



# Understanding on Export Credits for Ships

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**Please cite this document as:**

OECD, *Understanding on Export Credits for Ships*, OECD/LEGAL/5008

Series: OECD Legal Instruments

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## Background Information

1. For any contract relating to any new sea-going ship or any conversion of a ship<sup>1</sup> to be negotiated from 1st December 1979 onwards, participants in this Understanding agree to abolish existing official facilities<sup>2</sup> and to introduce no new official facilities for export credits on terms providing:

- i) a maximum duration exceeding eight and a half years<sup>3</sup> from delivery and repayment other than by equal instalments at regular intervals of normally six months and a maximum of twelve months;
- ii) payment by delivery of less than 20 per cent of the contract price;
- iii) an interest rate of less than 8 per cent, net of all charges<sup>4</sup>.

2. This minimum interest rate of 8 per cent will apply to the credit granted with official support by the shipbuilder to the buyer (in a supplier-credit transaction) or by a bank or any other party in the shipbuilder's country to the buyer or any other party in the buyer's country (in a buyer-credit transaction) whether the official support is given for the whole amount of the credit or only part of it.

3. The minimum interest rate will also apply to the credit granted with support by governments participating in the Understanding, in the shipbuilder's country to the shipbuilder or to any other party, to enable credit to be given to the shipowner or to any other party in the shipowner's country, whether this official support is given for the whole amount of the credit or only part of it.

4. Insofar as other public bodies participate in measures to promote exports, participants agree to use all possible influence to prevent the financing of exports on terms which contravene the above principles.

5. Participants, recognising that it is highly desirable to set a limit to credit terms for export, also agree to make their best endeavours to ensure that no more favourable terms than those set out above will be offered to buyers by any other means.

6. Any participant in the Understanding which wishes, for genuine aid reasons, to concede more favourable terms in a particular case is not precluded from doing so, provided that adequate notice of this decision is given to all the parties to the Understanding in accordance with the procedure established for this purpose. For these cases "adequate notice" shall be interpreted as requiring that notification be made to all participants if possible at least six weeks before a promise is given, at any stage of the negotiations, to commit the use of funds for that purpose, and in any case at least six weeks before authorisation is given so to commit them.

7. Prior notice shall also be given in accordance with the procedure agreed between the participants of any decision taken for exceptional reasons other than those specified in Clause 6, to support terms more favourable in any way than those of the Understanding. Support (including the provision of aid) will be refused for any order finally placed<sup>5</sup> on more favourable terms before all other participants in the Understanding have been given prior notice in accordance with the procedure agreed.

8. Any participant in the Understanding may, provided that it applies the procedures agreed between the participants, support more favourable terms in a particular substantiated case to match terms of officially supported transactions, or contravention of the above terms by other participants, or competitive from non-participating countries.

## II

9. Any participant in the Understanding may obtain information from any other participant on terms of any official support for an export contract in order to ascertain whether the terms contravene this Understanding.

Participants undertake to supply all possible information requested with all possible speed. According to the rules and practices of the OECD, any participant may ask the Secretary-General to act on its behalf in the aforementioned matter and to circulate the information obtained to all participants in the Understanding.

10. Each participant undertakes to notify the Secretary-General of its system for the provision of official support and of the means of implementation of the Understanding.

### III

11. This Understanding becomes effective as soon as all Members of Working Party No. 6 have notified the Secretary-General of their adherence to it or as soon as participants having so notified the Secretary-General decide that they constitute a representative majority of Members of Working Party No. 6; any participant which disagrees as to what constitutes a representative majority would not be bound by the others' decision. The Understanding is open to other Member countries of the OECD.

12. This Understanding shall be subject to review as often as requested by participants, and in any case at intervals not exceeding one year. Any participant may withdraw from this Understanding upon giving to its partners three calendar months' notice of its intention to do so. Within this period, at the request of any of these partners, there shall be a meeting of Working Party No. 6 to review this Understanding, and any other participant, on notification to its partners, may withdraw from this Understanding at the same effective date as the participant which first gave notice.

## INTERPRETATIONS AGREED BY THE PARTICIPANTS [C/WP6(89)45]

### Interpretation of Clause 5

Clause 1 to 4 implies that all credit conditions of Clause 1 shall be applied as a set of binding requirements to any ship export credit with official support, including the Suppliers' Credit transaction between the exporter and the buyer.

Clause 5 provides that the participants should make their best endeavours to ensure that no more favourable conditions than those provided in Article 1 should be offered by any other means to the buyer, namely by any credit without official support.

### Declarations by the Participants on Hovercraft-type Vessels

Participants note that:

- until now there has been no agreement on the question of inclusion of hovercraft vessels on the Understanding of Export Credits for Ships and agree that discussions on this matter should continue;
- in the meantime, until a final decision is taken and without any prejudice on the results of the discussions under way, participants are allowed to grant export credits for hovercraft vessels on equivalent conditions to those prevailing in the Understanding.

The participants commit themselves:

- to apply moderately this possibility (in a moderated way);
- not to grant such credit conditions to hovercraft vessels in cases where it is established that no competition is offered under the Understanding conditions.

### Definition

As for the granting of export credits at conditions equivalent to those prevailing on the Understanding, the term "hovercraft" is defined as follows:

"An amphibious vehicle of at least 100 tones 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 airscrews or ducted air from fans or similar devices."

### Competition with classical vessels

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

**PROPOSAL BY THE SECRETARIAT ON INTERPRETATION OF CLAUSE 7**

THE PARTICIPANTS will take note of relevant agreed interpretations under the Arrangement on Officially Supported Export Credits so that different practices can be avoided as much as possible.

## **REVISION OF THE ADMINISTRATIVE DEFINITIONS AND PROCEDURES CONCERNING THE UNDERSTANDING ON EXPORT CREDITS FOR SHIPS [C/WP6(84)3]**

### **A. SHIPS COVERED BY THE UNDERSTANDING**

The terms of the Understanding apply to "new ships" as defined below:

"The Understanding covers any sea-going ship of 100 grt 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, icebreakers as well 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) and tugs of 365 Kw and over. For the time being floating docks and mobile offshore units are not covered by the Understanding, but should problems arise in connection with export credits for such structures, the Working Party, after consideration of substantiated requests by any participating Government, may decide that they shall be covered."

(Until further notice, this definition does not cover naval vessels.)

### **B. ADVANCE NOTICE PROCEDURE FOR CLAUSES 6, 7 AND 8**

Clauses 6, 7 and 8 of the Understanding require that any Participant who decides to support terms more favourable than those of Clause 1 shall give to all other Participants advance notice of such a decision in accordance with the following procedures:

#### **Clause 6**

In the case of a decision taken for "genuine aid" reasons and based on Clause 6, such notice must be given at least six weeks before a promise is given to commit the use of funds for that purpose, and in any case at least six weeks before authorisation is given to commit the use of funds for that purpose.

In the case of a ship export transaction with a developing country, for which Clause 6 is invoked for the granting of more favourable terms, the following supplementary procedure has been adopted:

1. The decision to support, on the grounds of Clause 6, terms more favourable in any way than those laid down in Clause 1, will be considered consistent with the Understanding if an export transaction with a developing country (other than transactions relating to ships intended to operate under flag of convenience) has been or will be reported to the DAC as Official Development Assistance (ODA). In this case, it is sufficient for the advance notice given in compliance with Clause 6 to include, in addition to the usual information, the name of the financing organisation (or department of organisation) in question and the grant element conveyed). (See paragraph C: Presentation of Notifications.)
2. More favourable terms than those laid down in Clause 1 may also be supported for transactions with a developing country (other than transactions relating to ships intended to operate under flag of convenience) financed wholly or in part from funds other than ODA. The provisions for advance notice are the same as in paragraph 1. Confirmation should also be provided that the credit is supplied pursuant to an inter-governmental arrangement (to be identified) and that appropriate assurances have 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.
3. The Working Party will examine transactions referred to it under the two paragraphs above, as regards their compatibility with the Understanding, with particular reference to their development aims, the grant element in the more favourable terms proposed in each case.

#### **Clause 7**

1. If a Participant intends to take the initiative to support terms not in conformity with this Understanding, the Participant will notify all other Participants of the terms it intends to support at least ten calendar days before issuing any commitment. If any other Participant requests a

discussion during this period, the initiating Participant will delay an additional ten calendar days before issuing any commitment on such terms. Normally this discussion shall be by telex. In extreme cases face-to-face discussion may be requested and would be arranged, preferably in the country intending to derogate. If the initiating Participant moderates or withdraws its intention to support non-conforming terms, it must inform the other Participants accordingly.

#### Clause 8

1. If a Participant intends to support terms not in conformity with the Understanding, matching (identical or by other support) with another Participant he will have to comply with the following procedure:
  - On and after the expiry of the first ten-day period referred to in Clause 7 if no discussion is requested (or on and after the expiry of the second ten-day period if discussion is requested) and unless the matching Participant has received notice from the initiating Participant that the latter has withdrawn its intention to support non-conforming terms, any participant shall have the right to support:
  - With respect to identical matching, terms which include the identical non-conforming element but which otherwise conform to the Understanding provided that the matching Participant notifies, as early as possible, its intention to do so; or
  - With respect to other support promoted by the initial derogation, any other non-conforming element of the terms, provided that the responding Participant introduces a fresh derogation, initiating a five calendar day prior notification and five calendar day discussion procedure, and awaits its completion. This period can run concurrently with that of the prior notification and discussion procedure initiated by the derogating Participant, but cannot elapse before the end of the ten or twenty days period referred to under Clause 7 above.
2. The Participant who intends to meet non-conforming terms offered by a non-participant will follow the prior notification and discussion procedure determined by Clauses 7.1 and 8.1. Before considering meeting non-conforming terms, the Participant should normally make every effort to verify that the non-conforming terms are receiving official support. The Participant shall inform all other Participants of the nature and outcome of these efforts.

#### C. PRESENTATION OF NOTIFICATION AND MESSAGES

For notifications in application of Clause 6 or in derogation under Clauses 7 and 8, the following particulars shall be communicated to **all** participants in the form set out below:

"Understanding on Ships

1. Name of authority/agency responsible under the Understanding for making notifications.
2. Reference number (initials of the country notifying, year, increasing number of notification, cf. C/WP6(82)1).
3. We are notifying the following transaction which we regard as:
  - an application of Clause 6;
  - a derogation under Clause 7; or
  - a derogation under Clause 8.
4. Accordingly, we are hereby initiating the prior notification and discussion procedure.
5. Name and country of purchaser.
6. Number and type of ship(s).



7. (dwt and/or grt).

8. Contract value category in Special Drawing Rights (in accordance with the following scale):

Category I:	up to	600 000 SDRs		
Category II:	from	600 000 SDRs	to	1 000 000 SDRs
Category III:	from	1 000 000 SDRs	to	2 000 000 SDRs
Category IV:	from	2 000 000 SDRs	to	3 000 000 SDRs
Category V:	from	3 000 000 SDRs	to	5 000 000 SDRs
Category VI:	from	5 000 000 SDRs	to	7 000 000 SDRs
Category VII:	from	7 000 000 SDRs	to	10 000 000 SDRs
Category VIII:	from	10 000 000 SDRs	to	20 000 000 SDRs
Category IX:	from	20 000 000 SDRs	to	40 000 000 SDRs
Category X:	exceeding	40 000 000 SDRs		

9. Terms envisaged or granted:

- down-payment (per cent);
- payment period and grace period;
- rate of interest;
- grant element (if applicable).

10. Other information."

**Notes:** In all cases, advance notice must be given by telex to the person designated by each Participant (list in Annex) and to the Secretariat of Working Party No. 6.

Participants must also inform each person designated (list in Annex) and the Secretariat whether the transaction for which more favourable terms were envisaged has actually been carried out.

#### D. COLLECTION OF INFORMATION UNDER CLAUSE 9

Any request for information which one Participant wishes to obtain from another should be made directly to the country in question, specifying the motives for the request, with a copy to the Secretariat. The reply, which should be made with all possible speed, should also be copied to the Secretariat.

**E. SETTLEMENT OF DIFFERENCES BETWEEN TWO PARTICIPANTS**

Prior notifications, and any ensuing discussion, will normally be by telex.

Any difference arising between two Participants should, if possible, be dealt with bilaterally, the Secretariat being kept informed as appropriate.

The Secretary-General's intervention would be solicited in accordance with Clause 9 only if the bilateral approach did not provide a satisfactory solution.

**F. CHANGES IN SYSTEMS FOR THE PROVISION OF OFFICIAL SUPPORT FOR SHIP EXPORT TRANSACTIONS AND IN THE MEANS OF IMPLEMENTATION OF THE UNDERSTANDING**

In accordance with Clause 10 of the amended Understanding, Participants are required to notify the Secretary-General of all changes of this kind.

Such notification must be made automatically, i.e. immediately a change occurs, or beforehand if possible, so that the Secretariat can issue information without delay.

**ANNEX****LIST OF PERSONS TO WHOM ADVANCE NOTIFICATIONS AND REQUESTS FOR INFORMATION SHOULD BE ADDRESSED**

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- <sup>1</sup> Ship conversion means any conversion of sea-going vessels of more than 1.000 grt. on condition that conversion operations entail radical alterations to the cargo plan, the hull or the propulsion system.
  - <sup>2</sup> Official facilities are those which enable credits to be insured, guaranteed or financed by governments, by governmental institutions, or with any form of direct or indirect governmental participation.
  - <sup>3</sup> Given the special nature of the transactions for vessels transporting liquefied natural gas, the duration of authorised credit for this type of ship only is increased to ten years.
  - <sup>4</sup> Interest rate, net of all charges, means that part of the credit costs (excluding any credit insurance premia and/or any banking charges) which is paid at regular intervals throughout the credit period and which is directly related to the amount of credit.
  - <sup>5</sup> An order shall be deemed to have been finally placed as soon as the buyer has committed himself irrevocably under a written and signed agreement to buy from the exporter and to pay according to specified terms, even if the agreement is subject to reservations which can be withdrawn only by the exporter.

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