

## **Appendix A: G-7 Official Export Credit Institutions**

### **INTRODUCTION**

This section provides both quantitative and qualitative information on the G-7 export credit institutions. As mentioned in the introduction to this report, Ex-Im Bank focuses on the G-7 because, collectively, these countries have provided on average 80% of OECD medium- and long-term export credits in the past decade. In addition, medium- and long-term export credits are the key products with which to compare Ex-Im Bank performance, because such activity supports predominantly capital goods export transactions (where there is a substantial possibility of international competition).

A straight numerical comparison of G-7 ECA activity is challenging for a number of reasons. First, differing national philosophies regarding official market intervention, as well as differing government systems, lead to a variety of structures for official export credit programs. For example, official export credits may be provided via an independent government agency, through a private insurance company as directed by a government ministry or through a unit of a government ministry. In addition, some government institutions that provide export credits on “market” terms primarily to developed country buyers may mix their market window data, which is not comparable to Ex-Im Bank activity, with their official window data. Second, different national philosophies regarding transparency pose obstacles to obtaining useful data.

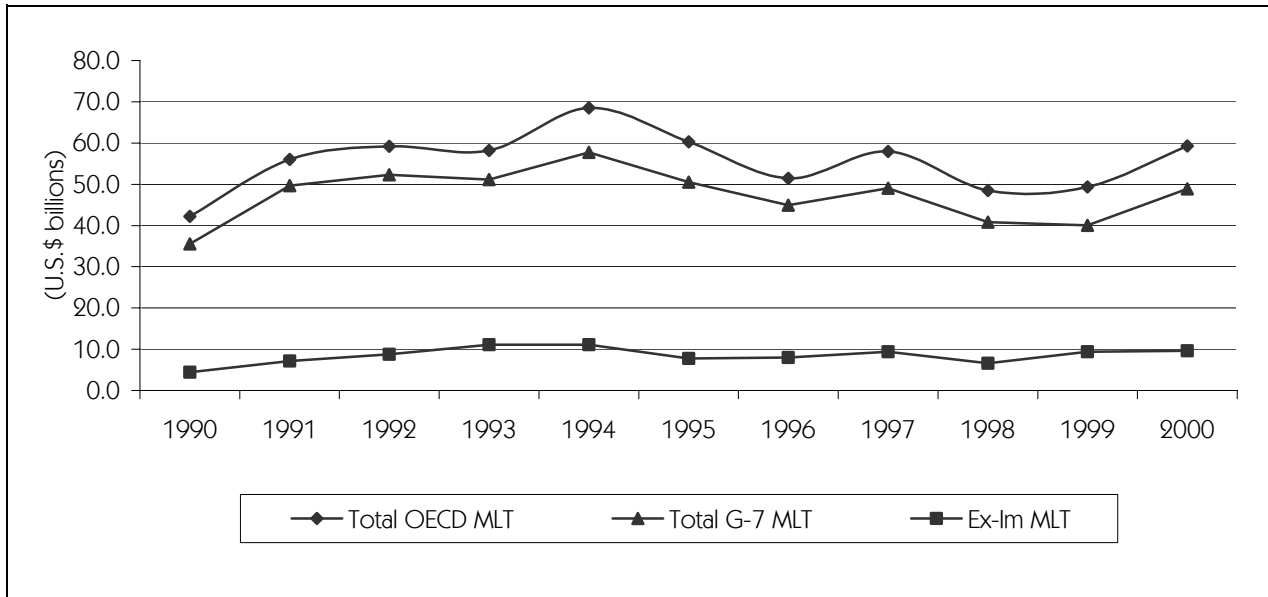
Nonetheless, this appendix provides as detailed information as possible on G-7 official export credit programs. The first section of this Appendix aggregates historical data on G-7 ECAs. The second section provides fact sheets on each of the other G-7 export credit programs, describing the national export credit structures and extracting medium- and long-term (MLT) export credit data from total business results to highlight the figures that are most comparable to Ex-Im Bank activity.

### **AGGREGATED DATA**

A review of the 1990-2001 activity levels of the G-7 official export credit programs, and the OECD member programs as a whole, shows (as illustrated in **Figure A1**) a rather flat activity level in official medium- and long-term business since 1994. Given the growth in exports from these countries, this stagnation in activity may have many causes within the global economy, but there were three quite intentional steps taken by members of the OECD that contributed. First, the 1994 completion of the CIRR system, which replaced subsidized interest rates, greatly reduced the attractiveness of officially supported loans. Second, the 1991 Helsinki disciplines on tied aid have reduced tied aid provided by countries other than Japan; most of this non-Japanese tied aid was in the form of mixed credits, i.e., a grant portion coupled with a standard export credit portion, the standard export credit part of which would be included in the data above. Finally, the 1999 introduction of minimum sovereign exposure fees has set a floor on exposure fees, which have greatly reduced the subsidization of risk. All of these reductions in subsidies

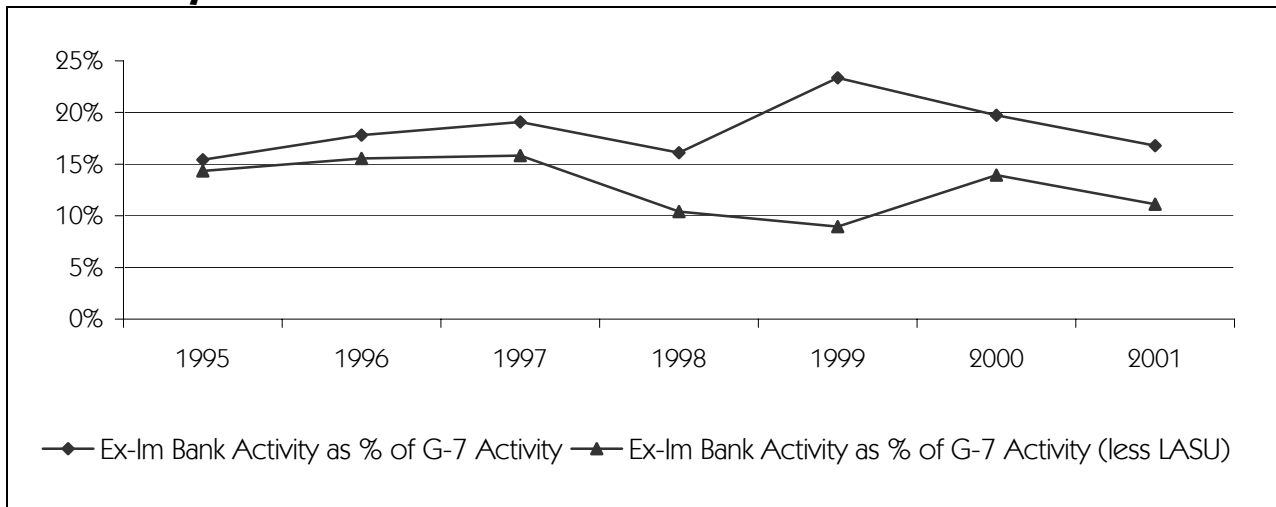
have effectively “de-linked” ECA activity from global trade trends, allowing substantial volumes of business to move away from official ECA to other sources of private financing.

**FIGURE A1: NEW MEDIUM- AND LONG-TERM OFFICIAL EXPORT CREDITS**



Whatever combination of influences is keeping aggregate volumes stable may also be working to keep “Ex-Im Bank’s market share” fairly stable, which has shifted slightly up when including large aircraft (LASU) business and slipping downward without large aircraft business, as can be seen in Figure A2<sup>1</sup>.

**FIGURE A2: EX-IM BANK PERCENT OF G-7 MEDIUM- AND LONG-TERM ACTIVITY With/Without LASU Activity**



<sup>1</sup> The spike in activity in 1999 is due to a single multi-billion dollar aircraft transaction. Had this transaction been handled by the private market as originally planned, prior to a contraction in the commercial bank market following the Asia crisis, the curve would have been more consistent with the trend line.

**Figure A3** provides an abridged breakdown by G-7 ECA of the data provided above in **Figure A1**. Japan, Germany and France tend to be the dominant providers of medium- and long-term export credits. The growth in Canada's activity levels is due to EDC's increased market window activity. A large portion of the German, French and U.S. activity is attributable to large aircraft business.

**Figure A3: G-7 New Medium- And Long-Term Official Export Credits (U.S.\$ BN)**

	1990	1995	1996	1997	1998	1999	2000	2001*
Canada	2.0	1.9	2.8	4.9	4.5	3.7	4.8	5.3
France	7.6	10.5	6.6	6.6	8.4	5.4	4.5	6.3
Germany	7.2	9.8	13.6	11.3	8.3	6.7	10.1	4.2
Italy	6.3	3.3	1.2	1.7	1.0	1.6	3.2	2.3
Japan	4.7	13.7	10.2	11.3	8.8	8.0	10.8	12.4
U.K.	3.3	3.5	2.5	3.8	3.2	5.2	5.8	3.3
U.S.	4.4	7.8	8.0	9.4	6.6	9.4	9.6	6.8
Total G-7	35.6	50.5	44.9	49.0	40.8	40.0	48.8	40.4
U.S. % G-7	12.5%	15.3%	17.8%	19.2%	16.1%	23.4%	19.7%	16.8%
Total OECD	42.2	60.3	51.4	58.0	48.5	49.3	59.3	NA

\* Preliminary results

## CANADA

### Institutional Component(s) of Official Export Credit Program

- ◆ Export Development Canada (EDC): independent bank-like governmental institution

#### Description

EDC is a "Crown Corporation", (i.e., a government entity that operates on private sector principles) that operates autonomously within the Canadian government and is financially self-sustaining. In addition to providing official export credit support, EDC also offers such domestic products as contract insurance and bonding. Reflecting the dominance of the market window approach, almost all of EDC's medium- and long-term activity is done with direct loans.

EDC's export credit business falls into two accounts, the Corporate Account and the Canada Account. The bulk of its business is done under the Corporate Account, for which it raises funds directly in the global and Canadian capital markets. These transactions are structured according to either Arrangement terms or market window, i.e., not on Arrangement terms. "National interest" transactions that cannot be structured on private market terms are done under the Canada Account, which is funded through appropriations from the Canadian government. EDC does not publicly provide information comparing Arrangement versus market window business volumes transacted; evidence suggests that approximately 90% of EDC's export credit business is done through the market window, most of which is directed to higher income countries.

<b>EDC's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Brazil	6%
France	1%
Mexico	10%
UK	3%
United States	58%

## **FRANCE**

### **Institutional Component(s) of Official Export Credit Program**

- ◆ **Compagnie Française d'Assurance pour le Commerce Extérieur (Coface):** private credit insurer that provides official export credits on behalf of the French government
- ◆ **Direction des Relations Economiques Extérieures (DREE):** French government office responsible for export credit policy

### **Description**

Coface, formerly a state-owned enterprise, is one of the largest private export credit insurance companies globally. In addition to short-term insurance and other services it provides as a private company, Coface administers official export credit insurance on behalf of the French government.

DREE is the office of the French government that is responsible for framing government export credit policy and coordinating official assistance. In addition to export credit support, which it channels through Coface, DREE also provides such services as trade promotion and investment insurance. DREE is overseen by a committee comprised of, *inter alia*, representatives from the Ministry of Economic Affairs and Finance, the Ministry of Foreign Affairs and Coface.

<b>Coface's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Algeria	9%
Iran	9%
Liberia	16%
Mexico	7%
United States	13%

## **GERMANY**

### **Institutional Component(s) of Official Export Credit Program**

- ◆ **Hermes Kreditversicherungs AG (Hermes):** private credit insurer that provides official export credits on behalf of the German government

- ◆ **Ministry of Economics and Technology:** German government ministry that oversees export credit policy
- ◆ **Kreditanstalt für Wiederaufbau (KfW):** public financial institution responsible for German economic development

### **Description**

Hermes, a private sector insurance company, provides official export credit support on behalf of the German government in consortium with a quasi-public company. Hermes is responsible for the export credit support, while its consortium partner handles investment insurance. Hermes provides short-term export insurance on its own account while serving as a mechanism through which the German government extends its official export credit support.

Like France's official export credit system, the German federal government provides funds for and directs official export credit policy, while a private company provides the front-end administration of the program. Germany's Ministry of Economics and Technology chairs the Interministerial Committee, which is responsible for major credit decisions and basic policy issues. Also serving on the committee are the Ministry of Finance, the Ministry for Economic Cooperation and Development, the Foreign Office, Hermes and KfW, among others.

KfW is a financial institution that is owned by the German government (80%) and the federal states (20%). 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 that does business on Arrangement terms. Funds for the former are raised on the German and international capital markets, while the government window receives allocations from the federal budget through a vestige of the Marshall Plan.

<b>Hermes's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Bermuda	15%
Brazil	13%
China	8%
South Africa	26%
Turkey	33%

## **ITALY**

### **Institutional Component(s) of Official Export Credit Program**

- ◆ **Istituto Per I Servizi Assicurativi Del Credito all'Esportazione (SACE):** independent bank-like governmental institution
- ◆ **Società Italiana per le Imprese all'Estero S.p.A. (SIMEST):** semi-public development finance institution

## Description

SACE is a public company with its own operational authority, although its Board of Directors is comprised of representatives from other government ministries. SACE may occasionally receive allocations from the state, but it is largely a self-sufficient institution. In addition to export credit products, it also provides investment insurance.

SIMEST is a development finance institution, 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. Among its responsibilities, which include direct investment, SIMEST provides interest rate support to commercial banks in order to achieve CIRR. No Italian public institution provides direct export finance; thus, official support for export loans comes in the form of interest make-up. Interest make-up support will only be granted for transactions that are covered by SACE; hence, only data from SACE are provided below.

<b>SACE's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Argentina	4%
Iran	18%
Romania	2%
Russia	17%
South Africa	3%

## JAPAN

### Institutional Component(s) of Official Export Credit Program

- ◆ **Nippon Export and Investment Insurance (NEXI):** independent governmental institution responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI)
- ◆ **Japan Bank for International Cooperation (JBIC):** unit of the Japanese Ministry of Finance that provides official export credit loans

## Description

NEXI, established April 1, 2001, is a government institution that provides official export credit support in the form of short- to long-term insurance for exports and projects, in addition to other services. Formerly the Export Insurance Division of the Ministry of International Trade and Industry (EID/MITI), the group was spun off from MITI, which has been renamed the Ministry of Economy, Trade and Industry (METI). Now an "Independent Administrative Institute", NEXI manages trade and investment insurance programs and maintains its own capital base while being 95% reinsured by 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.

JBIC is a government bank that falls under the Ministry of Finance and is divided into two operations: International Financial Operations, which manages, *inter alia*, export credit programs; and Overseas Economic Cooperation Operations, which manages Japan's aid programs. In its capacity as an export credit agency, JBIC provides direct loans in combination with commercial bank financing. In addition, JBIC provides tied and untied aid, as well as direct investment and import credits. JBIC receives appropriations from the state and borrows directly from the domestic and international capital markets.

<b>Japan's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Bermuda	9%
Korea	9%
China	11%
Taiwan	6%
United States	14%

## **UNITED KINGDOM**

### **Institutional Component(s) of Official Export Credit Program**

- ◆ **Export Credits Guarantee Department (ECGD):** separate governmental institution

#### **Description**

ECGD is a separate department of the U.K. government although it is responsible to the Secretary of State for Trade and Industry and consults the Treasury department on certain cases. ECGD provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions. In addition to investment insurance, it also provides re-insurance support to supplement the private sector's provision of short-term export credit. ECGD receives funding from, and invests its cash surpluses in, the UK Consolidated Fund. Its prime income sources are from premium charges.

<b>ECGD's Top Export Markets for New Medium- and Long-Term Commitments in 2000</b>	
Malaysia	3%
Saudi Arabia	17%
South Africa	28%
Turkey	8%
United States	4%

## **Appendix B: Exporter and Bank Survey Overview and Methodology**

### **INTRODUCTION**

Every year, as mandated by Congress, Ex-Im Bank conducts a survey of exporters and banks that have experience with Ex-Im Bank and competitor ECAs. This survey is a vital part of the *Competitiveness Report*, as it encourages respondents to compare Ex-Im Bank's policies and programs against those of the other G-7 ECAs. With this information, Ex-Im Bank can better evaluate its competitiveness. Exporters and banks selected for this survey were among the "Top 100" users of Ex-Im Bank programs for 2001, based on total yearly authorizations and the total number of transactions. In addition, this year's survey was revised to reflect policy and procedural changes and to elicit different responses by asking older questions in new ways.

### **Survey**

Ex-Im Bank's revised survey consisted of five parts, seeking information in 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 supported by other ECAs, in addition to reasons for approaching Ex-Im Bank for support.

Part 3: Respondent ratings of and comments on Ex-Im Bank's competitiveness with foreign ECAs in two major areas:

- ◆ Cost of financing: fees and interest rates
- ◆ Non-cost policies: environment, content requirements, co-financing, local costs support, cover policy, and tied aid policy.

Part 4: Additional comments.

Part 5: Specific instances of competition faced as a result of the above policies.

### **Participant Selection**

To establish 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 2001;
- ◆ Faced officially supported competition in their sale; and
- ◆ Were knowledgeable about both Ex-Im Bank and foreign ECA programs and practices.



## SURVEY RESULTS

### Overall

**Figure B-1** highlights the response rate for survey participants. The bank respondent rate was slightly higher than in 2000. Of Ex-Im Bank's top ten bank users by dollar volume, only four responded. Exporters had a much better response rate (76%), although fewer were surveyed this year due to the high number of exporters who used Ex-Im Bank only once in 2001 and/or who do not use Ex-Im Bank frequently enough to be able to comment on programs and policies.

**Figure B-1: Survey Response Rate**

	Banks		Exporters	
	2000	2001	2000	2001
Number Surveyed	31	30	29	17
Number Responding	14	16	12	13
Response Rate	45%	53%	41%	76%

### Banks

The majority of bank respondents were regional banks. Of the remainder, five were foreign, and only one large U.S. bank responded. As **Figure B-2** shows, experience with trade finance in the respondent group spans a spectrum from a few relative newcomers to several very experienced institutions.

**Figure B-2: Banker Experience Levels**

	1-3 years	4-10 years	11-20 years	20+ years
Time in Business	1	1	2	12
Time in Trade Finance	1	5	2	8

Eleven of the 16 participating banks at one point received support from another ECA, while 14 of the 16 experienced some competition supported by other ECAs. The participating banks could be broken into three general groups in terms of experience with other ECAs. Six of the banks, all of which were large and/or foreign-owned, frequently used other ECA support in 2001 in addition to seeing competition supported by other G-7 ECAs on a semi-frequent basis. The second group of five middle market banks occasionally made use of another G-7 ECA's programs, Canada's EDC being the most frequently cited, and saw foreign ECA-supported business from time to time. The third group, which was comprised of three middle market banks and two foreign banks, reported that they never used other ECA support in 2001; while two of these banks saw no competition supported by other ECAs, the other three occasionally did. When asked why banks approached Ex-Im Bank for support, the number one reason by far was lack of market financing in a given market, with Latin America often referenced. The distant second reason in terms of frequency of mention was the existence of official ECA competition, although two banks often approached Ex-Im Bank for support to leverage U.S. involvement.

As **Figure B-3** shows, respondent levels of Ex-Im Bank supported trade finance business spanned the available range, with most of the lenders reporting between \$10 million and \$100 million. Ten of the respondents reported that their level of export/trade finance had increased relative to 2000, while one reported such business was the same and five reported lower levels.

**Figure B-3: Total 2001 Export Credit Business**

Sales Category	Volume (\$MM)			
	<10	10 – 100	100 – 1000	>1000
2001 Total Export Finance Credit Extended	-	5	5	6
2001 Total Ex-Im Bank Supported Export Finance Credit Extended	-	11	5	-

### Exporters

Exporter respondents to Ex-Im Bank's competitiveness survey are predominantly large multinational corporations that, as **Figure B-4** shows, have had extensive experience with exporting. Two of the smaller respondents, however, have only recently entered the export business.

**Figure B-4: Exporter Experience Levels**

	1-3 years	4-10 years	11-20 years	20+ years
Time in Business	1	-	1	11
Time in Exporting	2	-	-	11

Respondents' many years in the exporting business corresponds with their experience both in receiving support from and facing competition supported by the other G-7 ECAs. In fact, only two of the respondents never receive support from other ECAs, although they did report frequently meeting ECA-supported competition. Of the ECAs from which exporters often sought support, Germany was the most frequently cited, followed closely by Canada and the United Kingdom. Japan and France tied as the ECAs that most frequently provided support for exporters' competitors, although Canada and the United Kingdom again followed closely. The ECAs from which exporter respondents sought support were often the same ECAs reported as frequently providing competition for the same exporters. Not surprisingly, exporters based in foreign countries often seek support from their home country ECA.

Exporters provided a broader range of reasons than did banks for applying for support from Ex-Im Bank. Lack of market financing in emerging markets – with Russia mentioned most – was the most frequently listed reason for seeking Ex-Im Bank support; however, the 12 exporters listing that reason often weighted it equally with other reasons. Nine exporters stated that they come to Ex-Im Bank when ECA-supported competition exists, while six stated that they will sometimes approach Ex-Im Bank for support seeking U.S. government leverage in a project. Two exporters wrote that they apply for Ex-Im Bank financing because their customers request it. Other reasons given were familiarity with Ex-Im Bank and U.S. suppliers, cost of financing and U.S. origin of goods.

As shown in **Figure B-5**, the bulk of exporter respondents reported export sales and total sales in excess of \$1 billion. Four exporters experienced higher export sales in 2001 than they did in 2000, while five reported lower sales.

**Figure B-5: Total 2001 Sales**

Sales Category	Volume (\$MM)			
	<10	10 – 100	100 – 1000	>1000
2001 Total Sales	1	1	-	11
2001 Total Export Sales	1	1	2	9

## **Appendix C: Progress Towards Reducing Government Supported Export Credit Subsidies**

### **INTRODUCTION**

The fundamental rationale for Ex-Im Bank's existence is to try to ensure that a level playing field exists for U.S. exporters who face competitors backed by official export credit finance support from their respective governments. With respect to this "*raison d'être*", Ex-Im Bank has two major avenues of action at its disposal.

First, through its financial support, Ex-Im Bank enables U.S. exporters to successfully compete for sales of high value-added capital goods and equipment and highly skilled services in emerging markets. Working within budgetary and personnel constraints, Ex-Im Bank leverages its resources to the fullest extent possible. Nonetheless, Ex-Im Bank cannot neutralize every competitor's best offer on every deal, and should there be no "rules of engagement," Ex-Im Bank would quickly be overwhelmed by the aggregate weight of the competition, who are all actively engaged in "picking winners" and "promoting" exports. 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 role of the private sector is minimized (i.e., "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 second avenue: the negotiation table. Since the inception of the "Consensus" on official export credits in 1976 (the precursor to the OECD Arrangement established in 1978) among a small but important group of competing industrialized nations, the United States and the OECD as a whole have now been able to achieve significant reductions in foreign export credit subsidies in a number of areas, including interest rates, tied aid and the large commercial aircraft sector, thus reducing the potential volume of subsidized transactions that would need to be neutralized and creating more room for the private sector to operate.

With respect to official export credit interest rates, the negotiations have yielded a system that requires ECAs to charge rates that are a full percentage point above the government's cost of funds. This means that today there are no losses as a result of the spread on interest rates charged on Ex-Im Bank loans, whereas in the early 1980s (when Ex-Im Bank was forced to lend at rates which were far below the rates at which it had to borrow) Ex-Im Bank experienced losses of \$50-\$100 million for every \$1 billion loaned. Moreover, the elimination of ECA lending at below-market rates allows for a greater role for private market sources of export finance.

The tied aid story is characterized by success of a similar magnitude. As a result of the negotiation of the Helsinki tied aid rules in 1991, the volume of trade-distorting tied aid offers for commercially viable projects has decreased by more than 50% of pre-Helsinki levels. This tremendous decrease in the universe of tied aid offers that Ex-Im Bank might need to match increases the potential leverage of Ex-Im Bank Tied Aid Capital Projects Fund.

## **OFFICIAL EXPORT CREDIT NEGOTIATIONS – KEY 2001 DEVELOPMENTS**

The process of adopting multilateral rules to eliminate official export credit subsidies and level the playing field 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, the following developments were witnessed in calendar year 2001.

### **Standard Official Export Credits**

#### **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 CIRR 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 2001. 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.

Nonetheless, substantial work and discussion took place concerning the creation of a floating rate CIRR. This issue arose in 2000 as part of the WTO dispute between Canada and Brazil over export credit support for regional aircraft. In the Canada/Brazil cases, the WTO held that, under the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement), 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 floating rate lending by ECAs.

During 2001, the Participants, following substantial technical work, held several discussions on the creation of a floating rate CIRR. However, due to a substantial philosophical difference on whether the minimum official interest rates (the current fixed and possible floating CIRRs) should also be minimum interest rates for commercial lending under pure cover programs (insurance and guarantees), there is the recognition that further work in this area by the Participants to the Arrangement is virtually impossible. Thus, work on a floating rate CIRR is not expected to progress beyond stage 1 for the foreseeable future.

### **Market Windows**

A related topic usually considered part of the interest rate subject, the so-called "market-windows" discussions, continued to make no progress in 2001. 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. The Participants with major market windows (Canada and Germany) have made it abundantly clear that they have no interest in pursuing any transparency or disciplines for market windows. In this context, the market windows issue has not even reached stage 1.

### **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 were subjected to its disciplines. In the past these charges varied tremendously between ECAs in any given market.

Since the implementation of this package, negotiations have focused on transparency and the early stages of feedback on the new system to check whether the assumptions and agreed fees are appropriate. Thus, the fee negotiations have achieved stage 3. Going forward into 2002, technical negotiations on premia agreement implementation and follow-up will continue.

### **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. As is the case for standard official export transactions, LASU does not 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. However, there have been no significant discussions between the European ECAs and Ex-Im Bank for several years regarding modifications to the LASU.

Reopening the LASU requires agreement by both the U.S. and European negotiators, neither of which has formally requested a new round of negotiations. In the meantime, Ex-Im Bank will continue to aggressively explore options that provide U.S. aerospace exporters with financing terms and conditions that are competitive with financing provided by the European ECAs. Thus, this issue remains stalled in stage 4.

### **Tied/Untied Aid**

A decade of implementation of the Helsinki tied aid rules and their general success in reducing trade related tied aid mean that these rules are at the beginning of stage 4. Last year this report noted a disturbing trend that began in 1997 with the reemergence of Japanese untied aid (from \$0 in 1994 to near \$4 billion in 2000). This trend raised the concern that trade related tied aid may again become a major competitive problem. However, Japan's untied aid dropped by about one third in 2001 to \$2.6 billion. In addition, Japan's tied aid dropped over 50% from \$3.9 billion to \$1.9 billion. The preliminary consensus is that these drops are due primarily to budgetary pressures. Next year's report will be better able to tell whether this is a one year change or the beginning of a new trend.

In 2001, 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.

In addition, the untied aid negotiations seek to encompass the related, trade-distorting practice of "associated financing" that has been the subject of stalled negotiations for some time. Associated financing refers to tied concessional financing for engineering and design work and

for procurement-related technical assistance. The United States sought for years to have this type of financing subject to the tied aid rules, 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. Both associated financing and *de facto* tied untied aid undermine the intent of the Helsinki disciplines to reduce trade distorting tied aid and raise significant competitive concerns. Discussions on extending the Helsinki disciplines to untied aid continued during 2001 with little progress. Untied aid discussions have therefore still not yet reached stage 1.

### **Unproductive Expenditure (HIPC)**

In June 2001, the Working Party on Export Credits and Credit Guarantees (ECG) finalized a statement of principles on unproductive expenditure to highly indebted poor countries (HIPCs). The Principles respond to calls from the OECD and G-8 Ministers to strengthen measures towards ensuring that export credit support to the HIPCs is not used for unproductive purposes. Thus, non-essential capital goods and projects that do not contribute to the social and/or economic development of HIPC nations, but have the effect of increasing their debt burdens, should not benefit from OECD governments' support. The Principles are consistent with both the efforts in OECD countries to ensure that trade and sustainable developmental policies are complementary and with the World Bank-led HIPC Initiative which attempts to lower the debts of the poor countries to sustainable levels.

### **Environment**

During 2001, the negotiations within the ECG on common environmental guidelines reached a climax. With the exception of the United States and one other country (for totally different reasons), the other 24 members of the ECG were ready to agree to the current text of an agreement on common approaches to the environment. The United States was unwilling to agree to the current text because it failed to provide sufficient *ex ante* transparency with regard to sensitive projects and because it failed to require the use of international environmental standards (e.g., World Bank) as a minimum set of standards rather than as a benchmark. Nonetheless, those members willing to accept the current text unilaterally agreed to voluntarily implement the draft common approaches as of January 1, 2002.

The United States has two major goals in these negotiations. One is to establish common rules of engagement so that a level playing field is maintained among competing exporters backed by their respective ECAs. The other is 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. Other ECAs, however, are not yet comfortable with the detailed rules and criteria that would narrow the differences among ECAs with respect to environmental reviews.

Thus, the environment negotiations have proceeded to a temporary standstill on the text of an agreement. However, discussions on this issue will continue in 2002, focusing on the technical issues of implementation by those members who have voluntarily decided to unilaterally implement the current draft proposal.



**CONCLUSION**

In 2001, the OECD's work was predominantly focused on progressing the issues of a floating rate CIRR, tied/untied aid, unproductive expenditure and environment, while continuing maintenance work on the exposure fee agreement. With the exception of unproductive expenditure and the environment, little progress is being made on these issues.

## Appendix D: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions\* In 2001

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Algeria	Large Aircraft	\$265,000,000	16%	****
Algeria	Oil and Gas Production	\$55,893,332	8%	\$939,061
Argentina	Supermarket	\$1,920,403	11%	\$16,632
Argentina	Solar Energy Sets	\$1,087,193	37%	\$10,168
Austria	Large Aircraft	\$161,812,811	12%	\$882,331
Brazil	Circuit Board Assembly System	\$1,065,000	18%	\$12,125
Brazil	Video Editing/Production Equipment	\$497,690	11%	\$4,140
Brazil	Power Plant	\$76,927,000	12%	\$2,018,191
Brazil	Power Plant	\$77,093,000	12%	\$2,017,029
Brazil	Electronic Channel Counter	\$308,096	10%	\$812
Brazil	Power Plant	\$31,523,848	16%	\$346,241
Brazil	Polyethylene Plant	\$150,435,000	9%	\$186,612
Brazil	Gas Turbines	\$136,572,062	13%	\$2,115,478
Chile	Large Aircraft	\$175,000,000	9%	\$1,328,169
China (Mainland)	Large Aircraft	\$78,332,535	9%	\$161,561
China (Mainland)	Large Aircraft	\$282,345,758	14%	\$913,837
Dominican Republic	Hospital Project	\$9,200,000	13%	\$103,541
Dominican Republic	New Hotel Resort	\$2,500,000	11%	\$21,737
Dominican Republic	Patrol Boats	\$23,834,087	3%	\$97,341
Dominican Republic	National Road Network Toll Extension	\$28,430,000	15%	\$727,234
Dominican Republic	Government Housing Projects	\$85,487,954	6%	\$1,146,073
Egypt	Steel Slitting System	\$1,480,000	5%	\$3,073
Ghana	Solar Power Generation	\$4,820,000	3%	\$387,776
Ghana	Road Construction	\$799,972	5%	\$3,277
Ghana	Produce Transport	\$934,350	15%	\$11,106
India	Large Aircraft	\$395,000,000	14%	\$6,449,881
India	Gas Turbine Engine	\$5,800,000	18%	\$28,341
Indonesia	Police Protection Equipment	\$3,510,000	10%	\$62,330
Indonesia	Seafarer Training Facilities	\$53,800,000	5%	\$2,318,499
Ireland	Large Aircraft	\$162,000,000	13%	\$593,141
Ireland	Large Aircraft	\$170,000,000	13%	\$115,474
Kazakhstan	Iron Ore and Manganese Mining	\$4,774,195	11%	\$14,502

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Republic of Korea	Large Aircraft	\$757,258,874	7%	\$7,963,671
Lebanon	Landfill Reclamation	\$15,832,573	3%	\$143,165
Federation of Malaysia	Semiconductor Plant	\$24,000,000	12%	\$1,720,599
Mexico	Disposable Diaper Manufacturing Plant	\$16,818,600	7%	\$17,596
Mexico	Transmitters and Electronic Equipment	\$2,404,267	8%	\$6,585
Mexico	Screen Printing and Image Setting	\$219,836	22%	\$966
Mexico	Two Power Plants	\$97,996,523	12%	\$973,750
Mexico	Oilfield Service Equipment and Parts	\$145,050,433	4%	\$296,920
Mexico	Oilfield Production Enhancement	\$335,336,034	4%	\$590,400
Mexico	Cable Television Equipment	\$1,500,000	15%	\$3,919
Nigeria	Oilfield Service and Support	\$6,071,057	13%	\$104,393
Peru	Grain Storage Conveyers and Accessories	\$837,338	10%	\$13,798
Romania	Patient Monitors and Medical Equipment	\$35,780,532	6%	\$210,875
Romania	Patient Monitors and Medical Equipment	\$23,007,193	11%	\$339,707
Romania	Large Aircraft	\$81,373,250	15%	\$1,200,659
Romania	Automatic Building Machine	\$769,216	1%	\$809
Russia	Refrigeration Units Manufacturing Facility	\$47,589,200	5%	\$640,714
Russia	Medical Equipment	\$41,176,471	2%	\$198,538
Senegal	Produce Refrigeration Equipment	\$498,622	12%	\$7,765
Senegal	Heavy Construction	\$843,375	6%	\$7,045
Senegal	Road, Bridge, Water System Construction	\$1,112,129	3%	\$5,166
South Africa	Large Aircraft	\$311,916,432	13%	\$5,791,350
Thailand	Large Aircraft	\$249,278,701	13%	\$2,049,938
Thailand	Asphalt Road Paving	\$1,135,854	1%	\$609
Turkey	Automobile Seat Manufacturing	\$450,000	15%	\$8,811
Turkey	Gas Power Plant	\$10,000,000	5%	\$63,086
Turkey	Gas Turbines	\$22,956,415	14%	\$427,564
Turkey	Medical Therapy Equipment	\$1,176,460	11%	\$17,251

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Turkey	Light Duty Helicopters	\$23,681,381	1%	\$19,195
Turkey	Large Aircraft	\$80,040,000	13%	\$1,178,910
Uzbekistan	Agricultural Harvesting	\$32,666,400	7%	\$335,880
Venezuela	Wastewater Treatment and Sewage Project	\$8,416,721	10%	\$160,908
Venezuela	Wastewater Treatment and Sewage Project	\$11,035,257	10%	\$221,249
Venezuela	Patrol Boats with Trailers	\$8,318,737	5%	\$5,715
Venezuela	Engineering and Procurement Services	\$15,294,118	14%	\$231,848
Venezuela	Heavy Oil Upgrading	\$503,561,000	17%	\$17,406,492
Venezuela	Rehabilitation of Power Plants	\$29,410,688	15%	\$445,766
Venezuela	Water Purification Equipment	\$6,119,305	5%	\$9,044
Venezuela	Water Purification Equipment	\$2,044,577	5%	\$3,053
Venezuela	Procurement Services	\$3,139,443	15%	\$43,167
Venezuela	Hydroelectric Power Production	\$49,686,698	15%	\$971,325
Venezuela	Curbing and Construction Equipment	\$3,253,472	15%	\$53,810
Venezuela	Aircraft Instrumentation	\$7,000,000	1%	****
Venezuela	Engine Repair Services	\$6,000,000	2%	****
Venezuela	Aircraft Parts and Components	\$8,500,000	1%	****
Venezuela	Light Rail System	\$29,187,684	8%	\$319,980
Venezuela	Transport Barges	\$30,955,247	8%	\$9,839
Venezuela	Transport Barges	\$1,995,378	1%	****
<b>Total</b>		<b>\$631,151,938</b>	<b>11%</b>	<b>\$67,257,541</b>

\*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 E: 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 1997 by P.L. 105-121, 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 areas including international terrorism, nuclear proliferation, 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 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 F: 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 2001, Ex-Im Bank has not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

## **Appendix G: The Trade Promotion Coordinating Committee**

The Trade Promotion Coordinating Committee (TPCC) is an interagency committee consisting of 19 U.S. Government agencies<sup>1</sup>. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. Government export promotion activities under the leadership of the Secretary of Commerce as Chairman of the TPCC. The President and Chairman of the Export-Import Bank traditionally serves as Vice-Chairman of the TPCC.

Among the responsibilities of the TPCC is to prepare and submit to Congress an annual report that outlines the national export strategy. While no report was issued during the reporting period of this *Competitiveness Report* due to the transition in Administrations, late in 2001, the TPCC began the 2002 process by surveying and interviewing U.S. exporters to ascertain their competitive concerns. The goal was to generate practical recommendations to maximize U.S. export potential by creating programs, policies and procedures that address real obstacles to exporting so that U.S. companies can participate fully in the economic growth that trade provides. Regarding Ex-Im Bank's competitiveness, the focus of the TPCC's efforts in 2001 was the trade-distorting effect of commercially driven tied aid and *de facto* untied aid, the means by which other countries provide partial grants and/or concessional loans either alone or combined with export credits and linked to procurement from the donor country.

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<sup>1</sup> 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.

## **Appendix H: Tied Aid**

### **INTRODUCTION**

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

### **IMPLEMENTATION OF THE OECD ARRANGEMENT**

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

The Helsinki rules on minimum terms and conditions for tied aid resulted in three key disciplines for tied aid: country eligibility, i.e., no tied aid in “rich” countries; commercial viability, i.e., no tied aid for projects that can sustain financing on market or Arrangement terms; and a minimum concessional level for tied aid of 35%<sup>1</sup>.

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

### **TIED AID ELIGIBLE MARKETS**

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

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



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

### **TIED AID ELIGIBLE PROJECTS AND THE CONSULTATIONS PROCESS**

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

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

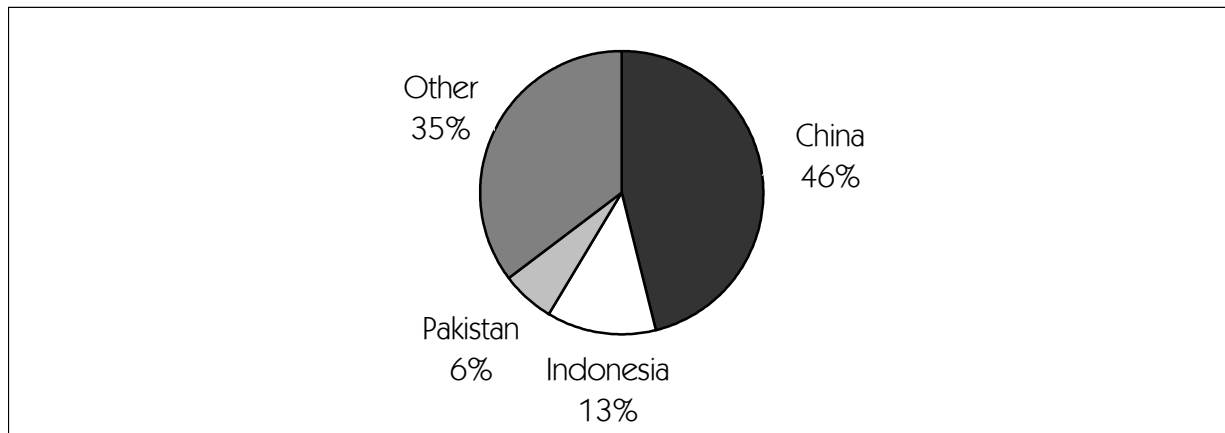
To create a forum for addressing issues related to projects that may be challenged by other governments as potentially commercially viable, the Tied Aid Consultations Group was formed, and from March 1992 to March 2002, the Consultations Group examined 128 projects, primarily those challenged by the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

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

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

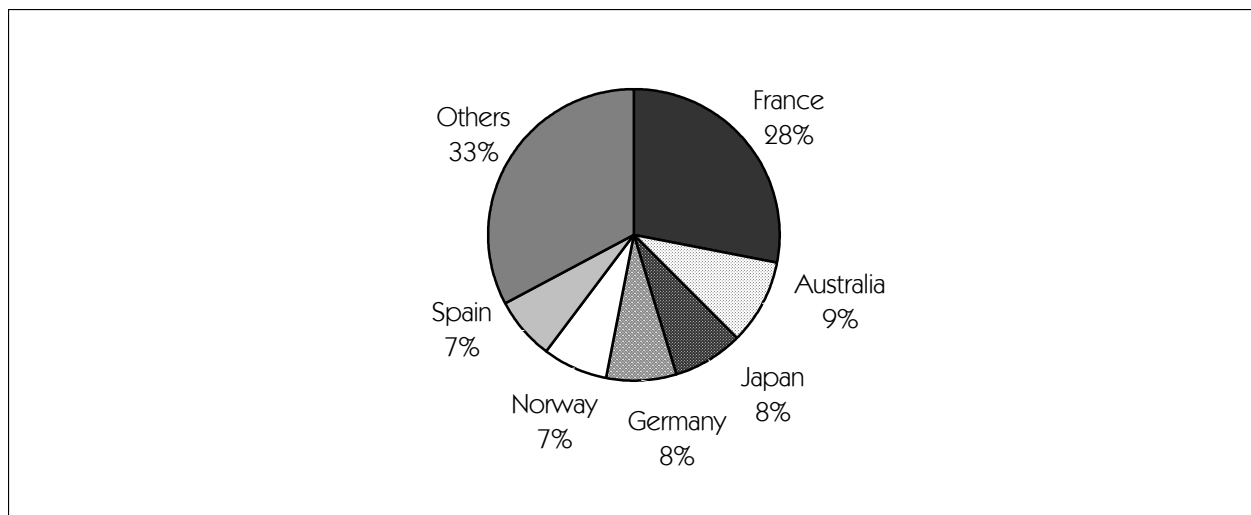
In the years following the implementation of the Helsinki rules, energy (43%), telecommunications (26%), manufacturing (16%) and transportation (13%) represented 98% of all the projects challenged and considered by the Consultations Group. Only two projects in the social services sector were challenged.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

**FIGURE H-1: CHALLENGED NOTIFICATIONS BY RECIPIENT COUNTRY**



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

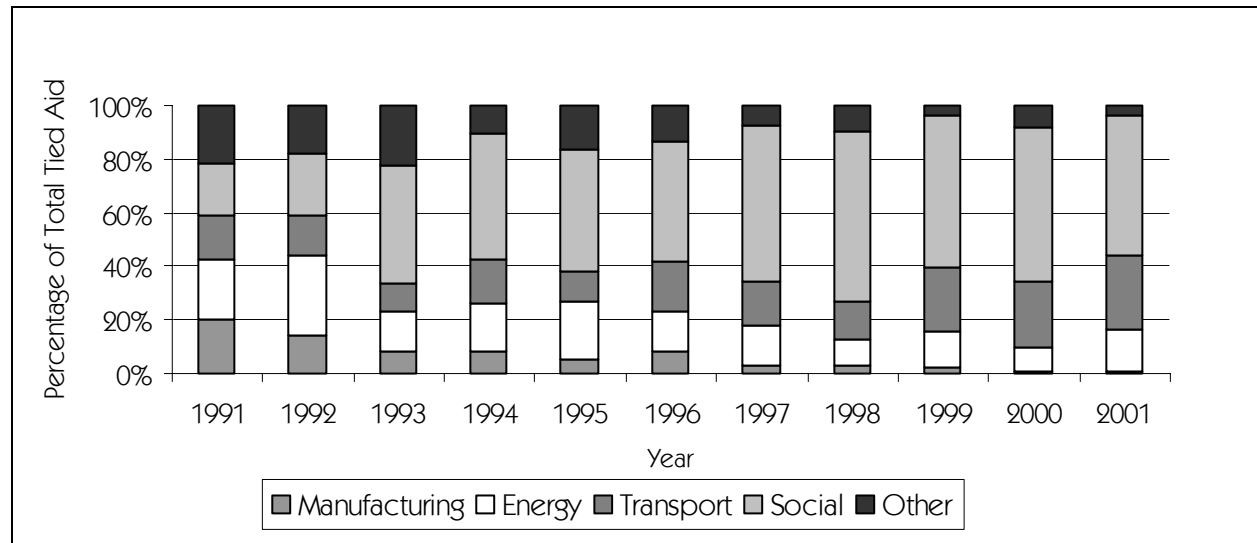
**FIGURE H-2: CHALLENGED NOTIFICATIONS BY NOTIFYING COUNTRY**



As **Figure H-3** illustrates, the Helsinki Package has profoundly impacted the sectoral distribution of tied aid credits. Prior to this package, energy and manufacturing projects

comprised over 40% of tied aid notifications; by mid-2001, the transport (e.g., subways) and social sectors accounted for nearly 80% of activity. This trend indicates that the commercially non-viable sector can support a growing level of tied aid. The types of projects notified and the decrease in the number of projects challenged suggest that the Helsinki disciplines have succeeded in encouraging donors to redirect tied aid towards commercially non-viable projects.

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



### TRENDS IN THE USE OF THE TACPF

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

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

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

From 1994 through 2000, Ex-Im Bank tried to discourage tied aid use by issuing “willingness-to-match” indications for 25 cases, of which seven saw the competing tied aid offer withdrawn, five

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

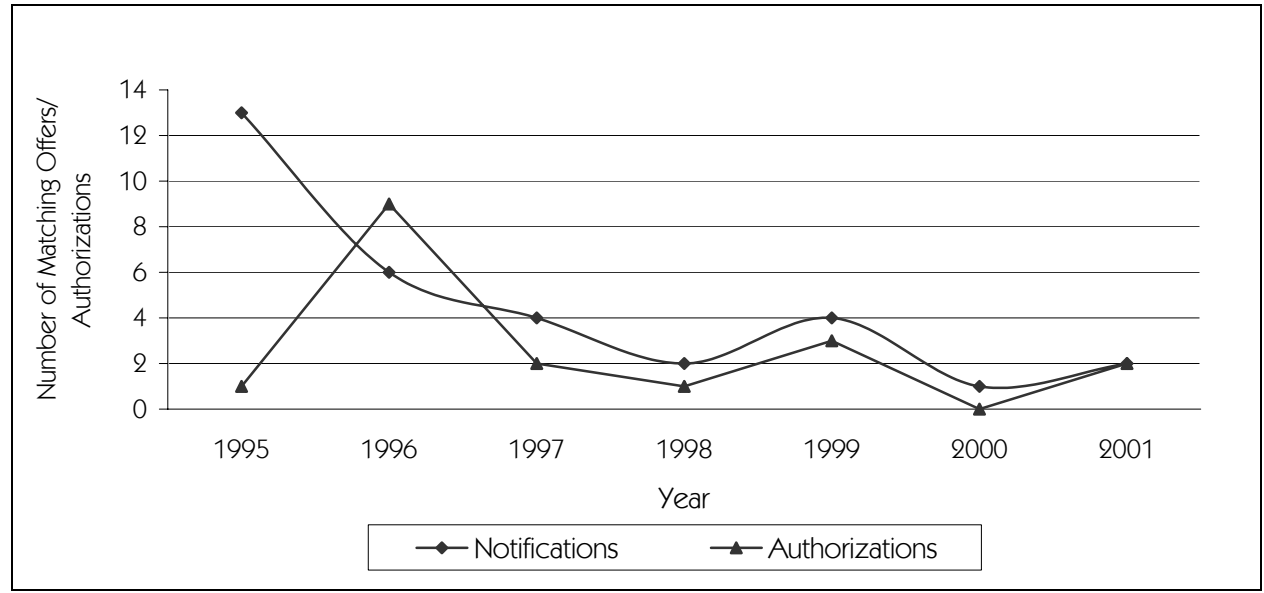
Figure H-4 shows that, of the 41 cases where Ex-Im Bank has provided matching offers, the United States has won 19 while losing 23. The one remaining case was indefinitely delayed.

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

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

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

**FIGURE H-5: U.S. TIED AID NOTIFICATIONS AND AUTHORIZATIONS BY YEAR**



### EX-IM BANK INITIATED NO AID COMMON LINES

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

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

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

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

## Appendix H: Annex 1

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

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

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

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

## Appendix H: Annex 2

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

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

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

## Appendix H: Annex 3

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	<ul style="list-style-type: none"> <li>◆ Oil-fired power plants</li> <li>◆ Gas-fired power plants</li> <li>◆ Large stand-alone hydropower plants</li> <li>◆ Retrofit pollution-control devices for power plants</li> <li>◆ Substations in urban or high-density areas</li> <li>◆ Transmission lines in urban or high-density areas</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>◆ Equipment serving interurban or long-distance communications</li> <li>◆ Telephone lines serving interurban or long-distance communications</li> <li>◆ Switching equipment serving urban or high-density areas</li> <li>◆ Radio-communications equipment serving urban or high-density areas</li> </ul>
Transportation	<ul style="list-style-type: none"> <li>◆ Air traffic control</li> <li>◆ Freight railroad operations (locomotives, cars, signaling)</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>◆ Manufacturing operations intended to be profit-making</li> <li>◆ Privately-owned manufacturing operations</li> <li>◆ Manufacturing operations with export markets</li> <li>◆ Manufacturing operations with large, country wide markets</li> </ul>



## Appendix H: Annex 4

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

**Appendix H: Annex 5**

John E. Robson  
Chairman and President

July 16, 2001

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

Dear Representative Bereuter:

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

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

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

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

## **PRINCIPLES AND GUIDANCE ON THE TIED AID WAR CHEST**

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

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

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

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

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

### **TIED AID DEFINED**

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

### **PRINCIPLES FOR USE OF THE TIED AID WAR CHEST**

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

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

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

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

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

## **IMPLEMENTATION OF WAR CHEST MATCHING POLICY**

### **Determination of Eligibility for Tied Aid Under the OECD Rules**

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

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

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

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

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

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

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

1. Ex-Im and Treasury staffs shall promptly share with each other all written materials received from exporters, other government agencies, or third parties relating to proposed or pending Ex-Im Bank tied aid transactions. In particular, Ex-Im staff shall provide Treasury staff with a copy of each tied-aid application received by Ex-Im Bank within 5 business days of receipt.
2. Within 10 business days of receiving an application or inquiry on possible tied aid use, Ex-Im staff (after consulting with Treasury staff) will contact the exporter/applicant and either provide a preliminary indication on the likelihood that the transaction would meet the parameters for tied aid use or identify specific information needed for Ex-Im and Treasury staff to provide such an indication.
3. In order to further the negotiations of improved OECD tied aid rules or enforce compliance with existing OECD rules, Treasury staff may recommend that the Bank support specific tied aid applications or that the Bank support tied aid applications countering certain categories of foreign aid credits.
4. Ex-Im staff shall send Treasury staff a report at each month's end indicating the status of pending and outstanding tied aid transactions. Where there is a significant mid-month status change, Ex-Im staff shall alert Treasury staff
5. Within 30 business days of receipt of a tied aid application, Ex-Im and Treasury staffs shall meet to discuss their preliminary views on the merits of the application and to develop an approach regarding processing of the application.
6. Ex-Im staff shall provide Treasury staff drafts of all tied-aid Board memos at least 10 business days before the projected date for final-memo distribution. Within 5 business days of receiving such drafts, Treasury staff shall either provide written comments to Ex-Im Bank staff or provide written notice that Treasury staff has no comments. Written comments or a statement of Treasury staff views shall be attached to the Board memos. Treasury staff may request in writing that distribution of the final memo and Board consideration of the application be delayed for up to 10 business days in order to provide additional time for consultation or for Treasury to submit written comments. Any such written request received prior to the close of the business day immediately preceding the scheduled Board meeting will be honored by Ex-Im Bank. If, after these consultations, Treasury and Ex-Im staffs disagree on the merits of a particular matching tied aid offer, Board consideration of the application shall be delayed for up to an additional 10 business days during which time the Under Secretary of the Treasury for International Affairs and the Ex-Im Bank Chairman will meet to seek to resolve the differences. Should agreement not be reached following such consultation, within 10 business days the Secretary of the Treasury and the Ex-Im Bank Chairman shall exchange letters setting forth their written views on how agreement might be reached.
7. Ex-Im Bank's Board will not take any final action on any tied aid application unless the

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

### **Review**

1. Treasury and Ex-Im Bank staff will meet on an annual basis to review and discuss data and trends on the application for and use of the War Chest and the use of tied aid credit financing by foreign governments.
2. Treasury and Ex-Im Bank staff will meet on a semi-annual basis to review Ex-Im Bank and Treasury cooperation with respect to the administration of the War Chest and to discuss any changes to the procedures outlined above that may be necessary to improve cooperation and more effectively administer the program.
3. The Annual Tied Aid Report to Congress, which Ex-Im Bank staff and Treasury together prepare, will henceforth contain a section reviewing Ex-Im and Treasury cooperation with respect to this Understanding.

## **Appendix I: Market Windows**

### **INTRODUCTION**

“Market window” financing refers to medium- and long-term credits provided by a government owned or directed financial institution to foreign buyers for purchases of capital equipment and services. Institutions with a market window claim exemption from OECD Arrangement disciplines on this activity because the support is on “market” terms (e.g., priced on a market basis and break even financially) and/or is not explicitly tied to domestic content. The term “market window” illustrates that such activity typically takes place within an institution that does other types of lending. Hence, in a literal sense, an institution is not a market window; rather, market window is a “program” offered within an institution that provides a variety of financing programs.

Although market window credits are not programmatically tied to domestic content, they usually involve domestic content or are linked to some form of national interest. In addition, market window activity is generally on terms (or for availability) modestly better (more liberally) than what a specific borrower could have attained at that time from the market, thereby creating a trade distortion that is not subject to any transparency or discipline. The two primary institutions with market windows in the world today are EDC of Canada and KfW of Germany.

Market windows programs have existed for decades, but became prominent in the world of official export credit over the last decade as:

- ◆ interest rates for official export financing were required to be at least 100 b.p. over the cost of funds (combined with existing requirements for cash payments, limitations on local cost financing, and maximum repayment schedules);
- ◆ the scope for the use of tied aid was greatly circumscribed; and
- ◆ minimum risk fees were instituted.

With official ECA export credit support on fairly rigid “market-related terms”, it is now much more frequently the case that the key to a particular export deal is an exporter’s ability to find some financing institution that can fill holes in the overall financing package (e.g. cash payment), do something special (e.g. repayment terms beyond 10-12 years), or accept a level of risk that an ECA or the private markets will not take. Creating such a marginal competitive advantage lends itself well to market window programs, and such programs are seen by some as the last remaining competitive imbalance in the “official” export finance field.

The issue of market windows has proven very challenging in the OECD negotiating context, primarily because of the unwillingness of two major institutions, EDC and KfW, to provide any transparency to their market window business (e.g., either to clearly delineate market window activity in annual reports or to apply Arrangement disciplines to this activity). Unlike tied aid, therefore, there is no requirement for EDC and KfW to notify/report market window activity or even respond to an Ex-Im Bank inquiry. This lack of transparency has made the issue very



difficult to progress. It has also made it difficult to clearly define the extent of the problem. Nonetheless, the following sections use objective data and anecdotal evidence to provide as much detail as possible on the market window activity of EDC and KfW.

## MARKET WINDOW PROGRAMS

### EDC

Export Development Canada (EDC) is a Canadian crown corporation that operates on private commercial bank principles (i.e., seeks to maximize profits) while providing export credits for Canadian exporters. The majority of EDC's business is in high-income countries (i.e., the United States and Western Europe) and highly concentrated in the few sectors where Canada has world-class companies -- about 78% of EDC's 2001 medium/long-term business was in the telecom (30%; e.g. Nortel), aerospace/transportation (28%, e.g. Bombardier) and mining (19%) sectors.

The general rule of thumb over the last several years has been that 90% of EDC's medium- and long-term export credit business has been done under its market window. However, in any year the ratio may vary. Applying the general ratio to EDC's medium- and long-term activity over the last five years yields the following (**Figure I-1**):

**Figure I-1: EDC Medium/Long-Term Activity 1997-2001 (U.S.\$ BN)**

	1997	1998	1999	2000	2001
Medium- and Long-Term Export Credits	4.9	4.5	3.7	4.8	5.3
Market Window	4.4	4.0	3.3	4.3	4.8
Official Window	0.5	0.5	0.4	0.5	0.5

### KfW

Kreditanstalt Fur Wiederaufbau (KfW) is a financial institution that is owned by the German government (80%) and the federal states (20%). KfW exists to promote the growth of the German economy in a variety of ways. These include primarily domestic investment; export finance, and foreign development assistance. Since the reunification of Germany, about 70% of KfW's activity has been domestic, focused on investment and development in the former East German states. **Figure I-2** provides a breakdown of KfW's activity for the period 1997 through 2001.

**Figure I-2: KfW Activity 1997-2001 (U.S.\$ BN)**

	1997	1998	1999	2000	2001
Total Activity	27.0	29.7	38.7	32.6	32.8
Domestic	18.9	22.5	28.8	21.2	22.7
Export and Project Finance	6.3	6.3	8.1	10.1	7.4
Development Assistance	1.8	0.9	1.8	1.3	2.5

When it comes to export and investment credits, approximately 24% of KfW's annual activity falls under the category "export credits and project finance." This category is broader than just export credits, as it includes corporate and investment finance. "Corporate and investment

finance” includes foreign direct investment and investment support, such as that provided by OPIC in the United States. While historical figures are not currently available, in 2001 corporate and investment finance comprised about 40% of the “export credit and project finance” activity.

The other 60% of the export and project finance business is export credit support. KfW’s export credit support is provided both through its “market” window and its “official” window. The market window support (roughly 60-70% of the export credits) is considered to be on market terms and exempt from OECD rules; while the official window support is on OECD Arrangement terms (and mostly covered by Hermes insurance).

Applying a market window figure of 65% to KfW’s export credit activity (60% of export and project finance activity) over the last five years yields the following (**Figure I-3**):

**FIGURE I-3: KfW EXPORT CREDIT/MARKET WINDOW ACTIVITY 1997-2001 (U.S.\$ BN)**

	1997	1998	1999	2000	2001
Export Credit Support	3.8	3.8	4.9	6.0	4.5
Market Window	2.5	2.5	3.2	3.9	2.9

### **MARKET WINDOW TOTALS**

Combining the two estimates yields an average total market window activity in the neighborhood of \$7.0 billion per year over the last five years (see **Figure I-4**). The bulk (at least two-thirds to three-fourths of this activity) is in the United States and Western Europe, largely supporting Bombardier and Airbus aircraft). In such situations there is no official ECA competition (and no U.S. exports for the huge chunk in the United States). The “adversely impacted” entities are the commercial banks and any U.S. companies pursuing such business.

However, there is a segment of some \$1.0 to \$2 billion per year in market window activity in upper tier less developed counties (LDCs) (especially in project finance). This estimate is the market window area of potential impact on Ex-Im Bank “competitiveness” as measured in this report. [For context, the volume of LDC market window activity is about equal to all non-Japanese tied aid.]

**FIGURE I-4: MARKET WINDOW ACTIVITY 1997-2001 (U.S.\$ BN)**

	1997	1998	1999	2000	2001
EDC	4.4	4.0	3.3	4.3	4.8
KfW	2.5	2.5	3.2	3.9	2.9
Total	6.9	6.5	6.5	8.2	7.7

## **Appendix J: Co-Financing “One Stop Shop”**

### **INTRODUCTION**

Responding to exporter concerns regarding competitiveness, Ex-Im Bank has established a “One-Stop-Shop” co-financing program. “One-Stop-Shop” arrangements allow products and services for one purchase from two (or more) countries to benefit from a single ECA financing package. Without co-financing, the parties would have to make separate financing arrangements with two (or more) ECAs to ensure support for exports from various countries. The country with the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction.

The Lead ECA provides export credit support for the entire transaction and the follower ECA provides reinsurance for its respective share of the transaction. This results in the Lead ECA being able to provide a common documentation structure, one set of terms and conditions and one set of disbursement and claims procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package.

### **EX-IM BANK CO-FINANCING “ONE STOP SHOP” AGREEMENTS**

In 2001, Ex-Im Bank signed bilateral (i.e., lead and follow) agreements with ECGD (U.K.) and EDC (Canada) and initiated discussions with other ECAs to sign bilateral agreements. Unlike most other ECAs, Ex-Im Bank does not require there to be a formal bilateral agreement before considering co-financing transactions and will consider co-financing under any of its programs (insurance, guarantees or direct loans). Thus, Ex-Im Bank will process co-financing requests for transactions with ECAs on a case-by-case basis. In addition, Ex-Im Bank will co-finance with ECAs whose risk rating exceeds level 1. In that regard, in 2001, Ex-Im Bank approved co-financed transactions with the ECAs of Norway (GIEK) and Hungary (Hungarian Export Import Bank). Nevertheless, Ex-Im Bank reserves the right to decide on a case-by-case basis whether to authorize transactions under any bilateral co-financing agreement.

### **COMPETITOR PRACTICES**

As shown below in **Figure J1**, the bulk of co-financing support has come from the European ECAs who have signed multiple framework agreements between themselves and have been processing co-financed transactions since 1995. These agreements have allowed European ECAs to manage their exposure in markets where they have reached their country limit. In addition, most ECAs have seized upon the administrative efficiency that results from the “one-stop-shop” for export financing as a means of improving their customer service and competitive image.

**Figure J1: G-7 Co-financing “One-Stop-Shop” Agreements**

	Ex-Im	ECGD	EDC	Hermes	COFACE	SACE
Ex-Im		X	X			
ECGD	X		X	X	X	X
EDC	X	X			X	
Hermes		X	X		X	X
COFACE		X	X	X		X
SACE		X		X	X	

Among the non-European ECAs, JBIC and NEXI are the only G-7 ECAs that have not signed any co-financing framework agreements. Both EDC and Ex-Im Bank are new to co-financing and have worked together to gain transactional experience during 2001.

As far as determining which transactions are eligible for co-financing, most ECAs agree that this program can be used across sectors and transaction size. While certain ECAs prefer to use co-financing for larger transactions, no fixed dollar limits currently exist. In addition, due to the complex nature of project finance transactions, the “one-stop-shop” is not often used to support exports to non-recourse projects.