



Sector Understanding on Export Credits for Ships

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Date(s)

Noted by the Council on 22/03/2002

Adopted on 15/04/2002

Amended on 08/10/2007

Amended on 03/07/2008

Amended on 01/09/2011

Background Information

The Sector Understanding on export Credits for Ships was adopted on 15 April 2002 on the occasion of the OECD Council Meeting at Ministerial Level. The Sector Understanding is a Gentlemen's Agreement among the Participants; it is not an OECD Act, as defined in Article 5 of the OECD Convention, although it receives the administrative support of the OECD Secretariat. The Sector Understanding is attached as Annex I to the Arrangement on Officially Supported Export Credits. It sets common rules for government-supported export credits for ships, in particular concerning interest rates and the duration of credits.

1. Participation

The Participants to the Sector Understanding are: Australia, the European Union, Japan, Korea, New Zealand 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 airscrews 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% of the contract price by delivery.

5. Repayment of Principal and Payment of Interest

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

- b) Interest shall be paid no less frequently than every six months and the first payment of interest shall be made no later than six months after the starting point of credit.
- c) For export credits provided in support of lease transactions, equal repayments of principal and interest combined may be applied in lieu of equal repayments of principal as set out in paragraph a).
- d) Interest due after the starting point of credit shall not be capitalised.
- e) A Participant to this Sector Understanding intending to support a payment of interest on different terms than those set out in paragraph b) shall give prior notification at least ten calendar days before issuing any commitment, in accordance with Annex VIII of the Arrangement.

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. Project Finance

The provisions of Article 7 and of Annex VII to the Arrangement shall not be applied until such provisions have been further reviewed by the Participants to this Sector Understanding.

8. 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

9. 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.

10. 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.

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 review the applicability to this Sector Understanding of provisions of the Arrangement in relation to Project Finance.
- e) To discuss whether:
 - the date of the first instalment of principal;
 - the Weighted Average Life concept

may be used in relation to the repayment profile contained in Article 5 of this Sector Understanding.

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