

INTERIM REPORT 2016



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INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Direct Investments Abroad**

Whereas the investment guarantees clearly focused on Russia with regard to new guarantees and filed applications in 2015, there was a greater variety of target regions in the first half of 2016. The new guarantee volume raised noticeably in comparison to the same period of the previous year due to the cover of a larger single project. Current developments of the guarantee scheme were discussed within the dialogue conference which took place in the Federal Ministry for Economic Affairs and Energy (BMWi) in June. The main question was the future availability of legal protection for direct investments abroad since the Treaty of Lisbon transferred the respective responsibility to the European Union.

DEVELOPMENT OF NEW COVER VOLUME

In the first half of 2016 the **NEW GUARANTEE VOLUME** amounted to 2,663.3 million euros (capital and earnings). So this figure doubled the result of the previous year's corresponding period and it was higher than last year's total of 2,597.0 million euros. This development can be explained, in particular, by the issue of several guarantees for a large-scale project in Russia. Furthermore, the result of the first half of 2016 could consider the decisions made in the course of three meetings (only two meetings in the first half of 2015) of the Inter-

ministerial Committee (IMC). The number of accepted applications, with 54, rose again (first half of 2015: 44) and thus the positive trend of demand in recent years could be continued.

The Federal Government assumed investment guarantees for projects in **14 EMERGING AND DEVELOPING COUNTRIES AS WELL AS FORMER TRANSITION COUNTRIES** in the first half of 2016 (first half of 2015: 9). Among them were projects in countries for which there had hitherto seldom been demand such as Ethiopia, Azerbaijan, Mauritius and Vietnam.

As in the previous year, the **REGIONAL FOCUS** in terms of the new volume of cover laid on (Eastern)Europe with 62% due to the high demand for cover for projects in Russia, followed by Asia with 30% (in particular China and India), Africa with 6% as well as Central and South America with 2% of the applications. This clear gap is primarily due to – as noted above – the cover of a large-scale project in Russia. With regard to the number of assumed guarantees, China is in the lead position (12) ahead of Russia (9) and Turkey (7) as well as India (4). Although Saudi Arabia (4) is a country for which the demand for cover is less frequent, it is again represented in the list of TOP 5-countries.

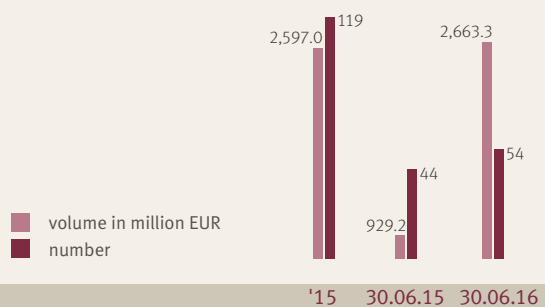
The share of **SMALL AND MEDIUM-SIZED ENTERPRISES** for which guarantees were assumed amounted to approximately 20% in the first half of 2016. Thus this figure was at the level of the previous years. In the first half of 2016 the total number of applicants amounted to 29 of which nearly 25% were related to

small and medium businesses. Some of these investors took advantage of the guarantee scheme for the first time. With regard to small and medium-sized enterprises, cover was primarily assumed for investments in China, Ethiopia and Turkey. In addition, the continuing high number of (preliminary) enquiries can be seen as an indication for the on-going interest in investment guarantees, also and especially of medium-sized businesses.

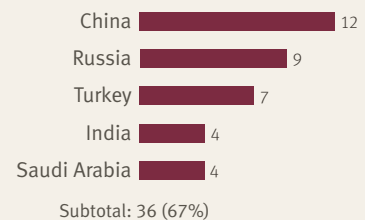
With regard to the **TARGET SECTORS** and in terms of the number of accepted applications, the branches of the traditionally well-represented manufacturing industry ranked first again in the first half of 2016. In this respect, projects in the construction industry, the chemical and pharmaceutical industry as well as the automotive industry were predominant, followed by projects in the services sector with its most important single sector trade, marketing and representations (9%). The expansion of marketing, services and financial services still dominated the demand for cover in the first half of 2015 but in the first months of 2016 the investments of German businesses in production and property gained in importance again.

The new guarantees promoted projects with a total investment volume of 6.4 billion euros in the first half of 2016. These projects helped to safeguard and create approximately 8,300 **JOBS** in the host countries. Furthermore, the covered projects help to safeguard jobs in German locations too.

DEVELOPMENT OF ACCEPTED APPLICATIONS

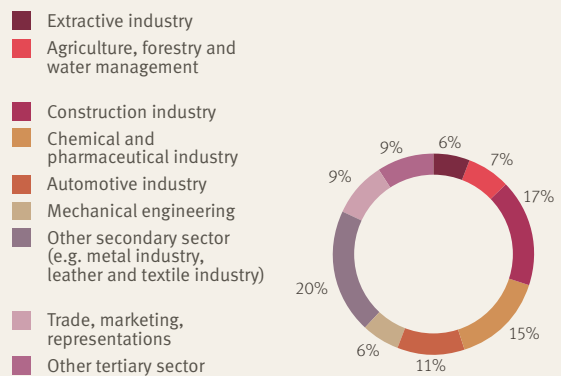


NUMBER OF ACCEPTED APPLICATIONS BY MOST IMPORTANT COUNTRIES AS AT 30.06.2016

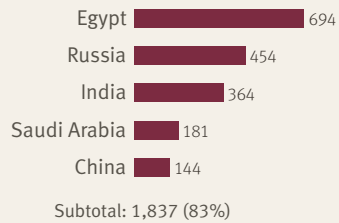


Total: 54 (100%)

NUMBER OF ACCEPTED APPLICATIONS BY SECTORS IN %

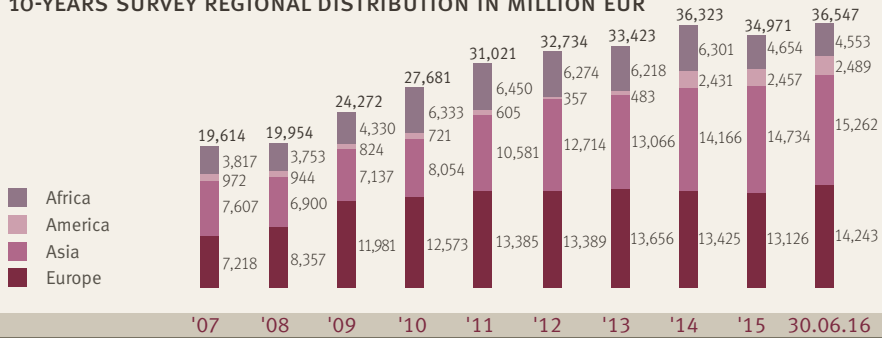


MOST IMPORTANT COUNTRIES REGARDING NEW APPLICATIONS BY VOLUME IN MILLION EUR AS AT 30.06.2016



Total: 2,214 (100%)

MAXIMUM LIABILITY (EXPOSURE) FROM OUTSTANDING COMMITMENTS 10-YEARS SURVEY REGIONAL DISTRIBUTION IN MILLION EUR



TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO IN TERMS OF GUARANTEES AS AT 30.06.2016



Subtotal: 687 guarantees (79%)
Subtotal: 30.3 billion EUR (83%)

Total: 874 guarantees (100%) 36.5 billion EUR (100%)

By the end of June 2016 **NEW APPLICATIONS** with a total volume of 2,2 billion euros (capital and earnings) were received. In terms of the countries with the highest demand for cover, Egypt took the lead in this half year period, followed by Russia and India with their longstanding high demand for cover. The current volume of cover for projects in China continued to decline in comparison to the same period of the previous year. Applications with a total volume of 7.7 billion euros were still pending as per the end of the first half of 2016. As a rule these applications were submitted in advance in order to comply with the respective terms. In a second step they will be completed successively by the applicant company. In terms of pending applications Russia and China remained predominant, followed by Ukraine – and this is new – Iran.

MIDYEAR RESULT

In midyear 2016 the guarantee portfolio (exposure) of the Federal Government amounted to 36.5 billion euros and was considerably higher than the figure as per the end of 2015. The exposure of new guarantees exceeded the volume of expired, reduced or terminated guarantees in the period under review.

The significant portion of the exposure refers to Asia (mainly China and India) with 42%. (Eastern)Europe (first and foremost Russia and Turkey) still remains in second place with 39%, followed by Africa (e.g. Egypt and Algeria) with 12% as well as Central and South America (especially Mexico and Brazil) with 7%. In terms of the number of existing guarantees China ranks in first, followed by Russia and India as in previous years. Russia, with 10.9 billion euros, has still the highest single value of a country with regard to the volume.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

In the first half of 2016 the Federal Government accompanied again several projects in order to **PREVENT LOSSES**. The crisis management focused on covered projects in Ukraine.

Pending the conclusion of debt recovery action, it is still **NOT POSSIBLE** to assume investment guarantees for projects in Argentina and on the Philippines for reasons of budget law.

“IN DIALOGUE WITH INDUSTRY” –
DIALOGUE CONFERENCE 2016



On 21 June 2016 the German foreign trade community met at the dialogue conference regularly held at the Federal Ministry for Economic Affairs and Energy (BMWi). This year again, almost 300 participants grasped the opportunity to inform themselves on current issues – such as Iran – and to discuss different aspects and positions in workshops.

The workshop “Investment guarantees – effective risk cover in a changing environment” focused on three key issues. The first part of the workshop discussed the investment protection on the basis of future treaties of the EU and its member states as well as possible impacts of these treaties on the investment guarantees of the Federal Government. This discussion resulted in the conclusion that the legal protection of the respective host country which is prerequisite for the assumption of investment guarantees can also be assumed on the basis of agreements on European level. Therefore, the Federal Government is prepared to assume investment guarantees in the future on the basis of such treaties as well. Depending on the concrete agreement it might be necessary to adapt the investment guarantees on a case-by-case basis. Within the negotiations on European level the Federal Government aims at maintaining certain standards in future EU-treaties, especially those which are well-established and of great importance for German investors (e.g. China holding).

Due to the unchanged high demand for cover for investments in Russia the second part of the workshop considered the perspective of German enterprises in a

more and more difficult political and economic environment. The representative of an investor in the Russian health sector described his concrete practical experiences. The investing company has been able to take advantage of the fact that Russia has been trying to an increasing extent to cover its major need for modernization by private investments. The discussion revealed that also enterprises of other sectors have increasingly reflected on the establishment of a greater representation on the ground in Russia and on taking the step from exporter to investor.

Finally the workshop discussed the international trends of investments and their cover. The representative of the Dutch Atradius and chairman of the investment committee of the Berne Union – the union of state and private export credit and investment insurers – underlined in his lecture the sharply increased international demand for cover for investments in Russia. The cover of concrete contractual obligations of governments (so-called breach of contract cover in the German system) has considerably been gaining international importance, especially for investments in the infrastructure and renewable energies sector.

COUNTRY COVER PRACTICE

8 ■ The main **DECISIONS** made in the first half of 2016 can be summarized as follows:

Following the transference of responsibility for the cover of direct investments abroad to the EU under the Treaty of Lisbon in 2009, the Federal Government has been prepared to assume investment guarantees on the basis of free trade agreements concluded by the European Commission. When discussing a project in **VIETNAM**, the IMC did not only consider the German-Vietnamese Bilateral Investment Treaty (BIT) dating from 1998. For the first time it also took the text into account which the European Commission had negotiated for the free trade agreement between the EU, its member states and Vietnam. It is expected that this agreement will replace the German-Vietnamese BIT in the medium term. Regardless of the changes in international law, the Federal Government will continue to provide policy holders with substantial guarantees as well as a comprehensive diplomatic support in order to prevent losses. There are no considerable changes in comparison to the previous practice with regard to the examination standard applied for a possible claims payment procedure.

Full guarantee cover for capital and earnings could be assumed for a project in **MAURITIUS** on the basis of the German-Mauritian BIT of 1973.

Furthermore, the IMC assumed capital cover for the expansion of an existing project in the construction materials industry in **AZERBAIJAN**. The necessary legal protection is included in the BIT which came into force in 1998.

For the first time in a number of years, the IMC has dealt once again with investments in **ETHIOPIA**. A guarantee was assumed for two new projects in the agricultural sector on the basis of the German-Ethiopian BIT which came into force in 2006. In view of the economic situation in Ethiopia, the IMC could not, however, see its way to granting full spectrum cover. The cover for earnings had to be postponed and besides that the period for payment of indemnification due to conversion and transfer restrictions and/or payment embargoes or moratoriums had to be extended from six to nine months.

In the first half of 2006, the IMC has kept to its previous practice when making decisions on **RUSSIA**. Each individual case is discussed in depth and the risk situation pertaining at the time is taken into account. Moreover, it is a prerequisite that the project does not violate the EU sanctions in force. The Federal Government continues to be prepared to assume guarantees for projects in **UKRAINE** provided that the respective decision is made after a comprehensive case-by-case review, also with regard to the location of the project.

The lead function for underwriting decisions for investment guarantees of the Federal Republic of Germany is exercised by the **FEDERAL MINISTRY FOR ECONOMIC AFFAIRS AND ENERGY**:

Bundesministerium für Wirtschaft und Energie
Referat V C 3
Scharnhorststraße 34-37
10115 Berlin
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The Federal Government has appointed a consortium formed by **PRICEWATERHOUSECOOPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT**, Frankfurt am Main, branch office Hamburg (PwC), and **EULER HERMES AKTIENGESELLSCHAFT**, Hamburg (Euler Hermes), to manage the investment guarantee scheme. Further information as well as detailed consultation concerning the cover may be obtained by contacting PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. current information from the AGA-report, the General Terms and Conditions as well as leaflets, a flyer and the annual report in German and English.

We have created a special hotline for small and medium-sized enterprises. You can find details on our website (www.agaportal.de).

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ROUNDING DIFFERENCES

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

REFERENCES

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Page 6 Bundesministerium für
Wirtschaft und Energie, Berlin,
Anja Blumentritt

www.agaportal.de

Cover from the Federal Republic of Germany for business transactions abroad

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

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



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and Energy

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