INVESTMENT GUARANTEES

INTERIM REPORT **2018**

INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Direct Investments Abroad

THE FIRST HALF-YEAR AT A GLANCE

So far in 2018, the Federal Government has assumed investment guarantees with a total volume of 0.8 billion euros. Areas of focus were, as in the preceding year, investments in Asia and (Eastern) Europe. Pending applications reached a record level of 9.6 billion euros. In June 2018, localisation trends in production as well as the environmental, social and human rights due diligence procedure, which was revised in 2017, were discussed intensively at the BMWi dialogue conference.

DEVELOPMENT OF NEW BUSINESS

The new **cover volume** in the first half-year 2018 was 847.6 million euros (capital and earnings), thus coming in around 80% higher than the equivalent period of the preceding year (467.2 million euros). This considerable increase was not due to large individual projects, but was instead due to a broader spectrum of projects in more countries coming from a consistently high proportion of small and medium-sized enterprises. This development shows that the German industry's – here especially medium-sized companies' – need for protection in a more difficult global environment remains unbroken. The importance of the guarantees for tapping key future markets was also intensively discussed at the dialogue conference in June at the Federal Ministry for Economic Affairs and Energy (BMWi). The focus here was on the opportunities and risks of the localisation of production in China and Russia as well as the developments in Iran.

Overall, in the first half of 2018 the Federal Government assumed investment guarantees for 40 projects (1st half-year 2017: 30) in twelve **emerging markets and developing countries as well as former transition countries** (1st half-year 2017: ten). Included in this are guarantees for investments in Algeria and Mali for the first time in years.

The **regional focus** of the volume of new guarantees was Asia (mainly China) with 57% considerably ahead of (Eastern) Europe (Belarus and Russia) with 29%, ahead of Africa with 11% and ahead of Central and

0.8 billion

In the first half-year 2018, the Federal Government assumed investment guarantees with a total volume of 0.8 billion euros (capital and earnings). The highest new volume of cover was accounted for by China.

12 countries

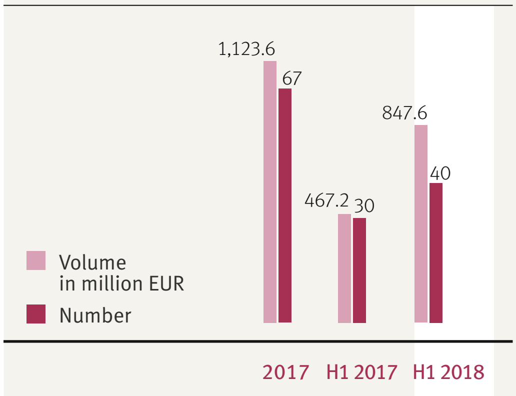
Investments in 12 countries were covered, including also rarely covered countries like Algeria, Lebanon and Mali. Cover for investments in China and Iran was especially in demand.

South America (3%). Compared with the number of accepted applications, Asia similarly led the field with 55%. In terms of countries, China (11) took first place just as it did in the same period last year, while Russia was not among the top three countries for the first time in many years.

The share of small and medium-sized enterprises in the newly assumed cover in the first half of 2018 was 30%. This ratio matches the 10-year peak value that was reached last year. It is impressive evidence of the increasing willingness on the part of small and medium-sized enterprises to invest in difficult markets. Medium-sized enterprises are also a special focus in public relations for the promotion instrument. The applications accepted from small and medium-sized enterprises were in respect of cover for investments in Belarus, Iran, Mali, Mexico and Turkey.

As regards the **target sectors**, the manufacturing industry came in first once again in terms of the number of guarantees assumed in the first half of 2018 (90%). Dominating here were projects in the chemical

DEVELOPMENT OF ACCEPTED APPLICATIONS



TOP 5 COUNTRIES
(NUMBER OF APPLICATIONS ACCEPTED)

China		11
Iran		8
Belarus		4
Russia		4
Turkey		2
Subtotal as at 30.06.2018:	(72,5%)	29
Total as at 30.06.2018:	(100%)	40

30%

Of the guarantees assumed, 30% were accounted for by investments of small and medium-sized enterprises. This share is therefore approximately at the same high level as in the previous year.

34.5 billion

Exposure remains with 34.5 billion euros at a similarly high level to that at year-end 2017 (35.0 billion euros). Russia – just slightly ahead of China – recorded the highest single share here (9.6 billion euros).

and pharmaceutical industry as well as in the energy industry with a focus on renewable energy. This was followed by the service sector ahead of the extraction of raw materials (each 5%).

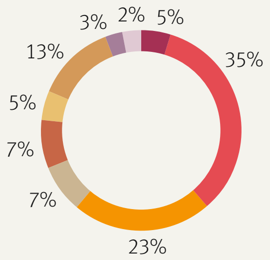
In the first half-year 2018, the guarantees assumed supported projects with a total investment volume of 2.7 billion euros. The supported projects safeguard or create some 9,000 **jobs** in the host countries and also help to secure jobs in German production facilities.

New applications with a total volume of 2.4 billion euros (capital and earnings) have been received up to the end of June 2018. This value has thus nearly quadrupled in comparison with the previous year. This underlines the particular importance of the investment guarantees for the German business community in tapping future markets in a more uncertain geopolitical environment. China was most heavily in demand. Russia has been represented in the top five countries for years. Bahrain and Myanmar appear for the first time.

The total volume of pending applications stood at 9.6 billion euros at mid-year 2018. The volume was considerably higher than at mid-year 2017 (7.1 billion euros). 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 the number of pending applications (327), investments in Russia were slightly ahead of investments in China, followed by investments in Ukraine, Turkey, and India. In terms of volume, investments in Russia rank considerably before investments in Argentina.

NUMBER OF APPLICATIONS APPROVED BY SECTORS

Raw materials extraction	2
Chemical and pharmaceutical industry	14
Energy industry	9
Automotive industry	3
Metal industry	3
Construction industry	2
Other secondary sector (e.g. wood and paper industry)	5
Trade, marketing, representations	1
Other tertiary sector	1
Total as at 30.06.2018:	40



TOP 5 COUNTRIES (APPLICATIONS BY VOLUME) IN MILLION EUR

China		675
Mexico		516
Russia		438
Bahrain		245
Myanmar		180
Subtotal as at 30.06.2018:	(86,9%)	2,054
Total as at 30.06.2018:	(100%)	2,363

TOP 10 COUNTRIES RELATING TO GUARANTEE PORTFOLIO (NUMBER AND VOLUME OF GUARANTEES AS AT 30.06.2018)

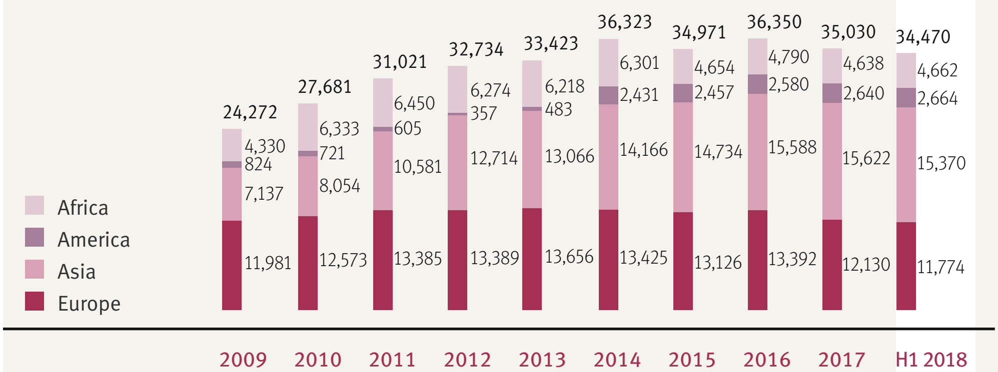
	in billion EUR	Number
China	9.5	258
Russia	9.6	209
India	4.0	56
Turkey	1.0	42
Ukraine	0.5	34
Belarus	0.2	25
Egypt	1.9	23
Iran	0.1	19
Colombia	0.1	18
Indonesia	0.2	14
Subtotal as at 30.06.2018: (78,6%/79,0%)	27.1	698
Total as at 30.06.2018: (100%)	34.5	884

Number
Volume

HALF-YEAR RESULT

The maximum liability (exposure) of the Federal Government from outstanding commitments at mid-year 2018 stands at 34.5 billion euros, thus coming in around the same high level as year-end 2017 (35.0 billion euros). The main share of exposure is accounted for by investments in Asia (predominantly China and India) with 45%. Guarantees for investments in (Eastern) Europe (here first and foremost Russia and Turkey) take second place again with 34%, ahead of Africa (Egypt and Libya among others) with 13% and Central and South America (especially Mexico and Brazil) with 8%. In terms of existing guarantees, China comes first as in previous years ahead of Russia and India. Measured by volume, Russia posts the largest volume of any single country with 9.6 billion euros, slightly ahead of China.

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



IN DIALOGUE WITH INDUSTRY – EXPORT CREDIT GUARANTEES AND INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

On 7 June 2018, the German foreign trade community met at the biannual dialogue at the Federal Ministry for Economic Affairs and Energy. This year again, almost 300 participants seized the opportunity for an intensive exchange, especially within the scope of the workshops offered.

The investment guarantees workshop was entitled "Localisation of production abroad – opportunities and risks." The focus of the discussion was initially China and Russia. The demand for protection against political risks for investments in these countries has remained high for many years; accordingly, the majority of the guarantee portfolio goes to projects in these two countries. A further focus of the workshop was on German projects in Iran. Here, the Federal Government has been able to support investments of small and medium-sized enterprises in particular over the last year. Experts from Germany Trade & Invest (GTAI) as well as representatives from business and politics discussed localisation trends in these three countries, particularly the opportunities and risks arising from current global political developments.

The discussion showed that "classic" reasons such as the avoidance of import tariffs or the shortening of supply routes continue to play a central role in the decision of German companies to invest abroad. Country-specific aspects are currently also important for such decisions, however. For example, in Russia, local residence is a precondition for participation in public tenders; in China, local investment offers better opportunities to participate in technological developments.

The panel participants reported an increasingly difficult global environment. They emphasised the need to give political support to companies engaged in foreign business. In particular, the developments regarding US sanctions against Russia and Iran posed great difficulties for companies. As a result, many companies systematically used investment guarantees as a component of risk management for their foreign

investments. The Federal Government's diplomatic support for the prevention of losses was particularly emphasised as a key motive for covering projects with investment guarantees.

As part of the workshop "Speed dating @ the dialogue conference," the environmental, social and human rights due diligence procedure that was revised for investment guarantees last year, amongst other topics, was presented and discussed in direct conversations. The participants showed great interest in the process, which is strongly oriented towards processes already established in project, export, and development financing. The process is also largely built on existing systems of investors already well positioned in many areas. This enables a targeted implementation of the new requirements and at the same time keeps the entry barrier for investors low.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

In the first half-year 2018, the Federal Government once again supported a number of covered investment projects through diplomatic measures in order to prevent project failures and the occurrence of losses. Such crisis management was necessary for projects in Belarus, China, Montenegro and Ukraine, among others. In this way, an event of loss could be averted in a project in Ukraine.

Pending the resolution of an outstanding claim, it is still not possible for reasons of budget law to assume investment guarantees for projects in Argentina. The Federal Government is working on a solution.

COUNTRY COVER PRACTICE

The principal **decisions on country cover** in the first half of 2018 can be summarised as follows:

The IMC confirmed the country cover practice introduced in 2016 for **Iran** on the basis of an intensive risk analysis. The necessary preconditions for legal protection continue to be provided here by the German-Iranian bilateral investment treaty (BIT), which came into force on 23 June 2005. The applicability of this BIT presupposes that the capital investment has been approved by the Iranian government or a body designated by it. This normally means an approval given by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI). An increased premium of 0.6% p.a. is charged for Iran. It is an additional prerequisite for the assumption of a guarantee that the project does not infringe the continuing sanctions put in place by the EU.

After 26 years, the IMC has once again assumed guarantees for investments in **Mali** on the basis of the German-Malian BIT, which came into force on 16 May 1980. The applicability of this treaty presupposes that the capital investment has been approved in writing by the Malian government. In consequence, full guarantee cover for capital was granted. A decision on the earnings cover was deferred and it was additionally decided to extend the period for payment of indemnification due to conversion and transfer restrictions and/or payment embargoes or moratoriums from six to nine months. Furthermore, the deductible for war risks was increased to 30%. A later lifting of these restrictions remains reserved.

After a long time, the IMC has also dealt once again with **Kenya** and granted a project full guarantee cover for capital. Earnings cover was not requested. The German-Kenyan BIT from 2000 was the basis for the IMC's approval.

An investment guarantee without restrictions for the capital was also granted to a project in **Algeria**. Cover for earnings was likewise not requested. The basis for this was the German-Algerian BIT that went into effect in 2002.

Lastly, the BIT with Ecuador expired on 22 May 2018. For investments undertaken up to that date, legal protection is still available on the basis of the grace period written into the BIT for a further 15 years. Whether and, if so, to what extent it will be possible to assume cover for projects in this country initiated later than this date on the basis of the domestic legal system will be discussed by the IMC in due course.

ANNEX

The lead function for underwriting decisions for the 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
www.bmwi.bund.de

The investment guarantee scheme is managed on behalf of the Federal Government by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Hamburg office, (PwC) as mandatary of the Federal Government. Further information as well as detailed consultation concerning the cover available may be obtained from PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. the latest information in the DIA-Report, an informational video, the General Terms and Conditions, leaflets, a flyer as well as the annual and semi-annual report.

We have created a special hotline for small and medium-sized enterprises. For details of this, please see our website (www.investitionsgarantien.de).

Rounding differences: For reasons of calculation, tables and figures may show rounding differences of +/- 1 unit (EUR, % etc.).

References:
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www.investitionsgarantien.de

Investment Guarantees of the Federal Republic of Germany

Investment Guarantees have been an established and effective foreign trade promotion instrument of the Federal Government for decades. Investment Guarantees protect eligible German direct investments in developing countries, emerging economies and former transition countries against political risks. This promotion instrument plays an important role in fostering economic growth as well as in protecting and creating jobs both in the host country and in Germany.

The investment guarantee scheme is managed on behalf of the Federal Republic of Germany by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the search term “Promotion of foreign trade and investment”.

Federal Ministry
for Economic Affairs
and Energy

OUR PARTNER

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