



# Reauthorization of the Export-Import Bank: Issues and Policy Options for Congress

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June 23, 2011

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R41829

## Summary

The Export-Import Bank (Ex-Im Bank, EXIM Bank, or the Bank), a self-sustaining agency, is the official U.S. export credit agency (ECA). It operates under a renewable charter, the Export-Import Bank Act of 1945, as amended. Ex-Im Bank's most recent reauthorization (P.L. 109-438) was in 2006, when Congress extended the Bank's authority through FY2011. Since its inception, Ex-Im Bank programs have supported more than \$400 billion in U.S. exports.

The Bank's charter expires on September 30, 2011. Potential issues for the 112<sup>th</sup> Congress as it examines reauthorization of Ex-Im Bank include the following:

- **The economic rationale for the Bank**, including the role of the federal government in export promotion and finance;
- **Specific Bank policies**, such as those relating to content, shipping, economic and environmental impact analysis, and tied aid, including how these policies balance U.S. export and other policy interests;
- **Statutory requirements directing Ex-Im Bank to support certain types of exports**, such as exports of small businesses and "green" technology, including the tension that such requirements can create between desiring to support specific economic sectors and allowing Ex-Im Bank flexibility to fulfill its mission to support U.S. exports and jobs; and
- **International developments that may affect the Bank's work**, such as the growing role of emerging economies' ECAs and the sufficiency of the Organization for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits to "level the playing field" for U.S. exporters.

Potential options for Congress include, but are not limited to, the following areas:

- **Structure of the Bank.** Congress could maintain Ex-Im Bank as an independent agency, reorganize or privatize the functions of the Bank, or terminate the Bank.
- **Length of reauthorization.** Congress could extend the Bank's authority for a few years at a time (as in previous reauthorizations), for a longer period of time, or permanently reauthorize the Bank.
- **Bank's policies.** Congress could maintain the status quo, or revise the Bank's policies, such as those related to the requirements and limitations on Ex-Im Bank's credit and insurance activities.
- **International ECA context.** Congress could seek to enhance international regulation of official export credit activity through the OECD or other mechanisms, or enhance Ex-Im Bank's understanding of international export credit activity and trends.

H.R. 2072, the Securing American Jobs Through Exports Act of 2011, was introduced and referred to the House Financial Services Committee on June 1, 2011. H.R. 2072 would extend Ex-Im Bank's authority through September 30, 2015, among other provisions. On June 22, 2011, the House Financial Services Committee approved the bill and ordered it to be reported favorably to the full House.

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## **Introduction**

The Export-Import Bank of the United States (Ex-Im Bank, EXIM Bank, or the Bank) operates under a renewable charter, the Export-Import Bank Act of 1945, as amended. The Bank's most recent reauthorization was approved by Congress in 2006 and expires on September 30, 2011. The issue for Congress is whether to reauthorize the Bank's charter, and if so, for how long and under what terms. Congress's decisions on this issue could affect U.S. export promotion activities and U.S. industries whose exports are facilitated by the Bank's operations.

This report provides background information and potential issues and options for Congress relating to the reauthorization of Ex-Im Bank. The scope of this report is limited to Ex-Im Bank reauthorization issues. For a general overview of Ex-Im Bank's programs, budgets, and overall issues see CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues*, by Shayerah Ilias.

## **Background**

### **Overview of Ex-Im Bank**

Ex-Im Bank is the official export credit agency (ECA) of the United States. The Bank was established in 1934 and became an independent agency in the executive branch in 1945. Its mandate is to support U.S. exports and the employment of U.S. workers. Congress has an important role in reauthorizing the Bank, appropriating funds for the Bank, and conducting oversight of the Bank. Ex-Im Bank's most recent reauthorization (P.L. 109-438) took place in 2006, when Congress extended the Bank's authority through September 30, 2011. The 112<sup>th</sup> Congress would need to pass legislation to renew Ex-Im Bank's authority to continue the Bank's operations.

Ex-Im Bank uses its authority and resources to finance U.S. exports primarily in circumstances when alternative, private sector export financing may not be available or is prohibitively expensive or risky. It also may provide financing to support the competitiveness of U.S. exporters in circumstances when foreign governments extend export financing to their firms. Ex-Im Bank transactions are backed by the full faith and credit of the U.S. government.

The Bank's charter requires that its financing have a reasonable assurance of repayment; directs the Bank to supplement, and not compete with, private capital; requires the Bank to notify Congress of proposed transactions above \$100 million; and includes other limitations on the Bank's activities.

Since its inception, the Bank estimates that it has supported more than \$400 billion in U.S. exports. Its main programs to finance U.S. exports are direct loans, export credit guarantees, working capital guarantees, and export credit insurance. The Bank operates on a self-sustaining basis, using offsetting collections to fund administrative and program expenses.

### Key Facts About Ex-Im Bank Programs

- **Direct loans:** Ex-Im Bank provides direct loans to foreign buyers of U.S. exports, generally for the purchase of capital-intensive goods such as commercial aircraft and mining equipment.
- **Loan guarantees:** Ex-Im Bank guarantees a lender that, in the event of a payment default by the buyer, it will pay to the lender the outstanding principal and interest on the loan.
- **Working capital guarantees:** The Bank provides repayment guarantees to lenders (primarily commercial banks) on secured, short-term working capital loans made to qualified exporters with the objective of facilitating finance for businesses (generally, small businesses) that have exporting potential but need working capital funds.
- **Insurance:** Ex-Im Bank provides insurance to U.S. exporters to protect them against losses should a foreign buyer or other foreign debtor default on the export contract for commercial or political reasons.
- **Special financing programs:** Ex-Im Bank offers special financing programs that focus on a particular industry or financing technique, including aircraft finance, project finance, and supply chain finance.

#### Focus Areas

- **Program-specific:** Ex-Im Bank focuses on increasing the number of small- and medium-sized enterprises (SMEs) using its products, supporting environmentally beneficial exports, and targeting business development to countries and in industries with high potential for U.S. export growth.
- **Country-specific:** Ex-Im Bank operates in more than 160 countries around the world. Its current country priorities are Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey, and Vietnam.
- **Sector-specific:** Ex-Im Bank has identified industries with high potential for U.S. export growth: medical technology, construction, agricultural and mining equipment, and power generation (including renewable energy). In addition, transportation—particularly large commercial aircraft—continues to be an important focal point.

#### Appropriations

Ex-Im Bank has been “self-sustaining” for appropriations purposes since FY2008. It uses offsetting collections to cover its operations. Congress provides funding for Ex-Im Bank’s Office of Inspector General, and sets an upper limit on the level of the Bank’s financial activities. Ex-Im Bank receives a net appropriation of zero.

- **FY2010:** Congress appropriated \$2.5 million for the Office of Inspector General, and it authorized a limit of \$58 million for the Bank’s credit and insurance programs and a limit of \$83.88 million for its administrative expenses (P.L. 111-117).
- **FY2011:** Congress authorized Ex-Im Bank at FY2010 levels. It also included a rescission of \$275 million of the unobligated balances available for funds appropriated under FY2009 Ex-Im Bank subsidy appropriations (P.L. 112-10).
- **FY2012:** The Administration requested \$4 million for the Inspector General, a limit of \$76.4 million for the Bank’s credit and insurance programs, and a limit of \$124.6 million for its administrative expenses.

#### Activity

- **Large and small firms supported:** By *dollar value* of transactions, large companies have received the majority of the Bank’s support, whereas by *number of transactions*, small businesses have received the majority of its support.
- **Level of activity:** In FY2010, Ex-Im Bank approved \$24 billion in export financing (3,532 credit and insurance transactions),—the second consecutive year of record high levels of authorizations for the Bank—up from FY2009, when the Bank approved \$21 billion in export financing (2,891 transactions).
- **Exports supported:** Ex-Im Bank estimated that its activities supported about \$34 billion in U.S. exports of goods and services in FY2010, up from \$26.4 billion worth of exports in FY2009.
- **Exposure:** The Bank’s authority to lend, guarantee, and insure is limited to a total of \$100 billion. In FY2010, the Bank’s total exposure stood at approximately \$75 billion, up from approximately \$68 billion FY2009.

Note: Summary of Ex-Im Bank prepared by CRS, based on Ex-Im Bank annual reports from various years.

## Ex-Im Bank's Role in Promoting U.S. Exports

U.S. economic growth has traditionally been driven by consumption and borrowing, and historically there has been an undertow of belief that the U.S. economy does not need to rely on exports for economic growth. However, domestic consumption has been weak since the international financial crisis and global economic downturn in 2008. It also is a reflection of the fact that the United States is a relatively mature economy. Increasingly, the United States has turned to trade, in particular exports, as a means of growing the U.S. economy.

Ex-Im Bank, which is charged with supporting U.S. exports and jobs through export financing, is among the federal government agencies involved in promoting U.S. exports.<sup>1</sup> As such, Ex-Im Bank is a key participant in President Obama's National Export Initiative (NEI), a strategy to double U.S. exports by 2015 to support U.S. employment. In September 2010, the Export Promotion Cabinet, a high-level cabinet created by Executive Order 13534, released a report containing recommendations for implementing the NEI. Ex-Im Bank figures prominently in the report's recommendation to increase U.S. export financing.

The Export Promotion Cabinet's report recommended the following actions in this priority area: (1) making more credit available, such as existing credit lines and new products; (2) expanding the eligibility criteria for providing credit and insurance to small- and medium-sized enterprises (SMEs); (3) focusing lending activities and outreach on priority international markets; (4) expanding and focusing outreach efforts on U.S. industries that are globally competitive and those that constitute underserved sectors of the economy; (5) increasing the number and scope of public-private partnerships that build awareness of export finance assistance and help to originate and underwrite transactions on behalf of the federal government; and (6) streamlining the application and review process of U.S. exporters applying for federal export credit and insurance.<sup>2</sup>

Although Ex-Im Bank is the official U.S. export credit agency, other agencies—the U.S. Department of Agriculture, Small Business Administration, and the Overseas Private Investment Corporation—also conduct export financing (see **Table 1**).

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<sup>1</sup> For a general background on Ex-Im Bank, see CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues*, by Shayerah Ilias. For a general background on federal export promotion agencies, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias.

<sup>2</sup> *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years*, Washington, DC, September 2010, [http://www.whitehouse.gov/sites/default/files/nei\\_report\\_9-16-10\\_full.pdf](http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf).

**Table I. U.S. Government Agencies that Conduct Export Financing**

Federal Agency	Activities
Ex-Im Bank	Provides credit and insurance to support manufacturing and services exports, including for exports by small businesses
U.S. Department of Agriculture (USDA)	Conducts agricultural export financing
Small Business Administration (SBA)	Provides export financing for U.S. small businesses
Overseas Private Insurance Corporation (OPIC)	Provides credit and political risk insurance to support U.S. investments for projects in developing countries and emerging markets that may generate demand for U.S. exports

Source: CRS analysis.

## Ex-Im Bank Stakeholders

Ex-Im Bank has a range of private and public stakeholders that have varying viewpoints and interests related to the Bank. They include the following.

- **U.S. businesses and their workers that receive Ex-Im Bank support**, which are arguably the most direct stakeholders of Ex-Im Bank;
- **Indirect suppliers**, which are U.S. businesses (primarily SMEs) that supply goods and services to U.S. exporters and are considered by some groups to be “invisible exporters;”
- **Service exporters**, which have used Ex-Im Bank support less extensively than exporters of manufactured goods;
- **Import-sensitive U.S. industries**, such as steel, which may be adversely affected if Ex-Im Bank support for a particular export contract, such as for products used to build a steel mill in a foreign country, results in the foreign production of an exportable good that competes with U.S. products;
- **International buyers** of Ex-Im Bank-financed U.S. exports of goods and services, who are from developing countries and emerging markets. Ex-Im Bank products such as direct loans, loan guarantees, and export insurance may help to facilitate their purchases of U.S. exports of goods and services;
- **U.S. and international commercial lenders and insurers** that use Ex-Im Bank credit and insurance programs;<sup>3</sup>
- **State, county, and local nonprofit economic development organizations** with which Ex-Im Bank collaborates to facilitate export opportunities;<sup>4</sup>

<sup>3</sup> Ex-Im Bank, Lender Referral List, updated November 2010, <http://www.exim.gov/pub/pdf/ebd-g-01.pdf>. Ex-Im Bank, Active Insurance Brokers Registered with Ex-Im Bank, [http://www.exim.gov/news/brokers\\_list.cfm](http://www.exim.gov/news/brokers_list.cfm). Ex-Im Bank, Working Capital Guarantee Delegated Authority Lenders, updated February 1, 2011, <http://www.exim.gov/pub/pdf/ebd-w-13.pdf>.

<sup>4</sup> Ex-Im Bank, *City/State Partners List*, last updated November 8, 2010, [http://www.exim.gov/about/partners/citystate/citystate\\_partnerslist\\_updated.cfm](http://www.exim.gov/about/partners/citystate/citystate_partnerslist_updated.cfm).

- **U.S. federal government agencies** with which Ex-Im Bank collaborates on certain export-financing activities and specific programs and initiatives; and
- **Non-governmental organizations**, such as industry and trade associations, civil society advocacy groups, and public policy think tanks that represent an array of commercial, labor, environmental, and other policy interests.

## **International Export Credit Environment**

Ex-Im Bank was established at a time when private sector trade finance was limited. As international trade has grown, exporting financing has expanded. It is now a trillion-dollar market that supports approximately 10% of global trade.<sup>5</sup> It consists of private lenders and insurers, who operate commercially, and official export credit agencies (ECAs), which are backed by their governments. Private lenders and insurers conduct the majority of short-term export financing, whereas ECAs are more heavily involved in medium- and long-term export financing, including financing involving complex, multi-billion dollar sales such as aircraft and infrastructure projects. The role of ECAs has become more prominent in recent years due to the international financial crisis and global economic downturn in 2008. With businesses facing difficulty accessing credit in the private sector, there has been a surge in demand for export credit and insurance from ECAs.

## **Changing Composition of ECAs and Increasing Export Credit Competition**

Since Ex-Im Bank's inception in 1934, the process of globalization has introduced fundamental changes to the global economy and to the international export credit environment. Traditionally, the United States and other developed countries have been the primary sources of world trade flows and ECA financing. For example, historically the G-7 countries have accounted for about 80% of global medium- to long-term export finance.<sup>6</sup> As members of the Organization for Economic Cooperation and Development (OECD), these countries are party to the OECD Arrangement on Official Supported Export Credits (the "OECD Arrangement"), which is intended to ensure that exporting takes place on a level playing field (see text box, "International Disciplines on Export Credit Activity").

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<sup>5</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement for the Record from the Coalition for Employment through Exports*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

<sup>6</sup> The G-7 consists of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Data from Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2010 through December 31, 2010*, Washington, DC, June 2011, p. 5.

### International Disciplines on Export Credit Activity<sup>7</sup>

Growing export credit competition has led to a strengthening of standards on official export credit activity. The international disciplines under which ECAs conduct their activities vary based on which organizations the country of the ECA is a member.

- **Organization for Economic Cooperation and Development (OECD):** The primary organization guiding and monitoring ECA activity is the OECD, which is composed of about 30 advanced industrialized economies, including the United States. The OECD Arrangement on Officially Supported Export Credits (the “OECD Arrangement”), created in 1978, established limitations on the terms and conditions for official export credit activity. It includes financial terms and conditions, such as down payments, repayment terms, interest rates, and country risk classifications; provisions on tied aid; notification procedures; and sector-specific terms and conditions, covering the export credits for ships, nuclear power plants, civil aircraft, renewable energies, and water projects. Military equipment, agricultural goods, and untied development aid are not covered by the agreement. The OECD lacks the authority to enforce compliance with its agreements, though members generally monitor compliance and raise concerns when members’ policies and actions are viewed as violating the OECD Arrangement. The United States has been working through the OECD for decades to help level the playing field for U.S. exporters.
- **World Trade Organization (WTO):** The WTO, a multilateral organization for negotiating, governing, and enforcing international trade rules, plays a role in guiding export credit activity, but traditionally has deferred to the OECD. The WTO Agreement on Subsidies and Countervailing Measures (SCM) disciplines the use of subsidies, and it regulates the actions countries can take to counter the effects of these subsidies. The SCM Agreement language is interpreted to indicate that, for non-agricultural products, an export credit practice in conformity with the OECD Arrangement shall not be considered as an export subsidy prohibited by the SCM Agreement.<sup>8</sup>
- **Berne Union:** The Berne Union, an association for export credit and insurance globally, collects statistical data on the export credit activity of its members. It has 49 members that are major private creditors and insurers and ECAs. Berne Union members span both advanced industrialized countries and emerging market countries. Berne Union members abide by a number of “guiding principles,” which include supporting the stability and expansion of global trade, managing risks, practicing sound business practices, taking into account environmental and other considerations in activities, combating corruption, enhancing transparency, and fostering cooperation with other export trade and investment businesses. The Berne Union principles are not legally binding.<sup>9</sup>

Over the past couple of decades, economic changes associated with globalization have led to the rising wealth of emerging economies and their growing role in the global economy. Currently, a number of emerging market countries operate ECAs.<sup>10</sup> Rising economic powers, such as China, India, and Brazil, are not members of the OECD (though they may have observer status during some OECD meetings and the OECD has offered them “enhanced engagement” with a view toward possible accession). As non-member economies, China, India, and Brazil are not party to the OECD Arrangement, and their export credit financing activities may not comply with

<sup>7</sup> For more information on the various international disciplines, see [http://www.oecd.org/department/0,3355,en\\_2649\\_34171\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,3355,en_2649_34171_1_1_1_1_1,00.html) for the OECD, <http://www.berneunion.org.uk/> for the Berne Union, and [http://www.wto.org/english/tratop\\_e/scm\\_e/scm\\_e.htm](http://www.wto.org/english/tratop_e/scm_e/scm_e.htm) for the WTO.

<sup>8</sup> See Footnote 5 to SCM Article 3.1(a) and paragraph (k) of the Illustrative List of Export Subsidies, Annex I to the SCM Agreement. Paragraph (k) states: “Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.”

<sup>9</sup> Berne Union, *Guiding Principles*, <http://www.berneunion.org.uk/guiding-principles.html>.

<sup>10</sup> Paul Brewer, “Australia’s Export Promotion Program: Is it Effective?,” *Australian Journal of Management*, vol. 34, no. 1 (June 2009), pp. 125-142.

international standards.<sup>11</sup> For example, they may offer below-market and concessionary financing alternatives with which it is difficult for ECAs of OECD members to compete.

The growing number of players and volumes of export credit activity in the international export finance market has resulted in greater and varied competition for U.S. exporters, both from developed countries and from rising economic powers as they move up the value chain.<sup>12</sup> In terms of developed countries, although certain types of competition between developed country ECAs that were prevalent in the 1970s and 1980s have been reduced, new forms of competition have emerged. For example, for about 30 years, the ECAs of developed countries generally have not offered officially supported financing for exports to other developed countries. With respect to the aircraft sector, Ex-Im Bank and the ECAs of the United Kingdom, France, Spain, and Germany (which provide financing to Airbus) have agreed to an informal “home market rule,” which limits access to officially supported export financing for the purchase of aircraft in their own domestic market and in each other’s “home markets.” The competitive landscape appears to be changing, however. Canada currently does not recognize the home market rule, and the Canadian aircraft manufacturer Bombardier, which is supported by Canada’s official ECA, has recently entered the large civil aircraft market. This trend is also emerging in other sectors, such as in green energy projects. For instance, the Japanese ECA reportedly recently announced that it was prepared to support its companies on projects in the United States, including the Florida high speed rail project.<sup>13</sup>

In terms of emerging economies, the increasing volumes of their official export credit activity that fall outside of the OECD Arrangement have raised concerns among OECD members about how level the playing field is for their exporters. According to Ex-Im Bank, non-OECD countries are expected to continue expanding “their scope of influence and the methods they employ in order to gain greater global market share and dominance.”<sup>14</sup> Officially subsidized export credit activity by emerging economies may increase in strategic markets, such as oil and gas, renewable energy, and natural resources extraction.<sup>15</sup> For example, most of the terms and conditions of China’s ECA financing do not fit within the OECD guidelines. For instance, Chinese ECAs “have shown strong signs of growing usage of export credits for export promotion purposes, especially in Africa, where they were offering preferential loans either in exchange for much needed resources (e.g., oil) or low cost loans on very extended repayment terms on projects in order to gain market

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<sup>11</sup> Brazil, while not party to the OECD Arrangement, is party to the OECD Aircraft Sector Understanding.

<sup>12</sup> For instance, The Boeing Company, a significant beneficiary of Ex-Im Bank services, notes that the European aircraft manufacturer Airbus, its main competitor in the aerospace sector, has three European ECAs supporting its sales. Boeing further states,

the competitive landscape for our industry is about to get a lot more crowded. Companies in Canada, Russia, Brazil, and China are developing large commercial airplanes to compete with Boeing, and all of them have government export credit agencies to support them. In today’s competitive global market, financing often is a key discriminator, and foreign governments are offering export credit to the advantage of their domestic industries.

U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, Testimony of Scott Scherer, Boeing Capital Corporation, on the Role of the U.S. Export-Import Bank in Ensuring U.S. Competitiveness and Job Creation, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

<sup>13</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement for the Record from the Coalition for Employment through Exports*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

<sup>14</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2009 through December 31, 2009*, Washington, DC, June 2010, p. 14.

<sup>15</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement for the Record from the Coalition for Employment through Exports*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

share.”<sup>16</sup> The rise of emerging economies as financing competitors has renewed concerns about a new “race to the bottom.”

## Growth in Publicly Backed Export Credit Support

Comprehensive data on the export finance activities of ECAs are limited and sometimes not publicly available. It also can be difficult to compare activity across ECAs, because the characteristics of the ECAs and the types of transactions may vary. The OECD and Berne Union are engaged in efforts to enhance international export credit data.<sup>17</sup> What follows are some data that may provide an indication of the levels of international export credit activity.

- In 2010, Berne Union members (both public and private) provided \$1.4 trillion in credit and investment insurance support, covering more than 10% of the value of international trade transactions with their export credit support.<sup>18</sup> Berne Union members generally cover the more risky transactions in which exporters and lenders decide to take insurance to mitigate the risks of trading.
- Ex-Im Bank’s annual competitiveness report compares the products, policies, and practices of Ex-Im Bank to the ECAs of the other G-7 countries and selected emerging economies. In 2010, new medium- and long-term (MLT) official export credit financing by the G-7 ECAs totaled \$65.4 billion. The United States represented 20% of total new MLT financing by the G-7 countries. In comparison to the G-7, the emerging economies of Brazil, China, and India conducted a total of \$72.7 billion in new MLT financing in 2010, surpassing that of the G-7 (see **Table 2**).

**Table 2. Selected ECAs: New Medium- to Long-Term Official Export Credit Volumes**  
(Billions of U.S. dollars)

Country	ECAs	Year			
		2007	2008	2009	2010
G-7 ECAs (OECD Members)					
Canada	Export Development Canada (EDC)	0.5	1.5	2.0	2.5
France	Compagnie Française d’Assurance pour le Commerce Extérieur (COFACE)	10.1	8.6	17.8	17.4
Germany	Euler Hermes	8.9	10.8	12.9	22.5
Italy	S.p.A. Servizi Assicurativi del Commercio Estero (SACE)	3.5	7.6	8.2	5.3
Japan	Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI)	1.8	1.5	2.7	2.9

<sup>16</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2009 through December 31, 2009*, Washington, DC, June 2010, p. 99.

<sup>17</sup> Meeting with Ex-Im Bank officials, May 5, 2011.

<sup>18</sup> Berne Union, press release, July 12, 2010, <http://www.berneunion.org.uk/pdf/Press%20Release%20July%202010.pdf>.

Country	ECAs	Year			
United Kingdom	Export Credits Guarantee Department (ECGD)	0.4	0.8	1.4	1.9
United States	Export-Import Bank of the United States (Ex-Im Bank)	8.2	11.0	17.0	13.0
Total G-7 Volumes		33.4	41.8	62.0	65.4
Selected Emerging Market Countries					
Brazil	Brazilian Development Bank (BNDES), Seguradora Brasileira Crédito à Exportação (SBCE)	7.0	7.6	10.5	18.2
China	Export-Import Bank of China, Sinosure, China Development Bank (CDB)	33.0	52.0	51.1	45.0
India	Export-Import Bank of India, Export Credit Guarantee Corporation of India (ECGC)	8.5	8.7	7.3	9.5
Total Brazil, China, and India Volumes		48.5	68.3	68.9	72.7

**Source:** Data on export credit volumes from Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2010 through December 31, 2010*, Washington, DC, June 2011.

**Notes:** The Ex-Im Bank Competitiveness Report states that, for the G-7 countries, the Bank attempted to differentiate the standard, officially supported export credits that are regulated by the OECD Arrangement and export credits that are not subject to the OECD Arrangement. The Competitiveness Report also states that data on export credit volumes for Brazil, China, and India are approximations of activity based on available information and may be overstated due to the analytic assumptions used by the Bank.

## Characteristics of ECAs

ECAs vary widely in a number of characteristics, including

- Mandates:** Some ECAs focus primarily on advancing commercial objectives, such as facilitating exports, business-to-business trade, and filling in the gaps in the private sector export credit activity. A number of the G-7 ECAs have commercially oriented objectives (i.e., to provide finance where private sector finance is not available and to charge fees for their services), including those of the United States, the United Kingdom, France, Germany, and Japan. Canada's ECA takes a more expansive view of commercial interests than some other ECAs, and focuses on supporting Canadian exports and developing Canada's trade capacity both directly and indirectly. Other ECAs, generally in emerging markets, focus primarily on advancing economic development objectives, such as increasing living standards, and boosting the competitiveness of their firms.
- Products:** ECAs offer a range of products that may include direct loans, guarantees, working capital loans, and tied aid. These products can vary by short, medium, and long terms. Some ECAs offer credit and insurance products directed toward supporting exports, whereas others focus on supporting both exports and overseas investment. In the United States, Ex-Im Bank provides credit and insurance to support exports, whereas the Overseas Private Investment Corporation (OPIC), another U.S. agency, provides political risk insurance to support overseas investment. In several other countries, such as Japan and

- Canada, the same entity (i.e., JBIC and EDC, respectively) conducts both export and investment support and others forms of export assistance.
- **Policies:** Some ECAs determine whether or not to support export contracts based on an array of criteria, such as the economic and environmental impact of the proposed transactions or the strategic implications of the financing. Compared with other ECAs (both OECD member and non-member), Ex-Im Bank's policies for extending support tend to be more stringent.

## Issues for Congress

Congressional examination of Ex-Im Bank for reauthorization generally has included examining the Bank's effectiveness and efficiency of the Bank in supporting exports broadly and in particular sectors, specific Bank policies, and its competitiveness in comparison to foreign ECAs. Many of the issues discussed below arise from congressional statutes and mandates incorporated into Ex-Im Bank's charter.

### The Bank's Mission

Over time, Congress has debated the acceptability of federal support of private firms to export, with some viewing federal export financing as a form of targeted favoritism, or "corporate welfare," and others considering it to be acceptable for certain large-scale or high-cost capital-intensive projects where private financing is unavailable. Advocates of Ex-Im Bank's credit and insurance programs argue that such efforts are critical in addressing market failures (such as imperfect information and barriers to entry) and countering foreign governments' export financing efforts. Others, including some economists, hold that such programs merely shift production among sectors within the economy and do not permanently add to the overall level of a nation's exports, which they argue is influenced by a combination of domestic macroeconomic factors and global economic developments in the long run. Some also may question whether this form of government intervention has crowded out private sector financing.

A longstanding concern about Ex-Im Bank centers on the composition of firms benefiting from Ex-Im Bank services. Large firms account for about 80% of the *dollar value* of Ex-Im Bank's credit and insurance authorizations and small firms account for about 20%. In contrast, small firms account for about 80% of the *number* of Ex-Im Bank's credit and insurance transactions, whereas large firms account for about 20%. Supporters note that Ex-Im Bank's mission is to support U.S. businesses of all sizes and that the Bank places special emphasis on supporting the exports of small businesses. Some supporters argue that focusing on the dollar value of Ex-Im Bank support to small businesses may be misleading because the larger size of corporations naturally results in a scale of business that requires larger volumes of support.

Some supporters also contend that Ex-Im Bank data do not reflect all of the small businesses that benefit from Ex-Im Bank services, such as "invisible" exporters who provide goods and services used by other companies that directly export. For example, one study identified more than 33,000 SMEs that supplied manufactured parts or services to five larger companies (General Electric, Boeing, Case New Holland, Siemens Power Corporation, and Bechtel) that use Ex-Im Bank

financing. According to the study, the SMEs identified constitute a representative sample of those SMEs that serve as primary exporters for the larger “exporters of record.”<sup>19</sup>

Another point of debate is the impact of the Bank’s activities on U.S. taxpayers. Supporters argue that Ex-Im Bank is a self-sustaining agency; its charter requires a reasonable assurance of repayment for all credit authorizations; and the Bank monitors credit and other risks in its portfolio.<sup>20</sup> Ex-Im Bank’s loan loss rate has been low, at approximately 1.5%.<sup>21</sup> Nevertheless, opponents argue that because Ex-Im Bank’s loans are backed by the full faith and credit of the U.S. government, taxpayers are potentially burdened if the Bank’s projects fail.

## National Content

The OECD Arrangement does not contain specific guidelines regarding content requirements, which relate to the amount of domestic and foreign content (e.g., labor, materials, and overhead costs) associated with the production of an export. Each ECA generally establishes its own guidelines in this area, and these guidelines tend to vary among ECAs (see **Table 3**).

Ex-Im Bank’s content policy limits its support, for all medium- and long-term transactions, to the lesser of (1) 85% of the value of all goods and services contained within a U.S. supply contract or (2) 100% of the U.S. content of an export contract. In effect, Ex-Im Bank has a foreign content allowance of 15%; if the foreign content exceeds 15%, the Bank’s support would be reduced.<sup>22</sup>

Ex-Im Bank’s content policy seeks to ensure that its export financing targets the U.S. content directly associated with goods and services produced in the United States. Ex-Im Bank considers U.S. content to be “a proxy to evidence support for U.S. jobs.” The policy is intended to encourage U.S. companies to maximize their sourcing of U.S. content. However, Ex-Im Bank recognizes that U.S. export contracts may contain goods and services that are foreign-originated, and it allows financing support for such contracts, subject to certain restrictions and limitations. According to Ex-Im Bank, its policy “reflects a concerted attempt to balance the interests of labor and industry.”<sup>23</sup>

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<sup>19</sup> Coalition for Employment through Exports (CEE), *2011 Supplier Study*.

<sup>20</sup> *Ibid.*, pp. 26, 37.

<sup>21</sup> U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Oversight and Reauthorization of the Export-Import Bank of the United States*, Testimony of Fred P. Hochberg - President and Chairman, Export-Import Bank of the United States, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., May 17, 2011.

<sup>22</sup> See Ex-Im Bank’s content policies for more details: [http://www.exim.gov/products/policies/foreign\\_medium-long.cfm](http://www.exim.gov/products/policies/foreign_medium-long.cfm).

<sup>23</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2009 through December 31, 2009*, Washington, DC, June 2010, p. 77.

**Table 3. Foreign Content Requirements of Selected Country ECAs**

Country	Maximum Allowable Foreign Content to Receive Full Medium- and Long-Term Financing
Australia	15%
Canada	Support will be given if the transaction benefits national interest
France	40%; however, may allow more foreign content in transactions that advance strategic/national interests.
Germany	30% combined local and foreign (non-domestic) content; however may allow more non-domestic content in transactions that advance strategic/national interests
Italy	Support will be given if the transaction benefits national interest
Japan	70%; however, foreign content may be higher on a case-by-case basis
United States	15%
United Kingdom	80%; however, may allow more foreign content in transactions that advance strategic/national interests.

**Source:** Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2009 through December 31, 2009*, Washington, DC, June 2010; meeting with Ex-Im Bank officials, May 5, 2011; House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *The Role of the Ex-Im Bank in U.S. Competitiveness and Job Creation*, opening statement by Chairman Gary Miller, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011; OECD, *Export Credit Financing Systems in OECD Member Countries and Non-Member Economies*, May 1, 2008.

**Notes:** These reported data on foreign content requirements should not be considered definitive; rather, these data are intended to give an idea of the different types of content requirements that foreign ECAs may employ. ECAs may not apply their content requirements on an absolute basis, and may consider requests for export financing on a case-by-case basis. They may apply flexibility to their content rules, for example, flexibility in terms of definition, percentage of foreign content, or interpretation of national benefit.

### **Changing International Perspectives on National Content**

Traditionally, ECAs have linked their support for exports with national content. For some countries, exports of manufactured goods have typically accounted for a significant portion of their gross domestic product and economic growth. However, a number of ECAs have been re-evaluating their national content models in light of changes in the global economy. Over the past several decades, the process of globalization has led to the rise of global supply chains. Communication, transportation, and other technology advances enable firms to break up the production process into discrete steps and to manufacture goods and inputs in different locations to be globally competitive. Consequently, manufacturing and production have become transnational.<sup>24</sup>

Given the changing nature of the global business environment, many ECAs have been reducing national content requirements. In the early 2000s, the majority of ECAs had requirements for 70%-100% national content, with a few ECAs permitting national content of 50%. In comparison, fewer ECAs currently have national content requirements of higher than 80%. Some, like Canada's official ECA, have no fixed requirement, whereas the U.S. Ex-Im Bank has an 85% requirement. Most ECAs now have fixed maximum allowances of foreign content of between 30% and 50%.<sup>25</sup>

Some ECAs have eliminated national content rules in favor of assessing export contracts on the basis of their contribution to the "national interests" of the country. ECAs may evaluate transactions on a case-by-case basis, allowing them flexibility in supporting export contracts, possibly choosing to support deals with especially high foreign content in excess of their typical limit if they deem such transactions to be in the national interest. In some cases, ECAs may require higher national content if a particular transaction is considered to be especially risky.<sup>26</sup> Some ECAs have been changing their definitions of what constitutes national content. In addition to accounting for direct exports of goods and services, they may also consider trade and investment that both directly and indirectly enhance the national interest. For instance, some ECAs may support exports by foreign subsidiaries of their national exporters. Such re-interpretations may be geared toward increasing the competitiveness of national companies in the global economy.<sup>27</sup>

Canada's content rules are among the most flexible of ECAs. The mandate of Export Development Canada (EDC), Canada's ECA, is "to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities. When determining whether to participate in a transaction, EDC considers the transaction's "potential benefit to Canada." It takes into account factors such as the transactions' effect on Canadian gross domestic product; research and development spending in Canada; possibility of increased access to global markets or integration in a key supply chain; employment impact; benefit to SMEs; the destination market for transaction (developed or developing); support of new technology or new product; positive environmental impact; and dividends, royalties, and licensing fees.<sup>28</sup>

Given the proliferation of global supply chains, many U.S. businesses have been supportive of introducing additional flexibility in Ex-Im Bank's content requirements. For example, the Coalition for Employment for Exports, an advocacy group composed of exporters, banks, and trade associations, has recommended that Ex-Im Bank lower its domestic content requirement to 70% (i.e., the foreign content limit would be 30%); expand the definition of content to include "R&D, project and global supply chain management, and other elements" that reflect the value of the U.S. innovation economy; and to establish a "pilot program" whereby the Bank could support exports on a national interest benefit, which would allow the Bank to support exports that generate benefits to the U.S. economy "that are not otherwise captured by exclusive focus on the domestic manufactured content requirement."<sup>29</sup> Other industry proposals include recommending that Ex-Im Bank lower U.S. content requirements for full financing to match the average among

<sup>24</sup> Berne Union, *Berne Union 2008*, pp. 29-31, <http://www.berneunion.org.uk/pdf/Berne%20Union%20Yearbook%202008.pdf>.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Export Development Canada (EDC), "Canadian Benefits," [http://www.edc.ca/english/corporate\\_canadian\\_benefits.htm](http://www.edc.ca/english/corporate_canadian_benefits.htm).

<sup>29</sup> Coalition for Employment through Exports (CEE), "Ex-Im Bank 2011 Reauthorization: CEE Position Paper."

OECD countries or that Ex-Im Bank adopt a policy similar to the European Union ECAs and “automatically cover non-U.S. content for U.S. FTA [free trade agreement] partners who offer reciprocity for U.S. content under their export credit agencies.”<sup>30</sup>

However, labor groups tend to be concerned about the impact that lowering national content requirements may have on employment in the home country. There is concern that reducing these requirements may result in an outsourcing of labor to other countries. Others argue that such requirements may induce firms to use other ECAs for alternative sources of financing, which may cause them to shift production overseas.

## **Support for Services Exports**

Ex-Im Bank offers limited export credit and insurance to support exports of U.S. services. This is partly a function of the Bank’s content rules, according to U.S. businesses. Some argue that the Bank’s definition of national content does not take into account “the high value U.S. jobs in R&D, supply chain management, software design engineering, business development, and marketing, IP [intellectual property] support, branding, and profit.”<sup>31</sup> Business groups contend that Ex-Im Bank should target the services industries more given that services constitute the fastest growing sector of the U.S. economy.

There has been a broader recognition in the federal government that “traditional advocacy and trade promotion program efforts may overlook services.” As part of implementing the NEI, the Export Promotion Cabinet recommends building on the activities and initiatives outlined in the other priority areas with an enhanced focus on services; ensuring better data and measurement of the services economy to help inform policy decisions more adequately; continuing to assess and focus on supporting services exports in key sectors and markets; and conducting better coordination of services export promotion efforts.<sup>32</sup>

## **Co-Financing**

Ex-Im Bank introduced the co-financing program in 2001. Co-financing arrangements enable export credit financing from multiple ECAs. They allow goods and services from two or more countries to be marketed to a buyer under a single ECA financing package. According to U.S. exporters and lenders, co-financing arrangements allow Ex-Im Bank to participate with other ECAs on the non-U.S. content portion of an export contract. Otherwise, Ex-Im Bank would be limited to supporting the U.S. portion of the export contract and face the risk of the U.S. exporter not winning the sale because the ECA supported portion was insufficient or the terms and conditions were disadvantageous. In 2010, Ex-Im Bank conducted 34 co-financing transactions totaling \$6.5 billion. About 98% of the volume of Ex-Im Bank co-financing transactions involved aircraft. The Bank states that, in most aircraft transactions, without co-financing, the exporter

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<sup>30</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement of Karan Bhatia, Vice President & Senior Counsel, International Law & Policy, General Electric*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

<sup>31</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement for the Record from the Coalition for Employment through Exports*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

<sup>32</sup> *Report to the President on the National Export Initiative: The Export Promotion Cabinet’s Plan for Doubling U.S. Exports in Five Years*, Washington, DC, September 2010, [http://www.whitehouse.gov/sites/default/files/nei\\_report\\_9-16-10\\_full.pdf](http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf).

would not have been able to offer the maximum 85% support to its customers in one financing package.<sup>33</sup>

## Shipping

Ex-Im Bank's shipping policy is based on the Jones Act (46 U.S. Code §55101), which requires that merchandise being transported by water between U.S. points must travel in U.S.-built and U.S.-citizen-owned vessels that are registered in the United States, and Public Resolution 17 (PR-17, approved March 26, 1934 by the 73<sup>rd</sup> Congress), whose purpose is to "support the U.S. strategic objective of maintaining a merchant marine sufficient to carry a substantial portion of its waterborne export and import foreign commerce."<sup>34</sup> Under Ex-Im Bank's shipping policy, certain products supported by Ex-Im Bank must be transported exclusively on U.S. vessels. Transactions subject to the Ex-Im Bank shipping requirement include direct loans of any amount, guarantees above \$20 million, and products with repayment periods of more than seven years. Under limited conditions, a waiver on this requirement may be granted on a case-by-case basis by the U.S. Maritime Administration (MARAD).

Supporters contend that maintaining U.S. flag vessels is "critical to U.S. national security" and "essential to maintaining a commercial U.S.-flag merchant marine."<sup>35</sup> They argue that, from a budgetary standpoint, cargo preference is a "highly cost efficient way" to support a privately owned U.S.-flag commercial fleet. Because the goods will be shipped regardless of which ship carries them, and therefore the cost will be incurred regardless, "requiring that some of the cargoes be shipped on U.S.-flag vessels leverages that basic transportation expense to provide other benefits to the nation at a fraction of direct cost purchase." The concern under this view is that otherwise, the U.S. government would have to "duplicate sealift capacity at enormous expense with government-owned vessels."<sup>36</sup> These merchant U.S.-flag vessels are then available to transport U.S. troops and military equipment. Proponents also argue that the cargo preference requirements help to support the U.S. shipping industry and the employment of shipboard crew.

Critics of the shipping policy argue that "both U.S. strategic requirements and the global shipping market have changed dramatically."<sup>37</sup> U.S. business groups contend that Ex-Im Bank's shipping requirements can make U.S. goods less competitive relative to foreign goods for a host of reasons. Most other ECAs do not have such cargo preference requirements. Of the other G-7 ECAs, only the ECAs of France and Italy have cargo preference requirements similar to those of Ex-Im Bank. In addition, U.S.-flagged shippers generally charge higher rates. There may also be capacity constraints because there are a limited number of U.S. bulk cargo carriers. According to lenders and exporters, the higher rates and the route scheduling challenges associated with shipping with U.S.-flagged vessels can make it difficult for them to use Ex-Im Bank support. For

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<sup>33</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2010 through December 31, 2010*, Washington, DC, June 2011, p. 42.

<sup>34</sup> Ex-Im Bank, *Ex-Im Bank Policies: Shipping Requirements (MARAD)*, <http://www.exim.gov/products/policies/shipping.cfm>. Maritime Administration, *U.S.-Flag Waterborne Domestic Trade and Related Programs*, [http://www.marad.dot.gov/ships\\_shipping\\_landing\\_page/domestic\\_shipping/Domestic\\_Shipping.htm](http://www.marad.dot.gov/ships_shipping_landing_page/domestic_shipping/Domestic_Shipping.htm).

<sup>35</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement of USA Maritime*, Hearing on the Role of the Export-Import Bank in U.S. Competitiveness and Job Creation, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 11, 2011.

<sup>36</sup> *Ibid.*

<sup>37</sup> Coalition for Employment through Exports, *Ex-Im Bank 2011 Reauthorization: CEE Position Paper*.

example, in one transaction with Ex-Im Bank, the cost of U.S. shipping reportedly was five times the cost of non-U.S. shipping.<sup>38</sup> Some critics further argue that, in some instances, the increased cost of an export contract associated with the shipping requirement may be the only reason why the U.S. exporter loses business to a foreign competitor. In addition, some businesses argue that obtaining a waiver from MARAD can be time-consuming, burdensome, and complex.

## **Economic and Environmental Impact Analysis**

Congress requires the Bank to take into account the possible economic and environmental implications of proposed Ex-Im Bank support for certain export transactions.

- **Economic considerations:** Congress requires that Ex-Im Bank-financed exports have no adverse effects on U.S. industry and employment. The Bank must conduct an economic impact assessment on all transactions of more than \$10 million of Ex-Im Bank financing or transactions that are subject to specific trade measures (such as anti-dumping and countervailing duties). Chiefly, Ex-Im Bank may not support projects that enable foreign production of an exportable good that would compete with U.S. production of the same, or a similar, good and that would cause “substantial injury” to U.S. producers. Ex-Im Bank also may not support projects that result in the foreign production of a good that is substantially the same as a good subject to specified U.S. trade measures such as anti-dumping or countervailing duty investigations.
- **Environmental considerations:** Ex-Im Bank’s charter authorizes the Bank to grant or withhold financing support after taking into account the potential beneficial and adverse environmental effects of goods and services for which Ex-Im Bank direct lending and guarantee support is requested. The Bank must conduct an environmental review on all transactions greater than \$10 million.

Some U.S. exporters are concerned that Ex-Im Bank’s economic and environmental impact policies may be too overly burdensome and detract from Ex-Im Bank’s core mission to support U.S. exports and jobs. For example, some might argue that situations in which Ex-Im Bank denies financing for projects that do not meet environmental requirements are contrary to Ex-Im Bank’s mission because denial of such financing may result in lost export and employment opportunities. According to the Ex-Im Bank’s 2010 Competitiveness Report, these policies can lower its competitiveness. Among the G-7 ECAs, Ex-Im Bank is the only ECA that is required to use an economic impact analysis to weigh the costs and benefits of supporting an export. Foreign ECAs do not tend to take environmental standards into consideration to the extent that the United States does when determining whether to support a transaction. Currently, Ex-Im Bank is the only ECA in the G-7 to commit systematically to publishing environmental monitoring reports, which includes carbon accounting of projects. In addition, Ex-Im Bank faces competition from ECAs outside of the OECD, such as those from China, that tend to be less rigorous in their environmental requirements for financing than OECD countries. However, import-sensitive U.S. businesses, labor groups, environmental groups, and other stakeholders contend that the Bank must balance U.S. exporting interests with other policy considerations.

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<sup>38</sup> U.S. Congress, House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, *Statement for the Record from the Coalition for Employment through Exports*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., March 10, 2011.

## Tied Aid

As part of its direct lending program, the Bank has a Tied Aid Capital Projects Fund (TACPF), often referred to as the tied aid “war chest,” that it uses to counter specific projects that are receiving foreign officially subsidized export financing, or “concessional” below-market financing. Tied aid may be used 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.). The United States does tie substantial amounts of its agricultural and military aid to U.S. goods, but it has generally avoided using such financing to promote U.S. capital goods exports. The tied aid war chest stands at about \$171 million.<sup>39</sup> 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. Applications for the tied aid fund are subject to review by the Treasury Department.

According to the 2010 Ex-Im Bank Competitiveness Report, some U.S. exporters and lenders believe that Ex-Im Bank’s tied aid policies may place them at a competitive disadvantage. U.S. exporters have expressed concern that increased tied aid activity by other countries, coupled with the more flexible tied aid rules of other ECAs, has threatened certain U.S. exporter sales prospects. Some groups argue that the tied aid war chest funds should be increased and that Ex-Im Bank should have more flexibility and authority in initiating tied aid to compete with foreign ECAs for export contracts.

### International Tied Aid Activity and Trends

The United States has worked through the OECD for many years to reduce tied aid competition. In 2010, tied aid activity (as reported to the OECD) stood at \$5.5 billion, up from \$4.6 billion in 2009 and down from \$7.3 billion in 2008 (in part due to the international financial crisis and a subsequent decline in international trade). Japan, Korea, France, Austria, and Spain accounted for nearly 90% of all tied activity. The East Asia and Pacific region was the primary recipient of tied aid. Vietnam and China were the top recipient countries. Tied aid was generally used for transport and storage, education, health, and water sanitation projects, primarily for non-commercially viable projects. However, the use of concessional financing by some foreign countries has been increasing in recent years. Countries have used tied aid to establish a market presence in countries for strategic industries such as renewable energy. A growing number of emerging economies that are outside of the OECD, such as China, have been conducting tied aid transactions.<sup>40</sup>

Ex-Im Bank recently agreed to a \$477 million financing deal to match China’s financing terms in order to entice the Pakistani government to buy 150 General Electric Company locomotives. China, which is not a member of the OECD, offered financing terms for the export of Chinese railcars to Pakistan that were cheaper than those allowed by the OECD Arrangement on Export Credits. The matching deal required Ex-Im Bank to work with the OECD.<sup>41</sup>

## Congressional Mandates on Targeting Ex-Im Bank Activity to Specific Sectors

Certain congressional directives in Ex-Im Bank’s charter and appropriations language require Ex-Im Bank to support exports in specific sectors, namely the exports of small businesses and exports of “green” technologies. The Bank’s charter requires it to make available not less than

<sup>39</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2010 through December 31, 2010*, Washington, DC, June 2011, p. 67.

<sup>40</sup> Ex-Im Bank FY2010 annual report.

<sup>41</sup> Sudeep Reddy, “U.S. Export Financing Challenges China,” *The Wall Street Journal*, January 12, 2011.

20% of its aggregate loan, guarantee, and insurance authority to directly finance exports by small businesses. The charter also requires the Bank to promote the export of goods and services related to renewable energy sources; in recent years, appropriations language has further specified that the Bank should make available not less than 10% of its aggregate credit and insurance authority for the financing of exports of renewable energy technologies or energy efficient end-use technologies.

Supporters of such congressional mandates contend that they enable the Ex-Im Bank to support strategic, high-growth sectors in the U.S. economy and, as in the case of SMEs, to support U.S. exporters that need the financing assistance the most. Critics contend that such policies essentially are a mechanism whereby the federal government determines “winners and losers” in the market, maintaining that such action can lead to economic distortions and harm other productive U.S. firms. Although such requirements give Congress a greater role in guiding Ex-Im Bank’s activities, some stakeholders contend that they may constrain the activities of the Bank and obscure its mission to support U.S. exports and employment broadly speaking. They also argue that Ex-Im Bank’s budget is inadequate to support multiple missions.

Some stakeholders express concern that such mandates may not be feasible to achieve. Although Ex-Im Bank has met the small business target in recent years, its authorizations of “green” exports, while increasing, has been less than 2% of its total annual authorizations. In congressional testimony, Ex-Im Bank President and Chairman Hochberg stated,

While Ex-Im understands and appreciates the legislative goal that 10% of its authorizations should support environmentally-beneficial exports, this may be a challenging target to achieve. Given that Ex-Im’s expected FY2010 authorizations of about \$25 billion and that the total value of renewable energy exports from the United States is about \$2 billion, Ex-Im could support virtually all renewable exports and still not reach the 10% goal. That said, the Bank remains committed to expanding its support of environmental exports....<sup>42</sup>

## **International Context**

Stakeholders have debated whether the OECD Arrangement on Officially Supported Export Credits is effective in leveling the playing field for exporters in the current trading environment. By some estimates, the OECD Arrangement has saved U.S. taxpayers \$800 million annually. According to the Office of the U.S. Trade Representative, the minimum interest rate rules set by the OECD Arrangement limit subsidized export financing and reduce competition based on below-cost interest rates and long repayment terms by ECAs. The minimum exposure fees for country risks also reduce costs. In addition, the further leveling of the playing field created by the OECD tied aid disciplines is estimated to have boosted U.S. exports by \$1 billion a year.<sup>43</sup>

Some critics argue that the OECD Arrangement is ineffective in disciplining the activities of OECD members that are not compliant with the agreement. For example, there is an OECD aircraft understanding that developed-country ECAs will not support export financing in other

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<sup>42</sup> U.S. Congress, House Committee on Financial Services, *Ex-Im Bank Oversight: The Role of Trade Finance in Doubling Exports over Five Years*, Fred P. Hochberg, President and Chairman of the Export-Import Bank, 111<sup>th</sup> Cong., September 29, 2010.

<sup>43</sup> Office of the U.S. Trade Representative, *The Organization for Economic Cooperation and Development (OECD)*, <http://www.ustr.gov/trade-agreements/wto-multilateral-affairs/oeecd>.

developed countries. However, a number of countries, such as Canada and Japan, may be doing so now. Ex-Im Bank abides by this rule, but businesses are concerned that this practice places them at a competitive disadvantage. There are also questions about the relevance of the OECD Arrangement in light of the growing official export credit activity of non-OECD members such as China, Brazil, and India, who are not obligated to comply with the OECD limitations on the terms and conditions of export credit activity.

## **Potential Options for Congress**

A range of potential options are available to the 112<sup>th</sup> Congress as it considers reauthorization of Ex-Im Bank. Some stakeholders may support or oppose the Bank generally, while others may be broadly supportive of the Bank but take issue with some of its specific policies and programs.

### **Structure of Ex-Im Bank**

Congress may examine the organizational structure of Ex-Im Bank. Policy options include maintaining Ex-Im Bank as an independent agency, reorganizing or privatizing the functions of the Bank, or terminating the Bank.

#### **Maintain Status Quo**

Congress could choose to maintain the status quo, keeping Ex-Im Bank as an independent federal government agency that serves as the official ECA of the United States. Supporters of this option may argue that it would provide the Bank continuity in its current activities, maintain the Bank's current role in the federal government's export promotion efforts, allow the Bank's transactions the benefits of being backed by the full faith and credit of the U.S. government, and avoid potential drawbacks of alternative policy options (described below). Critics may contend that maintaining the status quo neglects to address issues such as the effectiveness, efficiency, and relevance of the Bank in promoting exports through its credit and insurance programs.

#### **Reorganize the Functions of the Bank**

Congress may consider introducing legislation that would reorganize the functions of Ex-Im Bank. In recent months, there has been a focus on possible reorganization of the U.S. government agencies involved in export promotion. On March 11, 2011, President Obama issued a memorandum directing the Office of Management and Budget (OMB) to conduct a review of "Federal agencies and programs involved in trade and competitiveness, including analyzing their scope and effectiveness, areas of overlap and duplication, unmet needs, and possible cost savings" and to submit recommendations on reorganizing and streamlining federal government functions in these areas.

For example, Congress could consolidate all federal government trade functions—such as providing information, counseling, and export assistance services; funding feasibility studies; financing and insuring U.S. trade; conducting government-to-government advocacy; and negotiating new trade agreements and enforcing existing ones—into a new "Department of Trade." Alternately, Congress could transfer all of the export financing functions of the Ex-Im Bank, USDA, and SBA into one centralized U.S. export credit agency.

Proponents of trade reorganization argue that consolidation may increase the effectiveness of federal export promotion efforts and reduce government costs, among other objectives. Supporters maintain that consolidation would also provide a more streamlined rationale for U.S. export promotion services based on more clearly defined goals. Critics contend that such proposals could result in the creation of a large federal bureaucracy, with little effect on the ability of the U.S. government to expand exports. Some stakeholders are concerned that consolidation of trade functions may result in federal export assistance that is not responsive to the specific needs of certain exporters, such as small- and medium-sized businesses or agricultural businesses. Terminating certain agencies may result in cost savings, but there may also be costs associated with transferring their functions, if deemed necessary, to other agencies.

### **Privatize the Functions of the Bank**

Congress may consider privatizing the functions of Ex-Im Bank. Central premises behind this option may include the fact that the Bank is self-sustaining, which is seen as proof that there is no market failure; concerns that the Bank may compete with or crowd out private sector export financing activity; and the notion that the private sector is more efficient and better suited than the federal government to conduct export financing activity. Such a proposal may also be rationalized by the view that it would shift the potential costs and risks of exporting away from the public sector, including U.S. taxpayers, and toward the private sector.

Others may oppose this option on the grounds that the federal government plays a unique role in its capacity to address market failures, which dampen the level of U.S. exports. Critics of privatizing Ex-Im Bank functions assert that the Bank's credit and insurance activities backed by the full faith and credit of the U.S. government may make certain export transactions, such as those for major infrastructure projects, more commercially attractive or may give the Bank leverage to guarantee repayment in a way that is not available to the private sector. In addition, critics of privatization may also contend that federal financing of exports is critical in times of financial crisis, which can lead to a shortfall in the private sector financing, and because of growing official export credit support by other countries. Furthermore, privatizing the Bank may raise logistical issues, such as how would the newly privatized entity issue securities and what would happen to existing export credit and insurance support obligations?

### **Terminate the Bank's Authority**

Congress may consider terminating Ex-Im Bank on the basis of a number of concerns, including the size and scope of the federal government, the economic rationale of the Bank, corporate welfare arguments, the impact of the Bank on taxpayers (because Ex-Im Bank financing is backed by the full faith and credit of the U.S. government), and the effectiveness of the Bank in promoting exports.

Ex-Im Bank receives significant support from the business community that is largely rooted in the belief that Ex-Im Bank's programs equip U.S. firms with tools to compete with foreign firms that have access to similar support through their countries' ECAs. Business stakeholders generally contend that there are aspects of Ex-Im Bank's programs and policies that could be improved to enhance the Bank's support for exports and would likely strongly oppose proposals to terminate the Bank. Thus, terminating the Bank may raise questions about the extent to which implementing the National Export Initiative could be successful without federal government export financing through Ex-Im Bank.

## **Length of Reauthorization**

If Congress chooses to reauthorize Ex-Im Bank, it may debate the length of time to extend the Bank's authority. In recent years, Congress has extended Ex-Im Bank's authority for a few years at a time. For example, the Export-Import Bank Reauthorization Act of 2002 (P.L. 107-189) extended Ex-Im Bank's authority for four years through FY2006, and the Export-Import Bank Reauthorization Act of 2006 (P.L. 109-438) extended Ex-Im Bank's authority for five years through FY2011. Policy options related to reauthorization time length include

- maintaining status quo, extending Ex-Im Bank's authority for a few years at a time;
- extending the Bank's authority for a long period of time; or
- providing the Bank with a "permanent" reauthorization.

In considering the length of the reauthorization terms, some policymakers may argue that frequent reauthorizations allow for more opportunity for congressional oversight of Ex-Im Bank's activities, while others may argue that longer-term or permanent reauthorizations would benefit Ex-Im Bank's long-term strategic planning.

## **Ex-Im Bank's Policies**

Legislation to reauthorize Ex-Im Bank has generally included not only extensions of Ex-Im Bank's authority but, in some cases, congressional directives related to Ex-Im Bank's programs and policies. Congress may examine Ex-Im Bank's policies and consider some policy options.

### **Maintain Status Quo**

Congress may choose to pass a "clean reauthorization" of Ex-Im Bank that does not introduce any major changes to the Bank's policies. Some may argue that the Bank has proven to be an effective facilitator of U.S. exports and jobs in its nearly 70-year history and has demonstrated the important role that it plays in supporting exports during the international financial crisis. Proponents of this policy option may argue that Congress has struck a fair balance among the various stakeholder interests—such as business and labor interests—in its present requirements of Ex-Im Bank and that adjustments to this balance are unwarranted. However, there have been a number of longstanding issues concerning the Bank raised by various stakeholder groups during previous congressional reauthorization debates that may continue to demand attention.

### **Revise Ex-Im Bank's Policies**

Congress could revise the Bank's policies related to the requirements and limitations on Ex-Im Bank's credit and insurance activities. Congress could consider, as part of legislation to reauthorize the Bank, potential changes to some of Ex-Im Bank's policies that stakeholders believe are detracting from Ex-Im Bank's core mission of boosting U.S. exports and jobs. Congress could also consider revising the Bank's policies that relate to other policy interests, including supporting U.S. labor interests, protecting the environment, and promoting U.S. foreign policy and development objectives.

- Congress could examine and revise the Bank’s policies related to domestic and foreign content, cargo preference requirements, the economic and environmental impact assessments, the tied aid war chest, and congressional mandates directing Ex-Im Bank to target its support to specific types of exports. For example, Congress could direct the Bank to broaden what constitutes “national content” or direct the Bank to transform the economic and environmental considerations into “positive” requirements—that is, the Bank could support projects that benefit the domestic industry and employment and the environment, rather than be required to deny applications for financing for export contracts that have adverse effects.
- Congress could examine and revise other limitations on the Bank, such as the ceiling on Ex-Im Bank’s total credit and insurance exposure (statutorily fixed at \$100 billion) or the threshold amount at which the Bank is required to notify Congress about a proposed transaction before the Board of Directors grant final approval for the transaction (statutorily fixed at \$100 million).

In addressing such policy changes, Congress may attempt to strike a balance between export promotion and other public policy goals that might be in tension with export promotion. Congress also may seek to balance its interest in targeting Ex-Im Bank’s support for specific types of exports against the Bank’s desire for flexibility in fulfilling its general mandate to support U.S. exports.

## **Global Competitiveness Issues**

The increasingly competitive nature of international ECA activity raises new challenges for Ex-Im Bank, both in terms of the international disciplines guiding ECA activity and Ex-Im Bank’s understanding of international export credit activity and trends. These challenges give rise to additional potential options for Congress.

### **Strengthen International Disciplines Guiding Official Export Credit Activity**

Congress could examine and seek to strengthen the international disciplines guiding ECA activity, working to “update” these disciplines to reflect current trends in ECA activity by both developed and developing countries. For example, Congress could direct the United States to

- encourage greater engagement by the OECD with non-OECD emerging market economies, such as Brazil, China, and India, on official export credit activity;
- negotiate rules in the OECD that limit ECA financing in other developed countries; and
- pursue a greater role for the WTO in disciplining international ECA activity.

Supporters argue that such directives may help to level the playing field for U.S. exporters by reducing trade-distorting export credit competition and associated economic losses. Skeptics might argue that changes, if achieved, may be slow to materialize given the complex nature of multilateral and plurilateral negotiations. They could also argue that it may be difficult to include comprehensive rules on publicly backed export credit activity that cover both developed and developing countries.

## **Enhance Analysis and Understanding of Global Competitiveness Context**

Congress may wish to explore how best to enhance the United States's understanding of the global competitiveness context in which the Bank and U.S. exporters operate. One possible avenue of focus would be to revise Ex-Im Bank's annual competitiveness report, which is required by Congress and discusses the competitiveness of the Bank's financing services.<sup>44</sup> Congress could direct changes to the competitiveness report, such as to enhance the comparative analysis, for example, to include more comprehensive data on Ex-Im Bank's performance vis-à-vis other ECAs on the basis of volumes of transactions, types of products, industry sectors, and exporters supported.<sup>45</sup>

The introduction of additional requirements may allow more informed, updated analysis of Ex-Im Bank's competitive position vis-à-vis foreign ECAs. Skeptics could argue that it may be difficult to access some of the additional comparative data about foreign ECAs. They could also argue that such requirements may pose increased demands on Ex-Im Bank resources.

## **Legislative Action in the 112<sup>th</sup> Congress**

H.R. 2072, the Securing American Jobs Through Exports Act of 2011, was introduced and referred to the House Financial Services Committee on June 1, 2011. On June 22, 2011, the Committee approved the bill and ordered it to be reported favorably to the full House. H.R. 2072 would extend Ex-Im Bank's authority through September 30, 2015. It would increase the Bank's lending authority to \$120 billion in FY2012, \$140 billion FY2013, and \$160 billion in FY2014 and for subsequent years. The bill would require the Bank to formulate content guidelines, taking into account considerations including the different needs of industry sectors to obtain Ex-Im Bank financing, the ability of companies with operations in the United States to compete effectively for export opportunities, and the level of support provided by foreign ECAs. The bill, among other provisions, also would direct the Government Accountability Office (GAO) to analyze Ex-Im Bank's methodology for calculating how many U.S. jobs are created or maintained through Ex-Im Bank support and would require the Bank to craft a more accurate methodology based on GAO's recommendations. The Committee approved amendments to H.R. 2072 that would require the Bank to examine its programs, products, and policies established to support small business exports; would direct the Bank to categorize its loans and guarantees by their intended purpose in the Bank's annual report; and would require entities seeking Ex-Im Bank support to certify that they are not engaged in activity in violation of U.S. sanctions on Iran.

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<sup>44</sup> 12 U.S.C. § 635 g-1. The Ex-Im Bank's Charter requires that the competitiveness report discusses actions by the Bank in providing financing on a competitive basis, and to minimize government-supported export financing; the role of the Bank in implementing the strategic plan prepared by the Trade Promotion Coordinating Committee; the Bank's tied aid credit program and fund; the purpose of Bank transactions (such as to address market failure, matching support); the efforts of the Bank to promote exports of goods and services related to renewable energy sources; the size of the Bank account; co-financing programs of the Bank and other foreign ECAs; services supported by the Bank and other ECAs; export finance cases not in compliance with the OECD Arrangement; and foreign ECA activities not consistent with the WTO SCM Agreement.

<sup>45</sup> Ex-Im Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, For the Period January 1, 2009 through December 31, 2009, Washington, DC, June 2010, p. 1.

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