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Dear Customer

SUPPORT FOR LOCAL COSTS

Agreement has been reached in the OECD to implement for a trial period of three years from the 1 January 2008 an increase in the amount of official support that may be provided for credit contracts in respect of local costs under the OECD Arrangement on Officially Supported Exports ("the Arrangement").

Where ECGD's risk capacity is available, it will now be possible for ECGD to support local costs up to a value representing 30% of the export contract value (i.e. the total amount to be paid by or on behalf of the purchaser for goods and/or services exported including third country supply but, excluding local costs). Previously, support for local costs was limited to the size of the downpayment, usually 15%. The level of local costs that ECGD is able to support shall be included in the maximum 80% level of support for Foreign Content announced by the Government on 13 June 2007 in its response to the Public Consultation on ECGD's foreign content rules.

The OECD has also been agreed to withdraw the limitation whereby support for local costs for Category I countries (currently defined in Article 11(a) of the Arrangement) could only be made available on a Pure Cover basis. Official financing support will thus be available for local costs in Category I countries. In this respect, please note that a Public Consultation has recently been launched about the future of ECGD's Fixed Rate Export Finance (FREF) Scheme (see www.ecgd.gov.uk).

There has been no change to the minimum 15% down payment rule and to the availability of official support for such down payments which can only take the form of insurance against the usual pre-credit risks. Also unchanged is the requirement for support for local costs to be provided on terms not more favourable/less restrictive than those agreed for the related exports.

If you have any questions about these changes please ask your ECGD Business Manager.

Yours sincerely



STEVE DODGSON

