GENERAL AGREEMENT ON
TARIFFS AND TRADE

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EXPORT INFLATION INSURANCE SCHEMES

Information Submitted by Contracting Parties

Addendum

1. Information submitted by five contracting parties on export inflation insurance schemes, in response to GATT/AIR/1330, was circulated in document L/4467 dated 20 January 1977.

2. Additional information submitted by six contracting parties, as well as the European Communities, was circulated in document L/4467/Add.1 dated 4 February 1977.

3. The following information has been received from:

Australia
Portugal
Switzerland

4. Contracting parties who have not yet submitted information in response to GATT/AIR/1330 are invited to do so without delay. Further notifications will be produced as additional addenda to this document.

AUSTRALIA

Australia does not operate any export inflation insurance schemes or any arrangement with similar effects.

PORTUGAL

Increased Production Costs and Exchange Rate Guarantees

The new legislation on increased production costs and exchange rate guarantees is the Decree-Law 729-L/75 of 22 December 1975. The preamble refers to the critical economic and financial situation in Portugal and the need for "unconditional support" to exports. The major difficulties for exports have been the covering of risks as regards increased production costs and exchange rate variations between the date of contract and the date of payment.

It is recognized that coverage of these risks is exceptional, but the extension of insurance cover is urgent, given the expansion of Portugal's trading relations and the fact that in trading with certain countries (namely, those in Eastern Europe) it is impossible to include escalation clauses in contracts.

Therefore:

Article 1 - The Credit Insurance Company is authorized to guarantee:

(a) abnormal and unforeseeable increases in production costs deriving from the modification of economic conditions which affect the execution of export orders;

(b) exchange rate variations between the date of guarantee and the maturity date of the guaranteed credit.

Article 2(1) - Cost cover is available when the contract has no escalation clause, and when the cost increases exceed a percentage, to be established case by case, of the foreseeable production costs between an upper 10 per cent and a lower 2 per cent limit. When there is an escalation clause in the contract, cost cover is available within the same 2-10 per cent range for cost increases beyond those covered by the escalation clause.

Article 2(2) - In any case, the mentioned risk will never be considered if it is possible to cancel or change the contract on the basis of an abnormal alteration of circumstances in which the exporter made his decision to contract or if, in that case, it brings higher damages than those arising from the application of the previously defined system.

Article 3(1) - Exchange cover is available when the official exchange rate for the foreign currency stipulated in the contract is, at the maturity of the guaranteed credit, lower than the rate on the basis of which the guarantee was conceded.

Article 3(2) - Cover (for exchange rates) is basically limited to 90 per cent of losses, but can be higher by written authority of the Ministries of Finance and Foreign Trade.

Article 3(3) - This exchange guarantee can only be given when other safeguards are not available, e.g. when contracts cannot be made in escudos or by the advance agreement of exchange rates or through forward exchange transactions.

Article 3(4) - The cover of this risk will always be dependent upon the submission of all exporting or re-exporting operations of the exporter to credit insurance of commercial risks, by a policy of the Credit Insurance Company.

SWITZERLAND

Switzerland does not operate any inflation insurance scheme, nor has it taken any other measure designed to mitigate or counter the effects of inflation on the production costs of Swiss exports.