Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **27-Jan-2005**

**English - Or. English**

**TRADE DIRECTORATE**

**TD/PG(2004)12/REV**
**Unclassified**

# Arrangement on Officially Supported Export Credits

## ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS

*This document contains the prevailing Arrangement text, which reflects two amendments to the 2004 Arrangement [TD/PG(2004)12] agreed at the end of 2004 by the Participants to the Arrangement.*
*The two amendments to the Arrangement are an extension until 30 June 2005 of the Project Finance Understanding in Annex X of the Arrangement and a new text inserted in Article 9 a) about financing the premium.*

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**JT00177671**

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# CHAPTER I: GENERAL PROVISIONS

## 1. PURPOSE

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

b) The Arrangement seeks to foster a level playing field for official support, as defined in Article 5 a), 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.

## 2. STATUS

The Arrangement, developed within the OECD framework, initially came into effect in April 1978 and is of indefinite duration. The Arrangement is a Gentlemen's Agreement among the Participants; it is not an OECD Act[1], although it receives the administrative support of the OECD Secretariat (hereafter: "the Secretariat").

## 3. PARTICIPATION

The Participants to the Arrangement currently are: Australia, Canada, the European Community, Japan, Korea, New Zealand, Norway, Switzerland and the United States. Other OECD Members and non-Members may be invited to become Participants by the current Participants.

## 4. INFORMATION AVAILABLE TO NON-PARTICIPANTS

a) The Participants undertake to share information with non-Participants on notifications related to official support as set out in Article 5 a).

b) 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.

## 5. SCOPE OF APPLICATION

The Arrangement shall apply to all official support provided by or on behalf of a government for export of goods and/or services, including financial leases, which have a repayment term of two years or more.

a) Official support may be provided in different forms:

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

1. As defined in Article 5 of the OECD Convention.

2) Official financing support:

- direct credit/financing and refinancing, or
- interest rate support.

3) Any combination of the above.

b) The Arrangement shall apply to tied aid; the procedures set out in Chapter IV shall also apply to trade-related untied aid.

c) The Arrangement does not apply to exports of Military Equipment and Agricultural Commodities.

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

## 6. SPECIFIC SECTORAL PROVISIONS

The Participants shall apply specific provisions to the following sectors:

a) Ships

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

b) Nuclear Power Plant

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

c) Civil Aircraft

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

## 7. WITHDRAWAL

A Participant may withdraw by notifying the Secretariat in writing by means of instant communication, e.g. the OECD On-line Information System (OLIS). The withdrawal takes effect 180 calendar days after receipt of the notification by the Secretariat.

## 8. MONITORING

The Secretariat shall monitor the implementation of the Arrangement.

## CHAPTER II: FINANCIAL TERMS AND CONDITIONS FOR EXPORT CREDITS

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.

The Arrangement sets out limitations on terms and conditions that may be officially supported. The Participants recognise that more restrictive financial terms and conditions than those provided for by the Arrangement traditionally apply to certain trade or industrial sectors. The Participants shall continue to respect such customary financial terms and conditions, in particular the principle by which repayment terms do not exceed the useful life of the goods.

### 9. DOWN PAYMENT, MAXIMUM OFFICIAL SUPPORT AND LOCAL COSTS

a) The Participants shall require purchasers of goods and services which are the subject of official support to make down payments of a minimum of 15 per cent of the export contract value at or before the starting point of credit as defined in Annex XI. For the assessment of down payments, the export contract value may be reduced proportionally if the transaction includes goods and services from a third country which are not officially supported. Financing/insurance of 100 per cent of the premium is permissible. Premium may or may not be included in the export contract value**.** Retention payments made after the starting point of credit are not regarded as down payment in this context.

b) Official support for such down payments shall only take the form of insurance or guarantee against the usual pre-credit risks.

c) Except as provided for in paragraphs (b) and (d), the Participants shall not provide official support in excess of 85 per cent of the export contract value, including third country supply but excluding local costs.

d) The Participants may provide official support for local costs, provided that:

   1) The total combined official support provided pursuant to paragraphs (c) and (d) shall not exceed 100 per cent of the export contract value. In consequence, the amount of local costs supported shall not exceed the amount of the down payment.

   2) It shall not be provided on terms more favourable/less restrictive than those agreed for the related exports.

   3) For Category I countries as defined in Article 10 a), it shall be limited to pure cover.

## 10. CLASSIFICATION OF COUNTRIES FOR MAXIMUM REPAYMENT TERMS

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

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

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

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

3) If a country is reclassified in accordance with Article 10 a)**,** the reclassification will take effect two weeks after the conclusions drawn from the above-mentioned data from the World Bank have been communicated to all Participants by the Secretariat.

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

## 11. MAXIMUM REPAYMENT TERMS

Without prejudice to Article 12, the maximum repayment term varies according to the classification of the country of destination determined by the criteria in Article 10.

a) For Category I countries, the maximum repayment term is five years**,** with the possibility of agreeing up to eight-and-a-half years when the procedures for prior notification set out in Article 44 are followed.

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

c) In the event of a contract involving more than one country of destination the Participants should seek to establish a Common Line in accordance with the procedures in Articles 54 to 59 to reach agreement on appropriate terms.

## 12. REPAYMENT TERMS FOR NON-NUCLEAR POWER PLANT

a) For non-nuclear power plant, the maximum repayment term shall be 12 years. If a Participant intends to support a repayment term longer than that provided for in Article 11, the Participant shall give prior notification in accordance with the procedure in Article 44.

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2. Based on the annual review by the World Bank of its country classification, a per capita Gross National Income (GNI) threshold will be used for the purpose of classification of country category; such threshold is available on the OECD website (www.oecd.org/ech/xcred).

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

1) in cases where the buyer of the switchyard is the same as the buyer of the power plant, the maximum repayment term for the original switchyard shall be the same as that for the non-nuclear power plant (i.e. 12 years); and

2) the maximum repayment term for sub-stations, transformers and transmission lines with a minimum voltage threshold of 100 kv shall be the same as that for the non-nuclear power plant.

## 13. REPAYMENT OF PRINCIPAL

a) The principal sum of an export credit shall normally be repaid in equal and regular instalments not less frequently than every six months and with the first instalment to be made no later than six months after the starting point of credit. In the case of leases, such profile of repayment may be applied either for the amount of principal only or for the principal and interest combined.

b) A Participant intending to support a repayment of principal on different terms than those set out in paragraph a) shall comply with the following:

1) No single repayment or series of repayments within a six month period shall exceed 25 per cent of the principal sum repayable during the repayment term.

2) The Participant shall give prior notification in accordance with Article 44.

## 14. PAYMENT OF INTEREST

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

b) Interest shall be payable not less frequently than every six months and with the first payment to be made no later than six months after the starting point of credit.

c) A Participant intending to support a payment of interest on different terms than those set in paragraph a) and b) shall give prior notification in accordance with Article 44.

d) Interest excludes:

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

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

3) withholding taxes imposed by the importing country.

## 15. VALIDITY PERIOD FOR EXPORT CREDITS

Financial terms and conditions for an individual export credit or line of credit, other than the validity period for Commercial Interest Reference Rates (CIRRs) set out in Article 20, shall not be fixed for a period exceeding six months prior to final commitment.

## 16. ACTION TO AVOID OR MINIMISE LOSSES

The Arrangement does not prevent export credit authorities or financing institutions from agreeing to less restrictive financial terms and conditions than those provided for by the Arrangement, if such action is taken after the contract award (when 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.

## 17. MATCHING

Taking into account a Participant's international obligations and consistent with the purpose of the Arrangement, a Participant may match, according to the procedures set out in Article 41, financial terms and conditions offered by a Participant or a non-Participant. Financial terms and conditions provided in accordance with this Article are considered to be in conformity with the provisions of Chapter I, II and, when applicable, Annexes I, II and III.

## 18. MINIMUM FIXED INTEREST RATES UNDER OFFICIAL FINANCING SUPPORT

a) The Participants providing official financing support for fixed rate loans shall apply the relevant Commercial Interest Reference Rates (CIRRs) as minimum interest rates. CIRRs are interest rates established according to the following principles:

   1) CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned;

   2) CIRRs should closely correspond to the rate for first-class domestic borrowers;

   3) CIRRs should be based on the funding cost of fixed interest-rate finance;

   4) CIRRs should not distort domestic competitive conditions; and

   5) CIRRs should closely correspond to a rate available to first-class foreign borrowers.

b) The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate credit risk premium to be charged for the risk of non-repayment pursuant to the provisions of Article 22.

## 19. CONSTRUCTION OF CIRRs

a) Each Participant wishing to establish a CIRR shall initially select one of the following two base rate systems for its national currency:

1) three-year government bond yields for a repayment term of up to and including five-years; five-year government bond yields for over five and up to and including eight-and-a half years; and seven-year government bond yields for over eight-and-a-half years; or

2) five-year government bond yields for all maturities.

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

b) CIRRs shall be set at a fixed margin of 100 basis points above each Participant's base rate unless Participants have agreed otherwise.

c) Other Participants shall use the CIRR set for a particular currency should they decide to finance in that currency.

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

e) A Participant or a non-Participant may request that a CIRR be established for the currency of a non-Participant. In consultation with the interested 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 Common Line procedures in accordance with Articles 54 to 59.

## 20. VALIDITY OF CIRRs

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

## 21. APPLICATION OF CIRRs

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

b) In the event of a voluntary, early repayment of a loan of or any portion thereof, the borrower shall compensate the government institution providing official financing support for all costs and losses incurred as a result of such early repayment, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

## 22. PREMIUM FOR CREDIT RISK

The Participants shall charge premium, in addition to interest charges**,** to cover the risk of non-repayment of export credits. The premium rates charged by the Participants shall be risk based, shall converge and shall not be inadequate to cover long-term operating costs and losses.

## 23. MINIMUM PREMIUM RATES FOR COUNTRY AND SOVEREIGN CREDIT RISK

The Participants shall charge no less than the applicable Minimum Premium Rate (MPR) for Country and Sovereign Credit Risk, irrespective of whether the buyer/borrower is a private or public entity.

a) The applicable MPR is determined according to the following factors:

- the applicable country risk classification as set out in Article 24;
- whether official export credit cover is strictly limited to country risk as defined in Article 24 a);
- the time at risk (i.e. the Horizon of Risk or HOR);
- the percentage of cover and quality of official export credit product provided as set out in Article 26; and
- any country risk mitigation/exclusion technique applied as set out in Article 27.

b) MPRs are expressed in percentages of the principal value of the credit as if premium were collected in full at the date of the first drawdown of the credit. An explanation of the mathematical formula used to calculate the MPRs is provided in Annex V.

c) For countries classified in Category 0 as set out in Article 24, no MPRs have been established but the Participants shall not charge premium rates which undercut available private market pricing.

d) The "highest risk" countries in Category 7 shall, in principle, be subject to premium rates in excess of the MPRs established for that Category; these premium rates shall be determined by the Participant providing official support.

e) In calculating the MPR for a transaction, the applicable country risk classification to be applied shall be the classification of the buyer's country, unless:

- Security in the form of an irrevocable, unconditional, on-demand, legally valid and enforceable guarantee of the total debt repayment obligation for the entire duration of the credit is provided by an entity, creditworthy in relation to the size of the guaranteed debt, in a third country, in which case the applicable Country Risk Classification may be that of the country in which the guarantor is located; or
- A Multilateral or Regional Institution as set out in Article 25 is acting either as borrower or guarantor for the transaction, in which case the applicable Country Risk Classification may be that of the specific Multilateral or Regional Institution involved.

f) The criteria and conditions relating to the application of a country risk classification according to the situations described in the first and second tirets of Article 23 e) are set out in Annex VI.

g) If official support is strictly limited to country risk as defined in Article 24 a), i.e. cover of buyer/borrower risk is completely excluded, the MPR is reduced by 10 per cent; this is captured by the mathematical formula used to calculate the MPRs in Annex V.

h) The HOR convention used in the calculation of an MPR is one half of the disbursement period plus the entire repayment period and assumes a regular export credit repayment profile, i.e. repayment in equal semi-annual instalments of principal plus accrued interest beginning six months after the starting point of credit. For export credits with non-standard repayment profiles, the equivalent repayment period (expressed in terms of equal, semi-annual instalments) is calculated using the following formula: equivalent repayment period = (average weighted life of the repayment period -0.25) / 0.5.

i) The Participant applying the MPR in the case referred to in the first tiret of paragraph e) above that leads to a premium rate below the MPR applicable to the buyer's country shall give prior notification according to Article 43 a). The Participant applying the MPR in the case referred to in the second tiret of Article 23 e) or in Article 23 g) shall give prior notification in accordance with Article 44 a).

## 24. COUNTRY RISK CLASSIFICATION

Countries shall be classified according to the likelihood of whether they will service their external debts (i.e. country credit risk).

a) The five elements of country credit risk are:

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

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

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

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

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

b) Countries are classified into one of eight Country Risk Categories (0-7). MPRs have been established for Categories 1 through 7, but not for Category 0, as the level of country risk is considered to be negligible for countries in this Category.

c) High Income OECD Countries, as defined by the World Bank on an annual basis according to per capita GNI, are classified in Category 0.

- For the purposes of the MPRs, any OECD country classified in Category 0 by virtue of its High Income status shall remain classified in Category 0 until it falls below the High Income GNI threshold for two consecutive years, at which time the country's classification should be reviewed according to Article 24 d) to f).

- Any OECD country above the High Income threshold for two consecutive years shall be classified, by definition, in Category 0. Such classification shall take effect immediately after the Secretariat has communicated a country's status as determined by the World Bank.

- Other countries deemed to be of a similar risk level may also be classified in Category 0.

d) All countries other than High Income OECD Countries[3] are classified through the Country Risk Classification Methodology, which is comprised of:

- The Country Risk Assessment Model (the Model), which produces a quantitative assessment of country credit risk which is based, for each country, on three groups of risk indicators: the payment experience of the Participants, the financial situation and the economic situation. The methodology of the Model consists of different steps including the assessment of the three groups of risk indicators, and the combination and flexible weighting of the risk indicator groups.

- The qualitative assessment of the Model results, considered country-by-country to integrate the political risk and/or other risk factors not taken into account in full or in part by the Model. If appropriate, this may lead to an adjustment to the quantitative Model assessment to reflect the final assessment of the country credit risk.

e) Country Risk Classifications shall be monitored on an ongoing basis and reviewed at least annually and changes resulting from the Country Risk Classification Methodology shall be immediately communicated by the Secretariat. When a country is re-classified in a lower or higher Country Risk Category, the Participants shall, no later than five working days after the re-classification has been communicated by the Secretariat, charge premium rates at or above the MPRs associated with the new Country Risk Category.

f) The applicable country risk classifications shall be made public by the Secretariat.

## 25. CLASSIFICATION OF MULTILATERAL AND REGIONAL INSTITUTIONS

Multilateral and Regional Institutions shall be classified and reviewed as appropriate; such applicable classifications shall be made public by the Secretariat.

## 26. PERCENTAGE AND QUALITY OF OFFICIAL EXPORT CREDIT COVER

The MPRs are differentiated to take account of the differing quality of export credit products and percentage of cover provided by the Participants as set out in Annex V. The differentiation is based on the exporter's perspective (i.e. to neutralise the competitive effect arising from the differing qualities of product provided to the exporter/financial institution).

a) The quality of an export credit product is a function of whether the product is insurance, guarantee or direct credit/financing, and for insurance products whether cover of interest during the claims waiting period (i.e. the period between the due date of payment by the buyer/borrower and the date that the insurer is liable to reimburse the exporter/financial institution) is provided without a surcharge.

b) All existing export credit products offered by the Participants shall be classified into one of the three product categories which are:

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

3. For administrative purposes, some countries that do not generally receive officially supported export credits may not be classified.

- Standard product, i.e. insurance with cover of interest during the claims waiting period without an appropriate premium surcharge and direct credit/financing; and

- Above standard product, i.e. guarantees.

## 27. EXCLUSION OF SELECTED COUNTRY RISK ELEMENTS AND COUNTRY RISK MITIGATION TECHNIQUES

The Participants may, in accordance with the specific criteria and conditions set out in Annex VII, exclude certain elements of country risk or use defined country risk mitigation techniques listed in Article 27 b) resulting in lower applicable MPRs through the application of a Country Risk Mitigation/Exclusion Factor (MEF) in the MPR formula. The MEF is determined as follows:

a) With respect to the exclusion of selected country credit risk elements from official export credit cover:

   - In situations where only the first three country credit risk elements, as set forth in Article 24 a), are excluded in their totality from cover, a MEF of 0.5 may be applied.

   - In situations where only the fourth and fifth country credit risk elements, as set forth in Article 24 a), are excluded in their totality from cover, a MEF of 0.2 may be applied.

b) With respect to the following country risk mitigation techniques, the applicable MPR as well as the criteria and conditions under which the MEF may be applied are set out in Annex VII:

   - Offshore Future Flow Structure Combined with Offshore Escrow Account

   - Offshore Hard Security

   - Offshore Asset-Based Security

   - Offshore Asset-Secured and Asset-Based Financing

   - Co-financing with International Financial Institutions (IFIs)

   - Local Currency Financing

   - Third Country Insurance or Conditional Guarantee

   - Debtor Representing a Better Risk Than the Sovereign

c) The application of more than one of the country risk mitigation techniques described in Article 27 b) shall not have a direct cumulative impact on the applicable MEF. The selection of an appropriate MEF to reflect the combination of country risk mitigation techniques shall take into account the possible overlapping impact of two or more techniques on identical country credit risks. In the case of overlapping, only the best quality security shall normally be considered in determining the appropriate, applicable MEF.

d) The Participant applying the MPR in the cases referred to in Article 27 a) to c) shall give prior notification according to Article 43 a).

e) The list of country risk mitigation techniques in Article 27 b) is not intended to be a closed list; in accordance with Article 65**,** the Participants shall monitor and review the body of experience with the use of these techniques including the applicable criteria, conditions, circumstances and MEFs set forth in Annex VII.

## 28. REVIEW OF THE VALIDITY OF THE MINIMUM PREMIUM RATES FOR COUNTRY AND SOVEREIGN CREDIT RISK

a) To assess the adequacy of MPRs and to allow, if necessary, for adjustments, either upwards or downwards, three Premium Feedback Tools (PFTs), shall be used in parallel to monitor and adjust the MPRs.

b) The Cash Flow PFT and the Accruals PFT are accounting approaches that assess the validity of the MPRs on an aggregate, Country Risk Category and Horizon of Risk basis according to the Participants' actual results in relation to the country and sovereign credit risk of export credits subject to the MPRs.

c) The third PFT is comprised of four sets of Private Market Indicators[4] which provide information on market's pricing of country and sovereign credit risk.

4. The Private Market Indicators are: sovereign bonds, read-across method, forfeit market and syndicated loan.

## CHAPTER III: PROVISIONS FOR TIED AID

### 29. GENERAL PRINCIPLES

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

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

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

d) A Participant may request additional information relevant to the tying status of any form of aid. If there is uncertainty as to whether a certain financing practice falls within the scope of the definition of tied aid set out in Annex XI, the donor country shall furnish evidence in support of any claim to the effect that the aid is in fact "untied" in accordance with the definition in Annex XI.

### 30. FORMS OF TIED AID

Tied aid can take the form of:

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

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

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

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

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

   2) other funds at or near market terms, or down payment from the purchaser.

## 31. ASSOCIATED FINANCING

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

- a concessional component that is linked in law or in fact to the non-concessional component;
- either a single part or all of the financing package that is, in effect, tied aid; and
- concessional funds those are available only if the linked non-concessional component is accepted by the recipient.

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

- the existence of informal understandings between the recipient and the donor authorities;
- the intention by the donor to facilitate the acceptability of a financing package through the use of ODA;
- the effective tying of the whole financing package to procurement in the donor country;
- the tying status of ODA and the means of tendering for or contracting of each financing transaction; or
- any other practice, identified by the DAC or the Participants in which a *de facto* liaison exists between two or more financing components.

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

- contract splitting through the separate notification of the component parts of one contract;
- splitting of contracts financed in several stages;
- non-notification of interdependent parts of a contract; and/or
- non-notification because part of the financing package is untied.

## 32. COUNTRY ELIGIBILITY FOR TIED AID

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

5. Based on the annual review by the World Bank of its country classification, a per capita Gross National Income (GNI) threshold will be used for the purpose of tied aid eligibility; such threshold is available on the OECD website (www.oecd.org/ech/xcred).

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

1) Classification for Arrangement purposes is determined by per capita GNI as calculated by the World Bank for the purposes of the World Bank classification of borrowing countries; this classification shall be made public by the Secretariat.

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

3) If a country's eligibility for tied aid does change in accordance with Article 32 a)**,** the reclassification shall take effect two weeks after the conclusions drawn from the above mentioned World Bank data have been communicated to all Participants by the Secretariat. Before the effective date of reclassification no tied aid financing for a newly eligible country may be notified; after that date, no tied aid financing for a newly promoted country may be notified, except that individual transactions covered under a prior committed credit line may be notified until the expiry of the credit line (which shall be no more than one year from the effective date).

4) In cases where the World Bank revises figures such revisions shall be disregarded in relation to the Arrangement. Nevertheless, the classification of a country may be changed by way of a Common Line, in accordance with the appropriate procedures in Articles 54 to 59, and the Participants would favourably consider a change due to errors and omissions in the figures subsequently recognised in the same calendar year as the figures that were first distributed by the Secretariat.

5) Notwithstanding the classifications of countries ineligible or eligible to receive tied aid, the Participants should avoid providing any tied aid credit, other than outright grants, food and humanitarian aid as well as aid designed to mitigate the effects of nuclear or major industrial accidents or to prevent their occurrence, for Belarus, Bulgaria, Latvia, Lithuania, Romania, the Russian Federation and Ukraine. Should the per capita GNI of any of these countries exceed, for three consecutive years, the World Bank's threshold for ineligibility for 17-year loans, country eligibility for such credits would be subject to Articles 32 a) and b) 1) to 4) above, as well as all other tied aid provisions of the Arrangement[6].

## 33. PROJECT ELIGIBILITY

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

6. For the purpose of Article 32 b) 5), the de-commissioning of nuclear power plant can be regarded as humanitarian aid.

In case of nuclear or major industrial accident that causes serious transfrontier pollution, any affected Participant may provide tied aid to eliminate or mitigate its effects. In case of significant risk that such an accident may occur, any potentially affected Participant intending to provide aid to prevent its occurrence shall give prior notification in accordance with Article 45. Other Participants shall give favourable consideration to an acceleration of tied aid procedures in line with the specific circumstances.

b) The key tests for such aid eligibility are:

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

- whether it is reasonable to conclude, based on communication with other Participants, that it is unlikely that the project can be financed on market or Arrangement terms, i.e. the second key test. In respect of projects larger than 50 million SDRs special weight shall be given to the expected availability of financing at market or Arrangement terms when considering the appropriateness of such aid.

c) The key tests under sub-paragraph b) above are intended to describe how a project should be evaluated to determine whether it should be financed with such aid or with export credits on market or Arrangement terms. Through the consultation process described in Articles 47 to 49, a body of experience is expected to develop over time that will more precisely define, for both export credit and aid agencies, *ex ante* guidance as to the line between the two categories of projects.

## 34. MINIMUM CONCESSIONALITY LEVEL

The Participants shall not provide tied aid that has a concessionality level of less than 35 per cent, or 50 per cent if the beneficiary country is a Least Developed Country (LDC), except for the cases set out below, which are also exempt from the notification procedures set out in Article 46 a):

a) Technical assistance: tied aid where the official development aid component consists solely of technical co-operation that is less than either 3 per cent of the total value of the transaction or one million Special Drawing Rights (SDRs), whichever is lower; and

b) Small projects: capital projects of less than one million SDRs that are funded entirely by development assistance grants.

## 35. EXEMPTIONS FROM COUNTRY OR PROJECT ELIGIBILITY FOR TIED AID

a) The provisions of Articles 32 and 33 do not apply to tied aid where the concessionality level is 80 per cent or more except for tied aid that forms part of an associated financing package, described in Article 31.

b) The provisions of Article 33 do not apply to tied aid with a value of less than two million SDRs except for tied aid that forms part of an associated financing package, described in Article 31.

c) Tied aid for LDCs as defined by the United Nations is not subject to the provisions of Articles 32 and 33.

d) Notwithstanding Articles 32 and 33, a Participant may, exceptionally, provide support by one of the following means:

- the Common Line procedure as defined in Annex XI and described in Articles 54 to 59; or

- justification on aid grounds through support by a substantial body of the Participants as described in Articles 47 and 48; or

- a letter to the OECD Secretary-General, in accordance with the procedures in Article 49, which the Participants expect will be unusual and infrequent.

## 36. CALCULATION OF CONCESSIONALITY LEVEL OF TIED AID

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

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

   - The average of the CIRR + Margin

     Margin (M) depends on the repayment term (R) as follows:

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

   - For all currencies the average of the CIRR is calculated taking an average of the monthly CIRRs valid during the six-month period between 15 August of the previous year and 14 February of the current year. The calculated rate, including the Margin, is rounded to the nearest ten basis points. If there is more than one CIRR for the currency, the CIRR for the longest maturity as set out in Article 19 a), shall be used for this calculation.

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

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

   - export credits that are in conformity with the Arrangement;
   - other funds at or near market rates;
   - other official funds with a concessionality level of less than the minimum permitted under Article 34 except in cases of matching; and
   - down payment from the purchaser.

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

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

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

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

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

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

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

## 37. VALIDITY PERIOD FOR TIED AID

a) The Participants shall not fix terms and conditions for tied aid, whether this relates to the financing of individual transactions or to an aid protocol, an aid credit line or to a similar agreement, for more than two years. In the case of an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of its signature, to be notified in accordance with Article 46; the extension of a credit line shall be notified as if it were a new transaction with a note explaining that it is an extension and that it is renewed at terms allowed at the time of the notification of the extension. In the case of individual transactions, including those notified under an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of notification of the commitment in accordance with Article 45 or 46, as appropriate.

b) When a country has become ineligible for 17-year World Bank Loans for the first time, the validity period of existing and new tied aid protocols and credit lines notified shall be restricted to one year after the date of the potential reclassification in accordance with procedures in Article 32 b).

c) Renewal of such protocols and credit lines is possible only on terms which are in accordance with the provisions of Articles 32 and 33 of the Arrangement following:

- reclassification of countries; and

- a change in the provisions of the Arrangement.

In these circumstances, the existing terms and conditions can be maintained notwithstanding a change in the discount rate set out in Article 36.

## 38. MATCHING

Taking into account a Participant's international obligations and consistent with the purpose of the Arrangement, a Participant may match, according to the procedures set out in Article 41, financial terms and conditions offered by a Participant or a non-Participant.

# CHAPTER IV: PROCEDURES

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

## 39. STANDARD FORM FOR ALL NOTIFICATIONS

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

## 40. INFORMATION ON OFFICIAL SUPPORT

a) As soon as a Participant commits the official support which it has notified in accordance with the procedures in Articles 43 to 46, it shall inform all other Participants accordingly by including the notification reference number on the relevant Creditor Reporting System (CRS) Form 1C.

b) In an exchange of information in accordance with Articles 51 to 53, a Participant shall inform the other Participants of the credit terms and conditions that it envisages supporting for a particular transaction and may request similar information from the other Participants.

## 41. PROCEDURES FOR MATCHING

a) Before matching financial terms and conditions assumed to be offered by a Participant or a non-Participant pursuant to Articles 17 and 38, a Participant shall make every reasonable effort, including as appropriate by use of the face-to-face consultations described in Article 53, to verify that these terms and conditions are officially supported and shall comply with the following:

   1) The Participant shall notify all other Participants of the terms and conditions it intends to support following the same notification procedures required for the matched terms and conditions. In the case of matching a non-Participant, the matching Participant shall follow the same notification procedures that would have been required had the matched terms been offered by a Participant.

   2) Notwithstanding 1) above, if the applicable notification procedure would require the matching Participant to withhold its commitment beyond the final bid closing date, then the matching Participant shall give notice of its intention to match as early as possible.

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

b) A Participant intending to offer identical financial terms and conditions to those notified according to Articles 43 and 44 may do so once the waiting period stipulated therein has expired. This Participant shall give notification of its intention as early as possible.

## 42. SPECIAL CONSULTATIONS

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

b) The initiating Participant shall clarify the financial terms and conditions of its offer within two working days following the issue of the information from the Secretariat.

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

d) Pending the outcome of the special consultation meeting of the Participants, financial terms and conditions benefiting from official support shall not become effective.

*SECTION 2: PROCEDURES FOR EXPORT CREDITS*

## 43. PRIOR NOTIFICATION WITH DISCUSSION

a) A Participant shall notify all other Participants at least ten calendar days before issuing any commitment if the Minimum Premium Rate applied has been determined according to the first tiret of Article 23 e) or Article 27. The notification shall be provided in accordance with Annex VIII. If any other Participant requests a discussion during this period, the initiating Participant shall wait an additional ten calendar days. If the applicable MPR after risk mitigation/exclusion is less than or equal to 75 per cent of the MPR which would result from the application of the buyer country's country risk classification without any risk mitigation or exclusion, the notifying Participant shall notify all other Participants at least 20 calendar days before issuing any commitment.

b) A Participant shall inform all other Participants of its final decision following a discussion to facilitate the review of the body of experience in Accordance with Article 65. The Participants shall maintain records of their experience with regard to premium rates notified in accordance with paragraph a) above.

## 44. PRIOR NOTIFICATION WITHOUT DISCUSSION

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

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

2) To follow payment practices with respect to the principal or interest other than those referred to in Articles 13 and 14.

3) To provide support for a non-nuclear power plant with a repayment term longer than the relevant maximum in Article 11, but not exceeding 12 years as stipulated in Article 12 a).

4) To apply a premium rate in accordance with the second tiret of Article 23 e). Such notification shall be provided in accordance with Annex VIII.

5) To apply a premium rate in accordance with Article 23 g). Such notification shall be provided in accordance with Annex VIII.

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

*SECTION 3: PROCEDURES FOR TRADE-RELATED AID*

**45. PRIOR NOTIFICATION**

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

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

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

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

- Trade-related tied aid with a value of less than two million SDRs and a concessionality level of less than 50 per cent, except for the cases set out in Article 34 a) and b).

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

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

d) The provision of this Article shall apply to tied aid that forms part of an associated financing package, as described in Article 31.

**46. PROMPT NOTIFICATION**

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

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

- less than two million SDRs and a concessionality level of 50 per cent or more except for the cases set out in Article 34 a) and b).

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

c) Prior notification need not be given if a Participant intends to match financial terms and conditions that were subject to a prompt notification.

*SECTION 4: CONSULTATION PROCEDURES FOR TIED AID*

## 47. PURPOSE OF CONSULTATIONS

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

b) Furthermore, a Participant may request consultations with other Participants, in accordance with Article 48. These include face-to-face consultations as outlined in Article 53 in order to discuss:

- first, whether an aid offer meets the requirements of Articles 32 and 33; and
- if necessary, whether an aid offer is justified even if the requirements of Articles 32 and 33 are not met.

## 48. SCOPE AND TIMING OF CONSULTATIONS

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

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

b) The consultation shall be completed and the findings on both questions in Article 47 notified by the Secretariat to all Participants at least ten working days before the bid closing date or commitment date, whichever comes first. If there is disagreement among the consulting parties, the Secretariat shall invite other Participants to express their views within five working days. It shall report these views to the notifying Participant, which should reconsider going forward if there appears to be no substantial support for an aid offer.

## 49. OUTCOME OF CONSULTATIONS

a) A donor which wishes to proceed with a project despite the lack of substantial support shall provide prior notification of its intentions to other Participants, no later than 60 calendar days after the completion of the Consultation, i.e. acceptance of the Chairman’s conclusion. The donor shall also write a letter to the Secretary-General of the OECD outlining the results of the

consultations and explaining the overriding non-trade related national interest that forces this action. The Participants expect that such an occurrence will be unusual and infrequent.

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

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

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

**50. CONTACT POINTS**

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

**51. SCOPE OF ENQUIRIES**

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

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

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

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

**52. SCOPE OF RESPONSES**

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

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

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

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

**53. FACE-TO-FACE CONSULTATIONS**

a) A Participant shall agree within ten working days to requests for face-to-face consultations.

b) A request for face-to-face consultations shall be made available to Participants and non-Participants. The consultations shall take place as soon as possible after the expiry of the ten working day period.

c) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow-up action, e.g. a Common Line. The Secretariat shall promptly make available the outcome of the consultation.

## 54. PROCEDURES AND FORMAT OF COMMON LINES

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

b) The Common Line proposal shall be dated and shall be in the following format:

- Reference number, followed by "Common Line".
- Name of the importing country and buyer.
- Name or description of the project as precise as possible to clearly identify the project.
- Terms and conditions foreseen by the initiating country.
- Common Line proposal.
- Nationality and names of known competing bidders.
- Commercial and financial bid closing date and tender number to the extent it is known.
- Other relevant information, including reasons for proposing the Common Line, availability of studies of the project and/or special circumstances.

c) A Common Line proposal put forward in accordance with Article 32 b) 4 shall be addressed to the Secretariat and copied to other Participants. The Participant making the Common Line proposal shall provide a full explanation of the reasons why it considers that the classification of a country should differ from the procedure set out in Article 32 b).

d) The Secretariat shall make publicly available the agreed Common Lines.

## 55. RESPONSES TO COMMON LINE PROPOSALS

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

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

c) A Participant which advises that it has no position because it has not been approached by an exporter, or by the authorities in the recipient country in case of aid for the project, shall be deemed to have accepted the Common Line proposal.

## 56. ACCEPTANCE OF COMMON LINES

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

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

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

d) A Common Line which has not been accepted may be reconsidered using the procedures in Articles 54 and 55. In these circumstances, the Participants are not bound by their original decision.

## 57. DISAGREEMENT ON COMMON LINES

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

## 58. EFFECTIVE DATE OF COMMON LINE

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

## 59. VALIDITY OF COMMON LINES

a) A Common Line, once agreed, shall be valid for a period of two years from its effective date, unless the Secretariat is informed that it is no longer of interest, and that this is accepted by all Participants. A Common Line shall remain valid for a further two-year period if a Participant seeks an extension within 14 calendar days of the original date of expiry. Subsequent extensions may be agreed through the same procedure. A Common Line agreed in accordance with Article 32 b) 4) shall be valid until World Bank data for the following year is available.

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

- Add new Common Lines when these have been accepted by the Participants.

- Update the expiry date when a Participant requests an extension.

- Delete Common Lines which have expired.

- Issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.

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

**60. COMMUNICATION OF MINIMUM INTEREST RATES**

a) CIRRs for currencies that are determined according to the provisions of Article 19 shall be sent by means of instant communication at least monthly to the Secretariat for circulation to all Participants.

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

**61. EFFECTIVE DATE FOR APPLICATION OF INTEREST RATES**

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

**62. IMMEDIATE CHANGES IN INTEREST RATES**

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

*SECTION 7: REVIEWS*

**63. REGULAR REVIEW OF THE ARRANGEMENT**

a) The Participants shall review regularly the functioning of the Arrangement. In the review, the Participants shall examine, *inter alia*, notification procedures, implementation and operation of the DDR system, rules and procedures on tied aid, questions of matching, prior commitments and possibilities of wider participation in the Arrangement.

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

**64. REVIEW OF MINIMUM INTEREST RATES**

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

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

## 65. REVIEW OF MINIMUM PREMIUM RATES AND RELATED ISSUES

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

a) the methodology for the Country Risk Assessment Model to review its validity in the light of experience;

b) the Minimum Premium Rates for country and sovereign credit risk to adjust them over time to ensure that they remain an accurate measure of risk, taking into account the three PFTs: the cash flow and accruals approaches and, where appropriate, private market indicators;

c) the differentiations in the MPRs which take account of the differing quality of export credit products and percentage of cover provided; and

d) the body of experience related to the use of risk mitigation and/or exclusion as set out in Article 27 and the continued validity and appropriateness of the specific allowable Risk Mitigation/Exclusion Factors. To assist the review the Secretariat shall provide reports of all notifications.

# ANNEX I: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS

## CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

### 1. PARTICIPATION

The Participants to the Sector Understanding are: Australia, the European Community, Japan, Korea and Norway.

### 2. SCOPE OF APPLICATION

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

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

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

c) 1) Although hovercraft-type vessels are not included in the Sector Understanding, Participants are allowed to grant export credits for hovercraft vessels on equivalent conditions to those prevailing in the Sector Understanding. They commit themselves to apply this possibility moderately and not to grant such credit conditions to hovercraft vessels in cases where it is established that no competition is offered under the conditions of the Sector Understanding.

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

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

## CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID

### 3. MAXIMUM REPAYMENT TERM

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

### 4. CASH PAYMENT

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

### 5. REPAYMENT OF PRINCIPAL

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

### 6. MINIMUM PREMIUM

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

### 7. AID

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

## CHAPTER III: PROCEDURES

### 8. NOTIFICATION

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

### 9. REVIEW

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

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

c) Upon a decision by the Participants to the Arrangement to change the Arrangement, the Participants to this Sector Understanding (the Participants) will examine such a decision and consider its relevance to this Sector Understanding. Pending such consideration the amendments to the Arrangement will not apply to this Sector Understanding. In case the Participants can accept the amendments to the Arrangement they shall report this in writing to the Participants to the Arrangement. In case the Participants cannot accept the amendments to the Arrangement as far as their application to shipbuilding is concerned they shall inform the Participants to the Arrangement of their objections and enter into consultations with them with a view to seeking a resolution of the issues. In case no agreement can be reached between the two groups, the views of the Participants as regards the application of the amendments to shipbuilding shall prevail.

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

## ATTACHMENT: COMMITMENTS FOR FUTURE WORK

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

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

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

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

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

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

## CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

### 1. SCOPE OF APPLICATION

a) This Sector Understanding, which complements the Arrangement:

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

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

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

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

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

c) The terms of the Arrangement rather than the Sector Understanding shall apply to official support provided for the decommissioning of nuclear power plant. Decommissioning is defined as the closing down or dismantling of a nuclear power plant. The Common Line procedures set out in Articles 54 to 59 of the Arrangement provide the possibility to restrict or extend repayment terms.

### 2. REVIEW

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

## CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND TIED AID

### 3. MAXIMUM REPAYMENT TERM

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

### 4. MINIMUM INTEREST RATES

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

b) Where official financing support is provided for equipment for the partial supply of nuclear power plant for which the supplier has no responsibility for commissioning, the minimum interest rate shall be the SCIRR in accordance with Article 5 of this Sector Understanding. Alternatively, a Participant may offer the relevant CIRR in accordance with Article 19 of the Arrangement, provided that the maximum period from the date of contract award to the date of final repayment does not exceed ten years.

### 5. CONSTRUCTION OF SCIRRS

SCIRRs shall be set at a fixed margin of 75 basis points above the CIRR for the currency in question, except that for the Japanese Yen, the margin shall be 40 basis points. For those currencies which have more than one CIRR rate, in accordance with the first tiret of Article 19 a) of the Arrangement, the CIRR for the longest term shall be used for constructing the SCIRR.

### 6. LOCAL COSTS AND CAPITALISATION OF INTEREST

The provisions of Article 9 d) of the Arrangement do not apply where official financing support is provided on the basis of the SCIRR. Official financing support at rates other than SCIRRs for both local costs and capitalisation of interest accruing before the starting point taken together shall not cover an amount exceeding 15 per cent of the export value.

### 7. OFFICIAL SUPPORT FOR NUCLEAR FUEL

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

b) The maximum repayment term for subsequent reloads of nuclear fuel is six months. If in exceptional circumstances longer terms, but in any case not exceeding two years, are considered appropriate the procedures set out in Article 43 of the Arrangement shall apply. A Participant providing official financing support for the subsequent reload of nuclear fuel shall apply minimum interest rates; the Participant shall apply the relevant CIRR.

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

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

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

**8. AID**

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

## CHAPTER III: PROCEDURES

**9. PRIOR CONSULTATION**

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

**10. PRIOR NOTIFICATION**

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

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

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

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

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

## PART 1. NEW LARGE AIRCRAFT AND ENGINES FOR SUCH AIRCRAFT

## CHAPTER I: SCOPE

### 1. FORM AND SCOPE OF APPLICATION

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

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

### 2. OBJECTIVE

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

– equalises competitive financial conditions between the Participants;

– neutralises finance among the Participants as a factor in the choice among competing aircraft; and

– avoids distortions of competition.

## CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND AID

### 3. DOWN PAYMENT

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

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

### 4. MAXIMUM REPAYMENT TERM

The maximum repayment term is 12 years.

### 5. ELIGIBLE CURRENCIES

The currencies which are eligible for official financing support are US Dollars, Euros and UK Pounds.

### 6. MINIMUM INTEREST RATES

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

   - on repayment terms up to and including ten years - TB10 + 120 basis points;

   - on repayment terms of over ten to 12 years - TB10 + 175 basis points;

   - where TB10 means the ten-year government bond yield for the relevant currency (except the Euro) at the constant maturity averaged over the previous two calendar weeks. In the case of the Euro, TB10 means the yield at the ten-year maturity of the Euro yield curve, calculated by Eurostat for the purpose of establishing the Euro CIRR, averaged over the previous two calendar weeks. For all currencies a margin as specified above shall be applied.

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

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

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

2) These rates as notified shall be applied by all Participants as long as the 24-month disbursement interest rate does not exceed 225 basis points above TB10. In the event that the 24-month rate exceeds 225 basis points, the Participants are free to apply the rate of 225 basis points for the 24-month disbursement and all the corresponding rates and shall consult immediately with a view to finding a permanent solution.

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

## 7. INTEREST RATE ADJUSTMENTS

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

## 8. VALIDITY PERIOD FOR EXPORT CREDITS/INTEREST RATE OFFERS

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

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

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

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

## 10. PURE COVER SUPPORT

The Participants may provide official support by way of guarantee or insurance only, i.e. pure cover, subject to the 85 per cent threshold specified in Article 6 a) of this Sector Understanding. Any Participant

providing such support shall notify other Participants of the amount, term, currency and pattern of repayments and interest rates.

## 11. COMPETITION REFERENCE POINT

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

## 12. SECURITY FOR THE REPAYMENT RISK

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

## 13. MODEL CHANGES

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

## 14. LEASES

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

## 15. AID

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

# CHAPTER III: PROCEDURES

## 16. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of this Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms and conditions that do not conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 53 of the Arrangement.

## 17. REVIEW

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

## PART 2: ALL NEW AIRCRAFT EXCEPT LARGE AIRCRAFT

## CHAPTER IV: SCOPE

### 18. FORM AND SCOPE OF APPLICATION

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

### 19. BEST ENDEAVOURS

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

### 20. CATEGORIES OF AIRCRAFT

The Participants have agreed on the following categorisation of aircraft:

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

- Category B: other turbine powered aircraft, including helicopters.

- Category C: other aircraft, including helicopters.

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

## CHAPTER V: PROVISIONS FOR EXPORT CREDITS AND AID

### 21. MAXIMUM REPAYMENT TERM

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

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

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

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

## 22. MINIMUM INTEREST RATES

The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 19 of the Arrangement.

## 23. INSURANCE PREMIUM AND GUARANTEE FEES

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

## 24. AID

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

# CHAPTER VI: PROCEDURES

## 25. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

In the event of officially supported competition for a sale or lease, aircraft competing with those from another category or with those covered by other Parts of the Sector Understanding shall, for that specific sale or lease, be able to benefit from the same terms and conditions as those other aircraft. The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 53 of the Arrangement.

## 26. REVIEW

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

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

## CHAPTER VII: SCOPE

### 27. FORM AND SCOPE OF APPLICATION

Part 3 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits relating to the sale or lease of used aircraft; and of spare engines, spare parts, maintenance and service contracts in conjunction with both new and used aircraft. It does not apply to hovercraft or to flight simulators, which are subject to the terms of the Arrangement. The relevant provisions of Parts 1 and 2 of this Sector Understanding apply except as follows.

### 28. USED AIRCRAFT

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

a)

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

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

b) The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 19 of the Arrangement.

### 29. SPARE ENGINES AND SPARE PARTS

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

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

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

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

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

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

- includes a minimum of four new spare engines.

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

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

## 30. MAINTENANCE AND SERVICE CONTRACTS

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

# CHAPTER VIII: PROCEDURES

## 31. PRIOR NOTIFICATION, MATCHING AND INFORMATION EXCHANGE

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not conform to the Sector Understanding. The consultation shall be held within ten days, but otherwise follow the procedures set out in Article 53 of the Arrangement.

## 32. REVIEW

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

## APPENDIX I: ILLUSTRATIVE LIST

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

### LARGE CIVIL AIRCRAFT

| Manufacturer | Designation |
|---|---|
| Airbus | A 300 |
| Airbus | A 310 |
| Airbus | A 318 |
| Airbus | A 319 |
| Airbus | A 320 |
| Airbus | A 321 |
| Airbus | A 330 |
| Airbus | A 340 |
| Boeing | B 737 |
| Boeing | B 747 |
| Boeing | B 757 |
| Boeing | B 767 |
| Boeing | B 777 |
| Boeing | B 707, 727 |
| British Aerospace | RJ70 |
| British Aerospace | RJ85 |
| British Aerospace | RJ100 |
| British Aerospace | RJ115 |
| British Aerospace | BAe146 |
| Fairchild Dornier | 728 Jet |
| Fairchild Dornier | 928 Jet |
| Fokker | F 70 |
| Fokker | F 100 |
| Lockheed | L-100 |
| McDonnell Douglas | MD-80 series |
| McDonnell Douglas | MD-90 series |
| McDonnell Douglas | MD-11 |
| McDonnell Douglas | DC-10 |
| McDonnell Douglas | DC-9 |
| Lockheed | L-1011 |
| Ramaero | 1.11-495 |

## CATEGORY A AIRCRAFT

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

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

## CATEGORY B AIRCRAFT

Other turbine-powered aircraft, including helicopters.

| Manufacturer | Designation |
|---|---|
| Aerospatiale | AS 332 |
| Agusta | A 109, A 119 |
| Beech | 1900 |
| Beech | Super King Air 300 |
| Beech | Starship 1 |
| Bell Helicopter | 206B |
| Bell Helicopter | 206L |
| Bell Helicopter | 212 |
| Bell Helicopter | 230 |
| Bell Helicopter | 412 |
| Bell Helicopter | 430 |
| Bell Helicopter | 214 |
| Bombardier / Canadair | Global Express |
| British Aerospace | BAe Jetstream 31 |
| British Aerospace | BAe 125 |
| British Aerospace | BAe 1000 |
| British Aerospace | BAe Jetstream Super 31 |
| Beech Aircraft Corpn d/b/a Raytheon Aircraft Co. | Hawker 1000 |
| Beech Aircraft Corpn d/b/a Raytheon Aircraft Co. | Hawker 800 |
| Beech Aircraft Corpn d/b/a Raytheon Aircraft Co. | King Air 350 |
| Beech Aircraft Corpn d/b/a Raytheon Aircraft Co. | Beechjet 400 series |
| Beech Aircraft Corpn d/b/a Raytheon Aircraft Co. | Starship 2000A |
| Bell | B 407 |
| Canadair | Challenger 601-3A |
| Canadair | Challenger 601-3R |
| Canadair | Challenger 604 |
| Casa | C 212-200 |
| Casa | C 212-300 |
| Cessna | Citation |
| Cessna | 441 Conquest III and Caravan 208 series |
| Claudius Dornier | CD2 |
| Dassault Breguet | Falcon |
| Dornier | DO 228-200 |
| Embraer | EMB 110 P2 |
| Embraer/FAMA | CBA 123 |
| Eurocopter | AS 350, AS 355, EC 120, AS 365, EC 135 |
| Eurocopter | B0105LS |
| Fairchild | Merlin/300 |
| Fairchild | Metro 25 |

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

## ANNEX IV: STANDARD FORM FOR NOTIFICATIONS

Information to be included in each and every notification:

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

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

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

| | | |
|---|---|---|
| 41 | | matching terms offered by a Participant or a non-Participant |
| 43 a) | | MPR according to the first tiret of Article 23 e) or Article 27 |
| b) | | final decision according to Article 65 |
| 44 a) | first tiret | maximum repayment term to a Category I country |
| | second tiret | other payment practices than those set out in Articles 13 and 14 |
| | third tiret | maximum repayment term for non-nuclear power plant |
| | fourth tiret | premium rate according to the second tiret of Article 23 e) |
| | fifth tiret | premium rate according to Article 23 g) |
| 45 and 46 | | aid financing, concessionality level/grant element less than 50/80 per cent<br>tied aid, concessionality level 50/80 per cent or more |
| Annex II | | under the Sector Understanding on Export Credits for Nuclear Power Plant, or |
| Annex III | | under the Sector Understanding on Export Credits for Civil Aircraft |

4. Country of buyer/borrower.

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

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

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

   These values shall be stated as follows:

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

- The value of an individual project or contract in terms of value ratings in accordance with the following scale in Special SDRs:

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

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

When using this scale please indicate currency of the contract.

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

- down payment;

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

- interest rate; and

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

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

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

– the overall concessionality level of the tied and partially untied aid financing calculated in accordance with Article 36 and the discount rate used to calculate that concessionality level;

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

– development aid or premixed credit or associated finance; and

– restrictions on use of credit lines.

## ANNEX V: CALCULATION OF THE MINIMUM PREMIUM RATES

The formula for calculating the applicable MPR for an export credit is:

MPR = ( (a * HOR )+b) * (PC/0.95) * QPF * PCF * (1-MEF) * BRF

where:

- a and b are coefficients associated with the applicable Country Risk Category
- HOR is the horizon of risk
- PC is the percentage of cover
- QPF is the quality of product factor
- PCF is the percentage of cover factor
- MEF is the country risk mitigation/exclusion factor
- BRF is the buyer risk cover factor

The values for coefficients a and b are obtained from the following table:

| | **Country Risk Category** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| a | n/a | 0.100 | 0.225 | 0.392 | 0.585 | 0.780 | 0.950 | 1.120 |
| b | n/a | 0.350 | 0.350 | 0.400 | 0.500 | 0.800 | 1.200 | 1.800 |

The **Horizon of Risk (HOR)** is calculated as follows:

For standard repayment profiles (i.e. equal semi-annual repayments of principal):

HOR = (length of the disbursement period * 0.5) + the length of the repayment period

For non-standard repayment profiles, the equivalent repayment period (expressed in terms of equal, semi-annual instalments) is calculated using the following formula:

HOR = (average weighted life of the repayment period -0.25) / 0.5

*The use of years or months in the formula has no impact on the calculation as long as the same unit is used for the disbursement and repayment periods.*

The **Percentage of Cover (PC)** expressed as a decimal value (i.e. 95 per cent is expressed as 0.95)

The **Quality of Product Factor (QPF)** is obtained from the following table:

| | **Country Risk Category** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Product Quality** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| below standard | n/a | 0.9965 | 0.9935 | 0.9850 | 0.9825 | 0.9825 | 0.9800 | 0.9800 |
| standard | n/a | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| above standard | n/a | 1.0035 | 1.0065 | 1.0150 | 1.0175 | 1.0175 | 1.0200 | 1.0200 |

The **Percentage of Cover Factor (PCF)** is determined as follows:

For PC <= 0.95, PCF = 1

For PC > 0.95, PCF = 1 + ( (PC - 0.95) / 0.05 ) * percentage of cover coefficient )

| | **Country Risk Category** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| percentage of cover coefficient | n/a | 0.00000 | 0.00337 | 0.00489 | 0.01639 | 0.03657 | 0.05878 | 0.08598 |

The **Country Risk Mitigation/Exclusion Factor (MEF)** is determined as follows:

For export credits with no country risk mitigation, MEF = 0

For export credits with country risk mitigation, the MEF is determined according to the criteria set out in Annex VII.

The **Buyer Risk Cover Factor (BRF)** is determined as follows:

When cover for buyer risk is excluded completely, BRF = 0.90

When cover for buyer risk is not excluded, BRF = 1

## ANNEX VI: CRITERIA AND CONDITIONS GOVERNING THE APPLICATION OF COUNTRY RISK CLASSIFICATION REFLECTING A THIRD COUNTRY GUARANTOR OR A MULTILATERAL OR REGIONAL INSTITUTION

### PURPOSE

This Annex provides the criteria and conditions that govern the application of a country risk classification reflecting a third country guarantor or a multilateral or regional institution according to the situations described in the first and second tirets of Article 23 e) of the Arrangement.

### APPLICATION

***Country Risk Classification Reflecting a Third Country Guarantor***

*Case 1: Guarantee for the Total Amount at Risk*

When security in the form of a guarantee from an entity which is located outside of the country of the buyer/borrower is provided for the total amount at risk (i.e. principal and interest), the applicable Country Risk Classification may be that of the country in which the guarantor is located when the following criteria are met:

- The guarantee covers the entire duration of the credit.
- The guarantee is irrevocable, unconditional and available on-demand.
- The guarantee is legally valid and capable of being enforced in the guarantor country's jurisdiction.
- The guarantee is for the five country credit risks on the buyer/borrower country.
- The guarantor is creditworthy in relation to the size of the guaranteed debt.
- The guarantor is subject to the monetary control and transfer regulations of the country in which it is located.
- If the guarantor is a subsidiary/parent of the guaranteed entity, Participants shall, on a case-by-case basis, determine whether: (1) in consideration of the relationship between the subsidiary/parent and the degree of legal commitment of the parent, the subsidiary/parent is legally and financially independent and could fulfil its payment obligations; (2) the subsidiary/parent could be affected by local events/regulations or sovereign intervention; and (3) the Head Office would in the event of a default regard itself as being liable.

*Case 2: Guarantee Limited in Amount*

When security in the form of a guarantee from an entity which is located outside of the country of the buyer/borrower is provided for a limited amount at risk (i.e. principal and interest), the applicable Country

Risk Classification may be that of the country in which the guarantor is located for the portion of the credit subject to the guarantee. In addition to the criteria listed for Case 1, the guarantor's country classification may be applied only when either the guaranteed amount (principal amount plus the related interest) is either: (1) greater than or equal to 10 per cent of the principal plus the related interest; or (2) five million SDRs principal plus the related interest if the transaction exceeds 50 million SDRs.

For the unguaranteed portion, the applicable Country Risk Classification is that of the buyer country.

***Country Risk Classification Reflecting a Multilateral or Regional Institution***

*Case 1: Guarantee for the Total Amount at Risk*

When security in the form of a guarantee from a classified multilateral or regional institution is provided for the total amount at risk (i.e. principal and interest), the applicable Country Risk Classification may be that of the multilateral or regional institution when the following criteria are met:

- The guarantee covers the entire duration of the credit.

- The guarantee is irrevocable, unconditional and available on-demand.

- The guarantee is for the five country credit risks on the buyer/borrower country.

- The guarantor is legally committed for the total amount of the credit.

- The repayments are made directly to the creditor.

*Case 2: Guarantee Limited in Amount*

When security in the form of a guarantee from a classified multilateral or regional institution is provided for a limited amount at risk (i.e. principal and interest), the applicable Country Risk Classification may be that of the multilateral or regional institution for the portion of the credit subject to the guarantee. In addition to the criteria listed for Case 1, the multilateral or regional institution's classification may be applied only when either the guaranteed amount (principal amount plus the related interest) is either: (1) greater than or equal to 10 per cent of the principal plus the related interest; or (2) five million SDRs principal plus the related interest if the transaction exceeds 50 million SDRs.

For the unguaranteed portion, the applicable Country Risk Classification is that of the buyer country.

*Case 3: Multilateral or Regional Institution as the Borrower*

When a classified multilateral or regional institution is the borrower, the applicable Country Risk Classification may be that of the multilateral or regional institution.

*Classification of Multilateral or Regional Institutions*

Multilateral and regional institutions shall be eligible for classification if the institution is generally exempt from the monetary control and transfer regulations of the country in which it is located. Such institutions shall be classified in Country Risk Categories 0 through 7 on a case-by-case basis according to an assessment of the risk of each on its own merits and in consideration of whether:

- the institution has statutory and financial independence;

- all of the institution's assets are immune from nationalisation or confiscation;
- the institution has full freedom of transfer and conversion of funds;
- the institution is not subject to government intervention in the country where it is located;
- the institution has tax immunity; and
- there is an obligation of all its Member countries to supply additional capital to meet the institution's obligations.

The assessment should also take into consideration the historical payment record in situations of country credit risks default either in the country where it is located or in a buyer/borrower country; and any other factors which may be deemed appropriate in the assessment process.

The list of classified multilateral and regional institutions is not closed and a Participant may nominate an institution for review according to the above-listed considerations. The classifications of multilateral and regional institutions shall be made public by the Participants.

## ANNEX VII: CRITERIA AND CONDITIONS GOVERNING THE APPLICATION OF COUNTRY RISK MITIGATION/EXCLUSION IN CALCULATING THE MINIMUM PREMIUM RATES

### PURPOSE

This Annex provides detail on the use of country credit risk mitigation/exclusion techniques listed in Article 27 b) of the Arrangement; this includes the criteria, conditions and specific circumstances which apply to their use as well as the applicable MEFs.

### GENERAL APPLICATION

For all country credit risk mitigation/exclusion techniques listed in Article 27 b) of the Arrangement:

- The listed MEFs are the maximum that would be envisaged in the best circumstances and should be justified on a case-by-case basis.

- Participants shall ascertain whether the security arrangements can be validly enforced in their legal/judicial environment.

- The MPR resulting from the use of country credit risk mitigation/exclusion techniques shall not undercut private market pricing under similar circumstances.

- In the case where a transaction is financed in parallel by other sources, any security retained in relation to the official export credit is treated, at least, *pari passu* with the same security held by the other sources.

### SPECIFIC APPLICATION

#### *1. Offshore Future Flow Structure Combined with Offshore Escrow Account*

*Definition:*

A written document, such as a deed or a release or trustee arrangement, sealed and delivered to a third party, i.e. a person not party to the instrument, to be held by such third party until the fulfilment of certain conditions and then to be delivered by him to the other party to take effect. If the following criteria are satisfied subject to consideration of the additional factors listed, this technique can reduce or eliminate the transfer risks, mainly in the higher risk country categories.

*Criteria:*

- The escrow account is related to a foreign exchange-earning project and the flows into the escrow account are generated by the project itself and/or by other offshore export receivables.

- The escrow account is held offshore i.e. located outside the buyer/borrower country where there are very limited, transfer or other country risks (i.e. a country classified in Category 0).

- The escrow account is located in a first class bank which is not directly or indirectly controlled by interests of the buyer/borrower or by the country of the buyer/borrower.

- The funding of the account is secured through long-term or other appropriate contracts.

- The combination of the sources of revenues (i.e. generated by the project itself and/or the other sources) of the buyer/borrower flowing through the account are in hard currency and can reasonably be expected to be collectively sufficient for the service of the debt for the entire duration of the credit, and come from one or more creditworthy foreign customers located in better risk countries than the country of the buyer/borrower (i.e. normally countries classified in Category 0).

- The buyer/borrower irrevocably instructs the foreign customers to pay directly into the account (i.e. the payments are not forwarded through an account controlled by the buyer/borrower or through its country).

- The funds which have to be kept within the account are equal to at least six months of debt service. Where flexible repayment terms are being applied under a project finance structure, an amount equivalent to the actual six months debt service under such flexible terms are to be kept within the account; this amount may vary over time depending on the debt service profile.

- The buyer/borrower has restricted access to the account (i.e. only after payment of the debt service under the credit).

- The revenues deposited in the account are assigned to the lender as direct beneficiary, for the entire life of the credit.

- The opening of the account has received all the necessary legal authorisations from the local and any other appropriate authorities.

- The escrow account and contractual arrangements may not be conditional and/or revocable and/or limited in duration.

*Additional Factors to be Taken into Consideration:*

The technique applies subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to:

- the country, the buyer/borrower (i.e. either public or private), the sector, the vulnerability in relation to the commodities or services involved, including their availability for the entire duration of the credit, the customers;

- the legal structures e.g. whether the mechanism is sufficiently immune against the influence of the buyer/borrower or its country;

- the degree to which the technique remains subject to government interference, renewal or withdrawal;

- whether the account would be sufficiently protected against project related risks;

- the amount which will flow into the account and the mechanism for the continuation of appropriate provision;

- the situation with regard to the Paris Club (e.g. possible exemption);

- the possible impact of country risks other than the transfer risk;
- the protection against the risks of the country where the account is located;
- the contracts with the customers, including their nature and duration; and
- the global amount of the expected foreign earnings in relation to the total amount of the credit.

*Applicable MEF*

The maximum applicable MEF is 0.20 unless:

Specific Case 1: The maximum applicable MEF is 0.40 if all of the following additional criteria are met:

- The creditor has a first priority interest in the escrow account and the long-term contracts.
- The buyer/borrower is a private entity being more than 80 per cent private ownership.
- Either the projected Loan Life Coverage Ratio (LLCR) averages at least 2.5:1 or the projected LLCR averages at least 2.0:1 and the projected Annual Debt Service Coverage Ratio (ADSCR) is not less than 1.0 at all times after the starting point of credit[7].
- There is at least 12 months of debt service pre-funding in escrow, which shall be replenished after each call on the pre-funded amount.

Specific Case 2: The maximum applicable MEF is 0.30 if all of the following additional criteria are met:

- Either the LLCR averages at least 1.75:1, or there is at least 9 months of debt service pre-funding in escrow, which shall be replenished after each call on the pre-funded amount.

### *2. Offshore Hard Security*

*Definition:*

Security in the form of offshore first or second priority pledges or assignments of securities held offshore by a shareholder of the buyer/borrower or by the buyer/borrower itself, or cash on deposit in an offshore account.

*Criteria:*

- The securities are defined as publicly-listed stocks and bonds issued by entities located in a better risk country located outside the buyer/borrower country and traded on exchanges in countries classified in Category 0.
- The cash is defined as deposits in hard currencies of countries classified in Category 0 or treasuries in such hard currencies issued by countries classified in Category 0.

7. The calculations of LLCR and the ADSCR shall be made in accordance with the conventions normally applied by prudent international lenders to establish an agreed (central scenario) banking case at or near financial close, after completion of full (technical and economic) due diligence.

- The security is unconditional and irrevocable for the entire duration of the credit.

- The country where the security is located represents a better risk than the buyer/borrower country and would normally a country classified in Category 0.

- The security is beyond the reach and jurisdiction of the buyer/borrower.

- The prudently-assessed projected market value of the securities corresponds throughout the repayment period to the amount of the outstanding debt covered by the security.

- In any event, the cash deposit or the prudential value of the securities (which should cover both Principal and Interest) shall be for (1) not less than 10 per cent of the Principal amount plus the related Interest, or (2) five million SDRs Principal plus the related Interest if the transaction exceeds 50 million SDRs.

- The security can be legally and unconditionally realised in any event of default (i.e. of country credit risks in the buyer/borrower country).

- The proceeds of the securities or of the cash deposit can be freely converted into the currency of the credit or in another hard currency.

- In the event of default, the securities are directly transferred to the creditor, or the cash deposit is paid directly to the creditor for the appropriate amount.

*Additional Factors to be Taken into Consideration:*

The technique applies normally to all countries, buyers/borrowers and sectors, subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to:

- The implications of the ownership (either public or private) of the securities or of the cash deposit, e.g. with regard to the likelihood of the realisation of this security in case of public debtors.

- The prospective value of the securities and the likelihood of realisation in relation to the entity, the sector and the country from which they originate.

- The legal environment.

*Applicable MEF*

The specific MEF to be applied shall:

- Reflect the degree of potential externalisation subject, *inter alia*, to the continuing value of the assets, as well as the possible uncertainties with regard to the realisation of the security;

- Be determined case-by-case to reflect, *inter alia*, on a basis, the value of the security provided in relation to the principal value of the credit and the applicable country risk classification of the country in which the security is located.

The value of cash security shall be taken at no more than 80 per cent and the value of stocks or bonds shall be taken at no more than 35 per cent of its prudential valuation.

### *3. Offshore Asset-Based Security*

*Definition:*

Security in the form of first priority mortgages on real (i.e. immovable) assets which are held offshore.

*Criteria:*

- The security is unconditional and irrevocable for the entire duration of the credit.

- The real assets have a prudently-assessed projected market value and represent for the owner a substantial equity stake. This projected value corresponds throughout the repayment period with the amount of the outstanding debt on the buyer/borrower.

- The security can be legally and unconditionally realised in any event of default (e.g. of country credit risks in the buyer/borrower country).

- The proceeds can be converted into the currency of the credit or in another hard currency.

- In the event of default the appropriate proceeds are paid or assigned directly to the creditor.

- The country where the security can be enforced represents a better-risk category than the buyer/borrower country, i.e. it is normally ranked in the best-risk categories.

*Additional Factors to be Taken into Consideration:*

The technique applies normally to all countries, buyers/borrowers and sectors, subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to:

- The implications of the ownership of the real assets (either public or private), e.g. with regard to the likelihood of the realisation of this security in case of public owners.

- The nature of the real assets (e.g. sector) which may impact on the continuity in their value and on the likelihood of realisation.

- The legal environment.

*Applicable MEF*

The specific MEF to be applied shall:

- Reflect the degree of potential externalisation subject, *inter alia*, to the continuing value of the assets, as well as the possible uncertainties with regard to the realisation of the security; and

- Be determined case-by-case to reflect, *inter alia*, on a basis, the value of the security provided in relation to the principal value of the credit and the applicable country risk classification of the country in which the security is located.

The difference between the MPR resulting from the application of this technique and the MPR which would apply absent mitigation shall be no greater than 15 per cent of the difference between the MPR which would apply absent risk mitigation and the MPR which would result from the application of the country risk classification of the country in which the asset is located.

In the following circumstances, the pricing implications apply on a basis as outlined below:

- The security (which should cover both Principal and Interest) is limited in amount on a uniform basis for the entire duration of the credit and for (1) not less than 10 per cent of the Principal amount plus the related Interest, or (2) five million SDRs Principal plus the related Interest if the transaction exceeds 50 million SDRs; in this case the pricing implication applies on a pro-rata basis to the guaranteed Principal/the Principal amount of the credit.

- The security (which should cover both Principal and Interest) is limited in amount on a non-uniform basis for the entire duration of the credit and for (1) not less than 10 per cent of the Principal amount plus the related Interest or (2) five million SDRs Principal plus the related Interest if the transaction exceeds 50 million SDRs. In this case the pricing implication applies on a pro-rata basis derived from the use of the average weighted life concept.

### *4. Offshore Asset-Secured and Asset-Based Financing*

*Definition:*

Security in the form of an offshore lease or a first priority mortgage on movable assets which is not (1) used to make the country credit risks acceptable (e.g. for countries in high risk categories), or (2) mainly related to the buyer/borrower or the lessor risks.

*Criteria:*

- The assets are typically directly related to the transaction.

- The assets are identifiable and mobile or portable and can be physically as well as legally repossessed/seized by the creditor, its agent or nominee outside the country of the buyer/borrower or lessee.

- The security is irrevocable and unconditional for the entire duration of the credit.

- The assets have a prudently-assessed projected market value which corresponds throughout the repayment period to the amount of the outstanding debt.

- The security is registered offshore in an acceptable jurisdiction

- The assets can be freely sold and offer opportunities for their use outside the country of the buyer/borrower or lessee.

- The proceeds can be converted into the currency of the credit or in any other hard currency.

- In the event of realisation of the security, the proceeds are paid directly to the creditor.

*Additional Factors to be Taken into Consideration:*

The technique applies, in the first instance, to e.g. aircraft, ships and oil platforms, primarily intended to be used outside the country of the buyer/borrower or lessee, however it may be applied to all countries, buyers/borrowers and sectors, subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to:

- The nature of the assets which may impact on their complete mobility, the possibility to repossess them outside the country of the buyer/borrower or lessee and their projected commercial market value.

- The costs of seizing, transporting, refurbishing and re-selling the assets, as well as the interest costs accruing until re-sale.

- The possibility of seizing the assets in the best-risk countries offering an appropriate legal environment.

*Applicable MEF*

The specific MEF to be applied shall:

- reflect the degree of potential country credit risk mitigation depending, *inter alia*, on the continuing value of the assets as well as the possible uncertainties with regard to their international recoverability;

- be determined on a case-by-case basis; and

- not exceed 0.10, or 0.20 in the case of aircraft.

In the case where the security (which should cover both Principal and Interest) is limited in amount on a uniform basis for the entire duration of the credit and for: (1) not less than 10 per cent of the Principal amount plus the related Interest, or (2) five million SDRs Principal plus the related Interest if the transaction exceeds 50 million SDRs, the MEF shall be calculated on a basis reflecting the amount of the security in comparison with the guaranteed Principal/the Principal amount of the credit.

### *5. Co-Financing with International Financial Institutions (IFIs)*

*Definition:*

The export credit (i.e. insurance/guarantee/loan) is co-financed with an IFI which has been classified by the Participants for premium purposes.

*Criteria:*

- The IFI has a preferred creditor status.

- The IFI has assessed the project, its technical, economic and financial aspects and the country risk environment.

- The IFI is deemed to follow the execution and the repayment of the project.

*Additional Factors to be Taken into Consideration:*

The technique applies to all countries/buyers/borrowers and sectors where the IFI may intervene in accordance with its status and policy subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to whether, in respect of the project:

- the Participant and the IFI have developed close exchanges during the evaluation and setting-up process of the project and of its financing;

- the Participant has obtained from the IFI the benefit of *pari passu* and cross-default clauses for the entire amount and duration of the credit;

- the clauses and the co-operation between the Participant and the IFI will also apply in case the maturity schedule of the two credits is not parallel; and

- the same IFI arrangements apply to any competing offer from a Participant.

*Applicable MEF*

The maximum applicable MEF shall be no greater than 0.05.

***6. Local Currency Financing***

*Definition:*

Contract and financing negotiated in convertible and available local, other than hard, currencies and financed locally that eliminates or mitigates the transfer risk. The primary debt obligation in local currency would, in principle, not be affected by the occurrence of the first two country credit risks.

*Criteria:*

- The ECA liability and claims payment or the payment to the Direct Lender are expressed/ made throughout in local currency.

- The ECA is normally not exposed to the transfer risk.

- In the normal course of events, there will be no requirement for local currency deposits to be converted into hard currency.

- The borrower's repayment in his own currency and in his own country is a valid discharge of the loan obligation.

- If a borrower's income is in local currency the borrower is protected against adverse exchange rate movements.

- Transfer regulations in the borrower's country should not affect the borrower's repayment obligations, which would remain in local currency.

- Subsequent to an event of default leading to a claims payment in local currency, the value of that claim is translated, as explicitly set out in the loan agreement, into an equivalent hard currency amount. Recovery of the claims payment would be in local currency as a counter value of the hard currency value of the claims payment at the time of the claims payment.

- Responsibility for conversion of local currency repayments by the buyer/borrower will be borne by the insured party who would also carry the exchange risk of devaluation or appreciation of local currency receipts. (Whilst a Direct Lender may have a direct exposure to currency fluctuations it is not related to country risks or buyer/borrower risks).

*Additional Factors to be Taken into Consideration:*

The technique applies on a selective basis in respect of convertible and transferable currencies, where the underlying economy is sound. The Participant ECA should be in a position to meet its obligations to pay claims expressed in its own currency in the event that the local currency becomes either 'non-transferable' or 'non-convertible' after the ECA takes on liability. (A Direct Lender would however carry this exposure.)

Translation of a defaulted amount (not the whole loan value) into an equivalent hard currency amount would still leave the borrower with a continuing local currency obligation, albeit of an 'open-ended' value, in relation to the equivalent hard currency value of the defaulted amount. The eventual payment in local currency by the borrower of its outstanding indebtedness would need to be equivalent to the hard currency value of the claims payment at the time of the claims payment.

*Applicable MEF*

The specific MEF to be applied shall be determined case-by-case basis, however, if the first three country credit risks are specifically excluded, the maximum MEF is 0.50. If the risk is only mitigated, i.e. not explicitly excluded, the maximum MEF is 0.35.

***7. Third Country Insurance or Conditional Guarantee***

***8. Debtor Representing a Better Risk than the Sovereign***

The use of techniques 7 and 8 of this Annex is subject to further discussions among the Participants.

## ANNEX VIII: INFORMATION TO BE PROVIDED FOR PREMIUM-RELATED NOTIFICATIONS

The following information should be provided for notifications made in connection with Article 23 e) or Article 27 of the Arrangement:

### BASIC INFORMATION

1. Notifying country
2. Notification date
3. Name of notifying authority/agency
4. Reference number
5. Original notification or revision to previous notification
6. The Arrangement article under which being notified [i.e. Article 23 e) first and second tiret, Article 27]
7. Tranche number if appropriate
8. Name of buyer/borrower
9. Location of buyer/borrower
10. Status of buyer/borrower (i.e. sovereign, public, private)
11. Buyer/borrower country
12. Country risk classification of buyer/borrower country
13. Nature of project/goods to be exported
14. Location of project (if relevant)
15. Tender closing date (if relevant)
16. Contract value and currency by SDR Category
17. Credit value and currency by SDR Category
18. Length of the disbursement period
19. Length of the repayment period
20. Percentage of cover
21. Quality of cover (i.e. below standard, standard, above standard)
22. MPR based on country risk classification of the buyer/borrower country absent any risk mitigation/exclusion
23. Actual premium rate charged (expressed in MPR format as a percentage of the principal)

### ADDITIONAL INFORMATION FOR ALL NOTIFICATIONS MADE UNDER ARTICLE 27

24. Risk mitigation/exclusion technique(s) used
25. MPR absent risk mitigation/exclusion
26. MEF applied
27. Applicable MPR after risk mitigation/exclusion
28. Full explanation of what country credit risks have either been externalised/removed or limited/excluded in the individual transaction, as well as an explanation of how such externalisation/removal or limitation/exclusion of the country credit risks justify the MEF applied.

**ADDITIONAL INFORMATION FOR ALL NOTIFICATIONS MADE UNDER THE FIRST TIRET OF ARTICLE 23 e)**

29. Guarantor name
30. Guarantor location
31. Status of guarantor (i.e. sovereign, public, private)
32. Guarantor country
33. Country risk classification of guarantor country
34. Confirmation that the guarantee covers all five country risk for the entire duration of the credit
35. Indication as to whether the total amount at risk (i.e. principal and interest) is covered by the guarantee
36. Confirmation that the guarantor is creditworthy in relation to the size of the guaranteed debt
37. Confirmation that the guarantee is legally valid and capable of being enforced in the third country jurisdiction.
38. Indication as to whether any financial relationship exists between the guarantor and the buyer/borrower.
39. In the case that there is a relationship between the guarantor and the buyer/borrower:

    - The type of relationship (e.g. parent-subsidiary, subsidiary-parent, common ownership)

    - Confirmation that the guarantor legally and financially independent and can it fulfil buyer's/borrower's payment obligation

    - Confirmation that the guarantor would not be affected by events, regulations or sovereign intervention in the borrower's country

40. Applicable MPR absent third country guarantee

**ADDITIONAL INFORMATION FOR ALL NOTIFICATIONS MADE UNDER THE SECOND TIRET OF ARTICLE 23 e)**

41. Name of multilateral/regional institution
42. Classification of multilateral/regional institution

## ANNEX IX: CHECKLIST OF DEVELOPMENTAL QUALITY

### CHECKLIST OF DEVELOPMENTAL QUALITY OF AID-FINANCED PROJECTS

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

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

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

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

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

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

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

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

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

### PROJECT PREPARATION AND APPRAISAL

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

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

b) Technical aspects (paragraph 22 PPA).

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

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

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

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

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

**PROCUREMENT PROCEDURES**

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

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

b) National competitive bidding (Procurement Principle IV).

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

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

# ANNEX X: UNDERSTANDING ON THE APPLICATION OF FLEXIBILITY TO THE TERMS AND CONDITIONS OF THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS IN RESPECT OF PROJECT FINANCE TRANSACTIONS FOR A TRIAL PERIOD (UNTIL 30 JUNE 2005)

## CHAPTER I: SCOPE

### 1. FORM AND SCOPE OF APPLICATION

This Understanding, which complements the Arrangement:

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

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

## CHAPTER II: PROVISIONS FOR EXPORT CREDITS

### 2. REPAYMENT OF PRINCIPAL AND MAXIMUM REPAYMENT TERMS

a) A Participant may, on a case-by-case basis, agree to flexibility on the timing of the first repayment of principal, the repayment profile and the maximum repayment term provided that the average life of the credit, insurance or guarantee[8] does not exceed either:

- five-and-a-quarter years; or

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

b) If flexibility is agreed in accordance with:

- The first tiret of sub paragraph a) above involving exports to High-Income OECD Countries as defined in Article 24 c) of the Arrangement, official support shall only be provided on the basis of co-financing with financial institutions and where the Participant is a minority partner

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

and has *pari passu* status for at least a significant portion of the life of the credit, insurance or guarantee.

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

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

**3. PAYMENT OF INTEREST**

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

b) If interest is capitalised before the starting point of credit, this shall be notified in accordance with Article 5 of this Annex.

**4. MINIMUM INTEREST RATES**

Where the Participants are providing official financing support:

a) for a repayment term of up to and including 12 years, the normal CIRR constructed in accordance with Article 19 of the Arrangement shall apply; and

b) for a repayment term in excess of 12 years and up to 14 years in accordance with the second tiret of Article 2 a) above, a surcharge of 20 basis points on the CIRR shall apply for all currencies. The level of the surcharge shall be reviewed at the end of the trial period referred to in Article 6 of this Annex.

## CHAPTER III: PROCEDURES

**5. PERMITTED EXCEPTIONS: PRIOR NOTIFICATION WITH EXPLANATION**

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

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

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

## CHAPTER IV: REVIEW

### 6. TRIAL PERIOD AND MONITORING

a) The special guidelines for flexibility shall apply for a Trial Period of three years, i.e. from the 1st September 1998 to the 31st August 2001. After a period of two years (i.e. on or after the 1st September 2000), the Participants shall review the operation of this Understanding to consider the experience gained[9].

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

- to continue the Trial Period, with any necessary enhancements/modifications; or

- to cement the flexibility in the Arrangement, with any necessary enhancements/modifications.

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

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

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

9. The Participants agreed to the prolongation of the Trial Period of the Project Finance Understanding for a year until 31 August 2002 at their 78th Meeting held on 14-15 November 2000, for another year until 31 August 2003 at their 83rd Meeting held on 29-30 May 2002, for four months until 31 December 2003 through written procedure on 11 June 2003, for a further year until 31 December 2004 at their 90th Meeting held on 6 November 2003 and a further six months until 30 June 2005 at their 93rd Meeting held on 2-3 November 2004.

## APPENDIX 1: DESCRIPTION AND CRITERIA

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

2. The approach proposed below combines a General Description of project finance transactions together with Essential and Illustrative Criteria. If a Participant considered a transaction which conformed to the General Description and met all Essential Criteria, it would be able to apply the special guidelines for flexibility. It is expected that the Essential Criteria shall be satisfied; in the event that any individual criterion is not satisfied, justification should be provided. The use of this flexibility would require prior notification of the specific transaction to all Participants together with the appropriate "explanation" in accordance with Article 5 of this Annex.

**GENERAL DESCRIPTION**

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

**ESSENTIAL CRITERIA**

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

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

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

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

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

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

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

**ILLUSTRATIVE CRITERION**

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

## APPENDIX 2: ADDITIONAL INFORMATION FOR NOTIFICATIONS

- Enhanced description of the project.

- Confirmation of conformity with General Description and the Essential Criteria (including comment, if available, on conformity with the Illustrative Criterion).

- A full explanation why more flexible terms are required.

- The date of the first repayment of principal in relation to the starting point of credit, together with details of how this was determined.

- For the purpose of notification of anticipated cash flow patterns, the following template shall be used:

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

- Information on any premium surcharge.

- An explanation of whether interest has been capitalised before the starting point of credit.

- Information on the interest rate charged and the level of surcharge over the CIRR where Article 4 b) of this Annex applies.

## ANNEX XI: LIST OF DEFINITIONS

For the purpose of the Arrangement:

a) **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.

b) **Common Line**: an understanding between the Participants to agree, for a given transaction or in special circumstances, on specific financial terms and conditions for official support. The rules of an agreed Common Line supersede the rules of the Arrangement only for the transaction or in the circumstances specified in the Common Line.

c) **Concessionality Level of Tied Aid:** in the case of grants the concessionality level is 100 per cent. In the case of loans, the concessionality level is the difference between the nominal value of the loan and the discounted present value of the future debt service payments to be made by the borrower. This difference is expressed as a percentage of the nominal value of the loan.

d) **Export Contract Value**: the total amount to be paid by or on behalf of the purchaser for goods and/or services exported, i.e. excluding local costs as defined hereafter. In the case of a lease, it excludes the portion of the lease payment that is equivalent to interest.

e) **Final Commitment**: for an export credit transaction (either in the form of a single transaction or a line of credit), 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.

f) **Interest Rate Support:** an arrangement between a government and banks or other financial institutions which allows the provision of fixed rate export finance at or above the CIRR.

g) **Line of Credit:** a framework, in whatever form, for export credits that covers a series of transactions which may or may not be linked to a specific project.

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

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

j) **Repayment Term**: the period beginning at the starting point of credit, as defined in this Annex, and ending on the contractual date of the final repayment of principal.

k) **Starting Point of Credit:**

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

2) *Quasi-capital goods, including related services - machinery or equipment, generally of relatively low unit value, intended to be used in an industrial process or for productive or commercial use*: in the case of quasi-capital goods, the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods by the buyer or, if the exporter has responsibilities for commissioning, then the latest starting point is at commissioning, or for services, the date of the submission of the invoices to the client or acceptance of the service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

3) *Capital goods and project services - machinery or equipment of high value intended to be used in an industrial process or for productive or commercial use:*

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

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

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

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

4) *Complete plants or factories – complete productive units of high value requiring the use of capital goods:*

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

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

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

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

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

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

This definition applies whether the "tying" is by formal agreement or by any form of informal understanding between the recipient and the donor country, or whether a package includes components from the forms set out in Article 30 of the Arrangement that are not freely and fully available to finance procurement from the recipient country, substantially all other developing countries and from the Participants, or if it involves practices that the DAC or the Participants consider equivalent to such tying.

m) **Untied Aid**: aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country.