

W-45-20

CHINA - SALES FINANCING OF CIVIL AIRCRAFT

At the meeting of the AECMA Economic Commission on 15th March, (see item 2(b) of the Minutes of the Meeting), the Chairman of the AECMA Credit Finance Working Group undertook that the Group would make a study of the arrangements being made by those countries concerned in Europe for the provision of sales financing facilities to China with particular respect to the sales of civil aircraft. This was undertaken in response to a suggestion made by Mr. Greenwood at the meeting of the AECMA Co-ordinating Committee held on 29th January 1979.

This matter was considered at a meeting of the AECMA Credit Finance Working Group on 3rd May 1979, and following this, information concerning arrangements made in a number of European and other countries has been obtained.

Attached is a report prepared by the AECMA Credit Finance Working Group on the current situation.

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1. Following the recent change in attitude and approach on the part of the Government of China there has been intensive activity in the major trading nations of the world in making arrangements for the provision of credit finance for the sale of goods and services to China. These are as follows:-

- i) United Kingdom

An economic co-operation agreement was signed in March 1979, the aim being mutual trade of approximately \$14 billion (about £7 billion) over the next 7 years. At the same time a financial arrangement was signed under which ECGD would guarantee the financing of exports up to \$5 billion (about £2.5 billion) over the same period. This arrangement includes the \$1.2 billion (about £600 million) "deposit" facility opened for the Bank of China by 7 British banking groups in 1978. Documentation for a simplified form of Buyer Credit has been basically agreed with the Chinese authorities, it is understood that a number of points of detail remain to be resolved.

For contracts worth in excess of £100 million Buyer Credit facilities would be available for up to 85% of the contract price at a fixed interest rate of 7½% per annum repayable over a term of 10 years. The interest rate for credits of up to 5 years would, as in the case of the aforementioned "deposit" facilities, be 7½% per annum.

- ii) France

A general economic co-operation agreement has been signed aimed at raising mutual trade by about 8 times over the next 7 years. It is understood that the Chinese Government has mentioned interest rates as low as 6½% per annum, allegedly being offered by the Japanese. It is thought, however, that credit offers made have so far been in line with the terms of the Consensus.

The arrangements made for the provision of credit are broadly similar to those made in the United Kingdom. A number of French Banks have agreed to place deposits with the Bank of China as and when payments for French exports fall due and COFACE has agreed to guarantee such deposits up to a certain limit. The agreement includes the following basic conditions. Fifteen per cent will be payable in cash, 5% with order and 10% progressively with deliveries. The credit of 85% will carry interest rates as specified in the Consensus, at the moment 7½% p.a. for up to 5 years and 7½% p.a. for over 5 years. Duration of the credit will be 10 years for contracts of one milliard francs or above and, in principle, not more than 5 years for contracts of FF200m or less and not more than 7 years for contracts between FF200m and FF800m. DREE will determine the length of credit case by case depending on the contract value and the type of goods covered. The agreement relates to a total order value of 30 milliard francs and to contracts coming into force before 31st December 1979, at which date it can be terminated.

