



# NZ Export Credit Office reshapes product for exporters

The NZ Export Credit Office's timely move of redressing its trade guarantee scheme will give exporters a much needed shot in the arm at a time when the cost of commercial trade credit insurance and bank trade guarantees are becoming costly and less forthcoming.

BY VIRGINIA MCMILLAN

A small state agency is getting a bigger role in protecting exporters from risk of non-payment in the global downturn.

The Export Credit Office (NZECO) is entering small and medium-sized exporter territory now that its trade credit guarantees can include firms with normal terms of trade (for example, 30 or 60 days).

The issue got the government's attention soon after the election and, by February 4, Prime Minister John Key was making available \$50 million more annually so that NZECO guarantees can include export orders and contracts on short-term terms of trade.

Previously, NZECO supported deals where the offshore client made payments over a period of more than a year. Now shorter time-frames also apply.

Transactions must be commercially sound, with creditworthy buyers in normally insurable countries.

NZECO assesses creditworthiness. It will not support deals that the private sector is willing to insure or finance.

NZECO manager Carmen Moana says the message from OECD countries is one of falling global demand and delayed or cancelled orders.

### DEATH OF SHORT-TERM TRADE CREDIT INSURANCE

Trade credit and trade credit insurance have been tightening globally in recent

months, particularly in Europe. In some parts of the world, short-term trade credit insurance is "virtually non-existent".

Late last year, as the financial crisis intensified, NZECO surveyed and talked with commercially sound Kiwi exporters, who confirmed restrictions were being felt here.

"The issues raised varied by sector, but the unifying thing was that they were starting to have concerns about trade credit insurance in particular and about their ability to go to the bank and get trade finance," says Moana.

"With trade credit insurers extending less cover, banks are less willing to lend as there is no longer the security attached to it. This is why a key priority for NZECO is working with the trade

credit insurers and banks to determine how we can offer them support directly."

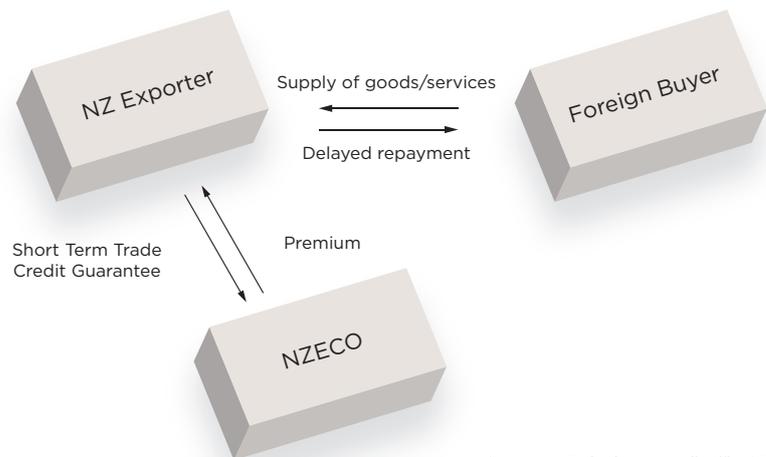
John Key acknowledges exporters are finding it difficult to get short-term trade credit. "This has made it very difficult for them to continue trading in some countries," he said, announcing NZECO's new product. "The result is that some Kiwi exporters, particularly small-to-medium exporters, have had to turn down export orders. That is unacceptable."

This magazine's online poll suggests few SME exporters have tried to obtain NZECO help; a handful of those who have, found it expensive or unsuitable. There were others who intended researching the options.

Moana says because most exporters don't offer terms of more than 360 days,

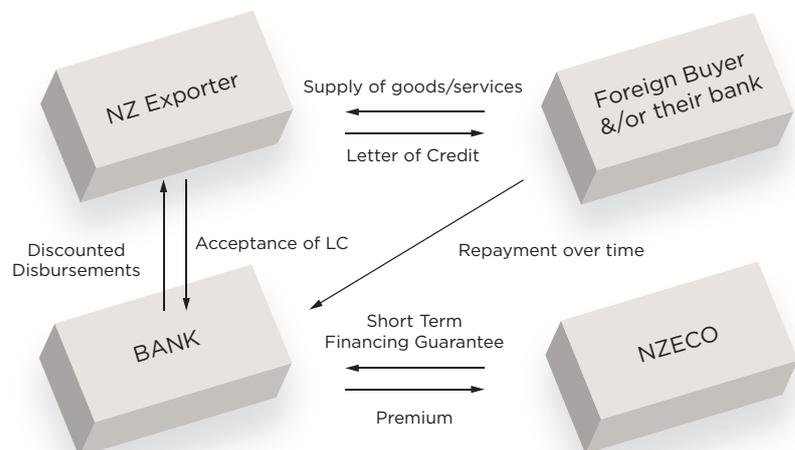
## HOW IT WORKS

### NZECO Short-Term Export Credit Guarantee Direct to Exporter (Example)



Source: New Zealand Export Credit Office (NZECO)

### NZECO Short-Term Export Credit Guarantee confirms Letters of Credit (LC) to Bank (Example)



### KEY TAKEAWAYS

#### NZECO GUARANTEE

Before applying, answer 'yes' to 4 questions:

- > Is the transaction commercially sound, with creditworthy buyers in normally insurable countries?
- > Is there evidence the private sector cannot provide support on commercially reasonable terms and conditions?
- > Do the goods or services have at least 30% NZ value-added content?
- > Can the exporter show a proven trading history, and managerial, technical and financial capability?

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there was no need for them to have dealt with NZECO. Since this year’s changes, she notes, enquiries are growing.

#### **GOING DIRECT TO NZECO**

Exporters can apply to NZECO directly for a guarantee. Once approved, they can be assured of funds from the bank because NZECO is providing the security. Exporters pay a premium for the cover. They also must effectively “sell” the guarantee to the bank at a discount, in return for up-front payment of the working capital associated with the deal. The foreign buyer or its bank repays the bank over time.

Apart from going direct, an export firm can approach NZECO via its bank, with one option being getting NZECO (rather than the exporter’s own bank) to “confirm” the letter of credit provided by the offshore buyer’s bank. This is useful if a bank is unable to confirm because it has hit its limit in letters of credit with that country or that bank, says Moana.



NZECO’s cover means it will pay 90-95% of the deal if the buyer defaults.

The short-term guarantee scheme is designed to last for two-and-a-half years while the present recession

unfolds. The new product comes after the previous government put up \$100 million in new guarantee schemes for working capital extensions and contract bonds in a range of countries (NZECO’s original bond product is for US deals only).

Moana reports that these products, too, have attracted interest from SME exporters. **[END]**

#### **Useful websites**

**To find out about the new short-term guarantees, go to:** <http://www.nzeco.govt.nz/news/04feb09>

**More info:** <http://www.nzeco.govt.nz/news/products/tradecredit>

**Q&A:** <http://www.nzeco.govt.nz/news/products/tradecredit/qanda>

**List of trade credit brokers and insurers:** <http://www.nzeco.govt.nz/exporters/tradecreditinsurers>

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