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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Annual Report 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 "according to its competencies shall provide to the European Parliament an annual report on negotiations undertaken, where the Commission has negotiating authorisation in the various forms of international cooperation, to establish global standards in the field of officially supported export credits."

The present report covers the period March 2014 to June 2015.

2. Major developments in export credits during the reporting period:

Most of the Commission's negotiation activities in this policy area continue to take place within the Export Credit Committees of the Organisation for Economic Co-operation and Development (OECD). The OECD at the time of writing remains the only international body which has developed detailed technical rules for export credits. The European Commission, in the framework of its responsibility to carry out trade negotiations, represents the EU in all negotiations concerning the **OECD Arrangement on Officially Supported Export Credits**[2] and its **Sector Understandings** (which cover special financing rules for specific industrial sectors), namely:

- the Sector Understanding on Export Credits for Ships
- the Sector Understanding on Export Credits for Nuclear Power Plants
- the Sector Understanding on Export Credits for Civil Aircraft
- the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Water Projects
- The Sector Understanding on Export Credits for Rail Infrastructure.

The Arrangement also contains distinct rules for specific categories of transactions (such as a special Annexe on Project Finance). In order to ensure an appropriate level of complementarity between export credits and trade-related aid, the Arrangement also provides a set of disciplines for Tied Aid.

[1]. OJ L 326, 8.12.2011, p. 45.
[2] The "Arrangement" is a Gentlemen's Agreement between the EU, the United States, Canada, Japan, Korea, Norway, Switzerland, New Zealand and Australia that exists since 1978 and has the main objective of ensuring a level playing field between the export credit programs of its Participants. The Arrangement and its subsequent modifications have regularly been transformed into EU law.

The basic idea underlying the OECD Arrangement – to have an informal forum, where the major export credit providers not only agree on rules ensuring a level playing field between their respective programs, but also ensure appropriate levels of information exchange and transparency on their export credit transactions – has proven its value over the years. There has been little need to set up more rigid instruments (like the WTO dispute settlement mechanism) to solve potential conflicts in this field of international trade.

While the history of the OECD Arrangement may be considered a success story, a key element for the effectiveness of this instrument has obviously been that its membership was for a long time representative for the global export credit community. This aspect has however changed substantially in recent years: Many new players have emerged in the field of export credits – China, Brazil, India, the Russian Federation and South Africa to name but the most important ones. Quite a few among them have shown great reserve to all initiatives to invite them to join the OECD Arrangement[3].

The OECD remains the most important platform for agreeing and monitoring export credit rules between its 9 above-mentioned Participants. Due to the fact that the OECD Arrangement for several decades has been the only detailed set of technical rules on export credits at international level, the OECD has also developed an impressive special institutional know-how in this policy field.

However, due to the growing importance of the newly emerging export credit providers from outside the OECD, efforts to integrate them into a new set of international export credit disciplines have become a major priority in its own right. During the reporting period, the **International Working Group on Export Credit ("IWG")[4]** has continued to be the key forum of dialogue with the non-OECD export credit providers. While still in a relatively early stage, the IWG process has developed into a genuine second forum for the Commission's role in representing the EU in international talks on export credit issues (for details see section 3).

In parallel, activities in the OECD continued during the reporting period (for details see section 4).

3. The International Working Group on Export Credits:

During the reporting period, the IWG has had **the following official meetings**: the 5th Official Meeting in May 2014 in Washington, the 6th Official Meeting in September 2014 in Beijing, the 7th Official Meeting in Brussels in February 2015 and the 8th Official Meeting in May 2015 in Brasilia.

[3] This notably concerns China and India. A particular case is Brazil, which is only a Participant to the Sector Understanding on Civil Aircraft, but shows no interest to join the general Arrangement as such.

[4] The International Working Group on Export Credits ("IWG") was launched on the basis of a bilateral initiative by President Obama and then Vice-Premier Xi-Jinping in 2012, The IWG has 18 Members (all 9 Participants to the OECD Arrangement – EU, US. Canada, Japan, Korea, Norway, Switzerland, Australia and New Zealand – as well as China, Brazil, India, the Russian Federation, South Africa, Indonesia, Malaysia, Turkey and Israel). The long-term objective of the IWG is to agree a new set of multilateral disciplines on export credits, A Steering Group consisting of the US, China, the EU and Brazil has been formed. Its four members organise and chair IWG meetings on a rotating basis.

This regular sequencing of meetings already demonstrates that the IWG has established itself as a regular process – a fact which could not have been taken for granted when the initiative was launched two years ago. The **organisation form** of the Group **remains rudimentary** so far (no permanent chair, venue or secretariat), which has not created any major problems up to now. Besides, in this context the sensitivities of those IWG Members with limited or no experience in similar fora have to be taken into consideration. In due course, the more technical and complex IWG discussions become, it will however certainly be necessary to come back on the question of the Group's institutional set-up.

As mentioned in the previous report, after the 4th Official IWG Meeting in Brasilia, the general conclusion drawn by the Participants had been that the approach used during the first year of operation of the process – namely to compare the existing export credit systems and practices of the individual IWG Participants – had been exhausted. Therefore, with the **5th Official IWG Meeting (Washington 20 -22 May 2014)**, the Group moved to a new phase of work, characterized by "text-based discussions" on the two industrial sectors[5], which the IWG had agreed to analyse in detail before moving to a real discussion on how a future horizontal set of export credit disciplines (i.e. one that is applicable to export credit transactions in general) could look like. This adjustment in the working methods of the IWG had a very positive and dynamising effect on the whole process, an effect which already became visible at the Washington meeting. The Chinese delegation supported this new approach from the start, although they made it clear that they were under instruction to keep some important issues – premia, interest rates and transparency questions – out of the discussion until the IWG had moved to the horizontal phase of talks.

Despite this reserve, the following meetings were quite constructive: China hosted the **6th Official Meeting in Beijing on 25 and 26 September 2014**. While premia, interest rates and transparency issues remained outside the official scope of discussions, the IWG delegations had rather good exchanges on other technical matters (e.g. maximum repayment terms, maximum official support, local cost, definition of starting point of credit, repayment schemes, validity period for export credits). It is recalled that the practice of Chinese export credit providers of granting much longer repayment terms than OECD Arrangement Participants has often been caused concern among European exporters. The fact that a serious discussion on this topic has already started in the IWG is therefore highly welcome.

The **7th Official IWG Meeting** was hosted by the European Union **in Brussels from 3rd to 5th February 2015.** The EU's approach to hosting this meeting consisted not only in continuing the "text-based" discussions on the ship-building and medical equipment sectors, but - in an effort to allow the Group to address also those topics, which some delegations were for the time being not able to discuss officially – also in inviting OECD experts to give technical presentations on the way how premia-setting, interest rates and notifications of individual export credit transactions are organised under the OECD Arrangement. Furthermore, there were presentations by WTO and OECD experts on the legal relationship between the OECD Arrangement and the WTO's Agreement on Subsidies and Countervailing Measures. This approach – which was generally appreciated by other delegations – also allowed to make use on pragmatic manner of the long-standing experience notably the OECD

[5] The Ship-Building Sector and the Medical Equipment Sector

has developed in the area of export credits. The EU also organised a special technical session dedicated to the potential scope of future sectorial rules on export credits for ship-building.

At the **8th Official IWG Meeting** organised by Brazil **in Brasilia from 19th to 21st May 2015** a **major breakthrough** was reached: The IWG Participants agreed that the talks on sectors have made sufficient progress to justify the launch of proper discussions on a general, horizontal system of rules, applicable to export credit transactions in general. This important decision marks the transition to a new phase in the work of the IWG and reflects a long-standing request by the US and the EU. It is a clear and welcome indicator that the Group's work is making tangible progress. At the same time, the new phase in the life of the IWG will also create new challenges. Discussions in the Group will become even more technical and complex as demanding topics like premium setting and interest rates will now be fully included in the agenda. Besides, there will be a need to strengthen the efficiency of the Group's institutional set-up, in particular the nomination of a permanent chair would be a crucial asset.

The **9th meeting of the IWG** will be hosted by the US in October 2015 and be dedicated to actually implementing the transition to the new phase of horizontal talks. The EU will fully support the US in this undertaking.

Overall, while the IWG has had a difficult start, the process has stabilised itself and is moving in the right direction. Further efforts will obviously be required in the next phase, but it seems at this stage fully justified to invest further into the IWG as the major forum for outreaching to the most important non-OECD export credit providers.

4. Developments in the OECD during the reporting period:

The by far most complex and controversial discussions in the OECD Export Credit Committees during the reporting period have concerned the subject of **export credits and fossil fuels,** notably when it comes to the **financing of coal-fired power plants**. The OECD Council in its "2014 Ministerial Statement on Climate Change" (6-7 May 2014) states among the means to implement further work also to continue discussions on "how export credits can contribute to our common goal to address climate change". Over the last year, there have been intense discussions in the OECD on this topic, which a "Chairman's Framework for Export Credits and Climate Change" has declared a priority for export credit meetings in 2014 and 2015. As the European Union should try to ensure that its policy on export credits also contributes to achieving its objectives in the field of climate change policy, the European Commission has been fully supportive of the OECD's relevant efforts. The OECD in April 2015 has issued a "Revised Chairman's proposal", which will play an essential role in continued discussions at OECD level. The Commission is currently in the process of preparing a proposal to the Council in view of establishing the EU position on the Chairman's proposal. It would be highly desirable that the OECD is able to come to a positive conclusion on these discussions in time for the 21st Conference of the Parties of the UN Framework Convention on Climate Change (Paris, 30 November to 12 December 2015).

Concerning another climate change-related topic, OECD Participants have at working level reached a preliminary consensus on rules for **export credits and smart grids** in June 2015.

On the EU side this deal is under reserve of the adoption of an Article 218 (9) decision by the Council.

As regards other activities in the OECD, it is recalled that back in November 2013, the Participants to the OECD Arrangement agreed on a "**Sector Understanding on Export Credits for Rail Infrastructure" ("RSU")**. While this had been a major ambition for the EU, getting acceptance of this deal also by Participants with little commercial interest in the field had required a number of important concessions. Due to a favourable development in the negotiation environment in 2014, it was possible to have the OECD Participants re-visit the text of the RSU and to agree to **alleviate some restrictive provisions** considerably.

Implementation of the **2011 OECD Sector Understanding on Export Credits for Civil Aircraft** (the “ASU 2011”) continued during the reporting period. It can be interpreted as an indication for the success of the ASU 2011 that after four years of implementation, no substantial arguments for a fundamental revision (which would formally have been possible in 2015) were identified and the OECD Participants agreed to postpone the matter until 2019.
Further technical work on a **review of the interest rate provisions of the OECD Arrangement** as well as on the **premium system for High Income OECD countries** was carried out during the reporting period as well, but has not yet resulted in a final outcome.

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