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**TRADE AND AGRICULTURE DIRECTORATE
PARTICIPANTS TO THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS**

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SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

PURPOSE: This document contains the Aircraft Sector Understanding applicable as of 1 July 2007

LINK TO PROGRAMME OF WORK AND BUDGET: Output Result - 7R314001.

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PART 1: GENERAL PROVISIONS

1. PURPOSE

- a) The purpose of this Sector Understanding is to provide a framework for the predictable, consistent and transparent use of officially supported export credits for the sale or lease of aircraft and other goods and services specified in Article 4 a) below. This Sector Understanding seeks to foster a level playing field for such export credits, 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.
- b) This Sector Understanding sets out the most favourable terms and conditions on which officially supported export credits may be provided.
- c) To this aim, this Sector Understanding seeks to establish a balanced equilibrium that, on all markets:
 - 1) equalises competitive financial conditions between the Participants,
 - 2) neutralises official support among the Participants as a factor in the choice among competing goods and services specified in Article 4 a) below and
 - 3) avoids distortion of competition among the Participants to this Sector Understanding and any other sources of financing.
- d) The Participants to this Sector Understanding (the Participants) acknowledge that the provisions included in this Sector Understanding have been developed for the sole purpose of this Sector Understanding and such provisions do not prejudice the other parts of the Arrangement on Officially Supported Export Credits (the Arrangement) and their evolution.

2. STATUS

This Sector Understanding is a Gentlemen's Agreement among its Participants and is Annex III to the Arrangement; it forms an integral part of the Arrangement and it succeeds the Sector Understanding which came into effect in March 1986.

3. PARTICIPATION

The Participants currently are: Australia, Brazil, Canada, the European Community, Japan, Korea, New Zealand, Norway, Switzerland and the United States. Any non-Participant may become a Participant in accordance with the procedures set out in Appendix I.

4. SCOPE OF APPLICATION

- a) This Sector Understanding shall apply to all official support provided by or on behalf of a government, and which has a repayment term of two years or more, for the export of:
- 1) New civil aircraft listed in Appendix II and engines installed thereon, including buyer furnished equipment.
 - 2) Used, converted, and refurbished civil aircraft and engines installed thereon, including, in each case, buyer furnished equipment.
 - 3) Spare engines.
 - 4) Spare parts for civil aircraft and engines.
 - 5) Maintenance and service contracts for civil aircraft and engines.
 - 6) Cargo conversion, major modifications and refurbishment of civil aircraft.
 - 7) Engine kits.
- b) Official support may be provided in different forms:
- 1) Export credit guarantee or insurance (pure cover).
 - 2) Official financing support:
 - direct credit/financing and refinancing or
 - interest rate support.
 - 3) Any combination of the above.
- c) This Sector Understanding shall not apply to official support for:
- 1) The exports of new or used military aircraft and related goods and services listed in paragraph 4 a) above, including when used for military purposes.
 - 2) New or used flight simulators.

5. INFORMATION AVAILABLE TO NON-PARTICIPANTS

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.

6. AID SUPPORT

The Participants shall not provide aid support, except for humanitarian purposes through a Common Line procedure.

7. ACTIONS TO AVOID OR MINIMISE LOSSES

This Sector Understanding does not prevent its Participants from agreeing to less restrictive financial terms and conditions than those provided for by this Sector Understanding, if such action is taken after 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. A Participant shall notify all other Participants and the OECD Secretariat (the Secretariat), within 20 working days following the Participant's agreement with the buyer/borrower, of the modified financial terms and conditions. The notification shall contain information, including the motivation, on the new financial terms and conditions, using the reporting form set out in Appendix V.

PART 2: NEW AIRCRAFT

CHAPTER I: COVERAGE

8. NEW AIRCRAFT

- a) For the purpose of this Sector Understanding, a new aircraft is:
 - 1) an aircraft, including buyer furnished equipment, and the engines installed in such aircraft owned by the manufacturer and not delivered nor previously used for its intended purpose of carrying passengers and/or freight and
 - 2) spare engines and spare parts when contemplated as part of the original aircraft order in accordance with the provisions of Article 21 a) below.
- b) Notwithstanding the provisions of paragraph a) above, a Participant may support terms appropriate to new aircraft for transactions where, with the prior knowledge of that Participant, interim financing arrangements had been put in place because the provision of official support had been delayed; such delay shall not be longer than 18 months. In such cases, the repayment term and the final repayment date shall be the same as if the sale or lease of the aircraft would have been officially supported from the date the aircraft was originally delivered.

9. CATEGORIES OF AIRCRAFT

- a) Aircraft shall be classified according to the following three categories:
 - 1) Category 1 aircraft, as categorised in List 1 of Appendix II.
 - 2) Category 2 aircraft, as categorised in List 2 of Appendix II.
 - 3) Category 3 aircraft, as categorised in List 3 of Appendix II.
- b) A Participant intending to introduce a new model of aircraft in the market shall bring forward a proposal for classification of that aircraft to be added to one of the Lists in Appendix II by decision of the Participants; such decision shall be taken within 90 calendar days after the proposal has been brought forward.
- c) Any non-Participant seeking to apply the terms and conditions of this Sector Understanding may request that any model of its aircraft be added to one of the Lists in Appendix II. Such request shall be decided upon jointly by the Participants and the non-Participant within 90 calendar days.
- d) The Secretariat shall make publicly available the Lists in Appendix II.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

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.

10. ELIGIBLE CURRENCIES

The currencies which are eligible for official financing support are euros, Japanese yen, UK sterling pounds, US dollars and other fully convertible currencies for which data are available to construct the minimum interest rates mentioned in Appendix IV.

11. DOWN PAYMENT AND MAXIMUM OFFICIAL SUPPORT

- a) The Participants shall require a minimum down payment of 15% of the net price of the aircraft at or before the starting point of credit. Consequently, the Participants shall not provide official support in excess of 85% of the net price of the aircraft.
- b) A Participant which applies Article 8 b) above shall reduce the maximum amount of official support by the amount of principal of the instalments deemed due from the starting point of the credit so as to ensure that, at the time of disbursement, the amount outstanding is the same as if such an officially supported export credit was provided at the time of delivery. In such circumstances, prior to delivery the Participant shall have received an application for official support.

12. MINIMUM PREMIUM RATES

- a) The Participants providing official support shall charge, for the credit amount officially supported, no less than the minimum premium rate set out in accordance with the provisions of Appendix III.
- b) The Participants shall use, whenever necessary, the Premium Rate Conversion Model to convert between single up-front premium rates calculated on the original amount of the official support and *per annum* spreads calculated on the outstanding amount of the official support. The Premium Rate Conversion Model, with the agreed parameters (*e.g.* discount rates), shall be available to the Participants.

13. MAXIMUM REPAYMENT TERM

- a) The maximum repayment term shall be:
 - 1) 12 years for Category 1 aircraft.
 - 2) 15 years for Category 2 aircraft.
 - 3) 10 years for Category 3 aircraft.
- b) There shall be no extension of the repayment term by way of sharing of rights in the security on a *pari passu* basis with commercial lenders for the officially supported export credit.

14. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

- a) The Participants shall apply a profile of repayment of principal and payment of interest as specified in sub-paragraph 1) or 2) below.
- 1) Repayment of principal and payment of interest combined shall be made in equal instalments:
 - For Category 1 aircraft, instalments shall be made no less frequently than every three months and the first instalment shall be made no later than three months after the starting point of credit.
 - For Category 2 and Category 3 aircraft, instalments shall be made no less frequently than every six months and the first instalment shall be made no later than six months after the starting point of credit.
 - In the case of a floating rate transaction, the principal amortising profile shall be set for the entire term, no more than five working days prior to the disbursement date, based on the floating rate of interest at that time.
 - 2) Repayment of principal shall be made in equal instalments:
 - For Category 1 aircraft, repayment of principal and payment of interest shall be made no less frequently than every three months and the first repayment of principal and payment of interest shall be made no later than three months after the starting point of credit.
 - For Category 2 and Category 3 aircraft, repayment of principal and payment of interest shall be made no less frequently than every six months and the first repayment of principal and payment of interest shall be made no later than six months after the starting point of credit.
- b) Notwithstanding paragraph a) above, for Category 2 and Category 3 aircraft, in the case of indirect loans, official support may be provided on the following terms:
- 1) The maximum amount of a single repayment of principal or series of principal payments within a six-month period shall, in the case of each transaction, be calculated as a percentage of the principal sum of the credit, equal to 100 divided by the repayment term (expressed in years).
 - 2) Principal shall be repaid no less frequently than every six months. The first repayment of principal shall be made no later than 12 months after the starting point of credit.
 - 3) Interest shall be paid no less frequently than every six months and the first interest payment date shall be made no later than six months after the starting point of credit.
 - 4) The maximum weighted average life of the repayment period shall not exceed two thirds of the repayment term.
- c) Interest due after the starting point of credit shall not be capitalised.

15. MINIMUM INTEREST RATES

- a) The standard form of official support for Category 1 aircraft shall be pure cover.
- b) The Participants may, on an exceptional basis (*e.g.* when this is the requirement of a sovereign borrower) and with prior notification in accordance with Article 25 b) below, provide official financing support for Category 1 aircraft; in this case, a minimum fixed interest rate in accordance with the provisions of Section 1 of Appendix IV shall be applied.
- c) For Category 2 and Category 3 aircraft, the Participants providing official financing support shall apply either a minimum floating interest rate or a minimum fixed interest rate, in accordance with the provisions of Section 2 of Appendix IV.
- d) Interest rate excludes any payment by way of premium referred to in Article 12 and fees referred to in Article 17 below.

16. INTEREST RATE SUPPORT

The Participants providing interest rate support shall comply with the financial terms and conditions of this Sector Understanding and shall require any bank or any other financial institution which is a party to the interest supported transaction to participate in that transaction only on terms that are consistent in all respects with the financial terms and conditions of this Sector Understanding.

17. FEES

- a) The Participants providing official support in the form of pure cover shall charge a premium holding fee on the un-drawn portion of the official support during the premium holding period, as follows:
 - 1) For the first six months of the holding period: zero basis points *per annum*.
 - 2) For the second six months of the holding period: 12.5 basis points *per annum*.
 - 3) For the third six months of the holding period: 25 basis points *per annum*.
- b) The Participants providing official support in the form of direct credit/ financing shall charge the following fees:
 - 1) Arrangement / Structuring fee: 25 basis points on the disbursed amount payable at the time of each disbursement.
 - 2) Commitment and premium holding fee: 20 basis points *per annum* on the un-drawn portion of the officially supported export credit to be disbursed, during the premium holding period, payable in arrears.
 - 3) Administration fee: five basis points *per annum* on the amount of official support outstanding payable in arrears. Alternatively, the Participants may elect to have this fee payable as an up-front fee, on the amount disbursed, at the time of each disbursement pursuant to the provisions of Article 12 b) above.

18. CO-FINANCING

Notwithstanding Articles 15 and 17 above, in a co-financing where official support is provided by way of direct credit and pure cover, and where pure cover represents at least 35% of the officially supported amount, the Participant providing direct credit shall apply the same financial terms and conditions, including fees, as those provided by the financial institution under pure cover, to generate an all-in cost equivalence between the pure cover provider and the direct lender. In such circumstances, the Participant providing such support shall report the financial terms and conditions supported, including fees, in accordance with the reporting form set out in Appendix V.

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

CHAPTER I: COVERAGE

19. USED AIRCRAFT AND OTHER GOODS AND SERVICES

This Part of the Sector Understanding shall apply to used aircraft and to spare engines, spare parts, cargo conversion, major modification, refurbishing, maintenance and service contracts in conjunction with both new and used aircraft and engine kits.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

The financial terms and conditions to be applied, other than the maximum repayment term, shall be in accordance with the Category of aircraft and the repayment term set out in Part 2 of this Sector Understanding.

20. USED AIRCRAFT

- a) No official support shall be provided for used Category 1 aircraft of less than four years old.
- b) The maximum repayment term for used aircraft, including converted, refurbished or modified aircraft, shall be:
 - 1) Five years for Category 1 Aircraft of at least four years and less than 15 years old.
 - 2) For Category 2 and Category 3 Aircraft, as set out below:

Age of Aircraft (years)	Category 2 Aircraft	Category 3 Aircraft
1	13	8
2	12	7
3	11	6
4	10	6
5 – 8	9	6
Over 8	8	5

21. SPARE ENGINES AND SPARE PARTS

- a) When purchased, or ordered in connection with the engines to be installed on a new aircraft, the official support for spare engines may be provided on the same terms and conditions as for the aircraft. When purchased with new aircraft, the official support for spare parts may be provided on the same terms and conditions as for the aircraft up to a maximum 5% of the net price of the new aircraft and installed engines; Article 21 c) below shall apply to spare parts that exceed the 5 % limit.
- b) When spare engines are not purchased with a new aircraft, the maximum repayment term shall be:
 - 1) Eight years for Category 1 aircraft.
 - 2) Seven years for Category 2 and Category 3 aircraft.
- c) When other spare parts are not purchased with a new aircraft, the maximum repayment term shall be:
 - 1) Five years with a contract value of USD 5 million or more.
 - 2) Two years with a contract value of less than USD 5 million.

22. CARGO CONVERSION/MAJOR MODIFICATION/REFURBISHING

The Participants may offer official support with a repayment term of up to:

- a) Five years with a contract value of USD 5 million or more.
- b) Two years with a contract value of less than USD 5 million.

23. MAINTENANCE AND SERVICE CONTRACTS

The Participants may offer official support with a repayment term of up to three years.

24. ENGINE KITS

The Participants may offer official support with a repayment term of up to five years.

PART 4: TRANSPARENCY PROCEDURES

All communications shall be made between the designated contact points in each Participant country by means of instant communication, *e.g.* the OECD On-Line Information System (OLIS). Unless otherwise agreed, all information exchanged under this Part of the Sector Understanding shall be treated by all Participants as confidential.

SECTION 1: INFORMATION REQUIREMENTS

25. INFORMATION ON OFFICIAL SUPPORT

- a) Within one month after the date of a final commitment, a Participant shall submit the information required in Appendix V to all other Participants, with a copy to the Secretariat.
- b) A Participant intending to provide official financing support for Category 1 aircraft, pursuant to Article 15 b) above, shall notify all other Participants at least 20 calendar days before commitment, explaining the exceptional character of the transaction and identifying the borrower.
- c) A Participant intending to provide official support for non-sovereign non-asset backed exports of aircraft shall notify all other Participants at least 20 calendar days before commitment, explaining the exceptional character of the transaction and identifying the borrower. The terms and conditions of the official support shall be determined in accordance with the Common Line procedures of Articles 29 to 34.
- d) Notwithstanding paragraph c) above, a Participant intending to provide official support for non-sovereign non-asset backed exports of aircraft under Article 30 of Appendix III shall promptly notify all other Participants, *i.e.* within two working days after the commitment, explaining the character of the transaction and identifying the borrower.

SECTION 2: EXCHANGE OF INFORMATION

26. REQUESTS FOR INFORMATION

- a) A Participant may ask another Participant for information about the use of its officially supported export credits for the sale or lease of aircraft covered by this Sector Understanding.
- 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) The Participant to which such an enquiry is addressed shall respond within seven calendar days and provide reciprocal information to the fullest extent 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.
- d) Copies of all enquiries and responses shall be sent to the Secretariat.

27. FACE-TO-FACE CONSULTATIONS

- a) In a competitive situation, a Participant may request face-to-face consultations with one or more Participants.
- b) Any Participant shall agree within ten working days to such requests.
- c) The consultations shall take place as soon as possible after the expiry of the ten working-day period.
- d) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow-up action. The Secretariat shall promptly make available to all Participants the outcome of the consultation.

28. SPECIAL CONSULTATIONS

- a) A Participant (the initiating Participant) that has reasonable grounds to believe that financial terms and conditions offered by another Participant (the responding Participant) are more generous than those provided for in this Sector Understanding shall inform the Secretariat; the Secretariat shall immediately make available such information to the responding Participant.
- b) The responding Participant shall clarify the financial terms and conditions of the official support being considered within five working days following the issue of the information from the Secretariat.
- c) Following clarification by the responding Participant, the initiating Participant may request that a special consultation with the responding Participant be organised by the Secretariat within five working days to discuss the issue.
- d) The responding Participant shall wait for the outcome of the consultation which shall be determined on the day of such consultation before proceeding any further with the transaction.

SECTION 3: COMMON LINES

29. PROCEDURES AND FORMAT OF COMMON LINES

- a) Common Line proposals shall be addressed to the Secretariat only. The identity of the initiator is not revealed on the Common Line register on the OLIS. However, the Secretariat may orally reveal the identity of the initiator to a Participant 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:
 - 1) Reference number, followed by Common Line.
 - 2) Name of the importing country and buyer/borrower.
 - 3) Name or description of the transaction as precise as possible to clearly identify the transaction.
 - 4) Common Line proposal for the most generous terms and conditions to be supported.
 - 5) Nationality and names of known competing bidders.

- 6) Bid closing date and tender number to the extent it is known.
- 7) Other relevant information, including reasons for proposing the Common Line and as appropriate, special circumstances.

30. 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 acceptance, rejection, a request for additional information, a proposal for modification of the Common Line or an alternative Common Line proposal.
- c) A Participant which remains silent or advises that it has no position shall be deemed to have accepted the Common Line proposal.

31. 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.

32. DISAGREEMENT ON COMMON LINES

- a) 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 mentioned in Article 31 above, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.
- b) A Common Line which has not been accepted may be reconsidered using the procedures in Articles 29 to 31 above. In these circumstances, the Participants are not bound by their original decision.

33. 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 agreed Common Line will take effect three calendar days after this announcement.

34. VALIDITY OF COMMON LINES

- a) Unless agreed otherwise, 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 such situation is accepted by all Participants.
- b) If a Participant seeks an extension within 14 calendar days of the original date of expiry and in the absence of disagreement, a Common Line shall remain valid for a further two-year period; subsequent extensions may be agreed through the same procedure.
- c) 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 issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.
- d) Upon the request of a non-Participant which produces competing aircraft, the Secretariat shall make available valid Common Lines to that non-Participant.

SECTION 4: MATCHING

35. MATCHING

- a) Taking into account a Participant’s international obligations, a Participant may match financial terms and conditions of official support offered by a non-Participant.
- b) In the event of matching non-conforming terms and conditions offered by a non-Participant:
 - 1) The matching Participant shall make every effort to verify such terms and conditions.
 - 2) The matching Participant shall inform the Secretariat and all other Participants of the nature and outcome of such efforts, as well as of the terms and conditions it intends to support, at least ten calendar days before issuing any commitment.
 - 3) If a competing Participant requests a discussion during this ten calendar-day period, the matching Participant shall wait an additional ten calendar days before issuing any commitment on such terms.
- c) If a matching Participant modifies or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

PART 5: MONITORING AND REVIEW

36. MONITORING

The Secretariat shall monitor the implementation of this Sector Understanding and report to the Participants on an annual basis.

37. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding, against the criteria, and at the times, set out in paragraphs a) and b) below.

a) The Participants shall undertake the review of this Sector Understanding as follows:

- 1) In the fourth calendar year following the effective date of this Sector Understanding and, regularly thereafter, in each case with three months prior notice given by the Secretariat.
- 2) At the request of a Participant after due consultation, provided that three months prior notice has been given by the Secretariat and the requesting Participant provides a written explanation of the reason for, and objectives of, the review as well as a summary of the consultations preceding its request.
- 3) For Category 2 and Category 3 aircraft, annually, with a view to review and update minimum premium rates (the annual premium update) and fees; to this end, a reset model should be established in the first calendar year following the effective date of this Sector Understanding.

b) The review set out in sub-paragraph a) 1) above shall consider:

- 1) The extent to which the purposes of this Sector Understanding, as set out in Article 1 above, have been achieved and any other issue a Participant may wish to bring forward for discussion.
- 2) In view of the elements in sub-paragraph b) 1) above, whether amendments to any aspect of this Sector Understanding are justified.

c) In recognition of the importance of the review process, to ensure that the terms and conditions of this Sector Understanding continue to meet the needs of the Participants, each Participant reserves the right to withdraw from this Sector Understanding in accordance with Article 39 below.

PART 6: FINAL PROVISIONS

38. ENTRY INTO FORCE AND TRANSITIONAL ARRANGEMENTS

- a) The effective date of this Sector Understanding is 1 July 2007.
- b) Notwithstanding paragraph a) above, for Category 1 aircraft:
 - 1) The Participants may provide officially supported export credits on the terms and conditions set out in the Aircraft Sector Understanding prevailing prior to the effective date of this Sector Understanding, for deliveries of goods (including engines and spare engines) or provision of services scheduled to occur on or prior to 31 December 2010, in accordance with firm contracts concluded not later than 30 April 2007 and notified to the Secretariat not later than 30 June 2007.
 - 2) In respect of the deliveries of goods (including engines and spare engines) or provision of services referred to in sub-paragraph 38 b) 1) above, co-financing provided by a direct lender may be provided on the same terms and conditions as those provided by the financial institution under pure cover, to generate an all-in-cost equivalence between the pure cover provider and the direct lender.
- c) For Category 2 and Category 3 aircraft, the Participants may provide officially supported export credits on the terms and conditions applicable prior to the effective date of the Sector Understanding, provided that a commitment existed prior to the effective date of this Sector Understanding for deliveries of goods (including engines and spare engines) or provision of services scheduled to occur on or prior to 31 December 2009, and was notified to the Secretariat not later than 30 June 2007.

39. WITHDRAWAL

A Participant may withdraw from this Sector Understanding by notifying the Secretariat in writing by means of instant communication, *e.g.* the OLIS. The withdrawal takes effect six months after receipt of the notification by the Secretariat. Withdrawal will not affect agreements reached on individual transactions entered into prior to the effective date of the withdrawal.

APPENDIX I

PARTICIPATION IN THE AIRCRAFT SECTOR UNDERSTANDING

1. The Secretariat should ensure that a non-Participant interested in participating in this Sector Understanding is provided with full information on the terms and conditions associated with becoming a Participant to this Sector Understanding.
2. The non-Participant concerned would confirm, at an appropriate level, that it would agree to provisionally apply the disciplines of this Sector Understanding.
3. The non-Participant would then be invited by the Participants to take part in the activities in pursuance of this Sector Understanding and to attend, as an observer, the relevant meetings. Such an invitation would be for a maximum of two years and could be renewed once.
4. At the end of that period, the non-Participant shall indicate whether it wishes to become a Participant in this Sector Understanding and to follow its disciplines; in the case of such confirmation, the non-Participant shall contribute, on an annual basis, to the costs associated with the implementation of this Sector Understanding.
5. The interested non-Participant shall be considered a Participant 30 working days after the confirmation referred to in Article 4 of this Appendix.

APPENDIX II

LISTS OF AIRCRAFT AS OF 1 JULY 2007

LIST 1: CATEGORY 1 AIRCRAFT

Note: Models no longer in production are shown with an asterisk.

Manufacturer	Designation
Airbus	A 300
Airbus	A 310*
Airbus	A 319
Airbus	A 320
Airbus	A 321
Airbus	A 330
Airbus	A 340
Airbus	A 350
Airbus	A 380
Boeing	B 707*, 717*, 727*
Boeing	B 737-700, 800, 900
Boeing	B 747
Boeing	B 757
Boeing	B 767
Boeing	B 777
Boeing	B 787
British Aerospace	BAe146*
Lockheed	L-100*
Lockheed	L-1011*
McDonnell Douglas	DC-9*
McDonnell Douglas	DC-10*
McDonnell Douglas	MD-11*
McDonnell Douglas	MD-80 series*
McDonnell Douglas	MD-90 series*
Ramaero	1.11-495

LIST 2: CATEGORY 2 AIRCRAFT

Note: Models no longer in production are shown with an asterisk.

Manufacturer	Designation
Airbus	A 318
Alenia	C27J
Alenia	G222
Alenia/Sukhoi	Superjet 100
ATR	ATR 42-300*
ATR	ATR 42-320*
ATR	ATR 42-400*
ATR	ATR 42-500
ATR	ATR 72-200*
ATR	ATR 72-210*
ATR	ATR 72-500
Boeing	737-600
Bombardier	CRJ 100 *
Bombardier	CRJ 200*
Bombardier	CRJ 440*
Bombardier	CRJ 700
Bombardier	CRJ 705
Bombardier	CRJ 900
Bombardier	CRJ 1000
Bombardier	Multi-Mission Q Series
Bombardier	Q 200
Bombardier	Q 300
Bombardier	Q 400
British Aerospace	BAe ATP*
British Aerospace	BAe Jetstream 41*
British Aerospace	BAe 748*
British Aerospace	RJ70*
British Aerospace	RJ85*
British Aerospace	RJ100*
British Aerospace	RJ115*
Broman (U.S.)	BR 2000
Casa	CN235
De Havilland	Dash 8 – 100 *
EADS/MBB	C160 Transall
Embraer	EMB 120
Embraer	Embraer 170
Embraer	Embraer 175
Embraer	Embraer 190
Embraer	Embraer 195
Embraer	ERJ 135
Embraer	ERJ 140
Embraer	ERJ 145
Embraer	ERJ 145 XR

Manufacturer	Designation
Fokker	F 27*
Fokker	F 28*
Fokker	F 50*
Fokker	F 70*
Fokker	F 100*
Gulfstream America	Gulfstream I-4
Saab	SF 340
Saab	2000
Short	SD 3-30*
Short	SD 3-60*

LIST 3: CATEGORY 3 AIRCRAFT

- Notes: 1. Models no longer in production are shown with an asterisk.
2. Helicopters are listed in this Category.

Manufacturer	Designation
Adam Aircraft	A700
AERO	AT3
Agusta Westland	A109K2
Agusta Westland	A 109 GRAND
Agusta Westland	A 109 POWER
Agusta Westland	A 119 KOALA
Agusta Westland	EH 101
Agusta Westland	AB 139
Agusta Westland	AB 412
Agusta Westland	AW 139
Airbus	A318-112
Airbus	A319-133 (ACJ)
Airbus	A319-133 (Executive)
Aircraft Investor Resources	Escape
Aircraft Investor Resources	Victory
Avcraft	Envoy 3
Aviation Technology Group	MK-10
Beech	1900
Beech	Super King Air 300
Beech	Starship 1
Bell/Agusta Aerospace	BA609
Bell Helicopter	206 series
Bell Helicopter	212, 206T *
Bell Helicopter	214 *
Bell Helicopter	230 *
Bell Helicopter	407
Bell Helicopter	412 series
Bell Helicopter	430
Bell Helicopter Textron	Bell Eagle Eye UAS
Bell Helicopter Textron	UN-IN Twin Huey
Bell Helicopter Textron	427
Bell Helicopter Textron	429
Boeing	717-200* (Business Express)
Boeing	737-700 (BBJ)
Boeing	737-800 (BBJ 2)
Boeing Vertol	234 Chinook

Manufacturer	Designation
Bombardier	BD-700
Bombardier	Challenger 300
Bombardier	Challenger 600 *
Bombardier	Challenger 601 *
Bombardier	Challenger 601-3A*
Bombardier	Challenger 601-3R*
Bombardier	Challenger 604*
Bombardier	Challenger 605
Bombardier	Challenger 800
Bombardier	Challenger 850
Bombardier	Challenger 870
Bombardier	Challenger 890
Bombardier	Challenger SE
Bombardier	Global 5000
Bombardier	Global Express XRS
Bombardier	Learjet 40 / 40XR
Bombardier	Learjet 45 / 45XR
Bombardier	Learjet 60 / 60XR
Bombardier	215T
Bombardier	415
Bombardier	417
Brandtly	B-2B
British Aerospace	BAe Jetstream 31*
British Aerospace	BAe Jetstream Super 31*
British Aerospace	BAe 125*
British Aerospace	BAe 1000*
Britten Norman	BN2AMkIII - Trislander
Britten Norman	BN2B Islander
Britten Norman	BN2T Islander
Britten Norman	BN2T-4S Defender 4000
Bush Caddy Canada	L160
Bush Caddy Canada	L162
Bush Caddy Canada	L164
Bush Caddy Canada	R80
Bush Caddy Canada	R120
Canadair	CL-44 *
Canadair	CL-215 *
Casa	C 212 series
Cessna	C-208B
Cessna	CE-208
Cessna	CE-525
Cessna	CE-525A
Cessna	CE-525B
Cessna	CE-550

Manufacturer	Designation
Cessna	CE-560XL
Cessna	CE-750
Cessna	Citation - Encore
Cessna	Citation - Sovereign
Cessna	Citation - XLS
Cessna	Mustang
Cessna	441 Conquest III and Caravan 208 series
Chichester-Miles Consultants	Leopard SIX
Claudius Dornier	CD2
Convair	5800 *
CSL-T Krosno	FK-9 Mark
CSL-T Krosno	FK-12 Comet
CSL-T Krosno	FK-14 Polaris
Dassault	Falcon 7X
Dassault	Falcon 50*
Dassault	Falcon 50 EX
Dassault	Falcon 900 A, B, C*
Dassault	Falcon 900 DX
Dassault	Falcon 900 EX
Dassault	Falcon 2000
Dassault	Falcon 2000 DX
Dassault	Falcon 2000 EX
Dassault	Falcon 2000 LX
De Havilland	Dash 6 *
De Havilland	Dash 7 *
De Havilland	DHC4 –Caribou *
De Havilland	DHC5 – Buffalo *
De Havilland	DHC6 – Twin Otter *
De Havilland	DHC1 – Chipmunk*
De Havilland	DHC2 – Beaver *
De Havilland	DHC3 – Otter *
De Havilland	DH.82 Tiger Moth *
De Havilland	DH.104 Dove *
De Havilland	DH.114 Heron *
Diamond Aircraft	DA20
Diamond Aircraft	DA40
Diamond Aircraft	DA42
Diamond Aircraft	D-Jet
Diamond Aircraft	HK36 Super Dimona
Dornier	DO 228-200*
EADS PZL Okecie	PZL-104MA “Wilga” 2000
EADS PZL Okecie	PZL-106 BT 601 Turbo
EADS PZL Okecie	PZL-106 BTU-34 Turbo
EADS PZL Okecie	PZL-130 “Orlik” TC II
Eclipse	Eclipse 500
Embraer	EMB 110
Embraer	Legacy 600

Manufacturer	Designation
Embraer	Lineage 1000
Embraer	Phenom 100
Embraer	Phenom 300
Embraer/FAMA	EMB 121
Enstrom	F-28F
Enstrom	280FX
Enstrom	480
Epic Air	Dynasty *
Epic Air	Elite *
Epic Air	LT *
Eurocopter	AS 332
Eurocopter	AS 350
Eurocopter	AS 355
Eurocopter	AS 365
Eurocopter	EC120
Eurocopter	EC130
Eurocopter	EC 135
Eurocopter	EC 145
Eurocopter	EC 155
Eurocopter	EC 225
Eurocopter	EC 635 P2
Eviation	EV-20
EWS Manufacturing	Flight Design CT
Fairchild	Merlin/300
Fairchild	Merlin IVC-41
Fairchild	Metro 25
Fairchild	Metro III
Fairchild	Metro III A
Fairchild	Metro III V
Fairchild-Dornier Aeroindustries	Envoy 7
Found Aircraft	Bush Hawk XP
Found Aircraft	E350 *
Found Aircraft	E350 XC *
Grob	G 160
Grob	G 180 SP
Gulf Aircraft Partnership	JP-100
Gulfstream	G100
Gulfstream	G150
Gulfstream	G200
Gulfstream	G300/400
Gulfstream	G350/450
Gulfstream	G500/550
Gulfstream	G-1159C
Gulfstream America	Gulfstream II, III, IV and V
Hawker Beechcraft	Beechjet 400 series
Hawker Beechcraft	Hawker 400XP

Manufacturer	Designation
Hawker Beechcraft	Hawker 450
Hawker Beechcraft	Hawker 800
Hawker Beechcraft	Hawker 850 XP
Hawker Beechcraft	Hawker 900 XP
Hawker Beechcraft	Hawker 1000
Hawker Beechcraft	Hawker 4000
Hawker Beechcraft	King Air B200
Hawker Beechcraft	King Air 350
Hawker Beechcraft	King Air C90B
Hawker Beechcraft	King Air C90GT
Hawker Beechcraft	Starship 2000A
Hiller	UH-12E3
Hiller	UH-12E3T
Honda	HA-420
IAI	Arava 101 B
IAI	Astra SP and SPX
Ibis Aerospace	Ae 270 series
Kaman	K-1200
KARI	Firefly
Learjet	31 *
Learjet	35 *
LET	410
LET	420
Marganski & Myslowski	EM-11 Orka
Marganski & Myslowski	EM-10 Bielik
MBB	BK 117 C*
MBB	BO 105 *
MBB	BO 105 CBS*
McDonnell Helicopter	MD 902, MD 520, MD 600
Mitsubishi	Mu2 Marquise
Piaggio	P 180
Pilatus	PC-12
Piper	Cheyenne II
Piper	PA-42-100 (Cheyenne 400)
Piper	PA-42-720 (Cheyenne III A)
Piper	PA-46-500TP
Piper	PiperJet
Piper	T 1040
Piper	400 LS
PZL-Mielec	PZL M18 Dromader
PZL-Mielec	PZL M26 Iskierka
PZL-Mielec	PZL M28 Bryza
PZL-Mielec	PZL M28 Skytruck
PZL-Swidnik	PZL-Kania
PZL-Swidnik	PZL-Mi-2
PZL-Swidnik	PZL-Sokol

Manufacturer	Designation
PZL-Swidnik	PZL SW-4
PZL-Swidnik	PZL SW-5
PZL-Swidnik / Instytut Lotnictwa	I-23 Manager
Quest	Kodiak 100
Reims	Cessna-Caravan II
Reims	F406
Robinson	R-22
Robinson	R-44
Saunders	ST-27*
Safire	S-26
Schweizer	330
Schweizer	333
Schweizer	3000C series
SIAI-Marchetti	SF 600 Canguro*
Sikorsky	S-64
Sikorsky	S-69
Sikorsky	S-76 series
Sikorsky	S-92
Sino Sweringen	SJ30-2
Socata	TB20
Socata	TBM 700 series
Socata	TBM 850
Symphony	S-160 *
Viking	Beaver *
Viking	DHC-2T Turbo Beaver
Viking	DHC-6 Twin Otter 400
Watson Flight Services	Yukon
Westland	W30*
3Xtrim	450 Ultra
3Xtrim	495 Ultra Plus
3Xtrim	550 Trener

APPENDIX III

MINIMUM PREMIUM RATES

This Appendix sets out the procedures to be used when determining the pricing of official support for a transaction subject to this Sector Understanding. Section 1 sets out the risk classification procedures; Section 2 sets out the minimum premium rates to be charged for Category 1 aircraft, Section 3 sets out the minimum premium rates to be charged for Category 2 and Category 3 aircraft and Section 4 sets out the minimum premium rates to be charged for used aircraft, spare engines, spare parts, cargo conversion/major modification/refurbishing, maintenance and service contracts, and engine kits.

SECTION 1: PROCEDURES FOR RISK CLASSIFICATION

1. The Participants have agreed to establish a list of risk classifications (the List) for buyers/borrowers; such risk classifications reflect the senior unsecured credit rating of buyers/borrowers using a common rating scale such as that of one of the credit rating agencies (CRA).
2. The risk classifications will be made by experts nominated by the Participants against the risk classification scales set out in Table 1 (Category 1 aircraft) and Table 2 (Category 2 and Category 3 aircraft) of this Appendix.
3. The List shall be binding at any stage of the transaction (*e.g.* campaign and delivery), subject to the provisions of Article 18 of this Appendix.

I. ESTABLISHMENT OF THE LIST OF RISK CLASSIFICATIONS

4. The List shall be developed and agreed among the Participants prior to the entry into force of this Sector Understanding; it shall be maintained by the Secretariat and made available to all the Participants on a confidential basis.
5. Upon request, the Secretariat may, on a confidential basis, inform an aircraft-producing non-Participant of the risk classification of a buyer/borrower; in this case, the Secretariat shall inform all Participants of the request. A non-Participant may, at any time, propose additions to the List to the Secretariat. A non-Participant proposing an addition to the List may participate in the risk-classification procedure as if it were an interested Participant.

II. UPDATE OF THE LIST OF RISK CLASSIFICATIONS

6. For risk classification for buyers/borrowers of Category 1 aircraft, the List will be updated on an on-going basis in order:

- a) To respond to proposals for additions to the List of a new buyer/borrower in respect of which Participants are approached to provide an indication or commitment of premium rates.
- b) To respond to proposals for a change to the risk classification of a buyer/borrower on the List.
- c) To reflect the results of a Participant's revalidation of an existing buyer/borrower's risk classification (*e.g.* by reference to an analysis of the latest accounts of the buyer/borrower).

7. Any Participant may propose changes to the List of buyers/borrowers for Category 1 aircraft at any time. A period of ten working days is allowed for interested Participants either to agree to or to challenge any proposed change to the List; a failure to respond within this period is considered as an agreement to the proposal. If at the end of the ten-day period, no challenge has been made to the proposal, the proposed change in the List is deemed to have been agreed. The Secretariat will modify the List accordingly and send an OLIS message within five working days; the revised List shall be binding from the date of that message.

8. For risk classification for buyers/borrowers of Category 2 and Category 3 aircraft, the List shall be updated by the Secretariat every six months; to this end, the Participants may, no later than the end of June and December each year, submit proposals for new risk classifications for existing and new buyers/borrowers.

9. In the absence of objections by an interested Participant within the ten working-day period which follow the circulation by the Secretariat of the proposed revised List, such revised List shall be considered as accepted. The Secretariat shall adjust the List of buyers/borrowers for Category 2 and Category 3 aircraft accordingly and send an OLIS message in the following five working days. The adjusted List shall be binding from the date of that message.

10. Subject to the provisions of Article 18 of this Appendix, in addition to the regular updates, for Category 2 and Category 3 aircraft, the List may be updated on an *ad hoc* basis in the event that either a Participant intends to signal, in any form, its intention to apply another risk classification than that on the List, or a Participant needs a risk classification for a buyer/borrower that is not yet on the List. Such Participant shall, before any use of the new risk classification, send a request to the Secretariat for updating the List on the basis of an alternative or new risk classification; the Secretariat will circulate this request to all Participants within five working days, without mentioning the identity of the Participant who submitted the request.

11. In the absence of objections by an interested Participant within the ten working-day period which follows the circulation by the Secretariat of this request with respect to Category 2 and Category 3 aircraft, such revised List shall be considered as accepted. The Secretariat shall adjust the List accordingly and send an OLIS message in the following five working days. The adjusted List shall be binding from the date of that message.

III. RESOLUTION OF DISAGREEMENTS

12. In the event of a challenge to a proposed risk classification, interested Participants shall, at an expert level, make their best efforts to come to an agreement on the risk classification within a further period of ten working days after notification of a disagreement. All means necessary to resolve the disagreement should be explored, with the assistance of the Secretariat if necessary (*e.g.* conference calls or face-to-face consultations). If the Participants agree to a risk classification within this ten working-day period, they shall inform the Secretariat of the outcome upon which the Secretariat will update the List accordingly and send an OLIS message in the following five working days. The adjusted List shall be binding from the date of that message.

13. In case the disagreement is not resolved among the experts within ten working days, the issue will be referred to the Participants for advice on an appropriate risk classification, in a period that shall not exceed five working days.

14. In the absence of a final agreement, a Participant may have recourse to a CRA to determine the risk classification of the buyer/borrower. The resulting risk classification will be registered in the List and become binding immediately following the Secretariat's OLIS message to finalise the update procedure within five working days.

15. Unless otherwise agreed, the cost of such recourse to a CRA shall be borne by the interested buyer/borrower.

16. During the procedures set out in Articles 12 to 14 of this Appendix, the prevailing risk classification shall remain applicable.

IV. VALIDITY PERIOD OF CLASSIFICATIONS

17. For Category 1 aircraft, the valid risk classifications are the prevailing risk classifications as recorded in the List maintained by the Secretariat; indications and commitments of premium rates shall only be made in accordance with those risk classifications.

18. For Category 2 and Category 3 aircraft, risk classifications have a 12-month validity period from the date recorded in the List by the Secretariat for the purpose of the Participants providing indications and final commitments of premium rates; the validity period for a specific transaction may be extended by an additional 18 months once a final commitment has occurred and premium holding fees are charged. Except in cases of a bankruptcy filing or insolvency (or an equivalent event in the relevant jurisdiction), classification shall not be changed during the 12-month validity period. If a different classification is introduced for a given buyer/borrower within that period pursuant to the provisions of Articles 6 and 7 of this Appendix, the classification applicable to Category 2 and Category 3 aircraft may, upon agreement by interested Participants, be updated accordingly.

V. BUYER/BORROWER RISK CLASSIFICATION REQUEST

19. If, at the campaign stage, a buyer/borrower requests an indication of its risk classification and if it is not yet on the List, that buyer/borrower may ask for an indicative risk classification from a CRA at its own expense. This risk classification shall not be included in the List; it may be used by the Participants as a basis for their own risk assessment.

SECTION 2: MINIMUM PREMIUM RATES FOR CATEGORY 1 AIRCRAFT

20. This Section determines the minimum premium rates for officially supported export credits for Category 1 aircraft.

- a) Article 21 of this Appendix sets out the conditions for establishing the base premium corresponding to the senior unsecured credit rating of a buyer/borrower (or, if a different entity, the primary source of repayment of the transaction).
- b) Articles 22 to 24 below and Annex I of this Appendix describe the conditions for establishing the use of the Cape Town Convention discount.
- c) Table 1 a) sets out the minimum premium rates to apply, either as base premium or after the Cape Town Convention discount.
- d) Articles 25 and 26 of this Appendix set out the conditions for establishing the non-asset-backed premium corresponding to the risk category of the sovereign buyers/borrowers.

21. The Participants may provide official support at or above the base premium only if all the conditions below are fulfilled:

- a) For Risk Category 1:
 - 1) An asset-backed transaction.
 - 2) A first priority security interest on the aircraft.
 - 3) No more than 85% advance rate of net price of the aircraft.
 - 4) No less frequently than quarterly mortgage-style payments.
- b) For Risk Category 2 and Risk Category 3, the conditions set out in paragraph a) above, plus one of the risk mitigants listed in paragraph e) below.
- c) For Risk Category 4, the conditions set out in paragraph a) above, plus two of the risk mitigants listed in paragraph e) below.
- d) For Risk Category 5, the conditions set out in paragraph a) above, plus three of the risk mitigants listed in paragraph e) below.
- e) For purposes of this Article, the Participant may select from the following risk mitigants:
 - 1) Each 5% reduction from the 85% of net price advance rate referred to in paragraph 21 a) 3) of this Appendix, e.g. a 70% advance rate (in which case three risk mitigants shall be present); in this case, the Participant shall not provide official support in any form in excess of the reduced advance rate.
 - 2) A straight line amortisation, in accordance with the provisions of Article 14 a) 2) of this Sector Understanding.
 - 3) A repayment term which does not exceed ten years.

22. A Cape Town Convention discount from the base premium set out in Article 21 of this Appendix shall be allowed if all of the following conditions are fulfilled:

- a) The operator of the aircraft (and, if different, the borrower/buyer or lessor, if warranted, in the view of the Participant, given the structure of the transaction) is based in a State which is a Contracting Party to the Cape Town Convention, and to whose territorial units applicable to the transaction the Cape Town Convention applies.
- b) The qualifying declarations have been made by, and apply in, the State(s) referred to in paragraph a) above.
- c) The State referred to in paragraph a) above is on the agreed list of States qualifying for Cape Town Convention discount (qualifying States).

23. An initial agreed list of qualifying States shall be provided by the Participants to the Secretariat prior to the entry into force of this Sector Understanding. The Participants shall agree to any proposed changes in the list of qualifying States within 30 working days of the proposal. The Participants shall notify the Secretariat whenever additional States have met the conditions of Article 22 a) and b) of this Appendix, or when States already on the list no longer meet the conditions set out in Article 22 a) or b) of this Appendix, or have breached their obligations under the Cape Town Convention. States no longer meeting the conditions set out in Article 22 a) or b) of this Appendix shall be deleted from the list.

24. The Secretariat shall, based on notifications from the Participants, maintain the list of States qualifying for Cape Town Convention discounts.

25. In the case of non-asset backed transactions with a sovereign or secured by a sovereign guarantee, the Participants may provide official support at or above the minimum premium rates set out in Article 26 of this Appendix, provided all the conditions set out in Article 21 of this Appendix, except for Article 21 a) 1) and 2), are fulfilled. Table 1 c) sets out the conversions from the OECD Country Risk Classification to the Risk Classification of this Understanding in the case where a rating from the CRA Standard and Poors is not available for a sovereign buyer/borrower.

26. Table 1 b) sets out the minimum premium rates to apply to non-asset backed transactions with a sovereign or secured by a sovereign guarantee.

Table 1 a)**CATEGORY 1 AIRCRAFT****MINIMUM PREMIUM RATES FOR 12-YEAR REPAYMENT TERM
ASSET-BACKED TRANSACTION**

(Up-front, % of officially supported export credit amount)

Risk Category	Base Premium Without Cape Town Convention Discount	Premium With Cape Town Convention Discount
1 (AAA)	4.00	3.80
1 (AA)	4.00	3.80
1 (A)	4.00	3.80
1 (BBB+)	4.00	3.80
1 (BBB)	4.00	3.80
1 (BBB-)	4.00	3.80
2 (BB+)	4.75	4.27
2 (BB)	4.75	4.27
3 (BB-)	5.50	4.95
3 (B+)	5.50	4.95
4 (B)	6.25	5.31
4 (B-)	6.25	5.31
5 (CCC)	7.50	6.00
5 (CC)	7.50	6.00
5 (C)	7.50	6.00

Table 1 b)**CATEGORY 1 AIRCRAFT****MINIMUM PREMIUM RATES FOR 12-YEAR REPAYMENT TERM
NON-ASSET BACKED, SOVEREIGN TRANSACTIONS**

(Up-front, % of officially supported export credit amount)

Risk Category	Minimum Premium Rate
1 (AAA)	4.80
1 (AA)	4.80
1 (A)	4.80
1 (BBB+)	5.20
1 (BBB)	5.20
1 (BBB-)	5.20
2 (BB+)	6.40
2 (BB)	6.40
3 (BB-)	7.70
3 (B+)	7.70
4 (B)	9.40
4 (B-)	9.40
5 (CCC)	12.40
5 (CC)	12.40
5 (C)	12.40

Table 1 c)

RISK CATEGORIES CONVERSION TABLE

OECD Risk Category Classification	Buyer/Borrower Risk Category	Category 1 Aircraft Risk Category
0	(AAA)	1
1	(AA)	1
2	(A)	1
3	(BBB+)	1
3	(BBB)	1
3	(BBB-)	1
4	(BB+)	2
4	(BB)	2
5	(BB-)	3
5	(B+)	3
6	(B)	4
6	(B-)	4
7	(CCC)	5
7	(CC)	5
7	(C)	5

SECTION 3: MINIMUM PREMIUM RATES FOR CATEGORY 2 AND CATEGORY 3 AIRCRAFT

27. This Section determines the minimum premium rates for officially supported export credits for Category 2 and Category 3 aircraft.

- a) Article 28 of this Appendix sets out the conditions for establishing the minimum premium rates corresponding to the senior unsecured credit rating of a buyer/borrower (or, if a different entity, the primary source of repayment of the transaction; the borrower or such different entity).
- b) Articles 22 to 24 of this Appendix describe the methodology for adjusting the minimum premium rates set out in paragraph a) above for a transaction based on the applicability thereto of the Cape Town Convention, where implemented with the qualifying declarations set out in Annex 1 of this Appendix.
- c) A downward adjustment to the minimum premium rate shall be permitted for buyers/borrowers in countries that have fulfilled the conditions of Article 22 of this Appendix or are located in a Participant's jurisdiction.
- d) Table 2 a) below sets out the minimum premium rates to apply without any adjustment referred to in paragraph c) above.
- e) Table 2 b) below sets out the minimum premium rates to apply after the adjustment referred to in paragraph c) above.

28. In addition to the compliance with the relevant provisions of Part 2 of this Sector Understanding, officially supported export credits shall be asset-backed, *e.g.* shall require a first priority security interest in whole or shared on a *pari passu* basis including spare engines purchased with the aircraft, or shall be secured by a sovereign guarantee, or both.

29. The minimum premium rates applicable to Category 3 aircraft are those in Tables 2 a) and 2 b) below with a repayment term of ten years.

30. Notwithstanding the provisions of Article 28 of this Appendix, the Participants may provide officially supported export credits for non-sovereign transactions involving Category 3 aircraft that do not include a first priority security interest in the aircraft or transactions that are not backed by the full faith and credit of a sovereign government, provided the following conditions are fulfilled:

- a) The maximum value of the export contract receiving official support is USD 15 million or less.
- b) The maximum repayment term is 8.5 years or less.
- c) No third party has a security interest in the aircraft being financed.
- d) A minimum surcharge of the lesser of 30% or 30 basis points shall be applied to the ten-year minimum premium rates set out in Table 2 a) below.

Table 2 a)

**CATEGORY 2 AND CATEGORY 3 AIRCRAFT
MINIMUM PREMIUM RATES WITHOUT ADJUSTMENTS**

(Per annum, basis points of officially supported export credit amount)

Risk Classification	Repayment Term		
	15 years	12 years	10 years
AAA	29	17	12
AA	48	31	23
A	57	41	32
BBB+	68	48	40
BBB	80	57	46
BBB-	92	69	57
BB+	107	83	69
BB	125	100	86
BB-	147	121	108
B+	165	140	127
B	182	157	146
B-	202	179	169
CCC	221	198	190
CC	241	220	215
C	276	260	259

Table 2 b)

**CATEGORY 2 AND CATEGORY 3 AIRCRAFT
MINIMUM PREMIUM RATES WITH ADJUSTMENTS**

(Per annum, basis points of officially supported export credit amount)

Risk Classification	Repayment Term		
	15 years	12 years	10 years
AAA	26	15	11
AA	44	28	21
A	52	37	29
BBB+	62	44	36
BBB	73	52	42
BBB-	84	63	52
BB+	97	75	63
BB	114	91	78
BB-	134	110	98
B+	150	127	115
B	165	143	133
B-	184	163	154
CCC	201	180	173
CC	219	200	195
C	251	236	235

31. The following adjustments to the minimum premium rates set out in Table 2 a) and 2 b) above may be applied:

- a) A discount of five basis points to the minimum premium rates set out in Tables 2 a) and 2 b) above may be applied for officially supported transactions in the form of conditional insurance cover.
- b) The minimum premium rates shall be applied on the covered principal amount.

SECTION 4: MINIMUM PREMIUM RATES FOR GOODS AND SERVICES COVERED BY PART 3 OF THIS SECTOR UNDERSTANDING

32. When providing official support for used Category 2 aircraft covered by Part 3 of this Sector Understanding, the Participants shall apply the following minimum premium rates:

- a) In the case where a buyer/borrower is classified in one of the risk-categories in Table 2 a) above, the Participants shall apply the minimum premium rates set out in that Table.
- b) In the case where a buyer/borrower is not classified in one of the risk-categories in Table 2 a) above and is classified in one of the five risk categories set out in Table 1 a) above, the Participants shall apply the minimum premium rates set out in Table 3 below.

Table 3

(Per annum, basis points of officially supported export credit amount)

Risk Category as set out in Table 1 a)	Minimum Premium Rates		
	Repayment Terms up to and including 10 years	Repayment Terms above 10 years and up to and including 12 years	Repayment Terms above 12 years and up to and including 13 years
1	35	43	62
2	77	91	116
3	117	130	156
4	157	168	192
5	221	226	246

33. When providing official support for all goods and services other than used Category 2 aircraft covered by Part 3 of this Sector Understanding, the minimum premium rates set out in Table 4 below shall apply.

Table 4

(Per annum, basis points of officially supported export credit amount)

Risk Category as set out in Table 1 a)	Minimum Premium Rate
1	35
2	77
3	117
4	157
5	221

ANNEX 1: QUALIFYING DECLARATIONS

1. The term “qualifying declarations” for the purpose of Section 2 of Appendix III, and all other references thereto in this Sector Understanding, means that a Contracting party to the Cape Town Convention (Contracting Party):

- a) has made the declarations in Article 2 of this Annex, and
- b) has not made the declarations in Article 3 of this Annex.

2. The declarations referred to in Article 1 a) of this Annex are the following, provided that, while both of the declarations specified in Article 2 d) and e) of this Annex shall be encouraged, the making of either one of them (together with the making of the declarations in Article 2 a) to c) of this Annex and the non-declarations under Article 3 of this Annex) may permit application of the Cape Town Convention discount:

- a) Insolvency: State Party declares that it will apply the entirety of Alternative A under Article XI of the Aircraft Protocol to all types of insolvency proceeding and that the waiting period for the purposes of Article XI (3) of that Alternative shall be no more than 60 calendar days.
- b) Deregistration: State Party declares that it will apply Article XIII of the Aircraft Protocol.
- c) Choice of Law: State Party declares that it will apply Article VIII of the Aircraft Protocol.
- d) Method for Exercising Remedies: State Party declares under Convention Article 54 (2) that any remedies available to the creditor under any provision of the Convention which are not expressed under the relevant provisions thereof to require application to a court may be exercised without leave of the court (the insertion “without court action and” to be recommended (but not required) before the words “leave of the court”).
- e) Timely Remedies: State Party declares that it will apply Article X of the Aircraft Protocol in its entirety and that the number of working days to be used for the purposes of the time-limit laid down in Article X (2) of the Aircraft Protocol shall be in respect of:
 - 1) the remedies specified in Articles 13 (1) (a), (b) and (c) of the Convention (preservation of the aircraft objects and their value; possession, control or custody of the aircraft objects; and immobilisation of the aircraft objects), not more than that equal to ten calendar days, and
 - 2) the remedies specified in Articles 13 (1) (d) and (e) of the Convention (lease or management of the aircraft objects and the income thereof and sale and application of proceeds from the aircraft equipment), not more than that equal to 30 calendar days.

3. The declarations referred to in Article 1 b) of this Annex are the following:
- a) Relief Pending Final Determination: State Party shall not have made a declaration under Article 55 of the Convention opting out of Article 13 or Article 43 of the Convention; provided, however, that, if State Party made the declarations set out under Article 2 d) of this Annex, the making of a declaration under Article 55 of the Convention shall not prevent application of the Cape Town Convention discount.
 - b) Rome Convention: State Party shall not have made a declaration under Article XXXII of the Aircraft Protocol opting out of Article XXIV of the Aircraft Protocol.
 - c) Lease Remedy: State Party shall not have made a declaration under Article 54 (1) of the Convention preventing lease as a remedy.
4. Regarding Article XI of the Aircraft Protocol, for Member States of the European Community, the qualifying declaration set out in Article 2 a) of this Annex shall be deemed made by a Member State, for purposes hereof, if the national law of such Member State was amended to reflect the terms of Alternative A under Article XI of the Aircraft Protocol (with a maximum 60 calendar days waiting period). As regards the qualifying declarations set out in Article 2 c) and d) of this Annex, these shall be deemed satisfied, for the purpose of this Sector Understanding, if the laws of the European Community or the relevant Member States are substantially similar to that set out in such Articles of this Annex.

APPENDIX IV**MINIMUM INTEREST RATES***SECTION 1: MINIMUM FIXED INTEREST RATE FOR CATEGORY 1 AIRCRAFT***1. MINIMUM FIXED INTEREST RATE**

- a) The minimum fixed interest rate shall be the Commercial Interest Reference Rate for Category 1 aircraft (CIRR-1) established according to the provisions set out in Articles 2 to 5 of this Appendix.
- b) The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate premium rate to be charged for the risk of non-repayment pursuant to the provisions of Appendix III.

2. CONSTRUCTION OF CIRR-1

- a) A CIRR-1 is established for any of the eligible currencies set out in Article 10 of this Sector Understanding by adding a fixed margin of 120 basis points to a base rate of seven-year government bond yields.
- b) A CIRR-1 shall be calculated monthly using data from the previous month and notified electronically to the Secretariat, no later than five days after the end of each month. The Secretariat shall then inform immediately all Participants of the applicable rates and make them publicly available. CIRR-1s shall take effect on the 15th day of each month.
- c) A Participant or a non-Participant may request that a CIRR-1 be established for the currency of a non-Participant. In consultation with the non-Participant, a Participant or the Secretariat, on behalf of that non-Participant, may make a proposal for the construction of the CIRR-1 in that currency using Common Line procedures in accordance with Articles 29 to 34 of this Sector Understanding.

3. VALIDITY PERIOD OF CIRR-1

- a) Holding the CIRR-1: the CIRR-1 applying to a transaction shall not be held for a period longer than three months from its selection (export contract date or any application date thereafter) to the credit agreement date. If the credit agreement is not signed within that limit, and the CIRR-1 is reset for an additional three months, the new CIRR-1 shall be committed at the rate prevailing at the date of reset.
- b) After the credit agreement date, the CIRR-1 shall be applied for drawing periods which do not exceed three months. After the first three months drawing period, the CIRR-1 is reset for the next

three months; the new CIRR-1 shall be the one prevailing at the first day of the new three-month period (procedure to be replicated for each subsequent three-month period of drawings).

4. EARLY REPAYMENT OF CIRR-1

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

5. IMMEDIATE CHANGES IN INTEREST RATES

When market developments require the notification of an amendment to a CIRR-1 during the course of a month, the amended rate shall be implemented ten working days after notification of this amendment has been received by the Secretariat.

SECTION 2: MINIMUM INTEREST RATE FOR CATEGORY 2 AND CATEGORY 3 AIRCRAFT

6. MINIMUM FLOATING INTEREST RATE

- a) The minimum floating interest rate shall be the London Inter-Bank Offered Rate, *i.e.* LIBOR, as compiled by the British Bankers' Association (BBA) with the currency and the maturity corresponding to the frequency of interest payment of officially supported export credit.
- b) 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 the CIRR-2 (at time of the original contract) or the short-term market rate throughout the life of the loan

7. MINIMUM FIXED INTEREST RATE

- a) The minimum fixed interest rate shall be either:
 - 1) the Swap rate with the currency and a maturity equal to the interpolated weighted average life of each drawing of the officially supported export credit, to be set two business days prior to each drawdown date, or
 - 2) the Commercial Interest Reference Rate for Category 2 and Category 3 aircraft (CIRR-2) established according the provisions set out in Articles 8 to 11 of this Appendix.
- b) The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate premium rate to be charged for the risk of non-repayment pursuant to the provisions of Appendix III.

8. CONSTRUCTION OF CIRR-2

- a) A CIRR-2 is established for any of the eligible currencies set out in Article 10 of this Sector Understanding and calculated by adding a fixed margin of 100 basis points to either of the following two yields (the base rates):
 - 1) five-year government bond yields for a repayment term up to and including ten years, or
 - 2) seven-year government bond yields for over ten and up to and including 15 years.

- b) CIRR-2 shall be calculated monthly using data from the previous month and notified electronically to the Secretariat, no later than five days after the end of each month. The Secretariat shall then inform immediately all Participants of the applicable rates and make them publicly available. CIRR-2s shall take effect on the 15th day of each month.
- c) A Participant or a non-Participant may request that a CIRR-2 be established for the currency of a non-Participant. In consultation with the non-Participant, a Participant or the Secretariat on behalf of that non-Participant may make a proposal for the construction of the CIRR-2 in that currency using the Common Line procedures set out in Articles 29 to 34 of this Sector Understanding.

9. VALIDITY PERIOD OF CIRR-2

- a) Holding the CIRR-2: the CIRR-2 applying to a transaction shall not be held for a period longer than 180 days from its selection (export contract date or any application date thereafter) to the credit agreement date. If the credit agreement is not signed within that limit, and the CIRR-2 is reset for an additional six months, the new CIRR-2 shall be committed at the rate prevailing at the date of reset.
- b) After the credit agreement date, the CIRR-2 shall be applied for drawing periods which do not exceed six months. After the first six-month drawing period, the CIRR-2 is reset for the next six months; the new CIRR-2 shall be the one prevailing at the first day of the new six-month period and cannot be lower than the CIRR-2 originally selected (procedure to be replicated for each subsequent six-month period of drawings).

10. APPLICATION OF CIRR-2

- a) Within the provisions of the credit agreement the borrower shall not be allowed an option to switch from an officially supported floating rate financing to a pre-selected CIRR-2 financing, nor be allowed to switch between a pre-selected CIRR-2 and the short term market rate quoted on any interest payment date throughout the life of the loan.
- b) In the event of a voluntary, early repayment of a loan or any portion thereof or when the CIRR-2 applied under the credit agreement is modified into a floating or a Swap rate, the borrower shall compensate the institution providing official financing support for all costs and losses incurred as a result of such actions, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

11. IMMEDIATE CHANGES IN INTEREST RATES

When market developments require the notification of an amendment to a CIRR-2 during the course of a month, the amended rate shall be implemented ten working days after notification of this amendment has been received by the Secretariat.

APPENDIX V

REPORTING FORM

a) *Basic Information*

1. Notifying country
2. Notification date
3. Name of notifying authority/agency
4. Identification number

b) *Buyer/Borrower/Guarantor Information*

5. Name of buyer/borrower/guarantor
6. Status of buyer/borrower/guarantor, *e.g.* sovereign, private bank, other private
7. Risk classification of buyer/borrower/guarantor

c) *Financial Terms and Conditions*

8. In what form is official support provided, *e.g.* pure cover, official financing support
9. If official financing support is provided, is it a direct credit/refinancing/interest rate support
10. Description of the transaction supported, including aircraft Category, manufacturer and number of aircraft.
11. Final commitment date
12. Currency of credit

13. Credit amount, according to the following scale in USD millions:

Credit Amount Category	Category 1 and Category 2 Aircraft	Category 3 Aircraft
I	0-200	0-100
II	200-400	100-200
III	400-600	200-300
IV	600-900	300-400
V	900-1200	400-500
VI	1200-1500	500-600
VII	1500-2000*	600-*

* Indicate the number of USD 300 million multiples in excess of USD 2000 million (Category 1 and Category 2 aircraft) and USD 100 million multiples in excess of USD 600 million (Category 3 aircraft).

14. Percentage of official support

15. Repayment term

16. Repayment profile and frequency – including, where appropriate, weighted average life

17. Length of time between the starting point of credit and the first repayment of principal

18. Interest rate applied

19. Total premium charged by way of:

- up-front fees (in percentage of the credit amount) or
- spreads (basis points *per annum* above the applied interest rate)

20. In the case of direct credit/financing, fees charged by way of:

- Arrangement/Structuring fee
- Commitment/Premium holding fee
- Administration fee

21. Premium holding period

22. In the case of pure cover, premium holding fees

23. Transaction structuring terms: risk mitigants

APPENDIX VI

LIST OF DEFINITIONS

All-In Cost Equivalence: the net present value of premium rates, interest rate costs and fees charged for a direct credit as a percentage of the direct credit amount is equal to the net present value of the sum of premium rates, interest rate costs and fees charged under pure cover as a percentage of the credit amount under pure cover.

Buyer/Borrower: includes (but is not limited to) commercial entities such as airlines and lessors, as well as sovereign entities (or if a different entity, the primary source of repayment of the transaction).

Buyer Furnished Equipment: equipment furnished by the buyer and incorporated in the aircraft during the manufacture/refurbishment process, on or before delivery, as evidenced by the Bill of Sale from the manufacturer.

Cape Town Convention: refers to the Cape Town Convention on International Interests in Mobile Equipment and the Protocol thereto on Matters specific to Aircraft Equipment.

Cargo Conversion: costs associated with converting a passenger aircraft into a commercial cargo aircraft.

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, including without limitation, eligibility letters, marketing letters.

Common Line: agreement of the Participants for a given transaction, or in special circumstances on specific financial terms and conditions for official support; such common line shall prevail over the relevant provisions of this Sector Understanding only for the transaction or in the circumstances specified in the common line.

Conditional Insurance Cover: official support which in the case of a default on payment for defined risks provides indemnification to the beneficiary after a specified waiting period; during the waiting period the beneficiary does not have the right to payment from the Participant. Payment under conditional insurance cover is subject to the validity and the exceptions of the underlying documentation and of the underlying transaction.

Country Risk Classification: the prevailing country risk classification of the Participants to the Arrangement on Officially Supported Export Credits as published on the OECD web site.

Credit Rating Agency: one of the internationally reputable rating agencies or any other rating agency that is acceptable to the Participants.

Engine Kits: a set of parts introduced to improve reliability, durability and/or on-wing performance procurement through introduction of technology.

Export Credit: an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time; an export credit may take the form of a supplier credit extended by the exporter, or of a buyer credit, where the exporter's bank or other financial institution lends to the buyer (or his bank).

Final Commitment: 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.

Firm Contract: an agreement between the manufacturer and the person taking delivery of the aircraft or engines as buyer, or, in connection with a sale-leaseback arrangement, as lessee under a lease with a term of at least five years, setting forth a binding commitment (excluding those relating to then unexercised options), where non-performance entails legal liability.

Indirect Loan: a loan to a special purpose company (SPC) directly or indirectly controlled by a private financial institution for the purpose of purchasing an aircraft for the sole benefit of an airline and the private financial institution. Such SPC would retain legal title/ownership of the aircraft and act as mortgagee.

Interested Participant: a Participant which has an existing substantial commercial interest or has experience with the buyer/borrower concerned or has been requested by a manufacturer/exporter to provide official support.

Interest Rate Support: can take the form of an arrangement between on the one hand a government, or an institution acting for or on behalf of a government and, on the other hand, banks or other financial institutions which allows the provision of fixed rate export finance at or above the relevant minimum fixed interest rate.

Major Modification/Refurbishing: operations of reconfiguration or upgrading of either a passenger or cargo aircraft.

Net Price: the price for an item invoiced by the manufacturer or supplier thereof, after accounting for all price discounts and other cash credits, less all other credits or concessions of any kind related or fairly allocable thereto, as stated in a binding representation by each of the aircraft and engine manufacturers and supported by documentation required by the provider of official support to confirm that net price.

New Aircraft: see Article 8 a) of this Sector Understanding.

Premium Holding Period: period during which a premium rate offered for a transaction is being maintained; not to exceed 18 months from the date of Final Commitment.

Premium Rate Conversion Model: model to be used for the purpose of this Sector Understanding in order to convert up-front premium fees into spreads and *vice versa*, in which the interest rate and the discount rate used shall be the relevant CIRR base rate in the currency of the transaction.

Prior Notification: a notification made at least ten calendar days before issuing any commitment, using the reporting form set out in Annex V.

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

Repayment Term: the period beginning at the Starting Point of Credit and ending on the contractual date of the final repayment of principal.

Starting Point of Credit: for the sale of aircraft including helicopters, spare engines and parts, 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. 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.

Swap Rate: a fixed rate equal to the interpolated semi annual rate to swap floating rate debt to fixed rate debt (Offer side) with a maturity closest to the weighted average life of the loan, at 11:00 am New York time, two business days prior to the loan drawdown date; such interpolated semi-annual rate is to be calculated based on the rates posted on the Telerate page 19901 (SEMI BOND-column 5) or its equivalent for the two closest available annual periods to the weighted average life of the loan.

Transactions with a sovereign or secured by a sovereign guarantee: transactions which are backed by the full faith and credit of the sovereign government.

Weighted Average Life: the time it takes to retire one-half of the principal of a credit; this is calculated as the sum of time (in years) between the starting point of credit and each principal repayment weighted by the portion of principal repaid at each repayment date.