

## Chapter 6: Public Policies - Stakeholder Considerations

### Section D: Local Costs

#### Introduction

Local costs are goods and services originated and/or manufactured in the buyer's country. In contrast to foreign content, the OECD Arrangement sets the basic parameters on official local costs support, which includes the ability of ECAs to provide support for local costs related to an officially supported export transaction. Per the OECD, this support may not exceed the amount of the down payment, typically 15%.

#### Ex-Im Bank's Policy and Practice

When Ex-Im Bank provides medium- or long-term guarantee, loan or insurance support for U.S. exports, it may also provide up to 15% of the value of the U.S. exports (including eligible foreign content) for project-related local costs for goods and services that are directly related to the U.S. exporter's contractual responsibilities.

#### G-7 ECAs' Policies and Practices

All ECAs adhere to the local costs parameters set forth in the Arrangement. In fact, most major ECAs limit local costs financing because, due to country cover limitations, support for local costs crowds out ECAs' ability to cover exports. Thus, unlike Ex-Im Bank, other ECAs require that local costs be explicitly included in the scope of the exporter's contract (except in the case of project finance).

#### Summary Data

In 2001, Ex-Im Bank's local costs policy was revised. Ex-Im Bank offers automatic local costs support for all environmentally beneficial and medical equipment exports as well as project finance transactions (including medium-term transactions). Furthermore, local costs support is now generally available for all long-term transactions. As **Figure 29** illustrates, since the 2001 local costs changes, there has been a significant increase in the number of transactions (but a decrease in dollar volume) that have received local costs support. The increase in the number of transactions with local costs may be attributed to the fact that the revised procedures provided more small and medium-sized U.S. exporters with greater certainty that local costs support would generally be available provided that the local costs are linked to the U.S. exporter's ability to secure the export sale. While local costs support may be more widely available, the dollar volume of local costs support has decreased. This decrease may be attributed to the fact that the requested amounts of local costs support tend to be for less than the maximum amount allowable (i.e., less than 15% of the U.S. export value).

Figure 29: Recent Trends in Ex-Im Bank Local Costs Support

	Authorizations	2000	2001	2002	2003
Total medium- and long-term activity	Export value (\$MM)	\$9,455	\$7,109	\$8,212	\$8,386
	Number of transactions	267	227	222	232
Medium- and long-term activity containing local costs	Number of transactions	11	18	31	34
	Percentage of total number of transactions	4%	8%	14%	15%
Local costs	Volume (\$MM)	\$183	\$192	\$213	\$101
	Percentage of total medium- and long-term activity	2%	3%	3%	1%

### Exporter and Lender Survey Results

Overwhelmingly, survey respondents indicated that the Bank's local costs policy in 2003 was comparable to or more competitive than those of its counterparts. Exporters and lenders alike indicated that Ex-Im Bank's local costs policy for long-term transactions that "automatically offer local costs has helped us win bids." Thus, Ex-Im Bank's local costs policy was found to have a positive impact on Ex-Im Bank's competitiveness.

### Conclusion

Based on both comparative information regarding our G-7 ECA counterparts and on the exporting community's actual experience with Ex-Im Bank's revised local costs policy, Ex-Im Bank is considered to be fully competitive with the best ECAs in its local costs support. Thus, the local costs policy has a positive impact on the Bank's competitiveness.