EXPORT-IMPORT BANK of the UNITED STATES

REPORT TO THE U.S. CONGRESS
ON EXPORT CREDIT COMPETITION AND
THE EXPORT-IMPORT BANK OF THE UNITED STATES

FOR THE PERIOD
JANUARY 1, 2008 THROUGH DECEMBER 31, 2008

JUNE 2009

June 30, 2009

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
SD-534 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

In accordance with Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to forward the report of the Export-Import Bank of the United States on the competitiveness of its export financing services. This report covers the period January 1, 2008, through December 31, 2008.

Sincerely,

Fred P. Hochberg
Chairman and President

June 30, 2009

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

In accordance with Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to forward the report of the Export-Import Bank of the United States on the competitiveness of its export financing services. This report covers the period January 1, 2008, through December 31, 2008.

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THE 2009 ADVISORY COMMITTEE'S STATEMENT ON THE 2008 COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Members of the 2009 Advisory Committee have reviewed the 2008 Competitiveness Report to Congress and present our statement on the Reports findings regarding the competitiveness of the Ex-Im Bank as compared with the other major G-7 export credit agencies (ECAs).

Methodology: The Advisory Committee agrees that the overall value of the Report is enhanced by the inclusion of the "emerging issues" section and, in particular, with this year's chapter regarding the ECAs in the Financial Crisis. The role for ECAs is never more critical than during periods of economic and financial turmoil. Therefore, the Members are reassured to know that Ex-Im Bank is closely monitoring and considering solutions to the rapid changes and the potential effects that actions taken by other ECAs and/or their governments could have on the overall competitiveness of Ex-Im Bank, U.S. exports, and on U.S. employment.

In addition, the majority of the Advisory Committee members believe that the "report card" approach provides a useful tool with which to gauge Ex-Im Bank's relative competitiveness across its ECA competitors as well as on a year-to-year basis.

However, the two members representing labor have expressed concern about how the Report addresses the issues of content, economic impact and U.S. shipping requirements, including the methodology. In particular, the labor members neither concur with the Report's description of these issues nor the description of, or the impact on, the U.S. exporting community's experience with these factors as an important element in their overall competitiveness.

Moreover, the vast majority of the Members also concur with the Report's findings that, while there was some modest improvement in some areas (or at least no adverse changes), there was further deterioration in one of the more critical areas –assumption of risk. This finding is of serious concern because of the significant role ECAs need to be playing especially during the financial crisis in order to keep trade flowing and hopefully growing. Further, as a "Lender/Insurer of Last Resort" which the Committee believes is the appropriate approach for a government ECA to take, Ex-Im Bank needs to be taking a more aggressive posture.

Findings: With the noted exception of the members representing labor, the other members of the Committee agree with the overall and specific findings. In this regard, the Committee members highlight and recommend a more in-depth evaluation aimed at thoughtful and near-term solutions:

- Core Business Policies and Practices: Cover policy/risk taking: The Advisory Committee members have a serious concern regarding the risk taking attitude, given the Bank's primary mandate to step in when the private sector is not willing or able to assume certain risks, particularly during tumultuous times which we have experienced and are likely to see for the foreseeable future. While the members also recognize the requirement to find a reasonable assurance of repayment as part of Ex-Im Bank's mandate, the Committee believes that the Bank needs to consider alternative methods of managing risk to achieve a greater appetite and capacity for risk (e.g., a portfolio management approach).

- Major Program Structures: The Advisory Committee applauds the Bank for having concluded the last two G-7 ECA co-financing agreements with France and Germany in late 2008. The signing of these agreements reflects a more concerted effort by Ex-Im Bank and its ECA counterparts to resolve differences for mutual benefit. The members look forward to truly additional transactions and U.S. jobs being supported under the co-financing/bilateral structures that would not have occurred otherwise.

  Regarding the other programs of Project Finance and Aircraft, the Bank continues to maintain reasonable competitiveness with its ECA counterparts. However, foreign currency support still lags our competitors in terms of "willingness to assume foreign currency risk" in both hard and soft currencies.

- Public Policy Issues: The Advisory Committee notes that the issues of content, economic impact, and Marad/PR 17/shipping requirements have repeatedly been identified by the U.S. exporting community as hurdles to Ex-Im Bank's ability to provide a full range of competitive financing as compared to other ECAs. Accordingly, the Advisory Committee urges the new Administration to pursue possible solutions that would achieve more balance along both the competitiveness and employment vectors. Such an effort needs to include all stakeholders, including Congress, labor and the business community.

The Advisory Committee would also strongly urge Ex-Im Bank to consider the following:

- The world and the U.S. economy are facing serious and significant challenges of the greatest magnitude. Trade and exports, in particular, play a critical role in stimulating positive economic activity and growth. While Ex-Im Bank is relatively small compared to other USG agencies, the impact it has on supporting U.S. exports and jobs that would not be supported otherwise is significantly beneficial and clearly outweighs the costs. This is especially true in the current economic climate where every export sale translates into revenue that supports the infrastructure of the company and its workers, and the U.S. economy generally.

- Ex-Im Bank's role and mission are clear: support U.S. jobs through providing financing that is competitive with our ECA counterparts when the private sector is unwilling or unable to be involved. Never has the need for Ex-Im Bank been greater and accordingly, the Bank needs to diligently and thoughtfully pursue approaches and practices that are proactive, supportive of its mission and mandate, and are relevant to its exporting constituency.

- This directive may require Ex-Im Bank to reconsider if and how it is fulfilling its fundamental role as a Lender/Insurer of Last Resort and to modify its thinking and ways to manage risk differently and better. Or it may require other issues be taken into account. In any event, an opportunity to undertake a wholesale review of how its programs and approaches actually fit the Bank's core mandates has been presented – an opportunity we hope the Bank will avidly pursue.

- The Advisory Committee therefore, urges the Bank to seize this opportunity at a time in which the ECA world has come to a standstill to meet the economic and financial challenges that the current crisis has created. The Bank has outstanding human resources and capabilities that could be brought to bear to address these monumental issues. Once the crisis has abated, our ECA counterparts will presumably be getting "back to business." If Ex-Im Bank has not taken this moment in its history to recreate itself in a manner fitting of the U.S., the country, our exporting community, and U.S. jobs will suffer.

Summary: The Advisory Committee would like to recognize the Bank and its candid Report on its competitiveness vis a vis its ECA counterparts. In addition, the members also appreciate the ongoing effort by the Bank to stay abreast of the dramatic changes and the potential implications arising from the current financial and economic crisis. Forward, strategic thinking that addresses the new challenges that are emerging from this environment will assist Ex-Im Bank in the months and years ahead as it charts its course over a dramatically new landscape. However, forward thinking is not enough; rather, thoughtful consideration needs to be accompanied by careful but assertive decision-making regarding the Bank's philosophy, policies and programs. As the 2008 Advisory Committee Statement to the 2007 Report said:

> "The warning signs are clear: if it is to remain an effective and value-adding player in the export credit arena, Ex-Im Bank can no longer delay in rethinking its programs and policies within the framework of U.S. government trade and economic policy. As global competition intensifies, the need for a viable and relevant Ex-Im Bank has never been greater."

The 2009 Advisory Committee wholeheartedly agrees and reconfirms this statement; the only difference is that the time of greatest need is actually now and moving forward over the next several years. Rather than the Bank standing still, the Committee believes that Bank can and should do much better. We sincerely hope that the Bank steps up to meet this challenge.

Robert Bernabucci
Chairman
2009 Ex-Im Bank Advisory Committee

2008 Competitiveness Report

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Executive Summary

Background

The 2008 Annual Report to Congress on Export Credit Competition provides a comparative evaluation of the competitiveness of Ex-Im Bank's medium and long term programs and policies with those of the major G-7 export credit agencies (ECAs) during the calendar year. In conducting this assessment, Ex-Im Bank obtained information from the ECAs themselves, reliable data sources (e.g., WTO, OECD), surveys and focus group discussion with the U.S. exporting community, and compares the specific features and elements of its programs and policies with those of the Bank's major counterparts.

Findings

As the last couple of decades have spanned the ending of one and the beginning of another century, the evolution of the traditional export credit industry has mirrored that pattern of marking an ending and a beginning. A large part of the official export credit industry began shifting from one clearly dominated by governments with public policy objectives to ones with more commercially oriented approaches, notwithstanding "still government." There are now but a few official government ECAs that define their primary rationales/raison d'être's as supplementing the private sector and addressing market failures. Today, the bulk of OECD official ECAs accept some limited "market failure" defined only within a framework that views competition with the private sector as acceptable, and running an annual surplus of paramount importance. For the last decade or so, the chasm between the two ECA business models has been on a steadfastly widening trajectory.

However, the events of 2008 brought this evolutionary trend to a halt – or at least have been put in abeyance – with ECAs being challenged to respond to the financial crises in a manner much more aligned with the public policy role of "lenders of last resort." The causes of the current financial and economic crises are numerous, but are different from any other market meltdown that has occurred in the post-World War II experience. Moreover, the scope – both the depth and breadth – of the impact is of world-wide proportions vs. being a regional or country specific condition. Since the 3rd quarter of 2008, the world market has been experiencing a period of high volatility, lack of liquidity, and perceptions of much heightened risk with an expectation that these conditions could exist on a protracted basis.

In looking back over 2008, Ex-Im Bank held its ground for the most part when compared with its major G-7 ECA counterparts such that the Bank's overall competitiveness grade remained at "A-/B+". While the stability in grade was reflective of relatively modest change in most elements, there was a significant improvement in co-financing and a noticeable deterioration in the export community's perception of Ex-Im's approach to risk taking. Hence, the general perceptions regarding most of the other elements, programs and policies were consistent with last year's findings and related grades. A summary table in Chapter 7 reveals the details of the overall ratings.

Beyond 2008

Given the widespread and systemic nature of the crisis, the responses by governments to address the root causes have tended to be sweeping and macro in nature. The initiatives announced thus far are intended to address the banking system failures and lack of liquidity, the instability of the financial markets, coupled with broad economic growth stimulus packages. In addition, there are several ECAs who are acting independently and/or in concert with their respective governments that have adopted more specific approaches to address the trade finance, export credit, and working capital challenges that are domestic and international in nature.

What is not evident at this point are the competitive implications of these initiatives, if any, for Ex-Im Bank in the year ahead. Nevertheless, in the short run, it is clear that the end-2007 view of the full-service "lender of last resort" ECA as a relatively irrelevant and uncompetitive entity has been replaced by the preliminary impression that such an ECA may now provide a competitive advantage. Chapter 8 provides more context and information on the initiatives being undertaken in response to the current financial and economic circumstances and attempts to set the stage for a more comprehensive competitiveness evaluation in future editions of this Report.

In this regard, the central "over the horizon" ECA questions that the current environment pose are:

(i) Whether the approaches and programs that national governments and/or their ECAs adopt to support their industries and economies will impact the competitiveness of Ex-Im Bank either positively or negatively (or not at all); and

(ii) Whether the metrics traditionally used to evaluate Ex-Im Bank competitiveness remain relevant, or will require a different framework going forward, as a result of the world's response to the financial and economic crises.

Chapter 1: Introduction

Background

Pursuant to its Charter (the Export-Import Bank Act of 1945, as amended), Ex-Im Bank is mandated to provide U.S. exporters with financing terms and conditions that are competitive with those made available by foreign governments to their exporters. The purpose of this report, which is required by Section 2(b)(1)(A) of the Charter, is to measure the effectiveness of Ex-Im Bank's programs and policies in meeting the competitiveness mandate during calendar year 2008.

Scope of Report

This report compares Ex-Im Bank's competitiveness with that of the other G-7 ECAs[1], as these ECAs have historically accounted for approximately 80% of medium- and long-term official export finance. Further, the Competitiveness Report focuses on medium- and long-term export credits (but not short-term activities) because medium- and long-term transactions are subject to the most intense international competition. Quantitative comparisons and information on each of the G-7 ECAs can be found in Chapter 2 and Appendix D.[2]

Overall Report Methodology

Based on the "report card" methodology that was introduced in 2002, this year's Competitiveness Report provides a grade for the competitiveness of Ex-Im Bank support. This approach evaluates each of the essential components of Ex-Im Bank's financing and compares them to the capabilities of the Bank's primary foreign ECA competitors.

In addition, the survey of exporters and lenders provides respondents the opportunity to evaluate Ex-Im Bank's competitiveness on individual program factors and public policy issues as they relate to Ex-Im Bank's G-7 ECA counterparts. (See below for information on the survey.) However, because the economic philosophy and public policy issues do not affect every case – and because not all of these issues can be evaluated on a comparable basis with other ECA policies – the Report only notes the *direction* of the potential competitiveness impact on an individual transaction when one or more of these factors is rated noticeably different than those of other ECAs.

Consistent with previous years' Competitiveness Reports, the Bank's analysis and competitiveness grades draw upon: 1) objective policy, programmatic and procedural information about other ECAs obtained from a variety of sources; and 2) subjective

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[1] The names and brief descriptions of the other G-7 ECAs are contained in Appendix D.
[2] All dollar volume data contained in the Report is in non-inflation-adjusted U.S. dollars.

information provided by the survey of the U.S. export and export finance community and focus group discussions with exporters and lenders.

Survey Methodology

The Bank is required by its Charter to conduct an annual survey of exporters and lenders to determine their experience with competition supported by official export credit agencies during the last calendar year. In 2003, Ex-Im Bank revised its survey to correspond with the grading methodology adopted in the 2002 Competitiveness Report. This approach is being continued because it gives survey recipients the opportunity to provide an assessment of Ex-Im Bank's competitiveness in different financing programs by selecting defined grades from A+ (fully competitive) to F (does not provide program). In addition, survey recipients are asked to note whether certain public policies had a positive or negative impact on the Bank's competitiveness, to the extent they had related experience. After each section, respondents have space to provide qualitative comments on each of their responses. Finally, the Bank continued its practice of distributing the survey to respondents over the internet and allowing them to complete and submit their survey to Ex-Im Bank in the same manner. Recipients can also complete and return the survey either by mail or facsimile if the internet option is not available or desirable. By using internet distribution, Ex-Im Bank has been able to reach a greater number of Bank customers as respondents to the survey with the explicit goal of gathering a broader and more representative population of Bank customers.

Ex-Im Bank carefully evaluated the quality of each survey response. Some specific responses were discarded if a respondent graded a program or feature with which it clearly had no experience. Qualitative responses were discarded if the respondent did not complete the survey in areas where they claimed to have had experience or were based on something other than a comparison of Ex-Im Bank's medium- and long-term programs with those of other ECAs. The survey results are used throughout the Report, and Appendix C provides background on the survey and respondents.

Focus Group Methodology

In addition to the annual survey of the export community, the report also incorporates the results from two focus group discussions – one with commercial lenders and another with exporters. The focus groups provide a venue for members of the export community to supplement their survey responses with anecdotal experience, as well as eliciting more comprehensive information on market trends. While individual focus group comments are occasionally cited in this Report, these individual comments were chosen because they best represent the general view of the group.

Report Structure

This year's report follows the same structure used in last year's Report. The Executive Summary, which precedes Part I, provides an overview of the major findings of the Report. Following the Executive Summary and this introductory Chapter 1, Chapter 2 focuses on the international framework within which official ECAs operated in 2008 and the philosophies and missions of competing G-7 ECAs. Chapter 3 evaluates Ex-Im Bank's competitiveness on the core financing elements of official export credit support. Chapter 4 provides a comparative assessment of how well the financing elements are packaged into major programs (aircraft, project finance, co-financing, foreign currency guarantees, and services exports support). In Chapter 5, the evaluation of competitiveness addresses U.S. economic philosophy and competitiveness as evidenced by its approaches to (a) tied and untied aid and (b) market windows. Chapter 6 evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity. Chapter 7 summarizes Ex-Im Bank's overall competitiveness, taking into account core financing elements, major programs, and U.S. economic philosophy and public policies.

Chapter 8 deals with emerging issues and this year examines the competitive implications arising from ECAs' responses to the financial crisis.

The appendices following the body of the Report include a 2008 Ex-Im Bank transaction list showing the purpose of the Bank's support, Ex-Im Bank efforts to support renewable energy, and other materials intended to provide greater detail and insight.

Chapter 2: Competitiveness Framework
Section A: Factors Influencing Export Finance

Introduction

This chapter provides an overview of major developments and trends within which the ECAs function. The focus of this overview is on how these developments and trends affected the operational definition of the principles and practices used in the pursuit of missions.

Over the last decade, the most important trend within the ECA world has been the split into two very different philosophical camps – one consisting of those ECAs maintaining the lender of last resort orientation and the other adopting a more commercialized, private sector-oriented approach to offering export credit support. The central factors that have influenced this shift in ECAs philosophies and activities include globalization, the development of an aggressive private export financing sector, a strong improvement in the economic conditions of the emerging markets world, and an increased involvement by the WTO in the area of export credits. The confluence of these factors yielded an ECA world where individual ECAs chose between being relegated to a few niches (some quite large like aircraft) or pursuing high volume, low/moderate risk-moderate return portfolios serving their national interests (that may involve competing with commercial banks and may not include a focus on domestic exports). As described in previous Competitiveness Reports, these two camps had very different operational objectives, risk parameters, and pricing/financial drivers.

The key competitive issue arising from this divergence of ECA philosophy is whether -- where the two camps overlap in markets and/or cases -- there was a level playing field. In some situations there was an advantage to a Lender of Last Resort ECA who typically abides by minimum OECD parameters (e.g. fees); in other situations, there was an advantage to a commercializing ECA that had program windows not applicable to the OECD Arrangement. Much of the debate/negotiations at the OECD in this first decade of the 21st century has been over which philosophy would dominate in the evolution of OECD rule-making going forward.

Hence, in a world in which it appears that OECD nations could experience significant (up to 30-40%) declines in exports during 2009, OECD ECAs may well end up with activity levels double or triple recent experience. Given the break from historical norms being requested and the potential volumes involved, the question of the day is whether the net of all national and ECA actions will affect individual ECA competitive positions to a noticeable degree. And, if so, will this impact be short-lived; or is the ECA world embarking on a long period of fundamentally different practices and parameters?

The bulk of this report looks backward at practices and activities over the 12 months of 2008. In light of the collapse of the ECA world toward the very end of 2008, the data and information in this report may be nothing more than historical markers of what the situation was when one financial paradigm ended. Any competitive conclusions or extrapolations drawn from "average" 2008 events may have little relevance or applicability going forward. Accordingly, Chapter 8 takes a preliminary look at how the ECA world is evolving and tries to indicate what/where the competitive implications may be.

Export Trends

Figure 1 illustrates the global export of goods over the last five years, with worldwide trade increasing in every year with the OECD constituting a significant portion of world trade in goods and capital goods every year. However, the data also indicate that the OECD share has been slightly declining while the BRIC countries have been gaining – particularly in the capital goods sector that is the recipient of medium- and long-term official export credits.

Figure 1: World Exports of Goods and Capital Goods, 2004 – 2008 ($US Billions)

	2004	2005	2006	2007	2008*
World	$8,735	$9,962	$11,552	$13,167	$16,335
OECD	5,940	6,475	7,278	8,163	9,970
BRICS	960	1,195	1,502	1,975	2,614
Rest of World	1,835	2,292	2,772	3,030	3,750
Exports of Capital Goods (excl. autos)					
World	$3,062	$3,395	$3,904	$4,334	N/A
OECD	2,205	2,311	2,575	2,775	N/A
BRICS	350	407	550	650	N/A
Rest of World	507	677	780	910	N/A
OECD Exports/World Exports (%)					
Goods	68%	65%	63%	62%	N/A
Capital Goods	72%	68%	66%	64%	N/A
BRICS Exports/World Exports (%)					
Goods	11%	12%	13%	15%	N/A
Capital Goods	11%	12%	14%	15%	N/A

Sources: WTO Statistics
* Preliminary estimates

Export Finance Trends

Figure 2 shows that medium- and long-term G-7 official export credit volumes **(2005 – 2008**) grew at a moderate rate 4% from 2007 to 2008. Germany showed both the highest absolute level of support and the greatest increase in 2008 as compared to 2007 (40%). Both Italy and the U.S. each increased their level of support during 2008, and for Italy, this increase suggests a longer term trend of greater levels of support. However, the other G-7 ECAs showed a decrease over year ago levels with France declining 37%. Nevertheless, the absolute amount of support by Canada exceeded any other G-7 ECA by as much as two-fold. Based on most recent data available (2007), the new medium and long term official export credit volumes for the BICS continued their growth trend in their export credit support, albeit slightly less than in the 2005 – 2006 period.

Figure 2: New Medium- and Long-term Official Export Credit Volumes, 2005 – 2008 ($US Billions)

	2005	2006	2007	2008*
Canada**	7.4	17.2	18.2	20.6
France	11.0	9.3	13.0	11.0
Germany	12.7	13.3	7.8	10.8
Italy	8.2	10.7	11.0	10.3
Japan***	8.4	6.0	.9	1.1
U.K.	3.7	2.6	3.6	2.2
U.S.	9.8	8.6	8.2	11.0
Total G-7	$ 63	$ 64	$ 75	$78
U.S. % of G-7	14 %	13 %	12 %	14%
BICs*				
Brazil	3.5	7.5	7.0	NA
China	18.5	29.0	38.0	NA
India	3.5	4.0	4.4	NA
Total B,C,I	$ 25.5	$ 40.5	$49.4	NA
B,C,I % of G-7	41 %	63 %	65%	NA

* Preliminary estimates
** Roughly 60% of EDC's medium and long term export credit financing was conducted through their market window
*** Part of Japanese reporting of export credit support has been modified; hence, comparison with years prior to 2007 is not possible.

Figure 3 illustrates that overall capital flows into emerging markets fell dramatically in 2008 and are projected to continue a downward spiral into 2009. As world-wide economic and market conditions steadily worsened as 2008 progressed, private flows of capital to the emerging markets declined steeply and, most noticeably, commercial bank lending. On the other hand, official flows from the international financial institutions and bilateral creditors climbed upward to their highest levels in years. These general trends are projected to continue into 2009. Overall, it appears that 2008 has begun a major reversal of trends in global credit flows. The scope and magnitude of this reversal has substantively changed the world of export finance.

Figure 3: Net External Capital Flows into Emerging markets, 2004-2008 ($US Billions)

	2004	2005	2006	2007	2008*	2009**
Official Flows						
IFIs***	-$15	-$39	-$30	$2.7	$17	$31
Bilateral Creditors	-2	-26	-27	8.7	24	-2
Private Flows						
Equity Investment	195	252	222	296	174	195
Commercial Banks	61	146	212	410	167	-61
Non-Banks	93	122	131	222	125	31
Total	$332	$455	$508	$939	$507	$164

Source: Institute of International Finance, "Capital Flows to Emerging Markets," January 2009
* Indicates estimated figures
** IIF projections
*** International financial institutions

Trends in 2008: Focus Group Discussions

Exporters and lenders alike characterized 2008 as a schizophrenic year with the last quarter marked by the demise of Lehman Brothers as a key turning point. The pipeline of most lenders was strong going into 2008 because of the weak dollar and healthy liquidity. By the mid-year mark, the markets were less than sanguine and by October, their outlooks had dimmed considerably. Lenders were either not able to finance anything, much less cross border risk transactions, or were quite limited in their capacity with only the best relationship customers able to obtain financing. Hampered by their own balance sheets and more rigid internal capital constraints by year end the lenders were very cautious and anxious about their own organizations' viability, and showed serious concern about their continued engagement in trade finance and export credit financing. While there was activity, the nature of that activity had changed dramatically during the year: deals that previously would not have needed ECA support began turning to ECAs due to lenders' apprehensions or limited liquidity.

In addition, lenders who have not historically dealt with Ex-Im in the past began coming to Ex-Im because it could provide protection in this risky and highly volatile environment and, "it is the U.S. government." Ex-Im, as other ECAs, have become critical and necessary in virtually all medium and long term cross-border risk transactions. However, lenders warned Ex-Im not to attribute the demand for Ex-Im's services to high quality service, because Ex-Im's "warts have not gone away." Moreover, the same challenges that have plagued Ex-Im Bank and its competitiveness (e.g., content, MARAD, risk aversion) are still there, but now they have to be dealt with if U.S. companies are going to benefit. In the words of one lender, "Ex-Im has not 'met' the world but instead the world has 'met' Ex-Im." If possible, lenders who deal with multinationals or companies in other countries will still opt for non-U.S. sourcing and non-U.S. ECA support.

Finally, lenders noted that ECAs operating in Europe have been given a priority status by their governments who have singled out the ECAs and the roles they should fill in times of financial crisis. In particular, Troubled Asset Relief Program (TARP) -like facilities have been set up by their respective governments and the ECAs seem to be using them proactively and aggressively.

Exporters mirrored the same concerns expressed by the lenders but also believe that they have the "ECA direct loan option" as the last resort if commercial lenders could not or were not able to participate on reasonable terms, noting that pricing had spiked considerably in the private market when it was available. While most of 2008 yielded export sales levels as good as 2007, the latter part of the year had exporters ratcheting their sales projections downward. Deals that had once been assumed would go forward were either put on hold indefinitely, cancelled altogether or were being re-evaluated by private lenders as to creditworthiness and often-times being re-priced (higher), given the limited amount of liquidity (or complete lack of) in the market. Thus, between limited lending availability and foreign buyers cancelling or postponing sales, exporters were not optimistic about their export prospects going forward. As one exporter put it, they were "running full speed but then hit a wall in the 4th quarter and came to an abrupt stop."

In looking ahead, participants agreed that customers are currently anticipating relatively higher levels of financing from Ex-Im Bank. However, the participants were mindful to explain that the higher demand for Ex-Im Bank products is not because Ex-Im's competitiveness and responsiveness are so great – which they are not. Rather, the increased utilization reflected a clear need for government intervention. Without active engagement by the government sector, neither credit nor trade will flow, and the economy and its exporters will suffer.

Overarching Trends

World-wide economic conditions and the state of the international financial/credit markets strongly suggest that 2009 (and most likely several years beyond that) will be dramatically different from previous years for ECAs. The fundamental question raised by recent developments is whether the trend in ECA evolution over the past decade toward a more commercial model will be sustained, stopped or reversed. In any case, with the abrupt and debilitating impact of the world financial crisis and the retreat of the private lending community in practically all markets around the world, the need for ECAs filling the market gaps has been underscored. Whether this emerging world will have competitive implications for the two philosophical models operative in the ECAs of today is a critical – and inconclusive -- issue going forward.

Chapter 2: Competitiveness Framework
Section B: ECAs' Mission and Place in Government

The Role of Export Credit Agencies

The time-honored purpose of an ECA has been to finance domestic exports, although a number of ECAs have modified the scope of their support. While each ECA employs a different operational structure, each G-7 ECA generally works within one of two frameworks to accomplish their objectives. The first framework is the OECD Arrangement, which sets the most favorable financing terms and conditions that may be offered for official export credit support. Within the Arrangement parameters, individual ECAs have latitude to pursue their own national policies in support of their country's exports. The second framework is more ECA-specific: the ECA's mission as defined by its sponsoring government. This framework will determine the extent to which an ECA is able to adapt to a changing landscape and what methods it is allowed to employ to continue to work toward its central goal. These factors define the parameters within which ECAs will compete with each other to facilitate domestic exports and to promote their respective governments' national interests.

Ex-Im Bank's Mission and Place in Government

As the official U.S. Government ECA, Ex-Im Bank's mission and governing mandates are codified in Ex-Im Bank's Congressionally approved Charter (Export-Import Bank Act of 1945, as amended). Ex-Im Bank's core mission is to support the jobs directly related to specific U.S. exports by providing export financing that is competitive with the official export financing support offered by other governments. In addition, the Bank carries a mandate from the Federal budget's "financially self-sustaining" directive and WTO rulings to operate at break-even over the long term. The Bank's core mission pursues the public policy goal of enabling market forces such as price, quality and service to drive the foreign buyer's purchase decision, not government intervention or the temporarily exaggerated perceptions of risk by private market participants. This public policy mission effectively directs Ex-Im Bank to fill market gaps that the private sector is not willing or able to meet: the provision of competitive financing (largely determined by interest rates and repayment terms) and the assumption of reasonable risks that the private sector is unable to cover at a moment in time.

To support its core mission, Congress has also legislated that Ex-Im Bank's financing be conditioned on:

- supplementing, not competing with, private sector financing; and
- the finding of reasonable assurance of repayment.

Decisions on transactions should be based solely on commercial and financial considerations, unless the transaction:

- fails to comply with Ex-Im Bank's Environmental Procedures and Guidelines;
- causes an adverse economic impact on the U.S. economy; or
- does not meet various statutory and executive branch parameters.

All these directives aim to achieve common public policy goals and to reflect the interests of Ex-Im Bank's diverse stakeholders, such as NGOs (non-governmental organizations), other U.S. government agencies, labor, and financial intermediaries. Thus, Ex-Im Bank is obligated to find and maintain a balance amongst its multiple, sometimes competing, goals and objectives. At the same time, Ex-Im Bank is expected to provide the U.S. exporting community with financing that is competitive with officially supported offers made by foreign government. Given the G-7 ECAs' widely varying missions and operating strategies, comparing Ex-Im Bank's competitiveness against ECA counterparts requires a more comprehensive review that goes beyond the simple comparison of the cost aspects of financing programs and policies. Moreover, in the current tumultuous economic climate, one of the most important functions of this report (and other monetary mechanisms) will be to identify whether there are consequences of any amendments to or expansion of ECA mandates and the methods used to implement these revisions.

Chapter 3: Core Business Policies and Practices
Section A: Cover Policy and Risk-Taking

Introduction

A traditional measure of official ECA competitiveness is the extent to which an ECA provides official export support in any particular market. Moreover, the competitiveness of an ECA is further influenced by the breadth of markets and depth of risk appetite within specific countries. Thus, one important measure of an ECA's competitiveness is an aggregation of the number of countries in which it is "open" for business, the nature and level of risk within those markets, on what terms, and its willingness to take on new business with entities other than sovereign governments or first-class private institutions.

In 2008, there were no dramatic changes in the number of countries in which the G-7 ECAs supported medium- and long-term transactions compared to 2007 (See **Figure 4**).

Ex-Im Bank's Policy and Practice

Historically, Ex-Im Bank has been one of the leading ECAs in terms of the number of countries in which it is open, its overall willingness to take risk in these countries, and its appetite for non-sovereign business. Moreover, since 2001, the number of countries in which U.S. exporters could not receive Ex-Im Bank support because of U.S. legislative restrictions, specifically economic sanctions, has gone down from 12 to 8.[1]

Outside national policy considerations, Ex-Im cover policy is driven by the economic classification of countries and financial evaluations of non-sovereign borrowers.[2] More specifically, for Ex-Im to be "open" in a country, that country must be rated an "8" or better. In 2008, 166 countries carried ratings high enough for Ex-Im to be open (vs. 161 in 2007). On the credit front, individual non-sovereign borrowers must meet the Congressional standard of a "Reasonable Assurance of Repayment". In 2008, out of 2,704 cases meeting that standard, 60% of cases involved non-sovereign borrowers (vs. 58% of cases involving non-sovereign buyers in 2007[3]).

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[1] In 2007, Ex-Im Bank had legislative restrictions to providing support to the following countries: Burma, Cambodia, Cuba, Iran, North Korea, Laos, Sudan and Syria. This list did not change in 2008.

[2] Reflecting fundamental changes in data availability, the methodology used to evaluate "breadth" of country risk-taking has moved through three iterations over the last 6 years. As none of the data sources is available for all 6 years, it is not possible to make comparisons based on cover policy; rather, countries in which transactions occurred must be used as a proxy. Thus, the data cited is more indicative of overall trends rather than a precise measure of risk-taking.

[3] 2,793 cases met the "Reasonable Assurance of Repayment" standard in 2007.

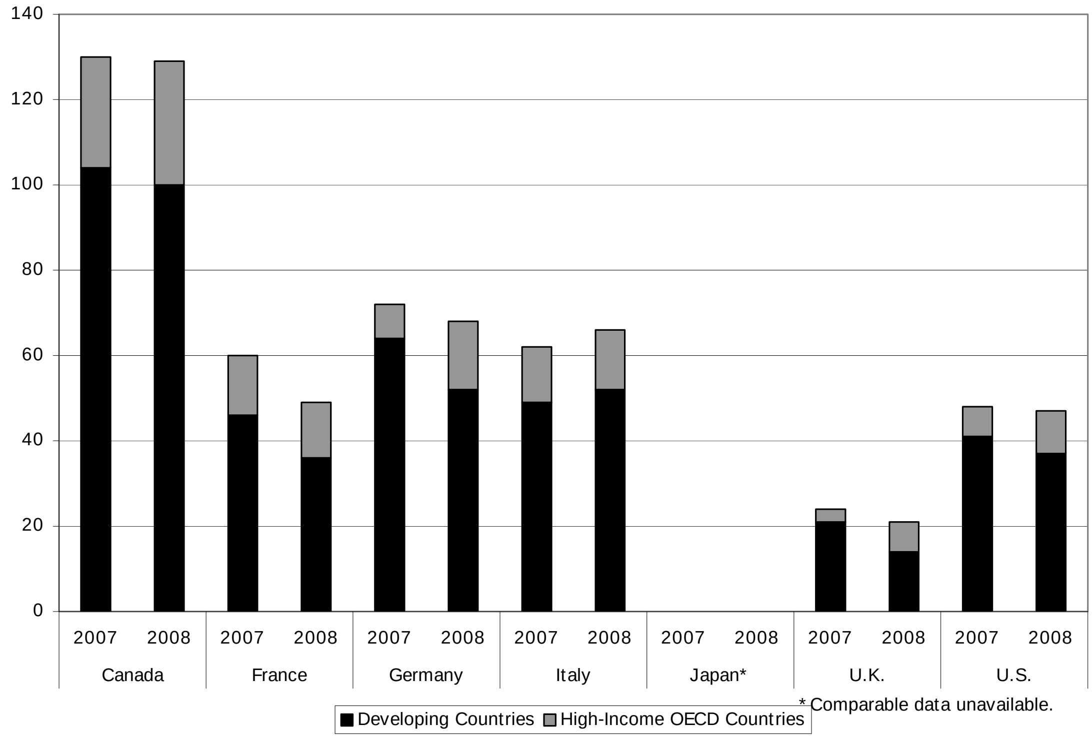
Also in 2008, the Ex-Im Medium-Term program implemented new credit underwriting and due diligence standards referred to as “Know Your Transaction” in an effort to avoid fraud and lower the claims rate in this area of the Bank’s business. As part of Ex-Im’s approach to risk taking in the medium-term, the Bank routinely applies credit enhancements in the form of security (e.g., liens, corporate/private guarantees, etc.). Although the Bank is open in a high number of countries (breadth of risk), these credit practices reflect a more cautious approach in the assumption of risk on a transaction by transaction basis (depth of risk).

G-7 ECAs’ Policies and Practices

Figure 4 shows the number of countries in which the G-7 ECAs authorized medium- and long-term activity in 2007 and 2008. With the exception of the U.K., the United States supported a lower absolute number of both developing and high-income OECD countries compared to its G-7 counterpart. Canada supported medium- and long-term transactions in 129 countries (78% in developing countries) in 2008, and Ex-Im Bank was active in 47 countries (79% in developing countries). However, while Canada carried out transactions in more countries, 72% of these occurred under their market window.[4] Furthermore, aside from France and the U.K., the number of high-income OECD countries in which the G-7 ECAs conducted business has increased across the board on a year-to-year basis. Compared to 2007, the 2008 overall volume of business in high-income OECD countries conducted by the G-7 ECAs increased by 30 percent and the volume of business in developing countries decreased by 15 percent.

[4] See Chapter 5B

Figure 4: Number of Countries in Which G-7 ECAs Supported Medium- and Long-Term Transactions, 2007 & 2008



Exporter and Lender Survey and Focus Group Results

Exporters and lenders again voiced their concern that Ex-Im Bank was becoming increasingly risk averse (particularly in the medium-term area), and that as a "lender of last resort," the Bank should increase its appetite for risk. Requirements for additional security and documentation have become the norm and are very real deterrents from using Ex-Im Bank because other ECAs do not typically require them. Moreover, based on specific experience, the exporting community believes that Ex-Im Bank is hesitant to take risk in markets where they lack experience. However, if U.S. companies want to compete in emerging markets, ECA support is essential, especially going forward in the midst of the financial crisis.

Conclusion

As ECAs' customer bases have transitioned from sovereign borrowers to non-sovereign borrowers, Ex-Im Bank's historical involvement with private borrowers and role as a "lender of last resort" enabled it to maintain its risk appetite. However, it appears that (i) other ECAs have caught up to the Bank and increased their own risk appetites with non-sovereign buyers and cover policies, and (ii) Ex-Im Bank has become relatively more risk averse, especially in the medium-term area. The anecdotal evidence regarding Ex-Im's hesitance to take on higher risk transactions combined with the MT guidelines adopted in 2008 is a cause for concern and suggests that the Bank's willingness to assume risk is waning. Consequently, due to a more cautious approach in the medium-term area as compared to other ECAs, there is evidence that the depth of Ex-Im's risk-taking is shallower. Thus, while the Bank's scope of risk taking as compared to our G-7 counterparts does not appear to have changed to any significant degree, Ex-Im Bank's limited depth of risk-taking suggests a downgrade to a "A-/B+" from an already weak "A" in 2007.

Chapter 3: Core Business Policies and Practices
Section B: Interest Rates

Introduction

The use, or misuse, of official interest rates as a competitive tool was the impetus for the OECD countries to negotiate the Arrangement on Guidelines for Officially Supported Export Credits in 1978. Establishing minimum interest rates, therefore, was the first topic taken up by the OECD Participants. Over time, the minimum official interest rate has become more market-oriented and less of a competitive threat. Nonetheless, interest rates can still be a competitive factor when ECA support is involved, (e.g., the quality of an ECA's guarantee or insurance can affect the interest rate offered by a private lender or when liquidity concerns impact private lending).

Interest rates factor into ECAs' support in two ways: either by the ECA lending directly to a borrower and charging the official minimum interest rate for the currency of the loan[1], or by providing interest make-up (IMU) support to a financial institution that agrees to provide a loan to a borrower at the official minimum interest rate. IMU support guarantees a lender that its cost of funds will be covered even if the minimum official interest rate is lower than the lender's cost of funds.

As an alternative to providing interest rate support, many ECAs offer "pure cover" support. ECAs that support pure cover provide a repayment guarantee or insurance to a lender willing to lend to a foreign borrower. The repayment guarantee/insurance promises the lender that, in the event the borrower fails to make a payment on the guaranteed/insured loan, the ECA will pay the lender and pursue collections from the foreign borrower.

Over the past decade, pure cover support has become the dominant form of ECA support for export credits, with demand for interest rate support (in the form of either direct lending or IMU) steadily declining. In 2008, pure cover accounted for over 80% of G-7 ECAs' medium- and long-term activity. This dominance reflects the fact that private capital markets --with pure cover ECA support--have been increasingly able to provide large amounts of longer-term financing at sub-CIRR[2] floating interest rates.

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[1] These minimum interest rates, known as Commercial Interest Reference Rates (CIRRs), are market-related fixed rates calculated using a government's borrowing cost plus a 100 basis point spread. A CIRR is set for each currency based on the borrowing cost of the government that uses that currency; all ECA support for financing in this currency then utilizes the same CIRR.

[2] Although the majority of pure cover financing is at floating rates, the long range trend in interest rates over the last 25 years has been downward. Hence, borrowers have seen the average of these interest rate costs over the life of the pure cover transaction typically aggregate to less than the CIRR at the time of authorization.

Ex-Im Bank's Policy and Practice

Ex-Im Bank has had a fixed-rated direct loan program since 1934, and for nearly 30 years it was the only medium- or long-term program available. Ex-Im Bank's Charter mandates that Ex-Im Bank make available a direct loan program with a fixed interest rate to borrowers under the medium- and long-term programs. Ex-Im Bank's direct loan program provides the same coverage and repayment terms as is provided under Ex-Im Bank's pure cover programs. The key difference that borrowers see between the direct loan and an Ex-Im Bank guaranteed loan offered by a commercial bank is the interest rate. Under Ex-Im Bank's direct loan program, the interest rate is fixed at the time of authorization at the then-current OECD minimum official interest rate (CIRR) for the U.S. dollar. Under Ex-Im Bank's pure cover program, the interest rate is established by the lender and almost always starts as a floating rate. It may switch to a fixed rate at the time of commitment, at some point during the disbursement and repayment periods, or remain floating for the life of the loan. It may be based on LIBOR, the U.S. prime rate, a commercial paper rate, equivalent Treasuries or any other relevant interest rate benchmark.
Ex-Im Bank allows the foreign borrower or the borrower's agent – a commercial bank – to determine whether to use the direct loan or pure cover program. In the past, borrowers have used Ex-Im Bank's direct loan program during periods of rising interest rates and stayed predominantly with the pure cover program at all other times. Ex-Im Bank approved only one direct loan in the two previous years (2006-2007)—in spite of generally falling interest rates, although the Bank authorized five direct loans for $662 million in CY2008.

Nevertheless, pure cover remained Ex-Im Bank's dominant form of medium-and long-term support in 2008, with the Bank having authorized 335 transactions for $10.2 billion. Consistent with previous years, the pure cover interest rates on the longer term, larger transactions were highly competitive. Specifically, the interest rates achieved on Project Finance transactions have historically been slightly better than those achieved with the insurance support provided by the other G-7 ECAs. However, as more ECAs gravitate to "enhanced insurance" or guarantee-like cover for larger deals, Ex-Im Bank's historic advantage in this arena is shrinking. For example, the interest rates on large aircraft transactions are comparable to those achieved with the support of the Airbus ECAs, as they have improved their support (100% cover of 85% of the financed amount) for large aircraft transactions in order to achieve competitiveness with Ex-Im Bank.

Medium-term transactions supported under the Bank's insurance and guarantee programs do **not** typically achieve rates as attractive as the long-term pure cover transactions. The average spread over LIBOR for medium-term transactions supported in 2008 was roughly 200 basis points vs. an average of 80 basis point spreads for long term transactions. (The difference in interest rates between long- term, large transactions and medium-term, small transactions appears to be the result of commercial banks' pricing strategies to account for higher overhead costs relative to larger, long-term transactions rather than a function of any Ex-Im Bank support element.)

G-7 ECAs' Policies and Practices

Each of the G-7 ECAs offers the ability of exporters to access medium- and long-term fixed rate financing at CIRR levels. Canada, Japan and the U.S. all offer a direct loan program, and Germany has a limited capacity to provide direct loans through KfW[3]. France, Italy and the U.K. offer IMU support. Like Ex-Im Bank, the other G-7 ECAs have provided the bulk of their support under their pure cover programs. However, the quality of their coverage (unconditional or conditional) and the percentage of cover differ from ECA to ECA. Anecdotal evidence indicated that the interest rates achieved under the other G-7 ECAs' pure cover support ranged from very low (e.g., LIBOR plus 5-10 basis points) to quite high (e.g., LIBOR plus 300-400 basis points), irrespective of the type of pure cover support provided. Since the onset of the financial crisis in September 2008, there is evidence that the lack of liquidity in the market has resulted in larger spreads being charged on Ex-Im Bank's pure cover transactions, which may ultimately lead to an increase in demand for direct loans from Ex-Im Bank (and the other ECAs that offer direct loan products).

Exporter and Lender Survey and Focus Group Results

Lenders expressed concern that because of the financial crisis, the CIRR-based financing available through Ex-Im Bank's direct loan program could undercut the pricing of the commercial banks, putting the Bank in the position of competing with commercial banks for business. Exporters, on the other hand, expressed concern about the availability and pricing of commercial financing, even with pure cover support, because of the financial crisis.

Conclusion

Ex-Im Bank consistently offers interest rates that are at least equal to the average rates offered by the typical major ECA. Through the direct loan program, Ex-Im Bank provides interest rate support that is competitive with the other G-7 ECAs. Further, the interest rates generated under Ex-Im Bank's long-term pure cover program remained competitive with those of other G-7 ECAs, although the Bank's competitiveness in this area is being neutralized as other ECAs improve the quality of their pure cover guarantee. (With respect to medium-term pure cover transactions, although the spreads are higher than those on long-term transactions, we have not encountered enough competition on transactions or information from other ECAs to comment on the Bank's competitiveness.) In 2008, Ex-Im Bank remained generally competitive with the other G-7 ECAs on this element - a grade of "A".

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[3] KfW's program is discussed in further detail in chapter "5B: Market Windows".

Chapter 3: Core Business Policies and Practices
Section C: Risk Premia

Introduction

ECAs charge risk premia, also known as exposure fees, to compensate them for the risk of non-repayment. In 1999, the OECD adopted the Knaepen Package which defined the elements for determining sovereign buyer fees and set Minimum Premium Rates (MPR) for sovereign buyer transactions. The MPR was developed as a tool to level the playing field among ECAs by setting a floor for pricing of standard export credits to sovereign buyers. The MPR also serves as the floor for fees for non-sovereign buyers. However, other than the MPR floor, there currently is not a system that specifically addresses non-sovereign buyer risk. As ECAs have increased their business to non-sovereign buyers, the absence of a system has been receiving increased attention at the OECD.

The MPR is determined by several factors: (i) the percentage of cover; (ii) the quality of the product; that is, whether the financing is an unconditional guarantee or conditional insurance; and (iii) the claims payment policy. The latter two factors determine whether a product is considered "above standard," "standard" or "below standard". Because coverage may differ based on these factors, the three types of products are priced differently, with "above standard" being the most expensive and "below standard," the least expensive. Allowing for surcharges or discounts based on the type of product ensures a level playing field among ECAs. Within the OECD, these surcharges and discounts are known as "related conditions surcharges". In addition, there are also surcharges and discounts that are applied when the cover differs from the typical 95% level of coverage. For example, for 100% cover, there is a surcharge between 5.3% and 14.3%, depending on the risk level of the country; and for 90% cover, there is a discount of 5.4%. While the Knaepen Package establishes a floor for the fees ECAs may charge, each ECA may add other surcharges to the MPR for sovereign risk transactions according to its individual risk assessment process.

Ex-Im Bank's Policy and Practice

For sovereign transactions, Ex-Im Bank charges the MPR as set by the OECD. For non-sovereign transactions, Ex-Im Bank uses a rating methodology that cross-references a borrower's financial information to various financial indicators and takes into account various credit enhancements typically applied to the case. This methodology is similar to the process used by credit rating agencies, but Ex-Im's process yields no "ratings" (the nature and amount of information available does not support the nuance and result implied by S&P-type ratings). However, Ex-Im Bank's process is not identical to the credit rating agencies due to the heterogeneous nature of the bulk of Ex-Im Bank's borrowers that tend to be smaller companies and/or companies not rated by credit rating agencies. If the borrower is rated equal to or better than the sovereign, then the applicable fee is the MPR. If the borrower is rated more risky than the sovereign, typically an incremental surcharge of 10-15% is typically added to the MPR.

G-7 ECAs' Policies and Practices

The G-7 ECAs generally charge the MPR for sovereign transactions. However, among the G-7 ECAs, fairly significant differences exist for non-sovereign transactions in the risk-rating methodologies, use of mitigants, and pricing mechanisms. As a result, there is a fairly wide divergence in the fees charged by G-7 ECAs for similar non-sovereign transactions. Various technical sessions and exercises comparing buyer risk pricing between ECAs have indicated that the different ratings for similar buyers reflects the fact that the rating systems of the ECAs incorporate very different experience, portfolios, and philosophies.

The formal OECD discussions on a common approach to non-sovereign risk evaluation and fees resumed in June 2008, following an 18-month pause. The mandates to the Premia Group of the renewed discussion are to recalibrate the MPR (10 years have passed since the original benchmarks were set) and institute a new non-sovereign buyer risk fee structure (without imposing significant operating costs). These mandates carry an initial reporting date of November 2009.

Exporter and Lender Survey and Focus Group Results

The exporter and lender survey results found premium to be generally competitive with other ECAs. Furthermore, our focus groups did not find risk premia to be a negative issue. Therefore, one could reasonably conclude that the exporting community is satisfied with Ex-Im Bank's exposure fees.

Conclusion

The 1999 Knaepen Package gave all OECD members access to a level playing field on sovereign risk premia. However, because of ECAs' disparate philosophies and financial objectives, some ECAs treat the minimum premium more as a reference point (to which significant surcharges may be applied for any type of non-sovereign risk) than as a benchmark. Ex-Im Bank's underwriting and claims experience enables it to typically price within a narrow band above the MPR while maintaining a better-than-break-even portfolio. As a result, in 2008, Ex-Im Bank premium rates were fully competitive with those of G-7 ECAs (a grade of A).

Chapter 3: Core Business Policies and Practices
Section D: Ex-Im Bank's Core Competitiveness

Overall, Ex-Im Bank's core business policies and practices were graded as generally competitive (A), meaning that Ex-Im Bank consistently offered terms that were equal to the average terms offered by the typical ECA such that the core policies and practices level the playing field with the standard ECA offer. **Figure 5** illustrates how Ex-Im Bank fared competitively on sub-elements of each policy/practice, in addition to an aggregate grade for each. It is important to note that the Cover Policy grade for 2008 notched downward from an "A" in 2007 to an "A-/B+" due to a lower level of competitiveness associated with the depth and breadth of cover availability that occurred during the year. The grades are derived from both the survey and focus group results and the Bank's analysis of how it performs in comparison to its G-7 counterparts.

Figure 5: Grading of Ex-Im Bank's Core Competitiveness, 2008

Key Elements	Grade
Cover Policy	**A-/B+**
Scope of Country Risk	**A**
Depth of non-sovereign risk	**A-/B+**
Breadth of availability (e.g., restrictions)	**A-/B+**
Interest Rates	**A**
CIRR	**A**
Pure Cover	**A**
Risk Premium	**A**
Sovereign	**A**
Non-sovereign	**A**
Total Average Grade	**A**

Chapter 4: Major Program Structures
Section A: Large Aircraft

Introduction

In addition to its standard support of U.S. export sales of capital equipment, Ex-Im Bank has several special financing programs that focus on a particular industry or financing technique. This section discusses the program structure of Ex-Im Bank's support for the export sales of large commercial aircraft.

OECD Aircraft Sector Understanding

Beginning in 1985, ECA financings of large aircraft were governed by the OECD's Large Aircraft Sector Understanding (LASU) which established standard financing terms for the provision of export credit support for the sale of large aircraft. In 2001, negotiations began on a new, updated Aircraft Sector Understanding (ASU) with an expanded list of participants and types of commercial aircraft. The purpose of the negotiations was to bring the agreement up-to-date with aircraft financing practices used in the 21st century and to include new aircraft ECAs in the discussion and implementation of aircraft financing disciplines. In July 2007, negotiations concluded and a new agreement was signed. In addition to the Participants to the Arrangement, Brazil is a participant to the agreement.

The ASU has several new notable characteristics that are briefly summarized below.

> **Classifies civilian aircraft into three types**: (1) Essentially, all Boeing and Airbus aircraft are termed by the ASU as Category 1 aircraft; (2) regional jet aircraft from Bombardier (Canada) and Embraer (Brazil) are considered to be Category 2 aircraft; and (3) smaller aircraft made by a wide variety of manufacturers are considered to be Category 3 aircraft.
>
> **Risk Classifies Obligors:** Under the new ASU, each obligor is assigned a risk classification. This risk classification, or rating, is agreed to by all Participants to the ASU and is used to determine the exposure fee for the obligor.
>
> **Repayment Term:** The maximum repayment term is determined by the type of aircraft:
>
> - Category 1 aircraft: 12 years
> - Category 2 aircraft: 15 years
> - Category 3 aircraft: 10 years

Although the ASU became effective in July 2007, any Category 1 aircraft under a firm contract that was concluded by April 30, 2007 and scheduled for delivery by December 31, 2010 is grandfathered under the terms of the old LASU. As such, no new large aircraft financings are expected to be financed under the terms of the ASU until 2011. Correspondingly, any competitive implications of the new ASU may not show up until orders for 2011 and beyond come into play (not expected for a year or two).

Large Commercial Aircraft Industry in 2008

Figure 6 shows that 2008 represented a change from the record-setting pace in orders from the previous three years, with a total of 1,439 new large aircraft orders placed with Boeing and Airbus—down nearly 50% from 2007 and the lowest level since 2004. Boeing received 662 net commercial airplane orders during 2008, while Airbus had 777 orders for the year. The global economic slowdown of 2008 impacted the number of new orders during the year. As worldwide liquidity tightened and economic conditions deteriorated, many orders were either delayed or cancelled.

Figure 6: Number of Large Commercial Jet Aircraft Orders

	2004	2005	2006	2007	2008
Boeing	277	1002	1044	1413	662
Airbus	366	1055	824	1341	777
Total	643	2057	1868	2754	1439

As illustrated in **Figure 7** below, Boeing's deliveries to foreign buyers continued to represent the majority of deliveries in 2008. As noted in Figure 7, 63% of Boeing's deliveries were to foreign buyers and Figure 8 shows that 17% of all of Boeing's deliveries were financed by Ex-Im Bank. It should be noted that in 2008, an eight-week strike by the International Association of Machinists and Aerospace Workers at Boeing shut down production and deliveries of aircraft. As such, despite a back-0rder of aircraft, deliveries in 2008 fell by 20% compared to the previous year.

Figure 7: Number of Boeing Commercial Jet Aircraft Deliveries

	2004	2005	2006	2007	2008
Domestic	142	135	167	154	140
Foreign	143	155	221	287	235
Total	285	290	388	441	375
Foreign as % of Total	50%	53%	57%	65%	63%

Ex-Im Bank's Policy and Practice

Like the Arrangement terms that apply to standard export credit financing, the ASU (and the LASU before it) sets out maximum repayment terms, exposure fees and minimum interest rates. Ex-Im Bank is fully competitive within these parameters; in particular, Ex-Im Bank's support has generally generated tightly priced market interest rates due to the 100% principal and interest guarantee. However, as market conditions declined in late 2008, market pricing and spreads began to rise.

In addition to the basic financing terms noted above, Ex-Im Bank also offers co-financing support for U.S. aircraft sales such that Ex-Im Bank and another ECA can offer support for their respective portions of the sale. For example, Boeing 777s may have British engines; Boeing 777s and 787s use Japanese airframe components. In these cases, Ex-Im Bank will co-finance with ECGD (UK) or NEXI (Japan).

Ex-Im Bank also provides foreign currency support for airlines that earn a significant portion of their revenues in a hard currency other than U.S. dollars. In 2008, Ex-Im Bank approved 31 large aircraft transactions worth nearly $4.6 billion and covering 63 aircraft. Of those 31 transactions, 12 were co-financing transactions with Japan, Korea or the U.K. and seven were financed in a foreign currency (Yen and Euros).

Another special feature involves an OECD-allowable discount on the exposure fee for airlines in countries that have ratified the Cape Town Convention (CTC)[1] and made the necessary declarations. In 2008, Ex-Im Bank continued its policy of giving a one-third discount to the exposure fee. During the year, the Boeing aircraft purchases by NACIL (India), Air India Charters (India), BOC Aviation (Singapore), Cargolux (Luxembourg), Oman Aviation Services (Oman) and COPA (Panama) each received the benefit of the 33% CTC discount. However, for those aircraft that will be covered under the new ASU which also provides for a CTC discount, the discount will no longer be one-third of the exposure fee but rather in the range of 5% to 20%. However, despite the CTC discount impact on financing costs, Ex-Im Bank's support for large aircraft export financing can generate higher all-in costs due to its generally more stringent structuring requirements and/or its higher documentation burden connected to the Bank's public policy objectives, such as U.S. content requirements.

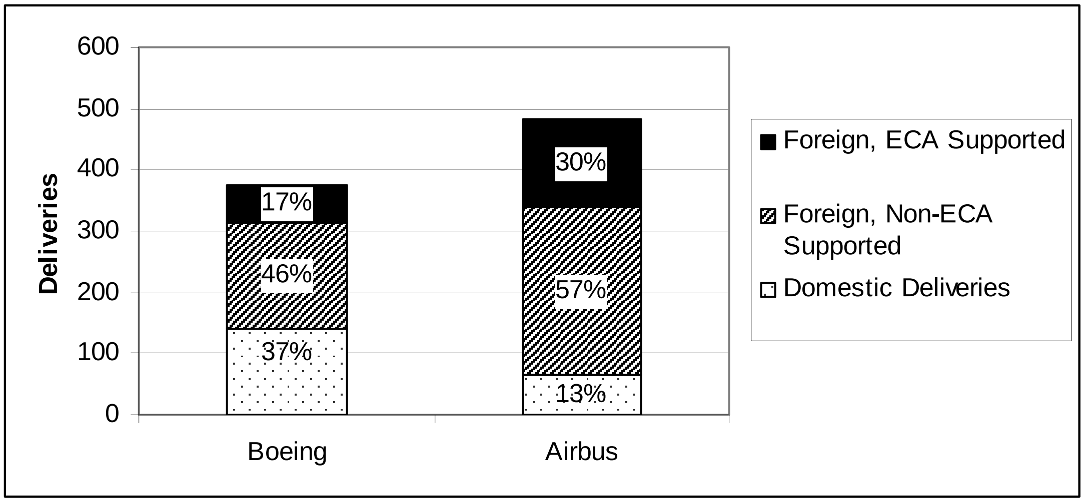
G-7 ECAs' Policies and Practices

In 2008, the Airbus ECAs (Coface/France, EulerHermes/Germany, and ECGD/UK) supported an estimated 145 Airbus aircraft for a total of approximately $6.2 billion. **Figure 8** illustrates that the distribution of each large aircraft manufacturers' deliveries between domestic sales and export sales with and without ECA support. The figure shows that Airbus has a higher proportion of export sales (87%) as compared to Boeing

[1] The following countries have ratified the Cape Town Convention and made the necessary qualifying declarations to be eligible for Ex-Im Bank's Cape Town discount as of December 2008: Afghanistan, Angola, Cape Verde, Ethiopia, India, Indonesia, Kenya, Luxembourg, Malaysia, Mongolia, Oman, Pakistan, Panama, Senegal and South Africa.

(63%). Of those Airbus export transactions, 35% were ECA financed (vs. 27% for Ex-Im supported aircraft).

Figure 8: Percentage of Total Large Commercial Jet Aircraft Deliveries Financed by ECAs, 2008



Like Ex-Im Bank, the Airbus ECAs offer the maximum allowable terms under the LASU and ASU. By virtue of their joint financing of Airbus sales, the Airbus ECAs also provide co-financing support and are generally considered to be less restrictive in terms of structuring and documentation requirements, although they did not offer any discount to airlines based in countries that have ratified the CTC in 2008.

Exporter and Lender Survey and Focus Group Results

Overall, exporters and banks involved in large aircraft exports found Ex-Im Bank generally competitive compared to the other ECAs. Concerns were expressed in the survey that the Bank's foreign content requirement negatively impacts the Bank's competitiveness, as the Airbus ECAs do not have similar restrictions as to foreign content. Although some of the negative impact has been mitigated by co-financing arrangements with other ECAs, there remains the potential for Ex-Im Bank not being able to support aircraft if one of the co-financing partners steps away from a transaction.

Conclusion

Within the context of the terms allowed under the LASU (and under the new ASU when it applies), Ex-Im Bank is able to provide financing terms that are equal to the best terms provided by the Airbus ECAs. Additionally, the overall package provided by Ex-Im Bank in terms of special features and non-financial factors also results in a level playing field, especially when assessing the overall availability and attractiveness of support. In total, Ex-Im Bank is generally competitive compared to the Airbus ECAs (a grade of A).

Chapter 4: Major Program Structures
Section B: Project Finance

Introduction

Project Finance (PF) refers to the financing of projects whose creditworthiness depends on the project's cash flow for repayment. Under this structure, the lender has recourse only to the assets and revenue generated by the borrower (i.e., the project being financed) and cannot access the assets or revenue of the project sponsor to repay the debt. This structure normally covers very large, long-term infrastructure and industrial projects.

In 2008, total PF debt issuances set a new record for the second year in a row, increasing to $251 billion, up from $226 billion in 2007. The total number of OECD project finance deals notified in 2008 (as required by the OECD Agreement for project finance deals that apply certain modifications to the standard repayment structure) increased from 5 in 2007 to 15 in 2008. Preliminary information indicates that contract amounts for deals notified in 2008 totaled approximately $3.4 billion (compared to $3.2 billion in 2007).[1]

Figure 9 shows the involvement of ECAs in project finance from 2006 to 2008. Based on dollar volume, ECA participation as a percentage of total PF loans is very modest, generally accounting for only about 1.4% of all PF financing (the same percentage share as in 2007). Private financing by commercial lenders and other capital market players clearly continued to dominate PF activity in 2008.

Figure 9: Distribution of PF Loans by Originator, 2006 through 2008 ($US Billions)[2]

	OECD ECAs (excluding Ex-Im)	Ex-Im Bank		Private Lenders	Total
2008	$2.9	$0.5	$3.4	$247.2	$250.6
2007	$2.6	$0.6	$3.2	$223.0	$226.2
2006	$3.0	$0	$3.0	$196.2	$199.2

Source: Project Finance International, January 2009. The total volume of ECA project finance deals comes from the OECD.

[1] The ECA project finance deals are those reported by the OECD ECAs and may not include all ECA project finance deals completed in 2008. Further, they include only those OECD notifications that became authorized transactions.
[2] Project Finance International, January 2009. The total volume of ECA project finance deals comes from the OECD.

Ex-Im Bank's Policy and Practice

Ex-Im Bank authorized one PF transaction in 2008 (a liquefied natural gas plant), after having one PF authorization in 2007. However, these figures account for only part of Ex-Im Bank's activity in this area, given a recent blurring of the line between project finance and structured finance. Specifically, traditional PF transactions create a new company via a special purpose vehicle which creates and owns the project as well as acts as the borrower. These transactions rely on repayment from revenue generated by the project **only**. (PF transactions generally require an average of 8 to 12 months to complete). *Structured* finance transactions generally involve large expansions of companies where repayment is derived from a combination of reliance on the existing company balance sheet and on future revenues resulting from the expansion project. However, in cases where the success of the expansion is integral to the survival of the existing company, they could just as easily be considered "project finance." In 2008, Ex-Im Bank authorized 10 structured finance transactions totaling $1.5 billion, compared to 5 totaling $1.4 billion in 2007.

Overall, there are five main factors that characterize Ex-Im Bank's competitiveness in project finance. These include: (1) 100% (of 85% of the U.S. supply contract) U.S. government-guaranteed support for all risks (political and commercial) during both the construction and repayment periods; (2) willingness to utilize the project finance flexibilities provided by the OECD Arrangement with respect to pricing and repayment terms; (3) financing of local costs (up to 30% of the amount of US export contract); (4) willingness to capitalize interest during construction; and (5) a reasonable and pragmatic commercial approach to project analysis and risk mitigation.

On the other hand, Ex-Im Bank's PF program is restricted by several non-financial requirements that other ECAs do not have, including the Bank's content policy, shipping requirements, and economic impact analysis (see the Foreign Content, U.S. Shipping Requirements, and Economic Impact sections in Chapter 6 for more detail). These policies negatively impact actual and *potential*[3] PF transactions more than other types of transactions for two reasons. First, PF transactions always face many sourcing alternatives from all around the world, making the cost/quality of competition the most sensitive and intense factor of the financing and the consequence of any extra cost or delay particularly adverse. Second, the desire of project sponsors to minimize the number of supply sources gives an advantage to other ECAs with less restrictive content or shipping requirements.

G-7 ECAs' Policies and Practices

G-7 ECAs offer similar coverage for PF transactions with some differences in the quality of the guarantee, although these quality differences have largely disappeared as other

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[3] The distinction between *potential* cases brought to Ex-Im Bank (as opposed to actual cases supported by Ex-Im Bank) is an important one. Potential cases are those transactions which are brought to Ex-Im Bank and worked on by the Bank but which are not ultimately supported by the Bank.

ECAs – including SACE (Italy), JBIC (Japan), and ECGD (U.K.) – have moved to 100% unconditional guarantees. (EDC provides direct loans, and the other two G-7 ECAs provide conditional insurance.) Included in all of the ECAs' cover is support for local costs up to 30% of the amount of the export contract and cover for capitalized interest that accrues during the construction period.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders rated Ex-Im Bank's basic PF program as competitive overall in 2008, but noted that the specific issues of content and MARAD effectively block Ex-Im financing for many PF deals. Ex-Im Bank's foreign content rules in particular act as a further inducement for foreign buyers and US multilateral exporting companies to consider sourcing from overseas where content requirements by other ECAs are less onerous. Exporters requested that Ex-Im Bank redefine content to have a broader meaning, not a narrowly defined "made in" U.S. requirement. Additionally, exporters seek a loosening of the 15% eligible foreign content requirement. For PF deals, the tracking of content and the associated exporter certification requirements that accompany it lead some companies to avoid Ex-Im Bank financing altogether.

Lenders have indicated that other ECAs have caught up with Ex-Im's very strong PF program, and as a result, the Bank has lost any advantage it may once have had.

Conclusion

The basic features of Ex-Im Bank's PF program remain competitive with other G-7 ECAs, although the increase to 100% unconditional guarantees by Ex-Im's competitors means the Bank has lost any edge it may have had in its basic PF support. Further, Ex-Im's public policy constraints (economic impact analysis, foreign content policy, and shipping requirements) come into play on virtually every PF transaction, with the growing impact of these constraints having a noticeably adverse consequence for Ex-Im Bank's overall competitiveness in the PF arena. However, Ex-Im Bank's grade for Project Finance remains an A (generally competitive with the G-7 ECAs). The foreign content and MARAD issues are not factored into the PF grade but instead are addressed individually in their respective chapters (Chapters 6C and 6E respectively).

Chapter 4: Major Program Structures
Section C: Co-Financing "One-Stop-Shop"

Introduction

"Co-financing," "reinsurance," and "one-stop shop" address some of the challenges posed by multi-sourcing. These terms refer to financing arrangements that allow an exporter to market a single ECA financing package to a buyer interested in procuring goods and services from two (or more) countries. Without co-financing, foreign buyers would need to secure multiple financing packages and incur additional expense and administrative burden to ensure ECA support for exports from various countries.

With co-financing, the lead ECA provides the applicant (buyer, bank or exporter) with export credit support for the entire transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee) to the lead ECA for the follower ECA's share of the procurement. The country of the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction. Thus, the lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package. The use of intra-European and international co-financing agreements evidences that availability and ease of ECA co-financing have become important and measurable competitive issues.

Ex-Im Bank's Policy and Practice

Ex-Im Bank introduced the co-financing program in 2001 with the signing of its first bilateral agreement with ECGD. Since that time, Ex-Im Bank has signed nine co-financing agreements[1] and approved case-specific co-financing arrangements on a transaction basis.

In 2008, Ex-Im Bank resolved the two outstanding technical issues (i.e., following the lead ECA's claims and recovery practices in the event of a default and following ECA Euro contract coverage) that prevented Ex-Im Bank from concluding bilateral agreements with the last two G-7 ECAs. Thus, in the last quarter of 2008, Ex-Im Bank signed bilateral co-financing agreements with Coface (France) and Euler Hermes (Germany). Although no deals were concluded under these two agreements in 2008, the conclusion of these agreements has resulted in increased interest evidenced by current applications and inquiries to consider additional framework agreements.

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[1] Ashr'a (Israel), Atradius (The Netherlands), Coface (France), ECGD (UK), EDC (Canada), Hermes (Germany), KEXIM (Korea), NEXI (Japan), and SACE (Italy).

Ex-Im Bank experienced another year of significant co-financing case activity, due in large part to aircraft transactions. 79% (12 large Category 1 and 7 small Category 3 aircraft) of all co-financing transactions involved the export of aircraft. In the majority of the aircraft transactions, without co-financing, the exporter would not be able to offer the maximum 85% support to its customers in one financing package. Thus, co-financing allows Ex-Im, NEXI and ECGD to level the playing field by acting like the Airbus ECAs do in terms of their seamless financing for the European-based commercial aircraft manufacturer.

The Bank approved 24 co-financed transactions totaling $4.1 billion (compared to 20 transactions totaling $2.7 billion in 2007). Large commercial aircraft sales (which also dominated 2007 co-financing activity) represented 93% of the total dollar amount of co-financing, and accounted for 50% of these transactions in terms of number (12 out of 24). Three quarters of all transactions were co-financed with EDC (Canada) or NEXI (Japan) and involved the export of agricultural or large aircraft in all cases, except one. (See **Figure 10** for a listing of specific transactions).

Figure 10: Ex-Im Bank "One -Stop- Shop" Co-Finance Transactions in 2008 ($US millions)

Ex-Im Bank & Co-Financing ECA	Market	Project	Financed Amount*
ASHR'A: Israel	CHINA	Ag Equipment	$10.2
ECGD: United Kingdom	SAUDI ARABIA	Aircraft	$59.0
ECGD: United Kingdom	LUXEMBOURG	Aircraft	$108.0
EDC: Canada	BRAZIL	Ag Aircraft	$1.3
EDC: Canada	BRAZIL	Ag Aircraft	$0.7
EDC: Canada	BRAZIL	Ag Aircraft	$1.1
EDC: Canada	MEXICO	Trucks	$2.6
EDC: Canada	Brazil	Ag Aircraft	$0.6
EDC: Canada	BRAZIL	Ag Aircraft	$0.7
EDC: Canada	BRAZIL	Ag Aircraft	$0.6
EDC: Canada	NIGERIA	Ag Aircraft	$9.8
EKF: Denmark	TURKEY	Power Plant	$37.5
H-Exim: Hungary, EDC: Canada & COFACE: France	TURKEY	Power Plant	$99.7
K-EXIM: Korea	KOREA, SOUTH	Aircraft	$131.4
NEXI: Japan	CANADA	Aircraft	$531.7
NEXI: Japan	UNITED ARAB EMIRATES	Aircraft	$104.6
NEXI: Japan	CHILE	Aircraft	$357.4
NEXI: Japan	BRAZIL	Aircraft	$518.0
NEXI: Japan	INDIA	Aircraft	$363.3
NEXI: Japan	SINGAPORE	Aircraft	$230.6
NEXI: Japan	AUSTRALIA	Aircraft	$376.6
NEXI: Japan	NETHERLANDS	Aircraft	$238.8
NEXI: Japan	IRELAND	Aircraft	$934.5
ONDD: Belgium	FINLAND	Aerial Lift Equipment	$15.7
TOTAL			**$4.1 billion**

*The financed amount includes financed exposure fee

G-7 ECAs' Policies and Practices

The G-7 ECAs have multiple framework agreements among themselves (as shown in **Figure 11**) and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure because many had country limits that made it impossible for them to provide support for exports to riskier markets or to markets where the ECA was close to reaching its country limit. Even in an environment of increasingly liberalized foreign content allowances, co-financing helps achieve operational efficiency and risk management in a world of multi-sourcing.

Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions. Three of the 2008 co-financing deals were done under one-off co-financing agreements and involved reinsurance from EKF (Denmark), H-EXIM (Hungary), and ONDD (Belgium).

Figure 11: G-7 Co-financing "One-Stop-Shop" Agreements in 2008

	Ex-Im	ECGD	EDC	Hermes	Coface	SACE	NEXI
Ex-Im		X	X	X	X	X	X
ECGD	X		X	X	X	X	
EDC	X	X		X	X	X	
Hermes	X	X	X		X	X	X
Coface	X	X	X	X		X	X
SACE	X	X	X	X	X		X
NEXI	X			X	X	X	

Exporter and Lender Survey and Focus Group Results

Participants were "encouraged that Ex-Im was able to sign bilateral agreements with Coface and Germany" and felt that with these signings, Ex-Im Bank experienced a "pick up in co-financing in the last quarter of 2008." Nevertheless, exporters and lenders continued to urge Ex-Im Bank to be "more aggressive" in reaching out to smaller ECAs, such as Mexico, Hungary, and Brazil.

Conclusion

With the signing of the bilateral agreements between the last two G-7 ECAs in late 2008, Ex-Im Bank improved its competitive position relative to 2007. This improvement raises the grade to a B (up from last year's grade of a B-/C+). Ex-Im Bank staff will monitor Ex-Im Bank's concrete experience under these framework agreements during 2009, which we anticipate will grow as evidenced by the current increase in inquiries and applications, to evaluate its future impact on Ex-Im Bank's competitiveness.

Chapter 4: Major Program Structures
Section D: Foreign Currency Guarantees

Introduction

A foreign currency guarantee refers to an ECA-covered export credit that is denominated in a currency other than the ECA's domestic currency. Recognizing the commercial reality that trade finance was generally conducted on U.S. dollar terms, most ECAs have historically operated active foreign currency programs, with the bulk of their portfolios in U.S. dollars. Today, however, as **Figure 12** shows, the Euro and other currencies are gaining substantial ground relative to the U.S. dollar. In fact, the value of the Euro in circulation has already surpassed the U.S. dollar, and the Euro is the currency of choice for many companies issuing international bonds. While the U.S. dollar continues to be the preferred reserve currency, the Euro is following closely behind.

The types of currencies typically eligible for cover by ECAs are generally referred to as either "hard" or readily convertible currencies (such as the U.S. dollar, the Euro, or the Yen) and "soft" or emerging market currencies (such as the South African rand or Mexican peso). After some reluctance early on, many ECAs are now offering local currency cover (usually "soft" currency) with some ECAs pursuing this quite aggressively. The phenomenal growth in liquidity in emerging markets during the course of this decade has resulted in steadily increasing borrower demands for export credit cover in local-currency-denominated debt. An ECA's ability to provide cover in a currency other than its own was becoming a competitive tool. However, during the latter part of 2008 with the global liquidity crunch underway, traditional lenders were less able or willing to provide local currency financing on their own.

Official support for transactions denominated in a foreign currency is not governed by the OECD Arrangement[1]. Each ECA may decide whether to provide foreign currency cover; on what basis to provide it (i.e., loans, guarantees or insurance); and on what terms to provide it (interest rate to be covered, whether to crystallize[2] the debt, etc.)

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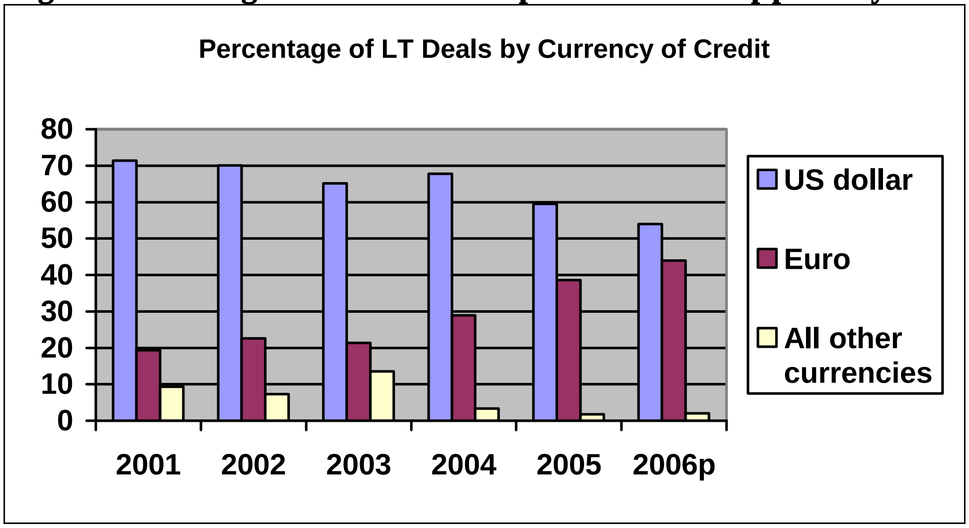
[1] However, the use of local currency can be eligible for a premia discount under the OECD Arrangement if certain conditions are met.

[2] In the event of a claim payment by the ECA, crystallization requires that the debt (along with any fees incurred) be converted into its hard currency equivalent, and sometimes referred to as conversion. The ECA seeks recovery of the hard currency obligation, and exchange rate risk during the recovery period is borne by the obligor.

Figure 12: Long-Term OECD Export Credit Support by Currency



Source: 2006 OECD Statistics; more current data is not yet available.
p = preliminary

Ex-Im Bank Policy and Practice

Like its G-7 counterparts, Ex-Im Bank offers foreign currency support through its guarantee and insurance programs by backing loans denominated in a foreign currency that are extended by a lender (usually a commercial bank). The program has been used most widely in aircraft financing because it is an attractive way for an airline borrower to reduce its currency risks by matching the currency of its debt to the currency of its revenues when most of those revenues are not in U.S. dollars.

Ex-Im's foreign currency claims procedure requires that, in the event of default and irrespective of whether the foreign currency is a hard or soft currency, Ex-Im purchases the foreign currency to pay the claim to the lender and then converts (or "crystallizes") the debt obligation by the borrower into U.S. dollars equal to the amount that Ex-Im Bank paid to obtain the foreign currency. This policy effectively shifts the post-claim exchange rate risk from Ex-Im Bank to the obligor. In addition, Ex-Im Bank typically accelerates[3] the debt and pays the claim in a single lump-sum payment. Ex-Im Bank uses the same acceleration, claim payment, and recovery process for dollar-denominated debt as for foreign currency denominated debt. Ex-Im's procedures are unlike its G-7 counterparts in that they distinguish between how they treat hard and soft currency claims. They pay claims on an installment by installment basis vs. accelerated basis. (See section below re: G-7).

In December 2007, Ex-Im Bank received approval to begin offering cover for Euro denominated co-financing transactions without the conversion/crystallization

[3] Acceleration of the debt can cause problems for investors if the debt has been securitized (sold by the original lender to various third-party investors, who have needs or obligations requiring cash flows matching the original loan terms).

requirement. However, neither of the two co-financed Euro guarantee transactions approved in 2008 used this option.

Ex-Im Bank also has a matching provision that would allow the Bank to consider providing foreign currency (including soft currency) coverage without the requirement for conversion. Specifically, before any consideration could be given to providing foreign currency coverage without conversion, Ex-Im Bank would need confirmation that a foreign ECA will provide coverage without conversion for the same transaction.

In 2008, Ex-Im Bank supported 8 foreign currency transactions with a total financed amount of over $1.8 billion (compared to 13 transactions valued at about $1.75 billion in 2007). As in 2007, the majority of foreign currency cases were denominated in hard currencies: 6 Euro-denominated transactions had a value of about $1.3 billion, and one co-financed Japanese Yen transaction for aircraft to Canada that totaled $531.7 million. In addition, Ex-Im Bank guaranteed one aircraft transaction with the Mexican peso for $40.7 million. Seven of the 8 transactions were in support of aircraft exports, with airlines in Morocco, Turkey, the Netherlands, and Ireland seeking Euro financing. One final transaction was financed in Euros for aerial lifting equipment to Finland for $15.7 million, which will be leased out to companies in Finland, Russia, Ukraine, and the Baltics.

G-7 ECAs' Policies and Practices

The other G-7 ECAs distinguish between two types of foreign currency coverage: *hard currency cover* which is readily available without crystallization and usually at no additional cost compared to domestic currency coverage; and *soft currency cover* which is available on a case-by-case and/or currency-by-currency basis and usually results in additional ECA considerations on appropriate risks and mitigants that should be brought to bear on the transaction.

Hard Currency Cover: All G-7 ECAs provided support for export credits denominated in hard currencies. Unlike Ex-Im Bank, however, the other ECAs were willing to accept recoveries in foreign hard currencies because they either (a) have accounts in the foreign currency; (b) impose a surcharge used to offset possible shortfalls that could arise from currency fluctuations between the domestic and foreign hard currency; or (c) take a portfolio approach to risk management that allows them to cross-subsidize profits and losses that result from the foreign currency fluctuations. EDC (Canada), SACE (Italy), NEXI (Japan), COFACE (France) and ECGD (U.K.) do not require conversion of the obligation post-claim payment because they have the capability to assume and manage the foreign exchange rate risk. Hermes (Germany) will cover the exchange rate risk for a surcharge. As a result, the Ex-Im Bank requirement to convert all foreign debt into U.S. dollars is unique, with the exception of Euro denominated co-financing transactions.

Soft Currency Cover: As noted earlier, ECAs can either accept foreign exchange risk (pay claims and accept recoveries in the soft currency) or crystallize the debt (convert the debt into a hard currency obligation after paying a claim or use alternative structuring that protects the ECA from possible shortfalls resulting from exchange fluctuations during the recovery phase). As **Figure 13** shows, no uniform practice exists among G-7 ECAs with respect to acceptance of soft currency foreign exchange risk. However, based on recent data, most (if not all) are now willing to consider (and several have offered) non-crystallized soft currency support. Some ECAs have found that local laws prohibit crystallization of the debt or severely restrict an ECA's recovery efforts, thereby rendering conversion of local currency debt cumbersome and, in some instances, ineffective. Thus, ECAs are currently assessing the risk/reward equation in order to find ways to manage their risks in the face of legal and practical constraints on crystallization.

Given the reduced credit and transfer risk generally associated with local currency financing (especially when the buyer's revenues are limited to the local currency), ECAs continue to demonstrate a willingness to explore the alternatives associated with local currency cover. In this regard, ECAs have established a variety of criteria for evaluating when to offer non-crystallized local currency in a specific transaction/situation. Some of the factors typically considered include:

- limits on the transaction size;
- only provide such cover for currencies with stable and relatively low interest rates;
- limiting such cover to borrowers with relatively good credit ratings;
- pricing for any incremental risk or administrative expense;
- evaluating the status of conversion clauses in the legal regime of the local market; and
- limiting soft currency cover to those currencies with sufficiently deep and liquid markets to enable the ECA to purchase the currency without impacting its exchange rate.

On the other hand, as countries evaluate their approach to local currency cover, the issues of how and when to use the OECD discount[4] come into play. Since OECD notifications of using this discount are only required when the discounted premium is below the minimum premium allowed by the OECD Arrangement, it is unknown to what extent the use of local currency cover results in lower premium than what would have been charged had the transaction been done in a non-local currency.

[4] Under OECD guidelines, crystallized local currency cover is eligible for a 35% - 50% discount from the OECD minimum premium.

Figure 13: G-7 ECA Foreign Currency Approaches: Willingness to Accept Exchange Rate Risk and Activity, 2008

	Exchange Risk Accepted?		Currencies[1] of Approved Transactions (2001-2008)	
	Hard Currency	Soft Currency	Hard Currency	Soft Currency
EDC[2]	Yes	Case-by-case	USD, EUR	none
Coface[3]	Yes	Yes	USD, AUD, JPY	ZAR, XAF, EGP, MXP
Hermes[4]	Yes, with10% surcharge	Case-by-case	USD, GBP, CHF, CND, AUD, JPY	AED, DOP, MXP, ZAR, INR, RUB, TWD
SACE[5]	Yes	Limited experience	USD, CHF, GBP, JPY	EGP, MAD, BRL
NEXI[6]	Yes	No experience	USD, EUR	none
ECGD[7]	Yes	No, convert obligation to Sterling at time of payment	GBP, USD, EUR, JPY	none
Ex-Im Bank[8]	No, convert obligation to dollars at time of payment	No, convert obligation to dollars at time of payment	EUR, JPY, AUD, CND, NZD	MXP, COP, ZAR

1 Currency Key: USD – U.S. dollar, EUR – Euro, GBP – British pounds, JPY – Japanese yen, AUD – Australian dollars, CHF – Swiss francs, EGP – Egyptian pounds, CND- Canadian dollar, MXP – Mexican pesos, DOP – Dominican Republic peso, ZAR – South African rand, AED -- United Arab Emirates dirham, COP – Colombian peso, BRL – Brazilian real, XAF – Central African Franc, INR – Indian rupee, RUB – Russian ruble, TWD – Taiwan dollar, and MAD – Moroccan dirham.

2 EDC will cover Norwegian kroner, Czech koruna, Hong Kong dollar, Hungarian forint, Mexican peso, Polish zloty, Singapore dollar, South African rand, and Turkish lira.
3 COFACE will cover Algerian dinar, Brazilian real, Colombian peso, Indian rupee, Malaysian ringgit, Mexican peso, Morocco dirham, Russian ruble, South African rand, Thailand baht, CFA franc, Turkish lira, Chilean peso.
4 Hermes determines on a case-by-case basis.
5 SACE determines on a case-by-case basis.
6 NEXI – Data not available.
7 ECGD – Data not available.
8 Ex-Im Bank will also cover Brazilian real, British pound, Central African franc, Egyptian pound, Indian rupee, Indonesian rupiah, Korean won, Malaysian ringgit, Moroccan dirham, Norwegian krone, Pakistani rupee, Philippine peso, Polish zloty, Russian ruble, Swedish krona, Swiss franc, South African rand, Taiwanese dollar, Thai baht, and West African franc.

OECD data indicate that long-term export credits offered by OECD countries are steadily shifting more toward the Euro and, to a small degree, other currencies and away from the U.S. dollar. Yet, even through 2008, the incidence of soft currency transactions is rare.

Exporter and Lender Survey and Focus Group Results

Lenders continue to express interest in foreign and local currency guarantees provided by Ex-Im Bank, even as the financial downturn continues to cause lenders to pursue less risky investments. Additionally, the exporter and lender survey results were mixed, with lenders generally viewing current Ex-Im foreign currency policies more favorably than exporters. However, at the same time, focus group results from the lending community showed that lenders continued to view Ex-Im Bank's crystallization policy as uncompetitive relative to other ECAs. Regardless, lenders understand Ex-Im's crystallization policy and, while they don't think it is the best policy, accept it as something with which they have to work.

Conclusion

The annual survey of exporters and lenders, and results from focus group discussions, indicate the demand for foreign or local currency financing is likely to continue to grow over the long-term. However, because of the current uncertainty in the global financial market regarding exchange rate volatility, more ECAs are requiring crystallization on local currencies, at least in the near-term. Nevertheless, Ex-Im's traditionally strict crystallization policy on all foreign currencies is viewed as detrimental to its competitiveness given other ECAs more flexible overall approach. In fact, because the development of the Euro as a dominant currency in trade finance is relatively recent, most European ECAs already have solid U.S. dollar reserves and facilities in place for transactions, while Ex-Im Bank does not have a reciprocal facility in place for the Euro. Accordingly, the grade for Ex-Im Bank's foreign currency guarantee program in 2008 remains a B.

Chapter 4: Major Program Structures
Section E: Services

Introduction

In this global economy, the export of services has become an extremely important component of international trade, especially for the United States. In fact, as of 2006 the U.S. was the top exporting country of services in the world, making up almost 15 percent of world services exports[1]. Over the 2006-2008 period, U.S. exports of services increased by over 27 percent, or $117.7 billion, to $551.6 billion in 2008[2]. Further, services exports comprised about 4 percent of GDP in 2008, and made up about 30 percent of all exports[3].

Given the importance of services exports to the U.S. economy, and pursuant to Section 2(b)(1)(D) of its Charter, Ex-Im Bank "shall give full and equal consideration to making loans and providing guarantees for the export of services (independently, or in conjunction with the export of manufactured goods, equipment, hardware, or other capital goods) consistent with the Bank's policy to neutralize foreign subsidized credit competition and to supplement the private capital market." Moreover, Section 8(A)(a)(8) of the Ex-Im Bank Act as updated December 27, 2006 requires the annual Competitiveness Report to include a section "which describes the participation of the Bank in providing funding, guarantees, or insurance for services, which shall include appropriate information on the involvement of the other major export-financing facilities referred to in paragraph (1) in providing such support for services, and an explanation of any differences among the facilities in providing the support."

Ex-Im Bank's Policy and Practice

Ex-Im Bank has long supported services exports over a wide swath of the "tradeable" services sector. As seen in **Figure 14,** over the last three years Ex-Im Bank has provided financing for almost $5 billion of U.S. services exports (about 10% of the total export value resulting from Ex-Im support over this time). Ex-Im Bank support for services includes both "stand-alone" services (services that are not part of a capital goods/project-related transaction) and "associated services" (services that are associated with capital goods exports and/or large projects). The FY 2008 figure of $2.2 billion was quite illustrative of the types of services supported by Ex-Im Bank, with several major industry sectors receiving a large amount of financing.

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[1] Source: *OECD Statistics on International Trade in Services: Volume II*, released in 2008
[2] Source: U.S. Commerce Department, Bureau of Economic Analysis
[3] Source:

During the 2006-2008 period, Ex-Im Bank support for both types of services increased steadily, more than doubling between 2006 and 2008[4]. Most of this increase is from additional support for engineering and consulting services, and from additional support for information technology and telecommunications services. Most of the stand-alone services were for engineering and consulting services, computer software systems design (information technology) services, and agricultural services, with the others dispersed across the remaining sectors. With regard to associated services, almost 85 percent of Ex-Im Bank support was for mining, oil & gas, and engineering & consulting services.

Generally, Ex-Im Bank provided associated services exports with repayment terms of 5-12 years. These repayment terms reflect the medium- to long-term nature of the financing requirements of large projects with which they were associated. On the other hand, stand-alone services tend to receive short-term (6-18 months) support because they are typically part of short-term operating expenses.

Figure 14: Services Supported by Ex-Im Bank, FY 2006-2008 ($US Millions)

	2006			2007			2008			Total		
	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total
Agriculture	0.9	--	0.9	4.4	--	4.4	20.7	--	20.7	26.0	--	26.0
Oil & Gas and Mining	0.1	454.0	454.1	1.6	211.0	212.6	2.1	372.7	374.8	3.8	1,037.7	1,041.5
Construction	4.0	10.1	14.1	8.0	38.8	46.8	6.0	5.0	11.0	18.0	53.9	71.9
Transportation	1.3	68.9	70.2	5.8	6.3	12.1	7.7	35.9	43.6	14.8	111.1	125.9
Information Technology & Telecommunications	4.6	133.3	137.9	14.7	78.1	92.8	17.9	195.5	213.4	37.2	406.9	444.1
Legal & Banking	--	1.3	1.3	--	16.9	16.9	--	22.7	22.7	--	40.9	40.9
Rental & Leasing	--	--	--	0.2	2.6	2.8	3.6	1.5	5.1	3.8	4.1	7.9
Engineering & Consulting	2.4	119.4	121.8	25.1	1,451.5	1,476.6	24.4	1,490.4	1,514.8	51.9	3,061.3	3,113.2
Medical	--	1.3	1.3	1.7	0.9	2.6	0.7	--	0.7	2.4	2.2	4.6
Other Services[1]	3.5	2.1	5.6	7.1	0.3	7.4	4.2	1.9	6.1	14.8	4.3	19.1
TOTAL	16.8	790.4	807.2	68.6	1,806.4	1,875.0	87.3	2,125.6	2,212.9	172.7	4,722.4	4,895.1

Source: Ex-Im Bank
[1]Includes repair services and personal care services.

G-7 ECAs' Policies and Practices

All G-7/OECD ECAs appear quite willing to support services as a general category of exports, with most medium- and long-term support provided for services associated with capital goods exports, similar to Ex-Im Bank. Bilateral discussions with a variety of G-7/OECD ECAs, along with a 2008 survey suggest that official medium- and long-term support for stand-alone services is relatively rare. Other ECAs' support for associated services appear to be provided on the same terms as the capital goods exports, whereas stand-alone services seem to generally receive only short-term support.

[4] The 2006, 2007, and 2008 data contained in this report were calculated differently than the 2005, 2006, and 2007 data contained in the 2007 Competitiveness Report. Therefore the data contained in this report are not comparable to the data contained in the previous edition of the Competitiveness Report.

Reflecting the "associated-with-capital goods exports" nature of most G-7/OECD medium- and long-term support for services, only those countries that have major firms with extensive business abroad using at least some amount of domestic capital goods actually support significant levels of services. Currently, the largest G-7/OECD providers of medium- and long-term support for services are Japan, Germany, and the U.S. Not surprisingly, most G-7 ECAs report that engineering services dominate their medium- and long-term support for services, with this type of service being provided for projects and goods across many industries. For example, the sectors reported to be receiving the largest amounts of medium- and long-term support include oil and gas development, power plant construction, mining and refining, and telecommunications. Overall, however, much of this is based on anecdotal information as there is little official data from other G-7 ECAs regarding the amount of services supported annually.

Exporter and Lender Survey and Focus Group Results

Focus groups noted that Ex-Im's basis for support of services is antiquated in that we use "goods" standards particularly with regard to content determination and origin. Further, these standards do not always fit services, given the intangible nature of so many services these days especially in the IT area – IPR, software, etc. Hence, the groups suggested that this represents a large and very important segment of the U.S. services sector that is not being served. Allegedly, other ECAs are much more flexible and willing to support services exports.

Conclusion

In effect, for services that typically are associated with capital goods exports, the amount of G-7 support for services exports appears to be at least as competitive as that provided to the capital goods exports. However, stand-alone services seem to have no specific short-, medium-, or long-term programs designed just for these services and, as noted above, are almost always underwritten on a short-term basis. Based on exporter and partial information on competitor practices related to services, it would appear that Ex-Im Bank's willingness to support services is equal to at least the average willingness of other ECAs. However, given that the collection of Ex-Im Bank services data is a relatively new process, and given the lack of comparable data from other G-7 ECAs, it is difficult to arrive at a conclusive grade at this time.

Chapter 4: Major Program Structures

Section F: Ex-Im Bank's Major Program Competitiveness

Ex-Im Bank's major program structures were considered to be slightly less than generally competitive with their G-7 ECA counterparts during 2008, which translates into a grade of A-/B+, the same as in 2007. Ex-Im Bank's aircraft and project finance programs were again rated as generally competitive with its foreign ECA counterparts. Meanwhile, the co-financing program improved to be somewhat more competitive than in 2007 (from a "B-/C+" to a "B") due to the signing of two additional G-7 bilateral agreements with France and Germany late in 2008. However, the disparity between Ex-Im Bank's foreign currency program and its G-7 counterparts continued as European ECAs continue to have strong foreign currency reserves and Ex-Im does not have a reciprocal facility in place. **Figure 15** shows how Ex-Im Bank's major programs were rated on individual aspects as well as overall. The grades are based on the survey and focus group results and Ex-Im Bank's analysis of how it performs in relation to its G-7 ECA counterparts.

Figure 15: Grading of Ex-Im Bank's Major Program Competitiveness, 2008

Key Elements	Grade
Large Aircraft	**A**
Interest Rate Level	A
Percentage of Cover	A
Risk Capacity	A
Project Finance	**A**
Core Program Features	A
Repayment Flexibilities	A
Co-Financing	**B**
Bilateral Agreements	B
Flexibility in one-off deals	A-/B+
Foreign Currency Guarantee	**B**
Availability of Hard Cover	A-/B+
Availability of Soft Cover	B
Accepts Exchange Rate Risk	B-/C+
Pricing	A-/B+
Total Average Grade	**A-/B+**

Chapter 5: Economic Philosophy
Section A: Trade-related Tied and Untied Aid

Introduction

The term "tied aid" refers to any trade-related aid credit provided by a donor government for a public sector project in another country that is conditioned on the purchase of equipment from suppliers in the donor country. "Untied aid" differs from tied aid only in that it is not formally conditioned on the purchase of equipment from suppliers in the donor country. Tied aid usually represents bona fide development assistance that provides critical support for the recipient country. Long-standing, U.S. Government policy seeks to encourage all aid flows that are for legitimate development purposes and freely available to bidders from all countries. Trade-distorting aid is aid that is offered to benefit suppliers in the donor's country. Historically, trade-distorting tied aid was a competitive issue for U.S. exporters because it was undisciplined and frequently used by foreign ECAs. The U.S. Government has since sought to limit – if not eliminate – trade-distorting tied aid and has subjected untied aid to transparent reporting procedures. Thus, foreign tied aid is now only sporadically cited as a competitive factor impacting US exporter sales abroad.

Overview of Tied and Untied Aid

U.S. Government efforts to discipline tied aid at the OECD have resulted in rules (also known as the Helsinki Disciplines) that have been instrumental in significantly limiting the trade-distorting effects of tied aid and redirecting tied aid flows to *bona fide* development projects. Since they came into effect in early 1992, the OECD tied aid rules have helped reduce tied aid to an annual average of about $5 billion since 1992, from an estimated average of $10 billion annually prior to 1992. Just as important, most remaining tied aid volumes have been re-directed away from commercially-viable sectors and toward commercially non-viable sectors.

With respect to untied aid, historical concerns regarding Japanese untied aid (that reached its highest levels -- about $15 billion-- a decade ago) prompted the U.S. to seek the same disciplines for untied aid that were agreed for tied aid. Donor and recipient countries countered U.S. efforts, claiming that (a) untied aid did not pose a serious threat to free trade; and (b) disciplines for untied aid would only reduce much needed aid to developing countries. Despite opposition, in 2005, the U.S. was able to secure a pilot transparency agreement for untied aid that requires OECD Members to (a) notify project loan commitments at least 30 days prior to the opening of the bidding period (to allow for international competitive bidding); and (b) report the nationalities of the bid winners on an annual ex post basis.

With respect to tied aid, Appendix F provides a more detailed synopsis of the OECD rules and definitions that may be useful to understanding competitive implications of foreign tied and untied aid on U.S. exporters.

"Helsinki-type" tied aid, or tied aid that was the target of the Helsinki Disciplines, is subject to three principal disciplines: (1) no tied aid for commercially viable projects; (2) all tied aid must be notified to OECD Members at least 30 business days before the bid closing or commitment date, whichever is earlier; and (3) no tied aid for wealthy countries [those with a per capita Gross National Income (GNI) at or above $3,705, with this figure changing annually because it is based on annually-adjusted World Bank lending criteria. (See Appendix F, Annex 1).] The other critical component of the OECD tied aid rules, that predated the Helsinki Disciplines, is that tied aid offers must have a minimum of 35% concessionality[1].

Commercial viability, which OECD members determine on a case-by-case basis, has two components: (1) financial viability, which refers to a project's ability to service market-term, or standard Arrangement-term, financing over 10-15 years (depending on the type of project); and (2) the general availability of ECA financing for such a project. (See Appendix F).

"Non-Helsinki-type" tied aid includes stand-alone *de minimis* projects (valued at less than approximately $3 million), grants, near-grants (at least 80% concessionality), and partial grants (at least 50% concessionality) that are offered to the poorest countries (the UN-declared Least Developed Countries or LDCs). Given its "*de minimis*" size, such tied aid does not typically impact the competitive position of U.S. exporters. Of note is that, to date, no U.S. exporter has approached Ex-Im Bank with any request to match such aid offers. The U.S. Government is, nonetheless, prepared to automatically match foreign *de minimis* tied aid offers made for commercially-viable projects.

Activity Data

Although the number of tied aid offers notified in 2008 was the lowest since 1995, the volume of tied aid was the highest since that same year. Specifically, the number of Helsinki-type tied aid offers continued to decrease to 115, from 126 offers made last year. Conversely, **Figure 16** indicates that in 2008, Helsinki-type tied aid increased by about $2 billion or 35% over last year to approximately $7.3 billion. However, the increase in volume was due primarily to three very large transportation projects that received tied aid. Nevertheless, the volume of tied aid is still well below what it was before the Helsinki Disciplines went into effect in 1992.

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[1] "Concessionality" refers to the total value of the subsidy being provided by the donor country 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%. However, a grant of $35 million combined with a standard export credit for the remaining $65 million would have a concessionality of 35%.

As for the composition of the tied aid, the majority of Helsinki-type tied aid offers continued to represent development assistance. Although there was a high proportion of tied aid allocated to transportation projects that generally are considered commercially non-viable, in 2008 the spike in tied aid for commercially viable projects could be attributed to one large railway project that was determined to be commercially viable by the OECD Consultations Group. The railway project went forward contrary to the OECD Consultations Group finding because the donor chose to derogate from the tied aid rules for political reasons. (See Appendix F for details).

The data show a continuation of the tied aid trends that have dominated tied aid activity for the last five years or so. Specifically:

- Japan continues to be the largest donor of tied aid, accounting for over 45% of all tied aid activity in terms of volume.

- Despite Spain's 30% increase in volume of tied aid over 2007 levels, France surpassed Spain as the second largest tied aid donor, with a 300- 400% increase over previous years. Thus, Spain and France comprised 23% and 30% of the volume of tied aid, respectively.

- In 2008, three large rail transportation projects (in India, Morocco and Vietnam) accounted for about 45% of the volume of tied aid, thereby skewing the 2008 annual data away from historical trends that showed an overall reduction in tied aid and high concentration on developmental – not commercially viable – projects.

- Asia continues to be the main tied aid recipient but a change in main recipient countries was evidenced. In 2008, India led the region followed by Vietnam, the country that was last year's main recipient. Despite its longstanding position as the principal recipient of tied aid, China's stronghold on that lead continues to fade in terms of volume – placing fourth in 2008, after Morocco. However, in terms of number, China was the largest beneficiary of tied aid, attracting 23 notifications.

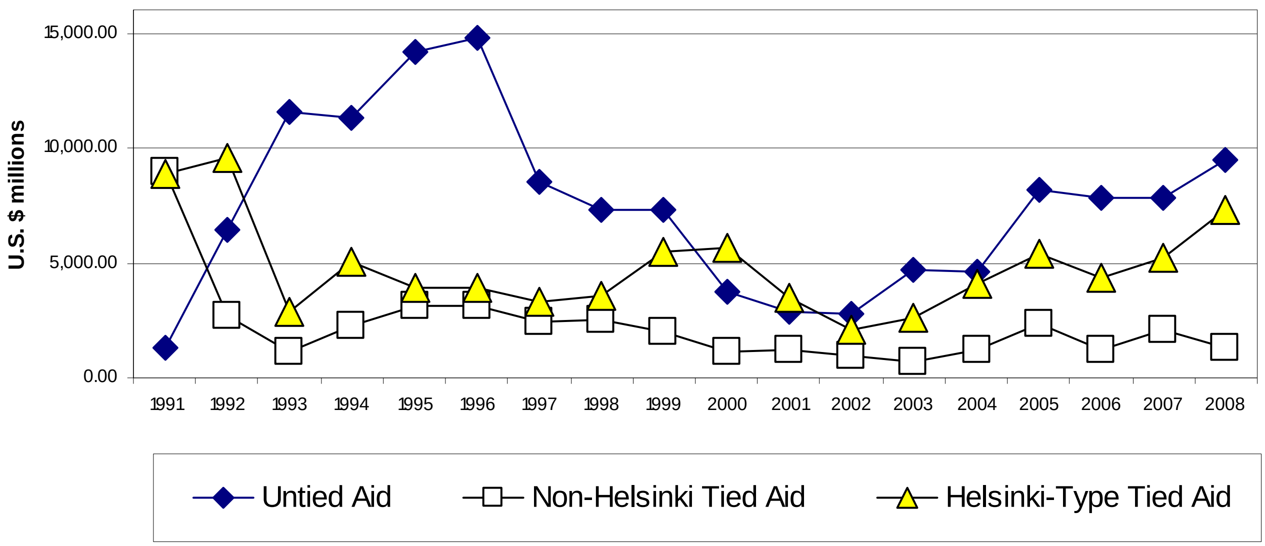
In 2008, reporting from the untied aid transparency agreement showed that the volume of and number of untied aid notifications decreased significantly. That is, the volume of untied aid dropped from over $13 billion in 2007 to under $10 billion in 2008 -- which is roughly a 25% decrease. The number of untied aid offers decreased from 116 notifications in 2007 to 77 notifications in 2008 – a decrease of about one-third. Additional noteworthy points include:

- With respect to main donors, despite the overall decrease in untied aid notifications, Japan continued to account for over half of the notifications, both in terms of volume and number. France and Germany were the next largest donors. Germany doubled the number of its untied aid offers (from 7 notifications in 2007 to 13 in 2008) and tripled the volume of its untied aid to a record high of over $1 billion dollars. France, on the other hand, registered a decrease of untied aid offers by one-half (from 23 offers in 2007 to 14 in 2008), totaling about $650 million.

- The main recipient of untied aid was, by far, India, receiving over $4.5 billion in untied aid spread over 11 notifications. This accounted for approximately half of the total volume of untied aid.

- As noted last year, almost all of this aid (i.e., over 90%) has been offered in accordance with the International Competitive Bidding (ICB) procedures[2]. If the data show that the contracts were truly awarded to bidders on a competitive basis, that evidence would render the competitive issue associated with claims of "de facto tied" untied aid practically moot.

Figure 16: Aid Credit Volume by Type, 1991-2008 ($US Millions)



Note: Consistent untied aid data reporting began in 1994. Discrepancies between untied aid data reported under the OECD Arrangement and that captured under the 2005 Transparency Agreement on Untied ODA Credits can be attributed to differences in the timing of OECD Notifications -- which are typically made well in advance of (perhaps years before) contract bid award -- and are, therefore, not comparable on an annual basis with ODA Credit amounts, which reflect actual credit commitments included in bid tenders. Helsinki-type Tied Aid in 2008 included three very large transportation projects that received tied aid.

[2] Procurement patterns are not yet available. It is likely that data on procurement will not provide definitive evidence of *de facto* tying of untied aid by the time the transparency agreement expires at the end of 2010. However, additional data will be available in 2009 to allow for a more complete analysis.

Competitive Situation

In 2008, Ex-Im Bank faced allegations that non-G-7 ECAs (and some Emerging Market ECAs) were making tied aid available in a targeted – yet limited – way. For example, certain ECAs were offering concessional credits for water and renewable energy projects. Exporter complaints regarding the negative competitive landscape resulting from the availability of foreign tied aid credits have generally not been substantiated by evidence that tied aid offers from G-7 countries failed to comply with the OECD disciplines or were directed at projects or sectors considered to be financially and/or commercially viable. However, in 2008, two tied aid projects were evaluated by the OECD Consultations Group and were found to be commercially viable (i.e., ineligible for tied aid support and, therefore, the donor must withdraw its tied aid offer). Despite these findings, one tied aid offer for a transportation project – representing almost 30% of the Helsinki-type tied aid offers -- did proceed because the donor chose to derogate from the OECD rules for political reasons. The OECD rules provide for such derogations by requiring the donor to write a letter to the OECD Secretary-General explaining the circumstances surrounding the rogue tied aid offer. This action was the first derogation from the OECD tied aid rules since 2001.
Regarding Ex-Im Bank offers to match foreign tied aid competition, Ex-Im Bank approved a Tied Aid Commitment offer to an exporter competing for the sale of waste water treatment equipment to a buyer in Sub-Saharan Africa, that resulted in roughly a $7.5 million use of the Tied Aid Capital Projects Fund, now totaling $178.2 million. In addition, Ex-Im Bank re-extended a Tied Aid Willingness-to- Match offer to a U.S. exporter competing for the sale of locomotives in Indonesia.

U.S. Government and Ex-Im Bank Policy

U.S. Government policy seeks to reduce, and ideally eliminate, trade-distorting tied and untied aid. Consistent with this long-standing philosophy, Ex-Im Bank does not initiate tied aid. Instead, Ex-Im Bank and the U.S. Treasury Department work together to encourage the withdrawal of foreign tied aid offers or ensure that U.S. exporters have an opportunity to compete for commercial sales to projects. See **Appendix F** for more details.

Exporter and Lender Survey and Focus Group Results

In 2008, most of the respondents to the survey had never encountered any tied aid from any source and were not familiar with tied aid financing. One exporter, however, did note frustration with the limited scope of the tied aid program, indicating that competitors – including OECD and Emerging market ECAs – are able to initiate tied aid while Ex-Im cannot even match a confirmed foreign tied aid offer absent a protracted analysis of cash flows, commercial viability and prospects for follow-on sales on commercial terms.

Focus Group participants (both lenders and exporters) registered their concern that tied aid was continuing to be offered by OECD and non-OECD countries.

Conclusion

In 2008, U.S. exporters faced few instances of tied aid when competing for export sales. However, Ex-Im Bank did authorize one tied aid credit for a case in Sub-Saharan Africa (that was originally approved in 2007) and re-extended a second tied aid offer for a transportation project in Indonesia (originally issued in 2006), thereby maintaining a level playing field for the U.S. exporters involved in those two projects. Nevertheless, U.S. exporters occasionally report instances of foreign tied aid that competes with their desired commercial sale of capital goods to projects that are generally considered to be commercially non-viable (for example, locomotives; wind turbines; waste water treatment equipment). In those few instances, Ex-Im Bank's matching procedures are considered cumbersome and time-consuming and, as such, a limited competitive response. Therefore, in 2008, tied aid continued to have a modestly negative influence on U.S. exporter competitiveness.

Chapter 5: Economic Philosophy
Section B: Market Windows

Introduction

Market Windows are government-owned institutions that claim to offer export credit on market terms, enabling them to bypass the OECD Arrangement rules. Though this implies that they operate as private sector lenders, in reality they receive government benefits that are not available to commercial banks, such as implicit or explicit government guarantees, tax exemptions and equity capital provided by the government. Market Windows can simultaneously manage an "Official Window" that offers Arrangement terms for riskier transactions. As domestic export-promoting institutions subject to neither the Arrangement constraints of an official ECA nor the market limitations of a true commercial bank, Market Windows pose a potential competitive threat in the export finance market.

Market Window institutions have avoided discipline in the OECD. Without empirical evidence of trade distortion (due, at least in part, to their lack of transparency on deal-specific terms), it is difficult to measure the competitive impact of Market Windows. Because many U.S. exporters who also have facilities in markey window countries have discovered that they themselves can benefit from Market Window financing, these potential critics have, for the most part, provided no recent evidence of competitive harm. However, in practice, these rule changes still cannot completely eradicate Market Windows' unique strength in the export finance market: the ability to promote national trade interests with government support and without OECD restraints.

Ex-Im Bank's Policy and Practice

Ex-Im Bank does not operate a Market Window. All of Ex-Im Bank's medium- and long-term transactions comply with the terms and conditions of the OECD Arrangement. However, in Ex-Im Bank's re-authorization in 2002, Congress gave the Bank the ability to match the terms and conditions offered by Market Windows. This matching authority has yet to be used, as there have been no cases where U.S. exporters have sought matching due to an inability to obtain similar financing terms after facing Market Window competition.

G-7 ECAs' Policies and Practices

Only two[1] G-7 countries provide explicit Market Window support: Canada through EDC and Germany through IPEX-Bank, a KfW subsidiary. Other G-7 ECAs could become Market Window players should they perceive a competitive advantage to doing so. Moreover, a variety of forces (such as WTO panel decisions and domestic imperatives to make a profit) create incentives for ECAs to increasingly utilize commercial-like procedures and standards. Hence, the distinction between "Market Window" and "official" ECA activity is tending toward a distinction without a difference for many ECAs.

The following discusses the recent activities and changes in the two G-7 Market Window institutions.

- **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. EDC also operates Canada's official ECA and allocates business between its official window and Market Window with little transparency.

  Data for EDC's medium- and long-term export credit activity in 2004-2008 reveals significant year-to-year variability. Market Window activity witnessed similar fluctuations, accounting for between 72% and 96% of EDC's total medium- and long-term export credit business in the years 2004 through 2008 (**see Figure 17**).

Figure 17: EDC Medium- and Long-Term Activity, 2004-2008 ($US Billions)

	2004	2005	2006	2007	2008
Total MLT export credits	$3.9	$3.3	$5.3	$3.9	$4.6
Market window	2.9	2.8	5.1	3.3	3.3
Official window	1.0	0.5	0.2	0.6	1.3

- **KfW IPEX-Bank**

  In 2004, KfW Bankengruppe began conducting much of its export credit and project finance activity through IPEX-Bank, a newly-created, 100% KfW-owned, arms-length subsidiary (i.e., a "bank-in-a-bank"). The decision to separate Market Window activity from KfW's state-sponsored economic support activities was motivated by the European Commission's concern that KfW's export financing was unfairly competing with European commercial banks due to KfW's state support.

[1] SACE in Italy has started to develop a program of guarantees and insurances that are "untied" to specific exports from Italy, but whose support is based on broader criteria of maximizing the benefits to the Italian economy.

To fully address the European Commission's concern, on January 1, 2008, KfW IPEX-Bank began operating as a legally independent entity but still remains a subsidiary of KfW and will continue to be closely integrated into KfW's overall strategy. Although KfW IPEX-Bank will be provided with initial equity upon spin-off by KfW, it will have a stand-alone credit rating, which will be the basis of its funding costs. KfW IPEX-Bank will also be subject to taxation and German banking regulations, and must earn a risk-adjusted return on capital of 13%, a level determined by IPEX-Bank management and endorsed by KfW's Board.

Of IPEX-Bank's $24.7 billion business volume in 2008, 76% consisted of commitments outside Germany of which 30% was export credit business. Consistent with expectations that KfW IPEX-Bank will function more like a private sector entity, over 54% of its 2008 export credit business was in support of entities in Europe or North America. The three largest industry sectors receiving KfW IPEX-Bank export credit support in 2008 were ships (45%), aircraft (16%), and basic industries (15%).

KfW IPEX-Bank's export credit business is provided both on Arrangement terms, with official export credit insurance coverage by Hermes, and on Market Window terms. The Market Window support is considered exempt from OECD rules. **Figure 18** below provides a breakdown between the Market Window and official window support provided by KfW IPEX-Bank since its creation in 2004. In 2008, approximately 73% of IPEX-Bank's total export credit support was provided without official ECA cover, although some of these transactions may also comply with the OECD Arrangement.

Figure 18: KfW/IPEX-Bank Medium- and Long-Term Activity, 2004-2008 ($US Billions)

	2004	2005	2006	2007	2008
Total MLT export credits	$3.0	$3.2	$4.0	$5.4	$5.6
Market window	1.8	1.9	2.2	2.7	4.1
Official window	1.2	1.3	1.8	2.7	1.5

- **Summary Data**

  Combining the two estimates for EDC and KfW IPEX-Bank yields a total of $7.4 billion in Market Window volume for 2008 (see **Figure 19**), which averages to about $6 billion per year over the last five years.

Figure 19: Market Window Activity, 2004-2008 ($US Billions)

	2004	2005	2006	2007	2008
EDC	$2.9	$2.8	$5.1	$3.3	$3.3
KfW/IPEX-Bank	1.8	1.9	2.2	2.7	4.1
Total	$4.7	$4.7	$7.3	$6.0	$7.4

Exporter and Lender Survey and Focus Group Results

Representatives of the exporting community's view noted that Ex-Im Bank does not have a program to address the Market Window practices of other ECAs. Lenders noted that Market Windows are an attractive alternative to ECA financing, Ex-Im Bank is unwilling to adequately address the competitive issue that Market Windows pose. Despite the comments, no specific examples of competition from Market Windows were brought to Ex-Im Bank's attention.

Conclusion

Although U.S. exporters have not highlighted any specific competitive threats from market window institutions, there remains the potential that Market Windows could offer more attractive or flexible terms than Ex-Im Bank in head-to-head competition. However, given the scant level of direct competition, market windows in general have a neutral impact on the Bank's competitiveness--although the threat of a negative impact remains with their ability to promote national trade interests with government support and without OECD restraints.

Chapter 5: Economic Philosophy
Section C: Ex-Im Bank's Economic Philosophy Competitiveness

The U.S. government philosophy regarding official export credit activity is that ECAs should be able to compete on a level playing field, should supplement, not compete with the private sector, and should operate on a long-term breakeven. This outlook guides Ex-Im Bank offers of export credit support to U.S. exporters. The U.S. has consistently promoted this philosophy amongst its ECA counterparts within the OECD and has sought to ensure that this philosophy is depicted in the OECD Arrangement.

Ex-Im Bank tied aid activity occurred in 2008 in which the Bank approved a Tied Aid Commitment offer and re-extended a Tied Aid Willingness-to-Match offer; meanwhile the number of tied and untied aid transactions worldwide decreased. In 2008 there remained no instances, nor allegations of, a market window preventing a U.S. export from receiving similar financing after facing market window competition. Even so, these factors continue to be evaluated as viable forces that could weaken the competitive position of the U.S. exporting community if encountered on as case-by-case basis.

Figure **20** shows the range of impact that these financing features (e.g., *de facto* "tied" untied aid, Market Windows) are likely to have on Ex-Im Bank's competitiveness in individual cases when similar terms and conditions are not available to U.S. exporters.

Figure 20: Grading of Ex-Im Bank's Competitiveness When Confronted with Differing Government Financing Philosophies and Programs, 2008

Program	Ex-Im Bank has program (Yes/No)	Impact on Competitiveness
Tied Aid (de jure or de facto)	Yes[1]	Negative (for few instances)
Market Windows	No[2]	Neutral (would likely be negative if encountered)
Overall Assessment		**Negative (on what appears to be a very limited number of transactions)**

[1] Ex-Im Bank could use the Tied Aid Capital Projects Fund (TACPF) to match "*de facto* tied" untied aid.
[2] In Ex-Im Bank's 2002 Charter Reauthorization, the Bank was granted the authority to provide financing terms that are inconsistent with the Arrangement when a market window is providing such terms that are better than those available from private financial markets.

Chapter 6: Public Policies - Stakeholder Considerations
Section A: Introduction

The four topics discussed in this chapter -- economic impact, foreign content, local costs and U.S. shipping requirements -- address the competitive implications of Ex-Im Bank's policy responses to Congressional mandates. Congress communicates these mandates (implicitly or explicitly) through the Ex-Im Bank Charter and, in the case of U.S. shipping, through other legislative processes.

Each of the four topics addressed herein is linked to Ex-Im Bank's fundamental mission of supporting U.S. jobs through exports. For each topic, Ex-Im Bank has developed policy parameters that determine the availability and level of Ex-Im Bank financing for specific transactions. If a transaction falls short of these requirements, Ex-Im Bank financing may be reduced or withheld altogether.

A summary of each topic follows:

- The economic impact mandate requires Ex-Im Bank to evaluate potential negative effects on the U.S. economy (e.g., displaced U.S. production) associated with Ex-Im Bank support for transactions that result in foreign production (e.g., increase in foreign cement production capacity) . If the economic impact evaluation yields a net negative finding, economic impact can be a basis for withholding Ex-Im Bank support.

- Foreign content refers to components, goods and services in a U.S. export contract that originate in countries other than the U.S. or the foreign buyer's country. Ex-Im Bank generally limits its cover to only the U.S. content in an export contract. Thus, if a transaction contains 70% U.S. content and 30% eligible foreign content, Ex-Im Bank limits its financing support to 70% of the U.S. export contract, thereby requiring the buyer to identify alternative ways to cover the foreign content.

- Local costs are costs related to a U.S. export transaction that are incurred in the foreign buyer's market. Ex-Im Bank can cover up to 30% of the U.S. export contract in local costs. While local costs in long-term transactions (e.g., projects) are automatically eligible for support, medium-term transactions can only obtain local cost support if the exporter meets Ex-Im Bank requirements (e.g., confirmation that a competitor is benefiting from officially supported local cost cover).

- The U.S. shipping requirements that pertain to Ex-Im Bank transactions are found in Public Resolution 17 (PR-17). PR-17, administered by the U.S. Maritime Administration (MARAD), requires certain cargo that benefits from U.S. government support to be shipped on U.S.-flagged vessels. For Ex-Im Bank purposes, all direct loans extended by Ex-Im Bank, guarantees for transactions valued at more than $20 million, and guarantees where the repayment term exceeds 7 years are subject to PR-17 requirements. If a transaction subject to PR-17 ships its cargo on a non-U.S.-flagged vessel, the transaction is ineligible for Ex-Im Bank support unless the exporter obtains a waiver from MARAD.

The limits on Ex-Im Bank financing that result from these public policy considerations are sometimes unique to the United States. These unilateral requirements have the potential to create tensions between the goals of maximizing U.S. exporter competitiveness vis a vis foreign ECA (and maximizing Ex-Im Bank financing) and satisfying public policy mandates (which may limit Ex-Im Bank financing).

Ex-Im Bank stakeholders are split in their views on how Ex-Im Bank should balance competing mandates. On one hand, exporters contend that they are disadvantaged by requirements that curb Ex-Im Bank financing; they believe that Ex-Im Bank's U.S. jobs mission is best served by maximizing U.S. exporter competitiveness. On the other hand, Organized Labor maintains that, as a public institution, Ex-Im Bank should broadly evaluate the overall effects of its financing on U.S. jobs (including any negative effects); they believe Ex-Im Bank's U.S. jobs mission is best served by considering the net impact of Ex-Im Bank financing on U.S. jobs, including U.S. jobs outside of specific export transactions.

The following sections of this chapter provide: (1) insights into the trade-offs that arise as Ex-Im Bank pursues its competitiveness goal while at the same time fulfilling the letter and spirit of public policy mandates; and (2) analyses of the implications of these trade-offs on U.S. exporter competitiveness.

Chapter 6: Public Policies - Stakeholder Considerations
Section B: Economic Impact

Introduction

Pursuant to Ex-Im Bank's Charter, the Bank is required to assess whether its financial support for a transaction would likely cause substantial injury to U.S. industry or result in the production of a good that is subject to a relevant trade measure.[1] Either of these outcomes could result in a denial of Ex-Im Bank support. While all cases seeking Ex-Im Bank support are subject to economic impact scrutiny, only those cases that involve capital goods and services exports that either enable foreign buyers to establish or expand production capacity of an exportable good or result in the production of an exportable good subject to a relevant trade measure are subjected to a more detailed analysis.

Ex-Im Bank's Policy and Practice

The economic impact requirement was first incorporated into Ex-Im Bank's Charter in 1968 and has been subsequently modified eight times. (The most recent change to the economic impact section of Ex-Im Bank's Charter occurred in December 2006.) Ex-Im Bank's Charter requires the Bank to assess whether the extension of its financing support would result in either of the following:

- Results in the production of substantially the same product that is the subject of specified trade measures (see footnote 1); or

- Poses the risk of substantial injury to the U.S. economy.[2] Transactions over $10 million in Ex-Im financing in which the new foreign production is 1% or more of U.S. production of the same product are subject to a detailed economic impact analysis prior to authorization.[3] That is, Ex-Im Bank staff analyzes the global supply and demand situation of the product in question and assesses the broad competitive impacts on U.S. industry arising from the new foreign production (e.g., whether U.S. production is likely to be displaced as a result of this new production).

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[1] The relevant trade measures are: anti-dumping (AD) or countervailing duty (CVD) orders; Section 201 injury determinations under the Trade Act of 1974; and suspension agreements from AD/CVD investigations.
[2] Congress defined the threshold for substantial injury in Ex-Im Bank's Charter. The threshold is met if the foreign buyer's new production is equal to or greater than one percent of U.S. production of the same, similar, or competing good.
[3]

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

In addition to these legislative mandates, Ex-Im Bank's Charter requires the Bank's Chairman to submit a Sensitive Commercial Sectors and Products list (the "Sensitive Sector List") to Congress each year. The Sensitive Sector List submitted to Congress in April 2008 included "raw steel-making capacity," "DRAM semiconductors" and "U.S. market oriented" production.[4] Inclusion on the Sensitive Sector List is not an automatic indication that Ex-Im Bank will not support a transaction. Rather, this list serves as a notice to potential applicants that, based on the Bank's past experiences, there is a relatively high probability that their transaction will not receive financial support for economic impact reasons.

G-7 ECAs' Policies and Practices

Although G-7 ECAs have a broad mandate to support transactions that benefit their domestic economies, only Ex-Im Bank is required, on a case-by-case basis, to weigh the potential economic costs and benefits associated with a specific Ex-Im Bank-supported export. In addition, only Ex-Im Bank is required to consider the relevance of trade measures to a transaction.

Ex-Im Bank Summary Data

In 2008, Ex-Im Bank "acted on"[5] 510 medium-term insurance and medium- and long-term loan and guarantee transactions (compared to 586 in 2007). Of those transactions, 287 were applications for medium- and long-term loans and guarantees at the Preliminary Commitment (PC) and Final Commitment (AP) stages, and 223 were applications for medium-term insurance. Thirty-seven percent (190 cases) of total transactions acted on were scrutinized for economic impact relevance because they supported a foreign buyer's production of an exportable good (compared to 35% of transactions in 2007.)

Of these 190 transactions, only nine (about 1.8% of the total number of transactions acted upon by the Bank) required a detailed economic impact analysis (compared to 1.5% of total transactions requiring such an analysis in 2007). Of the remaining 181, four required a substantial injury determination (i.e., whether the new foreign production capacity would be 1% or more of current U.S. production) which, once conducted, revealed that the new foreign production capacity was less than 1% of

[4] "U.S. market oriented" production is defined as products associated with projects where a significant portion of the output directly produced by the project is destined for the U.S. market and will compete directly with U.S. production.

[5] "Acted on" refers to transactions the Bank authorized, denied, or disbursed upon (as is the case for Credit Guarantee Facilities and Medium-Term Repetitive Insurance Policies) or applications that were withdrawn by the applicant prior to Bank action.

current U.S. production. Of the remaining 177 cases, 162 were under the $10 million threshold, 14 involved new production of a product considered to be in undersupply[6] on global markets, and one involved production of a trade sanctioned product and was therefore not eligible for Ex-Im Bank support from an economic impact perspective. All of the remaining nine cases requiring a detailed economic impact analysis were withdrawn for non-economic impact reasons before the cases came to fruition.

In 2008, one transaction requiring a detailed economic impact analysis yielded a net positive economic impact finding and was approved by Ex-Im Bank's Board of Directors. This one detailed economic impact analysis was for a working capital transaction, which is not captured in the medium- and long-term data that is described in detail above.

Because of the economic impact mandate, Ex-Im Bank does not support transactions that would result in the production of a good subject to a relevant trade measure, unless the Board of Directors makes an exception, which was not done in 2008. Due to this constraint, staff estimates that applicants did not pursue Ex-Im Bank financing for nine potential transactions in 2008 after learning about the existence of an applicable trade measure. Of these nine potential transactions, eight involved the export of steelmaking equipment, which reflects the large share (just under 50% of all orders) of steel-related AD/CVD orders.

Exporter and Lender Survey and Focus Group Results

Although G-7 ECAs have a broad mandate to support transactions that benefit their domestic economies, only Ex-Im Bank is required, on a case-by-case basis, to weigh the potential economic costs and benefits associated with a specific Ex-Im Bank-financed export. In addition, only Ex-Im Bank is required to consider the relevance of trade measures when analyzing a transaction. While the economic impact policy directly affects a relatively small share of Ex-Im Bank activity, exporters point out that the evaluation process itself can be time consuming and unpredictable.

Although exporters and lenders recognize that Ex-Im Bank's economic impact policy is a legislated mandate, they view the requirement as a distinct competitive impediment for transactions in certain sectors (such as steel and semi-conductor production equipment). Further, the Sensitive Sectors List has caused exporters with transactions only remotely related to these sectors to decide to avoid "getting caught in the economic impact quagmire."

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[6] The economic impact procedures allow Ex-Im's Board of Directors to exempt some types of capital equipment transactions from a case-specific economic impact analysis by placing them on the "undersupply" list, if they meet the following conditions: (1) the Board determines that long-term domestic demand for a commodity exceeds its foreseeable available domestic supply of this commodity; (2) additional foreign production capacity of the commodity would benefit the overall U.S. economy; and (3) there are no applicable trade measures.

Conclusion

Ex-Im Bank's economic impact policy directly affected approximately 37% of the Bank's medium- and long-term transactions acted upon in 2008. Ex-Im Bank, unlike any other G-7 ECA, examines both the benefits and costs of supporting individual transactions. This philosophical difference can be to the detriment of U.S. exporters who are active in industry sectors subject to trade sanctions. While economic impact considerations affected mostly capital goods and services transactions related to the steel sector (where both oversupply considerations and trade sanctions are relevant), exporters of capital goods and services outside the steel sector also believe that the economic impact mandate undermines U.S. competitiveness. Because no other G-7 ECA is prohibited from supporting transactions due to economic impact considerations, this requirement has a negative effect on Ex-Im Bank's competitiveness.

Chapter 6: Public Policies - Stakeholder Considerations
Section C: Foreign Content

Introduction

Foreign content is the portion of an export that originates outside the seller's and the buyer's countries. For example, a $10 million U.S. export contract may include a $1.5 million component sourced from a third country. In this case, the foreign content is the $1.5 million portion, and the U.S. content is the $8.5 million portion of the export that originates in the U.S. Because eligibility and cover criteria for foreign content are not governed by international agreement, each ECA establishes its own guidelines. Thus, foreign content is an area where ECA policies and practices have the potential to diverge substantially and meaningfully.

Ex-Im Bank's Policy and Practice

In keeping with its mandate to maintain or increase U.S. employment through the financing of U.S. exports, Ex-Im Bank's foreign content policy ensures that its export financing targets the U.S. content directly associated with goods and services exported from the U.S. In order to accommodate U.S. export contracts that contain essential goods and services that are foreign-originated, Ex-Im Bank's policy allows the inclusion of some foreign content in the U.S. export contract with certain restrictions and limitations. Ex-Im Bank's foreign content policy is consistent with the objectives mandated in its Charter; however, there are no specific statutory requirements *per se* relating to foreign content. Rather, the policy reflects a concerted attempt to balance the interests of labor and industry.

For all medium- and long-term transactions, Ex-Im Bank's foreign content policy *restricts* the scope of its financial support to cover only those products that are shipped from the United States to a foreign buyer, and then it *limits* the level of its support to the **lesser of**: (1) 85% of the value of all eligible goods and services contained within a U.S. supply contract; or (2) 100% of the U.S. content of that export contract.

G-7 ECAs' Policies and Practices

As a general rule, ECAs seek to maximize the national benefit resulting from their respective activities. However, the context for that evaluation varies widely and has led to very different ECA content policies. OECD participants recognize that each country develops its content policy to further individual domestic policy goals. Hence, no OECD Arrangement guidelines govern the scope or design of foreign content in an officially supported export credit. Given the vastly different sizes and compositions of the G-7 economies and their respective views on national interest, it is not surprising that foreign content policies vary widely and substantively.

Moreover, over the past several years, there has been a growing and accelerating tide of change in content policies. For example, OECD ECAs are increasingly shifting from the "made **in** country X" approach to the "made **by** country X" approach, which allows ECAs to support content produced anywhere so long as the overall transaction benefits the domestic economy in some way. This more "flexible" approach is particularly applicable to transactions involving foreign subsidiaries of domestic "champion industries" and, it is leading to a steady increase in the number of ECAs which can support transactions that may not involve any direct exports from their home countries.

The liberalization of foreign content policies among Ex-Im Bank's competitors has accelerated over the past several years. All of the European ECAs have increased the maximum foreign content allowance. Specifically, in 2008, Euler Hermes adopted a "subsidiary policy" in which foreign content originated from a subsidiary may receive direct cover for up to 49% (as opposed to the previous 30% maximum). Similarly, Euler Hermes also introduced additional content flexibilities, such as in the case where a specific product is not available domestically, it may be covered as domestic content.

Figure 21 compares the main aspects of the content policies of the G-7 ECAs in 2008. The data illustrate that Ex-Im Bank's content requirements and implementation of those requirements are significantly more restrictive than those of its G-7 counterparts.

Figure 21: Comparison of Content Policies of the G-7 ECAs in 2008

	Ex-Im Bank	EDC (Canada)	European ECAs	JBIC & NEXI (Japan)
Is there a requirement to ship foreign content from ECA's country?	Yes	No	No	No
Will the cover automatically be reduced if foreign content exceeds 15%?	Yes	No	No	No
Is there a minimum amount of domestic content required to qualify for cover?	No	No	Yes	Yes
Does domestic assembly of foreign inputs transform the foreign-originated input to domestic content?	No	Yes	Yes	Yes

Ex-Im Bank is the only G-7 ECA requiring that goods be shipped from domestic shores in order to be eligible for support and the only one to disallow domestic assembly to transform inputs into "domestic" content. In addition, though the Bank does not require a minimum amount of domestic content for medium-and-long-term transactions, the Bank has the lowest "foreign content allowance" (15%).

Ex-Im Bank Summary Data

Over the past five years, aggregate data on the incidence of foreign content in Ex-Im Bank transactions (as shown in **Figure 22**) indicate a generally stable relationship between Ex-Im Bank transactions and foreign content. That is, the dollar volume of transactions which include foreign content as a share of total export value ranges between roughly 80-90%, while the number of transactions falls between 30-45% of all medium- and long-term activity. Moreover, the average foreign content ratio has remained constant at about 10-12% over the past five years. However, medium-term transactions are lower dollar value, but the average foreign content is slightly higher (14%) than the average foreign content in long-term transactions (11%). (see Appendix E[1] for foreign content transaction detail).

Figure 22: Recent Trends in Ex-Im Bank Foreign Content Support, 2004-2008 ($US millions)

	Authorizations	2004	2005	2006	2007	2008
Total activity	Export value ($MM)	$10,949	$7,791	$8,718	$7,833	$12,082
	Number of transactions	757	587	485	412	333
Transactions containing foreign content	Export value ($MM)	$7,942	$6,722	$7,235	$7,457	$10,750
	Percentage of total value	73%	86%	83%	95%	89%
	Number of transactions	102	156	149	143	141
	Percentage of total number	13%	27%	31%	35%	42%
Foreign content	Volume ($MM)	$916	$691	$855	$919	$1,164
	Average per transaction	12%	10%	12%	12%	11%

[1] Appendix E provides a more detailed listing of foreign content contained in Ex-Im Bank's medium- and long-term transactions (including medium-term insurance) at the time of authorization in 2007.

Exporter and Lender Survey and Focus Group Results

The vast majority of survey respondents indicated that Ex-Im Bank's foreign content policy had a negative effect on Ex-Im Bank's competitiveness. Exporters and lenders expressed the view that Ex-Im Bank's foreign content policy is "the biggest challenge" to competitiveness and while most ECA's have "substantially improved their content policies, the Bank has not changed."

Conclusion

G-7 ECAs are increasingly adopting more flexible approaches to content by eliminating minimum domestic requirements and expanding its focus towards "national interest". As ECAs expand the content policy to allow for increasing support for non-domestic content, Ex-Im Bank's foreign content policy is becoming increasingly less competitive. Given the fact that more and more transactions include foreign content and the dollar volume of transactions that include foreign content constitute almost 90% of all Ex-Im Bank activity, when transactions include more than 15% foreign content, Ex-Im Bank's policy and practice can have a significantly negative impact on U.S. competitiveness.

Chapter 6: Public Policies - Stakeholder Considerations
Section D: Local Costs

Introduction

Local costs are goods and services manufactured or originated in the buyer's country. Local costs are historically related to goods and services that, from a practical perspective, would not be sourced from the U.S. (such as cement or construction workers). In contrast to foreign content, the OECD Arrangement sets the basic parameters on official local cost support. In January 2008, the Arrangement rules decoupled local costs from the down payment (typically 15%) and allowed for up to 30% of the value of the export contract in local cost support.

Ex-Im Bank's Policy and Practice in 2008

When Ex-Im Bank provided medium- or long-term guarantee, loan or insurance support for U.S. exports in 2008, it could also provide support up to 30% of the value of the U.S. exports (including eligible foreign content) for locally originated or manufactured goods and services connected to the U.S. export contract. Ex-Im Bank's local cost policy reflected the premise that some amount of local labor and raw materials are necessary to efficiently build or assemble the end product of the U.S. export. The absence of Ex-Im Bank support for local costs that are integral to the U.S. exporter's contract could undermine the U.S. exporter's chances of winning the sale.

For medium-term transactions, Ex-Im Bank could provide local cost support so long as the local costs were related to the U.S. exporter's scope of work and the U.S. exporter demonstrated either: (1) the availability of local cost support from a competitor ECA; or (2) that private market financing of local costs was difficult to obtain for the transaction.

For long-term transactions, automatic local cost support was generally available provided the local costs were related to the U.S. exporter's scope of work. Automatic local cost support was also available for all environmentally beneficial exports, the engineering multiplier program, medical equipment exports, and exports of products related to transportation security projects (also known as the Transportation Security Export Program), regardless of term. For project finance transactions only, though the local costs did not need to be directly related to the U.S. exporter's scope of work, they must be beneficial to the project as a whole.

G-7 ECAs' Policies and Practices

All G-7 ECAs adhere to the basic local cost parameters set forth in the OECD Arrangement. In 2008, ECAs were able to provide support for local costs related to officially supported export transactions up to 30% of the export contract value.

From January 1, 2008 through December 31, 2008, there were 114 transactions notified by 15 OECD Participants in which local cost support exceeded 15%. Local cost notifications from the G-7 ECAs constituted approximately 50% of the total notifications. There were no notifications from ECGD (UK) or Japan (NEXI/JBIC). Euler Hermes notified the most transactions (22) followed by the U.S. (15) and Coface (14). About 75% of local costs financing supported installation costs, on-site construction and labor costs, 10% of local costs financing supported capital equipment, and the remaining 15% supported a combination of local costs delivered from local subsidiaries and VAT/import duties. Over 80% of the local costs were explicitly included in the exporter's contract. In particular, in every notified transaction from both Euler Hermes (Germany) and Coface (France), the local costs were explicitly included in the exporter's contract. Ex-Im Bank accounted for 10% of the cases that supported local costs outside the contract.

With the OECD amendment to the Arrangement on local costs to increase the maximum amount of support, Ex-Im Bank submitted a survey to Participants to learn how ECAs define specific costs, such as VAT/import duties. The survey results indicated clear differences in how G-7 ECAs treat these costs. Specifically, the ECAs of Canada, Germany, Italy, Japan, and the UK may, in some cases, treat these costs as part of the domestic exporter's domestic content when these costs are associated with the domestic export contract. In contrast, Ex-Im Bank's explicit policy is to allow local cost support for VAT/import provided these costs directly relate to the U.S. exporter's scope of supply. How an ECA defines local costs can dramatically affect its competitiveness.

Ex-Im Bank Summary Data

Figure 23 illustrates recent trends in Ex-Im Bank's support of local costs. In 2008, the dollar volume of transactions that received local costs support represented 5% of total medium- and long-term transactions requested local costs support, up slightly from 3% in 2007. In 2008, 70% of all transactions that received local costs support were for medium-term transactions valued at less than $10 million. In 2008, almost three-quarters of local costs financing supported installation costs, on-site construction, and labor costs. The remaining one-quarter was generally comprised of import duties and value added taxes. It is important to note, however, that aircraft (large and small) transactions don't typically receive local costs support and have been excluded from the chart below.

Figure 23: Recent Trends in Ex-Im Bank Local Costs Support, 2004-2008 ($US Million)

	Authorizations	2004	2005	2006	2007	2008
Total medium- and long-term activity	Export value – excluding aircraft ($MM)	$6,458	$3,873	$4,227	$3,735	$4,310
	Number of transactions	741	559	456	385	296
Medium- and long-term activity containing local costs	Number of transactions	79	88	47	36	37
	Percentage of total number of transactions	11%	16%	10%	9%	13%
Local costs	Volume ($MM)	$312	$669	$54	$119	$211
	Percentage of total medium- and long-term activity	5%	17%	1%	3%	5%

Exporter and Lender Survey and Focus Group Results

Participants noted that the "increase to 30% was a positive competitive step forward" and has been "been well received, especially for energy, business and healthcare projects." Nevertheless, though Ex-Im Bank offers the same percentage of local cost support as its G-7 counterparts, differences in interpretation as to what costs are considered "local" vs. "domestic" (i.e., VAT/import duties) can vary significantly on a case-by-case basis, which may translate into higher or lower overall support.

Conclusion

In 2008, Ex-Im Bank's local costs support policy was competitive with that of its G-7 counterparts. Additionally, Ex-Im Bank allows local costs to be documented in other ways beyond explicit inclusion in the U.S. exporter's contract, which is a more flexible approach from some of its G-7 counterparts (e.g., Euler Hermes). However, on balance differences in how local costs are defined among G-7 ECAs continue to impact Ex-Im Bank's competitiveness. Hence for 2008, Ex-Im Bank's local cost policy is evaluated as having a neutral impact on competitiveness.

Chapter 6: Public Policies - Stakeholder Considerations
Section E: U.S. Shipping Requirements

Introduction

Public Resolution No. 17 (PR-17) of the 73rd Congress states that certain ocean-borne cargo supported by U.S. government credit entities must be transported on U.S. flag vessels unless this requirement is waived on a case-by-case basis by the U.S. Maritime Administration (MARAD). Ex-Im Bank interprets this legislation as requiring that exports financed through Ex-Im Bank's direct loan and long-term guarantee programs be subject to the U.S. flag vessel requirement.

PR-17 and other cargo preference legislation aim to support the U.S.-flagged commercial fleet which serves as an important national security asset during times of war or national emergency. From the perspective of U.S. exporters, however, cargo preference requirements can make U.S. goods less competitive relative to foreign goods because foreign exporters have no shipping requirements and U.S.-flagged shippers generally charge higher rates than their competitors.

Ex-Im Bank's Policy and Practice

Ex-Im Bank requires that, in order to be eligible for Bank support, certain transactions must be shipped exclusively on U.S.-flagged vessels. These transactions include:

- direct loans, regardless of amount; and
- guarantee transactions with either: (a) a financed amount greater than $20 million (excluding Ex-Im Bank's exposure fee) or (b) a repayment period greater than 7 years.

If a waiver from MARAD is obtained, Ex-Im Bank may provide financing for goods shipped on vessels of non-U.S. registry. There are four different types of waivers that may be obtained: General, Statutory, Compensatory and Conditional. General waivers may be granted in situations where a U.S.-flagged vessel may be available, but recipient-nation vessels may be authorized to share in the ocean carriage (the recipient nation must give similar treatment to U.S. vessels in its foreign trade). Statutory waivers may be granted when it appears that U.S. vessels will not be available within a reasonable time or at reasonable rates. Compensatory waivers may be granted when foreign borrowers or U.S. shippers ship goods on non-U.S.-flagged vessels and subsequently enter into a U.S. Government-supported financing agreement for those goods. In such cases, a Compensatory waiver may be granted instructing an equivalent amount of non-U.S. Government-supported goods to be shipped on U.S.-flagged bottoms within a specified time period. Conditional waivers may be granted for cases where no U.S.-flagged vessel is available to accommodate multiple shipments of "critical item" cargoes during a proposed project time period.

Since 2002, according to MARAD data, 100% of all General, Compensatory, and Conditional waivers requested have been approved. Statutory Waivers have a 92% approval rate.

Currently, the U.S. is a party to four bilateral Maritime Agreements (with Brazil, Vietnam, China and Russia) negotiated by U.S. delegations headed by the U.S. Maritime Administrator. For example, the Brazilian Maritime Agreement allows for half of the shipments under a transaction to be shipped on Brazilian-flagged ships provided the exporter obtains a general waiver from MARAD. For Ex-Im Bank purposes, Ex-Im Bank treats the Brazilian shipping costs as U.S. content. Of note, no waivers were requested or granted under the Maritime Agreement with Brazil in 2008.

G-7 ECAs' Policies and Practices

Of the G-7 ECAs, only France and Italy have similar cargo preference requirements.[1] Lenders indicated that France's cargo preference restrictions are more easily waived than the MARAD restrictions that Ex-Im Bank users must follow. Lenders did not comment on Italy's cargo preferences. The MARAD waiver process is, according to exporters and lenders, more cumbersome and confusing.

Ex-Im Bank Summary Data

Figure 24 shows the outcome of Ex-Im Bank-related waiver applications to MARAD for 2002-2008. According to MARAD, waiver denials have been consistently kept to a minimum. MARAD explains that this is intentionally accomplished through its efforts to educate Ex-Im Bank's prospective customers so they understand that if no existing U.S.-flag service exists, a waiver will be granted expeditiously. Waiver requests are kept to a minimum as a result of MARAD's proactive assistance in finding suitable U.S.-flag service.

[1] IHS Global Insight, Inc., "An Evaluation of Maritime Policy in Meeting the Commercial and Security Needs of the United States," January 7, 2009.

Figure 24: Number of Ex-Im Bank Related PR-17 Waivers

Waiver Type		2002	2003	2004	2005	2006	2007	2008	Total	Percentage of Waivers Approved
General	Approved	3	0	0	1	0	1	0	5	100%
	Denied	0	0	0	0	0	0	0	0	
Statutory	Approved	22	29	26	19	17	6	12	131	92%
	Denied	1	5	2	2	1	0	0	11	
Compensatory	Approved	10	11	5	3	2	6	9	46	100%
	Denied	0	0	0	0	0	0	0	0	
Conditional	Approved	0	0	0	1	0	0	0	1	100%
	Denied	0	0	0	0	0	0	0	0	
Total	Approved	35	40	31	24	19	13	21	183	94%
	Denied	1	5	2	2	1	0	0	11	

Source: MARAD

Exporter and Lender Survey and Focus Group Results

Most exporters and lenders noted that the MARAD requirement is a factor that places them at a competitive disadvantage. Critics of this requirement explain that the higher shipping costs (sometimes 40%+ higher) and route scheduling challenges associated with shipping via U.S.-flagged vessels is a prohibitive aspect of using Ex-Im Bank support. They note that in some cases U.S. shipping requirements may be the sole reason why a U.S. exporter may lose business to a foreign competitor. One exporter noted that the MARAD requirements are impractical and do not reflect real world shipping cost scenarios. These requirements can actually hinder the realization of U.S. exports by mandating shipping logistics and/or costs that make sourcing U.S. equipment prohibitive. Other exporters noted that obtaining a waiver from MARAD is often a 2-3 month process which, in such cases, leads the exporter and lender to give up and source product from another country. For U.S.-domiciled multinationals with significant existing manufacturing operations already overseas, the MARAD requirements are so onerous that they are considering moving major U.S. manufacturing lines overseas, enabling them to access foreign ECA financing without the burden of the MARAD requirements.

However, there is also an alternative perspective voiced by the transportation and logistics departments of a number of U.S. exporters who use Ex-Im Bank financing. These individuals who work with MARAD staff and MARAD’s published Policies and Procedures, explained that they found waiver requests less burdensome when they closely conformed to MARAD’s own guidelines. In addition, they noted that their general experience was that MARAD’s waiver processing staff endeavors to process waivers in a timely manner and is sensitive to the time constraints of each individual Ex-Im-supported deal.

Conclusion

As a condition of Ex-Im Bank's direct loan and long-term guarantee financing, U.S. exporters are required to comply with U.S. flag vessel requirements. The MARAD waiver data and anecdotal evidence from the transportation of logistics' departments of some U.S. exporters suggests a waiver process that is less burdensome than other exporters' different and more negative experience. Regardless of how quickly and efficiently MARAD staff process PR-17 waivers, however, the cargo preference rules and the costs associated with U.S. flag vessels represent additional requirements that present a competitive disadvantage for some U.S. exporters. Only two other G-7 ECAs have cargo preference requirements. Lenders note that France's cargo preference requirements are more easily waived.

Chapter 6: Public Policies - Stakeholder Considerations
Section F: Ex-Im Bank's Public Policy Competitiveness

Ex-Im Bank follows a set of public policy requirements that define the boundaries of where and how Ex-Im Bank can offer support to U.S. exports. These requirements set Ex-Im Bank apart from other ECAs because, of the four policies, only foreign content and shipping have similar counter parts within other ECAs and only one -- local cost -- is controlled by the OECD. In fact, one of these requirements –-foreign content – has become a more frequent obstacle to the competitiveness of an Ex-Im Bank offer of support and yet, is one strong factor by which many ECAs are expanding their reach. Therefore, the potential impact of these factors on case-specific competition has ranged between neutral to extremely negative.

Figure 25: Grading of Ex-Im Bank's Public Policy Competitiveness, 2008

Policy	G-7 ECAs Have Similar Constraint? (Yes/No)	Potential Impact on Case-Specific Competitiveness
Economic Impact	No	Negative
Foreign Content	Yes(waning)	Extremely Negative (frequently encountered)
Local Costs	Yes	Neutral
PR-17	Yes	Negative
Overall Assessment		**Negative**

Chapter 7: Overall Results

For 2008, Ex-Im Bank's overall competitiveness as compared to its G-7 ECA counterparts is deemed to be "A-/B+" – the same overall grade as in 2007. However, there were both positive and negative movements within several key areas. Specifically, the most prevalent factors affecting the Bank's competitive position were risk taking/cover policy and content. In both areas, the gap between Ex-Im Bank and its G-7 ECA counterparts appears to be widening, albeit perhaps slightly. For example, the Bank's performance with regard to cover policy and its attitude toward risk in 2008 was judged to have clearly declined (from an already weak "A" in 2007) to an "A-/B+" grade. This deterioration is due to a widely held perception that Ex-Im Bank risk-taking attitude became more shallow and cautious especially, in the medium-term area during 2008.

With regard to content, within the context of an ECA world that is expanding its scope of support to "made by vs. made in" approach, Ex-Im Bank is at the far end of the spectrum with content restrictions cited as the primary obstacle to the competitiveness of an Ex-Im Bank offer of support. Hence, the Report has accented this greater degree of "negative" by describing the impact of this factor as "extremely negative." On the more positive side, Ex-Im's co-financing program was viewed more favorably primarily as a result of the signing of the bilateral agreements with France and Germany in 2008.

Figure 26: Grading of Ex-Im Bank's Overall Competitiveness, 2008

Structural Elements	Grade
Core Business Policies and Practices	**A**
A. Cover Policy and Risk Taking	A-/B+
B. Interest Rates	A
C. Risk Premia	A
Major Program Structures	**A-/B+**
A. Large Aircraft	A
B. Project Finance	A
C. Co-Financing	B
D. Foreign Currency Guarantee	B
OVERALL COMPETITIVENESS GRADE	**A-/B+**

As illustrated in **Figure 26,** the balancing of these factors yields an "A-/B+" for 2008.

Figure 27: Direction of Competitive Impact of U.S. Economic Philosophy or Public Policy, 2008

Areas Affected by U.S. Economic Philosophy or Public Policy	Potential Case-specific Impact
Economic Philosophy	
A. Tied Aid (de jure or de facto)	**Neutral to Negative** (infrequent; modest impact)
B. Market Windows	**Neutral** (likely negative if encountered)
Public Policy	
A. Economic Impact	**Negative**
B. Foreign Content	**Extremely Negative** (frequent; significant impact)
C. Local Costs	**Neutral**
D. Shipping – PR 17	**Negative**

Although the movements described in the table above are not precise or easily quantified, a review of the export credit arena suggests that the Bank's relative competitiveness remained roughly the same as in 2007. Hence, Ex-Im Bank's overall competitiveness relative to its ECA counterparts remains an "A-/B+".

Further, Chapter 8 describes an ECA environment in which the standard criteria for measuring competitiveness for the foreseeable future, while relevant, will also require a broader framework in which to evaluate ECA competitiveness. Either way, the ability of Ex-Im Bank to participate as the official ECA of the U.S. during the current upheaval in the financial markets and the world economy will be critical to those members of the U.S. exporting community who are able and willing to continue to do business in the international marketplace.

Trends

Over the past three years, Ex-Im Bank's overall competitiveness rating has remained very stable, holding at between "equal to the least competitive ECA" and "equal to the average ECA." As shown in **Figure 28,** there have been only two areas of movement in core business policies or major program structures – this past year's perceived reduction in Ex-Im's risk appetite and improved co-financing positions. Neither of these moves was significant enough to move the average grade of its section and they effectively neutralized each other in terms of overall financial elements.

Figure 28: Grade Trends of Ex-Im Bank's Overall Competitiveness (2006-2008)

	2006	2007	2008
Structural Elements			
Core Business Policies and Practices	**A**	**A**	**A**
C. Cover Policy and Risk Taking	A	A	A-/B+
D. Interest Rates	A	A	A
C. Risk Premia	A+	A	A
Major Program Structures	**A-/B+**	**A-/B+**	**A-/B+**
E. Large Aircraft	A	A	A
F. Project Finance	A	A	A
G. Co-Financing	B-/C+	B-/C+	B
H. Foreign Currency Guarantee	B	B	B
OVERALL GRADE	**A-/B+**	**A-/B+**	**A-/B+**

Influencing the overall assessment of Ex-Im Bank's competitiveness are the philosophical and public policies that the Bank is either required explicitly or implicitly to incorporate into its operational procedures. Tied aid and market windows represent two areas of philosophy in which Ex-Im Bank can respond when faced with foreign ECA competition. As the incidences of documented cases that contain either financing element are so infrequent, their overall impact on Ex-Im Bank's competitiveness is modest (tending toward de minimis).

On the other hand, the public policy considerations of economic impact, PR 17/MARAD requirements, and U.S. content have represented increasing operational challenges over recent years.

Figure 29: Directional Trends of U.S. Economic Philosophy or Public Policy on Official Export Credit Activity, Procedures or Practices (2006 – 2008)

Areas Affected by U.S. Economic Philosophy or Public Policy	Potential Case-specific Impact on Competitiveness		
	2006	**2007**	**2008**
Economic Philosophy			
A. Tied Aid (de jure or de facto)	**Negative** (***infrequent;*** *modest overall competitive impact)*	**Neutral to negative** (***infrequent****; modest overall competitive impact)*	**Neutral to Negative** ***(infrequent****; modest overall competitive impact)*
B. Market Windows	**Neutral** *(would likely be negative if encountered)*	**Neutral** *(would likely be negative if encountered)*	**Neutral** (*would likely be negative if encountered)*
Public Policy			
A. Economic Impact	**Negative**	**Negative**	**Negative**
B. Foreign Content	**Negative**	**Extremely Negative** *(frequent; significant impact)*	**Extremely Negative** *(frequent; significant impact)*
C. Local Costs	**Neutral**	**Neutral**	**Neutral**
D. Shipping	**Negative**	**Negative**	**Negative**

As is illustrated in **Figure 29** above, the views of the exporting community on the public policy aspects have not changed in any measurable degree except for the issue of content -- where they see the Bank's competitiveness having declined over the three year period.

Chapter 8: The Financial Crisis and Impact on Export Credit Agencies and their Competitiveness

I. Introduction

For the past 4 years' Competitiveness Report, this "Emerging Issues" Chapter was added as a way to introduce "over the horizon" influences and trends and their possible implications to ECAs generally and to Ex-Im Bank specifically. The first two years provided information and insights into the ECAs from non-OECD countries (China, India and Brazil) with the second one focusing exclusively on the Chinese ECAs, the Export Import Bank of China and Sinosure. In the last two years, Chapter 8 focused on the emergence of the philosophical and operational chasm within the OECD ECAs between those ECAs who are evolving toward a more "commercial" nature ("Quasi Market Players"/QMPs) and the historical "Lender/Insurer of Last Resort"/LILR ECAs.

The dichotomy in the ECA world was brought about by several influences: globalization of production, strong fundamentals in a number of major emerging markets, an aggressive private sector, and actions of the World Trade Organization (WTO). These 4 key factors coalesced at roughly the same time, and what emerged was a decision point: how best to remain relevant in a world in which the traditional ECA model presented few options (and even fewer for small-market ECAs) on how to ensure break-even or profitability within the niches available to a LILR ECA.

The QMPs have chosen to reorient their attention to better risk market segments even though many of these segments were being well served by the private sector. The LILR ECAs stayed focused on the generally greater risk transactions less well served by the private market. However, by the end of 2008, the world economy had changed dramatically and to the point where ECAs were being challenged – some explicitly by their governments while others more by their banks and exporters - to address fundamental market failures.

Therefore, it is within this context of the current financial crisis, and the need facing ECAs around the world to create new/different programs in response to the export finance difficulties associated with the crisis, that the evaluation of this chapter is undertaken. Specifically, do the responses and differences in responses have competitive implications? If so, the depth and tenor of the crisis could have a significant influence on any evaluation of Ex-Im Bank's competitiveness in 2009 and possibly beyond.

II. Current Economic and Financial Environment and Relevance to ECAs

One of the many adverse consequences of the market meltdown that began in mid-2008 was a significant decline in international trade and dramatic drop in trade and the commercial financing that supported it. In response, international financial organizations such as the OECD, the Berne Union, the WTO and the IMF convened high level emergency meetings to identify and find solutions. Among the solutions, a primary one was strong encouragement to ECAs to step in and fill the void. The WTO, contrary to its otherwise negative stance regarding the use of export credit subsidies, supported the notion that ECAs had a clear role to play, particularly in the area of trade (short term) finance. However, for the most part, none of the international organizations have focused on the need for medium- and long-term export credit support, an area in which capital goods requiring longer tenors, larger dollar amounts, and in more risky countries dominate and where private sector lenders are most skittish.

At the national level, governments world-wide have been much more focused on the medium- and long-term considerations related to export finance. In fact, some governments have explicitly allocated macro level/national funds to expanding ECA roles. Several of these specific mandates could impact medium and long term official export credit business.

III. Analysis

In examining the circumstances and conditions of previous financial crises – namely the Asian/Russian/Argentina crisis of the late 1990's and the Latin America debt crisis of the mid-1980', the primary problem facing those who were trying to find ways to keep the trade and export finance systems lubricated was an exaggerated perception of risk regarding the potential **buyer**. Accordingly, stabilization efforts of ECAs focused on the availability of credit to specific borrowers. The current crisis, however, primarily originated from the **supplier** side of credit, e.g., lending institutions. Hence, this challenge would seem to raise three kinds of trade/export finance concerns:

A. Availability of credit/financing: Like previous cases, there appears to be very real concern among lenders regarding all kinds of buyer risk – domestic, foreign, short-, medium- and long-term. However, because this issue emanates from the operations of the suppliers of credit and not necessarily with the risk of buyer, there are many more aspects of availability to be addressed, some of which turn into core issues themselves.

The competition issue here is whether the cover availability provided by some ECAs/countries is more expansive (by a noticeable degree) than other ECAs/countries.

B. Liquidity: Given the unique deleveraging dominance of this crisis, one fundamental question is whether a lender can add to its assets at all, even with

ECA cover. Thus, liquidity is a central concern that ECAs need to address. Those ECAs with a direct lending capacity have issues of possible competition with the private sector; while pure cover ECAs (even those with Interest Make-up programs – IMUs) need to identify competitive sources of funding.

The competition issue here is the comparative availability of liquidity and its cost – particularly fixed vs. floating rates.

C. **Pre-Export/Short-term post shipment financing:** In light of the fact that the credit crunch has a domestic/supply side perspective, the issue is not necessarily just a direct exporter concern. There appear to be significant market disruptions for indirect or associated exporters (e.g., sub suppliers). Indirect/sub-supplier financing needs tend to be different from the direct exporter and need different types of programs (e.g., pre-export working capital purposes and/or short term trade finance/insurance cover).

While most of the affected activity should be outside the Arrangement scope, the issue is whether some programs in this general area do extend into medium- and long-term territory and what unintended consequences might arise. Moreover, some ECAs currently do not have the breadth of program availability.

The remainder of this chapter will broadly describe: (a) the macro strategies, activities and programs adopted by the governments of major countries to reverse the financial and economic downward spiral – particularly as related to specific ECA assignments; and (b) the micro ECA responses to the export financing problems being presented to them by their customers. In this connection, some governments are addressing the challenges with a more generic approach while other governments are adopting a two pronged approach in which they employ both national and ECA-specific strategies. The ECA-specific macro strategies are presumably aimed at addressing a particular challenge associated with the current financial crisis.

It is probably too early to know exactly how the actions of governments and their respective ECAs will impact their economies and the rest of the world. However, ECAs could assume roles and take actions that, albeit may be beneficial at the time for their economies or companies, could have consequences - whether intentional or not - of adversely affecting other countries and their ECAs' medium- and long-term programs' competitiveness. This chapter does not draw any conclusions per se, but rather presents the facts as we know them and identifies the core issues that these activities may provoke, including implications for Ex-Im Bank.

IV. National Initiatives with Trade and Export Finance Implications

The section that follows focuses on the undertakings of the G-7 Governments and Export Credit Agencies generally and specifically aimed at export credits. It is important to note that other governments and ECAs are offering like-minded initiatives but the purpose of this chapter is to highlight possible implications of such actions and not to provide an exhaustive list of actions.

A. National Level Actions That May Trickle Down to Trade And Export Finance

Governments world- wide have undertaken a variety of broad measures to try to halt the downward spiral of their respective banking sectors in an effort to stabilize and to restore and repair confidence in the market. This section identifies an illustrative list of broad financing programs that may eventually and indirectly affect terms and conditions for trade and export finance.

1. United States: A prime example of the purely national approach is the U.S. where the Treasury has provided its Troubled Asset Relief Programs – TARP, and the Federal Reserve, its $ trillion of asset purchase programs. These initiatives have been targeted at improving the banking sector's lending activities. Hence, they do not contain special measures or features specifically aimed at export credits or Ex-Im Bank.

However, reflecting the classical fungibility of money, several other Fed programs have clearly either reduced demand on Ex-Im Bank or have become a funding vehicle for Ex-Im Bank paper. How these trickle-down effects impact the Bank support and /or compare with the purely national programs of other countries is "to be determined."

2. Canada: The Economic Action Plan and, within the Extraordinary Financing Framework, that were announced in late January 2009 proposed to broaden EDC's mandate for 2 years to enable it to support financing and insure the domestic market in a way that complements Canada's commercial financial institutions and insurance providers. In this regard, the Government of Canada, announced in mid December, 2008, that EDC will:

- provide almost $3 billion in short term loans to the domestic auto industry,
- provide accounts receivables cover for automotive parts manufacturers, and
- provide, in cooperation with the Business Development Corporation with at least $5 billion of incremental financing to improve access to financing for creditworthy Canadian businesses, especially SMEs, through enhanced co-operation with private sector financial institutions.

3. European Union: The European Commission agreed Dec. 17 to relax temporarily a range of restrictions regarding government bank guarantees, government grants, and loan subsidies for companies. The European Commission's revised state-aid rules are designed to provide immediate help to companies facing financial ruin by unblock bank lending "but to get money to companies in a way that reaches them in the most rapid and effective manner."

- **Germany:** Germany became the first European Union member state to take advantage of newly relaxed state aid rules designed to help companies struggling because of the credit crisis:

  o a $21.2 billion low-interest rate loan program, "Sonderprogramm", to be operated by the state run development bank, KfW. It will allow reduced-interest rate loans not to exceed 50 million Euros ($70.3 million) to be granted to companies with a maximum turnover not exceeding 500 million Euros ($703 million). The loans may be granted up to the end of 2010 for a maximum period of eight years. After the end of 2012, the companies will pay market interest rates on the loans.

  o Grants of up to 500,000 Euros ($702,781) by federal, regional, and local governments to companies in financial difficulty to overcome problems in financing investments and working capital that are due to the credit squeeze.

- **UK:**

  o £10bn Working Capital Scheme, securing up to £20bn of short term bank lending to companies with a turnover of up to £500m,

  o Enterprise Finance Guarantee Scheme, securing up to 1.3bn of additional bank loans to small firms with a turnover of up to £25m

  o £75m Capital for Enterprise Fund (£50m from Government augmented by £25m from the banks) to invest in small businesses which need equity

B. National Actions Directly and Explicitly Focused on Trade Finance and Export Credits

Examples of ECAs that have been given direct and explicit mandates related to their missions by the Government's macro efforts include EDC of Canada, the Japanese Bank for International Cooperation (JBIC) and NEXI, and European Union countries such as Coface of France and ECGD of the UK.

1. United States: As part of the G-20 efforts to stabilize the international financial system, the U.S. government has responded by taking a leadership role in encouraging other countries, their ECAs and the multilateral agencies to make available financial resources aimed at the trade finance sector over the next two years. Within this context, Ex-Im Bank estimates that it could provide upwards of $28 billion from its current capacity to support any gaps in demand in the area of pre-export and post-export short term credit support.

2. Canada: The Government of Canada (GoC) has made EDC an integral and critical participant in its efforts to stimulate economic growth and restore confidence and support Canadian businesses. The GOC announced that it intended to expand the scope and enhance the resources of EDC so it could extend additional financing to Canadian businesses in the current extraordinary circumstances In particular:

- October 2008, the GoC approved a $C 2 billion increase in EDC's borrowing authority to allow it to offer additional flexibility to existing clients.

- On November 27, 2008, the Ministry of Finance announced in the 2008 Economic and Fiscal Statement that, in order to help address emerging stresses and financial gaps in Canada's export sector, most notably in auto-related and other manufacturing enterprises, the Government is providing EDC with an additional $C 350 million in capital to support up to about $1.5 billion in increased credit capacity for those most affected by the financial crisis.

- These actions were followed by a decision to increase EDC's contingent liability limit to $45 billion by the Government so that EDC can grow and enhance its guarantee and insurance programs.

- EDC's Canada Account limit was also increased from $13 billion to $20 billion.

3. Japan: In addition to broad macro measures designed to stimulate the Japanese economy and to restore the banking sector to a more solid and grounded position through non-performing asset purchases and capital injections, the Government of Japan (GoJ) has also made the following determinations:

- With regard to JBIC:

    - JBIC launched a financing facility that provides loans and guarantees for Japanese firms or its local subsidiaries and affiliates to finance their business operations in industrial countries as an exceptional measure to support its efforts to support Japanese industries for maintaining international competitiveness in response to the global financial turmoil. This facility was established on December 26, 2008, following an order by the Cabinet for Amendment of part of the Enforcement Order of the Japan Finance Corporation.

    - JBIC is permitted to provide supplier credit loans to exporters dealing in emerging markets and large firms operating in developing countries.

- With regard to NEXI:

- The GoJ is also prepared to set the reinsurance limit for NEXI at JPY 50 trillion for FY2009.

- NEXI intends to enhance the approval for the assignment of export receivables covered by NEXI to Japanese banks.

- NEXI will provide support to working capital loans to Japanese overseas subsidiaries.

4. France: The French government has:

- Created the Société de Financement de l'Economie Française (SFEF) (measure adopted by the Parliament on October 16, 2008) as a private company operating with GoF backing and designed to provide a source of funding for French banks with eligible collateral for the 3—5 year financing being loans extended for specific purposes (e.g., purchase of Airbus aircraft). SFEF intends to raise 50 – 70 bn Euros in 2009 for these purposes.

- Insurance-credit policy for 2009 will no longer be subject to any quantitative limitations for some large emerging markets; the insurance-credit policy will be more restrictive on very targeted risky business. Special attention will be paid to contracts in the nuclear and aircraft sectors.

- Focusing on SMEs, some instruments have been enhanced (cover from 95% to 100%), modernized and simplified (confirmation of letters of credits, market survey financing, partnership between Coface and exporters to subscribe in advance for a limited number of well identified customers / countries).

5. Italy: SACE has been mandated to provide additional support through financial guarantees on working capital facilities and cross-border bank-to-bank financing.

6. UK: The Government is discussing with trade credit insurance providers a Government scheme to help companies affected by reductions in their credit insurance.

V. Issues Arising from Changes in Exporting Banks Associated with Financial Crisis

In addition to the two ECA business models, the QMP and the LILR, there is another difference that the financial crisis and the responses by Governments and their ECAs have brought to the fore: ECAs that offer only medium- and long-term pure cover support (e.g., insurance and/or guarantees) and the full-service ECAs that offer a comprehensive tool-box offering short-, medium- and long-term pure cover, direct loans, and in some cases, forms of pre-export working capital support. Over the past decade or so, this difference in capabilities has been largely inconsequential because the level of market interest rates and the active participation of private lending institutions obviated the need for ECA direct loans/funding.

Specifically, market interest rates, while set on a floating rate basis, were stable and typically less than the OECD CIRR[1], the minimum interest rate allowable for ECA fixed rate loans (e.g., the Commercial Interest Reference Rate – See Chapter 3B – Interest Rates). Therefore, buyers routinely chose financing packages offered by private lenders either with or without ECA guarantees or insurance. Lenders benefited as well because, as active participants, they were able to generate assets that they could either hold or sell in the secondary market while also maintaining and building the customer relationships. Lenders were also able to retain the professionals with the skills and expertise needed to operate in this niche market.

ECAs also found the pure cover option as a relatively less costly financing package because of lower administrative costs and favorable balance sheet treatment. In 2008 (and as it has been for the past 10+ years), pure cover accounted for over 80% of G-7 ECAs' medium- and long-term activity. This dominance reflects the fact that private capital markets --with pure cover ECA support--have been increasingly able to provide large amounts of longer-term financing at sub-CIRR floating interest rates.

However, with the advent of the financial and liquidity crisis, these dynamics changed considerably for both the private sector lenders and ECAs alike. First, the lack of liquidity in the market has severely limited the ability of the commercial lending industry to provide any kind of credit, and especially export credits due to the relatively higher risk and costs associated with cross-border transactions. Even with ECA support, commercial banks have been hard pressed to extend credit to even their best customers. In addition, because of the intervention in the financial markets by governments world-wide, interest rate levels have fallen to historical lows. Consequently, buyers who are still able and willing to purchase goods and services are more attracted to the direct loan option that several ECAs can provide because it provides the buyer with a stable and quantifiable, low cost, fixed rate for the life of the loan (vs. a floating rate loan with considerable future volatility).

While France, Italy and the UK offer the Interest Make-Up (IMU) option (See Chapter 3B) that is operated through the commercial banks, it requires that the borrower see the comparable fixed CIRR rate. However, from a lenders' perspective, the ECA only covers the cost of funding vs. cost of funds, administrative fees and margins. Hence, commercial banks are not very interested in operating an IMU program unless they can charge a sufficient amount to ensure a minimum profit.

[1] Although the majority of pure cover financing is at floating rates, the long range trend in interest rates over the last 25 years has been downward. Hence, borrowers have seen the average of these interest rate costs over the life of the pure cover transaction typically aggregate to less than the CIRR at the time of authorization.

Thus, the primary ECA issue that arises from this new set of circumstances is one of competition between those ECAs that offer a full range of products, including a direct loan program (as does Ex-Im Bank, JBIC, and EDC while Germany has the KfW "window") vs. those who offer only pure cover and an IMU (Italy, France, and the UK). As noted previously, Ex-Im Bank offered 5 direct loans in 2008 – the highest number in years – with more demand expected to follow during 2009. While the provision of direct loans by ECAs is well within the boundaries of the OECD Arrangement as an accepted financing option (and specific provisions have been made to limit the possibility of unfair usage of direct loans), anecdotal information suggests that some pure cover ECAs see that the use of direct loans provides an unfair advantage to the full service ECAs at the expense of pure cover ECAs. What steps various ECAs take to level the playing field may well overshoot or undercut effective neutralization. The impact on competitiveness could be significant.

VI. Possible Competitive Implications

As the public and private sectors seek to repair the damage from the economic and financial crises and restore stability at the macro and micro levels, there exists the distinct possibility for countries, acting in a protective mode - which is a natural tendency during times of crisis - to direct a dominant portion of the government assistance toward national objectives. This fundamental psychology that many refer to as "protectionist" in nature, to some degree, drives countries' national policies today. In fact, the World Bank and the World Trade Organization (WTO) have identified multiple cases where countries have imposed a range of protectionist measures from tariff and non-tariff barriers to domestic subsidies.

At the same time, governments are also taking explicit and multilateral steps to work collectively to restore confidence by demonstrating common goals and aspirations for a return to more normal times. Within this somewhat "schizophrenic" psychological framework, the issues that could arise, particularly as they relate to the export credit, world include the following:

- Given the fungibility or money, loans made directly or indirectly to exporter/suppliers or foreign buyers could appear to be or are, in fact, effectively export credits that are inconsistent with the spirit and/or letter of the Arrangement regarding allowable interest rates, minimum premia, repayment terms and profiles, etc. These could take the form of:
  - Domestic and/or pre-export working capital loans or guarantees to national businesses. This form of support may also extend beyond the pre-export phase into the post shipment phase, or reflect an expansion of:
  - "market window-type" facilities by ECAs (so as to avoid Arrangement guidelines) or,
  - Specific sector support (e.g., autos, aircraft)
  - Untied aid

- Allegations of "unfair competition" from pure cover ECAs regarding direct lender ECAs, and a “call” to equalize the differences could lead some ECAs to use the financial crisis “opportunity” to create a “work-around” of OECD constraints; that is, by using government emergency funding in the form of domestic supplier credits as a way to counter, although indirectly, the direct loans made by ECAs.

Depending on how these mechanisms are used, a number of potential outcomes exist. For example, it is possible that if these tools are used properly, they could have positive and beneficial consequences. However, if deployed without minimal constraints, their use could run the risk of generating an entirely new “race to the bottom.” How the Governments and their ECAs choose to respond to this challenge of balancing national needs with supporting the spirit and the letter of the OECD Arrangement will set the course regarding comparative ECA “competition” for the next several years to come.

For Ex-Im Bank, the emergence of the financial crisis seems to have already increased its relative competitive position. Ex-Im Bank has, and operates, all the tools and can put them to use very efficiently. Whether this potential will be realized, wanted or neutered will be addressed next year.

Appendix A: Calculation of Ex-Im Bank Grade

In the body of this report, the U.S. exporting community provided "grades" on Ex-Im Bank policies and programs. In the sections of the report pertaining to the core financing programs and practices, grades based upon survey responses coupled with focus group responses and Ex-Im Bank's analyses were assigned to each program and practice. In order to aggregate and average these grades for the determination of the overall competitiveness grade in Chapter 7, values were assigned to each grade that are comparable to those used in a typical U.S. university. First, **Figure A1** provides the meaning and score of select grades. Averaged sub-category grades determined a category's grade, and **Figure A2** illustrates the range of possible averaged scores that defined each grade. If a survey respondent did not have experience with a program or policy (that is, response was "NA"), the response was not calculated into the grade for that program or policy.

Figure A1: Definition of Select Grades

Grade	Definition	Score
A+	Fully competitive compared to other ECAs. Consistently equal to the (or is the sole) ECA offering the **most competitive** position on this element. Levels the playing field on this element with the most competitive offer from any of the major ECAs.	4.33
A	Generally competitive compared to other ECAs. Consistently offers terms on this element **equal to the average** terms of the typical major ECA. Levels the playing field on this element with the typical offer from the major ECAs.	4.00
A-/B+	Level of competitiveness is in between grades A and B.	3.50
B	Modestly competitive compared to other ECAs. Consistently offers terms on this element **equal to the least** competitive of the major ECAs. Does not quite level the playing field on this element with most of the major ECAs.	3.00
B-/C+	Level of competitiveness is in between grades B and C.	2.50
C	Barely competitive compared to other ECAs. Consistently offers terms on this element that are a **notch below** those offered by any of the major ECAs. Puts exporter at financing disadvantage on this element that may, to a certain extent, be compensated for in other elements or by exporter concessions.	2.00
D	Uncompetitive compared to other ECAs. Consistently offers terms on this element that are **far below** those offered by other major ECAs. Puts exporter at financing disadvantage on this element so significant that it is difficult to compensate for and may be enough to lose a deal.	1.00
F	Does not provide program.	0.00
NA	Does not have experience with policy/program.	

Figure A2: Range of Averaged Scores for Each Grade

Grade	Maximum Score	Minimum Score
A+	4.330	4.165
A	4.164	3.75
A-/B+	3.74	3.25
B	3.24	2.75
B-/C+	2.74	2.25
C	2.24	1.50
D	1.49	0.50
F	0.49	0

Because the public policies and economic philosophies are not expected to impact the same volume of transactions as the core financing and program elements, survey respondents were asked to indicate if the public policies and economic philosophies would positively, negatively or neutrally affect Ex-Im Bank's competitiveness. **Figure A3** shows the scale that was used by survey respondents to assess the competitive impact of these policies and philosophies.

Figure A3: Assessing Impact of Economic Philosophies and Public Policies On Ex-Im Bank's Overall Competitiveness

	Effect on Competitiveness	Description
+	Positive	Philosophy, policy or program has a positive impact on Ex-Im Bank's competitiveness (moves Ex-Im Bank's competitiveness grade up one notch).
*	Neutral	Philosophy, policy or program has a neutral impact on Ex-Im Bank's competitiveness (no impact on Ex-Im Bank's competitiveness grade).
-	Negative	Philosophy, policy or program has a negative impact on Ex-Im Bank's competitiveness (moves Ex-Im Bank's competitiveness grade down one notch).

Appendix B: Purpose of Ex-Im Bank Transactions

Congress requires Ex-Im Bank to include in the annual Competitiveness Report a breakdown of the purposes for Ex-Im Bank support for transactions. In that regard, the two purposes of Ex-Im Bank support for transactions are to either fill the financing gap when private sector finance is not available or to meet foreign competition. **Figure B1** shows the number and amount of Ex-Im Bank transactions authorized in 2008 by purpose and program type.

Figure B1: Ex-Im Bank Transactions by Purpose, 2008

	No Private Sector Finance Available		Meet Competition		Not Identified	
	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working capital guarantees	$1,163	386	$0	0	$0	0
Short-term insurance	$3,982	1,916	$0	0	$0	0
Medium-term insurance	$49	21	$181	112	$0	0
Guarantees	$2,295	58	$7,467	118	$0	0
Loans	$359	2	$294	3	$0	0
TOTAL	**$7,848**	**2,383**	**$7,942**	**233**	**$0**	**0**

Appendix C: Exporter and Lender Survey Background

Introduction

As part of Ex-Im Bank's statutory requirement to report annually on the Bank's competitiveness with its G-7 ECA counterparts, Ex-Im Bank is also required to conduct a survey of exporters and lenders that used the Bank's medium- and long-term programs in the prior calendar year. This Congressionally-mandated survey provides critical information for the Report, as it encourages respondents to compare Ex-Im Bank's policies and practices with those of its G-7 ECA counterparts during the calendar year. Ex-Im Bank continued its approach of administering the survey on-line, which permitted the survey to reach a larger number of potential participants. In addition to the formal on-line survey, Ex-Im Bank conducted focus group discussions with experienced users (exporters and lenders) of Ex-Im Bank programs to get more detailed comments about the global market in which they operated in 2008 and the competitive implications for Ex-Im Bank.

Survey Questions

Ex-Im Bank's survey consisted of five parts that focused on 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 from other ECAs, in addition to reasons for using Ex-Im Bank.

Part 3: Respondent ratings of and comments on Ex-Im Bank's competitiveness with foreign ECAs with respect to the policies and programs described in the Competitiveness Report.

Part 4: Additional comments.

Part 5: Outcome of specific cases of competition faced as a result of the above policies.

Participant Selection

The survey was sent to companies that used Ex-Im Bank's medium- and long-term programs during 2008. In total, 129 lenders and exporters were asked to participate in the survey.

Survey Results

Figure C1 highlights the response rate for the survey participants. Overall, the response rate for the survey was 32%. The response rate for lenders was higher than for lenders, with 50% of lenders responding and 19% of exporters responding.

Figure C1: Survey Response Rate, 2008

	Lenders	Exporters	Total
Number surveyed	52	77	129
Number responded	26	15	41
Response rate (%)	50	19	32

- **Lenders**

Figure C2 shows the lender experience levels for both length of time in business and experience in export finance. A majority of lenders (69 %) have been in business for over 21 years or more while the remainder (31 %) has been in business from 4 to 20 years. Years of experience in export finance showed that 23% were relatively new to the business (6 had 4 to 10 years), while the large majority (77 %) had over 11-plus years of experience in export finance.

Figure C2: Lender Experience Levels, 2008

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	3	5	18
Time in export finance	0	6	7	13

Figure C3 shows the volume of export credits extended during 2008. Of the 18 lenders who indicated these values, more than one-third (39%) reported having extended $50 million or less during 2008, while the remaining offered between $51 million to over $1 billion. These data suggest that the more active lenders participating in Ex-Im Bank medium- and long-term programs were focused more on larger (in value) export transactions.

Figure C3: Volume of Lenders' Annual Export Credits, 2008

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Number of Lenders	2	5	3	3	2	3

Figure C4 shows the percentage of lenders' export credits extended during 2008 that were supported by Ex-Im Bank. Eighteen of the 25 lenders indicated their volumes for 2008. Of these, 72% of the lenders noted that 75% their export credits had Ex-Im Bank support, while the other 28% reported that less than 75% of their export credit portfolio had been supported by Ex-Im Bank.

Figure C4: Percentage of Lender Export Credits That Were Ex-Im Bank Supported, 2008

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Number of lender's whose export credits were supported by Ex-Im Bank	0	2	2	1	13

Additionally, out of all 26 lenders, all but four noted that the lack of useful private sector financing was regularly the reason for pursuing Ex-Im Bank financing and that this need was worldwide. Fifteen of the 25 lenders stated that Ex-Im Bank support was regularly needed to meet competition from foreign companies receiving ECA financing, with Euler-Hermes/Germany, SACE/Italy, and EDC/Canada cited as the most frequent ECAs with whom they had competed. Other ECAs cited on a slightly less frequent basis were COFACE/France and JBIC/Japan, as well as a number of non-G-7 ECAs that included Finnvera/Finland, and China Eximbank.

- **Exporters**

Figure C5 shows the distribution of exporters by time in business. The majority of exporter respondents were long-standing, large companies. Except for two exporters who reported being in business for 4-10 years, all of the other exporters had been in business for 21 years or more, and of these, 62% had been exporting for 21 years or more.

Figure C5: Exporter Experience Levels, 2008

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	2	0	13
Time in exporting	0	2	4	8

Figure C6 shows the size of exporters based on sales and export sales volume. Seven of the 12 exporters who reported sales figures showed 2008 sales volumes of $1 billion or greater. All of the 7 exporters with sales of over $1 billion also reported the same volume of export sales.

Figure C6: Volume of Exporter Annual Sales and Exports, 2008

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Total sales volume	2	1	2	0	0	7
Total export sales volume	2	2	0	1	0	7

Figure C7 shows the distribution of exporters by the percentage of export sales that were supported by Ex-Im Bank. Of the 12 companies who responded, 7 showed that Ex-Im Bank support comprised less than 10% of their export sales while the remaining 5 indicated that Ex-Im Bank supported from 10% to 50% of their sales.

Figure C7: Percentage of Exporters' Sales That Were Ex-Im Bank Supported, 2008

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export sales supported by Ex-Im Bank	7	3	2	0	0

Seven of the exporters reported facing regular competition from foreign companies supported by their national ECAs throughout 2008. The most frequently identified competitor ECAs (in descending order) were COFACE/France, EDC/Canada, EGDC/UK, and China Eximbank, with the remaining ECAs identified equally as frequently with one another.

Working with Other ECAs

Four exporters noted that they had never worked with another ECA, whereas one exporter explained that it worked regularly with every G-7 ECA except Japan, as well as a number of other ECAs (e.g., Atradius/Netherlands, Finnvera/Finland, Hungarian Eximbank, EKN/Denmark, CESCE/Spain, and GIEK/Norway among others).
Frequent partners identified by the lenders were all of the G-7 ECAs, led by Euler-Hermes. Non-G-7 ECAs cited as partners were Korea Eximbank, Atradius, Finnvera, ONDD, CESCE, and private insurers.

Appendix D: G-7 Export Credit Institutions

Canada

- **Export Development Canada (EDC)** is a "Crown Corporation" (i.e., a government entity that operates on private sector principles) that provides, among other products, short-term export credit insurance, medium- and long-term guarantees, and medium- and long-term direct loans, which may or may not be provided on a CIRR basis. EDC also offers investment financing products and operates a "market window."

France

- **Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)** is a private insurance company that provides, in addition to short-term insurance for its own account, official medium- and long-tem export credit insurance on behalf of the French government.

Germany

- **Euler Hermes Kreditversicherungs-AG (Hermes)** is a consortium of a private sector insurance company and a quasi-public company that provides official export credit insurance on behalf of the German government, similar to COFACE of France. Hermes also provides short-term export insurance for its own account, according to standard market practices.
- **Kreditanstalt für Wiederaufbau (KfW)** is a financial institution that is owned by the German government and the federal states (Länder). 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 to achieve CIRR financing. KfW offers trade and export credit support on a limited basis and also administers the provision of German tied aid funds on behalf of the German government. The decision as to where and how tied aid should be used rests with another part of the German government. In 2008, the majority of KfW's export credit business was spun off into an independent, 100%-owned subsidiary called KfW IPEX-Bank. In addition, the KfW IPEX Bank offers project finance and carries a "AA-" rating.

Italy

- **SACE**, or Servizi Assicurativi del Commercio Estero, provides official export credit insurance. Pursuant to a law enacted in 2003 and effective January 1, 2004, SACE became a limited liability joint stock company whose shares are wholly owned by the Ministry of Economy and Finance. Under this structure, SACE provides medium- and long-term official export credit insurance on behalf of the Italian government, and short-term insurance for its own account.

- **SIMEST** provides interest rate support to commercial banks in order to achieve CIRR. SIMEST is a development financier, 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.

Japan

- **Nippon Export and Investment Insurance (NEXI)** is an independent governmental institution responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI).

  Historically, Japanese exporters were required to insure all of their short-term business through NEXI, but in 2004, the Japanese government removed this requirement and began welcoming private insurers into the Japanese export credit insurance market. NEXI offers short-, medium- and long term export credit insurance.

- The **Japan Bank for International Cooperation (JBIC)** is a government bank that falls under the Ministry of Finance. In its capacity as an export credit agency, JBIC provides direct loans in combination with commercial bank financing. In addition, JBIC provides untied and investment loans, guarantees and import credits. Beginning in October 2008, JBIC began operating within the purview of the Japan Finance Corporation Law. As a result of this change, JBIC will also be responsible for promoting overseas development of strategic natural resources, supporting efforts of Japanese industries to develop international business operations, and responding to financial disorder in the international economy.

United Kingdom

- **Export Credits Guarantee Department (ECGD)** is a separate department of the U.K. government that provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions. ECGD also maintains a "top-up" reinsurance facility with a private insurance company in the event that the private sector is unwilling or unable to provide short-term export insurance on behalf of a U.K. exporter. ECGD will provide reinsurance to exporters wishing to sell to markets where official export credit support is customarily available from other countries.

Appendix E: Ex-Im Bank Foreign Content Support

All Transactions

	Medium-Term		Long-Term	
Product/Project	Export Value	FC %	Export Value	FC %
Printing	$14,260,909	8%	$0	0%
Medical Equipment	$27,347,056	17%	$23,000,000	10%
Agricultural Equipment	$323,995,548	15%	$153,082,556	13%
Aircraft	$6,083,490	14%	$7,766,193,698	12%
Other	$161,402,601	12%	$2,274,672,197	5%
All	**$533,089,604**	**14%**	**$10,216,948,451**	**11%**

Medium-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
ARGENTINA & NETHERLANDS	Medical Equipment	$879,805	6%
ARGENTINA	Medical Equipment	$805,702	1%
ARGENTINA	Medical Equipment	$629,300	33%
ARGENTINA	Small Aircraft	$5,287,087	15%
BRAZIL	Medical Equipment	$103,403	16%
BRAZIL	Medical Equipment	$917,789	10%
BRAZIL	Medical Equipment	$1,269,088	8%
BRAZIL	Medical Equipment	$766,026	4%
BRAZIL	Printing Machinery	$325,000	5%
BRAZIL	Printing Machinery	$394,740	5%
BRAZIL	Medical Equipment	$760,000	20%
BRAZIL	Medical Equipment	$1,810,600	6%
BRAZIL	Medical Equipment	$790,000	15%
BRAZIL	Medical Equipment	$504,275	4%
BRAZIL	Laser Cutting Machinery	$598,000	12%
BRAZIL	Medical Equipment	$815,035	15%
BRAZIL	Construction Machinery	$4,774,412	16%
BRAZIL	Metal Cutting Machinery	$1,068,600	29%
BRAZIL	Medical Equipment	$710,000	32%
BRAZIL	Medical Equipment	$676,750	15%
BRAZIL	Medical Equipment	$1,500,000	12%
BRAZIL	Medical Equipment	$877,598	2%
CHILE	Telecommunications Equipment	$4,500,523	12%

Country	Product/Project	Export Value	Foreign Content %
CHINA	Medical Equipment	$2,785,450	37%
CHINA	Medical Equipment	$867,600	5%
CHINA	Medical Equipment	$4,250,000	33%
CHINA	Medical Equipment	$3,628,635	15%
DOMINICAN REPUBLIC	Agricultural Equipment	$315,000	20%
FINLAND	Monorail System	$15,730,909	7%
GHANA	Amusement Park Equipment	$4,238,649	7%
ISRAEL	General Hardware Merchandise	$2,105,700	5%
KAZAKHSTAN	Agricultural Equipment	$1,220,600	14%
KAZAKHSTAN	Agricultural Equipment	$6,900,000	14%
KAZAKHSTAN	Agricultural Equipment	$19,000,000	15%
KAZAKHSTAN	Agricultural Equipment	$6,940,000	14%
KAZAKHSTAN	Agricultural Equipment	$10,000,000	14%
KAZAKHSTAN	Agricultural Equipment	$109,411,764	15%
KAZAKHSTAN	Telecommunications Equipment	$2,690,868	5%
KAZAKHSTAN	Agricultural Equipment	$240,000	14%
KAZAKHSTAN	Agricultural Equipment	$8,705,080	14%
MEXICO	Construction Machinery	$928,000	10%
MEXICO	Printing Machinery	$5,780,000	11%
MEXICO	Printing Machinery	$300,000	3%
MEXICO	Metal Fabricated Equipment	$744,276	44%
MEXICO	Agricultural Equipment	$1,400,000	7%
MEXICO	Medical Equipment	$2,000,000	10%
MEXICO	Communication Equipment	$250,848	32%
MEXICO	Plastics & Rubber Machinery	$407,985	10%
MEXICO	Plastics & Rubber Machinery	$489,540	12%

Country	Product/Project	Export Value	Foreign Content %
MEXICO	Metal Household Furniture	$176,575	19%
MEXICO	Highway Construction Machinery	$1,916,156	10%
MEXICO	Construction Machinery	$619,800	9%
MEXICO	Small Aircraft	$796,403	10%
MEXICO	Construction Machinery	$445,915	13%
MEXICO	Paper Mill Machinery	$381,839	5%
MEXICO	Labeling Machinery	$995,400	11%
MEXICO	Large Aircraft	$47,058,824	15%
MEXICO	Laser Cutting Machinery	$542,000	15%
NIGERIA	Newspaper Printing Press Equipment	$3,131,807	8%
NIGERIA	Newspaper Printing Press Equipment	$3,964,362	4%
NIGERIA	Transportation Equipment	$5,300,000	11%
NIGERIA	Radio Broadcasting Equipment	$351,780	6%
NIGERIA	Oil Well Logging Equipment	$18,848,104	11%
PERU	Paper Mill Machinery	$475,000	19%
PERU	Land Leveling Equipment	$2,695,855	15%
RUSSIA	Agricultural Equipment	$5,004,046	12%
RUSSIA	Agricultural Equipment	$4,114,824	12%
RUSSIA	Paper Mill Machinery	$2,026,510	8%
RUSSIA	Automated Teller Machines	$2,796,610	12%
RUSSIA	Railroad Equipment	$8,050,000	15%
RUSSIA	Automated Teller Machines	$4,526,272	12%
RUSSIA	Automated Teller Machines	$3,130,000	12%
RUSSIA	Automated Teller Machines	$7,627,119	12%
RUSSIA	Agricultural Equipment	$3,578,514	12%
RUSSIA	Agricultural Equipment	$5,999,336	12%

Country	Product/Project	Export Value	Foreign Content %
RUSSIA	Agricultural Equipment	$22,500,000	12%
RUSSIA	Agricultural Equipment	$4,903,566	12%
RUSSIA	Agricultural Equipment	$45,880,682	14%
RUSSIA	Agricultural Equipment	$22,588,235	8%
SAUDI ARABIA	Agricultural Equipment	$16,954,937	42%
SRI LANKA	Printing Machinery	$365,000	3%
TURKEY	Power Plant	$14,910,532	18%
UKRAINE	Agricultural Equipment	$4,227,929	14%
UKRAINE	Agricultural Equipment	$8,964,216	14%
UKRAINE	Agricultural Equipment	$10,139,753	14%
UKRAINE	Agricultural Equipment	$5,007,066	14%
TOTAL & AVERAGE		**$533,089,604**	**13%**

Long-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
AUSTRALIA	Large Aircraft	$374,187,000	12%
BRAZIL	Small Aircraft	$17,000,000	28%
BRAZIL	Large Aircraft	$142,413,884	15%
BRAZIL	Large Aircraft	$514,791,827	11%
CANADA	Large Aircraft	$932,419,939	11%
CHILE	Large Aircraft	$369,450,000	8%
CHINA	Railroad Equipment	$123,609,280	7%
CHINA	Agricultural Equipment	$9,018,880	11%
EL SALVADOR	Small Aircraft	$22,874,048	20%
GHANA	Electrical Equipment	$297,500,000	2%
GHANA	Water Treatment Equipment	$18,113,991	5%
HONG KONG	Large Aircraft	$500,120,000	5%
INDIA	Medical Equipment	$23,000,000	10%

Country	Product/Project	Export Value	Foreign Content %
INDIA	Coal Mining Equipment	$23,000,000	8%
INDIA	Large Aircraft	$366,254,530	12%
INDIA	Large Aircraft	$213,789,000	15%
INDIA	Oil & Gas Field Machinery	$380,336,598	10%
INDIA	Drilling Equipment	$37,620,000	15%
IRELAND	Large Aircraft	$899,000,000	15%
IRELAND	Large Aircraft	$1,049,413,181	14%
KAZAKHSTAN	Agricultural Equipment	$15,180,000	14%
KAZAKHSTAN	Agricultural Equipment	$29,000,000	14%
LUXEMBOURG	Large Aircraft	$108,600,000	4%
MEXICO	Oil & Gas Field Machinery	$114,732,845	2%
MEXICO	Oil & Gas Field Machinery	$460,142,990	2%
MEXICO	Small Aircraft	$50,820,565	26%
MEXICO	Communication Equipment	$230,116,497	2%
MEXICO	Oil & Gas Field Machinery	$172,132,841	5%
MEXICO	Small Aircraft	$30,547,458	32%
MOROCCO	Large Aircraft	$44,626,203	15%
MOROCCO	Large Aircraft	$92,800,000	15%
NETHERLANDS	Large Aircraft	$237,308,185	12%
NIGERIA	Aluminum Plant Equipment	$21,211,393	12%
NIGERIA	Oil & Gas Field Machinery	$15,325,000	10%
NIGERIA	Large Aircraft	$41,500,000	15%
NIGERIA	Large Aircraft	$90,200,000	18%
OMAN	Large Aircraft	$46,124,000	15%
PANAMA	Large Aircraft	$76,700,000	15%
PERU	Oil & Gas Field Machinery	$341,954,544	3%
RUSSIA	Agricultural Equipment	$11,971,500	12%
RUSSIA	Agricultural Equipment	$12,835,567	12%
RUSSIA	Agricultural Equipment	$18,693,796	12%

Country	Product/Project	Export Value	Foreign Content %
RUSSIA	Agricultural Equipment	$19,886,738	12%
RUSSIA	Agricultural Equipment	$21,052,344	12%
SAUDI ARABIA	Small Aircraft	$47,385,846	6%
SOUTH KOREA	Large Aircraft	$81,600,000	13%
TURKEY	Gas Power Plant	$49,750,084	15%
TURKEY	Large Aircraft	$128,438,218	15%
TURKEY	Large Aircraft	$213,875,013	15%
TURKEY	Power Plant	$15,088,377	15%
TURKEY	Power Plant	$21,096,581	15%
TURKEY	Large Aircraft	$118,055,977	15%
UKRAINE	Agricultural Equipment	$15,443,731	14%
UNITED ARAB EMIRATES	Large Aircraft	$818,640,000	12%
UNITED STATES	Large Aircraft	$90,200,000	15%
TOTAL & AVERAGE		**$10,216,948,451**	**12%**

Appendix F: Tied Aid Report

Introduction

This appendix sets forth 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 (also known as the Helsinki Package, the Helsinki tied aid rules or the Helsinki Disciplines) during 2008, followed by a discussion of trends in the use of the Tied Aid Credit Fund through 2008.

Implementation of the OECD Arrangement

Tied aid is concessional financing support provided by donor governments in the form of a grant or a "soft" loan for which procurement by recipient countries is contractually linked to firms located in the donor country or a limited number of countries (see below for "Definitions of the Various Types of Aid").

In 1991, the Participants to the OECD Arrangement agreed to rules governing the use of tied aid (the Helsinki Package). The Helsinki Package specifically established the following for the provision of tied aid: (1) country eligibility requirements; (2) transparency (notification) requirements for tied aid offers; and (3) project eligibility requirements, along with a mechanism for discussing specific tied aid offers to ensure that the projects conform to the established guidelines. The OECD rules on country and project eligibility basically resulted in two restrictions on the use of tied aid: (1) no tied aid in "rich"[1] countries; and (2) no tied aid for "commercially viable" (CV) projects. In addition, since the mid-1980s, the Arrangement has required that tied aid contain a minimum *concessionality* level of 35% as measured with a market-based discount rate[2].

The tied aid rules went into effect in February 1992. Since that time, the use of tied aid for CV projects (as defined by the OECD) has significantly declined. (For more details and data trends, see Chapter 5A.) In 1997 (and revised in 2005), Participants issued a document known as "ExAnte Guidance Gained for Tied Aid" which compiles the case law of the project-by-project consultations that were held from 1992 through 1996 and then less frequently after that. The case law describes which projects are typically considered to be commercially viable (CV) and commercially non-viable (CNV). (See below for further details.)

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[1] Gross National Income (GNI) at or above $3,705 per annum (based on 2007 annual World Bank data).

[2] The term "concessionality" 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 level 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 level of 35%.

Overview and Definitions of the Various Types of Aid

Tied aid has the potential to distort trade flows when the recipient country does not select the bidder offering the best price, quality and service for the equipment, but rather the bidder offering the cheapest financing. The potential for trade distortion is most serious in cases where a donor government provides relatively low concessionality tied aid financing for "commercially viable"[3] projects. Under these circumstances, a donor government's tied aid offer may be an attempt to "buy" a sale for its national exporter through the provision of an official subsidy to a recipient country. This can establish the exporter's presence and technology in the country to create longer-term international trade advantages.

Official Development Assistance (ODA), or aid, is concessional financial support of which at least 25% is intended to carry no repayment obligations (i.e., contains 25% *grant element*),[4] and the vast majority of it is 100% pure grant (such as from USAID and the Millenium Challenge Corporation). Aid from a donor government to a recipient government normally supports either "general" uses (e.g., balance of payments support) or the purchase of specific goods and/or services (local, donor country and/or third country) necessary for the completion of an investment or specific project. The latter, with the exception of some local purchases, is trade-related aid.

> Trade-related aid[5] may be either "tied" or "untied" to procurement from the donor country and can be provided in two forms: grants or credits[6]. However, because grants involve little or no repayment obligations (i.e., no export leverage), they are viewed as having a negligible potential for trade distortions (see below) and are not subject to OECD disciplines other than notification.
>
> > Tied aid credits refer to concessional loan financing that is trade-related and contractually conditioned upon the purchase of some or all of the goods and/or services from suppliers in the donor country or a limited number of countries. [Note: Concessional loans can be provided as mixed credits which are a combination of an export credit and a grant, or as soft loans, which are long-term export credits offered with very low interest rates. This type of aid falls within the OECD Arrangement rules. Such aid credits may only be provided to eligible countries and for eligible (commercially non-viable) projects. Also, using the Arrangement's financial measurement methodology, tied aid to developing

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[3] "Commercially viable" means that a project can service market-term or standard Arrangement- term financing over 10-15 years, depending on the type of project.

[4] The OECD Development Assistance Committee's (DAC) technique for measuring concessionality (grant element) of ODA is antiquated. The DAC uses a fixed 10% discount rate, which results in one half of annual ODA levels having a real concessionality level below 25%, and some substantially less. For example, untied aid credits have been notified with as low as 6% real concessionality and theoretically could provide only 4% real concessionality. The United States has been seeking agreement in the OECD to update the DAC methodology.

[5] Trade-related aid is defined as financial support provided by a donor to a recipient country for the purposes of importing equipment needed for a project.

[6] Credits with a concessionality level of 80% or more are viewed as grants and considered to have a negligible potential for trade distortion.

countries must be at least 35% concessional, and tied aid to least developed countries must be at least 50% concessional.]

Untied aid credits refer to concessional loan financing that is trade-related, but which should **not** be conditioned (contractually or otherwise) upon the purchase of goods and/or services from any particular country. This form of aid has historically fallen under the purview of the OECD Development Assistance Committee's (DAC) rules, which differ from the Arrangement rules in that the DAC provides virtually no restrictions on untied aid. However, the Arrangement rules include some basic transparency requirements for untied aid. Therefore, there is a wide gap in multilateral requirements between tied aid – which is regulated – and untied aid – which is not.

Trade-distorting aid refers to aid credits for which the motivation is largely or significantly connected to promoting the sale of goods from the donor government's country. Because tied aid credits by their nature can be trade-distorting, there are rules to discipline their use. For example, it would be considered trade-distorting to provide tied aid credits for projects that can service *commercial* term financing, including standard export credit agency financing (i.e., CV projects). As a result, the Arrangement prohibits tied aid credits for such projects unless located in an LDC, the concessionality level is 80% or greater, or no commercial-term financing is available. The Arrangement also prohibits tied aid to countries with a per capita income level at or above $3,705 (again, unless the concessionality level is 80% or greater), because those countries are considered to have ready access to commercial financing and official export credits for all types of projects.

Current Status of the OECD Negotiations on Tied and Untied Aid 2008

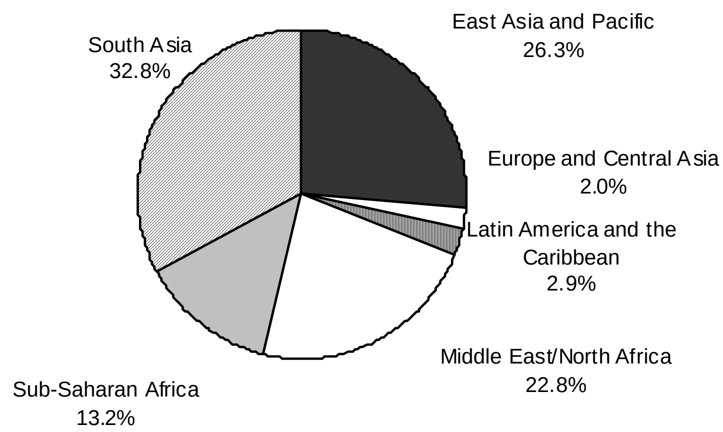
The OECD and the U.S. continue to monitor the effectiveness of the Helsinki tied aid rules that came into effect in early 1992. In 2008, the data showed that there were 115 Helsinki-type tied aid notifications, which was a decline from 127 in the previous year. By value, 2008 Helsinki-type tied aid offers totaled $7.3 billion, which was an increase of 35% from 2007 levels. However, this spike in tied aid was due in large measure to one large railway project that was determined to be commercially viable by the OECD Consultations Group, but which went forward as a derogation (See below for details). Aside from this anomaly, the majority of Helsinki-type tied aid offers were made for commercially non-viable projects.

With respect to untied aid, historical concerns regarding Japanese untied aid (that reached its highest levels -- about $15 billion-- a decade ago) prompted the U.S. to seek the same disciplines for untied aid that were agreed for tied aid. Donor and recipient countries countered U.S. efforts, claiming that: (a) untied aid did not pose a serious threat to free trade; and (b) disciplines for untied aid would only reduce much needed aid to developing countries. Despite opposition, in 2005, the U.S. was able to secure a pilot transparency agreement for untied aid that requires OECD Members to (a) notify project loan commitments at least 30 days prior to the opening of the bidding period;

(to allow for international competitive bidding); and (b) report the nationalities of the bid winners on an annual ex post basis. The transparency agreement represents a compromise between those governments seeking to discipline untied aid (as a way of reducing the potential for trade distortions arising from *de facto* tied untied aid offers) and those donors who believe that untied aid rules are unnecessary and would limit *bona fide* developmental assistance.

Participants began implementing the transparency agreement on January 1, 2005, but it is now extended through the end of 2009. (See Chapter 5A for details.)

Figure F1: Helsinki-type Tied Aid Notifications by Region (by Value), 2008



Tied Aid Eligible Markets

The OECD rules designate a number of key markets as ineligible for tied aid financing. Specifically, the OECD rules ban tied aid into high- or upper middle-income markets (those that are ineligible to receive 17-year loans from the World Bank) and tied aid into Eastern Europe and select countries of the former Soviet Union, 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.)

Figure F1 shows the distribution of Helsinki-type tied aid offers by region in terms of value. In 2008, the major beneficiary region continued to be Asia (including South and East Asia and Pacific), attracting over half of the Helsinki tied aid offers, or roughly 59%. **Figure F2** shows the variety of donor countries that offered tied aid in 2008.

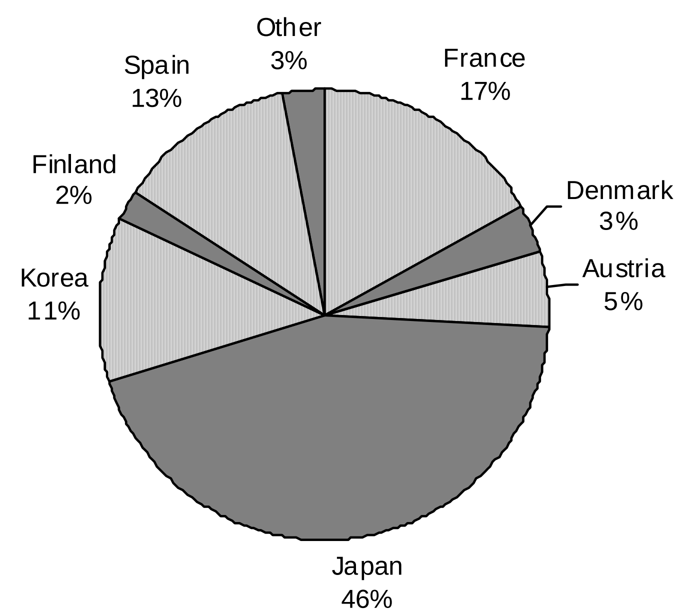
The data show a continuation of the tied aid trends that have dominated tied aid activity for the last five years or so. Specifically:

- Japan continues to be the largest donor of tied aid, accounting for over 45% of all tied aid activity in terms of volume.

- Despite Spain's 30% increase in volume of tied aid over 2007 levels, France surpassed Spain as the second largest tied aid donor, with a 300- 400% increase over previous years. Thus, Spain and France comprised 23% and 30% of the volume of tied aid, respectively. The Netherlands limited its tied aid offers significantly in 2008, down from having a 15% share of total tied aid in 2007 to less than a 1% in 2008.

- Asia continues to be the main tied aid recipient but a change in main recipient countries was evidenced. In 2008, India led the region followed by Vietnam, the country that was last year's main recipient. Despite its longstanding position as the principal recipient of tied aid, China's stronghold on that lead continues to fade in terms of volume – placing fourth in 2008, after Morocco. However, in terms of number, China was the largest beneficiary of tied aid, attracting 23 notifications.

Figure F2: Helsinki-type Tied Aid Notifications by Donor (by value), 2008



Looking at sector concentration, in 2008, about 90% of the total number of Helsinki-type tied aid notifications were concentrated primarily in the transport and storage sectors (principally rail and water transport), and water and health sectors. These sectors tend to be considered commercially non-viable (CNV).

However, 2008 saw an increase tied aid for commercially viable projects that totaled $2.8 billion or about 40% of the total volume of tied aid (compared to an average of about 13% over the past 3 years). The 2008 figures in large measure reflect the impact of one large rail project that proceeded with tied aid financing, despite the finding that it was commercially viable (and therefore ineligible for tied aid). Thus, were it not for this one project, the 2008 annual data would generally be in line with the historical trend that shows an overall reduction in tied aid and high concentration on developmental – not commercially viable – projects.

Tied Aid Eligible Projects

The Helsinki Package established the principle that tied aid should not be used for CV projects, which are those that:

- generate operating cash flows sufficient to repay debt obligations on commercial or standard export credit terms [referred to as "financially viable" (FV)]; and,
- could attract standard export credit financing (at least two OECD export credit agencies would be prepared to provide support) which, combined with FV determination, leads to a CV conclusion.

The OECD Consultations Group examines projects that have been notified by a Participant as eligible for tied aid, but which another Participant believes to be *ineligible* for tied aid because they appear to be CV. Sovereign guarantees from the recipient government do not factor into the determination of "commercial viability" because they can be provided for any kind of project – CV or CNV. One of the goals of the tied aid rules is to keep concessional resources **away** from projects and countries that do not **require** them; otherwise, an unnecessary subsidy is being introduced and trade distortion is occurring.

In 2008, two tied aid projects were evaluated by the OECD Consultations Group and were found to be commercially viable (i.e., ineligible for tied aid support and, therefore, the donor must withdraw its tied aid offer). Nevertheless, one tied aid offer for a transportation project – representing almost 30% of the Helsinki-type tied aid offers -- did proceed as a derogation from the OECD rules. The donor government was required to write a letter to the OECD Secretary-General explaining the circumstances surrounding the rogue tied aid offer. This action was the first derogation from the OECD tied aid rules since 2001.

Trends in the Use of the Tied Aid Capital Projects Fund

Ex-Im Bank, in consultation with Treasury, has established guidelines for the use of the Tied Aid Capital Projects Fund (TACPF). These guidelines have two core components:

1. A series of multilateral and/or domestic efforts (e.g., no-aid agreements, preliminary offer of "willingness to match", actual offer of matching) that attempt to get competitors to drop consideration of tied aid use and/or let tied aid offers expire for projects of interest to U.S. exporters.
2. A set of "multiplier" criteria (e.g., prospect of future sales without the need for tied aid) that attempt to limit tied aid support to those transactions whose benefits extend beyond that particular project, but can be expected to generate future benefits, as well.

In addition, and in response to the 2006 Ex-Im Bank Reauthorization, Ex-Im Bank and Treasury continue to work collaboratively to develop Tied Aid Procedures that would guide the application processing in an efficient manner.

Ex-Im Bank has issued 3 tied aid matching offers since 2003. As Figure 3 below indicates, one offer was lost by the U.S. exporter; one offer is pending and one offer was converted into a Tied Aid commitment in 2008 and is pending disbursement. **Figure F3** also shows cumulative offers since 1992, and compares the offers and outcomes from the years 1992-2002 to the past six years, i.e., 2003-2008 period. The period-to-period comparison shows a dramatic drop-off in the number of tied aid offers.

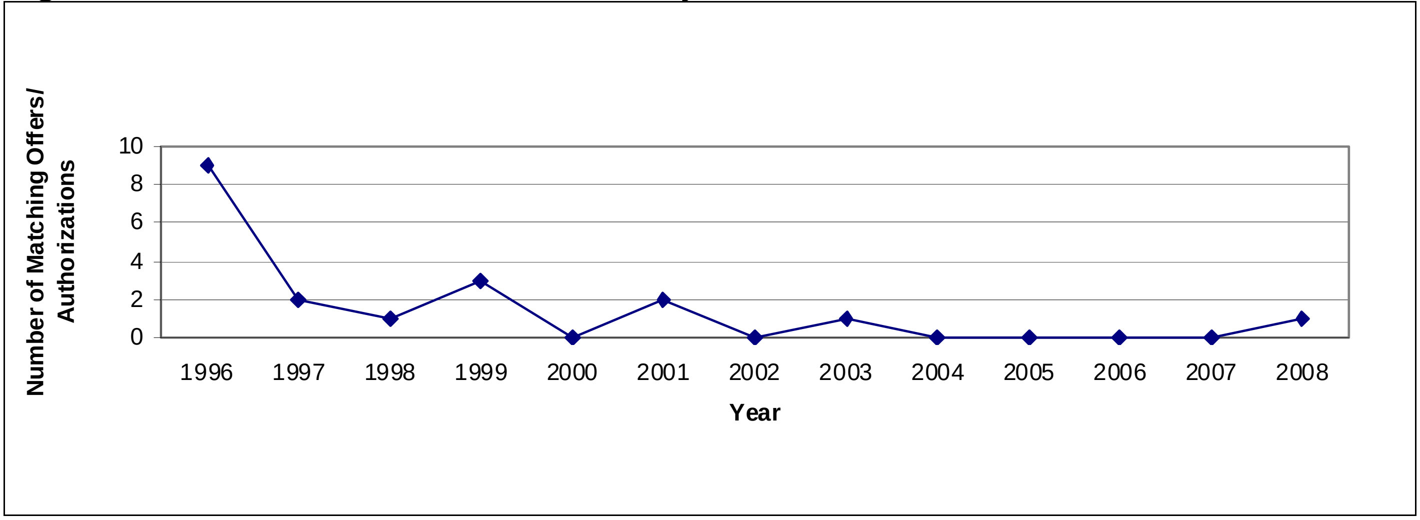
Figure F3: Cumulative Ex-Im Bank Matching of Foreign Tied Aid Offers

	2008	1992-2002	2003-2008
New matching offers	1	**43**	**3**
U.S. wins	0	**19**	**1**
U.S. losses	0	**24**	**1**
Outstanding, no decision	1	**3**	**1**
Total	2	**43**	**3**

As shown in **Figures F3 and F4**, the pace of Ex-Im Bank tied aid matching activity has slowed dramatically in recent years with the number of tied aid authorizations showing a similar downward trend and one authorization for a tied aid project in Sub-Saharan Africa in 2008.

Despite one OECD member's decision to derogate from the tied aid rules and proceed with their tied aid offer (i.e., after the Consultations Group finding that the project was commercially viable), there has been a sharp increase in compliance with the tied aid rules generally that is evidenced by a reduction in the annual average number of tied aid consultations, from 23 per year over 1992-1996 to fewer than 3 per year over 1997-2008.

Figure F4: U.S. Tied Aid Authorizations by Year



No Aid Common Lines

A "common line" is an agreement whereby one OECD Member anonymously proposes that all Members refrain from providing aid for a specific project that is otherwise eligible to receive aid. When Ex-Im Bank receives an application for financing in a tied aid eligible country and the U.S. exporter has reason to be concerned about the possibility of tied aid financing competition, Ex-Im Bank may propose a no aid common line in hopes of eliminating this possibility. If the common line request is accepted, all OECD member countries agree not to offer tied aid financing for the particular project for a period of two years (with the possibility of extensions). If the no aid common line request is rejected (any one Member can reject a common line request, irrespective of their involvement in the particular project), OECD member countries may make tied aid financing offers for the project.

The most recent U.S. proposed no aid common line occurred in 2005, for rail cars (locomotive sales) to Indonesia. Although the common line was rejected, the U.S. exporter presented evidence of competitor offers and documented the possibility of follow-on sales on commercial terms. Accordingly, in 2006, Ex-Im Bank issued a tied aid Willingness to Match offer to the U.S. exporter, extended this offer again in 2007 and re-extended the offer in 2008. The results of the bid are not yet known.

Common lines are intended to be anonymous to prevent buyer retaliation against an exporter whose government issued a common line on its behalf. In practice, however, buyers are often aware of which donors/exporters are competing for specific projects and can determine who proposed a common line.

In sum, U.S. exporter experience with common lines has been mixed. Of the 15 common lines proposed since 2000, a little less than half (7 of 15) were accepted. Because of the potential for buyer backlash, common lines are not issued without prior exporter approval.

Appendix F Annex 1

Key Markets Where Tied Aid is Prohibited	
Americas*	Argentina, Belize, Mexico, Panama, Uruguay, Venezuela
Asia*	Hong Kong (China), Korea, Malaysia, Singapore
Middle East*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates
Africa*	Botswana, Gabon, South Africa
Eastern Europe	Czech Republic, Hungary, Poland, Slovak Republic, Belarus**, Bulgaria**, Latvia, Lithuania, Romania**, Russian Federation**, and Ukraine**.

*These markets are not eligible for tied aid because their Gross National Income (GNI) per capita for at least two consecutive years was sufficient to make them ineligible for 17-year loans from the World Bank.

**Article 33. b 5 of the OECD Arrangement states the Participants' agreement to "avoid providing any tied aid credits, other than outright grants, food aid and humanitarian aid as well as aid designed to mitigate the effects of nuclear or major industrial accidents or prevent their occurrence" to these markets. Only such projects as described here would be eligible for tied aid in these markets.

Appendix F Annex 2

Key Tied Aid Eligible Markets	
Asia	China, India, Indonesia, Philippines, Thailand, Vietnam
Americas	Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Paraguay, Peru
Africa	Egypt, Namibia
Middle East	Jordan

Note: In addition to OECD tied aid eligibility, additional U.S. Government criteria are applied to transactions to determine whether tied aid can be made available (e.g., follow on sales criteria and "dynamic market" evaluation).

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	▪ Oil-fired power plants ▪ Gas-fired power plants ▪ Large hydropower plants ▪ Retrofit pollution-control devices for power plants ▪ Substations in urban or high-density areas ▪ Transmission and/or distribution lines in urban or high-density areas
Energy Pipelines	▪ Gas transportation and distribution pipelines ▪ Gas & oil transportation pipelines
Telecommunications	▪ Equipment serving intra- and inter-urban or long-distance communications ▪ Telephone lines serving intra- and inter-urban or long-distance communications ▪ Telephone lines serving internet or intranet system ▪ Switching equipment serving urban or high-density areas ▪ Radio-communications equipment serving urban or high-density areas ▪ Air traffic control equipment
Transportation	▪ Freight railroad operations (locomotives, cars, signaling)
Manufacturing	▪ Manufacturing operations intended to be profit-making ▪ Privately-owned manufacturing operations ▪ Manufacturing operations with export markets ▪ Manufacturing operations with large, country-wide markets

Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted)	
Power	▪ Power projects that are isolated from the power grid ▪ Distribution lines to low-density, rural areas ▪ Some transmission lines to low-density, rural areas ▪ District heating systems ▪ Renewable energy (e.g., geothermal power plants, small wind turbine farms, small hydropower plants connected with irrigation)
Telecommunications	▪ Telephone switching equipment serving low-density, rural areas ▪ Switching equipment serving low-density, rural areas ▪ Radio-communications equipment serving low-density, rural areas
Transportation	▪ Road and bridge construction ▪ Airport terminal and runway construction ▪ Passenger railroad operations (locomotives, cars, signaling) ▪ Urban rail and metro systems
Manufacturing	▪ Highly-localized, small scale cooperatives ▪ Highly-localized, small scale food processing ▪ Highly-localized, small scale construction supply
Social Services	▪ Sewage and sanitation ▪ Water treatment facilities ▪ Firefighting vehicles ▪ Equipment used for public safety ▪ Housing supply ▪ School supply ▪ Hospital and clinic supply

Appendix G: Human Rights and Other Foreign Policy Considerations

The Export-Import Bank Act of 1945 was amended in 1978 by legislation referred to as the "Chafee Amendment," P.L. 95-630, 92 Stat. 3724. The Chafee Amendment, as amended in 2002 by P.L. 107-189, states "Only in cases where the President, after consultation with the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, determines that such action would be in the national interest where such action would clearly and importantly advance United States policy in such areas as international terrorism (including, when relevant, a foreign nation's lack of cooperation in efforts to eradicate terrorism), nuclear proliferation, the enforcement of the Foreign Corrupt Practices Act of 1977, the Arms Export Control Act, the International Emergency Economic Powers Act, or the Export Administration Act of 1979, environmental protection and human rights (such as are provided in the Universal Declaration of Human Rights adopted by the United Nations General Assembly on December 10, 1948) (including child labor), should the Export-Import Bank deny applications for credit for nonfinancial or noncommercial considerations." 12 U.S.C. § 635(b)(1)(B).

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 and the State Department, including the Bureau for Democracy, Human Rights, and Labor, have developed procedures for regular consultation on human rights concerns. According to these procedures, the State Department provides to Ex-Im Bank a list of countries with human rights concerns. Countries not on that list are pre-cleared. Where a proposed transaction over $10 million involves goods or services to be exported to a country that has not received "pre-clearance," 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, where appropriate, to examine human rights and other foreign policy considerations in their assessment of the risks associated with transactions in specific countries.

In the latest renewal of Ex-Im Bank's Charter, Congress asked the Bank to evaluate whether there is an accountability function within the Bank to ensure compliance with environmental, social, labor, human rights and transparency standards. The Bank ensures accountability for these issues through its due diligence processes, which include consultations with the State Department and other agencies on significant transactions and vetting for human rights abuses. In FY 2008, Ex-Im Bank will report to Congress about the Bank's compliance with these standards.

Various other statutory provisions addressing human rights and other foreign policy concerns may also impact Ex-Im Bank programs. For example, with respect to Ex-Im Bank's approval of support for the sale of defense articles or services for anti-narcotics purposes, Ex-Im Bank may approve such a transaction only following satisfaction of a number of statutory criteria, one of which is that the President must have determined, after consultation with the Assistant Secretary of State for Democracy, Human Rights and Labor, that the "the purchasing country has complied with all restrictions imposed by the United States on the end use of any defense articles or services for which a guarantee or insurance was [previously] provided, and has not used any such defense articles or services to engage in a consistent pattern of gross violations of internationally recognized human rights." 12 U.S.C. § 635(b)(6)(D)(i)(II).

Appendix H: 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 legislation was enacted, 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 2008, Ex-Im Bank had not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix I: Trade Promotion Coordinating Committee (TPCC)

Introduction

This section of the report responds to Section 8A(a)(2) of Ex-Im Bank's charter which requires the Bank to report on its role in implementing "The National Export Strategy" (the NES). This report is compiled by the Trade Promotion Coordinating Committee (TPCC). Its purpose is to outline the Administration's trade promotion agenda.

The TPCC is an interagency committee that is comprised of 19 U.S. government agencies[1]. It was established by the Export Enhancement Act of 1992 to harmonize U.S. government export promotion activity under the leadership of the Secretary of Commerce.

The NES report emphasizes the value of coordination among relevant USG agencies and the U.S. private sector to strategically involve the U.S. business community in target markets and to maximize U.S. export potential. Achievements stemming from TPCC action that concerned Ex-Im Bank in 2008 are summarized below.

Highlights of TPCC Accomplishments during 2008

Highlights of Ex-Im Bank-related issues contained in the 2008 NES report include:

- Small business initiatives – Ex-Im Bank's focus was twofold:
  (1) Pursuant to Section 3(f) of its charter, Ex-Im Bank established a Small Business Division to encourage the participation of small business in international commerce by providing outreach and transaction advocacy on behalf of small businesses. In FY 2008, these efforts yielded noteworthy results:
    - Ex-Im Bank authorizations of $3.5 billion (or 21.8% of total authorizations) in direct support of small businesses;
    - Ex-Im Bank approval of 2,361 transactions (or 86.2 of the total number of transactions) for the direct benefit of small business exporters.
    - Of these small businesses, 397 were first-time users of Ex-Im Bank programs.

[1] Members of the TPCC are: 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.

- Ex-Im conducted 93 outreach events (or 25% of Ex-Im's trade promotion activities).

(2) The implementation of Ex-Im Online, an interactive, internet-based application system that provides exporters with a fast, easy application process and the ability to monitor the status of applications.

- Renewable Energy and Environmental Initiatives:

  - Ex-Im Bank's Renewable Energy and Environmental Exports Program was presented at the Washington International Renewable Energy Conference (WIREC) and the Solar Power 2008 conferences. Ex-Im Bank of the U.S. was moderator of a discussion panel on solar power and attended several trade shows to promote the Bank's renewable energy and environmental finance programs.

- Emerging and/or New Generation Markets, with a particular focus on:

(1) **Latin America and Caribbean**, where, in 2008, Ex-Im Bank of the U.S. and the U.S. Department of Commerce (DOC) participated in a business development mission to the Dominican Republic and Costa Rica to promote U.S. exports and investment and to highlight opportunities for U.S. businesses that have resulted from CAFTA-DR. In addition, the visit reinforced the United States' commitment to strengthen commercial ties to the region, as well as advance U.S. commercial policy interests in CAFTA-DR countries.

(2) **Africa**, where, in 2008, Ex-Im Bank participated in U.S. Department of Agriculture/Foreign Agricultural Service (USDA/FAS) and the U.S. DOC trade missions to Ghana and Nigeria in support of agribusiness and investment to the West and Central Africa region. The mission sought to bolster trade and promote growth, identify barriers to trade and form partnerships between West and Central African and U.S. agribusiness companies.

A comparison of G-7 ECA and U.S. Ex-Im Bank medium and long term support in these two regions in 2008 is reflected in **Figure I1** below.

Figure I1: G-7 ECA Medium- and Long-Term Activity in Select Markets in 2008
(Dollar values in millions of U.S. $s; values in parentheses represent the % of total G-7 medium- and long-term support to the relevant country)

	Latin America & Caribbean	Africa
G-7*	$ 11,984.7	$ 10,157.2
U.S.	$ 2,716.6(22%)	$ 707.4 (7%)

*Includes medium- and long-term officially supported export credits by ECAs in Canada, France, Germany, Italy, Japan, UK, and the United States

In Latin America and the Caribbean, the three dominant providers of G-7 ECA medium- and long- term export credits were Japan, Canada, and France in 2008. In Africa, the three dominant donors were France, Germany, and Japan.

Appendix J: Efforts to Promote Renewable Energy Exports

Congressional interest in Ex-Im Bank support for renewable energy exports was codified in Ex-Im Bank's 2002 reauthorization process and reiterated in 2006, when Congress maintained in Ex-Im Bank's Charter the requirement to report on efforts to promote renewable energy exports. Since the beginning of FY 2002, Ex-Im Bank has authorized approximately $211 million to support the export of renewable energy technologies. Ex-Im Bank support for renewable energy technologies has been offered in the form of loans, guarantees, insurance and working capital. Special financing terms for renewable energy projects allow for up to 15 year repayment terms.

During 2008, Ex-Im Bank's response to the Congressional mandate was evidenced by a variety of efforts, including:

Under the leadership of the Ex-Im Bank Vice Chair and Vice President, Linda Conlin, Ex-Im Bank expanded the Office of Renewable Energy and Environmental Exports in 2008. The Program added two Business Initiatives Specialists, one in Washington, D.C. and one in Los Angeles, California, to enhance its outreach to experienced and, in particular, inexperienced U.S. companies and exporters of environmentally beneficial goods and services. Many U.S. companies in this industry are small businesses and/or new companies that are new to export and, consequently, do not have any or much experience with Ex-Im Bank. Ex-Im Bank's additional staff and enhanced marketing efforts are geared towards expanding awareness of the export opportunities that could be available to U.S. companies who partner with Ex-Im Bank and expand their business horizons internationally via exports.

As a result of these efforts, Ex-Im Bank authorized $30.4 million for transactions that supported U.S. renewable-energy exports in FY 2008, the first full year of operation for the Office of Renewable Energy and Environmental Exports. The average size per transaction was about $4.3 million. Included in this total was a financial guarantee supporting a geothermal power plant in Turkey, five export-credit insurance transactions for solar-energy and wind energy exports, and a working capital transaction supporting solar-energy exports. The amount of $30.4 million authorized in FY 2008 to support renewable-energy exports greatly exceeded the amounts authorized for these exports in the previous three fiscal years: $2.7 million in FY 2007, $9.8 million in FY 2006 and $16.8 million in FY 2005.

Further, Vice Chair Conlin continued to lead an inter-divisional Environmental Exports Team (EET). The EET met throughout the year to ensure Bank-wide coordination and contribution to the Ex-Im Bank renewable energy promotion efforts. Consequently, staff made presentations, organized panels, and participated in a number of outreach and marketing events intended to promote renewable energy exports. The most important efforts include the following:

- In March, 2008, Vice Chair Conlin led a team of staff members who participated in the Washington International Renewable Energy Conference in Washington, DC by hosting a booth and giving a presentation on "Financing International Solar Energy Projects."

- In August, 2008, Ex-Im Bank's Office of Renewable Energy & Environmental Exports provided the Keynote Speaker at the Renewable Energy India 2008 Expo in Delhi, India (the largest-ever renewable energy conference in India) and participated in the Department of Energy's "Energy Efficiency and Renewable Energy Technology Commercialization Showcase 2008."

- In October, 2008, Vice Chair Conlin and Ex-Im staff members participated in a conference in California entitled "Competing in the Global Cleantech Market: Financing for Growth." The conference was sponsored by Ex-Im Bank and Silicon Valley Bank and included speakers from the Department of Energy and the U.S. Commercial Service. Vice Chair Conlin gave a keynote speech and Ex-Im staff made presentations to the conference attendees.

- In October 2008, Ex-Im Bank staff moderated a panel at Solar Power 2008 ("The International Language of Money: Financing International Solar Energy Projects"), organized by the Solar Energy Industries Association, and the Solar Electric Power Association. This event attracted over 15,000 attendees and 400 exhibitors. Ex-Im Bank staff met with over 30 companies at this event.

- Throughout 2008, Vice Chair Conlin and staff in the Office of Renewable Energy and Environmental Exports met with numerous renewable energy trade associations, U.S. companies, potential foreign buyers and lenders in Washington, DC and around the country. Ex-Im Bank staff attended many major conferences, including the American Wind Energy Association Annual Conference, the American Water Works Association Annual Conference, the Water Environment Federation Annual Trade Show ("WEFTEC") and the Powergen Renewable Energy Trade Show.

In addition, in December, 2008, Ex-Im Bank's EET met to discuss the upcoming review of the special financing terms that the Organization for Economic Cooperation and Development (OECD) has made available to renewable energy and water project transactions. These special terms were first approved in 2005 on a trial basis, renewed in 2007 and are now set to expire in June 2009. EET members surveyed key industry and bank experts to understand why the extensive interest in renewable energy and water projects communicated to the Bank had not resulted in a significant use of the special financing terms. The EEP canvassed approximately 50 trade associations, lenders and U.S. companies in an effort to gather technical information that will inform the U.S. position during OECD discussions that will continue on this topic through at least the first half of 2009.