



Executive Summary:

Sustainability challenges for Export and Export Credit Insurances

The Role of Financing and Environmental Assessment in B2B-Business

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Foreign trade and the promotion of foreign direct investments are an essential part of Germany's economy. By far, most of the export business is organised and conducted by private market partners themselves. However, some export transactions with developing countries and emerging markets imply high risks for exporting companies. This is why the German federal government supports the exports of German companies by offering risk insurance coverage for their foreign trade and foreign direct investment activities. These government guarantees help to facilitate foreign market entry as an essential element of risk management. A joint venture of Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers AG was appointed by the German government to manage these promotion schemes.

When making a decision whether to cover export transactions and investment projects in transitory and developing countries, ecological and social issues are of paramount importance for the German government. The environmental assessment procedure is governed by the OECD's revised "Recommendation on Common Approaches on Environment and Officially Supported Export Credits" (OECD Common Approaches). This report analyses in detail the framework of this environmental assessment procedure and its effects on the competitiveness of German companies in the utilities and infrastructure development sector.

The report analyses the extent and kind of influence different aspects (e.g. contextual requirements, data collection, time, costs, etc.) of the environmental assessment procedure have on the core factors of the German industry's competitiveness. The analysis starts from the observation that exporting companies judge the current environmental assessment procedure as a competitive disadvantage because their competitors from non-OECD countries are not subject to the same requirements. However, the environmental assessment scheme is also seen as a contribution to the reduction of reputational risks, which, in turn, influence competitiveness.

This research project provides a scientifically based discussion of the advantages and disadvantages of the OECD Common Approaches and their effects on German exporting companies and German export loan banks. The focus on the competition between exporting companies and export loan banks from OECD and non-OECD countries allows for a better understanding of if and how the OECD Common Approaches could support the creation of a business case for sustainability for German and OECD based companies.

Results:

1. The competitiveness of German exporting companies depends on various different factors. One essential factor which can be influenced by German actors and which plays a substantial role for the competitiveness of Chinese companies is the Chinese's ability to offer attractive financing packages in a very short time (time from first contact to offer) to their customers in developing countries and emerging markets.
2. Furthermore, the environmental assessment procedure of the OECD Common Approaches does not exert a recognisable direct influence, however, an indirect influence on two core factors of competitiveness (supporting industries, regulations/government). This is why throughout this report the effects of the environmental assessment procedure on the supporting industries and the role of government to increase competitiveness of Germany and OECD based companies are investigated.
3. The relevant issue of the environmental assessment procedure is the duration of the procedure. The period until the decision on the acceptance of the export credit guarantee has to be reduced in order to improve competitiveness of the German companies.
4. German export companies need to focus on differentiating competitive strategies and quality leadership. An abandonment of the environmental assessment procedure of the OECD Common Approaches will not improve the cost structure of German companies crucially compared to the Chinese competitors.
5. German companies have to develop innovative business and financing models based on efficiency advantages for their offers to customers in developing countries and emerging markets. Possible approaches of such models are proposed and discussed in the report.
6. To implement financing models based on efficiency advantages, German exporting companies are highly dependent on innovative financing schemes which are supported by foreign regional supporting industries (i.e. financing and insurance companies).

A possibility to better create voluminous packages of long term financing and insurance packages is to establish a clearing house which coordinates banks,

insurance companies, suppliers and (potential) customers as well as political decision makers (i.e. the inter-ministry committee for export insurances) to reduce the time to offer for German exporting companies.

7. In addition, the Clearing House can offer consulting to optimize industrial products towards an enhanced sustainability and it can support customers in developing countries and emerging markets to improve their projects.
8. From a long-term perspective, the German government should actively support international efforts aiming at harmonization between OECD and non-OECD countries with multilateral consultation and sustainable development processes of private actors and research institutions.