3-31-1987

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OECD Agreement Negotiates Virtual Elimination of Export Credit Subsidies

by LADB Staff

Category/Department: Region

Published: 1987-03-31

According to a statement released by the US Treasury Department on March 17, the agreement on "tied aid credits" reached in the Organization for Economic Cooperation and Development (OECD) "culminates a longstanding effort by the Reagan administration to negotiate the virtual elimination of export credit subsidies." Japan, members of the European Community, and Sweden's Axel Wallen, chairman of the group that conducted the negotiations, were praised for their actions in making an agreement possible. Briefly, the major industrialized countries of the OECD reached an agreement to control what was described as the unfair trade practice of using tied aid or mixed credits for trade promotion. The Treasury statement asserted that these practices have resulted in lost exports and lost jobs in the United States.

The US initiated negotiations to raise the concessionality or cost of tied aid credits significantly; the increased cost would deter the use of such credits as trade promotion devices and sharpen the distinction between legitimate development assistance and export financing. The agreement, to be implemented in two stages, ending in July 1988, introduces reforms in the following areas: 1) Minimum permissible grant element. This element on tied and partially untied aid credit offers to developing countries would be raised from the current 25% to 35% (50% for the least developed countries). Such credits would be banned entirely for industrialized countries. 2) Calculation of the grant element. The method for calculating the grant element of a concessional loan will be changed to remove most of the advantage enjoyed in the past by low interest-rate countries.

Since 1969, the OECD has used a loan with an interest rate of 10% as the standard of measure for concessionality, ignoring the different interest rate characteristics of different currencies. Now each currency will have its own discount rate, its own yardstick the so-called "differentiated discount rate" or DDR. 3) Reduction in export credit subsidies. For export credits which do not involve aid (i.e., conventional export credits), the small interest subsidies now allowed under the export credit arrangement would be further reduced. Credit subsidies to industrialized countries, including the Soviet Union, are now prohibited entirely. Furthermore, the minimum interest rates for other countries are increased by 30 basis points, virtually ensuring that export financing to the newly industrialized countries (NICS) such as Korea and Brazil will be on commercial terms and further reducing the credit subsidies allowed for relatively poor countries.

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