

# European Export Credit Agencies and the financing of arms trade

A report by the European Network Against Arms Trade 2007



Customers on an arms fair interested in a fighter jet

*Courtesy CAAT*

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## Preface

This report explores the role of twelve Export Credit Agencies (ECAs) from eleven European countries in supporting military exports and the consequences this has in developing countries. A rough estimate is that about twenty to thirty percent of all ECA support goes to military products<sup>1</sup>. Comprehensive figures about ECA support for military exports are not easy to find. Figures are kept secret for economic reasons, or there is simply no registration of what is for civil, and what is for military use. In this report, an attempt is made to fill at least part of the knowledge gap.

Because governments see the arms industry as a crucial part of defence and foreign policy, it is heavily subsidized, from the early stages of research to the end stage of guaranteed procurements and support to exports. Since the end of the Cold War the arms export market is a supply driven market. Too many suppliers and limited demand has led to a situation in which potential buyers had to be attracted with special offers. The two most important instruments for this are offsets, such as the transfer of parts of the production to the buying country, and favourable financial arrangements. Export credits belong to this last category.

This report has been initiated and coordinated by the European Network Against Arms Trade (ENAAT). For ENAAT the use of public money to support the military industry is a case of much concern. Public money should be used for public benefit. Support for a national defence industry at the expense of development, justice and poverty reduction in other parts of the world can hardly be considered beneficial. Moreover, this financial support for military exports often contradicts policies in other fields of interest, such as development policies and policies for conflict prevention.

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<sup>1</sup>Paper on Export Credit Agencies and Arms Trade, update 2003. Martin Broek, Campagne tegen Wapenhandel and Evans, P.C. 'The financing factor in arms sales: the role of official credits and guarantees.' In: SIPRI-Yearbook 2003.

## Methodology, focus and definition

This research report on ECAs and arms trade focuses on the importance of ECA support for the European arms trade to developing countries and the impact of this support for the customer countries. The term ‘military export credits’ as used in this report is defined here as export credits for all military goods, dual-use goods and other exports with a military end-user.<sup>2</sup> Developing countries are understood to be all countries that, according to the OECD, are eligible for development assistance.<sup>3</sup>

The information on the arms trade and ECAs in this report comes from various sources. On ECAs, information from government sources is not readily available. The availability of information on the arms trade also varies from country to country. In general, more information is available on northern European countries, which includes the main arms exporting countries of the United Kingdom, Germany and France. Only a few countries give full information about their arms exports, and even less about their ECA support for arms exports.

Since ECAs are governmental or semi-governmental agencies that are (often) partly financed with taxpayers’ money, one would expect them to be transparent and accountable. It is in the public interest that ECA policies meet high standards, and that this can be checked by the public or by a public body. Unfortunately, with an appeal to the economic sensitivity of the information, most ECAs are surrounded by secrecy, operating from behind closed doors. At present, it is generally not possible to find relatively basic information, such as how much in the way of public funds are absorbed by ECAs and which exports they guarantee or finance. This is even more so when looking at ECA-backed arms deals.

Legally ECAs are only required to publish information on Category A projects - those with the severest impact on social and environmental standards - thirty days before issuing the coverage.<sup>4</sup> ECAs are not required to publish any data on the other policies, or to consult with civil society at large. Within Europe, only the Dutch and the Swiss ECAs publish all their data. All other ECAs exclude military transactions from their transparency policies. The Italian and Finnish ECA even do not live up to the minimum requirement of publishing the Category A projects, only doing so with the consent of the exporter. (See appendix III for more on this). None of the European ECAs we investigated publishes information on projects before deciding on them, with the exception of category A projects. There is no valid reason why this cannot be done. In Canada and Japan *ex ante* transparency is standard policy.

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<sup>2</sup>See: ‘Common military list of the European Union (2006/C 66/01)’ and ‘Council Regulation (EC) No. 1334/2000 on the control of exports of dual-use items and technology’. Non-arms exports with military end-use cover for example infrastructure (military bases) and other services and equipment for military purposes, such as e.g. transport vehicles, airplanes and ships.

<sup>3</sup>DAC list of ODA recipients as of January 2005’, OECD.

<sup>4</sup>Category B has medium-effect impact and C has the lowest impact. The definition of the categories is not yet harmonised and differs between ECAs.

For arms trade in general, the situation regarding transparency is a little better, though specific details often remain secret. Generally most EU member states, at least all larger arms exporting countries, now publish annual reports on arms exports. Over the last ten years most countries have greatly enlarged the level of transparency, but as most started from practically zero, full transparency is still a long way to go. *Ex-ante* reporting on licences to be granted, as is applied in the US for certain exports, hardly exists in Europe.

As a standard format lacks, there are also huge differences in reporting between EU countries, both in quantity and quality of data presented in these reports. A comprehensive review of all arms exports reported from the EU is published annually by the Union<sup>5</sup>. Being an aggregated overview it however lacks information on specific deals and does not include data on exporting companies, recipient entities, use of government export credit (insurance) as well as other relevant entries.

An important source of information for this report is a questionnaire filled in by NGOs campaigning against unsustainable ECA policies and arms trade. We also used publicly-available information on the respective ECAs, parliamentary documents, policy documents of the European Union, the Organisation for Economic Cooperation and Development (OECD) and the World Trade Organisation (WTO), research by other NGOs, court records and newspaper articles. When available, the information on the military share of arms in the portfolio of different ECAs is drawn from their annual reports. However, in some countries this information can only be obtained by asking questions in Parliament.

In the first chapter, Export Credit Agencies are introduced, as well as the trade policies regulating them. The security exception, which excludes arms and military production from trade law, is crucial from understanding export credits for military exports. The second chapter gives an overview of the negative affects of military export credits, especially for poor and/or conflict-ridden countries. In chapter three, the relation between ECA support and the arms trade is investigated, based on the ENAAT questionnaire and introducing some cases. The fourth chapter deals with corruption, a general problem with ECAs but most manifest in the arms trade to developing countries. After conclusions and recommendations in chapter five, the report does not end, because the appendices contain a wealth of detail for anybody wanting to know more about ECAs and arms in specific European countries. To give a global context, the last appendix briefly describes the situation in the United States.

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<sup>5</sup>See the latest report at: [http://www.stopwapenhandel.org/projecten/Europa/linksEU/eighth\\_annual\\_report\\_EU.pdf](http://www.stopwapenhandel.org/projecten/Europa/linksEU/eighth_annual_report_EU.pdf).

# 1 How to subsidize your arms industry

Export credits are loans, guarantees and/or insurances to finance exports to commercially or politically risky countries. Export credits are provided by Export Credit Agencies (ECAs), which are national, public or publicly mandated agencies set up to support national commerce and industry. ECAs are mostly used for exports to developing countries, but in some instances, they support exports to OECD countries such as South Korea. Most industrialized nations have at least one ECA.

There are 81 Export Credit Agencies worldwide.<sup>6</sup> Some of them are governmental agencies, like Britain's ECGD, while other ECAs are private companies running export credit programmes on behalf of their government, as with France's COFACE. In some cases, the ECA is a private company, with the government holding a majority share. The degree to which ECAs make decisions independently also varies. In Austria for example, the decision lies with the Ministry of Finance, although the OeKB is a private company. In Spain, no state body is involved in the decision-making process. In most countries, an interministerial committee advises on the larger projects (see Appendix II).

According to OECD figures, ECA-backed export credits and foreign investment amounted to more than \$100 billion (€80 billion) in 2004.<sup>7</sup> In comparison, all the World Bank's commitments in the year 2004 came to \$22 billion (€17 billion), and all official development assistance amounted to \$79 billion (€58 billion) that year. Yet, like the World Bank twenty years ago, most ECAs do not take into consideration the impact of the projects they support on human rights or the rights of local peoples.

## 1.1 How ECAs work

ECAs provide direct loans, guarantee or insure loans for commercial banks or exporters. While ECAs do charge an insurance premium and/or interest for the financial services provided, these are generally lower than commercial – market based – export credits. ECAs also accept higher risks and therefore provide support for transactions that cannot find export credit on the commercial markets. Only a limited number of commercial banks are willing to finance military transactions but almost always require loan security, also known as 'cover', from an ECA or other official source.

In return for premiums and/or interest, the exporting company gets the certainty of obtaining the anticipated revenues from its business. In case the customer does not pay up, the ECA will compensate the loss. Thus, with ECA support, the private risk of the company is effectively transferred to the public sector. After the company is

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<sup>6</sup>See e.g.: <http://www.eca-watch.org/eca/directory.html>.

<sup>7</sup>The Berne Union Yearbook of 2006 states that medium- and long-term credits for 2004 amounted to \$76 billion, short term business to \$700 billion ('Berne Union Yearbook 2006' Jon Marks). According to OECD statistics all medium and long term credits of the OECD members in 2004 amounted to \$103,7 billion (about €80m). The sector-by-sector breakdown does not include the military, which means that adjusted ECA-backed military export figures are higher, so most likely these data are conservative.

compensated, the ECA will try to recover payment from the customer<sup>8</sup>. For many developing countries this means an increase of their debts to rich countries.

In general, ECAs absorb 95 percent of the risk from a given transaction, meaning that potential losses for corporations and banks are minimal in case of bad debt repayment. As a Midland Bank executive in charge of arms deals once put it: *"You see, before we advance monies to a company, we always insist on any funds being covered by the [UK] Export Credit Guarantee Department...We can't lose. After ninety days, if the Iraqis haven't coughed up, the company is paid instead by the British Government. Either way, we recover our loan, plus interest of course. It's beautiful."*<sup>9</sup> Many projects supported by ECAs involve high risk due to economic and political instability in the recipient countries and/or the long repayment period. They would not have been viable without the financial backing of ECAs.

## 1.2 The security exception

Most of the legislation on export credits is created in the framework of the Organisation for Economic Co-operation and Development (OECD). The *Arrangement on Guidelines for Officially Supported Export Credit Agencies* is the formal negotiating forum for rules that are considered binding. The main purpose of the Arrangement is to provide a level playing field in payment terms and credit periods. For European Union member states, negotiations are delegated to the European Commission and the rules agreed upon are incorporated into European law. Since 1999, country-risk categories have also been harmonized by the Arrangement and minimum premium rates allocated to the various risk categories. Besides the OECD Arrangement, there is the World Trade Organisation (WTO) *Agreement on Subsidies and Countervailing Measures* (SCM Agreement)<sup>10</sup> that applies to ECAs. The WTO obliges ECAs to be cost effective and to avoid government subsidies for their domestic industries through ECAs.

Neither the OECD Arrangement, nor the WTO SCM Agreement, covers ECA support for military exports, which are out of the purview of these regulating bodies. The OECD Arrangement on Officially Supported Export Credit Agencies, 2005 revision', Article 5c says: *'The Arrangement does not apply to exports of Military Equipment and Agricultural Commodities'* Even without this clause, the OECD Arrangement would not apply for military exports in the European Union, as the Treaty Establishing the European Community Article 296, 1b says: *Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such*

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<sup>8</sup>A key characteristic of ECA support for an export or investment deal is the so-called counter-guarantee from the government of the developing country, pledging payment in case of default. If the receiving company fails to pay for the exported equipment, the exporter and its bank will submit a claim with the ECA. The ECA will provide compensation under the insurance scheme on behalf of the domestic government. This government will claim the full nominal amount of the original transaction from the government of the recipient country, and add this to other export credit claims on that country. For arms exports the situation is different, since the recipient already is a government.

<sup>9</sup>Quoted in *Killing Secrets*, ECGD: The Export Credit Guarantee Department, *Killing Secrets*, 1998, cited in 'Export Credit Agencies, Corporate Welfare and Policy Incoherence,' Nicholas Hildyard (Corner House), June 1999.

<sup>10</sup>See <<http://www.worldtradelaw.net/uragreements/scmagreement.pdf>>.

*measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes*<sup>11</sup>

The SCM Agreement makes the same exception for arms trade and military goods, as it is subjected to General Agreement on Tariffs and Trade (GATT) provisions. SCM says in art. 32.1: *No specific action against a subsidy of another Member can be taken except in accordance with the provisions of GATT 1994, as interpreted by this Agreement.* The GATT treaty is very clear in Article XXI (b): *'Nothing in this Agreement shall be construed to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment'*.

Therefore, the global defence industry cannot be considered part of the free market. This is the case because military products are no normal commodity. National defence industries are considered too crucial for security, sovereignty and international policy to be subjected to trade law. Most issues concerning the arms trade and defence industry are still decided at a national level. There are no international trade laws regulating the conventional arms trade. The European Code of Conduct on Arms Trade is not legally binding. Decisions on individual arms exports are matter of national concern. This exception of the defence sector from trade laws is known as the 'security exception'.

The consequence of the security exception is that whenever ethical guidelines are included in trade agreements, these do not apply to arms sales and defence production. It also means that the defence sector can be subsidised freely and in many ways by governments. The security exception creates an interesting investment opportunity for governments when economic stagnation has to be overcome, as part of an active industrial policy with the aim of creating jobs and innovative technology. This is most significant in the United States.<sup>12</sup>

### **1.3 Cost effectiveness**

Supporting exports through advantageous credit terms and low premium rates is a form of competition-distorting export subsidy. That is why the OECD Arrangement prescribes that ECAs are cost-effective in the long term.<sup>13</sup> Cost effectiveness means that the premiums and the repaid claims are sufficient to compensate the losses and pay the costs of the facility.

Although the OECD prescription that premiums and repaid claims should cover the costs of the facility does not apply to military transactions, due to the security exception, it is interesting to have a look at the European situation. For most European countries, there is no information available on the cost effectiveness of

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<sup>11</sup>See for more information on the EU security exception: *The arms industry and the EU Constitution*, ENAAT Research Group, pp. 40, January 2006, Martin Broek & Wendela de Vries.

<sup>12</sup>Paper on Export Credit Agencies and Arms Trade, update 2003. Martin Broek, Campagne tegen Wapenhandel.

<sup>13</sup>European Council Directive 98/29/EC of 7 May 1998 on harmonisation of the main provisions concerning export credit insurance for transactions with medium and long-term cover, WTO Agreement on Subsidies and Countervailing Measures.

military export credits. Only in the Netherlands, Germany, Belgium, France, Sweden and the UK (some) overall data on premiums, claims paid and repayments are accessible. From the research data displayed in Appendix III, it is clear that in most cases premiums do not cover the losses. The Netherlands is the only country that explicitly does not charge different premiums for arms exports.

#### **1.4 When governments become financially involved**

Through granting or (re-)insuring export credits, governments become financially involved and therefore a party in the same arms exports they have to control on ethical grounds. The financial involvement of a government in arms exports it is responsible for regulating undermines the credibility of this government as an independent supervisor of the European Code of Conduct on Arms Export.

A Dutch example highlights this further. After having received an export credit guarantee, an arms manufacturer has to secure an export license. Any losses arising from the failure to obtain the license are not covered by the ECA. If, however, a private bank finances the deal, as is the case with the recent deal for four corvettes to Indonesia, the export credit guarantees are not bound to a license. So, if the government does not give an export license for the corvettes and Indonesia does not want to pay back the borrowed money to the bank (appealing to default of the exporter), Atradius (the Dutch ECA) has to reimburse the banks' losses. The Dutch government can try to retrieve this from the arms producer, but there is no guarantee it will receive the money.<sup>14</sup> In the case of the corvettes, shipyard De Schelde will probably not be able to repay and would face bankruptcy. It is hard to imagine any Dutch government allowing such a major part of the Dutch defence industry to collapse.

Furthermore, if a company has already received a provisional license – to 'taste' the government's position on a provisional sale for which export may take a few years - the government has to prove that an 'unforeseeable' and 'weighty' change of circumstances has taken place to rescind the license.

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<sup>14</sup>Letter of the Ministry of Economic Affairs to the parliament, concerning export credit insurances, provisional licences and arms export licences, 17 June 2005.

## 2 Negative impact of the arms trade

Between twenty and thirty percent of all export credits issued or underwritten by European governments are military-related. This level of support is especially striking given that even among Europe's four major arms-exporting countries such sales only accounted for two percent of total exports during the 1990s.<sup>15</sup>

The disproportionate amount of cover for military exports is partly due to the nature of the business. Accountants KPMG, in their report *Risk Management Review for the Export Credit Guarantee Department*, point out that commercial banks normally do not underwrite large military deals to avoid the risk of damage to their reputations.<sup>16</sup> For governments generally, arms exports are both a foreign policy instrument and a support to their defence industrial policy - which is closely related to national security. This explains their interest in taking on risks avoided by commercial financiers.

Governments provide financial backing for military exports to support their domestic defence industry. Apart from ECA guarantees, government instruments for export support include guaranteed procurement and export promotion, sometimes involving the exporting country's armed forces as a 'live' advertisement. Exports can help bring down the average cost price of a military product by spreading non-recurring costs - e.g. for research and development - over higher volumes of production.<sup>17</sup>

However, these economic and political interests often conflict with ethical considerations concerning military exports such as those laid down in the European Code of Conduct on Arms Exports. This Code of Conduct includes criteria on human rights, regional stability and security, and the economic potential of the recipient countries. It is important to note, however, that the Code of Conduct is not legislation, but a political instrument. It leaves much room for interpretation, leading to ongoing debate between industry eager to export and human rights and peace organisations wanting to limit the spread of arms.

Criterion eight of the Code of Conduct on Arms Exports is dealing with economic aspects of the customer country. It says: *"The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate needs of security and defence with the least diversion for armaments of human and economic resources. Member States will take into account, in the light of information from relevant sources such as UNDP, World Bank, IMF and OECD reports, whether the proposed export would seriously hamper the sustainable*

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<sup>15</sup>Table II: Arms Transfer Deliveries and Total Trade, 1989-1999, By Region, Organization, and Country from World Military Expenditures and Arms Transfers, 1999-2000.

<sup>16</sup>KPMG: Risk Management Review for HM Treasury and ECGD', December 1999, p 15.

<sup>17</sup>This argument does not always hold, as often non-recurring costs are discounted from sales prices in an attempt to attract possible customers.

*development of the recipient country. They will consider in this context the recipient country's relative levels of military and social expenditure, taking into account also any EU or bilateral aid".* There are however no criteria as to when an arms deal 'seriously hampers sustainable development' or how the relative levels of military and social expenditure should be considered. The issue of military export credits is not covered by the Code of Conduct, and it does not cover the connection between the arms trade and debt, or between the trade in arms and corruption<sup>18</sup>. The functioning of the Code of Conduct is also hampered, when the same government that has to decide over the ethical aspects of an export licence is also financially involved in the export deal in question, even if indirectly.

## **2.1 Policy incoherence**

According to the United Nations' Development Programme (UNDP), military expenditures are a major barrier to reaching the UN Millennium Development Goals (MDG) for poverty reduction, health care and the protection of the environment<sup>19</sup>. Worldwide military spending averages ten percent of national public spending. For developing countries however, it amounts to fifteen percent<sup>20</sup>. Military spending competes with investments in human development; it often equals the amount spent on education and healthcare together. Again according to the UNDP, attaining the MDG is not possible without reducing military expenditure, since money spend on military development cannot be spent on human development.

International financial institutions work with ethical standards laid down in Corporate Social Responsibility policies based on the concept of sustainable development. When not well defined however, sustainable development is often strictly limited to environmental issues<sup>21</sup>. Not only does it often exclude social and human rights issues, it hardly ever includes peace and security issues.

ECA practices often contradict national or international policies on sustainable development and conflict prevention. At a national level, it is usually only the Ministry of Finance involved in decisions on ECA policies, and only for the most expensive projects and/or the riskiest countries. Other ministries, such as Development Cooperation or Foreign Affairs, are generally not involved. There is thus no systematic way to check whether the issued policies are in accordance with developmental, security or environmental policies.

The OECD has developed Guidelines for Multinational Enterprises<sup>22</sup>. These guidelines amongst others state that companies should "*contribute to economic, social and environmental progress with a view to achieving sustainable development*", "*respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments*" and "*ensure that timely, regular, reliable and*

<sup>18</sup>See for full text of the EU Code of Conduct on Arms Exports, <http://www.consilium.europa.eu/uedocs/cmsUpload/08675r2en8.pdf>.

<sup>19</sup>Worldwide Military Expenditures and Arms Transfers, '03, Military Burden and Other Relative Indicators,' US State Department, p.1.

<sup>20</sup>Idem.

<sup>21</sup>Snouts in the Trough: Export Credit Agencies, Corporate Welfare and Policy Incoherence. Nicholas Hildyard, Cornerhouse (1999).

<sup>22</sup>See at [http://www.oecd.org/document/28/0,2340,en\\_2649\\_34889\\_2397532\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/28/0,2340,en_2649_34889_2397532_1_1_1_1,00.html).

relevant information is disclosed regarding their activities, structure, financial situation and performance". With the lack of transparency regarding their policies, it is unclear whether ECAs implement and monitor this agreement seriously.

## 2.2 Debts

According to different estimates, between fifteen and twenty percent of the total global debt is related to military expenditure<sup>23</sup>. The World Bank, the International Monetary Fund and other international financial institutions do not lend money for military transactions. ECAs, on the other hand, do: they are the largest source of developing country debt,<sup>24</sup> with 34% of such debt is caused by export credits<sup>25</sup>. The UNDP sees the indebtedness of many developing countries as a major barrier to overcoming poverty. This is not only a problem for the so-called Heavily-Indebted Poor Countries (HIPC) but also for countries less heavily indebted (so-called severely and moderately indebted countries). As with military expenditure, the costs of servicing the debt often far exceed spending on healthcare and education. ECAs are often crucial; without ECA support for military-equipment sales, many transactions would never take place.

Many ECAs guarantee arms transfers to indebted countries. Arms transfers are debt-generating transactions for the purchasing countries, because they are non-productive expenditure; they do not benefit their economies. A paper mill generates products to finance its costs and to repay its original purchase; arms generate nothing productive, and do not contribute to the possibility of recovering the purchase-price. Heavy debts contribute to the risk of violence, because debts make it difficult for governments to prevent or recover from conflict, and pressure governments to impose austerity measures that have resulted in further unrest<sup>26</sup>.

In a Statement of Principles, OECD (Organisation for Economic Cooperation and Development) members have agreed not to lend money to Heavily Indebted Poor Countries<sup>27</sup> (HIPCs) for '*unproductive expenditure*'. In fact, this is largely a symbolic measure; since these countries are already heavily indebted, they are 'off cover' because the risk of non-payment is too high. Making it even less substantial, the Statement of Principles does not preclude military exports, stating that "*[i]t is understood that the adoption of these Principles does not automatically preclude support for equipment deemed essential to the debtor country's national security or required to combat*

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<sup>23</sup>'Bleeding the poor: Arms versus development', International Broadcasting Trust, 1994, cited in: Oxfam International / Amnesty International: Guns or growth, Assessing the impact of arms sales on international development, 2003. Adams: Odious debts, cited in: 'Defining illegitimate debt and linking its cancellation to economic justice', Joseph Hanlon, Norwegian Church Aid, June 2002.

<sup>24</sup>Aaron Goldzimer, "Globalization's Most Perverse Secret: The Role of Export Credit and Investment Insurance Agencies," in After-Neoliberalism: Economic Policies That Work for the Poor, ed. Jim Weaver, Didier Jacobs, and Jamie Baker, New Rules for Global Finance Coalition, 2002: 106-23; and How ECAs Turn Private Risks of Corporations into Debt for Developing Countries 2004 by Both Ends - a briefing paper on export credit debt.

<sup>25</sup>External Debt Statistics 1998-2002, OECD 2004.

<sup>26</sup>Sarah Anderson et al. Debt boomerang 2005: How America would benefit from cancellation of impoverished country debts, Washington DC, Institute for Policy Studies 2005.

<sup>27</sup>The World Bank defines a severely indebted country as a country that has a present value of debt service to GNI, which exceeds 80 percent, or present value of debt service to exports, which exceeds 220 percent. ('Classification of Economies' World Bank 2003).

*e.g. the drug trade, smuggling, piracy.*<sup>28</sup> As 'national security' covers all kinds of military activity, this opens the requirement for the full range of weaponry and equipment. To give an idea of the kind of equipment that can fall under the heading of smuggling and piracy: during an anti-piracy operation in the Malacca Straits, Indonesia used twenty warships, seven motorboats, four planes and two helicopters. Marine and infantry battalions, teams of navy frogmen, three teams of amphibious scouts and an intelligence team were also included.<sup>29</sup>

The Dutch government, together with several other members of the OECD Export Credit Group, say they plead for the unproductive expenditure criteria to encompass military goods as well.<sup>30</sup> This still does not stop Dutch Atradius from mainly guaranteeing military exports to countries that are severely indebted, for example Turkey, Indonesia and Jordan.<sup>31</sup> On the surface, the British ECA ECGD is doing well by extending the non-productive expenses criteria to countries that receive development aid (ODA).<sup>32</sup> Nevertheless, this does not apply to military exports.

The ECGD states that: *"While the UK recognises the right of sovereign governments to protect their citizens and territory, defence projects require particular scrutiny to ensure that they represent necessary and justifiable expenditure. To be regarded as productive they are likely to be related to the protection or preservation of the country's economic interests."* (Productive Expenditure Guidance for exporters and investors, Article 24).

Belgium's Delcredere approved credit for an arms export deal to Tanzania, chronically poor and heavily in debt. The Belgium ECA also guaranteed a military export deal to Nigeria in 2004; various severely indebted countries such as Brazil, Lebanon, and Jordan are also receiving credits from Delcredere.

Although Indonesia does not have HIPC status, the controversial sales of the Scorpion tanks and Hawk fighter aircraft to Indonesia in the nineties are a good example of the effects of borrowing on indebted countries. The UK taxpayer paid the price for the sale, which ECGD (UK) made possible. Late 2004 Indonesia owed £93m (€137m) to ECGD. In December 2004, the *Guardian* revealed that "(i)n the last six years, the taxpayer has paid £645m (€954m) to arms firms for failed deals with Indonesia."<sup>33</sup> The ECGD still hopes to get some of its money back; if successful, in the end it will be the Indonesian population who have to foot the bill.

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<sup>28</sup> OECD Export Credit Group Discourages Official Support for Unproductive Expenditure in Heavily Indebted Poor Countries (HIPC): A Statement of Principles, 19 July 2001.

<sup>29</sup> 'Indonesian Navy Launches Anti-Piracy Operation,' *AFP*, Jakarta, July 12, 2005.

<sup>30</sup> 'The Financing Factor in Arms Sales: the Role of Official Credits and Guarantees', Evans Peter C. , 2003, p. 558.

<sup>31</sup> The policy for Jordan was issued on June 5, 2003 by Atradius for the export of Rotterdamse Droogdok Maatschappij (RDM) mobile artillery (MOBAT) assembled out of Dutch and UK parts. RDM went bankrupt soon afterwards, leaving the losses to the Dutch government.

<sup>32</sup> Press release: 'UK bans export credits for unproductive expenditure to 63 countries,' by the Treasury, January 11, 2000.

<sup>33</sup> Rob Evans, 'Taxpayers paid £400m to BAE for failed arms deals,' *The Guardian*, 20 December 2004.

### 2.3 Arms trade and development aid

Most ECAs do make profits thanks to debt rescheduling programmes. In almost all OECD countries, the cancellation of export credit debt is booked as official development aid (ODA). However, since the procurement of arms generally does not contribute to development, the cancellation of military debt cannot fall under this cancellation scheme. OECD-DAC regulations specify that debt cancellation is relevant for development, and thus may be booked as ODA, except for military products.<sup>34</sup> However figures as to whether a cancelled debt is military or civilian are sometimes not available without thorough searching –not even to the Finance Ministries themselves- for reasons of ‘commercial confidentiality’. The Dutch Ministry of Finance, for example, says it adheres to this OECD guideline, but in the Netherlands a system to register whether a policy is for military or civil products or services is not established.

An evaluation of Dutch debt relief policies by the Ministry of Foreign Affairs states that ‘the combination of debt relief and the financing of new credits in favour of the same countries raises doubts on the coherence of the Dutch debt relief policy with other parts of the development cooperation policies.’<sup>35</sup> However, this is still regular practice, as the two credits for the naval vessels for Indonesia show, just before (2004) and after (2006) Indonesia’s debts were deferred due to the Tsunami.

### 2.4 Human rights and security

In some cases, ECA support contributes to human rights violations or to the escalation of conflicts, as for example in the notorious case of support by COFACE (France) and Hermes (Germany) for the Ilisu Dam in southeast Turkey shows. This region has been devastated by the still-ongoing armed conflict between the Kurdish Workers' party - better known as the PKK - and the Turkish state. The building of this dam will result in forced evictions of the mainly Kurdish population. In this way, the project contributes to the Turkish government’s efforts to force the Kurdish people into mainstream Turkish society.<sup>36</sup> Moreover, when opposition becomes too vocal –people raising questions about the legality of the project have been charged with insulting the Turkish state – police helicopters delivered with guarantees from the American Ex-Im bank may turn out to be another ECA-backed weapon to intimidate and crush civil protest.<sup>37</sup>

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<sup>34</sup>This does not mean however, that it is not booked on the development assistance budget; it can be booked as Other Official Flows (OOF) (‘Handbook for reporting debt reorganisation on the DAC questionnaire’, OECD-DAC, 2000). These flows are not counted into the 0,7% of the GNP Western countries are supposed to spend on development aid.

<sup>35</sup>Evaluatie van het Nederlands schuldverlichtingsbeleid 1990-1999, Hoofdbevindingen’ IOB, 2003, p. 2.

<sup>36</sup>There is a secret Memorandum in which the then President of Turkey, Turgut Ozal, set out his "solution to the Kurdish issue". This Memorandum states: "With the evacuation of mountain settlements, the terrorist organisation PKK will have been isolated. Security forces should immediately move in and establish complete control in such areas. To prevent the locals' return, the building of a large number of dams in appropriate places is an alternative." ‘What have dams got to do with peace? Conflict and the politics of infrastructure development’, Nicholas Hildyard, May 2005. [www.thecornerhouse.org.uk/item.shtml?x=369028](http://www.thecornerhouse.org.uk/item.shtml?x=369028).

<sup>37</sup>Martin Broek, Paper on Export Credit Agencies and arms trade, Updated 28/03/03.

## 2.5 Corruption

According to Transparency International, "*bribing foreign officials in order to secure overseas contracts for their exports has become a widespread practice in industrial countries, particularly in certain sectors such as exports of military equipment and public works. Normally these contracts are guaranteed by government - owned or - supported Export Credit Insurance (ECI) schemes.*"<sup>38</sup> ECAs even pay out insurance claims to companies whose contracts were cancelled because of allegations that they had paid bribes.<sup>39</sup> In the end, the people of developing countries pay the price for the bribery in which ECA-backed companies engage.<sup>40</sup> Companies paying a bribe aim to recover it by charging governments more for what they provide. Corruption can add an average of 20-30 per cent to the cost of government procurement.<sup>41</sup> Corruption may also divert public expenditure away from areas such as health and education in which bribery returns may be small, to sectors such as construction and defence, which are more lucrative.

## 2.6 Arms trade at the expense of civil trade

Military-related trade is often very expensive, so financial support for a military export can come at the expense of civil export. Some examples illustrate this:

The Swedish ECA EKN got in trouble when it provided guarantees for the sale of Gripen fighter planes to South Africa. It was the largest deal EKN was supporting in 2002 and the guarantees were so big that it turned out EKN could not guarantee any exports to other countries. The Swedish government had to step in and allow for emergency measures.

The Netherlands provides an even more cynical example. To spread risks, ECAs use country ceilings – the maximum amount of outstanding risks. The Dutch ECA Atradius' maximum risk for Indonesia, for example, is €1.5 billion (an amount derived from the OECD's country risk classification). The guarantees for four warships (in 2004 and 2006) for Indonesia exceeded its country ceiling. Therefore, other exports to Indonesia - such as the delivery of medical equipment to academic hospitals - could not receive an export credit until Indonesia had redeemed its military equipment.<sup>42</sup> So not only do military purchases happen at the expense of other badly needed government expenditure of poor countries, they also limit the space for ECA support for other products.

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<sup>38</sup> 'Export Credit Insurance and the Fight Against International Corruption,' Dieter Frisch, Transparency International working paper, 1999: 2.

<sup>39</sup> 'Underwriting Bribery: Export Credit Agencies and Corruption', Susan Hawley, The Corner House, December 2003, p 5.

<sup>40</sup> A 1998 IMF study shows that an increase of just 0.78 per cent in corruption reduces the income growth of the poorest 20 per cent of the people in a country by 7.8 per cent a year. Gupta, S., Davoodi, H. and Alonso-Terme, R., "Does Corruption Affect Income Inequality and Poverty?" IMF Working Paper, May 1998, cited in: Underwriting Bribery: Export Credit Agencies and Corruption Susan Hawley, The Corner House, December 2003, p. 12.

<sup>41</sup> "Corruption in Procurement", Strombom, D., USIA Economic Perspectives November 1998 and 'Anti-Corruption Policy: Description and Answers to Frequently Asked Questions' Asian Development Bank, Manila, Philippines, 1999. In some Asian countries, corruption even doubles the cost of goods and services. "False Economies", Freeman, S., , Developments, 4th quarter, 1999. All cited in: Underwriting Bribery: Export Credit Agencies and Corruption Susan Hawley, The Corner House, December 2003, p. 12.

<sup>42</sup> 'Meer steun voor Nederlandse exporteur, bedrijfsleven ziet in maatregelen voor betere verzekering export een eerst stap' Het Financieele Dagblad, 25 October 2005.

In 2006, Atradius managed to share the risk on the Indonesian deal with the Danish and Belgian ECAs, and with the Swiss insurance company, Zurich<sup>43</sup>. These entities took over the risk of a huge military transaction in exchange for the Dutch taking over their risks on other countries<sup>44</sup>. For the Netherlands, this meant they could cover another €250m on exports to Indonesia.

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<sup>43</sup><http://www.stopwapenhandel.org/projecten/Indonesie/achtergrond/weaponsystems.html>.

<sup>44</sup>'€250m extra to reinsurance exports to Indonesia', Dutch Ministry of Finance, 24 August 2006.

### 3. ECA support for the arms trade

The official arms market provides its products almost exclusively to governments, with the exception of small arms like rifles for self-defence, sports, hunting and illegal practices. However, fighter aircraft, tanks and naval vessels are not normally sold to private persons. Therefore, the arms market is one with a relatively small number of very specialized suppliers and a small number of potential customers. Special offers, commissions (often taking the form of bribes) and favourable finance schemes are used as instruments to win customers.<sup>45</sup> Advantageous terms of finance for expensive arms deals can make the difference in winning a contract.<sup>46</sup> The Indonesian Defence Minister illustrated this when

explaining his choice of Russian arms, “The Russian State charges 5.6 to 5.8 percent a year. This is far less than the interest rates of commercial banks from OECD countries, which charge 8 percent.”<sup>47</sup> The economic advantage of arms exports is that it helps to spread R&D costs, which is essential especially since many weapon systems are technically complex and expensive.

#### 3.1 Arms in the portfolio of European ECAs

Data available from Europe’s main arms exporting nations illustrate the importance of ECA support in many military transactions<sup>48</sup>. While arms exports make up a relative small proportion of overall exports - only in 4 European countries do arms exports exceed 0.5 percent of the total export volume - the proportion of military export credits is enormous.

This may be illustrated by two major European arms exporting countries, Great Britain and France. In the nineties, the value of British and French military export credits for defence products almost doubled the value of the arms export licenses. The value of the insurance policy (i.e. contract) is in general much higher than the value of the exported product. The most probable explanation for this is that not only products from the domestic market are guaranteed by the export credit agency, but

**Top 10 worldwide arms exporters 2001-2005** (‘trend-indicator value’, in \$m, constant 1990 prices):

1.	Russia	28.982
2.	US	28.236
3.	France	8.573
4.	Germany	5.603
5.	UK	3.933
6.	Ukraine	2.226
7.	Canada	1.971
8.	Netherlands	1.868
9.	Italy	1.858
10.	Sweden	1.760

*Source: Sipri Arms Transfer Database.*

<sup>45</sup>France is a clear example of the shift from a demand to a supply market. The French government reorganised its arms export policy in 1997 to be able to keep production levels at height despite reductions in national procurement during the late nineties. The key points of this restructuring were: increasing support for exporters, improved financing packages, simplifying export regulations and cooperation by the arms producers bidding for a contract, co-ordinated by the arms procurement agency (DGA). This system was first used in 1997 for getting parts of a major armaments contract by South Africa. The financing was put together by the French Finance Ministry, a consortium of commercial banks and COFACE. Giovanni de Briganti, ‘French Face Pressure To Lift Exports As Procurement Falls,’ *Defense News* 11/08/97, p. 10.

<sup>46</sup>See for a description of the role of advantageous financing arrangements played in the acquisition of military offers from the new NATO members: ‘The financing factor in arms sales: the role of official credits and guarantees’, Evans, Peter C., in: *SIPRI-Yearbook 2003*, p. 541.

<sup>47</sup>‘Kredit Rusia Disetujui untuk Belanja Alutsista’, *Republika*, 10 October 2006.

<sup>48</sup>Because publicly available information about the ECAs’ involvement in military deals is incomplete figures can only be indicative.

also components from other countries, which have been assembled into the large weapon system. Also military infrastructure, training and related services which do not need export licences are covered by the guarantee.<sup>49</sup>

For some European countries, data are publicly available. In the nineties, the British ECA (ECGD) used thirty percent of its budget (1998/99: £1.8bn/€2.5bn) for military exports. Roughly one-fifth of the contracts (1998: FFr79bn/€12.04bn) concluded by the France ECA (COFACE) during the same period were for military purposes. During this period, the value of French arms exports was FFr41.2 bn (€6.3bn), and £980.5m (€1.3bn) for the British. In both countries, the ECA support for military equipment was almost twice the amount of all the military exports. ECGD, the UK ECA, confirms in its annual report 2003-2004 that the defence industry remains its biggest sector.

Data cannot be easily compared because of differences in policies and differences in reporting. German ECA Hermes for example issues short-term guarantees (for a period under two years), which make up almost half of all its guarantees. Other ECAs only issue medium- and long-term guarantees. Arms sales are generally all medium- or long term, since they mostly concern large amounts of money being paid over a long period of time, but there is no conclusive information available on that.

Another difference is that Dutch and German data also include orders that have a military end-user but do not fall under official arms trade statistics. An example of a Dutch non-arms military deal is the Atradius-supported construction of a naval base in India. It will be one of Asia's largest military bases, and is part of India's naval nuclear plans, so definitely military.

Based on a survey of the European Network Against Arms Trade conducted in 2006, an overview can be given of the percentage of military exports in the portfolio of European ECAs.

1. United Kingdom (ECGD) between 23 and 50 % in 2000 - 2006, with an average of 38% per year.
2. France (COFACE) one-third.
3. The Netherlands (Atradius-DSB) on average 27 % since July 2002, with a peak of 57% in 2004.
4. Germany (Hermes) between 0,5 and 9,4 % of all – long- and short-term- credits.
5. Belgium (Delcredere) on average 20% of all the exported arms for which an export licence has been provided.
6. Sweden (EKN) between less then 1% and 40% since 2000, with an average of 11%.

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<sup>49</sup>Rapport No 1861, Assemblée Nationale; Économie, Finances et Industrie; Commerce Extérieur', 18/11/99 annexe No 12; 'Rapport au Parlement sur les exportations d'armement de la France, Résultats 1998, Table le Livraisons de l'année 1998; Laurence Cockroft and David Murray (ed), 'Corruption in the Official Arms Trade', Transparency International Policy Paper; Britain Strategic Export Controls; Report 199; Table 4: 'Statistics on Exports of Military Equipment between 01/01/99 and 31/12/99. All cited in: [Paper on Export Credit Agencies and Arms Trade](#), Martin Broek, Campagne tegen Wapenhandel, March 2003.

### **3.2 Premiums for military transactions: the British case**

The British ECA ECGD is the only ECA for which separate data, concerning income from premiums, claims, and recovered claims on military and civil credits, are available because figures are provided to the Parliament. Aggregate figures show that, for all business, premiums cover one-third to half the claims paid out by the ECGD. For the defence sector, however, the percentage of claims covered drops to between one-fifth and one-quarter.

In the financial year 2000-2001, for instance, premiums earned in defence projects amounted to £38m (€56.2m), while claims paid out came at £181m (€268m) to nearly five times this amount.<sup>50</sup> Recoveries from the defence sector, meanwhile, have been very low. For the ten fiscal years from 1990 into 2001, premiums earned on defence business amounted to £251m (€371.3m), and claims paid out amounted to £970m (€1.435m), but only £122m (€180m) was recovered.<sup>51</sup> The ECGD was left with a £597m (€883m) shortfall for its defence business over this ten-year period.

When comparing ECGD premium rates with the premiums that private lending organisations would charge to companies exporting arms, it must be concluded that the ECGD provides an annual subsidy of £222m (€328m) to the defence sector.<sup>52</sup> Then there are the personnel costs for this support to arms exports. These costs for the civil servants working on military export credits and the credit guarantees issued by the department are estimated at £180m (€266m) annually.<sup>53</sup>

### **3.3 The exceptions: Austria and Switzerland**

Two European countries restrict their ECA support for the trade in arms. Since 1994, Austria's OeKB does not support such trade at all. OeKB's General Business Conditions state: "the guarantee does not cover claims arising from the delivery of goods, which are subject to the regulations of the Federal Statute on the import, export and transit of war materials or to those of the Statute on security control. This does not preclude the support for dual-use goods." In Switzerland, the ERG does not cover lethal weapons but can still support other military deliveries.

### **3.4 Countries benefiting from military export credit support**

The available information shows that a few countries benefit most from the European export credits for arms purchases. These are South Africa, Saudi Arabia, Indonesia, South Korea and Turkey, all except Indonesia belonging to the world's largest arms importers. Other countries profiting from Export Credit Agencies for the purchase of arms and military infrastructure are India and Pakistan. While India bought military products and services with Dutch, Belgian and Swedish ECA coverage, Pakistan bought Hermes backed military equipment. Considering the fact that nuclear-capable

<sup>50</sup>House of Commons *Hansard* Written Answers for 4 February 2002, Column 645W, Ms Hewitt to Mr Stinchcombe MP. 130.

<sup>51</sup>House of Commons *Hansard* Written Answers for 21 June 2002, Column 589W, Ms Hewitt to Mr Cousins MP.

<sup>52</sup>Escaping the Subsidy Trap: Why arms exports are bad for Britain' Paul Ingram and Roy Isbister, British American Security Information Council, Saferworld, Oxford Research Group, 2004, p. 41.

<sup>53</sup>Exports victory for anti-corruption group', Mark Tran, *The Guardian*, 13 January 2005.

India and Pakistan have been involved in a border conflict over Kashmir, which has escalated into fully-fledged armed conflict several times, it is a mystery why the EU is still exporting military goods to these countries at all. Moreover, India is a country where 800 million people live below the poverty line, while in Pakistan this figure is 40 million.<sup>54</sup> In 2006 Swedish SEK further fuelled the arms race between these two low-income countries when it guaranteed the export of a \$1.1 billion Saab contract with Pakistan to deliver an airborne early warning surveillance system, comprising Saab 2000 turboprop planes equipped with Erieye airborne radar.<sup>55</sup> As the single largest export credit in the first half of 2006, it contributed to a doubling of the value of the Swedish export credits.<sup>56</sup>

There are many more examples of conflict-ridden and/or low-income countries purchasing arms with the help of export credit programmes. Belgium's Delcredere, for example, supported arms exports to Nepal, during the bloody struggle between the security forces and Maoist guerrillas. In 2002, Belgium sold 5,000 machine guns to Nepal. The delivery took place despite an earlier German refusal to supply similar weapons on human rights grounds. Amnesty International condemned the Belgian decision to issue a licence for these machineguns, since arms exports like these fuelled the conflict.<sup>57</sup> Meanwhile, Nepal has obtained HIPC status because of the country's debt burden.

### **3.5 ECAs, arms and human rights: Saudi Arabia**

Saudi Arabia is the country where the military is benefiting most from the British export credit agency. In Belgium, Saudi Arabia also ranks first amongst the receivers of military export credits. German Hermes issued a guarantee for the sale of EOD vehicles (robots for explosive ordnance disposal and observation) to Saudi Arabia. Economically there might be no objections to ECAs' support for trade with Saudi Arabia, as Saudi Arabia is not a developing country. Nevertheless, there are other objections to ECAs supporting military exports to this Arab kingdom. Saudi Arabia is known for its gross human rights violations. In its 2005 annual report, Amnesty International states that, 'killings by security forces and armed groups escalated, resulting in dozens of deaths, exacerbating the dire human rights situation in the country'.<sup>58</sup>

In 1995, a British Aerospace (now BAE Systems) salesman claimed on television to have arranged the transfer of 8,000 electro-shock batons (which can be used to torture prisoners) to Saudi Arabia as a small but nonetheless alarming part of the multi-billion euro, ECGD backed al-Yamamah project, the biggest UK arms deal ever. The UK government and British Aerospace denied selling the batons, but

<sup>54</sup> table 3: 'Monitoring human development: enlarging people's choices . . .; Human and income poverty: developing countries,' Human Development Report 2006, p. 293.

<sup>55</sup> Gerard O'Dwyer, 'Saab Pens Preliminary Deal To Sell AEW Planes to Pakistan', Defense News, Posted 10/24/05 11:17, <http://www.defensenews.com/story.php?F=1188472&C=thisweek>.

<sup>56</sup> 'SEK's lending is reaching new records', MARKET WIRE, August 30, 2006 and 'Interim Report for the period 1 January – 30 June 2006', AB Svensk Exportkredit (SEK).

<sup>57</sup> 'Nepal: A human rights crisis fuelled by irresponsible arms exports' Amnesty International, 15 June 2005.

<sup>58</sup> [web.amnesty.org/report2005/sau-summary-eng](http://web.amnesty.org/report2005/sau-summary-eng).

details of the al-Yamamah deal have never been made public.<sup>59</sup> Not only does the al-Yamamah deal support a repressive Saudi regime and contravene policies to support improvements in the country's human rights situation, this deal became central in a bribery scandal, as detailed below.

### **3.6 ECAs, arms and debt: Indonesia**

Although Indonesia does not have HIPC status, the country is nevertheless severely indebted. This has not hampered Indonesia from borrowing more money for defence procurements. Since 2000, military transactions have accounted for at least fifty percent of all the concluded export credit debts each year. Worse, in 2001 and 2002, all export-credit supported debt was allocated to the defence sector.<sup>60</sup> In 2006, Russia lent Indonesia \$1 billion (€742m) to buy Russian fighter planes, combat helicopters and navy vessels. Poland lent the country over €193m for transport planes, and the Netherlands almost €1 billion for four naval vessels (corvettes).<sup>61</sup> According to an American defence official, weapon deals like these are not possible without a flexible financing program and loans with low interest rates<sup>62</sup>.

Indonesia spends almost fifteen percent of its government budget on the military. Meanwhile, half of Indonesia's population, over 100 million people, live on less than two dollars a day. Debt repayments cost the country twice as much as it spends on health care and education together. Although the fight against corruption is a policy priority of the Indonesian government, the country ranks sixth in the Transparency International Corruption Index. The army is seen as one of Indonesia's most corrupt institutions, as well as being involved in a whole range of criminal activities.<sup>63</sup>

Despite explicit promises made to the British and German government not to do so, the Indonesian army used light tanks, naval vessels and fighter planes bought from these countries to suppress rebellions in Aceh and East Timor.<sup>64</sup> Although the human rights situation in Indonesia has improved, there is still reason to be cautious. Human Rights Watch warns that the parliament still lacks budgetary - and therefore democratic - control over the armed forces. This is a serious problem for democratic reform, since 'self-financing also fundamentally challenges the authority of the government over the military and, in that way, weakens governance and reinforces military impunity.'<sup>65</sup> Indonesia's NGO campaign against debts, INFID, sees military export credits as one of the ways the army still seeks financial support outside the military budget.

<sup>59</sup> Saudi Arabia: Stop arming the torturers. Military, security and police relations', Amnesty International, 2000.

<sup>60</sup> Defence Export Credits', Andi Widjajanto, INFID 2006. Amounts based on the data from the Indonesian Ministry of Finance.

<sup>61</sup> 'Indonesia Inks Deal to Purchase 10 Skytruck Planes from Poland', 6 June 2006, 'Air Force to Buy Six more Sukhois', *The Jakarta Post*, 6 June 2006, [www.atradius.com/nl/dutchstatebusiness/Images/tranekv2002\\_tcm224-4516.pdf](http://www.atradius.com/nl/dutchstatebusiness/Images/tranekv2002_tcm224-4516.pdf) and [www.atradius.com/nl/dutchstatebusiness/Images/EKVpolissen2006\\_tcm224-22992.pdf](http://www.atradius.com/nl/dutchstatebusiness/Images/EKVpolissen2006_tcm224-22992.pdf).

<sup>62</sup> Philip Finnegan 'Indonesia may explore Weapon Buys from China', *Defense News* May 15, 2000, p.1.

<sup>63</sup> Asia: New survey shows Indon aid hub Medan 3rd worst for graft', *Australian Association Press*, 17 February, 2005.

<sup>64</sup> Indonesia: United Nations Office for the Coordination of Humanitarian Affairs (OCHA) Daily sitrep on Aceh No. 31; *Deutsche Presse-Agentur* May 21, 2003; and 'Indonesia withdraws British tanks from troubled Aceh', *PLA Daily* January 20, 2004.

<sup>65</sup> Too High a Price: The Human Rights Cost of the Indonesian Military's Economic Activities', Lisa Misol, Human Rights Watch, June 2006, p.122.

### 3.7 ECAs, arms and war: Tanzania<sup>66</sup>

In December 2003, a Belgian newspaper announced a pending Delcredere decision to provide cover to New Lachaussée for the delivery of military material to Tanzania. New Lachaussée would design and supply machines for an ammunition factory in Tanzania, nearby the Great Lake Area.

The news caused severe concern among peace and human rights NGOs. There were many serious objections to this deal:

- Tanzania is a transit country for illegal arms to the Democratic Republic of Congo.<sup>67</sup> At least three million people have died in the conflict in Congo; 75 percent of the killings took place in the area near to the Tanzanian border.
- The delivery of military material to Tanzania without adequate safeguards contravenes a European Council Regulation on restrictive measures in respect of the Democratic Republic of Congo.<sup>68</sup>
- The EU Code of Conduct on Arms Exports calls on Member States “not to allow exports which would provoke or prolong armed conflict”.
- Backing the delivery of military material violates Belgian law, which stipulates that the export of military material may not undermine the initiatives of the Belgian authorities toward peace and stability. This is a reversal on earlier Belgian policy, where the Prime Minister and the Minister for Foreign Affairs showed leadership in calling upon the international community to restore peace in Central Africa.
- Tanzania has the status of Highly Indebted Poor Country. OECD regulations claim no support on ‘unproductive expenditures’ to HIPC countries (see chapter 4), but military equipment is excluded from this criterion. However, it seems a bit strange to support the increase of a countries debt with money for arms sales, while at the same time working on debt cancellation for that country.

Nevertheless, Delcredere’s board of directors issued the \$8.86m insurance to New Lachaussée. The board argued that Belgian law only requires Delcredere to study the financial, and not the ethical, aspects of any application. Weekly questions in the parliament and pressure at the European level caused havoc. The federal minister of Foreign Affairs<sup>69</sup>, according to governmental officials, assured the director of New Lachaussée of his support for the delivery of military material to Tanzania, but he then changed his position. In February 2004, he declared that a delivery of military material was not appropriate, as it would interfere with his efforts to end the conflict in Central Africa. On 12 February 2004, the Walloon minister-president decided not

<sup>66</sup>Written by Jan Capelle, Proyecto Gato, Belgium.

<sup>67</sup>[www.iansa.org](http://www.iansa.org). An official report from the US ministry of Foreign Affairs confirms the risk: ‘(...) Some of the more frequently used African airfields transited by Butt and others include Entebbe, Goma, Kigali, and Luanda. African seaports used by arms traffickers include Aseb, Beira, Conakry, Dar-es-Salaam, Djibouti, Durban, Luanda, Merca, Mombasa, Monrovia, and, Nacala. After arrival, arms are forwarded to their destination by road, rail, air, or ferry. For example, shipments through Dar-es-Salaam normally are sent by rail to Mwanza, a port on Lake Victoria, and then loaded onto a ferry for Port Bell in southern Uganda or other regional destinations. (...)’ The Bureau of Public Affairs, U.S. Department of State <http://www.state.gov/s/inr/rls/fs/2001/4004.htm>.

<sup>68</sup>(EC) No 1727/2003 of 29 September 2003 Article 1 prohibits the provision of “financing and financial assistance, including in particular grants, loans and export credit insurance, for any sale, supply, transfer or export of arms and related material of all types, including weapons and ammunition, military vehicles and equipment, paramilitary equipment and spare parts of the aforementioned, directly or indirectly, to any person, entity or body in the Democratic Republic of Congo”. [http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l\\_249/l\\_24920031001en00050010.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_249/l_24920031001en00050010.pdf).

<sup>69</sup>Belgium has a federal and several regional governments. The regional governments are responsible for arms licences.

to award the licence. In his press release, he regretted the leaks of information about the transaction, which caused a wave of protest in Flanders.

One year later, New Lachaussee submitted a new proposal for an export license. The project was the same, but measures were taken to counter criticism, such as numbering the ammunition, making tracing possible. This time, the Federal minister of Foreign Affairs explicitly opposed the deal. On June 23, 2005, the Walloon Government refused the export license again. Delcredere remunerated New Lachaussee for losses incurred.

## 4. Corruption and the arms trade

The arms trade is one of the most corrupt economic sectors in the world. According to the American Chamber of Commerce, fifty percent of the bribes paid worldwide between 1994 and 1999 relate to the arms trade.<sup>70</sup> The CIA estimates forty to forty-five percent.<sup>71</sup> This is remarkable - since the arms trade only makes up less than one percent of global trade - but not surprising. Arms deals are very intransparent and vast sums of money are involved. Bribes can easily be hidden in the complex, and often secret, clauses studding the contracts.

When it comes to military export credits, ECAs' lack of transparency and compliance mechanisms to prevent corruption come on top of an already corruption-prone process. Detailed stories of large-scale corruption cast a shadow over several major ECA-backed arms deals. European ECAs do not have proper procedures in place to prevent the payment of bribes under the cover of commissions.

Since 2006, there is an OECD Action Statement on Bribery and Officially Supported Export Credits. Companies are required to inform the ECA if they are the subject of charges or past convictions for bribery. ECAs themselves must routinely check whether an exporter or applicant appears on the debarment lists of the international financial institutions. Even if they are on these lists or have been convicted of bribery, companies are still not automatically excluded from receiving ECA support. Only four<sup>72</sup> – out of twenty-eight – OECD countries do not underwrite commissions as part of the export contract. Six countries set limits on the amount of agents' commissions they can cover.<sup>73</sup>

### 4.1 South Africa

One of the major arms deals in the 1990s was the sale of a huge defence package to South Africa that included 4 German frigates and 3 submarines, 28 British helicopters, and 24 Swedish fighter jets, worth from €3 to 5 billion. British, Swedish, German, France, and Italian ECAs guaranteed this deal. The companies given ECA backing include BAE Systems, EADS, France's Thales (formerly Thomson CSF), Germany's Thyssen and Ferrostaal, Italy's Augusta and Sweden's Saab.<sup>74</sup> Nearly all of them turn out to have been involved in bribery.

In June 2005, a South African court found the financial adviser of ANC leader and former deputy President Jacob Zuma guilty of corruption in his dealings with then Thomson CSF. The charge sheet alleged that Zuma came to an agreement with Thomson to receive €59,000 a year in return for protecting the company from official investigations into allegations of bribery.<sup>75</sup> Due to procedural errors in handling the

<sup>70</sup>International Trade Administration: National Export Strategy 2000', Trade Promotion Co-ordinating Committee, March 2000.

<sup>71</sup>Parallel Markets: Corruption in the International Arms Trade', Joe Roeber, Campaign Against Arms Trade, 2005, p. 12.

<sup>72</sup>Turkey, Greece, Hungary and Polen.

<sup>73</sup>Underwriting Bribery: Export Credit Agencies and Corruption', Susan Hawley, The Corner House, December 2003, p 4.

<sup>74</sup>Underwriting Bribery: Export Credit Agencies and Corruption', Susan Hawley, The Corner House, December 2003, p. 18. On Hermes' involvement, see letter from the Bundesministerium für Wirtschaft und Technologie to Paul Russmann, Kampagne gegen Rüstungs export, 17 March 2006. On ECGD (UK), SEK and EKN (both Sweden) involvement: 'SEK annual report 2000'.

<sup>75</sup>'Globalization's most Perverse Secret: The Role of Export Credit Agencies and Investment Insurance Agencies', Aaron Goldzimer, paper presented at the Alternatives to Neoliberalism Conference, May 2002; 'The Case for removing Arms from the ECGD'sPortfolio',

case, it was dropped by the South African court in 2006, but investigations still continues into unsavoury dealings involving the Thales' South African subsidiary Thint.

The former head of the European defence giant EADS in South Africa "wined and dined his way into the lives of five South African government officials, who all played a key role in deciding the country's biggest arms deal."<sup>76</sup> EADS won small contracts for missiles and radars. The company later admitted to helping thirty South African public officials obtain Mercedes SUVs. In March 2003, the former African National Congress chief whip, Tony Yengeni, was sentenced to four years in jail for fraud and misleading parliament by lying about the origin of the Mercedes on which EADS had given him a cut-rate price. The EADS official has been found guilty of bribery in a German court and fined.

BAE Systems, meanwhile, in a joint venture with Saab, won the contract for trainer jets despite the fact that its bid was €616m more expensive than that of Italian defence company Aermacchi, whose planes were favoured by the SA Air Force. British newspaper, the *Guardian*, revealed that BAE Systems paid as much as €220m in secret commissions to secure the contract.<sup>77</sup> BAE admitted that it intended to pay commissions totalling 12% of the total contract sum. After the UK export credit agency, the ECGD, refused to cover such large payments, BAE reduced the level of commissions to 7%.<sup>78</sup> ECGD at the time refused to reveal the amount paid, but said it was "within acceptable limits".<sup>79</sup> The *Guardian* also reported allegations that an additional £500,000 (€740,000) had been paid to the ANC through (since deceased) defence Minister Joe Modise.<sup>80</sup> Meanwhile, German prosecutors are investigating payments of \$25m made by Thyssen (part of the German Frigate Consortium, GFC) to actors in the transaction.

#### 4.2 Indonesia

For the ECA-backed sale of British Scorpion armoured cars to Indonesia, the British defence company Alvis (now part of BAE Systems) paid £16.5m (€24.4m) to former president Suharto's eldest daughter (known as 'Tutut') to secure the deal worth £160m (€237m).<sup>81</sup> The Scorpions came in handy to repress civil protest against the Suharto dictatorship later. After the first sale, Alvis then sought to exploit its connections with Tutut to get another sale of Scorpions. A payment deal was signed, but this time there was a problem. One Alvis executive recalled, "The Koreans ... were offering a competitive vehicle on generous credit terms. We were able to see off this competition ... Madam Tutut was instrumental in achieving this." Despite the fact

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Ann Feltham, Campaign Against Arms Trade, May 2002.

<sup>76</sup> 'Arms Boss Wined and Dines Yengeni', Jessica Bezuidenhout, *Mzilikazi wa Afrika*, 19 May 2002.

<sup>77</sup> 'BAE 'paid millions' to win Hawk jets contract', Rob Evans and David Leigh, *The Guardian*, 30 June, 2003.

<sup>78</sup> 'Arms broker's home and offices raided in fraud investigation', David Leigh and Rob Evans, *The Guardian*, 19 October, 2006.

<sup>79</sup> 'BAE 'paid millions' to win Hawk jets contract', Rob Evans and David Leigh, *The Guardian*, 30 June, 2003.

<sup>80</sup> 'BAE faces corruption claims around world: Disclosures on Czech deal to be referred to police', Rob Evans, Ian Traynor, Luke Harding and Rory Carroll, *The Guardian*, 14 June, 2003.

<sup>81</sup> 'The British newspaper the *Guardian* went to court to obtain the files, including witness statements from a former court case, on this deal and won. 'Guardian Victory in Arms Bribe Case' David Leigh, David Pallister, Rob Evans, and John Aglionby, *The Guardian*, 9 December, 2004.

that the first Alvis shipment had been in such a rush that the tanks did not work properly, the Indonesian treasury found another £80m (€110m) to buy 50 more of them.<sup>82</sup>

The Scorpion deal was underwritten by the ECGD. Indonesia has never paid for the vehicles, as the payments were rescheduled in 1998 following the Asian financial crisis. Payment of the debt by Indonesia to the ECGD is not expected to finish before 2021, and most likely the money will never be recovered. Questioned about the contract, the Department for Trade and Industry said “details of contractual arrangements (including agent’s commission) are provided to ECGD by exporters in confidence”<sup>83</sup>. It is completely possible, therefore, that the ECGD knew of Alvis’s arrangements, but decided to commit UK taxpayers’ money anyway.<sup>84</sup>

#### 4.3 Saudi Arabia

The big British deal with Saudi Arabia, known as the al-Yamamah deal, has led to scandal in the United Kingdom. Among others, Britain agreed to sell 120 Tornado and 30 Hawk warplanes to the Saudis. In a follow-up deal, signed in 2005, Britain is selling up to 72 Eurofighter Typhoon planes. With £1 billion insurance underwritten by the ECGD, there is a considerable amount of public money involved. The British Serious Fraud Office was until recently investigating allegations that BAE ran a £60m (€89m) slush fund to pay members of the ruling family in Saudi Arabia. Former employees of two marketing and travel companies involved with the al-Yamamah deal were alleged to have lavished gifts on Saudi officials. The Ministry of Defence response was that, “The report remains sensitive. Disclosure would harm both international relations and the UK’s commercial interests.”<sup>85</sup> So sensitive that former prime minister Tony Blair decided that for the sake of national security the SFO investigation should not proceed.

An effort in Great Britain in May 2004 to prohibit companies from bribing foreign officials abroad failed after successful lobbying by three of Britain’s biggest companies and main beneficiaries of the export credit facility, the Airbus consortium, Rolls-Royce and arms manufacturer BAE Systems. The three companies lobbied the trade secretary who in turn forced ECGD to weaken the rules.<sup>86</sup> Eventually in March 2006, BAE Systems and other British arms exporters were ordered to reveal the identity of agents they use to make secret payments abroad. The trade minister announced that exporters would no longer get government insurance and guarantees for their arms deals, unless they revealed the names and addresses of the agents they

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<sup>82</sup> ‘Alvis: the president’s family and the payoffs. Tank sale to Suharto’s Indonesia was mired in corruption’, Rob Evans, David Leigh, David Pallister, and John Aglionby, *The Guardian*, 9 December, 2004.

<sup>83</sup> *Hansard*, 10.1.05.

<sup>84</sup> Supplementary submission from the Campaign Against Arms Trade to the Trade & Industry Committee’s Inquiry into the Export Credits Guarantee Department Campaign Against Arms Trade February 2005.

<sup>85</sup> ‘Parliamentary auditor hampers police inquiry into arms deal’, David Leigh and Rob Evans, *The Guardian*, 25 July, 2006.

<sup>86</sup> The Corner House sued the ECGD for failure to comply with its own consultation policy. The case ended in a settlement and after a year, long two-sided consultation ECGD implemented new bribery rules. The ECGD will require exporters requesting ECGD support to provide the ECGD with the name of any agent involved in the transaction that has been appointed by or on behalf of the exporter. An audit clause permits the ECGD to audit the contract records of an exporter to verify declarations that the exporter has not engaged in corrupt activity on a random basis. However, there are some loopholes compared to the May 2004 procedures.

were paying.<sup>87</sup> This important move is clearly an example for other countries to follow. Good intentions, sadly, went down the drain when Tony Blair halted the investigation into the bribery allegations surrounding the al-Yamamah project, because of Saudi threats that they would pull out of a huge new deal with BAe. Instead of standing firm against corruption, Blair defended this decision by citing reasons of "national security". New evidence from a US researcher gives proof of the al-Yamamah contract being won by bribery and turned it into a major scandal in Britain.

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<sup>87</sup> 'Final Government Response To Consultation On ECGD's Anti-Bribery and Corruption Procedures', ECGD Press Release, 17 March, 2006.

## 5. Conclusion and recommendations

Military expenditure is a major barrier to reaching the United Nations Millennium Development Goals. Money spent on arms cannot be spent on human security needs, such as health care and education. Arms exports with ECA backing are likely to add to the debt of poor countries. Arms deals are notorious for corruption.

Moreover, arms exports are likely to aggravate conflicts, thereby contributing seriously to poverty and hampering development.

There can only be one conclusion: ECA support for military exports to poor countries is contributing to misery with public money.

We therefore recommend that:

**1-To prevent the arms trade from contributing to debt, and to stop ECAs from being a barrier to the Millennium Development Goals, the OECD should expand its non-productive expenditure criterion to include arms sales and to cover all developing countries. European ECAs should press non-OECD ECAs to adopt this policy as well.**

**2-The OECD, the European Union and individual European states should call on ECAs to publish information on each transaction. This information should at least include the value covering the transaction, exporter, date of ECA support request, recipient country and end-user in the country of destination, exported goods or services, financier and commissions. Forthcoming insurance policies (contracts) should be announced publicly at least ten days in advance.**

**3-ECAs should debar companies convicted of paying bribes.**

**4- Use of ECA facilities often conflicts with the intent of the European Union Code of Conduct on Arms Exports. The EU must therefore exclude military sales from the portfolio of their export credit agencies altogether.**

*For more information on export credit agencies and the arms trade, see [www.stoparmstrade.org](http://www.stoparmstrade.org) and [www.eca-watch.org](http://www.eca-watch.org). You can also contact [info@stopwapenhandel.org](mailto:info@stopwapenhandel.org).*

# Appendix I

<b>Questionnaire ECAs in Europe</b>	
<b>1</b>	<b>General</b>
1.1	Position of the ECA: is the ECA a commercial bank or a government department?
1.2	Does the ECA have any written CSR (Corporate Social Responsibility) policy?
1.3	Is it a standard procedure for the ECA to consult NGOs during the decision making process?
1.4	Does the ECA decide on applications on its own, or is there any other state body / Ministry involved in the decision making process?
<b>2</b>	<b>Arms export</b>
2.1	Are there any restrictions on ECA support for arms exports? Does the exclusion of ECA support for unproductive expenses (as formulated by the OECD) only apply to Highly Indebted Poor (HIPC) countries or is it also applied for other countries? If so, for which countries?
2.2	Once an export credit has been issued, is it possible to withdraw it? If so, for what reasons?
2.3.1	Are companies that apply for ECA support required to apply for an arms exports licence? If so, at what stage? Are there any known instances of an export licence being denied after export credit support had been approved by the ECA? If so, what were the financial consequences for the government?
2.3.2	Are there any known instances of ECAs refusing cover to a military export after it has received an export licence?
2.4	Are applications for support for arms exports subject to the same impact assessment and to the Corporate Social Responsibility or business principles policies as other applications? (In the UK all military, as well as civil aerospace, applications are exempt.)
2.5	Does the ECA consult with international development / overseas assistance departments before approving cover for military exports to HICP countries?
<b>3</b>	<b>Transparency</b>
3.1	Are details about ECA supported transactions publicly available?
3.2	Which details are published? (Exporting company, importing country, details of the transaction, value that is covered...)
3.3	Are regulations on transparency different for arms exports?

3.4	At which moment is the coverage published? ( <i>ex ante</i> / <i>ex post</i> )
4	<b>Figures</b>
4.1	Number of arms transactions covered by ECA per year, and to which countries?
4.2	Total value of arms exports being covered, as a percentage of the total value of all transactions covered by ECA (per year)?
4.3	Which countries are the (most important) receivers of the military export credits?
4.4	Is there any defence company particularly dependant on ECA support (ECA support in comparison with total revenue of the company)?
5	<b>Breaking even / debts</b>
5.1	OESO guidelines (Knaepen Package) allow lower premium rates to be charged for arms exports. Is this implemented?
5.2	Is it possible to give an overview of the premium income, claims paid out and revenues per year? Are the figures significantly different for ECA supported arms exports, as compared to the overall figures?
5.3	Is there any indication of the amount of military export credit debt, as compared to overall export credit debt?
5.4	Cancellation of military debt

## Appendix II: Questionnaire results

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General	1.1 Position of the ECA	1.2 Corporate Social Responsibility policy	1.3 Consults NGO	1.4 Decision process
Austria	A privately-owned commercial bank, acts as an authorized agent for the government.	Yes, but it deals mainly with internal procedures, not with the risks and the effects of the projects.	No formal standard procedure, but a lot of both informal and formal contact.	The decision lies with the Ministry of Finance, for projects above €200m there is an interministerial advisory committee. This consists of the Ministry of Finance, the Bureau of the Federal Ministry, the Ministry of Work and Economics, the Ministry of Forest and Agriculture, the Ministry of Ecology and Water, the Ministry of Foreign Affairs, the Chamber of Works, the Chamber of Business, the Chamber of Unions, the Chamber of Agriculture, the National Bank and OeKB itself. OeKB has no voting power.
Belgium	<p>NV Delcredere provides short-term cover (under 2 years): private but with major share of 2/3rd by Delcredere. *</p> <p>National Delcredere itself does all other covers (medium- and long- term). It has an independent management and operates under state guaranty.</p> <p>*The EU will start an investigation on this construction, to see whether Delcredere NV provides illegitimate government subsidies.<sup>88</sup></p>	<p>Delcredere says it adheres to the OECD Common Approaches on Environment and Officially supported Export credits.</p> <p>Delcredere is legally bound to respect international environmental and human rights law. The latter has been confirmed after consultation of a law firm by the government.</p>	There is no written standard procedure, but NGOs are sometimes consulted.	The board of directors makes the decisions, the federal and regional governments appoint the board. Members include Union representatives, business representatives and representatives of the National Bank. Standing practise seems to be that the director general can decide on his own for projects under €1m, but this is neither written down nor has it been confirmed officially.

<sup>88</sup>EU start onderzoek naar Delcredere', De Standaard, 4 September, 2006.

Finland	Finnvera is the official ECA. It's a company supervised by the Ministry for Trade and Industry.	Finnvera signed the agreement on Common Environmental Standards. The ECA trains its personnel in environmental matters. It does not assess social or human rights impacts.	During the 30 days that information on Cat. A projects is available beforehand, NGOs can send their opinions to Finnvera.	Finverra makes decisions independently.
France	COFACE is an entirely private entity, owned by a bank (98% of the shares). The ECA part financed by the French government counts for 5 to 6 percent of its business; COFACE gets paid €60m (2005, €56 m in 2004) a year for that.	Yes, on environment and corruption, but not on social impact or human rights.	Yes, on environmental and social standards in general, on individual projects only if NGOs push for it.	COFACE makes analyses for the "Commission des garanties", an interministerial body in which the Ministry of Foreign Affairs participates as well. This body decides, but increasingly decisions on small and non-controversial projects are delegated to COFACE.
Germany	Euler Hermes is mandated by the federal government, but is in itself a commercial entity.	Yes.	Decisions on Guarantees made at the ministerial level in the "Interministerieller Ausschuß" (IMA), they can invite experts, but that is not the standard procedure.	The IMA decides on all Export Credit Guarantees. It consists of them ministries of Economics (Chair), Foreign Affairs, Economic and Development Cooperation and Finance.
United Kingdom	Government department	A set of business principles	A written commitment, but in practise not really.	Secretary of State for Trade and Industry approves major decisions.
Italy	Since March 2004 SACE is transformed into a shareholding company, the Italian government still has 100% of the shares.	SACE has an environmental guideline and some disclosure policies.	No.	In case the operation involves a large amount, of particular political implications in a highly risky country, then the Managing Board forwards its opinion to the Executive Board, including Ministers for a final discussion. This procedure takes place very rarely, since the annual Country Risk Assessment already gives directions about high risk countries.
Spain	Private company, with a majority share held by the state.	No.	No.	Decides on its own, no state body is involved.

Sweden – EKN	Exportkreditnämnden (EKN) is a public authority. It is fully government owned and functions primarily as an insurance provider. As a public authority, EKN is bound by the principle of public access to official records.	Yes.	Not on specific cases. NGOs are consulted in general policy questions.	The Ministry of Foreign Affairs is involved.
SEK	SEK is a fully state owned corporation, which provides credits and loans. Credits by SEK mostly guaranteed by EKN.	Yes.	Ditto.	Ditto.
Swiss	Government department.	Yes.	Yes.	Above Sfr100m a Federal Council of Ministers is involved.
The Nether-lands	Atradius Dutch State Business is part of Atradius, a private company. The state holds all the shares of Atradius DSB.	Yes, the Common Approaches on the environmental hazardous projects and on corruption. Companies receiving an export credit have to conform to the OECD Guidelines for Multinational Enterprises	No, NGOs can react to Cat. A projects. Once, Dutch, Indian and Sri Lankan NGOs objected to a proposed Cat. A project, which was then cancelled by Atradius.	A commission compounded of the ministry of Finance, the ministry of Economic Affairs, Atradius, and De Nederlandsche Bank, judges projects that are outside the authorization of Atradius.

Arms export	2.1 Restrictions on arms trade	2.2 Possible to withdraw	2.3.1 Is an arms export licence compulsory	2.3.2 Are arms exports subject to the same impact assessment and CSR policies as other applications?	2.5 Does ECA consult with Int. Development Ass. Dept. before approving cover military exports to HIPC countries?
Austria	Guarantees do not cover claims arising from the delivery of goods which are subject to the regulations of the Federal Statute on the import, export and transit of war materials or to those of the Statute on security control. <sup>89</sup> This does not automatically preclude the support for dual use goods.		Not applicable.	Not applicable.	Not applicable.
Belgium	Delcredere only looks at the financial aspects of arms exports, but on its website the company states it does not want to increase the indebtedness of poor countries benefiting of the HIPC initiative by accepting projects, which do not have priority for their economic development. In practice, Delcredere does guarantee arms exports to HIPC countries, e.g. Tanzania.	Delcredere often implements obligations in the contract, for instance to publish monitoring reports, but in reality it does not monitor the projects and is frequently unaware of non-compliance with the contractual obligations. To our knowledge, no obligations, or questions have been implemented in contracts with defence companies so far.	Sometimes the export credit is awarded before an export license is given.	Delcredere makes a financial assessment. The impact assessment (based on the European Code of Conduct on Arms Exports) falls under the regional export laws.	The International development assistance department is since 2004 a board member of Delcredere.

<sup>89</sup>OeKB GENERAL BUSINESS CONDITIONS for Guarantees for Direct (G 1) and Indirect (G 2) Deliveries and Services, April 1999.

Arms export	2.1 Restrictions on arms trade	2.2 Possible to withdraw	2.3.1 Is an arms export licence compulsory	2.3.2 Are arms exports subject to the same impact assessment and CSR policies as other applications?	2.5 Does ECA consult with Int. Development Ass. Dept. before approving cover military exports to HIPC countries?
Finland	Finnvera is committed to the OECD criteria for unproductive expenses.	Corruption can be a reason for withdrawal, but there is no example of this so far.	All defence material requires an exports licence, but Finnvera does not disclose information on arms exports.	Only environmental hazardous projects are subjected to an EIA.	No, but during the last year Finland has not exported arms to HIPC's.
France	COFACE says it respects the OECD consensus on HIPC's (which does not preclude the support for arms), but it is difficult to check.	No information available.	Arms exporters need to have the agreement of the French government, while negotiating the deal. Probably licences are denied sometimes after export credit is given but the lack of transparency makes it hard to be sure. The actual export license is given by the custom office.	Ditto.	Ditto.
Germany	Germany does apply the OECD criteria for unproductive expenses, but no restrictions on arms trade.	Yes, false information, changed laws, or new details.	Yes, both procedures can be pursued simultaneously.	Yes.	Yes.
United Kingdom	ECGD applies productive expenditures to all IDA-only countries, as well as HIPC ones.	Yes, if the terms of agreement have been broken. The ECGD is also subject to judicial review.	ECGD support is conditional on the issuance of an export licence.	In the UK, all military and civil aerospace applications are exempt.	Yes.
Italy	SACE has not published nor implemented the OECD regulations regarding unproductive expenditures, nor has any particular exclusion been disclosed regarding arms.	No information available.	No information available.	Aerospace, defence and telecommunications are exempted from any environmental screening.	No.
Spain	No information available	Ditto.	Ditto.	Ditto.	Ditto.

Arms export	2.1 Restrictions on arms trade	2.2 Possible to withdraw	2.3.1 Is an arms export licence compulsory	2.3.2 Are arms exports subject to the same impact assessment and CSR policies as other applications?	2.5 Does ECA consult with Int. Development Ass. Dept. before approving cover military exports to HIPC countries?
Sweden-EKN	The exclusion for unproductive expenses also applies to IDA-only countries.	Yes, if the arms export licence is withdrawn.	An export licence is not obligatory to obtain a guarantee from EKN. In the contract however, an export licence is obligatory and the contract will be withdrawn if a licence is not granted.	Yes, arms are subjected to the same impact assessment and CSR policies as other applications. .	The ECA does consult IMF and Worldbank before approving cover for military exports to HIPCs.
SEK	None.			Yes.	SEK handles export credits to poor countries in cooperation with the Swedish International Development Agency.
Swiss	Unproductive expenses apply only to HIPC's, but the Swiss ECA does not support lethal weapons.	Yes, in case of bribery.	Yes.	Yes.	Yes., but not for military cover specifically.
The Netherlands	No arms to HIPC's.	Corruption, but in practice it has never happened.	An arms export licence is the responsibility of the exporter.	Yes.	Not applicable.

Transparency	3.1 Details published	3.2 Which details?	3.3 Regulations on transparency concerning arms exports	3.4 At which moments are coverage's published
Austria	Environmental Impact Assessment(EIA) is published 30 days <i>ex ante</i> , cat. B. projects are published <i>ex post</i> .	Project category, name of company, type of delivery, country of destination, contract value, credit period and for Cat. A projects also the name of the project.	Not applicable.	Ex ante for category A, ex post for category B.
Belgium	Delcredere publishes <i>ex-ante</i> Cat A projects with a repayment term longer then 2 years and a budget above 10 million dollar or Cat A projects in sensitive areas. Transactions under subcontract are normally not posted and neither are projects without approval of the company/client. Approved cat A and B are publicized <i>ex post</i> .	<i>Ex-ante</i> : category of the project, host country, and Environmental Impact Assessment.  <i>Ex-post</i> : Name of the contractor, category of the project and budget (in categories of 10 million dollars) and host country.	Delcredere does not publish any information about military expenditure/arms deals.	Ex ante for category A, ex post for approved category A and B.
Finland	EIA for Cat A projects are published, but only with consent from all the relevant parties. Details form cat B. projects are published with consent from the exporter.	Country, project/exported goods, environmental classification, industry sector. Also a link to the environmental information on the project.	Since arms exports are not category A projects, no information is available. Export licences for arms are public.	Cat A projects are published 30 days before the final decision. Cat B projects are published ex post.
France	Yes, for all projects above 10 m € except all military projects and for category A. The figures published represent not more then 30 to 50 % of all the supported transactions.	Country, company, kind of project, project category, amount covered by COFACE.	Yes; nothing is published on arms transport.	Ex post: all projects above 10 million €, updated 4 times a year. Ex ante: category A projects, 30 days before decision.
Germany	Yes, but on voluntary basis and only for transactions above €15m. In 2002, only 38% companies agreed	Exporting company, credit institution, category of contract volume, duration of the credit, date of granting	Yes.	Ex post, except for environmentally relevant projects.
United Kingdom	Yes, but only with the company's permission.	Market, exporter, buyer, project, case impact category, ECGD's maximum liability	No.	Ex post, except for category A projects, which are published 30 days prior to a decision.

Transparency	3.1 Details published	3.2 Which details?	3.3 Regulations on transparency concerning arms exports	3.4 At which moments are coverage's published
Italy	Only cat. A, but with consent of the exporter. For the vast majority of the projects, No information is available.	Cat. A: name of the project, the project country, a general description, and the EIA.	Arms, telecommunications, and aerospace are excluded from screening and transparency regulations.	EIA 30 days before final approval, No.information is published beside that.
Spain	Only about environmental hazardous projects	Exporting company, importing country, type of transition, value	No information available for arms exports	30 days ex ante for category A projects, ex post information every three months.
Sweden – Exportkreitnämnden (EKN)  Svensk Exportkredit (SEK)	Yes.  SEK only publishes transactions if company allow them to do so.	On issued guarantees over 10 million SEK: Exporting company, buyer, country, product, and amount issued.  Almost nothing. Some deals are published in the annual reports as (good) examples.	Arms dealings were, by praxis, excepted from the official listing, but that policy is for the time being revised.  SEK is bound by regulations on commercial secrecy, which do not differ per branch.  For both: arms export can be kept secret by laws on secrecy in connection to the relations with foreign countries.	Deals above 10 m Swedish crowns (976,000 €) are published on the website monthly. Cat A projects are published 30 days ex ante.  Category A projects are published 30 days before the first disbursement under a credit.
Swiss	Yes.	Exporting company, details of the transaction, value covered	Yes.	
The Netherlands	Yes.	Importing country, importing company, exporting company, garant, financier, short description of the transaction, value covered, project category.	No.	Within one month, except for Cat. A projects, which are published one month in advance.

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
Austria	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Belgium	<p><b>2000:</b> Delcredere insured 31 export transactions, worth of €110m, 14% of the value of all export licences (which also consists of exports to NATO countries).</p> <p><b>2001:</b> 44 military export transactions worth €163.10 m, 19% of the export licences for arms.</p> <p><b>2002:</b> 39 transactions were insured, worth €136.83m, 12 % of the arms exports licences.</p> <p><b>2003:</b> 45 transaction, for the total amount of €81.10m.</p> <p><b>2004:</b> 49 transactions, worth €105.99m.</p> <p><b>2005:</b> 35 transactions, worth €101.24m.<sup>90</sup></p>	So far, this information is not available, but is under a Freedom of Information request. <sup>91</sup>	<p>The main destinations <b>2000:</b> Saudi Arabia, Abu Dhabi, Malaysia, Mexico, Venezuela, and Turkey.</p> <p><b>2001:</b> Saudi-Arabia (€83.7 m), Abu Dhabi (€25.3m), Venezuela (€1.95 m), Turkey (€9m), India (€10.3m), Brunei (€4.87m), and Singapore (€1.45m).</p> <p><b>2002:</b> Saudi-Arabia (€66.9m), Venezuela (€20.6m), Egypt (€12.7m), Abu Dhabi(€10.8m), Brazil €6.9m), Taiwan €3.3m), India (€3.7m), Israel (€2.21m) and Nepal (€2.24m).</p> <p><b>2003:</b> Saudi-Arabia (€18.3m), Venezuela (€16.8m) Nepal €9.6m), Taiwan (€8.2m), Mauritania (€6.2m), India, Kuwait (€5m), Algeria (€3.1m) and Philipines (€3.6m).</p> <p><b>2004:</b> South Africa (€4.8m), Saudi-Arabia" (€64.4m), Brazil (€4m), India (€2.4m), Jordan (€1.2m), Oman (€2.5m), Taiwan (€3m), Venezuela (€6.6m) and Vietnam (€3,7m €).</p> <p><b>2005:</b> Saudi Arabia (€44.5m), Chile (€20.3m), India (€1.7m), Israel (€2.6m), Malaysia (€5m), Slovenia (€4.8m), Taiwan and Tanzania (€7.2m).<sup>92</sup></p>	The companies that already got support include New Lachaussee (machines and systems for ammunition), FN Herstal (small arms) and Mecar (weapon systems and ammunition).

<sup>90</sup>Bulletin nr: B023 – Schriftelijke vraag en antwoord nr: 0165 – Zittingsperiode: 51, Ministry of Economy and Scientific Research; Bulletin nr: B123 – Schriftelijke vraag en antwoord nr: 128 – Zittingsperiode: 50, Ministry of Economy and Scientific Research.

<sup>91</sup>Four Belgian ngo's (Greenpeace, Proyecto Gato, Netwerk Vlaanderen en Forum voor Vredesactie) in October 3005 brought a charge against Delcredere for more transparency on the projects it supported. 'Klacht tegen Nationale Delcredere dienst' press release, 25 October 2005.

<sup>92</sup>Bulletin nr: B023 – Schriftelijke vraag en antwoord nr: 0165 – Zittingsperiode: 51, Ministry of Economy and Scientific Research; Bulletin nr: B123 – Schriftelijke vraag en antwoord nr: 128 – Zittingsperiode: 50, Ministry of Economy and Scientific Research; 'De verzekerde wapenexporten door de dienst Delcredere', ECA-Watch Belgium, July 2006.

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
Finland	Finvera does not disclose this information.	No information available. However, according to the arms export statistics, Finland exports very few strategic goods to developing countries. Few, if any, military export credits.		No information available.
France	No information available.	One third, according to estimations based on information from the Ministry of Finance. COFACE itself in 2005 said 20 to 25 percent, without referring to a year or period, or giving exact figures. Official statistics are available covering 1995-1998, in this period military export credits averaged 26, 5 % (non-finalised, 21, 5% percent was finalised) of all credits.		According to a Dassault (military and civil aerospace) officer, Dassault requests cover for all their exports, otherwise it is too risky. Maybe there are more companies, but no information is available.

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
Germany	<p>Issued guaranties for military goods (for which an export license is needed) and goods with an military end-user (for which no export license is needed).</p> <p>2005: 8 2004: 3 + 3 2003: 2 + 2 2002: 2 + 2 2001: 2 + 4 2000: 2</p>	<p>Issued guaranties for military goods (for which an export license is needed) and goods with an military end-user (for which no export license is needed).</p> <p>2000: €1.837m (9.4 % of all the guarantees issued) 2001: €806m (5.08%) and €52m. Total: 5,4% 2002: €188m (1.39 %) and €35.9m. Total: 1,7% 2003: €34m (0.33%) and €15.7m. Total: 0.48 % 2004: €20m (0.2 %) and €71.9m. Total: 0.92% 2005: €308m (1.55%)<sup>93</sup></p> <p>Hermes also guarantees short-term credits. That makes these numbers difficult to compare; the Dutch, British and Belgium ECA, for example, only give mid- and long-term</p>	<p>The recipient countries were: South Africa( 3 submarines, 4 frigates), Turkey (8 patrol ships), Greece(20 radar systems and 10 infrared sensors), Korea (equipment for submarines), Romania, Indonesia (battery for a submarine, a simulator, motors for 6 corvettes), Brazil (radio-equipment), Kuwait, Saudi Arabia, Bulgaria, Ecuador (hydrophone for a submarine), Kazakhstan(diving equipment), Oman, Pakistan, Russia, Tunisia, Algeria , Ghana, Papua New Guinea, Venezuela, Chile, South Korea (dockyard) and Bahrain (cabin equipment for a passenger plane).</p> <p>Indonesia has received €180m worth of German military export credits since 1990, South Africa €1.429b, South Korea €1.459b and Turkey €2.42b.<sup>94</sup></p>	No information available.

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
United Kingdom	<p>Listed guarantees only:</p> <p><b>2005-6:</b> 0</p> <p><b>2004-5:</b> 0</p> <p><b>2003-4:</b> 0</p> <p><b>2002-3:</b> 11 (Oman, Romania, Venezuela, Brazil and the United Arab Emirates)</p> <p><b>2001-2:</b> 1 (Brazil)</p> <p><b>2000-1:</b> 0 (South Africa The credits for the Gripen deal valued £1.670 m/ €2.299 m ).</p> <p>The ECGD does not list 'commercially sensitive projects', so most defence exports are not published</p>	<p>2005-6: 23 % (£522m/€719m)</p> <p>2004-5: 38% (£766 m/€1.054m)</p> <p>2003-4: 39% (£1.157m/€1.593m)</p> <p>2002-3: 50% (£1.759m/€2.421m)</p> <p>2001-2: 31%</p> <p>2000-1: 48% (£1.035m/€1.425m)</p> <p>(£2.735m/€3.765m)<sup>95</sup></p>	<p>The main receiver of ECGD's support (military and civil) in the last five years was Saudi Arabia. In the past decade, at least major deals to South Africa and Indonesia were guaranteed.</p>	<p>There is no company-by-company breakdown, but BAe systems is a topclient.<sup>96</sup></p>
Italy	No information available	Ditto.	Ditto.	Ditto.
Spain	No information available.	Ditto.	Ditto.	In the past; shipbuilding companies, for the present no data available.

<sup>93</sup> Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Paul Schäfer (Köln) Heike Hämsel, Katrien Kunert, weitere Abgeordnete und der Fraktion der DIE LINKE: Hermes-Bürgschaften für Rüstungsexportgeschäfte', Drucksache 16/1756' and Letter from the Bundesministerium für Wirtschaft und Technologie to Paul Russmann, Kampagne gegen Rüstungsexport, 17 March 2006.

<sup>94</sup> Ditto.

<sup>95</sup> ECGD's annual reports ([http://www.ecgd.gov.uk/index/pubs\\_home.htm](http://www.ecgd.gov.uk/index/pubs_home.htm)).

<sup>96</sup> Hansard Written Answers for 18 April 2006, Export Credit Guarantee Department, Ian Pierson to Nick Harvey.

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
Sweden-EKN	No information available.	<p><b>2005:</b> 7% (1,9b SeK/ €185m)</p> <p><b>2004:</b> less than 1 %.</p> <p><b>2003:</b> 13% (2,2b SeK/ €214m)<sup>98</sup></p> <p><b>2002:</b> 3%</p> <p><b>2001:</b> 3%</p> <p><b>2000:</b> 40%</p>	At least South-Africa. In 2005 the single largest amount of outstanding commitments were for South Africa.	The Saab Gripen deal to South Africa is the only example. SEK issued guarantees worth 978m €, EKN issued an export insurance worth 156m €. The value of the SEK guarantees is equivalent to 50% of the revenue of Saab the same year.
SEK	There are hardly any figures available. However, between January and June 2006 an export credit for an air surveillance system for Pakistan made up for 73% of all export credits <sup>97</sup> . Since this is one of the largest-ever Swedish export contracts, this amount probably does not represent the overall picture.	No information available.	At least South-Africa and Pakistan.	
Swiss	None.	--	--	--

<sup>97</sup>Interim Report for the period 1 January – 30 June 2006', AB Svensk Exportkredit (SEK).

<sup>98</sup>EKN annual reports (<http://www.ekn.se/templates/StandardPage.aspx?id=1067>).

Figures	Number of strategic transactions per year	Value of arms exports covered (% of all coverage's)	(Most important) receivers of military export credits	Are there companies particularly depending on ECA support
The Netherlands	<b>Jan-July 2006:</b> 3 <b>2005:</b> 2 <b>2004:</b> 4 <b>2003:</b> 7 <b>Aug-dec 2002:</b> 2	<b>Aug-dec 2002:</b> 22% (€96.51m) <b>2003:</b> 8% (€71.5m) <b>2004:</b> 57% (€540.19m) <b>2005:</b> 0,2% (€4.3m) <b>2006</b> probably around 50 % again, because of the second delivery of two corvettes for Indonesia (€504m).	Indonesia (Corvettes, materials for navy vessels, parts for a troop transport plane, maintenance of a frigate), Turkey (maritime radar surveillance system for fast combat vessels), South Korea (6 goalkeeper close-in weapon systems), India (construction of navy harbours of Mumbai and Karwar), Venezuela (radar and equipment), Pakistan (combat systems for navy vessels delivered by China)	Thales NL is the main benefitor of the export credit facility. Shipyard De Schelde hardly ever exports major naval vessels and is necessitous, but the most recent transaction (four corvettes to Indonesia) would probably not have come into being without export credit insurance.

Breaking even/debts	Lower premium for military transactions	Overview of the premium income, claims paid out and revenues	Military export credit debt	Cancellation of military debt
Austria	--		--	--
Belgium	Yes.	<p>Premium income</p> <p><b>2005:</b> €97.6m</p> <p><b>2004:</b> € 98.2m</p> <p><b>2003:</b> € 83.5m</p> <p><b>2002:</b> €90.1m</p> <p><b>2001:</b> €82.7m</p> <p>The ratio of net compensations (paid compensations minus recovered compensations) to premiums:</p> <p><b>2004:</b> -42,15</p> <p><b>2003:</b> 22,38</p> <p><b>2002:</b> 9,00</p> <p><b>2001:</b> 15,71</p> <p><b>2000:</b> 9,10<sup>99</sup></p>	No information available.	No information available.
Finland	No information available.	Ditto.	Ditto.	Ditto.

<sup>99</sup>Jaarverslag Nationale Delcrederedienst 2004'.

Breaking even/debts	Lower premium for military transactions	Overview of the premium income, claims paid out and revenues	Military export credit debt	Cancellation of military debt
France	No information available.	<p>Since the privatisation in 1994 COFACE makes money.</p> <p>Premium income (million €)  <b>2004:</b> 213  2003: 242  2002: 299  2001: 267  2000: 279</p> <p>Indemnifications (million €)  2004: 384  2003: 484  2002: 919  2001: 440  2000: 487</p> <p>Recoveries (million €)  2004: 1,804  2003: 1,523  2002: 1,205  2001: 1,291  2000: 1,099</p>	No Information available.	The ministry of Finance says it respects this guideline, but refuses to publish the precise figures.

Breaking even/debts	Lower premium for military transactions	Overview of the premium income, claims paid out and revenues	Military export credit debt	Cancellation of military debt
Germany	No information available.	<p>Total income (million €):  <b>2002:</b> 402  <b>2003:</b> 669  <b>2004:</b> 878</p> <p>Claims paid (million €):  <b>2004:</b> 558,5  <b>2003:</b> 514  <b>2002:</b> 688,9</p> <p>Repayments (million €)  <b>2004:</b> 1029,3  <b>2003:</b> 797,1  <b>2002:</b> 821,1</p>	No information available.	No information available.
United Kingdom	No information available.	<p>Premium income:  <b>2005-6:</b> £88m (€121m)  <b>2004-5:</b> £45m (€62m)  <b>2003-4:</b> £102m (€140m)  <b>2002-3:</b> £77m (€106m)</p> <p>Indemnifications  <b>2006-5:</b> £ 79m (€109m)  <b>2004-5:</b> £ 87.3m (€120m)  <b>2003-4:</b> £211.4m (€291m)  <b>2002-3:</b> £261.4m (€360m)</p>	Claims paid were large in 2002-3 and 2003-4 because of Indonesian military debt.	
Italy	No information available.	Ditto.	Ditto.	Ditto.
Spain	No information available.	Ditto.	Ditto.	Ditto.

Breaking even/debts	Lower premium for military transactions	Overview of the premium income, claims paid out and revenues	Military export credit debt	Cancellation of military debt
Sweden – EKN	No information available.	<p><b>Net premium income</b>  <b>2005:</b> 759m SeK (€74m)  <b>2004:</b> 358m SeK (€35m)  <b>2003:</b> 237m SeK (€23m)  <b>2002:</b> 758m SeK (€73.8m)</p> <p>Indemnifications  <b>2005:</b> 202 m SeK (€20m)  <b>2004:</b> 407 m SeK (€40m)  <b>2003:</b> 806 m SeK (€79 m)  <b>2002:</b> 647m SeK (€63m)</p> <p>Recoveries*  <b>2005:</b> 3,094 m SeK (€301m)  <b>2004:</b> 756 m SeK (€74m)  <b>2003:</b> 860m SeK (€84m)  <b>2002:</b> 787m SeK (€77m)            *Mainly consisting of payments under the Paris Club Agreement.</p>	Ditto.	Ditto.
SEK		No information available.		
Swiss	--		--	--

Breaking even/debts	Lower premium for military transactions	Overview of the premium income, claims paid out and revenues	Military export credit debt	Cancellation of military debt
The Netherlands	The ministry of Finance says it does not charge different premiums.	<p>Premium income:  2002: €24m  2003: €39m  2004: €70m</p> <p>Indemnifications:  2002: €81m  2003: €128m  2004: €74m</p> <p>Recoveries*:  2002: €142m  2003: €197m  2004: €196m</p> <p>*These consist mostly of debt reschedulements in the Club of Paris</p>	No information available.	The Ministry of Finance says it respect these guidelines. According to the Ministry, there has not yet been any military debt cancelled.

## Appendix III

<b>Export Credit Agencies covered by this report</b>	
Austria	<a href="#"><u>Oesterreichische Kontrollbank AG (OeKB)</u></a>
Belgium	<a href="#"><u>Office National du Ducroire/Nationale Delcredere dienst (ONDD)</u></a>
Finland	<a href="#"><u>Finnvera Oyj</u></a>
	<a href="#"><u>FIDE Ltd.</u></a>
France	<a href="#"><u>Compagnie française d'Assurance pour le commerce extérieur (COFACE)</u></a>
Germany	<a href="#"><u>Euler Hermes</u></a>
Italy	<a href="#"><u>Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE)</u></a>
Netherlands	<a href="#"><u>Atradius Dutch State Business N.V.</u></a>
Portugal	<a href="#"><u>Companhia de Seguro de Créditos</u></a>
Spain	<a href="#"><u>Compañía Española de Seguros de Crédito a la Exportación</u></a>
Sweden	<a href="#"><u>Exportkreditnämnden (EKN)</u></a>
	<a href="#"><u>Svensk Exportkredit (SEK)</u></a>
Switzerland	<a href="#"><u>Export Risk Guarantee (ERG)</u></a>
United Kingdom	<a href="#"><u>Export Credits Guarantee Department (ECGD)</u></a>

## Appendix IV:

### United States, The Export Import Bank (EX-IM Bank)

The American Ex-Im Bank is prohibited by law from financing military products or services. Ex-Im itself uses 'criteria based on the identity of the foreign end-user, the nature of the item, and the use to which the item will be put.' If the items are sold to a military organization, or designed primarily for military use, they are presumed to be defence articles unless proven otherwise. Humanitarian items such as lifesaving, rescue and medical equipment (ambulances, hospital supplies, etc.) and small craft (marine vessels, small aircraft) used for border patrol, drug interdiction and natural resource monitoring are not considered defence articles, even if sold to a military entity. There are two exceptions to this policy:

- Dual use goods are eligible for support if there exists convincing evidence that the item is non-lethal in nature and will be used primarily for civilian activities.
- Items on the US munitions list, to which a "Presidential Determination of National Interest" is granted, which concludes that the item is to be used for drug interdiction purposes, then Ex-Im Bank may provide guarantee or insurance support for the defence article.<sup>100</sup>

In practice, this clause leaves room for military equipment to countries with a bad human right record or known for their internal repression. For example, in 1999 EXIM financed the sale of Black Hawk helicopters, which are primary assault helicopters, to Columbia. More recently, in 2004, EXIM guaranteed the refurbishment of these same helicopters. EXIM in 2001 also guaranteed the sale of fighter helicopters to Turkey, worth \$22m (€16m).

Besides financing its defence exports with the loopholes in export credit legislation, America has a huge and far more important foreign military financing program, which runs directly under the department of Defence. Through this program, America gives grants and guarantees for arms exports, which in 2005 amounted for \$4.9 billion (€3,6 billion).<sup>101</sup> While the US puts less emphasis on export credits than Europe for supporting its military exports, the US finance program enables it to remain the biggest arms exporter in the world.

<sup>100</sup>[www.exim.gov/products/policies/military.html](http://www.exim.gov/products/policies/military.html).

<sup>101</sup>'Facts Book', Department of Defence, Security Assistance Agency, September 30, 2005.