

CUSTOMER INFORMATION

ON THE PROCEDURE FOR PROVING HUNGARIAN ORIGIN

I. INTRODUCTION

A condition for the provision by Hungarian Export-Import Bank Private Limited Company (hereinafter: Eximbank) and Hungarian Export Credit Insurance Private Limited Company (hereinafter: MEHIB) (hereinafter Eximbank and MEHIB jointly referred to as: EXIM) of export finance, export credit guarantees, or export credit insurance is the existence of the Hungarian share of origin (hereinafter: Hungarian content) required by the relevant statutory provisions¹, which the exporter must prove. (For the legislative background to the conditions related to Hungarian content, see Annex 1).

The subject of an export transaction may be a goods export, a services export, or a construction or installation contract (which includes both goods and services).

Eximbank checks the required Hungarian content prior to disbursement, or when assessing guarantee applications, and MEHIB checks it when assessing insurance claims.

In the case of goods exports, the exporter proves the Hungarian content by means of the original certificate of origin issued by the relevant regional body of the chamber (the Hungarian Chamber of Commerce and Industry – MKIK, or the National Chamber of Agriculture – NAK), and in the case of a construction or installation contract, MKIK's head office issues the required certificate (Hungarian content certificate), while for service exports, the body responsible for registering insured status issues a certificate on the number of staff employed by the exporter or its subcontractor who qualify as insured persons based on the applicable legal regulations.

In order to serve exporters as effectively as possible, EXIM has entered into a Cooperation Agreement with MKIK.

In the case of goods exports, the certificate of origin

- is issued by MKIK, subject to the applicable legal regulations and its own procedural rules, only for completed performance, on an ex-post basis, at the time of the goods export or, if necessary, after the date of the export (with retroactive effect), or
- is issued by NAK subject to the applicable legal regulations and its own procedural rules, on an ex-post basis, with retroactive effect.

In the case of EXIM transactions, if the business engaged in export activity repeatedly ships (supplies) goods of the same designation, tariff number and place of origin, to the same customer, it shall have the option, in accordance with the relevant Government Regulations,

¹ Govt. Decree 85/1998. (V. 6.) on the interest equalisation scheme of the Hungarian Export-Import Bank Limited, Govt. 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, Govt. 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 applicable to replacement and interest costs associated with foreign exchange and interest rate swap transactions

of not having to obtain a certificate of origin for each and every shipment, but only having to obtain, from MKIK, a certificate after delivery of the first goods export, furnished with a clause stating that further, identical shipments of the goods will take place, and of submitting this latter as the certification of origin of the goods to EXIM or to the financial institution financing the transaction.

The certificate furnished with this clause shall, with regard to the goods specified therein (which are identical in terms of their designation, customs tariff number and place of origin), adequately attest to the Hungarian origin of these goods and of all subsequent exports of goods of this type destined for the same customer (buyer).

Should there be a change in the identity of the buyer, the designation of the goods, the tariff number or the place of origin in the course of the supply, the business supplying the goods will need to obtain a new certificate of origin from MKIK for the first instance of export supply subsequent to the change and submit this to EXIM or to the financial institution financing the transaction.

II. EXAMINATION OF THE HUNGARIAN CONTENT OF GOODS (*where the goods export is not part of a construction or installation contract*)

1. In the case of insurance

Proving the share of Hungarian origin is both a condition of insurability and a condition for payment of damages.

As a general rule, MEHIB's risk-bearing covers the foreign content if the **exporter can prove to MEHIB** by means of a certificate of origin issued by the relevant regional body of MKIK/NAK **that at least half of the shipped goods are partly² of Hungarian origin**. Any "products or services classed as being of foreign content" that are supplied or provided by a foreign supplier or subcontractor may not be counted towards the Hungarian content. If the 50% Hungarian content requirement is not met in the case of goods exports, MEHIB's risk-bearing may only cover the Hungarian content, not the foreign content.

Exceptions to the above general rule in the case of goods exports are scheduled goods exports (export in stages) and the provision of cover in the national interest:

- If, under the foreign trade contract, **the goods export is to take place in several instalments (delivery in multiple shipments or performance in parts)** and as a result, the Hungarian content required by law or recorded in the insurance policy is only fulfilled in its entirety at the end of the period available for implementation/delivery, then a table presenting the scheduling for fulfilment of the Hungarian content must be recorded in the insurance policy. (The advantage of recording the schedule for the insured is that in the event of an interruption in deliveries or termination of the trade contract, MEHIB's payment of damages may cover the foreign content even if the Hungarian content is less than 50%, if this lower rate corresponds to the Hungarian content recorded for the given part-performance/delivery).
- **Provision of cover in the national interest:** If the goods export transaction is classified by MEHIB as being in the national interest, the Hungarian content requirement may, in the case of goods exports, be less than 50%, but it must reach at least 25% in order for MEHIB's risk-bearing to cover the foreign content. The approval of insurance transactions representing the provision of cover in the national interest is performed by

² Minimum 25% Hungarian content is sufficient in the case of provision of cover in the national interest, i.e. where it is in the nation's interest that the export deal should be implemented

MEHIB's Board of Directors, in the course of which the Board of Directors, with a view to the provisions of Hungary's foreign economic policy for 2012-2020, takes into account the following criteria from among the various features of the transaction:

- a) job creation, job protection;
 - b) retention and/or acquisition of export markets, contribution to further export growth,
 - c) promotion of the competitiveness of small and medium-sized businesses,
 - d) expansion of supplier opportunities;
 - e) extent of the share of domestic added value within the content classed as of Hungarian origin and
 - f) environmental criteria, e.g. strengthening of the renewable energy sector.
- **Insurance for the period before delivery (production risk):** If MEHIB provides insurance to the exporter for the period before delivery (to cover production risk), MEHIB shall act in accordance with the provisions of its Business Regulations valid at the time regarding requirements related to Hungarian content.

Obligation of the insured with regard to the Hungarian content requirement and its certification:

- **The insured, with respect to each of its deliveries, if possible, within 60 days after the delivery at the latest, or in justified cases retroactively after the date of export, shall obtain a certificate of origin** from the relevant body of MKIK/NAK certifying the Hungarian origin of the goods. (The certificate of origin certifies that the goods indicated in it are 100% of Hungarian origin as per the effective customs regulations and other relevant statutory provisions. It is an important requirement that the certificate of origin should not only include the number of the foreign trade contract but should also clearly specify the exported goods to which it relates).
In the case of repeated shipments to the same customer of goods that are the same in terms of designation, tariff number and place of origin, the certificate of origin, furnished with the clause described above, issued by MKIK, also serves to adequately certify the Hungarian origin of the goods to MEHIB with respect to any subsequent export shipments of the goods described in the certificate.
- If a change occurs in the designation, customs tariff number or place of origin of the goods described in the certificate of origin furnished with the said clause, or in the identity of the customer (buyer), the client shall obtain a new certificate of origin from the relevant chamber for the first export of such goods that takes place after such change and shall send it to MEHIB. In the case of turnover-type transactions, the insured **declares the amount of the Hungarian content of the delivered goods as part of the turnover report when completing its monthly turnover reports.** (In the case of transactions covered by an individual insurance facility, it is not necessary to make a separate declaration to MEHIB with regard to the Hungarian content when items are being included in the insurance cover.) This obligation of the insured also applies to certificates of origin furnished with a clause.
- • Following the occurrence of a damage event, the **insured is obliged to evidence the fulfilment of the Hungarian content requirement to MEHIB when submitting the damage claim, and to submit the certificates of origin previously requested from MKIK/NAK to MEHIB in their original.** Certification of the Hungarian content requirement and submission of the MKIK certificates of origin is one of the preconditions for payment of damages by MEHIB.

Examination of the Hungarian content requirement:

MEHIB does not examine the fulfilment of the Hungarian content requirement indicated by the insured in the turnover reports when deciding what to include in the cover.

When assessing the claim, MEHIB only examines whether, based on the invoices submitted together with the claim, the condition that - in terms of their value - the delivered goods, at least half (or at least 25% in the case of the provision of cover in the national interest), or in respect of the percentage of scheduled fulfilment of Hungarian content as recorded in the insurance policy, qualify as being of Hungarian origin as certified by the certificate of origin issued by the relevant regional body of MKIK/NAK.

2. In the case of financing

As a general rule, in the case of buyer-credit provision and receivables discounting, at least half the value of the goods to be shipped abroad (i.e. of the goods export), and in the case of the provision of export credit guarantees, at least half of the value of the export transaction underlying the export-credit guarantee (i.e. of the guarantee), must qualify as being of Hungarian origin.

An exception to the above rule in respect of goods exports is financing in the national interest:

- **Financing in the national interest:** If the goods export transaction is classified by Eximbank as being in the national interest, the Hungarian content requirement in the case of goods exports may be less than 50%, but must be at least 25%. Financing in the national interest may be provided if, in view of the provisions of Hungary's latest foreign economic strategy, at the Hungarian company that is participating in the fulfilment of the foreign trade contract, and as a result of the deal,
 - a) there has been an increase of at least 15% in its annual average statistical employee headcount – thus especially in the number of its employees who directly support its main activity – compared to the figure in the completed business year prior to the year in which the financing contract was concluded,
 - b) new export markets have been acquired through the commencement of the export of goods of Hungarian origin, or there has been an increase of at least 10% in export volume in the existing export markets,
 - c) there has been an increase in the volume of its supplier activity of at least 15%,
or
 - d) the implementation of transactions related to the renewable energy sector or to a key innovation sector has occurred.

Obligation of exporters with regard to the Hungarian content requirement and its certification:

- a. The exporter shall, **with respect to each of its deliveries, if possible after the shipment has occurred, obtain a certificate of origin** from the relevant body of MKIK/NAK certifying the Hungarian origin of the goods. (The certificate of origin certifies that the goods indicated in it are 100% of Hungarian origin as per the effective customs regulations and other relevant statutory provisions. It is an important requirement that the certificate of origin should not only include the number of the foreign trade contract, but that the exported goods should also be clearly specified on it).

In addition to the chamber certificate, the exporter must submit the following documents to EXIM:

- b. The trade contract relating to the export of the goods and its annexes: bill of quantities, list of goods or a specification, delivery schedule with a presentation of the implementation of the Hungarian content over the course of the partial performances and aggregated.
- c. Possible distribution of the goods export broken down by Hungarian/local origin/other EU Member State/other non-EU Member State goods, in amount and percentage.

- d. A list of other suppliers, if any, and their share in the project.
- e. Suppliers' quotes/delivery contracts/copies of invoices, factory documents.

Export of pre-owned machines and equipment – financing and insurance transactions

The subject of an export transaction may be the export of machines and equipment that have been used for their intended purpose for at least five years by a company with a registered office in Hungary (regardless of the origin of the goods). In the case of such exports, the exporter must provide evidence that the goods have been used for their intended purpose for at least five years prior.

Examination of the Hungarian content requirement:

Eximbank checks the fulfilment of the Hungarian content requirement prior to disbursement in the case of buyer-credit provision and receivables discounting. If the Hungarian content requirement is not met, Eximbank is entitled to refuse or suspend the disbursement until the Hungarian content is fulfilled in accordance with the contractual terms and the legal requirements.

Eximbank checks the fulfilment of the Hungarian content requirement, in the case of the provision of an export-credit guarantee, prior to issuing the guarantee. If the Hungarian content requirement is not met, Eximbank is entitled to refuse or suspend the issuance until the Hungarian content is fulfilled in accordance with the contractual terms and the legal requirements.

III. EXAMINATION OF THE HUNGARIAN CONTENT OF SERVICES

In connection with service export transactions, the Hungarian origin is examined by Eximbank in financing and guarantee-provision matters, and by MEHIB in insurance matters, on the basis of the submitted certificates. The exporter must submit the following documents to EXIM:

- a. A certificate issued by the body responsible for registering the insured relationship, stating that more than half of the exporter's employees are persons who, under the act on persons eligible for social insurance benefits and private pension and on the coverage of these services, as well as under the act on the itemised tax of small taxpayer businesses and small-company tax, are in a legal relationship with it that entails an insurance obligation (Health Fund certificate or *EP igazolás* in Hungarian, hereinafter: EP certificate).
- b. An exporter's declaration on the number of persons employed by it and on the fact that more than half of the persons employed by it are in an insured relationship with it, if this is a requirement with regard to a given product.
- c. An exporter's declaration on any Hungarian or foreign subcontractors who are participating in the provision of the service and the percentage share of their contributions.

If one or more domestic subcontractors are participating in the provision of the service, the declaration must also be requested from these subcontractors (subcontractors' declarations) together with the EP certificate relating to the subcontractors.

The application for the issuance of the EP certificates and the content of the EP certificates may differ depending on the respective practices of the Budapest and the county Government Offices when discharging their health insurance duties, and a certificate submitted via the Client Portal may also be acceptable.

1. Special procedures applied in the case of MEHIB insurance:

In the case of turnover-type insurance products, the insured is obliged to declare in its turnover reports the extent to which the Hungarian content requirement is met in respect of the services provided. Simultaneously with the submission of the turnover report, the insured is obliged to request the EP certificate to certify that the requirement relating to the Hungarian content of the service export constituting the basis of the turnover report for the given month has been met.

If a foreign-based interest (company) is included in the insurance, it is not possible to insure a service export.

In the case of individual-type insurance transactions, depending on the nature of the service, the insurance policy specifies the intervals at which the insured is required to obtain an EP certificate.

The EP certificates are not examined in advance by MEHIB, and so they only need to be submitted by the insured to MEHIB if there is a claims assessment.

2. Special procedures applied in the case of financing:

In the case of financing and guarantees, the exporter must submit the EP certificates and exporter's/subcontractor's declarations together with the credit application or at the time of concluding the contract, depending on the product. After this, the exporter must notify EXIM in writing of any change, at the latest within 5 (five) working days following the occurrence of the change, that results in the number of employees for whom the exporter pays health insurance fund contributions falling below 50% of the total number of staff employed by the exporter.

IV. EXAMINATION OF THE HUNGARIAN CONTENT OF CONSTRUCTION AND INSTALLATION CONTRACTS

When determining the Hungarian content, MKIK takes into account the performance/completions of subcontractors who are registered in Hungary up to the first subcontractor level, as evidenced by invoices, i.e. all direct costs incurred in Hungary such as design and expert costs, main contractor fees, wages paid in Hungary, as well as indirect costs, export financing costs and MEHIB insurance premiums. However, we would like to draw exporters' attention to the fact that, contrary to MKIK's practice, according to Eximbank's rules of procedure and in accordance with the relevant government decrees, costs related to the financing of the export transaction (e.g. interest paid, MEHIB insurance premiums) cannot be counted towards the Hungarian content.

MKIK examines the individual construction and installation contracts up to the first subcontractor level. For other subcontractor levels, the Hungarian subcontractor performing the service must declare in writing whether a local or a third-country subcontractor has been involved in the performance of the service provided by it.

In addition to the certificate of origin provided by MKIK, the following documents submitted by the exporter to EXIM are required:

- Main contractor agreement and its annexes;
- Technical description of the project;
- Bill of quantities;

- Completion schedule, which, in the case of scheduled (stage-based) fulfilment of the Hungarian content, must also contain the schedule for (stages in) the fulfilment of the Hungarian content;
- Financial schedule, including the planned implementation of the Hungarian export, by part-amounts in accordance with the stages of completion and cumulatively;
- Presentation of Hungarian content/local content/third-country content in amount and percentage;
- List of planned Hungarian subcontractors, together with their role in the project and their expected percentage contributions to the overall value of the contract;
- List of goods and goods suppliers in a breakdown by Hungarian/local/third country, indicating the expected value of the goods, item by item.

Before making a binding decision, EXIM's technical expert examines the technical documentation submitted by the exporter and the preliminary fulfilment of the conditions relating to the Hungarian content and to local costs.

During the implementation phase of the project, upon the settlement of each part-performance and after the submission of the final invoice following the technical handover of the investment, EXIM will request a certificate of origin from the exporter to certify the Hungarian content, issued by MKIK. In terms of determining the Hungarian content, the contributions of the foreign subcontractors cannot be taken into account - i.e. these must be deducted from the total performance value (except for any Hungarian goods exported by them and the contributions of Hungarian subcontractors engaged by them). Financing costs (e.g. interest, insurance premiums) are also not counted towards the Hungarian content, as has already been stated above. The basis for the assessment of local costs is the written declaration on this matter by the Main Contractor.

MKIK assesses the Hungarian content of the export transaction in accordance with its own rules of procedure and issues the certificate of origin/Hungarian content certificate on the basis thereof.

The Hungarian content certificate is issued by MKIK at the written request of the client, and this request must include, in addition to a detailed presentation of the project that constitutes the subject of the Hungarian content certificate:

- a.) At the time of the initial request, an extract of the beneficiary's certificate of incorporation from the companies register, no older than 30 days, or a certified copy of the contractor's trading licence, a copy of the signature of the company's manager and a copy of the main contractor/export contract identical to the original.
- b.) Detailed cost estimate for the entire project, showing, separately, the origin and value of the materials to be incorporated and, in the case of a service, the gross and net value of the service.
- c.) If the grant-providing entity accepts performance in stages, a Hungarian content certificate may be requested in a schedule and breakdown that matches these stages, but in this case the request must also include the information listed in points a.) and b.).
- d.) The request must also include:
 - in the case of a construction and/or installation service, the date of the first entry in the construction logbook, and copies, identical in all respects to the originals, of the invoices issued to the name of the beneficiary and evidencing the completion of each stage of performance,
 - a copy of the design and contractor agreements, and copies of orders (POs) that are identical in all respects to the originals,
 - in the case of subcontractor performance, all the documents listed in point d.),
 - and the summary declaration issued for this purpose by MKIK.

Based on the submitted documents, MKIK is obliged to issue the Hungarian content certificate within a maximum of 15 working days following the submission of the request or the rectification of deficiencies or omissions in the initial request (application). The rectification of deficiencies or omissions may take place once only.

To support its assessment of the application, MKIK is entitled to use the services of an expert and to request additional documents from the applicant, as well as to carry out an on-site inspection, during which the applicant is obliged to present to MKIK all original documents necessary for determining the Hungarian content, or to provide it with a copy of such documents that are identical in all respects to the original.

1 In the case of insurance

proving the share of Hungarian origin is both a condition of insurability and a condition for payment of damages.

As a general rule, at least a quarter (25%) of the value, less financing costs, of contracts for construction, assembly, technological installation or design services, and for services directly related thereto, must qualify as exports of Hungarian origin in order for MEHIB's risk-bearing to cover the foreign content. In the case of Hungarian content of less than 25%, MEHIB's risk-bearing may only cover the actual Hungarian content.

The general rule may be departed from in the following two cases:

- **Hungarian content scheduling:** If the foreign trade contract also allows for completion in stages, the part-completion shall be deemed accepted if the extent of the Hungarian content at the time of the part-completion matches the Hungarian content specified in advance in the insurance policy. In the event of interruption of completion, MEHIB's risk-bearing may cover the foreign content even if the Hungarian content at the time of the part-completion concerned does not reach 25% but it does reach the Hungarian content calculated/scheduled for the given part-completion in the table showing the Hungarian content-fulfilment schedule in the annex to the insurance policy.
The Hungarian content-fulfilment schedule should contain at least the following information: date of delivery, value of delivery, value of Hungarian content, cumulative performance, cumulative (aggregated) Hungarian content (in amount and in percentage). EXIM's inhouse technical expert or the commissioned independent technical expert shall, in respect of each transaction, continuously monitor the progress of the work, and of the respective fulfilment of the Hungarian content, although when assessing any claim for damages, the Hungarian content certificate/certificate of origin or the certificates prescribed for the service-provider entities shall be definitive.
- **Provision of cover in the national interest:** If the construction and installation transaction is classified as being in the national interest by MEHIB, the Hungarian content requirement in the case of construction and installation may be less than 25%, but it must reach at least 12.5% in order for MEHIB's risk-taking to cover the foreign content. The approval of insurance transactions representing the provision of cover in the national interest is performed by MEHIB's Board of Directors, in the course of which the Board of Directors, with a view to the provisions of Hungary's foreign economic policy for 2012-2020, takes into account the following criteria from among the various features of the transaction:
 - a) job creation, job protection;
 - b) retention and acquisition of export markets, contribution to further export growth;
 - c) contribution to improving the competitiveness of small and medium-sized enterprises;
 - d) expansion of supplier opportunities;

- e) extent of the share of domestic added value within the content classed as of Hungarian origin and
- f) environmental criteria, e.g. strengthening of the renewable energy sector.

Examination of the Hungarian content requirement:

MEHIB examines the fulfilment of the Hungarian content requirement set out in the insurance policy and in the schedule for fulfilment of the Hungarian content requirement attached to the policy only during claims assessment.

2. In the case of financing

As a general rule, at least a quarter (25%) of the value, less financing costs, of contracts for construction, assembly, technological installation, design and directly related services, must qualify as exports of Hungarian origin in order for Eximbank's financing to extend to the foreign content. In the case of Hungarian content of less than 25%, Eximbank's financing may only cover the actual Hungarian content. Eximbank does not provide export credit guarantees for construction and installation contracts with a Hungarian content of less than 25%.

The general rule may be departed from in the following two cases:

- **Hungarian content scheduling:** If the foreign trade contract also allows for completion in stages, the part-completion shall be deemed accepted if the extent of the Hungarian content at the time of the part-completion matches the Hungarian content specified in advance in the implementation schedule.
- **Financing in the national interest:** If the construction and installation transaction is classified as being in the national interest by Eximbank, the Hungarian content requirement for construction and installation may be less than 25%, but it must reach at least 12.5% in order for Eximbank's financing to extend to the foreign content. The approval of transactions representing financing in the national interest takes place in accordance with the procedure set out in the decision-making rules approved by the relevant minister under Section 1, Subsection (2) of Act XLII of 1994 on the Hungarian Export-Import Bank Limited and Hungarian Export Credit Insurance (MEHIB) Limited. Financing in the national interest may be provided if, in view of the contents of Hungary's latest foreign economic strategy, at the Hungarian company that is participating in the fulfilment of the foreign trade contract, and as a result of the transaction,
 - a) there has been an increase of at least 15% in its annual average statistical employee headcount – thus especially in the number of its employees who directly support its main activity – compared to the figure in the completed business year prior to the year in which the financing contract was concluded,
 - b) new export markets have been acquired through the commencement of the export of goods of Hungarian origin, or there has been an increase of at least 10% in export volume in the existing export markets,
 - c) there has been an increase in the volume of its supplier activity of at least 15%,
or
 - d) the implementation of transactions related to the renewable energy sector or to a key innovation sector has occurred.

Examination of the Hungarian content requirement:

Eximbank monitors the fulfilment of the Hungarian content requirement prior to disbursement in the case of buyer-credit provision as well as receivables discounting. If the Hungarian content determined during the technical expert's assessment falls short of the amount or the scheduling determined in the contractual documentation, EXIM may refuse to disburse the loan or suspend such disbursement until the Hungarian content is fulfilled in accordance with the contractual terms and legal requirements.

In the case of export-credit guarantee provision, Eximbank checks the fulfilment of the Hungarian content requirement before issuing the guarantee.

V. LEGISLATIVE BACKGROUND

- Government Decree 85/1998 (V. 6.) on the interest equalisation scheme of Hungarian Export-Import Bank Limited
- 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 applicable to replacement and interest costs associated with foreign exchange and interest rate swap transactions
- 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 Limited (MEHIB) against the central budget alongside a full payment guarantee from the Government