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Working Party on Export Credits and Credit Guarantees

CHINESE EXPORT CREDIT POLICIES AND PROGRAMMES

Mr. Lennart Skarp, an independent consultant, was asked by the OECD Export Credit Secretariat to undertake the task of collecting as much concrete information as possible on the export credit programmes and policies of the People's Republic of China. This report was presented to the OECD Working Party on Export Credits and Credit Guarantees at its 136th Meeting on 19-20 November 2014, at which the Members requested that the report be made public.

Mr. Skarp has worked more than 30 years in the field of export credits: 1982-2000 as Country Risk Advisor and Risk Director at the Swedish Export Credit Guarantee Board (EKN), and 2000-2012 as Deputy Secretary General and Acting Secretary General at the International Union of Credit and Investment Insurers (the Berne Union).

Export Credits Secretariat, Export Credits Division, Trade and Agriculture Directorate, OECD
Tel: + 33 (0)1 45 24 89 10; fax: + 33 (0)1 44 30 61 58; e-mail: xcred.secretariat@oecd.org

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Main findings

- All three institutions studied – Sinosure, China Eximbank and China Development Bank – are expanding their export credit business rapidly. In relation to China's total exports, Sinosure's export credit insurance (USD 327 billion in 2013) represents around 15%, China Eximbank's export credit lending (USD 40 billion) around 2%, and China Development Bank's foreign lending probably around 3-5%.

- Sinosure's medium-/long-term (MLT) export credit insurance is dominated by buyer's credits. Policy conditions regarding down payment and covered percentage are in line with those of most export credit agencies (ECAs). Sinosure does not provide any information about premium rates, repayment terms or average maturities. While some of its business lines appear to be profitable, it remains unclear whether it attains financial break-even overall and in its MLT business.

- China Eximbank's export credit lending is mainly for seller's credits, where average tenors appear to be shorter than 5 years, while tenors in its buyer's credits appear to exceed 10 years. China Eximbank also provides official development aid in the form of soft loans. It reports profits year by year, though it is unknown whether these stem from the export credit business, or from other lines of business, which are more than twice as large. It does not publish information about interest rates and fees.

- China Development Bank has become very active in international finance in recent years. There is, however, no clear evidence as to whether these activities should be classified as officially supported export credits.

- While Sinosure hardly mentions environmental or other sustainability considerations, both China Eximbank and China Development Bank appear to give more attention to these issues, mostly concerning projects in China rather than export transactions. There are no references to debt sustainability.

- All three institutions were invited to participate in this review by providing information and engaging in follow-up discussions, to establish an accurate and unbiased picture of China's schemes for export credit support. Sinosure did provide material and answered questions, while there was no response from China Eximbank or China Development Bank.

- Financing of Chinese export credits is mostly provided by commercial banks, in particular China's "big 4", or by China Development Bank, rather than by China Eximbank.

Introduction

1. While the People's Republic of China (hereafter 'China') has quickly become one of the world's largest providers of export credits, it is not a Participant to the OECD Arrangement on Officially Supported Export Credits or any of its Sector Understandings. There is a scarcity of concrete information about the Chinese export credit programmes, both about the types and volumes of export credit support and the terms and conditions for them.

2. Against this background, an independent consultant was asked to "undertake the task of collecting as much concrete information as possible on the export credit programmes and policies of China; this would include the 'mapping' of Chinese export credit policies and programmes according to the format developed by the OECD Export Credit Secretariat. The mapping product would be accompanied by a comprehensive report with an analysis of the information obtained and a summary of any outstanding issues (*e.g.* level of confidence in information, figures obtained, areas for which clear information remains outstanding; areas warranting further investigation)."

3. To help accomplish this task, the consultant sent letters to Sinosure, China Eximbank and China Development Bank. In the letters, the aim of the study was explained, *i.e.* to establish an accurate and unbiased picture of China's schemes for export credit support, and each of the three institutions was invited to co-operate by (i) providing information beyond what could be found *e.g.* on their website, and (ii) receiving the consultant for follow-up discussions at their offices. Despite several reminders, no responses were received from China Eximbank or China Development Bank. Sinosure did respond, as detailed below.

4. Most of the information compiled in this paper, and included in the reporting template, has therefore been gathered from material available on the three institutions' websites, such as their Annual Reports. A few additional pieces of information were received through personal contacts with Chinese experts. It was a deliberate choice not to rely on external literature.

5. Although China is not a participant to the OECD Arrangement, it does take part in the International Working Group on Export Credits (IWG). This group was established in early 2012 by the United States and China, comprising the nine OECD Participants (Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States) and nine non-Participants (Brazil, China, India, Indonesia, Israel, Malaysia, the Russian Federation, South Africa and Turkey). The IWG has held meetings every 4-6 months, in the first phase focusing on two specific sectors, namely ships and medical equipment, with the aim to proceed to a more general perspective in a second phase. If successful, the work in the IWG might in due course lead to a new set of standards for export credits.

Sinosure

Overview

6. Sinosure (officially China Export & Credit Insurance Corporation) was founded in December 2001 by merging the export credit insurance activities that had started in PICC (People's Insurance Company of China) in 1988 and in China Eximbank in the 1990s.

7. Its business volume has expanded very rapidly, from a covered amount of USD 3 billion in 2002 to USD 397 billion in 2013. The expansion has slowed down only modestly in recent years. Thus, the last five years (2009-2013) saw an increase of 45% per year on average. Sinosure's share of China's total exports has thereby grown swiftly and is today higher than those of most (possibly all) other countries' Export Credit Agencies (ECAs), reaching 14.8% in 2013. (See Annex I for further detailed data.)

8. Sinosure's year-to-year business is dominated by short-term (ST) export credit insurance (77-80% of total cover provided in each of the last five years), followed by domestic trade credit insurance (8-11%), overseas investment insurance (5-8%), and medium-/long-term (MLT) export credit insurance (4-7%). Other activities, mainly lease insurance and bond and guarantee business, account for less than 1% each.

9. Sinosure has since its creation been a member of the Berne Union, continuing the membership that PICC had gained in the mid-1990s. Because of its high business volume, making it one of the world's largest ECAs, Sinosure is a quasi-standing member of the Berne Union's Management Committee since 2011.

10. Sinosure is one of China's four "policy institutions", together with China Eximbank, China Development Bank and Agricultural Development Bank of China. Thus, as explained in the Company Profile, it "serve[s] the state strategy and play more important policy role in supporting China's foreign trade development with the strategy of 'go-abroad', safeguarding the security of national economy, and promoting the economic growth, the employment and the equilibrium of international balance of payment". Like three other leading insurance companies in China, Sinosure has a quasi-ministerial status, implying among other things that its top managers are appointed by the central government. Its MLT and investment insurance policies are issued on behalf of the Ministry of Finance.

11. Sinosure's headquarters are located in Beijing. It has 18 branches, 6 business offices and 2 special work offices in various parts of China, and a representative office in London.

12. The total number of employees reached 2 509 by the end of 2013.

Information

13. Sinosure Annual Reports have become slightly less detailed and are since 2013 no longer available from its website. Examples of data previously given but withheld lately include insured amounts by continent and claims paid by continent, both ST and MLT.

14. Perhaps more importantly, and unchanged throughout its existence, Sinosure only reports "flow data" (such as amounts covered or claims paid in each year) while no "stock data" is given (*e.g.* commitments or claims outstanding at year-ends). And the only quantified information published about premiums is the total yearly sum across all lines of business.

15. Sinosure responded to the request for further information, promptly providing several year's Annual Reports, which are no longer available on its website, as well as an informative brochure titled "Project Insurance". It also answered several follow-up questions.

16. It has to be noted that Sinosure, in addition to the information it makes publicly available, provides quite extensive and detailed data to the Berne Union's data exchange system, which is only open for Berne Union members. This includes, for example, data on covered amounts and on claims paid, both new amounts year-by-year and outstanding amounts by year-ends. All of this data is reported separately for ST, MLT and investment insurance, and most of the reported items are specified by country of destination.

Export credit products

Short-term export credit insurance (ST)

17. Sinosure recently lost its previous monopoly in the short-term (ST) area. PICC – from which, together with China Eximbank, Sinosure was spun off in late 2001 – were licenced to provide ST export

credit insurance from January 2013. This was followed in June 2014 by China Continent (connected with Atradius), China Pacific (connected with Euler Hermes) and Ping An (connected with Coface). It may be noteworthy in this connection that Sinosure's ST cover provided expanded by a relatively modest 13% in 2013, *i.e.* much slower that the average of 61% recorded in the previous four years.

18. The total amount of ST cover provided by Sinosure in 2013 was USD 309 billion, *i.e.* more than seven times the amount provided in 2008.

19. The main ST cover products offered by Sinosure are the following:

- Comprehensive cover insurance
- Specific buyer's insurance
- Specific contract insurance
- L/C insurance
- Buyer breach of contract insurance

20. The largest shares of Sinosure's ST cover are for exports to Asia (33-36% in 2009 to 2012, no data given for 2013), Europe (24-29%) and North America (19-27%), with smaller shares for Latin America (5-8%), Africa (4-6%) and Oceania (2-3%). The top five markets in 2012 were United States, Hong Kong, Japan, Germany and United Kingdom, together representing 35.6% of Sinosure's ST cover.

21. Sinosure's claims paid in the ST area have risen steadily in recent years, from USD 240 million in 2010 to USD 930 million in 2013, which meant that the ratio of ST claims paid to ST cover provided increased from 0.16% to 0.30%. ST recoveries were reported at USD 40 million in 2010 and USD 131 million in 2011, while no data has been given for 2012 or 2013. These data could shed some light on the financial result of Sinosure's ST business. Thus, comparing its ST net claims in one year with its ST cover provided one or even two years earlier (which might be more realistic than comparing with cover provided the same year, and more illuminating in a rapidly growing business) points to a net ratio of around 0.30-0.45%. However, as Sinosure does not publish information about its premiums levels, it remains unknown whether its premiums cover claims, plus administrative expenses.

22. The geographical distribution of ST claims paid was last published for 2011, when claims on Africa jumped from 4% of total ST claims in 2009 and 2010 to 32% in 2011, of which 29% (*i.e.* around USD 140 million) were on Libya.

Medium-/long-term export credit insurance (MLT)

23. While Sinosure's reporting shows that its MLT covered amounts are typically less than 10% of its ST amounts ("flow data"), it is unclear whether MLT or ST is larger in terms of commitments outstanding ("stock data"). MLT cover appears to have grown roughly in pace with ST cover over a multiyear period, but variations from year to year are much more pronounced in MLT cover. Thus, Sinosure's MLT cover provided grew by 205% in 2009, 20% in 2010, 12% in 2011 and 93% in 2012, and then fell by 12% in 2013, to USD 18 billion.

24. There is only partial data available regarding the geographical structure of Sinosure's MLT cover. Asia seems to be the main destination (with 47% of total MLT cover provided in 2011 and 61% in 2012), followed by Africa (28% and 13%), Europe (14% and 15%) and Latin America (12% and 10%),

while North America and Oceania both account for close to zero. No such data has been published for 2013, and no further detail is given, *e.g.* about individual countries covered.

25. MLT claims paid varied between USD 250 million and USD 400 million in 2010-2013, with MLT recoveries between USD 32 million and USD 110 million. Net MLT claims paid (claims paid minus recoveries) thereby stayed within 1.5% to 2.5% of MLT cover provided in the same years. However, in MLT business, especially if quickly growing, it is more relevant to compare claims in one year with cover provided earlier. It appears then that Sinosure's net MLT claims in each of the last three years represent between 3.0 and 3.4% of its new MLT cover two years earlier, and around 4 to 12% of its new MLT cover four years earlier. Like for its ST insurance, it is not known whether Sinosure's MLT premiums match the claims, plus expenses to operate its business. (Sinosure's claims in relation to premiums are further discussed under "Performance" below.)

26. No information is provided about the distribution of MLT claims or recoveries by continents or main markets.

27. Sinosure has for many years offered two main types of MLT cover, with a third type added more recently:

- Buyer's credit insurance
- Supplier's credit insurance
- Refinancing insurance

28. Until 2009, buyer's credit insurance was by far the most important of Sinosure's MLT products. However, refinancing insurance, which appears to have been introduced in 2010, has rapidly gained prominence. In 2013, buyer's credit insurance accounted for 58% of Sinosure's MLT cover provided, supplier's credit insurance for 6% and refinancing insurance for 35%.

29. The main conditions for both buyer's and supplier's credit insurance products are as follows:

- Pre- or cash payment typically 15% (20% in case of vessels).

- Credit period 1-15 years (1-10 years until recently), could be adjusted in limited or non-recourse project finance transactions.

- Chinese content generally not below 60% of contract value (40% in ship finance, 15% for civil works).

- Cover percentage for both political and commercial risk up to 90% in supplier's credits and up to 95% in buyer's credits (commercial risk cover in project finance typically 50%, or higher case by case).

- Cover available in USD, CNY (RMB), EUR or other acceptable currencies.

- Premium "depending on factors such as country risk, tenor, borrower credit risk, and guarantor credit risk", allowed to be financed up to 85%, and to be paid in three instalments in line with disbursements.

- Interest rate in buyer's credits typically floating, *e.g.* LIBOR + margin, in supplier's credits "to be discussed and agreed by exporter and importer".

- The policy holder can be a Chinese financial institution, or a foreign financial institution that has (i) branches in China, (ii) at least USD 20 billion in assets, and (iii) export credit experience in the last three years, with the exporter being a legal entity registered in China (except Hong Kong, Macau and Taiwan).

- Interest during the waiting period is covered; documentary risk is not covered.

30. Refinancing insurance is not explained on Sinosure's website or in its Annual Reports, but it appears to mean insurance provided to banks that purchase the loan receivables in supplier's credits, thus improving the exporter's balance sheet.

ST and MLT

31. Sinosure provides some data on its export credit insurance by industry, though only for ST and MLT cover together. The latest set of figures showing the industry breakdown is for 2012, while it is only presented in graphic form for 2013. (It appears, however, that there is only little change in the industries' shares from year to year.) It is unclear why the sum of the figures given for each industry exceeds the totals reported for ST and MLT (by around 4-13%).

32. According to the data reported for 2012, electromechanical products account for 46% of Sinosure's total ST + MLT cover (of which electronic information products for 24%), hi-tech products for 21%, textile for 13%, light industry for 8%, and automobile, pharmaceutics, agricultural products and shipbuilding for 3% each.

Other products and services

Overseas investment insurance

33. Sinosure's investment insurance typically accounts for somewhat higher amounts than its MLT insurance (on average USD 18 billion against USD 13 billion yearly in the last five years). It covers the usual types of political risks, *i.e.* (i) non-transfer/inconvertibility, (ii) political violence, (iii) confiscation/ expropriation/nationalisation, and (iv) breach of contract. In addition to overseas investment, Sinosure can also cover investments in China, either from abroad or domestic, but the amounts reported for these lines are very small.

34. Only piecemeal information is given about the geographical or sectorial distribution of Sinosure's overseas investment insurance. Thus, in 2012, it covered investments in *e.g.* Egypt, Indonesia, Ethiopia, Russia, Thailand, Cambodia and Vietnam. And, in 2011, the main sectors covered were energy, mining, power, shipbuilding, airplane and mechanical equipment. Claims reported are rather negligible, less than 0.1% of the amounts covered in recent years.

Domestic trade credit insurance

35. In addition to its cross-border cover (export credit or foreign investment insurance), Sinosure also runs a relatively sizeable domestic credit insurance business, larger than its MLT or investment insurance (on average USD 23 billion per year in 2009-2013), though growing less rapidly. Very small amounts of claims are reported for this business, which leads to the impression that it may be quite profitable, *i.e.* a ratio of claims paid to cover provided of only 0.03% to 0.09% in recent years.

Risk information services

36. Sinosure's fully owned subsidiary SinoRating offers services such as credit investigations and ratings, covering more than 200 countries, with credit information on around 7 million enterprises in China or abroad in its database. It also publishes yearly Country Risk Reports on 102 countries as well as a Global Risk Map on 192 countries. A new Research Centre on Country Risks was set up in 2013.

Performance

37. It is not possible to say whether Sinosure as a whole, or its export credit insurance business, is financially self-sustained (*i.e.* achieving at least break-even) or not. The data reported might appear as rather undramatic at first sight, with net claims ratios (total claims paid minus total recoveries divided by total premium income, all in the same year) at a seemingly rather comfortable range between 32% and 46% in the last four years (2010-2013). However, as noted in the context of ST and MLT claims above, it would be misleading in a rapidly expanding business to compare claims paid in one year with the same year's premium income. The following claims ratios were found when, instead, comparing net claims paid in each of the last three years:

- with premium income one year earlier: 45-66%
- with premium income two years earlier: 66-76%
- with premium income three years earlier: 76-138%

38. As MLT net claims account for approximately one third of total net claims, it seems that the comparison should be with premium income more than one year earlier. Thus, assuming a cost ratio of around 20-30% in addition to the claims ratio, it appears to be possible, though not certain, that Sinosure's business is fully self-sustained financially. It is also possible that there is some cross-subsidisation between Sinosure's various business lines, as its domestic insurance and probably also investment insurance appear to be profitable, while this is more uncertain regarding the MLT, and to a lesser degree ST, business.

39. It may be noteworthy that Sinosure received a capital injection from state funds amounting to CNY 20 billion (equal to around USD 3.2 billion) in 2012. At roughly the same time, starting in 2010, Sinosure made significant changes in several of the reserves in its financial accounts (*i.e.* unearned premium reserves, outstanding claims reserves, and reserve for other liabilities).

Standards

40. There is no mention of environmental, ethical, sustainability or other such standards in Sinosure's Annual Reports. And the only reference of this kind that can be found on its website is mainly about controlling its own business:

> "Sinosure is determined to be a sustainable insurance company with clearly-defined position and business, special functions, adequate solvency, regular governance, strict internal control and safe operation."

41. As a member of the Berne Union, Sinosure has signed the Berne Union's Value Statement and is expected to adhere to the Berne Union's Guiding Principles (see Annex IV), which cover aspects such as ethical values, sound business practices, environmental issues, corruption, money laundering and transparency. The Guiding Principles are further detailed and concretised in Operational Guidelines for each of the ST, MLT and investment insurance areas, but the Berne Union has so far not made these public.

China Eximbank

Overview

42. China Eximbank (officially The Export-Import Bank of China) was founded in 1994, along with two other so-called policy banks, namely China Development Bank and Agricultural Development Bank of China. China Eximbank is wholly owned by and organised directly under the Chinese central government (the State Council). It is, alongside the other two policy banks, "one of three institutional banks in China chartered to implement the state policies in industry, foreign trade, diplomacy, economy, and provide policy financial support so as to promote the export of Chinese products and services". International rating agencies give China Eximbank the same rating as for China sovereign risk.

43. China Eximbank's annual disbursements of export credits increased on average by 13% per year in 2009-2013, to USD 40 billion in 2013, representing around 2% of China's total exports. The accumulated amount outstanding reached USD 96 billion by the end of 2013. Together with import credits and other loans, Eximbank's total disbursements amounted to USD 130 billion in 2013 and its total credits outstanding to USD 243 billion by year-end 2013. (See Annex II for further data.)

44. In addition to its head offices in Beijing, China Eximbank has 22 branches in China and 3 offices abroad – a branch office in Paris (covering 42 European countries and 28 French-speaking countries in Africa), a representative office in St Petersburg (covering Russia and other countries of the former USSR), and a representative office in Johannesburg (covering 26 English-speaking countries in Africa). Its total staff numbered 2 336 persons by the end of 2013.

Information

45. All information about China Eximbank is from its website, mostly from the Annual Reports.

46. The information available has remained practically unchanged over the last several years. No information is given about interest rates and fees or conditions such as repayment terms. Neither is there any data showing the distribution of its lending by country or region.

47. More generally, parts of Eximbank's published data appear somewhat unclear. For example, one set of data is labelled "total loans at year-end", but there is also a set called "total loans outstanding at year-end" with 14-27% higher figures in each of the last five years (the amounts mentioned in this paper are from the later set). It is also unclear what is actually included in "total loans", as the subitems shown do not seem to add up to the reported totals.

Export credit products

48. While Sinosure's MLT insurance is dominated by buyer's credits rather than supplier's credits, the proportions in China Eximbank's lending are the opposite: volumes of export seller's credits are more than double those of export buyer's credits. (Seller's credits were even more dominating a few years ago, several times larger than buyer's credits.)

Export seller's credit

49. This type of credit is offered to Chinese companies (except if located in Hong Kong, Macau or Taiwan) for export transactions or foreign investments. It is available in both Chinese currency and foreign currencies. There are several subcategories:

- Shipping export seller's credit

- Equipment export seller’s credit
- New- and hi-tech production export seller’s credit
- Mechanical and electronic product export seller’s credit
- Offshore project contracting credit
- Outbound investment credit
- Agricultural produce export seller’s credit
- Cultural product and service export seller’s credit

50. The volume of export seller’s credits has expanded at relatively modest rates in recent years. Disbursements rose by an annual average of 8% in 2009-2013, to USD 31 billion in 2013, and the accumulated outstanding amount grew by 11% annually, reaching USD 65 billion by the end of 2013.

51. As outstanding amounts by year-end are reported to be around double the amounts of yearly disbursements, it can be concluded that maturities in China Eximbank’s export seller’s credits are usually not extremely long, probably below five years on average.

Export buyer’s credit

52. Buyer’s credits are provided to foreign companies, public authorities or financial institutions for their imports of Chinese good or services. Like seller’s credits, they are available in both Chinese currency and foreign currencies.

53. The volumes of China Eximbank’s buyer’s credits remain smaller than those of its seller’s credits, but buyer’s credits have expanded around three times quicker recently – disbursements by an annual average of 24% in the last five years to USD 9 billion in 2013, total outstandings by 31% per year to USD 31 billion by the end of 2013.

54. It is noteworthy that outstanding amounts in Eximbank’s export buyer’s credits are more than three times larger than disbursed amounts, which suggests that maturities are on average significantly longer than for seller’s credits, probably around 10 years, possibly even longer.

Preferential export facilities

55. China Eximbank is the only institution that provides Chinese official development aid to developing countries. There are two types of such facilities, (1) *government concessional loans*, for which China Eximbank signs and implements loan agreements based on framework agreements between the Chinese government and the borrowing countries’ governments, and (2) *preferential export buyers’ credits*, which are agreed between China Eximbank and the foreign buyer upon approval by the respective government authorities. “Countries and regions in Africa, South Asia, Central Asia, Central and Eastern Europe, South Pacific, the Caribbean and the Association of South East Asian Nations (ASEAN) countries” are mentioned in Eximbank’s 2013 Annual Report as destinations for the concessional loans.

56. No further information is given about the preferential facilities, *e.g.* interest rates, tenors and grace periods. Furthermore, no amounts are reported specifically for the preferential facilities – thus, it remains unclear whether the amounts involved are included in other reported items, or form part of the apparent residual between reported items and reported total loans, or are not reported at all.

Other products and services

Import credit

57. China Eximbank's import credits are available "for Chinese companies for their import of capital goods and the construction of supportive facilities" and are provided in Chinese currency or foreign currencies. They account for substantial amounts, roughly corresponding to half or slightly more of Eximbank's export credits, with disbursements of USD 29 billion in 2013 and outstanding amounts of USD 54 billion by year end 2013.

58. The relatively low ratio of outstanding amounts to disbursements, around 1.7-1.9, suggests that the average tenor of China Eximbank's import credits is in the region of around 2-3 years only.

On-lending loans

59. China Eximbank has for many years been assigned to manage concessional loans from foreign governments or international financial institutions to China. Eximbank reports that it has, until 2013, on-lent concessional loans from the governments of Japan, Germany, Israel, the Netherlands, Austria, Spain, France, Portugal, Italy, Sweden, Poland, Australia, Norway, Finland, Denmark, Kuwait, the Republic of Korea, Saudi Arabia, Switzerland, Luxembourg, Canada, the United Kingdom, Belgium as well as the World Bank, the Asian Development Bank, the Nordic Investment Bank, the Nordic Investment Fund, the European Investment Bank, the Export-Import Bank of the United States and the OPEC Fund for International Development. As for the uses, priority is given to projects in infrastructure, medical care, health, education and environmental protection, as well as energy efficiency, emission reduction and new energy sectors.

60. The amounts involved in this line of business have contracted rather than expanded in recent years, from a total outstanding amount of USD 22.6 billion by the end of 2008 to USD 19.6 billion by the end of 2013, of which USD 14.9 billion from Japan, USD 1.7 billion from Germany, USD 1.5 billion from other countries and also USD 1.5 billion from international financial institutions.

Trade finance

61. Trade finance is China Eximbank's fastest-growing line of business, having more or less doubled in volume each of the last five years, to reach USD 38 billion in 2013. This business involves export or import trade finance, such as bill and remittance advance, forfeiting, factoring, and – notably – financing under export insurance, as well as domestic factoring and refinancing (labelled "supply chain financing").

International settlement

62. This line of business has expanded by an annual average of 24% in the last five years, to USD 104 billion in 2013. It involves import settlement (import L/Cs, inward collection, outward remittance), export settlement (export L/Cs, outward collection, inward remittance), as well as domestic L/Cs.

Letters of guarantee

63. Letters of guarantee is the slowest-growing of China Eximbank's business lines, on average up by 7% per year in 2009-2013. Guarantees issued in 2013 amounted to USD 11 billion, and the total volume outstanding by the end of the year was USD 25 billion. A dozen types of guarantees are mentioned on China Eximbank's website, such as *e.g.* tender guarantee, performance guarantee, advance payment guarantee and quality guarantee.

Performance

64. China Eximbank reports positive net profits in its total operations, however rising somewhat slower than the overall expansion of its business, to CNY 4.3 billion (*i.e.* USD 0.7 billion) in 2013, representing 22% of total income or 0.23% of total assets in 2013 (against 43% and 0.32% in 2009). Eximbank states that provisions are made for country risks according to a five-category categorisation, *i.e.* at least 0.5% for very low risks, 1% for low risks, 15% for medium risks, 25% for high risks, and 50% for very high risks. It is unclear how this is reflected in its accounts, in which "general risk reserve" (liability item) and "impairment losses on assets" (cost item) both account for less than 1% of total loans outstanding.

65. There are no performance indicators specifically for China Eximbank's export credit business.

Standards

66. China Eximbank states, on its website, that it has set stringent environmental standards on projects, tightened up environmental risk management, carried out intensive exchanges with the World Bank, IFC and others on environmental assessment, and put in place an exit mechanism for high environmental risks. Eximbank has, in recent years, developed a policy system for green lending, which strictly controls lending to highly-polluting or energy-intensive industries, increases lending support to circular economy, environment-related sectors, and technological upgrading projects for higher energy efficiency, and promotes financing cooperation with international financial organisations on energy conservation and new energies.

67. Three concrete cases in green finance are presented:

- China Eximbank on-lent USD 15 million from the World Bank, together with CNY (RMB) 116 million from its own funds, to a cement production company, providing electrical energy while saving coal and reducing carbon dioxide emissions.

- China Eximbank on-lent energy loans from Germany to support the construction of 11 biomass power generation plants using farm residue such as rice husk and straw.

- China Eximbank on-lent energy loans from Germany for construction of clean coal powder gasification systems, saving standard coal and reducing carbon dioxide emissions.

68. All three cases are projects in China, while none concerns export credits.

69. Finally, China Eximbank's website displays its responses to an official questionnaire describing Eximbank's control systems against money laundering and terrorist financing.

China Development Bank

Overview

70. China Development Bank was established in 1994 as one of China's three so-called policy banks (together with China Eximbank and Agricultural Development Bank of China), thus directly subordinated to the State Council. It is, like China Eximbank, rated as China sovereign risk by international rating agencies.

71. As explained in its Mission Statement, China Development Bank provides medium-/long-term financing, aligning its business focus with national economic strategy, to:

- support the development of national infrastructure, basic industry, key emerging sectors and national priority projects;
- promote coordinated regional development; and
- facilitate China's cross-border investment and global business cooperation.

72. China Development Bank is “dedicated to implementing the government's macroeconomic policies”, and “committed to market-based practices that stimulate solid performance, innovation and sustainable growth”. It does not aim at maximising profits, but does aim at “serving the national strategy and achieving the economic result of ‘break-even with thin profits’ characteristic of developmental finance”.

73. China Development Bank’s foreign lending has expanded particularly strongly in recent years, and the total amount of foreign loans outstanding by the end of 2013 was USD 261 billion (*i.e.* nearly three times that of China Eximbank), having grown by an annual average of 32% in 2009-2013. This represented nearly a quarter of total loans outstanding (*i.e.* including also domestic loans), which had grown by an average of 20% per year to USD 1,170 billion by end-2013. (See Annex III for further data.)

74. Around 95% of China Development Bank’s foreign lending is denominated in foreign currencies, with only a small portion in Chinese currency (USD 251 billion and USD 10 billion respectively at the end of 2013). It further informs that the USD 251 billion in outstanding foreign currency loans referred to “114 countries and regions in the five continents”. In a separate listing, USD 67.3 billion are shown under Asia-Pacific, USD 54.3 billion under Eurasia, USD 18.9 billion under Eurafrica, USD 16.3 billion under Africa, and USD 58.7 billion under the Americas (the balance of USD 35 billion is not explained, and it is unclear if the five continents in the first statement are the same as the five groups of countries in the second one).

75. Apart from some figures about the sectorial distribution of domestic lending, China Development Bank does not publish any “flow data” (such as *e.g.* loan disbursements year by year), only “stock data” (*i.e.* amounts outstanding by year-ends). It is therefore not possible to calculate, for example, what the proportion is between its foreign lending and China’s total exports. (A rough estimate, assuming an average tenor in the loan portfolio between 5 and 15 years, would point to around 3-5%, *i.e.* approximately twice the volumes of China Eximbank’s yearly export lending.) A mere 0.48% of total loans were classified as non-performing by year-end 2013, having stayed below 1% since 2005, while “bad foreign currency loans” were reported at 0.89%.

76. China Development Bank is engaged in several cooperation ventures between China and foreign countries. It operates a China-Africa Development Fund (established in 2007 with USD 1 billion initial funding by China Development Bank, to be increased to USD 5 billion), a China-Venezuela Fund (established in 2007 with initial funds of USD 6 billion, later doubled) and a China-Portuguese-Speaking Countries Cooperative Development Fund (established in 2013 with USD 1 billion founding capital). It is also an active participant in, among others, the Shanghai Cooperation Organization Interbank Consortium, the China-ASEAN Interbank Association and the BRICS Interbank Cooperation Mechanism.

77. Within the framework of the Forum on China-Africa Cooperation, the Chinese Government established in 2009 a Special Loan for the Development of African SMEs, which is managed by China Development Bank, with a total loan amount of USD 1 billion. It is emphasised that this Special Loan is not government aid, but is set up on commercial principles. There is no mention that the Special Loan programme would be tied to Chinese exports, but China Development Bank does indicate that, by the end

of 2011, a total of USD 589 million special loan contracts had been signed, which had promoted USD 311 million of China-Africa trade.

78. China Development Bank has 37 branches in China, in addition to its head offices in Beijing, and representative offices in Cairo, Moscow and Rio de Janeiro. It had a staff of 8 468 by the end of 2013.

Information

79. As noted above, China Development Bank does not publish any "flow data" such as *e.g.* yearly loan disbursements. Further, it does not provide any information about interest rates, fees or repayment terms.

Standards

80. China Development Bank maintains a rather high profile in the area of social responsibility. It was, in late 2006, the first state-owned bank in China to join the United Nations' Global Compact. It started publishing yearly Corporate Responsibility Reports in 2007. These were upgraded to Sustainability Reports in 2012, the 2013 version running over 145 pages. Most of the content is however high-level statements, such as "the percentage of projects completing environmental impact assessments is 100%", or descriptions of the Bank's business activities in general, and is mainly about projects in China. It is, for example, not specified what kind of environmental standards are applied, or which measures are taken to safeguard against corruption, and there is no mention of debt sustainability issues.

Other banks

81. Several Chinese banks are active as providers of export credits, in particular the large state-owned commercial banks ("the big 4") – Agricultural Bank of China, Bank of China, China Construction Bank, and Industrial and Commercial Bank of China. Credit insurance appears to be a requirement for practically all of this business – regarding MLT credits from Sinosure only, for ST credits possibly also from other insurers.

82. Very little information is given about interest rates. However, China Construction Bank states that "the interest rate for foreign exchange loan is negotiated by the lender and the borrower based on the interest rate level of the OECD".

83. "The big 4" are very large banks, all of them ranking among the world's top-10 banks, with staff numbers around 300 000-500 000, extensive networks in China and significant presence abroad (branches, subsidiaries or representative offices). Their international activities account in relative terms for rather minor shares of their total business, 4-8% of their total loans outstanding. In absolute terms, however, their overseas loans are smaller than China Development Bank's foreign loans but are roughly comparable with China Eximbank's export credits. Thus, in relation to China's total exports, Agricultural Bank of China's overseas lending can be estimated to represent around 1%, Bank of China's and China Construction Bank's around 2% each, and Industrial and Commercial Bank of China's around 2.5%. (No data is provided by "the big 4" specifically about export credits.)

84. The table below provides a summary comparison between each of "the big 4" with China Eximbank and China Development Bank (all data as at year-end 2013):

Bank	**Staff** (number)	**Total loans** (USD bn)	**Overseas loans**		**Presence abroad** (countries)
			USD bn	%	
Agricultural Bank of China	478 980	1 182	51	4	12
Bank of China	305 675	1 245	99	8	37
China Construction Bank	368 410	1 406	100	7	12
Industrial and Commercial Bank of China	441 902	1 624	123	8	39
China Eximbank	2 336	243	96	40	3
China Development Bank	8 468	1 170	261	22	3

ANNEX I

SINOSURE

		2008	2009	2010	2011	2012	2013
Sum Insured	(USD bn)	62.75	116.60	196.43	253.89	345.83	396.97
Premium Written	(USD bn)	0.50	0.99	1.31	1.51	2.22	2.21
Claims Paid	(USD bn)	0.38	0.52	0.50	0.93	1.18	1.30
Recovery	(USD bn)	0.11	0.08	0.08	0.24	0.19	0.30
Export Penetration Rate	(%)	3.0%	8.2%	10.4%	11.4%	14.3%	14.8%
Coverage by Types:							
ST Export Credit Insurance	(USD bn)	40.559	90.268	154.326	205.480	272.913	309.30
MLT Export Credit Insurance	(USD bn)	2.641	8.063	9.645	10.760	20.739	18.15
- Buyer's Credit Insurance	(USD bn)		7.07	9.30	9.70	13.75	10.18
- Supplier's Credit Insurance	(USD bn)		0.99	0.20	0.19	0.73	1.08
- Refinancing Insurance	(USD bn)			0.15	0.87	6.27	6.17
Investment Insurance	(USD bn)	5.12	5.43	14.18	16.71	25.08	30.65
- Overseas Investment Insurance	(USD bn)		4.84	13.66	16.37	24.58	30.38
Lease Insurance	(USD bn)	0.195	0.764	1.972	2.199	1.622	
- Overseas Lease	(USD bn)		0.45	1.60	1.87	1.18	
- Domestic Lease	(USD bn)		0.32	0.37	0.33	0.44	
Domestic Trade Credit Insurance	(USD bn)	13.782	12.329	16.603	20.684	26.051	37.43
Bond and Guarantee Business	(USD bn)	0.442	0.132	0.172	0.244	0.272	1.13
Others	(USD bn)	0.008	0.016	0.472	0.015	0.775	0.31
Export Credit Insurance Coverage:							
Electromechanical Products	(USD bn)		51.20	88.14	111.32	143.6	151
- of which Electronic Information Products	(USD bn)			48.48	64.66	75.4	
Hi-tech Products	(USD bn)		20.01	43.01	58.54	65.6	65
Textile	(USD bn)		12.77	21.98	28.63	40.7	49
Light Industry	(USD bn)		7.39	14.57	19.10	26.3	31
Automobile	(USD bn)		2.91	4.90	7.30	10.3	11
Pharmaceutics	(USD bn)		4.20	5.72	7.60	9.6	12
Agricultural Products	(USD bn)		3.11	5.02	6.34	9.4	12

		2008	2009	2010	2011	2012	2013
Shipbuilding	(USD bn)				5.63	8.8	8
Emerging Markets	(USD bn)			78.7	105.3	141.5	
US	(USD bn)			4.3	36.8	47.3	
EU	(USD bn)			6.4	48.0	51.7	
Hong Kong	(USD bn)			1.1	14.5	18.6	
Japan	(USD bn)			0.7	8.8	11.1	
Export Credit Insurance, Payment of Claims:							
Emerging Markets	(USD bn)				0.663	0.739	
US	(USD bn)				0.080	0.108	
EU	(USD bn)				0.109	0.242	
Hong Kong	(USD bn)				0.009	0.022	
Japan	(USD bn)				0.003	0.003	
ST Export Credit Insurance	(USD bn)			0.240	0.480	0.715	0.930
MLT Export Credit Insurance	(USD bn)			0.25	0.38	0.40	0.32
Investment (lease) Insurance	(USD bn)					0.015	0.016
Domestic Trade Credit Insurance	(CNY bn)			0.032	0.064	0.140	0.160
Export Credit Insurance, Recoveries:							
ST Export Credit Insurance	(USD bn)			0.040	0.131		
MLT Export Credit Insurance	(USD bn)			0.032	0.11	0.084	
ST Export Credit Insurance Coverage:							
Asia	(USD bn)		31.6	55.9	72.9	93.6	
Europe	(USD bn)		25.8	45.0	58.7	66.2	
North America	(USD bn)		25.8	32.2	41.0	51.8	
Latin America	(USD bn)		4.9	10.1	16.0	19.8	
Africa	(USD bn)		6.0	7.3	8.6	12.1	
Oceania	(USD bn)		2.0	3.8	5.3	6.0	
No Specified Country					3.0	23.5	
US, Hong Kong, Germany, Japan, UK	(USD bn)					97.2	
US, Hong Kong, Germany, Japan, India	(USD bn)			63.6	82.2		
US, Hong Kong, Japan, Germany, Russia	(USD bn)						97.1
Emerging Markets	(USD bn)				95.33		
ST Export Credit Insurance,							

		2008	2009	2010	2011	2012	2013
Payment of Claims:							
Asia	(%)		38%	30%	14%		
Europe	(%)		28%	28%	26%		
North America	(%)		20%	20%	17%		
Latin America	(%)		17%	17%	9%		
Africa	(%)		4%	4%	32%		
Oceania	(%)		1%	1%	2%		
Libya	(%)				29.0%		
US	(%)				16.5%		
Germany	(%)				10.0%		
Italy	(%)				2.4%		
Others	(%)				42.1%		
MLT Export Credit Insurance Coverage:							
Asia	(USD bn)				5.0	12.6	
Europe	(USD bn)				1.5	3.2	
North America	(USD bn)				0.0	0.0	
Latin America	(USD bn)				1.3	2.2	
Africa	(USD bn)				3.0	2.8	
Oceania	(USD bn)				0.0	0.0	
Exchange Rate CNY/USD (Source: oanda.com)		6.9404	6.8212	6.7605	6.4544	6.3034	6.1905

Sources: Annual Reports 2010-2013, Project Insurance (2014)

ANNEX II

CHINA EXIMBANK

		2008	2009	2010	2011	2012	2013
Total Income	(CNY bn)	23.37	5.91	7.68	10.65	19.82	19.55
Total Expenditures	(CNY bn)	22.85	2.86	4.03	6.81	15.43	14.83
Total Assets at year-end	(CNY bn)	566.73	792.14	887.08	1 199.06	1 558.93	1 884.86
Total Liabilities at year-end	(CNY bn)	557.26	781.95	874.23	1 182.92	1 538.86	1 861.03
Total Loans at year-end	(CNY bn)	451.24	591.88		914.30	1 183.03	1 450.94
Net Profit	(CNY bn)	0.20	2.52	2.80	3.13	3.79	4.26
Total Loans:							
Newly Signed	(CNY bn)	373.39	478.53		497.80	643.32	999.46
Disbursement	(CNY bn)	296.14	368.40	412.55	478.74	646.22	803.83
Outstanding at year-end	(CNY bn)	605.80	749.60	839.44	1,079.85	1,342.91	1,482.9
Export Seller's Credit:							
Newly Signed	(CNY bn)	135.53	224.17		162.49	176.92	210.31
Disbursement	(CNY bn)	130.04	173.09	144.22	169.49	175.37	192.41
Outstanding at year-end	(CNY bn)	233.54	281.50	300.31	347.75	378.44	399.56
Export Seller's Credit, Disbursements:							
Equipment Export	(%)		7.87%		6.96%	7.10%	6.38%
Shipping Export	(%)		8.47%		9.03%	10.50%	9.86%
High- and New-Tech Products	(%)		30.90%		30.14%	35.30%	36.79%
General Mechanical and Electronic Products	(%)		9.27%		12.85%	14.50%	14.47%
Overseas Contracting Projects	(%)		7.26%		9.80%	7.20%	7.60%
Overseas Investment	(%)		31.20%		23.94%	14.60%	17.65%
Agricultural Products Export	(%)		3.21%		2.50%	3.80%	3.38%
Others	(%)		1.82%		4.78%	7.00%	7.87%
Export Buyer's Credit:							
Newly Signed	(CNY bn)		22.17	35.57	22.46	13.28	31.61
Disbursement	(CNY bn)	18.27	29.45	32.63	43.90	42.54	54.30

		2008	**2009**	**2010**	**2011**	**2012**	**2013**
Outstanding at year-end	(CNY bn)	49.9	74.6	97.95	126.92	158.67	189.77
Import Credit:							
Newly Signed	(CNY bn)		115.09		106.3	162.17	172.17
Disbursement	(CNY bn)	115.63	96.51	98.47	118.01	154.84	176.99
Outstanding at year-end	(CNY bn)	101.57	131.19	169.68	209.21	270.19	330.71
On-lending Loans from Foreign Governments and International Financial Institutions:							
Newly Signed	(USD bn)		0.71		0.62	0.55	0.73
Outstanding at year-end	(USD bn)	22.6	21.82		26.22	23.52	19.63
Outstanding at year-end	(CNY bn)	154.1	148.8	150	166.6	148.2	119.9
- from Japanese Government	(%)				85.81%	82.45%	75.90%
- from German Government	(%)				6.62%	7.85%	8.58%
- from Other Countries	(%)				5.13%	5.61%	7.71%
- from International Financial Institutions	(%)				2.44%	4.09%	7.72%
International Settlement, Letter of Guarantee and Trade Finance Transactions							
Total Conducted	(USD bn)			63.59	85.43	98.19	153.75
Letters of Guarantee Issued	(USD bn)	8.00	6.69	10.21	10.19	8.69	11.34
Letters of Guarantee Outstanding at year-end	(USD bn)		21.7		23.95	22.98	24.86
International Settlement Conducted	(USD bn)	34.89	38.06	47.93	62.57	70.60	104.08
- Sale and Purchase of Foreign Exchange	(USD bn)		9.31	14.11	17.56	17.67	24.13
- Letters of Credit Issued	(USD bn)		4.66	5.77	7.50	11.35	22.35
Trade Finance Transactions Handled	(CNY bn)	1.39	3.84	5.45	12.68	18.89	38.33
Exchange Rate CNY/USD (Source: oanda.com)		6.9404	6.8212	6.7605	6.4544	6.3034	6.1905

Source: Website, Annual Reports 2008-2013

ANNEX III

CHINA DEVELOPMENT BANK

		2008	2009	2010	2011	2012	2013
Total Income	(CNY bn)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Expenditures	(CNY bn)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Assets at year-end	(CNY bn)	3 821.1	4 541.1	5 112.3	6 252.3	7 520.3	8 188.0
Total Liabilities at year-end	(CNY bn)	3 472.7	4 161.2	4 709.8	5 807.0	7 021.7	7 626.0
Total Loans at year-end	(CNY bn)	2 898.6	3 708.4	4 509.7	5 525.9	6 417.6	7 148.3
Net Profit	(CNY bn)	20.8	31.9	37.1	45.6	63.1	79.9
Outstanding Foreign Currency Loans	(USD bn)	64.5	97.4	134.6	187.3	224.5	250.5
Bad Foreign Currency Loans	(%)				0.33%	0.33%	0.89%
Offshore Yuan-denominated Loan Balance	(CNY bn)				61.5	72.6	63.0
Exchange Rate CNY/USD (Source: oanda.com)		6.9404	6.8212	6.7605	6.4544	6.3034	6.1905

Sources: Website, Annual Reports 2008-2013

ANNEX IV

Berne Union Value Statement

We are committed to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values – all in the best interest of the long-term success of our industry.

The Berne Union is the leading international organisation of public and private sector providers of export credit and investment insurance. Founded in 1934, it is an international, non-profit organisation dedicated to facilitating world-wide cross-border trade and investments by fostering international acceptance of sound principles in export credits and investments insurance, and by providing a forum for professional exchanges among its members.

We, the members of the Berne Union, provide a vital link in the flow of goods, services and investment capital world-wide. Through our involvement in transactions and projects large and small we help make trade and investments happen. We do this by providing insurance or guarantees to protect exporting companies, investors and financial institutions against political and/or commercial risks. Some of our members also provide direct financing services.

Our role as trade and investment facilitators provides us with opportunities to promote behaviours and practices that contribute to sustainable growth in global economic exchanges for the benefits of our customers, the transactions and projects we facilitate, the countries where these transactions and projects are located, and our various stakeholders.

We acknowledge that the extension of export credit and investment insurance should reflect sound market principles to encourage purchase and investment decisions that are based on the quality and price of the goods and services.

This value statement confirms our commitment to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values.

Berne Union Guiding Principles

We, members of the Berne Union, private and public entities with different mandates and ownerships, share the following principles that guide us in the pursuit of the purpose of our organisation, as set out below:

1. We conduct our business in a manner that contributes to the stability and expansion of global trade and investment on a sound basis, that is in accordance with applicable laws and relevant international agreements.
2. We carefully review and manage the risks we undertake.
3. We promote export credit and investment insurance terms that reflect sound business practices.

4. We aim to generate adequate revenues to sustain long-term operations reflective of the risks we undertake.
5. We manage claims and recoveries in a professional manner, while at all times recognising the insureds' and obligors' rights.
6. We are sensitive about environmental issues and take such issues into account in the conduct of our business.
7. We support international efforts to combat corruption and money laundering.
8. We promote best practices through exchange of information on our activities, policies and procedures, and through the development of relevant agreements and standards, where these are deemed necessary to govern the provision of export credit and investment insurance.
9. We are committed to furthering transparency amongst members and in the reporting of our overall business activities, reflective of international practices and respectful of the confidentiality of third party information.
10. We encourage cooperation and partnering with commercial, bilateral, multilateral, and other organisations involved in export trade and investment business.

These guiding principles reflect our collective views on the way we conduct our business and pursue the purpose of the Berne Union. They are not legally binding obligations and are not representations of behaviours which would create any rights for, or obligations to, any parties.