

**EXPORT-IMPORT BANK OF THE
UNITED STATES**



**REPORT TO THE U.S. CONGRESS
ON EXPORT CREDIT COMPETITION AND
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

**FOR THE PERIOD
JANUARY 1, 2002 THROUGH DECEMBER 31, 2002**

JUNE 2003



EXPORT-IMPORT BANK
OF THE UNITED STATES

PRESIDENT AND CHAIRMAN

June 30, 2003

Dear Chairman Shelby and Chairman Oxley:

Pursuant to Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to submit the Competitiveness Report for the period January 1, 2002 through December 31, 2002.

Sincerely,

A handwritten signature in cursive script, appearing to read "Philip Merrill".

Philip Merrill
Chairman

The Honorable
Richard C. Shelby
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

The Honorable
Michael G. Oxley
Chairman, Committee on Financial Services
United States House of Representatives
Washington, D. C. 20515

**THE 2003 ADVISORY COMMITTEE'S STATEMENT ON THE
2002 COMPETITIVENESS REPORT OF
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

The members of the 2003 Advisory Committee have reviewed the 2002 Competitiveness Report to Congress and would like to put forward the following statement on the competitiveness of the Bank with regard to the other major export credit agencies (ECAs). In the Advisory Committee's opinion, the Bank continues to fulfill its objective of supporting the creation and maintenance of U.S. jobs.

The Advisory Committee supports the findings and conclusions of the Report that Ex-Im Bank is competitive, and in some cases, highly competitive with its G-7 ECA counterparts. Specifically, we agree that Ex-Im Bank's core financing elements such as interest rate, premia/exposure fees, and cover policy are the "best of the breed." However, in those situations in which public policy or philosophical issues arise, the Report aptly notes that the conditions of Ex-Im support can result in significant competitive challenges to U.S. exports – conditions of support that our ECA counterparts are not required to impose. Nevertheless, the Committee recognizes the importance of public policy in its broad scope.

The individual element over which Ex-Im has primary control that appears to be lagging behind its ECA counterparts is co-financing. In addition, the basis for determining eligibility for tied aid to counter foreign offers seems particularly onerous from the U.S. exporters' perspective. Accordingly, the Advisory Committee strongly urges the Bank to both take the necessary steps to establish a co-financing program, and to provide more workable parameters for the use of tied aid.

The Advisory Committee commends Ex-Im Bank's effort to respond to the 2002 Advisory Committee's recommendation to quantify the overall and the element-by-element competitiveness of the Bank vis-à-vis the G-7 ECAs. The "scorecard" approach used represents a valuable and communicative yardstick that we hope will be repeated in future Reports. While some modifications/refinements to the scoring system may be appropriate, the scorecard presented serves as a basis for future comparisons. The Advisory Committee also applauds the reorganization the Bank undertook in 2002. The reorganization will provide an improved response to its customers' needs as well as greater accountability for performance.

To conclude, in a highly volatile, vulnerable and uncertain international environment, U.S. exporters need every possible tool to effectively compete, and Ex-Im Bank seems to have generally fulfilled that mandate during 2002. Looking ahead, the Advisory Committee supports the effort of the export community in pressing Ex-Im to adapt to a changing world more rapidly and fully. Hence, the Advisory Committee believes that while Ex-Im Bank needs to maintain its competitiveness in the core financing elements, it must also be looking for ways to provide more value to the U.S. exporting community by repositioning itself and leveraging its core competencies in the future.



Edward A. Monto
Chairman
2003 Ex-Im Bank Advisory Committee

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Executive Summary

The 2002 Competitiveness Report provides an evaluation of the competitiveness of Ex-Im Bank's medium- and long-term programs during 2002 based on objective and subjective information gathered from multiple sources. Included in these sources are views from a survey of the U.S. exporting community and data from the public resources of the OECD and G-7 export credit agencies.

This year's report provides a contextual backdrop of the international trade and finance landscape within which Ex-Im Bank and the G-7 export credit agencies (ECAs) operated during 2002, noting trends and competitive implications for Ex-Im Bank going forward. The most significant trends appear to be:

- Activity levels are still below long-run trends (although up from the reduced levels of last year) with an increasing percentage of aircraft in overall volumes.
- The growing globalization of production has created multiple sourcing options for U.S. companies.
- The nature of the demand for ECA financing is changing (e.g., from sovereign to private sector and smaller sized borrowers).

Our G-7 counterparts appear to have noticed and have begun to react to these influences. Specifically, the other G-7 ECAs can be characterized as trying to:

- Provide the highest quality products and service to their respective exporting communities without jeopardizing financial goals and reputational risk. This trend seems to have manifested itself in:
 - Aggressive pursuit of ECA differences and flexibility in the Arrangement;
 - Niche use of "sweetener" features and initiatives; and
 - Continued focus on streamlining operations.
- Proactively and strategically pursue opportunities to ensure a presence in key markets and favored sectors – a form of industrial policy.

As part of this context, a brief comparative overview of the philosophical and operational tactics of our G-7 counterparts is provided, highlighting core differences that have yielded varying programmatic approaches. From these dissimilarities emerge the outstanding competitive issues facing Ex-Im Bank and the U.S. exporting community, most of which involve larger national policy concerns not within the sole control of Ex-Im Bank. The key aspects where empirical and/or anecdotal evidence indicate a less than competitive position for Ex-Im Bank financing are (in rough order of priority and wide differences of importance): shipping/PR 17, foreign content, economic impact, tied and untied aid and market windows.

SUMMARY OF 2002 COMPETITIVENESS REPORT FINDINGS

Core Financing

Ex-Im Bank is considered generally competitive (i.e., equivalent to, if not *the*, best of the G-7 ECAs) in the core financing elements of a given transaction. In particular, Ex-Im Bank's cover policy and risk attitude are generally considered as open as, and in some aspects more open than, our foreign counterparts. Moreover, the risk premia Ex-Im Bank charges for sovereign and non-sovereign risks are fully competitive with those offered by our counterparts. Finally, market financing generated by Ex-Im Bank's 100% unconditional guarantee almost always provides U.S. exporters with a least-cost financing rate.

Program Structures

Ex-Im Bank's project finance, aircraft and foreign currency guarantee programs are considered as competitive as, if not better than, our foreign counterparts. Co-financing, however, is an area in which Ex-Im Bank is seen as lagging significantly behind our European counterparts, due to the limited number of co-financing agreements the Bank has been able to forge thus far.

U.S. Economic Philosophy

Tied aid (which includes "effectively tied" untied aid) and market windows financing collectively present a slightly different competitive challenge to Ex-Im Bank and the U.S. exporting community. Here the conflict is philosophical rather than financial. That is, with both tied aid and market windows there is a fundamental and long-standing U.S. philosophical reluctance to engage in the activity.

The United States rejected state capitalism some 200 years ago as incompatible with the U.S. economic model; similarly, the United States rejected tied aid some 35 years ago as an inefficient and inappropriate means to provide either development aid or commercial support. Hence, the United States has focused for decades, both in policy and in practice, on eliminating these problems (or, at a minimum, achieving greater disciplines) through negotiation. This strategy has had considerable success in the tied aid area; however, in the market windows area, there has been no success in achieving transparency or discipline. The issue today is discerning from conflicting information whether Ex-Im Bank financing is successfully meeting whatever (and it is not clear that there are many) competitive needs of U.S. exporters exist in these areas.

Public Policy

The public policy issues as a group present the most significant competitive challenge to Ex-Im Bank and the U.S. exporting community. That is, the U.S. public policies relating to economic impact, shipping and content all require Ex-Im Bank to consider the longer-term implications for the broader stakeholder population (e.g., interests of other agencies, labor, NGOs, etc.) when supporting specific exports using U.S. taxpayer funds. In effect, Ex-Im Bank operates its programs under both explicit and implicit political (i.e., Congress) guidance on the broader political and economic cost-benefit analysis of a specific export. The competitive impact stems

from the fact that other G-7 ECAs have very little in the way of similar constraints. These policies clearly exert a negative impact of some proportion on the Bank's competitiveness, and the U.S. export community rates these policies collectively as the number one disincentive to using Ex-Im Bank and therefore the number one competitive hindrance on the Bank.

OVERALL

This report has introduced the concept of the report card to facilitate and better communicate comparisons between Ex-Im Bank and the other G-7 ECAs in specific categories and overall. On a grading scale from A+ to F, with A being generally competitive, Ex-Im Bank's core financing terms receive an A. However, the philosophical and public policy areas slightly reduce Ex-Im Bank's overall grade to an A-. See **Figure 1** for the competitive definitions of select grades.

Figure 1: Ex-Im Bank Report Card Definitions

Grade	Definition of Select Grades
A+	Fully competitive: equivalent to (or is) the best competitor
A	Generally competitive: in almost all cases equivalent to the typical G-7 competitor
A-	Selectively competitive: in most cases equivalent to the typical G-7 competitor
B+	Marginally competitive: in significant minority of cases equivalent to the typical G-7 competitor
B	Notch below: can, but only rarely, package a deal equivalent to the typical G-7 competitor
C	Much less competitive: can/does provide a product in the class but is rigidly constrained (or little used)
F	Does not provide program

Ch. I Introduction

BACKGROUND

Pursuant to its Charter (the Export Import Bank Act of 1945, as amended), Ex-Im Bank is mandated to provide U.S. exporters with financing terms and conditions that are competitive with those made available by foreign governments to their exporters. The purpose of this report, which is required by Section 2(b)(1)(A) of the Charter, is to measure the effectiveness of Ex-Im Bank's programs and policies in meeting the competitiveness mandate during calendar year 2002.

METHODOLOGY

In comparison to previous years' Competitiveness Reports, this year's report takes a different approach to evaluating Ex-Im Bank's competitiveness vis-à-vis its foreign export credit agency (ECA) counterparts. The 2002 Competitiveness Report distinguishes the core financing elements from the public policy aspects of Ex-Im Bank financing and evaluates the impacts of each on Ex-Im Bank's competitiveness. By parsing out the various elements that come to bear on Ex-Im Bank financing, the Report attempts to provide a more insightful evaluation of Ex-Im Bank's competitiveness. With this structure, the Bank better fulfills its Charter mandate to "indicate in specific terms the ways in which the Bank's rates, terms, and other conditions compare with those offered from such other governments directly or indirectly."

In preparing this report, Ex-Im Bank drew upon: (1) objective policy, programmatic and procedural information about other ECAs obtained from a variety of sources; and (2) subjective information provided by the U.S. exporting community based on transactional experience throughout the calendar year 2002. The Bank is required by its Charter to conduct an annual survey of exporters and lenders to determine their experience in meeting competition supported by public export finance. Notwithstanding a lower response rate than usual (see **Appendix C**), those that did complete the survey are comprised of highly experienced members of the U.S. exporting community. Moreover, in addition to the annual survey of the export community, this year's report also incorporates the results from two focus groups held with commercial lenders and exporters. The purpose of the focus groups was to provide a venue for members of the export community to supplement their survey responses with anecdotal experience as well as more comprehensive information on market trends and transactional experience. Hence, the views obtained from the survey and the focus groups appear to be representative of the U.S. exporting community's assessment of Ex-Im Bank's competitiveness.

SCOPE

The comprehensive comparison is primarily limited to the G-7 ECAs, because these countries have typically accounted for roughly 80% of the medium- and long-term official export credits offered by the Organization for Economic Cooperation and Development (OECD) countries. Given the practices of certain non-G-7 ECAs in specific areas, such as tied aid, this report also provides insight, where relevant, into the activity of these ECAs and their impact on the competitiveness of the U.S. export finance community. In all cases, the focus is on medium- and long-term credits, as this sector is the locus of support for capital goods exports and therefore the arena with the most intense international competition. In addition, only a few of the official ECAs continue to provide short-term financing assistance; hence, a comparison of competitiveness in this area would be of limited utility. Quantitative comparisons and information on each of G-7 ECAs can be found in Chapter 2 Section A regarding trends in export finance.

EX-IM BANK CHARTER RENEWAL

The U.S. Congress renewed Ex-Im Bank's Charter through September 30, 2006. The Act was amended in several areas. Those amendments that directly affect either this Report itself or Ex-Im Bank's ability to provide competitive and comparable financing assistance are specifically noted below and are described in more detail in the specific sections in the body of the Report devoted to the individual topic.

1. Charter changes pertaining to the annual Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States (the Competitiveness Report):
 - The requirement for the preparation and presentation of this Report was amended with a date certain for final delivery of June 30 each calendar year.
 - The Competitiveness Report is to include a competitive assessment of the use of market windows by other governments and government-related entities and the impact on U.S export competitiveness.
 - Ex-Im Bank is to use all available sources of information to estimate the annual amount of export financing available from each government and government-related agency.
 - The Competitiveness Report must include a description of all Bank transactions classified according to their principal purpose, such as to correct a market failure or to provide matching support.
 - Ex-Im Bank must report on its efforts to promote the export of goods and services related to renewable energy sources.

2. The topics noted below represent new or modified language to Ex-Im Bank's Charter and are discussed in more detail in this Report:
 - Economic impact
 - Tied aid and untied aid
 - Market windows

REPORT

The Report proceeds in the following sequence: Chapter 2 lays out both long-term trends that have changed the export finance market over the past decade and short-term patterns affecting ECA financing in 2002. A broad overview of the other G-7 ECA philosophies and missions is also provided for context. Chapter 3 consists of separate sections evaluating Ex-Im Bank's competitiveness in the core financing elements of official export credit support. Chapter 4 provides a comparative assessment of how well the financing elements are packaged into major programs (e.g., aircraft, project finance, co-financing and the foreign currency guarantee). Chapter 5 addresses overarching U.S. economic philosophy regarding tied aid and market windows. Finally, Chapter 6 evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity. The main body of the Report concludes in Chapter 7 with an overall competitiveness report card grading Ex-Im Bank against its G-7 ECA counterparts, based on the collective evaluation of financing, economic philosophy and public policy elements. A number of appendices follow the body of the Report, including a summary of the state of play of international negotiations on export credit issues, the exporter and banker survey summary and other materials intended to provide greater detail and insights.

