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TRADE AND AGRICULTURE DIRECTORATE
PARTICIPANTS TO THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS

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Group on the Sector Understanding for Civil Aircraft

SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

1 September 2011

This is the 1 September 2011 version of the Sector Understanding on Export Credits for Civil Aircraft. This text is Annex III of the Arrangement on Officially Supported Export Credits.

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TABLE OF CONTENTS

PART 1: GENERAL PROVISIONS 4

1. PURPOSE 4
2. STATUS 4
3. PARTICIPATION 5
4. SCOPE OF APPLICATION 5
5. INFORMATION AVAILABLE TO NON-PARTICIPANTS 5
6. AID SUPPORT 6
7. ACTIONS TO AVOID OR MINIMISE LOSSES 6

PART 2: NEW AIRCRAFT 7

CHAPTER I: COVERAGE 7

8. NEW AIRCRAFT 7

CHAPTER II: FINANCIAL TERMS AND CONDITIONS 7

9. ELIGIBLE CURRENCIES 7
10. DOWN PAYMENT AND MAXIMUM OFFICIAL SUPPORT 8
11. MINIMUM PREMIUM RATES 8
12. MAXIMUM REPAYMENT TERM 8
13. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST 9
14. MINIMUM INTEREST RATES 9
15. INTEREST RATE SUPPORT 10
16. FEES 10
17. CO-FINANCING 10

PART 3: USED AIRCRAFT, SPARE ENGINES, SPARE PARTS, MAINTENANCE AND SERVICE CONTRACTS 11

CHAPTER I: COVERAGE 11

18. USED AIRCRAFT AND OTHER GOODS AND SERVICES 11

CHAPTER II: FINANCIAL TERMS AND CONDITIONS 11

19. SALE OF USED AIRCRAFT 11
20. SPARE ENGINES AND SPARE PARTS 11
21. CONTRACTS FOR CARGO CONVERSION/MAJOR MODIFICATION/REFURBISHING 12
22. MAINTENANCE AND SERVICE CONTRACTS 12
23. ENGINE KITS 12

PART 4: TRANSPARENCY PROCEDURES 13

SECTION 1: INFORMATION REQUIREMENTS 13
24. INFORMATION ON OFFICIAL SUPPORT 13
SECTION 2: EXCHANGE OF INFORMATION 13
25. REQUESTS FOR INFORMATION 13
26. FACE-TO-FACE CONSULTATIONS 13
27. SPECIAL CONSULTATIONS 14

SECTION 3: COMMON LINES 14
28. PROCEDURES AND FORMAT OF COMMON LINES 14
29. RESPONSES TO COMMON LINE PROPOSALS 14
30. ACCEPTANCE OF COMMON LINES 15
31. DISAGREEMENT ON COMMON LINES 15
32. EFFECTIVE DATE OF COMMON LINE 15
33. VALIDITY OF COMMON LINES 15
SECTION 4: MATCHING 16
34. MATCHING 16

PART 5: MONITORING AND REVIEW 17

35. MONITORING 17
36. REVIEW 17
37. FUTURE WORK 18

PART 6: FINAL PROVISIONS 19

38. ENTRY INTO FORCE 19
39. TRANSITIONAL ARRANGEMENTS 19
40. WITHDRAWAL 20

APPENDIX I - PARTICIPATION IN THE AIRCRAFT SECTOR UNDERSTANDING 21

APPENDIX II - MINIMUM PREMIUM RATES 22

SECTION 1: PROCEDURES FOR RISK CLASSIFICATION 22
I. ESTABLISHMENT OF THE LIST OF RISK CLASSIFICATIONS 22
II. UPDATE OF THE LIST OF RISK CLASSIFICATIONS 23
III. RESOLUTION OF DISAGREEMENTS 23
IV. VALIDITY PERIOD OF CLASSIFICATIONS 24
V. BUYER/BORROWER RISK CLASSIFICATION REQUEST 24
SECTION 2: MINIMUM PREMIUM RATES FOR NEW AND USED AIRCRAFT 24
I. ESTABLISHMENT OF THE MINIMUM PREMIUM RATES 24
II. REDUCTIONS OF THE MINIMUM PREMIUM 30
III. NON ASSET-BACKED TRANSACTIONS 33
SECTION 3: MINIMUM PREMIUM RATES FOR GOODS AND SERVICES OTHER THAN USED AIRCRAFT COVERED BY PART 3 OF THIS SECTOR UNDERSTANDING 34

ANNEX 1: QUALIFYING DECLARATIONS 35

ANNEX 2: CAPE TOWN CONVENTION QUESTIONNAIRE 37

APPENDIX III - MINIMUM INTEREST RATES 39

1. MINIMUM FLOATING INTEREST RATE 39
2. MINIMUM FIXED INTEREST RATE 39
3. CONSTRUCTION OF CIRR 40
4. VALIDITY PERIOD OF CIRR 41
5. APPLICATION OF MINIMUM INTEREST RATES 41
6. EARLY REPAYMENT OF CIRR 41
7. IMMEDIATE CHANGES IN INTEREST RATES 41
8. MARGIN BENCHMARK 41

APPENDIX IV - REPORTING FORM 43

APPENDIX V - LIST OF DEFINITIONS 45

SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

PART 1: GENERAL PROVISIONS

1. PURPOSE

a) The purpose of this Sector Understanding is to provide a framework for the predictable, consistent and transparent use of officially supported export credits for the sale or lease of aircraft and other goods and services specified in Article 4 a) below. This Sector Understanding seeks to foster a level playing field for such export credits, in order to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.

b) This Sector Understanding sets out the most favourable terms and conditions on which officially supported export credits may be provided.

c) To this aim, this Sector Understanding seeks to establish a balanced equilibrium that, on all markets:

1) Equalises competitive financial conditions between the Participants,

2) Neutralises official support among the Participants as a factor in the choice among competing goods and services specified in Article 4 a) below, and

3) Avoids distortion of competition among the Participants to this Sector Understanding and any other sources of financing.

d) The Participants to this Sector Understanding (the Participants) acknowledge that the provisions included in this Sector Understanding have been developed for the sole purpose of this Sector Understanding and such provisions do not prejudice the other parts of the Arrangement on Officially Supported Export Credits (the Arrangement) and their evolution.

2. STATUS

This Sector Understanding is a Gentlemen's Agreement among its Participants and is Annex III to the Arrangement; it forms an integral part of the Arrangement and it succeeds the Sector Understanding which came into effect in July 2007.

3. PARTICIPATION

The Participants currently are: Australia, Brazil, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States. Any non-Participant may become a Participant in accordance with the procedures set out in Appendix I.

4. SCOPE OF APPLICATION

a) This Sector Understanding shall apply to all official support provided by or on behalf of a government, and which has a repayment term of two years or more, for the export of:

1) New civil aircraft and engines installed thereon, including buyer furnished equipment.

2) Used, converted, and refurbished civil aircraft and engines installed thereon, including, in each case, buyer furnished equipment.

3) Spare engines.

4) Spare parts for civil aircraft and engines.

5) Maintenance and service contracts for civil aircraft and engines.

6) Cargo conversion, major modifications and refurbishment of civil aircraft.

7) Engine kits.

b) Official support may be provided in different forms:

1) Export credit guarantee or insurance (pure cover).

2) Official financing support:

– direct credit/financing and refinancing or

– interest rate support.

3) Any combination of the above.

c) This Sector Understanding shall not apply to official support for:

1) The exports of new or used military aircraft and related goods and services listed in paragraph 4 a) above, including when used for military purposes.

2) New or used flight simulators.

5. INFORMATION AVAILABLE TO NON-PARTICIPANTS

A Participant shall, on the basis of reciprocity, reply to a request from a non-Participant in a competitive situation on the financial terms and conditions offered for its official support as it would reply to a request from a Participant.

6. AID SUPPORT

The Participants shall not provide aid support, except for humanitarian purposes, through a Common Line procedure.

7. ACTIONS TO AVOID OR MINIMISE LOSSES

This Sector Understanding does not prevent its Participants from agreeing to less restrictive financial terms and conditions than those provided for by this Sector Understanding, if such action is taken after the export credit agreement and ancillary documents have already become effective and is intended solely to avoid or minimise losses from events which could give rise to non-payment or claims. A Participant shall notify all other Participants and the OECD Secretariat (the Secretariat), within 20 working days following the Participant's agreement with the buyer/borrower, of the modified financial terms and conditions. The notification shall contain information, including the motivation, on the new financial terms and conditions, using the reporting form set out in Appendix IV.

PART 2: NEW AIRCRAFT

CHAPTER I: COVERAGE

8. NEW AIRCRAFT

a) For the purpose of this Sector Understanding, a new aircraft is:

1) An aircraft, including buyer furnished equipment, and the engines installed on such aircraft owned by the manufacturer and not delivered nor previously used for its intended purpose of carrying passengers and/or freight and

2) Spare engines and spare parts when contemplated as part of the original aircraft order in accordance with the provisions of Article 20 a) below.

b) Notwithstanding the provisions of paragraph a) above, a Participant may support terms appropriate to new aircraft for transactions where, with the prior knowledge of that Participant, interim financing arrangements had been put in place because the provision of official support had been delayed; such delay shall not be longer than 18 months. In such cases, the repayment term and the final repayment date shall be the same as if the sale or lease of the aircraft would have been officially supported from the date the aircraft was originally delivered.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

Financial terms and conditions for export credits encompass all the provisions set out in this Chapter, which shall be read in conjunction one with the other.

9. ELIGIBLE CURRENCIES

The currencies which are eligible for official financing support are euro, Japanese yen, UK pound sterling, US dollar, and other fully convertible currencies for which data are available to construct the minimum interest rates mentioned in Appendix III.

10. DOWN PAYMENT AND MAXIMUM OFFICIAL SUPPORT

a) For transactions with buyers/borrowers classified in Risk Category 1 (as per Table 1 of Appendix II), the Participants shall:

1) Require a minimum down payment of 20% of the net price of the aircraft at or before the starting point of credit;

2) Not provide official support in excess of 80% of the net price of the aircraft.

b) For transactions with buyers/borrowers classified in Risk Categories 2 to 8 (as per Table 1 of Appendix II), the Participants shall:

1) Require a minimum down payment of 15% of the net price of the aircraft at or before the starting point of credit;

2) Not provide official support in excess of 85% of the net price of the aircraft.

c) A Participant which applies Article 8 b) above shall reduce the maximum amount of official support by the amount of principal of the instalments deemed due from the starting point of the credit so as to ensure that, at the time of disbursement, the amount outstanding is the same as if such an officially supported export credit was provided at the time of delivery. In such circumstances, prior to delivery the Participant shall have received an application for official support.

11. MINIMUM PREMIUM RATES

a) The Participants providing official support shall charge, for the credit amount officially supported, no less than the minimum premium rate set out in accordance with Appendix II.

b) The Participants shall use, whenever necessary, the agreed premium rate conversion model to convert between *per annum* spreads calculated on the outstanding amount of the official support and single up-front premium rates calculated on the original amount of the official support.

12. MAXIMUM REPAYMENT TERM

a) The maximum repayment term shall be 12 years for all new aircraft.

b) On an exceptional basis, and with a prior notification, a maximum repayment term of up to 15 years shall be allowed. In this case, a surcharge of 35% to the minimum premium rates calculated in accordance with Appendix II shall apply.

c) There shall be no extension of the repayment term by way of sharing of rights in the security on a *pari passu* basis with commercial lenders for the officially supported export credit.

13. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

a) The Participants shall apply a profile of repayment of principal and payment of interest as specified in sub-paragraph 1) or 2) below.

1) Repayment of principal and payment of interest combined shall be made in equal instalments:

- Instalments shall be made no less frequently than every three months and the first instalment shall be made no later than three months after the starting point of credit.

- Alternatively, and subject to a prior notification, instalments shall be made every six months and the first instalment shall be made no later than six months after the starting point of credit. In this case, a surcharge of 15% to the minimum premium rates calculated in accordance with Appendix II shall apply.

- In the case of a floating rate transaction, the principal amortising profile shall be set for the entire term, two business days prior to the disbursement date, based on the floating or swap rate at that time.

2) Repayment of principal shall be made in equal instalments with interest payable on declining balances:

- Instalments shall be made no less frequently than every three months and the first instalment shall be made no later than three months after the starting point of credit.

- Alternatively, and subject to a prior notification, instalments shall be made every six months and the first instalment shall be made no later than six months after the starting point of credit. In this case, a surcharge of 15% to the minimum premium rates calculated in accordance with Appendix II shall apply.

b) Notwithstanding paragraph a) above, and subject to a prior notification, the repayment of principal may be structured to include a final payment of all outstanding amounts on a specified date. In such case, repayments of principal prior to the final payment will be structured as set out in paragraph a) above, based on an amortization period not greater than the maximum repayment term allowed for the goods and services being supported.

c) Notwithstanding paragraph a) above, repayment of principal may be structured on terms less favourable to the obligor.

d) Interest due after the starting point of credit shall not be capitalised.

14. MINIMUM INTEREST RATES

a) The Participants providing official financing support shall apply either a minimum floating interest rate or a minimum fixed interest rate, in accordance with the provisions of Appendix III.

b) For jet aircraft of a net price of at least USD 35 million, official financing support on CIRR basis shall only be provided in exceptional circumstances. A Participant intending to provide such support shall notify all other Participants at least 20 calendar days before final commitment, identifying the borrower.

c) Interest rate excludes any payment by way of premium referred to in Article 11 above, and fees referred to in Article 16 below.

15. INTEREST RATE SUPPORT

The Participants providing interest rate support shall comply with the financial terms and conditions of this Sector Understanding and shall require any bank or any other financial institution which is a party to the interest supported transaction to participate in that transaction only on terms that are consistent in all respects with the financial terms and conditions of this Sector Understanding.

16. FEES

a) Subject to the limits of the premium holding period, the Participants providing official support in the form of pure cover shall charge a premium holding fee on the un-drawn portion of the official support during the premium holding period, as follows:

   1) For the first six months of the holding period: zero basis points *per annum*.

   2) For the second six months of the holding period: 12.5 basis points per annum.

   3) For the third and final six months of the holding period: 25 basis points *per annum*.

b) The Participants providing official support in the form of direct credit / financing shall charge the following fees:

   1) Arrangement / Structuring fee: 25 basis points on the disbursed amount payable at the time of each disbursement.

   2) Commitment and premium holding fee: 20 basis points *per annum* on the un-drawn portion of the officially supported export credit to be disbursed, during the premium holding period, payable in arrears.

   3) Administration fee: five basis points *per annum* on the amount of official support outstanding payable in arrears. Alternatively, the Participants may elect to have this fee payable as an up-front fee, on the amount disbursed, at the time of each disbursement pursuant to the provisions of Article 11 b) above.

17. CO-FINANCING

Notwithstanding Articles 14 and 16 above, in a co-financing where official support is provided by way of direct credit and pure cover, and where pure cover represents at least 35% of the officially supported amount, the Participant providing direct credit shall apply the same financial terms and conditions, including fees, as those provided by the financial institution under pure cover, to generate an all-in cost equivalence between the pure cover provider and the direct lender. In such circumstances, the Participant providing such support shall report the financial terms and conditions supported, including fees, in accordance with the reporting form set out in Appendix IV.

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

CHAPTER I: COVERAGE

18. USED AIRCRAFT AND OTHER GOODS AND SERVICES

This Part of the Sector Understanding shall apply to used aircraft and to spare engines, spare parts, cargo conversion, major modification, refurbishing, maintenance and service contracts in conjunction with both new and used aircraft and engine kits.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

The financial terms and conditions to be applied, other than the maximum repayment term, shall be in accordance with the provisions set out in Part 2 of this Sector Understanding.

19. SALE OF USED AIRCRAFT

The maximum repayment term for used aircraft shall be established in accordance with the age of the aircraft, as set out below:

Age of Aircraft (years)	Asset-Backed or Sovereign Transactions	Transactions neither Asset-Backed nor Sovereign
1	10	8.5
2	9	7.5
3	8	6.5
4	7	6
5 – 8	6	5.5
Over 8	5	5

20. SPARE ENGINES AND SPARE PARTS

a) When purchased, or ordered in connection with the engines to be installed on a new aircraft, the official support for spare engines may be provided on the same terms and conditions as for the aircraft.

b) When purchased with new aircraft, the official support for spare parts may be provided on the same terms and conditions as for the aircraft up to a maximum 5% of the net price of the new aircraft and installed engines; Article 20 d) below shall apply to official support for spare parts in excess of the 5% limit.

c) When spare engines are not purchased with a new aircraft, the maximum repayment term shall be eight years. For spare engines with a unit value of USD 10 million or more, provided the transaction meets all requirements under Article 19 of Appendix II, the repayment term shall be 10 years.

d) When other spare parts are not purchased with a new aircraft, the maximum repayment term shall be:

1) Five years with a contract value of USD 5 million or more.

2) Two years with a contract value of less than USD 5 million.

21. CONTRACTS FOR CARGO CONVERSION/MAJOR MODIFICATION/ REFURBISHING

The Participants may offer official support with a repayment term of up to:

a) Five years with a contract value of USD 5 million or more.

b) Two years with a contract value of less than USD 5 million.

22. MAINTENANCE AND SERVICE CONTRACTS

The Participants may offer official support with a repayment term of up to three years.

23. ENGINE KITS

The Participants may offer official support with a repayment term of up to five years.

PART 4: TRANSPARENCY PROCEDURES

All communications shall be made between the designated contact points in each Participant country by means of instant communication, *e.g.* the OECD On-Line Information System (OLIS). Unless otherwise agreed, all information exchanged under this Part of the Sector Understanding shall be treated by all Participants as confidential.

SECTION 1: INFORMATION REQUIREMENTS

24. INFORMATION ON OFFICIAL SUPPORT

a) Within one month after the date of a final commitment, a Participant shall submit the information required in Appendix IV to all other Participants, with a copy to the Secretariat.

b) In order to establish the margin benchmark in accordance with Appendix III Article 8 b), information on pure cover margins shall be submitted to the Secretariat no later than five days after the end of each month.

SECTION 2: EXCHANGE OF INFORMATION

25. REQUESTS FOR INFORMATION

a) A Participant may ask another Participant for information about the use of its officially supported export credits for the sale or lease of aircraft covered by this Sector Understanding.

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) The Participant to which such an enquiry is addressed shall respond within seven calendar days and provide reciprocal information to the fullest extent 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.

d) Copies of all enquiries and responses shall be sent to the Secretariat.

26. FACE-TO-FACE CONSULTATIONS

a) In a competitive situation, a Participant may request face-to-face consultations with one or more Participants.

b) Any Participant shall agree within ten working days to such requests.

c) The consultations shall take place as soon as possible after the expiry of the ten working-day period.

d) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow-up action. The Secretariat shall promptly make available to all Participants the outcome of the consultation.

27. SPECIAL CONSULTATIONS

a) A Participant (the initiating Participant) that has reasonable grounds to believe that financial terms and conditions offered by another Participant (the responding Participant) are more generous than those provided for in this Sector Understanding shall inform the Secretariat; the Secretariat shall immediately make available such information to the responding Participant.

b) The responding Participant shall clarify the financial terms and conditions of the official support being considered within five working days following the issue of the information from the Secretariat.

c) Following clarification by the responding Participant, the initiating Participant may request that a special consultation with the responding Participant be organised by the Secretariat within five working days to discuss the issue.

d) The responding Participant shall wait for the outcome of the consultation which shall be determined on the day of such consultation before proceeding any further with the transaction.

SECTION 3: COMMON LINES

28. PROCEDURES AND FORMAT OF COMMON LINES

a) Common Line proposals shall be addressed to the Secretariat only. The identity of the initiator is not revealed on the Common Line register on the OLIS. However, the Secretariat may orally reveal the identity of the initiator to a Participant 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:

1) Reference number, followed by Common Line.

2) Name of the importing country and buyer/borrower.

3) Name or description of the transaction as precise as possible to clearly identify the transaction.

4) Common Line proposal for the most generous terms and conditions to be supported.

5) Nationality and names of known competing bidders.

6) Bid closing date and tender number to the extent it is known.

7) Other relevant information, including reasons for proposing the Common Line and as appropriate, special circumstances.

29. 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 acceptance, rejection, a request for additional information, a proposal for modification of the Common Line or an alternative Common Line proposal.

c) A Participant which remains silent or advises that it has no position shall be deemed to have accepted the Common Line proposal.

30. 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.

31. DISAGREEMENT ON COMMON LINES

a) 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 mentioned in Article 30 above, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.

b) A Common Line which has not been accepted may be reconsidered using the procedures in Articles 28 to 30 above. In these circumstances, the Participants are not bound by their original decision.

32. 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 agreed Common Line will take effect three calendar days after this announcement.

33. VALIDITY OF COMMON LINES

a) Unless agreed otherwise, 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 such situation is accepted by all Participants.

b) If a Participant seeks an extension within 14 calendar days of the original date of expiry and in the absence of disagreement, a Common Line shall remain valid for a further two-year period; subsequent extensions may be agreed through the same procedure.

c) 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 issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.

d) Upon the request of a non-Participant which produces competing aircraft, the Secretariat shall make available valid Common Lines to that non-Participant.

SECTION 4: MATCHING

34. MATCHING

a) Taking into account a Participant's international obligations, a Participant may match financial terms and conditions of official support offered by a non-Participant.

b) In the event of matching non-conforming terms and conditions offered by a non-Participant:

   1) The matching Participant shall make every effort to verify such terms and conditions.

   2) The matching Participant shall inform the Secretariat and all other Participants of the nature and outcome of such efforts, as well as of the terms and conditions it intends to support, at least ten calendar days before issuing any commitment.

   3) If a competing Participant requests a discussion during this ten calendar-day period, the matching Participant shall wait an additional ten calendar days before issuing any commitment on such terms.

c) If a matching Participant modifies or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

PART 5: MONITORING AND REVIEW

35. MONITORING

a) The Secretariat shall monitor the implementation of this Sector Understanding and report to the Participants on an annual basis.

b) Each transaction deemed eligible under Article 39 a) shall be reported in accordance with the provisions of Article 24 a) and Appendix IV.

c) Each transaction deemed eligible under Article 39 b) shall be reported in accordance with the provisions of Article 24 a) and Appendix IV, in addition to which:

1) The reporting Participant shall indicate the link between that transaction and the transition list.

2) The transition lists shall be monitored on a semi-annual basis; to that end, the Secretariat shall meet with each Participant, with a view to:

- Monitoring the number of firm orders registered on the transition lists which have been delivered.

- Updating for the following year the delivery schedule for transactions registered on the transition lists.

- Identifying orders registered on transition lists which have not been or shall not, for any reason, be delivered to the buyer listed on such transition lists. Any such order shall be deleted from the transition list and shall not be reallocated in any way to any other buyer.

36. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding, against the criteria, and at the times, set out in paragraphs a) and b) below.

a) The Participants shall undertake the review of this Sector Understanding as follows:

1) In the fourth calendar year following the effective date of this Sector Understanding and, regularly thereafter, in each case with three months prior notice given by the Secretariat.

2) At the request of a Participant after due consultation, provided that three months prior notice has been given by the Secretariat and the requesting Participant provides a written explanation of the reason for, and objectives of, the review as well as a summary of the consultations preceding its request.

3) Modalities of update of minimum premium rates and minimum interest rates are set out in Appendixes II and III respectively.

4) Fees set out in Article 16 shall be part of reviews.

b) The review set out in sub-paragraph a) 1) above shall consider:

1) The extent to which the purposes of this Sector Understanding, as set out in Article 1 above, have been achieved and any other issue a Participant may wish to bring forward for discussion.

2) In view of the elements in sub-paragraph b) 1) above, whether amendments to any aspect of this Sector Understanding are justified.

c) In recognition of the importance of the review process, to ensure that the terms and conditions of this Sector Understanding continue to meet the needs of the Participants, each Participant reserves the right to withdraw from this Sector Understanding in accordance with Article 40 below.

37. FUTURE WORK

Consideration will be given to:

a) Examining Participants' practices in providing official support before the starting point of credit.

b) The provisions applicable to indirect loans.

c) An extension of maximum repayments terms under Article 19 for used aircraft that have undergone significant refurbishment prior to sale.

d) An extension of maximum repayment terms under Article 21 for larger contract values.

e) The provisions applicable to "refurbishing" (Article 21) and "services" (Article 22).

f) The Cape Town eligibility process.

g) The definition of "Interested Participant".

PART 6: FINAL PROVISIONS

38. ENTRY INTO FORCE

The effective date of this Sector Understanding is 1 February 2011.

39. TRANSITIONAL ARRANGEMENTS

Notwithstanding Article 38 above, the Participants may provide official support on the terms and conditions set out as follows:

a) The Participants may provide official support on the terms and conditions set out in the Aircraft Sector Understanding in force as of 1 July 2007 ("the 2007 ASU") if the following conditions are fulfilled:

   1) The goods and services shall be subject to a firm contract concluded not later than 31 December 2010.

   2) The goods and services shall be physically delivered not later than 31 December 2012 for 2007 ASU Category 1 aircraft and 31 December 2013 for 2007 ASU Category 2 and 3 aircraft.

   3) For each final commitment notified, a 20 basis points *per annum* commitment fee shall be charged from the earlier of the date of the final commitment or 31 January 2011 (2007 ASU Category 1 aircraft)/30 June 2011 (2007 ASU Category 2 and 3 aircraft), until the aircraft is delivered. This commitment fee shall be in lieu of the fees set out in Articles 17 a) and b) 2) of the 2007 ASU. This commitment fee shall be charged in addition to the minimum premium charged.

b) The Participants may provide official support on terms and conditions applicable prior to the effective date of this Sector Understanding if the following conditions are fulfilled:

   1) The goods and services shall be subject to a firm contract concluded not later than 31 December 2010.

   2) Such official support is limited to deliveries of 69 2007 ASU Category 1 aircraft per Participant and 92 2007 ASU Category 2 aircraft per Participant.

   3) In order to benefit from the terms and conditions set out in this paragraph, aircraft mentioned in sub-paragraph b) 2) above shall be registered on lists (hereafter "transition lists") which shall be notified by the Participants to the Secretariat prior to the entry into force of this Sector Understanding. Such transition lists shall include:

      - The aircraft models and numbers.

      - Tentative delivery dates.

- Identity of buyers.

- The applicable regime (either the Aircraft Sector Understanding prevailing prior to the 2007 ASU, or the 2007 ASU).

4) Information under the first, second and fourth tirets above shall be shared with all Participants; information under the third tiret above shall be managed exclusively by the Secretariat and the Chairman.

5) For each aircraft on transition lists:

- If official support is committed under the Aircraft Sector Understanding prevailing prior to the 2007 ASU, a commitment fee of 35 basis points *per annum* shall be charged from the earlier of the date of the final commitment or 31 March 2011, until the aircraft is delivered. In addition, the minimum premium charged shall be no less than 3% on an up-front basis.

- If official support is committed under the 2007 ASU, a commitment fee of 20 basis points per annum shall be charged from the earlier of the date of the final commitment or 30 June 2011, until the aircraft is delivered.

- The commitment fee set out in both tirets above shall be in lieu of the fees set out in Articles 17 a) and b) 2) of the 2007 ASU. This commitment fee shall be charged in addition to the minimum premium charged.

6) The Participants may provide officially supported export credits on the terms and conditions set out in the Aircraft Sector Understanding prevailing prior to the 2007 ASU only for deliveries of aircraft scheduled to occur on or prior to 31 December 2010, in accordance with firm contracts concluded not later than 30 April 2007 and notified to the Secretariat not later than 30 June 2007.

c) The implementation of this Article shall be monitored in accordance with Articles 35 b) and c).

40. WITHDRAWAL

A Participant may withdraw from this Sector Understanding by notifying the Secretariat in writing by means of instant communication, *e.g.* the OLIS. The withdrawal takes effect six months after receipt of the notification by the Secretariat. Withdrawal will not affect agreements reached on individual transactions entered into prior to the effective date of the withdrawal.

APPENDIX I

PARTICIPATION IN THE AIRCRAFT SECTOR UNDERSTANDING

1. The Participants encourage non-Participants that are developing a manufacturing capacity for civil aircraft to apply the disciplines of this Sector Understanding. In this context the Participants invite non-Participants to enter into a dialogue with them regarding the conditions of joining the ASU.

2. The Secretariat should ensure that a non-Participant interested in participating in this Sector Understanding is provided with full information on the terms and conditions associated with becoming a Participant to this Sector Understanding.

3. The non-Participant would then be invited by the Participants to take part in the activities in pursuance of this Sector Understanding and to attend, as an observer, the relevant meetings. Such an invitation would be for a maximum of two years and could be renewed once for a further two years. During this period the non-Participant shall be invited to provide a review of its export credit system, especially for the export of civil aircraft.

4. At the end of that period, the non-Participant shall indicate whether it wishes to become a Participant in this Sector Understanding and to follow its disciplines; in the case of such confirmation, the non-Participant shall contribute, on an annual basis, to the costs associated with the implementation of this Sector Understanding.

5. The interested non-Participant shall be considered a Participant 30 working days after the confirmation referred to in Article 4 of this Appendix.

APPENDIX II

MINIMUM PREMIUM RATES

This Appendix sets out the procedures to be used when determining the pricing of official support for a transaction subject to this Sector Understanding. Section 1 sets out the risk classification procedures; Section 2 sets out the minimum premium rates to be charged for new and used aircraft, and Section 3 sets out the minimum premium rates to be charged for spare engines, spare parts, cargo conversion/major modification/refurbishing, maintenance and service contracts, and engine kits.

SECTION 1: PROCEDURES FOR RISK CLASSIFICATION

1. The Participants have agreed on a list of risk classifications (the List) for buyers/borrowers; such risk classifications reflect the senior unsecured credit rating of buyers/borrowers using a common rating scale such as that of one of the credit rating agencies (CRA).

2. The risk classifications will be made by experts nominated by the Participants against the risk categories set out in Table 1 of this Appendix.

3. The List shall be binding at any stage of the transaction (*e.g.* campaign and delivery), subject to the provisions of Article 15 of this Appendix.

I. ESTABLISHMENT OF THE LIST OF RISK CLASSIFICATIONS

4. The List shall be developed and agreed among the Participants prior to the entry into force of this Sector Understanding; it shall be maintained by the Secretariat and made available to all the Participants on a confidential basis.

5. Upon request, the Secretariat may, on a confidential basis, inform an aircraft-producing non-Participant of the risk classification of a buyer/borrower; in this case, the Secretariat shall inform all Participants of the request. A non-Participant may, at any time, propose additions to the List to the Secretariat. A non-Participant proposing an addition to the List may participate in the risk-classification procedure as if it were an interested Participant.

II. UPDATE OF THE LIST OF RISK CLASSIFICATIONS

6. Subject to the provisions of Article 15 of this Appendix, the List may be updated on an *ad hoc* basis in the event that either a Participant signals, in any form, its intention to apply another risk classification than that on the List, or a Participant needs a risk classification for a buyer/borrower that is not yet on the List[1] [2].

7. Any Participant shall, before any use of an alternative or new risk classification, send a request to the Secretariat for updating the List on the basis of an alternative or new risk classification. The Secretariat will circulate this request to all Participants within two working days, without mentioning the identity of the Participant who submitted the request.

8. A period of ten[3] working days is allowed for interested Participants either to agree to or to challenge any proposed change to the List; a failure to respond within this period is considered as an agreement to the proposal. If at the end of the ten-day period, no challenge has been made to the proposal, the proposed change in the List is deemed to have been agreed. The Secretariat will modify the List accordingly and send an OLIS message within five working days; the revised List shall be binding from the date of that message.

III. RESOLUTION OF DISAGREEMENTS

9. In the event of a challenge to a proposed risk classification, interested Participants shall, at an expert level, make their best efforts to come to an agreement on the risk classification within a further period of ten working days after notification of a disagreement. All means necessary to resolve the disagreement should be explored, with the assistance of the Secretariat if necessary (*e.g.* conference calls or face-to-face consultations). If interested Participants agree to a risk classification within this ten working-day period, they shall inform the Secretariat of the outcome upon which the Secretariat will update the List accordingly and send an OLIS message in the following five working days. The adjusted List shall be binding from the date of that message.

10. In case the disagreement is not resolved among the experts within ten working days, the issue will be referred to the Participants for decision on an appropriate risk classification, in a period that shall not exceed five working days.

11. In the absence of a final agreement, a Participant may have recourse to a CRA to determine the risk classification of the buyer/borrower. In such cases, the Chairman of the Participants shall address a communication on behalf of the Participants to the buyer/borrower, within ten working days. The communication shall include the terms of reference for the risk assessment consultation as agreed among the Participants. The resulting risk classification will be registered in the List and become binding immediately following the Secretariat's OLIS message to finalise the update procedure within five working days.

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[1] An explanation shall be provided where the proposed risk-rating of a buyer/borrower exceeds the risk rating of the host sovereign.

[2] For transactions with an export contract value of less than USD 5 million, a Participant not wishing to follow the risk classification procedure set out in Articles 6 to 8 of this Appendix shall apply the risk classification "8" for the buyer/borrower which is the subject of the transaction and shall notify the transaction in accordance with Article 24 a) of this Sector Understanding.

[3] For transactions with an export contract value of less than USD 5 million, a five working-day period shall apply.

12. Unless otherwise agreed, the cost of such recourse to a CRA shall be borne by the interested buyer/borrower.

13. During the procedures set out in Articles 9 to 11 of this Appendix, the prevailing risk classification (when available on the List) shall remain applicable.

IV. VALIDITY PERIOD OF CLASSIFICATIONS

14. The valid risk classifications are the prevailing risk classifications as recorded in the List maintained by the Secretariat; indications and commitments of premium rates shall only be made in accordance with those risk classifications.

15. Risk classifications have a 12-month maximum validity period from the date recorded in the List by the Secretariat for the purpose of the Participants providing indication and final commitments of premium rates; the validity period for a specific transaction may be extended by an additional 18 months once a commitment or a final commitment has occurred and premium holding fees are charged. Risk classifications may be subject to revision during the 12-month validity period in case of material changes to the risk profile of the buyer/borrower, such as a modification of a rating delivered by a CRA.

16. Unless any Participant requests its update, at least 20 working days before the end of the relevant risk classification validity period, the Secretariat shall remove that risk classification from the next succeeding updated List. The Secretariat will circulate this update request to all Participants within two working days, without mentioning the identity of the Participant who submitted the request, and the procedures set out in Articles 9 to 11 of this Appendix shall apply.

V. BUYER/BORROWER RISK CLASSIFICATION REQUEST

17. If, at the campaign stage, a buyer/borrower requests an indication of its risk classification and if it is not yet on the List, that buyer/borrower may ask for an indicative risk classification from a CRA at its own expense. This risk classification shall not be included in the List; it may be used by the Participants as a basis for their own risk assessment.

SECTION 2: MINIMUM PREMIUM RATES FOR NEW AND USED AIRCRAFT

I. ESTABLISHMENT OF THE MINIMUM PREMIUM RATES

18. Articles 19 to 58 of this Appendix set out the minimum premium rates corresponding to the risk classification of a buyer/borrower (or, if a different entity, the primary source of repayment of the transaction).

19. The Participants may provide official support at or above the minimum premium rate provided that all the conditions below are fulfilled:

a) The transaction is asset-backed, meeting all of the following criteria:

   1) A first priority security interest on or in connection with the aircraft and engines.

   2) In the case of a lease structure, assignment and/or a first priority security interest in connection with the lease payments.

3) Cross default and cross collateralization of all aircraft and engines owned legally and beneficially by the same parties under the proposed financing, whenever possible under the applicable legal regime.

b) The transaction is structured to include, as a minimum, risk mitigants as set out in Table 1 below:

Table 1

Risk Mitigants

ASU Risk Category	Risk Ratings	Risk Mitigants		
		A+B	Of which at least A	And at least B
1	AAA to BBB-	0	0	0
2	BB+ and BB	0	0	0
3	BB-	1	1	0
4	B+	2	1	1
5	B	2	1	1
6	B-	3	2	1
7	CCC	4	3	1
8	CC to C	4	3	1

20. For purposes of Article 19 of this Appendix:

a) The Participants may select from the following risk mitigants:

"A" risk mitigants:

1) Reduced advance rate: each reduction of five percentage points from the advance rates referred to in Articles 10 a) and b) of this Sector Understanding is equivalent to one "A" risk mitigant. In this case, the Participant shall not provide official support in any form in excess of the reduced advance rate.

2) Straight line amortisation: repayment of principal in equal instalments is equivalent to one risk mitigant.

3) Reduced repayment term: a repayment term which does not exceed ten years is equivalent to one risk mitigant.

"B" risk mitigants:

1) Security deposit: each security deposit in an amount equal to one quarterly instalment of principal and interest is equivalent to one risk mitigant. The security deposit can be in the form of cash or a standby letter of credit.

2) Lease payments in advance: lease payments in an amount equal to one quarterly instalment of principal and interest shall be paid one quarter in advance of each repayment date.

3) Maintenance reserves in a form and amount reflective of market best practices.

b) Subject to prior notification, one of the "A" risk-mitigant may be replaced by a 15% surcharge on the applicable minimum premium rate.

21. Pursuant to Article 11 of this Sector Understanding, the minimum premium rates to be applied are composed of minimum risk-based rates (RBR) to which a market reflective surcharge (MRS) shall be added, in accordance with Articles 22 to 34 below.

22. As of the entry into force of this Sector Understanding, the RBRs are:

Table 2

Risk-Based Rates

ASU Risk Category	Spreads (bps)	Upfront (%)
1	89	5.00
2	98	5.50
3	116	6.50
4	133	7.50
5	151	8.50
6	168	9.50
7	185	10.50
8	194	11.00

23. The RBRs rates shall be reset on an annual basis, based on 4-year moving average of the annual Moody´s Loss Given Default (LGD). The appropriate LGD for this reset is based on the 1st Lien Senior Secured Bank Loans, and shall be calculated as follows:

Table 3

LGD Mapping	
4-year Moving Average	**LGD Considered**
>=45%	25%
>=35% < 45%	23%
>=30% < 35%	21%
< 30%	19%

24. A RBR adjustment factor shall be determined as follows:

$$\frac{\text{LGD Considered}}{19\%} = \text{RBR adjustment factor}$$

25. The RBR adjustment factor shall be multiplied by the RBRs set out in Table 2 above, in order to determine the reset RBRs.

26. The first reset process will take place in the first quarter of 2012 and the resulting RBRs will become effective as of 15 April 2012.

27. The RBRs resulting from subsequent reset processes will be effective as of 15 April of each following year. Once the RBRs resulting from the annual reset have been determined, the Secretariat shall inform immediately all Participants of the applicable rates and make them publicly available.

28. For each risk category, a Market Reflective Surcharge shall be calculated as follows:

$$MRS = B*[(0.5*MCS)-RBR]$$

where:

- B is a blend coefficient varying from 0.7 to 0.35 according to each risk category as per Table 4 below.

- MCS is a 90-day moving average of Moody's Median Credit Spreads (MCS) with an average life of 7 years.

29. Where risk categories include more than one risk rating, the spreads shall be averaged. In risk category 1, the BBB- spread shall be used.

30. The MCS spreads shall be discounted by 50% to account for the asset-security. The MCS discounted spreads shall then be adjusted by a blend factor ranging from 70% to 35% as per Table 4 below, applied on the difference between the MCS discounted spreads and the RBR. Any negative spreads resulting from the blending shall not be deducted.

Table 4

Blend Factors

Risk-Ratings	ASU Risk Category	Blend Factor (%)
AAA	1	70
AA	1	70
A	1	70
BBB+	1	70
BBB	1	70
BBB-	1	70
BB+	2	65
BB	2	65
BB-	3	50
B+	4	45
B	5	40
B-	6	35
CCC	7	35
CC	8	35
C	8	35

31. The MRS shall be updated on a quarterly basis, as follows:

- The first update process shall take place in the first quarter of 2011 and the resulting MCS shall become effective as of 15 April 2011; however, until 15 April 2012, the outcome of updates of the MRS applying to Risk Category 1 shall become effective only if they result in an increase of such MRS.

- The subsequent update processes shall take place in the second, third and fourth quarters of 2011 (and thereon) and the resulting MCS shall become effective respectively on 15 July 2011, 15 October 2011 and 15 January 2012, and thereon.

- Following each update, the Secretariat shall inform immediately all Participants of the applicable MRS and the resulting minimum rates and make them publicly available prior to the date these rate become effective.

32. The MRS shall be applied only if and when it is positive and exceeds 25 basis points.

33. The increase in minimum premium rates resulting from the MRS update shall not exceed 10% of the previous quarterly minimum premium rates. The minimum premium rates (which result from adding the risk-based rates and the market reflective surcharge) shall not exceed the risk-based rates by more than 100%.

34-1. In order to determine the minimum premium rates:

– The following formula shall be used:

Net MPR = MPR*(1+RTAS)*(1+RFAS)*(1+RMRS)*(1-CTCD)*(1+NABS) - CICD

Where:

- RTAS represents the repayment term adjustment surcharge set out in Article 12 b) of this Sector Understanding.
- RFAS represents the repayment frequency adjustment surcharge set out in Articles 13 a) 1) and 2) of this Sector Understanding.
- RMRS represents the risk mitigant replacement surcharge set out in Article 20 b) of this Appendix.
- CTCD represents the Cape Town Convention Discount set out in Article 36 of this Appendix.
- NABS represents the non-asset-backed surcharge set out in Articles 55 a) 4), 55 b) and 57 b) of this Appendix II, as applicable.
- CICD represents the conditional insurance coverage discount set out in Article 54 a) of this Appendix.

– Premium may be paid either upfront or, over the life of the facility, as spreads expressed in basis points per annum. The upfront rates and spreads shall be calculated using the premium rate conversion model (PCM) so that the premium charge payable for a given transaction is the same in NPV terms whether the charge is effected by means of the upfront rates or the spreads. In transactions where, prior to the commencement of cover, terms are agreed or stipulated, which entail a reduction in the weighted average life, an upfront rate (calculated using the PCM) may be charged, which in terms of the resulting premium payable, corresponds to that payable in NPV terms under the spreads.

34-2. The applicable minimum premium rates as of the initial effective date of this Sector Understanding (1 February 2011) are set out in Table 5 below.

Table 5

Minimum Premium Rates

(12-year repayment term, asset-backed transactions)

Risk Category	Risk Classification	Minimum Premium Rates	
		Per Annum Spreads (bps)	Up-Front (%)
1	AAA to BBB-	137	7.72
2	BB+ and BB	184	10.44
3	BB-	194	11.03
4	B+	208	11.85
5	B	234	13.38
6	B-	236	13.50
7	CCC	252	14.45
8	CC to C	257	14.74

II. REDUCTIONS OF THE MINIMUM PREMIUM

35. Subject to the provisions of Article 36 of this Appendix, a reduction of the minimum premium rates established in accordance with sub-Section I above shall be allowed if:

a) The asset-backed transaction relates to an aircraft object within the meaning of the Cape Town Protocol on Matters Specific to Aircraft Equipment,

b) The operator of the aircraft object (and, if different, the borrower/buyer or lessor if, in the view of the Participant providing the official support, the structure of the transaction so warrants) is situated in a State which, at the time of disbursement in respect of the aircraft object, appears on the list of States which qualify for the reduction of the minimum premium rates ("Cape Town List"), and where applicable, in a territorial unit of that State that qualifies under Article 38 of this Appendix, and

c) The transaction relates to an aircraft object registered on the International Registry established pursuant to the Cape Town Convention, and the Aircraft Protocol thereto (Cape Town Convention or CTC).

36. The reduction of the minimum premium rates established in accordance with sub-Section I above shall not exceed 10% of the applicable minimum premium rate.

37. In order to be included on the Cape Town List, a State shall:

a) Be a Contracting Party to the Cape Town Convention;

b) Have made the qualifying declarations set out in Annex I to this Appendix; and

c) Have implemented the Cape Town Convention, including the qualifying declarations, in its laws and regulations, as required, in such a way that the Cape Town Convention commitments are appropriately translated into national law.

38. To qualify under Article 35 of this Appendix, a territorial unit shall:

a) Be a territorial unit to which the Cape Town Convention has been extended;

b) Be a territorial unit in respect of which the qualifying declarations set out in Annex I to this Appendix apply; and

c) Have implemented the Cape Town Convention, including the qualifying declarations, in its laws and regulations, as required, in such a way that the Cape Town Convention commitments are appropriately translated into national law.

39. An initial agreed Cape Town List shall be provided by the Participants to the Secretariat prior to the entry into force of this Sector Understanding. Updates to the Cape Town List shall be made in accordance with Articles 40 to 52 of this Appendix.

40. Any Participant or non-Participant which provides official support for aircraft may propose to the Secretariat the addition of a State to the Cape Town List. Such proposal shall include, with respect to such State:

a) All the relevant information in respect of the date of deposit of the Cape Town Convention ratification or accession instruments with the Depositary;

b) A copy of the declarations made by the State which is proposed to be added to the Cape Town List;

c) All relevant information in respect of the date on which the Cape Town Convention and the qualifying declarations have entered into force;

d) An analysis which outlines the steps that the State which is proposed to be added to the Cape Town List has taken to implement the Cape Town Convention including the qualifying declarations in its laws and regulations, as required to ensure that the Cape Town Convention commitments are appropriately translated into national law; and

e) A duly completed questionnaire, the form of which is attached at Annex 2 of this Appendix ("CTC Questionnaire") completed by at least one law firm qualified to give legal advice in relation to the relevant jurisdiction of the State which is proposed to be added to the Cape Town List . The completed CTC Questionnaire shall specify:

(i) The name(s) and office address(es) of the responding law firm(s);

(ii) The law firm's relevant experience, which could include experience in legislative and constitutional processes as they relate to the implementation of international treaties in the State, and specific experience in CTC related issues including any experience in advising either a government on implementation and enforcement of the Cape Town Convention or the private sector, or enforcement of creditor's rights in the State which is proposed to be added to the Cape Town List;

(iii) Whether the law firm is involved or intends to be involved in any transactions that may benefit from a reduction of minimum premium rates if the proposed State is added to the CTC list[4]; and

(iv) The date on which the CTC Questionnaire has been completed.

41. The Secretariat shall circulate an OLIS message within five working days containing the proposal.

42. Any Participant or non-Participant which provides official support for aircraft may propose that a State be removed from the Cape Town List if they are of the view that such State has taken actions that are inconsistent with, or failed to take actions that are required by virtue of, that State's Cape Town Convention commitments. To that end, the Participant or non-Participant shall include in a proposal for removal from the Cape Town List, a full description of the circumstances that have given rise to the proposal for deletion, such as any State actions that are inconsistent with its Cape Town Convention commitments, or any failure to maintain or enforce legislation required by virtue of that State's Cape Town Convention commitments. The Participant or non-Participant who submits the proposal for removal from the Cape Town List shall provide any supporting documentation that may be available, and the Secretariat shall circulate an OLIS message within five working days containing such proposal.

43. Any Participant or non-Participant which provides official support for aircraft may propose the reinstatement of a State that has been previously removed from the Cape Town List, where such reinstatement is justified by subsequent corrective actions or events. Such a proposal shall be accompanied by a description of the circumstances that gave rise to the removal of the State as well as a report of the subsequent corrective actions in support of reinstatement. The Secretariat shall circulate an OLIS message within five working days containing such proposal.

44. The Participants may either agree to or challenge a proposal brought forward under Articles 40 to 43 of this Appendix within 20 working days from the date of submission of the proposal ("Period 1").

45. If at the end of Period 1, no challenge has been made to the proposal, the proposed update to the Cape Town List is deemed to have been accepted by all Participants. The Secretariat will modify the Cape Town List accordingly and send an OLIS message within five working days. The updated Cape Town List shall take effect on the date of that message.

46. In the event of a challenge to the proposed update of the Cape Town List, the challenging Participant or Participants shall, within Period 1, provide a written explanation of the basis of the challenge. Following circulation by the OECD Secretariat to all Participants of the written challenge, the Participants shall make best efforts to come to an agreement within a further ten working day period ("Period 2").

47. The Participants shall inform the Secretariat of the outcome of their discussions. If an agreement is reached during Period 2, the Secretariat will, if necessary, update the Cape Town List accordingly and send an OLIS message in the following five working days. The updated Cape Town List shall take effect on the date of that message.

48. If no agreement is reached during Period 2, the Chairman of the Participants to this Sector Understanding (hereafter "the Chairman") will make her/his best efforts to facilitate a consensus between the Participants, within twenty working days ("Period 3") immediately following Period 2. If at the end of Period 3, no consensus is reached, a final resolution shall be achieved through the following procedures:

[4] Together with information regarding any involvement (provided with due respect for confidentiality duties).

a) The Chairman shall make a written recommendation with respect to the proposed update of the Cape Town List. The Chairman's recommendation shall reflect the majority view emerging from the views openly expressed by at least the Participants which provide official support for aircraft exports. In the absence of a majority view, the Chairman shall make a recommendation based exclusively on the views expressed by the Participants and shall set out in writing the basis for the recommendation, including in the case of ineligibility, the eligibility criteria that were not met.

b) The Chairman's recommendation shall not disclose any information relating to Participants' views or positions expressed in the context of the process set out in Articles 40 to 49 of this Appendix, and

c) The Participants shall accept the recommendation of the Chairman.

49. If, following a proposal submitted under Article 40, the Participants or Chairman has determined that a State is not eligible to be added to the Cape Town List, a Participant or non-Participant may submit another proposal requesting that the Participants reconsider the State's eligibility. The proposing Participant or non-Participant shall address the reasons substantiating the original determination of ineligibility. The proposing Participant or non-Participant shall also obtain and provide an updated CTC questionnaire. This new proposal shall be subject to the process set out in Articles 44 to 50.

50. In the event of any change to the list of qualified countries pursuant to the procedures set out in Article 48 of this Appendix, the Secretariat shall issue an OLIS message containing the updated Cape Town List within five working days of such change. The updated Cape Town List shall take effect on the date of that message.

51. The addition, withdrawal or reinstatement of a State to the Cape Town List after disbursement in respect of an aircraft shall not affect MPRs established regarding such aircraft.

52. In the context of the process set out in Articles 40 to 50 of this Appendix, the Participants shall not disclose any information relating to views or positions expressed.

53. The Participants shall monitor the implementation of Articles 40 to 52 of this Appendix and review it in the first half of 2012, annually thereafter or upon the request of any Participant.

54. The following adjustments to the applicable minimum premium rates may be applied:

a) A discount of five basis points (per annum spreads) or 0.29% (up-front) to the applicable minimum premium rates may be applied for officially supported transactions in the form of conditional insurance cover.

b) The minimum premium rates shall be applied on the covered principal amount.

III. NON ASSET-BACKED TRANSACTIONS

55. Notwithstanding the provisions of Article 19 a) of this Appendix, the Participants may provide officially supported export credits for non-asset backed transactions, provided either of the following conditions is fulfilled:

a) In the case of non-sovereign transactions:

1) The maximum value of the export contract receiving official support is USD 15 million.

2) The maximum repayment term shall be 10 years,

3) No third party has a security interest in the assets being financed, and

4) A minimum surcharge of 30% shall be applied to the minimum premium rates established in accordance with sub-Section I above.

b) In the case of a transaction with a sovereign or backed by an irrevocable and unconditional sovereign guarantee, a minimum surcharge shall, in accordance with Table 6 below, be applied to the minimum premium rates set out in accordance with sub-Section I above.

Table 6

Risk Category	Surcharge (%)
1	0
2	0
3	0
4	10
5	15
6	15
7	25
8	25

56. The provisions of Articles 35 to 51 of this Appendix do not apply to officially supported export credits provided pursuant to Article 55 of this Appendix.

SECTION 3: MINIMUM PREMIUM RATES FOR GOODS AND SERVICES OTHER THAN USED AIRCRAFT COVERED BY PART 3 OF THIS SECTOR UNDERSTANDING

57. When providing official support for all goods and services other than used aircraft covered by Part 3 of this Sector Understanding, the minimum premium rates shall be as follows:

a) In the case of asset-backed transactions, the minimum premium rates shall be equal to the prevailing minimum spreads established in accordance with sub-Section I above and, in the case of pure cover, converted to upfront fees using the conversion model and the appropriate tenor.

b) In the case of non asset-backed transactions, the minimum premium rates shall be equal to the prevailing minimum spreads established in accordance with sub-Section I above to which a surcharge of 30% will be added, and, in the case of pure cover, converted to upfront fees using the conversion model and the appropriate tenor.

58. The provisions of Articles 35 to 54 of this Appendix shall apply to official support for all goods and services other than used aircraft covered by Part 3 of this Sector Understanding.

ANNEX 1: QUALIFYING DECLARATIONS

1. For the purpose of Section 2 of Appendix II, the term "qualifying declarations", and all other references thereto in this Sector Understanding, means that a Contracting party to the Cape Town Convention (Contracting Party):

a) Has made the declarations in Article 2 of this Annex, and

b) Has not made the declarations in Article 3 of this Annex.

2. The declarations for the purpose of Article 1 a) of this Annex are:

a) Insolvency: State Party declares that it will apply the entirety of Alternative A under Article XI of the Aircraft Protocol to all types of insolvency proceeding and that the waiting period for the purposes of Article XI (3) of that Alternative shall be no more than 60 calendar days.

b) Deregistration: State Party declares that it will apply Article XIII of the Aircraft Protocol.

c) Choice of Law: State Party declares that it will apply Article VIII of the Aircraft Protocol.

And at least one of the following (though both are encouraged):

d) Method for Exercising Remedies: State Party declares under Convention Article 54 (2) that any remedies available to the creditor under any provision of the Convention which are not expressed under the relevant provisions thereof to require application to a court may be exercised without leave of the court (the insertion "without court action and" to be recommended (but not required) before the words "leave of the court");

e) Timely Remedies: State Party declares that it will apply Article X of the Aircraft Protocol in its entirety (though clause 5 thereof, which is to be encouraged, is not required) and that the number of working days to be used for the purposes of the time-limit laid down in Article X (2) of the Aircraft Protocol shall be in respect of:

1) The remedies specified in Articles 13 (1) (a), (b) and (c) of the Convention (preservation of the aircraft objects and their value; possession, control or custody of the aircraft objects; and immobilisation of the aircraft objects), not more than that equal to ten calendar days, and

2) The remedies specified in Articles 13 (1) (d) and (e) of the Convention (lease or management of the aircraft objects and the income thereof and sale and application of proceeds from the aircraft equipment), not more than that equal to 30 calendar days.

3. The declarations referred to in Article 1 b) of this Annex are the following:

a) Relief Pending Final Determination: State Party shall not have made a declaration under Article 55 of the Convention opting out of Article 13 or Article 43 of the Convention; provided, however, that, if State Party made the declarations set out under Article 2 d) of this Annex, the

making of a declaration under Article 55 of the Convention shall not prevent application of the Cape Town Convention discount.

b) Rome Convention: State Party shall not have made a declaration under Article XXXII of the Aircraft Protocol opting out of Article XXIV of the Aircraft Protocol; and

c) Lease Remedy: State Party shall not have made a declaration under Article 54 (1) of the Convention preventing lease as a remedy.

4. Regarding Article XI of the Aircraft Protocol, for Member States of the European Union, the qualifying declaration set out in Article 2 a) of this Annex shall be deemed made by a Member State, for purposes hereof, if the national law of such Member State was amended to reflect the terms of Alternative A under Article XI of the Aircraft Protocol (with a maximum 60 calendar days waiting period). As regards the qualifying declarations set out in Articles 2 c) and e) of this Annex, these shall be deemed satisfied, for the purpose of this Sector Understanding, if the laws of the European Union or the relevant Member States are substantially similar to that set out in such Articles of this Annex. In the case of Article 2 c) of this Annex, the laws of the European Union (EC Regulation 593/2008 on the Law Applicable to Contractual Obligations) are agreed to be substantially similar to Article VIII of the Aircraft Protocol.

ANNEX 2: CAPE TOWN CONVENTION QUESTIONNAIRE

I. Preliminary Information

Please provide the following information:

1. The name and full address of the law firm completing the questionnaire.

2. The law firm's relevant experience, which could include experience in legislative and constitutional processes as they relate to the implementation of international treaties in the State, and specific experience in CTC related issues including any experience in advising either a government on implementation and enforcement of the Cape Town Convention or the private sector, or enforcement of creditor's rights in the State which is proposed to be added to the Cape Town List;

3. Whether the law firm is involved or intends to be involved in any transactions that may benefit from a reduction of minimum premium rates if the proposed State is added to the CTC list;[1]

4. The date on which this questionnaire was completed.

II. Questions

1. Qualifying declarations

1.1 Has the State[2] made each of the qualifying declarations in accordance with the requirements of Annex 1 to Appendix II of the Sector Understanding on Export Credits for Civil Aircraft ("ASU") (each a "Qualifying Declaration")? In particular, regarding the declarations concerning "Method for Exercising Remedies" [Article 2 d)] and "Timely Remedies" [Article 2 e)], please specify if one or both of these have been made.

1.2 Please describe the way in which the declarations made differ, if at all, from the requirements referred to in Question 1.1.

1.3 Please confirm that the State has not made any of the declarations listed in Article 3 of Annex 1 to Appendix II of the ASU.

2. Ratification

1.1 Has the State ratified, accepted, approved or acceded to the Cape Town Convention and Aircraft Protocol ("Convention")? Please could you state the date of ratification/accession and briefly describe the State's process of accession to or ratification of the Convention?

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1. Together with information regarding any involvement (provided with due respect for confidentiality duties).

2 For the purposes of this questionnaire the "State" is the country that is being proposed for addition to the Cape Town Convention List under Appendix II, Section 2, II of the ASU. Where appropriate, these questions shall also be answered in respect of the laws of the particular "territorial unit" of the State in which the relevant operator of an aircraft (or other relevant body as set out in Article 35 (b) Appendix II) is located and "national law" shall be read as including a reference to the relevant local law.

1.2 Do the Convention and Qualifying Declarations ("QD") made have the force of law in the whole territory of the State without any further act, implementing legislation or the passing of any further law or regulation?

1.3 If so, please briefly explain the process that gives the Convention and QDs the force of law.

3. Effect of national and local law

1.1 Describe and list, if applicable, the implementing legislation and regulation(s) with respect to the Convention and each QD made by the State.

1.2 Would the Convention and QDs made, as translated into national law[3] ("Convention and QDs"), overrule or have priority over any conflicting national law, regulation, order, judicial precedent or regulatory practice. If so, please describe the process by which this happens,[4] and if not, please provide details.

1.3 Are there any existing gaps in the implementation of the Convention and QDs? If so, please describe.[5]

4. Court and administrative decisions

1.1. Please describe any matters, including judicial, regulatory, or administrative practice which could be expected to result in the courts, authorities or administrative bodies failing to give full force and effect to the Convention and QDs.[6,7]

1.2. To your knowledge, has there been any judicial or administrative enforcement action taken by a creditor under the Convention? If so, please describe the action and indicate whether it was successful.

1.3. To your knowledge, since ratification/implementation, have the courts in that State refused in any instance to enforce loan obligations of a debtor or guarantor in the State contrary to the Convention and QDs?

1.4. To your knowledge, are there any other matters that may impact whether courts and administrative bodies should be expected to act in a manner consistent with the Convention and QDs? If so, please specify.

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[3]. For the purposes of this questionnaire, 'national law' refers to all national legislation of a State, including but not limited to, the Constitution and its Amendments, any federal, state and district law or regulation.

[4] For example, that (i) treaties prevail over other law as a matter of constitutional or similar framework law in State X, or (ii) legislation is required in State X, and has been enacted expressly setting out the priority of the Cape Town Treaty and /or superseding such other law, or (iii) the Cape Town Treaty or its implementing legislation is (a) more specific than other law (*lex specialis derogat legi generali*), and/or (b) later in time than such other law (*lex posterior derogat legi priori*), and as a result of (a) and/or (b) prevails over such other law.

[5] For example, is there any reason why the rights and remedies granted to creditors under the Convention, including those granted under the QDs, would not (a) be recognized as being effective or (b) be sufficient by themselves, to enable such rights and remedies to be validly exercised in the State?

[6] An example of an administrative action for the purposes of this question might be the failure by the State to put in place any procedures or resources to give effect to a provision of the Convention or a Qualifying Declaration. Another example would be the failure by a State to put in place proper procedures in its aircraft registry for recording IDERAs.

[7] Please include in your analysis any precedent / decision relating to the recognition of rights of creditors, including ECAs, when relevant.

APPENDIX III

MINIMUM INTEREST RATES

The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate premium rate to be charged for the risk of non-repayment pursuant to the provisions of Appendix II.

1. MINIMUM FLOATING INTEREST RATE

a) The minimum floating interest rate shall be, as appropriate, the EURIBOR, the Bank Bill Swap Rate, *i.e.* BBSY, or the London Inter-Bank Offered Rate, *i.e.* LIBOR, as compiled by the British Bankers' Association (BBA) with the currency and the maturity corresponding to the frequency of interest payment of officially supported export credit, to which a margin benchmark calculated in accordance with Article 8 of this Appendix, shall be added.

b) The floating interest rate setup mechanism shall vary according to the repayment profile chosen, as follows:

   1) When the repayment of principal and the payment of interest are combined in equal instalments, the relevant EURIBOR/BBSY/LIBOR effective two business days prior to the loan drawdown date, according to the relevant currency and payment frequency shall be used to calculate the entire payment schedule, as if it were a fixed rate. The principal payment schedule shall then be fixed as well as the first interest payment. The second interest payment, and so on, shall be calculated based on the relevant EURIBOR/BBSY/LIBOR effective two business days before the prior payment date over the outstanding principal balance initially established.

   2) When the repayment of principal is made in equal instalments, the relevant EURIBOR/BBSY/LIBOR, according to the relevant currency and payment frequency, effective two business days before the loan drawdown date and prior to each payment date shall be used to calculate the following interest payment over the outstanding principal balance.

c) Where official financing support is provided for floating rate loans, buyers/borrowers may have the option to switch from a floating rate to a fixed rate provided that the following conditions are fulfilled:

   1) The option is restricted to switching to the swap rate only;

   2) The option to switch shall only be exercised upon request, only once, and shall be reported accordingly with a reference to the reporting form initially sent to the Secretariat pursuant to Article 24 of this Understanding.

2. MINIMUM FIXED INTEREST RATE

The minimum fixed interest rate shall be either:

a) The swap rate, concerning the relevant currency of the officially supported export credit and with a maturity according to Table 7 below in the cases where the loan amortization is based on equal payments of principal or equal payments of principal and interest. When the principal payments are not structured in accordance with Article 13 a) of this Sector Understanding, the swap rate maturity applied shall be the interpolated rate for the two closest available annual periods to the weighted average life of the loan. The interest rate shall be set two business days prior to each drawdown date.

Table 7

Repayment Term	Swap Rate Maturity
Up to 3 years	2 years
Up to 5 years	3 years
Up to 7 years	4 years
Up to 9 years	5 years
Up to 10 years	6 years
Up to 12 years	7 years
Up to 15 years	9 years

OR

b) The Commercial Interest Reference Rate (CIRR) established according to the provisions set out in Articles 3 to 7 of this Appendix,

to which, in both cases, the margin benchmark, calculated in accordance with Article 8 of this Appendix, shall be added.

3. CONSTRUCTION OF CIRR

a) A CIRR is established for any of the eligible currencies set out in Article 9 of this Sector Understanding and calculated by adding a fixed margin of 120 basis points to one of the following three yields (the base rates):

1) Five-year government bond yields for a repayment term up to and including nine years,

2) Seven-year government bond yields for over nine and up to and including 12 years, or

3) Nine-year government bond yields for over 12 and up to and including 15 years.

b) CIRR shall be calculated monthly using data from the previous month and notified to the Secretariat, no later than five days after the end of each month. The Secretariat shall then inform immediately all Participants of the applicable rates and make them publicly available. CIRR shall take effect on the 15th day of each month.

c) A Participant or a non-Participant may request that a CIRR be established for the currency of a non-Participant. In consultation with the non-Participant, a Participant or the Secretariat on behalf of that non-Participant may make a proposal for the construction of the CIRR in that currency using the Common Line procedures set out in Articles 28 to 33 of this Sector Understanding.

4. VALIDITY PERIOD OF CIRR

a) Holding the CIRR: the CIRR applying to a transaction shall not be held for a period longer than six months from its selection (export contract date or any application date thereafter) to the credit agreement date. If the credit agreement is not signed within that limit, and the CIRR is reset for an additional six months, the new CIRR shall be committed at the rate prevailing at the date of reset.

b) After the credit agreement date, the CIRR shall be applied for drawing periods which do not exceed six months. After the first six-month drawing period, the CIRR is reset for the next six months; the new CIRR shall be the one prevailing at the first day of the new six-month period and cannot be lower than the CIRR originally selected (procedure to be replicated for each subsequent six-month period of drawings).

5. APPLICATION OF MINIMUM INTEREST RATES

Within the provisions of the credit agreement the borrower shall not be allowed an option to switch from an officially supported floating rate financing to a pre-selected CIRR financing, nor be allowed to switch between a pre-selected CIRR and the short term market rate quoted on any interest payment date throughout the life of the loan.

6. EARLY REPAYMENT OF CIRR

In the event of a voluntary, early repayment of a loan or any portion thereof or when the CIRR applied under the credit agreement is modified into a floating or a swap rate, the borrower shall compensate the institution providing official financing support for all costs and losses incurred as a result of such actions, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

7. 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 working days after notification of this amendment has been received by the Secretariat.

8. MARGIN BENCHMARK

a) A margin benchmark shall be calculated monthly, using data notified to the Secretariat in accordance with Article 24 b) of this Sector Understanding, and shall take effect on the 15th day of each month. Once calculated, the margin benchmark shall be notified by the Secretariat to the Participants and shall be made publicly available.

b) The margin benchmark shall be a rate equivalent to the average of the lowest 50% of the margins over LIBOR or SWAP charged for transactions in the three full calendar months preceding the effective date set out in paragraph a) above, meeting the following conditions:

1) 100% unconditional guarantee transactions denominated in US dollars;

2) Official support provided in respect of aircraft valued at or above USD 35 million (or its equivalent in any other eligible currency); and

3) Transactions will be notified as of their loan drawdown dates. In case several drawdowns occur under the same bank mandate at the same margin, only the drawdown of the first aircraft will be notified.

c) Once it has taken effect, the margin benchmark shall apply to all official financing support provided during the ensuing one month period until the margin benchmark is reset by the Secretariat as set out above.

d) The Participants shall monitor the margin benchmark and shall review the margin benchmark mechanism six and twelve months following the effective date of this Sector Understanding, annually thereafter or upon the request of any Participant.

APPENDIX IV

REPORTING FORM

a) Basic Information

1. Notifying country
2. Notification date
3. Name of notifying authority/agency
4. Identification number

b) Buyer/Borrower/Guarantor Information

5. Name and country of buyer
6. Name and country of borrower
7. Name and country of guarantor
8. Status of buyer/borrower/guarantor, *e.g.* sovereign, private bank, other private
9. Risk classification of buyer/borrower/guarantor

c) Financial Terms and Conditions

10. In what form is official support provided, *e.g.* pure cover, official financing support
11. If official financing support is provided, is it a direct credit/refinancing/interest rate support
12. Description of the transaction supported, including the manufacturer, aircraft model and number of aircraft; indication of whether the transaction falls under the transitional arrangements set out in Article 39 a) or b) of this Understanding.
13. Final commitment date
14. Currency of credit
15. Credit amount, according to the following scale in USD millions:

Category	Credit Amount
I	0-200
II	200-400
III	400-600
IV	600-900
V	900-1200
VI	1200-1500
VII	1500-2000*

* *Indicate the number of USD 300 million multiples in excess of USD 2000 million.*

16. Percentage of official support

17. Repayment term

18. Repayment profile and frequency – including, where appropriate, weighted average life

19. Length of time between the starting point of credit and the first repayment of principal

20. Interest rates:

    - Minimum interest rate applied
    - Margin benchmark applied

21. Total premium charged by way of:

    - Up-front fees (in percentage of the credit amount) or
    - Spreads (basis points *per annum* above the applied interest rate)
    - As appropriate, please indicate separately the 15% surcharge applied in accordance with Appendix II Article 20 b).

22. In the case of direct credit/financing, fees charged by way of:

    - Arrangement/Structuring fee
    - Commitment/Premium holding fee
    - Administration fee

23. Premium holding period

24. In the case of pure cover, premium holding fees

25. Transaction structuring terms: risk mitigants / premium surcharge applied

26. As appropriate, an indication of the impact of the Cape Town Convention on the premium rate applied

APPENDIX V

LIST OF DEFINITIONS

All-In Cost Equivalence: the net present value of premium rates, interest rate costs and fees charged for a direct credit as a percentage of the direct credit amount is equal to the net present value of the sum of premium rates, interest rate costs and fees charged under pure cover as a percentage of the credit amount under pure cover.

Asset-Backed: a transaction that meets the conditions set out in 19 a) of Appendix II.

Buyer/Borrower: includes (but is not limited to) commercial entities such as airlines and lessors, as well as sovereign entities (or if a different entity, the primary source of repayment of the transaction).

Buyer Furnished Equipment: equipment furnished by the buyer and incorporated in the aircraft during the manufacture/refurbishment process, on or before delivery, as evidenced by the Bill of Sale from the manufacturer.

Cape Town Convention: refers to the Cape Town Convention on International Interests in Mobile Equipment and the Protocol thereto on Matters specific to Aircraft Equipment.

Cargo Conversion: costs associated with converting a passenger aircraft into a commercial cargo aircraft.

Commitment: 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, including without limitation, eligibility letters, marketing letters.

Common Line: agreement of the Participants for a given transaction, or in special circumstances on specific financial terms and conditions for official support; such common line shall prevail over the relevant provisions of this Sector Understanding only for the transaction or in the circumstances specified in the common line.

Conditional Insurance Cover: official support which in the case of a default on payment for defined risks provides indemnification to the beneficiary after a specified waiting period; during the waiting period the beneficiary does not have the right to payment from the Participant. Payment under conditional insurance cover is subject to the validity and the exceptions of the underlying documentation and of the underlying transaction.

Country Risk Classification: the prevailing country risk classification of the Participants to the Arrangement on Officially Supported Export Credits as published on the OECD website.

Credit Rating Agency: one of the internationally reputable rating agencies or any other rating agency that is acceptable to the Participants.

Engine Kits: a set of parts introduced to improve reliability, durability and/or on-wing performance procurement through introduction of technology.

Export Credit: an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time; an export credit may take the form of a supplier credit extended by the exporter, or of a buyer credit, where the exporter's bank or other financial institution lends to the buyer (or its bank).

Final Commitment: a final commitment exists when the Participant commits to precise and complete financial terms and conditions, either through a reciprocal agreement or by a unilateral act.

Firm Contract: an agreement between the manufacturer and the person taking delivery of the aircraft or engines as buyer, or, in connection with a sale-leaseback arrangement, as lessee under a lease with a term of at least five years, setting forth a binding commitment (excluding those relating to then unexercised options), where non-performance entails legal liability.

Interested Participant: a Participant which manufactures airframe or aircraft engines, has an existing substantial commercial interest or has experience with the buyer/borrower concerned or has been requested by a manufacturer/exporter to provide official support.

Interest Rate Support: can take the form of an arrangement between on the one hand a government, or an institution acting for or on behalf of a government and, on the other hand, banks or other financial institutions which allows the provision of fixed rate export finance at or above the relevant minimum fixed interest rate.

Major Modification/Refurbishing: operations of reconfiguration or upgrading of either a passenger or cargo aircraft.

Net Price: the price for an item invoiced by the manufacturer or supplier thereof, after accounting for all price discounts and other cash credits, less all other credits or concessions of any kind related or fairly allocable thereto, as stated in a binding representation by each of the aircraft and engine manufacturers - the engine manufacturer representation is required only when it is relevant according to the form of the purchase agreement - or service provider, as the case may be**,** and supported by documentation required by the provider of official support to confirm that net price. All import duties and taxes (*e.g.* VAT) are not included in the net price.

New Aircraft: see Article 8 a) of this Sector Understanding.

Non-Asset-Backed: a transaction that does not meet the conditions set out in 19 a) of Appendix II.

Non-Sovereign Transaction: a transaction that does not meet the description set out in Article 49 b) of Appendix II.

Premium Holding Period: subject to Article 35 b) of Appendix II, period during which a premium rate offered for a transaction is being maintained; not to exceed 18 months from the date of Final Commitment**.**

Premium Rate Conversion Model: model agreed by and made available to the Participants, to be used for the purpose of this Sector Understanding in order to convert up-front premium fees into spreads and *vice vers*a, in which the interest rate and the discount rate used shall be 4.6%; such rate shall be reviewed regularly by the Participants.

Prior Notification: a notification made at least ten calendar days before issuing any commitment, using the reporting form set out in Annex IV.

Pure Cover: Official support provided by or on behalf of a government by a way of export credit guarantee or insurance only, *i.e.* which does not benefit from official financing support.

Repayment Term: the period beginning at the Starting Point of Credit and ending on the contractual date of the final repayment of principal.

Sovereign Transaction: a transaction that meets the description set out in Article 55 b) of Appendix II.

Starting Point of Credit: for the sale of aircraft including helicopters, spare engines and parts, at the latest 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. 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.

Swap Rate: a fixed rate equal to the semi-annual rate to swap floating rate debt to fixed rate debt (Offer side), posted on any independent market index provider, such as Telerate, Bloomberg, Reuters, or its equivalent, at 11:00 am New York time, two business days prior to the loan drawdown date.

Weighted Average Life: the time it takes to retire one-half of the principal of a credit; this is calculated as the sum of time (in years) between the starting point of credit and each principal repayment weighted by the portion of principal repaid at each repayment date.