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# What to watch: Increased retirement age in China, the green angle to the US elections and the economic impacts of German border controls

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## In summary

This week we look at three critical issues:

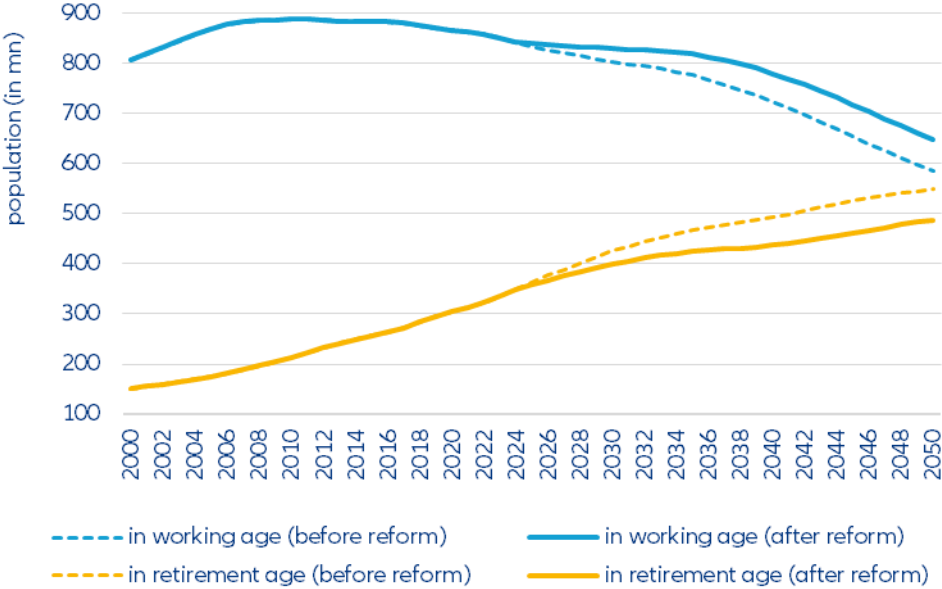
- **China's pension reform: Not bold enough.** After years of discussions, China will raise the retirement age for men to 63 and for women to 55/58 (blue-collar/white-collar). Unfortunately, without any further increases, the old-age dependency ratio will be close to 80% in mid-century, and while the reform should add +0.5pp to China's potential growth over 2025-2040, this will be insufficient to stave off China's long-term growth slowdown. We expect potential growth at +3.9% over 2025-2040 (vs. +7.0% 2011-2020). In this context, raising the retirement age further and reducing incentives for early retirement are essential. But companies also need to adapt to the needs of an aging workforce to retain older workers for longer.
- **The cost of new German border controls.** The reintroduction of border controls in Germany is expected to cause significant shipping delays, adding about 20 minutes to typical Schengen crossings. The resulting higher shipping costs will likely lead to a -9.1% decline in German imports of goods and -7.8% of services, totaling EUR1.1bn annually. The educational and recreation sector would be hit the hardest (+3.5%), followed by foodstuffs (+2.6%) and trade services (+2.4%). Machinery and electrical equipment, along with chemicals and pharmaceuticals, are also projected to experience significant import reductions of EUR147mn and EUR142.1mn, respectively. Overall, this could exacerbate recession risks in an already fragile environment. Neighboring countries will not be spared due to strong supply-chain linkages: Imports from the Netherlands are likely to drop by -EUR0.2bn, while those from Poland would decline by -EUR0.1bn and those from France by -EUR92.4mn.
- **Harris v. Trump: The climate story.** US CO2 emissions have been steadily declining due to affordable natural gas, increased renewable energy and enhanced energy efficiency. While this trend is expected to continue regardless of who wins the next elections, the contrasting climate and energy agendas of candidates Kamala Harris and Donald Trump could have vastly different impacts on the economy and the green transition. Harris advocates for clean-energy investments through the Biden administration's Inflation Reduction Act, while Trump favors fossil fuels and reducing support for renewables. If Trump wins, cuts to climate-research funding and global environmental contributions, as well as increased barriers to green trade, could slow progress and weaken international cooperation, leading to a "Fragmented World" transition. This could cost the global economy USD76.7trn by 2050 compared to a Paris-aligned transition that keeps global warming below 2°C.

# China's pension reform: not bold enough

After years of discussions, China has approved a reform plan to raise the retirement age for the first time since the 1950s. While it was expected that China would raise the retirement age to 65 by 2040, the approved plan is less ambitious. Now, the retirement age for men will increase to 63 from 60, while it will rise to 58 for women who are white-collar workers (from 55) and 55 for women who are blue-collar workers (from 50). These changes will be implemented gradually over a period of 15 years, starting from 1 January 2025<sup>1</sup>.

But these changes will not be enough to counter demographic developments. While they will dampen the increase of the old-age dependency ratio markedly, without further changes, China's retirement-age population will be as large as the working-age population by mid-century (Figure 1). The reform will slow the decline of the workforce population by around 7pps in the long run, adding up to 65mn people to the workforce each year in the 2040s and dampening the increase of the number of people in retirement age. More precisely, by 2040, the workforce will be larger by 55mn people. This means that the old-age dependency ratio, which measures the number of people of working age per 100 people of retirement age, will reach 56% in 2040, compared with 68% without the reform (and 41.5% today, Figure 2). However, to balance the ratio between people of working age and people of retirement age, China will need to increase the retirement age further. Sticking to the original proposed plan (the retirement age increasing to 65 by 2045) would have kept the old-age dependency ratio at today's level by 2040.

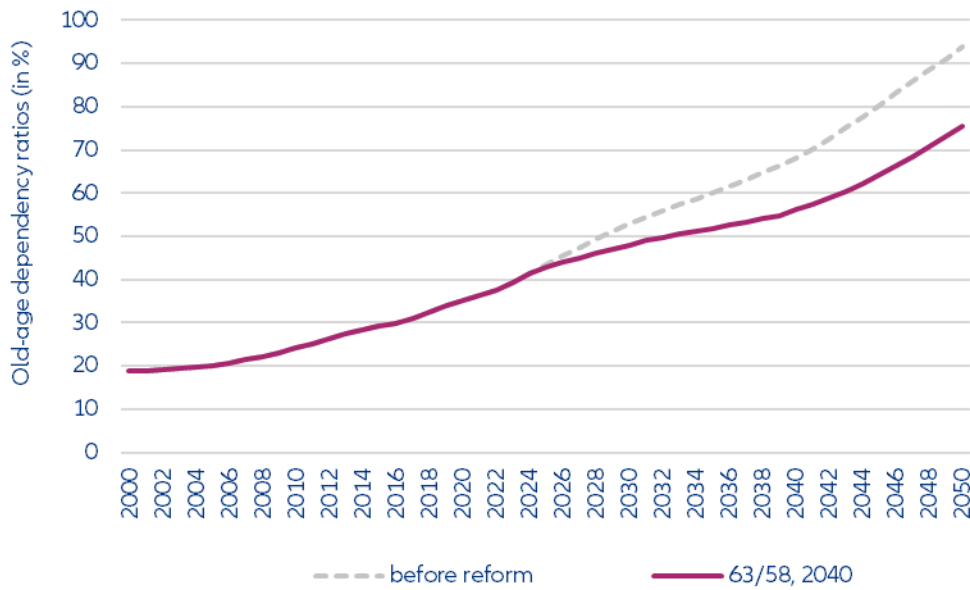
Figure 1: Working age and retirement age population (in mn)



Sources: UN Population Division (2024), Allianz Research.

Figure 2: Old-age dependency ratios, scenarios

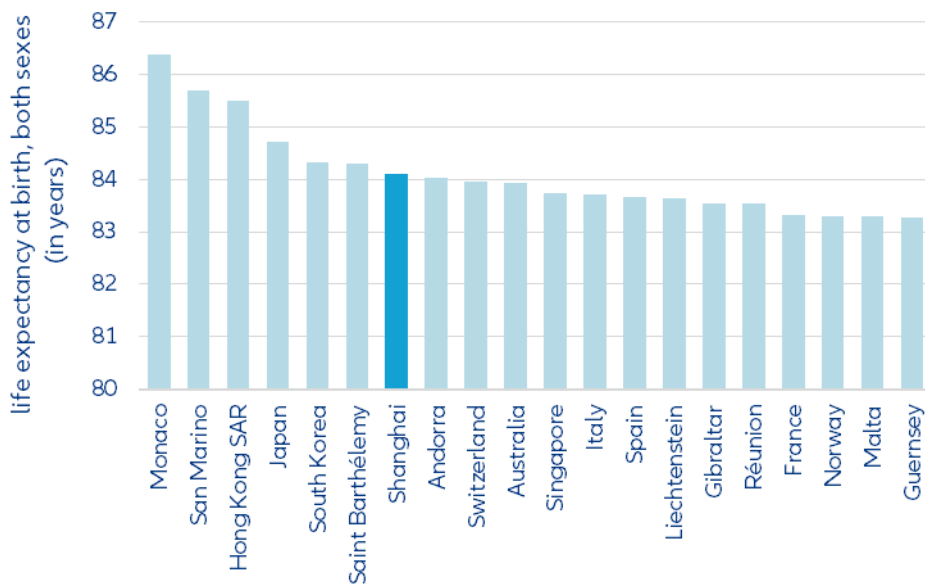
<sup>1</sup> The retirement age will rise by a month every four months (apart for female blue-collar workers, for whom it will rise by a month every two months).



Sources: UN Population Division (2024), Allianz Research

**Moreover, the reform does not take into account how much China’s life expectancy has increased and is expected to rise.** In 1950, a 60-year-old man was expected to spend 10.3 years in retirement, compared with 19.3 years now. In 2050, a man aged 63 is set to look forward to 21.4 years in retirement. A woman who retired at the age of 55 in 1950 could look forward to 15.8 years in retirement, compared with 28.1 years today. Even despite the current reform, the time to be spent in retirement would roughly increase by nearly another year in 2050 (with the further life expectancy of a female at the age of 58 expected to reach 28.8 years). Besides, there are marked regional differences in life expectancy within China. While the countrywide average life expectancy at birth stands at 78.0 years, in many eastern metropolitan regions such as Shanghai, it is already above 80. If counted as a country, Shanghai would rank among the top 20 of countries with the highest life expectancy worldwide (Figure 3).

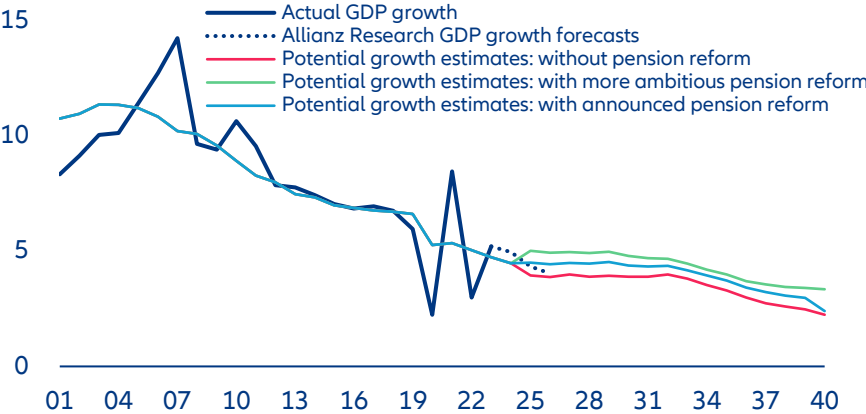
Figure 3: Life expectancy at birth, both sexes (in years)



Source: UN Population Division (2024)

**By boosting the labor supply, the reform should add +0.5pp to potential growth over 2025-2040 – a welcome boost but still insufficient.** International experience has shown that pension reforms tend to be unpopular. In this context, China’s economic slowdown and already weak private sector may have played a role in containing the extent of the reform. Indeed, the latest data show that retail sales slowed to +2.1% y/y in August (from +2.7% the previous month), while the consumer confidence index remains far below the pre-pandemic normal. Stepping up policy support to mitigate the downside pressures can be a short-term solution, but it is not a sustainable one. In the long run, we estimate that China’s potential growth will average +3.9% over 2025-2040, compared with +7.0% over 2011-2020 (Figure 4). This is due to a slowdown in all components: long-term productivity growing on average by +1.1% over 2025-2040 (vs. +1.8% over 2011-2020), capital per labor unit growing on average by +3.3% over 2025-2040 (vs. +5.5% over 2011-2020) and labor supply declining on average by -0.5% over 2025-2040 (vs. -0.3% over 2011-2020). We estimate that the reform to raise the retirement age will add +0.5pp to potential growth over 2025-2040 (as labor supply would have declined by -0.9% without it). While this is a welcome boost, sticking to the original proposal would have added +0.9pp to potential growth over 2025-2040 as the labor supply would have remained roughly stable over that period.

Figure 4: China real GDP – actual growth, forecasts and potential growth estimates (%)



Sources: LSEG Datastream, Allianz Research

**In short, further pension system reforms are necessary from both the demographic and economic standpoints.** Raising the retirement age further and reducing the incentives for early retirement by increasing the number of years necessary to claim a pension would also help. However, , companies also need to adapt to the needs of an aging workforce to retain older workers for longer. If companies (and the government) do not succeed in integrating the older workers into the labor market, the yearly unemployment rate would raise by +4.1pps on average over 2025-2040. In this situation, a higher retirement age will only imply being unemployed for longer before retiring and will be perceived as a hidden pension cut. Conversely, if older workers are successfully kept in the labor market, a higher retirement age could boost consumption as the generation 60+ and future pensioners would be more affluent. More broadly, further developing private pensions schemes could also help to unlock part of China’s very elevated savings rate.

### The cost of new German border controls

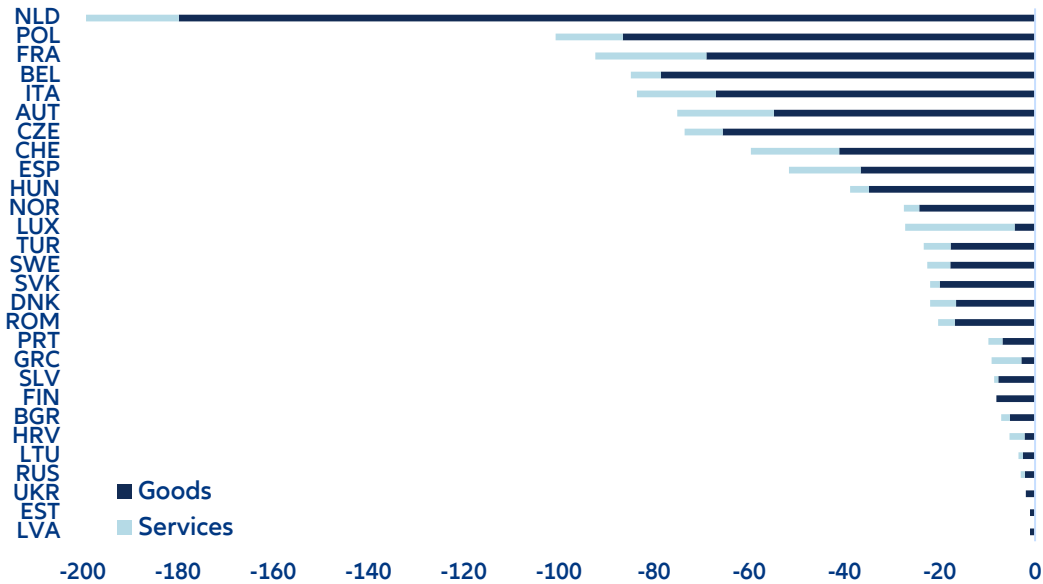
**German border controls could lead to significant shipping delays due to increased waiting times and congestion.** In response to the ongoing migration situation and illegal immigration, Germany has reintroduced border controls at all its land borders for the next six months. Some of these measures have been in place since the substantial influx of migrants in 2015 and following terror attacks, particularly with neighboring countries such as Austria, the Czech Republic, Poland and Switzerland. Now, borders with Denmark, the Netherlands, Belgium, Luxembourg and France are also affected. These spot-check border controls come with restrictions and additional costs for the movement of people, which could negatively impact tourism in Germany as well as the mobility of cross-border commuters. In addition, the added waiting times are expected to hinder international trade due to congestion at temporary border posts and cargo inspections. This will increase transportation costs for imports, reducing competitiveness – which is

already low for German producers – and overall trade volumes. Under normal circumstances, a typical border crossing within the Schengen area takes an average of 3.34 minutes.<sup>2</sup> However, even temporary border controls can significantly slow down traffic due to delays from inspections or congestion caused by reduced traffic flow and inefficient infrastructure. Travel and distance data suggest that a Schengen external border crossing on a transit route can add 20 minutes to travel time. Given Germany's role as a major transit country in Europe, these developments could also result in substantial delays and increased costs for businesses engaged in international trade within Europe.

**Border checks could increase shipping costs on major transport routes by +1.7% for goods and +1.5% for services.**

The increase in waiting times, particularly at busy crossings like the German-Dutch border, which sees about 1,000 trucks daily, could significantly impact the timely delivery of goods. Our estimates suggest that imported goods from continental European trade partners may become more expensive by +1.7%, while services could see a +1.5% increase. Consequently, we anticipate that goods imports into Germany could potentially decrease by -9.1% and services by -7.8%. Given that about two-thirds of German imports come through land borders with neighboring countries, this translates into a total annual decline of -EUR1.1bn, -EUR0.9bn in goods and -EUR0.2bn in services. Neighboring countries will be particularly affected due to strong supply-chain linkages (Figure 5). Imports from the Netherlands could drop by -EUR0.2bn, with 90% attributed to goods and 10% to services. Polish imports into Germany may see a decrease of -EUR0.1bn (86% in goods and 14% in services), while German imports from France could fall by -EUR92.4mn, primarily affecting the three-quarters of goods imports against one-quarter in services.

Figure 5: German imports at risk per annum due to additional border controls, in EURmn



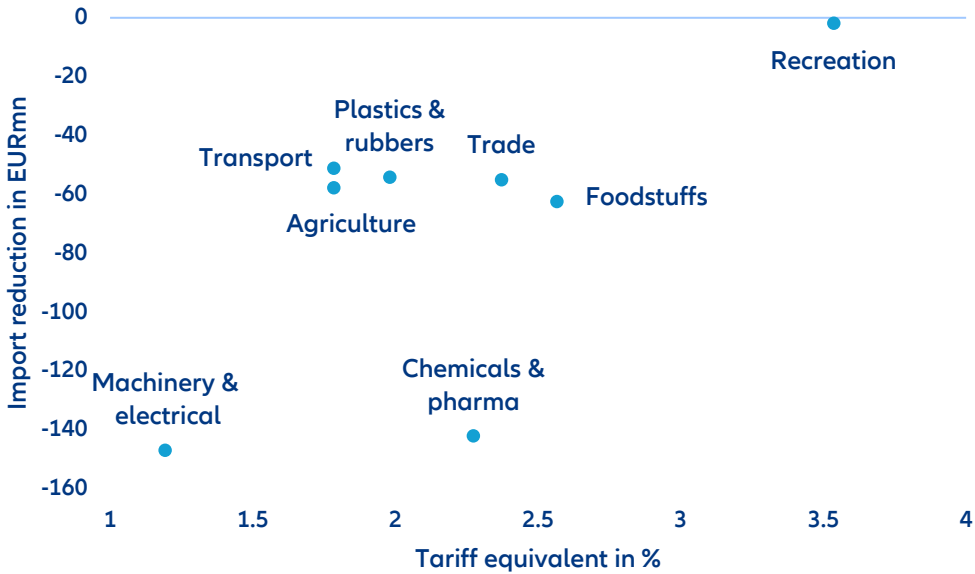
Sources: Eurostat, Felbermayr, Gröschl and Heiland (2022), Allianz Research. Notes: Calculations assume one additional border control in the Schengen area using estimates on Schengen borders based on Felbermayr, Gröschl and Heiland (2022), separating for goods and services trade. We assume that international trade outside of the European continent is treated with no additional border controls. The baseline year is 2023 for goods and for services, and 2022 where provisional services data is not yet available.

**The looming economic repercussions will put additional pressure on German industry.** Delays in the movement of goods could have significant implications, particularly for sectors that rely heavily on cross-border trade. Supply-chain disruptions may lead to stock shortages, increased operational costs and lost opportunities for time-sensitive industries such as perishable goods and just-in-time manufacturing. Among the sectors most affected, the educational and recreational sector faces the highest trade cost increases at +3.5%, followed by foodstuffs at +2.6%

<sup>2</sup> Due to imperfectly developed infrastructure (e.g. road narrowing, interruption of the highway) and the resulting traffic jams, the difference in travel time is not 0 minutes.

and trade services at +2.4% (Figure 6). Meanwhile, machinery and electrical equipment, along with chemicals and pharmaceuticals, are projected to experience substantial import reductions of -EUR147mn and -EUR142.1mn, respectively, underscoring their importance to the German economy. Such delays could jeopardize Germany's status as a crucial transit hub for European trade, making it less appealing for businesses that depend on efficient logistics. German companies already grappling with competitive pressures and global supply-chain challenges may find themselves further burdened by these new controls. Additionally, rising transportation costs could translate into higher prices for consumers, dampening already low domestic demand and potentially stifling economic growth. Overall, these factors could exacerbate recession risks in an already fragile economic environment, potentially reducing German GDP by up to EUR11.5bn per annum.

Figure 6: German imports at risk (in EURmn) and trade costs (in %) by sector due to additional border controls



Sources: Eurostat, Felbermayr, Gröschl and Heiland (2022), Allianz Research. Notes: Calculations assume one additional border control in the Schengen area. We assume that international trade outside of the European continent is treated with no additional border controls. The baseline year is 2023 for goods and for services, and 2022 where provisional services data is not yet available. Only sectors with statistically significant estimates in Felbermayr, Gröschl and Heiland (2022), Table 1, are considered. Tariff-equivalent calculations assume an elasticity of five; they indicate how much trade costs increase with one additional border check within the Schengen area.

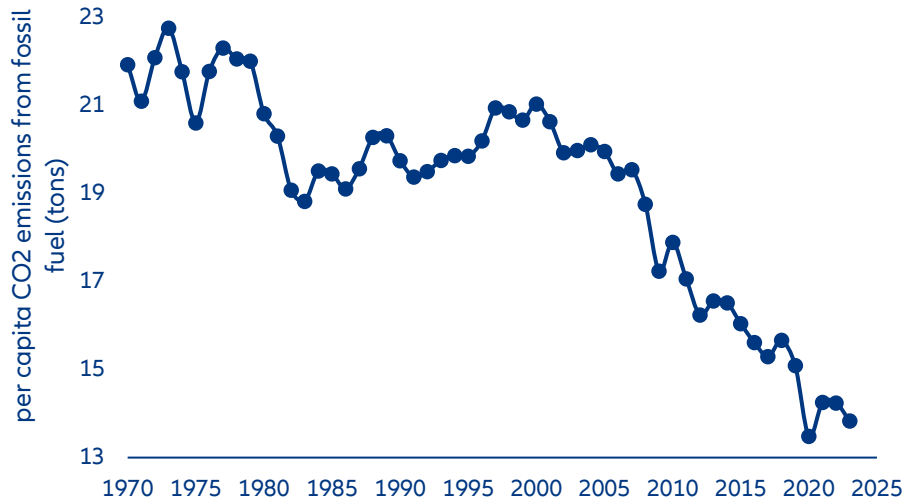
### Harris v. Trump: The climate story

Since the early 21st century, CO2 emissions in the US have been on a downward trend, largely independent of the political administration in power (Figure 7). This steady decline has been driven by a combination of factors, including technological advancements, market forces favoring cleaner energy and shifts in industrial practices driven by various national and international regulations<sup>3</sup>. Even during the Trump administration, which saw a rollback of several environmental regulations, emissions continued to decrease due to the increasing affordability of natural gas, renewable energy<sup>4</sup> and energy-efficiency improvements. Figure 8 shows that between 2017 and 2022, renewable energy capacity in the US grew significantly, rising from around 250 GW to approximately 380 GW, driven by increased investment in wind and solar power, as well as advancements in technology and supportive policies that encouraged the shift towards cleaner energy sources. Moreover, Figures 9a and 9b show the steady decline of coal production over the past decades, both in terms of production capacity and workforce numbers. Consequently, despite the continuous increase in dry natural gas production (Figure 10 showing a record on 36.35trn cubic feet in 2022), when President Biden took office in January 2021 and promptly rejoined the Paris Agreement,

<sup>3</sup> Evolution of ESG Reporting Frameworks  
<sup>4</sup> Renewable Power Generation – Costs in 2022 (IRENA)

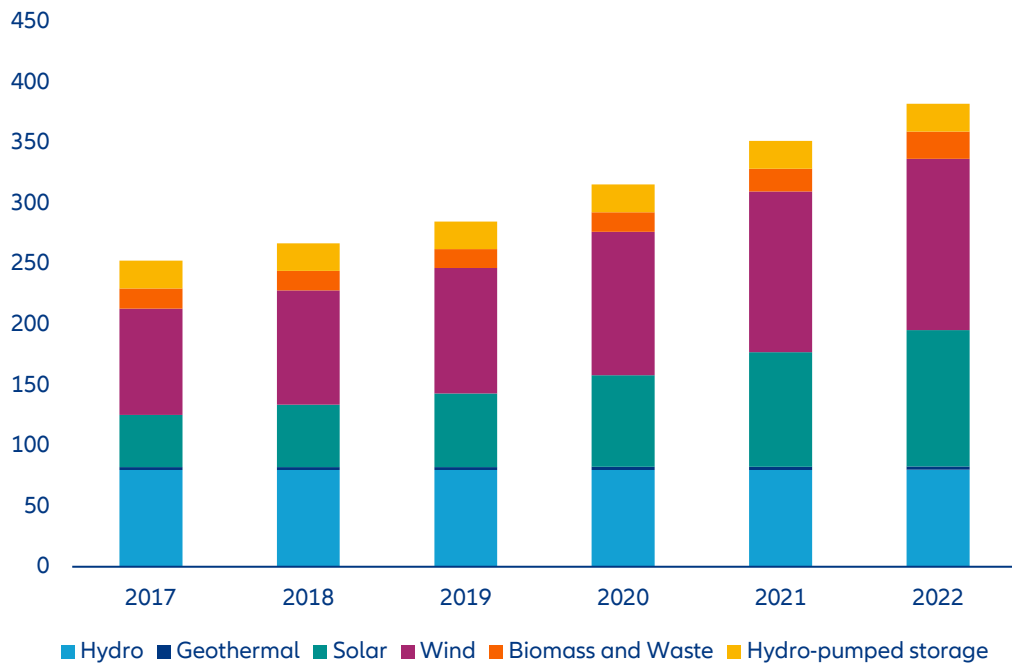
the trajectory of emissions did not undergo a dramatic shift, as many of the key drivers of decarbonization were already in motion.

Figure 7: Evolution of CO2 emissions from fossil fuel in the US (1970 – 2023)



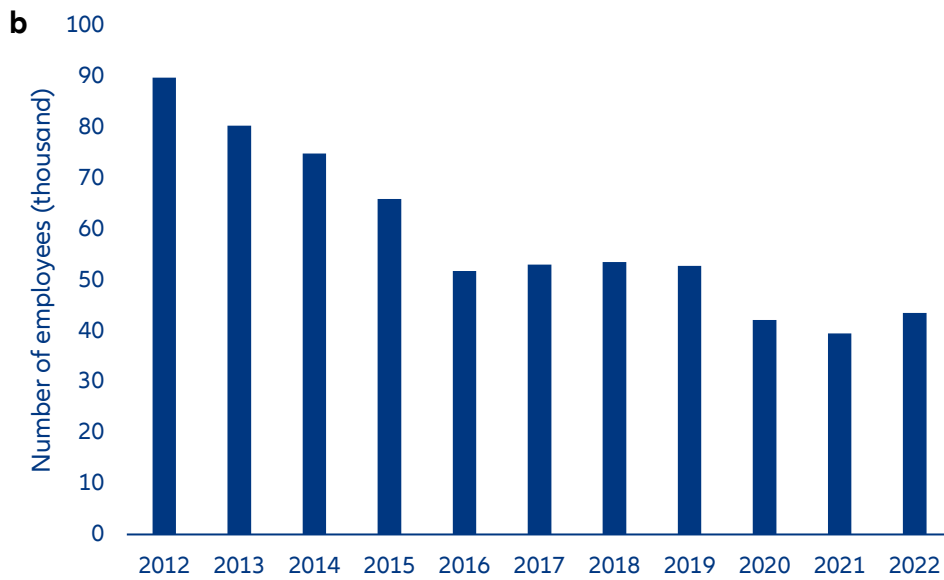
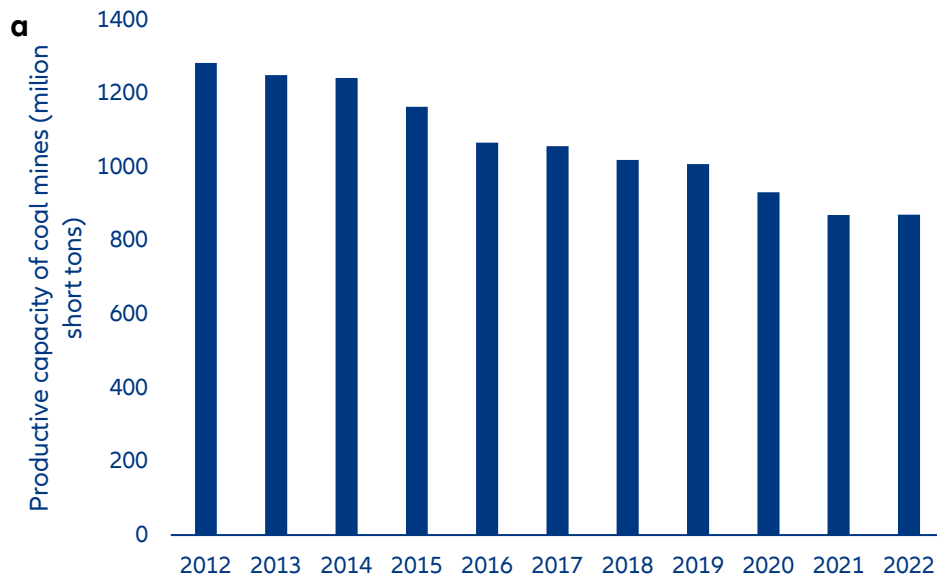
Source: [www.statista.com](http://www.statista.com) / Allianz Research

Figure 8: Renewable generation capacity in the US (in GW)



Source: EIA / Allianz Research

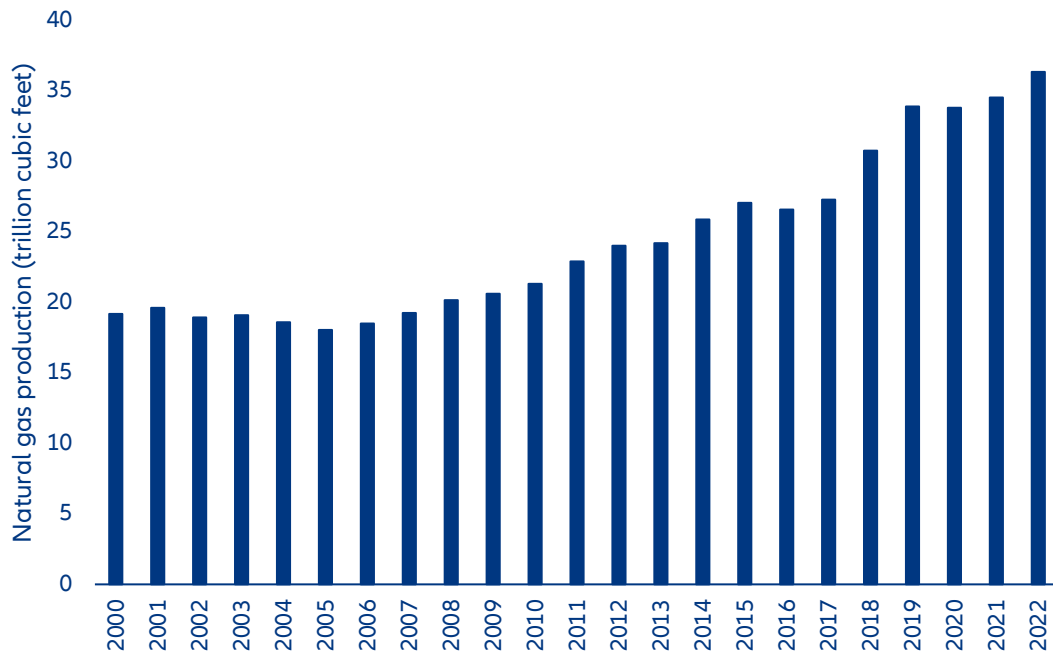
Figure 9: The coal industry in the US during the period 2012 – 2022



Source: EIA / Allianz Research

Figure 10: Evolution of natural gas production in the US (2000 – 2022)





Source: EIA / Allianz Research

**To accelerate the transition to clean energy and reduce greenhouse gas emissions further, the Biden administration introduced the landmark Inflation Reduction Act (IRA) in 2022.** The act provides tax incentives for businesses to adopt solar, wind and other renewable technologies, while also offering rebates and credits for consumers to purchase electric vehicles and energy-efficient appliances. Additionally, the IRA allocates funds for the development of green hydrogen, carbon-capture technology and the electrification of key industries. Notably, the act focuses on lowering energy costs for households and promoting energy independence by reducing reliance on fossil fuels.

**Although Democratic candidate Kamala Harris is expected to carry forward the Biden administration's legacy, by advancing Green New Deal goals utilizing IRA investments, both candidates have only provided sparse information on specifics of their respective transition agendas (Table 1).** But this is no surprise as new climate policies require careful consideration, and both candidates risk significant repercussions from making overly committal promises. For Harris, it is important to not scare off potential voters in important fossil-dependent swing states such as Pennsylvania while still maintaining a strong enough pro-climate stance to attract young voters. Meanwhile, Trump's core climate agenda is centered around supporting fossil fuels, though many Republican states have strongly benefited from climate investments through IRA funding in clean energy, manufacturing and retail.

**Both candidates do have similar goals when it comes to energy and industrial policy...** Harris and Trump both want to reduce energy costs, while decreasing foreign dependencies, and they also want to improve manufacturing and production within the US. This will require heavy investments in the necessary energy infrastructure such as transmission and distribution grids, as well as in the most cost-efficient energy-generation technologies. This suggests that a complete abandonment of renewable energy is unlikely, even under a second Trump term, as renewables are crucial for reducing electricity costs, particularly in the long term. Moreover, the creation of over 300,000 clean-energy jobs since the introduction of the IRA, along with a growing number of clean-tech startups in the US, is a strong argument for maintaining continuity in the sector.

**...But where they diverge is in how they plan to achieve their targets.** For one, there is the question of the role of the fossil industry. While there was an increase in overall fossil production under Biden/Harris and Harris recently rejected a fracking ban, tightening climate regulation and continued support for clean energy and manufacturing under the IRA will lead to a quicker phase-out of fossil fuels and eventually also to a decline in US oil & gas production. Trump on the other hand plans to promote fossil energy not only on the supply side by speeding up

drilling permissions and expanding drilling rights, but also on the demand side by reducing support for electric vehicles and lowering regulatory emission-reduction requirements. While this will not stop the long-term decline of the fossil-fuel industry, which also depends on international developments, it would lead to delays in the transition to renewables, particularly if incentives and support schemes for clean energy under the IRA are reduced or repurposed.

Table 1: Comparison of climate agendas

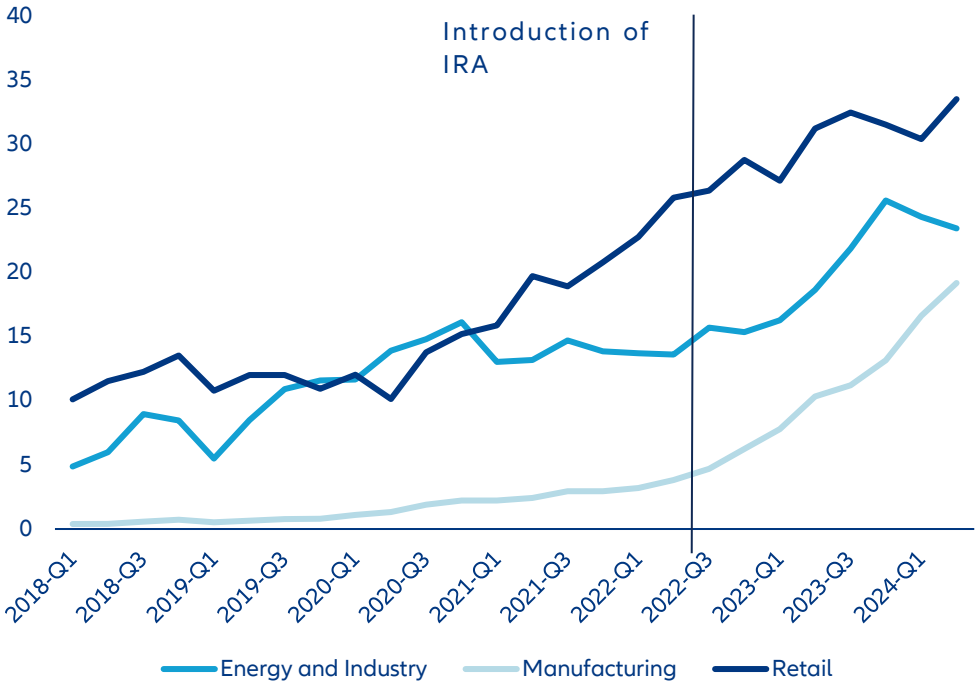
Trump	Harris
<b>Climate Goals</b>	
<ul style="list-style-type: none"> <li>Exit the Paris Climate Agreement</li> </ul>	<ul style="list-style-type: none"> <li>Net-Zero 2050 commitment under Paris Agreement</li> <li>Triple clean energy generation by 2030</li> <li>Eliminate carbon emissions from transportation by 2050.</li> <li>Protect at least 30% of US land and waters under National Conservation Goal</li> </ul>
<b>Green Transition</b>	
<ul style="list-style-type: none"> <li>Increase domestic oil and natural gas production by ending delays in federal drilling permits and leases and speeding up approval for pipelines</li> <li>Revise offshore leasing program for oil and gas to expand drilling auctions</li> <li>Tax relief for oil, gas and coal producers</li> <li>More support for nuclear (keeping plants open and supporting SMR roll-out)</li> <li>Stopping wind power subsidies</li> <li>Increase support for combustion engine cars.</li> <li>Stopping USD7500 tax credit for EVs under IRA</li> <li>Redirect IRA green energy spending and tax credits (not clear yet)</li> </ul>	<ul style="list-style-type: none"> <li>Reducing fossil fuel subsidies</li> <li>Continued tax credits and rebates under IRA for clean energy and EVs</li> <li>Justice40: Invest at least 40% of climate and clean energy in regions hardest hit by pollution</li> <li>Focus clean manufacturing in areas with below average wages.</li> </ul>
<p>Reduce Energy Prices</p> <p>Stronger support for manufacturing and production from the US</p> <p>Keep fracking</p> <p>Invest in energy infrastructure (grids)</p> <p>Reduce energy dependence</p>	
<b>Regulation</b>	
<ul style="list-style-type: none"> <li>Roll back of SEC disclosure rules for ESG and discourage ESG investment for retirement plans.</li> <li>Lowering CAFE fuel efficiency standards</li> <li>Abandoning EV target of reaching 35-56% by 2032.</li> </ul>	<ul style="list-style-type: none"> <li>Keep and tighten energy efficiency standards.</li> </ul>
<b>Trade &amp; International Cooperation</b>	
<ul style="list-style-type: none"> <li>Reciprocal Trade Act</li> <li>Imposing tariff on car imports from Mexico</li> </ul>	<ul style="list-style-type: none"> <li>Raised tariffs on specific goods from China (EVs, batteries, critical, minerals, solar cells...)</li> <li>Global deal to curb methane emissions (likely topic at COP29)</li> <li>Increase us contribution to international climate finance together with partners (USD11bn of climate finance by 2024)</li> <li>Support international climate investments via debt-for-nature swaps</li> </ul>
<p>Stronger stance against China on green tech</p>	
<b>Summary</b>	
<p><b>The Trump Road:</b> Achieve energy independence and lower energy costs by exiting the Paris Climate Agreement, boosting domestic fossil fuel production, rolling back green energy subsidies and implementing more protectionist trade policies with less international climate cooperation.</p>	<p><b>The Harris Road:</b> Continue Biden administration support for green investments focusing on achieving net-zero emissions by 2050, reducing fossil fuel subsidies and expanding renewable energy to lower costs and create green jobs, while focusing on US-based production without exiting international climate cooperation.</p>

Sources: Agenda47, 24 democratic party platform

**Ultimately, a key risk for the US energy transition comes from policy uncertainty.** While it is unlikely that a Trump victory would mean the complete abandonment of US climate policy, the continuity disruption could be detrimental to the country’s decarbonization targets. Companies delaying clean investments due to uncertainty on policy support and investors jumping ship out of fear of a public backlash are two major risks that could emerge. The IRA is going to stay regardless of who wins, but there will be differences in how much and where the money is spent. Trump will likely reduce funding for clean energy, with an initial focus on cutting down tax incentives for EVs and renewables. Even though the specifics are not yet clear, much of the investment spending would stay, albeit with a reduced focus on benefiting a fast decarbonization. This poses a substantial risk to the US green transition as considerably more funding is at stake compared to Trump’s first term in office when green investments were only a third of what they are today (Figure 11).

**Another potential risk stems from economic short-termism.** In an effort to keep energy costs low and reduce the strain on the federal budget, it might be tempting to underinvest in essential energy infrastructure. However, any short-term gains would come at a significant cost, not only due to escalating climate damages but also because of the risk of losing long-term competitiveness to countries with lower energy costs. While this risk would likely be higher under a second Trump term, a Harris administration would not be immune, especially when confronted with increasing public and congressional opposition.

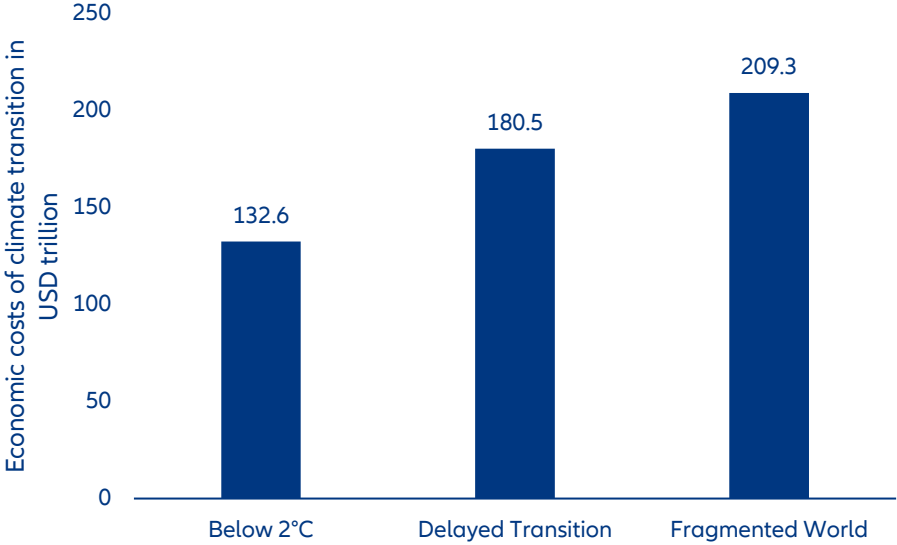
Figure 11: Green investments by sector (in USD bn)



Source: [Clean Investment Monitor](#)

**Looking beyond the US, despite Trump's goal to withdraw from the Paris Agreement, the global green transition will persist, though at a slower pace in the short term.** However, cuts to US climate research funding and the halt of American contributions to global environmental funds will slow progress on long-term climate goals and weaken international cooperation. This could result in a fragmented global response to climate change, increasing the likelihood of significant economic damages from both physical climate impacts and transition risks. Figure 12 illustrates how a fragmented climate transition would result in economic costs between USD76.7trn and USD28.8trn by 2050, compared to the more favorable outcomes of Paris-aligned transitions (Below 2°C and Delayed Transition).

Figure 12: Economic costs of climate transition for three different NGFS scenarios (in USD trn)



Source: NiGEM-NGFS-REMIND / Allianz Research

**Should Trump fulfill his promise on the Reciprocal Trade Act, it could further disrupt international clean tech value chains.** Although not specifically aimed at green technologies, an emerging trade-barrier arms race involving goods crucial to the green transition would increase costs and delay the achievement of international climate targets. While a Harris administration is expected to exercise greater caution in raising trade barriers, both candidates are likely to adopt a more protectionist stance on clean-energy imports, particularly concerning China, as recently evidenced by the increase in tariffs on EVs, batteries and solar panels.

**Reduced US contributions to global climate financing could leave developing countries at greater risk of severe economic damages from climate change.** At the end of 2023, Vice President Kamala Harris pledged USD3bn to support developing countries in mitigating and combating climate change, with USD2bn confirmed, positioning the US as the leading contributor to the Green Climate Fund. This fund is crucial for financing adaptation projects in developing nations. However, should Trump come to power, significant cuts in US contributions to global climate financing could jeopardize this support, leaving developing countries at greater risk of severe economic damages from climate change. These nations, especially Small Island Developing States and Least Developed Countries (LDCs), rely heavily on international climate finance for adaptation efforts. Insufficient funding could force them to delay or deprioritize critical projects aimed at building resilience to climate impacts such as extreme weather events, rising sea levels and droughts. Increasing international climate finance will therefore be the central talking point of this year’s COP29 in late November. A Trump victory, coupled with a potential withdrawal of US climate funding, could complicate negotiations, and diminish the chances of reaching a far-reaching international agreement.

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