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A German Perspective

HANS W. REICH

This chapter will address some issues regarding Kreditanstalt für Wiederaufbau's (KfW's) so-called market window. But before doing so, it will be useful to comment on how the German official trade finance system competes with the system in other nations.

The Question of Competition

Competition clearly exists between export credit agencies (ECAs) and the market windows of other official export financing agencies, such as KfW. Because these institutions were all established to support *domestic* companies in their exporting activities, and because this remains their main business today, it is obvious that there must be some kind of competition among them. But the existence of competition among official ECAs with different charters is no proof of unfair practice.

The question of competition in trade finance should be examined in a broader perspective. Trade policy has always been an important instrument in national economic policy, either with an aim to protect the domestic economy against foreign competitors or to assist domestic companies in gaining access to foreign markets. Despite the General Agreement on Tariffs and Trade and the World Trade Organization, loopholes remain for public action to shape trade and investment flows. There are many

Hans W. Reich is chairman of the board of managing directors of Kreditanstalt für Wiederaufbau, Frankfurt.

ways to influence trade patterns other than export finance. Political interventions, foreign policy, and geostrategic military interests definitely play a role, and perhaps a much greater role than export finance.

Indeed, through various Organization for Economic Cooperation and Development (OECD) agreements, more discipline has been achieved over export finance than many other forms of intervention. National agencies nowadays compete in this area more or less on a level playing field. Since the latest OECD Arrangement on risk premiums for export cover was reached in June 1997, the terms and conditions for granting official risk cover and for utilizing officially supported export finance have indeed been fairly uniform.

But it surely will never be possible to reach unanimous agreement among governments, ECAs, and financing agencies worldwide on 100 percent equal practices *within* the boundaries of the general rules. We can—and should—respect certain differences in national policies. And we should remember that in the fully competitive private insurance and financing business as well, no two institutions necessarily come to the same conclusions regarding the insurability or bankability of a specific transaction.

Governments, of course, have discretion in not employing the full range of permissible measures that might be used (consistent with OECD and other international rules) to support their exporting firms. In other words, governments may choose to restrict their ECAs in certain respects from practices permitted by international agreements. But these are self-imposed restrictions, and if the result is a competitive disadvantage for certain domestic industries in certain markets, it would be unfair to blame other OECD members.

There is another argument that needs to be considered with regard to competition among national agencies. National interests can no longer be defined solely in terms of national boundaries. The globalization of trade and production has clear consequences for the export credit and insurance business. In larger-scale projects today, one hardly finds single national suppliers. Instead, one faces a context of multinational sourcing, which in many cases necessitates a multisourcing of export insurance and finance. Quite a number of ECAs have entered into bilateral reinsurance agreements. By this means, one of the insurers can grant cover for a multisourced export package while being reinsured by the others. Cooperation among export credit institutions can be a useful tool in meeting the demands imposed by competition in a globalized world.

I do not have much to say about competition derived from official development assistance (ODA), because it is of minor importance in the case of Germany. The amount of ODA is limited—around 1.3 billion euros last year from the government budget—and the share of untied aid has now reached about 80 percent. However, the distinction between tied and untied development aid with regard to national interest is more an academic exercise than of great practical importance. That holds true for other ODA-granting countries as well.

If I take a macroeconomic perspective and consider that in 1999 total German exports were nearly 500 billion euros, the possible influence of German ODA on the country's outgoing trade flows hardly seems worth pursuing. This argument may be extended to the amount of officially supported export finance made consistent with OECD Arrangement rules on Commercial Interest Reference Rates (CIRR), Large Aircraft Sector Understanding (LASU), and ship financing. Last year this financing totaled about 0.7 billion euros. Because these figures amount to far less than 1 percentage point of total exports, it is difficult for me to identify a possible distortion of trade flows.

What Are the Market Window Issues?

Market window operations evolved gradually in KfW's business during the 1970s and 1980s. Originally, KfW developed the market window to supplement the *official window*—CIRR and LASU officially supported export finance under the OECD Arrangement—which in Germany has always been limited. KfW did this *not* on behalf of the government nor as a strategic export move. Germany does not have an interest-equalization or interest-makeup system for CIRR financing, such as those that exist in other countries. Instead, KfW can borrow certain amounts—about 175 million euros in 2000—from the European Recovery Programme Fund provided by the German government at relatively low interest rates, and mix these funds with market funds raised at market rates. So the possible scope of official-window financing, in terms of available volume, always depends on current market conditions.

All in all, official-window financing in Germany is rather restrictive and, relative to German exports, the total volume is small. As a rule, the amounts made available on each individual transaction are limited as well. Furthermore, the OECD Arrangement embodies restrictions that borrowers are less and less willing to accept. A prominent example is the maximum tenor of loans permitted by the Arrangement. As market demand regarding financing structures changes more rapidly than the agreed-on official rules, KfW as a bank must adapt to market demand, or it is out of the market.

During a period of years, KfW made its market window a business of its own, independent from the official window. KfW was able to make use not only of the experience and expertise it had gathered on the official window, but also of the economic and technical expertise it had gathered in ODA, which was particularly valuable in the arena of project finance. But KfW's market window operations have always been entirely on market terms and conditions. This is verified by the fact that, in this field of business, KfW cooperates closely with German and foreign commercial banks. In 1999, about 60 percent of KfW's loan commitments were made under these cofinancing schemes. Moreover, KfW's commitments are made on the same terms and conditions as those of commercial banks.

In 1999, KfW's total new commitments in export and project financing stood at 9.2 billion euros, a proud record for the bank. Under the official window, 0.7 billion euros in loans had interest support, and about the same amount had pure cover. Market window operations, tied to exports but without ECA cover, reached 4.3 billion euros. The remaining 3.5 billion euros was *not* tied to exports, but served to finance direct investments, joint ventures, and other activities of German and non-German companies. KfW has already taken the next step in going global and will continue on this road.

In this context, I would like to specifically mention one of KfW's main financing activities, namely aircraft finance. KfW has arranged, or participated in the arrangement of, many Airbus transactions for airlines worldwide. But it has also financed the sale of Boeing aircraft, not only to Lufthansa but also to airlines in other European and non-European countries.

Market operations are the core of KfW's profit-oriented business. They take place in a competitive environment without government support, and the rules that KfW follows in risk assessment and management are those of prudent banking. Its portfolio, in terms of country and project risks, is well balanced, and it has always set aside adequate funds to cover the anticipated risk. At all times, year after year, its business has been profitable. To a considerable degree, these profits have been used to pay for the cost of reconstruction activities in the former East Germany and other social projects required by the German government.

Conclusion

In summing up, it is useful to emphasize one elementary truth in economic life. If you feel that competition hurts you, do something to compete. But compete on fair terms. I personally am against attempts to take comfort from privileges with which institutions such as KfW may have been endowed—even using those privileges to sponsor unfair practices. Having been engaged in the business of export finance for a long time, I remember much too well the critical years before the first OECD Arrangement was reached, when ECAs competed really hard—to take a metaphor from sports—without gloves. Almost everybody had the feeling that something must be done to end the race in subsidizing national exports.

It is time for ECAs to use the competence acquired over many years not only to compete on fair terms but also to cooperate more in the interest of multinational business. Competition between companies active in international markets is growing more intense, but at the same time national economic interests are blending into transnational interests. Cooperation, of course, does not mean that competition is forgotten, because cooperation cannot be a screen for cartelizing markets. But I encourage the US Export-Import Bank to make use of its great competence to assess and finance a wide range of foreign trade transactions, either outside or alongside the boundaries of OECD-regulated official support. And I would be very glad if, from time to time, KfW and Ex-Im could do this together.