

September 2007

EXPORT-IMPORT BANK

Improvements Needed in Assessment of Economic Impact





Highlights of [GAO-07-1071](#), a report to congressional requesters

Why GAO Did This Study

Congress established the Export-Import Bank of the United States (Ex-Im) to encourage U.S. exports. Congress has directed Ex-Im to consider the economic impact of its work and not to fund activities that will adversely affect U.S. industry. In this context, GAO reviewed (1) Ex-Im's policies and procedures for determining economic impact, (2) the extent to which Ex-Im appropriately identifies and analyzes projects that could cause adverse economic impact, and (3) the extent to which Ex-Im's process is transparent. To conduct this work, GAO reviewed Ex-Im's procedures, data on projects applicable for the economic impact process, and detailed economic impact analyses. GAO also interviewed Ex-Im and reviewing agency officials and industry representatives.

What GAO Recommends

To improve the identification and analysis of applications for economic impact, GAO recommends that Ex-Im review the \$10 million threshold, create better methodological guidelines, and strengthen its internal controls. To improve transparency, GAO recommends that Ex-Im clarify its procedures for conducting economic impact analyses. Ex-Im generally concurred with GAO's recommendations and stated that it will explore feasible ways to improve the economic impact process and make it more consistent and user-friendly.

www.gao.gov/cgi-bin/getrpt?GAO-07-1071.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager, 202-512-4347, YagerL@gao.gov.

EXPORT-IMPORT BANK Improvements Needed in Assessment of Economic Impact

What GAO Found

Congress requires Ex-Im to assess whether a project requesting its financial support will negatively impact U.S. industry. Ex-Im uses a screening process to identify projects with the most potential to have an adverse economic impact, and then subjects the identified projects to detailed analysis. A negative finding could result in a denial of Ex-Im support. The screens—either explicitly required by Ex-Im's charter or introduced under the bank's statutory authority—include whether (1) the financed project will increase foreign production, (2) there are trade measures against the resulting product, (3) the resulting product is “undersupplied,” (4) the requested financing is over \$10 million, and (5) the financed project will increase foreign production by 1 percent or more of U.S. production. Between fiscal years 2003 and 2005, this screening process identified 20 projects (out of 771 applicable) that required a detailed economic impact analysis. In the detailed analysis, Ex-Im assesses whether the resulting product would be in surplus on world markets or in competition with U.S. production. Between fiscal years 2003 and 2005, Ex-Im approved most projects applicable for economic impact analysis, totaling approximately \$6.1 billion in approved financing.

GAO found challenges and areas for improvement in the screening and detailed analysis of projects for economic impact. The effectiveness of the \$10 million screen, introduced under Ex-Im's statutory authority, is uncertain. Ex-Im has not determined whether it removes from review those projects that could meet the statutory definition of substantial injury (producing 1 percent or more of U.S. production in an industry). For example, a \$9.9 million financing request that would allow a foreign company to produce an estimated 3.5 percent of U.S. production was screened out of the analysis. GAO also found that Ex-Im could improve some methods it uses in its detailed analyses, such as how it estimates displaced production. In addition, GAO found that Ex-Im could clarify how it characterizes the effect of its financing on the U.S. trade balance. Finally, GAO found that Ex-Im could strengthen the internal controls it uses to ensure that the screening process and detailed analysis are conducted consistently and accurately.

GAO also found limitations in the transparency of Ex-Im's economic impact process. While Ex-Im publicly posts its procedures, they contain areas of ambiguity. For example, the procedures do not define the term “oversupply.” Also, Ex-Im has not provided all public comments to the board of directors. GAO identified two practices—referencing in the procedures the list of sectors likely to require extra scrutiny and publicizing final economic impact conclusions—that would increase the predictability of the process.

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Abbreviations

Ex-Im	Export-Import Bank of the United States
ITA	International Trade Administration
ITC	U.S. International Trade Commission
OECD	Organisation for Economic Cooperation and Development
OMB	Office of Management and Budget
USTR	Office of the U.S. Trade Representative

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United States Government Accountability Office
Washington, DC 20548

September 12, 2007

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Michael Crapo
United States Senate

Congress established the Export-Import Bank of the United States (Ex-Im) in 1934 to support U.S. exports and create jobs for Americans. Over time, Congress has recognized that Ex-Im's support of exports by U.S. firms in certain sectors could potentially adversely impact U.S. firms in other sectors.¹ Congress requires Ex-Im to assess whether its financial support for a project would likely cause substantial injury to U.S. industry or would result in the production of a good that is subject to a relevant trade measure. A finding that would lead to either of these outcomes could result in a denial of Ex-Im support. In reauthorizing Ex-Im in 2002, Congress reiterated its concerns about potential adverse economic impacts on U.S. producers by increasing the bank's economic impact assessment requirements. Although Ex-Im created a multistep process to determine what impact the projects it finances could have on the U.S. economy, Congress continued to be concerned that these procedures did not ensure that projects were adequately identified, analyzed, or disclosed. In December 2006,² Congress again revised the economic impact assessment to require more information disclosure. Congress remains interested in how Ex-Im assesses the impact that its services have on the competitiveness of U.S. producers.

In this context, we reviewed (1) Ex-Im's overall policies and procedures for determining economic impact; (2) the extent to which Ex-Im's procedures provide for the identification and appropriate analysis of

¹As an illustrative example, the concern has been that if Ex-Im provided favorable financing to a steel plant in Asia to expand capacity, using exported U.S. goods in building the plant, the project could potentially have a negative impact on U.S. steel producers through increased foreign competition.

²Export-Import Bank Reauthorization Act of 2006 (Pub. L. No. 109-438).

projects that could potentially cause adverse economic impact; and (3) the extent to which its policies, procedures, and decisions are transparent to interested and affected parties.

To assess Ex-Im's policies and procedures for identifying applications for a detailed economic impact analysis, we obtained and analyzed data on applications that were applicable for economic impact analysis from fiscal years 2003 through 2005, and discussed these data and Ex-Im's screening process with Ex-Im officials. To describe Ex-Im's process for conducting detailed economic analyses, we reviewed the 17 economic impact analyses that Ex-Im completed between fiscal years 2002 and 2006 in light of their procedures as they were written in response to the 2002 reauthorization. We chose 5 detailed analyses to review in greater depth, reflecting a range of countries, industries, and economic issues. We discussed those analyses with officials from Ex-Im and other U.S. government agencies. We also reviewed Ex-Im's updated procedures, created in April 2007 in response to the 2006 reauthorization. To assess the transparency of Ex-Im's economic impact assessment process, we reviewed relevant documentation and interviewed officials from agencies that provide comments on Ex-Im's draft economic impact analyses and representatives from affected industries. We conducted our work from September 2006 through August 2007 in accordance with generally accepted government auditing standards. Appendix I contains a more detailed description of our objectives, scope, and methodology.

Results in Brief

Ex-Im has established procedures to identify applications for projects that have the greatest potential to adversely affect U.S. industry and to subsequently conduct detailed analyses of those identified projects. All applications are screened for economic impact on the basis of a number of criteria either explicitly mentioned in the Export-Import Bank Act of 1945, as amended (also referred to as Ex-Im's charter)³ or introduced by the bank in the exercise of its discretion under the charter. Ex-Im's first screen removes from further review applications that do not increase foreign production of an exportable good. Then, it screens out applications that would support a product subject to trade sanctions, or goods that Ex-Im has deemed to be "undersupplied" (oil and gas or diamonds). Next, Ex-Im removes from the process applications requesting financing of \$10 million or less; these projects are reviewed for economic

³12 U.S.C. 635, et seq.

impact in the aggregate after the financing is authorized. Finally, Ex-Im conducts a “1 percent test” to determine whether financed projects are likely to result in “substantial injury.” Ex-Im removes from the economic impact process those requests to finance projects that would increase foreign production by *less than 1 percent* of U.S. production. Requests to finance projects that would increase foreign production by *1 percent or more* of U.S. production are held for detailed analysis. Between fiscal years 2003 and 2005, this screening process identified 20 applications for detailed economic impact analysis. In the detailed analysis, Ex-Im assesses whether the product that will result from the financing will be in surplus on world markets or in competition with U.S. production, and estimates a net impact of the transaction on U.S. trade flows. Ex-Im also solicits comments from the public and certain U.S. government agencies. Between fiscal years 2003 and 2005, Ex-Im ultimately approved financing for 525 (or about two-thirds) of the 771 applications that it determined through the first screen were applicable for further review, totaling approximately \$6.1 billion.

We identified challenges and areas for improvement in Ex-Im’s economic impact process. Determining the economic impact of financing a project is an inherently challenging process that requires defining which products and geographic markets will be affected and projecting future market trends. Among the screens Ex-Im introduced to identify applications for detailed analysis, we found that the screen that removes projects involving oil and gas or diamonds from further analysis has been effective. However, the effectiveness of Ex-Im’s \$10 million screen is uncertain because Ex-Im has not conducted an analysis to determine the extent to which the screen identified applications whose projects could meet the statutory definition of substantial injury (producing 1 percent or more of U.S. production in an industry). For example, we learned of a \$9.9 million transaction screened out of the analysis that would allow a foreign company to produce an estimated 3.5 percent of U.S. production.⁴ We also identified areas that could be improved in the methods Ex-Im used in its detailed analyses. These areas include inconsistencies and limitations in how Ex-Im has estimated potential costs to U.S. producers from increased foreign competition, which can significantly affect estimates of negative effects on those producers. In addition, Ex-Im’s characterization of its financing effect on the U.S. trade balance can be clarified. Finally, the internal

⁴Limitations in data supplied by Ex-Im did not allow us to do a thorough review of requests for financing below \$10 million.

controls Ex-Im uses to ensure that the screening process and the detailed analysis are conducted consistently and accurately could be strengthened.

We found that the transparency of Ex-Im's economic impact process is limited.⁵ While Ex-Im does publicly post its procedures, they contain areas of ambiguity. For example, the procedures do not define the term "oversupply"—a key factor in the analysis—or when it would apply the concept of "proportionality."⁶ In addition, Ex-Im has not provided to the board of directors all public comments that it received concerning applications analyzed for economic impact. We also identified two practices—referencing the list of sectors likely to receive extra scrutiny in the procedures and publicizing final economic impact conclusions—that could increase the predictability of the process.

To improve Ex-Im's identification and analysis of applications for economic impact, we recommend in this report that the Chairman of the Export-Import Bank of the United States (1) review the \$10 million threshold to determine whether additional steps are needed to mitigate the risk of exempting from more detailed review applications that could meet the definition of substantial injury (e.g., these steps could include selectively reviewing transactions that would affect relatively small U.S. industries or sensitive sectors); (2) create specific methodological guidelines for staff analyzing applications for economic impact, bearing in mind relevant Office of Management and Budget (OMB) guidance where appropriate; and (3) improve Ex-Im's internal controls. To improve the public transparency of the economic impact process for interested and affected parties, we also recommend that the chairman (1) clarify publicly available procedures, (2) cite the list of sensitive sectors in the economic impact procedures, and (3) publicize final economic impact decisions. We provided a draft of this report to the Export-Import Bank of the United States. Ex-Im generally concurred with our recommendations and stated that it will continue to explore feasible ways to improve the economic impact procedures and make the process more consistent and user-friendly.

⁵We use the term "transparency" to mean the full, accurate, and timely disclosure of information.

⁶Under proportionality, Ex-Im calculates economic impacts on the basis of the proportion of its financing related to the overall project value.

Background

Ex-Im is the official export credit agency⁷ of the United States, and operates under the authority of the Export-Import Bank Act of 1945, as amended. It operates as an independent agency of the U.S. government with a staff of approximately 370 full-time permanent employees. Ex-Im's core mission is to support U.S. exports and jobs by providing export financing that is competitive with the official export financing support offered by other governments. To accomplish its mission, Ex-Im offers a variety of financing instruments, including loan guarantees, export credit insurance, and working capital guarantees for preexport financing.⁸ Between fiscal years 2003 and 2005, Ex-Im processed a yearly average of 3,055 requests for loans, guarantees, and insurance.⁹ Of the processed applications, Ex-Im approved an average of 2,981 applications (or 98 percent) per year.

In general, Ex-Im's charter prohibits the bank from extending financing for a project if doing so will adversely affect U.S. industry.¹⁰ Ex-Im tests for adverse effects by (1) reviewing projects for applicable trade sanctions and (2) conducting its own economic impact analysis. For this economic impact analysis, the charter provides that, if a commodity for export resulting from Ex-Im financing will compete with U.S. production of the same, similar, or competing commodity, or will be in surplus on world markets at the time of first production, Ex-Im must determine whether extending the financing will cause substantial injury to U.S. producers. (The charter defines "substantial injury" as the establishment or expansion of foreign production capacity equal to or exceeding 1 percent of U.S. production.) However, under its charter, Ex-Im may fund a project if, in

⁷According to the Organisation of Economic Cooperation and Development (OECD), export credit agencies provide export credits in support of national exporters competing for overseas sales. Export credit agencies provide credits to foreign buyers either directly or via private financial institutions benefiting from their insurance or guarantee cover. Export credit agencies can be government institutions or private companies operating on behalf of the government. Many other OECD member countries also have export credit agencies, such as Canada, France, Germany, Japan, and the United Kingdom.

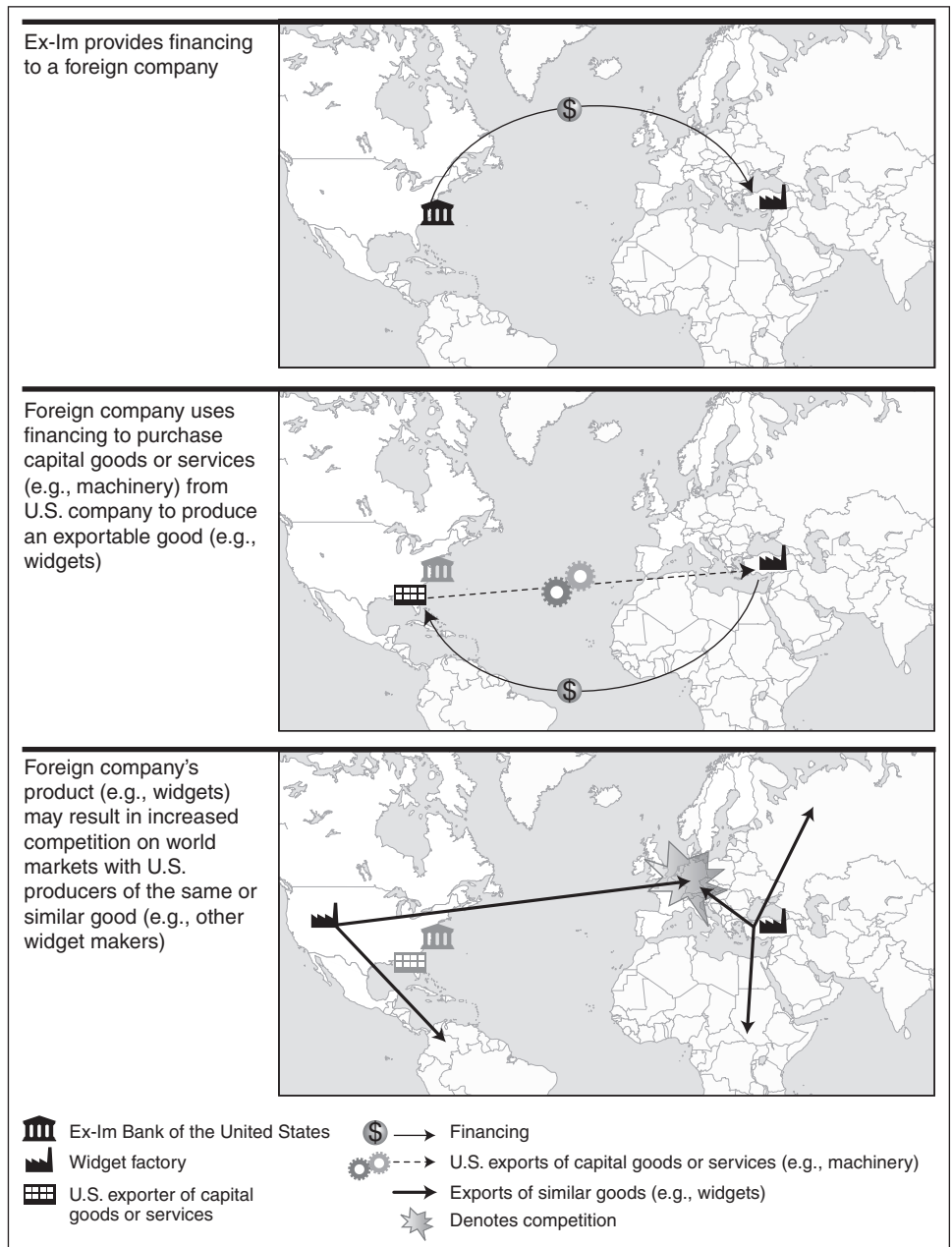
⁸Ex-Im also provides a small number of direct loans, which are primarily used to offer concessionary financing to U.S. exporters to match concessionary financing by other countries' export credit agencies. For additional information regarding Ex-Im products, see Ex-Im's official Web site at <http://www.exim.gov>.

⁹Ex-Im defines a transaction as "processed" if an application has been received and then authorized, denied, or withdrawn or if funds have been disbursed.

¹⁰An economic impact consideration was first incorporated into Ex-Im's charter in 1968 and has been subsequently modified.

the judgment of the board of directors, the short- and long-term benefits to industry and employment in the United States are likely to outweigh the injury to U.S. producers and employment of the same, similar, or competing commodity. This can put Ex-Im in the challenging position of balancing the interests of two different industries—the industry of the U.S. exporter it is financing and the industry that may face additional competition as a result of the initial export (see fig. 1).

Figure 1: A Conceptual Illustration of How Ex-Im Provides Financing to Foreign Companies but Risks Creating a Negative Impact on U.S. Producers



Sources: GAO; Map Resources (map); and Nova Development (clip art).

Economic impact is one of many factors Ex-Im considers when determining whether to finance a project. Other factors that Ex-Im must weigh include the project's feasibility from an engineering point of view, the project's possible environmental impact, whether the project involves small business, and the borrower's creditworthiness.

Other countries, such as Japan and the United Kingdom, also have export credit agencies with broad mandates to finance projects that benefit their domestic economies. However, unlike Ex-Im, these export credit agencies are not required to weigh the potential economic costs to domestic industries against the benefits associated with a specific financed export. Furthermore, these agencies do not consider the relevance of trade measures to a project, as Ex-Im is required to do. In its 2005 competitiveness report,¹¹ Ex-Im states that having to consider these additional elements, such as the economic impact, when deciding whether to finance a project puts Ex-Im at a disadvantage compared with other export credit agencies.

Economic Impact Analysis Screening Process Identifies Projects for Detailed Analysis

Ex-Im's economic impact analysis screening process is designed to identify projects with the most potential to adversely impact U.S. industry; Ex-Im then conducts a detailed analysis of those projects. Applications are sequentially screened on the basis of criteria specified in Ex-Im's charter or established by Ex-Im in the exercise of its discretion under the charter. For the applications that receive a detailed analysis, Ex-Im assesses whether the products that will result from its financing will be in surplus on world markets or in competition with U.S. production, and it estimates the net impact of the projects on U.S. trade flows. Ex-Im also solicits public and agency comments on the potential projects. Between fiscal years 2003 and 2005, Ex-Im approved most of the 771 requests to finance projects that involved increasing foreign production of an exportable good, and that, therefore, passed the first screen and were deemed applicable for further economic impact review.

¹¹Ex-Im, *Report to the U.S. Congress on Export Credit Competition and the Export Import Bank of the United States* (Jan. 1, 2005, through Dec. 31, 2005).

Ex-Im Uses a Screening Process to Identify Projects for Detailed Analysis

Ex-Im's economic impact analysis screening process consists of a series of rules used to sequentially remove from further economic impact review applications for projects it deems unlikely to adversely impact U.S. industry. Ex-Im's charter explicitly requires certain screens and Ex-Im introduced others, using its discretion under the charter. Between fiscal years 2003 and 2005, the screens identified 20 applications that required a detailed analysis. The screens remove most requests from the process because they involve financing of \$10 million or less; however, Ex-Im reviews those projects postauthorization in its *Annual Review of Economic Impact*.

Ex-Im's Charter Specifies Some Analytic Screens, Ex-Im Introduced Others

Ex-Im screens applications for economic impact on the basis of several characteristics, some that Ex-Im's charter explicitly requires, others that Ex-Im established exercising its discretion under the charter. During the screening process, Ex-Im staff in the Policy Analysis Division assign an economic impact code to each application. These screens are as follows:

- *Foreign production of an exportable commodity.* Ex-Im's charter requires it to review for economic impact those requests to finance projects that would result in increased foreign production. Under Ex-Im's procedures, only requests financing the export of capital goods or services from the United States that might allow a foreign company to increase production of an exportable good are subject to further scrutiny. This screen removes the bulk of applications from economic impact analysis. (Ex-Im codes requests to finance projects that *do not* increase foreign production as "not applicable," or NA.)
- *Trade measures.* Ex-Im's charter requires it to consider whether trade measures—antidumping or countervailing duty orders¹² and section 201 injury determinations¹³—apply to products that would result from Ex-Im financing. According to Ex-Im officials, Ex-Im does not fund projects directly subject to trade measures as a matter of practice, although it has the authority to do so if the board determines that a project's benefits outweigh its costs. This screen removes applications whose projects are subject to trade measures not just from further economic impact analysis, but from eligibility for Ex-Im financing. (Ex-Im codes these requests as "trade sanctions," or TS.)

¹²As defined in Title VII of the Tariff Act of 1930.

¹³As defined in Title II of the Trade Act of 1974. This legislation requires Ex-Im to consider final and preliminary determinations that may apply to the foreign production.

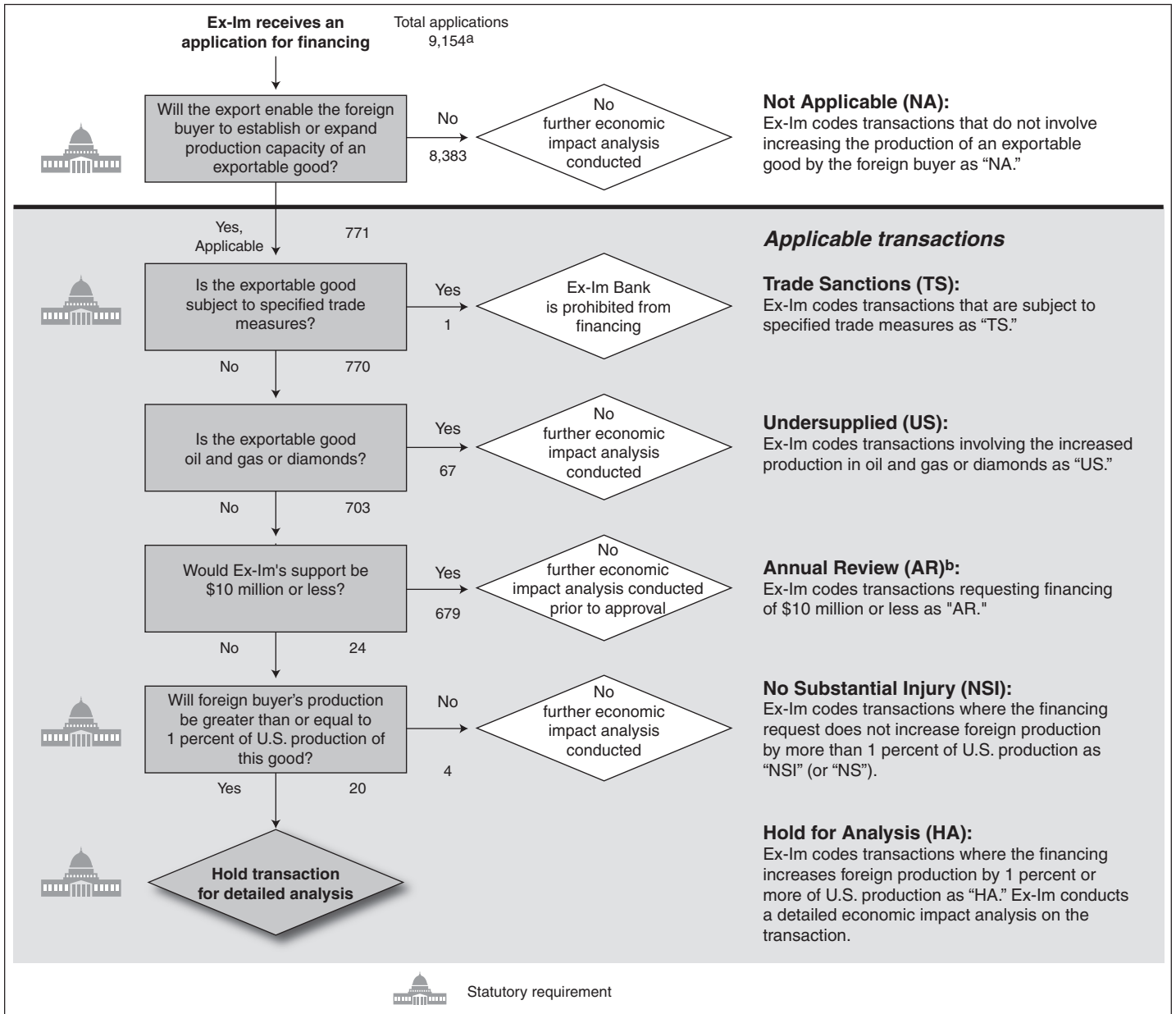
-
- *Foreign production of oil and gas or diamonds—“undersupplied” products.* Ex-Im has determined, with input from other agencies, that all projects increasing the foreign production of oil and gas or diamonds are unlikely to adversely impact the U.S. economy. This screen removes requests to finance projects involving oil and gas or diamonds from further economic impact analysis. (Ex-Im codes these requests as “undersupplied,” or US.)
 - *Financing threshold of \$10 million.* Ex-Im presumes that projects requesting financing of \$10 million or less are too small to adversely impact the U.S. economy. According to a senior Ex-Im official, Ex-Im selected \$10 million as the threshold because that figure is used for a variety of other bank purposes, including whether applications should be reviewed by the board of directors or should receive an environmental assessment. The official also stated that the use of this threshold is reasonable for the economic impact process because \$10 million financing is likely to result in little foreign production and, therefore, is not likely to adversely impact the U.S. economy. This screen removes applications requesting financing of \$10 million or less from further economic impact analysis prior to final financing decisions (although these requests are subject to an annual review after authorization, which we describe later). (Ex-Im codes these requests as “annual review,” or AR.)¹⁴
 - *One percent substantial injury test.* Ex-Im’s charter requires it to conduct a detailed economic impact analysis when a project will cause “substantial injury,” defined as an increase in foreign production greater than or equal to 1 percent of U.S. production of the same or a similar good. To conduct this test, Ex-Im calculates a simple ratio of the expected increase in foreign production resulting from the project to current U.S. production in that industry. Ex-Im’s procedures also allow for the use of “proportionality” in conducting the 1 percent test, which Ex-Im defines as the relation of the dollar value of the Ex-Im-financed U.S. component of the project to its overall cost.¹⁵ This screen removes applications whose projects would increase foreign production by less than 1 percent from further economic impact analysis. (Ex-Im codes these requests as “no substantial injury,” or NSI.)

¹⁴Ex-Im also codes Credit Guarantee Facilities and Medium Term Risk transactions as “annual review,” regardless of the transaction’s value.

¹⁵Ex-Im’s procedures note that proportionality “shall not be the only element used to avoid a full economic analysis.”

The remaining applications are subject to detailed analysis. (Ex-Im codes these requests as “hold for analysis,” or HA.) See figure 2 for information on how Ex-Im categorizes applications throughout the screening process.

Figure 2: Ex-Im's Process for Screening Applications, Assigning Economic Impact Codes, and Selecting Projects for Detailed Economic Impact Analysis



Sources: GAO analysis of Ex-Im Bank data; Nova Development (clip art).

Few Applications Receive a Detailed Analysis

^aNumbers are based on Ex-Im data for applications during fiscal years 2003 through 2005; procedures are based on the Ex-Im charter reauthorized in 2002.

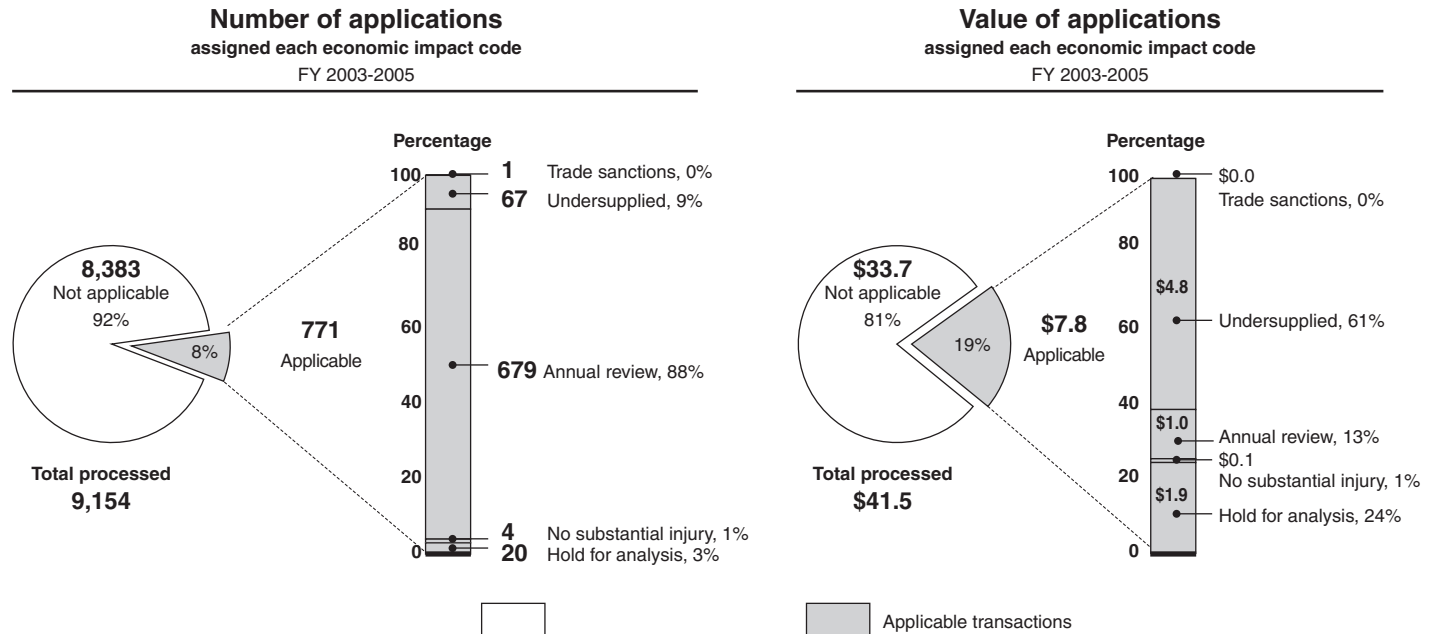
^bEx-Im also codes Credit Guarantee Facilities and Medium Term Risk transactions as “annual review,” regardless of the transaction’s value.

The screens Ex-Im uses in its economic impact analysis identify a small share of applications for detailed analysis. Between fiscal years 2003 and 2005, the vast majority of applications was determined not to support foreign production of exportable goods and, therefore, was not applicable for economic impact analysis. Of the 771 requests that involved foreign production of an exportable good and that, therefore, were applicable for economic impact analysis, 679 were eliminated from the process because they were \$10 million or less. Of the remaining 92 applications, 72 were eliminated by other screens and 20 were held for detailed analysis.¹⁶ Figure 3 illustrates the composition of applications by screening category, both in terms of the number of projects and the dollar value of applications.

¹⁶Ex-Im identified and began a detailed analysis for 20 applications between fiscal years 2003 and 2005. Three applications were withdrawn by the applicants before the detailed analyses were completed. Three applications were withdrawn by the applicants after the detailed analyses were completed, but before the board of directors made a final financing decision. Fourteen applications received a complete detailed analysis and a final board decision. We also reviewed some applications that received a detailed analysis in fiscal years 2002 and 2006; appendix II contains a list of all analyses begun during fiscal years 2002 through 2006.

Figure 3: Economic Impact Categorization of Ex-Im Applications That Were Acted Upon, by Number and Value (Fiscal Years 2003-2005)

U.S. dollars in billions



Source: GAO analysis of Ex-Im Bank data.

Projects Financed for \$10 Million or Less Are Reviewed Postauthorization

At the end of every fiscal year, Ex-Im aggregates projects it financed for less than \$10 million by foreign buyer, and then by product, to determine if, collectively, a buyer’s portfolio of projects meets the definition of substantial injury.¹⁷ Ex-Im staff report their findings in a document entitled *Annual Review of Economic Impact Cases*. Ex-Im cannot rescind funding if it finds after the review that a buyer’s projects collectively meet the definition of substantial injury.

When Congress reauthorized Ex-Im’s charter in 2006, it introduced a new process to ensure that smaller projects do not collectively meet the definition of substantial injury. The new legislation requires Ex-Im to

¹⁷Between fiscal years 2002 and 2006, Ex-Im only identified one such buyer whose portfolio on financed projects exceeded the \$10 million dollar threshold in a single fiscal year. The bank conducted an economic impact review and concluded these projects did not produce 1 percent or more of U.S. production.

review a foreign borrower's requests on an ongoing basis, aggregating its applications over the previous 24 months to ensure that its financed portfolio does not surpass \$10 million. If the aggregate financing does exceed \$10 million, the bank must subject the entire aggregate production from the proposed project and relevant projects approved during the preceding 24-month period to further economic impact analysis. According to Ex-Im's revised procedures, only the most recent, proposed project will be affected by the results of this economic impact scrutiny.

Detailed Economic Impact Analysis Assesses Oversupply, Competition, and Net Trade Impacts

For applications that remain after the screening process, Ex-Im conducts a detailed analysis. The detailed analysis's components are designed to address specific legislative requirements, including comments solicited from the public and relevant U.S. government agencies. Ex-Im compiles its findings, along with its conclusion regarding whether the project will negatively impact the U.S. economy, in a memorandum to the board of directors. (See app. II for a list of applications for which Ex-Im began a detailed economic impact analysis between fiscal years 2002 and 2006.)

In its detailed economic impact assessments, Ex-Im addresses the specific statutory requirements concerning the assessment of whether a foreign product will be in surplus in world markets or in competition with U.S. production, and estimates an overall impact on trade flows. The components of this analysis include (1) an assessment of whether the foreign product potentially supported by Ex-Im financing will be in surplus on world markets—which Ex-Im terms as being “in oversupply,” (2) an estimate of U.S. production that could be displaced by competition with the increased foreign production, and (3) the net impact on U.S. trade flows. According to its procedures, Ex-Im assesses whether the product to be produced by the foreign buyer is in oversupply using a set of indicators that include trade measures, such as antidumping duties on related products, and stagnating global prices.¹⁸ Finally, Ex-Im estimates the net effect on the U.S. economy by comparing the trade flows associated with the initial U.S. export and any follow-on, spare-part sales with the potential displaced production. This net economic impact assessment provides the type of analysis that, according to a senior Ex-Im official, could be informative to a board of directors' decision to exercise its

¹⁸As we have previously mentioned, Ex-Im as a matter of policy does not finance exports to produce products in countries where there are current trade sanctions on those products. In its detailed economic impact analyses, Ex-Im may consider trade measures on related products or identical products in other countries.

discretion in approving applications where, for example, foreign production could compete with U.S. producers and represents 1 percent or more of U.S. production.

Ex-Im's charter also requires it to solicit public comments. Ex-Im publishes a public notice in the *Federal Register* when beginning a detailed analysis and allows for a 14-day public comment period. For the applications we reviewed, Ex-Im's public notices contained (1) the project's value, (2) the country where the foreign borrower was located, (3) the goods to be produced, (4) the expected resulting amount of increased production of that good, and (5) the potential areas where the end product would be marketed. We found that Ex-Im consistently posted *Federal Register* notices containing the requisite information. The 2006 reauthorization codifies that practice and also requires Ex-Im to include information about the amount of the financing involved. In addition, the new legislation requires the bank to publish a revised public notice and allow for another comment period if a project changes materially.¹⁹ Ex-Im also consistently solicited comments on draft analyses from relevant U.S. government agencies: the Departments of Commerce, State, and the Treasury and the Office of the U.S. Trade Representative (USTR). The 2006 reauthorization codifies that practice and additionally requires Ex-Im to notify relevant congressional committees that it is conducting a detailed economic impact analysis.²⁰

Ex-Im staff create an economic impact memorandum that is used to describe their findings, along with their conclusion regarding whether the project is likely to have a positive or negative impact on the U.S. economy.

Ex-Im Approved Most Projects Applicable for Economic Impact Review between Fiscal Years 2003 and 2005

Between fiscal years 2003 and 2005, Ex-Im approved financing for about two-thirds of the projects that involved foreign production of a exportable good, and that, therefore, were applicable for economic impact review. When reviewing applications, Ex-Im's board of directors considers economic impact and other factors. Ex-Im's 2006 reauthorization requires the bank to provide a nonconfidential summary of the facts found and

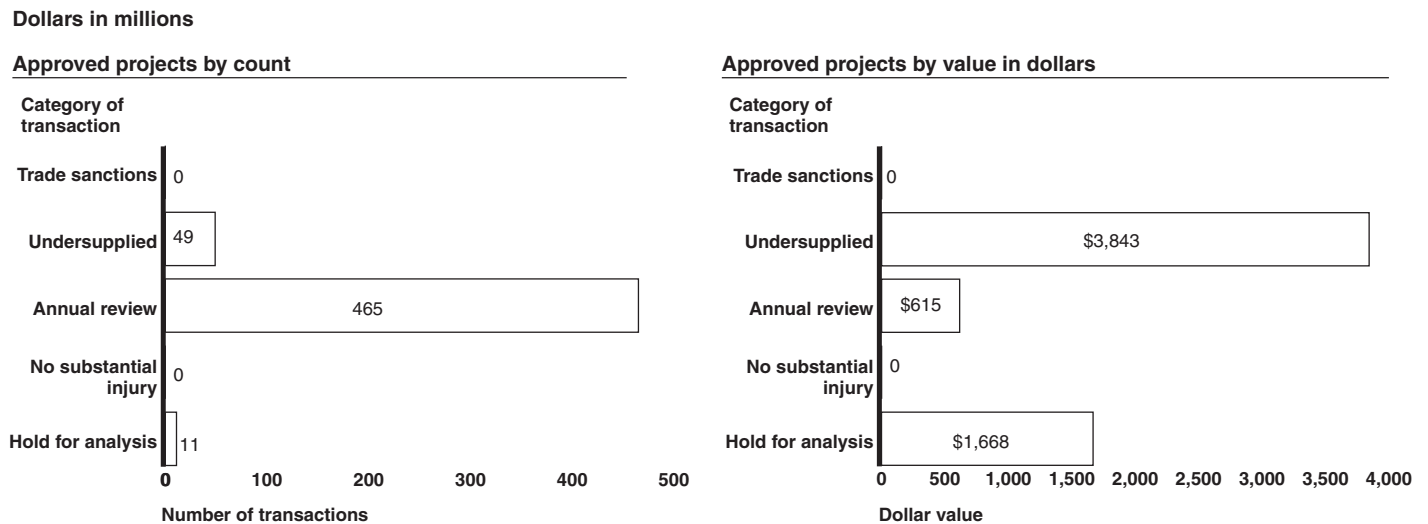
¹⁹The term "material change," with respect to an application, includes a change of at least 25 percent in the amount of Ex-Im financing requested in the application and a change in the principal product to be produced by the foreign buyer.

²⁰Relevant congressional committees include the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services.

conclusions reached in any detailed economic impact analysis to the affected party, when requested.

Ex-Im considered 771 applications applicable for economic impact review between fiscal years 2003 and 2005 and approved 525 projects, or 67 percent, which represented approximately \$6.1 billion in financing. Of the approved projects, most had been removed from the economic impact process because the financing value was \$10 million or less; however, these projects represented a relatively small portion of the approved financing (\$615 million). Conversely, applications removed from the economic impact process because the project involved an “undersupplied” sector comprised a small number of approved projects (49) but the majority of approved financing (\$3.8 billion). Of the 20 applications held for detailed analysis, Ex-Im approved 11, representing \$1.7 billion. Figure 4 compares the number of approved projects by each economic impact code with the respective dollar value.

Figure 4: Comparison of Number and Dollar Value by each Economic Impact Code for the 525 Approved Applicable Projects (Fiscal Years 2003-2005)



Source: GAO analysis of Ex-Im Bank data.

The board or its designee²¹ decides whether to approve or deny any application on the basis of the economic impact designation in conjunction with many factors, including several other evaluations, such as an engineering feasibility study, an environmental impact assessment, and credit information about the applicant and the project. For those applications that undergo a detailed analysis, Ex-Im's charter provides an exception that allows the board to approve the application if it finds that the short- and long-term benefits to industry and employment in the United States outweigh the costs to U.S. producers of a competing good. Under this authority, the board of directors could approve an application even if the staff concluded that the project would create a negative economic impact.

The 2006 reauthorization requires Ex-Im to provide affected parties with a nonconfidential summary of the facts and conclusions of any detailed economic impact analysis within 30 days of receiving a written request. Prior to the reauthorization, Ex-Im published the board of directors' financing decisions, but not information on whether the bank had conducted an economic impact analysis or the analysis's findings.

Challenges and Limitations Exist in Identifying and Analyzing Projects for Economic Impact

We identified substantial challenges and certain limitations in Ex-Im's economic impact process. Determining the economic impact of a project is an inherently challenging process that requires defining which products and geographic markets will be affected and projecting future market trends. With respect to Ex-Im's screening of applications to identify those for detailed analysis, we found varying effectiveness; the effectiveness of the \$10 million threshold used by Ex-Im is uncertain and has not been analyzed by Ex-Im. We identified certain methods used in the detailed analysis that could be improved. These methods featured inconsistencies and limitations in how Ex-Im has estimated potential costs to U.S. producers related to their production being displaced over time by increased foreign competition. Also, how Ex-Im characterizes the net effect of its financing on the U.S. trade balance can be clarified. In addition, Ex-Im's internal controls could be strengthened to better ensure

²¹All authority to approve or deny applications stems from the board of directors. The board generally reviews all applications over \$10 million. It has delegated authority to the Credit Committee to approve or deny medium-term transactions (generally speaking, those that are less than \$10 million). The board has also delegated decision authority to individuals for certain categories of financing.

that the identification process and analysis is conducted consistently and accurately.

Screens Used to Identify Applications for Detailed Analysis Vary in Effectiveness

While the number of applications for financing received by Ex-Im annually creates challenges in assessing all potential applications for economic impact, we found that the screens Ex-Im established using its discretion under the charter varied in effectiveness. Excluding requests to finance projects in the oil and gas sector and the diamond sector from detailed economic impact analysis because they are undersupplied has been an effective screen; however, the effectiveness of the \$10 million screen is uncertain.

Volume of Applications Creates Challenges in Screening for Economic Impact

The number of applications for financing received by Ex-Im annually creates challenges in assessing all potential applications for economic impact. As we have previously discussed, Ex-Im processed 9,255 requests for financing from fiscal years 2003 through 2005, 771 of which involved foreign production of an exportable good and, therefore, were applicable for economic impact review. While Ex-Im reviews all applications for potential economic impact, the additional procedures it has introduced to screen out projects that are unlikely to have an adverse impact on U.S. producers are also intended to more effectively allocate Ex-Im's limited resources.

Exemption of "Undersupplied" Sectors from Analysis Has Been Effective

Ex-Im's exclusion of the oil and gas sector and the diamond sector from detailed analysis because they are "undersupplied" has been an effective tool developed with input from other agencies and previous analyses in those sectors. Ex-Im initially developed a list of 31 natural resource sectors for which imports accounted for more than 50 percent of U.S. consumption as potentially "undersupplied." Ex-Im reduced the list to 2 sectors (Ex-Im designated oil and gas as a single sector) with input from the U.S. government agencies that review the detailed analyses and the Department of Energy. Importantly, Ex-Im officials stated that, in the past, economic impact analyses of applications for projects in these sectors had always yielded a positive impact on the U.S. economy, and that, because these sectors were natural resources, the United States had limited ability to expand production domestically. Ex-Im created the undersupplied list to more effectively allocate its resources.

Effectiveness of the \$10 Million Threshold Has Not Been Determined

The \$10 million threshold's effectiveness as a screen is uncertain because Ex-Im has not determined the extent to which it identifies projects that could meet the statutory definition of substantial injury. As we have previously discussed, the threshold was chosen, in part, on the basis of

other Ex-Im practices that are triggered at \$10 million, such as a board review and an environmental impact assessment. Ex-Im officials stated that requests for financing \$10 million or less would generally be too small to increase foreign production by 1 percent or more of U.S. production. However, Ex-Im has not conducted an analysis to support that the \$10 million threshold captures the appropriate projects. In theory, even a relatively small export of capital goods or services could be used to produce 1 percent or more of production in a small U.S. industry.²² More generally, the dollar value of a capital good project can be an imperfect signal of the size of the project in terms of its production as a percentage of the corresponding U.S. industry. For example, Ex-Im estimated that a \$14 million export of equipment to Russia would allow production of polystyrene to expand by 1.4 percent of U.S. polystyrene production. In contrast, Ex-Im estimated that a \$16.25 million export of mining equipment to Japan would allow a foreign company to produce roughly 14.6 percent of annual titanium production in the United States.

We learned of or identified two requests for financing less than \$10 million whose projects were associated with estimated foreign production of over 1 percent of U.S. production in an industry; data limitations did not allow us to do a thorough review of projects with a financed value of \$10 million or less. First, an export of \$9.9 million of ethanol dehydration equipment to Trinidad would allow a foreign company to produce an estimated 3.5 percent of U.S. production of anhydrous ethanol. We learned of the ethanol project because Congress required Ex-Im to conduct a postapproval detailed analysis in the Consolidated Appropriations Act of 2004. Second, we identified a \$9.8 million export of mining equipment that would allow a foreign company to produce an estimated 1.73 percent of production in a U.S. industry. We identified the mining project when we attempted to sample 10 applications requesting financing for \$10 million or less, from a universe of 80 applications between \$5 and \$10 million, to examine whether they resulted in foreign production equal to or greater than 1 percent of U.S. production in an industry.²³ Of the 10 capital good

²²For example, according to the Census Bureau's *Survey of Manufactures*, roughly one-fourth of manufacturing industries at the seven-digit NAICS level (one definition of industries based on the North American Industrial Classification System) had annual shipments of less than \$300 million in 2005.

²³We judgmentally selected a sample of 10 capital good projects requesting financing of \$10 million or less. All 10 applications in the sample were between \$5 and \$10 million, and most were between \$7 and \$10 million. The sample was drawn from 80 applications that were approved, had funds disbursed, or were denied between fiscal years 2002 and 2005.

exports in our sample, Ex-Im could provide information on the amount of production for 2—1 of which was the \$9.8 million mining project that we have previously described.²⁴ Thus, we were largely unable to determine the extent to which Ex-Im’s \$10 million threshold screened out applications that would have met the 1 percent substantial injury test. The mining project and the ethanol project, while treated in accordance with Ex-Im’s procedure to exclude requests for financing \$10 million or less from detailed economic impact analysis, indicate that requests of \$10 million or less can be associated with production of over 1 percent of a corresponding U.S. industry. As we have previously noted, the 1 percent threshold is an important legislative criterion because it establishes whether a project meets the definition of substantial injury.

Detailed Analysis Has Challenges and Certain Limitations

Determining the economic impact of a project is an inherently challenging process; however, we identified limitations in certain assumptions Ex-Im makes to estimate potential costs to U.S. producers, and in how it characterizes the net effect of its financing on the trade balance.

Detailed Analysis Has Inherent Challenges

The modeling of international economic markets to determine the impact of government decisions and policies, including Ex-Im financing decisions, features a number of inherent challenges. Simplifications are always necessary to model complex economic interactions, and, even under simplified assumptions, precise data may not exist to address the question at hand.

In some analyses, Ex-Im has found it challenging to define the industries that would be affected by Ex-Im-supported production, both in terms of products and geographic extent, a determination that will also influence estimates of the costs to U.S. producers. To calculate displaced production, Ex-Im must define the relevant industry, determine the regional or global markets in which there could be competition with U.S. producers, and collect trade and consumption data that are based on those markets. One case where Ex-Im officials noted challenges in

²⁴An Ex-Im official stated that, in general, only large project finance transactions require information on increased production capacity for the bank’s credit underwriting (since Ex-Im bases the project’s creditworthiness on the project’s future potential). Credit decisions for smaller projects are often based on criteria such as the borrower’s credit history, financial statements, and the bank’s experience with the exporter. There is no standard procedure for collecting or capturing production data, particularly for small applications (i.e., \$10 million or less).

obtaining the appropriate product data concerned a project supporting a denim plant in Turkey. To estimate potential displacement of U.S. denim exports, Ex-Im used data on U.S. exports of high-cotton-content denim (to reflect the Turkish manufacturer's plan to produce "high-end" jeans). However, Ex-Im stated there was a lack of data on broader supply-and-demand factors for this denim—such as global capacity utilization for denim plants—and, thus, Ex-Im relied on projections for the price of jeans because 85 percent of all denim is used to produce jeans. In addition, an analysis of a semiconductor production facility in Singapore also illustrates market definition challenges. Ex-Im identified a type of "leading edge" semiconductor as the relevant product market, but also noted that because of the on-demand nature of production in the facility, it was difficult to conduct a trade flow analysis or determine potential displacement of semiconductors made in the United States.²⁵ Defining the industry appropriately and collecting data to match that definition is an inherent challenge in conducting an analysis of this kind.

More broadly, the full economic impact on U.S. industries of projects financed by Ex-Im depends on determinations or assumptions regarding what would happen in the absence of the financing. For Ex-Im, predicting these effects can involve determining or making assumptions regarding (1) what would happen to U.S. productive resources if Ex-Im's financing for a project did not exist or (2) how global prices would evolve if new capacity were not added. Foreign competition for financing could also have implications for what would happen in the absence of Ex-Im financing. For example, if Ex-Im denied financing, the borrower might seek financing from another country's export credit agency, resulting in similar capacity being added abroad without the use of U.S. goods or services. However, because foreign competition for financing can exist for many projects, a senior Ex-Im official noted that the application of this rationale would risk undercutting other economic impact provisions. In contrast, if a particular U.S. exporter would supply a foreign producer whether Ex-Im financed the project or not, then those exports would not be in addition to what would happen without Ex-Im support.

²⁵ According to Ex-Im, the semiconductors to be produced at the facility would generally be Application Specific Integrated Circuits for consumption in the sectors of communications, computers, and consumer electronics.

Calculation and Presentation of Some Potential Costs Could Be Improved

There are limitations in certain assumptions that Ex-Im has made to estimate potential costs to U.S. producers related to displaced production that is spread over time or lower prices for U.S. competitors, which are important elements of the detailed economic impact analyses.

Calculation of Displaced U.S. Production

There are limitations and inconsistencies in how Ex-Im has calculated displaced U.S. production that is spread out over time. In measuring the potential cost of Ex-Im financing to U.S. industries, Ex-Im staff generally begin by estimating the annual level of displaced production in specific countries where U.S. production is expected to compete with the production supported by the Ex-Im loan or guarantee. This estimate is based on how much of the increased foreign production will be sold to countries that U.S. producers also supply, and on the current U.S. market share in those countries. While Ex-Im rightly considers both the present and future costs and benefits of its projects, we identified limitations and inconsistencies in its estimates—including its assumptions regarding (1) whether displacement, when it occurs, will happen every year or every other year and (2) how Ex-Im accounts for expected growth in global demand for a product in its estimates of displaced production—that can reduce or eliminate the amount of displaced production as initially estimated. These assumptions can, in some cases, significantly affect estimates of displaced production and, hence, net economic impact. Importantly, OMB notes that in cost-benefit analyses, major assumptions should be varied to determine how sensitive outcomes are to changes in the assumptions.

Ex-Im has sometimes used an every-other-year method of calculating displaced production that occurs over time. Assuming that U.S. production would be displaced only every other year can significantly reduce estimates of displaced production as compared with an annual approach; it can reduce the estimated displaced production by close to half. In one 2005 case where Ex-Im used this approach, it estimated a net-positive trade impact with increased exports of \$14.9 million and displaced production of \$9.8 million over 8.5 years. Assuming every year displacement would have yielded a net negative impact. In a 2006 analysis, estimated costs were reduced from \$221,000 to \$123,000 by assuming that displacement would occur every other year, although in that case the estimated value of exports was substantially higher than the estimated displacement, so the assumption did not change the net trade effect estimate. Ex-Im has explained the use of every-other-year discounting on varying grounds, including normal supply-and-demand cycles and regular

cyclical fluctuations in the industry. However, such cyclical fluctuations are not likely to reduce the level of displaced production relative to what would occur without Ex-Im's financing, because the cyclical variation is not induced by the additional capacity supported by Ex-Im. In contrast, Ex-Im did not use an every-other-year approach to displaced production in a case where it characterized the industry as cyclical.

Ex-Im has assumed in some analyses that growing demand for the commodities it is analyzing would eliminate the initial amount of displaced production it estimated. For example, in an analysis of a potential facility to increase foreign production of polypropylene, Ex-Im assumed that an estimated \$83 million in displaced U.S. production over 8 years would not actually be displaced because of growing global demand for polypropylene. However, this implicitly assumes that, in the absence of Ex-Im support for the larger facility, U.S. production would not have expanded on its own to take advantage of that growing demand.²⁶ Therefore, Ex-Im's estimate of displaced production will be highly sensitive to assumptions regarding how U.S. producers would meet growing world demand if new Ex-Im-supported capacity did not exist. Ex-Im made similar assumptions—that growing demand would offset potential displaced production—in an analysis of flat glass production in Mexico.²⁷ Officials at one agency from which Ex-Im solicits comments stated that these assumptions were very optimistic, and that a sensitivity analysis would be appropriate.

Potential Costs Related to Lower Prices

Ex-Im's method of estimating displaced production does not adequately acknowledge the potential costs to U.S. producers in some cases as a result of lower global prices. Ex-Im's methodology for estimating the economic losses to U.S. competitors does not capture indirect costs that are transmitted through changes in global market prices. As we have previously noted, the estimate of displaced production is focused on specific countries in which U.S. firms are expected to directly compete with the new foreign production. However, some costs to U.S. firms may come in the form of lower prices for homogeneous globally traded

²⁶An Ex-Im official told us that the bank had not used this assumption since the Israel polypropylene analysis in 2005.

²⁷This application was withdrawn by the buyer after a draft economic impact analysis was prepared but prior to board consideration.

commodities, instead of directly displaced production.²⁸ These price changes could occur even in markets where there is no direct competition with the Ex-Im-supported foreign production, and should be acknowledged even if they cannot be calculated precisely. An official from one of the agencies that Ex-Im consults on economic impact also stated that one cannot necessarily assume that an increase in production in a single region will not affect global prices.

For example, in a detailed analysis of the economic impact of a plant in Egypt that would produce ammonia, Ex-Im's estimate of the costs to domestic producers may not have captured the potential effect of lower global prices on those producers. Ex-Im stated that output from this plant was not expected to directly compete with U.S. ammonia exports. However, the United States procures ammonia globally and, therefore, is not insulated from even distant changes in market conditions. In comments provided to Ex-Im, industry officials also noted that because ammonia is a commodity, any increase in global supply would drive down prices. Similarly, in a detailed analysis of the economic impact of a plant in Israel that would produce polypropylene, Ex-Im focused on potential losses to U.S. producers in specific export markets. However, Ex-Im also noted in the analysis that polypropylene is a "bulk commodity that is widely traded and can easily be transported worldwide." This suggests that additional polypropylene capacity abroad could reduce the polypropylene prices faced by U.S. producers, even if they are not in direct regional competition with the new production.

There are a number of potential techniques, which vary in complexity, to estimate or characterize the potential impact of certain types of Ex-Im financing on global prices. The United States International Trade Commission often uses sophisticated and resource-intensive economic models to estimate an array of effects of changes in U.S. trade policies on, among other things, the prices faced by U.S. producers. However, other less complicated and less resource-intensive techniques could be used to approximate the impact of global supply changes on prices.²⁹ According to OMB guidance, an enumeration of the different types of costs and benefits can be helpful in identifying the full range of potential effects, and, in

²⁸Prices would not necessarily fall in absolute terms, but they might be lower than would be the case in the absence of Ex-Im financing.

²⁹For example, existing estimates of the price elasticity of demand for an industry's product could be used to estimate the impact of changes in global supply on prices.

Characterization of Financing
Effect on Trade Balance Can
Be Clarified

addition, analyses should include a statement of the strengths and weaknesses of assumptions. Ex-Im officials stated that the separate assessment of oversupply should address some of these price effects. However, while the oversupply analysis may indicate the overall direction of global prices, it is not intended to measure the impact of Ex-Im-supported production on global prices or the potential effect of relatively lower prices on U.S. producers.

Ex-Im's characterization of its net trade flow analysis as reflecting impacts on the overall U.S. trade balance is misleading and can be clarified. As we have previously noted, a net comparison of how trade in two industries—the exporting industry and U.S. producers of the foreign-produced good—would be affected by Ex-Im financing is a key component of the detailed analyses. In its economic impact memorandums concerning its detailed analyses, Ex-Im generally presents the amount of this estimated net impact as a change in the U.S. trade balance, stating that the trade balance will “improve” by the full dollar value of the exports it finances, less lost production. This characterization is misleading because the incremental impact of Ex-Im financing is likely to be less than the total value of those exports.³⁰ Economists generally agree that the aggregate trade balance is largely determined by macroeconomic factors, especially the domestic balance between savings and investment. Thus, the incremental impact of Ex-Im financing is likely to be much smaller than the total value of U.S. exports supported by Ex-Im or the total value of displaced production. However, while the size of the impact on the U.S. balance of trade is overstated, Ex-Im's conclusions about net economic impact are likely to have been unaffected by this practice because these cost and benefits are both overstated.

³⁰OMB guidance for cost-benefit analyses by federal agencies, for example, states that calculations should be based on incremental benefits and costs. In particular, OMB notes that “analyses should take particular care to identify the extent to which a policy such as a subsidy program promotes substitutes for activities of a similar nature that would occur without the policy.” In this case, Ex-Im financing may promote the use of productive capacity in the United States that could find similar or alternative use even in the absence of Ex-Im support. For example, the firm that owns the productive capacity would seek other buyers for its products, although perhaps selling them later or at less favorable prices.

Controls on Ex-Im's Economic Impact Process Could Be Strengthened

We found that the internal controls Ex-Im uses to ensure the accuracy of its economic impact identification and analysis process could be strengthened. According to the *Standards for Internal Control of the Federal Government*,³¹ internal controls should reasonably ensure the effectiveness and efficiency of operations and the compliance with applicable laws and regulations. Control activities include a wide range of diverse activities, such as training, approvals and verifications, and the creation and maintenance of related records that provide evidence of execution of these activities as well as appropriate documentation. The manner in which Ex-Im conducts at least three control activities does not reasonably ensure effective analyses. First, Ex-Im did not provide the employees conducting the analyses with formal training or guidance on how to conduct the analysis. Second, Ex-Im did not consistently document internal review of the analysts' work. Third, Ex-Im does not maintain documentation of certain important pieces of information. Without strong internal controls, Ex-Im cannot ensure that all requests for financing are appropriately analyzed.

Limited Training or Systematic Guidance Was Provided on How to Conduct a Detailed Analysis

Although appropriate training is a key internal control, Ex-Im provided the analysts with whom we spoke³² with limited training or systematic guidance on how to conduct an economic impact analysis. According to the *Standards for Internal Control of the Federal Government*, management should ensure that employees have the required skills to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. According to the five analysts with whom we spoke, Ex-Im's training includes reading the economic impact procedures and previously conducted analyses and informal mentoring from coworkers. One analyst relied on a notebook compiled by his predecessor and another analyst relied on a template; however, according to bank officials, neither of these documents had been sanctioned by Ex-Im. This training and guidance may not be sufficient to ensure the use of the same fundamental, methodological approach across analyses, particularly given that the

³¹The Federal Managers' Financial Integrity Act of 1982 requires GAO to issue standards for internal control in government. The *Standards for Internal Control of the Federal Government* provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. According to OMB, these standards are applicable to all executive agencies.

³²Between fiscal years 2002 and 2006, six Ex-Im staff members conducted the detailed economic impact analyses.

Approvals and Verification
Were Not Systematically
Obtained

Policy Analysis Division, which is responsible for conducting the analyses, has had a lot of turnover since 2002.³³

Officials from the Policy Analysis Division stated that the economic impact analysts always consult with the engineers when conducting a detailed analysis because they provide important technical expertise; however, the engineers do not consistently approve final analyses. According to the *Standards for Internal Control of the Federal Government*, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error. This includes separating the responsibilities for reviewing the analyses. The Ex-Im policy division relies on the engineering division for industry-specific information. For example, the Engineering and Environment Division generally calculates the 1 percent tests for all applications and helps the analysts define the appropriate commodity markets. In addition, engineers contact the exporters and borrowers to gather the technical information necessary to make those determinations. However, while the employee who conducted the analysis and the head of the policy division always signed the final economic impact analyses to denote their concurrence with the analysis, the engineers did not. Engineers signed only 6 of the 14 economic impact analyses for which the board of directors made final financing decisions. Ex-Im officials acknowledged that, although the policy division does consult with engineers for every detailed analysis, Ex-Im does not have any rigorous procedures prescribing when an engineer should sign an analysis. Without the consistent signatures denoting engineer review, Ex-Im loses an important layer of assurance that their analyses were accurately conducted.

Ex-Im Does Not Maintain Some
Important Documentation

We also found that Ex-Im does not maintain documentation of important information concerning its detailed analyses. According to the *Standards for Internal Control of the Federal Government*, all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The policy division does not maintain records of the underlying data sources for its 1 percent test calculations, just the results of the calculations. Without the underlying data, the test cannot be replicated. The policy division also does not keep copies of draft analyses that it circulates to the reviewing agencies for

³³Of the 6 Ex-Im staff members who conducted the detailed economic impact analyses, 1 no longer works at Ex-Im. One analyst has changed positions within the bank and no longer works on detailed analyses. Two analysts work on the analyses as a collateral, rather than a primary, duty. Two analysts recently began working on the analyses.

U.S. Government Agencies Have Provided an Important Review Function

their comments. The policy division also does not keep records of projects for which it began a detailed analysis, but which the applicants withdrew prior to the board making a final financing decision. A senior bank official noted that it probably would be a good idea for the policy division to start keeping files on the withdrawn data.

Commerce, State, Treasury, and USTR have played an important role in the quality assurance process regarding Ex-Im transactions that undergo a detailed economic analysis. In addition to specifically notifying these agencies when it begins a detailed analysis, Ex-Im provides them with a copy of the draft detailed analysis and asks that they provide their analytic and policy opinions. An Ex-Im official noted that the bank has voluntarily circulated the draft analyses to be as inclusive as possible, but it is not required to do so by its charter. Each of the four agencies reviews the detailed economic impact analysis in light of larger U.S. government policies, laws, and economic principles. The agencies often provided Ex-Im with important quality assurance feedback through informal dialogue. For example, when reviewing a draft of a transaction concerning denim, USTR noted in an e-mail to Ex-Im that the analysis had not considered how the end of textile quotas, which had happened just prior to the transaction's application for financing, would impact the global supply of textiles, including denim. Ex-Im modified its analysis to incorporate this consideration.

In addition to providing quality assurance, the agencies' comments can influence a transaction's outcome. For example, when agencies expressed the opinion that steel production was in overcapacity, Ex-Im's staff changed their conclusion that the transaction would have a "net positive impact" to that the transaction would have a "net negative impact." In an early draft of a detailed analysis concerning direct reduced iron production, Ex-Im staff concluded that steel *would not* be in oversupply when the foreign buyer's factory came on-line. However, three of the four agencies disagreed with this assessment. According to the economic impact memorandum for this transaction, Ex-Im staff deferred to the collective expertise among the agencies and changed its conclusion.

Ex-Im generally requests the agencies' comments 1 week after it circulates the draft detailed analysis to them. Several agency officials stated that 1 week is not enough time to thoroughly review an analysis because of the complexity of the analysis and the need to get the views of those in official, senior-level positions on the analysis. However, some agency officials noted that Ex-Im does try to accommodate their requests for additional information and review time.

Transparency of Economic Impact Procedures Has Limitations

We found that some aspects of Ex-Im’s economic impact process lacked transparency. While Ex-Im publicly posts their procedures, the procedures are difficult to understand and contain undefined terms. In addition, Ex-Im does not provide all public comments to its board of directors as required by its procedures.

Publicly Available Procedures Contain Areas of Ambiguity

Ex-Im’s publicly available procedures do not clearly lay out how it analyzes applications for economic impact; therefore, interested parties are unable to reasonably assess their project’s viability. In addition, Ex-Im could increase the process’s transparency by referencing its list of sensitive sectors in its procedures and publishing the detailed analyses’ outcomes.

Economic Impact Process Is Not Easily Understood

Ex-Im’s procedures for analyzing applications are unclear to lenders and exporters directly involved in those projects, other industry officials, and U.S. government officials. According to Ex-Im’s annual competitiveness report,³⁴ many lenders and exporters involved in projects requesting the bank’s financial support expressed particular concern that the economic impact issue needs greater transparency and predictability. One exporter who participated in Ex-Im’s annual competitiveness survey noted that, because the economic impact process is unpredictable, project sponsors may consider finding an alternative to the U.S. product and financing if the project would be subject to economic impact analysis. Industry officials with whom we spoke also generally noted that the process was not clear. One industry official called the process “a black box.” Similarly, officials from one U.S. government agency with whom we spoke noted that Ex-Im’s criteria and methodological assumptions were unclear.

Ex-Im’s Procedures Do Not Provide a Clear Basis for the Assessment of Oversupply

Ex-Im’s oversupply assessment—which can be a key factor in determining economic impact—lacks a clear basis because Ex-Im has not defined oversupply or matched the list of oversupply indicators in its procedures with those that they actually use. As we have previously noted, a determination of oversupply—Ex-Im’s interpretation of the statutory consideration of whether production is in surplus on world markets—can be a basis for denial of an application. Ex-Im has also referred to information gathered in its assessment of oversupply in its determination of potential displaced production and, thus, its estimate of net economic

³⁴Ex-Im, *Report to the U.S. Congress on Export Credit Competition and the Export Import Bank of the United States* (June 2006).

impact. There is no generally accepted definition of oversupply, which Ex-Im's procedures and staff both acknowledge. In fact, the excess supply of a good over demand is not likely to be a persistent condition because, in most markets, prices will adjust to bring the supply of the good in balance with the demand. However, various indicators can provide perspectives on the outlook for supply and demand, and on whether expansions in capacity might come at a time of falling prices.

Ex-Im officials stated that they have not created an operational definition of oversupply to guide their assessment of it in detailed economic impact analyses. Instead, according to its procedures, Ex-Im analyzes transactions on a case-by-case basis and assesses oversupply according to a series of possible indicators. These indicators are as follows:

- Final antidumping and countervailing duty orders on similar products elsewhere.³⁵
- Section 201 investigations.
- Stagnating or falling global prices.
- Falling gross margins of domestic producers.
- Industry bankruptcy and unemployment trends.
- Trade Adjustment Assistance petitions.
- Preliminary antidumping and countervailing duty determinations.
- Multilateral production limitation agreements.

Ex-Im has not generally used the more domestically focused indicators listed in its procedures to support conclusions regarding oversupply, and the procedures do not include a key indicator that it has used. Ex-Im officials stated that the oversupply assessment is made on a global basis. (Ex-Im's charter refers to surplus on "world markets.") However, most of the indicators listed in Ex-Im's procedures refer to laws, programs, or

³⁵As we have indicated in a previous section of this report, when the foreign-produced good is directly subject to a final antidumping or countervailing duty order or a final section 201 determination, Ex-Im eliminates it from consideration for financing through its screening process.

conditions in the United States that are not necessarily reflective of conditions on global markets. These include, for example, trade measures used by U.S. firms to mitigate the adverse effects of competition from foreign imports. While Ex-Im's economic impact memorandums often contained information on these trade measures in a separate section, the presence or absence of these measures is not generally identified as the basis for support of oversupply determinations. Furthermore, an indicator that has been important to Ex-Im's determinations, capacity utilization, is not listed among the indicators of oversupply in its procedures. Ex-Im's conclusions about oversupply are typically supported by information related to prices, capacity utilization, and direct measures or forecasts of global supply and demand.

Differences in criteria considered important for determining oversupply have been the basis for disagreements regarding whether Ex-Im should deny an application on economic impact grounds. An Ex-Im official stated that the lack of a definition for oversupply has been problematic because individuals may differ regarding whether a commodity is in oversupply, depending on the factors they consider. As a result of such disagreements, some transactions at Ex-Im have "stopped in their tracks," according to the Ex-Im official. This was illustrated in the case of a transaction that would have increased steel capacity in Saudi Arabia. Ex-Im and several agencies initially disagreed regarding oversupply on the steel project. Ex-Im's final economic impact assessment concluded that the transaction would likely have a net negative impact on the U.S. economy, and Ex-Im's board denied the transaction. An official with one of the agencies from which Ex-Im solicits comments also stated that oversupply has been an area of disagreement.

Procedures Do Not Have Criteria for when to Use Proportionality

Similarly, Ex-Im does not clearly define when the concept of "proportionality" would be used. An Ex-Im official noted that the bank included proportionality in its procedures after the 2002 reauthorization to retain some flexibility in how it analyzed the applications.³⁶ A senior official stated that, in some cases, it is not reasonable for the bank to assume responsibility for all of a project's increased production when it only finances a portion of the overall project. Instead, the concept of proportionality allows the bank to measure the potential for its financing to displace the production of U.S. competitors in proportion to its funding.

³⁶We identified two instances where Ex-Im applied proportionality after the 2002 reauthorization.

Applying proportionality would reduce the estimated costs to U.S. producers. For example, if Ex-Im financed \$100 million worth of U.S. exports associated with a larger \$2 billion project, the bank would be supplying 5 percent of the total project cost. If the \$2 billion facility produced 10,000 metric tons of an exportable good, Ex-Im would assess the impact of its financial support on U.S. competitors on the basis of only 5 percent of the output—in proportion with its funding—or 500 metric tons.

Using proportionality can change a net negative determination to a net positive determination. For example, Ex-Im applied the proportionality concept to the estimate of displaced production regarding a project that would allow a Chinese company to increase production of petrochemicals. According to documents provided by other government officials, Ex-Im's analysis of a petrochemical project noted approximately \$170 million in expected benefits from the U.S. export sale, but approximately \$750 million in potential indirect "lost opportunity" costs. Using standard calculations, the analysis would have yielded a *net negative* impact of over \$580 million. However, Ex-Im applied proportionality and found that its share of the project financing equaled only 4.5 percent of project costs—therefore, Ex-Im financing was associated with about \$34 million in potential indirect lost opportunity costs. This use of proportionality yielded a *net positive* impact of \$134 million.³⁷ Ex-Im approved the project in fiscal year 2003.

Ex-Im also has not systematically used the proportionality concept or specified when it would be applicable. For example, in an application to finance an ethanol facility in Trinidad,³⁸ Ex-Im argued that the equipment they financed did not allow the company to produce ethanol, but rather to introduce a "simple refinement step"—that is, dehydration. At that time, the price of hydrous ethanol (the input) was 10 percent lower than anhydrous ethanol (the end product). Therefore, using the proportionality

³⁷According to documentation we received from the reviewing government agencies, two agencies objected to the use of proportionality for this project; therefore, Ex-Im provided them an alternative analysis supporting a net positive impact without using proportionality. However, this alternate calculation was not included in Ex-Im's final memorandum to the board of directors.

³⁸This project was initially not screened for economic impact, given that the finance value was less than \$10 million. Ex-Im conducted this analysis after authorizing the project as required pursuant to Title I, Division D, of Pub. L. No. 108-447, the Consolidated Appropriations Act, 2005.

approach, Ex-Im asserted that its financing was only responsible for 10 percent of the output. Using proportionality, Ex-Im concluded that the project would increase foreign production by *0.35 percent* of U.S. production. Using standard calculations, foreign production would have increased by *3.5 percent* of U.S. production. Ex-Im asserts that its decision to use proportionality when equipment refines a product rather than produces a new product is fair and reasonable. However, in a similar project involving the refinement of hot-rolled steel to galvanized steel, Ex-Im did not apply proportionality.

In addition, several reviewing agencies have expressed concerns about the use of proportionality when determining a project's economic impact. Without knowing the conditions under which Ex-Im would apply proportionality, interested parties do not have a sense of the viability of their proposed project.

Ex-Im acknowledged that both the oversupply and proportionality language in the procedures is confusing. A senior Ex-Im official also noted that the bank struggles with determining when to use the proportionality concept. The bank also acknowledged that it should create more specific guidelines in their procedures for defining oversupply and proportionality. Specific criteria would make the process more transparent. However, Ex-Im has not altered the language in its most recent procedures.

Public Comments Are Not Fully Included in Board Memorandums

Ex-Im does not regularly include the full text of the public comments that they receive. Ex-Im's economic impact procedures require it to attach the full set of comments as an appendix to the economic impact memorandums. In some cases, staff members attached selected communications. There were seven cases that received public comments and went to the board for decision but only two included copies of all of the comments received. According to Ex-Im, the Policy Analysis Division does not append copies of all public comments received because they are sometimes too numerous. Instead, the policy division summarizes the main arguments and often includes a representative letter. An Ex-Im official noted that the division retains all public comments and would make them available to the directors if requested. However, Ex-Im does not note in its procedures what criteria it uses for deciding which comments not to include, nor does it note in the memorandums that the letters were available for perusal upon request. The 2006 reauthorization now requires Ex-Im to provide in writing the views of all people who submit comments.

Incorporating New Practices Would Increase Process's Predictability

We identified two practices that Ex-Im does not currently incorporate into their economic impact procedures that would increase the predictability of the process's outcomes—namely, referencing the sensitive sector list and publishing detailed analyses results. First, in its revised procedures, Ex-Im does not reference its list of industries unlikely to be financed for economic impact reasons. In the 2006 reauthorization legislation, Congress required Ex-Im to create a “sensitive sectors list” denoting sectors that are unlikely to receive Ex-Im financing. Ex-Im has created this list and makes it publicly available on its Web site. However, Ex-Im's updated procedures do not specify the list's implications and indicate that requests for financing projects in sectors on the list will receive close scrutiny during the economic impact process. In contrast, the procedures do list “undersupplied” sectors (oil and gas and diamonds) that *will not* be denied on economic impact grounds. A direct reference to the sensitive sectors list would enable interested parties to quickly identify whether their projects were viable. Second, Ex-Im does not currently publicize the results of its detailed economic impact analyses. Ex-Im publicly announces when it begins a detailed analysis. It also posts minutes of board meetings on its Web site that announce ultimate financing decisions. However, the financing decisions do not include statements regarding whether the project was subject to an economic impact analysis, or the determination regarding whether there would be a net negative or net positive impact on the economy. Publicizing such information would provide interested parties with a record of what types of projects passed the detailed analysis.

Conclusions

While many requests for Ex-Im's financing do not require economic impact analysis, the bank often faces the difficult task of balancing the interests of different industries while working to achieve its broad mission to promote U.S. exports and increase U.S. jobs. Ex-Im's board of directors must consider the economic impact of proposed projects while also weighing other factors, such as creditworthiness, environmental impact, and small business participation. Congress has given Ex-Im's board wide discretion in how it implements the economic impact requirements specified in the bank's charter. It directs Ex-Im to examine certain factors, such as whether products are in surplus on global markets (or in “oversupply,” according to Ex-Im), but gives the board the authority to approve applications that it believes will have an overall benefit on U.S. production and employment, despite some negative impacts. Determining the various economic impact aspects that weigh into the board's decision can be challenging, requiring Ex-Im to identify what international markets are likely to be involved and to quantify how economic trends may play out in

the future. While Ex-Im's board of directors may sometimes have to consider economic impact in the face of imperfect information, it needs to be able to rely on a process that involves sound methodology and consistent application of procedures, and to understand key assumptions and areas of uncertainty. Moreover, Ex-Im clients and affected U.S. industries need a process that is transparent and, where possible, predictable.

Although Ex-Im generally follows its broad economic impact procedures, we identified several areas for improvement related to the screening of applications for economic impact, the analysis methodology, and the transparency of the overall process. First, while Ex-Im has the discretion to use screens to identify applications for further review and to allocate its staff resources effectively, the effectiveness of Ex-Im's \$10 million screen is uncertain because Ex-Im has not conducted an analysis to determine the extent to which it identifies projects that could meet the statutory definition of substantial injury. Next, we identified limitations in certain assumptions Ex-Im makes to estimate economic impact in its detailed analyses. In some cases, these limitations had not been adequately disclosed nor had the sensitivity of economic impact conclusions to these assumptions been explored. In addition, while Ex-Im makes the economic impact procedures publicly available, the procedures do not provide adequate transparency and predictability. This has been noted by exporters, industry, and U.S. government agency officials. Ex-Im's own competitiveness survey cites one respondent as saying that the unpredictability of the economic impact process hurts U.S. sourcing in projects.

Congress demonstrated in Ex-Im's 2006 reauthorization its continuing interest in Ex-Im having a sound and transparent economic impact process, and addressed certain transparency concerns. We believe that several improvements in Ex-Im's process are still needed to ensure that its decisions stand up to the inevitable scrutiny of interested and affected parties.

Recommendations

To improve Ex-Im's identification and analysis of applications for economic impact, we recommend that the Chairman of the Export-Import Bank of the United States take the following three steps:

- Review the \$10 million threshold to determine whether additional steps are needed to mitigate the risk of exempting from more detailed review applications that could meet the definition of substantial injury. The

additional steps could include, for example, selectively reviewing transactions that would affect relatively small U.S. industries or sensitive sectors.

- Create specific methodological guidelines for staff analyzing applications for economic impact, bearing in mind relevant OMB guidance where appropriate.
- Review and strengthen internal controls concerning the economic impact analysis to ensure, for example, that staff members conducting the analyses have sufficient training and guidance in Ex-Im’s economic impact methodology, that relevant Ex-Im staff verify and approve the analyses, and that sufficient documentation is maintained to record key information.

To improve the public transparency of the economic impact process for interested and affected parties, we also recommend that the Chairman of the Export-Import Bank of the United States take the following three steps:

- Clarify publicly available procedures by including more information regarding Ex-Im’s methodology for analyzing applications, such as defining how it incorporates “oversupply” determinations in its analysis and what measures it uses and specifying under what conditions “proportionality” would be used.
- Inform interested parties about the sensitive sector list by including a reference to the list in the economic impact procedures.
- Publish either individually, or in the publicly available board minutes, the final determinations regarding whether a project would have a positive or negative impact.

Agency Comments and Our Evaluation

We provided a draft of this report to the Export-Import Bank of the United States. Ex-Im generally concurred with our recommendations and stated that it will continue to explore feasible ways to improve the economic impact procedures and make the process more consistent and user-friendly. Ex-Im stated that it will (1) review the \$10 million threshold to ensure that it satisfies its intended function; (2) enhance existing quality assurance measures by attempting to standardize staff training and to expand document maintenance; and (3) clarify the basis for an assessment of “oversupply,” and create criteria for using “proportionality.” In addition, Ex-Im agreed to seek to incorporate our suggestions as it refines its analytic methodology, but the bank noted that a single approach would

not address the diversity of transactions it considers. We acknowledge that a single approach is not necessarily appropriate for all analyses, but we believe that a consistent set of methodological principles, such as those embodied in OMB guidance, would nevertheless enhance the economic impact analysis process. Lastly, Ex-Im agreed that increased transparency and predictability will improve the economic impact process and notes that it has amended its economic impact procedures to reflect increased transparency requirements laid out in the Export-Import Bank Reauthorization Act of 2006. We believe that the process's transparency and predictability can be further improved by several practices, such as referring to the sensitive sector list in the procedures and publishing the bank's determination regarding whether a project will have a positive or negative net impact. Ex-Im also provided technical comments, which we have incorporated where appropriate. Ex-Im's official comments are reprinted in appendix III.

As agreed with your offices, unless you publicly announce the contents of this report, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to other interested congressional committees. We also will provide copies of this report to the Chairman of the Export-Import Bank of the United States. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-4347 or YagerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other GAO contacts and staff acknowledgments are listed in appendix IV.



Loren Yager
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

The Ranking Member of the Senate Committee on Finance and a member of the Senate Committee on Banking, Housing, and Urban Affairs requested that we review the Export-Import Bank of the United States' (Ex-Im) economic impact analysis process. In this report, we reviewed (1) Ex-Im's overall policies and procedures for determining economic impact; (2) the extent to which Ex-Im's procedures provide for the identification and appropriate analysis of applications that could potentially cause adverse economic impact; and (3) the extent to which its policies, procedures, and decisions are transparent to interested and affected parties.

We reviewed the 17 economic impact memorandums that Ex-Im finalized between fiscal years 2002 and 2006. We chose this time frame because all analyses were conducted using the same procedures, and were adapted after the 2002 reauthorization but before the 2006 reauthorization. Of those cases, we chose 5 to review in greater depth: Russia/polystyrene, Egypt/ammonia, Singapore/semiconductors, Turkey/denim, and Saudi Arabia/direct reduced iron. We selected case studies that would provide a broad representation of elements in the following categories:

- Country.
- Type of industry/commodity.
- Finance amount.
- Final board decision.
- Staff members conducting analyses.
- Methodological issues.¹

Given the small universe (17) of detailed economic impact analyses conducted by Ex-Im from fiscal years 2002 through 2006, we determined that selecting a random sample would not be necessary or appropriate. While we used these 5 case studies to guide some of our work, we reviewed all 17 detailed analyses because findings that are based solely on a judgmental sample would not necessarily be generalizable to all detailed economic impact analyses conducted.

¹Methodological issues include determining "oversupply," estimating displaced production or the impact on the trade balance, and case-specific issues as noted in appendix II.

To describe Ex-Im's legal interpretation of its statutory economic impact analysis mandate, we reviewed the statutory provision as it was written in the bank's 2002 reauthorizing legislation; reviewed other relevant legal documents; and interviewed Ex-Im legal staff, including the General Counsel, regarding their interpretation. To describe Ex-Im's economic impact analysis process, we reviewed Ex-Im's economic impact analyses procedures published in March 2003 and compared them with the 2002 reauthorization legislation for consistency. To describe how Ex-Im's 2006 reauthorization will impact the economic impact procedures, we reviewed the relevant legislation and the revised economic impact procedures, and spoke with cognizant Ex-Im officials. To describe how Ex-Im implements the economic impact procedures, we spoke with the analysts who analyzed our 5 case studies, the engineers who assisted with the analysis, and the supervising officials.

To determine how many applications Ex-Im coded for economic impact, we reviewed data on all projects processed between fiscal years 2003 and 2005. Ex-Im did not use the same set of economic impact procedures when reviewing applications in fiscal year 2002; therefore, we did not use data from that fiscal year. In addition, Ex-Im did not have complete data for fiscal year 2006 projects at the time of our review. These data have some limitations that could result in small deviations from the values and quantities that we reported. Despite limitations, we determined that the transaction data provided by Ex-Im were sufficiently reliable for our purposes.

To determine whether the exportable goods in each of our five case studies were subject to antidumping orders and countervailing duty orders, we reviewed the United States International Trade Commission's (ITC) list of *current* antidumping and countervailing duty orders in place as of October 23, 2006, and February 15, 2007; the *Federal Register* from 1997 to the present for notices posted by ITC or the Department of Commerce's International Trade Administration (ITA); and ITA's *AD/CVD Investigations Federal Register History*. To determine whether the exportable goods in our five case studies were subject to "safeguards," we searched the *Federal Register* from 1997 up to the date of the case for notices posted by ITC or ITA that mentioned the name of the product involved in our cases.

To assess the extent to which Ex-Im's procedures provide for the identification and appropriate analysis of requests to finance projects that could potentially cause adverse economic impact, we reviewed the economic impact provisions of Ex-Im's charter and the procedures

implementing those provisions. To determine the effectiveness of the \$10 million threshold, we attempted to judgmentally sample 10 applications that requested financing for capital good exports between \$5 and \$10 million. However, our ability to do so was limited because Ex-Im could provide the relevant information for only 2 of the 10 projects. We reviewed 17 detailed economic impact analyses and documentation related to some applications that had not received a detailed analysis, and conducted interviews with Ex-Im officials on the 5 analyses that we chose as case studies. We also reviewed the case studies within a panel of Ph.D. economists in GAO. In addition, we interviewed officials from agencies that conduct similar analyses at the ITC and the Overseas Private Investment Corporation, and reviewed cost-benefit analysis guidance from the Office of Management and Budget. We also reviewed relevant reports from GAO, the Congressional Budget Office, and the Congressional Research Service.

To assess the economic impact analysis process's transparency, we reviewed the *Federal Register* to confirm that Ex-Im posted public notices for all detailed analyses it began. We reviewed Ex-Im's Web site to establish what information Ex-Im made public (including current procedures and final transaction decisions). We also reviewed internal Ex-Im documents. We interviewed agency officials from the Departments of Commerce, State, and the Treasury and from the Office of the U.S. Trade Representative who formally review the economic impact memorandums. We compared draft analyses that the agencies received from Ex-Im with final analyses and reviewed communications between the agencies and Ex-Im. We also interviewed representatives from companies whose exports relied on Ex-Im financing, and representatives from organizations that expressed concern over the projects' potential impact on the industries they represent. We used our 5 cases to determine which agency officials, exporters, and industry officials to interview.

We conducted our work from October 2006 through August 2007 in accordance with generally accepted government auditing standards.

Appendix II: List of Detailed Economic Impact Analyses That Ex-Im Began between Fiscal Years 2002 and 2006

We requested and received copies of all detailed economic impact analyses Ex-Im conducted in fiscal years 2002 through 2006. We also requested data on all transactions processed during the same fiscal years. However, Ex-Im only had complete and reliable data for fiscal years 2003 through 2005. Transactions processed in fiscal years 2002 were governed by a different charter than the other fiscal years, and data for transactions processed in 2006 were not available at the time of our review. Thus, the number of detailed analyses presented in this appendix does not correspond exactly with numbers cited in the report text.

Table 1: Detailed Economic Impact Analyses and Board of Directors' Financing Decisions

Dollars in millions

	Country	Commodity	Net contract price	Finding	Final board decision	Final action	
						Date	Fiscal year ^a
1	Japan	Titanium (electron beam furnace)	\$16.3	Net positive	Approved	08/22/06	2006
2	Saudi Arabia	Direct Reduced Iron Facility	74.3	Net negative	Denied	03/09/06	2006
3	Turkey	Denim (equipment)	21.5	Net positive	Approved	09/08/05	2005
4	Qatar	Petrochemicals (equipment and services)	235.0	Net positive	Approved	07/14/05	2005
5	Egypt	Ammonia	186.9	Net positive	Approved	02/03/05	2005
6	Israel	Polypropylene	35.4	Net positive	Approved	02/03/05	2005
7	Russia	Polystyrene (production equipment)	17.3	Net positive	Approved	12/22/04	2005
8	Singapore	Semiconductors	757.5	Net positive	Approved	11/12/04	2005
9	Ukraine	Galvanizing line (steel)	18.5	Net positive	Effective denial (split vote)	05/24/04	2004
10	Argentina	Gold and silver	72.4	Net positive	Approved	03/26/04	2004
11	India	Pure Terephthalic Acid	83.6	Net positive	Approved	06/05/03	2003
12	Russia	Mettallurgical coal	25.0	Net positive	Approved	04/03/03	2003
13	Uzbekistan	Gold mine	78.0	Net positive	Approved	01/30/03	2003
14	China	Petrochemical production	200.0	Net positive	Approved	10/25/02	2003

Source: GAO analysis of Ex-Im data.

^aThe U.S. government fiscal year runs from October 1st through September 30th. The fiscal year is named by the calendar year in which it ends.

**Appendix II: List of Detailed Economic
Impact Analyses That Ex-Im Began between
Fiscal Years 2002 and 2006**

Table 2: Detailed Economic Impact Analyses, with No Final Board of Directors' Decision Because of Transaction Withdrawal

Dollars in millions

	Country	Commodity	Amount	Finding	No final board decision made	Final action	
						Date	Fiscal year
1	Portugal	Photovoltaics modules	\$14.9	Net positive	Withdrawn	03/20/06	2006
2	Greece	Photovoltaics modules	38.0	Net positive	Withdrawn	08/03/05	2005
3	Mexico	Flat glass	24.0	Net positive	Withdrawn	11/02/04	2005

Source: GAO analysis of Ex-Im data.

Table 3: Detailed Economic Impact Analysis Conducted Postauthorization at the Request of the Credit Committee

Dollars in millions

	Country	Commodity	Amount	Finding	Final board decision	Final action	
						Date	Fiscal year
1	Russia	Mettallurgical coal	\$9.8	Net positive	Approved	09/21/04	2004

Source: GAO analysis of Ex-Im data.

Table 4: Detailed Economic Impact Analysis Conducted Postauthorization Pursuant to the Consolidated Appropriations Act of 2004

Dollars in millions

	Country	Commodity	Amount	Finding	Final board decision	Final action	
						Date	Fiscal year
1	Trinidad and Tobago	Ethanol	\$9.9	No definitive finding ^a	Approved	03/26/04	2004

Source: GAO analysis of Ex-Im data.

Note: Title I, Division D, of Pub. L. No. 108-447.

^aIn its analysis, Ex-Im concluded the following: "whether Ex-Im Bank support for this project will be associated with a positive or negative impact on the U.S. balance of trade largely depends on the outcome of the pending proposal to limit duty-free CBI ethanol imports to 90-million gallons per year. If the '7% cap' remains in place, then it is likely that Ex-Im support will be associated with a net negative trade flow. If the pending '90-million gallon cap' gets enacted, then it is likely that Ex-Im support will be associated with a net positive trade flow."

**Appendix II: List of Detailed Economic
Impact Analyses That Ex-Im Began between
Fiscal Years 2002 and 2006**

Table 5: Unfinished Detailed Economic Impact Analyses

Dollars in millions

	Country	Commodity	Amount	Federal Register posting	
				Date	Fiscal year
1	Saudi Arabia	Petrochemicals (equipment and services)	\$480.0	07/25/06	2006
2	Kenya	Soda ash (locomotives for transport)	14.0	02/09/06	2006
3	China	Semiconductors	1,200.0	12/23/04	2005
			500.0	08/05/04	2004
4	Turkey	Soda ash production	50.0	07/19/04	2004
5	Mexico	Aluminum engine blocks	14.0	05/23/02	2002
6	Mexico	Automotive crankshaft (equipment)	35.0	03/04/02	2002
7	South Africa	Phosphate fertilizers	12.5	03/04/02	2002

Source: GAO analysis of Ex-Im data and *Federal Register* notices.

Note: Ex-Im posts *Federal Register* announcements when it begins detailed economic impact analyses. Ex-Im made no final financing decisions on these transactions.

Appendix III: Comments from the Export-Import Bank of the United States



JAMES H. LAMBRIGHT
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

PHONE (202) 565-3500
FAX (202) 565-3513

September 5, 2007

Mr. Loren Yager
Director, International Affairs and Trade
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Yager,

Thank you for providing the Export-Import Bank of the United States ("Ex-Im Bank" or the "Bank") a draft of the United States Government Accountability Office ("GAO") report entitled "Export-Import Bank: Improvements Needed in Assessment of Economic Impact." We appreciate GAO's efforts to understand and analyze Ex-Im Bank's economic impact policies and procedures, and we welcome the opportunity to share our thoughts on the proposed recommendations.

Transactions involving economic impact issues are among the most difficult cases the Bank considers. As the GAO report underscores, determining the economic impact of a project is an inherently complex process. GAO correctly notes the Bank's challenge in attempting to balance the often times competing economic interests of two different U.S. industries: the industry represented by the exporter and the industry affected by new foreign competition. This challenge involves the examination of a vast array of industries, the attendant difficulty of information accessibility, and the consideration of diverse industry expertise.

The GAO report examines the Bank's \$10 million threshold for economic impact case review. Ex-Im Bank has utilized this threshold for the past 17 years without any adjustment for inflation. GAO recognizes the Bank's discretion to establish the threshold, but recommends that the Bank review its effectiveness and whether the threshold satisfies its intended function. Ex-Im Bank appreciates the importance of an effective threshold and agrees with the GAO recommendation.

The GAO report also recommends that Ex-Im Bank create better methodological guidelines for analyzing economic impact. Ex-Im Bank transactions represent a broad spectrum of U.S. industries, and this diversity can be incompatible with a single methodological approach. As a result, over the years, the Bank has identified, developed and employed various reasonable and appropriate methodologies for evaluating economic impact on a case and industry specific basis. Within this context, Ex-Im Bank will seek to incorporate GAO's suggestions as we continue to refine our methodological approach.

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

**Appendix III: Comments from the Export-
Import Bank of the United States**

Mr. Loren Yager
September 5, 2007
Page 2

GAO further recommends that Ex-Im Bank review and strengthen economic impact analysis internal controls. Senior economic impact officers are substantively involved in and consistently review all detailed economic impact analyses and staff members retain extensive records. Ex-Im Bank will, however, attempt to standardize staff training and expand document maintenance.

GAO also advises that the Bank's procedures clarify the basis for an assessment of "oversupply" and set forth criteria for the use of "proportionality." Ex-Im Bank agrees that the economic impact process would benefit from these changes and will reexamine these areas.

Finally, Ex-Im Bank agrees with GAO that increased transparency and predictability will improve the Bank's economic impact process. In the December 2006 Export-Import Bank Reauthorization Act, Congress passed legislation with the goal of creating more efficient, transparent and predictable economic impact procedures to serve the collective interests of exporters, industry and other interested parties. As the GAO report notes, Ex-Im Bank has amended its economic impact procedures to reflect this legislation, and we are optimistic that the changes will result in greater transparency and predictability.

Ex-Im Bank has steadfastly responded to the challenging undertaking of our economic impact mandate. We will continue to explore feasible ways to improve our procedures and make the economic impact process more consistent and user-friendly.

Sincerely,



James H. Lambright
Chairman and President

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

Appendix IV: GAO Contact and Staff Acknowledgments

Contact

Loren Yager, (202) 512-4347 or YagerL@gao.gov

Staff Acknowledgments

In addition to the person named above, the following people made key contributions to this report: Celia Thomas, Assistant Director; Miriam A. Carroll; Michael Hoffman; and Amber Simco. The following people provided technical assistance: Karen Deans, David Dornisch, Etana Finkler, Ernie Jackson, and Mark Speight.

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