



CRS Report for Congress

The Berne Union: An Overview

James K. Jackson
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Summary

The Berne Union, or the International Union of Credit and Investment Insurers, is an international organization comprised of more than 70 public and private sector members that represent both public and private segments of the export credit and investment insurance industry. Members range from highly developed economies to emerging markets, from diverse geographical locations, and from a spectrum of viewpoints about approaches to export credit financing and investment insurance. Within the Berne Union, the United States is represented by the U.S. Export-Import Bank (Eximbank) and the Overseas Private Investment Corporation (OPIC) and four private-sector firms and by one observer. The main role of the Berne Union and its affiliated group, the Prague Club, is to: work to facilitate cross-border trade by helping exporters mitigate risks through promoting internationally acceptable principles of export credit financing, strengthen the global financial structure, and facilitate foreign investments. Over the past decade, the growth and increased importance of global trade and financing have altered the agenda of the Berne Union from focusing primarily on concerns over country-specific political risk to concerns about global trade, international finance, global and regional security, and questions of business organization, civil society, transparency, and corporate responsibility. Congress, through its oversight of Eximbank and OPIC, as well as international trade and finance, has interests in the functioning of the Berne Union. This report will updated as events warrant.

Background

The Berne Union represents a diverse group of public and private entities that are directly involved in international trade and foreign investment by providing financing and insurance to exporters and investors.¹ In 2007, Berne Union members provided over \$1.1 trillion in insurance coverage, representing 10% of total global trade.² The Berne Union

¹ For additional information, see [<http://www.berneunion.org.uk/>].

² Press Release, November 2007. Available over the Web at [<http://www.berneunion.org.uk/>]

was formed in 1934 when private and state export credit insurers from France, Italy, Spain and the United Kingdom met in Berne, Switzerland. As a result, the organization was named after the location of the first meeting, thus the name the Berne Union, although the organization has never been based in Berne. The Union was headquartered in Paris until the 1970s when it was moved to London.

Associated with the Berne Union is the Prague Club³, which was established in 1993 by the Berne Union and the European Bank for Reconstruction and Development (EBRD) to support new and maturing export credit agencies that are setting up and developing export credit and investment insurance programs. Also named after the location where the first meeting was held, the Prague Club established an information exchange network for new agencies in Central and Eastern Europe that have not yet meet the entrance requirements for Berne Union members. When the Prague Club members have grown to the point where they can meet certain specified criteria, they can apply for full Berne Union membership.

Berne Union Membership and Activities

Membership in the Berne Union is open to new applicants but there are requirements that must be met to ensure that discussions among the members remain relevant and topical for as many members as possible. Membership requirements include

- Institutions applying for membership in the Berne Union should be underwriters actively conducting business in the areas of export credit financing and foreign investment as their core activity.
- Institutions must have been in operation in the field of export credit insurance or the insurance of outward investment for a period of at least three years.
- Institutions should meet certain thresholds for premium income or for the value of business covered.
- If the applicant is engaged in export credit insurance, its operations must include insurance of both commercial and political risks and it must underwrite political risks in a global and general sense.
- If the applicant is engaged in the insurance of outward investment, it must be providing direct insurance against the normal political risks, including expropriation and war, and issues associated with the transfer of funds.

Applicants to the Berne Union are assigned observer status for two years, after which the membership of the Berne Union decides collectively if the applicant can become a full member. In the past five years, more than ten new members have joined the Berne Union

² (...continued)
Press%20Release%20November%202006.pdf].

³ [http://www.berneunion.org.uk/prague_club.htm]

and three applicants are presently listed in the observer status. In 2007, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) became the newest member of the Berne Union. The United States is represented within the Berne Union by two federal government agencies — the U.S. Export-Import Bank⁴ and the Overseas Private Investment Company⁵ — and five private sector corporations. The private-sector members are: the American International Group insurance underwriters (AIG);⁶ the Chubb Corporation⁷ of Warren, New Jersey; the Foreign Credit Insurance Association Management Company, Inc. (FCIA);⁸ the Multilateral Investment Guarantee Agency (MIGA);⁹ and the Zurich Emerging Markets Solution.¹⁰

The Berne Union is led by a President, a Vice President, and a Management Committee. The President is elected each year and can be re-elected for one further year. The Vice President is elected each year and cannot be re-elected. The Management Committee consists of the President, the Vice President, Committee Chairs, and 12 representatives of member organizations. The standing committees represent three areas of specialization within the credit industry: short term credit insurance represented by the Short Term (ST) Committee, medium and long term credit insurance and lending represented by the Medium Long Term (MLT) Committee, and investment insurance represented by the Investment (INV) Committee. Six of the members for the Management Committee represent the two largest organizations in each of the three committees. The remaining six members are elected on a rotating basis for a two-year term.

To support the Berne Union leadership, the Berne Union has a staff of five people, known as the Secretariat, located in London. These five staff members are responsible for coordinating all Berne Union and Prague Club activities and for providing ways for the members to participate. In particular, the Secretariat is responsible for maintaining external relations and for promoting the Berne Union and its members within the export credit and insurance industry as a whole by supporting opportunities for members to meet and discuss professional matters and to exchange views and experiences. This interchange of information is achieved through three methods, annual general meetings and Committee meetings, annual seminars and workshops, and an intranet among the Berne Union members. Annual general meetings are hosted by a Berne Union member on a rotating basis and take place over four or five days. Discussions at these meetings reflect broad aspects of international trade, international finance and developments in specific industry sectors. In particular, member discussions focus on developing and promoting the best available practices in the fields of international trade finance and foreign investment insurance. Recently, the members focused their attention on such issues as: the impact of the global credit crunch and the effect it is having on global trade;

⁴ [<http://www.exim.gov/>]

⁵ [<http://www.opic.gov/>]

⁶ [<http://aigglobal.aig.com/>]

⁷ [<http://www.chubb.com/>]

⁸ [<http://www.fcia.com/>]

⁹ [<http://www.miga.org/>]

¹⁰ [<http://www.zurichna.com/specialties/pr/Politica.nsf/pages/home?opendocument>]

the dynamic expansion of the Indian economy and the growing demand for credit insurance; and trends in social and corporate responsibility, green initiatives in project finance, and the expanding capacity for local currency finance.

The Berne Union has developed long-standing relationships with the leading international and regional financial institutions in the credit and investment insurance industry. For instance, the Union has developed strong ties with such groups as the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and the World Bank group, and has worked closely with these organizations to promote international financial stability and broad-based economic growth. The Berne Union is also in regular contact with such regional development banks as the European Bank of Reconstruction and Development (EBRD) and the Asian Development Bank, as agencies from both regions are active members of the Prague Club. The Berne Union has close relationships with the other major credit insurance associations including the International Credit Insurance and Surety Association (ICISA) and the Pan-American Surety Association (PASA).

Current Issues

According to Berne Union President Lars Kolte, recent meetings of the Berne Union members increasingly have focused on the topics of corporate governance and on the importance of adopting practices that emphasize ethical practices in international trade. In particular, these meetings have focused attention on corporate social responsibility, including such issues as bribery and environmental risk. In one recent step, Denmark's Eksport Kredit Fonden (EKF) adopted a set of principles known as the Equator Principles that comprise a voluntary set of guidelines associated with project finance that are based on the environmental and social procedures developed by the World Bank's International Finance Corporation and that have been adopted by various international banks.

Berne Union members have also recently expressed concerns about doing business in China. They argue that there is a lack of available information concerning the nature and performance capability of many of the firms in China that are involved in trade or investment transactions with Berne Union members. The rapid growth of joint ventures with Chinese firms is also creating confusion for some of the public-sector Berne Union members, because many of them are charged by their respective governments with participating in transactions that support economic activity in their home countries. As a result of this confusion, membership in the Berne Union is growing fastest among firms from the private sector where those firms are not charged with promoting national content. Another key issue for Berne Union members is insurance against terrorist risks and how such risks should be defined and whether they should be included as a part of investment insurance.

In November 2006, the Berne Union members adopted a set of 10 Guiding Principles, which represents a set of best practices commitments for Berne Union members to operate "in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values." In brief terms, the ten Principles are commitments to:

1. Conduct business in a manner that contributes to the stability and expansion of global trade and investment in accordance with applicable laws and relevant international agreements.
2. Carefully review and manage the risks that are undertaken.
3. Promote export credit and investment insurance terms that reflect sound business practices.
4. Generate adequate revenues to sustain long-term operations that are reflective of the risks that are undertaken.
5. Manage claims and recoveries in a professional manner, while recognizing the rights of insurers and obligors.
6. Be sensitive about environmental issues and take such issues into account in the conduct of business.
7. Support international efforts to combat corruption and money laundering.
8. Promote best practices through exchange of information, policies, and procedures, and through the development of relevant agreements and standards, where these are deemed necessary.
9. Commit to furthering transparency amongst members and in the reporting of business practices.
10. Encourage cooperation and partnering with commercial, bilateral, multilateral, and other organization involved in export trade and investment business.

Issues for Congress

Congress plays no direct role in the Berne Union, but its presence is felt indirectly through two U.S. government agencies that are members of the Union and over which it has oversight responsibility — the U.S. Export-Import Bank and the Overseas Private Investment Corporation. These agencies also provide information back to Congress and to the Administration about developments in the areas of export credit finance and foreign investment. U.S. private sector firms that are members of the Berne Union also often look to Congress for support and leadership in the areas of export credit finance and insurance, especially with the increased risks many firms now believe exist as a result of terrorist activities. As a result of its vast international economic and security interests, the United States is directly affected by, and therefore plays a leading role in, developments in the areas of international trade, international finance, and foreign investment. The vast U.S. international presence also means that U.S. national interests are tied to the successful operation and stability of the international trade and finance markets, which means that Congress is often involved in resolving issues that affect important U.S. interests that rely on stability in the international financial system and the successful operation of global trade and investment markets.