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Today, the news is full of reports concerning a broad range of intense, complex international negotiations involving issues that can have a profound political and economic impact on the world in which we live. Arms negotiations, peace talks, cease-fire negotiations, trade disputes, free trade agreements — there is no shortage of well-publicized subjects to illustrate the point.

Over the past twenty-five years, however, the principal industrialized exporting countries have quietly been engaged in a special type of economic warfare on one hand, and intense, complex and, for the most part, successful negotiations on the other hand, with relatively little publicity. It is this subject—official export financing—that I will briefly discuss today.

Most industrialized countries, and an increasing number of developing countries, have special agencies of their governments, known as export credit agencies, devoted to fostering exports through export financing programs. Examples are the Export-Import Bank of the United States ("Eximbank") and the Export Development Corporation of Canada ("EDC"). The world's official export credit agencies typically offer two basic types of support for their country's exports: credit risk insurance to protect exporters or their banks when they offer extended repayment terms to foreign buyers, often in high-risk developing countries; and medium- to long-term government loans to foreign buyers of exports, usually at subsidized rates. Thus, official export financing is used as an important and powerful tool for the development of export markets and as a means of competing with other countries through the subsidization of exports.

The history of the development of export credit agencies goes back to the period following World War I; some governments had become painfully aware of international political risks, including those associated with export activities. To deal with this problem, beginning in 1919, European exporting countries such as England, France and Belgium established export credit guarantee departments. The Eximbank was established in 1934, with the initial purpose of financing trade with the USSR — how things change!

After World War II, the industrialized countries became increas-

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ingly involved in exporting capital goods to the less developed countries ("LDCs"). These export markets required more credit with longer repayment terms. By the early 1960s, official export financing was increasingly being offered at extended terms with below-market fixed interest rates. The international export credit war had begun. Official export financing was becoming a major, costly element of international trade competition.

At that time no sector was more affected by the emerging credit warfare than shipbuilding. The combatants, principally Japanese and European shipbuilding countries, realized that the situation was getting out of hand. In 1963, a special working group of the Organization for Economic Cooperation and Development ("OECD") was established to begin negotiations on regulation of export subsidies in shipbuilding. After six long years of negotiations, an agreement was reached in 1969 on an "Understanding on Export Credits for Ships." This relatively simple agreement, with minor revisions, is still in effect today and has served as a precursor for a subsequent broader consensus on official export credits in general.

In 1972, an export credit group of the OECD worked out an agreement on a consultation and information exchange framework for official export financing with terms of over five years. At the same time, a separate organization, the International Union of Credit and Investment Insurers (the Berne Union) reached a similar agreement for short-term export credits. However, these agreements did not deal with the problem of subsidized interest rates that were playing an ever-increasing role in international trade competition.

Finally, in 1974, seven principal exporting countries, the United States, Canada, France, West Germany, Italy, Japan and the United Kingdom, reached a simple, limited "gentlemen's agreement" aimed at limiting the credit race. By 1978, this arrangement had been broadened into a sixteen page set of Consensus guidelines entitled "Arrangement on Guidelines for Officially Supported Export Credits" and was adopted by twenty-two member countries of the OECD. This Arrangement established a matrix of minimum fixed rates for official export credits of 7.25% to 8.00% and maximum repayment terms ranging from 2 to 10 years. Further, the Arrangement established consultation, notification and matching procedures among the participants.

Although the Arrangement was a major breakthrough in establishing discipline in official export financing, the United States, as well as Canada, felt that this agreement should be a first step on the road to reduced subsidization of exports and pressed for increases in minimum rates and stricter rules for the use of official aid as a vehicle for heavily subsidizing exports. However, the European Community ("EC") refused to entertain further reductions in subsidies. The 1979 General Agreement on Tariffs and Trade ("GATT") prohibited subsidizing most exports, except to the extent that GATT members are a party to an international multilateral undertaking on official export credits. Thus, the EC saw the Arrangement as the only acceptable means of using export subsidies for export promotion and competitive purposes, a practice the EC wished to continue.

As market rates soared above the fixed matrix rates specified in the Arrangement and export subsidy costs became enormous, the United States and Canada on one side, and the EC on the other, were deadlocked on this issue. Finally in 1982, after five years of confrontation, the minimum arrangement rates were increased and a small increase in discipline on the use of aid for trade was realized. From 1982 to 1986, the confrontation continued as subsidy costs continued to be a major problem and as the trade and aid-distorting practice of using heavily subsidized aid programs for trade development purposes proliferated.

Finally, in 1986 and 1987, agreements were reached on sweeping changes in the Arrangement aimed at further reduction or, in some cases, elimination of export subsidies. Minimum export credit rates are now automatically adjusted as market rates rise or fall. The cost of the use of aid for trade purposes was substantially increased, with the objective of making this practice too costly for widespread use.

As will be discussed by our next speaker, more remains to be accomplished in the never-ending battle to eliminate trade subsidies. We can report, however, that the twenty-two principal industrialized exporting countries, all with fiercely competing export trade programs, have managed to agree to cooperate to substantially reduce the intensity and cost of export credit warfare. Although not as dramatic and highly publicized as other international negotiations over the years, this "gentlemen's agreement," with all of its imperfections, is making a significant contribution to the reduction of subsidy costs, to the elimination of trade friction and to "leveling the playing field" in international trade.

Turning briefly to the U.S. Government export finance program, Eximbank is the independent U.S. Government agency that helps finance and facilitate the export of U.S. goods and services. Eximbank was founded in 1934 to stimulate foreign trade during the depression. Since then, Eximbank has contributed export financing support for nearly $200 billion of U.S. exports, including $10 billion in 1987. Eximbank is chartered by Congress periodically and is mandated to provide export loan, guarantee and insurance programs that are competitive with those export financing programs offered by other governments. Further, Eximbank is required to avoid competition with private sector financing institutions and to seek a reasonable assurance of repayment in all of its export financing transactions.

Originally, Eximbank was capitalized with $1 billion by Congress. Since that original capitalization, Eximbank has operated on a self-sustaining basis without further appropriations. In fact, the original $1 billion capitalization has been more than returned to the U.S. Treasury in the form of dividends. By 1980, the bank had also accumulated capital and reserves amounting to approximately $3.2 billion. Since reaching that level, our total capital and reserves has rapidly dwindled to approximately $1.3 billion. Nearly the entire $1 billion drop is attributable to being forced to participate in the export credit subsidy warfare of the past decade in order to compete with the export subsidy programs of the other principal exporting countries.

The U.S. Government does not wish to be in the export credit subsidy business and has been a leader in pressing for the reduction and ultimate elimination of such trade-distorting practices. Today, Eximbank's primary role is to provide credit risk protection to lenders offering export financing in support of U.S. exports, particularly in those developing countries where financing is not available without such government guarantees or insurance. As a result of the successful negotiations on export credit subsidies, the need for subsidized loans has dropped dramatically. However, such subsidies have not been eliminated in the world marketplace and more work remains ahead of us.