



Trade Union
Advisory Committee
to the OECD
*Commission
syndicale consultative
auprès de l'OCDE*

Submission to the Export Credits Working Group

Paris, 15 October 2020

TUAC welcomes the opportunity to contribute to the work of the Export Credits Working Group, for the Stakeholder Consultation taking place 21 and 22 October 2020. In partnership with the International Transport workers' Federation (ITF), the TUAC offers the following comments and recommendations to help address extreme challenges arising out of a convergence of social, economic and environmental crises.

Executive Summary:

- As the global economy continues to struggle, greatly exacerbated by the pandemic caused by COVID-19, the importance of export credit agencies and their support for the creation and maintenance of jobs across all sectors, including manufacturing and transport, becomes even greater.
- At the same time, increased competitiveness among member states and between member states creates further pressure for ECAs to weaken critical policies which support jobs in their own countries. Before COVID-19, Aviation supported 21 million jobs worldwide.ⁱ
- Trade unions are especially alarmed over competition from non-OECD members states which are not parties to the Common Approach framework creating even further pressure to weaken policies that support jobs in Member states. This underscores the urgency for OECD member states to further coordinate all of their efforts to develop and consolidate much needed policies to restore the global economy.
- COVID-19 profoundly affects commercial activities for most of the transportation assets guaranteed by official government export credits. Shipping and Civil Aircraft official credits are impaired if not approaching default scenarios.ⁱⁱ Previously unimagined social risks of COVID-19 call for premium credit enhancements for both manufacturers and buyers in the sector.

Heightened uncertainty necessitates strengthening socio-economic conditions in official export credits

Governments will need to consider additional measures that enable manufacturers and users of transport assets to meet urgent environmental, social and financial needs. In

order to prevent the possibility of unrecovered debt exacerbating domestic consequences, environmental and social provisions must be strengthened for any new or restructured official export credits.

The Common Approaches for Environmental and Social Due Diligence already provide a framework. Considering the unprecedented government and business risks for commercial aircraft and ships, the Common Approaches should be strengthened and explicitly linked to sector understandings.

Two central questions: 1) how can governments reimagine official export credits as support for resilient and inclusive economies? 2) Can participants to the Common Approaches draw strength from the government recommendations found in the OECD Guidelines for Multinational Enterprises as both an incentive and deterrent, protecting higher social standards and minimising any tendency towards a race to the bottom by non-OECD exporters?

I. Updating the Arrangement

One of the main reasons for the Arrangement and the OECD Export Credit Group was to establish common standards in an effort to avoid the race to the bottom. The US Export-Import Bank confirms a financial purpose.

“The Participants recognized that unbridled official export credit competition could lead to a “race to the bottom” in which buyers would make decisions based on the attractiveness of the financing (e.g., lowest interest rate, longest tenor, lowest premia, etc.) rather than on the best commercial price and quality of the export.”ⁱⁱⁱ

Trade unions call attention to COVID-19 making this more than an economic race to the bottom, but now has become an undeniably social and environmental conversation. Participants must start to address public health issues as being inseparable from financial issues covered by the Arrangement.

Social Enhancements Benefit Minimum Premium Rates

Minimum premium rates (MPR) are determined in part by 6 factors. Political, country and buyer risk mitigation and enhancement provisions can be considered.^{iv} Workers and trade unions should be factored into country risks and buyer risks, with premium rates adjusted according to a set of credit enhancements developed in consultation between the OECD and stakeholders active in the transport sectors.

II. Impacts on Sector Understandings

Civil Aircraft

The Aircraft Sector Understanding (ASU)^v is managed by its own Participants, separate from the Arrangement.^{vi} However, trade unions consider catastrophic consequences of COVID-19 on the air transportation industry necessitate a reopening of the ASU. Airline passenger demand fell 79.8% in July 2020 relative to the same period in 2019, while

capacity has dropped by 70.1% over the same period.^{vii} Idle and outdated aircraft require new and refinanced credit facilities.

Although reliance on export credits in the aircraft sector was reduced in the past five years, the United States has \$18 billion^{viii} and France €11 billion^{ix} outstanding exposure for aircraft and aeronautic purchases.

Without operating capital or new lines of affordable credit, buyers risk insolvency, creating extreme risks of national unemployment. LATAM Airlines (Chile) filed for US Chapter 11 bankruptcy protection covering \$18 billion in debt.^x The US has \$718 million in outstanding exposure to LATAM purchases of Boeing aircraft.^{xi}

Ships

Leisure travel by sea has mostly halted. German ship purchases were backed by €25 billion in official export credits. Germany has authorised a one year “repayment holiday” on ships purchased with official export credits to allow debtors time to resume commercial activities.^{xii} With cases of SARS-Cov2 on the rise, the national and business risks remain volatile. Restructuring should be used as an opportunity to strengthen provisions relating to the Common Approaches as premium credit enhancements.

III. Strengthening Common Approaches on Environment and Social Due Diligence

In anticipation of the OECD review scheduled for later this year, the TUAC and its affiliates is preparing a comprehensive set of revisions that would strengthen the Common Approaches to be more resilient, to act as an incentive for better sustainability in official export credits and to deter any tendency towards a race to the bottom on environmental and social issues.

Recommendations

An ECA should use its leverage to strengthen future or renegotiated official credits by incorporating several key provisions:

- Evidence of guaranteed COVID-19 prevention and remediation, subject to default but excluded from force majeure.
- Evidence of responsible environmental practices.
- Workers are made whole from any disruptions in business caused by COVID-19.
- Trade union dialogue is required as part of effective due diligence.
- Equitable processes be put in place for retention and recall of furloughed employment, where it does not already exist, e.g. by law or through a collective bargaining agreement.
- Participation in international grievance mechanisms, such as Specific Instances at the OECD, should be required.

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- ⁱ IATA Global Fact Sheet, October 2018. Includes airport, airline, civil aerospace, air navigation, and manufacturing supply chain jobs.
- ⁱⁱ Global Trade Review. <https://www.gtreview.com/news/global/france-rolls-out-export-credit-support-to-ailing-aviation-sector-after-growing-calls-for-eca-backing/>
- ⁱⁱⁱ EXIM USA 2019 Annual Report to the US Congress
- ^{iv} The Arrangement on Officially Supported Export Credits. January 2020.
- ^v Aircraft Sector Understanding, January 2019.
- ^{vi} OECD Evolution of the Arrangement on Officially Supported Export Credits, January 2020.
- ^{vii} <https://www.iata.org/en/iata-repository/publications/economicreports/airlines-financial-monitor-august-2020/>
- ^{viii} US-EXIM Database, September 2020.
- ^{ix} BPI France 2019 Overview.
- ^x US Bankruptcy Court, Southern District of New York, Case No. 20-11254.
- ^{xi} US-EXIM Database, September 2020.
- ^{xii} <https://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2020/20200414-federal-government-allow-cruise-lines-to-pause-their-repayments-of-export-credits-guarantees.html>