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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 around $200 million, the Bank finances less than 1% 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. In FY2005, Congress appropriated $59.8 million to fund the Bank's subsidy costs and $73.2 million in administrative expenses through HR4818 (P.L. 108-477), the Consolidated Appropriations Act, 2005. For FY2006, the President's budget requests funding of $186.5 million for the Bank's subsidy costs and $73 million for administrative expenses The Bank's authority was renewed through September 2006 when President Bush signed P.L. 107-189 on June 14, 2002. This report will be updated as events warrant.

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 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, 2006.

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

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

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 $80 billion in 2002, but will increase by $5 billion a year to reach $100 billion in 2006. 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.

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.

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

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006
Total Subsidy Requested	$839	$963	$633	$541	$0	$126	$187
Total Subsidy Appropriated	865	865	727	513	0	60	NA
Operating Expenses	2,656	1,815	1,256	433	583	764	490
Direct Loan Subsidy	12	95	48	1	22	17	17
Guarantee Loan Subsidy	890	732	678	317	247	365	380
Loan Modifications	35	5	26	3	10	20	20
Administrative Expenses	55	62	63	68	73	73	73
Re-estimates of Subsidy Costs	1,663	668	441	44	231	289	0
Budget Authority (gross)	2,474	1,848	1,182	622	306	422	261
Appropriated	865	928	740	577	72	132	260
Other	1,609	919	442	45	234	290	1
Budget Resources	2,999	2,331	1,838	1,268	1,290	1,177	719
Budget Authority (gross)	2,474	1,848	1,182	622	306	422	261
Recoveries from previous years	45	118	118	89	149	50	45
Unobligated resources start of year	480	358	514	557	835	705	413
Unobligated resources end of year	358	514	557	835	705	413	229
Budget Authority (net)	2,474	1,847	1,181	621	305	421	260
Outlays (net)	2,539	1,655	1,245	645	718	881	434

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

Note: Data for FY2006 are requested, or estimated amounts.

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 October 2004, Eximbank Chairman Phillip Merrill announced that the Bank had signed an agreement with the Iraqi Ministry of Finance that allows the Bank to provide credit insurance coverage in support of U.S. exports to Iraq. In 2004, the Bank also approved an updated version of its Environmental Procedures and Guidelines that make the Bank's environmental provisions consistent with the guidelines for evaluating the environmental impact of projects that was adopted by the Organization for Economic Cooperation and Development (OECD) in December 2003. President and Chairman of the Bank Phillip Merrill, who was confirmed on November 14, 2002, saw his term and that of two other Eximbank Board members (April H. Foley, and J. Joseph Grandmaison) expire on January 20, 2005. The two other members of the Board are Max Cleland and Linda Conlin. In addition, Commerce Secretary Donald L. Evans and U.S. Trade Representative Robert B. Zoellick serve as ex officio members fo the Board. The terms of Eximbank Board members can be extended up to six months until the members are reappointed and reconfirmed or other members are appointed and confirmed.

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.

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

Congress does not directly approve individual Eximbank transactions, but has a number of oversight responsibilities concerning the Bank and its activities. The Senate confirms Presidential appointments to the Bank's Board of Directors and Congress authorizes the Bank's legal charter for a period of time chosen by Congress. At times, Congress has required an annual reauthorization of the Bank's legal charter, and at other times has authorized the Bank for periods that have varied from two to four years. Congress also approves an annual appropriation for the Bank that sets an upper limit on the level of the Bank's financial activities. In addition, Congress can always amend or alter the Bank's governing legislation as it deems appropriate. Members of Congress and Congressional Committees can request that the Bank's President consult with them or testify before committees, with some qualifications.

On June 14, 2002, President Bush signed P.L. 107-189 , the Export-Import Bank Reauthorization Act of 2002. In contrast to attempts during previous Congresses to eliminate the Bank, the 2002 Act likely will strengthen the Bank in a number of ways and increase its role, both domestically and internationally, in promoting U.S. exports. Two of the most important provisions of the act include a sense of Congress that requires the Bank to prepare a human rights impact assessment for any project over $10 million, and a prohibition on supporting any project that is subject to import relief measures or countervailing duty orders. In March 2003, the Bank published its final version of its redrafted economic procedures that it will follow in order to abide by the provisions of the act.

Other provisions of the Reauthorization Act include establishing the Office of Inspector General within the Bank; designating assisting U.S. job growth as the main purpose of the Bank's programs; extending Eximbank's authority through 2006; authorizing the appropriation of $80 million in administrative expense to upgrade the Bank's technological infrastructure; increasing the Bank's overall credit limitation; extending the Office on Africa through September 30, 2006; requiring the Bank to coordinate with the Secretary of the Treasury to adopt a set of principals for approving uses of its tied aid fund, with transactions subject to review by the President; expanding the Bank's authority to use its tied aid fund to counter untied aid and market windows activities; directing the Secretary of the Treasury to explore international negotiations on untied aid and requiring an assessment of the impact of market windows and prospects

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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.

for negotiations within the OECD; increasing from 10% to 20% the share of Bank financing for "socially and economically disadvantaged" small businesses; clarifying the Bank's definition of human rights to include the Universal Declaration of Human Rights adopted by the United Nations General assembly; in considering an application for Eximbank programs the Bank can consider the extent to which a nation has been helpful in eradicating terrorism; and expanding the Bank's authority to promote goods and services related to renewable energy sources.

Eximbank Debate

One rationale for the Export-Import Bank is the acknowledged competition among nations' official export financing agencies, but most economists doubt that a nation can improve its welfare or level of employment 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, and 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.