

*June 22, 1976*REX COMMITTEEEXPORT CREDITS AND THE EUROPEAN EXPORT BANK

Export credits is a subject which combines great technical complexity with considerable political importance. Such issues are particularly difficult to handle in the Community because the technical content gets in the way of the political issues.

Export credits matter politically because they are part of the Community's Common Commercial Policy. For our internal trade, we have the discipline of the internal market. For our imports, we have the common external tariff. We cannot leave our exports out of the Community picture. Yet export credits is one area where our progress has been slow. Indeed the competition between our member states has got worse, as monetary instability, inflation and balance of payments problems have led some of them to an even more aggressive approach than they pursued previously.

But as we come out of the recession, we now have an easier climate in which to do something about this. That is why I welcome the attention which your Committee is giving to these problems in the three reports which we are talking about today - Mr Cousté's Report on Aid to Exports, Mr Nyborg's Report on the European Export Bank and Mr Spicer's Report on the Community's Competence in External Economic Relations.

Let me begin with the problem of export credits.

In the 1960s the main thrust of our efforts was directed to the problem of credit insurance, and specifically to harmonising its conditions and coverage. Despite long discussions little progress was made. In 1973 the Commission decided to try a new approach. I am glad to say that we are making some headway - we hope to submit a formal proposal in this area in the autumn.

But the distortions of competition from different practices of credit insurance are however now as nothing compared with other forms of competition. The economic uncertainties of the 1970s have led several member states to erect or improve a battery of export credit facilities to help their exporters - guarantees against inflation, mixtures of aid and commercial credits, provision of export finance

on increasingly favourable terms both in respect of interest rates and in respect of length of credit. Something of an export credit race has developed between our member states in their relations with Eastern European countries, notably the Soviet Union and Poland; the tax payers of certain member states are, in effect, vying with each other to help the Eastern Europeans. With current levels of inflation, these measures of competition may produce a situation in which our tax payers are being asked to provide the funds simply to give the products of our industry away.

The Commission has been trying to do something about the export credit problem for some years.

- In the 1960s the Commission got agreement on a procedure by which our member states consult each other about credits being provided for terms longer than five years.

But this procedure is of limited use, since it does not bind the member states to accept any limits - merely to consult.

- Consequently in 1971 we made a proposal on interest rates, but it found little favour.
- In 1972 we also sought to harmonise the so-called cost escalation guarantees which were also beginning to increase in importance. This proposal likewise fell on deaf ears. But we have been keeping up the pressure and we recently signed a new proposal to the Council on this subject.

Competition in the export credit field goes wider than the Community, to involve all the main industrial trading countries. We therefore welcomed the search for a "Gentleman's Agreement" between the Community on the one hand and the United States and Japan on the other which began in 1973. For two years from 1973-1975, there were negotiations to reach an agreement, and we

managed to get a large measure of accord on the peripheral aspects. But on the central questions of (a) lengths of credit and (b) rates of interest, it proved impossible to bridge the gap between the Community and the United States. And even at this stage France did not accept that the Community as such had a rôle to play.

So the idea of an agreement with the Community ran into the sand. However, at the Rambouillet meeting last year, those present agreed to try again, and the talking recommenced outside the Community. In the spring a consensus was reached between these countries, and last week they separately announced that they would apply a consensus from the 1st July. This consensus amounts to no more than a very limited agreement, the lowest common denominator of minimum rates of interest and maximum lengths of credit. Moreover it is not binding. Nevertheless after three years of disagreement, even such a limited measure as this is better than nothing, and the Commission welcomes the fact that some basis for agreement has been obtained. A basis which opens up the possibility of subsequent further improvement.

But what is happening in all this to the question of the Community's competence?

In the Commission's view there is no doubt about this. The Treaty of Rome clearly regards export credits as a matter of commercial policy - and as such a matter of exclusive Community competence.

But some of our member states have been very reluctant to accept this. They have argued either for a mixed competence which would give them a bigger say, or for no competence at all - on the spurious grounds that until economic and monetary union is achieved no Community common action is possible in this field. However, in the face of all this, our Court of Justice has clearly and unequivocally upheld the Commission's general interpretation. The Commission cannot ignore its role of guardian of the Treaties. We have been anxious not to make it more difficult to get a Gentleman's Agreement by stressing solely these

legal aspects, and have bent over backwards to be flexible over procedural questions. But we have had to insist that any consensus in the context of the Gentleman's Agreement should be put into effect only by a Council decision. This approach has, I regret to say, been rejected by one member state.

What then is the situation? We have the basis for an agreement which, if limited, is better than nothing and should be built on for the future. On the other hand, it has to be accepted that export credits are a Community matter. The Commission will now have to decide what to do, so as not to make things worse, yet protect the interests of the Community.

We have to resolve this problem, for failure to agree on Community competence prevents progress on many aspects of export credits within the Community. It also makes it very difficult for the Community to play a part in the OECD - where useful work can be done in respect, for example, of aircraft and nuclear power stations. In addition, we must continue to press ahead in other matters. There are other major distortions of competition - and notably cost escalation schemes. The existing consultation procedures must be maintained and improved. The harmonisation of conditions of credit insurance must be pursued.

Of course such a programme of work bristles with technical as well as political difficulties. We could easily add to our programme by seeking to deal with other distortions. But this area is so politically sensitive that I do not think there is any point in taking on too much. As the Court of Justice recognised in its recent opinion, the fact of the matter is that the removal of distortions can only be achieved progressively. What we have to do is to keep up the pressure. This is a classical case of national interests conflicting with the Community interest in such a way that not only Community interest is harmed but also the real national interest is being damaged. The Commission is doing what it can to make the Community view prevail - and the help and support of the Parliament will be crucial to our success.

I turn now to the question of the European Export Bank. The principle underlying the proposal for a European Export Bank is very simple.

- National exporters acting on their own, or  
in conjunction with other firms of the same

nationality are already covered by national arrangements.

- But consortia of companies from more than one member state are not.

The Community should, therefore, create an instrument by which such Community consortia can be given a single export credit guarantee to cover the whole deal. This single export credit guarantee is the essential feature of our concept, for it will provide a basis on which finance can be raised on the market. The proposed bank could also provide a part of the finance if this were desired. In this way - and only in this way - can Community exporters be put on an equal footing with their American and Japanese competitors.

I believe in this idea not only because I think it will be of considerable practical benefit to our exporters over the decades ahead - decades in which the number and size of large capital projects is bound to increase as the development of the third world accelerates. I also believe in it because it is a way to put flesh and blood onto the concept of the Community.

We need to promote large scale transnational operations within the Community not only because they represent the most rational and most logical use of scarce economic resources but also because they give reality to the idea of the Community as a coherent and cohesive force in the world. If we are to have the kind of international strength and international personality which we are seeking we must develop the necessary instruments - and among those instruments, I believe that the proposed European Export Bank should have a place.

It is in this light that I hope that you in this Committee, and eventually the Parliament as a whole will think about our proposal. I understand the hesitations and doubts which some of you feel about the idea of a new Community instrument, especially one which would have to act on a considerable scale if it is going to achieve anything at all.

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The plain fact is that we will not achieve our objective merely by harmonising the action of the separate national institutions. What I have said about export credits in general shows how very difficult it is to make progress in this way. In any case, while harmonisation can remove distortions of competition it does not - and cannot - remove the national limitations by which the national institutions are inevitably bound. So long as our action is confined to purely national institutions a contract between a third-country buyer and a three-company consortia in three different Community countries would require negotiations with three separate institutions - negotiations which would almost certainly founder on many technical problems, for example of how to divide the possible losses when it is not certain who has caused a default. Only a Community instrument can resolve these practical difficulties and promote that psychological sea-change which is necessary if our companies are to think European rather than merely thinking national.

It is because this psychological sea-change has not yet taken place that it is very difficult to quantify the need for a new Community instrument of this sort. We are talking about the development of a new category of business - a category of business in which our firms deal less than adequately at present. But let us look at it from the other end. There is now a marked shift of resources to the developing world. This will lead to many <sup>more</sup> projects of the kind for which consortia offer the best competition. Unless we are to let American and Japanese companies have a competitive advantage over our firms, we must provide a Community instrument to help them. Let us also note the judgment of our Community industries and of our rivals. UNICE has given the idea of an export bank a firm welcome. They have underlined that the Community "must act as a single economic entity able to offer potential buyers" straightforward uniform terms. The American EXIM Bank has clearly shown its concern that even a limited range of Community exporters should be given access to a capacity comparable to their own.

The European Export Bank would be a new instrument for a new purpose. It would not compete with national institutions or commercial banks.

At the margin there will of course tend to be some blurring of coverage between national institutions and the proposed Bank. But this will only be marginal. The European Export Bank will not aim to touch the vast majority of business - which must remain purely national.

And so far as the commercial banks are concerned, there is no prospect of competition developing.)

The idea of the European Export Bank is essentially to provide export credit guarantees. It may also provide part of the finance, but in so far as it succeeds in opening up new business, it will be giving the commercial banks in whole or in part new opportunities to provide finance.

What about the role of the European Investment Bank? It might be argued that we do not need a EEB when we have an EIB to do the work.

But in fact the work is not the same: the Investment Bank deals with investment finance inside and outside the Community, sometimes acting as the Community's agent for the provision of subsidised finance outside the Community. But this function is not the same as that of export credit guarantees, the main feature of the export bank's activities.

Moreover the EIB has been given a large degree of independence, as is appropriate to its role as an investment bank. It falls outside the normal process of Community decision-making and outside the normal process of accountability to Parliament. This sort of independence would not be appropriate for the management of the export credit guarantee aspects of the Common Commercial Policy. In each of our member states, state support for export credits is rightly subject to the control of the national Parliament. And this must surely also be so at the level of the Community.

This said, however, there may be a role for the Investment Bank to act as the agent of the Export Bank in some respect, to avoid wasteful duplication for example in respect of financing.

I have kept these remarks to questions of principle. There are many technical issues on which I know you will wish to comment, on which we will do our best to help, and which must form part of your overall judgment. But let us keep these in proportion. We

are still at the start of a long process: if this Committee and the Parliament are prepared - as I hope - to give a not unfavourable opinion, the proposal still has to run the gauntlet of the member states' experts. We are of course ready to consider any constructive comments. But we need first to decide above all whether the idea is worth this detailed effort. I hope your judgement will be positive.

I apologise for the fact that this has been a long and rather complex exposition, and I am sure that the Committee will agree that I should not now embark at full length on the equally complex question of the Community's external commercial competence which is the subject of Mr Spicer's report.

But I understand that the tenor of your discussion of this topic provides a suitable note of general conclusion, in stressing that the weakness of our commercial competence is not lack of a legal basis but want of political will. In the export credit field, we have the legal basis we need to improve the Community's facilities in the export credit field with the European Export Bank, and to remove distortions to competition. What has been singularly lacking is political will. Yet we must press ahead. In the Community the way in which common action is achieved is only if first pressure for it builds up from many quarters and on many points against the resistance of the member states. This can be a long and thankless process. But at some moment in the uncertain future the dam bursts and common action becomes possible. The Commission will maintain the pressure until that moment comes. And in this we will need the help of the Parliament.