PRACTICAL INFORMATION

MARCH 2024

HERMES COVER SPECIAL

Permissible repayment terms in connection with the granting of export credit cover

EXPORT CREDIT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

Hermes Cover

► Permissible repayment terms in connection with the granting of export credit cover

I. WHAT RULES APPLY TO PERMISSIBLE REPAYMENT TERMS?

During the negotiations leading up to an export transaction, the exporter and the importer also agree on the method and date of payment. If the exporter is willing to accommodate the importer by agreeing to a certain repayment period or offering credit terms, the risk of payment default can be covered by means of an export credit guarantee issued by the Federal Republic of Germany (Hermes Cover) subject to certain conditions being met. One of the conditions is that certain terms of repayment are observed. The rules applying to the terms of repayment particularly arise from the international context in which the cover instruments operate. This context is chiefly determined by international institutions: the WTO and the OECD.

In addition to the international rules, other factors such as, for example, the decision-making practices of the Interministerial Committee responsible for granting Hermes Cover also influence the determination of the

The WTO

The World Trade Organisation (WTO) provides the organisational and institutional framework for a series of specific agreements and the corresponding legislative instruments. The export credit guarantees of the Federal Republic of Germany are subject to these WTO rules.
The relevant guidelines are to be found in the Agreement on Subsidies and Countervailing Measures (ASCM), which generally prohibits export subsidies. Export promotion in conformity with the rules of the OECD Consensus is not considered to be an export subsidy.

Other important rules are established by the WTO sector Agreement on Agriculture (agricultural products and commodities as well as live animals).

The OECD

The Organisation for Economic Cooperation and Development (OECD) was founded in Paris in 1960.
The OECD Consensus, an agreement between participating states, defines rules for official support of export credits in order to create as far as possible a level and transparent playing field for exporters in the participating states and to reduce competition on premiums and conditions for official export promotion. The OECD Consensus is embedded in EU law.

The Consensus covers all transactions with repayment periods of two years or more excluding export credits for military equipment and agricultural commodities. The rules of the OECD Consensus also include permissible repayment terms for certain sectors.

payment terms. The export credit agencies' decision-making practice, which evolved over the years as a result of the multilateral consultations, also provides guidance.

A distinction must be drawn between the agreed credit period for an export transaction and the total execution period. The length of the execution period may differ substantially from the repayment period as it may also include manufacturing, delivery and service as well as warranty periods. However, the allocation of transactions described in Sections II and III is based solely on the repayment period, i.e. the period from the delivery of the goods or the provision of the services (or the beginning of the disbursement of a buyer credit) until the date on which the last receivable falls due for payment in accordance with the applicable contract.

II. WHAT TYPES OF GOODS CAN BE COVERED WITH SHORT-TERM CREDIT PERIODS AND HOW?

1. WHAT RULES APPLY TO SHORT PAYMENT TERMS?

Export transactions with a credit period of less than two years fall within short-term payment conditions.

Payment terms can be agreed free of any restrictions with respect to prepayments and the repayment profile, for a credit period of up to 360 days.

If the credit period exceeds 360 days, but is less than two years, as a basic principle, a down payment or part payment of at least 15% must be made. In connection with manufacturing risk cover, a down payment of at least 5% of the value of the order prior to the commencement of manufacturing is required according to the German practice. Repayment of the remaining amount is normally in identical, regular instalments (within a span of up to six months).

2. WHAT SHORT-TERM CREDIT PERIODS APPLY TO WHAT TYPES OF GOODS?

For the credit periods allowed, there are guiding principles for many types of goods:

Repayment periods of up to a maximum of 180 days are acceptable for the following categories of goods; longer repayment periods are possible for certain types of goods and high contract values:

- **Raw materials and semi-finished goods**
  Materials in their natural or original condition prior to processing or production or goods in a semi-finished state (e.g. sheeting, wires, pipes, papers, paper pulp, timber for production and construction).

- **Consumer goods**
  Goods of a generally short economic lifespan for use by consumers (e.g. food, textiles, paints).

- **Consumer durables**
  Goods with a relatively long economic lifespan acquired for personal and repeated use. They are not utilised in an industrial process (e.g. refrigerators, bicycles, tents).

- **Spare parts and components**
  Finished goods (e.g. bearings, insulators, rollers) which are integrated without any further modification in capital goods (e.g. machinery, equipment, plants). If spare parts are delivered on the usual scale (up to about 20%) as preliminary equipment together with capital goods or plant equipment, the same credit terms may be applied to these spare parts as part of the overall project as for the machinery.

► Permissible repayment terms in connection with the granting of export credit cover

Repayment periods of up to 360 days can be accepted for:

- Agricultural goods such as fertilizers, insecticides, biocides, agricultural produce and commodities, seeds and breeding livestock (except breeding cattle)

Up to 18 months are permissible for

- breeding cattle

The service transactions covered by the Federal Government mostly provide for cash payment terms. However, there are generally no problems in obtaining cover for a transaction providing for credit terms if it has the characteristics of an investment. Evidence of this may include the extent to which it is possible to write off the value of the transaction on the balance sheet or the fact that it is customary practice in the sector in question for credit terms to be granted.

III. WHAT ARE THE CONDITIONS FOR LONGER REPAYMENT TERMS, AND HOW TO APPLY THEM?

1. WHAT RULES APPLY TO LONGER REPAYMENT TERMS?

The provisions set forth in the OECD Consensus apply to repayment terms of two years or more. With respect to the payment terms agreed upon in the export/loan contract, these are mainly as follows:

- The maximum permissible repayment term under the consensus is 15 years.
- Down payments and interim payments of at least 15% of the export contract value must be made at or before the beginning of the repayment period.
- The starting point of the repayment period (starting point of credit) is defined in accordance with the scope of delivery/service. Specifically, the Consensus makes the following distinctions for the starting point of credit:

  – If the goods are merely delivered and can be used independently of each other, the repayment period commences either when the buyer physically takes possession of the goods, i.e. pro rata for each delivery or as of the weighted mean delivery date.
  – If the supplier delivers equipment for entire plants or factories but is not responsible for assembling these, the repayment period will commence upon the buyer taking physical possession of the entire equipment. This is generally deemed to occur upon completion of the last material delivery.
  – If, on the other hand, the exporter is responsible both for the delivery of plants and for their assembly and commissioning (supervision), an agreement may be made providing for the repayment period not to commence until the plant in question is ready for commissioning.

- **Capital repayments** should normally be made in identical, regular instalments (**consistent repayment profile**) on the following recommended basis:
  - The interval between two instalments should generally be six months.
  - Accordingly, the first instalment should be due for payment no later than six months after the repayment term commences.
  - Shorter intervals between the instalments are permissible; however, the first instalment should then be due for payment earlier: for example, if quarterly instalments are agreed for repayment, the first instalment should be due for payment three months after the starting point of credit. The maximum interval between two instalments is twelve months, and the first instalment must be due for payment no later than twelve months after the commencement of the repayment term.
  - Annuities are possible if required (e.g. for lease financing).

- In **substantiated exceptional cases**, other repayment profiles may also be applied, provided that this is acceptable in the light of the risk involved (**variable repayment profile**). A variable repayment profile is normally justified by the availability of funds to the buyer or borrower, e.g. in the case of project financing financed from the company's own cash flow, subject to following conditions:
  - A single instalment or the total sum of all instalments within a period of six months may not exceed 30% of the capital borrowed.
  - The first repayment must be made no later than 24 months after the commencement of the repayment term.
  - The mean weighted average life (see text box) may be six years or a maximum of 65% of the repayment term applicable in the specific case, whichever is higher.

- **Interest** must be paid at least semi-annually or, in the case of annual repayments, at least annually. The interest payment is usually made together with the capital repayments. However, it can also be made independently of the capital repayment (e.g. monthly or quarterly).

As a general principle, the maximum repayment term is aligned to the useful life of the asset.

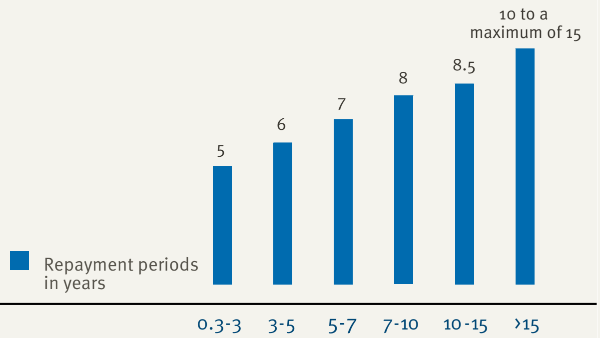
The ranking below is meant as an additional **guide**. It states what repayment terms correspond to "international standard practice" for what order values.

The weighted average life (WAL)

The weighted average life (WAL) is a measure of the risk associated with a particular repayment profile. It is calculated as the ratio of the sum of the repayment instalments multiplied by the respective repayment periods to the loan amount. In the case of an consistent semi-annual repayment profile, the WAL corresponds roughly to the period in which half of the capital is repaid. The fee calculation is also based on such equal semi-annual instalments. If, for example, repayments are made at shorter intervals or a higher amount is repaid at the beginning of the repayment term, the risk and, therefore, the fee is reduced (or vice versa). Further information on the WAL can be found in the publication "Practical information – Standardisation of charges".

► Permissible repayment terms in connection with the granting of export credit cover

PERMISSIBLE REPAYMENT PERIODS OF MORE THAN FIVE YEARS BY VALUE IN EUR MILLIONS



2. ARE LONGER REPAYMENT TERMS AVAILABLE FOR CERTAIN CATEGORIES OF GOODS?

In the case of longer repayment terms, a distinction has always to be made between the following types of goods:

- **Quasi-capital goods**:
  Machinery and equipment of a relatively low unit price for use in an industrial process or for production or trading (e.g. commercial vehicles for industry or agriculture), which are subject of the export transaction.

- **Capital goods**:
  High-quality machinery and equipment for use in an industrial process or for industrial production or commercial purposes

- **Complete production plants**:
  High value production units where extensive use is made of capital goods

Repayment terms of between **two and fifteen years** are permitted under the aforementioned rules for these categories of goods. However, the maximum term of 15 years is available only in justified individual cases.

For projects covered by the Climate Change Sector Understanding (CCSU), repayment terms of 15 to 22 years and – in substantiated exceptional cases – somewhat greater flexibility with variable repayment profiles are possible depending on the project category (Promotion of climate-friendly exports | Export credit guarantees).

For (conventional) power plants, the maximum repayment term is generally limited to 12 years.

Separate rules also apply under the respective sector understandings with a maximum re-payment term of 12 years for

- civil aircraft
  (Airbus Guarantee | Export Credit Guarantees) and
- ocean-going ships
  (Ship financing | Export credit guarantees).

IV. WHAT RULES APPLY TO USED GOODS?

If used, rather than new goods are exported, the maximum repayment period eligible for cover is generally shorter. In addition, more stringent requirements may apply with respect to down payment and collateral than is the case with transactions for new goods.

The repayment terms are particularly based on the price of the goods when new, the condition of the goods as well as the expected remaining useful lives. This is based on the individual circumstances of the specific case to a greater extent than usual. The basic rule of thumb is this: the repayment period granted for used goods must not exceed the residual useful life.

V. GENERALLY PERMISSIBLE REPAYMENT PERIODS

Permissible repayment terms are subject to ongoing change in the various organisations and also in connection with international practice. The information set out above is summarised in the following table as a guide.

PERMISSIBLE REPAYMENT PERIODS

Categories of goods Sector of goods Sector understandings	Value of contract in million EUR	Permissible maximum repayment period
Raw materials, semi-finished goods, consumer goods, spare parts and component		180 days
Fertilizers, insecticides, livestock for breeding (except breeding cattle), agricultural produce and seed		360 days
Breeding cattle		18 months
Consumer durables		24 months
Quasi-capital goods, capital goods, full-scale plants	3 - 5	6 years
	6 - 7	7 years
	7 - 10	8 years
	10 - 15	8,5 years
	more than 15	10 to 15 years
Civil aircraft and ocean-going vessels	more than 15	12 years
(conventional) power stations	more than 15	12 years
Climate protection projects, depending on the CCSU project class	more than 15	15 to 22 years
CCSU climate change adaptation and water projects	more than 15	22 years

www.exportkreditgarantien.de/en

Export Credit Guarantees and Untied Loan Guarantees: instruments to promote foreign trade and investment provided by the

Federal Ministry for Economic Affairs and Climate Action

Commissioned to implement the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees:

EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government for decades. Export Credit Guarantees (so-called Hermes Cover) protect German exporters and banks financing exports against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs. Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwk.de/en under the heading Promotion of Foreign Trade and Investment.

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