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Export-Import Bank: Background and Legislative Issues

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Summary

The Export-Import Bank of the United States (Ex-Im Bank, EXIM Bank, or the Bank), an independent federal government agency, is the official export credit agency (ECA) of the United States. It helps finance U.S. exports of manufactured goods and services, with the objective of contributing to the employment of U.S. workers, primarily in circumstances when alternative financing is not available. The Ex-Im Bank also may assist U.S. exporters to meet foreign, officially sponsored, export credit competition. Its main programs are direct loans, loan guarantees, working capital guarantees, and export credit insurance. Ex-Im Bank transactions are backed by the full faith and credit of the U.S. government. The Ex-Im Bank is a participant in President Obama's National Export Initiative (NEI), a plan to double exports by 2015 to support 2 million U.S. jobs.

The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended, and has been reauthorized through May 31, 2012 (P.L. 112-74). The charter requires that all of the Bank's financing have a reasonable assurance of repayment and directs the Bank to supplement, and to not compete with, private capital.

In light of the international financial crisis, demand for Ex-Im Bank services has grown in recent years. In FY2011, the Bank approved more than 3,700 transactions of credit and insurance support, totaling about $33 billion—the highest level of authorizations in the history of the Bank. The Ex-Im Bank estimated that its credit and insurance activities supported about $41 billion in U.S. exports of goods and services, and were associated with 290,000 U.S. jobs, in FY2011.

The Ex-Im Bank has been "self-sustaining" for appropriations purposes since FY2008. It uses offsetting collections to cover its administrative expenses and program operations. Congress sets an upper limit on the level of the Bank's financial activities as part of the annual appropriations process. For FY2012, Congress appropriated $4 million for the Ex-Im Bank's Office of Inspector General (OIG), and authorized a limit of $58 million on the total amount that the Ex-Im Bank can spend on its credit and insurance programs and a limit of $89.9 million for the Bank's administrative expenses (P.L. 112-74). For FY2013, the President requested an appropriation of $4.4 million for the OIG, a limit of $38 million on the Bank's program activities, and a limit of $103.9 million for the Bank's administrative expenses. Since 1990, the Ex-Im Bank has retuned to the U.S. Treasury $4.9 billion more than it received in appropriations.

The Organization for Economic Cooperation and Development (OECD) "Arrangement on Export Credits" sets forth export credit terms and conditions, including restrictions on tied aid, for the activities of the Ex-Im Bank and the ECAs of foreign countries that are OECD members. Other OECD agreements set forth sector-specific rules, guidelines on environmental procedures, and other terms and conditions.

The 112th Congress has introduced legislation to renew the Ex-Im Bank's authority (H.R. 2072, S. 1547, S.Amdt. 1836, and H.R. 4302). Members of Congress may examine issues related to the Ex-Im Bank that center on the economic rationale for the Bank; the impact of the Bank on the federal budget and U.S. taxpayers; the Bank's support for specific types of business or industries; the current balance between the Bank's advancement of U.S. commercial interests and other U.S. policy goals; the competitive position of the Bank compared to foreign ECAs; and the Bank's organizational structure.

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Introduction

The Export-Import Bank of the United States (the Ex-Im Bank, the EXIM Bank, or the Bank) is an independent U.S. government executive agency and a wholly owned U.S. government corporation.[1] The Ex-Im Bank is the official export credit agency (ECA) of the United States, and is charged with financing and promoting exports of U.S. manufactured goods and services, with the objective of contributing to the employment of U.S. workers. It uses its authority and resources to provide export credit and insurance support to U.S. exporters primarily in circumstances when alternative financing is not available. The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended.[2] The Bank's authority currently is extended through May 31, 2012 (P.L. 112-74, Consolidated Appropriations Act of 2012). The charter requires that all of the Bank's financing have a reasonable assurance of repayment and directs the Bank to supplement—and to not compete with—private capital. The Organization for Economic Cooperation and Development (OECD) Arrangement on Official Supported Export Credits (the "OECD Arrangement") guides the activities of the Ex-Im Bank and other foreign ECAs whose governments are members of the OECD.

In FY2011, the Bank approved more than 3,700 transactions of credit and insurance support, totaling about $33 billion—the highest level of authorizations in the history of the Bank. The Ex-Im Bank estimated that its credit and insurance activities supported about $41 billion in U.S. exports of goods and services, and were associated with 290,000 U.S. jobs, in FY2011.

Congress does not directly approve individual Ex-Im Bank transactions, but has a number of authorizing and oversight responsibilities concerning the Bank and its activities. 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 five years. Congress also approves an annual appropriation for the Bank that sets an upper limit on the level of the Bank's financial activities. 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. In addition, the Senate confirms presidential appointments to the Bank's Board of Directors.

The 112th Congress could examine a number of issues related to the Ex-Im Bank, chief of which may be its reauthorization. Congress extended the Bank's authority through May 31, 2012, in the Consolidated Appropriations Act of 2012 (P.L. 112-74), and may consider legislation to renew the authority of the Ex-Im Bank.

This report discusses the Ex-Im Bank's domestic and international context, credit and insurance programs and activities, statutory and policy requirements for the Ex-Im Bank's transactions, and selected policy issues for Congress. For analysis of policy issues specific to the Ex-Im Bank's reauthorization, see CRS Report R41829, *Reauthorization of the Export-Import Bank: Issues and Policy Options for Congress*, by Shayerah Ilias.

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[1] A U.S. government corporation is a government agency established by Congress to provide market-oriented public services and to produce revenues that meet or approximate expenditures. For additional information, see CRS Report RL30365, *Federal Government Corporations: An Overview*, by Kevin R. Kosar.

[2] Certain provisions of Ex-Im Bank's Charter are codified at 12 U.S. Code section 635 et. seq.

Ex-Im Bank Budget

When the Ex-Im Bank was initially established, it was capitalized by an appropriation of $1 billion from the U.S. Treasury. The Bank also is authorized to borrow up to $6 billion directly from the Treasury, and it may draw upon a substantial line of credit with the Federal Financing Bank (FFB).[3] The Ex-Im Bank 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 Ex-Im Bank has been "self-sustaining" for appropriations purposes as of FY2008. Since then, in the President's annual budget request, the President has requested, and Congress has approved, that offsetting collections would count against the appropriation of subsidy and administrative expenses from the General Fund and that the net appropriation is expected to be $0. In essence, the President requests approval for the level of expenses that the Ex-Im Bank would cover on its own.

At the start of the fiscal year, the U.S. Treasury provides the Ex-Im Bank with an "appropriation warrant" for program costs and administrative expenses. The amount of the warrant is established by the spending limits set by Congress in the appropriations process. The Ex-Im Bank retains the fees that it collects during the year that are in excess of expected losses ("offsetting collections"), and uses the offsetting collections to repay the warrant received at the start of the fiscal year, resulting in a net appropriation of $0. In essence, the Ex-Im Bank can receive funds from the U.S. Treasury and can repay those funds as offsetting collections come in.

In recent years, the Ex-Im Bank has not received direct funds from the U.S. Treasury as part of the appropriations process. The Ex-Im Bank has been able to support its administrative and program expenses without an initial warrant from the Treasury at the start of the fiscal year, because of a combination of its early offsetting collections and carryover funds. Congress permits the Ex-Im Bank to maintain carryover funds, which are unused offsetting collections, for up to four years. In addition, the Ex-Im Bank has not borrowed from the FFB since FY1997.[4]

For FY2013, the President requested an appropriation of $4.4 million for the Ex-Im Bank's Office of Inspector General (OIG), a limit of $38 million on the total amount the Bank can spend on its credit and insurance programs, and a limit of $103.9 million for the Bank's administrative expenses (see **Table 1**). The President also requested that amounts collected by the Ex-Im Bank in excess of administrative and program obligations, up to $50 million, shall remain available until September 30, 2015, and that any excess above $50 million shall be deposited in the General Fund of the Treasury.

For FY2012, Congress appropriated $4 million for the Ex-Im Bank's OIG, and authorized a limit of $58 million on the total amount that the Ex-Im Bank can spend on its credit and insurance programs and a limit of $89.9 million for the Bank's administrative expenses. Congress also authorized that the Ex-Im Bank's offsetting collections in excess of obligations, of up to $50 million, shall remain available for use by the Ex-Im Bank until FY2015.[5]

[3] The Federal Financing Bank (FFB) is a part of the Department of the Treasury and obtains its funds from regular Treasury issues.

[4] FFB, *Financial Statements*, multiple years, http://www.ustreas.gov/ffb/financial-statements/.

[5] In previous years, appropriations legislation set a limit on the amount of offsetting collections in excess of obligations that could remain available for use in subsequent fiscal years.

Table 1. Budget of the Export-Import Bank, FY2008-2013
(in millions of dollars)

	FY08	FY09	FY10	FY11	FY12 Estimated	FY13 Requested
Inspector General Amount Requested	1	2.5	2.5	3	4	4.4
Inspector General Amount Appropriated	1	1	2.5	2.5	4	—
Total Subsidy Requested	68	41	58	93	76	38
Total Subsidy Appropriated	68	41	58	58	58	—
Total Administrative Budget Requested	78	82	84	106	125	104
Total Administrative Budget Appropriated	78	82	84	84	90	—
Operating Expenses	590	690	1,245	872	978	181
Direct Loan Subsidy	—	8	—	7	8	8
Loan Guarantee Subsidy	25	30	39	59	58	38
Reestimates of Subsidy Costs	487	570	1,122	718	793	—
Loan Modifications	2	—	—	—	—	—
Administrative Expenses	78	82	84	84	90	104
Budget Resources	934	1,031	1,923	1,829	1,814	1,391
Unobligated balance	346	342	324	679	953	836
Budget Authority (gross)	585	685	1,599	1,145	861	555
Appropriated	487	571	1,121	718	793	—
Other	123	158	478	427	68	555
Recoveries from previous years	3	4	—	5	—	—
Budget Authority (net)	462	527	1,121	443	393	—
Outlays (net)	468	511	748	153	506	-403

Source: Office of Management and Budget. *Budget of the United States Government*, various issues; Washington, U.S. Government Printing Office.

Note: Subsidy refers to program activities (the cost of direct loans, loan guarantees, insurance, and tied aid) conducted by the Ex-Im Bank. Reestimates of subsidy costs refer to reestimates of direct loan and loan guarantee subsidies and the interest on those reestimates.

The Ex-Im Bank had $701.1 million in offsetting collections in FY2011, up from $479.4 million in FY2010, that it used to cover its administrative and program expenses. Since 1990, the Ex-Im Bank has retuned to the U.S. Treasury $4.9 billion more than it received in appropriations.

Ex-Im Bank Budget History

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) included two sections with implications for the Ex-Im Bank's budget.

- Under the terms of the Budget Enforcement Act of 1990 (Title XIII), Congress appropriates the estimated amount of subsidy the Bank expects to expend throughout all of its credit programs, including direct loans, guarantees, and insurance. 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.
- Under the Federal Credit Reform Act of 1990 (Title V), for a given fiscal year, the cost of federal credit activities, including those of the Ex-Im Bank, is reported on an accrual basis equivalent with other federal spending, rather than on a cash flow basis, as used previously.[6] The Bank's estimates now allocate budgetary resources to reserve against the estimated risk of loss to the Bank.

Ex-Im Bank Activity

Ex-Im Bank uses its authority and resources to (1) assume commercial and political risks that exporters or private financial institutions are unwilling, or unable, to undertake alone; (2) overcome maturity and other limitations in private sector export financing; and (3) assist U.S. exporters to meet foreign, officially sponsored, export credit competition.

Financial Products

Ex-Im Bank groups its financial products into four categories: (1) direct loans; (2) loan guarantees; (3) working capital guarantees; and (4) export credit insurance. It also has a number of special financing programs.

Ex-Im Bank charges interest, risk premia, and other fees for its services. Generally speaking, the Ex-Im Bank's credit exposure is limited to 80% of the value of the exported good, and the buyer must make a cash payment that is 15% of the total value of the export contract. The Ex-Im Bank determines repayment terms based on a number of variables, such as buyer, industry, and country conditions; terms of international rules on export credit activity; and the matching of terms offered by foreign ECAs. Repayment time frames are less than one year for short-term transactions, one to seven years for medium-term transactions, and greater than seven years for long-term transactions.[7]

Direct Loans

Under the Ex-Im Bank's direct loan program, the Ex-Im Bank offers loans directly to foreign buyers of U.S. goods and services. If the foreign borrower defaults, the Bank will pay the lender the outstanding principal and interest on the loan. The Ex-Im Bank extends to the U.S. company's foreign customer a loan covering up to 80% of the U.S. contract value. The direct loans carry fixed interest rates and generally are made at terms that are the most attractive allowed under the

[6] CRS Report RL30346, *Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees*, by James M. Bickley.

[7] Ex-Im Bank website, http://www.exim.gov/.

provisions of the OECD Arrangement on Export Credits, which sets minimum interest rate benchmarks. The Ex-Im Bank's direct loan transactions have no minimum or maximum size, but generally involve amounts of more than $10 million. 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; U.S. exporters must face officially subsidized foreign competition to qualify for this program.

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 level approved by Congress for the Bank's direct lending were sharply reduced during the 1980s. In the past decade, demand for Ex-Im Bank direct loans has been limited, because commercial interest rates were low. In light of the international financial crisis, the Ex-Im Bank has worked to increase access to direct loans by engaging with borrowers on a case-by-case basis to structure transactions to adapt to current financial conditions.

Tied Aid Capital Projects Fund

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. The Ex-Im Bank may conduct tied aid transactions 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.). Tied aid credits and mixed credits are two 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. The amount of funds in the TACPF was $171 million in FY2010. 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.

Loan Guarantees

Loan guarantees constitute the largest amount of Ex-Im Bank financing, by dollar value. The Ex-Im Bank uses loan guarantees to assist U.S. exporters by protecting against the commercial and political uncertainty of exporting. Loan guarantees by the Ex-Im Bank cover the repayment risk on the foreign buyer's debt obligations incurred in the purchase of U.S. exports. Through a loan guarantee, the Ex-Im Bank guarantees to a lender (U.S. or foreign) that makes a loan to a foreign buyer to purchase U.S. goods and services that, if the foreign borrower defaults, the Bank will pay the lender the outstanding principal and interest on the loan. The Ex-Im Bank charges the foreign borrower a fee to guarantee the loan in a variable amount based on the duration, amount, and risk characteristics of the transaction. The Ex-Im Bank extends loan guarantees on a medium- and long-term basis. The Ex-Im Bank's loan guarantee to a foreign buyer is typically used for financing purchases of U.S. capital equipment and services. The Ex-Im Bank's comprehensive guarantee covers commercial and political risks for up to 85% of the U.S. contract value.

Working Capital Guarantee Program

Ex-Im Bank's Working Capital Guarantee Program provides repayment guarantees to lenders (primarily commercial banks) on secured, short-term working capital loans made to qualified exporters. Working capital guarantees can be for a single loan or a revolving line of credit, and cover 90% of the outstanding balance of working capital loans to exporters supported by export-related inventory and accounts receivable. The Ex-Im Bank charges the borrower a fee to guarantee the loan based on duration, amount, and risk characteristics of the transaction. The program is intended to facilitate finance for businesses that have exporting potential but need working capital funds to produce or market their goods or services for export. Small businesses are the primary users of the Working Capital Guarantee Program.

In FY2010, the Ex-Im Bank launched a Supply-Chain Finance Guarantee Program, which is designed to support U.S. exporters and their U.S.-based suppliers, many of whom are small businesses. Under the program, lenders will purchase accounts receivable owned by suppliers and due from the exporter. The Ex-Im Bank provides 90% guarantee on repayment obligation. The program provides competitively priced working capital finance to U.S. suppliers of U.S. exporters. It may benefit "hidden exporters" such as U.S. small businesses that supply products or services to larger U.S. exporters.

Export Credit Insurance

Export credit insurance is another major product offered by the Ex-Im Bank. The Ex-Im Bank issues the insurance policy to a U.S. exporter, that provides credit to the foreign buyer of the exporter's products. If the foreign borrower defaults for political or commercial reasons, the Bank will pay the exporter the outstanding balance owed by the foreign borrower. Insurance coverage carries various conditions that must be met by the insured before the Bank will pay off a claim. The Ex-Im Bank charges the exporter an insurance premium in a variable amount based on duration, amount, and risk characteristics of transactions. The Ex-Im Bank's export credit insurance includes both short-term and medium-term insurance. Small businesses are a significant user of the Ex-Im Bank's export credit insurance program.

Like loan guarantees, export credit insurance reduces some of the risks involved in exporting by protecting against commercial or political uncertainty. There is an important distinction, however, between the two programs. Insurance coverage is more conditional than a guarantee. In contrast, a guarantee is a commitment made to a commercial bank by the Ex-Im Bank that promises full repayment with few, if any, conditions attached.

Special Financing Programs

The Ex-Im Bank's support for U.S. export sales also includes special financing programs that focus on a particular industry or financing technique, including:

- **Aircraft Finance. The Ex-Im Bank** offers financing for new or used U.S. manufactured commercial and general aviation aircraft under its direct loan, guarantee, and insurance programs. The Organization for Economic Cooperation and Development (OECD) Aircraft Sector Understanding ("OECD Aircraft Sector Understanding") generally sets the terms and conditions of the Ex-Im Bank's financing support for aircraft.

- **Project Finance. The Ex-Im Bank** offers limited recourse project finance to newly created companies. Project finance is an arrangement in which the creditworthiness of projects depends on their future cash flows, and these future cash flows are the source of repayment. Project finance typically covers large, long-term infrastructure and industrial projects.

Examples of Ex-Im Bank Transactions

- **Direct Loan.** In August 2010, the Ex-Im Bank authorized a $159 million direct loan to Cerro de Hula Wind Farm, a utility-scale wind project in Honduras, for the purchase of 51 wind turbines from Gamesa Wind US LLC (Longhorne, PA). The Ex-Im Bank reported that the wind turbines would be manufactured using generators supplied by ABB Power T & D Company Inc. (Bland, VA), blades by LM Glassfiber Inc. (Grand Forks, ND), and equipment and services from other U.S. suppliers.
- **Loan Guarantee.** In FY2011, the Ex-Im Bank authorized a long-term loan guarantee of close to $120 million to support a General Electric Transportation sale of locomotives to South Africa's Transet Ltd., a South African rain, port, and pipeline company headquartered in Johannesburg. Barlays Bank PLC, London is the guaranteed lender. Ten fully assembled GE Model C30ACi locomotives and U.S.-manufactured components for locomotive kits will be shipped from GE's Erie, PA, manufacturing facility to South Africa. In addition, the Bank approved a preliminary commitment for about $200 million for the purchase of more locomotives by Transet.
- **Working Capital Guarantee.** In September 2011, the Ex-Im Bank approved a $16.7 million working capital guarantee for the sale of exports by Quantum Reservoir Impact (QRI; Houston, TX) to Mexico, Kuwait, and other destination markets. QRI exports reservoir management equipment and services for the upstream sector of the oil and gas industry and also provides related engineering consulting services. Amegy Bank (Houston) is the lender of the working capital loan.
- **Export Credit Insurance.** In April 2011, the Ex-Im Bank authorized $40 million in export credit insurance for BendTec., a small business (Duluth, MN), for the sale of fabricated high pressure piping, bends, and fittings to Technopromexport in Moscow, Russia. BendTec's products will be exported to India for installation at a super thermal power project.

Source: Ex-Im Bank, "Ex-Im Bank Provides $159 Million in Trade Finance for Pennsylvania Manufacturer To Export Turbines to Wind Farm in Honduras," press release, August 20, 2010, http://www.exim.gov/pressrelease.cfm/9F2BD5AC-FAFC-EE31-C412F9A785BF9C1E/; Ex-Im Bank, FY2011 Annual Report; Ex-Im Bank, "Ex-Im Bank Approves $100 Million In Financing For Sale Of GE Locomotives To South Africa's Transnet ," press release, February 24, 2011, http://www.exim.gov/pressrelease.cfm/58EAE7B2-090D-E9CE-4C77F09BA969CAA8/; and Ex-Im Bank, "Ex-Im Bank Approves Nearly $40 Million in Export Credit Insurance for Minnesota Small Business," press release, April 13, 2011, http://www.exim.gov/pressrelease.cfm/503C238F-F77D-E980-A51E70B2028621E7/.

Activity Level

Authorizations

In FY2011, the Ex-Im Bank approved 3,751 transactions of credit and insurance support, which amounted to about $33 billion in authorizations—the third consecutive year of record high levels of authorizations for the Bank (see **Table 2**). The Ex-Im Bank estimated that credit and insurance activities supported about $41 billion in U.S. exports of goods and services in FY2011, up from $34 billion worth of exports estimated to have been supported in FY2010. The Ex-Im Bank also estimated that the exports supported by its financing were associated with 290,000 U.S. jobs in FY2011, up from 227,000 U.S. jobs in FY2010. The Ex-Im Bank finances less than 5% of U.S. exports annually. Notably, a significant portion of Ex-Im Bank financing is for exports of capital-intensive U.S. exports.

Table 2. The Ex-Im Bank's Credit and Insurance Authorizations, FY2008-FY2011

(Millions of U.S. Dollars)

Program	Number of Authorizations			Amount Authorized		
	2009	2010	2011	2009	2010	2011
Total Financing						
Loans	16	15	18	$3,033	$4,261	$6,323
Loan Guarantees	619	719	784	$11,475	$13,106	$19,400
Medium- and Long-Term	146	162	178	$9,943	$10,927	$16,172
Working Capital	473	557	606	$1,531	$2,179	$3,228
Insurance	2,256	2,798	2,949	$11,474	$7,101	$7,004
Total Authorizations	**2,891**	**3,532**	**3,751**	**$21,021**	**$24,468**	**$32,727**
Selected Types of Financing						
Exports by Small Business	2,540	3,091	3,247	$4,360	$5,053	$6,037
Percent of Total	87.9%	87.5%	86.6%	20.7%	20.7%	18.4%
Environmentally Beneficial Exports	88	108	142	$394	$536	$890
Percent of Total	3.0%	3.1%	3.8%	1.9%	2.2%	2.7%
Renewable Energy Exports	13	27	45	$93	$332	$721
Percent of Total	0.4%	0.8%	1.2%	0.4%	1.4%	2.2%
Exports to Sub-Saharan Africa	109	129	170	$412	$813	$1,381
Percent of Total	3.8%	3.7%	4.5%	2.0%	3.3%	4.2%

Source: Ex-Im Bank Annual Reports data adapted by CRS.

Note: The Ex-Im Bank distinguishes between financing for "environmentally beneficial" and "renewable energy" exports.

A number of factors have driven the surge in Ex-Im Bank activity in recent years. One major driver has been the international financial crisis and global economic downturn that began in 2007 and led to a decline in private sector export finance. As a result, the Ex-Im Bank witnessed a greater demand from U.S. exporters for its assistance to fill in the gaps in private sector financing. The Ex-Im Bank has noted that small businesses especially have faced difficulty accessing credit during the crisis. In response to the commercial and liquidity shortages associated with the global financial crisis, the Ex-Im Bank has taken several actions to enhance its financing products. In October 2008, the Bank started offering U.S. small businesses a 15% premium-rate reduction for certain insurance policies. The Bank also took measures to expand coverage under and to provide flexible financing terms for its Working Capital Guarantee Program. In addition, the Bank has worked to increase access to direct loans by engaging with borrowers on a case-by-case basis to structure transactions to adapt to the current financial conditions.

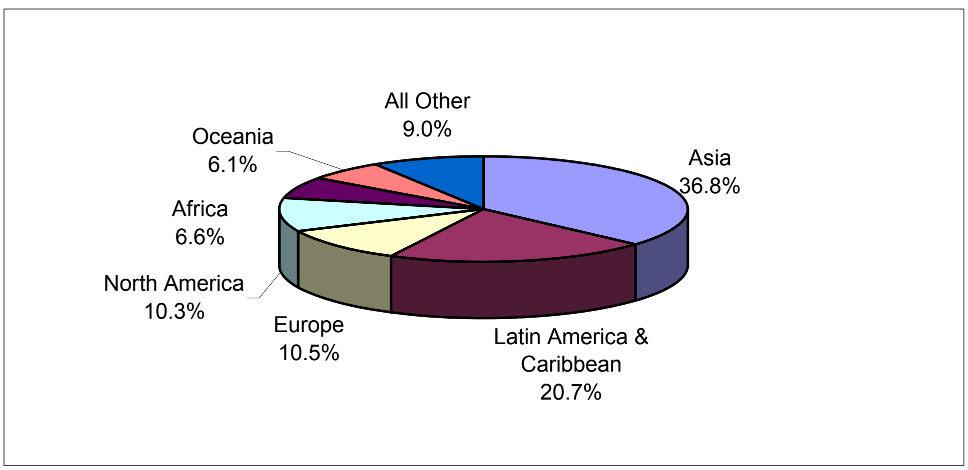
Another element driving demand for Ex-Im Bank services has been the changing international landscape of export financing. The growing number of players and volumes of export credit activity in the international export finance market has resulted in greater and varied competition for U.S. exporters, both from developed countries and from rising economic powers as they move up the value chain.[12] U.S. companies are seeking Ex-Im Bank assistance to help level the playing field and counter the officially backed export credit financing that their competitors receive from their ECAs.

Exposure

The Ex-Im Bank's charter limits the Bank's authority to lend, guarantee, and insure to a total of $100 billion (the Bank's "exposure" level). The outstanding principal amount of all loans made, guaranteed, or insured by the Ex-Im Bank is charged at the full value against the $100 billion limitation. In FY2011, the Bank's total exposure stood at about $89 billion, up from $75 billion in FY2010. As the Bank's activities have grown, the Bank's exposure level also has grown.

In FY2011, the Ex-Im Bank had exposure for its credit and insurance activities in 171 countries, across different geographical areas and industrial sectors. The composition of the Ex-Im Bank's exposure portfolio by geographical area has remained relatively stable in recent years. Asia has accounted for the largest portion of exposure, with significant Ex-Im Bank exposure in China and India. Latin America and the Caribbean have accounted for the second-largest portion of exposure, with major country markets being Brazil, Colombia, and Mexico. As for the composition of the Ex-Im Bank's portfolio by industrial sector, the air transportation sector historically has accounted for the largest portion of the Ex-Im Bank's exposure. Oil and gas generally has followed. However, in FY2010, manufacturing surpassed oil and gas as the second-largest source of Ex-Im Bank exposure and maintained second place in FY2011. **Figures 1 and 2** show the Bank's total exposure in FY2011 by geographical area and industrial sector.

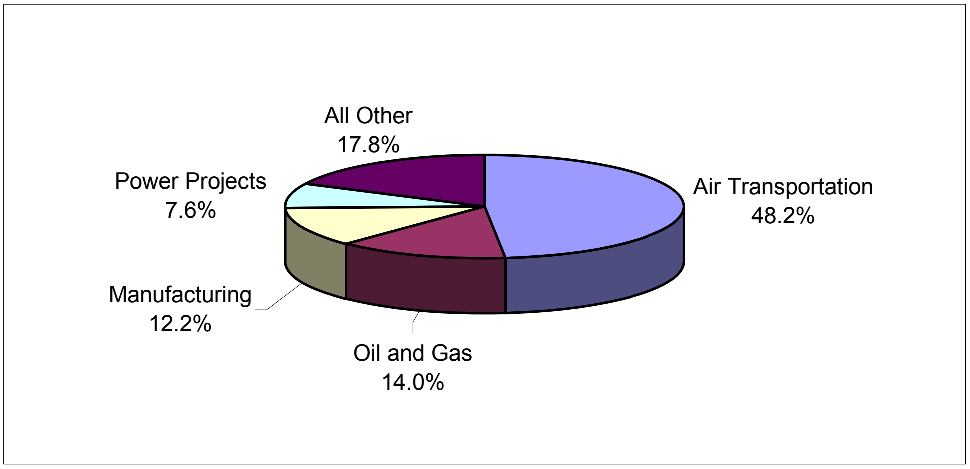
Figure 1. Exposure by Geographical Area, FY2011



Source: Ex-Im Bank, *2011 Annual Report*.

Note: Total exposure for the Ex-Im Bank was $89 billion in FY2011.

Figure 2. Exposure by Industrial Sector, FY2011



Source: Ex-Im Bank, *2011 Annual Report.*

Note: Total exposure for the Ex-Im Bank was $89 billion in FY2011.

Credit Risks and Loan Repayment

Ex-Im Bank's default rate net of recoveries has been less than 2% of its loan disbursements and shipments guaranteed. The Bank closely monitors credit and other risks to its portfolio. The overall weighted-average risk rating for new authorizations improved in FY2011 for short-, medium-, and long-term export credit authorizations. The improvement in the risk rating primarily was due to the decrease in Ex-Im Bank-supported financing among borrowers that were rated higher-risk.[8]

Focus Areas

The Ex-Im Bank has identified country-specific and sector-specific areas in which to focus its credit and insurance activities. While the Ex-Im Bank operates in 175 countries around the world, it has identified nine emerging markets as primary focus areas: Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey, and Vietnam. The Ex-Im Bank has chosen these markets based on several factors, including the size of their export markets for U.S. companies, their projected economic growth, their expected infrastructure needs, and the Ex-Im Bank's current level of activity in these markets.[9] In FY2011, these nine priority markets represented about 38% (about $12 billion) of the Ex-Im Bank's total authorizations and 33% (about $29 billion) of the Ex-Im Bank's total exposure.

The Ex-Im Bank has identified infrastructure projects in foreign countries as a significant opportunity for U.S. exports of goods and services. In FY2011, the Ex-Im Bank provided more than $23 billion infrastructure-related financing.[10] The transactions included projects in sectors such as transportation, power generation, and mining.

[8] Ex-Im Bank, 2011 Annual Report, p. 4.

[9] Ex-Im Bank 2011 Annual Report.

[10] Ex-Im Bank defines infrastructure to include "the large physical networks necessary for the function of commerce (continued...)

In terms of specific industries, the Ex-Im Bank has identified several industries with high potential for U.S. export growth in the nine priority markets. These industries are agribusiness, aircraft and avionics, construction, medical technologies, mining, oil and gas, and power generation (including renewable energy). In FY2011, these key industries represented close to 70% (about $23 billion) of the Ex-Im Bank's total authorizations. In that year, the aircraft industry, a historically major area of Ex-Im Bank financing, represented nearly 40% (about $13 billion) of the Ex-Im Bank's total authorizations.[11]

Statutory and Policy Requirements

A number of factors affect the Ex-Im Bank's participation in a particular credit or insurance transaction. Many of these factors or conditions are determined by Congress. The statutory and policy criteria that Ex-Im Bank financing support must meet include:

- **Reasonable Assurance of Repayment.** The Ex-Im Bank charter requires that all of the Bank's financing have a reasonable assurance of repayment.
- **Private Capital.** The charter directs the Ex-Im Bank to supplement, and to not compete with, private capital.
- **Economic Impact.** Congress requires that Ex-Im Bank projects have no adverse effect on U.S. industry. Chiefly, the Ex-Im Bank may not support projects that enable foreign production of an exportable good that would compete with U.S. production of a same, or similar, good and that would cause "substantial injury" to U.S. producers. The 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 Impact.** The Bank considers the potential beneficial or adverse effects of proposed transactions. The Ex-Im Bank's charter authorizes the Bank to grant or withhold financing support after taking into account the environmental impact of the proposed transaction.
- **Content.** Content is the amount of domestic and foreign costs from labor, materials, overhead, and other inputs associated with the production of an export. The Ex-Im Bank places certain limits on the maximum amount of foreign content that can be included in the transactions it supports. The 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, in order to receive full Ex-Im Bank financing for an export transaction, the minimum domestic content requirement is 85% and the maximum foreign content

(...continued)

(e.g., highways, railroads, power-generation plants, pipelines and radio-transmission systems)," "goods and services required to maintain the health, cultural and social standards of a country or state (e.g., education and healthcare equipment and services), [and]transportation vehicles, such as aircraft and locomotives, and equipment and services related to mining industries." Ex-Im Bank 2011 Annual Report, "Infrastructure" section.

[11] Ex-Im Bank 2011 Annual Report, "Key Industries" section.

allowance is 15%. If the foreign content exceeds 15%, then the Bank's support would be reduced.

- **Local Costs.** Local costs are the project-related costs for goods and services that are incurred in the buyer's country. When the Ex-Im Bank provides medium- or long-term financing for U.S. exports for foreign projects, it may also provide local cost support. Specifically, the Ex-Im Bank can support up to 30% of the value of the U.S. exports for goods and services that are originated and/or manufactured in the buyer's country, subject to certain requirements.
- **Military.** The Ex-Im Bank is prohibited by law from financing military items.
- **Shipping.** Certain products supported by the Ex-Im Bank must be transported exclusively on U.S. vessels. Under limited conditions, a waiver on this condition may be granted.
- **Nonfinancial or Noncommercial Considerations.** The Bank is allowed to deny applications for credit on the basis of nonfinancial and noncommercial considerations in cases where the President, in consultation with the House Financial Services Committee and Senate Banking, Housing and Urban Affairs Committee, determines that the denial of such applications would advance U.S. national interests in areas such as international terrorism, nuclear proliferation, environmental protection, and human rights.[12] The power to make such a determination has been delegated to the Secretary of State.[13]
- **Co-Financing.** The Ex-Im Bank enables financing with ECAs in other countries through "one-stop-shop" co-financing facilities (arrangements that allow products and services from two or more countries to benefit from a single ECA financing package).
- **Country Restrictions.** The charter prohibits the Bank from extending credit and insurance to certain countries, including those that are in armed conflict with the United States or with balance of payment problems.
- **Small Business.** The charter requires the Bank to make available not less than 20% of its aggregate loan, guarantee, and insurance authority to finance exports directly by U.S. small businesses.[14]
- **Renewable Energy.** The charter requires the Bank to promote the export of U.S. goods and services related to renewable energy sources.[15] In recent years, appropriations language further has specified 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.

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[12] Ex-Im Bank, *The Charter of the Export-Import Bank of the United States*, as amended through P.L. 109-438, December 20, 2006, pp. 10-11.

[13] U.S. Code Title 12, Chapter 6a, Section 635(b)(1)(B)(ii).

[14] Ex-Im Bank, *The Charter of the Export-Import Bank of the United States*, as amended through P.L. 109-438, updated December 27, 2006, §2(b)(1)(E)(v).

[15] Ibid., §2(b)(1)(K).

- **Sub-Saharan Africa.** The Ex-Im Bank's charter directs the Bank to promote the expansion of the Bank's financial commitments in sub-Saharan Africa, but does not include any quantitative target.

Ex-Im Bank Role in Federal Government Efforts to Promote Exports

Ex-Im Bank is one of approximately 20 federal agencies involved in U.S. government export promotion efforts.[16] Although the Ex-Im Bank is considered the official ECA of the United States, there are other federal agencies, such as the U.S. Department of Agriculture (USDA) and the Small Business Administration (SBA), that also conduct some export financing as part of their activities. The Ex-Im Bank is distinguished because it is the lead agency for providing financing and insurance for exports of U.S. manufactured goods and services, although it also provides financing for some agricultural exports. In addition, the Ex-Im Bank provides export financing for all types of businesses, both large and small. In contrast, USDA takes the lead on agricultural export financing, and SBA provides some export financing to small businesses.

Ex-Im Bank plays a key role in the National Export Initiative (NEI), a plan launched by President Obama to double U.S. exports in five years to support 2 million jobs in the United States. Since 2010, overall U.S. exports of goods and service have increased at an annualized rate of 15.6%, a rate greater than the 15% required to double exports in five years.[17]

Ex-Im Bank is involved in interagency bodies to coordinate federal export promotion activities. It is a part of the U.S. Trade Promotion Coordinating Committee (TPCC), an interagency committee created by the Export Enhancement Act of 1992 (P.L. 102-429). The TPCC, chaired by the Department of Commerce, is tasked with coordinating the export promotion and financing activities of federal agencies, including the Ex-Im Bank, and proposing an annual unified budget on federal trade promotion.[18] The Ex-Im Bank also is a member of the Export Promotion Cabinet (EPC), a Cabinet-level body that was established by the NEI and is composed of heads of federal agencies with export promotion functions and senior White House advisors. The EPC is charged with developing and coordinating the implementation of the NEI, in conjunction with the TPCC.

The Ex-Im Bank in an International Context

International Export Credit Activity

As international trade has grown, exporting financing has expanded. It is now a trillion-dollar market that supports approximately 10% of global trade.[19] It consists of private lenders and

[16] See CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias.

[17] Office of the U.S. Trade Representative, *2012 Trade Policy Agenda and 2011 Annual Report*, March 2012, http://www.ustr.gov/about-us/press-office/reports-and-publications/2012-0.

[18] The Trade Promotion Coordinating Committee (TPCC), first established in May 1990 by President Bush during remarks on U.S. trade policies and U.S. companies involved in exporting, was enacted in statute by the Export Enhancement Act of 1992 (15 U.S.C. 4727).

[19] 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*, 112th Cong., 1st sess., March 10, 2011.

insurers, who operate commercially, and official ECAs. Private lenders and insurers conduct the majority of short-term export financing, whereas ECAs are more heavily involved in medium- and long-term (MLT) export financing, including financing involving complex, multi-billion dollar sales such as aircraft and infrastructure projects. Most developed countries and many developing countries have ECAs. The role of ECAs has become more prominent in recent years due to the international financial crisis and global economic downturn in 2008 and the growing trade by emerging economies.

Between 2006 and 2010, new MLT official export credit financing conducted by the G-7 countries as a whole nearly doubled, growing from $36.3 billion in 2006 to $65.4 billion in 2010. The United States represented 20% ($13 billion) of total new MLT financing by the G-7 countries in 2010, behind Germany and France. In comparison, during the same 2006-2010 period, new MLT official export credit financing conducted by Brazil, China, and India combined more than doubled, growing from $37 billion in 2006 to $72.7 billion in 2010. China alone accounted for $45 billion of new MLT official export credit financing in 2010 (see **Table 3.**).[20]

Compared to the other ECAs, the sheer magnitude of China's official export credit financing is exceptional. For instance, China has supported Huawei, a Chinese telecommunications manufacturer, with a $30 billion credit line from the Chinese Development Bank (CDB).[21] China's support for this one company is comparable to total Ex-Im Bank financing in FY2011 (about $33 billion).

Table 3. Officially Supported New Medium- and Long-Term Export Credit Volumes by G-7 Countries and Selected Emerging Economies

(Billions of U.S. dollars)

Country	ECA	2006	2007	2008	2009	2010
G-7 Countries						
Canada	Export Development Canada (EDC)	0.2	0.5	1.5	2.0	2.5
France	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	7.3	10.1	8.6	17.8	17.4
Germany	Euler Hermes	13.3	8.9	10.8	12.9	22.5
Italy	S.p.A. Servizi Assicurativi del Commercio Estero (SACE)	4.0	3.5	7.6	8.2	5.3
Japan	Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI)	2.4	1.8	1.5	2.7	2.9
United Kingdom	Export Credits Guarantee Department (ECGD)	0.6	0.4	0.8	1.4	1.9
United States	Export-Import Bank of the United States (Ex-Im Bank)	8.6	8.2	11.0	17.0	13.0

[20] Ex-Im Bank's annual competitiveness report provides estimates of new MLT official export credit financing by Ex-Im Bank, the ECAs of the other G-7 countries (Canada, France, Germany, Italy, and the United Kingdom), and selected emerging economies (Brazil, China, and India).

[21] Stephen J. Ezell, *Understanding the Importance of Export Credit Financing to U.S. Companies*, The Information Technology & Innovation Foundation (ITIF), June 2011.

Country	ECA	2006	2007	2008	2009	2010
Total G-7		*36.3*	*33.4*	*41.8*	*62.0*	*65.4*
Emerging Economies						
Brazil	Brazilian Development Bank (BNDES), Seguradora Brasileira Crédito à Exportação (SBCE)	7.5	7.0	7.6	10.5	18.2
China	Export-Import Bank of China, Sinosure, China Development Bank (CDB)	22.0	33.0	52.0	51.1	45.0
India	Export-Import Bank of India, Export Credit Guarantee Corporation of India (ECGC)	5.6	8.5	8.7	7.3	9.5
Total Brazil, China, India		*35.1*	*48.5*	*68.3*	*68.9*	*72.7*

Source: Data on export credit volumes from the 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.

International Rules on Official Export Credit Activity

The Organization for Economic Cooperation and Development (OECD) Arrangement on Official Supported Export Credits (the "OECD Arrangement") guides the activities of the Ex-Im Bank and other foreign ECAs whose governments are members of the OECD (generally developed countries). The United States generally opposes subsidies for exports of commercial products. Since the 1970s, the United States has led efforts within the OECD to adopt international protocols which reduce the subsidy level in export credits by raising the interest rates on government-provided export credits to more closely reflect market levels.

The OECD Arrangement, which came into effect in April 1978, has been revised a number of times over the years. For example, participants have agreed over time to tighten restrictions on the use of tied aid. The participants agreed that projects would be financially viable, and commercial credits would 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 set 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. In addition, sector understandings govern the terms and conditions of exports in certain sectors, such as civilian aircraft.

OECD member countries also have agreed to other guidelines for official export credit. For example, in 2007, members agreed to revise guidelines on environmental procedures, referred to as "Common Approaches on Environment and Officially Supported Export Credits" (the "Common Approaches"). These environmental guidelines call for member governments to review projects for potential environmental impacts; to assess them against international standards, such as those of the World Bank; and to provide more public disclosure for environmentally sensitive projects. The OECD also adopted new guidelines on sustainable lending principles that aim to help developing countries avoid a renewed build-up of debt after receiving debt relief.

In addition, under the OECD, the United States and several European countries have agreed to an informal “home market rule” specific to the aircraft sector. Under this rule, the Ex-Im Bank and the ECAs of the United Kingdom, France, Spain, and Germany (which provide financing to Airbus) have agreed to limit access to officially supported export financing for the purchase of aircraft in their own domestic market and in each other's "home markets."[22]

Export credit financing that is covered by the OECD Arrangement generally is exempt from the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures (SCM), which 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 on export credits shall not be considered as an export subsidy prohibited by the SCM Agreement.

Unregulated Official ECA Activity

The OECD Arrangement does not cover all of the officially supported export credit activity conducted by all countries. Rising economic powers, such as China, Brazil, and India 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) and are not party to the OECD Arrangement. As such, the officially supported export credit activities of these countries may not comply with international export credit standards. [11] For example, China, Brazil, and India may offer below-market and concessionary financing alternatives with which it is difficult for ECAs of OECD members to compete.

According to the Ex-Im Bank, non-OECD countries are expected to continue "expanding their market share by using exceptional financing methods, that comport with WTO provisions, but that are outside of the purview of the OECD rules, further expanding the scope of unregulated financing vis-à-vis constant volumes of OECD Arrangement-compliant activity." Officially subsidized export credit activity by emerging economies may increase in strategic markets, such as oil and gas, renewable energy, and natural resources extraction. 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 share."[23]

In addition, the ECAs of countries that are members of the OECD also conduct export credit financing and other activities that fall outside of the OECD Arrangement. There has been growth in unregulated forms of financing, that is, those that are not governed by the OECD Arrangement or any other international guidelines. One form of unregulated financing is the “market window,” which is a government-owned entity or program that offers export credits on market terms. Market windows generally do not operate on purely commercial terms, as they tend to receive

[22] Canada does not adhere to the home market rule. As such, it provides officially supported export financing for the sale of Bombardier aircraft in the United States.

[23] 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.

benefits from their government status that commercial lenders cannot access. Many ECAs operate market windows, such as Canada, Germany, and Italy; the United States does not have one. It is difficult to obtain data on market window operations of foreign countries. Another form of unregulated financing is untied lending support, which is credit support extended by a government entity to a recipient for the purpose of providing credit for strategic interests of the donor country. Because the untied loan is not tied to exports, it is not subject to the OECD export credit guidelines.

Unregulated officially backed export credit financing is on the rise among both OECD and non-OECD countries. The increasing volumes of their official export credit activity that fall outside of the OECD Arrangement have raised concerns among OECD members about the effectiveness of the OECD Arrangement. The United States is engaging in efforts to negotiate export credit guidelines with China. During Chinese Vice President Xi Jinping's visit to the United States in February 2012, the United States and China announced that they would establish an international working group composed of export financing providers with the goal of completing a new set of export credit guidelines by 2014. These new guidelines would be aimed at replacing the current OECD Arrangement. It is unclear if membership in the working group would include major providers of official export financing that are not a part of the OECD, such as Brazil and India.[24]

U.S. Response to "Noncompetitive" Financing

On February 17, 2012, President Obama instructed the Ex-Im Bank "to give American companies a fair shot by matching the unfair export financing that their competitors receive from other countries," such as China.[25] In doing so, the President will employ existing authorities so that the Ex-Im Bank can provide U.S. firms compete for domestic or third-country sales with matching financing support to counter foreign "noncompetitive" financing that fails to observe international export credit disciplines under the OECD.[26]

The authority for matching such financing comes from the Ex-Im Bank's charter. One provision in the charter states that, if foreign countries offer financing for export sales in the United States under terms that do not comply with the OECD Arrangement ("noncompetitive financing"), the Secretary of the Treasury may authorize the Ex-Im Bank to provide financing for sales in the United States that matches the terms available through the foreign ECA (12 U.S.C. 635a-3). A second provision in the Ex-Im Bank's Charter authorizes the Ex-Im Bank to provide financing at rates which are competitive with those provided by foreign ECAs (12 U.S.C.a-1(b)). While this second provision does not explicitly mention the matching option, it could be viewed as giving the Bank flexibility in determining if foreign ECA financing is placing U.S. businesses at a competitive disadvantage, even when complying with the OECD Arrangement.[27]

[24] "Export Credit Pact Sought by U.S., China Would Replace OECD Guidelines," *Inside U.S. Trade's World Trade Online*, February 24, 2012. Doug Palmer, "U.S., China Agree to Negotiate Export Credit Deal," *Reuters*, April 14, 2012.

[25] The White House, "Remarks by the President on American Manufacturing," press release, February 17, 2012, http://www.whitehouse.gov/the-press-office/2012/02/17/remarks-president-american-manufacturing.

[26] The White House, "President Obama Takes Actions to Promote American Manufacturing and Increase U.S. Exports at Boeing," press release, February 17, 2012, http://www.whitehouse.gov/the-press-office/2012/02/17/president-obama-takes-actions-promote-american-manufacturing-and-increas.

[27] "Ex-Im Financing for Foreign-Backed Sales in U.S. Hinges on Charter," *Inside U.S. Trade's World Trade Online*, February 24, 2012.

Ex-Im Bank could reportedly use this authority to match financing that Canada's ECA may offer to U.S. airlines for the purchase of the Bombardier's C-series aircraft, which could compete with Boeing's 737. Canada does not abide by the home market rule. Prior to the President's announcement, the Ex-Im Bank has used this policy once, to match financing with China for locomotive exports to Pakistan. In 2010, the Ex-Im Bank 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 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 the Ex-Im Bank to work with the OECD. The deal has not been finalized.[28] It is not clear what impact, if any, possible repeated actions by the United States to match financing that is not compliant with the OECD may have on the rules-based system of the OECD Arrangement, or on the Ex-Im Bank's loan portfolio.[29]

Selected Issues for Congress

Economic Debate

One rationale for the Ex-Im Bank is the acknowledged competition among nations' official export credit agencies. Some Ex-Im Bank supporters maintain that the Bank's programs are necessary for U.S. exporters to compete with foreign export financing and also to pressure foreign governments to eliminate concessionary financing. Another rationale cited by proponents of the Ex-Im Bank is the Bank's role in addressing market failures, such as imperfect information and barriers to entry. Supporters stress that deficiencies in financial markets bias those markets against exports of high-value, long-term assets.

Others, including some economists, view government-funded export financing efforts as a subsidy which distorts free markets, because they encourage commercial activities that are not commercially viable, and in doing so, may encourage an inefficient use of resources. While critics concede that federal export assistance may help individual firms, they contend that such activities do not influence the overall level of employment and may, in fact, simply shift production among sectors within the economy in the long run. Critics also assert that macroeconomic factors, such as global economic growth and exchange rates, hold greater sway over a nation's level of exports. Some opponents also argue that, by providing financing or insurance for exporters that the market seems unwilling, or unable, to provide, Ex-Im Bank activities draw from the financial resources within the economy that would be available for other uses.

[28] 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, January 2010, p. 110. Sudeep Reddy, "U.S. Export Financing Challenges China," *The Wall Street Journal*, January 12, 2011.

[29] "White House Explores Financing Options, But Faces Obstacles," *Inside U.S. Trade's World Trade Online*, February 2, 2012.

U.S. Airlines' Lawsuit Against the Ex-Im Bank

In recent months, debate about the economic impact of Ex-Im Bank activities has been driven in part by a charge by Delta Airlines and other U.S. airlines, led by the Air Transport Association of America (ATAA), that Ex-Im Bank financing for Boeing aircraft exports to India and other countries has led to an oversupply of airline seats that has had an adverse effect on their businesses. The group also has charged that the Ex-Im Bank's economic impact analysis procedures are inconsistent with the Bank's charter. Delta and these other airlines have filed a legal challenge against the Ex-Im Bank seeking an injunction on Ex-Im Bank loan guarantees to Air India. Following a federal judge's denial for a preliminary injunction that would stop Ex-Im Bank financing of Boeing exports to India, the airlines filed a motion on February 1, 2012, for a judgment on the merits of the case, which is being heard by the U.S. District Court for the District of Columbia.

U.S. companies that purchase planes and other products are not able to access assistance from the Ex-Im Bank, but may obtain financing from the ECAs of other countries. For example, Delta purchases planes from Boeing, but may not use Ex-Im Bank financing for those purchases. However, Delta has used officially backed export financing for its purchases of airplanes from Canada's Bombardier Inc. or Brazil's Embraer S.A.

Sources: "Airlines Press Ahead With Ex-Im Bank Lawsuit After Judge Denies Injunction," *Inside U.S. Trade's World Trade Online*, February 9, 2012. Josh Mitchell and Corey Boles, "Boeing, Delta Clash on Exports," *The Wall Street Journal*, March 16, 2012.

"Corporate Welfare" Debate

A long-standing concern about the Ex-Im Bank centers on "corporate welfare" issues, with some observers critical that the bulk of Ex-Im Bank financing, by dollar value, historically has been directed to a few large U.S. corporations that they believe are capable of shouldering the risks of exporting to developing countries. Some critics of the Ex-Im Bank have called it "Boeing's Bank," in reference to the fact that Boeing Corporation, a U.S. aerospace company, historically has been the single largest beneficiary of Ex-Im Bank support. In FY2011, about 56% of Ex-Im Bank loans and long-term guarantees, by dollar value, supported the sale of Boeing aircraft to foreign countries, down from about 63% in FY2010 and 88% in FY2009.[30]

Supporters point out that the Ex-Im Bank's mission is to support U.S. businesses of all sizes and, that the Bank places special emphasis on supporting small business. They note that, although small businesses account have accounted for about 20% of Ex-Im Bank support by dollar *value*, they have accounted for more than 80% of the total *number* of transactions conducted by the Ex-Im Bank in recent years.[31] Some supporters may 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. In addition, some supporters may point out that Ex-Im Bank data may not reflect all of the small businesses who benefit from Ex-Im Bank services, such as "invisible" exporters who provide goods and services used by other companies that directly export. For example, many of the inputs that Boeing uses for its aircraft are sourced from small businesses across the United States.

Some critics do not make a distinction between large and small business support, remaining opposed to the notion of taxpayer funds being directed toward private benefits. Some critics of government export promotion programs suggest that the private sector may be more well-suited and efficient than the federal government for leading such activities. In response, some contend

[30] CRS analysis of data in Ex-Im Bank annual reports data.

[31] Ex-Im Bank annual reports.

that the federal government plays a unique role in its capacity to address market failures, such as imperfect information, which dampen the level of U.S. exports. They 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.

Impact on U.S. Taxpayers

While the Ex-Im Bank is a self-sustaining agency that receives a net appropriation of zero from Congress, a point of contention is the risk to taxpayers imposed by the Bank's activities. Opponents argue that because Ex-Im Bank loans are backed by the full faith and credit of the U.S. government, taxpayers are potentially burdened if the Bank's projects fail. Supporters point out that a reasonable assurance of repayment is required by the Bank's charter for all credit authorizations and that the Bank monitors credit and other risks in its portfolio. In addition, supporters may point out that, since 1990, the Ex-Im Bank has retuned to the U.S. Treasury $4.9 billion more than it received in appropriations.

Congressional Directives to Support Specific Sectors

Another set of ongoing issues regarding the Ex-Im Bank centers on congressional directives that require the Ex-Im Bank to support exports in specific sectors, namely exports of small businesses and exports of "green technologies." These also are areas that have been identified as sectors of focus under the NEI. One issue is the extent to which the Ex-Im Bank has been able to fulfill these mandates. For example, the Senate committee report for FY2011 State-Foreign Operations appropriations (S.Rept. 111-237) expresses concern that, according to the Government Accountability Office, the Ex-Im Bank "has fallen far short of the congressional directive to allocate 10 percent of its annual financing to renewable energy or energy efficiency technologies, and that financing for fossil fuel projects continues to far exceed that for clean energy." However, supporters point out that the Ex-Im Bank is largely a demand-driven agency. While the Ex-Im Bank can make financing available for certain purposes, such as small business or "green" technology financing (as it already has), if U.S. firms do not have sufficient interests or commercial incentives for exporting in particular markets, then they may not seek out Ex-Im Bank support.

More fundamentally is a question about whether or not Congress should direct the Ex-Im Bank to target its support to specific sectors. Some observers support targeting federal export assistance to certain U.S. exporters and industries and for certain geographic markets that have high export potential and value. These exporting sectors and markets also may be the ones in which federal support makes the most difference. For example, environmentally friendly and energy-efficient goods and services often rely on newer forms of technology and entail perhaps greater risks than other types of exports, which may result in reluctance in the private sector to support such exports. Consequently, federal financing and support for "green" exports may boost their levels. However, some critics of targeted forms of export assistance contend that such policies essentially are a mechanism whereby the federal government determines "winners and losers" in the market. They contend that such action can lead to economic distortions and harm other productive U.S. firms. Some also may be concerned that such mandates may constrain the activities of the Bank.

International Competitiveness of the Ex-Im Bank

Concerns about the international competitiveness of the Ex-Im Bank generally have been two-fold. One set of issues centers on the impact of the Ex-Im Bank's statutory and policy requirements on the competitive position of Ex-Im Bank financing for U.S businesses. The Ex-Im Bank may face a challenge of advancing U.S. commercial interests overseas while supporting other U.S. public policy goals.[32]

According to the the Ex-Im Bank's 2011 competitiveness report, the Ex-Im Bank generally maintained its competitiveness relative to the ECAs of the G-7 countries in terms of its core business policies and practices (such as Ex-Im Bank coverage, interest rates, exposure fee rates, and risk premia). However, the report stated that U.S. exporters and lenders have expressed concern that certain Ex-Im Bank policy requirements, upon which the Ex-Im Bank conditions whether or not to support a transaction, may have an adverse effect on the Ex-Im Bank's international competitiveness. For example:

- **Economic impact analysis.** While all G-7 ECAs have a broad mandate to support transactions that benefit their domestic economy, and base their decision to provide support on economic impact, the Ex-Im Bank is the only ECA that is required by law to use an economic impact analysis to weigh the costs and benefits of support to an export transaction and to use this analysis as a basis for support or denial of financing.
- **Environmental policy.** The 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, the Ex-Im Bank faces competition from ECAs outside of the OECD, such as China, which tend to be less rigorous in their environmental requirements for financing than OECD countries.
- **Domestic content requirement.** In contrast to the Ex-Im Bank, the ECAs of other countries generally have lower domestic content requirements and some even have no domestic content requirements. ECAs of other countries have revised their content policies to reflect the changing nature of manufacturing, including the rise of global supply chains and the sourcing of product inputs from multiple countries. The Ex-Im Bank considers U.S. content to be a "proxy to evidence support for U.S. jobs" and seeks to balance the interests of multiple stakeholders through its content policy.[33]

Some U.S. business groups argue that certain Ex-Im Bank requirement are major constraints that limit the Ex-Im Bank's ability to compete with the ECAs of foreign countries.[34] They consider requirements for Ex-Im Bank support to be excessively burdensome and to detract from the Ex-Im Bank's core mission of boosting exports and supporting jobs.[35]

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[32] Jordan Jay Hillman, *The Export-Import Bank at Work: Promotional Financing in the Public Sector* (Westport, CT: Quorum Books, 1982), pp. 69 and 75.

[33] Ex-Im Bank 2011 annual competitiveness report.

[34] Matthew Schewel, "CEE Pushes for Ex-Im Changes in Next Year's Charter Reauthorization," *Inside U.S. Trade*, July 16, 2010.

[35] Hillman (1982), p. 58.

Another set of competitiveness issues focuses on the international rules governing official export credit activity. An increasingly important concern for U.S. policymakers is that some countries outside of the OECD, such as China, are becoming major providers of official export credit finance and may not be "playing by the rules." To the extent that the ECAs of China and other non-OECD countries provide financing on terms that are more advantageous than those allowed within the OECD Arrangement, the Ex-Im Bank and other OECD export credit agencies may find it difficult to compete with such export credit programs.

U.S. exporters and others have expressed doubts about the effectiveness of international efforts to stem officially subsidized trade financing. While the OECD Arrangement appears to be reducing most direct government subsidies for trade financing, a number of countries have found a way around the agreement, such as through market windows, 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.[36]

Organizational Structure

Congress may examine the Ex-Im Bank within the context of debates about trade reorganization. There has been renewed interest on the part of the Obama Administration and Congress in reorganizing the trade policy structure of the federal government in order to enhance the effectiveness of U.S. trade promotion efforts, improve U.S. trade policy coordination, avoid duplication of functions and activities, and for other reasons. On January 13, 2012, President Obama asked Congress for authority to reorganize and consolidate the business- and trade-related functions of six federal entities into one department in an effort to streamline the federal government. In addition to the Ex-Im Bank, the other federal entities included in the proposal are the Department of Commerce, Overseas Private Investment Corporation (OPIC), Small Business Administration (SBA), Trade and Development Agency (TDA), and the U.S. Trade Representative (USTR).[37]

Some proponents of trade reorganization argue that consolidation of federal trade functions may increase the effectiveness of federal export promotion efforts and reduce government costs. Supporters maintain that consolidation would also provide a more streamlined rationale for U.S. export promotion services based on more clearly defined goals. For example, there may be concerns that the distribution of trade and investment financing across multiple different agencies (Ex-Im Bank, USDA, SBA, and OPIC) can lead to fragmentation and duplication of services and make it more difficult for U.S. businesses to access federal export assistance. On the other hand, critics contend that consolidation could result in the creation of a large federal bureaucracy, with little effect on the ability of the U.S. government to expand exports, or result in federal export assistance that is not responsive to the specific needs of certain exporters.

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[36] U.S. General Accounting Office (now called the General Accountability Office), *Competitors' Tied Aid Practices Affect U.S. Exports*, GGD-94-81, May 1994, pp. 19-21.

[37] The White House, "Government Reorganization Fact Sheet," press release, January 13, 2012, http://www.whitehouse.gov/the-press-office/2012/01/13/government-reorganization-fact-sheet.

Some supporters of trade reorganization advocate for privatizing or terminating the functions of the 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; the notion that the private sector is more efficient and better suited than the federal government to conduct export financing; and the risks to U.S. taxpayers of Ex-Im Bank financing. Opponents contend that Ex-Im Bank 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 may contend that federal financing of exports is important in times of financial crisis and to combat growing official export credit support by other countries.

Congressional Outlook

In the 112th Congress, legislation has been introduced to reauthorize the Ex-Im Bank (H.R. 2072; S. 1547; S.Amdt. 1836, an amendment to H.R. 3606; and H.R. 4302). Congressional interest in the Ex-Im Bank could continued to be high due to a number of factors:

- The changing export finance landscape has intensified congressional interest in the Ex-Im Bank. The international financial crisis and global economic downturn that began in 2007 led to a decline in private sector export finance and a greater demand from U.S. exporters for Ex-Im Bank assistance.
- The burgeoning of officially backed export finance being conducted by emerging market economies that are not a part of the OECD, including China, Brazil, and India, have increased demand for competitive financing from the Ex-Im Bank.
- The introduction of the NEI, and federal export promotion activities more broadly, have highlighted the role of the Ex-Im Bank as a tool for supporting U.S. jobs, contributing to U.S. economic recovery, and contributing to U.S. industrial competitiveness in the global market.
- The national debate about reducing the size of government and federal spending has stimulated debate about the appropriate organizational structure for U.S. government trade functions, including export financing function of the Ex-Im Bank.

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