

TRADE DIRECTORATE

Cancels & replaces the same document of 16 June 2006

Arrangement on Officially Supported Export Credits

2006 ANNUAL RECORD OF DECISIONS AND CORRECTIONS IN RESPECT OF THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS

PURPOSE OF PAPER AND ACTION REQUIRED: This document records the Participants' decisions in respect of changes to the 2005 Arrangement on Officially Supported Export Credits; the amendments concern Article 24 e) and Annex VII: these were agreed at the Participants 97th Meeting held in April 2006. Some identified typographical errors in Annex V are also corrected.

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**2006 ANNUAL RECORD OF DECISIONS AND CORRECTIONS IN RESPECT OF
THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS**

I. Introduction

1. This document records the changes agreed to date in 2006 to the Arrangement on Officially Supported Export Credits; these changes were agreed by the Participants to the Arrangement at their 97th Meeting held in April 2006 and should be read in conjunction with the extant Arrangement text in document TD/PG(2005)38/FINAL issued on 5 December 2005. This document also corrects some typographical errors identified in the extant Arrangement.

II. Changes to the Arrangement

2. The agreed changes to the Arrangement are as follows:

- **Article 24 e) & ANNEX VII:** are amended as shown in Annexes 1 and 2 hereto; these changes concern the premium discount in respect of the risk mitigation of an unconditional guarantee for fewer than the five country credit risks.

3. The typographical corrections to the Arrangement are as follows:

- **ANNEX V:**

- **II. f) :** the sub-heading now reads: “**Annex II, Article 11**”

- **II. i) 4, second tiret :** the first line now reads as follows:

“ - The premium rate reported under item 19 above does not undercut available private market....”.

ANNEX 1

Article 24 e) now reads as follows:

- “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 when the guarantee is provided for all five of the country credit risks defined in Article 25a) or a blend of the country risk classifications of the buyer and guarantor countries when the guarantee does not cover all country risks; or
 - a Multilateral or Regional Institution as set out in Article 26 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.”

ANNEX 2

ANNEX VII of the Arrangement now reads as follows:

“ANNEX VII: 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 24 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 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.

When the guarantee is provided for all five of the country credit risks defined in Article 25a), the country risk classification of the guarantor's country shall be used to determine the applicable MPR.

When the guarantee is provided only for the first three country risks defined in Article 25a), the country risk classification of the guarantor's country shall be used to determine 50 percent of the applicable MPR, and the country risk classification of the buyer's country shall determine 50 percent of the applicable MPR.

When the guarantee is provided only for the last two country risks defined in Article 25a), the country risk classification of the guarantor's country shall be used to determine 20 percent of the applicable MPR, and the country risk classification of the buyer's country shall determine 80 percent of the applicable MPR.

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.”