

Chapter 6: Public Policies - Stakeholder Considerations

Section B: Economic Impact

Introduction

Economic impact refers to the Congressional mandate for Ex-Im Bank to assess whether Ex-Im Bank support for a transaction would likely cause substantial injury to U.S. industry or would result in the production of a good that is subject to a relevant trade measure (defined below). Transactions that pose either one of these issues may be denied Ex-Im Bank support. Ex-Im Bank's economic impact procedures are designed to ensure that all of the transactions it supports meet the Bank's Congressional mandate. While all cases seeking Ex-Im Bank support are screened for economic impact, cases subject to analysis include all capital equipment transactions that enable foreign buyers to establish or expand production capacity of goods that may compete with U.S. domestic production.

Ex-Im Bank's Policy and Practice

The requirement to consider the adverse economic impact of transactions was first incorporated into Ex-Im Bank's Charter in 1968 and has been subsequently modified seven times (the most recent change to the economic impact section of the Bank's charter occurred in June 2002). Ex-Im Bank's Charter requires Ex-Im Bank to assess whether the extension of its financing support would:

- (1) Result in the production of substantially the same product that is the subject of specified trade measures (i.e., transactions resulting in the production of a good subject to an anti-dumping (AD) or countervailing duty (CVD) order, a Section 201 injury determination under the Trade Act of 1974 or a suspension agreement from an AD/CVD investigations); or
- (2) Pose the risk of substantial injury to the U.S. economy. Pursuant to Ex-Im Bank's Charter, the standard for substantial injury is met if the foreign production capacity established or expanded by the Ex-Im Bank financing equals or exceeds 1% of U.S. production. Transactions over \$10 million that meet the substantial injury standard require a detailed economic impact analysis in which Ex-Im Bank staff analyses the global supply and demand for the product in question, and assesses the broad competitive impacts on U.S. industry arising from the new foreign production (e.g., whether U.S. production could be directly or indirectly displaced as a result of the new foreign production).

If a transaction meets these legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. However, the economic impact legislation provides that the economic impact prohibition will not apply in any case where the Ex-Im Bank Board of Directors determines that the benefits of the transaction outweigh the costs.

G-7 ECAs' Policies and Practices

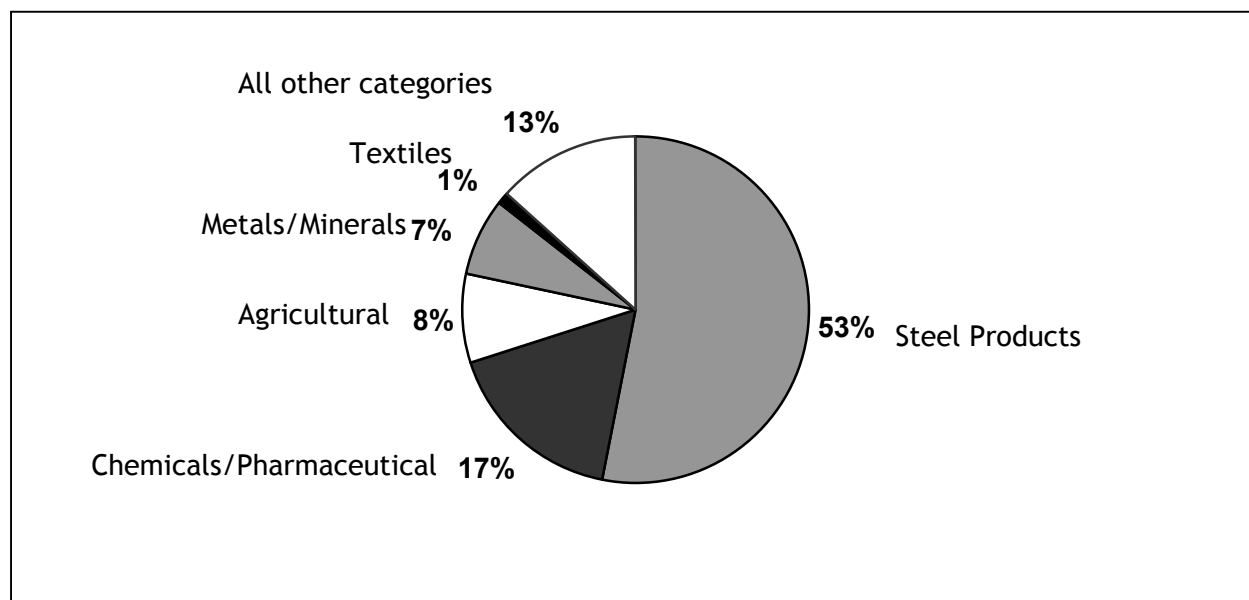
Ex-Im Bank's economic impact policy is unique with respect to the other G-7 ECAs. Several ECAs have a broad mandate that the transactions they support should benefit their domestic economies. However, only Ex-Im Bank weighs the potential negative economic impacts of its support against the benefits and considers the relevance of trade measures to a transaction, both of which could result in the denial of support. As a consequence, a negative economic impact finding may result in processing delays and carries the real risk of denial. Moreover, Ex-Im Bank's economic impact mandate has operational consequences since Ex-Im Bank must dedicate staff and other resources to the issue.

Summary Data

In FY2003, the Bank processed 558 medium-term insurance and medium- and long-term loan and guarantee transactions. Of these transactions, 227 were applications for loans and guarantees at the Preliminary Commitment (PC) and Final Commitment (AP) stages, and 331 were applications for medium-term insurance. Eighty-seven of these cases, or 16% of total transactions acted upon, were reviewed for economic impact relevance because they supported a foreign buyer's production of an exportable good. Three of these 87 transactions required a detailed economic impact analysis, all of which were found to have a net positive economic impact. The remaining 84 transactions were subject to a post-authorization review to ensure that there were no aggregations of more than \$10 million to a single buyer that would have required a detailed economic impact analysis.

No transactions were denied in fiscal year 2003 because of economic impact. Since Ex-Im Bank's economic impact policy was changed in January 1999 to account for trade measures, however, Ex-Im Bank's economic impact policy has resulted in the Board of Directors denying nine transactions because of an applicable AD/CVD order or Section 201 injury determination (six in FY1999, two in FY2000 and one in FY2002). No transactions have been affected by the notice and comment period for applicable preliminary AD/CVD injury determinations since Congress amended the Charter in June 2002. These numbers, however, do not reflect applications withdrawn or transactions for which no application was ever submitted because of the Bank's economic impact requirements.

Because of Ex-Im Bank's economic impact policy to not support any transactions that would result in the production of a good subject to a relevant trade measure, U.S. manufacturers of steelmaking equipment were broadly affected by a Section 201 material injury finding on the U.S. steel sector that lasted from March 2002 to December 2003 and prohibited Ex-Im Bank from supporting the production of steel in foreign markets. While the Section 201 trade measures on steel no longer exist, Ex-Im Bank is still prohibited from supporting many U.S. steel-making equipment manufacturers because of the large number of current AD/CVD orders that apply to steel products. **Figure 26** shows that steel products account for over half of all current AD/CVD orders. A review of G-7 ECA data shows that other G-7 members did not have such prohibitions, and supported approximately \$144 million worth of steelmaking machinery exports during the period

Figure 26: Anti-dumping and Countervailing Duty Orders by Sector

Exporter and Lender Survey Results

In general, U.S. exporters and lenders commented that Ex-Im Bank has been sufficiently transparent so as to give advance notice when a transaction may be denied because of the economic impact policy. With the exception of steelmaking equipment (discussed above), there have been few instances where a transaction was withdrawn or deterred from being submitted because of the economic impact policy. Some exporters and lenders commented that the economic impact policy could add significant time to case processing. Overall, economic impact, when present in an individual transaction, could adversely affect the Bank's competitiveness.

Conclusion

No other G-7 ECA has a similar requirement to review transactions for trade measures and potential injury to the domestic economy as does Ex-Im Bank. Still, the policy affected only 10% to 20% of medium- and long-term activity by creating the risk of denial or by increasing case processing time. As a whole, the economic impact element, when it arises, can have a negative impact on Ex-Im Bank's competitiveness, leaving Ex-Im Bank a notch below the typical G-7 ECA.

