Appendix H: Tied Aid

INTRODUCTION

This appendix is the annual report on tied aid credits, required by Sections 10(G) and 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended. This appendix first addresses the implementation of the OECD Arrangement rules on tied aid during 2001 followed by a discussion of trends in the use of the TACPF, or Tied Aid War Chest, through 2001.

IMPLEMENTATION OF THE OECD ARRANGEMENT

Tied aid is financing provided by donor governments on concessional terms, in the form of a grant or a "soft" loan, that contractually binds developing country recipients to procure capital goods from the donor country. In December 1991, the Participants to the Arrangement concluded the Helsinki Package of rules on tied aid credits, which became effective February 15, 1992; the goal of the agreement was to limit the use of concessional financing for projects that should be able to support commercial financing. The Helsinki Package established: 1) minimum terms and conditions for the provision of tied aid; 2) transparency procedures requiring the notification of tied aid offers; and 3) mechanisms for consulting and in some cases challenging whether tied aid offers conform to established guidelines.

The Helsinki rules on minimum terms and conditions for tied aid resulted in three key disciplines for tied aid: country eligibility, i.e., no tied aid in "rich" countries; commercial viability, i.e., no tied aid for projects that can sustain financing on market or Arrangement terms; and a minimum concessionality level for tied aid of 35%[1].

This section elaborates on the practical effects of these three disciplines, as well as the results of the consultation procedures.

TIED AID ELIGIBLE MARKETS

The country eligibility rule of the Helsinki Package requires that countries above a certain income threshold, as determined by the World Bank, may not receive tied aid. As a result of the implementation of the Helsinki Package and other OECD agreements, many key markets are no longer potential targets for tied aid financing. These markets include several important countries in Africa, the Americas, Asia and the Middle East, all of which are either "high income" or "upper middle income" countries according to World Bank criteria. Furthermore, a separate OECD agreement incorporated in the Arrangement ensures that U.S. exporters bidding on

[1] The term "concessionality" refers to the total value of the subsidy being provided by the donor to the recipient country for any one project or purchase. For example, if a country receives a grant of $100 million for a $100 million project, the concessionality of this aid would be 100%, whereas a grant of $35 million combined with a traditional export credit for the remaining $65 million would have a concessionality of 35%.

commercial type transactions in the major markets of Eastern Europe and the former USSR do not confront tied aid (unless the transaction involves outright grants, food aid or humanitarian aid). See **Annex 1** for a list of key markets for which tied aid is prohibited and **Annex 2** for a list of key markets eligible for Ex-Im Bank tied aid support.

Tied Aid Eligible Projects and the Consultations Process

The Helsinki Package established the principle that tied aid should not be used for "commercially viable" projects, defined as revenue-generating projects which:

- generate operating cash flows sufficient to repay debt obligations on standard OECD Arrangement export credit terms; and
- could potentially attract standard export credit financing (several OECD export credit agencies would be prepared to provide export credit).

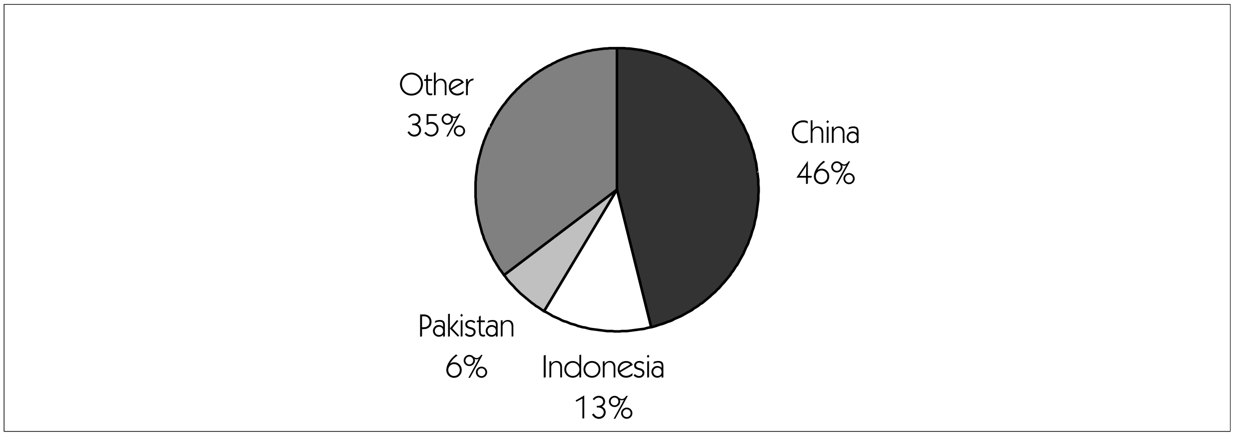
To create a forum for addressing issues related to projects that may be challenged by other governments as potentially commercially viable, the Tied Aid Consultations Group was formed, and from March 1992 to March 2002, the Consultations Group examined 128 projects, primarily those challenged by the United States as potentially commercially viable. Through its experience, the Consultations Group has delineated various types of projects within the power, telecommunications and transport sectors. Within these sectors, commercially non-viable projects still eligible for tied aid typically have weak revenue potential, high unit costs and/or a small-scale rural focus. As donor countries gained experience with the Helsinki rules, the Consultations Group increasingly dealt with cases at the margin of commercial viability, and the number of cases challenged as commercially viable has dropped steadily from a high of 33 in 1993 (22% of cases notified) to a low of 2 each in 1996, 1999 and 2000, comprising approximately 1% of cases notified in each of those years.

To share the experience of the Consultations Group and assist export credit agencies, aid agencies, project planners and aid recipients in judging at the outset whether potential projects will be eligible for tied aid, the OECD countries in December 1996 agreed to and publicly disseminated the *Ex Ante Guidance for Tied Aid.* These guidelines have been a useful tool in discouraging the use of official aid to support exports that could proceed without aid. From 1992 to 1995, an average of 27 cases were challenged each year, with on average half found commercially viable. Since 1996, a total of 18 cases have been challenged, with 16 of these deemed commercially viable. See **Annex 3** for a list of projects generally considered commercially viable, for which tied aid is prohibited. See **Annex 4** for a list of projects generally considered commercially non-viable, for which tied aid is permitted.

Of the 128 projects examined by the Consultations Group in the ten years since March 1992, 48 projects (37.5%) were found to be commercially non-viable, or acceptable for tied aid use, and 69 projects (46.6%) were found to be commercially viable. Of the remaining 11 cases, no conclusion was reached on commercial viability on four cases, three cases were committed before the inception of the Helsinki disciplines, three cases had been committed prior to notification (and therefore considered derogations) and one was a matching transaction.

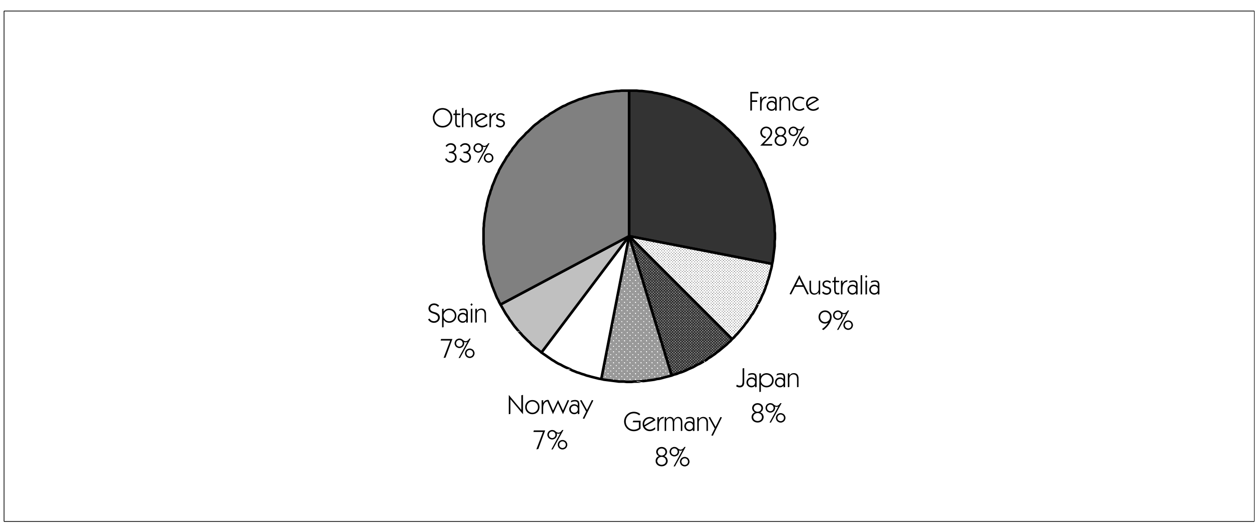
In the years following the implementation of the Helsinki rules, energy (43%), telecommunications (26%), manufacturing (16%) and transportation (13%) represented 98% of all the projects challenged and considered by the Consultations Group. Only two projects in the social services sector were challenged. In terms of challenged markets, projects in China accounted for the largest number of notifications evaluated by the Consultations Group during the post-Helsinki period with 59 notifications (46%), followed by Indonesia with 16 notifications (13%) (see **Figure H-1).**

FIGURE H-1: CHALLENGED NOTIFICATIONS BY RECIPIENT COUNTRY



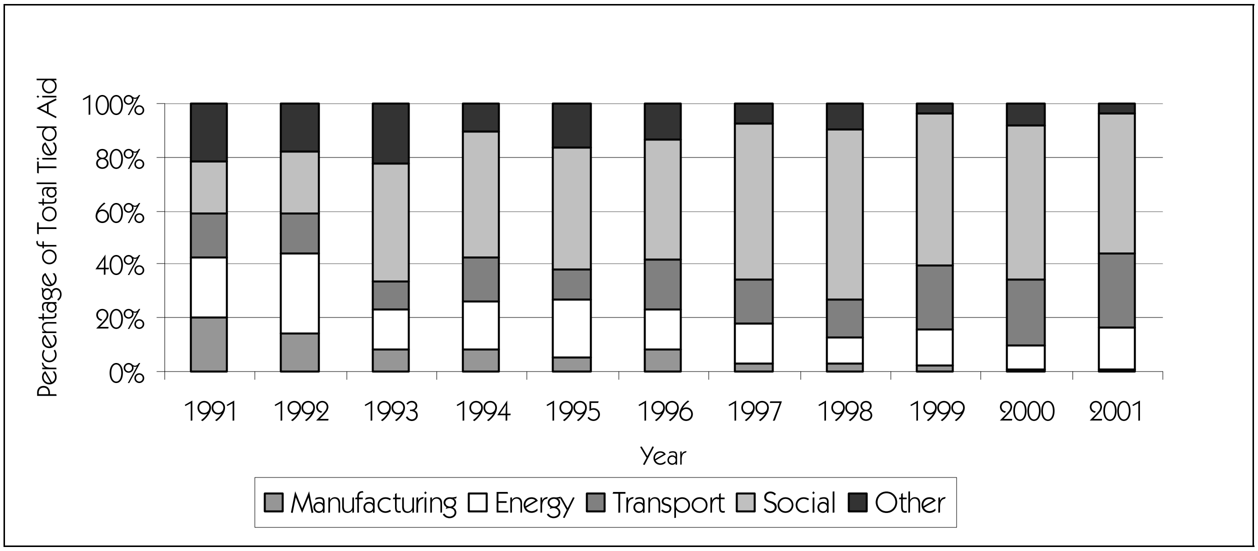
In the same time period, France initiated the highest number of notifications considered by the Consultations Group (36), followed by Australia (12), Japan (10) and Germany (10) (see **Figure H-2**). More recently, however, six of the eight transactions challenged in the Consultations Group from 1999 through 2001 were notified by Japan.

FIGURE H-2: CHALLENGED NOTIFICATIONS BY NOTIFYING COUNTRY



As **Figure H-3** illustrates, the Helsinki Package has profoundly impacted the sectoral distribution of tied aid credits. Prior to this package, energy and manufacturing projects comprised over 40% of tied aid notifications; by mid-2001, the transport (e.g., subways) and social sectors accounted for nearly 80% of activity. This trend indicates that the commercially non-viable sector can support a growing level of tied aid. The types of projects notified and the decrease in the number of projects challenged suggest that the Helsinki disciplines have succeeded in encouraging donors to redirect tied aid towards commercially non-viable projects.

FIGURE H-3: TRENDS IN TIED AID BY SECTOR DISTRIBUTION



TRENDS IN THE USE OF THE TACPF

Ex-Im Bank, in conjunction with the Treasury Department, developed in 2001 a new set of guidelines and procedures for the use of the TACPF. See **Annex 5** for these guidelines and procedures. There are three main components of the new guidelines:

1. A set of principles governing the use of the TACPF, e.g., to police the Helsinki accords and to defend U.S. exporters from patterns of tied aid use that present a threat to long-run U.S. interests in emerging markets;
2. Procedures for implementing the TACPF matching policy if a case is deemed to be tied aid eligible or if a donor government is determined to proceed with an ineligible project; and
3. Procedures for cooperating with the Treasury Department in deciding the outcome of tied aid applications and in reviewing the new guidelines.

Ex-Im Bank has three tools with which it may leverage the TACPF to attempt to deter or match tied aid offers. These tools are: tied aid "willingness-to-match" indications and tied aid matching offers in the form of preliminary commitments and authorizations. Ex-Im Bank has been relatively successful in the post-Helsinki period in discouraging foreign tied aid use with the tools available to it, and it has been somewhat successful in matching foreign tied aid when necessary.

From 1994 through 2000, Ex-Im Bank tried to discourage tied aid use by issuing "willingness-to-match" indications for 25 cases, of which seven saw the competing tied aid offer withdrawn, five of which were subsequently won by U.S. exporters on standard Arrangement terms. Eight cases were lost to foreign tied aid financing, while ten are outstanding or have been indefinitely delayed. Nonetheless, the bulk of Ex-Im Bank's success in matching occurred in the years immediately following the Helsinki Package: 20 matching offers had been made by the end of 1996, and six out of the seven withdrawn offers had been withdrawn by then. Since 1997, only one tied aid willingness-to-match indication has succeeded in assisting a U.S. exporter.

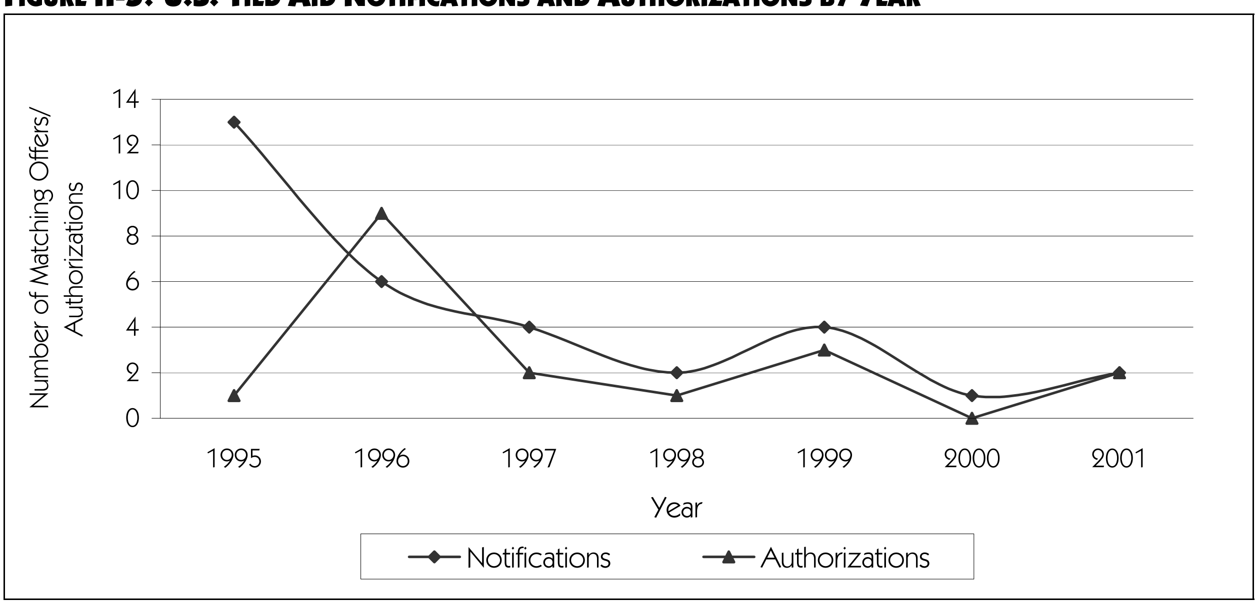
Figure H-4 shows that, of the 41 cases where Ex-Im Bank has provided matching offers, the United States has won 19 while losing 23. The one remaining case was indefinitely delayed.

Figure H-4: Cumulative Ex-Im Bank Matching of Previously Notified Foreign Tied Aid Offers

	1996	1997	1998	1999	2000	2001
New matching offers during year	6	4	2	4	1	2
U.S. win	10	12	13	16	17	19
U.S. loss	7	10	10	21	23	23
Outstanding, no decision	13	12	13	3	1	1
Cumulative total	30	34	36	40	41	43

As shown in **Figure H-5**, the pace of Ex-Im Bank tied aid matching notifications has slowed dramatically in recent years. The number of tied aid authorizations shows a similar downward trend.

Figure H-5: U.S. Tied Aid Notifications and Authorizations by Year



Ex-Im Bank Initiated No Aid Common Lines

In addition to the tools above, Ex-Im Bank may also initiate a no aid common line to deter tied aid offers. When Ex-Im Bank receives an application for a project about which the U.S. exporter has reason to be concerned about the possibility of tied aid competition, Ex-Im Bank may propose a "no aid" common line to the OECD to attempt to prevent tied aid use. If the common line request is accepted by all OECD Participants, OECD member countries are prohibited from offering tied aid financing for the particular project for a period of two years (with the possibility of extensions). U.S. exporters may therefore compete without fear of tied aid offers from other countries and without the need for Ex-Im Bank to provide a matching tied aid offer. Common lines must be agreed by consensus; hence, if one country rejects the no aid common line request, the project remains eligible for tied aid. There have been 26 cases since April 1994 for which the OECD Secretariat has obtained, at Ex-Im Bank's request, OECD-wide approval of agreements not to provide aid to particular projects of interest to U.S. exporters. **Figure H-6** shows the results of the no aid common line requests initiated by Ex-Im Bank from 1996 through 2001.

Figure H-6: U.S. Proposed No Aid Common Lines

	1996	1997	1998	1999	2000	2001
Proposed	19	24	5	13	8	1
Rejected	13	17	5	12	5	0
Accepted	6	7	0	1	3	1

Thirteen, or 30%, of Ex-Im Bank's 43 proposed no aid common lines in 1996 and 1997 were accepted. Since that time, Ex-Im Bank has proposed a total of 27 no aid common lines, only 5 (19%) of which have been accepted. As this trend illustrates, while no aid common lines are useful tools to clarify situations where tied aid is alleged, they have not proven to be successful deterrents to foreign tied aid offers from competing tied aid donor countries.

Appendix H: Annex 1

Key Markets Where Tied Aid is Prohibited	
Americas*	Argentina, Brazil, Mexico, Venezuela
Asia*	Hong Kong, Korea, Malaysia, Singapore, Taiwan
Middle East*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates
Africa*	Botswana, Gabon, South Africa
Soft Ban Countries** (subject to annual review)	Belarus, Estonia***, Latvia, Lithuania, Russian Federation, Ukraine
Soft Ban Countries** (not subject to annual review)	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic

*These markets are not eligible for tied aid as a result of the fact that their Gross National Income (GNI) per capita was sufficient to make them ineligible for 17-year loans from the World Bank for at least two consecutive years (using 2000 data, those countries with a GNP per capita above U.S. $2,995).

**These markets are covered by the Participants' agreement to try to avoid tied aid credits other than outright grants, food aid and humanitarian aid. For the purposes of the soft ban, the decommissioning of nuclear power plants for emergency or safety reasons can be regarded as humanitarian aid.

***At the November 2001 Participants meeting, it was agreed that Estonia should be removed from the list of countries subject to the soft ban in view of its past and current very high GNP per capita income, which was significantly above the tied aid eligibility threshold.

Appendix H: Annex 2

Key Tied Aid Eligible Markets*	
Asia	China, India, Indonesia**, Philippines, Sri Lanka, Thailand, Vietnam**
Latin America	Colombia, Costa Rica, Dominican Republic, El Salvador
Africa	Egypt, Ghana, Morocco, Namibia, Tunisia

*Markets classified as both eligible for tied aid by the OECD and eligible for Ex-Im Bank tied aid support as "Dynamic Markets".

**May need additional factors to enhance eligibility under Ex-Im Bank tied aid guidelines due to budget cost impact.

Appendix H: Annex 3

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	◆ Oil-fired power plants ◆ Gas-fired power plants ◆ Large stand-alone hydropower plants ◆ Retrofit pollution-control devices for power plants ◆ Substations in urban or high-density areas ◆ Transmission lines in urban or high-density areas
Telecommunications	◆ Equipment serving interurban or long-distance communications ◆ Telephone lines serving interurban or long-distance communications ◆ Switching equipment serving urban or high-density areas ◆ Radio-communications equipment serving urban or high-density areas
Transportation	◆ Air traffic control ◆ Freight railroad operations (locomotives, cars, signaling)
Manufacturing	◆ Manufacturing operations intended to be profit-making ◆ Privately-owned manufacturing operations ◆ Manufacturing operations with export markets ◆ Manufacturing operations with large, country wide markets

Appendix H: Annex 4

Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted)	
Power	◆ Transmission lines to low-density, rural areas ◆ Geothermal power plants ◆ Small wind turbine farms ◆ District heating systems ◆ Small hydropower plants connected with irrigation
Telecommunications	◆ Telephone switching equipment serving low-density, rural areas ◆ Switching equipment serving low-density, rural areas ◆ Radio-communications equipment serving low density, rural areas
Transportation	◆ Road and bridge construction ◆ Airport terminal and runway construction ◆ Passenger railroad operations (locomotives, cars, signaling) ◆ Urban rail and metro systems
Manufacturing	◆ Highly-localized cooperatives ◆ Highly-localized food processing ◆ Highly-localized construction supply
Social Services	◆ Sewage and sanitation ◆ Water treatment facilities ◆ Firefighting vehicles ◆ Equipment used for public safety ◆ Housing supply ◆ School supply ◆ Hospital and clinic supply

Appendix H: Annex 5

John E. Robson
Chairman and President

July 16, 2001

The Honorable Doug Bereuter
United States House of Representatives
2184 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Bereuter:

We are pleased to report to you that the Export-Import Bank of the United States and the U.S. Treasury Department have reached agreement on the principles and procedures for administration of the Tied Aid Credit Program which are attached hereto.

We are optimistic that these will facilitate a responsible but purposeful administration of the Tied Aid War Chest, and we look forward to continuing to work with you, your committee and other members of Congress.

John E. Robson
Chairman
Export-Import Bank of the United States

John B. Taylor
Under Secretary (International Affairs)
U.S. Department of the Treasury

PRINCIPLES AND GUIDANCE ON THE TIED AID WAR CHEST

Principle #1: The Tied Aid War Chest is a resource that should be used purposefully and selectively, with the simple standard being that applications would be where there is a clear and precise purpose evidenced. Such use not only maximizes the probable value of its employment, but also enhances the actual deterrence value of the amounts remaining.

Principle #2: The War Chest is not to be applied “offensively”; that is, there will be no initiation of Tied Aid using the War Chest. Rather, the War Chest will be used to counter situations where there is a reasonable evidentiary basis that there is (either formally or informally) a foreign tied aid offer. In countering such offers the U.S. offer is not necessarily constrained by the terms of the original offer. Moreover, the “no initiation” principle does not preclude technical initiation when that approach is the only way to effectively counter the offer of another country.

Principle #3: A prime use of the War Chest is to “police” the Helsinki accords – aggressively counter such actions as *defacto* tied aid (so called “untied” aid), absence of mandated notification rules, or refusal to abide by Consultation findings. In this context, Treasury has an explicit right (or “put”) to recommend Tied Aid use for specific cases – or categories of cases – in support of Tied Aid Negotiating objectives.

Principle #4: Another prime (not secondary) use is in defending U.S. exporters from examples or patterns of use that effectively (whether intentional or not) form a threat to long-run U.S. market share/access in emerging markets. The idea is to respond to reasonable evidence of tied aid use that may create long-run trade advantage for foreign exporters.

Principle #5: Any use of the War Chest should be for a project which meets Ex-Im Bank’s environmental guidelines.

TIED AID DEFINED

Tied aid is government-to-government concessional financing of public sector capital projects in developing countries. Tied aid is provided by the aid agencies of OECD member governments, sometimes in joint financing packages with their national export credit agencies (their Ex-Im Banks), or by their export credit agencies alone. Tied aid terms are much more concessional than the typical export credit terms offered by Ex-Im Bank and its counterparts. Tied aid usually involves total maturities longer than 20 years; interest rates equal to one-half to two-thirds of market rates in the currency of denomination; or large grants (equal to 35 percent or more of contract value) offered in conjunction with regular export credits. Regular export credits – involving terms up to and including 10-12 years – are not tied aid, and are not the subject of this Fact Sheet.

PRINCIPLES FOR USE OF THE TIED AID WAR CHEST

1. The Tied Aid War Chest is a resource that is governed by the simple standard of purposeful and selective use to deter or defend against foreign tied aid that distorts trade, and it is utilized so as to maximize the value of these resources. A prime use of the War Chest is to leverage OECD

negotiations to restrict the scope for aid-financed trade distortions through new multilateral rules, and to police existing multilateral rules. Another prime use is to defend U.S. exporters from examples or patterns of foreign tied aid use that effectively (whether intentional or not) form a significant threat to U.S. market share/access in emerging markets. In this regard, its aim is to deter, or if not possible, to match trade distorting foreign tied aid offers by reopening bid opportunities closed to U.S. exporters by foreign tied aid offers.

2. The War Chest is not to be applied "offensively" to introduce tied aid into an export competition; that is there will be no initiation of tied aid using the War Chest to give exporters an advantage over standard export credits. Rather, the War Chest will be used to counter situations where there is credible evidence that a foreign government is offering tied aid (formally or informally) to distort trade to provide a significant competitive advantage for foreign exporters. The War Chest is not an instrument for the routine support of U.S. exports and jobs. However, the "no initiation" principle does not preclude technical initiation when that approach is the only way to effectively counter the offer of another country.

3. The War Chest will be used aggressively to counter violations of the OECD tied aid rules. In pursuing this objective, the War Chest will be used to counter uses of *de facto* tied aid (so-called untied aid), absence of mandated notification rules, exploitation of the OECD exemption for small projects, or refusal to abide by Tied Aid Consultations findings. More generally, Ex-Im Bank will consider matching a foreign tied aid offer if it receives credible evidence that another OECD member government's export credit agency or aid ministry is violating the internationally-agreed rules in letter or in spirit for competitive gain. In using the War Chest to leverage negotiations for multilateral agreements to restrict aid-financed trade distortions, Ex-Im Bank will work with Treasury to identify projects or categories of projects where such financing can advance U.S. international negotiating objectives.

4. Any use of the War Chest should be for a project which meets Ex-Im Bank's environmental guidelines.

IMPLEMENTATION OF WAR CHEST MATCHING POLICY

Determination of Eligibility for Tied Aid Under the OECD Rules

Before a foreign tied aid matching offer will be made, the Treasury Department (in coordination with Ex-Im) will try to determine whether or not the project is eligible for tied aid under the OECD rules. If the project appears ineligible for tied aid, Treasury will "challenge" the project in the OECD in order to have it formally declared ineligible for tied aid. In this case any OECD government would be prevented from offering tied aid for the project under the OECD tied aid rules and competition would proceed on market, or standard Ex-Im Bank, financing terms. If the donor persists in an offer determined by the OECD to be ineligible for tied aid, whether through a direct violation of the rules or by seeking formally to derogate from the rules, Ex-Im Bank will automatically offer matching financing.

If the project is eligible for tied aid, Ex-Im Bank will proceed consistent with timing needs of the case to evaluate the matching request against its principles.

Ex-Im Bank requires credible information about foreign tied aid offers before offering specific matching terms. Ex-Im Bank has access to formal prior notifications of foreign tied aid offers required under OECD tied aid rules. Ex-Im Bank will also review recipient governments' written or oral (e.g., to Ex-Im Bank or U.S. Embassy) confirmations; press reports; and/or copies of correspondence or bilateral aid protocol agreements among foreign exporters, donor, and recipient governments. Ex-Im Bank seeks as much of the following information as practicable regarding each foreign tied aid credit for which matching is requested: specific financing terms (including currencies of denomination, grace periods, repayment terms, interest rates, grant amounts); amounts of tied aid financing; dates of foreign tied aid offers; descriptions of projects; names of donor agencies; names of recipient government agencies; names of foreign exporters.

Ex-Im Bank carefully screens tied aid matching requests. Tied aid matching cases are reviewed by Ex-Im Bank's Board of Directors, with input from other agencies, especially from the Treasury Department, which has policy oversight responsibility. Ex-Im Bank prefers to use standard export credits and does not seek competitive advantage in approving tied aid. Ex-Im Bank does not offer tied aid in order to reserve otherwise competitive contracts solely for U.S. exporters, nor to induce approval of contracts that would not otherwise be approved.

Ex-Im Bank will consider as many of the following factors as may be relevant to a specific case at a particular time.

- total budget cost of the transaction;
- clarity and extent of any pattern or trend indicating intent to use tied aid funds to acquire commercial advantage for specific exporters or products;
- clarity and extent of any pattern or trend indicating intent by donor country to use tied aid funds as part of a national strategy of trade promotion;
- nature of the export of project in terms of environmental benefits;
- economic/developmental feasibility of structuring such transactions in the specific market on standard export credit terms;
- possible effect of the loss of the sale/access to market/market share on the medium- and long-term viability of the supplier(s) as an entity or exporter;
- small business status of the supplier(s);
- The existence/reality of International Competitive Bidding procedures;
- extent of competitor displacement;
- clarity and specificity of documents relating to the foreign tied aid offer;
- existence and extent of any pattern or trend in terms of tied aid use by the donor country (i.e., is it a "spoiled market");
- ability of any War Chest use to be successful within the bounds of the Helsinki rules;
- ability of any War Chest use to be successful without posing a danger to the parameters to tied aid use derived from case precedent and laid out in the Ex Ante Guidance; and
- available War Chest resources.

PROCEDURES FOR ENHANCED EX-IM BANK/TREASURY COOPERATION ON TIED AID TRANSACTIONS

1. Ex-Im and Treasury staffs shall promptly share with each other all written materials received from exporters, other government agencies, or third parties relating to proposed or pending Ex-Im Bank tied aid transactions. In particular, Ex-Im staff shall provide Treasury staff with a copy of each tied-aid application received by Ex-Im Bank within 5 business days of receipt.

2. Within 10 business days of receiving an application or inquiry on possible tied aid use, Ex-Im staff (after consulting with Treasury staff) will contact the exporter/applicant and either provide a preliminary indication on the likelihood that the transaction would meet the parameters for tied aid use or identify specific information needed for Ex-Im and Treasury staff to provide such an indication.

3. In order to further the negotiations of improved OECD tied aid rules or enforce compliance with existing OECD rules, Treasury staff may recommend that the Bank support specific tied aid applications or that the Bank support tied aid applications countering certain categories of foreign aid credits.

4. Ex-Im staff shall send Treasury staff a report at each month's end indicating the status of pending and outstanding tied aid transactions. Where there is a significant mid-month status change, Ex-Im staff shall alert Treasury staff

5. Within <u>30 business days</u> of receipt of a tied aid application, Ex-Im and Treasury staffs shall meet to discuss their preliminary views on the merits of the application and to develop an approach regarding processing of the application.

6. Ex-Im staff shall provide Treasury staff drafts of all tied-aid Board memos at least 10 business days before the projected date for final-memo distribution. Within 5 business days of receiving such drafts, Treasury staff shall either provide written comments to Ex-Im Bank staff or provide written notice that Treasury staff has no comments. Written comments or a statement of Treasury staff views shall be attached to the Board memos. Treasury staff may request in writing that distribution of the final memo and Board consideration of the application be delayed for up to 10 business days in order to provide additional time for consultation or for Treasury to submit written comments. Any such written request received prior to the close of the business day immediately preceding the scheduled Board meeting will be honored by Ex-Im Bank. If, after these consultations, Treasury and Ex-Im staffs disagree on the merits of a particular matching tied aid offer, Board consideration of the application shall be delayed for up to an additional 10 business days during which time the Under Secretary of the Treasury for International Affairs and the Ex-Im Bank Chairman will meet to seek to resolve the differences. Should agreement not be reached following such consultation, within 10 business days the Secretary of the Treasury and the Ex-Im Bank Chairman shall exchange letters setting forth their written views on how agreement might be reached.

7. Ex-Im Bank's Board will not take any final action on any tied aid application unless the

procedures for Ex-Im Bank/Treasury cooperation described above have been followed.

Review

1. Treasury and Ex-Im Bank staff will meet on an annual basis to review and discuss data and trends on the application for and use of the War Chest and the use of tied aid credit financing by foreign governments.

2. Treasury and Ex-Im Bank staff will meet on a semi-annual basis to review Ex-Im Bank and Treasury cooperation with respect to the administration of the War Chest and to discuss any changes to the procedures outlined above that may be necessary to improve cooperation and more effectively administer the program.

3. The Annual Tied Aid Report to Congress, which Ex-Im Bank staff and Treasury together prepare, will henceforth contain a section reviewing Ex-Im and Treasury cooperation with respect to this Understanding.