EUROPEAN
COMMISSION

Brussels, 11.9.2024
COM(2024) 400 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on negotiations undertaken by the Commission in the field of export credits, in the sense of Regulation (EU) No 1233/2011

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1. Introduction

Regulation (EU) No 1233/2011 of the European Parliament and of the Council of 16 November 2011 on the application of certain guidelines in the field of officially supported export credits and repealing Council Decisions 2001/76 EC and 2001/77/EC[1] foresees in its Annex I that the European Commission shall report to the European Parliament on negotiations on officially supported export credits. The present report covers the period September 2016 to the end of 2023.

Since the late 1970s, the **OECD Arrangement on Officially Supported Export Credits** (“Arrangement”) is the main forum for international rules on export credits[2]. In addition to general rules on export credit transactions, the Arrangement also contains “sector understandings" covering special financing rules for specific industrial sectors and types of activity. During the period covered by this report, agreement was reached on the **modernisation of the Arrangement** (including alignment of its rules to better support the climate goals of the Paris Agreement), a process which was launched in 2020 and successfully concluded in 2023. In addition, Participants to the Arrangement agreed in 2021 to **end official export credit support for coal-fired electricity generation plants**.

Outside the OECD, the main negotiations took place in the conext of the **International Working Group on Export Credits** ("IWG"), which brought together OECD and major emerging economies. The negotiations, originally launched in 2012, continued during the reporting period but were suspended in 2020 due to a lack of convergence on core issues.

2. Developments in the OECD during the reporting period

Rule-making

The most notable rule-making negotiations during the reporting period were: the agreement to modernise the Arrangement and further align it with climate goals in July 2023; and the agreement in October 2021 to ban official export credit support and tied aid for the export of new coal-fired electricity generation plants and the export of equipment to existing plants. Other noteworthy developments during the reporting period were the launch of a review of the coal ban in 2022, the reform of the Arrangement provisions on local costs, and of the commercial interest reference rate (CIRR). A number of other changes to the Arrangemnt are also mentioned below.

(i) Modernisation of the Arrangement and expansion of the scope of the Climate Change Sector Understanding (CCSU)

Following a first proposal by the EU in November 2019, Participants agreed on a common framework for negotiations to modernise the Arrangement in November 2020. Technical negotiations began in November 2020 with a final agreement reached in March 2023.

[1] OJ L 326, 8.12.2011, p. 45.

[2] There are 11 Participants to the Arrangement today: Australia, Canada, the EU, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom and the United States.

The **modernisation**, which came into force on 15 July 2023, allows for longer repayment terms to up to 22 years for climate-friendly transactions, and to up to 15 years for most other transactions. All countries are subject to the same rules on maximum repayment terms (with no distinction between Category I and Category II countries). The modernised Arrangement also provides more flexibility in the repayment profile, (i.e. the structure of the terms regarding repayment which includes frequency, size and pattern of repayment of principal and payment of interest), while requiring strong transparency. In addition, the minimum credit risk premium rates that export credit agencies are obliged to charge for their insurance cover are lowered (by a maximum of 15%) for transactions with longer repayment terms. In the main body of the Arrangement, the sector understandings for rail infrastructure and project finance structures were deleted as they became superfluous due to their being less flexible than the general Arrangement rules.

Furthermore, Participants **expanded the scope of the CCSU** to include projects related to environmentally sustainable energy production; CO_2 capture, storage, and transportation; transmission, distribution and storage of energy; clean hydrogen and ammonia; low emissions manufacturing; zero and low-emission transport; and clean energy minerals and ores. This development will help increase the impact of export finance in efforts to secure climate objectives and meet the Paris Agreement commitment to make financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

In the framework of the Arrangement modernisation, the **Ships Sector Understanding** (SSU) was also reformulated to become a self-contained sector understanding. (Note: Discussions on reform of the SSU were launched in March 2024.)

(ii) Ban on support of coal-fired electricity generation plants

In June 2021, the EU presented, in a meeting of the Arrangement Participants, its proposal to review the Sector Understanding on Coal-Fired Electricity Generation Projects (CFSU - previously Annex VI of the Arrangement) with a view to ban officially supported export credits or tied aid for coal-fired electricity generation plants, supply of equipment for these power plants and related activities such as mining and transport of thermal coal. Further negotiations took place at an extraordinary meeting of Participants held in virtual form on 15 September 2021. The Participants reached consensus in October 2021, in advance of the United Nations Climate Change Conference 2021 (COP 26). The outcome contributes to delivering on the ambition of the Union to attain the objectives of the Paris Climate Agreement.

The agreed text, which forms Article 6 of the Arrangement, contains an immediate ban on officially supported export credits or tied aid for the export of new coal-fired electricity generation plants and the supply of equipment to existing plants. It also foresees a number of exceptions. It is permitted to provide support for power plants that operate with effective carbon capture utilisation and storage (CCUS) facilities or the retrofitting of existing coal-fired electricity generation plants to install CCUS, based on an emissions threshold of 350 metric ton CO_2 per GWh (or similar appropriate criteria listed in Project Class B, Type 1 of Appendix 1 of the Climate Change Sector Understanding). A second exception allows export credit support for pollution or emissions abatement equipment to be used in existing plants, provided it induces neither an extension of the useful lifetime of the plant nor a capacity increase. Finally, the new Article 6 provides that, should effective non-CCUS CO_2 emission abatement technologies be developed in the future, Participants may decide, by consensus, to permit support for them. The new Article 6 replaced the CFSU, which was deleted from the Arrangement.

(iii) Launch of Article 6 review

Building on the new Article 6 and in the context of the expansion of the scope of the CCSU, the EU presented to Participants in July 2022 a first discussion paper on a review of Article 6 of the Arrangement, with a view to covering all fossil fuel (including activities of mining and transportation of thermal coal, activities of exploration, production, transportation, storage, refining, distribution of crude oil and natural gas for the energy sector and unabated power generation). This was followed in November 2023 with a proposal setting out more information on an approach. The EU proposal foresees a ban with limited exceptions, subject to a strong transparency mechanism and a requirement to disclose any continuiçng support, with a justification for its provision. The proposal would also exclude all fossil fuel-based projects from the CCSU. It is currently under discussion by the Participants.

(iv) Reform of local cost provisions

In June 2019, the EU presented a proposal to increase the maximum amount of local costs that could be supported under the Arrangement rules. The proposal was discussed by Participants in November 2019, and in March and June 2020, by which time there was a general consensus on the principle of bringing more flexibility to the Arrangement on this issue but not on the mechanism originally proposed by the EU.

In November 2020, the EU presented a compromise proposal, which suggested to increase the maximum level of local cost support to 40% of the Export Contract Value (ECV) in Category I countries and 50% of the export contract value in Category II countries for all sectors (except for the ASU and the SSU), and to leave the prior notification requirements for local cost exceeding 15% of the export contract value unchanged. The Participants agreed informally to the proposal; to delete the specific local cost provisions contained in the Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects Sector Understanding (CCSU); and to introduce a review clause which would be set to take place three years after the entry into force of the new local cost provisions. These changes were formally agreed by all Participants by written procedure in 2021.

(v) Reform of CIRR

Negotiations on reform began at the 15th meeting of the Technical Experts of the Participants (TEP) in March 2017. After a long series of technical exchanges, a CIRR reform text was formally agreed by Participants on 15 July 2021 and became applicable as of 15 July 2023.

The agreement includes a revised methodology to construct the base rates (with the use of eight government bond maturities instead of three or even one previously), a harmonised calculation of the CIRR amongst different sector understandings (except for SSU and ASU, which have separate CIRR methodology), and the introduction of disciplines on holding a CIRR prior to the signature of a financial contract. The review also established a compulsory commitment fee for direct lenders.

Furthermore, due to the discontinuation of the LIBOR benchmark rate in 2021, it became impossible to use the newly agreed methodology to compute the new CIRR margin (half of the three-month average of the daily 5-year swap rate yields + 80 basis points). To address this issue, Participants agreed – in the context of the negotiations on the modernisation in 2023 - on a temporary fixed margin of 100 basis points until new rules could be found or until 14 July 2024. In November 2023, experts agreed to extend the temporary margin by one year (i.e. until 14 July 2025).

(vi) Common Lines

The adverse economic impact of the COVID-19 pandemic had also an impact on the development of Arrangement rules, as evidenced by the adoption of Common Lines on (i) deferral of repayment under the Aviation Sector Understanding (ASU) in 2021 and (ii) reduction of down payment, both in 2021 and 2023.

- Deferral of repayment in aviation sector

In February 2021, the EU submitted to the OECD Secretariat a proposal for a Common Line to reduce the severe impact of the COVID-19 health crisis on the European civil aviation industry. The Common Line proposed to allow the ASU Participants to temporarily support their manufacturers of civil aircraft, whose business was threatened by short-term liquidity problems of the operators and buyers of new aircraft and engines due to pandemic-related restrictions on international travel. The Common Line was accepted by Participants and took effect on 12 March 2021. It covered the period from 1 November 2020 to 31 October 2021.

- Reduction of down payment

On 5 November 2021, Participants agreed on a Common Line concerning the decrease of the minimum down payment required from buyers in transactions under Arrangement rules. The measure was validated by the Participants as an urgent and exceptional step required to react to the economic downturn resulting from the Covid-19 health crisis. The 2021 Common Line, originally effective until 4 November 2022, was extended for an additional year, thus expiring on 4 November 2023. A similar Common Line, on the grounds of increased interest rates and continuing inflationary pressures, was agreed by Participants in December 2023 and will be effective for one year.

(vii) Other rule-making developments

A number of deadlines in relation to reviews of various sectoral understandings were modified during the reporting period. In 2021 the deadline to review the nuclear sector understanding (NSU) was changed to the end of 2023, and three deadlines regarding the rail sector understanding (RSU) (the review deadline, the sunset clause, and the modification of the syndication requirement for transactions in high income OECD countries) were changed in 2021 to the end of 2023. (Note: the RSU was deleted as part of the modernisation. See below.) Finally, the sunset clause deadline of the Climate Change Sector Understanding (CCSU) applicable to Appendix III (eligibility criteria for climate change adaptation projects) was extended by one year to 31 December 2021.

Another development during the reporting period was the incorporation of the Agreement on Premium for Market Benchmark Countries into the Arrangement in 2017. In November 2016, Participants had agreed on this new set of rules for credit risk premium countries where private market financing is generally available (i.e. market benchmark countries).

During the reporting period, the Participants continued to agree on two-year extensions of the Agreement on Untied ODA Credits Transparency, which originally came into effect in 2005. This took place most recently in 2022, when the Agreement was extended until December 2024, when a discussion on making the Agreement permanent or extending it for a longer period of time will take place.

New Participants

During the reporting period, Türkiye (November 2018) and the United Kingdom (June 2021) became Participants to the Arrangement, bringing the total number to 11. The United Kingdom also became a Participant to the Sector Understanding on Export Credits for Civil Aircraft (Aviation Sector Understanding).

Türkiye applied to become a Participant to the Arrangement in September 2017. Its participation in the Arrangement was agreed in November 2018 with immediate effect. The United Kingdom had participated in both the Arrangement and in the Aviation Sector Understanding ("ASU") since their inception via its membership in the European Union. Following its departure from the European Union on 31 January 2020, its participation ceased. In meetings of the Arrangement and ASU Participants between March 2020 and March 2021, the United Kingdom participated as an observer. The United Kingdom became a Participant to both the Arrangement and the ASU in June 2021.

3. The International Working Group on Export Credits:

Context

The IWG was launched in 2012 as a forum for dialogue between the OECD and the non-OECD providers of government supported export credits, with a view to agreeing on a new set of multilateral disciplines, in the form of "Guidelines". The IWG has 18 Members (the then 10 Participants to the OECD Arrangement on Officially Supported Export Credits – "OECD Arrangement")[3] as well as Brazil, China, India, Indonesia, Israel, Malaysia, the Russian Federation and South Africa. The EU's participation in the IWG discussions was endorsed by the Council on 26 November 2015.[4]

However, despite twenty IWG negotiating sessions from 2012 to 2019, progress was insufficient. There were wide divergences on core structural issues, such as the degree of transparency required to demonstrate compliance with the eventual disciplines as well as their scope of application. Ultimately, this led to a decision by the EU and a group of other IWG Members to suspend their participation in technical negotiations on 19 November 2020.[5]

[3] Australia, Canada, EU, Japan, Korea, Norway, New Zealand, Switzerland, Türkiye and US.
[4] https://www.consilium.europa.eu/media/23017/st14376-fr15.pdf
[5] https://policy.trade.ec.europa.eu/news/eu-and-10-other-members-suspend-participation-negotiations-international-working-group-export-2020-11-19_en

While the suspension is temporary, the conditions have not, to date, been fulfilled to allow the work to restart.

During the reporting period, there were 9 official technical meetings of the IWG: in Brasilia in 2016, in Washington DC and Beijing in 2017, in Rome, The Hague, and Luxembourg in 2018 and in Oslo, Bucharest and Brasilia in 2019.

IWG Secretary General and working groups

IWG Members appointed a Secretary-General with the aim to ensure a more efficient negotiation process and provide neutral facilitation. Ms. Michal Ron of Italy took up her responsibilities from 1 September 2017, for a period of three years. Members also agreed on her successor, as of 2020, Mr. Jian-Ye Wang of China.

To facilitate preparation of technical discussions between the IWG plenary meetings, a number of working groups were created on: maximum official support and down-payment; local costs; maximum repayment terms and repayment profile; information sharing; scope of application; pricing; and interest rates. Separate discussions were also launched on ships.

The negotiations achieved some convergence on a number of technical questions. For example, at the 17th IWG meeting in Luxembourg, the discussions on maximum official support made incremental progress, with the approval by the parties of definitions of “export contract value”, “export contract price” and “commercial contract value”. At the 20th IWG meeting in Brasilia in September 2019, parties saw some convergence on maximum repayment terms and project finance. Furthermore, in the discussions on shipping, partial convergence was found on elements such as co-financing with the private sector, the starting point of credit and the eligible costs for official support. However, in none of these areas was it possible to achieve fully agreed outcomes.

Moreover, and fundamentally, delegations could not achieve meaningful convergence on the core questions at issue in the negotiations. These concerned how to ensure transparency of the terms offered in export credit transactions, in order to demonstrate compliance with the guidelines; having a sufficiently broad scope of coverage; and the need for a commitment to international standards for debt sustainability. Despite intense negotiations as well as creative and good faith efforts by the Secretary General to broker compromise, it became clear from the second half of 2019 onwards that consensus on these questions was not possible.

This inability of the Participants to find a consensus at technical level regarding core questions was raised for the first time at the 19th IWG meeting in Bucharest in 2019. The EU among others highlighted the need to shift the discussion from the technical to the political level to attempt to overcome the impasse. Further informal discussions in Brasilia in September yielded no progress. On 21 January 2020 the Council of the European Union took note of the situation.

IWG High-Level Meeting

The next IWG meeting took place at Vice-Minister (Director-General) level, on 10 July 2020, to discuss how the fundamental differences could be bridged in order to unlock the technical negotiations. In advance of the meeting, attempts were made to agree on a joint communiqué endorsing a way forward on the core issues. However, neither via the communiqué nor in the meeting itself could consensus be found.

This resulted in a group of IWG members - Australia, Brazil, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye and the United States - suspending their participation in the technical negotiations of the IWG. Those members released a public statement on the situation on 19 November 2020.[6] The statement noted that, "after eight years of consultation, the positions of the members of the IWG remain significantly divergent with respect to commitments on […] core issues." It also stated that the signatory members could not "justify continued participation in technical IWG negotiations unless and until members make the necessary high-level commitments that will allow the resumption of technical negotiations."

The signatories of the statement however made clear that, "[d]uring this suspension of further technical negotiations, [they] will remain open to considering credible proposals, especially on transparency, by IWG member governments for discussion at vice-ministerial level." They also announced their willingness to assess in future whether conditions are right for a resumption of negotiations and to consider a new IWG high-level meeting at vice-ministerial level should circumstances warrant.

In this context, the Commission and the Council have assessed annually, at the end of 2021, 2022 and 2023, whether there have been any developments that would justify a new high-level meeting to discuss a potential reactivation of the IWG. Each of these reviews concluded that the necessary conditions have not been met, and that in particular no proposal has been made by any of the IWG member governments on any of the core issues. The next review is planned for the end of 2024.

The Commission will keep the European Parliament duly informed of new developments.

[6] https://policy.trade.ec.europa.eu/news/eu-and-10-other-members-suspend-participation-negotiations-international-working-group-export-2020-11-19_en