50 YEARS OF UNTIED LOAN GUARANTEES (UFK)

Securing the supply of raw materials to Germany

UFK-guarantees of the Federal Republic of Germany

Untied Loan Finance
Milestones in the history of the Untied Loan Guarantees

1960  Law on the setting of the Federal budget plan for the fiscal year 1960 with a statutory maximum exposure of DEM 5 billion, also including Untied Loan Guarantees

1961  • First version of the General Terms and Conditions for the assumption of Untied Loan Guarantees with the option of covering both political and commercial risks
        • First meeting of the Interministerial Committee

1963  Assumption of the first Untied Loan Guarantee for a raw materials project

1970  Assumption of the first Untied Loan Guarantee for a development bank project

1999  General change of focus in the Untied Loan Guarantees to cover political risks

2004  The website www.agaportal.de of the mandatory consortium PwC and Euler Hermes – also including the Untied Loan Guarantees – goes online

2009  Implementation of the UFK-reform: resumption of general cover against political and commercial risks

2010  Assumption of the first Untied Loan Guarantees following the UFK-reform of 2009

2011  • Increase of the statutory maximum exposure, which also applies to Untied Loan Guarantees, from EUR 40 billion to EUR 50 billion
        • 50th anniversary of the Untied Loan Guarantees
Ladies and Gentlemen,

A stable and reliable supply of raw materials is a matter of crucial importance for German industry. The Federal Ministry of Economics and Technology puts its trust here in the vitality of competition. We rely on the good old traditional regulatory axiom: private industry has priority over the state. Supplying a country with the raw materials it needs is first and foremost the job of industry. They know best what raw materials they need, when and of what quality. But support from the state abroad can ease access to sources considerably. We are prepared to increase our commitment here. We have already outlined the framework for this with our new Raw Materials Strategy. We will be giving important impulses with the establishment of the German Mineral Resources Agency and the initiative to conclude agreements on raw materials partnerships with other countries.

Untied Loan Guarantees are an integral part of the Federal Government’s Raw Materials Strategy. With them, German industry has a modern instrument at its disposal for dealing with the issue of raw materials supply. Untied Loan Guarantees contribute towards securing long-term delivery contracts for raw materials for German industry. They are the logical extension of the instruments of foreign trade promotion.

This year we are able to look back on 50 years of Untied Loan Guarantees. The Federal Government was already on the lookout during the economic miracle of the 1950s for ways to accompany German industry in the struggle for raw materials over the long term. It was out of this desire, and at the instigation of the Federal Government, that the legislative created the Untied Loan Guarantees.

While the instrument was the object of brisk demand during the 1970s and 80s, demand decreased during the 1990s, mainly due to the adequate supply of raw materials available. Nevertheless we retained the instrument for a rainy day. This foresight was vindicated when the
issue of raw materials supply once again came into focus for German industry. The increasing industrialisation of emerging economies was partly responsible for this development. Bottlenecks in supply, distortions of trade and sometimes massive price hikes can have severe effects on the supply situation of German economy, dependent as it is on imports of raw materials.

We are developing the guarantee instrument in close consultation with industry on an ongoing basis to tailor it to the needs of the market. Themes of particular interest here are raw materials at the first processing stage and recycling. The determining factors which give this urgent topical relevance are shifts in value chains and the finite nature of raw materials.

The trade promotion instruments of the Federal Government are very popular. This was already apparent from the anniversaries celebrated by the Export Credit Guarantee scheme (Hermes Cover) and the Investment Guarantees. Untied Loan Guarantees are a further chapter in this success story. Our approach, offering innovative guarantee products with a judicious regulatory attitude, is well accepted by banks and by German industry. This is shown by the steep rise in interest in Untied Loan Guarantees. In 2010 alone we were able to assume cover for raw materials projects of around EUR 1.6 billion.

Untied Loan Guarantees have the potential to be an important means of support to companies importing raw materials in future too.

Dr Philipp Rössler
Federal Minister of Economics and Technology
UNTIED LOAN GUARANTEES – THE BACKGROUND

Basic principles

The Federal Government created the basis for the assumption of state guarantees for untied loans (Untied Loan Guarantees) in 1960 and 1961 with the introduction of the statutory maximum exposure, which from then on also included Untied Loan Guarantees, as well as with the first version of the General Terms and Conditions.

This created a new option – alongside the previously introduced Export Credit Guarantees and Investment Guarantees – of covering the commercial and political risks of untied loans (i.e. those not tied to German exports and services) by means of a state guarantee. The Federal Government was pursuing the goal of supporting projects abroad which it saw as being eligible for cover or in the particular public interest of the Federal Republic of Germany. From the outset, projects which served to increase the security of raw materials supplies to the Federal Republic of Germany were considered eligible for cover. The precondition here is that raw materials whose supply is in the general economic interest of the country are imported to Germany on the basis of long-term offtake agreements with German importers.
The projects realised since 1961 with the help of the guarantee instrument can be divided into raw materials projects and development bank projects. As can be seen from the charts on page 6, the **FOCUS OF UNTIED LOAN GUARANTEES** has been on raw materials projects abroad. They show that projects for the mining of metals such as copper and iron have been especially frequently promoted in the past.

Untied Loan Guarantees pay for themselves. So far, the Federal Republic of Germany has been able to meet all its payment obligations under Untied Loan Guarantees out of fees and premiums as well as from recoveries under recourse against host countries.

The Federal Government has authorised a **MANDATORY CONSORTIUM** comprising PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and Euler Hermes Deutschland AG (Euler Hermes) to manage the Untied Loan Guarantee scheme. PwC is the lead partner.

The **object of cover**

The covered obligation under an Untied Loan Guarantee is the policyholder’s repayment claim against the foreign debtor as agreed in the loan contract. The loan can be denominated in euros or in any foreign currency. Any interest agreed in the loan contract is also covered insofar as it accrues up to the agreed maturities. Banks domiciled in Germany, branches of foreign banks established in Germany and, under certain circumstances, foreign banks are **ELIGIBLE TO APPLY FOR COVER**.

An Untied Loan Guarantee offers the lenders protection against the non-payment of the covered amount due to political risks (especially war, nationalisation, breach of contract by authorities, payment moratoriums or conversion and transfer problems) as well as commercial risks (insolvency, protracted default).
Fees / premiums and retention

An administration fee is charged for processing an application for an Untied Loan Guarantee. The administration fee for a loan (including interest) with an amount of up to EUR 5 million is 1‰ and for any amount in excess of EUR 5 million it is 0.5‰. Administrative fees are capped at EUR 30,000.--. If the application is denied or if an Untied Loan Guarantee is not assumed for another reason, the application fee can be partially reimbursed.

A risk-differentiated premium is payable for obtaining cover under an Untied Loan Guarantee. The main criteria for the premium rate to be paid are the creditworthiness of the borrower or the economic stability of the project, the country risk as well as the risk duration. The premium is charged as a percentage of the loan amount to be covered (excluding interest) and is payable as a one-off up-front payment on the assumption of the guarantee. Insurance tax is not applicable. For more details, see the schedule of fees and premiums (see our website www.agaportal.de → English → Untied Loan Guarantees → Service → Information on Premia).

The policyholder is normally required to retain for his own account a portion of each loss amounting to 10% for all risks. Insurance elsewhere is permissible in principle – with the exception of a retention borne by the policyholder of 5% of the loss.
Reform of the German Terms and Conditions in 2009

Taking the needs of raw materials processing industry as its starting point and in close consultation with representatives of the banking sector, the Federal Government restructured the United Loan Guarantee instrument in autumn 2007. This process of reform was completed by the end of 2008/beginning of 2009, and resulted in a newly designed version of the General Terms and Conditions as well as the introduction of a risk-differentiated premium system.

One material innovation – albeit not a decisive one – in the guarantee instrument was the (re)inclusion of commercial events of loss (insolvency, unsuccessful execution, protracted default) under cover. The Federal Government extended the scope of cover of the guarantee in this way to financing for those raw materials projects in which not (only) cover for political risks is the principal consideration, but also cover for commercial risks (credit default risk) is needed. A further significant element in the reform of the guarantee instrument was the introduction of a risk-differentiated premium system. Whereas a uniform premium rate had been charged for the assumption of United Loan Guarantees up to 2009, the premium system was now modelled on the system already familiar from the Export Credit Guarantee scheme, in which the premium is determined by reference to country risk categories and the risks involved in the specific transaction. The main criteria for deciding the premium to be charged are now the creditworthiness of the borrower and/or the economic stability of the project, the country risk and the risk duration of the covered loan.

In addition, the Federal Government abandoned the previous graduated scale of retention in favour of a uniform retention of 10% for all events of loss. The reason for this was the difficulty of reflecting the differentiated retention in the financing banks’ risk management systems. In fact the banks were forced by legal requirements to assume in every case the highest retention (then 20%) when calculating the capital backing necessary for (raw materials) project finance. Since the capital backing has a direct impact on the credit premium, however, this put the banks in a weaker position in the (financing) competition for raw materials projects.

With the implementation of the reformed Terms and Conditions and the new premium system, the position of raw materials processing industry and the banks in the financing and development of new raw materials projects has been strengthened, thus contributing to the security of raw materials supplies to German industry.
Types of Untied Loan Guarantee projects: goals and contents

The goal of promoting raw materials projects by means of Untied Loan Guarantees is to ensure the supply to German industry of the raw materials it needs. For this purpose loans which are paid out directly to the foreign project company are covered. In return, it is a requirement that the raw materials concerned must be made available to at least one German importer under a long-term offtake agreement (cf. the diagram on page 7).

Under so-called development bank projects the establishment of market-based structures is encouraged, in particular in the transition countries of Central and Eastern Europe. Loans covered by an Untied Loan Guarantee are made available to selected local banks in this connection and are used to refinance investment in modernisation, expansion and capital equipment by small and medium-sized enterprises.
THE GERMAN GOVERNMENT’S RAW MATERIALS STRATEGY

The situation on the international raw materials markets is increasingly driven by steadily rising demand. In combination with opaque supply structures sometimes dominated by oligopolies, this leads to highly volatile price movements with a general upward trend as well as to bottlenecks in supply.

This development on the raw materials markets calls for co-ordinated action by politicians and industry in order to guarantee the long-term reliable supply of raw materials to German industry.

In a dialogue with industry, the Federal Government has therefore further refined the concept “ELEMENTS OF A RAW MATERIALS STRATEGY” which was first unveiled in 2007. The result of these discussions is the sustainable “German Government’s Raw Materials Strategy” (www.bmwi.de/English/Navigation/root.html -> Press) presented to the public in 2010. It takes account of the changes in the raw materials markets and supports German businesses in their activities to secure raw materials abroad.

The principal instrument of this dialogue between the Federal Government and industry remains the Interministerial Committee on Raw Materials set up in 2007. It identifies problem areas in the supply of raw materials together with industry and develops cross-ministry solutions.

It is the goal of the Raw Materials Strategy to encourage the commitment of industry and to provide flanking support. The intervention of the Federal Government itself as a “raw materials trader” is neither desirable from a regulatory perspective nor intended. For this reason the success of the Raw Materials Strategy stands or falls with the commitment of German industry. Only if they ramp up their efforts to secure raw materials (including proprietary involvement in extracting raw materials) the Raw Materials Strategy can develop its full potential.

Federal Ministry of Economics and Technology
Berlin
Elements of the Raw Materials Strategy: an overview of the main points

On top of this, raw materials projects can receive political support through the worldwide network of foreign trade promotion activities.

- Encouragement of greater efficiency in the extraction of raw materials (raw materials efficiency) and processing of raw materials (materials efficiency) as well as improved use of secondary raw materials contained in discarded waste and residual waste through recycling. Research and development is an important component of this. Work on a sustainable system for the use of raw materials is to be strengthened by the founding of a Research Institute for Resource Technologies at the Helmholtz Association in the new Federal states.

- Establishment of bilateral raw materials partnerships with resource-rich countries through intermeshing and co-ordinating the objectives of foreign trade, economic and development policies

- Monitoring of financial transactions and trade in raw materials taking account of competition law in order to be able to identify undesirable developments on the raw materials markets at an early stage and to intervene where appropriate

- In the field of foreign trade, continuous priority for the reduction of distortions of trade on the international raw materials markets – in a bilateral dialogue with resource-rich countries and together with the partners in the EU

- Supporting the EU Commission in its efforts to enhance the security of raw materials supplies to the community’s industries

- Promotion of vocational training for foreign skilled workers and managers in the raw materials sector

- Incorporation of raw materials-related topics in the G8/G20 process

Federal Ministry of Economics and Technology
Berlin

- Cover of political and commercial risks entailed in financing or direct investments in raw materials projects by means of Untied Loan Guarantees and Investment Guarantees

- Research and development activities for geological exploration in preparation for commercial exploration and consultation provided by the German Mineral Resources Agency (Deutsche Rohstoffagentur) at the Federal Institute for Geosciences and Natural Resources (BGR) in Hanover.
APPLICATION AND APPROVAL PROCESS

Application procedure

The mandatory consortium is available to give advice on the inclusion of an Untied Loan Guarantee in a project structure at an early stage of the project. The decision on the assumption of an Untied Loan Guarantee is taken in a PROCESS INVOLVING SEVERAL STEPS (cf. the diagram on the next page). The first step is to make an ENQUIRY ON THE ELIGIBILITY OF THE PROJECT FOR COVER IN PRINCIPLE by means of an Untied Loan Guarantee; this can be an informal enquiry to PwC and is free of charge. The Federal Government then gives a first indication whether a financing scheme is suitable for cover in principle under an Untied Loan Guarantee. Given a positive indication, the review procedure begins with a formal APPLICATION and the submission of a draft of the project report and of the loan contract. A fee is charged for this. An INTER-MINISTERIAL COMMITTEE (IMC) chaired by the Federal Ministry of Economics and Technology (BMWi) subsequently decides on a preliminary approval. Following a positive decision, a guarantee declaration will be handed over later. Besides the Federal Ministry of Economics and Technology as lead ministry, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development are represented on the committee.
## The Approval Process for Untied Loan Guarantees

<table>
<thead>
<tr>
<th>Bank</th>
<th>PwC</th>
<th>BMWi</th>
<th>Interministerial Committee (IMC)</th>
<th>Bank</th>
<th>PwC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Makes an enquiry for an Untied Loan Guarantee to PwC</td>
<td>Analyses the project’s eligibility for cover in principle</td>
<td>Gives a statement on the eligibility of the project for cover in principle</td>
<td>Preliminary approval (where appropriate with conditions)</td>
<td>Informs on signature of loan contract/raw materials offtake agreement</td>
<td>Notifies the IMC</td>
</tr>
<tr>
<td>Free of charge</td>
<td>Preliminary review of the economic parameters and the political risks</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

### Eligibility for cover and justifiability of the risk

The Federal Government only assumes Untied Loan Guarantees for projects which are eligible for cover and on the precondition that the risk of assuming a guarantee is justifiable. The main element in deciding on the eligibility for cover is the so-called **Eligibility for Cover in Principle**. The BMWi confirms this provided that a project contributes to securing the supply of the Federal Republic of Germany with raw materials which e.g. cannot be obtained or can only be obtained in limited quantities via the international spot markets, for which trade barriers exist affecting German industry or which are strategic raw materials for industries with important future potential.
The assessment and declaration of a project’s eligibility for cover in principle is made on a **CASE BY CASE BASIS** depending on the details of the **INDIVIDUAL PROJECT**.

Another precondition for the assumption of an Untied Loan Guarantee is the prospect of a loss free record of the guarantee – that is the timely repayment of the covered loan. Therefore the mandataries assess the economic viability of the project as well as the political and macro-economic conditions in the host country. The report forms the basis for the decision of the IMC on assuming an Untied Loan Guarantee.

**Environmental and social sustainability**

It is a central concern of the Federal Government to avoid possible negative environmental or social impacts of a project or at least to mitigate them by stipulating compliance with appropriate measures.

Besides the economic and raw materials supply aspects, particular importance therefore attaches to the examination of possible negative environmental or social impacts of a project during the application procedure. In this connection the impact of the project on the natural environment (air, water, soil, flora and fauna), the social context (e.g. the impact on indigenous peoples), the use of the land and the soil as well as possible effects on elements of the archaeological and cultural-historical heritage deemed worthy of protection are examined. Measures envisaged for the mitigation of detrimental effects on the environment may be an environmental management plan, later recultivation of the terrain in the case of mining projects, improvement of the regional infrastructure etc. In all raw materials projects the examination is in principle based on the submission of an **ENVIRONMENTAL IMPACT ASSESSMENT** from an independent expert by the applicant.
The audit of environmental and social standards is orientated towards internationally accepted standards such as those laid down in the OECD environmental guidelines for officially supported export credits (OECD Common Approaches on the Environment and Officially Supported Export Credits) and the World Bank guidelines (the WB Safeguard Policies among others). Any mitigation measures which may be necessary must comply with these standards.

**Assumption of the guarantee**
Applications for the assumption of Untied Loan Guarantees are decided on at meetings of the IMC.

Before the signing of the project and financing contracts, the IMC gives a so-called **PRELIMINARY APPROVAL** to the applicant bank. This comprises the binding confirmation from the Federal Government to make a positive decision on the Untied Loan Guarantee applied for, provided that no changes take place to the material and legal position and as long as the project and financing contracts and/or the long-term offtake agreement for raw materials are concluded within a stipulated period and any conditions concerning the project and/or the financing concept are fulfilled.

When the project and financing documentation as well as the long-term offtake agreement – where necessary, after fulfilment of the conditions stipulated – are signed, the Federal Government concludes a guarantee agreement (Untied Loan Guarantee) with the bank or the bank consortium which made the application.
THE GUARANTEE PORTFOLIO — AN OVERVIEW

The reform of the Untied Loan Guarantees in 2009, and in particular the re-inclusion of cover for commercial risks, had the desired effect in 2010: for the first time in almost a decade RAW MATERIALS PROJECTS — the iron ore project “SNIM” and the construction and operation of the “Nord Stream” natural gas pipeline — were supported by means of Untied Loan Guarantees.

In the case of the SNIM project an Untied Loan Guarantee was assumed for the financing and building of a new shipment terminal of the Mauritanian iron ore producer Société Nationale et Minière (SNIM) for the loading of ships at the company’s own port in Mauritania. The project is part of a thoroughgoing modernisation programme planned by the company, which will encompass SNIM’s entire logistical infrastructure (rail links, the port) and the production chain (mines, processing plants). The building of a new shipment terminal will consolidate SNIM’s export capacity, thus securing deliveries to German iron ore importers.

In this case it was possible for the first time to put together a financing scheme via a consortium of European banks, since foreign lenders have been able to apply for and to receive cover since the reform of the Terms and Conditions.

In addition, the Federal Republic of Germany supported the construction of the Nord Stream natural gas pipeline by means of an Untied Loan Guarantee. This project comprises the construction and operation of a pipeline some 1,220 km long, which will run in two lines across the bed of the Baltic Sea from the Russian port of Vyborg to Greifswald in Germany. The object of cover under the Untied Loan Guarantee already assumed at the beginning of 2010 was the financing of the first line, which is planned to be completed in autumn of 2011. A preliminary approval has already been issued for the financing and cover of the second line, which will double the throughput of the pipeline to some 55 billion m³ from autumn 2012 on. Starting from the point where the pipeline comes ashore in Greifswald, the gas flowing through it will be transported via the Ostsee-Pipeline-Anbindungsleitung (OPAL) and the Norddeutsche Erdgasleitung (NEL) – which is due to be completed in 2011 (Phase I) and 2012 (Phase II) – and will then become available to German gas consumers.
Besides these projects, the eligibility for cover in principle was approved in the case of two projects for ensuring the supply of copper to Germany. On top of these, a preliminary approval was given for a further project to secure natural gas supplies to Germany.

In addition, a guarantee was assumed for a refinancing loan to promote the establishment of SMALL AND MEDIUM-SIZED ENTERPRISES in Russia.

Demand for Untied Loan Guarantees has risen steeply since the reform of the Terms and Conditions. In all, international bank consortia or companies processing raw materials submitted 35 

**ENQUIRIES** about the possibility of including Untied Loan Guarantees in financing concepts last year. These enquiries concerned first and foremost the import of hydrocarbons (oil and gas) as well as copper and copper cathodes. Besides these, however, there were also enquiries about projects referring to graphite, magnesium and silicon. The main countries in which these raw materials are extracted are Russia, Brazil, Kazakhstan and Canada. Consequently interest in Untied Loan Guarantees is neither restricted to only certain raw materials nor to developing and emerging countries.

The **EXPOSURE** of the Federal Republic of Germany under Untied Loan Guarantees assumed was some EUR 2.1 billion as per December 31st, 2010. About EUR 1.6 billion of this sum was accounted for by raw materials projects and some EUR 0.5 billion by development bank projects. Most of the guarantees assumed are in respect of projects in Russia as well as further countries of Central and Eastern Europe. As per December 31st, 2010, the maximum outstanding risk of the Federal Government from Untied Loan Guarantees was EUR 1.2 billion, comprising some EUR 840 million for raw materials projects and some EUR 320 million for development bank projects.

A statutory maximum exposure is set in the annual **FEDERAL BUDGET LAW** (§ 3 Par. 1, item 1, no. 2, a-d) for the assumption of Untied Loans Guarantees, Investment Guarantees and other guarantees of the Federal Government. Due to the steep increase in exposure under Investment Guarantees and Untied Loan Guarantees, this maximum exposure was raised from EUR 40 billion to EUR 50 billion as of January 1st, 2011.

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### GUARANTEE PORTFOLIO AS PER DECEMBER 31ST, 2010, IN MILLION EUR

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<thead>
<tr>
<th></th>
<th>Exposure</th>
<th>Outstanding commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials projects</td>
<td>1,613.5</td>
<td>839.9</td>
</tr>
<tr>
<td>Development banks</td>
<td>473.2</td>
<td>319.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,086.7</td>
<td>1,159.7</td>
</tr>
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</table>
Two events which took place in 2010 gave representatives of the raw materials processing industries and the financial sector the opportunity to present their current perceptions of the situation and their future needs regarding Untied Loan Guarantees to the ministries involved in the decision process.

On June 24th, 2010, the BMWi hosted a conference titled “DIALOGUE WITH INDUSTRY – THE EXPORT CREDIT AND INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY”. Current trends in the financing of complex projects were also dealt with in depth in a workshop which brought together representatives of industry, banks, the Federal ministries as well as the mandataries PwC and Euler Hermes. It became clear here that multi-sourcing projects, in particular, are taking on ever greater importance and that it is precisely such projects which can receive extra support by means of an appropriate combination of the three instruments for the promotion of foreign trade – Export Credit and Investment Guarantees as well as Untied Loan Guarantees.

The reason for convening a DIALOGUE CONFERENCE, which took place for the first time in this form on August 24th, 2010, was the BMWi’s wish to hold an exchange of views with representatives of the finance sector and raw materials processing industries concerning their experience of the reform of the Terms and Conditions as well as the premium system for Untied Loan Guarantees. An important theme was also expectations as to the future form the guarantee instrument might take and the ways in which it could be deployed. The BMWi plans to repeat such conferences in future, in order to maintain a close dialogue with industry to enable the development of the guarantee instrument in line with their needs.

The banks and industry representatives particularly underlined the positive consequences of the realignment of the Untied Loan Guarantee instrument at this meeting. The guarantees now corresponded to what was needed by the financial sector and were competitive in the international arena.

A number of participants commented that the concept of “eligibility for cover in principle” was rather narrowly defined and had up to now normally referred – apart from the first processing for the purpose of shipping – to unprocessed raw materials. Against the background that German industry increasingly relies on the supply of primary products which are not available domestically, securing the supply of later stages of processing of such materials is of enormous importance for the security of supply of German industry. The representatives of the industries which process raw materials were therefore particularly interested in expanding the scope of application of the Untied Loan Guarantee instrument to raw materials at the FIRST PROCESSING STAGE.

The continually rising demand for information in the field of Untied Loan Guarantees has been taken account of with the expansion of the internet coverage in German and the establishment of the English language WEBSITE, which can be accessed under WWW.AGAPORTAL.DE.
The world needs copper. Currently about 19 million tonnes of it a year, tendency rising. This basic metal is indispensable everywhere where economic development and the improvement of living standards is at a premium. The Aurubis Group is a major player with its activities in important parts of the copper value chain. Their 4,800 employees produce more than 1 million tonnes of copper annually – Europe-wide – and supply the market with a wide range of copper products. The portfolio is complemented by metal recycling. With its range of products and services, Aurubis is up among the leading players in this sector.

The most important raw material for copper production at Aurubis is copper concentrate, which the company buys worldwide from mining enterprises. It is concentrated directly at the mines from ore, to a concentration of some 30% copper. These copper concentrates are in great de-
Meanwhile the competition on the international copper markets has grown even fiercer. Various copper smelters in Asia have received massive subsidies locally, enabling them to attract an ever greater share of copper concentrate production. At the same time there has been an increase in the buying up of mining projects abroad by state raw materials funds, with the aim of securing future supplies for the smelting plants in their countries.

Raw materials and access to them have thus become more and more a key issue worldwide. Securing the supply of raw materials is an issue of existential importance, especially for companies in the industrial base of Germany, which itself has hardly any or only very limited resources on its own territory. Our manufacturing strength in high-value goods such as cars or wind turbines can only be maintained if we are able to procure the raw materials needed to build them at economically viable prices.

More than ever today, securing the supply of raw materials should be a focus of national economic, competitiveness and trade policies. New ways must be found, certainly, which will allow us to prevail in the international competition for raw materials. But the means which already exist, adapted to the global challenges, will also continue to play a vital role. The instrument of Untied Loan Guarantees, proven over a period of 50 years, at any rate is indispensable in ensuring the future supply of raw materials to the Federal Republic of Germany.

Thomas Hölandt
Vice President Commercial
Business Unit Primary Copper,
Aurubis AG, Hamburg
THE DEVELOPMENT OF THE UNTIED LOAN GUARANTEES

The Untied Loan Guarantees have been in existence now for 50 years. The global economic and political fundamentals have undergone huge changes during this time span, and the interest of the raw materials processing industries in securing long-term supplies of their raw materials have fluctuated during this period. The economic progress achieved by many developing and emerging countries and the recent increase in political risks are crucial factors in estimating the need for Untied Loan Guarantees over the medium and long term. At present a high level of demand is clearly apparent, which can be expected to rise further if the three aforementioned factors remain unchanged.

As a result of shifting value chains German industry expects, apart from the strong competition for raw materials which already exists, an increasingly fierce battle for processed and refined raw materials as pre-products and the starting point for industrial manufacture. There is a correspondingly strong interest among German industry to establish long-term supply relations at any early stage in this field, too. The Federal Government is holding discussions with industry in this context about whether the Untied Loan Guarantee instrument might also be applied to the first processing stage.

The raw materials category “rare earth metals”, as a raw materials source for the so-called future technologies is currently also very much in the focus of German manufacturers. Due to the wide range of applications, e.g. in catalytic converters, energy-saving lamps, alloys, batteries or powerful magnets – such as those used in electric and hybrid vehicles as well as in wind turbines – the competition surrounding lucrative project sites is set to intensify. The Federal Government is prepared, in close consultation with industry, to identify suitable projects and to discuss possibilities for finance.

It will continue to be an important consideration for the Federal Government in the future too to maintain their dialogue with industry on the further development of the Untied Loan Guarantee instrument on an ongoing basis, in order to contribute in this way to securing the supplies of raw materials needed by manufacturers.
Cover under Untied Loan Guarantees is a very interesting element in structuring the finance for raw materials projects, which can be used for a range of different financing schemes from project finance for just one special raw materials project up to financing for an entire company. This flexibility is extremely important, since providing finance for raw materials projects is almost always a matter of producing specific tailor-made solutions.

In some raw materials projects cover under Untied Loan Guarantees may be the crucial element in deciding whether the bank can give finance at all, where the risk cannot be borne by the banks on a purely commercial basis. This may be the case, e.g. in countries with particularly high political risks. But even if cover under Untied Loan Guarantees is not the decisive element which tips the scales in favour of eligibility for finance by the bank in principle, it can still enhance the attractiveness of such finance. This is possible, for instance, when higher loan amounts or longer loan periods can be offered by the bank with cover under Untied Loan Guarantees. In both scenarios cover under Untied Loan Guarantees has the desired effect of helping to secure supplies of raw materials.

That means that cover under Untied Loan Guarantees is first and foremost interesting for the mining company and for the importer of raw materials. But the Untied Loan Guarantee also makes a lot of sense for the financing banks, since it opens up the option of doing additional business. It is not only that cover under Untied Loan Guarantees makes it possible to construct finance schemes which might not be feasible otherwise, but the cover under Untied Loan Guarantees reduces the amount of capital backing needed, thereby providing greater scope for new financing.
The reform of the guarantee instrument in 2009

The reform of the cover under Untied Loan Guarantees passed in 2009 brought considerable improvements for the financing of raw materials projects. Involving banks in the discussions on reforms at an early stage thus paid dividends.

The (re-)inclusion of commercial risks in the cover under Untied Loan Guarantees was the central element, since cover for political risks alone was not sufficient for various reasons. Thus, political risks can be at least partially insured elsewhere, e.g. structurally by means of so-called offshore schemes or also with insurance from the private market. Cover which only includes these risks is anyway uninteresting from the outset for countries with a low level of political risks. And finally, combined cover for political and commercial risks has great significance in terms of capital backing in the light of the methods of calculating the risk imposed on the banks by Basel II.

The second important component was the introduction of the new premium system. Prior to this, cover under Untied Loan Guarantees had not been attractive in the case of countries with minimal or medium political risks – but such countries are also important in securing raw materials supplies, e.g. Brazil, Chile or Canada.

There is no doubt that the reform has helped to make cover under Untied Loan Guarantees considerably better focussed on demand again and better designed to compete with similar instruments from our rivals in the industrial world and the emerging economies, especially in Asia. As a result, cover under Untied Loan Guarantees is (once again) a very interesting element in structuring finance schemes for raw materials projects. The best proof of this newly much enhanced attractiveness are the “new” Untied Loan Guarantee financing concepts which have meanwhile been concluded, the first for about ten years.
The future of the guarantee instrument

International competition for raw materials is intensifying: industrialised and emerging countries are fully aware of the strategic importance of secure supplies of raw materials and are systematically developing instruments (or expanding existing ones) which support gaining access to raw materials in terms of finance as well. In this context, competition for raw materials has also become competition among state financing instruments. Cover under Untied Loan Guarantees must be able to hold its own against the competing instruments in the interests of German industry.

The design and the Terms and Conditions of the guarantee instrument should therefore be reviewed and continuously improved on an ongoing basis. Developments here should be directed primarily by the needs of German industry and the effects in terms of securing raw materials supply. The initial proposals concerning the eligibility for cover in principle of raw materials at the first processing stage – which have already been mentioned in the German Government’s Raw Materials Strategy – are a welcome signal in this context. In all further possible developments it is of the essence to retain the flexibility of cover under Untied Loan Guarantees.

*Dipl.-Ing. Dipl.-Wirt.Ing. Peter Eysel*

Vice President, Metals & Mining,
*KfW-IPEX-Bank GmbH, Frankfurt am Main*
DEFINITIONS AND EXPLANATIONS

AGA: AuslandsGeschäftsAbsicherung of the Federal Republic of Germany (Investment Guarantees, Export Credit Guarantees and Untied Loan Guarantees)

Bilateral Investment Treaties (BIT): International treaties concluded between two countries providing for the contractual agreement of mutual legal protection for the capital investments of the nationals/enterprises of one country within the national territory of the other country and vice versa

Cover for capital (capital cover): Includes the contributions made to the covered loan; the value of the covered loan capitalised in accordance with the accounting principles generally accepted in Germany can be covered in principle

Cover for interest (interest cover): Includes due interest earnings on covered loans

Development banks: Untied Loan Guarantees can cover the political risks of lending to foreign banks extending loans for the reconstruction and promotion of market-based structures (normally refinancing of programmes for small and medium-sized enterprises).

Eligibility of a project for cover in principle: Indicates projects abroad that can contribute to securing raw materials supplies to the Federal Republic of Germany provided that the raw materials are imported on the basis of long-term supply contracts with national importers and that their supply is in the economic interest of Germany

Export Credit Guarantees: National cover for export transactions against non-payment due to commercial or political reasons

Exposure: Total sum of cover for capital and interest minus retention

Guarantee: Cover of the lender against the borrower’s non-repayment of the loan due to commercial or political reasons

Investment Guarantees: National cover of German direct investments abroad against political risks

Issued policies: Approved guarantee applications insofar as guarantee declarations were issued

Maximum amount: Total sum of cover for capital and interest

OECD-Common approaches: The common approaches (“revised council recommendation on common approaches on the environment and officially supported export credits”) are common regulations of the OECD on the environmental audit of projects supported by national export credit guarantees. The Untied Loan Guarantees do not cover export credits and therefore they are not included in the scope of application of these common approaches. Nevertheless they are also used as recommendation for the environmental audit in connection with Untied Loan Guarantees.

Outstanding commitments: Portfolio of policies under which claims may still be raised against the Federal Republic of Germany at a particular point of time (total sum of cover for capital plus cover for interest minus retention)

Preliminary approval: Binding confirmation from the Federal Government to make a positive decision on the Untied Loan Guarantee applied for, provided that no changes take place to the material and legal position and as long as the project and financing contracts and/or the long-term offtake agreement for raw materials are concluded within a stipulated period and any conditions concerning the project and/or the financing concept are fulfilled

Protracted default: “Non-payment”, e.g. the event of loss does not occur at the time of the debtor’s inability to pay but as soon as the debtor’s payments are delayed

Statutory maximum exposure: Maximum amount stipulated in the Federal budget up to which liability in the form of issued guarantees may be accepted by the Federal Government

NOTES

Rounding differences: For reasons of calculation tables and figures may show rounding differences of +/- one unit (EUR, % etc.).

Legal information: The project reports used in this publication were written or authorised by the respective enterprises or banks.

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18 Richard Semnik, Dreamstime
20, 21 Aunisibis AG, Hamburg
22 Manfelyang, Dreamstime
23 Boykov, Dreamstime
23 Luboš Chlubný, Dreamstime
23 Kodym, Dreamstime
24 Tomo Jesenicnik, Dreamstime
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25 Dimitri Zimmer, Dreamstime
25 Rangizzz, Dreamstime
25 Kevin Gorse, Dreamstime
Hamburg, as a lead partner, and EULER HERMES DEUTSCHLAND AG, Hamburg, to manage the Untied Loan Guarantee scheme. Further information as well as detailed consultation concerning the cover may be obtained by contacting PwC. General information on the Untied Loan Guarantees of the Federal Republic of Germany is also available on the internet, e.g. current information from the AGA-report, the General Terms and Conditions as well as leaflets (www.agaportal.de).

Press deadline: February 2011
Date of publication: July 2011

The Federal Republic of Germany has appointed a consortium formed by PRICewaterhouseCooPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Hamburg, as a lead partner, and EULER HERMES DEUTSCHLAND AG, Hamburg, to manage the Untied Loan Guarantee scheme. Further information as well as detailed consultation concerning the cover may be obtained by contacting PwC. General information on the Untied Loan Guarantees of the Federal Republic of Germany is also available on the internet, e.g. current information from the AGA-report, the General Terms and Conditions as well as leaflets (www.agaportal.de).

Press deadline: February 2011
Date of publication: July 2011
Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and political risks of untied loans to finance projects which are particularly deserving of support.

The German Government has mandated a consortium formed by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Euler Hermes Deutschland AG to manage these promotion schemes.