protection objectives of the Recommendation
- Promote a level playing field amongst ECAs, including those ECAs not members of the OECD

The Common Approaches foresee that all projects are screened and then categorised with regard to their potential environmental and social impact. The categorization (A, B, C) defines the profundity of the following environmental review. The review identifies the anticipated environmental and social impacts, assesses measures to avoid, minimise and mitigate these impacts and benchmarks the project against international recognised standards.<sup>7</sup> Projects have to comply with these international standards whenever they are more stringent than the host country standards. The Common Approaches also regulate disclosure of environmental information of projects covered by the ECAs as well as reporting to the other member states. Exchange of information in order to build a body of experience is another important aspect of the Recommendation.

Today, all member states have systems in place to assess the environmental and social aspects of the projects applying for cover, although some differences in implementation of the Common Approaches still remain, largely due to different export credit guarantee schemes and different export industries. Many ECAs have dedicated environmental/sustainability departments with experienced environmental and/or social experts (OECD 2009). To strengthen a consistent application of the Common Approaches, the so-called ‘environmental practitioners’ (a semi-official group of sustainability experts within the ECAs) meet at least bi-annually to exchange information on processes and procedures as well as on single projects assessed and to discuss new developments with regard to technological innovations as well as international policy strategies such as on climate change or human rights.

As with the Consensus, the common rules on environmental assessment have proven successful in minimizing transactions’ social and environmental risks and preventing competition through weak standards (“race to the bottom”).

### **3. The Common Approaches from an Exporter’s and ECA’s Point of View**

#### **3.1 Perception of the Common Approaches by Exporters**

From a financial institution’s perspective, environmental risk mitigation is increasingly seen as important for reducing risks of transactions (e. g. cash flow risks, liability or guarantee risks and reputational risks, the latter being the main risk for an ECA not acting as direct lender).

---

<sup>7</sup> The Common Approaches refer to all World Bank Safeguard Policies (World Bank Group 2010) as well as to the International Finance Corporation (IFC) Performance Standards (IFC 2010) and IFC/World Bank Group Environmental, Health and Safety Guidelines (IFC 2010a).

The exporters' perception of the environmental and social due diligence process within the official export credit scheme in Germany could, however, be described as ambivalent.

On the one hand, the introduction of a common review process for all OECD member economies is perceived positively as it levels the playing field in a highly competitive environment. Furthermore, by applying the internationally accepted World Bank Group standards and the standards of other International Financial Institutions (e.g. European Bank for Reconstruction and Development, Asian Development Bank or Corporación Andina de Fomento) procedures for obtaining international financing have been internationally streamlined, which is also seen as an advantage of the Common Approaches. For project finance transactions – a market which is increasingly dominated by banks applying the Equator Principles<sup>8</sup> – the focus on IFC Performance Standards is also perceived as an advantage as coherent approaches by all involved financial institutions save expenses and administration from the project sponsors' perspective.

In combination with attractive financing models, environmental standards may also increase the exporter's revenues by fostering exports of innovative, eco-efficient technology. In addition, adherence to internationally recognised social and environmental standards prevents exporters from being involved in 'dirty deals' possibly harming their reputation. Furthermore, sound environmental management and performance allows for building trust and long term relationships, e.g. with local communities and administrations in target countries.

On the other hand, goods and services from emerging market export companies, especially from the BRIC countries (Brazil, Russia, India and China) are often lower priced than those originating in OECD member economies. Therefore, one essential factor which plays a substantial role for the competitiveness of German exporters is the ability to offer attractive financing packages within a very short time (time from first contact to offer) to their customers in developing countries and emerging markets. The significance of the financing package has even increased during and after the financial crisis. The environmental and social requirements of the financial or supporting governmental institutions involved can be seen as one element of this financing package. The ECAs from non-OECD member economies are, to date, not committed to international social and environmental standards. This reduces the cost of capital and allows for faster project appraisal compared to ECAs in OECD member states. Therefore, increasing environmental requirements for obtaining ECA backed finance is perceived as a competitive disadvantage compared to exporters from non-OECD member economies. This issue will be further discussed under paragraphs 4 and 5. In addition to the challenges arising from international competition, certain challenges are associated with the review process itself and the level of discomfort is directly dependent on the influence of the exporter on the social and environmental performance of the project.

---

<sup>8</sup> The Equator Principles are a financial industry benchmark for determining, assessing and managing social and environmental risks in project financing and were established in 2003. Today more than 60 banks all over the world have signed the Equator Principles.



### **3.2 Influence of Exporters and ECAs on Social and Environmental Performance of Projects**

From the exporters' standpoint the most challenging aspects of the environmental review are directly related to the role of the exporter within a project. Depending on the type of transaction the exporter and thus the ECA have a varying degree of influence on the buyer and the overall social and environmental performance of the project.

Exports of goods and services to existing facilities or exports representing a relatively small contribution to the project in terms of total invested capital are usually associated with a lower level of influence by exporters and ECAs on the project. Examples for this type of transaction are construction services for specific lots in large infrastructure projects or safety equipment for mining projects. The influence on a project's social and environmental performance is usually significantly higher if:

- (1) The exporter delivers turnkey facilities
- (2) The exporter has a greater stake in the project
- (3) Transactions involve several OECD ECAs or
- (4) The project is a project finance transaction which often involve Equator Principles Financial Institutions (EPFI) or International Financial Institutions (IFIs) as direct lenders

In such projects the exporter may also experience greater ownership for the environmental performance of the project. The level of influence on the project's performance therefore can have a significant impact on the social and environmental review process.

### **3.3 Challenges in the Environmental Review Process**

From the exporter's perspective, the main concerns related to the environmental review process are:

- Provision of information/ability to gather information
- Costs and resources associated to the review process
- Time factor
- Adherence to social standards

Depending on the level of social and environmental risks and the level of complexity of these risks, differing informational needs of the ECAs have to be met. The main environmental issues can vary significantly between sectors and host countries. For many projects, publicly available information such as environmental studies disclosed on the project's website, press releases, NGO statements, etc. is limited. Usually, the exporter or the financing banks as contractual partner of the ECAs are responsible for providing the necessary information. Direct interaction of the ECA with the project sponsors is usually limited to the project and structured finance transactions and projects which require site-visits to be carried out by the ECA.

In case a project is categorised as A, comprehensive Environmental Impact Assessments (EIA) or issue specific management plans<sup>9</sup> have to be prepared which may not be required by national regulation<sup>10</sup>. In countries where certain aspects covered by World Bank standards and procedures are not covered by national regulation, certain environmental information may simply not be available at the time of an ECA application.

If the exporters have only limited influence, they may be faced with a situation where the buyer is not willing to disclose sensitive social and environmental project information (e.g. due to the administrative burden or costs associated with gathering the information). If the transaction calls for tenders, the exporters are generally not in a position to question the conditions of the bidding process before placing their bids. In the worst case, from the exporters' perspective, the buyer may opt for an exporter who does not require the environmental or social data.

EIA processes or the assessment of complex social and environmental issues such as emissions assessments of large industrial facilities or resettlements of a large number of individuals involving specialised consultants and environmental departments of buyers and exporters tie up resources in the form of capital and personnel. It should also be mentioned that due to the structure of the German export industry with mainly small and medium sized enterprises many exporters do not have sufficient in-house knowledge in particular concerning social impacts of projects they deliver to. This increases the costs for ECA support and may reduce the attractiveness of the instrument. According to German exporters, the time aspect especially in connection with category A projects in most cases even outweighs the cost aspect (in comparison to the total capital cost of a project, expenditure on gathering environmental information or translation of EIAs only represents a minor fraction). In some cases though, investments to meet the environmental and social requirements of OECD ECAs resulting in major project design changes can constitute a major expenditure for the buyers. From an environmental perspective this could be the installation of filters or construction of waste water treatment facilities to meet international emission and effluent standards. Regarding social issues, large infrastructure undertakings can involve major resettlement activities. Today, many developing and emerging countries have social legislation providing for compensation of expropriated property. Still, often the income restoration activities for the people affected by an expropriation are not sufficiently reflected in the local laws and therefore also not in the projects' budget. The difference in costs can even amount to several hundred million Euros, e.g. in connection with large dam projects with ten thousands of people affected by the project. However, experience shows that projects with additional environmental and social

---

<sup>9</sup> E.g. if the project requires resettlement detailed Resettlement and Income Restorations Action Plans.

<sup>10</sup> E.g. according to Indian regulation an EIA is not required for the construction of overhead power lines. These projects are listed in Annex I of the common approaches and therefore ECAs (and several IFIs) require an EIA before project approval, if severe social and environmental risks are associated to the project (e.g. crossing of nature reserves, affected cultural property or involuntary resettlements). Another example could be specific emission parameters measurements not required by national legislation.

requirements represent an exception. Usually the projects assessed tend to meet international standards or only minor adjustments need to be made.

The timeframe for an environmental review varies significantly, depending on the complexity of the issues that need to be assessed, the quality of information available and the level of adherence to international standards of the project planned. Another aspect influencing the duration of the due diligence is the degree of the export company's experience and know-how in dealing with such issues. However, experience shows that there is a high learning curve, gradually leading to faster processing of applications. A review of large category A projects such as major hydropower plants, large infrastructure projects such as highways or pipelines and mining projects still may take at least a few weeks up to some months. When participating in a tender, an environmental review with duration of several months can be a severe competitive disadvantage for exporters seeking ECA backed finance from OECD member states.

Although social and environmental regulation in emerging markets and OECD economies is experiencing a greater degree of harmonization, the implementation of social standards usually constitutes a major challenge. It can be quite delicate in particular when the buyer is a state-owned entity. In many parts of the world, local standards which reflect social issues and are connected to projects tend to differ from the international framework of the World Bank Group. Therefore, acceptance of social covenants for obtaining ECA support is sometimes very limited. Social impacts addressed by World Bank standards include involuntary resettlements, labor and working conditions, indigenous people's rights as well as community health and safety. Except for technical specifications of their own part, suppliers of smaller project components usually do not have significant influence on workplace safety at the buyers' facility nor has the exporter any influence on the buyer's attitude towards issues such as freedom of association, collective bargaining, community safety or child labor as the involvement of the exporter in the project usually ends after delivery or ramp up of the new facility.

Due to the environmental review procedure of the OECD ECAs and the related issues discussed in this section, buyers in target economies, especially in emerging markets, may consider the financial packages offered from OECD country exporters as bureaucratic, time consuming and cost intensive.

Despite these hurdles ECAs are experiencing an increased awareness of many exporters, financial institutions and buyers for the issues covered by international social and environmental standards.

#### **4. A changing Environment for Export Credits**

Despite intensive discussions with the exporters' community in Germany on the advantages and disadvantages of the existing rules on environmental and social due diligence processes, it remains undisputed that the described OECD framework has contributed significantly to the objectives of the members states when agreeing to apply common standards on their export credit guarantee schemes. The first two general objectives of the Common Approaches read in full as follows (see also section 2.2):

“Promote coherence between policies regarding officially supported export credits and policies for the protection of the environment, including relevant in-

ternational agreements and conventions, thereby contributing towards sustainable development.

Develop common procedures and processes relating to the environmental review of new projects and existing operations benefiting from officially supported export credits, with a view to achieving equivalence among the measures taken by the Members and to reducing the potential for trade distortion” (OECD 2007: 3).

Through consistent alignment of the OECD Members’ approaches in environmental due diligence procedures, public and private project sponsors in the buyers’ countries have become aware and accustomed to the use of international standards as benchmarks for their projects. Experience at Euler Hermes shows that to some extent buyers in developing countries have established company policies for new investments that already take into account international environmental standards (in particular IFC EHS Guidelines).<sup>11</sup> The reason for this is to be seen partly in the increasing attractiveness of ECA backed financing. As far as we can see, this development has been boosted by the aforementioned private sector banks’ ‘Equator Principles’ initiative which has further promoted the use of international standards in many large projects worldwide.

However, this positive development towards more sustainable projects in buyers’ countries is presently in danger of suffering a setback due to the increasing export activities of emerging market countries, with China leading the way. One should be reminded that the sustainability standards set out in the Common Approaches can only be enforced if an exporter from an OECD country backed by his national ECA wins the export contract. However, through the dynamic development of market shares in favour of the new players in global business an increasing amount of projects is being realised without participation from OECD countries. Prominent examples with potentially large environmental and social impacts are hydropower projects. Chinese construction companies have taken the lead in the international construction business, including the hydropower sector. China is the country with the highest number of dams in the world. In recent years, Chinese institutions have taken a lead in building dams not just domestically but also abroad. Chinese banks and companies are reported to be involved in constructing some 266 dams in 65 different countries, particularly in Africa and Southeast Asia (International Rivers 2010).

As mentioned above, quite a significant part of the German export industry is convinced that differing approaches on environmental and social conditions when granting official support create an additional competitive disadvantage for those exporters to whom the Common Approaches apply. The intense discussions on this issue caused Euler Hermes to commission a survey on the extent and kind of influence different aspects of the environmental assessment procedure have on the core factors

---

<sup>11</sup> One example from India: after having experienced the environmental due diligence procedure of different ECAs through his respective suppliers, one buyer recognized the need for compliance with international standards in order to receive international financing. Thus he decided to prefer German or comparable European technology in the future as this guaranteed the emissions levels of his undertaking to be in line with the international standards.

of the German industry's competitiveness (Schaltegger et al. 2009). In particular, the framework conditions in Germany and China were assessed and analyzed. While the study came to the conclusion that other factors than the environmental assessment procedure are more relevant (in particular the price and the financing conditions) the authors of the study also concluded that the OECD Common Approaches do exert at least an indirect influence on the competitiveness. One relevant issue identified in the study is the duration of the assessment procedure.<sup>12</sup> According to feedback from German exporters it also seems that in some cases environmental and social conditions presented by the exporter may have a negative psychological effect on the buyer. In particular, social standards differing from the buyer country's own social framework tend to be seen as interference with internal affairs of the buyer country. And, while the costs of the assessment usually do not play an important role, there are, as explained above, cases where the use of international standards can lead to a significant cost increase. Needless to say that not all buyers can be convinced to invest that extra amount if other suppliers stand ready to implement the project on local environmental and social conditions, i.e. on more financially attractive terms.

To sum up, the objective of contributing towards sustainable development through ECA support is depending on a level playing field for officially supported export credits. If there is no consistent message to public and private buyers worldwide that publicly supported export finance is subject to international environmental and social standards, sustainable development in the buyer countries is disfavored. This insight has led to the inclusion of another objective in the Common Approaches:

“Promote a level playing field for officially supported export credits and increase awareness and understanding, including among Non-Member Economies, of the benefits of applying this Recommendation” (OECD 2007: 3).

## **5. Global Standard Strategies**

### **5.1 OECD Outreach Strategy**

The mentioned objective of reaching out to the so called Non-Member Economies is largely known as the 'Outreach Strategy' of the OECD. In this context, the OECD Ministerial Council meeting of May 2007 invited the Secretary General to “strengthen OECD cooperation with Brazil, the People's Republic of China, India, Indonesia and South Africa through enhanced engagement programmes with a view to possible membership”. The mandate also requested the exploration of an enhanced relationship with selected countries and regions of strategic interest to the OECD, particularly Southeast Asia. To be effective, members believe that enhanced engagement (EE) should incorporate certain core elements that would be common for all partner countries. Partners would benefit from a fuller use of OECD working methods built around analysis, dialogue, peer review and advice based on internationally comparable data. Members encourage dialogue to reach a common understanding on crucial mul-

---

<sup>12</sup> Executive Summary, Result 3: “The relevant issue of the environmental assessment procedure is the duration of the procedure. The period until the decision on the acceptance of the export credit guarantee has to be reduced in order to improve competitiveness of the German companies” (Schaltegger et al. 2009).

tilateral policy disciplines that open market economies need and welcome EE partners' participation in the development of OECD instruments in specific areas. EE partners are also encouraged to share knowledge and experience with OECD countries on global best practices for sound regulatory systems and good public governance (OECD 2008a).

With regard to environmental and social aspects of officially supported export credits, observers from Non-OECD countries are – amongst others – invited to participate in the meetings of the OECD environmental practitioners. At some of these meetings, Non-OECD ECAs have presented their own environmental procedures and discussed different questions arising from practical implementation of environmental standards. However, the outreach activities at the OECD level have so far been of limited success in terms of agreeing on binding common standards for the environmental due diligence. While ECAs from Non-OECD countries increasingly recognise the importance of assessing environmental impacts associated with supported projects<sup>13</sup>, there seems to be no agreement on the standards to be applied. When asked which standards are used as benchmarks for their projects, the answer is often 'local standards' rather than the international standards used within the OECD. Apparently, the incentive for Non-OECD countries to commit themselves to common guidelines which have been developed without their participation is rather low.

## 5.2 Thinking Ahead

The lack of tangible progress in establishing OECD standards on a global level led to the necessity for developing new strategies. Apparently there is a strong need to extend the efforts on establishing global standards for official export credits even beyond the outreach work already being undertaken by the OECD. Drawing on the experience with the German export credit programme and international framework conditions from the last decades, addressing this issue *on an equal footing* with the emerging economies could prove to be a more promising way forward.

In the future, stronger standards for export credits will most likely be crucial for these countries, increasing their interest in agreeing on common standards as well. The emerging economies are facing the same budget restraints, reputational risks and have the need to establish long lasting trade relations with their economic partners. Only if exporting nations worldwide are committed to applying the same level of standards, trade distortion can be reduced or avoided and sustainable development can be promoted. Therefore, in addition to the activities in the OECD, other political platforms for consultations with the new players should be taken into consideration, in particular bilateral technical and high-level political meetings.

---

<sup>13</sup> One example is the value statement of the Berne Union, the leading international organisation of public and private sector providers of export credit insurance, including many ECAs from Non-OECD countries such as Sinosure (China) and SBCE (Brazil). The value statement reads: "We are committed to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values" and is supplemented by the ten guiding principles, e.g. principle 6 "We are sensitive about environmental issues and take such issues into account in the conduct of our business" (Berne Union 2010).

The study commissioned by Euler Hermes and PricewaterhouseCoopers concludes that “from a long-term perspective, the German government should actively support international efforts aiming at harmonization between OECD and non-OECD countries with multilateral consultation and sustainable development” (Schaltegger et al. 2009: 97). In a recent article in the context of social and environmental standards for hydropower projects Dr. Waltina Scheumann (2010) suggests that “[...] the dialogue with China should be stepped up by the German government at a high political level. And this is not primarily in the interests of the German construction industry, but because dam projects will have those adverse effects rightly denounced by their opponents unless environmental and resettlement standards are observed”. The guidance expressed in these quotations can and should be transferred also to other governments dedicated to develop global sustainability standards for export credits.

While the OECD countries remain committed to the standards developed within the OECD, bilateral consultations with exporting nations outside the OECD need a different starting point. Initially, the aim should be to gain a deeper understanding of the respective countries’ approaches on environmental and social issues and to increase the common grounds with regard to this particular aspect of governmental activity. Only on this basis, negotiations on global standards for export credits reflecting the position of *all* partners could be initiated.

Last but not least, the G20 should be considered as another promising forum for developing common standards for export credits.<sup>14</sup> Already today, certain export credit issues are being discussed amongst G20 member states. One example is an initiative to establish policy coherence among G20 countries on their official export credit terms for energy projects with a view to agree on terms for clean energy, renewable and high efficiency projects on one side and fossil fuel projects with higher emission intensities on the other side. The example shows that global standards in export finance could be an item for the G20 agenda in 2011. The G20 could prove to be a promising forum with all large exporting nations represented, negotiating on an equal footing.

## 6. Outlook

The OECD Common Approaches were established because ECAs recognised the advantages of global standards for export credits, avoiding competition through low environmental standards (“race to the bottom”) and thereby contributing to sustainable development. The implementation of the OECD rules has not only been welcomed by the export industry as the due diligence process may cause time and cost constraints or harm the relationship with the buyer. However, the OECD-procedures also have many positive effects for exporters (e.g. avoidance of reputational risks, increasing demand from buyers for high technology which enables them to meet internation-

---

<sup>14</sup> According to the official G20 website, the G20 is “the premier forum for our international economic development that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G20 helps to support growth and development across the globe” (HM Treasury 2011).

al standards, transparency in the calculation of additional social and environmental costs, etc.), not to mention the value added in terms of supporting sustainable projects in other countries. However, this positive development towards more sustainable projects in buyers' countries is presently in danger of suffering a setback.

As the rules adopted by the OECD are not valid for the new economies increasingly dominating the markets, the OECD needs new strategies for the negotiations on the Common Approaches. New standards have to be established which apply globally to all public export credit systems. As the development of the Consensus has shown, adherence to common rules is depending on the involvement of all parties in the negotiations and the degree of their conviction that the final policy is in their own national interest. It therefore seems necessary to complement the previous efforts in the OECD with new dialogue forums, such as the G20, to discuss with the new players among equals. The raising awareness of sustainability issues in many developing countries and emerging markets could prove to be a good basis for making progress. The German ECA Euler Hermes will take an active role in the upcoming discussions on this important issue.

## References

- Berne Union* (2010): Value Statement, <http://www.berneunion.org.uk/value-statement.html>, accessed: 17.01.2011.
- Geberth, R.* (1998): The Genesis of the Consensus, in: OECD (Ed.): The Export Credit Arrangement. Achievements and Challenges. 1979-1998, Paris: OECD, 27-31.
- Geither, T. F.* (1998): The Economic Policy Benefits of International Co-operation, in: OECD (Ed.): The Export Credit Arrangement. Achievements and Challenges. 1979-1998, Paris: OECD, 87-93.
- HM Treasury* (2011): About G20, online at: [http://www.g20.org/about\\_what\\_is\\_g20.aspx](http://www.g20.org/about_what_is_g20.aspx), accessed: 17.01.2011
- IFC* (2010): Performance Standards and Guidance Notes, online at: <http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>, accessed: 17.11.2010.
- IFC* (2010a): Environmental, Health, and Safety Guidelines, online at: <http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>, accessed: 17.11.2010.
- International Rivers* (2010): Chinas Global Role, online at: <http://www.internationalrivers.org/node/1516>, accessed: 22.11.2010.
- Lajugie, J. de* (1998): Soft Law, Hard Results, in: OECD (Ed.): The Export Credit Arrangement. Achievements and Challenges. 1979-1998, Paris: OECD, 107-109.
- Moltrecht, E.* (2007): OECD-Konsensus, in: Scheibe, R. / Moltrecht, E. / Kuhn, S. (Eds.): Garantien & Bürgschaften. Ausfuhrgewährleistungen des Bundes und Rechtsverfolgung im Ausland, 2. Aufl., Köln: Deutscher Wirtschaftsdienst, Ergänzungslieferung, Register 16.
- Moltrecht, E.* (2007a): Internationale Themenstellungen, in: Scheibe, R. / Moltrecht, E. / Kuhn, S. (Eds.): Garantien & Bürgschaften. Ausfuhrgewährleistungen des Bundes und Rechtsverfolgung im Ausland, 2. Aufl., Köln: Deutscher Wirtschaftsdienst, Ergänzungslieferung, Register 15.
- OECD* (2000): Export Credits and the Environment: Work – Plan, online at: [http://www.oecd.org/document/7/0,3343,en\\_2649\\_34181\\_1888199\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/7/0,3343,en_2649_34181_1888199_1_1_1_1,00.html), accessed: 17.11.2010.



- OECD* (2007): TAD/ECG(2007)9, Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits, Paris: OECD.
- OECD* (2008): The Export Credits Arrangement 1978 – 2008. Achievements and Challenges – Continued!, online at: <http://www.oecd.org/dataoecd/17/24/40594872.pdf>, accessed: 17.01.2011.
- OECD* (2008a): C/MIN(2008)5/FINAL, Meeting of the Council at Ministerial Level, 4-5 June 2008, Enhanced Engagement, Towards a Stronger Partnership between Major Emerging Economies and the OECD, Paris: OECD.
- OECD* (2009): Export Credits and the Environment: 2009 Review of Member's Responses to the Survey on the Environment and Officially Supported Export Credits, Paris: OECD.
- Schaltegger, S./ Schock, M./ Buttscher, C.* (2009): Nachhaltigkeit als Herausforderung für Exportwirtschaft und Exportkreditversicherung. Bedeutung und Rolle von Finanzierung und Umweltprüfung im B2B-Geschäft. Lüneburg: Centre for Sustainability Management (CSM), Leuphana Universität Lüneburg.
- Scheibe, R.* (2008): Die Staatliche Exportkreditversicherung - Hermesdeckungen, in: Halm, W./ Engelbrecht, A./ Krahe, F. (Eds.): Handbuch des Fachanwalts Versicherungsrecht, Neuwied: Luchterhand, 2213-2271.
- Scheumann, W.* (2010): Strict Environmental Standards for Dam projects – Applicable only to the OECD countries?, The current column, online at: [http://www.die-gdi.de/CMS-Homepage/openwebcms3\\_e.nsf/\(ynDK\\_contentByKey\)/MRUR-8BFBNY?Open](http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/(ynDK_contentByKey)/MRUR-8BFBNY?Open), accessed: 17.01.2011.
- UNEP* (2000): The Montreal Protocol on Substances that Deplete the Ozone Layer, Nairobi, Secretariat for The Vienna Convention for the Protection of the Ozone Layer & The Montreal Protocol on Substances that Deplete the Ozone Layer, online at: <http://www.unep.org/ozone/pdfs/montreal-protocol2000.pdf>, accessed: 17.01.2011.
- World Bank Group* (2010): Safeguard Policies, online at: <http://go.worldbank.org/WTA1ODE7T0>, accessed: 17.11.2010.