

## PROVISIONS RELATING TO FOREIGN CONTENT

### I. LEGISLATIVE BACKGROUND

- OECD Arrangement on Officially Supported Export Credits (hereinafter: “**OECD Arrangement**”)
- Council Decision on the rules applicable, in the fields of export guarantees and finance for export, to certain subcontracts with parties in other Member States of the European Communities or in non-member countries (82/854/EEC) (hereinafter: “**Council Decision**”)
- Government Decree 85/1998 (V. 6.) on the interest equalisation scheme of Hungarian Export-Import Bank Limited (hereinafter: “**Interest Equalisation Decree**”)
- Government Decree 435/2012. (XII. 29.) on guarantees assumed by Hungarian Export-Import Bank Pte Ltd alongside a full state payment guarantee and on the conditions and detailed regulations of the replacement and interest costs of foreign currency and interest swap transactions (hereinafter: “**Guarantee Decree**”).
- Government Decree 312/2001 (XII. 28.) on the terms and conditions of non-marketable risk insurance that may be undertaken by Hungarian Export Credit Insurance (MEHIB) Limited against the central budget alongside a full payment guarantee from the Government (hereinafter: “**MEHIB Decree**”).

(the Interest Equalisation Decree, the Guarantee Decree and the MEHIB Decree hereinafter together: “**Government Decrees**”),

### II. RULES RELATING TO LOCAL COSTS

For the purposes of applying the provisions applicable to local costs as set out in the OECD Arrangement, *local costs* shall mean the expenses that arise in the country of the purchaser (buyer) of the goods or services, and

- are related to the execution of the export transaction (contract), or
- are necessary for completing the project of which the export transaction (contract) forms a part.

Commission payable by the exporter’s representative in the purchaser’s country (agent’s commission) may not be counted towards local costs.

In addition to local costs, the OECD Arrangement defines the concept of *export contract value*, which is the amount that the buyer pays to the exporter for the purchase of the goods and/or services under the export contract before the starting point of credit, excluding local costs.

According to Article 10. d) of the OECD Arrangement, it is possible to provide subsidised export credits and related export credit insurance for local costs up to a maximum of 30% of the export contract value.

### **III. THIRD-COUNTRY SHIPMENTS**

In addition to local costs, shipments originating from third countries are also classed as foreign content; beyond the provisions of the following chapter IV, the (Hungarian) legal statutes and the international regulations applicable to EXIM do not include any specific rules relating to these.

### **IV. RULES RELATING TO SUBCONTRACTOR PERFORMANCE**

Subject to the provisions of the Council Decision, the Government Decrees also contain provisions related to the performance of non-Hungarian subcontractors.

According to the Government Decrees, if only subcontractors from (one or more) Member States of the European Union are involved in the performance of the main contractor agreement, Eximbank will include these subcontractor agreements in the interest equalisation scheme and MEHIB's risk cover will extend to these subcontractor agreements, provided that the goods shipped or the services provided under the subcontractor agreements are included in the main contractor agreement or are used as an essential element for the performance of the main contractor agreement, and if the value of such subcontractor agreements:

- a) in the case of a main contractor agreement of a value of less than EUR 7 500 000, is at most 40% of the value of the main contractor's agreement;
- b) in the case of a main contractor agreement of a value of between EUR 7 500 000 and EUR 10 000 000, at most EUR 3 000 000;
- c) in the case of a main contractor agreement of a value of more than EUR 10 000 000, at most 30% of the value of the main contractor's agreement.

If subcontractor agreements from Member States of the European Union as well as subcontractor agreements from non-member states are linked to the main contractor agreement, the interest equalisation scheme and the credit insurance cover provided by MEHIB shall extend to the agreements concluded with subcontractors from the Member States, provided that the value of all the subcontractor agreements does not exceed the amounts specified above.

Within the framework of the European Union Policy Coordination Group for Credit Insurance, Credit Guarantees and Financial Credits, an ex-post exchange of information will take place in respect of contracts – financed by loans and advances of more than EUR 500 000 and with a maturity of more than three years – that involve subcontractors from outside the Member States in an extent exceeding 30%, or a mix of subcontractors from Member States and from outside the Member States exceeding that percentage.