Part 1-A: Standard Official Export Credit: Country Cover Policy and Risk-Taking Practices

INTRODUCTION

The competitiveness of official export credit agencies (ECAs) can be evaluated using any number of yardsticks. Preceding any other issue in the evaluation of a country's official credit support, however, is the basic question of whether export credit is available in any given market. The first question for an exporter to address when seeking official export credit support is whether an ECA is open for business in a particular country. The next question is "how" open. An exporter's ability to compete for overseas sales is significantly influenced by the extent to which an ECA is willing to take on new business, as well as its willingness to take on new business with entities other than sovereign governments or first class private institutions.

This part of the report first compares ECA country cover policies and then looks at ECAs' commercial risk-taking practices.

EVALUATION OF OBJECTIVE DATA

Country Cover Policy

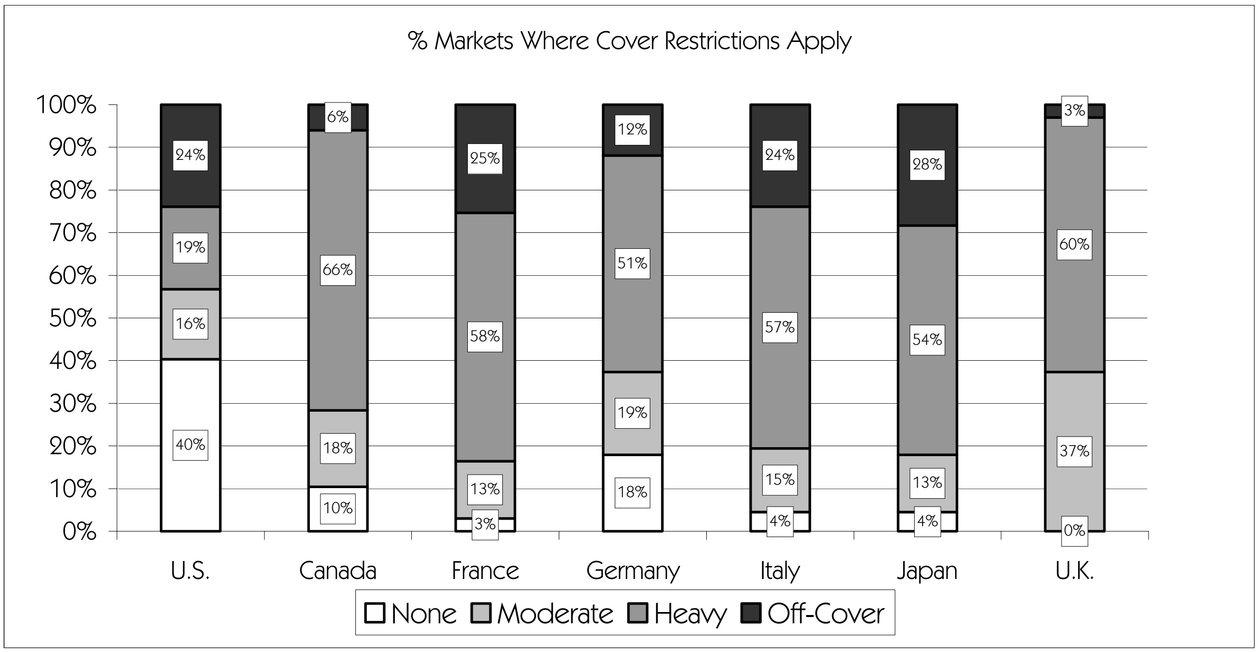
An ECA's country cover policy is determined by objective and subjective factors. Objectively, ECAs will evaluate a country's general ability and willingness to repay debt. These evaluations will vary by ECA as each has specific experiences with a given market. Subjective considerations stem from political or national interest contexts and can heavily influence country cover policy. These subjective factors may include:

- National/foreign policy interests in specific transactions;
- Traditional economic ties (e.g., former colonial relationships); and
- Official export philosophy (e.g., an aggressive policy on supporting exports may bias risk assessment towards optimism).

The consideration of objective and subjective factors determines whether an ECA will be open or closed in a particular market. The next cover policy decision for an ECA is if and how to place limits, in terms of risk type or volume, on the business it can support. An ECA's underwriting approach will guide the restrictions on cover policy for countries in which it is open for business. Most ECAs use a portfolio approach, i.e., actively spreading risk exposure across markets and sectors to limit the downside effect of any particular segment on the overall portfolio. Limits on transaction size, repayment terms or total commitments per country are the methods ECAs use to control the flow of new business.

Ex-Im Bank takes a different approach to country cover policy. The goal for Ex-Im Bank is to provide financing for creditworthy export transactions, regardless of destination, when there is foreign ECA supported competition or when private sector finance is unavailable. In other words, restrictions on the provision of Ex-Im Bank cover in a given market pertain to creditworthiness issues, as opposed to portfolio controls. Ex-Im Bank will, once open in a market for a given repayment term, support transactions, without size or country limits, so long is a reasonable assurance of repayment and additionality in each transaction. This difference in approach is reflected in **Figure 1**, which illustrates the overall openness of the G-7 ECAs by comparing cover policy in 2001 for a sample of 67 major ECA markets.

Figure 1: Comparison of Medium- and Long-Term ECA Country Cover Policy



Consistent with previous years, Ex-Im Bank continues to lead the G-7 in being open without restriction in 40% of the sample markets, over twice the level of its nearest competitor, Germany. Further, Ex-Im Bank places restrictions on only 35% of the markets surveyed, a far smaller number than any of its competitors. Conversely, Ex-Im Bank fell into the second tier of G-7 ECAs by being closed in 24% of the markets. Of the twelve markets in which Ex-Im Bank was closed for risk reasons, however, in only five were the majority of G-7 ECAs open. It can thus be concluded that, on the whole, Ex-Im Bank's country cover policy in 2001 was competitive with the country cover policy of other G-7 ECAs.

The main constraint on Ex-Im Bank's cover policy competitiveness has historically been legislative prohibitions, or sanctions. While generally more flexible in its underwriting approach, Ex-Im Bank operates under a national philosophy on sanctions use that differs from that of its G-7 competitors. The U.S. government may impose sanctions in both multilateral and unilateral contexts. If sanctions cover Ex-Im Bank support, Ex-Im Bank is legally prohibited from offering any official export credit. Other G-7 countries, on the other hand, will almost always impose sanctions only in a multilateral context, concurrent with European Union or United Nations resolutions.

As illustrated in **Figure 2**, Ex-Im Bank was legislatively prohibited from doing business for most of 2001 in five markets in the 67-country sample. One significant change in U.S. policy was the lifting of sanctions against Pakistan in the fall of 2001. Nonetheless, legislative prohibitions continued to pose a competitive disadvantage to U.S. exporters, with one more G-7 ECA open in each of Cuba, Iran and Libya during 2001. While no G-7 ECAs were open in Cuba in 1999, half of the other G-7 ECAs are currently on cover there. In addition, half of the other G-7 ECAs are now open in Libya and all of the other G-7 ECAs are now open in Iran.

Figure 2: Markets (in the data sample) Where Ex-Im Bank was Prohibited by Law from Providing Cover in 2001

	Market				
	Cuba	Iran	Iraq	Libya	Pakistan
2000 # G-7 Competitors on Cover	2	5	0	2	3
2001 # G-7 Competitors on Cover	3	6	0	3	

In summary, as indicated by the objective data above, major differences do not divide ECAs in terms of the number of major ECA markets for which they are willing to provide cover. Ex-Im Bank's less-restrictive approach to markets in which it is open advantages U.S. exporters vis-à-vis their competitors, many of whom encounter limits on country activity or transaction size. In countries where Ex-Im Bank was closed due to unilateral legislative prohibitions or sanctions, U.S. exporters were clearly at a disadvantage vis-à-vis their competitors.

Commercial Risk-Taking Practices

An ECA's approach to non-sovereign risk is another important aspect of cover policy. While most ECAs have historically covered sovereign, public and major bank business, increasing privatization in the developing world has presented ECAs with increasing requests to cover private risks, ranging from large corporations to small businesses. The scope and depth of an ECA's willingness to cover the risk of smaller non-strategic private entities, versus requiring a bank guarantee for private risk deals in the market, are critical competitive aspects of cover policy.

While hard data is not available on this subject, **Figure 3** provides a broad characterization of each G-7 ECA's risk appetite for less well-known private entities, as opposed to large corporations or bank guaranteed borrowers.

Figure 3: ECA Risk-Taking Practices

Taking Credit Risk of Smaller, Less Well-Known Private Entities in a Market:				
Never-->Infrequent--->Frequent				
NEXI and JBIC (Japan)	ECGD (U.K.)	SACE (Italy), COFACE (France), Hermes (Germany)	EDC (Canada)	Ex-Im Bank

Ex-Im Bank seeks to minimize the requirement for a bank guarantee to minimize the associated costs of these guarantees on U.S. exporters. Ex-Im Bank, therefore, must evaluate borrowers in detail. Conversely, most ECAs prefer to focus on well-known or rated entities (which are usually banks) or to rely (by requiring risk-sharing of 5%-20%) on the due diligence and underwriting approaches of the banks they cover.

Relative to its major competitors, Ex-Im Bank generally imposes far fewer restrictions on the provision of cover than other ECAs. Moreover, it is much more comfortable taking the risk of smaller, less well-known private entities without bank guarantees.

EVALUATION OF SUBJECTIVE DATA

Ex-Im Bank surveyed exporters and banks on the competitiveness of its cover policy vis-à-vis its major competitors. Their responses are summarized in the following sections.

Exporter Surveys

Several exporter respondents that compared Ex-Im Bank's cover policy against those of the other G-7 ECAs found Ex-Im Bank competitive. "Ex-Im is as aggressive if not more so in many markets," wrote one, explaining that the "absence of preset project or borrower limits is a major plus." Another exporter concurred, stating that Ex-Im Bank's "unlimited market cap is a definite advantage over other ECAs." In addition, "Ex-Im has been very competitive in considering transactions in difficult markets."

On the other hand, other respondents unequivocally ranked Ex-Im Bank's cover policy as uncompetitive. There were two reasons cited for this: sanctions and credit standards. Sanctions are a clear hindrance to U.S. exporter competitiveness in certain markets, with Iran, Libya, Burma, Cambodia and Laos listed by respondents. As one exporter wrote, the "U.S. policy of imposing sanctions due to humanitarian reasons harms Ex-Im Bank's competitiveness relative to other ECAs." Credit standards, while not directly related to cover policy, are notable in that several exporters linked the two areas in this year's survey. In particular, exporters were critical of Ex-Im Bank credit standards in the markets that are on the margin of Ex-Im Bank's mission, i.e., very poor countries, where exporters write that buyers may have trouble meeting the "reasonable assurance of repayment" standard and the required 15% cash payment, and developed countries, where Ex-Im Bank does not want to compete with the private market yet where exporters see market window competition.

Banker Surveys

Banks in general found Ex-Im Bank's cover policy competitive, citing, for example, the fact that other G-7 ECAs often ask for local bank guarantees, while Ex-Im Bank does not. One bank noted that reasons for using Ex-Im Bank were "tenor availability and lack of country ceiling restrictions."

Similar to exporters, banks found sanctions a hindrance. One bank aptly summarized the sanctions challenge as follows: "U.S. government economic sanctions are a distinct competitive disadvantage, but we realize that these are outside the purview of Ex-Im Bank policy. In any case, we find that this disadvantage is offset by Ex-Im Bank's appetite for project risk in difficult markets (e.g., Chad-Cameroon)."

CONCLUSION

An assessment of both objective and subjective data shows that Ex-Im Bank continues to be competitive in its cover policy and risk-taking practices. Once Ex-Im Bank is open in a market for a given term, U.S. exporters and banks benefit from the lack of country and sector ceilings that other ECAs place on their cover policies. In addition, Ex-Im Bank is less risk-averse in its willingness to extend credit to smaller private entities. Unilateral sanctions continue to be a limitation on Ex-Im Bank competitiveness in certain markets where other G-7 ECAs are expanding their support for their national exporters. Finally, several survey respondents listed conservative credit standards as a competitive drawback to Ex-Im Bank support of U.S. exporters.

Part 1-B: Standard Official Export Credit: All-In Cost

INTRODUCTION

The goal of the OECD Arrangement on Guidelines for Officially Supported Export Credits (Arrangement) is to level the playing field for exporters by ensuring that officially supported export competition is based on the price and quality of exports, not on the quality of the official financing package. While a whole host of factors influence the all-in cost of a transaction, these costs can generally be divided into two categories: direct financing costs and indirect financing costs. Direct financing costs include the interest rate, or the costs of the loan, and the exposure fee, or risk premium, which represents the risk of repayment. Indirect financing costs include such issues as domestic content and national shipping requirements. The Arrangement does not address indirect financing costs because these generally stem from governmental policy considerations and their impact on the financing costs is only to make them higher, not lower. Thus, as non-subsidy elements, they do not fall within the scope of international disciplines on official financing. This section of the report addresses the Arrangement disciplines on direct financing costs: interest rates and exposure fees.

Overall, the extent and depth of export credit agency (ECA) competition in this area has been gradually declining for nearly two decades. The interest rate convention has been in place for nearly 15 years and in general, operates smoothly. However, differences in the application of that system offer the possibility of some ECAs gaining modest advantages in selected transactions. The 1999 exposure fee agreement set floors for premiums that ECAs can charge, but leaves some room for differences. Most importantly, while the agreement placed a sovereign-based floor on fees for all transactions, buyer surcharges by individual ECAs continue to be able to range widely above the sovereign floor.

EVALUATION OF OBJECTIVE DATA

Interest Rates

CIRR Regime

Whenever a government provides direct interest rate support, whether as a direct credit, through interest rate support or refinancing, the interest rate charged is bound by the CIRR regime. The CIRR, or Commercial Interest Reference Rate, represents a market-related rate that is based on the secondary market yield for fixed rate government debt plus a fixed spread of 100 basis points (b.p.). The U.S. dollar, Canadian dollar and Euro CIRR rates are based on a three-tiered system[1]. While the CIRR rates for other currencies are based on the appropriate 5-year government bond

[1] The three-tiered CIRR system works as follows: three-year government bond yields are the base rate for repayment terms up to and including five years, five-year government bond yields for repayment terms over five years and up to and including eight and a half years, and seven-year government bond yields for repayment terms over eight and a half years.

regardless of repayment term, most countries are moving towards the three-tiered system. ECAs providing direct loans and private financial institutions receiving interest rate support for export credit transactions may charge no less than the relevant CIRR for the currency of the transaction.

The CIRR regime represents a common set of rules that should not yield an inherent advantage or disadvantage for any particular country. However, there is the potential for a certain degree of subsidization via interest make-up (IMU) schemes. Of the Participants to the OECD Arrangement, nearly half provide IMU support. Of the G-7 ECAs, France, Italy and the United Kingdom operate such schemes. IMU is a means by which governments compensate commercial banks that provide fixed rate export finance at CIRR but who fund the cost of loans at floating rates. The commercial bank receives an agreed rate of return based on the floating cost of funds plus an agreed margin. If this return proves to be higher than the fixed rate CIRR, the commercial bank receives the difference between the fixed rate and the floating rate plus the margin. If the floating rate is lower than the fixed rate, the commercial bank pays the difference between the floating rate and the fixed rate less the margin.

Under most IMU systems, the floating rate base rate is LIBOR for U.S. dollar transactions and EURIBOR for Euro transactions. The spreads range from about 40 to 85 b.p. There are no agreed rules on the level of spreads that governments may offer their banks to provide CIRR loans. The rationale for the level of margin and the purposes for which the margin is intended vary from country to country. Generally, IMU support is offered in large part to cover administrative costs. In some programs, the IMU margin is used to provide a pure profit margin or to cover liquidity costs. IMU margins in some cases vary according to the support the bank brings to the transactions, such as financing the 15% cash payment. The coverage of credit risk is also a major use of IMU margins, including the risks associated with the portion of the financing package that is not covered by the official financing support, i.e., the 5% portion of the risk that the bank must cover.

From a competitive point of view, if the bank receiving the interest make-up keeps the guaranteed spread as profit, there is no impact on the borrower's costs so there is no competitive issue. On the other hand, if the guaranteed spread is used to cross subsidize (e.g., the cash payment portion), then the borrower will see a lower all-in cost. This, then, is a competitive issue.

Thus, in terms of official interest rates, Ex-Im Bank is generally competitive. However, the IMU programs offered by some of Ex-Im Bank's G-7 counterparts have the potential to tilt the playing field if used to reduce the all-in costs to the borrower.

Interest Rates Under Pure Cover

On pure cover transactions, i.e., those with only insurance or guarantee cover and no interest rate support, the interest rates under Ex-Im Bank's cover are generally lower than those of its competitors. Banks lending under Ex-Im Bank's guarantee take no risk on the guaranteed portion due to the fact that the guarantee is a 100% comprehensive guarantee. In contrast, most other ECAs offering pure cover only offer 95% insurance cover that is conditional. **Figure 4** provides an illustration of the range of pure cover products offered by the G-7 ECAs[2].

Figure 4: Spectrum of G-7 Pure Cover Products

Above Standard		Standard		Below Standard			
Ex-Im Bank	ECGD	Ex-Im Bank	ECGD	COFACE	HERMES	SACE	EID/MITI
Unconditional guarantee		Conditional insurance					
100% cover				97.5% cover or less			
Cover of interest during claims waiting period				No cover of interest			
Easily securitized	Difficult to impossible to securitize						

Under a standard or below standard product, some buyer risk flows through to the ECA covered commercial bank, who thereby faces more risk than in the case of an above standard product. Under a conditional insurance policy, the commercial bank faces documentary risk, i.e., the validity of a claim will not be determined until the claim is filed. In addition, the commercial bank is exposed to credit risk when the ECA cover is less than 100%. Faced with such risks, most lenders add additional spread over any standard return requirement for interest rates on official export credits. For instance, in non-large aircraft transactions, spreads on Ex-Im Bank guarantees are quite low on larger transactions (greater than $10 million), varying between 0 and 100 b.p., but averaging only about 25 to 35 b.p. In contrast, spreads on European insurance cover are generally in line with their IMU spreads, varying between 45 and 90 b.p., but averaging closer to 70 to 80 b.p.

It is this difference in pure cover pricing that gives rise to the "related conditions" pricing differentials under the OECD fee regime. Above standard products (100% guarantees) carry a higher exposure fee because the interest rate spread should be lower on the covered loan. In contrast, standard and below standard products (95% insurance) carry a lower exposure fee because the interest rate spread should be higher on the covered loan.

Exposure Fees

ECAs charge exposure fees for taking the repayment risk of the borrower. Exposure fees are generally determined by the risk category of the obligor and the repayment term of the transaction. The Participants to the OECD Arrangement have a harmonized country risk classification, thus there is a level playing field with regard to this factor.

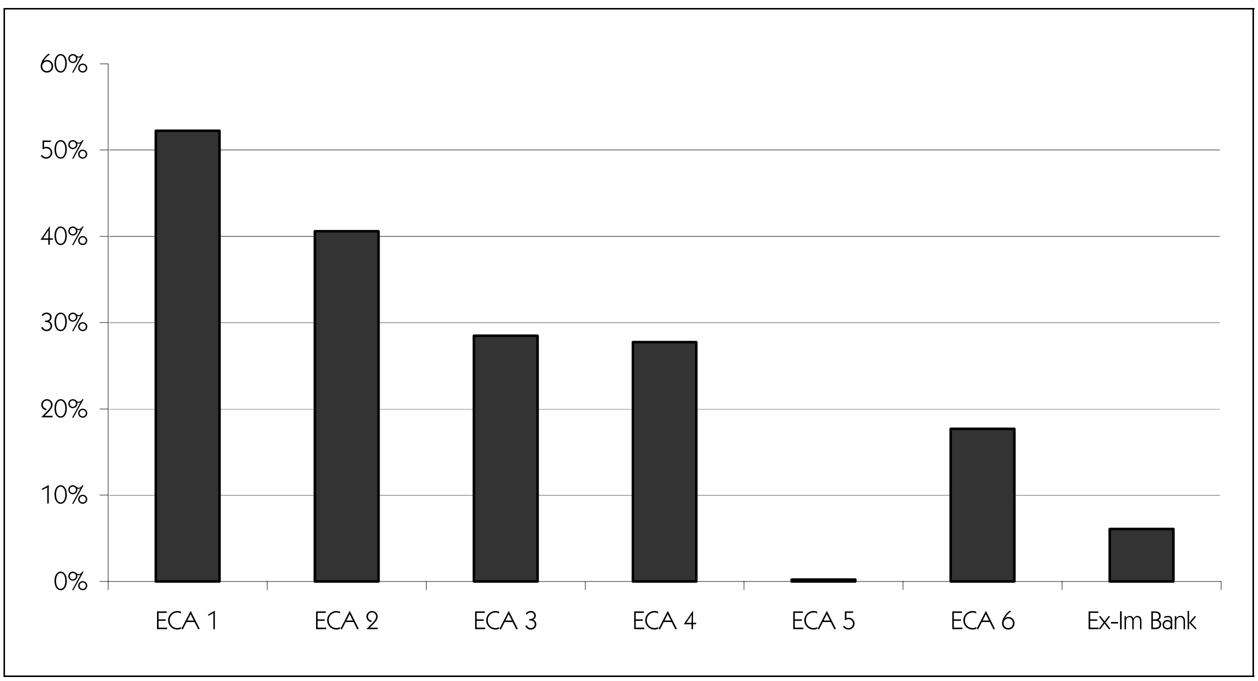
As mentioned above, however, ECAs offer different types of financing products. Fees are thus further differentiated by the quality of the ECA product (guarantees, loans or insurance) and by the percentage of cover provided (100% versus something less, usually 95%). These differences reflect the fact that a bank receiving a comprehensive 100% guarantee takes ECA risk and no borrower risk, while a bank receiving a 95% insurance policy takes both documentary risk and 5% borrower risk above and beyond ECA risk. Hence, 100% unconditional guarantee cover carries a higher fee than 95% conditional insurance cover.

[2] The Canadian ECA is a direct lender and therefore does not offer pure cover.

Accordingly, when it comes to sovereign transactions, there is a generally level playing field in the exposure fees charged because the OECD fee system sets the minimum level of fees to be charged. While surcharges for non-sovereign transactions must meet the same minimum rates, there is considerable divergence in the surcharges ECAs apply above the minimum benchmarks. This diversity reflects the fact that ECAs differ fundamentally in their approach to pricing non-sovereign transactions. Many ECAs, generally the insurer ECAs of Europe, tend to add specific surcharges depending on the category of the borrower risk. Thus, for example, a first-rate bank would be charged the sovereign fee plus a 10% surcharge, while a private buyer would be charged the sovereign fee plus a 35% surcharge. In contrast, Ex-Im Bank (and most non-continental ECAs) prices transactionally, looking at the borrower's risk as related to the sovereign risk. If the borrower, regardless of whether it is a bank or public or private entity, is rated as having the same repayment risk as the sovereign, then the fee charged would be the same as for the sovereign. If the risk is higher, then incremental surcharges are added for each level of risk higher than the sovereign.

Figure 5 provides a comparison of "buyer risk" surcharges for the G-7 ECAs in comparison with Ex-Im Bank's "buyer risk" surcharge practices. As can be seen in the chart, on average, Ex-Im Bank charges far less of a surcharge for non-sovereign transactions as compared with the competition. In fact, only one of the other G-7 ECAs has an average surcharge below Ex-Im Bank's.

Figure 5: Comparison of G-7 Non-Sovereign Buyer Risk Surcharges



EVALUATION OF SUBJECTIVE DATA

Banks and exporters were asked to provide feedback on the competitiveness of Ex-Im Bank's exposure fees, interest rates and all-in cost.

Interest Rates

In general, banks and exporters had little to say about CIRR competitiveness, other than that CIRR rates offered by Ex-Im Bank are competitive with the CIRRs offered by other ECAs. This commentary is a reflection of both the fact that the CIRR system was designed to be competitively neutral, as well as the fact that Ex-Im Bank authorizes few direct loans. There were, however, several bank comments on interest rate make-up systems and how they allow the European banks to lower the financing costs of the cash payment portion.

On pure cover interest rates, the majority of both exporters and banks indicated that interest rates under the Ex-Im Bank guarantee were more competitive in comparison to rates supported by other ECAs.

Exposure Fees

In general, neither the banks nor the exporters expressed any specific views on the competitiveness of Ex-Im Bank's exposure fees, except to say that they were as competitive as those offered by foreign ECAs. Those that did respond with specifics generally stated that, although Ex-Im Bank's exposure fees were higher, that this was counterbalanced by lower spreads under the 100% comprehensive guarantee versus the competitions typical 95% insurance product. One exporter did indicate that it found Japanese exposure fees to be lower.

All-In Costs

Overall, exporters and banks found Ex-Im Bank's all-in cost to be competitive. One exporter did state that although the all-in financing cost of Ex-Im Bank's cover was very competitive, this was undermined by non-financing costs.

CONCLUSION

On the basis of the above objective and subjective data, the general conclusion is that, in terms of all-in cost, Ex-Im Bank is quite competitive with the other ECAs. The level playing field created by the CIRR and exposure fee rules helps ensure that borrowers see about the same all-in costs regardless of the ECA providing official support. While the sovereign exposure fee floor for Ex-Im Bank's "above standard" products is higher than that for ECAs that offer "standard" or "below standard" products, this cost is neutralized by the lower interest rates available under Ex-Im Bank's 100% pure cover guarantee. Two key characteristics of the all-in cost components are:

1. The United States is generally offering the best all-in rate on non-sovereign transactions.
2. In some transactions, the cross-subsidy inherent in IMU may unlevel the playing field and put U.S. exporters at a competitive disadvantage.

Part 1-C: Standard Official Export Credit:
Content Policies - Foreign Content and Local Costs

INTRODUCTION

Ex-Im Bank's content policies can generally be grouped into three categories: U.S. content, foreign content and local costs. U.S. content is the portion of the export that originated in the United States. Foreign content is the portion of the export that originated both outside of the United States and the buyer's country, whereas local costs are incurred in the buyer's country.

In general, all export credit agencies (ECAs) seek to maximize support for their respective national contents. The rules that each ECA uses to determine eligibility of foreign content and local costs stem from that country's overall trade policy perspective and its desire to maximize the positive impact that ECA support will have on its overall economy. A variety of factors, most particularly the size of a country's industrial base, contribute to the ECA's willingness to support non-domestic content.

In early 2001, Ex-Im Bank approved new procedures that have significantly affected Ex-Im Bank's approach to foreign content and local costs. The revised procedures are detailed below. At this time, there is little concrete data from which to evaluate the effectiveness – or consequences – of these changes.

EVALUATION OF OBJECTIVE DATA

Foreign Content Policy

In early 2001, after extensive discussions between Bank management and Ex-Im Bank stakeholders, Ex-Im Bank revised its foreign content procedures for medium- and long-term programs. Though the foreign content procedures have changed, the underlying principles that have guided Ex-Im Bank's foreign content policy since the mid-1980s were preserved. That is, the maximum amount of eligible foreign content will continue to be capped at 15% of the export value. Ex-Im Bank may support the lesser of 85% of the U.S. export value or 100% of the U.S. content. Further, to be eligible to be included in Ex-Im Bank's financing package, all content must be shipped from the United States.

The procedural changes made to the foreign content policy sought to address U.S. exporter concerns regarding: (1) perceived shortcomings in Ex-Im Bank competitiveness (vis-à-vis other ECAs); and (2) insufficient flexibility to meet commercial realities (e.g., U.S. export contracts often included foreign content). In addition to responding to U.S. exporter concerns, Ex-Im Bank sought to ensure that the foreign content procedural changes remained compliant with the Ex-Im Bank core mission – to support U.S. exports, thereby contributing to the promotion of U.S. jobs.

Foreign Content Procedural Changes

The intent of the revised procedures is to introduce flexibility into the implementation of the policy without compromising the Bank's mission. The foreign content procedures changed in two substantive ways:

1. In place of the item-by-item and limited aggregation approaches, the new foreign content procedures allow the foreign content of all goods and services covered within a supply contract to be aggregated for both medium- and long-term transactions; and
2. Information requirements concerning the nature and volume of foreign content at the time of each disbursement were replaced by an up-front estimate of the value of foreign content to be included in the transaction. In the course of the transaction if there is a "material" change in content, the U.S. exporter is required to notify the Bank and the level of support will be adjusted accordingly.

In exchange for this flexibility, Ex-Im Bank requests that U.S. exporters provide the Bank with a Content Report that details the nature, value and reason for inclusion of any foreign content included in the Ex-Im Bank financing package.

Recent Trends

As shown in **Figure 6**, the average percent of foreign content per transaction stayed generally within the 9%-12% range for the last five years and the percentage of cases that have foreign content have seemed to stabilize in the 80% range.

As mentioned above, Ex-Im Bank spent most of 2001 putting the revised content procedures in place. From the limited data available, Ex-Im Bank does not have sufficient information available to draw meaningful conclusions about the impact of the changes. Nonetheless, there is anecdotal evidence that the revised content procedures have enabled Ex-Im Bank to be more competitive with practices of foreign export credit agencies.

Competitor Practices

All OECD Participants recognize that each country has developed its content policy to further unique domestic policy goals. Hence, the OECD Participants have not pursued common ECA rules on this issue, and there are no Arrangement guidelines governing the scope or design of foreign content in an officially supported export credit. Thus, given the vastly different sizes of the G-7 economies and their respective views of national interest, it is not surprising that foreign content policies vary widely and substantially.

Figure 6: Recent Trends in Ex-Im Bank Foreign Content Support

	Authorizations	1997	1998	1999	2000	2001
Total Medium- and Long-Term Activity	Export Value (U.S.$ MM)	$8,867	$6,612	$10,500	$9,455	$7,109
	Number of Transactions	285	225	211	267	227
Medium- and Long-Term Activity Containing Foreign Content	Export Value (U.S.$ MM)	$6,297	$5,602	$9,001	$7,759	$5,757
	% of Total Value	71%	85%	86%	82%	81%
	Number of Transactions	95	81	92	100	80
	% of Total Number	33%	36%	44%	37%	35%
Foreign Content	Volume (U.S.$ MM)	$550	$542	$1,076	$805	$631
	Average Per Transaction	9%	10%	12%	10%	11%

Appendix D provides a more detailed listing of Ex-Im Bank foreign content support for medium- and long-term transactions for 2001 (excluding medium-term insurance) at the time of authorization.

As **Figure 7** illustrates, the ECAs of Canada and Japan provided the most leeway in terms of support for export contracts that contained foreign content. Clearly, the breadth and diversity of the Japanese and Canadian industrial bases (as compared to those of Europe and the United States) have contributed to Canadian and Japanese willingness to design very flexible content rules.

The content policies of the European Union (EU) ECAs are used to encourage economies of scale within the EU. The EU protocol of ECA cooperation allows a member ECA to support up to 30% "non-domestic" content of another EU member state. However the EU ECAs are much less flexible and tolerant of non-EU content and, as **Figure 7** illustrates, only allow 10%-15% non-EU content to be included in its official support.

Figure7 compares the main aspects of the content policies of the G-7 ECAs in 2001. With the recent foreign content procedural changes, the data illustrates that Ex-Im Bank content requirements do not appear more restrictive overall than those of its counterparts. The following two points should be noted:

- Most ECA policies are not transparent. In practice, ECAs are not always willing to provide the maximum amount of support for foreign content, particularly in the higher-risk markets where ECAs generally have country exposure limits.
- Minimum domestic content requirement: To be eligible for any support, Ex-Im Bank does not have any minimum of domestic content required, while European ECAs require 60%-90% domestic/EU content.

Nevertheless, **Figure 7** shows that though Ex-Im Bank's implementation procedures appear to be generally competitive, the requirement that the foreign content be shipped from the United States is a unique constraint to Ex-Im Bank.

In addition to addressing many of the concerns of the U.S. export community, the changes to the foreign content procedures also facilitated co-financing with other ECAs. Specifically, the new procedures are similar to most foreign ECA practices, which has made it possible for Ex-Im Bank to negotiate bilateral reciprocal framework co-financing "One-Stop-Shop" agreements (See **Appendix J** for a more detailed discussion of co-financing "One-Stop-Shop").

Figure 7: ECA Foreign Content Support – Comparison of Policy Parameters

	Ex-Im Bank	EDC	European ECAs	JBIC & EID/MITI
Application of the policy	In aggregate: per export contract	In aggregate	In aggregate	In aggregate
Requirement to ship foreign content from the ECA's country?	Yes	No	No	No
Policy implications if foreign content exceeds 15%	Cover reduced	Decided on a case-by-case basis	Cover reduced	Decided on a case-by-case basis
Minimum amount of domestic content	No minimum threshold	If domestic content is less than 50%, coverage terms are set on a case-by-case basis	Domestic content must be at least: (i) 85%-90% in the case of non-EU foreign content; and (ii) 60%-70% in the case of EU foreign content	If domestic content is less than 30%, coverage terms are set on a case-by-case basis

Local Costs Policy

The OECD Arrangement sets the basic parameters on official local cost support, which include the ability of ECAs to provide local costs support for costs related to an officially supported export transaction. This support may not exceed the amount of the cash payment, typically 15%. All ECAs adhere to the local cost parameters set forth in the Arrangement. In fact, most major ECAs allow local cost support only when necessary because their ability to do future business is constrained by country exposure limits.

Prior to 2001, Ex-Im Bank's policy was to provide up to 15% of the U.S. export value in local costs support only in circumstances where the U.S. exporter could prove official foreign ECA competition supporting local costs or evidence of non-availability of commercial sources of funding for local costs (with limited exceptions for the environmental exports and engineering multiplier program and for project finance transactions).

After several years of review, experimentation and stakeholder discussions, in early 2001, Ex-Im Bank approved changes to the local costs policy and procedures. While maintaining the 15% maximum, the changes were intended to make local costs support more readily available, provide greater flexibility for local cost financing in limited recourse project finance transactions and allow the exporter to minimize uncompetitive expenses associated with unintended taxes on locally procured goods and services.

Figure 8: Calendar Year 2001 Transactions that Benefited from Local Costs

Country	Project	Net Contract Price	Total Local Cost Support
Brazil	Power Plant	$76,927,000	$11,539,050
Brazil	Power Plant	$77,093,000	$11,563,950
Brazil	Power Plant	$31,523,848	$4,728,577
Brazil**	Polyethylene Plant	$150,435,000	$22,565,000
Brazil**	Power Plant	$136,572,062	$20,485,809
Dominican Republic	Nat'l Road Network Toll Extension	$28,430,000	$4,264,500
Dominican Republic	Government Housing Projects	$85,487,954	$12,823,193
Dominican Republic	Waste Water Treatment Plant	$5,304,683	$795,702
Dominican Republic	Waste Water Treatment Plant	$1,409,469	$211,420
Mexico	Two Power Plants	$97,996,523	$14,680,015
Turkey	Gas Power Plant	$10,000,000	$1,500,000
Turkey	Power Plant	$22,956,415	$3,386,131
Turkey*	Electrical Power Generation	$1,563,389	$219,480
Venezuela*	Waste Water Treatment Plant	$8,416,721	$1,262,508
Venezuela	Waste Waster Treatment Plant	$11,035,257	$1,655,288
Venezuela**	Heavy Upgrading of Oil Refinery	$503,561,000	$75,534,000
Venezuela	Rehabilitation of Power Plants	$29,410,688	$1,333,915
Venezuela	Light Rail System	$29,187,684	$3,412,316
Total		$1,307,310,693	$191,960,854

*Medium-Term Transaction
**Project Finance Transaction

As a result of the local cost procedural changes, 13 long-term transactions (non project finance) that had associated local costs received this support in calendar year 2001. The revised procedures provided the U.S. exporter with greater certainty that local costs support would be generally available provided that the local costs are linked to the U.S. exporter's ability to secure the export sale. In 2001, the number of transactions for which local costs support was provided accounted for approximately 11% of total medium- and long-term activity (aircraft transactions were not included, as there are not generally local costs associated with the sale of an airplane).

Competitor Practices

Despite the OECD local costs guidelines, competitive advantages (and disadvantages) result from: an ECA's willingness to offer local costs support (e.g., automatically, exceptionally or case-by-case); and the utilization procedures that each ECA designs.

Unlike foreign ECAs, Ex-Im Bank's local costs support is not limited by country exposure limits. Moreover, with the local cost policy change, Ex-Im Bank's local cost policy is similar to foreign ECAs' in that local costs support for long-term transactions is generally available, and exporters are no longer required to produce evidence of competitor bids or lack of local financing to qualify for local costs support.

EVALUATION OF SUBJECTIVE DATA

Exporter and Bank Survey Findings

In light of the recent changes to the content policies, respondents noted that:

- These are major, beneficial changes that should increase overall U.S. exports.
- Ex-Im's policy that Project Finance local costs need not be directly related to the U.S. exporter's scope of supply is very competitive. Most ECAs require a direct connection between the exporter and the local costs they support.
- These policies were a significant improvement to the previous competitive environment. By allowing aggregate foreign content, local coverage and pursuing co-financing arrangements, this respondent has been able to offer more attractive financing solutions to its customers. However, these are small steps toward a much larger goal. Ex-Im will need to build upon these policies in order for this respondent to become equally competitive with foreign telecom giants that enjoy much more aggressive and flexible coverage from their ECA's.

CONCLUSION

A comparison of ECA practices and the results of a survey of Ex-Im Bank program users indicated that the increased flexibility resulting from the content procedure and policy changes have rendered Ex-Im Bank's financing more competitive with foreign ECA practices than before.