Council of the
European Union

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'I/A' ITEM NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (Part 2)/Council
Subject:	Council Conclusions on export credits - Approval

THE COUNCIL OF THE EUROPEAN UNION,

I. Introduction and general statements

1. UNDERLINES that officially supported export credits[1] are key levers in order to achieve priority policy goals for the European Union (EU) and its Member States. Such goals include the building of a strong industrial Europe, while ensuring the transition to low greenhouse gas emissions. More precisely, officially supported export credits are essential for Europe's global industrial competitiveness as they support European companies in competing for contracts and projects overseas, thereby providing jobs and growth, including for Small and Medium Enterprises, across EU Member States. By ensuring a global level playing field, officially supported export credits help promote more industrial cooperation and faster development of new key sectors within the EU. In addition, they ensure enhanced global connectivity. Officially supported export credits are also instrumental in enabling the EU Member States to finance the green transition and support environmentally sustainable projects.

[1] In the text, « officially supported export credits » refers to export credits that fall under the OECD Arrangement on Officially Supported Export Credits.

2. STRESSES that officially supported export credits are provided by EU Member States and Export Credit Agencies (ECAs), which have proven instrumental in supporting EU exports competitiveness. Officially supported export credits are however under the pressure of rapid changes in the global economy and tensions in the multilateral framework. Moreover, officially supported export credits originated by EU Member States are highly regulated, notably by the OECD Arrangement on Officially Supported Export Credits (the "OECD Arrangement") and the Regulation (EU) No 1233/2011. These disciplines have not been sufficiently modernized, given the evolution of global value chains and the international competition from non-OECD countries. NOTES that even though there has been increased progress in the negotiations on the OECD Arrangement, they are still not keeping up with the pace demanded by both changing economic and climate environments.

3. OBSERVES that EU export credits agencies (ECA) work closely with the private market and strive to cooperate more with each other within the EU, as well as with other providers of financial support (investments and development) in the EU, in line with their respective objectives and mandates.

4. RECOGNISES the role of officially supported export credits in promoting and supporting a shift in investment patterns towards climate-neutral, climate-resilient projects; RECALLS the Council Conclusions of 5 October 2021 on Climate finance, where the Council calls on "Export Credit Agencies that have not yet done so to set ambitious dates for the adoption of Paris alignment strategies ahead of COP26 and to mobilise increased climate finance including from the private sector". STRESSES that if officially supported export credits are to play a role in the green transition, a change in the rules must happen as soon as possible.

5. WELCOMES that awareness about officially supported export credits is gradually raising within the EU and the progress made in addressing new challenges, including contributing to the economic response to the Coronavirus pandemic[2].

6. SUPPORTS the action plan shaped by the Export Finance Lab Think Tank[3] in July 2020 with the White Paper on Public Export Finance in the EU. AGREES with the three courses of action and policy recommendations on the way forward, namely: design a comprehensive EU strategy for public finance for exports, trade and investments; take the lead and engage key providers of official finance on a global set of rules for public export finance; develop a strategy for the dedicated use of export finance to support the mobilisation of capital for the green transition. EXPRESSES willingness to pursue these three primary objectives.

7. EMPHASISES that the EU and its Member States should therefore be frontrunners in adapting officially supported export credits so as to address these evolving challenges.

II. <u>EU climate pact for export finance</u>

8. RECOGNISES the role of officially supported export credits in promoting and supporting a shift in investments towards climate-neutral, climate resilient projects. ACKNOWLEDGES the need to adapt export credit policies accordingly, in an effort to limit the global average temperature increase to 1.5 °C above pre-industrial levels. STRESSES that such adaptation of export policies would combine measures to phase out support to projects in the fossil fuel energy sector in accordance with paragraphs 11 and 12, incentives to enhance support to environmentally sustainable projects, and more transparency to monitor the progress.

[2] See in annex “the 2021 report on the developments in the EU's export finance system”
[3] Members of the ExFi Lab include experts from Austria, Belgium, Denmark, Germany, Finland, France, Italy, the Netherlands, Slovakia, Sweden, the EU Commission and the EU Council.

9. WELCOMES the long-awaited agreement reached in October 2021 to end export credit support for unabated coal-fired power plants in the OECD Arrangement.

10. RECOGNISES the latest scientific evidence regarding climate change, including the conclusions of the United Nations' lntergovernmental Panel on Climate Change (IPCC), and of the International Energy Agency report Net Zero by 2050, which clearly highlights the need to curb not only coal but also other fossil fuels.

11. CALLS ON the Commission to launch a discussion with the Participants to the OECD Arrangement in order to reach an agreement on ending officially supported export credits for projects in the fossil fuel energy sector, beyond coal and including oil and natural gas projects, unless in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement.

12. Pending the outcome of such a discussion at OECD level, ANNOUNCES the intention hereby by the Member States to determine by the end of 2023 in their national policies their own science-based deadlines for ending officially supported export credits to fossil fuel energy sector projects[4], unless in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement.

13. CALLS ON the introduction into the OECD Arrangement of financial mechanisms to incentivise environmentally sustainable projects; for example lower downpayments, longer maturities, or a specific risk-based adjustment to premia; CONSIDERS the EU taxonomy as applicable to date as the relevant benchmark to identify environmentally sustainable projects.

[4] Namely projects of exploration, production, transportation, storage, refining, distribution of coal, crude oil, natural gas, and unabated power generation.

14. SIGNALS the Member States' willingness to enrich their annual reporting to the Commission pursuant to Annex I of Regulation (EU) No 1233/2011, with a climate-oriented review of their respective officially supported export credit activities, sector by sector according to a commonly agreed methodology to be defined by the end of 2023.

III. <u>Global level playing field and the modernisation of the OECD Arrangement.</u>

15. RECALLS that the OECD provides the forum for maintaining, developing and monitoring the financial disciplines for export credits, set out in the OECD Arrangement and within the framework of the Agreement on Subsidies and Counterveiling Measures of the WTO. The OECD Arrangement stipulates the most generous financial terms and conditions that Participants may offer when providing officially supported export credits.

16. ASSESSES that the OECD Arrangement is being increasingly challenged by financing provided by non-OECD countries that are not bound by the Arrangement. RECOGNISES that competition from outside the OECD Arrangement is increasing and constitutes a challenge not only for the EU and its Member States, but also for the OECD at large. REGRETS that despite many years of negotiations, the International Working Group on Export Credits has not been able to agree on broader common financial disciplines for officially supported export credits and that negotiations have been suspended pending consensus on the core elements of any such disciplines.

17. WELCOMES the new momentum between the Participants to push forward the modernisation of the OECD Arrangement. RECALLS the Common Framework for Modernisation of the OECD Arrangement agreed by the Participants in October 2020, and SUPPORTS the ongoing work on the priorities of the modernisation.

18. STRESSES the EU's ambition to champion the process of modernising the OECD Arrangement, in order to not be impeded by an outdated framework for officially supported export credits. STRESSES the EU's interest that the modernisation, regarding which Participants started discussions in 2019, produces actual results soon.

19. Pending the modernisation, SIGNALS Member States' willingness to use every means at their disposal within the legal framework of the OECD Arrangement to increase their competitiveness. More specifically, while maintaining a high level of engagement in the process of modernising the OECD Arrangement, Member States are willing to use the OECD Arrangement matching clause and to that end, explore ways in which to improve cooperation and increase transparency among Member States and between the Participants to the OECD Arrangement when matching competing offers from non-Participants.

20. EXPRESSES the willingness, in case the pace of progress between Participants on the modernisation would not be satisfactory, to look into the possibilities of refocusing on European strategic and industrial interests and the best way to serve them autonomously.

IV. EU Strategy for export credits

21. WELCOMES the Commission's Trade Policy Review Communication of 18 February 2021 in which the Commission committed "to explore options for an EU strategy for export credits", including an EU export credit facility and enhanced coordination of EU financial tools.

22. EXPRESSES support for analysing the opportunity of enhanced coordination and of an EU export credits facility as a complement to national export credit facilities, to development aid, and to investment support, both at national and EU levels, and notably to the NDICI. NOTES that the Commission's work on enhanced coordination of EU financial tools is advancing and urges rapid progress towards this objective.

23. WELCOMES the Feasibility Study on an EU export credits strategy being carried out on behalf of the European Commission; BELIEVES that this Feasibility study is an opportunity to draw a comprehensive diagnosis of EU exporters' needs and the value of a potential intervention at EU level; TAKES NOTES that Member States and relevant stakeholders will be involved in the diagnosis phase and in the design of any policy response.

24. EMPHASISES that the design of any possible EU facility must focus on addressing market failures and institutional gaps and possible valuable synergies in the EU landscape for the provision of official support; INVITES the Commission to identify such failures and gaps, looking both at export credits and development finance tools.

25. DRAWS ATTENTION to the different risk-taking capacities of national ECAs and how they could be improved by risk-sharing through reinsurance for example, and to commercial banks' de-risking behaviour on lending to certain sectors or countries which do affect trade.

26. RECALLS the Council Conclusions of 12 July 2021 on "A Globally connected Europe" which highlighted the need for the EU to pursue a geostrategic and global approach. WELCOMES the Commission Communication of 1 December 2021 entitled "The Global Gateway". DRAWS ATTENTION to the experience and key role of national ECAs in mobilizing private capital and stakeholders required for the successful implementation of the EU Global Gateway strategy.