

EXPORT - IMPORT BANK OF THE UNITED STATES



S u p p o r t i n g E x p o r t s . . .



S u s t a i n i n g J o b s . . .



S t r e n g t h e n i n g C o m m u n i t i e s . . .

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C H A I R M A N ' S L E T T E R

A S T H E 1 8 T H P R E S I D E N T and Chairman of the Export-Import Bank of the



James A. Harmon
President & Chairman

United States (Ex-Im Bank), I am pleased to present the 1997 Annual Report to our “stockholders” — the taxpayers of the United States. The Ex-Im Bank is in a sound financial condition, with ample reserves and an excellent record of financial results. Furthermore, Congress has granted Ex-Im Bank a four-year reauthorization through the end of Fiscal Year 2001 to continue our work in support of U.S. exports and jobs.

Our dedicated and talented staff has achieved notable success in the past year, especially in implementing new ways to bring the Bank’s programs closer to our customers — U.S. companies, small and large, that seek to export their products and services to developing markets around the globe.

“Jobs through Exports” is not just a slogan: it is a mission that we carry out every day. We help businesses across the country to enter new and rapidly growing markets, where private sources of financing are very limited or nonexistent. For many people, Ex-Im Bank’s daily work of leveling the playing field for U.S. companies may seem as remote as the countries to which U.S. goods and services are being shipped. However, American workers — whether they are building commercial aircraft, telecommunications equipment, power generation facilities, or water purification systems to provide safe drinking water in developing nations — have higher quality, better paying jobs, thanks to Ex-Im Bank’s financing.

The narrative of this report features several recent Ex-Im Bank transactions and shows the broad effect on subcontractors and subsuppliers around the country. Too often, we view “exporters” in narrowly defined terms, thinking only of traditional contract holders, missing myriad unseen companies that, in fact, are the contract “fulfillers.” It is estimated that Ex-Im Bank supports more than 200,000 jobs directly each year among primary contractors and an additional *one million jobs* indirectly among subcontractors and subsuppliers.

FISCAL 1997 IN REVIEW

Ex-Im Bank completed 2,348 transactions with a total export authorization of \$12.2 billion, supporting U.S. exports valued at more than \$15 billion. The bulk of our financing is for exports to the Big Emerging Markets, where commercial financing is insufficient or unavailable.



I believe that Ex-Im Bank, when considered by any set of objective economic criteria, is an excellent value for the U.S. taxpayer. Assuming that pre-tax margins are 10% to 15% on the \$15 billion in exports, income tax receipts for the federal government directly related to these specific exports would approximate the \$843 million program budget of Ex-Im Bank in FY 1997. In other words, the net cost of Ex-Im Bank programs to the taxpayer is very modest.

During 1997, Congress conducted an extensive review of Ex-Im Bank’s policies and programs in order to determine whether to reauthorize the agency. Ex-Im Bank’s previous reauthorization was in 1992 for a five-year period.

Within 30 days of my swearing-in, I testified before the Senate Banking Committee on behalf of Ex-Im Bank’s reauthorization. It was an unusual initiation for me, but upon reflection, I believe it was a healthy and important process. The Bank’s staff and leadership met with many members of Congress, testified in numerous hearings, and listened to their concerns. I was delighted that the Senate voted unanimously and the House of Representatives by a margin of 378 to 38 to reauthorize this agency through FY 2001.

Ex-Im Bank achieved a number of other significant milestones this past year. Our Project Finance Division, formed just three years ago to meet the growing global demand for limited recourse project financing, completed its 22nd transaction, bringing aggregate Ex-Im Bank support for this type of financing to \$6 billion.

Ex-Im Bank’s Working Capital Guarantee Program, an important source of export financing for small and medium-sized businesses, authorized loans of \$443.3 million in FY 1997 — a new record. The Bank continues to take very seriously our mandate to reach out to small business, and we are working closely with our 34 City/State partners and 80 Delegated Authority lenders to find new

EX-IM BANK
JOBS THROUGH EXPORTS



"We can not create enough good jobs and increase wages if we don't expand trade. There's a simple reason why. Indeed, about a third of the economic growth that has produced 13 million new jobs over the past four and a half years has come from selling more American products overseas."

– President Bill Clinton

venues to enhance participation in our programs. Significantly, 357 small businesses that received Ex-Im Bank's assistance during the year had not previously participated in Bank programs.

In FY 1997, the growing world economy generated considerable demand for U.S. capital goods and equipment. In the aircraft sector, demand for financing grew among developing country airlines seeking to modernize their fleets. Ex-Im Bank's Aircraft Finance Division supported \$2.1 billion in exports.

As the official export credit agency of the United States, Ex-Im Bank continues to lead U.S. government efforts in international negotiations to level the playing field for American business. Ex-Im Bank has been working for the past several years within the Organization for Economic Cooperation and Development (OECD) to reach agreement on several key issues that directly affect the ability of U.S. firms to export. In June 1997, the Bank supported a new agreement by the OECD's Export Credit Arrangement group to set minimum premium rates (also called exposure fees) for country and sovereign risk. This agreement is an important step toward increasing fair competition in the world marketplace.

WORKING TOWARD A STRONG FUTURE

I believe that it is important that Ex-Im Bank anticipate changes in the marketplace and the needs of the Bank's customers, and develop appropriate policies and programs.

Attaining the next level of achievement means improving Ex-Im Bank's responsiveness to our customers and creating new and innovative programs. It means expanding the number of small businesses using Ex-Im financing to enter the global market, reestablishing the leadership role of our Project Finance Division, increasing the number of delegated authority banks, and expanding our City/State Program. In this balanced-budget era, Ex-Im Bank must manage both financial and human resources more efficiently. Simply put, we must maximize the value for the taxpayer.

It is important to note that Ex-Im Bank began FY 1998 with a significant backlog in demand for financing, but we are closely monitoring recent developments in Asia and Russia with a view toward the impact of any economic decline on the demand for U.S. products and services. The explosive growth of emerging markets around the world will not continue in a straight line — there will be bumps along the way. I believe that management

at the Bank is well prepared to meet the challenges of the future and to continue building. In this regard, we are focusing on the following opportunities:



- Partnership with the private sector: We will work to expand the availability of financing for U.S. exports by pioneering joint ventures with the private sector to leverage constrained budget resources.
- More small business support: We will develop new financing programs to enhance support for small and medium-sized businesses.
- Intergovernmental coordination: We will work to integrate our programs and activities with other export assistance programs of the U.S. government in order to unify and strengthen support for American exports.

- Reduction of trade-distorting practices: We will continue our efforts in multilateral negotiations to reach new agreements that would reduce export finance subsidies and related practices that distort trade and unfairly disadvantage U.S. exports.

Ex-Im Bank's impact is felt in thousands of cities and towns across the country where American workers create the goods and provide the services that are the export engines of growth in the U.S. economy. After almost four decades in the private sector as an investment banker, I am proud to serve with the employees of Ex-Im Bank to meet the challenges ahead.

As President and Chairman of Ex-Im Bank, I am mindful of the many who preceded me and the many who will follow. I am grateful to my three immediate predecessors who were helpful to me in preparation for this assignment. With the cooperation of a talented staff and an excellent Board of Directors, I am confident that we shall be able to add value to the Bank for the benefit of the taxpayer.

James A. Harmon, Chairman
Export-Import Bank of the United States

E X - I M B A N K
R E A U T H O R I Z A T I O N



“We have been reinvigorated by the strong support Ex-Im Bank has received from the President and Congress.”

– Jackie M. Clegg,
Ex-Im Bank Vice Chair.

ON NOVEMBER 26, 1997, President Bill Clinton signed into law P.L. 105-121, extending the charter of the Export-Import Bank of the United States through September 30, 2001. Earlier in the fall, Congress gave overwhelming bipartisan support to Ex-Im Bank’s four-year reauthorization, with a unanimous vote in the Senate and the House voting 378 to 38 in favor of renewing Ex-Im Bank’s mandate to sustain U.S. jobs by financing U.S. exports to emerging markets.

“We have been reinvigorated by the strong support Ex-Im Bank has received from the President and Congress,” Ex-Im Bank Vice Chair Jackie M. Clegg said. “We also appreciate the efforts of business and labor leaders who worked to inform Congress and the public on the important role that Ex-Im Bank fulfills in supporting exports and jobs in communities across the country.”

Ex-Im Bank’s reauthorization means that for the next four years, Ex-Im Bank is authorized to continue providing all of its export financing programs to U.S. companies, small and large, to help them compete effectively in developing markets throughout the world.

A G L A N C E A T T H E
N U M B E R S F O R F Y 1 9 9 7

- Ex-Im Bank authorized \$12.2 billion in loans, guarantees, and insurance for U.S. exporters.

SMALL BUSINESS

- Ex-Im financed 1,935 transactions supporting small and mid-sized businesses—357 of these businesses had not previously participated in the Bank’s programs.
- 332 working capital authorizations totaled a record \$443.3 million, compared with 286 authorizations totaling \$377.8 million for the previous year.

AGRICULTURE

- Ex-Im assisted in the export of \$95.7 million in agricultural commodities, live-stock, foodstuffs, and related products. Ex-Im Bank supported exports of agricultural equipment, chemicals, and other supplies totaling \$290.0 million.



SERVICES

- Ex-Im’s loan, guarantee, and insurance authorizations assisted \$1.59 billion in service exports.

ENVIRONMENT & ENERGY

- Ex-Im approved financing for 47 transactions involving environmentally beneficial exports. The total export value associated with these transactions was \$1.9 billion, of which \$551 million, or 29%, represented environmentally beneficial products and services.
- Ex-Im supported 24 energy transactions with a total export value of \$3 billion.

INSURANCE

- Ex-Im Bank’s Export Credit Insurance Program supported 1,731 policies totaling \$2.84 billion in authorizations.
- Small businesses were issued 1,557 policies, which is 90% of Ex-Im Bank’s insurance policies. Small business authorizations totaled \$1.1 billion, or 53%, of total insurance authorizations.

Small Business Authorizations (\$ millions)

	Number		Amount	
	1997	1996	1997	1996
Export Credit Insurance	1,557	1,600	1,060	1,411
Working Capital Guarantees	301	276	367	339
Guarantees	73	49	306	473
Total Guarantees & Insurance	1,931	1,925	1,733	2,223
Loans	4	9	44	182
Grand Total	1,935	1,934	1,777	2,405

R E G I O N A L H I G H L I G H T S



ASIA/AFRICA

In FY 1997, Ex-Im Bank supported \$4.3 billion in U.S. exports to Asia and Africa.

Ex-Im Bank's financing was critical to Foster Wheeler's sale of boilers for the six unit 2,100 megawatt Yancheng coal fired power plant. The export was Foster Wheeler's single largest sale of boilers in its corporate history. The international bid was extremely competitive, with European and Japanese companies vying for the contract. A total of \$310 million of goods and services are expected to be procured in the United States, under the contract. Of that, more than \$225 million in steam generators and related equipment will come from suppliers in New York; Ohio; Virginia; Texas; and Illinois.

Ex-Im Bank is proud to participate in the "Partnership for Economic Growth and Opportunity for Africa," an economic initiative launched in FY 1997 by President Clinton with bi-partisan Congressional support aimed at increasing exports to Sub-Saharan Africa (SSA). The Ex-Im Bank supported \$217 million in exports to Sub-Saharan Africa in FY 1997. Currently, Ex-Im Bank is open to consider business in 18 Sub-Saharan African countries.

To support U.S. exporters' sales efforts in Africa, Ex-Im Bank is researching innovative methods of securing credit enhancement when individual country conditions are deemed too risky.

AMERICAS

Ex-Im Bank authorized \$2.37 billion in U.S. exports to Latin America in FY 1997.

General Electric won a \$227 million turnkey contract from Central Puerto S.A. of Buenos Aires for a 769 megawatt combined-cycle power plant. This was a fiercely contested order that GE won over competition from Germany, France, Japan, Sweden, and Switzerland. Ex-Im Bank provided a financial guarantee of \$156 million, which included enhanced coverage because the GE power plant met the Bank's environmental low emissions guidelines.

Ex-Im Bank was critical in Northrup Grumman's winning the \$6.7 million contract to install a civil air radar traffic control system at San Salvador's international airport in El Salvador. Japan's export credit agency fought hard to help its exporters win this contract, as did—reportedly—ECAs of Canada and Spain. The American exporter won because Ex-Im Bank was able to match the financial terms offered by the other export credit agencies and force competition based on quality and service as well as price.

RUSSIA/NEWLY INDEPENDENT STATES

In FY 1997, Ex-Im Bank continued to expand its relationships with Russia and other members of the Newly Independent States. Under its Oil and Gas Framework Agreement (OGFA), which

backs U.S. sales of equipment and services to modernize the Russian oil sector, Ex-Im Bank approved the Ryazan Refinery rehabilitation project for \$230 million and the \$59 million Megionneftegas power plant project. To date, there are nine approved deals under OGFA, totaling \$971 million.

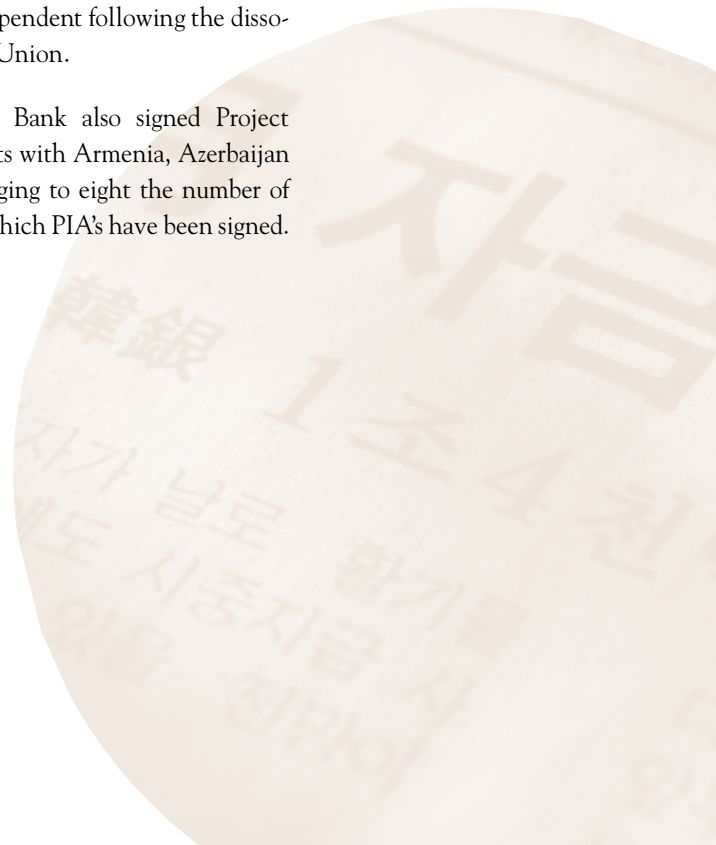


In addition, Ex-Im Bank approved four sovereign guarantee transactions in Russia totaling \$166 million: **Harris Group International** for pulp and paper production equipment; **MIC Industries**, for building manufacturing equipment; **American Capital Systems**, for textile equipment; and **Besser Company**, for concrete block manufacturing equipment.

In November 1996, Ex-Im Bank began accepting private commercial bank risk in Russia for its short and medium-term programs. Under the short-term insurance program, Ex-Im Bank approved four transactions totaling \$16.1 million with two Russian banks. Under the medium-term program, Ex-Im Bank has approved five transactions totaling \$26 million with four Russian banks.

The Bank also signed a Project Incentive Agreement (PIA) with Georgia which established a framework for financing U.S. exports on a non-sovereign basis. Revenue from the projects themselves are used to repay the financing, and thus allow Ex-Im Bank to support U.S. exports in countries where it is not yet possible to operate on a sovereign basis. Ex-Im Bank approved its first transaction under the Georgian PIA — the \$15.6 million sale by **Northrop Grumman Corp.**, Baltimore, MD of an air traffic control system to Georgia. The sale will help sustain U.S. jobs at Northrop Grumman and its subsuppliers in **Massachusetts, New York** and **Texas**. Ex-Im Bank has not opened its programs for sovereign-guaranteed transactions in Georgia since the country became independent following the dissolution of the Soviet Union.

In FY 1997, Ex-Im Bank also signed Project Incentive Agreements with Armenia, Azerbaijan and Kyrgyzstan, bringing to eight the number of NIS countries with which PIA's have been signed.



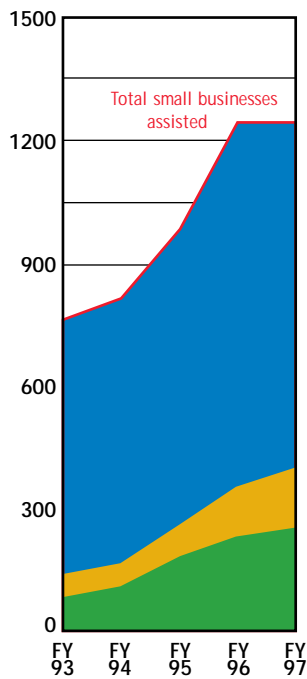
S M A L L B U S I N E S S

I N F Y 1 9 9 7 ,

Ex-Im Bank provided export financing to assist 1,935 transactions by small business, 82% of the total number of transactions (2,348) for the year. Ex-Im Bank directly authorized \$1.8 billion in loans, guarantees, and insurance for small business transactions, or 15% of its total authorizations, exceeding Ex-Im's congressional mandate of 10% of financing for small business.



Number of Small Businesses Assisted by Ex-Im Bank



Insurance	621	639	712	879	834
Int'l Lending	54	58	77	126	151
Working Capital	83	106	179	224	245
Totals	758	803	968	1229	1230

Ex-Im Bank supported almost one new small business with export financing for every day of the fiscal year—357 small businesses became first-time users of Ex-Im Bank programs, many through local delegated authority lenders and City/State partners.

“Ex-Im Bank is aggressively reaching out to small businesses throughout the United States to help them compete in the global marketplace and sustain U.S. jobs,” said Ex-Im Bank Board Member Maria Luisa Haley, who has oversight of the Bank’s small business programs. “We want to ensure that no U.S. small business loses the opportunity to make a foreign sale because it lacks working capital or competitive export financing.”

WORKING CAPITAL GUARANTEE PROGRAM

Ex-Im Bank's Working Capital Guarantee Program provides pre-export financing by offering lenders a 90% guarantee on loans made to support the working capital needs of small and medium-sized companies. FY 1997 was outstanding for the program, which grew by 17% in dollar volume and 16% in transaction volume.

In FY 1997, Ex-Im Bank authorized a total of \$443.3 million in working capital guarantees, \$367 million of which was for small businesses. Of the 332 working capital guarantee transactions authorized in FY 1997, 301 were for small businesses: 90% of the transaction volume.

Infosight Corporation of Chillicothe, Ohio, is the kind of small business that has grown through foreign sales made possible by Ex-Im Bank financing. Infosight, a manufacturer of hot steel marking equipment, exports its products to countries such as India, Turkey, Indonesia, and Poland. In three years, Infosight has tripled its staff as a result of exports made possible by Ex-Im Bank's working capital guarantees.

DELEGATED AUTHORITY LENDERS PROGRAM

The growing success of Ex-Im Bank's Working Capital Guarantee Program is due to the expanded availability and faster turnaround time achieved through the Delegated Authority Lenders Program. In FY 1997, delegated authority lenders approved over \$328 million in Ex-Im Bank's working capital guarantees (74% of dollar volume) in 284 transactions (86% of transaction volume). At the end of the fiscal year, there were 80 delegated authority lenders and their affiliates in 42 states.

EXPORT CREDIT INSURANCE

Ex-Im Bank's Export Credit Insurance Program is a key support to small exporters because its policies protect them from the risks of foreign buyer default for commercial or political reasons. The program encourages exporters to offer foreign buyers competitive terms of payment and enables companies to compete successfully in higher risk foreign markets. The insured exporter may assign the proceeds of the policies to a financial institution, which gives exporters and lenders greater flexibility in handling overseas accounts receivable.

"Ex-Im Bank is aggressively reaching out to small businesses throughout the United States to help them compete in the global marketplace and sustain U.S. jobs."

– Maria Luisa Haley,
Ex-Im Bank Board
member.

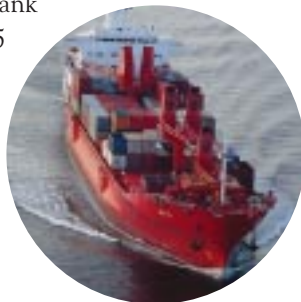
“The labor movement has always supported the Export-Import Bank, and we are anxious to continue to do so....it is imperative that the Bank stay on course and that is to create jobs for American workers.”

– John Sweeney,
President, AFL/CIO,
Ex-Im Bank Annual
Conference, May 1997.

In FY 1997, Ex-Im Bank authorized \$1.1 billion in export credit insurance to assist 1,557 small business transactions. Nearly 90% of Ex-Im Bank's export credit insurance transactions were authorized for small businesses.

Ex-Im Bank offers a wide range of policies to accommodate many different export credit insurance needs. Policies may be for single or repetitive export sales and leases, may cover a single buyer in one country or multiple buyers in several countries, and provide comprehensive (commercial and political risk) or political-risk-only coverage. Short-term policies (up to 180 or 360 days) are available to support exports that include consumer goods, raw materials, bulk agricultural commodities, and capital goods.

Ex-Im Bank's medium-term insurance policy (repayment terms up to five years) has become increasingly popular. In FY 1997, Ex-Im Bank authorized \$531.5 million in medium-term policies.



OUTREACH

Ex-Im Bank improved and strengthened outreach to small businesses in FY 1997 through 34 state and local government offices and other organizations that participate in the City/State Partners Program, offering small businesses the advantage of state and local experts on local business and lending with the financing resources of Ex-Im Bank. The program, which began in 1988, has grown steadily in amount of Ex-Im Bank financing facilitated through the program and in the number of organizations participating.

Ex-Im Bank is also devising new strategies to reach more non-bank lenders and encourage them to support small businesses in export transactions. New publications such as *Export Finance*, a quarterly newsletter, and interactive technologies, available on Ex-Im Bank's web site, are being developed to reach out directly to small business and to assist more minority-owned and women-owned businesses.

D E L E G A T E D A U T H O R I T Y



Ex-Im Bank's Delegated Authority Program helped provide record levels of working capital financing to small and medium-sized U.S. businesses across the country in FY 1997. Ex-Im Bank authorized \$443.3 million in working capital guarantees during the year—up 17% over the previous year—enabling American companies to sell \$2.3 billion of equipment and services in overseas markets and sustain thousands of high-quality jobs at home. Of these transactions, 86% were processed by banks that are members of the Delegated Authority Program, up from 68% in FY 1996.

Working capital guarantee financing helps small and medium-sized companies finance export-related costs such as receivables and inventory. The Delegated Authority Program, introduced in 1994, empowers qualifying local banks to provide this Ex-Im Bank-guaranteed financing to their customers without prior approval by Ex-Im Bank. As a result, exporters receive prompt credit commitments from nearby lenders to fill time-sensitive foreign orders.

Eighty approved banks and their affiliates in 42 states currently are Delegated Authority Lenders. During FY 1997, they provided \$328.2 million of Ex-Im Bank working capital financing to customers. Already, delegated

authority has enabled Ex-Im Bank to double its Working Capital Guarantee Program without adding staff in Washington.

The Delegated Authority Program was cited by the National Performance Review in its 1997 Annual Report—*Business-Like Government: Lessons Learned From America's Best Companies*—as an example of a reinvented government program that provides high quality customer service. Indeed, the program offers banks a new service and profit incentive for customers, provides small businesses with easier access to a Washington-based government program, and enables Ex-Im Bank to fulfill its mandate of providing jobs through exports by reaching more customers.

“The Ex-Im Bank Working Capital Guarantee Program plays an instrumental part in helping Bank One customers across our 12-state market grow their businesses by enabling them to access working capital that would otherwise not be available,” said Mike McKenzie, senior vice president of Bank One International Corporation. “Delegated authority has been the difference in making many of these transactions cost-effective for us. We see the Delegated Authority Program as a key business-lending initiative for Bank One in 1998 and beyond.”



C I T Y / S T A T E P R O G R A M



E X - I M B A N K ' S City/State Partners Program brings the expertise of a federal government agency based in Washington, D.C., to the exporter's backyard. A cooperative effort between Ex-Im Bank and state and local government offices and other organizations, the City/State Partners Program features state and local experts who can direct exporters and local lenders to the right Ex-Im Bank programs without leaving their own communities. Exporters can receive the assistance of an Ex-Im Bank City/State partner in 34 communities throughout the United States.

In FY 1997, \$133 million of Ex-Im Bank's authorizations were facilitated and/or approved through its City/State partners. More than 90% of these authorizations supported small business transactions.

In March 1997, Ex-Im Bank approved a one-year pilot program for the Erie County Industrial Development Agency (ECIDA). Under the pilot program, ECIDA was designated a lender able to provide working capital loans guaranteed by Ex-Im Bank. Prior to the pilot program, Buffalo Technologies Corporation in Buffalo,

New York, reaped the benefits from ECIDA's export expertise. Through ECIDA, Ex-Im Bank authorized a \$2.4 million working capital loan guarantee to support \$5.1 million in exports of the company's food processing equipment to China. The transaction contributed to the addition of approximately 20 jobs to the 138-worker payroll at Buffalo Technologies.

"Without Ex-Im Bank financing, we would not have been able to participate in the China project," said John B. Nemcek, president of Buffalo Technologies.

ECIDA has signed master guarantee agreements with Ex-Im Bank that enables it to provide exporters with working capital loans guaranteed by Ex-Im Bank even more efficiently. ECIDA will be eligible to become an Ex-Im Bank delegated authority lender when two Ex-Im Bank guaran-

teed working capital loans are completed.

The Minnesota Export Finance Authority is another Ex-Im Bank City/State partner that has helped local business to flourish. At a hearing in July 1997 of the U.S. Senate Subcommittee on International Finance, Executive Director Noor Doja testified, "The Export-Import Bank is key in sustaining and increasing jobs in this country by financing exports that would otherwise not happen. Without Ex-Im Bank, the U.S. could lose major opportunities to foreign competitors in the fastest growing markets in the world."

The Minnesota City/State partner put StoneL Corporation of Fergus Falls, Minnesota, a small company that manufactures valve monitoring equipment, in touch with Ex-Im Bank's programs. Ex-Im Bank's insurance resulted in an extension of \$200,000 in StoneL's line of credit from a local bank. (See the profile on page 36.)



"The Export-Import Bank has a fine record and one that should be supported. It's an important organization that has helped many of our industries and has done good work for our country."

Excerpt remarks from George P. Shultz, Director and Senior Counselor, Bechtel Group, Inc., and former U.S. Secretary of State to the Ex-Im Bank Advisory Committee on June 12, 1997 at the Federal Reserve Bank in San Francisco, California.



P R O J E C T F I N A N C E

EX-IM BANK'S Project Finance Division scored important firsts in FY 1997. The Bank authorized a record \$2.6 billion in financing to ensure American exporters participated in private power, natural resource, and telecommunications projects around the world. This supported tens of thousands of American jobs at suppliers and sub-suppliers across the country. 1997 financing, up from \$1.7 billion in 1996, pushed the three-year-old division's total authorizations over the \$6 billion mark.

Limited recourse project finance is a type of private financing in which the determination of reasonable assurance of repayment is based on a project's revenues, rather than a guarantee of the debt by the host country government. Such financing is in strong demand in developing countries seeking to build infrastructure without overly burdening their governments' debt. Ex-Im Bank is responding to this demand. Five years ago, two thirds of the Bank's financing was public—backed by a sovereign guarantee from the borrower country—and one third private. Now the ratio is reversed, and a large part of this private financing is project finance.

In FY 1997, the division broke new ground by approving:

- its first conversion of a project finance transaction from the construction phase to the operations phase

- its first project financing of a telecommunications project
- its first completely independent power project with a private electricity buyer and no government backing, and
- its first project financing on the African continent.

Pagbilao Project.

(See the profile on page 28.) The 700-megawatt Pagbilao power plant in the Philippines has made history since Ex-



Im Bank approved financing for the project in 1993. It was the first time that a group of international lenders joined in limited recourse project finance in an emerging market for a private power project, with all the lenders signing a common agreement laying out security arrangements for the project. This format has been repeated on every transaction supported by the Project Finance Division since.

In fiscal 1997, Pagbilao became Ex-Im Bank's first project finance transaction to make the transition from the construction phase to the operations phase. Ex-Im Bank had provided commercial lenders with a guarantee of political risks during construction. At completion, financial and technical tests of its two coal-fired power units and

related infrastructure were successfully carried out. In March 1997, Ex-Im Bank replaced the commercial bank loan that had financed the building of the plant with a \$170 million direct loan. The loan will be repaid over a 10-year period from the project's revenues, which began flowing in early 1997.

Avantel and Alestra. Ex-Im Bank financed its first two telecommunications projects on a limited recourse basis in FY 1997.

The Bank supported \$306 million in exports for the Avantel long-distance telephone network using the latest fiber-optic technology in Mexico. MCI Communications, Washington, D.C., and Banamex (Mexico's largest commercial bank) are building a fiber optic network linking 33 Mexican cities to provide services similar to those offered by MCI to U.S. customers. Avantel will provide domestic and international long distance and value-added services in competition with Mexico's former telephone monopol Telmex (Telefonos de Mexico, S.A. de C.V. Telmex). The transaction will sustain hundreds of American jobs at MCI, which is licensing technology and providing engineering services, and at U.S. equipment suppliers including: Nortel Cala, Inc., Fort Lauderdale, Florida; Siecor Corp., Hickory, North Carolina; Clarify Inc., San Jose, California, and Digital Equipment Corp., Boston, Massachusetts.



Ex-Im Bank also approved financing for a similar project supporting \$282.4 million in U.S. exports for Alestra's long distance tele-



munications network using fiber-optic technology in Mexico. The network will link Mexico City, Monterrey, Guadalajara, and adjacent population centers. AT&T Telecom Mexico Inc. and Onexa, S.A. de C.V. will design, build, and operate the network, which will serve 60 cities representing 85% of Mexico's population and all of its major business centers. Primary contractors include Lucent Technologies, Warren, New Jersey; Baker Engineering, Beaver, Pennsylvania; and Alcatel Indetel, Claremont, North Carolina.

Quezon. In another pioneering effort, Ex-Im Bank approved \$444 million for its first completely independent power project with a private electricity buyer (rather than a government-owned electric utility): a 440-megawatt power plant in Quezon Province in the Philippines. Bechtel Overseas Corp., San Francisco is providing engineering and procurement services.

Suppliers from around the country include: Foster Wheeler, General Electric, Honeywell, Westinghouse, and Joy Environmental.

Jorf Lasfar. The Bank approved its first project financing on the African continent: the \$210 million sale of equipment and services by ABB-Combustion Engineering Systems, Windsor, Connecticut, and other U.S. suppliers for the Jorf Lasfar Power Project in Morocco. The U.S. Commerce Department estimates that this limited recourse project will help sustain about 3,000 U.S. jobs at principal suppliers and sub-suppliers around the country.

Ras Laffan and Qatargas. Ex-Im Bank authorized more than \$500 million for its first Qatari project financing for two gasfield and liquefied natural gas (LNG) development projects. The sale of U.S. equipment and services for the Ras Laffan and Qatargas projects, sponsored by subsidiaries of Mobil Corp., Fairfax, Virginia, will sustain thousands of high-quality American jobs at U.S. companies around the country, including primary contractors M.W. Kellogg and McDermott Engineering, both of Houston, Texas. The projects will tap the largest gas field in the world, Qatar's offshore North Field.

Oman LNG. Ex-Im Bank approved a political risk guarantee to finance the purchase of up to \$248 million in U.S. goods and services for its first project financing in Oman: the Oman LNG Project for the construction of a liquefied natural gas plant at Al-Ghalilah near Sur, Oman. The plant will tap Oman's large gas reserves and produce 6.6 million tpa (tonnes per annum) of liquefied natural gas to be sold to foreign offtakers. Among numerous U.S. suppliers to the project are Foster Wheeler USA Corp., Clinton, New Jersey; Air Products and Chemicals Inc., Hanover Township, Pennsylvania; General Electric, Greenville, South Carolina; and Orbit Valves International Inc., Little Rock, Arkansas.

Batu-Hijau Copper-Gold Project. Ex-Im Bank authorized \$425 million for its first project financing in Indonesia's mining sector. Two companies in Colorado, Newmont Gold Co., in Denver and Fluor Daniel Corp., in Golden, and other U.S. companies will export goods and services to develop the Batu-Hijau Copper-Gold Project, one of the

world's largest copper and gold deposits in Sumbawa, Indonesia. Overall, Ex-Im Bank's participation will leverage \$1 billion of U.S. procurement supporting more than 14,000 U.S. jobs directly (U.S. Department of Commerce estimate) and thousands more through subsuppliers. In addition to mining machinery and equipment provided by Caterpillar Americas Co., Peoria, Illinois, the project involves small business suppliers and service contractors in 26 states.



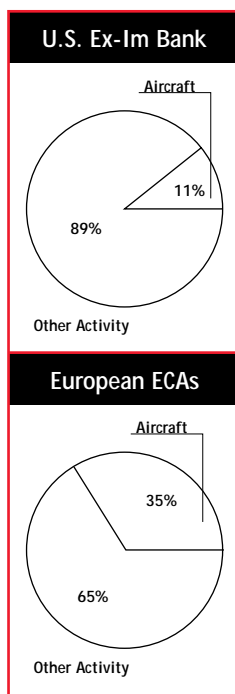
"Ex-Im Bank is remarkably effective at helping create jobs, opportunities for trade, stable democracies and vibrant economies throughout the world. The Bank has made a tremendous contribution as a rapid response service-oriented agency designed to meet the export financing needs of American business."

– Dick Cheney,
Chairman of the Board
and CEO, Halliburton
Company and former
U.S. Secretary of
Defense, Ex-Im Bank
Annual Conference,
May 1997.

AIRCRAFT FINANCE

EX-IM BANK - FINANCED aircraft exports sustained tens of thousands of high-paying American jobs at the aircraft firms and their suppliers and sub-suppliers in all 50 U.S. states. In FY 1997, the Bank authorized \$2.177 billion in guarantees of commercial bank loans to support commercial aircraft sales and leases by The Boeing Co. and McDonnell Douglas Corp., up almost \$1 billion over FY 1996.

Aircraft Activity
as a share of
Total Activity—
FY 1995 - FY 1996



The U.S. aircraft makers overcame formidable competition from Airbus Industrie, a European consortium backed by official government financing from the United Kingdom, France, and Germany. With Ex-Im Bank support, American manufacturers sold aircraft in important emerging markets including the Czech Republic, the People's Republic of China, India, Kenya, Morocco, Poland, Turkey, and Uzbekistan.

Of the total support, \$494 million was sovereign financing, secured by the full faith and credit of the borrower country government, and \$1.633 billion was asset-based financing secured by the aircraft. Demand for asset-based financing has increased in recent years as more governments privatized their airlines, which sought to upgrade their fleets. In some cases, asset-based financing enabled Ex-Im Bank to support aircraft sales where it otherwise might not have been able to provide financing.

Small Aircraft. Ex-Im Bank also supported sales of smaller aircraft. Backed by Ex-Im Bank export credit insurance, Air Tractor, Inc., in Olney, Texas, a small manufacturer of agricultural planes, sold one third of its 1997 production to



foreign markets. (See the profile on page 26.) In addition, Ex-Im Bank supported the \$680,000 sale by MCR Aviation in Lancaster, Ohio, of a Piper Cheyenne II to a Brazilian alcohol distillery, and the \$1.6 million lease by Executive Leasing, in Shelby, North Carolina, of a Beech aircraft by a rock mining project in Brazil.

The impact of the exports was felt from coast to coast. The Boeing Company's export sales provided billions of dollars of payments to approximately 6,000 U.S. suppliers in all 50 U.S. states in 1997. Boeing's exports supported by Ex-Im Bank have helped to sustain high quality jobs at the company and among its suppliers and sub-suppliers throughout the country.

"Seventy percent of each Boeing commercial airplane person's paycheck derives from exports," said Boeing Chairman Phil Condit in a recent speech. "Trade touches all of us in one way or another."

Fiscal 1997 saw a number of highlights and firsts in Ex-Im Bank aircraft financing:

- **Air India.** The sale of two Boeing 747-400s to Air India, backed by a \$244.2 million Ex-Im Bank guarantee, received the 1997 *Air Finance Journal's* Deal of the Year Award.
- **Uzbekistan Airways.** Ex-Im Bank authorized \$171 million in financing to support the lease

of two Boeing 767 aircraft to Uzbekistan Airways. It was the first aircraft transaction supported by an official export credit agency to a newly independent state of the former Soviet Union. (See the profile on page 30.)

- **Czech Airlines.** A \$62.6 million guarantee in support of the sale of three Boeing 737s to Czech Airlines was the first asset-based financing in the Czech Republic.

- **China.** Ex-Im Bank provided more than \$480 million in guarantees in support of the sale to China of six McDonnell Douglas MD-90 aircraft, two Boeing 737-300s, and two Boeing 747-400s. Buyers included China Northern Airlines, China Eastern Airlines, Air China, and Yunan Airlines.



- **Kenya Airways.** Ex-Im Bank authorized \$53 million in financing for the lease of two Boeing 737 aircraft to Kenya Airways. The asset-based financing structure enabled the Bank to extend long-term support for the aircraft in a developing market where otherwise the Bank is open only for short- and medium-term financing.
- **LOT Polish Airlines.** LOT Polish Airlines added to its all U.S.-manufactured jet fleet by leasing two Boeing 737-300s, two 737-400s, and one 767-300ER aircraft, with a \$196.7 million guarantee from Ex-Im Bank.

E N V I R O N M E N T & E N E R G Y

“Ex-Im Bank is strongly committed to helping American companies sell environmentally beneficial goods and services in developing foreign markets.”

– Julie Belaga,
Ex-Im Bank Board
member and Chief
Operating Officer.

E X - I M B A N K ' S environmental program encourages the export of environmentally beneficial products and services and includes guidelines regarding the environmental impact of projects supported by Ex-Im Bank financing.

In FY 1997, Ex-Im approved financing for 47 transactions involving environmentally beneficial exports. The total export value associated with these transactions was \$1.9 billion, of which \$551 million, represented environmentally beneficial products and services.



These transactions included Ex-Im Bank loan guarantees for projects such as a flue gas desulfurizer for an existing coal-fired power plant in Turkey, and water and sewage treatment plants in Venezuela. Ex-Im Bank's insurance policies supported exports of other environmental products, such as water purification equipment.

With respect to renewable energy, Ex-Im Bank issued several preliminary commitments to support the export of equipment for wind power projects. The Bank also approved export transactions resulting in substantial energy efficiency gains — one project, for example, converted gas that was being flared at an oil field to fuel an electric power plant, while another project involved a combined-cycle power plant that will

use the waste heat from gas turbines to produce additional electric power. “Ex-Im Bank is strongly committed to helping American companies sell environmentally beneficial goods and services in developing foreign markets,” said Ex-Im Bank Board member and Chief Operating Officer Julie Belaga.

To encourage the production of clean energy, Ex-Im Bank provided support for U.S. exports to three thermal electric power projects, including equipment that minimized air pollution emissions to levels that met incentive limits set forth in the Bank’s environmental guidelines.

In the energy sector, which includes oil and gas, coal, and electric power projects, Ex-Im Bank supported 24 transactions with a total export value of \$3 billion. All of these transactions met Ex-Im Bank’s environmental guidelines, including two transactions supporting \$262 million in U.S. exports for projects to upgrade the safety of existing nuclear power plants.

INTERNATIONAL NEGOTIATIONS

In 1997, Ex-Im Bank (in partnership with the Treasury Department) continued its long-standing effort to reduce official export credit subsidies and create a more level-playing field for U.S. exporters through multilateral negotiations at the Organization for Economic Cooperation and Develop-

ment (OECD). These negotiations began more than 25 years ago and, as results are achieved, they are embodied in the OECD’s “Arrangement on Guidelines for Officially Supported Export Credits”

which stipulates the basic financing conditions for official export credit support. Every major industrialized country is a party to this arrangement. “Our objective in international negotiations is to establish market forces as the guiding principle for governments’ support of their export credit programs,” said Ex-Im Bank Board member Rita M. Rodriguez.

Among the wide array of topics touched upon in the 1997 OECD negotiating agenda, significant concrete accomplishments were achieved in the areas of tied aid and exposure fees (the fees that export credit agencies charge for transaction risk, also known as risk premia).

TIED AID

In general, the term “tied aid” refers to any trade-related aid credit provided by a donor government for public sector projects in developing countries which is conditioned upon the purchase of equipment from suppliers in the



“Our objective in international negotiations is to establish market forces as the guiding principle for governments’ support of their export credit programs.”

– Rita M. Rodriguez,
Ex-Im Bank Board
member.



“The Ex-Im Bank plays such a vital role in sustaining economic growth and providing Americans with jobs. The Bank makes a difference — a lasting difference — not just on Wall Street, but on Main Street.”

– Vice President
Al Gore.

donor country. Although the provision of tied aid can be a perfectly legitimate way to promote genuine aid objectives, it may also serve as a tool for winning export sales and distorting trade. Starting in the late 1980's, competitors began to use tied aid more and more to distort trade to the benefit of their national exporters.

Fiscal year 1997 marked the final chapter of the implementation of the Helsinki Agreement, which has been responsible for reducing total tied aid offers by about 50% since its inception in 1992. Based on the body of experience gained since 1992, the OECD in 1997 adopted and published a formal set of criteria, known as ex-ante guidance that effectively limits tied aid to those projects that have a genuine aid objective.

EXPOSURE FEES

In contrast to “closing the loop” on the Helsinki tied aid agreement, the 1997 agreement on minimum exposure fees (also known as premia to insurance export credit agencies) represents a truly new success in a previously undisciplined area. Although the OECD Arrangement has long regulated minimum interest rates maximum repayment terms, and other aspects (such as the minimum cash payment required) of official

export credit transactions; until now, ECAs have been free to charge any fee that they deemed appropriate to cover a transaction's risk of non-repayment.

The new rules include minimum premia for seven country risk categories, establish review procedures, and provide for a comprehensive electronic exchange of information designed to maintain maximum transparency among OECD members. The new rules will take effect on April 1, 1999, after a two-year transition period, and will apply to all officially-supported export credits with a repayment term of two years or longer that are provided by direct financing, refinancing, insurance, or guarantees. (Official export credits for ships, large commercial jet aircraft, and agriculture are excluded.)

The new agreement establishes reasonable rules for leveling the playing field in terms of exposure fees (premium rates) and maintains U.S. export financing competitiveness. Moreover, it provides for current budget savings as well as future opportunities for steady progress in subsidy reduction.



KEY INDUSTRIES

Section 8(d)(1) of the Export-Import Bank Act of 1945, as amended, directs Ex-Im Bank to include in its Annual Report a detailed description of its actions:

- To maintain the competitive position of key linkage industries in the United States;
- To support industries which are engaged in the export of high value-added products;
- To support industries which are engaged in the development of new capital goods technology;
- To preserve and create high-skilled jobs in the United States economy; and
- To enhance the opportunity for growth and expansion of small businesses and entrepreneurial enterprises.

Ex-Im Bank's Fiscal Year 1997 activity (financial support for shipments and disbursements) included support for approximately \$6.3¹ billion in exports from 34 industry groups which fall into the first four of these "key" industries. Although many products could fit into more than one category, products are only allocated to one category.

Key linkage industries are those critically linked to the cost competitiveness of many businesses, and are often referred to as "forward linkage" industries. These industries produce inputs necessary for the production of durable goods. This category also includes certain industries that are key to national defense. In 1997, Ex-Im Bank assisted \$234.1 million in exports from three (3) key linkage industries: petroleum, steel products, and metal working equipment industries.

High value-added products are those in which the value of output generated per unit of resource input is above average. This number is derived by dividing the value added by an industry by the total value shipped by that industry. For this report, high value-added is defined as a value-added to value-shipped percentage greater than .50. Ex-Im Bank activity assisted \$486 million in exports from nine (9) industry groups which produce high value-added products.

The new capital goods technology category consists of certain typically high technology export industries which produce innovative-type capital goods. These industries typically have research and development expenditures of 50% or higher than general industry standards. Industries meeting this description include computers and accessories, electronic equipment, specialized machinery, telecommunication equipment, aircraft and parts, and automotive. Ex-Im Bank activity assisted \$4.1 billion in exports from seven (7) of these industries.

The *high skilled jobs* category includes those industries that employ a high concentration of scientists, engineers and technicians. Such industries take advantage of the U.S. comparative advantage in relatively expensive skilled labor. Sectors that demonstrate a high concentration of skilled jobs, but which are not key linkage industries and do not produce new capital goods technology or high valued-added exports, include services, chemicals, construction, metal products, engines and railways. Ex-Im Bank activity assisted \$1.6 billion in exports from 15 industries in the high-skilled jobs category.

¹Ex-Im Bank's 1997 activity numbers for the key industries are larger than in previous years. This increase is a result of a change in the process for gathering disbursement information, and does not necessarily indicate an increase in support.

ADVISORY COMMITTEE STATEMENT FOR THE 1997 ANNUAL REPORT:

The 1997 Export-Import Bank Advisory Committee approves the Lundine Report on Key Industries without change.