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# Export-Import Bank: Background and Legislative Issues

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## Summary

The Export-Import Bank is the chief U.S. government agency that helps finance American exports.[1] With a budget of nearly $1 billion, the Bank finances around 2% of U.S. exports a year. Eximbank provides guarantees and insurance to commercial banks to make trade credits available to U.S. exporters. The Bank also offers direct financing to U.S. exporters on a limited basis, primarily to counter subsidized trade credits offered to foreign exporters by their governments. Such government-sponsored trade financing, however, has long been controversial, especially when Congress looks for ways to pare back federal spending. President Bush's budget for 2002 proposes reducing the subsidy cost of the Bank's program to $633 million, or 25% below the amount appropriated in FY2001. The House and the Senate have passed different versions of H.R. 2506, which appropriates funds to the Bank and extends its operating charter. Eximbank's authority expired September 30, 2001; it has operated under a series of continuing resolutions since. This report will be updated as events warrant. Additional information on this and other trade-related issues is available from the CRS Electronic Briefing Book on Trade at: [http://www.congress.gov/brbk/html/ebtra1.html].

## Background

The Export-Import Bank (Eximbank) is an independent U.S. government agency that is charged with financing and promoting exports of U.S. goods and services. To accomplish these goals, Eximbank uses its authority and resources to: assume commercial and political risks that exporters or private financial institutions are unwilling, or unable, to undertake alone; overcome maturity and other limitations in private sector export financing; assist U.S. exporters to meet foreign, officially sponsored, export credit competition; and provide guidance and advice to U.S. exporters and commercial banks and

[1] For additional information, see the Bank's Internet address: [http://www.exim.gov]

foreign borrowers. The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended, and has been authorized through September 30, 2001.

When it was initially established, the Bank was capitalized by an appropriation of $1 billion from the U.S. Treasury. The Bank also is authorized to borrow up to $6 billion directly from the Treasury, and it may draw upon a substantial line of credit with the Federal Financing Bank (FFB). (The Federal Financing Bank is a part of the Department of the Treasury and obtains its funds from regular Treasury issues.) Eximbank uses its Treasury borrowings to finance its short-term needs, and repays the Treasury quarterly from loan repayments and by borrowing from the FFB on a medium- and long-term basis. The Bank's authority to lend, guarantee, and insure is limited to a total of $75 billion. Eximbank's direct loans are charged at their full value against the $75 billion limitation, while only 25% of guarantees and insurance are charged against the limit.

Before the Budget Enforcement Act of 1990, Congress set annual authorization limits on the maximum amount of new loans, insurance, and guarantees the Bank could extend, and appropriated funds only for Eximbank direct credits. Under the terms of the new budget rules imposed by the 1990 Act, Congress appropriates the estimated amount of subsidy the Bank expects to expend throughout all of its credit programs, including direct loans, guarantees, and insurance, as indicated in **Table 1**. Congress no longer sets separate limits on the amount of loans, guarantees, and insurance the Bank can authorize, but the Bank continues to provide estimates of the amounts of activity it expects to undertake.

## Programs

Eximbank has three main programs it uses to finance U.S. exports: direct loans, export credit guarantees, and export credit insurance. Prior to 1980, the Bank's direct lending program was its chief financing vehicle, which it used to finance such capital-intensive exports as commercial aircraft and nuclear power plants. Both the budget authority requested by the Administration and the limitation approved by the Congress for the Bank's direct lending were sharply curtailed during the 1980s.

Eximbank's direct lending program is used primarily to aid U.S. exporters in instances where they face a foreign competitor that is receiving officially subsidized financing by a foreign government. These loans carry fixed interest rates and generally are made at terms that are the most attractive allowed under the provisions of international agreements. They are made primarily to counter attempts by foreign governments to sway purchases in favor of their exporters solely on the basis of subsidized financing, rather than on market conditions (price, quality, etc.), and to enforce internationally agreed upon terms and conditions for export financing. The Bank also has an Intermediary Credit Program it uses to offer medium- and long-term fixed-rate financing to buyers of U.S. exports, but U.S. exporters also must face officially subsidized foreign competition to qualify for this program.

## Table 1. Budget of the Export-Import Bank (in millions of dollars)

| | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 |
|---|---|---|---|---|---|---|---|
| *Total Subsidy Requested* | 737 | 737 | 632 | 808 | 839 | 963 | 633 |
| *Total Subsidy Appropriated* | 787 | 773 | 683 | 765 | 865 | 865 | NA |
| | -- | -- | -- | -- | -- | -- | -- |
| **Operating Expenses** | 1,180 | 885 | 775 | 727 | 2,656 | 1,995 | 818 |
| Direct Loan Subsidy | 69 | 44 | 16 | 53 | 12 | 29 | 37 |
| Guarantee Loan Subsidy | 771 | 767 | 701 | 603 | 890 | 965 | 696 |
| Loan Modifications | 297 | 30 | 12 | 21 | 35 | 19 | 19 |
| Administrative Expenses | 43 | 43 | 46 | 50 | 55 | 62 | 65 |
| Re-estimates of Subsidy Costs | -- | -- | -- | -- | 1,663 | 919 | -- |
| **Budget Authority (gross)** | 1,031 | 773 | 732 | 825 | 2,474 | 1,844 | 698 |
| Appropriated | 787 | 773 | 683 | 765 | 865 | 963 | -- |
| Other | 244 | --- | 49 | 60 | 1,609 | 881 | -- |
| **Budget Resources** | 1,526 | 1,217 | 1,155 | 1,207 | 2,999 | 2,292 | 1,085 |
| Budget Authority (gross) | 1,031 | 773 | 732 | 825 | 2,474 | 1,844 | 698 |
| Recoveries from previous years | 78 | 103 | 124 | 48 | 45 | 90 | 90 |
| Expired resources | -2 | -3 | -46 | -- | -- | -- | -- |
| Unobligated resources start of year | 415 | 344 | 299 | 334 | 480 | 358 | 297 |
| Unobligated resources end of year | 344 | 332 | 334 | 480 | 358 | 297 | 267 |
| **Budget Authority (net)** | 1,031 | 773 | 732 | 825 | 2,474 | 1,844 | 698 |
| **Outlays (net)** | 707 | 934 | 686 | 746 | 2,539 | 1,695 | 765 |

* Indicates requested, or estimated amount

Source: Office of Management and Budget. *Budget of the United States Government*, various issues. Washington, U.S. Govt. Print. Off.

As part of its direct lending program, the Bank has a tied aid "war chest" it uses to counter specific projects that are receiving foreign officially subsidized export financing. Tied aid credits and mixed credits are two of the primary methods whereby governments provide their exporters with official assistance to promote exports. Tied aid credits include loans and grants which reduce financing costs below market rates for exporters and which are tied to the procurement of goods and services from the donor country. Mixed credits combine concessional government financing (funds at below market rates or terms) with commercial or near-commercial funds to produce an overall rate that is lower than market-based interest rates and carries more lenient loan terms. The United States does tie substantial amounts of its agricultural and military aid to U.S. goods, but it generally has avoided using such financing to promote American capital goods exports.

Funds for the tied aid war chest are available to the Bank from the Treasury Department and are subtracted from the Bank's direct credit resources. As part of its "Reinventing Ex-Im Bank" process, the Bank has become more aggressive in matching foreign tied aid credits in foreign markets and in offering greater choices of financing for exporters to counter foreign offers of tied aid. Under this initiative, the Bank intends to intervene at an earlier stage in the negotiating process to counter financing offers made by foreign competitors. The Bank has also extended its tied aid support to help small businesses that face foreign tied aid competition.

Guarantees and insurance are the main programs the Bank uses to assist American exporters. Both programs reduce some of the risks involved in exporting by insuring against commercial or political uncertainty. There is an important distinction, however, between the two programs. Insurance coverage carries with it various conditions that must be met by the insured before the Bank will pay off a claim. A guarantee is an ironclad commitment made to a commercial bank by the Export-Import Bank that promises full repayment with few, if any, conditions attached. In addition, Eximbank has a Working Capital Guarantee Program that it uses to aid small- and medium-sized businesses. Businesses that qualify have exporting potential but need working capital funds to produce or market their goods or services for export. Guarantees are offered to qualified lenders (primarily commercial banks) in order to facilitate loans to small businesses.

## Recent Developments

In May, 2000, Eximbank Chairman, James A. Harmon, announced that he had asked the Council on Foreign Relations and the Institute for International Economics to undertake independent studies of the Bank's programs and its competitive position relative to similar export credit agencies around the globe. A report by the Institute was released in early 2001.

Chairman Harmon also announced that he asked for a review of U.S. sanctions policies and an assessment of the impact such policies have on U.S. exports as part of the overall review. The review will also examine the impact of the Chafee Amendment (P.L. 95-630), which allows the President or the Secretary of State to stop an export transaction for non-economic reason. Harmon also expressed concern over the tenure of office of the Chairman of the Bank, who serves at the discretion of the President, with approval of the Senate.

## International Agreements

The United States generally opposes subsidies for exports of commercial products. (Nevertheless, like most countries, the United States has in place procurement policies that seek to assure that most foreign assistance funds are spent on U.S. goods and services.) Since the 1970s, the United States has led efforts within the Organization for Economic Cooperation and Development (OECD) to adopt international protocols which reduce the subsidy level in export credits by raising the interest rates on government-provided export credits to market levels.

Countries that signed the OECD Arrangement (all OECD countries except Turkey and Iceland) on export finance, concluded in November 1991, agreed to tighten further restrictions on the use of tied-aid. The participants agreed that projects that would be financially viable with commercial credits will be prohibited from using tied or partially untied aid credits, except for credits to the least developed countries where per capita income is below $2,465. Moreover, the agreement sets up tests and consultation procedures to distinguish between projects that should be financed on market or official export credit terms, and those that legitimately require such aid funds. Conditions under which tied aid could be provided to these countries include the unavailability of commercial export-import bank financing, or a case where a project lacks the capacity to generate sufficient income to cover its costs at market prices.

U.S. exporters and others have expressed doubts about the effectiveness of international efforts to stem officially subsidized trade financing. While the OECD agreement appears to be reducing most direct government subsidies to trade financing, a number of countries have found a way around the agreement through market windows, or subsidized trade financing through ostensibly private financial institutions that are not subject to the agreement. The agreement also has a number of limitations, including: the difficulty of defining commercially viable projects; and the presence of an “escape clause” that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. Moreover, the Agreement contains no explicit enforcement mechanism. The effectiveness of the Agreement also depends on the accuracy and openness of tied aid offers reported to the OECD, but the OECD does not confirm or verify the accuracy of the data provided by its members.[2]

## Legislative Issues

On July 24, 2001, the House adopted H.R. 2506, the Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2002, which grants the Bank $120 million more than the President requested, or $738 million for subsidy costs and $60 million for administrative expenses. In arriving at this sum, the House adopted an amendment sponsored by Representative Visclosky that eliminated $15 million in subsidy costs and $3 million in administrative expenses to demonstrate Congressional disapproval for an $18 million guarantee the Bank made to a Chinese steel operation for computer software, control systems, and main power drives. The Senate’s version of the bill, which passed October 31, 2001 would appropriate $727 million in subsidy costs and $64 million in administrative expenses. H.R. 2871 sponsored by Representative Bereuter would amend the Bank’s charter in a number of ways, including: extend Eximbank’s authority through 2005; appropriate $80 million in administrative expense to upgrade the Bank’s technological infrastructure; increase the Bank’s overall credit limitation; establish an Office on Africa; require the Bank to develop standards in using its tied aid fund; expand the Bank’s authority to use its tied aid fund to counter untied aid and market windows activities; rename the tied aid fund as the “export competitiveness program;” and expand the Bank’s authority to promote goods and services related to renewable energy sources. In the Senate, Senator Sarbanes sponsored S. 1372 that would extend the bank’s authority

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[2] *Competitor’s Tied Aid Practices Affect U.S. Exports*. General Accounting Office. Report No. GGD-94-81. May 1994. p. 19-21.

to 2006, increase from 10 percent to 18 percent the share of the banks' export financing devoted to small businesses, and authorize the Bank to seek enhanced transparency over market windows activities and to match financing terms and conditions offered by market windows.

H.R. 375, sponsored by Representative Royce would assess the consolidation of OPIC and EXIM Bank. In H.R. 918, sponsored by Representative Tony Hall, EXIM would be prevented from guaranteeing, insuring, or extending credit in connection with the export of any good to a country for use in an enterprise involving mining, polishing or other processing, or sale of diamonds in a country that uses such diamond sales to "finance military activities, overthrow legitimate governments, subvert international efforts to promote peace and stability, and commit horrifying atrocities against unarmed civilians." H.R. 1779, sponsored by Representative Lantos, would encourage EXIM to support projects in Tibet and S. 494, sponsored by Senator Frist, would establish EXIM offices in Zimbabwe. H.R. 1690, sponsored by Representative Waters, would prohibit EXIM from assisting in the export of any good or service to or by any country that is challenging an intellectual property law or government policy of a developing country, which regulates and promotes access to HIV/AIDS pharmaceutical or medical technology.

## Eximbank Debate

Eximbank's government-sponsored finance programs have long been controversial. One rationale for the Export-Import Bank is the acknowledged competition among nations' official export financing agencies. Most economists doubt, however, that a nation can improve its welfare over the long run by subsidizing exports. Economic policies within individual countries are the prime factors which determine interest rates, capital flows, and exchange rates, which, in turn, largely determine the overall level of a nation's exports. This means that, at the national level, subsidized export financing merely shifts production among sectors within the economy, rather than adding to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. This also means that promoting exports through subsidized financing or through government-backed insurance and guarantees will not permanently raise the level of employment in the economy, but it will alter the composition of employment among the various sectors of the economy. Some opponents further argue that, by providing financing or insurance for exporters that the market seems unwilling, or unable, to provide, Eximbank's activities draw from the financial resources within the economy that would be available for other uses. Such "opportunity costs," while impossible to estimate, could be potentially significant. Another consideration is that subsidized export financing raises financing costs for all borrowers by drawing on financial resources that otherwise would be available for other uses, thereby possibly crowding out some borrowers from the financial markets. This crowding-out effect might nullify any positive impact subsidized export financing may have on the economy.

Some Eximbank supporters maintain that the Bank's programs are necessary for U.S. exporters to compete with foreign subsidized export financing and also to pressure foreign governments to eliminate concessionary financing. As a result, Eximbank is required in the Bank's Act to provide U.S. exporters with financing terms that are "competitive" with those offered by other official trade financing institutions. These, and other supporters of the Bank, also stress that deficiencies in financial markets bias those markets against exports of high value, long-term assets.