For Official Use **TD/CONSENSUS(2002)19/FINAL**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **25-Feb-2003**

English - Or. English

TRADE DIRECTORATE

TD/CONSENSUS(2002)19/FINAL
For Official Use

Cancels & replaces the same document of 16 October 2002

Arrangement on Guidelines for Officially Supported Export Credits

ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS

This is the updated version of the Arrangement on Guidelines for Officially Supported Export Credits that included all decisions and amendments agreed by the Participants since the previously published version (1998); it will be made publicly available through the OECD export credit website.

Contact: Mrs. Janet West, Head, Export Credits Division, Trade Directorate, OECD
Tel. 33 (0)1 45 24 89 10; Fax. 33 (0)1 44 30 61 58; e-mail: janet.west@oecd.org

JT00139888

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English - Or. English

Declassified

TABLE OF CONTENTS

INTRODUCTION 7

CHAPTER I: SCOPE OF THE ARRANGEMENT 9

1. PARTICIPATION 9
2. SCOPE OF APPLICATION 9
3. SPECIAL SECTORAL APPLICATIONS AND EXCLUSIONS 9
4. REVIEW 10
5. WITHDRAWAL 10
6. MONITORING 10

CHAPTER II: PROVISIONS FOR EXPORT CREDITS 11

7. CASH PAYMENTS 11
8. REPAYMENT TERMS 11
9. STARTING POINT OF CREDIT 11
10. MAXIMUM REPAYMENT TERM 12
11. SPECIAL TERMS FOR POWER PLANT OTHER THAN NUCLEAR POWER PLANT 13
12. CLASSIFICATION OF COUNTRIES FOR MAXIMUM REPAYMENT TERMS 13
13. REPAYMENT OF PRINCIPAL 14
14. PAYMENT OF INTEREST 14
15. MINIMUM INTEREST RATES 14
16. CONSTRUCTION OF CIRRs 15
17. APPLICATION OF CIRRs 15
18. COSMETIC INTEREST RATES 16
19. OFFICIAL SUPPORT FOR COSMETIC INTEREST RATES 16
20. MINIMUM PREMIUM 16
21. COUNTRY RISK CLASSIFICATION METHODOLOGY 17
22. MINIMUM PREMIUM BENCHMARKS 17
23. RELATED CONDITIONS 18
24. PREMIUM FEEDBACK TOOLS 19
25. LOCAL COSTS 20
26. VALIDITY PERIOD FOR EXPORT CREDITS 20
27. NO DEROGATION ENGAGEMENT FOR EXPORT CREDITS 20
28. ACTION TO AVOID OR MINIMISE LOSSES 23
29. MATCHING 23

CHAPTER III: PROVISIONS FOR TRADE-RELATED AID 24

30. GENERAL PRINCIPLES FOR TIED AID 24
31. DEFINITION OF TIED AID 24
32. FORMS OF TIED AID 24
33. ASSOCIATED FINANCING 25
34. COUNTRY ELIGIBILITY FOR TIED AID 26
35. PROJECT ELIGIBILITY FOR TIED AID 26
36. EXEMPTIONS FROM ELIGIBILITY RULES 27

37. DEFINITION OF CONCESSIONALITY LEVEL OF TIED AID 27
38. CALCULATION OF CONCESSIONALITY LEVEL OF TIED AID 28
39. VALIDITY PERIOD FOR TIED AID 29
40. NO DEROGATION ENGAGEMENT FOR TIED AID 29
41. MATCHING 30

CHAPTER IV: PROCEDURES 31

SECTION 1: COMMON PROVISIONS FOR EXPORT CREDITS AND TRADE-RELATED AID 31

42. COMMITMENT 31
43. FIRM UNDERTAKING 31
44. PERIOD FOR REPLIES 31
45. STANDARD FORM FOR ALL NOTIFICATIONS 31
46. INFORMATION ON OFFICIAL SUPPORT 32

SECTION 2: NOTIFICATION PROCEDURES FOR EXPORT CREDITS 32

47. DEROGATIONS: PRIOR NOTIFICATION WITH DISCUSSION 32
48. PERMITTED EXCEPTIONS : PRIOR NOTIFICATION WITH DISCUSSION 32
49. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITHOUT DISCUSSION 32
50. MATCHING OF DEROGATIONS 33
51. MATCHING OF PERMITTED EXCEPTIONS 33
52. MATCHING OF NON-CONFORMING TERMS AND CONDITIONS NOT NOTIFIED 34
53. MATCHING OF TERMS AND CONDITIONS OFFERED BY A NON-PARTICIPANT 34

SECTION 3: NOTIFICATION PROCEDURES FOR TRADE-RELATED AID 34

54. DEROGATIONS: PRIOR NOTIFICATION WITH DISCUSSION 34
55. PRIOR NOTIFICATION 34
56. PROMPT NOTIFICATION 35
57. EXEMPTIONS FOR UNTIED AID 35
58. EXEMPTIONS FOR TECHNICAL ASSISTANCE AND SMALL PROJECTS 35
59. TYING STATUS OF AID 36
60. MATCHING OF PRIOR NOTIFICATIONS 36
61. MATCHING OF PROMPT NOTIFICATIONS 36

SECTION 4: CONSULTATION PROCEDURES FOR TRADE-RELATED AID 36

62. PURPOSE OF CONSULTATIONS 36
63. SCOPE AND TIMING OF CONSULTATIONS 37
64. CONSULTATION PROCEDURES FOR LARGE PROJECTS 37
65. OUTCOME OF CONSULTATIONS 37

SECTION 5: INFORMATION EXCHANGE PROCEDURES FOR EXPORT CREDITS AND TRADE-RELATED AID 38

66. CONTACT POINTS 38
67. SCOPE OF ENQUIRIES 38
68. SCOPE OF RESPONSES 38
69. FACE-TO-FACE CONSULTATIONS 38
70. COMMON LINES 39
71. PROCEDURES AND FORMAT OF COMMON LINES 39
72. RESPONSES TO COMMON LINE PROPOSALS 40
73. ACCEPTANCE OF COMMON LINES 40
74. DISAGREEMENT ON COMMON LINES 40
75. EFFECTIVE DATE OF COMMON LINE 40

76. VALIDITY OF COMMON LINES 41
77. DEVIATION FROM A COMMON LINE 41

SECTION 6: OPERATIONAL PROVISIONS FOR THE COMMUNICATION OF MINIMUM INTEREST RATES (CIRRs) 41

78. COMMUNICATION OF MINIMUM INTEREST RATES 41
79. EFFECTIVE DATE FOR APPLICATION OF INTEREST RATES 42
80. IMMEDIATE CHANGES IN INTEREST RATES 42

SECTION 7: OPERATIONAL PROVISIONS FOR THE EXCHANGE OF INFORMATION FOR PREMIUM 42

81. ELECTRONIC EXCHANGE OF INFORMATION FOR PREMIUM (EEI) 42

SECTION 8: REVIEWS 42

82. ANNUAL REVIEW 42
83. REVIEW OF MINIMUM INTEREST RATES 42
84. REVIEW OF MINIMUM PREMIUM BENCHMARKS AND RELATED ISSUES 43

CHAPTER V: FUTURE WORK 44

85. GLOBAL UNTYING 44
86. MARKET WINDOWS 44
87. SECTORS 44
88. DIFFERENCES OF INTERPRETATION 44

ANNEX I: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS 45

CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING 45
1. PARTICIPATION 45
2. SCOPE OF APPLICATION 45
CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID 46
3. MAXIMUM REPAYMENT TERMS 46
4. CASH PAYMENTS 46
5. REPAYMENT OF PRINCIPAL 46
6. MINIMUM PREMIUM 46
7. AID 46
CHAPTER III: PROCEDURES 46
8. NOTIFICATION 46
9. REVIEW 46

ATTACHMENT: COMMITMENTS FOR FUTURE WORK 48

ANNEX II: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR NUCLEAR POWER PLANT49

CHAPTER I : SCOPE OF THE SECTOR UNDERSTANDING 49
1. SCOPE OF APPLICATION 49
2. REVIEW 49
CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID 49
3. MAXIMUM REPAYMENT TERM 49
4. MINIMUM INTEREST RATES 50
5. CONSTRUCTION OF SCIRRS 50
6. LOCAL COSTS AND CAPITALISATION OF INTEREST 50
7. OFFICIAL SUPPORT FOR NUCLEAR FUEL 50
8. AID 51
CHAPTER III : PROCEDURES 51

9. PRIOR CONSULTATION 51
10. PRIOR NOTIFICATION 51

ANNEX III: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT 52

PART 1. NEW LARGE AIRCRAFT AND ENGINES FOR SUCH AIRCRAFT 52
CHAPTER I: SCOPE 52
1. FORM AND SCOPE OF APPLICATION 52
2. OBJECTIVE 52
CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND AID 52
3. CASH PAYMENTS 52
4. MAXIMUM REPAYMENT TERM 53
5. ELIGIBLE CURRENCIES 53
6. MINIMUM INTEREST RATES 53
7. INTEREST RATE ADJUSTMENTS 54
8. VALIDITY PERIOD FOR EXPORT CREDITS/INTEREST RATE OFFERS 54
9. DETERMINATION OF INTEREST RATE OFFERS AND SELECTION OF INTEREST RATES54
10. PURE COVER SUPPORT 54
11. COMPETITION REFERENCE POINT 54
12. SECURITY FOR THE REPAYMENT RISK 54
13. MODEL CHANGES 55
14. LEASES 55
15. AID 55
CHAPTER III: PROCEDURES 55
16. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE 55
17. REVIEW 55
PART 2: ALL NEW AIRCRAFT EXCEPT LARGE AIRCRAFT 55
CHAPTER IV: SCOPE 55
18. FORM AND SCOPE OF APPLICATION 55
19. BEST ENDEAVOURS 55
20. CATEGORIES OF AIRCRAFT 56
CHAPTER V: PROVISIONS FOR EXPORT CREDITS AND AID 56
21. MAXIMUM REPAYMENT TERM 56
22. MINIMUM INTEREST RATES 56
23. INSURANCE PREMIUM AND GUARANTEE FEES 56
24. AID 56
CHAPTER VI: PROCEDURES 56
25. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE 56
26. REVIEW 57
PART 3: USED AIRCRAFT, SPARE ENGINES, SPARE PARTS, MAINTENANCE AND SERVICE CONTRACTS 58
CHAPTER VII: SCOPE 58
27. FORM AND SCOPE OF APPLICATION 58
28. USED AIRCRAFT 58
29. SPARE ENGINES AND SPARE PARTS 58
30. MAINTENANCE AND SERVICE CONTRACTS 59
CHAPTER VIII: PROCEDURES 59
31. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE 59
32. REVIEW 59

APPENDIX I: ILLUSTRATIVE LIST 60

LARGE CIVIL AIRCRAFT 60

CATEGORY A AIRCRAFT 61
CATEGORY B AIRCRAFT 62

ANNEX IV: STANDARD FORM FOR NOTIFICATIONS 64

ANNEX V: STANDARD FORM FOR NOTIFICATION OF PERMITTED EXCEPTIONS FROMMINIMUM PREMIUM BENCHMARKS 66

ANNEX VI: CHECKLIST OF DEVELOPMENTAL QUALITY 68

CHECKLIST OF DEVELOPMENTAL QUALITY OF AID-FINANCED PROJECTS 68
CONSISTENCY OF THE PROJECT WITH THE RECIPIENT COUNTRY'S OVERALL INVESTMENT PRIORITIES (PROJECT SELECTION) 68
PROJECT PREPARATION AND APPRAISAL 68
PROCUREMENT PROCEDURES 69

ANNEX VII: ELECTRONIC EXCHANGE OF INFORMATION (EEI) 70

ANNEX VIII: UNDERSTANDING ON THE APPLICATION OF FLEXIBILITY TO THE TERMS AND CONDITIONS OF THE ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS IN RESPECT OF PROJECT FINANCE TRANSACTIONS FOR A TRIAL PERIOD (UNTIL 31 AUGUST 2002) 71

CHAPTER I: SCOPE 71
1. FORM AND SCOPE OF APPLICATION 71
CHAPTER II: PROVISIONS FOR EXPORT CREDITS 71
2. REPAYMENT OF PRINCIPAL AND MAXIMUM REPAYMENT TERMS 71
3. PAYMENT OF INTEREST 72
4. MINIMUM INTEREST RATES 72
5. MINIMUM PREMIUM 72
CHAPTER III: PROCEDURES 72
6. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITH EXPLANATION 72
CHAPTER IV: REVIEW 72
7. TRIAL PERIOD AND MONITORING 72

APPENDIX 1: DESCRIPTION AND CRITERIA 74

GENERAL DESCRIPTION 74
ESSENTIAL CRITERIA 74
ILLUSTRATIVE CRITERION 75

APPENDIX 2: ADDITIONAL INFORMATION FOR NOTIFICATIONS 75

INTRODUCTION

Purpose and Application

The main purpose of the Arrangement on Guidelines for Officially Supported Export Credits, referred to throughout this document as the Arrangement, is to provide a framework for the orderly use of officially supported export credits.

The Arrangement seeks to encourage competition among exporters from the OECD-exporting countries based on quality and price of goods and services exported rather than on the most favourable officially supported terms.

The Arrangement applies to officially supported export credits with repayment terms of two years or more, relating to exports of goods and/or services or to financial leases, i.e. a lease equivalent in effect to a contract of sale. The Arrangement also addresses the circumstances in which official support in the form of trade-related tied and partially untied aid - referred to throughout as tied aid - may be given and/or mixed with officially supported export credits.

"Official support"[1] can take the form of direct credits/financing, refinancing, interest rate support, aid financing (credits and grants), export credit insurance and guarantees. Direct credits/financing, refinancing and interest rate supports are referred to as official financing support.

The Arrangement places limitations on the terms and conditions of export credits that benefit from official support. Such limitations include minimum premium benchmarks, the minimum cash payments to be made at or before the starting point of credit, maximum repayment terms and minimum interest rates which benefit from official financing support. There are also restrictions on the provision of tied aid. Finally, the Arrangement includes procedures for derogations from and possible exceptions to these restrictions, as well as procedures for prompt and prior notification, consultation, and exchange of information and review.

Military equipment and agricultural commodities are excluded from the application of the Arrangement. Special guidelines apply to ships, nuclear power plant and aircraft.

Best Endeavours

The Arrangement sets out the most generous repayment terms and conditions that may be supported. All Participants recognise the risk that over time, these maximum repayment terms and conditions may come to be regarded as normal practice. They therefore undertake to take the necessary steps to prevent this risk from materialising.

Traditionally, certain trade or industrial sectors may also have enjoyed less generous repayment terms and conditions than the maximum allowed under the Arrangement. The Participants shall continue to respect

[1] See Article 88 (Future Work)

such customary terms and conditions and shall do everything in their power to maintain the customary credit terms and conditions.

Status

The Arrangement, developed within the OECD framework, came into being in April 1978 following agreement among its Participants. The Arrangement is a “Gentlemen's Agreement” among the Participants. The Arrangement is not an OECD Act, although it receives the administrative support of the OECD Secretariat (the Secretariat).

CHAPTER I: SCOPE OF THE ARRANGEMENT

1. PARTICIPATION

a) The Participants to the Arrangement are: Australia, Canada, the Czech Republic, the European Community (which includes the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom) Japan, Korea, New Zealand, Norway, Switzerland and the United States.

b) The Participants agree to respect and to apply the terms of the Arrangement. Other countries willing to apply these Guidelines may become Participants following prior invitation of the existing Participants.

2. SCOPE OF APPLICATION

The Arrangement shall apply to all official support for exports of goods and/or services, or to financial leases, which have repayment terms (as defined in Article 8) of two years or more. This is regardless of whether the official support for export credits is given by means of direct credits/financing, refinancing, interest rate support, guarantee or insurance. The Arrangement shall also apply to official support in the form of tied aid.

3. SPECIAL SECTORAL APPLICATIONS AND EXCLUSIONS

The Participants shall apply special guidelines to the following sectors:

a) Ships

The Arrangement shall apply to ships not covered by the Sector Understanding on Export Credits for Ships, which has been adopted by all Participants to the Arrangement as an annex to the Arrangement (Annex I). For the Participants to the Sector Understanding, the Arrangement shall apply to ships covered by that Understanding, except that where a corresponding provision exists in the Sector Understanding, which complements the Arrangement, the Sector Understanding shall prevail.

b) Nuclear Power Plant

The Arrangement shall apply except that where a corresponding provision exists in the Sector Understanding on Export Credits for Nuclear Power Plant (Annex II), which complements the Arrangement, the Sector Understanding shall prevail. The Arrangement shall apply to official support provided for the decommissioning of nuclear power plant, i.e. the closing down or dismantling of a nuclear power plant.

c) Aircraft

The Arrangement shall apply, except that where a corresponding provision exists in the Sector Understanding on Export Credits for Civil Aircraft (Annex III), which complements the Arrangement, the Sector Understanding shall prevail.

d) Exclusions

The Arrangement does not apply to official support relating to exports of:

- Military Equipment; or
- Agricultural Commodities.

4. REVIEW

The Participants shall review, at least annually, the functioning of the Arrangement. Its provisions can be revised by review as set out in Articles 82, 83 and 84.

5. WITHDRAWAL

The Arrangement is of indefinite duration, nevertheless a Participant may withdraw by notifying the other Participants in writing by means of instant communication, e.g. the OECD On-line Information System (OLIS), telex, telefax. The withdrawal takes effect 60 calendar days after receipt of the notification by the Participants.

6. MONITORING

The Secretariat shall monitor the implementation of the Arrangement.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS

7. CASH PAYMENTS

a) The Participants shall require purchasers of goods and services which are the subject of official support to make cash payments of a minimum of 15 per cent of the export contract value at or before the starting point of credit as defined in Article 9.

b) The export contract value is the total amount to be paid by or on behalf of the purchaser for goods and/or services exported, i.e. excluding local costs as defined in Article 25 and also interest. In the case of a lease, it excludes the portion of the lease payment that is equivalent to interest.

c) Official support for such cash payments can only take the form of insurance and guarantees, i.e. pure cover, against the usual pre-credit risks.

d) For the assessment of cash payments, the export contract value may be reduced proportionally if the transaction includes goods and services from a third country which are not officially supported.

e) Retention payments made after the starting point of credit are not regarded as cash payments in this context.

8. REPAYMENT TERMS

The repayment term is the period beginning at the starting point of credit, as defined in Article 9, and ending on the contractual date of the final payment.

9. STARTING POINT OF CREDIT

The starting point of credit is:

a) *Parts or components (intermediate goods)*: In the case of parts or components (intermediate goods, including related services), the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods (including services, if applicable) by the buyer or, for services, the date of the submission of the invoices to the client or acceptance of services by the client.

b) *Quasi-capital goods (including related services)*: In the case of quasi-capital goods (including related services), the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods by the buyer or, if the exporter has responsibilities for commissioning, then the latest starting point is at commissioning, or for services, the date of the submission of the invoices to the client or acceptance of the service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

c) Capital goods and project services:

- In the case of a contract for the sale of capital goods consisting of individual items usable in themselves, the latest starting point is the actual date when the buyer takes physical possession of the goods, or the weighted mean date when the buyer takes physical possession of the goods.

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point is the date at which the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- If the exporter has responsibility for commissioning, the latest starting point is at commissioning.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

d) Complete plants or factories:

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point of credit is the date when the buyer takes physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- In case of construction contracts where the contractor has no responsibility for commissioning, the latest starting point is the date when construction has been completed.

- In the case of any contract where the supplier or contractor has a contractual responsibility for commissioning, the latest starting point is the date when he has completed installation or construction and preliminary tests to ensure it is ready for operation. This applies whether or not it is handed over to the buyer at that time in accordance with the terms of the contract and irrespective of any continuing commitment which the supplier or contractor may have, e.g. for guaranteeing its effective functioning or training local personnel.

- Where the contract involves the separate execution of individual parts of a project, the date of the latest starting point is the date of the starting point for each separate part, or the mean date of those starting points, or, where the supplier has a contract, not for the whole project but for an essential part of it, the starting point may be that appropriate to the project as a whole.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or the acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

10. MAXIMUM REPAYMENT TERM

The maximum repayment term varies according to the classification of the country of destination determined by the criteria in Article 12.

a) For Category I countries, the maximum repayment term is five years, with the possibility of agreeing eight-and-a-half years when the procedures for prior notification set out in Article 49 are followed.

b) For Category II countries, the maximum repayment term is ten years.

c) Official support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country which is not the final destination of the goods exclusively with the aim of obtaining more favourable repayment terms.

d) In the event of a contract involving more than one country of destination the Participants should seek to establish a common line in accordance with the procedures in Articles 71 to 77 to reach agreement on appropriate terms.

11. SPECIAL TERMS FOR POWER PLANT OTHER THAN NUCLEAR POWER PLANT

a) For power plant other than nuclear power plant, the maximum repayment term shall be 12 years. If a Participant intends to support a repayment term longer than five years for Category I countries or a repayment term longer than ten years for Category II countries, the Participant shall give prior notification in accordance with the procedure in Article 49.

b) Power plant other than nuclear power plant are complete power stations, or parts thereof, not fuelled by nuclear power; they include all components, equipment, materials, and services (including the training of personnel) directly required for the construction and commissioning of such non-nuclear power stations. This does not include items for which the buyer is usually responsible, e.g. costs associated with land development, roads, construction villages, power lines, and switchyard and water supply; as well as costs arising from official approval procedures (e.g. site permits, fuel loading permits) in the buyer's country, except

- in cases where the buyer of the switchyard is the same as the buyer of the power plant, the maximum repayment terms for the original switchyard shall be the same as those for the conventional power plant (i.e. 12 years)

- the maximum repayment terms for sub-stations, transformers and transmission lines with a minimum voltage threshold of 100 kv shall be the same as those for the conventional power plant (i.e. 12 years).

12. CLASSIFICATION OF COUNTRIES FOR MAXIMUM REPAYMENT TERMS

a) Category I countries are those which are on the World Bank's graduation list[2]. All other countries are in Category II. The World Bank graduation level is recalculated on an annual basis. A country will change category only after its World Bank category has remained unchanged for two consecutive years.

b) The following operational criteria and procedures apply when classifying countries.

1) Classification for Arrangement purposes is determined by per capita GNI as calculated by the World Bank for the purposes of the World Bank classification of borrowing countries.

[2] For example using 2001 data, those countries with a GNI per capita above $5,185.

2) In cases where the World Bank does not have enough information to publish per capita GNI data, the World Bank shall be asked to estimate whether the country in question has a per capita GNI above or below the current threshold. The country shall be classified according to the estimate unless the Participants decide to act otherwise.

3) If a country is reclassified in accordance with Article 12 a) the reclassification will take effect two weeks after the conclusions drawn from the above-mentioned data from the World Bank have been communicated to all Participants by the Secretariat.

4) In cases where the World Bank revises figures, such revisions shall be disregarded in relation to the Arrangement. Nevertheless, the classification of a country may be changed by way of a common line and Participants would favourably consider a change due to errors and omissions in the figures subsequently recognised in the same calendar year in which the figures were first distributed by the Secretariat.

13. REPAYMENT OF PRINCIPAL

a) The principal sum of an export credit shall normally be repaid in equal and regular instalments not less frequently than every six months, with the first instalment to be made no later than six months after the starting point of credit.

b) In the case of leases, this profile of repayments may be applied either for the amount of principal only, or for the amount of principal and interest combined.

c) Prior notification according to Article 49 is required if a Participant does not intend to follow this practice.

14. PAYMENT OF INTEREST

a) Interest shall not normally be capitalised during the repayment period, but shall be payable not less frequently than every six months, with the first payment to be made no later than six months after the starting point of credit.

b) Prior notification in accordance with Article 49 is required if a Participant does not intend to follow this practice.

c) Interest excludes:

- any payment by way of premium or other charge for insuring or guaranteeing supplier credits or financial credits. Where official support is provided by means of direct credits/financing or refinancing, the premium either may be added to the face value of the interest rate or may be a separate charge; both components are to be specified separately to the Participants;

- any other payment by way of banking fees or commissions relating to the export credit other than annual or semi-annual bank charges that are payable throughout the repayment period

- Withholding taxes imposed by the importing country.

15. MINIMUM INTEREST RATES

The Participants providing official financing support through direct credits/financing, refinancing, or interest rate support shall apply minimum interest rates; the Participants shall apply the relevant

Commercial Interest Reference Rates (CIRRs). CIRRs are interest rates established according to the following principles:

- CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned;
- CIRRs should closely correspond to the rate for first-class domestic borrowers;
- CIRRs should be based, where appropriate, on the funding cost of fixed interest-rate finance over a period of no less than five years;
- CIRRs should not distort domestic competitive conditions
- CIRRs should closely correspond to a rate available to first-class foreign borrowers.

16. CONSTRUCTION OF CIRRs

a) With the principles in Article 15 in mind, CIRRs shall be set at a fixed margin of 100 basis points above their respective base rates unless Participants have agreed otherwise.

b) Each Participant shall initially select one of the following two base rate systems for its national currency:

- three-year government bond yields for repayment terms of up to and including five-years; five-year government bond yields for over five and up to and including eight-and-a half years seven-year government bond yields for over eight-and-a-half years; or
- five-year government bond yields for all maturities.

Exceptions to the base rate system shall be agreed by the Participants.

c) The exception to the base rate system is the Won CIRR, which is based on the Korean five-year National Housing Bond yield plus 100 basis points for all maturities.

d) Other Participants shall use this selection should they decide to finance in that currency.

e) A Participant may change its base rate system after giving six months' advance notice and with the counsel of the Participants.

f) A Participant which wishes to provide official support in the currency of a country which is not a Participant may make a proposal for the construction of the CIRR in that currency using common line procedures in accordance with Articles 70 to 77.

17. APPLICATION OF CIRRs

a) The interest rate applying to a transaction shall not be fixed for a period longer than 120 days. A margin of 20 basis points shall be added to the CIRR if the terms of the official financing support are fixed before the contract date.

b) Where official financing support is provided for floating rate loans, banks and other financing institutions shall not be allowed to offer the option of the lower of either the CIRR (at time of the original contract) or the short-term market rate throughout the life of the loan.

18. COSMETIC INTEREST RATES

Cosmetic interest rates are rates below the relevant CIRR, which benefit from official support, and which may involve a compensatory measure including a corresponding increase in the contract value or other contractual adjustment.

19. OFFICIAL SUPPORT FOR COSMETIC INTEREST RATES

a) Official financing support by means of direct financing shall not be provided at rates below the relevant CIRR.

b) Official support may be provided by the following means:

- official financing support, other than specified above, as long as such support is not offered at cosmetic interest rates; and/or

- official support in the form of insurance and guarantees, i.e. pure cover.

c) If there is an enquiry from another Participant about a transaction, the Participant which intends to support the transaction should use its best endeavours to clarify the financial terms and mechanisms, including the compensatory measure.

d) A Participant with information which suggests that non-conforming terms may have been offered by another Participant shall make reasonable efforts to determine whether or not the transaction benefits from official financing support, and whether or not the terms of this support conform to the provisions of Article 15 of the Arrangement. This Participant will be considered to have made such reasonable efforts if it has informed, by means of instant communication, the other Participant assumed to have offered such non-conforming terms, of its intention to match. Unless the Participant allegedly offering the non-conforming terms declares within three working days that the transaction does not benefit from official financing support or that the terms of the official financing support conform to the provisions of Article 15 of the Arrangement, the matching Participant has the right to match these terms according to the procedure in Article 50.

20. MINIMUM PREMIUM

a) The Participants providing official support through direct credits/financing, refinancing, export credit insurance and guarantees, shall charge no less than the minimum premium benchmarks for the sovereign credit risk and the country credit risk, irrespective of whether the buyer/borrower is a private or public entity.

b) Sovereign credit risk is the full faith and credit of the State, e.g. the Ministry of Finance or the Central Bank.

c) Country credit risk is the assessment of whether a country will service its external debts. The five elements of country credit risk are:

- general moratorium on repayments decreed by the buyer's/borrower's/guarantor's government or by that agency of a country through which repayment is effected;

- political events and/or economic difficulties arising outside the country of the notifying Participant or legislative/administrative measures taken outside the country of the notifying Participant which prevent or delay the transfer of funds paid over in respect of the credit;

- legal provisions adopted in the buyer's/borrower's country declaring repayments made in local currency to be a valid discharge of the debt, notwithstanding that, as a result of fluctuations in exchange rates, such repayments, when converted into the currency of the credit, no longer cover the amount of the debt at the date of the transfer of funds;

- any other measure or decision of the government of a foreign country which prevents repayment under a credit

- cases of *force majeure* occurring outside the country of the notifying Participant, i.e. war (including civil war), expropriation, revolution, riot, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves and nuclear accidents.

d) The minimum premium benchmarks shall be established in accordance with the principles set out in Articles 21 to 23.

e) The Participants may charge at a level above the minimum premium benchmarks.

21. COUNTRY RISK CLASSIFICATION METHODOLOGY

a) Premium shall be risk based.

b) To assess the risk and to establish a common reference classification of countries, they are scored according to the Quantitative Country Risk Model (the Model):

- the Model is based, for each country, on three groups of risk indicators: the payment experience of the Participants, the financial situation and the economic situation;

- the methodology of the Model consists of different steps including the assessment of the three groups of risk indicators, and the combination and flexible weighting of the risk indicator groups

- such scoring results in countries being classified into seven risk categories.

c) In accordance with procedures agreed by the Participants, the quantitative outcome of the Model shall be considered country-by-country to integrate, in a qualitative way, the political risk and/or other risk factors not taken into account by the Model; if appropriate, this may lead to an adjustment to the Model classification to reflect the final assessment of the country credit risk.

d) If a country is classified/reclassified in accordance with this Article, the Secretariat shall inform immediately all Participants of the new classification. The Participants shall apply the minimum premium benchmark in conformity with the new classification no later than five working days after this new classification has been communicated by the Secretariat.

22. MINIMUM PREMIUM BENCHMARKS

a) Premium shall converge. To ensure convergence, minimum premium benchmarks, consistent with the level of risk, not inadequate to cover long-term operating costs and losses and taking into account a set of standard related conditions, shall be determined as follows:

- minimum premium benchmarks are established for each of the seven risk categories;

- the standard product to which the minimum premium benchmarks relate shall be insurance with 95 per cent cover, proportionately adjusted for the amount at risk, with cover of interest during the claims waiting period of six months without a separate premium surcharge

- direct credits/financing shall be considered as standard products for 100 per cent cover.

b) The "High Income OECD countries" (as defined by the World Bank)[3] as well as other countries with similar risks shall not be subject to the application of minimum premium benchmarks with the understanding that the pricing of the private market shall not be undercut. A country will be removed from or added to the list of High Income OECD countries only after its GNI per capita has remained below or above the threshold for High Income OECD countries for two consecutive years. If a country is reclassified in accordance with this principle, the reclassification will take effect two weeks after the conclusions drawn from the World Bank have been communicated to all Participants by the Secretariat.

c) The "highest risk" countries in Category seven shall, in principle, be subject to appropriate premium surcharges to the minimum premium benchmarks established for that Category; any such surcharges shall be set by the Participant providing official support.

d) There shall be differentiated minimum premium benchmarks for sovereign credit risk and country credit risk.

e) The minimum premium benchmarks for sovereign credit risk shall be the minimum rates for public sector risk and private sector risk where both the country risk and the buyer/borrower risk are covered.

f) In situations where the buyer/borrower risk is excluded, the minimum country credit risk premium benchmark shall be set at 90 per cent of the minimum sovereign credit risk premium benchmark, i.e. a discount of 10 per cent from the minimum sovereign credit risk premium benchmark may be applied.

g) Minimum premium benchmarks are expressed in percentages of the principal value of the credit as if premium were collected in full at the date of the credit, insurance or guarantee as illustrated in the Electronic Exchange of Information (EEI) referred to in Annex VII.

23. RELATED CONDITIONS

a) To accommodate the differing quality of products provided by the Participants, the minimum premium benchmarks shall be adjusted to take account of the related conditions. The treatment of related conditions shall be based on the exporter's perspective (i.e. to neutralise the competitive effect arising from the differing qualities of product provided to the exporter/financial institution), and three related conditions:

- the percentage of cover;

- the claims waiting period, i.e. the period between the due date of payment by the buyer/borrower and the date that the insurer/guarantor is liable to reimburse the exporter/financial institution

3. For example using 2001 data, those countries with a GNI per capita above $9,206.

– the cover of interest during the claims waiting period without surcharge.

b) To take account of non-standard related conditions, the minimum premium benchmarks are adjusted upwards or downwards. All existing products of the Participants shall be classified into one of the three product categories which are:

– below standard product, i.e. insurance without cover of interest during the claims waiting period and insurance with cover of interest during the claims waiting period with an appropriate premium surcharge;

– standard product, i.e. insurance with cover of interest during the claims waiting period without an appropriate premium surcharge and direct credits/financing

– above standard product, i.e. unconditional guarantees.

c) Pricing differentials shall reflect the quality differences of all three product categories; these pricing differentials shall attribute surcharges in the case of above standard products and premium discounts in the case of below standard products.

d) Minimum premium benchmarks shall be adjusted for each percentage of cover, above and below the standard percentage of cover, i.e. 95 per cent.

24. PREMIUM FEEDBACK TOOLS

a) Premium shall not be inadequate to cover long term operating costs and losses. To ensure the adequacy of premium benchmarks and to allow, if necessary, for adjustments, either upwards or downwards:

– three premium feedback tools (PFTs), shall be used in parallel to monitor and adjust the minimum premium benchmarks

– the PFTs are the accruals and cash flow accounting approaches collated on an aggregate Participants' level and, where appropriate, private market indicators.

b) It is understood that:

– the use of the PFTs shall not require the Participants to change their existing accounting systems and practices;

– all officially supported export credits which take the form of direct credits/financing, refinancing, export credit insurance or guarantees to which the Arrangement applies shall be reported;

– only sovereign and country credit risk shall be reported, irrespective of whether the buyer risk is covered;

– the PFTs shall use a common start date

– the concept of claims shall encompass refinanced debts under direct credits/financing, refinancing, export credit insurance or guarantees; it shall also encompass rolled-over, overdue and defaulted loans.

25. LOCAL COSTS

a) Local Costs consist of expenditure for goods and services in the buyer's country, that are necessary either for executing the exporter's contract or for completing the project of which the exporter's contract forms a part. These exclude commission payable to the exporter's agent in the buying country.

b) Official Support shall not be provided for more than 100 per cent of the value of the goods and services exported, including those supplied by third countries, but excluding local costs. In consequence, the amount of local costs supported on credit terms shall not exceed the amount of the cash payment. Official support for local costs shall not be provided on more favourable terms than agreed for the related exports.

c) For Category I countries official support for local costs shall be confined to insurance and guarantees, i.e. pure cover, and shall not involve official financing support.

26. VALIDITY PERIOD FOR EXPORT CREDITS

Credit terms and conditions for an individual export credit or line of credit shall not be fixed for a period exceeding six months. A line of credit is a framework, in whatever form, for export credits that covers a series of transactions which may or may not be linked to a specific project.

27. NO DEROGATION ENGAGEMENT FOR EXPORT CREDITS

a) The Participants shall not derogate from maximum repayment terms, minimum interest rates**,** minimum premium benchmarks (after adjustment for related conditions), the six-month limitation on the validity period for export credit terms and conditions, or extend the repayment term by extending the repayment date of the first instalment of principal set out in Article 13 a).

b) Notwithstanding sub-paragraph a) above, a Participant may, subject to the procedures set out in Article 48, apply a premium benchmark below the minimum benchmark (after adjustment for related conditions) when the country credit risk (as detailed in Article 20) is either externalised/removed or limited/excluded for the entire life of the debt repayment obligation, as follows:

- If a Participant is able to externalise/remove the five elements of country credit risk (for the entire life of the debt repayment obligation) as detailed in Article 20, the minimum premium benchmark shall be determined by the country credit risk of the jurisdiction to which the risk has been transferred.

- If a Participant is able to limit/exclude any of the five elements of country credit risk (for the entire life of the debt repayment obligation), the Participant may apply an appropriate discount to the minimum premium benchmark. The expectation is that any discount where the transfer risk, as set out in the first and second tiret of Article 20 c) is excluded, should not exceed 50 per cent of the minimum premium benchmark.

- Each Permitted Exception to the minimum premium benchmarks shall be on a case by case basis and shall not be taken as a precedent for any future case by any Participant.

c) The list of Permitted Exceptions to the minimum premium benchmarks is as follows:

1. Third Country Unconditional Guarantee.

2. Multilateral or Regional Institutions' Intervention.

3. Offshore Future Flow Structure Combined with Offshore Escrow Account.

4. Offshore Hard Security.

5. Offshore Asset-Based Security.

6. Asset-Secured and Asset-Based Financing.

7. Third Country Insurance or Conditional Guarantee.

8. Debtor Representing a Better Risk than the Sovereign.

9. Co-financing with International Financial Institutions (IFIs).

10. Local Currency Financing.

The Secretariat shall maintain the applicability criteria which the Participants shall use in order to determine whether cases qualify for the appropriate maximum levels of discount to the minimum premium benchmarks.

d) For the purpose of applying Permitted Exceptions and the appropriate maximum levels of discount to the minimum premium benchmarks, the Participants have agreed that:

- the levels of discounts are the maximum that would be envisaged in the best circumstances and shall be justified on a case-by-case basis;

- each application of a Permitted Exception shall not be taken as a precedent for any future case by any Participant;

- in the case of the exclusion of risks or limitation in extent:

  - the first three country credit risks are indivisible and their pricing is fixed at a maximum of 50 per cent; and

  - the fourth and fifth country credit risks are indivisible and their pricing is fixed at a maximum of 20 per cent[4];

- any combination of Permitted Exception techniques shall take into account that the possible overlapping impact of two or more techniques on identical country credit risks shall not justify the corresponding discounts to be accumulated. In the case of overlapping, only the

4. With regard to the Paris Club:

- normally, the risk externalisation or mitigating techniques apply equally to all debtors in relation to the occurrence of country credit risks;
- the developments within the Paris Club will be followed by the Participants with regard, *inter alia*, to any general position it may take towards certain forms of security (e.g. escrow accounts, asset-based financing)
- it is not excluded that with regard to some of the Permitted Exception techniques, a lower discount may need to be considered for public sector debts.

best quality security shall normally be considered by the notifying Participant in determining the appropriate level of discount or eventually to reach the maximum level of discount;

- for each Permitted Exception, the notifying Participant shall ascertain whether the security arrangements can be validly enforced in their legal/judicial environment;

- consistent with the provisions of Article 22 b), the use of Permitted Exception techniques involving "High Income OECD countries" shall not lead to Participants undercutting the pricing of the private market in similar situations

- in cases where a transaction is financed in parallel by other sources of finance, any security retained by the Participant is treated, at least, *pari passu* with the same security held by the other sources of finance.

28. ACTION TO AVOID OR MINIMISE LOSSES

The Arrangement does not prevent export credit insurance authorities or financing institutions from agreeing more favourable terms and conditions than permitted if such action is taken after the contract award (when the export credit agreement and ancillary documents have already become effective) and where the intention is solely to avoid or minimise loss from events which could give rise to non-payment or claims.

29. MATCHING

a) The Participants may match credit terms and conditions notified according to the procedures in Articles 47, 48 and 49, as well as credit terms and conditions not notified or those supported by non-Participants. The matching support may not extend beyond the validity period of the credit terms and conditions being matched.

b) The Participants shall match credit terms and conditions by supporting terms that comply with the Arrangement, unless the initiating offer itself does not comply with the Arrangement. Where matching involves minimum premium benchmarks, the Participants shall be free to match the rate only if it is providing support on the basis of a similar quality risk, also taking into account product quality. A Participant intending to match credit terms and conditions:

- notified by another Participant shall follow the procedures in Articles 50 or 51 as appropriate;
- not notified by a Participant shall follow the procedures in Article 52; or
- supported by a non-Participant shall follow the procedures in Article 53.

CHAPTER III: PROVISIONS FOR TRADE-RELATED AID

30. GENERAL PRINCIPLES FOR TIED AID

a) The Participants have agreed to the general principle that they should have complementary policies for export credits and tied aid. Export credit policies should be based on open competition and the free play of market forces. Tied aid policies should provide needed external resources to countries, sectors or projects with little or no access to market financing. Tied aid policies should ensure best value for money, minimise trade distortion, and contribute to developmentally effective use of these resources.

b) The tied aid provisions of the Arrangement do not apply to the aid programmes of multilateral or regional institutions.

c) These principles do not prejudge the views of the Development Assistance Committee (DAC) on the quality of tied and untied aid.

31. DEFINITION OF TIED AID

a) Tied aid, which includes loans, grants or associated financing packages with a concessionality level greater than zero per cent, is defined as aid which is in effect (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or a restricted number of countries.

b) This definition applies whether the "tying" is by formal agreement or by any form of informal understanding between the recipient and the donor country, or whether a package includes components from the list in Article 32 below that are not freely and fully available to finance procurement from the recipient country, substantially all other developing countries and from the Participants, or if it involves practices that the DAC or the Participants consider equivalent to such tying.

c) If there is uncertainty as to whether a certain financing practice falls within the scope of this definition, the donor country shall furnish evidence in support of any claim to the effect that the aid is in fact "untied", i.e. aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from substantially all developing countries and from OECD countries.

32. FORMS OF TIED AID

Tied aid can take the form of:

- Official Development Assistance (ODA) loans as defined in the "DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)";

- ODA grants as defined in the "DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)"

- Other Official Flows (OOF), which includes grants and loans but excludes officially supported export credits that are in conformity with the Arrangement; or

– any association, e.g. mixture, in law or in fact, within the control of the donor, the lender or the borrower involving two or more of the preceding, and/or the following financing components:

- an export credit that is officially supported by way of direct credits/financing, refinancing, interest rate support, guarantee or insurance to which the Arrangement applies

- other funds at or near market terms, or cash payments from the purchaser.

33. ASSOCIATED FINANCING

a) Associated financing may take various forms including mixed credits, mixed financing, joint financing, parallel financing or single integrated transactions. The main characteristics are that they all feature :

– a concessional component that is linked in law or in fact to the non-concessional component;

– either a single part or all of the financing package that is, in effect, tied aid; and

– concessional funds that are available only if the linked non-concessional component is accepted by the recipient.

b) Association or linkage "in fact" is determined by such factors as:

– the existence of informal understandings between the recipient and the donor authorities;

– the intention by the donor to facilitate the acceptability of a financing package through the use of ODA;

– the effective tying of the whole financing package to procurement in the donor country;

– the tying status of ODA and the means of tendering for or contracting of each financing transaction; or

– any other practice, identified by the DAC or the Participants in which a *de facto* liaison exists between two or more financing components.

c) The following practices shall not prevent the determination of an association or linkage "in fact":

– contract splitting through the separate notification of the component parts of one contract;

– splitting of contracts financed in several stages;

– non-notification of interdependent parts of a contract; and/or

– non-notification because part of the financing package is untied.

34. COUNTRY ELIGIBILITY FOR TIED AID

a) There shall be no tied aid to countries whose per capita GNI would be sufficient to make them ineligible for 17-year loans from the World Bank[5]. The World Bank recalculates the threshold for this category on an annual basis. A country will be reclassified only after its World Bank category has been unchanged for two consecutive years.

b) The following operational criteria and procedures apply when classifying countries.

1) Classification for Arrangement purposes is determined by per capita GNI as calculated by the World Bank for the purposes of the World Bank classification of borrowing countries.

2) In cases where the World Bank does not have enough information to publish per capita GNI data, the World Bank shall be asked to estimate whether the country in question has a per capita GNI above or below the current threshold. The country shall be classified according to the estimate unless the Participants decide to act otherwise.

3) If a country's eligibility for tied aid does change in accordance with Article 34 a) the reclassification shall take effect two weeks after the conclusions drawn from the above mentioned World Bank data have been communicated to all Participants by the Secretariat. Before the effective date of reclassification no tied aid financing for a newly eligible country may be notified; after that date, no tied aid financing for a newly promoted country may be notified, except that individual transactions covered under a prior committed credit line may be notified until the expiry of the credit line (which shall be no more than one year from the effective date).

4) In cases where the World Bank revises figures such revisions shall be disregarded in relation to the Arrangement. Nevertheless, the classification of a country may be changed by way of a common line, in accordance with the appropriate procedures in Articles 71 c), 72 a) and b), 73 a), b) and d), 74, 75 and 76 a), and the Participants would favourably consider a change due to errors and omissions in the figures subsequently recognised in the same calendar year as the figures were first distributed by the Secretariat.

5) Notwithstanding the classification of countries ineligible or eligible to receive tied aid, the provision of tied aid to Bulgaria, Czech Republic, Hungary, Poland, Romania and the Slovak Republic is covered by the Participants' agreement to try to avoid such credits other than outright grants, food aid and humanitarian aid, as long as such agreement is in force. The OECD Ministers endorsed this policy in June 1991[6].

35. PROJECT ELIGIBILITY FOR TIED AID

a) Tied aid shall not be extended to public or private projects that normally should be commercially viable if financed on market or Arrangement terms.

---

5. For example using 2001 data, those countries with a GNI per capita above $2,975.

6. Notwithstanding the classification of countries ineligible or eligible to receive tied aid, tied aid policy for Belarus, Latvia, Lithuania, the Russian Federation and Ukraine is covered by the Participants' agreement to try to avoid such credits other than outright grants, food aid and humanitarian aid. The prolongation of this agreement is to be decided on an annual basis, normally in the fourth quarter of the year.

For the purposes of the soft ban, the decommissioning of nuclear power plant for emergency or safety reasons can be regarded as "humanitarian aid".

b) The key tests for such aid eligibility are:

- whether the project is financially non-viable, i.e. does the project lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project's operating costs and to service the capital employed, i.e. the first key test, or

- whether it is reasonable to conclude, based on communication with other Participants, that it is unlikely that the project can be financed on market or Arrangement terms, i.e. the second key test.

c) The key tests under sub-paragraph b) above are intended to describe how a project should be evaluated to determine whether it should be financed with such aid or with export credits on market or Arrangement terms. Through the consultation process in Articles 62 and 65, a body of experience is expected to develop over time that will more precisely define, for both export credit and aid agencies, *ex ante* guidance as to the line between the two categories of projects.

36. EXEMPTIONS FROM ELIGIBILITY RULES

a) The provisions of Articles 34 and 35 do not apply to tied aid where the concessionality level is 80 per cent or more except for tied aid that forms part of an associated financing package, described in Article 33.

b) The provisions of Article 35 do not apply to tied aid with a value of less than two million Special Drawing Rights (SDRs) except for tied aid that forms part of an associated financing package, described in Article 33.

c) Derogation from the rules in this Chapter shall be possible if the Participants so agree through the common line procedures set out in Articles 71 to 77. The Participants may also derogate from the rules in Articles 34 and 35 in accordance with the procedures set out in Article 40 c).

d) Tied aid for Least Developed Countries (LLDCs) as defined by the United Nations is not subject to the provisions of Articles 34 and 35.

37. DEFINITION OF CONCESSIONALITY LEVEL OF TIED AID

The concessionality level of tied aid is similar to the “grant element” concept used by the DAC. In the case of grants the concessionality level is 100 per cent. In the case of loans, the concessionality level is the difference between the nominal value of the loan and the discounted present value of the future debt service payments to be made by the borrower. This difference is expressed as a percentage of the nominal value of the loan.

38. CALCULATION OF CONCESSIONALITY LEVEL OF TIED AID

The concessionality level of tied aid is calculated using the same method as for the grant element used by the DAC, except that:

a) The discount rate used to calculate the concessionality level of a loan in a given currency, i.e. the Differentiated Discount Rate (DDR), is subject to annual change on 15 January and is calculated as follows:

   – The average of the CIRR + Margin

   Margin (M) depends on repayment terms (R) as follows:

R	M
less than 15 years	0.75
from 15 years up to, but not including 20 years	1.00
from 20 years up to but not including 30 years	1.15
from 30 years and above	1.25

   – For all currencies the average of the CIRR is calculated taking an average of the monthly CIRRs valid during the six-month period between 15 August of the previous year and 14 February of the current year. The calculated rate, including the Margin, is rounded to the nearest ten basis points. If there is more than one CIRR for the currency, the CIRR for the longest maturity as set out in Article 16 b), shall be used for this calculation.

b) The base date for the calculation of the concessionality level is the starting point of credit as set out in Article 9.

c) For the purpose of calculating the overall concessionality level of an associated financing package, the concessionality levels of the following credits, funds and payments are considered to be zero:

   – export credits that are in conformity with the Arrangement;

   – other funds at or near market rates;

   – other official funds with a concessionality level of less than the minimum permitted under Article 40 a), except in cases of matching; and

   – cash payments from the purchaser .

   Payments on or before the starting point of credit that are not considered cash payments shall be included in the calculation of the concessionality level.

d) The discount rate in matching: in matching aid, identical matching means matching with an identical concessionality level that is recalculated with the discount rate in force at the time of matching.

e) Local costs and third country procurement shall be included in the calculation of concessionality level only if they are financed by the donor country.

f) The overall concessionality level of a package is determined by multiplying the nominal value of each component of the package by the respective concessionality level of each component, adding the results, and dividing this total by the aggregate nominal value of the components.

g) The discount rate for a given aid loan is the rate in effect at the time of notification. However, in cases of prompt notification, the discount rate is the one in effect at the time when the terms and conditions of the aid loan were fixed. A change in the discount rate during the life of a loan does not change its concessionality level.

h) If a change of currency is made before the contract is concluded, the notification shall be revised. The discount rate used to calculate the concessionality level will be the one applicable at the date of revision. A revision is not necessary if the alternative currency and all the necessary information for calculation of the concessionality level are indicated in the original notification.

i) Notwithstanding sub-paragraph g), the discount rate used to calculate the concessionality level of individual transactions initiated under an aid credit line shall be the rate that was originally notified for the credit line.

39. VALIDITY PERIOD FOR TIED AID

a) The Participants shall not fix terms and conditions for tied aid, whether this relates to the financing of individual transactions or to an aid protocol, an aid credit line or to a similar agreement, for more than two years. In the case of an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of its signature, to be notified in accordance with Article 56; the extension of a credit line shall be notified as if it were a new transaction with a note explaining that it is an extension and that it is renewed at terms allowed at the time of the notification of the extension. In the case of individual transactions, including those notified under an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of notification of the commitment in accordance with Article 55 or 56, as appropriate.

b) When a country has become ineligible for 17-year World Bank Loans for the first time, the validity of existing and new tied aid protocols and credit lines notified shall be restricted to one year after the date of the potential reclassification in accordance with procedures in Article 34 b).

c) Renewal of such protocols and credit lines is possible only on terms which are in accordance with the provisions of Articles 34 and 35 of the Arrangement following:

- reclassification of countries
- a change in the provisions of the Arrangement.

In these circumstances, the existing terms and conditions can be maintained notwithstanding a change in the discount rate set out in Article 38.

40. NO DEROGATION ENGAGEMENT FOR TIED AID

a) The Participants shall not provide tied aid that:

- has a concessionality level of less than 35 per cent, or 50 per cent if the beneficiary country is an LLDC, or

- does not conform with the provisions on eligibility for aid in Article 34 apart from the exemptions set out in Article 36.

b) Notwithstanding the first tiret of Article 40 a), the restrictions on the minimum concessionality level do not apply to technical assistance as set out in the first tiret of Article 58.

c) Notwithstanding the second tiret of Article 40 a), a Participant may proceed with a non-conforming offer by one of the following means :

- the common line procedure outlined in Articles 71 to 77; or

- justification on aid grounds through support by a substantial body of the Participants as described in Articles 62 and 63; or

- a letter to the Secretary-General, in accordance with the procedures in Article 65, which the Participants expect will be unusual and infrequent.

41. MATCHING

a) The Participants may match terms and conditions notified according to procedures in Articles 55 or 56 as appropriate. The matching support may not extend beyond the validity period of the terms and conditions being matched.

b) The Participants shall match by supporting terms and conditions that comply with the Arrangement unless the initiating offer itself does not comply with the Arrangement. A Participant intending to match terms and conditions notified by another Participant shall follow the procedures in Articles 60 or 61 as appropriate.

c) A Participant which intends to match non-conforming terms and conditions offered by a non-Participant shall follow the procedures in Article 53.

CHAPTER IV: PROCEDURES

SECTION 1: COMMON PROVISIONS FOR EXPORT CREDITS AND TRADE-RELATED AID

42. COMMITMENT

Commitment refers to any statement, in whatever form, whereby the willingness or intention to provide official support is communicated to the recipient country, the buyer, the borrower, the exporter or the financial institution.

43. FIRM UNDERTAKING

In keeping with the Best Endeavours undertaking referred to in the Introduction and recognising the advantage which can accrue if a clearly defined common attitude towards the credit terms and conditions for a particular transaction can be achieved, the Participants firmly undertake:

- to respect strictly the procedures for notification and, in particular, to give prior notification at the latest at the stipulated moment before making a commitment;
- to supply all the information in the form in Annexes IV and V as appropriate;
- to respond promptly to enquiries made in accordance with Articles 67 to 68;
- to exchange information at the earliest stage in accordance with Articles 70 to 77 to reach agreement on a common line on credit terms and conditions for particular transactions;
- to give favourable consideration to requests for face-to-face consultations; and
- not to act in such a way that the consultation and notification procedures would be rendered meaningless by leaving insufficient time for the Participants to discuss the transaction.

44. PERIOD FOR REPLIES

In an exchange of information in accordance with Articles 67 to 70, a Participant shall inform the other Participants of the credit terms and conditions that it envisages supporting for a particular transaction and may request similar information from the other Participants. If the enquiring Participant has not received a reply within seven calendar days, it may assume that the other Participants will support the transaction on the most favourable credit terms and conditions permitted by the Arrangement. In cases of particular urgency, the enquiring Participant may request a more rapid reply.

45. STANDARD FORM FOR ALL NOTIFICATIONS

The notifications called for by the procedures in the Arrangement shall be made in accordance with, and include the information contained in the Standard Form in Annexes IV and V as appropriate, and shall be copied to the Secretariat.

46. INFORMATION ON OFFICIAL SUPPORT

As soon as a Participant commits the official support which it has notified in accordance with the procedures in Articles 47 to 56, 60 and 61, it shall in all cases inform all other Participants accordingly by including the notification reference number on the relevant Creditor Reporting System (CRS) 1c form.

SECTION 2: NOTIFICATION PROCEDURES FOR EXPORT CREDITS

47. DEROGATIONS: PRIOR NOTIFICATION WITH DISCUSSION

a) It is expected that the Participants will not break the No Derogation Engagement set out in Article 27 nor otherwise depart from the rules of the Arrangement. However, if in the most extreme circumstances a Participant intends to take the initiative to support terms and conditions that derogate from the Arrangement, the Participant shall notify all other Participants of the terms and conditions it intends to support at least ten calendar days before issuing any commitment. If any other Participant requests a discussion during this period, the initiating Participant shall wait an additional ten calendar days before issuing any commitment on such terms. Normally, this discussion will be by means of instant communication, e.g. OLIS.

b) If the initiating Participant moderates or withdraws its intention to support the notified non-conforming terms and conditions, it shall immediately inform all other Participants accordingly.

48. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITH DISCUSSION

a) A Participant shall notify all other Participants at least ten calendar days before issuing any commitment if it intends to apply a premium rate below the minimum premium benchmark (after adjustment for related conditions) when the country credit risk is either externalised/removed or limited/excluded for the entire life of the debt repayment obligation in accordance with Article 27 b), except in the case of Permitted Exception technique set out in Article 27 c) 2. The notification shall include explanation and justification in accordance with point 9 of Annex V. If any other Participant requests a discussion during this period, the initiating Participant shall wait an additional ten calendar days. If the discount to the minimum premium benchmark is 25 per cent or more, the notifying Participant shall notify all other Participants at least 20 calendar days before issuing any commitment

b) A Participant shall inform all other Participants of its final decision following a discussion to facilitate the review of the body of experience in Accordance with Article 84. The Participants shall maintain records of their experience with regard to each Permitted Exception technique set out in Article 27 c).

49. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITHOUT DISCUSSION

a) A Participant shall notify all other Participants at least ten calendar days before issuing any commitment if it intends:

1) to support repayment terms of more than five but not exceeding eight-and-a-half years to a Category I country;

2) not to follow normal payment practices with respect to the principal or interest referred to in Articles 13 a), b) and 14 a);

3) to provide support for a power plant, other than a nuclear power plant, with a repayment longer than the relevant maximum in Article 10, but not exceeding 12 years as stipulated in Article 11 a);

4) to apply a discount to the minimum sovereign credit risk premium benchmark in accordance with Article 22 f), or

5) to apply a discount to the minimum sovereign credit risk premium benchmark in accordance with Permitted Exception technique set out in Article 27 c) 2.

b) If the initiating Participant moderates or withdraws its intention to provide support for the notified exceptions, it shall immediately inform all other Participants.

50. MATCHING OF DEROGATIONS

A Participant intending to match notified derogations shall follow the procedures set out below.

Unless the initiating Participant has sent notice that it has withdrawn its intention to derogate, Participants can, once the appropriate waiting period stipulated in Article 47 has expired, provide support as follows:

- for "identical matching", i.e. terms and conditions that include the identical derogating element but that otherwise conform to the Arrangement, the matching Participant shall give notification of its intention to match as early as possible; or

- for "non-identical matching" prompted by the initial derogation, i.e. any other element of the terms and conditions subject to the restrictions of Article 29, the matching Participant shall notify a fresh derogation, initiate a five calendar day prior notification and five calendar day discussion procedure and await its completion. This period can run concurrently with that of the prior notification and discussion procedure initiated by the originally notifying Participant but cannot elapse before the end of the applicable ten or 20 calendar day period referred to in Article 47 a).

51. MATCHING OF PERMITTED EXCEPTIONS

A Participant intending to match a permitted exception shall follow the procedures set out below.

Unless the initiating Participant has sent notice that it has withdrawn its intention of supporting terms and conditions which constitute a permitted exception Participants can, once the waiting period stipulated in Articles 48 or 49 as appropriate has expired, provide support as follows:

- for "identical matching", i.e. terms and conditions that include the identical element of the permitted exception but that otherwise conform to the Arrangement, the matching Participant shall give notification of its intention to match as early as possible; or

- for "non-identical matching" prompted by the initial notification, i.e. any other element of the terms and conditions subject to the restriction in Article 29, the matching Participant shall introduce a fresh notification, initiate a five calendar day prior notification and await its completion. This period can run concurrently with that of the prior notification made by the initiating Participant but cannot elapse before the end of the applicable ten day period referred to in Articles 48 or 49 as appropriate.

The Secretariat shall retain details of individual matching notifications in respect of minimum premium benchmarks on the EEI.

52. MATCHING OF NON-CONFORMING TERMS AND CONDITIONS NOT NOTIFIED

a) A Participant intending to match alleged non-conforming terms and conditions which have not been notified by another Participant, involving either an individual transaction or a credit line, shall make reasonable efforts to determine whether such terms and conditions will be offered. The matching Participant will be considered to have made reasonable efforts, and thus be entitled to match, if it has informed the other Participant by means of instant communication, e.g. OLIS, of its intention to match but received no confirmation within three working days (exclusive of the day of receipt) that the non-conforming terms and conditions will not apply.

b) A credit line may be matched by an individual transaction or by a credit line: in both cases, the matching offer shall expire no later than the credit line being matched.

c) A Participant intending to match another Participant's non-conforming terms and conditions shall:

- in a case of "identical matching", follow the procedures set out in the first tiret of Articles 50 or 51 as appropriate; and

- in a case of "non-identical matching", follow the procedures set out in the second tiret of Articles 50 or 51 as appropriate.

53. MATCHING OF TERMS AND CONDITIONS OFFERED BY A NON-PARTICIPANT

a) Before matching non-conforming terms and conditions assumed to be offered by a non-Participant, a Participant shall make every effort to verify that these terms and conditions are officially supported. The Participant shall inform all other Participants of the nature and outcome of these efforts.

b) A Participant which intends to match non-conforming terms and conditions offered by a non-Participant shall follow the prior notification and discussion procedure in Article 47 a).

SECTION 3: NOTIFICATION PROCEDURES FOR TRADE-RELATED AID

54. DEROGATIONS: PRIOR NOTIFICATION WITH DISCUSSION

a) It is expected that the Participants will not break the No Derogations Engagement set out in Article 40 nor otherwise depart from the rules of the Arrangement. However, if in the most extreme circumstances a Participant intends to take the initiative to support terms and conditions that derogate from the Arrangement, the Participant shall notify all the other Participants of the terms and conditions it intends to support using the procedures set out in Articles 55 and 56. This is without prejudice to the procedures and circumstances set out in Article 40 b).

b) If the initiating Participant moderates or withdraws its intention to support the notified non-conforming terms and conditions, it shall immediately inform all other Participants accordingly.

55. PRIOR NOTIFICATION

a) A Participant shall give prior notification if it intends to provide official support for:

- trade-related untied aid with a value of two million SDRs or more, and a concessionality level of less than 80 per cent;

- trade-related untied aid with a value of less than two million SDRs and a grant element (as defined by the DAC) of less than 50 per cent;

- trade-related tied aid with a value of two million SDRs or more and a concessionality level of less than 80 per cent; or

- trade-related tied aid with a value of less than two million SDRs and a concessionality level of less than 50 per cent.

b) Prior notification shall be made at the latest 30 working days before the bid closing or commitment date, whichever is the earlier.

c) Prior notification made in accordance with the third tiret of Article 55 a) above which relates to a project larger than SDR 50 million shall include additional project information explaining why the notifying Participant considers the project eligible for tied aid under the key tests set out in Article 35 b) above.

d) If the initiating Participant moderates or withdraws its intention to support the notified non-conforming terms and conditions, it shall immediately inform all other Participants accordingly.

e) The provision of this Article shall apply to tied aid that forms part of an associated financing package, as described in Article 33.

56. PROMPT NOTIFICATION

A Participant shall promptly notify all other Participants, i.e. within two working days of the commitment, if it provides official support for trade-related tied aid with a value of either:

- two million SDRs or more and a concessionality level of 80 per cent or more; or

- less than two million SDRs and a concessionality level of 50 per cent or more.

A Participant shall also promptly notify all other Participants when an aid protocol, credit line or similar agreement is signed.

57. EXEMPTIONS FOR UNTIED AID

Notification is not required for untied aid financing with a value of either:

- two million SDRs or more and a concessionality level of 80 per cent or more; or

- less than two million SDRs and a grant element (as defined by the DAC) of 50 per cent or more.

58. EXEMPTIONS FOR TECHNICAL ASSISTANCE AND SMALL PROJECTS

The notification procedures in Articles 55 and 56 do not apply to the following:

- technical assistance: tied aid where the official development aid component consists solely of technical co-operation that is less than either three per cent of the total value of the transaction or one million US dollars, whichever is lower

- small projects: capital projects of less than one million US dollars that are funded entirely by development assistance grants.

59. TYING STATUS OF AID

A Participant may request additional information relevant to the tying status of any form of aid in accordance with Article 31 c).

60. MATCHING OF PRIOR NOTIFICATIONS

A Participant intending to match prior notified tied aid shall follow the procedures set out below.

Unless the initiating Participant has sent notice that it has withdrawn its intention to provide aid, Participants can support the tied aid as follows once the 30 working day period referred to in Article 55 b) has expired:

- for "identical matching", i.e. terms and conditions that lead to the same concessionality level, the matching Participant shall give notification of its intention to match as early as possible; or

- for “non-identical matching”, prompted by the initial notification, i.e. any other non-conforming element of the terms subject to the restrictions of Article 41, the matching Participant shall initiate a five calendar day prior notification period and await its completion. This period can run concurrently with that of the prior notification and discussion procedure initiated by the original notifying Participant but it cannot elapse before the end of the applicable 30 working day period referred to in Article 55 b).

61. MATCHING OF PROMPT NOTIFICATIONS

Prior notification need not be given if a Participant intends to match terms and conditions that were subject to a prompt notification in accordance with Article 56.

SECTION 4: CONSULTATION PROCEDURES FOR TRADE-RELATED AID

62. PURPOSE OF CONSULTATIONS

a) A Participant seeking clarification about possible trade motivation for tied aid may request that a full Aid Quality Assessment (detailed in Annex VI) be supplied.

b) Furthermore, a Participant may request consultations with other Participants, in accordance with Article 63. These include face-to-face consultations as outlined in Article 69 in order to discuss:

- first, whether an aid offer meets the requirements of Articles 34 and 35 above, and

- if necessary, whether an aid offer is justified even if the requirements of Articles 34 and 35 are not met.

63. SCOPE AND TIMING OF CONSULTATIONS

a) During consultations, a Participant may request, among other items, the following information:

- the assessment of a detailed feasibility study/project appraisal;
- whether there is a competing offer with non-concessional or aid financing;
- the expectation of the project generating or saving foreign currency;
- whether there is co-operation with multilateral organisations such as the World Bank;
- the presence of International Competitive Bidding (ICB), in particular if the donor country's supplier is the lowest evaluated bid;
- the environmental implications;
- any private sector participation; and
- the timing of the notifications (e.g. six months prior to bid closing or commitment date) of concessional or aid credits.

b) The consultation shall be completed and the findings on both questions in Article 62 notified by the Secretariat to all Participants at least ten working days before the bid closing date or commitment date, whichever comes first. If there is disagreement among the consulting parties, the Secretariat shall invite other Participants to express their views within five working days. It shall report these views to the notifying Participant, which should reconsider going forward if there appears to be no substantial support for an aid offer.

64. CONSULTATION PROCEDURES FOR LARGE PROJECTS

If a Participant is not satisfied with the additional project information - supplied in accordance with Article 55 c), it may request additional information. A Participant may subsequently request a consultation in accordance with Article 63. In any such consultation special weight shall be given to the expected availability of financing at market or Arrangement terms when considering the appropriateness of such aid.

65. OUTCOME OF CONSULTATIONS

a) A donor which wishes to proceed with a project despite the lack of substantial support shall provide prior notification of its intentions to other Participants, no later than 60 calendar days after the completion of the Consultation, i.e. acceptance of the Chairman's conclusion. The donor shall also write a letter to the Secretary-General of the OECD outlining the results of the consultations and explaining the overriding non-trade related national interest that forces this action. The Participants expect that such an occurrence will be unusual and infrequent.

b) The donor shall immediately notify the Participants that it has sent a letter to the Secretary-General of the OECD, a copy of which shall be included with the notification. Neither the donor nor any other Participant shall make a tied aid commitment until ten working days after this notification to Participants has been issued. For projects for which competing commercial offers were identified during the consultation process, the aforementioned ten working day period shall be extended to 15 days.

c) The Secretariat shall monitor the progress and results of consultations.

SECTION 5: INFORMATION EXCHANGE PROCEDURES FOR EXPORT CREDITS AND TRADE-RELATED AID

66. CONTACT POINTS

All communications shall be made between the designated contact points in each country by means of instant communication, e.g. OLIS, and shall be treated in confidence.

67. SCOPE OF ENQUIRIES

a) A Participant may ask another Participant about the attitude it takes with respect to a third country, an institution in a third country or a particular method of doing business.

b) A Participant which has received an application for official support may address an enquiry to another Participant, giving the most favourable credit terms and conditions that the enquiring Participant would be willing to support.

c) A Participant which has received allegations that another Participant has offered official support that derogates from the Arrangement may address an enquiry to that Participant, stating the details of any such allegation.

d) If an enquiry is made to more than one Participant, it shall contain a list of addressees.

e) A copy of all enquiries shall be sent to the Secretariat.

68. SCOPE OF RESPONSES

a) The Participant to which an enquiry is addressed shall respond within seven calendar days and provide as much information as possible. The reply shall include the best indication that the Participant can give of the decision it is likely to take. If necessary, the full reply shall follow as soon as possible. Copies shall be sent to the other addressees of the enquiry and to the Secretariat.

b) If an answer to an enquiry subsequently becomes invalid for any reason, because for example:

- an application has been made, changed or withdrawn, or
- other terms are being considered,

a reply shall be made without delay and copied to all other addressees of the enquiry and to the Secretariat.

69. FACE-TO-FACE CONSULTATIONS

a) The Participants agree to respond favourably to requests for early face-to-face consultations, i.e. within five working days, particularly when existing exchange of information procedures may be perceived to be inadequate.

b) All Participants shall be advised of any request for face-to-face consultations. The consultations shall take place as soon as possible after the expiry of the five working day period.

c) The Participant requesting consultation shall **c**hair and be responsible for finding a mutually agreeable time and place for the meeting. Other Participants shall be informed accordingly.

d) In cases where the transaction consulted upon has already taken place, the Chairman will be chosen by the parties involved. If the consultation does not take place at OECD headquarters in Paris, the Participant requesting the consultation shall provide secretariat services, including interpretation if necessary.

e) The Secretariat shall promptly circulate the outcome of the consultation to all Participants. If the Secretariat is unable to attend a meeting held away from OECD headquarters, the Chairman shall ensure that it is informed of the outcome.

f) The Chairman shall co-ordinate with the Secretariat on any necessary follow-up action.

g) An information exchange or face-to-face consultations may lead to a common line.

70. COMMON LINES

A common line is an understanding between the Participants to agree the basis for official support in a given transaction or in specific circumstances. It may contain terms and conditions that are more or less favourable than terms and conditions allowed under the Arrangement. The rules of an agreed common line supersede the rules of the Arrangement only for the transaction or in the circumstances specified in the common line.

71. PROCEDURES AND FORMAT OF COMMON LINES

a) Common line proposals are addressed only to the Secretariat. A proposal for a common line shall be sent to all Participants and, where tied aid is involved, all DAC contact points by the Secretariat. The identity of the initiator is not revealed on the Common Line Register on the Bulletin Board of the OLIS. However, the Secretariat may orally reveal the identity of the initiator to a Participant or DAC member on demand. The Secretariat shall keep a record of such requests.

b) The common line proposal shall be dated and shall be in the following format:

- reference number, followed by “Common Line”;
- name of the importing country and buyer;
- name or description of the project as precise as possible to clearly identify the project;
- terms and conditions foreseen by the initiating country;
- common line proposal;
- nationality and names of known competing bidders;
- commercial and financial bid closing date and tender number to the extent it is known; and
- other relevant information, including reasons for proposing the common line, availability of studies of the project and/or special circumstances.

c) A common line proposal put forward in accordance with Article 34 b) 4 shall be addressed to the Secretariat and copied to other Participants. The Participant making the common line proposal shall provide a full explanation of the reasons why it considers that the classification of a country should differ from the procedure set out in Article 34 b).

72. RESPONSES TO COMMON LINE PROPOSALS

a) Responses shall be made within 20 calendar days, although the Participants are encouraged to respond to a common line proposal as quickly as possible.

b) A response may be a request for additional information, acceptance, rejection, a proposal for modification of the common line or an alternative common line proposal.

c) A Participant which advises that it has no position because it has not been approached by an exporter, or by the authorities in the recipient country in case of aid for the project, shall be deemed to have accepted the common line proposal. If this Participant is subsequently approached after the common line has gone into effect, it may apply the procedures in Article 77 a) to d) if it wishes to extend softer terms and conditions than those stipulated in the common line.

73. ACCEPTANCE OF COMMON LINES

a) After a period of 20 calendar days, the Secretariat shall inform all Participants of the status of the common line proposal. If not all Participants have accepted the common line, but no Participant has rejected it, the proposal shall be left open for a further period of eight calendar days.

b) After this further period, a Participant which has not explicitly rejected the common line proposal shall be deemed to have accepted the common line. Nevertheless, a Participant, including the initiating Participant, may make its acceptance of the common line conditional on the explicit acceptance by one or more Participants.

c) If a Participant does not accept one or more elements of a common line it implicitly accepts all other elements of the common line. It is understood that such a partial acceptance may lead other Participants to change their attitude towards a proposed common line. All Participants are free to offer or match terms and conditions not covered by a common line.

d) A common line which has not been accepted may be reconsidered using the procedures in Articles 71 and 72. In these circumstances, the Participants are not bound by their original decision.

74. DISAGREEMENT ON COMMON LINES

If the initiating Participant and a Participant which has proposed a modification or alternative cannot agree on a common line within the additional eight calendar day period, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.

75. EFFECTIVE DATE OF COMMON LINE

The Secretariat shall inform all Participants either that the common line will go into effect or that it has been rejected; the common line will take effect three calendar days after this announcement. The Secretariat shall make available on OLIS a permanently updated record of all common lines which have been agreed or are undecided.

76. VALIDITY OF COMMON LINES

a) A common line, once agreed, shall be valid for a period of two years from its effective date, unless the Secretariat is informed that it is no longer of interest, and that this is accepted by all Participants. A common line shall remain valid for a further two year period if a Participant seeks an extension within 14 calendar days of the original date of expiry. Subsequent extensions may be agreed through the same procedure. A common line agreed in accordance with Article 34 b) 4 shall be valid until World Bank data for the following year is available.

b) The Secretariat shall monitor the status of common lines and shall keep the Participants informed accordingly, through the maintenance of the listing "The Status of Valid Common Lines" on OLIS. Accordingly, the Secretariat, *inter alia*, shall:

- add new common lines when these have been accepted by the Participants;
- update the expiry date when a Participant requests an extension;
- delete common lines which have expired; and
- issue, on a quarterly basis, a list of common lines due to expire in the following quarter.

77. DEVIATION FROM A COMMON LINE

a) A Participant which intends to support terms and conditions that are more favourable than those agreed in the common line shall notify all Participants and the Secretariat at least 60 calendar days before making any commitment.

b) This notification shall include an explanation of the reason why it intends to support terms and conditions that are more favourable than the common line, as well as a justification of how they will not result in a purchasing decision (possibly including the outcome of an International Competitive Bid (ICB) procedure) which is influenced by the availability of aid.

c) If a Participant interested in the specific transaction so requests, the Secretariat shall organise a face-to-face consultation.

d) Unless an alternative common line is established at the face-to-face consultation, the Participants shall refrain from making a commitment until 28 calendar days after the face-to-face consultation, or 60 calendar days after notification, whichever is the later.

e) A Participant can reserve the right to match an offer which is more favourable than that agreed to in the common line in accordance with Articles 50, 53, 60 and 61.

SECTION 6: OPERATIONAL PROVISIONS FOR THE COMMUNICATION OF MINIMUM INTEREST RATES (CIRRs)

78. COMMUNICATION OF MINIMUM INTEREST RATES

a) CIRRs for currencies that are determined according to the provisions of Article 16 shall be sent by means of instant communication at least monthly to the Secretariat for circulation to all Participants.

b) Such notification shall reach the Secretariat no later than five days after the end of each month covered by this information. The Secretariat shall then inform immediately all Participants of the applicable rates.

79. EFFECTIVE DATE FOR APPLICATION OF INTEREST RATES

Any changes in interest rates shall enter into effect on the fifteenth day after the end of each month.

80. IMMEDIATE CHANGES IN INTEREST RATES

When market developments require the notification of an amendment to a CIRR during the course of a month, the amended rate shall be implemented ten days after notification of this amendment has been received by the Secretariat.

SECTION 7: OPERATIONAL PROVISIONS FOR THE EXCHANGE OF INFORMATION FOR PREMIUM

81. ELECTRONIC EXCHANGE OF INFORMATION FOR PREMIUM (EEI)

The Participants shall provide the information outlined in Annex VII to facilitate the implementation of the provisions of the Arrangement in relation to the minimum premium benchmarks.

SECTION 8: REVIEWS

82. ANNUAL REVIEW

a) The Participants shall review, at least annually, the functioning of the Arrangement. The review will normally take place in the second quarter of each year. In the review, the Participants shall examine, *inter alia*, notification procedures, derogations, implementation and operation of the DDR system, rules and procedures on tied aid, questions of matching, prior commitments, practices on credits for agricultural commodities and possibilities of wider participation in the Arrangement.

b) This review shall be based on information of the Participants' experience and on their suggestions for improving the operation and efficacy of the Arrangement. The Participants shall take into account the objectives of the Arrangement and the prevailing economic and monetary situation. The information and suggestions that Participants wish to put forward for this review shall reach the Secretariat no later than 45 calendar days before the date of review.

83. REVIEW OF MINIMUM INTEREST RATES

a) The Participants shall periodically review the system for setting CIRRs in order to ensure that the notified rates reflect current market conditions and meet the aims underlying the establishment of the rates in operation. Such reviews shall also cover the margin to be added when these rates are applied.

b) A Participant may submit to the Chairman of the Participants a substantiated request for an extraordinary review in case this Participant considers that the CIRR for one or more than one currency no longer reflect current market conditions.

84. REVIEW OF MINIMUM PREMIUM BENCHMARKS AND RELATED ISSUES

The Participants shall regularly, and at least annually, monitor and review all aspects of the premium rules and procedures. This shall include:

- the methodology for the Country Risk Model to review its validity in the light of experience;
- the premium benchmarks to adjust them over time to ensure that they remain an accurate measure of risk, taking into account the three PFTs: the cash flow and accruals approaches and, where appropriate, private market indicators;
- the system of related conditions
- the body of experience of the circumstances under which discounts to the minimum premium benchmarks may be applicable and the appropriate level of such discounts. To assist the review the Secretariat shall provide reports of all notifications.

CHAPTER V: FUTURE WORK

85. GLOBAL UNTYING

The Participants confirm their resolve to co-operate with the Working Party on Financial Aspects of Development Assistance (DAC/FA) to develop targets for untying aid and more precisely define untied and tied aid. They will follow closely the DAC/FA's progress in this domain. They agree to invite the DAC/FA to consider how to strengthen discipline and transparency, as follows:

a) discipline: the Participants will engage urgently in a discussion with the DAC/FA to agree on targets for untying aid;

b) transparency: the modalities of the following measures for improving transparency need to be worked out in conjunction with DAC/FA:

- notification of specified untied aid at the latest before commencement of the bidding procedure, or within, e.g. 45 calendar days, of the date of signing the financial contract, whichever is the earlier, giving reasonable time and project information for bids to be prepared within tender deadlines; and

- immediate ex post notification of the name and nationality of the company being awarded the contract of specific untied aid.

The Secretariat shall create and update a register of such notifications on OLIS. The above information shall be unclassified.

86. MARKET WINDOWS

The Participants undertake to investigate further both the issue of transparency and the definition of market window operations in order to prevent distortion of competition.

87. SECTORS

a) The Participants undertook to start negotiations in 1994 on complementary guidelines on Export Credits on agricultural products. An Experts' Group was established and held its first meeting in April 1995.

b) The need for further or complementary guidelines in the Arrangement for Steel Plant and Equipment will be considered when the outcome of the negotiations in the Multilateral Steel Agreement context is known.

88. DIFFERENCES OF INTERPRETATION

It has not proved possible to reach total agreement on the definition of official support in the light of differences between long-established national export credit systems. It is understood that efforts will be made to resolve differences of interpretation as a matter of urgency. Until agreement is reached, the current wording in the Arrangement does not prejudice present interpretations.

ANNEX I: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS

CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

1. PARTICIPATION

The Participants to the Sector Understanding are: Australia, the European Community (which includes the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom), Japan, Korea, Norway, Poland and the Slovak Republic.

2. SCOPE OF APPLICATION

This Sector Understanding, which complements the Arrangement, sets out specific guidelines for officially supported export credits relating to export contracts of:

1. Any new sea-going vessel of 100 gt and above used for the transportation of goods or persons, or for the performance of a specialised service (for example, fishing vessels, fish factory ships, ice breakers and as dredgers, that present in a permanent way by their means of propulsion and direction (steering) all the characteristics of self-navigability in the high sea), tugs of 365 Kw and over and to unfinished shells of ships that are afloat and mobile. The Sector Understanding does not cover military vessels. Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the “Participants”), after consideration of substantiated requests by any Participant, may decide that they shall be covered.

2. Any conversion of a ship. Ship conversion means any conversion of sea-going vessels of more than 1 000 gt on condition that conversion operations entail radical alterations to the cargo plan, the hull or the propulsion system.

3. (i) Although hovercraft-type vessels are not included in the Sector Understanding, Participants are allowed to grant export credits for hovercraft vessels on equivalent conditions to those prevailing in the Sector Understanding. They commit themselves to apply this possibility moderately and not to grant such credit conditions to hovercraft vessels in cases where it is established that no competition is offered under the conditions of the Sector Understanding.

4. (ii) In the Sector Understanding, the term "hovercraft" is defined as follows: an amphibious vehicle of at least 100 tons designed to be supported wholly by air expelled from the vehicle forming a plenum contained within a flexible skirt around the periphery of the vehicle and the ground or water surface beneath the vehicle, and capable of being propelled and controlled by aircrews or ducted air from fans or similar devices.

5. (iii) It is understood that the granting of export credits at conditions equivalent to those prevailing in this Sector Understanding should be limited to those hovercraft vessels used on maritime routes and non land routes, except for reaching terminal facilities standing at a maximum distance of 1 kilometre from the water.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID

3. MAXIMUM REPAYMENT TERMS

The maximum repayment term, irrespective of country classification, is 12 years after delivery.

4. CASH PAYMENTS

The Participants shall require a minimum cash payment of 20 per cent of the contract price by delivery.

5. REPAYMENT OF PRINCIPAL

The principal sum of an export credit shall be repaid in equal installments at regular intervals of normally six months and a maximum of 12 months.

6. MINIMUM PREMIUM

The provisions of the Arrangement in relation to minimum premium benchmarks shall not be applied until such provisions have been further reviewed by the Participants to this Sector Understanding.

7. AID

Any Participant desiring to provide aid must, in addition to the provisions of the Arrangement, confirm that the ship is not operated under an open registry during the repayment term and that appropriate assurance has been obtained that the ultimate owner resides in the receiving country, is not a non-operational subsidiary of a foreign interest and has undertaken not to sell the ship without his government's approval.

CHAPTER III: PROCEDURES

8. NOTIFICATION

For the purpose of transparency each Participant shall, in addition to the provisions of the Arrangement and the IBRD/Berne Union/OECD Creditor Reporting System, provide annually information on its system for the provision of official support and of the means of implementation of this Sector Understanding, including the schemes in force.

9. REVIEW

a) The Sector Understanding shall be reviewed annually or upon request by any Participant within the context of the OECD Working Party on Shipbuilding, and a report made to the Participants to the Arrangement.

b) To facilitate coherence and consistency between the Arrangement and this Sector Understanding and taking into account the nature of the shipbuilding industry, the Participants to this Sector Understanding and to the Arrangement will consult and co-ordinate as appropriate.

c) Upon a decision by the Participants to the Arrangement to change the Arrangement, the Participants to this Sector Understanding (the Participants) will examine such a decision and consider its relevance to this Sector Understanding. Pending such consideration the amendments to the Arrangement will not apply to this Sector Understanding. In case the Participants can accept the amendments to the Arrangement they shall report this in writing

to the Participants to the Arrangement. In case the Participants cannot accept the amendments to the Arrangement as far as their application to shipbuilding is concerned they shall inform the Participants to the Arrangement of their objections and enter into consultations with them with a view to seeking a resolution of the issues. In case no agreement can be reached between the two groups, the views of the Participants as regards the application of the amendments to shipbuilding shall prevail.

d) Upon entry into force of the "Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry" this Sector Understanding shall cease to apply for those Participants who are legally required to apply the 1994 Understanding on Export Credits for Ships [C/WP6(94)6]. Such Participants shall work for an immediate review to bring the 1994 Understanding in accordance with this Sector Understanding.

ATTACHMENT: COMMITMENTS FOR FUTURE WORK

In addition to the Future Work of the Arrangement, the Participants to this Sector Understanding agree:

a) To develop an illustrative list of types of ships which are generally considered non-commercially viable, taking into account the disciplines on tied aid set out in the Arrangement.

b) To review the provisions of the Arrangement in relation to minimum premium benchmarks with a view to incorporating them into this Sector Understanding.

c) To discuss, subject to the developments in relevant international negotiations, the inclusion of other disciplines on minimum interest rates including a special CIRR and floating rates.

d) To discuss the applicability of yearly installments of repayment of principal.

ANNEX II: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR NUCLEAR POWER PLANT

CHAPTER I : SCOPE OF THE SECTOR UNDERSTANDING

1. SCOPE OF APPLICATION

a) This Sector Understanding, which complements the Arrangement:

- sets out the special guidelines which apply to officially supported export credits relating to contracts for the export of complete nuclear power stations or parts thereof, comprising all components, equipment, materials and services, including the training of personnel, directly required for the construction and commissioning of such nuclear power stations. It also sets out the terms which apply to support for nuclear fuel;

- does not apply to items for which the buyer is usually responsible, in particular, costs associated with land development, roads, construction village, power lines, switchyard and water supply, as well as costs arising in the buyer's country from official approval procedures (e.g. site permit, construction permit, fuel loading permit), except

- in cases where the buyer of the switchyard is the same as the buyer of the power plant and the contract is concluded in relation to the original switchyard for that power plant, the maximum repayment terms and the minimum interest rates for the original switchyard shall be the same as those for the nuclear power plant (i.e. 15 years and the SCIRRs);

- does not apply to sub-stations, transformers and transmission lines.

b) This Sector Understanding also applies to the modernisation of existing nuclear power plant in cases where both the overall value of the modernisation is at or above 80 million SDRs (Category X) and the economic life of the plant is likely to be extended by at least 15 years. If either of these criteria is not met, the terms of the Arrangement apply.

c) The terms of the Arrangement rather than the Sector Understanding shall apply to official support provided for the decommissioning of nuclear power plant. Decommissioning is defined as the closing down, or dismantling of a nuclear power plant. The common line procedures set out in Articles 70 to 77 of the Arrangement provide the possibility to restrict or extend repayment terms.

2. REVIEW

The Participants shall review the provisions of the Sector Understanding annually.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID

3. MAXIMUM REPAYMENT TERM

The maximum repayment term, irrespective of the country classification, is 15 years.

4. MINIMUM INTEREST RATES

a) A Participant providing official financing support through direct financing, refinancing or interest rate support shall apply minimum interest rates; the Participant shall apply the relevant Special Commercial Interest Reference Rate (SCIRR). Where the fixed SCIRR commitment is limited initially to a maximum period which does not exceed 15 years starting from the date of contract award, any official support for the remaining period of the loan shall also be limited to guarantees or interest rate support at the relevant SCIRR prevailing at the time of roll-over.

b) Where official financing support is provided for equipment for the partial supply of nuclear power plant for which the supplier has no responsibility for commissioning, the minimum interest rate shall be the SCIRR in accordance with Article 5 of this Sector Understanding. Alternatively, a Participant may offer the relevant CIRR in accordance with Article 16 of the Arrangement, provided that the maximum period from the date of contract award to the date of final repayment does not exceed ten years.

5. CONSTRUCTION OF SCIRRS

SCIRRs shall be set at a fixed margin of 75 basis points above the CIRR for the currency in question, except that for the Japanese Yen, the margin shall be 40 basis points. For those currencies which have more than one CIRR rate, in accordance with the first tiret of Article 16 b) of the Arrangement, the CIRR for the longest term shall be used for constructing the SCIRR.

6. LOCAL COSTS AND CAPITALISATION OF INTEREST

The provisions of Article 25 of the Arrangement do not apply where official financing support is provided on the basis of the SCIRR. Official financing support at rates other than SCIRRs for both local costs and capitalisation of interest accruing before the starting point taken together shall not cover an amount exceeding 15 per cent of the export value.

7. OFFICIAL SUPPORT FOR NUCLEAR FUEL

a) The maximum repayment term for the initial fuel load shall not exceed four years from delivery. A Participant providing official financing support for the initial fuel load shall apply minimum interest rates; the Participant shall apply the relevant CIRR. The initial fuel load shall consist of no more than the initially installed nuclear core, plus two subsequent reloads, together consisting of up to two-thirds of a nuclear core.

b) The maximum repayment term for subsequent reloads of nuclear fuel is six months. If in exceptional circumstances longer terms, but in any case not exceeding two years, are considered appropriate the procedures set out in Article 47 shall apply. A Participant providing official financing support for the subsequent reload of nuclear fuel shall apply minimum interest rates; the Participant shall apply the relevant CIRR.

c) Official support for the separate provision of Uranium Enrichment Services shall not be provided on terms more favourable than those which apply to nuclear fuel.

d) Reprocessing and spent fuel management (including waste disposal) shall be paid for on a cash basis.

e) The Participants shall not provide free nuclear fuel or services.

8. AID

The Participants shall not provide aid support, unless this is in the form of an untied grant.

CHAPTER III : PROCEDURES

9. PRIOR CONSULTATION

Recognising the advantages which can accrue if a common attitude towards terms can be achieved for nuclear power plant, the Participants agree to engage in prior consultation in all cases where there is an intention to provide official support.

10. PRIOR NOTIFICATION

a) The Participant initiating a prior consultation shall notify all other Participants at least ten working days before taking a final decision of the terms it intends to support specifying, *inter alia*, the following details:

- cash payments;
- repayment term (including the starting point of credit, frequency of instalments for repaying principal, and whether these instalments will be equal in amount);
- currency and value rating of the contract, in accordance with paragraph 7 of Annex IV;
- interest rate;
- support for local costs, including the total amount of local costs expressed as a percentage of the export contract value, the terms of payment, the nature of the support to be given;
- the portion of the project to be financed, with separate information for initial fuel load, where appropriate
- any other relevant information including references to related cases.

b) Other Participants shall not take a final decision on the terms it will support during the ten working day period specified in sub-paragraph a) above but shall within five days exchange information with all other Participants in the consultation on the appropriate credit terms for the transaction with the objective of achieving a common attitude on such terms.

c) If a common attitude is not achieved through these means within the ten-day period after receipt of the initial notification the final decision of each Participant in the consultation shall be delayed for an additional ten working days during which period further efforts to achieve a common attitude shall be made at face-to-face consultations.

ANNEX III: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

PART 1. NEW LARGE AIRCRAFT AND ENGINES FOR SUCH AIRCRAFT

CHAPTER I: SCOPE

1. FORM AND SCOPE OF APPLICATION

a) Part 1 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits relating to the sale or lease of new large civil aircraft, listed in Appendix I, and the engines installed in such aircraft. A new aircraft is an aircraft owned by the manufacturer, i.e. an aircraft which has not been delivered nor previously used for its intended purpose of carrying fare-paying passengers and/or freight. This would not preclude support by a Participant for terms appropriate to new aircraft for transactions where, with the prior knowledge of that Participant, interim commercial financing arrangements had been put in place because the provision of official support had been delayed. In such cases, the repayment terms, including the "starting point of the credit" and the "final repayment date", would be the same as they would have been had the sale or lease of the aircraft received official support from the date the aircraft was originally delivered.

b) The terms of Chapter 1 also apply to engines and spare parts when contemplated as part as part of the original aircraft order, subject to the provisions of Article 29 of Part 3 of this Sector Understanding. It does not apply to flight simulators, which are subject to the terms of the Arrangement.

2. OBJECTIVE

The objective of this Part of the Sector Understanding is to establish a balanced equilibrium that on all markets:

- equalises competitive financial conditions between the Participants;
- neutralises finance among the Participants as a factor in the choice among competing aircraft
- avoids distortions of competition.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND AID

3. CASH PAYMENTS

a) The Participants shall require a minimum cash payment of 15 per cent of the total price of the aircraft, which includes the price of the airframe, any installed engines plus the spare engines and spare parts to the extent referred to in Article 29 of Part 3 of this Sector Understanding.

b) Official support for such cash payments can only take the form of insurance and guarantees, i.e. pure cover, against the usual pre-credit risks.

4. MAXIMUM REPAYMENT TERM

The maximum repayment term is 12 years.

5. ELIGIBLE CURRENCIES

The currencies which are eligible for official financing support, as defined in the Introduction to the Arrangement, are US Dollars, Euros and UK Pounds.

6. MINIMUM INTEREST RATES

a) The Participants providing official financing support, which shall not exceed 85 per cent of the total price of the aircraft referred to in sub-paragraph a) of Article 3 above, shall apply minimum interest rates up to a maximum of 62.5 per cent of the total price of the aircraft as follows:

- on repayment terms up to and including ten years - TB10 + 120 basis points,
- on repayment terms of over ten to 12 years - TB10 + 175 basis points,
- where TB10 means the ten-year government bond yield for the relevant currency (except the Euro) at the constant maturity averaged over the previous two calendar weeks. In the case of the Euro, TB10 means the yield at the ten-year maturity of the Euro yield curve, calculated by Eurostat for the purpose of establishing the Euro CIRR, averaged over the previous two calendar weeks. For all currencies a margin as specified above shall be applied.

b) The maximum percentage of the aircraft total price that may be financed at the fixed minimum interest rates specified in sub-paragraph a) above shall be limited to 62.5 per cent when repayment of the loan is spread over the entire life of the financing and 42.5 per cent when repayment of the loan is spread over the later maturities. The Participants are free to use either repayment approach, subject to the ceiling applicable to that pattern. A Participant offering such a tranche shall notify the other Participants of the amount, the interest rate, the date on which the interest rate is set, the validity period for the interest rate and the pattern of repayment. The Participants shall review the two ceilings at the time of each review in accordance with Article 17 to examine whether one ceiling provides more advantages than the other with a view to adjusting the more advantageous so that a balance is more evenly struck.

c) Subject to the 85 per cent threshold specified in sub-paragraph a) above,

1) The Participants may additionally provide official financing support in a manner comparable with that provided by the Private Export Funding Corporation (PEFCO). Fortnightly information on PEFCO's borrowing costs and applicable lending rates, exclusive of official guarantee fees, on fixed rate finance for immediate disbursements over a series of dates, for contract offers and for bid offers, shall be communicated to the other Participants on a regular basis. A Participant offering such a tranche shall notify the other Participants of the amount, the interest rate, the date on which the interest rate is set, the validity period for the interest rate and the pattern of repayments. Any Participant matching such financing offered by another Participant shall match it in all of its terms and conditions other than the validity period of offers of commitment as set out in Article 8 below.

2) These rates as notified shall be applied by all Participants as long as the 24-month disbursement interest rate does not exceed 225 basis points above TB10. In the event that the

24-month rate exceeds 225 basis points, the Participants are free to apply the rate of 225 basis points for the 24 months disbursement and all the corresponding rates and shall consult immediately with a view to finding a permanent solution.

d) The minimum interest rates are inclusive of credit insurance premium and guarantee fees. However, commitment and management fees are not included in the interest rate.

7. INTEREST RATE ADJUSTMENTS

The minimum interest rates set out in Article 6 above shall be reviewed every two weeks. If the average of the government bond yield for the relevant currency at constant maturity differs by 10 basis points or more at the end of any two week period, such minimum interest rates will be adjusted by the same basis points difference noted above and the recalculated rate rounded to the nearest five basis points.

8. VALIDITY PERIOD FOR EXPORT CREDITS/INTEREST RATE OFFERS

The duration of minimum interest rate offers set in accordance with Article 6 shall not exceed three months.

9. DETERMINATION OF INTEREST RATE OFFERS AND SELECTION OF INTEREST RATES

a) The Participants may provide official financing support in accordance with Articles 6 and 7 above at an interest rate applying on the date an interest rate offer is made for the relevant aircraft, provided that the offer is accepted within its validity period in accordance with Article 8. If the interest rate offer is not so accepted, further interest rate offers may be made up to, but no later than, the date of delivery of the relevant aircraft.

b) An interest rate offer may be accepted and the interest rate selected at any time between contract signature and the date of delivery of the relevant aircraft. The rate selected by the borrower shall be irrevocable.

10. PURE COVER SUPPORT

The Participants may provide official support by way of guarantee or insurance only, i.e. pure cover, subject to the 85 per cent threshold specified in Article 6 a) above. Any Participant providing such support shall notify other Participants of the amount, term, currency and pattern of repayments and interest rates.

11. COMPETITION REFERENCE POINT

In the event of officially supported competition, aircraft that are in the list of large civil aircraft in Appendix I to this Sector Understanding and that compete with other aircraft may benefit from the same credit terms and conditions.

12. SECURITY FOR THE REPAYMENT RISK

The Participants may decide upon the security which they deem acceptable to secure the repayment risk without reference to other Participants. However, they agree to provide details of such security if requested by other Participants, or when deemed appropriate.

13. MODEL CHANGES

The Participants agree that when a fixed interest rate offer has been made or has been concluded on one type of aircraft, the terms contained therein cannot be transferred to another type bearing a different model designation.

14. LEASES

The Participants may, subject to the other terms of Part 1 of the Sector Understanding, provide support for a financial lease on the same basis as a contract of sale.

15. AID

The Participants shall not provide aid support, unless this is in the form of an untied grant. However, Participants shall consider sympathetically any requests for a common line for tied aid for humanitarian purposes.

CHAPTER III: PROCEDURES

16. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms and conditions that do not conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

17. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding annually to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

PART 2: ALL NEW AIRCRAFT EXCEPT LARGE AIRCRAFT

CHAPTER IV: SCOPE

18. FORM AND SCOPE OF APPLICATION

Part 2 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits for the sale or lease of new aircraft not covered by Part 1 of this Sector Understanding. It does not apply to hovercraft or to flight simulators which are subject to the terms of the Arrangement.

19. BEST ENDEAVOURS

The provisions of this Chapter represent the most generous terms that Participants may offer when providing official support. The Participants shall, however, continue to respect customary market terms for different types of aircraft and shall do everything in their power to prevent these terms from being eroded.

20. CATEGORIES OF AIRCRAFT

The Participants have agreed on the following categorisation of aircraft:

- Category A: turbine powered aircraft, including helicopters, (e.g. turbo jet, turbo prop and turbo fan aircraft) with generally between 30 and 70 seats.
- Category B: other turbine powered aircraft, including helicopters.
- Category C: other aircraft, including helicopters.

An illustrative list of aircraft in Categories A and B is set out in Appendix I.

CHAPTER V: PROVISIONS FOR EXPORT CREDITS AND AID

21. MAXIMUM REPAYMENT TERM

The maximum repayment term varies according to the aircraft categorisation which shall be determined by the criteria set out in Article 20 above.

a) For category A aircraft the maximum repayment term is ten years.

b) For category B aircraft the maximum repayment term is seven years.

c) For category C aircraft the maximum repayment term is five years.

22. MINIMUM INTEREST RATES

The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 16 of the Arrangement.

23. INSURANCE PREMIUM AND GUARANTEE FEES

The Participants shall not waive in part or in total, insurance premium or guarantee fees.

24. AID

The Participants shall not provide aid support, unless this is in the form of an untied grant. However, the Participants shall consider sympathetically any requests for a common line for tied aid for humanitarian purposes.

CHAPTER VI: PROCEDURES

25. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

In the event of officially supported competition for a sale or lease, aircraft competing with those from another category or with those covered by other Parts of the Sector Understanding shall, for that specific sale or lease, be able to benefit from the same terms and conditions as those other aircraft. The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not

conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

26. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding annually in order to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

PART 3: USED AIRCRAFT, SPARE ENGINES, SPARE PARTS, MAINTENANCE AND SERVICE CONTRACTS

CHAPTER VII: SCOPE

27. FORM AND SCOPE OF APPLICATION

Part 3 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits relating to the sale or lease of used aircraft of spare engines, spare parts, maintenance and service contracts in conjunction with both new and used aircraft. It does not apply to hovercraft nor to flight simulators, which are subject to the terms of the Arrangement. The relevant provisions of Parts 1 and 2 of the Sector Understanding apply except as follows.

28. USED AIRCRAFT

The Participants shall not support credit terms more favourable than those set out in the Sector Understanding for new aircraft. The following rules apply specifically to used aircraft.

a)

Age of Aircraft (years)	**Normal Maximum Repayment Term**			
	Large Aircraft	***Category A***	***Category B***	***Category C***
1	10	8	6	5
2	9	7	6	5
3	8	6	5	4
4	7	6	5	4
5 - 10	6	6	5	4
Over 10	5	5	4	3

These terms shall be reviewed if the maximum repayment terms for new aircraft are changed.

b) The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 16 of the Arrangement.

29. SPARE ENGINES AND SPARE PARTS

a) The financing of these items when contemplated as part of the original aircraft order may be on the same terms as for the aircraft. However, in such cases the Participants shall also take account of the size of the fleet of each aircraft type, including aircraft being acquired, aircraft already the subject of a firm order or already owned, on the following basis:

– for the first five aircraft of the type in the fleet: 15 per cent of the aircraft price, i.e. the price of the airframe and installed engines

- for the sixth and subsequent aircraft of that type in the fleet: 10 per cent of the aircraft price, i.e. the price of the airframe and installed engines.

b) When these items are not ordered with the aircraft, the maximum repayment terms shall be five years for new spare engines and two years for other spare parts.

c) Notwithstanding sub-paragraph b) above for new spare engines for large aircraft, the Participants may exceed the maximum repayment term of five years by up to three years

- where the transaction has a minimum contract value of more than USD 20 million;

- or includes a minimum of four new spare engines.

The contract value shall be reviewed every two years and adjusted for price escalation accordingly.

d) The Participants reserve the right to change their practice and match the practices of competing Participants in relation to the timing of the first repayment of principal with respect to spare engines and spare parts.

30. MAINTENANCE AND SERVICE CONTRACTS

The Participants may offer official financing support with a repayment term of up to two years for maintenance and service contracts.

CHAPTER VIII: PROCEDURES

31. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

32. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding annually in order to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

APPENDIX I: ILLUSTRATIVE LIST

All other similar aircraft that may be introduced in the future shall be covered by this Sector Understanding and shall be added to the appropriate list in due course. These lists are not exhaustive and serve only to indicate the type of aircraft to be included in the different categories where doubts could arise.

LARGE CIVIL AIRCRAFT

Manufacturer	Designation
Airbus	A 300
Airbus	A 310
Airbus	A318
Airbus	A 319
Airbus	A 320
Airbus	A 321
Airbus	A 330
Airbus	A 340
Boeing	B 737
Boeing	B 747
Boeing	B 757
Boeing	B 767
Boeing	B 777
Boeing	707, 727
British Aerospace	RJ70
British Aerospace	RJ85
British Aerospace	RJ100
British Aerospace	RJ115
British Aerospace	Bae146
Fairchild Dornier	728 Jet
Fairchild Dornier	928 Jet
Fokker	F 70
Fokker	F 100
Lockheed	L-100
McDonnell Douglas	MD-80 series
McDonnell Douglas	MD-90 series
McDonnell Douglas	MD-11
McDonnell Douglas	DC-10
McDonnell Douglas	DC-9
Lockheed	L-1011
Ramaero	1.11-495

CATEGORY A AIRCRAFT

Turbine-powered aircraft - including helicopters (e.g. turbo jet, turbo-prop and turbo-fan aircraft), with generally between 30 and 70 seats. In case a new large turbine-powered aircraft with over 70 seats is being developed, immediate consultations shall be held upon request with a view to agree on the classification of such an aircraft in this category or in Part 1 of this Understanding in view of the competitive situation.

Manufacturer	**Designation**
Aeritalia	G 222
Aeritalia/Aerospatiale	ATR 42
Aeritalia/Aerospatiale	ATR 72
Aerospatiale/MBB	C160 Transall
De Havilland	Dash 8
De Havilland	Dash 8 - 100
De Havilland	Dash 8 - 200
De Havilland	Dash 8 - 300
Boeing Vertol	234 Chinook
Broman (U.S.)	BR 2000
British Aerospace	BAe ATP
British Aerospace	BAe 748
British Aerospace	BAe Jetstream 41
British Aerospace	BAe Jetstream 61
Canadair	CL 215T
Canadair	CL 415
Canadair	RJ
Casa	CN235
Dornier	DO 328
EH Industries	EH-101
Embraer	EMB 120 Brasilia
Embraer	EMB 145
Fairchild Dornier	528 Jet
Fairchild Dornier	328 Jet
Fokker	F 50
Fokker	F 27
Fokker	F 28
Gulfstream America	Gulfstream I-4
LET	610
Saab	SF 340
Saab	2000
Short	SD 3-30
Short	SD 3-60
Short	Sherpa
etc.	

CATEGORY B AIRCRAFT

Other turbine-powered aircraft, including helicopters.

Aerospatiale	AS 332
Agusta	A 109, A 119
Beech	1900
Beech	Super King Air 300
Beech	Starship 1
Bell Helicopter	206B
Bell Helicopter	206L
Bell Helicopter	212
Bell Helicopter	230
Bell Helicopter	412
Bell Helicopter	430
Bell Helicopter	214
Bombardier / Canadair	Global Express
British Aerospace	BAe Jetstream 31
British Aerospace	BAe 125
British Aerospace	BAe 1000
British Aerospace	BAe Jetstream Super 31
Beech Aircraft Corpn d/b/a Raytheon Aircraft	Hawker 1000
Beech Aircraft Corpn d/b/a Raytheon Aircraft	Hawker 800
Beech Aircraft Corpn d/b/a Raytheon Aircraft	King Air 350
Beech Aircraft Corpn d/b/a Raytheon Aircraft	Beechjet 400 series
Beech Aircraft Corpn d/b/a Raytheon Aircraft	Starship 2000A
Bell	B 407
Canadair	Challenger 601-3A
Canadair	Challenger 601-3R
Canadair	Challenger 604
Casa	C 212-200
Casa	C 212-300
Cessna	Citation
Cessna	441 Conquest III and Caravan 208
Claudius Dornier	CD2
Dassault Breguet	Falcon
Dornier	DO 228-200
Embraer	EMB 110 P2
Embraer/FAMA	CBA 123
Eurocopter	AS 350, AS 355, EC 120, AS 365,
Eurocopter	B0105LS
Fairchild	Merlin/300
Fairchild	Metro 25
Fairchild	Metro III V
Fairchild	Metro III

Fairchild	Metro III A
Fairchild	Merlin IVC-41
Gulfstream America	Gulfstream II, III, IV and V
IAI	Astra SP and SPX
IAI	Arava 101 B
Learjet	31A, 35A, 45 and 60 series
MBB	BK 117 C
MBB	BO 105 CBS
McDonnell Helicopter System	MD 902, MD 520, MD 600
Mitsubishi	Mu2 Marquise
Piaggio	P 180
Pilatus Britten-Norman	BN2T Islander
Piper	400 LS
Piper	T 1040
Piper	PA-42-100 (Cheyenne 400)
Piper	PA-42-720 (Cheyenne III A)
Piper	Cheyenne II
Reims	Cessna-Caravan II
SIAI-Marchetti	SF 600 Canguro
Short	Tucano
Westland	W30
etc.	

ANNEX IV: STANDARD FORM FOR NOTIFICATIONS

Information to be included in each and every notification:

1. Name of authority/agency responsible under the Arrangement for making notifications.

2. Reference number (country indication, serial number, year).

3. The Arrangement Article under which the authority/agency is notifying:

47	derogation from Article 27
49 a) 1)	"long term" credit to a Category I country
49 a) 2)	"abnormal" payment practices
49 a) 3)	"long term" credit for a conventional power plant
50, first tiret	identical matching of a derogation
50, second tiret	non-identical matching of a derogation
51, first tiret	identical matching of a permitted exception
51, second tiret	non-identical matching of a permitted exception
53	matching terms offered by a non-Participant
54	derogation from Article 40
55 and 56	aid financing, concessionality level/grant element less than 50/80 per cent
55 and 56	tied aid, concessionality level 50/80 per cent or more
60	matching of a transaction notified under Article 55
60, first tiret	identical matching of a prior commitment of tied aid
60, second tiret	matching by other means of a prior commitment of tied aid
Annex II	under the Sector Understanding on Export Credits for Nuclear Power Plant, or
Annex III	under the Sector Understanding on Export Credits for Civil Aircraft

4. Country of buyer/borrower.

5. Name, location and status (public/private) of buyer/borrower.

6. Nature of project/goods to be exported; location of project; closing date of tender if relevant; expiry date of credit line.

7. Contract value; value of the credit or credit line; value of exporter's national share; minimum contract value of credit line.

   These values shall be stated as follows:

   – The exact amount in the denominated currency for a line of credit.

– The value of an individual project or contract in terms of value ratings in accordance with the following scale in Special Drawing Rights (SDRs):

Category	I:	up to 1 000 000 SDRs
Category	II:	from 1 000 000 to 2 000 000 SDRs
Category	III:	from 2 000 000 to 3 000 000 SDRs
Category	IV:	from 3 000 000 to 5 000 000 SDRs
Category	V:	from 5 000 000 to 7 000 000 SDRs
Category	VI:	from 7 000 000 to 10 000 000 SDRs
Category	VII:	from 10 000 000 to 20 000 000 SDRs
Category	VIII:	from 20 000 000 to 40 000 000 SDRs
Category	IX:	from 40 000 000 to 80 000 000 SDRs
Category	X:	from 80 000 000 to 120 000 000 SDRs
Category	XI:	from 120 000 000 to 160 000 000 SDRs
Category	XII:	from 160 000 000 to 200 000 000 SDRs
Category	XIII:	from 200 000 000 to 240 000 000 SDRs
Category	XIV:	from 240 000 000 to 280 000 000 SDRs
Category	XV:	exceeding 280 000 000 SDRs*

* Indicate actual level within multiples of 40 000 000 SDRs.

When using this scale please indicate currency of the contract.

8. Credit terms which reporting organisation intends to support (or has supported):

– cash payments;

– repayment term (including starting point of credit - indicating which sub-paragraph of Article 9 applies, frequency of instalments for repaying principal amount of credit, and whether these instalments will be equal in amount); interest rate;

– support for local costs (including the total amount of local costs expressed as a percentage of the total value of goods and services exported, the terms of repayment, and the nature of the support to be given).

9. Any other relevant information including references to related cases and where relevant:

– justification for matching (specify reference number of notification matched or other references) or granting long term credits for Category I countries or conventional power plant, etc.;

– the overall concessionality level of the tied and partially untied aid financing calculated in accordance with Article 38 and the discount rate used to calculate that concessionality level;

– treatment of cash payments in the calculation of the concessionality level;

– development aid or premixed credit or associated finance;

– restrictions on use of credit lines.

ANNEX V: STANDARD FORM FOR NOTIFICATION OF PERMITTED EXCEPTIONS FROM MINIMUM PREMIUM BENCHMARKS

Points to be covered in each and every notification:

1. Name of authority/agency responsible under the Arrangement for making notifications.

2. Reference number (country identification, serial number, year).

3. The Arrangement Article under which the authority/agency is notifying :

48	Permitted Exceptions: Prior Notification With Discussion
49	Permitted Exceptions: Prior Notification Without Discussion

4. Country of buyer/borrower.

5. Name, location and status (public/private) of buyer/borrower.

6. Nature of project/goods to be exported; location of project; closing date of tender if relevant.

7. (a) Contract value

   (b) Value of credit

   These values shall be stated by category according to the following scale for Special Drawing Rights (SDRs):

Category	I:	up to 1 000 000 SDRs
Category	II:	from 1 000 000 to 2 000 000 SDRs
Category	III:	from 2 000 000 to 3 000 000 SDRs
Category	IV:	from 3 000 000 to 5 000 000 SDRs
Category	V:	from 5 000 000 to 7 000 000 SDRs
Category	VI:	from 7 000 000 to 10 000 000 SDRs
Category	VII:	from 10 000 000 to 20 000 000 SDRs
Category	VIII:	from 20 000 000 to 40 000 000 SDRs
Category	IX:	from 40 000 000 to 80 000 000 SDRs
Category	X:	from 80 000 000 to 120 000 000 SDRs
Category	XI:	from 120 000 000 to 160 000 000 SDRs
Category	XII:	from 160 000 000 to 200 000 000 SDRs
Category	XIII:	from 200 000 000 to 240 000 000 SDRs
Category	XIV:	from 240 000 000 to 280 000 000 SDRs
Category	XV:	exceeding 280 000 000 SDRs*

   * indicate actual level within multiples of 40 000 000 SDRs.

   When using this scale please indicate the currency of the contract.

   (c) Credit terms (including the length of the disbursement period).

8. (a) Proposed premium rate (after adjustment for related conditions).

(b) Minimum premium benchmark (after adjustment for related conditions).

(c) Actual discount applied to minimum premium benchmark (in percentage terms) after adjustment for related conditions.

9. A full explanation of which country credit risks have either been externalised/removed or limited/excluded in the individual transaction, as well as an explanation of how such externalisation/removal or limitation/exclusion of the country credit risks justify the alternative benchmark or discount applied.

10. The specified details of the Permitted Exceptions techniques require full transparency in the notification process, *inter alia*, with regard to the composition of the overall pricing. Full transparency also requires that the Permitted Exception notification shall provide information to indicate that the relevant criteria agreed by the Participants have been met.

ANNEX VI: CHECKLIST OF DEVELOPMENTAL QUALITY

CHECKLIST OF DEVELOPMENTAL QUALITY OF AID-FINANCED PROJECTS

A number of criteria have been developed in recent years by the DAC to ensure that projects in developing countries that are financed totally or in part by Official Development Assistance (ODA), contribute to development. They are essentially contained in the:

- DAC Principles for Project Appraisal, 1988;
- DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance, 1987; and
- Good Procurement Practices for Official Development Assistance, 1986.

CONSISTENCY OF THE PROJECT WITH THE RECIPIENT COUNTRY'S OVERALL INVESTMENT PRIORITIES (PROJECT SELECTION)

Is the project part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country?

(Specify policy document mentioning the project, e.g. public investment programme of the recipient country).

Is the project being co-financed with an international development finance institution?

Does evidence exist that the project has been considered and rejected by an international development finance institution or another DAC Member on grounds of low developmental priority?

In the case of a private sector project, has it been approved by the government of the recipient country?

Is the project covered by an intergovernmental agreement providing for a broader range of aid activities by the donor in the recipient country?

PROJECT PREPARATION AND APPRAISAL

Has the project been prepared, designed and appraised against a set of standards and criteria broadly consistent with the DAC Principles for Project Appraisal (PPA)? Relevant principles concern project appraisal under:

a) Economic aspects (paragraphs 30 to 38 PPA).

b) Technical aspects (paragraph 22 PPA).

c) Financial aspects (paragraphs 23 to 29 PPA).

In the case of a revenue producing project, particularly if it is producing for a competitive market, has the concessionary element of the aid financing been passed on to the end-user of the funds? (paragraph 25 PPA).

a) Institutional assessment (paragraphs 40 to 44 PPA).

b) Social and distributional analysis (paragraphs 47 to 57 PPA).

c) Environmental assessment (paragraphs 55 to 57 PPA).

PROCUREMENT PROCEDURES

What procurement mode will be used among the following? (For definitions, see Principles listed in Good Procurement Practices for ODA).

a) International competitive bidding (Procurement Principle III and its Annex 2: Minimum conditions for effective international competitive bidding).

b) National competitive bidding (Procurement Principle IV).

c) Informal competition or direct negotiations (Procurement Principles V A or B).

Is it envisaged to check price and quality of supplies (paragraph 63 PPA)?

ANNEX VII: ELECTRONIC EXCHANGE OF INFORMATION (EEI)

1. The EEI shall include the following items:

- **for the Model**
  - Country Risk Reports (Payments Experience)
  - Adjustments to the Quantitative Model Classification
  - List of Country Classifications
  - Procedure for Disagreement Amongst Country Risk Experts
- **for Premium Convergence**
  - Bulletin Board
  - Sample Premium Calculations
  - Table of Minimum Premium Benchmarks
- **for Related Conditions**
  - Information Fact Sheets (Basic Related Conditions)
  - Classification of Products
- **for Financial Aspects**
  - Figures for the PFTs
- **for Permitted Exceptions**
  - Prior Notifications
  - Matching Notifications

2. The development of the EEI is necessary to assist the monitoring and review of the Guiding Principles.

ANNEX VIII: UNDERSTANDING ON THE APPLICATION OF FLEXIBILITY TO THE TERMS AND CONDITIONS OF THE ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS IN RESPECT OF PROJECT FINANCE TRANSACTIONS FOR A TRIAL PERIOD (UNTIL 31 AUGUST 2003)

CHAPTER I: SCOPE

1. FORM AND SCOPE OF APPLICATION

This Understanding, which complements the Arrangement:

a) sets out the special guidelines for flexibility which will apply to the export of goods and/or services where official support is provided for transactions undertaken on a project finance basis; the Description and Criteria for project finance transactions are set out in Appendix 1;

b) unless otherwise provided for in this Understanding, the terms of the Arrangement shall apply.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS

2. REPAYMENT OF PRINCIPAL AND MAXIMUM REPAYMENT TERMS

a) A Participant may, on a case-by-case basis, agree to flexibility on the timing of the first repayment of principal, the repayment profile and the maximum repayment term provided that the average life of the credit, insurance or guarantee[7] does not exceed either:

- five-and-a-quarter years; or

- seven-and-a-quarter years, provided that the first repayment of principal is to be made within two years of the starting point of credit and the maximum repayment term is 14 years.

b) If flexibility is agreed in accordance with:

- the first tiret of sub paragraph a) above involving exports to High-Income OECD countries as defined in Article 22 b) of the Arrangement, official support shall only be provided on the basis of co-financing with financial institutions and where the Participant is a minority partner and has *pari passu* status for at least a significant portion of the life of the credit, insurance or guarantee;

- either the first or second tirets of sub paragraph a) above, it is expected that Participants would not agree to a single repayment in excess of 25 per cent of the principal sum repayable during the repayment term.

c) Flexibility in accordance with the second tiret of sub paragraph a) above shall not be agreed for exports to High-Income OECD countries.

---

7. The concept of the average life of the credit, insurance or guarantee is based on the time it takes to retire half the weighted principal of the credit, insurance or guarantee. This concept is based solely on the repayment term of the credit, insurance or guarantee and excludes the period before the starting point of credit.

3. PAYMENT OF INTEREST

a) Interest shall not be capitalised during the repayment period.

b) If interest is capitalised before the starting point of credit, this shall be notified in accordance with Article 6.

4. MINIMUM INTEREST RATES

Where the Participants are providing official financing support:

a) for repayment terms of up to and including 12 years, the normal CIRR constructed in accordance with Article 16 of the Arrangement shall apply

b) for repayment terms in excess of 12 years and up to 14 years in accordance with the second tiret of Article 2 a) above, a surcharge of 20 basis points on the CIRR shall apply for all currencies. The level of the surcharge shall be reviewed at the end of the trial period referred to in Article 7.

5. MINIMUM PREMIUM

Although this Understanding shall be effective as from 1st September 1998, the provisions in the Arrangement for minimum premium shall not apply until they come into effect on 1st April 1999. However, between 1st September 1998 and up to and including 31st March 1999, premium will be charged on the basis of the Participants' current systems, enhanced to make them consistent with the average weighted life concept as developed by the Working Group of Experts on Premia and Related Conditions.

CHAPTER III: PROCEDURES

6. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITH EXPLANATION

a) A Participant shall notify all other Participants at least 20 calendar days before issuing any commitment where the intention is to allow flexibility in accordance with Article 2 above.

b) The notifying Participant would be expected to provide the information required in the Standard Form for Notifications, in accordance with Annex IV of the Arrangement, supplemented to include the additional information set out in Appendix 2.

c) Although other Participants have the right to seek further information from the notifying Participant over the rationale for and basis of the proposed support, the notifying Participant would be free to issue a commitment at the end of the 20-calendar-day period. It would be expected that the notifying Participant would respond to any questions without delay, whilst recognising the constraints of commercial confidentiality. Where possible, the Participants will provide additional information on the cash flow of projects after contract award (when the export credit agreement and ancillary documents have already become effective).

CHAPTER IV: REVIEW

7. TRIAL PERIOD AND MONITORING

a) The special guidelines for flexibility shall apply for a Trial Period of three years, i.e. from the 1st September 1998 to the 31st August 2001. After a period of two years (i.e. on or after the

1st September 2000), the Participants shall review the operation of this Understanding to consider the experience gained[8].

b) The special guidelines for flexibility shall be discontinued at the end of the trial period unless the Participants agree upon one of the following:

- to continue the Trial Period, with any necessary enhancements/modifications, or
- to cement the flexibility in the Arrangement, with any necessary enhancements/modifications.

c) However, if after two years (i.e. on or after the 1st September 2000), at least seven Participants agree that there is justification, the Trial Period shall continue for an additional one year (i.e. to the 31st August 2002).

d) In the event that the Trial Period is not extended beyond the 31st August 2001, the Participants shall follow the Arrangement rules for the validity period for export credits.

e) The Secretariat shall monitor and regularly report on notifications and the use of flexibility in project finance transactions.

---

8. The Participants agreed to the prolongation of the Trial Period of the Project Finance Understanding for a year until 31 August 2002 at their 78th Meeting held on 14-15 November 2002, and for a further year until 31 August 2003 at their 83rd Meeting held on 29-30 May 2002.

APPENDIX 1: DESCRIPTION AND CRITERIA

1. Conforming to both a General Description of and Essential Criteria for project finance transactions could, together with appropriate transparency procedures, be the means to ring-fence any flexibility in the Arrangement to accommodate project finance transactions. The purpose of the Essential Criteria would be to assist decisions on whether or not a specific case could be afforded flexibility.

2. The approach proposed below combines a General Description of project finance transactions together with Essential and Illustrative Criteria. If a Participant considered a transaction which conformed to the General Description and met all Essential Criteria, it would be able to apply the special guidelines for flexibility. It is expected that the Essential Criteria shall be satisfied; in the event that any individual criterion is not satisfied, justification should be provided. The use of this flexibility would require prior notification of the specific transaction to all Participants together with the appropriate "explanation" in accordance with Article 6.

GENERAL DESCRIPTION

A financing of a particular economic unit in which a lender is satisfied to consider the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan.

ESSENTIAL CRITERIA

- Financing of export transactions with an independent (legally and economically) project company, e.g. special purpose company, in respect of "Greenfield" investment projects generating their own revenues.

- Appropriate risk-sharing among the partners of the project, e.g. private or creditworthy public shareholders, exporters, creditors, off-takers, including adequate equity.

- Project cash flow sufficient during the entire repayment period to cover operating costs and debt service for outside funds.

- Priority deduction from project revenues of operating costs and debt service.

- No sovereign repayment guarantee with regard to the project (not including government performance guarantees, e.g. off-take arrangements).

- Asset-based securities for proceeds/assets of the project, e.g. assignments, pledges, proceed accounts.

- Limited or no recourse to the sponsors of the private sector shareholders/sponsors of the project after completion.

ILLUSTRATIVE CRITERION

- Hard currency revenues; in the case of local currency revenues, additional securities may be required.

APPENDIX 2: ADDITIONAL INFORMATION FOR NOTIFICATIONS

- Enhanced description of the project.
- Confirmation of conformity with General Description and the Essential Criteria (including comment, if available, on conformity with the Illustrative Criterion).
- A full explanation why more flexible terms are required.
- The date of the first repayment of principal in relation to the starting point of credit, together with details of how this was determined.
- For the purpose of notification of anticipated cash flow patterns, the following template shall be used:

  The construction period is _____ years, the repayment period is _____ years for a total term of _____ years. The repayment profile is [front-ended], [back-ended], [variable], [substantially equal], [other, please describe], with ____ per cent of the principal being repaid by the mid-point of the repayment period, and has an average life of _____ years.

- Information on any premium surcharge.
- An explanation of whether interest has been capitalised before the starting point of credit.
- Information on the interest rate charged and the level of surcharge over the CIRR where Article 4 b) applies.