

Appendix A: Calculation of Ex-Im Bank Grade

In the body of this report, Ex-Im Bank graded its policies and programs. In order to aggregate and average these grades for the determination of the overall competitiveness grade in Chapter 7, indicative values were assigned to each grade that are comparable to those used in a typical U.S. university. First, **Figure A1** provides the meaning and score of select grades. Ex-Im Bank averaged multiple sub-category grades to determine a category's grade, resulting in a raw score that did not precisely correspond to a particular grade. **Figure A2** illustrates the range of possible averaged scores that Ex-Im Bank defined for each grade.

Figure A1: Definition of Select Grades

| Grade | Definition | Score |
|-------|-------------------------------------------------------------------------------------------------------------------|-------|
| A+ | Fully competitive: equivalent to (or is) the best competitor | 4.33 |
| A | Generally competitive: in almost all cases equivalent to the typical G-7 competitor | 4.00 |
| A- | Selectively competitive: in most cases equivalent to the typical G-7 competitor | 3.67 |
| B+ | Marginally competitive: in significant minority of cases equivalent to the typical G-7 competitor | 3.33 |
| B | Notch below: can, but only rarely, package a deal equivalent to the typical G-7 competitor | 3.00 |
| C | Much less competitive: can/does provide a product in the class but is rigidly constrained (or little used) | 2.00 |
| F | Does not provide program | 0.00 |

Figure A2: Range of Averaged Scores for Each Grade

| Grade | Maximum Score | Minimum Score |
|-------|---------------|---------------|
| A+ | 4.330 | 4.165 |
| A | 4.164 | 3.835 |
| A- | 3.834 | 3.500 |
| B+ | 3.499 | 3.165 |
| B | 3.164 | 2.835 |
| B- | 2.834 | 2.500 |
| C+ | 2.499 | 2.165 |
| C | 2.164 | 1.835 |
| C- | 1.834 | 1.500 |
| D+ | 1.499 | 1.165 |
| D | 1.164 | 0.835 |
| D- | 0.834 | 0.670 |
| F | 0.669 | 0 |

With the definitional context of **Figures A1** and **A2**, **Figure A3** provides the detailed grading of Ex-Im Bank's overall competitiveness. The weighting assigned to each category (i.e., 40%, 15%, 5%) is intended to reflect the volume and frequency of transactions that are impacted by the specific element or category. For example, because every medium- and long-term case is affected by the core financing elements, that category receives a 40% weight, whereas tied aid and market window financing affect only a small portion of cases and therefore receive a 5% weight. Each element within each category was not assigned a specific weight out of concern that this grading system does not bear too much numerical refinement.

Figure A3: Detailed Grading of Ex-Im Bank's Overall Competitiveness

| Key Elements | Grade | Value | Weight | Score |
|---------------------------------------------|-----------|-------------|------------|-------------|
| Core Business Policies and Practices | A | 4.11 | 40% | 1.64 |
| A. Cover Policy & Risk Taking | A | 4.00 | | |
| B. Interest Rate | A | 4.00 | | |
| C. Risk Premia | A+ | 4.33 | | |
| | | | | |
| Major Program Structures | A- | 3.83 | 40% | 1.53 |
| A. Large Aircraft | A | 4.00 | | |
| B. Project Finance | A | 4.00 | | |
| C. Co-financing | B | 3.00 | | |
| D. Foreign Currency Guarantee | A+ | 4.33 | | |
| | | | | |
| Economic Philosophy | B- | 2.50 | 5% | 0.13 |
| A. Tied/Untied Aid | B | 3.00 | | |
| B. Market Windows | C | 2.00 | | |
| | | | | |
| Public Policies | B+ | 3.17 | 15% | 0.47 |
| A. Economic Impact | B | 3.00 | | |
| B. Foreign Content | B+ | 3.33 | | |
| C. Local Cost | A+ | 4.33 | | |
| D. Shipping/PR 17 | C | 2.00 | | |
| | | | | |
| OVERALL GRADE | A- | | | 3.77 |

Appendix B: Purpose of Ex-Im Bank Transactions

Ex-Im Bank's Charter was renewed and amended in 2002. A new reporting requirement was added in Sec. 2(b)(1)(A) which stated that Ex-Im Bank shall include in the annual Competitiveness Report a description of all Bank transactions classified according to their principal purpose. This information is provided below, broken down by program and classified according to the principal purposes for which Ex-Im Bank support was sought.

Figure B: Ex-Im Bank Transactions by Purpose

| | No Private Sector Finance Available | | Meet Competition | | Not Identified* | |
|----------------------------|-------------------------------------|--------------|------------------|-----------|-----------------|-----------|
| | (\$MM) | (#) | (\$MM) | (#) | (\$MM) | (#) |
| Working capital guarantees | 480.6 | 282 | 0 | 0 | 179.9 | 71 |
| Short-term insurance | 1,780.9 | 1,742 | 0 | 0 | 0 | 0 |
| Medium-term insurance | 434.5 | 274 | 2.9 | 6 | 3.5 | 4 |
| Guarantees | 3,921.7 | 189 | 2,878.6 | 25 | 512.3 | 17 |
| Loans | 210.3 | 2 | 0 | 0 | 0 | 0 |
| TOTAL | \$6,828.0 | 2,489 | \$2,881.5 | 31 | \$695.7 | 92 |

*At the time of Ex-Im Bank's mid-2002 re-authorization, internal data systems were not completely set up to capture the newly required information.

Appendix C: Exporter and Banker Survey Results

INTRODUCTION

As mandated by Congress, Ex-Im Bank conducts an annual survey of exporters and banks for the Competitiveness Report. This survey is a critical part of this Report as it encourages respondents to compare Ex-Im Bank's policies and practices with those of our G-7 ECA counterparts. With this information, Ex-Im Bank is better informed as to which policies, practices and products make a competitive difference either positively or negatively and where improvements might be made. Exporters and banks selected to participate in the survey were among the top 100 users of Ex-Im Bank programs for 2002, based on total volume of authorizations and the total number of transactions. In addition, a new approach was adopted for this year's report with regard to the export finance community's view of Ex-Im Bank's competitiveness. At the suggestion of members of the exporting community, Ex-Im Bank conducted separate focus group meetings with banks and exporters to enable them to verbally supplement their survey responses with more context on the export finance market in which they operate and related competitiveness implications for Ex-Im Bank.

SURVEY

Ex-Im Bank's survey consisted of five parts focusing on the following areas:

- Part 1: General information on the profile of the respondent
- Part 2: Respondent's experience in both receiving support from and facing competition from other ECAs, in addition to reasons for using Ex-Im Bank
- Part 3: Respondent ratings of and comments on Ex-Im Bank's competitiveness with foreign ECAs in two major areas:
 - Cost of financing: exposure fees, cover policy and interest rates
 - Non-cost policies: environment, content requirements, economic impact, co-financing, local cost support, and tied aid policy
- Part 4: Additional comments
- Part 5: Outcome of specific cases of competition faced as a result of the above policies

PARTICIPANT SELECTION

In deriving the list of respondents, Ex-Im Bank screened for survey participants that met the following criteria:

- Used Ex-Im Bank’s medium- and long-term programs during 2002;
- Faced officially supported competition in their sales; and
- Were knowledgeable about both Ex-Im Bank and foreign ECA programs and practices.

SURVEY RESULTS

Figure C1 highlights the response rate for participants. The bank respondent rate was 38%, which was less than in 2001. Exporters’ response rate was 58%, also less than the rate in 2001. Of the banks that did not respond, the most notable characteristics were that they were either foreign-owned or smaller regional lenders. The exporter non-respondents tended to be large or medium-sized capital equipment manufacturers.

Figure C1: Survey Response Rate

| | Lenders | | Exporters | |
|------------------|---------|------|-----------|------|
| | 2001 | 2002 | 2001 | 2002 |
| Number surveyed | 30 | 32 | 17 | 19 |
| Number responded | 16 | 12 | 13 | 11 |
| Response rate | 53% | 38% | 76% | 58% |

LENDERS

The 60% of the responding lenders fell into the regional/super-regional category, and 40% were representative of large international lenders, of which three were foreign-owned. As **Figure C2** illustrates, all but two of the banks had been in business for over 20 years and had also been in the export finance business for a similar period of time. The two exceptions were regional banks, each of which had been in business for over 20 years and had at least four years of trade finance experience.

Figure C2: Lender Experience Levels

| | 1-3 years | 4-10 years | 11-20 years | 20+ years |
|-----------------------|-----------|------------|-------------|-----------|
| Time in business | - | - | - | 12 |
| Time in trade finance | - | 1 | 1 | 10 |

The international lenders were more familiar than the regional/super-regional lenders with the programs and policies of Ex-Im Bank’s G-7 ECA counterparts, both in terms of working with and competing against these entities. The ECAs most noted as “frequent” partners were Coface and Hermes, and to a lesser extent SACE and JBIC/NEXI. Interestingly, the same ECAs are cited as those most often faced in the heat of competition by the international lenders. Little difference existed among the respondent lenders with regard to why they used Ex-Im Bank: lack of market financing due to heightened perceptions of risk was the predominant reason (75%-80%) followed by meeting competition (25%-30%). Heightened perceptions of risk tend to drive lenders to Ex-Im Bank, with equal concern regarding the Latin American, African, Asian and Eastern European emerging markets.

Specific comments and ratings received from the banking community through the survey have been incorporated into the chapters on the core and non-core elements that constitute an export credit offer. Comments received through the survey were consistent with those given during the lender focus group meeting. To summarize, Ex-Im Bank was viewed as:

- At least as competitive, if not more so, than its G-7 ECA counterparts in the core business policies and practices;
- Generally competitive across the major program structures, except for, most notably, co-financing; and
- Uncompetitive in the public policy arena (e.g., content, PR 17).

The banking community unanimously agreed that the elements posing the greatest competitive constraints on Ex-Im Bank are its public policies. Moreover, although they acknowledged that the public policy issues were not entirely within Ex-Im Bank’s control, they nevertheless felt it important to offer recommendations as to how to minimize the adverse consequences. These included the following suggestions:

- Liberalize foreign content policy and interpretation of PR 17;
- Expand co-financing capabilities with a streamlined process and the addition of a long-term insurance product; and
- Significantly improve Ex-Im Bank’s case processing time, especially in the medium-term, where turnaround time has deteriorated significantly (one lender cited a lost sale due to delays in processing).

EXPORTERS

The exporter respondents to Ex-Im Bank's survey were large multi-national corporations that have had extensive experience with exporting and using Ex-Im Bank programs, as illustrated in **Figure C3**.

Figure C3: Exporter Experience Levels

| | 1-3 years | 4-10 years | 11-20 years | 20+ years |
|-----------------------|-----------|------------|-------------|-----------|
| Time in business | - | - | - | 11 |
| Time in trade finance | - | 1 | - | 10 |

These corporations are well qualified to comment on and provide insights about Ex-Im Bank's competitive position vis-à-vis its G-7 ECA counterparts in terms of both cooperation and competition with them. Hermes, EDC and SACE were cited as the ECAs from which the exporters had obtained export credit support, while Coface, Hermes, JBIC/NEXI, ECGD and, to a lesser degree, SACE, were identified as the ECAs most frequently encountered in competitive situations. Lack of market financing was the primary reason for using Ex-Im Bank, followed closely by the need for competitive financing to counter offers from other official ECAs.

The exporters evaluated Ex-Im Bank's competitiveness as follows:

- Ex-Im Bank is as competitive, and often more competitive, in the core business policies and practices.
- Ex-Im Bank is generally competitive in the major program structures (e.g., project finance, aircraft).
- Market window financing, though hard to quantify, is becoming a more serious threat in more markets and across more sectors.
- Ex-Im Bank is uncompetitive in the public policy areas.

Much like their banking colleagues, the exporters agreed that the most significant impediments to Ex-Im Bank's competitiveness with its G-7 ECA counterparts are the public policy elements. They too noted that these issues were the most difficult and complex to overcome, given the political sensitivity of the multiple interests typically involved. However, given the importance and growing frequency of these factors in competitive situations, the exporters felt it critical to articulate their views and recommendations for resolution. The specific suggestions included the following:

- Create a long-term insurance product to facilitate co-financing structures;
- Develop a long-term lease guarantee;
- Guarantee performance bonds; and

- Ensure a continued ability to explicitly match any and all ECA financing offers, including market windows.

CONCLUSION

Two consistent themes emerged from both lenders and exporters:

- Components over which Ex-Im Bank has absolute or near total control were considered to be very competitive as compared to its foreign ECA G-7 counterparts: interest rates, premia, cover policy and risk assumption and local cost support.
- Components that required the participation of outside parties (e.g., labor, Congress, industry, other U.S. agencies and other ECAs) to develop, improve or strike a more reasonable balance (and in some cases would require statutory modifications) represented those elements in which Ex-Im Bank was considered less than competitive (e.g., economic impact, foreign content, PR 17, co-financing, tied aid, market windows).

Appendix D: G-7 Export Credit Institutions

- Canada**
- **Export Development Canada (EDC)** is a “Crown Corporation” (i.e., a government entity that operates on private sector principles) that provides, among other products, short-term export credit insurance and medium- and long-term direct loans, which may or may not be provided on a CIRR basis.
- France**
- **Compagnie Française d’Assurance pour le Commerce Extérieur (Coface)** is a private insurance company that provides, in addition to short-term insurance that goes on its own book, official export credit insurance on behalf of the French government.
- Germany**
- **Hermes Kreditversicherungs AG (Hermes)** is a consortium of a private sector insurance company and a quasi-public company that provides official export credit insurance on behalf of the German government, similar to Coface of France. Hermes also provides short-term export insurance on its own account, according to standard market practices.
 - **Kreditanstalt für Wiederaufbau (KfW)** is a financial institution that is owned by the German government and the federal states (Länder). KfW exists to promote the growth of the German economy in a variety of ways. One of its missions, though not its largest, is the funding of German export credits, both at market rates and through a government-supported window to achieve CIRR. KfW also administers the provision of German tied aid funds. The decision as to where and how tied aid should be used rests with another part of the German government.
- Italy**
- **SACE**, or the Istituto Per I Servizi Assicurativi Del Credito all’Esportazione, is a public company with its own assets and operational authority. It provides official export credit insurance.
 - **SIMEST** provides interest rate support to commercial banks in order to achieve CIRR. SIMEST is a development financier, with public and private participation, instituted in 1990 for the promotion and construction of joint ventures abroad. The Ministry of Foreign Trade is the majority shareholder. The private shareholders consist of Italian financial institutions, banks and business associations.

Japan

- **Nippon Export and Investment Insurance (NEXI)** is an independent governmental institution responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI). Japanese exporters are required to insure all of their short-term business through NEXI, the result being that NEXI provides a tremendous volume of short-term insurance relative to other countries, where the lion's share of short-term export credit insurance is provided by the private sector.
- The **Japan Bank for International Cooperation (JBIC)** is a government bank that falls under the Ministry of Finance. In its capacity as an export credit agency, JBIC provides direct loans in combination with commercial bank financing. In addition, JBIC provides untied, investment and import credits.

United Kingdom

- **Export Credits Guarantee Department (ECGD)** is a separate department of the U.K. government that provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions. ECGD also maintains a "top-up" reinsurance facility with a private insurance company in the event that the private sector is unwilling to provide short-term export insurance to a U.K. exporter who wishes to sell a product to a market where official export credit is customarily available from other countries.

Appendix E: State of Play in the OECD

INTRODUCTION

One of Ex-Im Bank's primary objectives is to level the playing field for U.S. exporters facing foreign competition supported by their governments' official export finance programs. Ex-Im Bank's financing, while critical to U.S. exporters in developing and emerging markets, cannot neutralize every competitor's best offer on every deal. Should there be no multilaterally accepted export credit regime, the aggregate weight of the competing governments, who are more inclined to pick winners, would quickly overcome Ex-Im Bank support. Moreover, to the extent that governments are allowed to subsidize export financing (e.g., by charging below-market interest rates, providing tied aid for commercially viable transactions or not charging risk-related fees, etc.), the private sector is crowded out as exporters and buyers are drawn to cheap government-provided financing.

In this context, the best tool for long-run success in achieving a level playing field is the negotiation table. Since the Arrangement came into force twenty-five years ago among the major exporting industrialized nations, the United States and the OECD as a whole have negotiated disciplines on repayment terms, interest rates, tied aid and exposure fees, in addition to rules on specific sectors such as large commercial aircraft. These disciplines have significantly reduced the potential volume of subsidized transactions that would need to be neutralized by matching financing. Indeed, with the interest rate disciplines alone, Ex-Im Bank has eliminated losses that, in the early 1980s, were up to \$50-\$100 million per year for every \$1 billion loaned. Another key accomplishment has been the tied aid regime, which, it is estimated, has saved the U.S. government \$300 million per year since 1993. Critically, these official export finance disciplines have created room for the private export finance sector to operate.

With these disciplines, official export credit agencies have significantly reduced their operating losses, and the OECD Export Credit Group in aggregate has experienced positive cash flows since the mid-1990s. This development, while obviously positive, has nonetheless removed the major impetus ECAs had to reach multilateral agreements on additional financial disciplines. In fact, the 1997 Knaepen Package on exposure fees was the last major financial discipline added to the export credit field. Since then, the member countries have made progress on a variety of issues along a much broader spectrum of concerns ("social" issues such as environment, bribery, Highly Indebted Poor Countries, etc.); such work continued in 2002.

OFFICIAL EXPORT CREDIT NEGOTIATIONS: KEY 2002 DEVELOPMENTS

The process of adopting multilateral rules to eliminate official export credit subsidies and level the playing field typically involves the following five stages:

1. Agreement to exchange information or establish transparency in order to provide the basis for work on a particular issue;
2. Creation of a system or framework of rules that can lead to reductions in subsidy and/or further level the playing field;
3. Establishment of a yardstick within the framework by which progress can be measured (e.g., charging market level interest rates or requiring a project to be commercially non-viable in order to allow tied aid);
4. Moving the yardstick higher (i.e., requiring ever higher interest rates until zero subsidy is achieved, or increasing the minimum concessionality in tied aid); and
5. The ongoing process of refining and adapting any rules as more knowledge becomes available and/or the world changes.

Against this framework, 2002 witnessed the following developments:

ARRANGEMENT

The Arrangement has been moving through these stages over time, evolving to significantly parameter the rules and conditions for the provision of official export credits. As evidence of its place in the multilateral trade regime, it is referenced in the WTO's Agreement on Subsidies and Countervailing Measures (ASCM) as a safe haven under which official export credits may be provided without being considered a prohibited subsidy. This safe haven, item k(2) of Annex I of the ASCM, refers only to the "interest rate provisions" of the Arrangement. As a result of the Canada-Brazil aircraft disputes over the past few years, WTO Panels and the Appellate Body have made several rulings on the Arrangement that have raised the concern of the Participants. These rulings include the judgment that pure cover transactions are not covered under the safe haven of item k(2) as the Arrangement has no "interest rate provisions" (no minimum interest rate system) related to pure cover. In addition, the Panels found that matching non-conforming transactions is not in conformity with the WTO, i.e., being in conformity with the Arrangement *as a whole* (provisions beyond the "interest rate provisions") does not equate to being in conformity with the WTO.

Spurred by these findings, and by export credit related presentations made by non-Participants at the WTO, the Participants agreed in 2002 to undertake a re-draft of the Arrangement. The goals of the re-drafting exercise were clarity, consistency (within the Arrangement and with the WTO) and transparency for non-Participants. It is anticipated that a final draft of the new Arrangement will be achieved by the end of 2003.

INTEREST RATES

Official export credit interest rates are subject to disciplines that have, for the most part, eliminated potential subsidies in this area. In principle, ECAs that compete on a fixed rate Commercial Interest Reference Rate (CIRR) regime basis should be in a neutral competitive position with respect to interest rates. However, there are two areas of potential competitive concern. First, the different ways in which ECAs interpret the CIRR rules (setting and holding of CIRR rates) can have potential competitive implications. Second, the CIRR regime provides potential for a certain degree of subsidization via interest make-up (IMU) schemes. As has been the case since 1998, little formal action was taken on any of the CIRR issues during 2002. This lack of formal action was primarily due to the fact that the issue of revising the CIRR regime has been linked to other issues, such as market windows and interest make-up. It is uncertain when or if work will progress on this issue. In sum, the interest rate negotiations on the current CIRR regime as a whole have advanced to stage 5 and represent the issue for which the most progress has been achieved to date.

Discussions of creating a floating rate CIRR largely stalled in 2002, with both the United States and the European Commission opposing the creation of such an instrument. This issue arose in 2000 as a result of the WTO dispute between Canada and Brazil over export credit support for regional aircraft. In the Brazil-Canada cases, the WTO held that, under the ASCM, officially supported export credits are a prohibited subsidy unless they are on market terms (from the borrower's perspective, i.e., the benefit to the borrower test) or the support is in compliance with the OECD Arrangement interest rate provisions. The WTO held that the OECD interest rate provisions only yield a safe harbor for the CIRR fixed interest rate and, therefore, provide no safe harbor for individually determined floating rate lending by ECAs or for pure cover.

However, due to the technical and philosophical complexity of designing a floating rate CIRR that does not compete with commercial bank activity, work on a floating rate CIRR has not progressed beyond stage 1.

MARKET WINDOWS

A topic closely entwined with both the interest rate and Arrangement discussions is market windows. A market window is an institution (or a part of an institution) that claims to operate on a commercial basis while benefiting either directly or indirectly from some level of government support. Over the years, market windows have come under scrutiny with allegations that they provide non-market financing terms that skirt Arrangement restrictions. Market windows have posed transaction-specific problems to other ECAs because:

- the support provided by such entities is only available to their national economic interests; and
- the attractiveness of the financing packages (especially interest rates) provided by market windows tends to stretch the boundaries of what a private institution might be willing to provide.

The United States believes that the growth in market window activity represents a potential threat to the disciplines that the OECD Arrangement negotiations have sought to instill in all official lenders. In 2002, the United States proposed a transparency exercise in the OECD to shed more light on the nature and potential impact of market window transactions, and this exercise was rejected. The Participants with major market windows (Canada and Germany) have consistently made the point that transparency conflicts with their commercial confidentiality rules. Until some way is found to reduce or avoid that conflict, little progress can be made on the market window issue. Thus, the market windows issue has not even reached stage 1.

To evaluate the possible effects of market windows on the U.S. economy, the U.S. Trade Promotion Coordinating Committee (TPCC) recommended in 2002 the commissioning of a study on the effects of market window institutions.

EXPOSURE FEES (RISK PREMIA)

The Knaepen Package, which seeks convergence on the pricing of officially supported export credits of over two years repayment term, came into force on April 1, 1999. The agreement sets minimum exposure fees for sovereign transactions. In addition, the sovereign benchmark sets the minimum rate for all other transactions within the country. Exposure fees are the charges imposed by ECAs for taking the risk that the obligor will not repay. All transactions other than aircraft, military, agriculture and ships are subjected to its disciplines. In the past these charges varied tremendously between ECAs in any given market.

The fee negotiations have remained at stage 3 for the past few years. In 2002, discussions continued on enhancing the feedback mechanism for evaluating the fee system, and transparency exercises were conducted on buyer risk pricing. There continues to be some pressure from European ECAs, who have a structural system of assessing surcharges on non-sovereign buyers, to open negotiations on buyer risk pricing. It is anticipated that discussions on buyer risk and evaluating the existing premium rate system will continue in 2003.

LARGE COMMERCIAL AIRCRAFT

The provision of official export credit support for large commercial aircraft (typically those airplanes that have more than 70 seats and are powered by a jet engine) is governed by a special sub-set of rules, known as LASU (Large Aircraft Sector Understanding). In short, the rules that apply to large commercial aircraft have been customized to better fit the unique characteristics of this business. Contrary to standard official export credit transactions, LASU does not explicitly address the issue of exposure fees (risk premia).

Ex-Im Bank meets regularly with its foreign counterparts to discuss issues of common interest and to refine the rules of the Arrangement that govern official export credit support provided by OECD members. Nonetheless, in 2002 there were no resolutions between the European ECAs and Ex-Im Bank regarding modifications to the LASU.

The beginning of production of over 70-seat aircraft by Canada and Brazil has created a need to re-open the LASU, and major negotiations may begin in 2003. Thus, this issue remains in stage 4 but could move to stage 5 during 2003.

TIED AND UNTIED AID

A major accomplishment of 2002 was the formal agreement reached in November on defining “projects” to include front-end engineering and design studies, architect and engineering work, and procurement-related technical assistance. Japan agreed that the tying status of its support for upfront technical assistance will now match the tying status of its support for the project itself, i.e., both will be tied or both will be untied. The United States sought for years to end the Japanese practice by which the financing of upfront consulting work was tied to Japanese firms, because discussions with U.S. exporters yielded a uniform opinion that tied technical assistance virtually dictates the outcome of the bidding process for the ensuing project procurement receiving “untied” aid support. In this regard, the tied aid negotiations remain at the early phase of stage 4.

In 2002, the Participants continued to discuss the application of tied aid rules to untied aid. There are currently no Arrangement rules governing untied aid, because the donor government does not legally tie procurement to its firms. However, untied aid can be “de facto tied” and used to circumvent the tied aid disciplines that require a minimum concessionality and preclude tied aid for commercially viable projects and to rich countries. Discussions on extending the Helsinki disciplines to untied aid continued during 2002 with little progress. However, untied aid is notified and is the subject of an extensive statistical annual report. Untied aid discussions have therefore still not moved beyond stage 1. The United States will continue to seek disciplines on untied aid practices in 2003.

ENVIRONMENT

At the end of 2001, negotiations within the ECG on common environmental guidelines stopped when the United States refused to agree to the draft text, because it failed to provide sufficient *ex ante* transparency with regard to sensitive projects and because it failed to set international environmental standards (e.g., World Bank) as a minimum requirement rather than as a benchmark. In 2002, the rest of the ECG began to voluntarily and unilaterally implement their own environmental review procedures, based on the draft set of recommendations on ECAs and the environment.

Throughout 2002, ECG members gave presentations on their environmental review policies and practices. In September, a group of environmental practitioners met to exchange practical experience with implementing the Common Approaches, as the draft OECD text is called. The technical exchanges in 2002 indicate that progress is truly being made by most OECD ECAs in implementing meaningful environmental review of projects. There appears to be greater convergence toward World Bank guidelines, although some members have not clearly specified what standards and guidelines they use to assess projects. *Ex ante* transparency remains a larger

challenge, as several members are subject to strict confidentiality rules that limit their ability to disclose project-related information.

The information exchanges from 2002 will lay the groundwork for the review of the Common Approaches in 2003. The United States will continue to seek common rules of engagement to maintain a level playing field and to prevent an environmental “race to the bottom”, in which the lack of common rules provides a competitive advantage to financing packages and project design supported by ECAs with the most lax standards.

Thus, the environment negotiations did not advance in 2002 but will likely do so in 2003. Ex-Im Bank is encouraged by the efforts made by other ECAs and hopes the group will achieve stage 4 by the end of 2003.

Appendix F: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions* in 2002

| Country | Product | Export Value | Foreign Content Percentage** | Estimated Budget Increase*** |
|---------------------------------------------|--------------------------------------|---------------|------------------------------|------------------------------|
| Australia | Large Aircraft | \$666,839,965 | 10% | \$1,045,268 |
| Austria | Large Aircraft | \$234,381,127 | 16% | \$2,202,035 |
| Bolivia | Manufacturing Equipment | \$988,200 | 2% | \$2,866 |
| Brazil | Manufacturing Equipment | \$68,196,277 | 20% | \$36,881 |
| Brazil, Czech Republic, Mongolia and Turkey | Large Aircraft | \$455,395,840 | 15% | \$2,839,267.35 |
| Bulgaria | Concession Equipment | \$2,182,388 | 4% | \$14,428 |
| Bulgaria | Foam Extrusion System | \$1,155,275 | 2% | \$3,069 |
| Cameroon | Trucks & Equipment | \$1,358,366 | 13% | \$28,085 |
| Canada | Large Aircraft | \$546,995,000 | 15% | \$4,020,411 |
| China (Mainland) | Engineering & Construction Services | \$175,350,552 | 5% | \$14,694,247 |
| China (Mainland) | Medical Equipment | \$8,443,000 | 1% | **** |
| China (Taiwan) | Large Aircraft | \$149,232,027 | 5% | \$478,489 |
| Cote D'Ivoire | Trucks | \$1,133,679 | 15% | \$15,338 |
| Dominican Republic | Heavy Construction Equipment | \$30,199,690 | 8% | \$281,277 |
| Dominican Republic | Pre Fabricated Housing Units | \$25,101,230 | 5% | \$209,166 |
| Dominican Republic | Project Management Services | \$16,973,720 | 12% | \$197,383 |
| Dominican Republic | Sporting Equipment | \$49,590,074 | 5% | \$2,019,008 |
| Dominican Republic | Exporter Services | \$39,823,735 | 10% | \$2,034,759 |
| Dominican Republic | Engineering And Procurement Services | \$70,706,426 | 1% | \$589,850 |
| Dominican Republic | Engineering And Procurement Services | \$83,838,464 | 0.3% | \$575,197 |

| Country | Product | Export Value | Foreign Content Percentage** | Estimated Budget Increase*** |
|------------------------|------------------------------------------|---------------|------------------------------|------------------------------|
| Dominican Republic | Ocean Transport Services | \$100,000,000 | 10% | \$4,952,480 |
| Dominican Republic | Air Conditioners | \$22,671,280 | 8% | \$72,526 |
| Dominican Republic | Training | \$68,027,767 | 12% | \$529,541 |
| Ireland | Large Aircraft | \$95,000,000 | 15% | \$196,191 |
| Ireland | Large Aircraft | \$155,000,000 | 15% | **** |
| Ireland | Large Aircraft | \$248,000,000 | 15% | **** |
| Israel | Large Aircraft | \$114,300,000 | 14% | \$2,429,246 |
| Israel | Motor Starter | \$3,127,312 | 10% | **** |
| Kazakhstan | Software | \$420,016 | 24% | \$2,624 |
| Kenya | Large Aircraft | \$80,914,678 | 16% | \$202,913 |
| Korea, Republic | Large Aircraft | \$125,000,000 | 14% | \$1,537,452 |
| Korea, Republic | Large Aircraft | \$460,000,000 | 8% | \$3,990,363 |
| Luxembourg | Large Aircraft | \$146,000,000 | 19% | \$388,212 |
| Federation of Malaysia | Large Aircraft | \$710,264,008 | 9% | \$2,551,180 |
| Mali | Graders, Dozers, Compactors And Trucks | \$2,152,290 | 5% | \$18,109 |
| Mexico | Legal Services | \$86,162,300 | 12% | \$1,350,925 |
| Mexico | Technical Services | \$30,407,167 | 4% | \$305,034 |
| Mexico | Base Transceiver Stations Systems | \$100,000,000 | 15% | \$476,706 |
| Mexico | Gas & Steam Turbine Generators, Controls | \$179,125,000 | 12% | \$3,736,622 |
| Mexico | Paper Converting Machine | \$16,910,592 | 9% | \$13,430 |
| Mexico | Gas Turbine Compressors | \$64,281,885 | 12% | \$1,290,125 |
| Mexico | Wholesale Industrial Machinery | 336,395,494 | 4% | \$849,446 |
| Mexico | Well Drilling Services | \$223,950,914 | 0.4% | \$54,609 |
| Mexico | Geophysical Instruments & Equipment | \$223,986,474 | 4% | **** |
| Mexico | Punch Machine | \$310,080 | 18% | \$777 |
| Mexico | Greenhouses | \$853,688 | 13% | \$1,971 |
| Mexico | Shrimp Harvesting Equipment | \$942,870 | 7% | **** |
| Mexico | Plastic Manufacturing Equipment | \$4,168,260 | 8% | **** |
| Morocco | Large Aircraft | \$43,400,000 | 15% | \$515,646 |

| Country | Product | Export Value | Foreign Content Percentage** | Estimated Budget Increase*** |
|--------------|-------------------------------------------|---------------|------------------------------|------------------------------|
| Morocco | Large Aircraft | \$37,900,000 | 16% | **** |
| Mozambique | Trucks | \$672,660 | 12% | \$13,354 |
| Nigeria | Submersible Motor Pumps | \$117,641,154 | 1% | \$1,544,181 |
| Nigeria | Hardware, Software, Training & Services | \$10,183,261 | 23% | \$231,345 |
| Nigeria | Prefabricated Workshops | \$786,697 | 3% | \$2,196 |
| Panama | Large Aircraft | \$139,400,000 | 17% | \$2,205,627 |
| Peru | Medical & Laboratory Equipment | \$1,500,000 | 10% | \$24,260 |
| Philippines | Hydraulic Rotary Pipe Sander | \$506,469 | 8% | \$841 |
| Romania | Transmitter Systems | \$71,469,583 | 6% | \$3,251,607 |
| Romania | Steam Turbine Parts & Technical Svcs | \$29,676,464 | 7% | \$162,029 |
| Romania | Various Medical Equipment | \$4,265,889 | 14% | \$44,740 |
| Russia | Construction Management | \$15,700,000 | 4% | \$499,115 |
| Russia | Wheel Loaders and Bulldozers | \$3,536,053 | 7% | \$39,603 |
| Russia | Wheel Loaders and Bulldozers | \$1,042,057 | 5% | \$8,027 |
| Russia | Drill Attachments And Tractors | \$3,326,500 | 7% | \$5,383 |
| Russia | Truck, Wheel Loader, Hydraulic Excavator | \$9,322,313 | 10% | \$144,043 |
| Russia | Dump Trucks & Cold Weather Components | \$11,750,000 | 15% | \$83,368 |
| Russia | Communications Network | \$10,296,250 | 14% | \$70,010 |
| Saudi Arabia | Trucks | \$6,670,548 | 23% | **** |
| Senegal | Trucks & Road Construction Equipment | \$804,800 | 8% | **** |
| Senegal | Bulldozer, Graders, Loaders, Excavator | \$2,068,999 | 5% | \$15,579 |
| Senegal | Backhoe, Drilling & Gold Mining Equipment | \$304,235 | 15% | \$7,284 |
| Senegal | Refrigerated Truck | \$251,109.00 | 10% | \$577 |
| South Africa | Large Aircraft | \$210,000,000 | 15% | \$304,779 |
| Thailand | Solar Cells | \$203,900,000 | 12% | \$2,918,877 |
| Thailand | Large Aircraft | \$299,964,569 | 5% | **** |

| Country | Product | Export Value | Foreign Content Percentage** | Estimated Budget Increase*** |
|--------------|------------------------------------------|------------------------|------------------------------|------------------------------|
| Turkey | Aircraft Engines | \$80,758,374 | 15% | \$1,055,674 |
| Turkey | Financial Services | \$69,520,157 | 17% | \$4,377,737 |
| Turkey | Generator Set | \$8,195,900 | 12% | \$112,726 |
| Turkey | Hotel Equipment | \$13,500,886 | 26% | \$134,635 |
| Turkey | Hospital Equipment & Machinery | \$14,512,215 | 13% | \$80,332 |
| Turkey | Heating and Cooling Equipment | \$10,796,272 | 15% | \$258,984 |
| Turkey | Molecular Biology Laboratory Instruments | \$2,584,851 | 14% | \$24,959 |
| Turkey | Construction Machinery | \$5,044,786 | 15% | \$76,574 |
| Uganda | Trailers With Forklifts | \$1,928,000 | 5% | \$15,926 |
| Uganda | Construction Equipment | \$805,264 | 2% | \$2,657 |
| Uzbekistan | Combines Transmission, Drive & Gear Box | \$16,105,845 | 15% | \$367,202 |
| Uzbekistan | Multi-service Node & Switching Equipment | \$5,184,814 | 15% | \$136,655 |
| Venezuela | Diesel Engine Parts | \$19,426,392 | 5% | \$4,822 |
| Venezuela | Water-To-Air Cooling Module | \$93,353,300 | 21% | \$2,333,192 |
| Venezuela | Marine Air Conditioning & Refrigeration | \$8,859,445 | 6% | \$8,830 |
| Venezuela | River Hopper Barges | \$6,156,730 | 7% | \$21,685 |
| Venezuela | Oncology Systems | \$2,211,293 | 6% | \$3,191 |
| Venezuela | Wastewater Treatment Plant Equipment | \$4,629,200 | 5% | \$118,013 |
| Venezuela | Cable System | \$6,647,635 | 2% | **** |
| Venezuela | Material Handling Equipment | \$849,763 | 12% | \$4,871 |
| Venezuela | Telecommunications Network Equipment | \$8,600,000 | 20% | \$193,879 |
| Total | | \$7,842,267,842 | 11% | \$76,327,689 |

*Preliminary data, excludes Credit Guarantee Facilities

**When foreign content exceeds 15%, the buyer is required to make a minimum cash payment equal to the amount of foreign content

***Increase in the estimated budget amount for the U.S. portion of the contract due to the inclusion of foreign content in the financing package

****No budget increase (negative budget cost)

Appendix G: Tied Aid Report

Implementation of the Helsinki Tied Aid Disciplines

INTRODUCTION

This appendix sets forth 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 2002, followed by a discussion of trends in the use of the TACF through 2002. Finally, it addresses other actions and plans to combat predatory financing practices.

IMPLEMENTATION OF THE OECD ARRANGEMENT RULES

This section describes the continued implementation of the Helsinki Package of tied aid disciplines, including foreign governments' compliance, the operation of notification and consultation procedures and, finally, the outcome of Consultations Group activity.

Tied aid is concessional financial support provided by donor governments in the form of a grant or a “soft” loan for which capital goods procurement by developing countries is contractually linked to firms from the donor country. In December 1991, the Participants to the Arrangement agreed to the Helsinki Package of rules on tied aid credits aimed at limiting the use of concessional financing for projects that should be able to support commercial financing. The rules went into effect on February 15, 1992. The Helsinki Package established: (1) country and project conditions for the provision of tied aid; (2) rules requiring 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 basically resulted in two disciplines being imposed on tied aid: (1) no tied aid in “rich” countries; and (2) no tied aid for commercially viable projects. These new rules were built on an OECD agreement in the mid-1980s that set a minimum concessionality level for tied aid of 35%⁹ and instituted a market-based system for measuring concessionality.

TIED AID ELIGIBLE MARKETS

A number of key markets are no longer potential targets for tied aid financing as a result of the implementation of the Helsinki Package and other OECD agreements. These markets include

⁹ 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%.

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. In addition, as a result of a separate OECD agreement, U.S. exporters bidding on 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

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 (two OECD export credit agencies would, in principle, be prepared to provide export credit).

A Tied Aid Consultations Group was formed to address those Helsinki-type tied aid issues relating to projects that, following required notification, may be challenged by other governments as being potentially commercially viable.

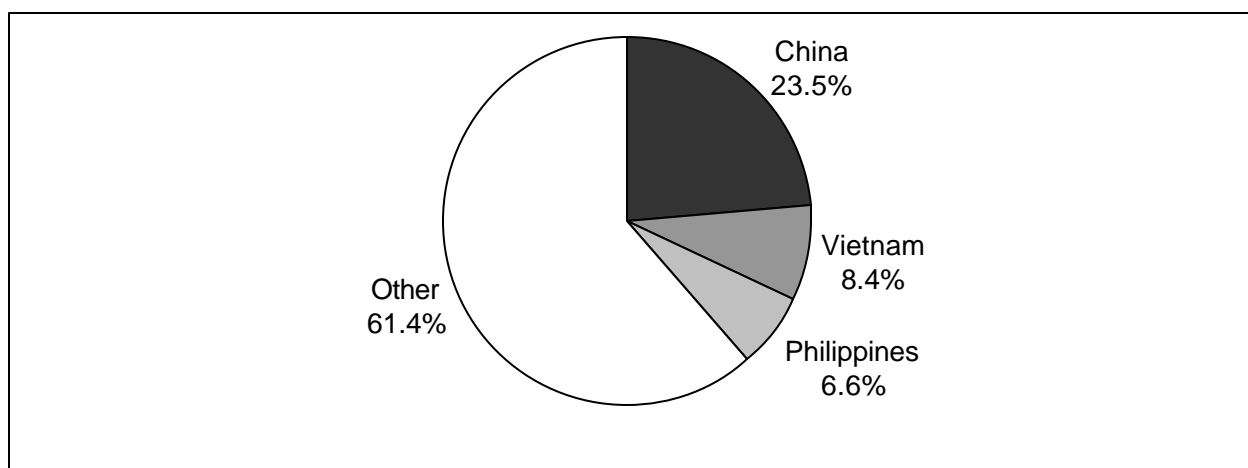
In December 1996, the OECD countries agreed to and publicly published *Ex Ante Guidance for Tied Aid*, a set of guidelines which assists export credit agencies, aid agencies, project planners and aid recipients in judging at the outset whether potential projects will be eligible for tied aid. These guidelines, designed to avoid the use of official aid to encourage exports that could proceed without aid, encapsulate the body of experience of the Consultations Group and have been a useful tool. In November 2002, the Ex Ante Guidance was updated to incorporate the results of Consultations since 1996, and energy pipelines were added to the list of normally commercially viable projects. From 1992 to 1995, an average of 27 cases were challenged each year, with on average half found commercially viable. From 1996 through 2002, a total of 20 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 129 projects examined by the Consultations Group from March 1992 to December 2002, 48 projects (37.5%) were found to be commercially non-viable, or eligible for tied aid financing under the Helsinki rules, and 69 projects (53.5%) were found to be commercially viable. Of the remaining 12 cases, no conclusion was reached on commercial viability on four cases. Others were committed before the inception of the Helsinki disciplines, three had been committed prior to notification (and thus considered derogations) and only one was a matching transaction.

In the post-Helsinki period, energy (43.3%), telecommunications (26.0%), manufacturing (15.7%) and transportation (12.6%) represented 97.6% of all the projects challenged and

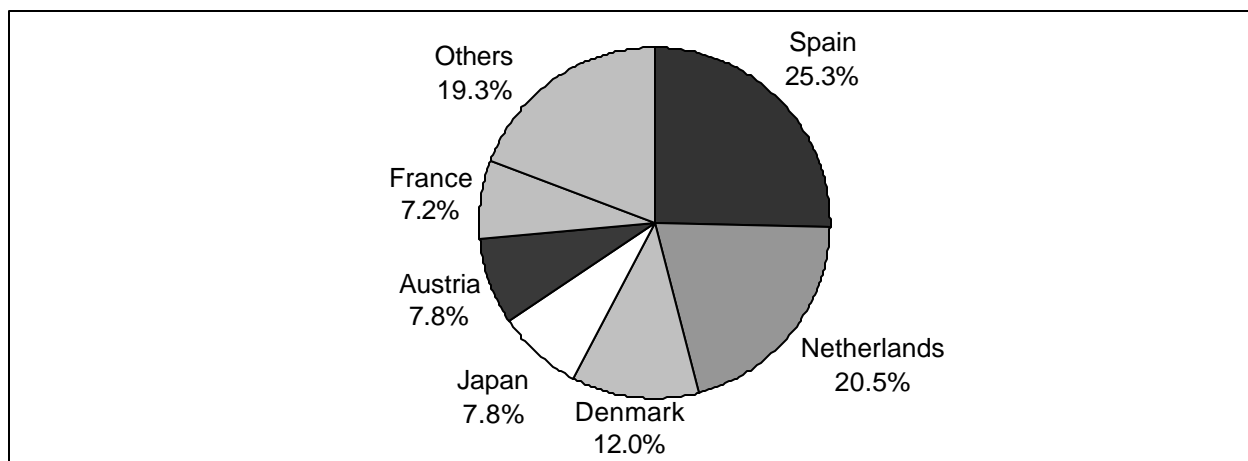
considered by the Consultations Group. Only two projects in the social services sector were challenged. Regarding recipient countries, China accounted for the largest number of notifications evaluated by the Consultations Group during the post-Helsinki period with 39 notifications (23.5%), followed by Vietnam with 14 notifications (8.4%) (see **Figure G1**).

Figure G1: Challenged Notifications by Recipient Country



During the post-Helsinki period, Spain initiated the highest number of notifications considered by the Consultations Group (42), followed by the Netherlands (34), Denmark (20) and Japan and Austria (13 each) (see **Figure G2**).

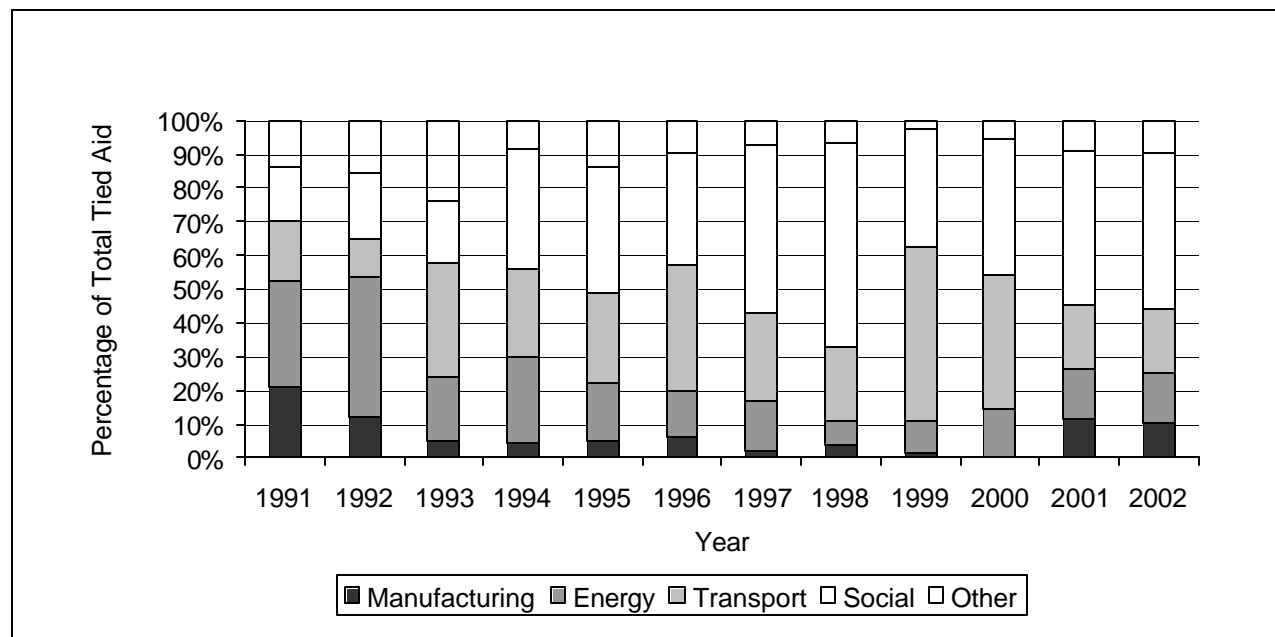
Figure G2: Challenged Notifications by Notifying Country



As can be seen in **Figure G3**, Helsinki has had a dramatic and continuing impact. Simply put, tied aid in the pre-Helsinki period was dominated by energy and manufacturing (at roughly 50% of activity); by 2002, the transport (e.g., subways) and social sectors accounted for nearly 64.8%

of activity. Thus, the types of projects notified and the decrease in the number of projects challenged suggest that the Helsinki disciplines have encouraged donors to redirect tied aid towards commercially non-viable projects.

Figure G3: Trends in Tied Aid by Sector



TRENDS IN THE USE OF THE TACF

Ex-Im Bank, in consultation with the Department of Treasury, has established guidelines to limit and direct the use of the TACF. These guidelines have two core components:

1. A series of steps (e.g., propose an OECD no-aid agreement; when appropriate, a consultations challenge; when appropriate, an Ex-Im Bank indication of a willingness to match a foreign tied aid offer) that attempt to get competitors to drop consideration of tied aid use and/or let tied aid offers expire.
2. A set of “multiplier” criteria (e.g., prospect of future sales without the continued use of tied aid) that attempt to limit tied aid support to those transactions with a benefit that would extend beyond the individual tied aid offer and generate the most benefit to the U.S. economy.

Although in the past Ex-Im Bank matching policy achieved some limited success in deterring foreign tied aid offers as part of the overall U.S. tied aid strategy, in recent years Ex-Im Bank has been faced with fewer opportunities to match tied aid. From 1994 through 2002, of the 25 cases in which Ex-Im Bank tried to discourage tied aid use by issuing “willingness-to-match” indications, seven saw the competing tied aid offer withdrawn; U.S. exporters won five out of these seven cases on standard Arrangement terms. Eight cases have been lost to foreign tied aid

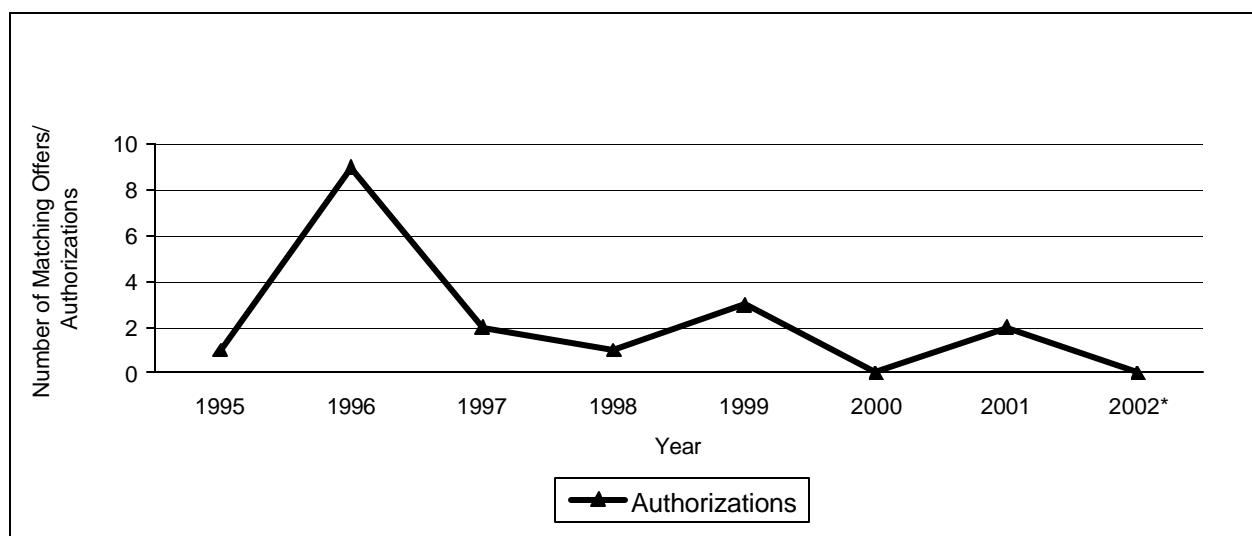
financing, while ten remain outstanding or have been indefinitely delayed. Notably, however, most matching success occurred in the years immediately following the Helsinki Package when the lines between commercial and aid financing were being drawn. By the end of 1996, 30 matching offers had been made.

As shown in **Figure G4**, of the 43 cases where Ex-Im Bank matched, the United States has won 19 while losing 23. The one remaining case was indefinitely delayed.

Figure G4: Cumulative Ex-Im Bank Matching of Previously Notified Foreign Tied Aid Offers

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------------------|------|------|------|------|------|------|------|
| New matching offers during year | 7 | 4 | 2 | 4 | 1 | 2 | 0 |
| U.S. win | 10 | 12 | 13 | 16 | 17 | 19 | 19 |
| U.S. loss | 7 | 10 | 10 | 21 | 23 | 23 | 23 |
| Outstanding, no decision | 13 | 12 | 13 | 3 | 1 | 1 | 1 |
| Cumulative total | 30 | 34 | 36 | 40 | 41 | 43 | 43 |

Figure G5: U.S. Tied Aid Authorizations by Year



As shown in **Figure G5**, in 2002 there were no new tied aid authorizations. However, there were increases to existing tied aid authorizations that utilized \$13.7 million (\$7.0 million to Indonesia and \$6.7 million to Morocco) of TACF. The U.S. pattern reflects the downward trend in tied aid authorizations generally.

EX-IM BANK INITIATED NO AID COMMON LINES

When Ex-Im Bank receives an application for financing in a tied aid eligible country for a project that is commercially non-viable, and the U.S. exporter has reason to be concerned about the possibility of tied aid financing competition, the U.S. government may propose a no aid common line in hopes of eliminating this possibility. If the common line request is accepted, other 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). With such agreements in place, U.S. exporters can compete without fear of tied aid competition and without the need for Ex-Im Bank to provide a matching tied aid offer. If the no aid common line request is rejected, other OECD member countries may make a tied aid financing offer for the project. Since April 1994, there have been 26 cases where the OECD Secretariat, acting upon U.S. request, has obtained OECD-wide approval of “no aid” agreements for particular projects of interest to U.S. exporters. **Figure G6** shows the results of the no aid common line requests initiated by the U.S. government from 1996 through 2002.

Figure G6: U.S. Proposed No Aid Common Lines

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------|------|------|------|------|------|------|------|
| Proposed | 19 | 24 | 5 | 13 | 8 | 1 | 0 |
| Rejected | 13 | 17 | 5 | 12 | 5 | 0 | 0 |
| Accepted | 6 | 7 | 0 | 1 | 3 | 1 | 0 |

The no aid common lines have had limited utility for U.S. exporters in the past few years: generally, the United States has proposed these common lines, and foreign governments have rejected them out of hand, considering this additional restriction as limiting their flexibility and competence to provide aid within the Helsinki disciplines.

Appendix G: 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 |
| Eastern Europe | Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia |
| Transitional Economies** | Belarus, Bulgaria, Romania, the Russian Federation and Ukraine |

*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 three consecutive years (using 2001 IBRD data, those countries with a GNI per capita above U.S.\$2,975).

**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.

Appendix G: Annex 2

| Key Tied Aid Eligible Markets* | |
|--------------------------------|------------------------------------------------------------------------|
| Asia | China, India, Indonesia**, Philippines, Sri Lanka, Thailand, Vietnam** |
| Latin America | Colombia, Dominican Republic, El Salvador |
| Africa | Egypt, 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 G: Annex 3

| Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited) | |
|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Power | <ul style="list-style-type: none"> ▪ Oil-fired power plants ▪ Energy pipelines ▪ 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 | <ul style="list-style-type: none"> ▪ Equipment serving intra- and inter-urban or long-distance communications ▪ Telephone lines serving intra- and inter-urban or long-distance communications ▪ Switching equipment serving urban or high-density areas ▪ Radio-communications equipment serving urban or high-density areas |
| Transportation | <ul style="list-style-type: none"> ▪ Air traffic control ▪ Freight railroad operations (locomotives, cars, signaling) |
| Manufacturing | <ul style="list-style-type: none"> ▪ Manufacturing operations intended to be profit-making ▪ Privately-owned manufacturing operations ▪ Manufacturing operations with export markets ▪ Manufacturing operations with large, country wide markets |

Appendix G: Annex 4

| Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted) | |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Power | <ul style="list-style-type: none"> ▪ Transmission lines to low-density, rural areas ▪ Geothermal power plants ▪ Small wind turbine farms ▪ District heating systems ▪ Small hydropower plants connected with irrigation |
| Telecommunications | <ul style="list-style-type: none"> ▪ Telephone switching equipment serving low-density, rural areas ▪ Switching equipment serving low-density, rural areas ▪ Radio-communications equipment serving low density, rural areas |
| Transportation | <ul style="list-style-type: none"> ▪ Road and bridge construction ▪ Airport terminal and runway construction ▪ Passenger railroad operations (locomotives, cars, signaling) ▪ Urban rail and metro systems |
| Manufacturing | <ul style="list-style-type: none"> ▪ Highly-localized, small scale cooperatives ▪ Highly-localized, small scale food processing ▪ Highly-localized, small scale construction supply |
| Social Services | <ul style="list-style-type: none"> ▪ Sewage and sanitation ▪ Water treatment facilities ▪ Firefighting vehicles ▪ Equipment used for public safety ▪ Housing supply ▪ School supply ▪ Hospital and clinic supply |

Appendix H: Human Rights and Other Foreign Policy Considerations

Pursuant to the 1978 amendments to the Export-Import Bank Act of 1945, Ex-Im Bank may deny financing based on international human rights or other foreign policy considerations only upon a determination by the President that such denial furthers U.S. policy goals (this legislation, P.L. 95-630, 92 Stat. 3724, is also referred to as the “Chafee Amendment”). The Chafee Amendment, as amended in 2002 by P.L. 107-189, states that the Board of Directors of Ex-Im Bank may not deny applications for non-financial or non-commercial reasons unless the President determines that such denial will clearly and importantly advance U.S. policy in such areas as international terrorism, nuclear proliferation, the enforcement of the Foreign Corrupt Practices Act of 1977, the Arms Export Control Act, the International Emergency Economic Powers Act, the Export Administration Act of 1979, environmental protection and human rights (including child labor).

It should also be noted that, pursuant to Executive Order 12166, the President has delegated his authority to make Chafee determinations to the Secretary of State, who must consult with the Secretary of Commerce and the heads of other interested Executive agencies.

Ex-Im Bank has developed procedures with the State Department, including the Bureau for Democracy, Human Rights, and Labor, for regular consultation regarding human rights concerns. According to these procedures, Ex-Im Bank periodically receives a list of countries where the State Department has found no “consistent pattern of gross violations of internationally recognized human rights.” Where a proposed transaction over \$10 million dollars involves goods or services to be exported to a country that has not received “pre-clearance” on such list, Ex-Im Bank refers the transaction to the State Department for human rights review. In addition, Ex-Im Bank country economists may work in concert with the State Department to, where appropriate, examine human rights and other foreign policy considerations in their assessment of the risks associated with transactions in specific countries.

Appendix I: Equal Access for U.S. Insurance

Pursuant to the Export Enhancement Act of 1992, Ex-Im Bank is required to report in the annual *Competitiveness Report* those long-term transactions approved by Ex-Im Bank for which an opportunity to compete was not available to U.S. insurance companies.

At the time the legislative requirement was imposed on Ex-Im Bank, Ex-Im Bank had neither encountered nor been informed about any long-term transaction for which equal access for U.S. insurance companies was not afforded. Consequently, Ex-Im Bank, the Department of Commerce and the Office of the United States Trade Representative agreed that the establishment of a formal reporting mechanism was not necessary. It was also agreed that should Ex-Im Bank identify any long-term transaction in which U.S. insurance companies are not allowed equal access, a more formalized procedure would be created. As of December 2002, Ex-Im Bank has not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix J: Trade Promotion Coordinating Committee (TPCC)

INTRODUCTION

The Trade Promotion Coordinating Committee (TPCC) is an interagency committee consisting of 19 U.S. government agencies,¹⁰ each of which has a stake in maximizing U.S. export potential. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. government export promotion initiatives under the leadership of the Secretary of Commerce. The President and Chairman of the Export-Import Bank serves as the Vice-Chair of the TPCC.

Among the responsibilities of the TPCC is to prepare and submit to Congress an annual report entitled the National Export Strategy (NES) that outlines the Administration's trade promotion agenda. In April 2003, the TPCC issued the most recent NES report to Congress which provides a status report on progress made toward implementing the recommendations presented in the 2002 NES report. TPCC accomplishments during 2002 that pertain to Ex-Im Bank are summarized below.

HIGHLIGHTS OF TPCC ACCOMPLISHMENTS DURING 2002

Highlights of the TPCC's major accomplishments during 2002 that directly impact Ex-Im Bank and its competitive position vis-à-vis foreign export credit agencies include:

- Ex-Im Bank, SBA, the U.S. Commerce Department's Census Bureau and International Trade Administration, and the U.S. Department of Agriculture established a joint marketing task force that now meets regularly to coordinate literature and pavilions at major domestic trade shows, trade financing seminars and direct mail campaigns.
- Enhancing U.S. export competitiveness by marketing Ex-Im Bank programs during the initial stages of project development: this initiative is referred to as early project development, in which teams have identified projects in key markets (Brazil, China, Mexico and Russia) and pioneered new ways to market the availability of Ex-Im Bank programs.
- Over the last year, agencies have developed a set of procedures for the U.S. government's first mixed credit pilot program, combining U.S. Agency for International Development grants and Ex-Im Bank financing. The program was

¹⁰ Members of the TPCC are the following U.S. government agencies: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor, the Overseas Private Investment Corporation, Ex-Im Bank, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Economic Council and the Office of Management and Budget.

launched formally in April 2003 with instructions to U.S. foreign posts. Over the next year, the challenge will be to educate posts on how to use the program.

- The creation of an interagency training program: In January 2003, the TPCC conducted the first interagency trade specialist seminar to train field staff to view federal trade promotion as a team approach focused on customer account management. TPCC agencies were extremely receptive to this approach, with nine agencies represented by the participants. Achieving the desired culture shift requires that the TPCC agencies extend this training to all field staff and that agencies make a long-term commitment of resources.
- Ex-Im Bank is also working on an initiative with the SBA to collaborate by providing parallel financing and joint marketing for working capital transactions. This effort is designed to provide the small business exporter with a seamless approach to access working capital financing needed to increase export sales.

These initiatives seek to maximize U.S. exporter competitiveness by leveraging resources across agencies, educating U.S. exporters and foreign buyers alike on available trade finance options and creating opportunities for small, medium and large U.S. businesses to reap the benefits of international trade.

Appendix K: Efforts to Promote Renewable Energy Exports

In Ex-Im Bank's 2002 reauthorization process, Congress inserted in Ex-Im Bank's Charter the requirement to report on efforts to promote renewable energy exports.

In 2002, Ex-Im Bank actively engaged in the promotion of renewable energy exports. Most notably, Ex-Im Bank was the first export credit agency to convene a Renewable Energy Exports Advisory Committee. Comprised of renewable energy experts from industry, civil society and academia, the Committee's purpose was to advise Ex-Im Bank on how it can modify its programs, add new financing products and improve outreach to U.S. renewable energy exporters and foreign buyers. The Committee met three times throughout 2002.

In addition to the Renewable Energy Exports Advisory Committee, Ex-Im Bank staff joined the U.S. delegation to the U.N.'s World Summit on Sustainable Development in Johannesburg, South Africa in the summer of 2002. At the Summit, Bank staff participated in several panels and seminars at which renewable energy was addressed.

Finally, Ex-Im Bank held two conferences in September 2002 to promote environmentally beneficial exports, including renewable energy exports. The first took place on September 10 and 11 in Budapest, Hungary and brought together U.S. environmental exporters with Southeast European government and industry representatives. The second occurred on September 23 and 24 in Mexico City and focused on promoting renewable energy projects in the Mexican municipal sector.

