

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, 2005 THROUGH DECEMBER 31, 2005

JUNE 2006



EXPORT-IMPORT BANK
OF THE UNITED STATES

PRESIDENT AND CHAIRMAN

June 30, 2006

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D. C. 20515

Dear Chairman Shelby and Chairman Oxley:

Pursuant to Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to submit the Competitiveness Report for the period January 1, 2005 through December 31, 2005.

Sincerely,

A handwritten signature in black ink, appearing to read "James H. Lambright", written over a horizontal line.

James H. Lambright
Chairman and President (Acting)

**THE 2006 ADVISORY COMMITTEE'S STATEMENT ON THE
2005 COMPETITIVENESS REPORT OF
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

The members of the 2006 Advisory Committee have reviewed the 2005 Competitiveness Report to Congress and present its statement on the competitiveness of the Export-Import Bank of the U.S. as compared with the G-7 major export credit agencies (ECAs). In the Advisory Committee's opinion, Ex-Im Bank fulfills its objective of providing competitive export financing support.

Regarding the Report's structure, methodology and approach, the majority of the Advisory Committee believes that the Report has concentrated on the appropriate and most significant elements upon which the judgment as to the Bank's competitiveness should be based. Specifically, the core financial policies, major program structures, the philosophy, and public policy issues represent those areas where export credit competition is centered. Further, the majority of the Advisory Committee continues to support the "report card" approach which, when combined with the exporter-lender survey and the focus group findings, provides a comprehensive assessment of the Bank and its programs. However, several members of the Advisory Committee raise concerns regarding the Report's examination and conclusions with respect to the public policy issues.

Turning to the findings of the Report, the Advisory Committee agrees with the overall assessment that Ex-Im Bank was "generally competitive" in 2005, but with a negative trend. As the Report indicates, the export finance landscape is changing rapidly, with many of Ex-Im Bank's ECA counterparts taking aggressive steps to respond to these changes in ways that improve the utility and effectiveness of their programs. As the report shows, the bank lost market share, 20% to 15%, between 2000 and 2005 while Canada, France, and Italy doubled their support in the same period. Hence, repeating the major point of last year's Advisory Committee's statement, for Ex-Im Bank to maintain its competitive position with other official ECAs, it cannot afford to stand still. The Bank must be aggressively proactive in constantly remaking itself to keep competitive in a world in which both the environment and the participants change often and substantively, while effectively honoring its public policy requirements.

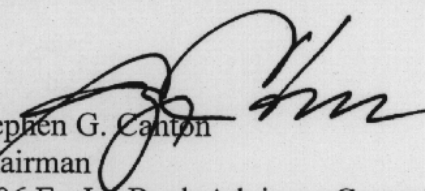
In particular, the Advisory Committee wishes to express concern about the apparent influence of adverse trends in competitiveness: Ex-Im Bank is losing ground to continually re-inventing competitors in areas of critical advantage such as risk assumption and pricing, while simultaneously falling further behind in areas where Ex-Im has had an historical disadvantage such as commercial, market-window-like activity. For example, the Bank has been a leader in the extension of credit to the private sector but has lost ground in recent years. During 2005, there was a decrease in the portfolio risk rating from 5.3 to 4.8 and a *credit* in the Profit and Loss statement of \$1.3 billion in 2005 and \$505 million in 2004. The Bank should reverse this trend to increase U.S. exporter opportunities.

Combined with the emergence of a strong non-OECD (Organization for Economic Cooperation and Development) competitor (China), these trends represent a complex and multi-dimensional set of challenges for Ex-Im Bank. Consequently, Ex-Im Bank needs to take *all* appropriate steps to engage *all* necessary parties to ensure and, where needed, regenerate the competitive momentum at Ex-Im Bank.

The Advisory Committee appreciates the discussion reflected in the forward- looking and insightful "Emerging Issues" section that was added to the Report this year. This section raises many thought provoking questions, with the analysis adding a valuable and critical perspective to the highly fluid international framework. Obviously, the ECA world is rapidly changing in many ways, both in the tools traditional OECD ECAs use to compete and in the number/weight of non-OECD ECA players using tools outside the OECD Arrangement box. This emergence of substantive new issues and activities means that Ex-Im Bank -- if it is to maintain its generally competitive status -- must soon identify whether/how it is going to incorporate, or compensate for, these elements in its programs and policies.

With regard to the Advisory Committee's suggestions, we strongly recommend that Ex-Im Bank concentrate on addressing certain key issues as described in the Report. These include: (1) Reviewing, revising, and enhancing where necessary, the Bank's key programs and policies related to tied aid, co-financing, local currency financing, and the Bank's attitude toward risk assumption; (2) Continuing to strive for excellence in customer service, particularly in the areas of transparency and efficiency to ensure that expectations are properly managed and timeliness in case processing works to the exporter's advantage; (3) Continuing to track the international landscape for emerging trends and issues so that Ex-Im Bank is aware of, and is in the best possible position to address, new competitive factors as quickly and effectively as possible; and (4) Developing and implementing an effective strategy that offsets the potentially negative impact of predatory official export credit financing from the Chinese ECAs. Annual support from China's ECAs passed U.S. levels for the first time in 2005 and is likely to quadruple U.S. export credit support levels by 2010. To remain relevant, the Bank needs to not only study the changing landscape, but be prepared to act as well.

To conclude, the Advisory Committee appreciates the candor of the 2005 Annual Competitiveness Report to Congress. Most Advisory Committee members believe that it presents a balanced and objective assessment of the state of Ex-Im Bank's position in the ECA world. The challenges that Ex-Im Bank is and will be facing are becoming more complex and require a serious, thoughtful and concerted effort to directly and effectively address them. Clearly, Ex-Im Bank is still very much needed in the marketplace. However, there is growing concern that, unless Ex-Im Bank soon resolves whether/how to incorporate, or compensate for, the myriad of global competitive challenges, Ex-Im Bank's historical value-added will wither in the heat of intense competition.


Stephen G. Canton
Chairman

2006 Ex-Im Bank Advisory Committee

2005 Competitiveness Report

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Executive Summary

Overview

The 2005 Competitiveness Report provides a comprehensive evaluation of the competitiveness of the Export-Import Bank of the United States (Ex-Im Bank) in its medium- and long-term programs during calendar year 2005. This evaluation is based on information gathered from a variety of sources, including a survey of, and focus group discussions with, exporters and lenders. The assessment also uses data from sources such as the Organization for Economic Cooperation and Development (OECD), the G-7 export credit agencies (ECAs), and selected non-OECD export credit agencies in reaching its conclusions.

The format and content has changed slightly from previous reports. This year's report is divided into three parts. As in the past few years, it retains the grading of the Bank's core programs and policies, that are discussed in Part I. A new section, which is devoted to emerging issues, appears in Part II. The appendices that appeared in previous reports follow in Part III.

Major trends that the Report identified in 2005 include:

- Globalization and economic growth in emerging markets are creating powerful change in the sources of export financing, reducing the role of ECAs.
- Emerging economies are increasingly becoming suppliers of capital goods. China's exports of capital goods, in particular, have grown by over three-fold since 2000. This trend is leading some emerging countries to become important suppliers of official export credits.
- Traditional ECAs are becoming more flexible and focusing on supporting exports "made by vs. made in" which is adding a new competitive dimension. Also, ECAs are redefining their mission and how they do business—in many ways behaving like private sector entities.

Emerging Issues

For the 2005 Report, a new part has been devoted to identifying emerging issues in the traditional ECA business. This part includes a chapter relating to changes in how ECAs are doing business (Commercialization of the ECAs) and another chapter that continues last year's introduction of three emerging market ECAs, by focusing on the policy objectives and program details of the largest of these economies: China. The purpose of this part is to provide an early look at the developments that may have a significant impact on Ex-Im Bank's competitiveness in the future.

Figure 1: Definition of Grades

Grade	Definition
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.
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.
A-/B+	Level of competitiveness is in between grades A and B.
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.
B-/C+	Level of competitiveness is in between grades B and C.
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.
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.
F	Does not provide program (Note: The Exporter and Lender Survey included a grade of "F" in the event no Ex-Im Bank program was available.)
NA	Does not have experience with policy/program.

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 2005.

Scope

This report compares Ex-Im Bank's competitiveness with that of the other G-7 ECAs, as these ECAs historically have accounted for roughly 80% of medium- and long-term official export finance. In addition, the Competitiveness Report focuses on medium- and long-term export credits, which comprise the bulk of official export finance and therefore are subject to the most intense international competition. Finally, Ex-Im Bank is one of only a few official ECAs that continues to provide short-term financing. Hence, any comparison would be extremely limited. Quantitative comparisons and information on each of the G-7 ECAs can be found in Chapter 2.

Methodology

Using 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. The intention of this approach is to individually evaluate the essential components of an Ex-Im Bank financial program and to compare these results with the capabilities of our 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 our 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 them 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 our ECA counterparts.

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

information provided by the survey of the U.S. exporting 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 in competition supported by official export finance during the last calendar year. Ex-Im Bank revised its survey in 2003 to mirror the grading methodology adopted in the 2002 Competitiveness Report. This provided 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 were asked to note whether certain public policies had a positive or negative impact on the Bank's competitiveness. After each section, recipients had space to provide qualitative comments on each of their responses. Finally, for the third year, the Bank expanded its distribution mechanism by sending the survey to recipients over the internet with the capability of respondents to complete and return the survey in the same manner. Recipients could also complete and return the survey either by mail or facsimile if the internet option was not available or desirable. By using the internet distribution, Ex-Im Bank has tried 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 conducted a careful process to evaluate the quality of each survey response. Some specific responses were discarded if a respondent graded a program with which it clearly had no – and was not trying to get -- experience (the large aircraft and project finance questions were the areas where this most frequently occurred). Additional responses were discarded if they were based on something other than a comparison of Ex-Im Bank's medium- and long-term programs with those of other ECAs. Appendix C provides specific information regarding the survey.

Focus Groups

In addition to the annual survey of the export community, this year's report also incorporates the results from two focus group discussions – one with commercial lenders and another with exporters. The focus groups provided a venue for members of the export community to supplement their survey responses with anecdotal experience, as well as more comprehensive information on market trends. The results of these discussions are included in the “exporter and lender survey results” section of each chapter.

Structure of the Report

This year's report has adopted a different organizational and presentational structure. This new format is intended to provide a concise assessment of Ex-Im Bank's competitiveness on the standard specific program features in Part I. (core business policies and practices, major program structures, economic philosophy and competitiveness, and public policies). In addition, a new section has been added: Part II, which identifies several key emerging issues which, when taken together and combined with the findings of Part I, yields a broader, more comprehensive vision of the present, and a possible predictor of the future.

Incorporated in the new Part II, and as a follow-up to the Emerging Market ECAs section that was presented in last year's Competitiveness Report (as Appendix F), Ex-Im Bank has included a report that focuses exclusively on the Chinese ECAs (The Export-Import Bank of China, Sinosure and the China Development Bank) and provides a more detailed view of the Chinese export promotion strategies and the roles these various government financing entities are playing to support the country's overall objectives. Given the growing prominence of the Chinese ECAs, this presentation has been moved from an Appendix to an independent "in the body of the report" chapter.

Report

The Report proceeds as follows: Part I describes the international framework within which official ECAs operated in 2005 and the philosophies and missions of competing G-7 ECAs. In Part I, Chapters 3 – 6 consists of separate sections evaluating Ex-Im Bank's competitiveness in the core financing elements of official export credit support. Next, the report provides a comparative assessment of how well the financing elements are packaged into major programs (i.e., aircraft, project finance, co-financing and the foreign currency guarantee). Further, the evaluation of competitiveness addresses U.S. economic philosophy and competitiveness regarding tied and untied aid and market windows. Finally, the report evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity.

Part II is entitled "Emerging Issues" and contains chapters regarding the Commercialization of ECAs and its components followed by a chapter that focuses on the Chinese ECAs. The Executive Summary which precedes Part I provides an overview of the major findings of the Report, incorporating the standard features with the Emerging Issues, with an overall competitiveness report card grading Ex-Im Bank against its G-7 ECA counterparts. The appendices follow the body of the Report, and include a list of the purposes for Ex-Im Bank support, Ex-Im Bank efforts to support renewable energy, and other materials intended to provide greater detail and insights.

Chapter 2: Competitiveness Framework

Section A: Factors Influencing Export Finance

Introduction

This chapter describes the world in which export credit agencies (ECAs) operate. ECAs are facing a dramatic shift in how trade and business in general is being conducted, driven largely by continuing globalization and robust growth in a number of emerging markets. Further, the world-wide business climate, especially in certain key emerging markets is affecting the nature and levels of financing from multiple non-ECA sources, which in turn affects the nature and level of demand for ECA export credit support, and how individual ECAs respond to these shifts.

International

Figure 2: World Exports of Goods and Capital Goods (\$Bn)

	2000	2001	2002	2003	2004	2005
Exports of Goods						
World	\$6,447	\$6,186	\$6,481	\$7,546	\$9,124	\$10,145
OECD	\$4,264	\$4,104	\$4,245	\$4,885	\$5,766	\$6,095
Rest of World	\$2,183	\$2,082	\$2,236	\$2,661	\$3,358	\$4,051
Exports of Capital Goods						
World	\$2,626	\$2,474	\$2,560	\$2,894	\$3,474	\$3,855*
OECD	\$2,015	\$1,896	\$1,919	\$2,147	\$2,504	\$2,737*
Rest of World	\$611	\$578	\$641	\$747	\$969	\$1,118*
OECD Exports as % of World Exports						
Goods	66%	66%	65%	65%	63%	60%*
Capital Goods	77%	77%	75%	74%	72%	71%*

Source: WTO On-line Statistics Database

* Preliminary

Figure 2 shows the growth in global trade of goods over the last five years, as worldwide trade has increased in every year except 2001. While trade in goods has increased in nearly every year for the OECD countries, the rest of the world has been taking an increasing share of worldwide trade in goods (shown by the decreasing percentage of OECD exports as a share of world exports). For example, in 2000, the OECD accounted for 66% of all trade in goods. However, in 2005, OECD countries accounted for an estimated 60% of all goods trade.

A similar trend with regard to OECD capital goods exports appears to be occurring as well, with the OECD capital goods exports share of total world capital goods exports going steadily downward from a high in 2000 of 77% to an estimated 71% in 2005. This trend is important because it shows the emergence of the developing economies

in gaining the know-how and the equipment that produces goods—which at one time was the province of the developed countries. Indeed, the exports of capital goods from Brazil, China and India have nearly doubled over the last five years. China’s exports of capital goods, in particular, have grown by nearly three-fold from \$82.6 billion in 2000 to \$268.3 billion in 2004 (and an estimated \$350 billion in 2005).

Export Financing Trends

Figure 3 shows that G-7 new Medium and Long term official export credit volumes increased during 2005 as compared to 2004 using estimated data.

Figure 3: G-7 New Medium- and Long-Term Official Export Credit Volumes (\$Bn)

	2000	2001	2002	2003	2004	2005*
Canada	\$4.7	\$8.7	\$8.4	\$8.1	\$8.6	\$9.9
France	\$4.5	\$6.1	\$5.3	\$5.1	\$7.9	\$9.8
Germany	\$10.3	\$5.7	\$5.9	\$5.7	\$9.5	\$11.3
Italy	\$3.3	\$1.9	\$1.8	\$3.6	\$5.5	\$6.8
Japan	\$10.8	\$9.2	\$5.7	\$11.5	\$10.8	\$9.5
U.K.	\$5.8	\$3.1	\$4.7	\$3.7	\$5.3	\$3.7
U.S.	\$9.6	\$6.8	\$7.7	\$8.6	\$8.8	\$8.7
<i>Total G-7</i>	\$49.0	\$41.5	\$39.5	\$46.3	\$56.4	\$59.7
U.S. % G-7	19.6%	16.4%	19.5%	18.6%	15.6%	14.6%

Source: 2000 through 2004, OECD Statistics on Export Credit Activity. 2005, *Estimated from publicly available sources.

On the other hand, during the same time period, the levels of private capital flows to emerging markets have also risen.

Figure 4: Private Capital Flows into Emerging Markets (\$Bn)

	2000	2001	2002	2003	2004	2005
Private Lending	\$ 38.1	-\$17.9	\$1.6	\$94.0	\$147.2	\$180.0
Investment	\$161.9	\$148.4	\$118.8	\$134.7	\$182.1	\$219.6
Direct	\$144.6	\$139.9	\$117.7	\$97.6	\$143.8	\$157.9
Portfolio	\$ 17.3	\$8.5	\$1.1	\$37.1	\$38.3	\$61.7
Total	\$200.0	\$130.5	\$120.4	\$228.7	\$329.3	\$399.6

Source: Institute of International Finance, “Capital Flows to Emerging Market Economies”, March 2006.

As shown in **Figure 4**, a significant factor impacting ECA activity levels during 2005 was the high degree of private sector involvement with respect to emerging markets, with private capital flows reaching an all-time high of \$400 billion compared to the

previous high of \$329 billion in 2004. In fact, overall capital flows to the emerging markets as a percentage of their GDP are four times greater than net official aid flows.

The overall increase in private capital flows to the emerging markets stems from a number of factors. Specifically, greater overall stability, ongoing structural reforms (legal, banking, regulatory), higher than normal liquidity including local currency financing, lower world-wide interest rates and the pursuit of higher yields, and strong economic fundamentals have together served to create a highly favorable climate.

Trends in 2005: Focus Group Discussions

Both the lender and exporter focus groups identified very similar trends during 2005 that they believed impacted their ability to successfully conclude export transactions vis-à-vis their foreign competition. The essence of the discussions was a perception that – compared to Ex-Im Bank -- the major G-7 ECAs have much greater autonomy and flexibility to work with their respective exporting communities in a streamlined and effective way. Moreover, there also exists a broad and mutual understanding regarding, and willingness to cooperate on practices and transactions, that leads toward a common goal by all parties involved, both private and public.

A key trend has been the rise in the number of multi-sourced transactions among competitor countries in which a single “consortium” contract with the buyer is possible but with capital goods being sourced from two to four and sometimes five markets. Further, both groups acknowledged having observed a shift in a number of ECAs’ flexibility and focus on supporting exports “made by vs. made in” and that this new dimension seems to be adding yet another competitive factor to the landscape.

Market Overview

2005 was a year of significant growth in the emerging markets with China, Brazil, India, and Russia commanding much of the attention as these countries’ economic situations improved and the need for rehabilitation and/or creation of infrastructure projects dominating the scene. It was also noted that these countries are not only recipients of export credits from the major ECAs, they are also becoming more important players as providers of export credits, with China mentioned most often in the power, telecommunications, transportation/railways sectors. In addition, the need for traditional export credits was supplanted by an abundance of private and local financing in these markets, whereas the need for ECA participation was more concentrated in the higher risk markets.

Chapter 2: Competitiveness Framework

Section B: ECAs' Mission and Place in Government

The Role of Export Credit Agencies

The central purpose of an export credit agency (ECA) has been to finance domestic exports, and there are numerous ways for an ECA to accomplish its mission. There are two influences on how an ECA will set its strategy to meet its purpose. The first influence is the OECD Arrangement, which sets the most favorable terms and conditions that may be offered for official export credit support. Within these multilateral rules, or parameters, individual ECAs have latitude to pursue their own national policies in support of their country's exports. The second influence is the ECA's mission as defined by its sponsoring government, which also impacts an ECA's ability to adapt to changing market circumstances. Both of these factors affect how ECAs will compete with each other in promoting their respective governments' national interests.

Ex-Im Bank's Mission and Place in Government

Ex-Im Bank is the official U.S. government export credit agency. Ex-Im Bank's mission and governing mandates are codified in its Congressionally approved Charter (Export-Import Bank Act of 1945, as amended). Ex-Im Bank's core mission is to support U.S. exports and jobs by providing export financing that is competitive with the official export financing support offered by other governments. The public policy goal of this mandate is to enable 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 mandate effectively directs Ex-Im Bank to fill market gaps that the private sector is not willing or able to meet, namely competitive financing (e.g., interest rates and repayment terms) and the ability to assume 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 of these directives aim to achieve a public policy goal and reflect the interests of Ex-Im Bank stakeholders, such as NGOs, other U.S. government agencies, labor and financial intermediaries. Hence, Ex-Im Bank is required to strike a fine balance among 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 our foreign government counterparts – institutions that most often have fewer public policy constraints to evaluate when deciding whether to provide financing support. Given the G-7 ECAs' widely varying missions, the formula with which to compare Ex-Im Bank's competitiveness against these ECA counterparts is neither simple nor direct.

Chapter 3: Core Business Policies and Practices

Section A: Cover Policy and Risk-Taking

Introduction

As OECD Arrangement negotiations have leveled the playing field in most technical areas such as interest rates, fees and repayment terms, the willingness of a particular ECA to take a variety of risks across a broad spectrum of countries has become a critical competitive aspect of an ECA's product offering. An ECA's willingness to provide risk support in a particular market is generally referred to as "cover policy." The extent to which an ECA has a relatively liberal or restrictive cover policy can have a significant impact on an exporter's ability to provide financing support in their target markets: if the ECA is not open to providing cover in the exporter's market, the exporter may be unable to offer a competitive sales and financing package. ECAs determine cover policy by assessing the degree of political and commercial risk in a market and then adjusting the extent of their appetite for such risk consistent with their underwriting approach. The tools for that calibration include parameters such as transaction size limits, repayment term limits, and/or volume limits.

ECAs further refine the availability of their support by adjusting their cover policy depending on the type of borrower risk they are being asked to assume. For example, in some markets an ECA may be comfortable with the risks of the banking sector, but not comfortable to the same degree with the risks of corporate borrowers. Therefore, the ECA would have a cover policy that required a commercial bank guarantee for all corporate borrowers. As the pace of privatization in the developing world accelerates, ECAs are increasingly being asked to cover non-sovereign borrower risk.

Ex-Im Bank's Policy and Practice

Ex-Im Bank generally will support transactions without limitation as long as there is a reasonable assurance of repayment for each transaction as required by Ex-Im Bank's Charter. One key exception to that requirement occurs when Ex-Im Bank is statutorily prohibited from doing business in a particular market, generally as a result of official sanctions. In 2005, Ex-Im Bank was legally prohibited from providing support in nine countries (Cambodia, Cuba, Iran, N. Korea, Laos, Libya, Myanmar, Sudan, and Syria).

Statutory prohibitions excepted, Ex-Im Bank's restriction on provision of cover in a given market pertains to the creditworthiness of a transaction, not portfolio controls. Thus, U.S. exporters and lenders enjoy a competitive benefit from the absence of country and sector ceilings on Ex-Im Bank's cover policy. Further, Ex-Im Bank is generally open in more markets with fewer restrictions than most other ECAs. For example, Ex-Im Bank is open without restriction (or with limited restrictions) in 60% of the applicable countries.

In its willingness to take risk in a broad range of countries, Ex-Im Bank is one of the most aggressive and shares this “title” with several of the other ECAs.

G-7 ECAs’ Policies and Practices

Historically, Ex-Im Bank has been highly competitive in its willingness to take risk across a broad spectrum of borrowers and countries. In recent years, however, this competitive advantage has begun to erode, both in terms of the extent to which Ex-Im Bank is open in important markets and in the willingness of Ex-Im Bank to take private sector risks.

In 2004 and 2005, a number of our G-7 competitors attained rough comparability in terms of the general availability of cover, with one ECA taking the lead as the least restrictive ECA. Moreover, most of the G-7 ECAs were open with no or limited restrictions in several key markets in which Ex-Im Bank was closed or heavily restricted. In addition to Iran and Libya¹ in which Ex-Im Bank was closed for statutory reasons, other ECAs were open in Algeria, Pakistan, and Venezuela, while Ex-Im Bank was closed for at least part of the year. (Ex-Im Bank opened in Pakistan in March of 2005 and in Algeria in September of 2005). Several of these markets are among the most active markets for the G-7 ECAs, including Algeria, Iran and Venezuela.

Another area where Ex-Im Bank has historically shown a greater willingness and ability to take risk has been with private obligors. However, whether by number of transactions or by total amount financed, three G-7 ECAs are actively taking the risk of private obligors, and can be considered to have “caught up” with Ex-Im Bank in this area.

The one area where the other G-7 ECAs have not yet gained on Ex-Im Bank is in the extent to which ECAs are willing to take the risk of average and small-sized corporate borrowers. Further dividing the private sector borrowers into three categories – bank guaranteed and large corporates, average-sized corporates, and small corporate borrowers – yields insight into the extent to which ECAs are willing to take the higher risk of smaller private sector borrowers. Of the four G-7 ECAs that take a significant amount of private sector risk, Ex-Im Bank is the only ECA that predominately takes the risk of small corporate borrowers. Nonetheless, 2 of the 3 other G-7 ECAs are actively taking the risk of average-sized corporate borrowers.

Exporter and Lender Survey Results

In 2005, the exporters and lenders focused their comments on their perception that Ex-Im Bank has become relatively (to previous years and some other ECAs) more “risk averse” with respect to country risk and, to a certain extent, borrower risk. The data shows that several other ECAs are making significant strides in this area and the

¹ Ex-Im Bank opened for cover in Libya on March 23, 2006, which was outside the scope of this 2005 Report.

exporters and lenders are concerned that Ex-Im Bank is not committed to maintaining this competitive advantage.

Conclusion

As illustrated, Ex-Im Bank's overall competitive dominance in cover policy among the G-7 ECAs has diminished somewhat as: (a) many of the other ECAs have closed the gap on taking country risk; and (b) some are closing the gap on taking borrower risk. The net outcome is that Ex-Im Bank is generally competitive in its cover policy.

Chapter 3: Core Business Policies and Practices

Section B: Interest Rates

Introduction

The interest rate charged to the buyer is one of the most important components of an export finance contract's competitiveness. The OECD Arrangement sets minimum fixed interest rates for export transactions that receive official financing support in the form of direct loans or an interest rate makeup program (IMU) in order to ensure a level playing field for all ECAs. These minimum interest rates, or Commercial Interest Reference Rates (CIRRs), are fixed, market-related rates that are calculated using a government's borrowing costs plus a spread of 100 basis points and are set for each currency based on the borrowing costs of the government that issues the currency. All contracts offering financing in this currency should utilize the same CIRR rate. Consistent with the trend identified in 2004, the attractiveness of fixed rate official financing support in 2005 declined in favor of pure cover (e.g., insurance or guarantee) where private lenders set their own interest rates, generally on a floating rate basis.

Ex-Im Bank's Policy and Practice

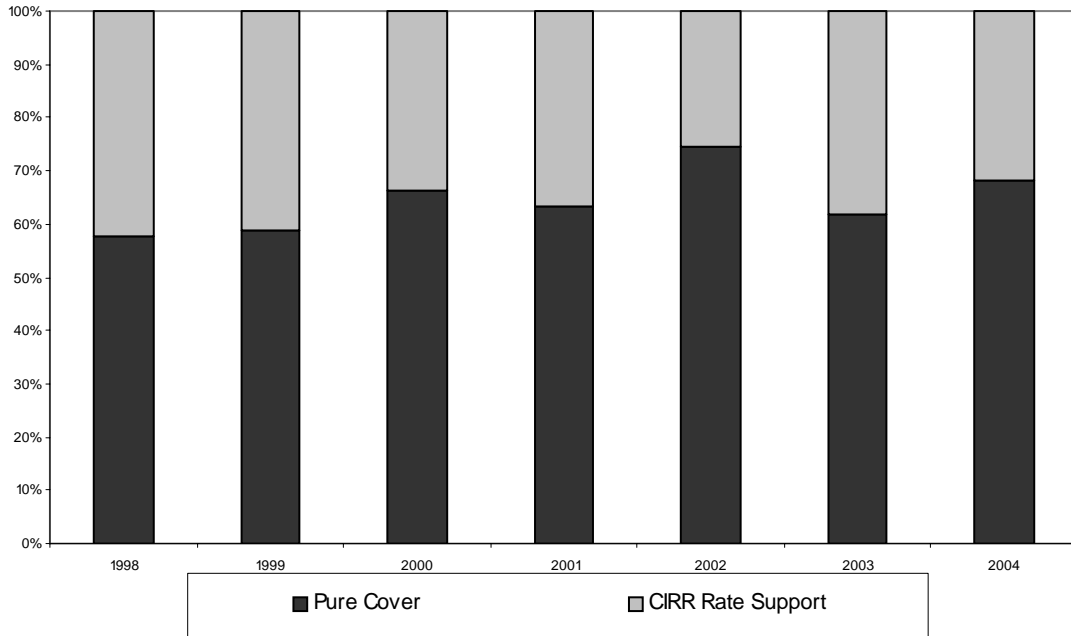
Ex-Im Bank sets its fixed interest rate CIRR monthly using the CIRR procedures outlined in the OECD Arrangement. In fiscal year 2005, Ex-Im Bank did not authorize any direct loans under the direct loan program. Because of the attractiveness and flexibility of Ex-Im Bank's guarantee and insurance programs and the relatively lower floating rate achieved by private lenders in the market, all buyers preferred this option to direct loans.

G-7 ECAs' Policies and Practices

All G-7 ECAs offer both fixed (CIRR support) and floating (pure cover) rate financing. There is no competition between the G-7 ECAs on standard fixed rate financing because the rates are uniform. However, there is some variability in the rates offered under floating rate financing that is attributable both to the quality of the cover and market movements (floating interest rates change constantly based on investor appetite and availability of funds in the market). For example, Ex-Im Bank's pure cover products are generally attractive due to the fact that they cover 100% of all risks, thus leading to lower interest rates charged by the private lenders. On the other hand, some of the G-7 ECAs cover only 90 or 95% of the risks, thus leading to higher interest rates charged by the private lenders as the means to compensate for their risk retention. Overall, the trend in 2005 for the G-7 ECAs was towards an increasing use of floating rate financing as compared to fixed rate financing due to the ability of private lenders to find

innovative techniques to reduce the interest rates charged to the buyers (shown in Figure 5).

Figure 5: Long-Term Export Credits by Type of Credit (all OECD member states)*



Exporter and Lender Survey Results

None of the survey respondents, or any of Ex-Im Bank’s customers, used the Direct Loan program in 2005. Instead, the exporting community used the insurance and/or guarantee products, which generate better rates on a floating rate basis.

Conclusion

Consistent with previous years’ results, competition between G-7 ECAs on the basis of interest rates was not a significant factor in 2005 due to the OECD mandated floors. Additionally, there is an ever-increasing preference among the exporting community for the insurance and guarantee products, which generate lower interest rates for the borrowers. Overall, Ex-Im Bank is generally competitive in the area of interest rates as compared to other G-7 ECAs.

* Source: 2004 Report on Export Credit Activities. TD/ECG(2005)13.

Chapter 3: Core Business Policies and Practices

Section C: Risk Premia

Introduction

Risk premia, or exposure fees, are charged by Export Credit Agencies (ECAs) as compensation for the risk they assume when they lend directly, guarantee or insure a loan. In 1999, the OECD adopted the Knaepen Package which defined the elements for the determination of sovereign fees and set Minimum Premium Rates (MPR) for sovereign transactions. Those rates also serve as the floor in determining the fees for non-sovereign transactions.

Several factors influence the level of the MPR. These factors are the percentage of cover, the quality of the product (i.e. unconditional guarantee vs. conditional insurance) and the claims payment policy. The latter two factors determine whether a product is considered “above standard,” “standard” or “below standard.” Because they provide different degrees of cover and have different claims payment policies, the three types of products are priced differently with “above standard” being the most expensive and “below standard” the least expensive. The surcharges/discounts that correspond to each of the three products ensure a level playing field among the different ECAs and are known as the “related conditions surcharges” at the OECD. There are also surcharges/discounts that are applied when the cover differs from the 95% level. 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%. The Knaepen Package establishes only a floor for the fees ECAs may charge. Each ECA may add other surcharges to the MPR according to their 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 similar to the one used by credit rating agencies to arrive at a particular rating for each borrower. If the borrower is rated the same as or better than the sovereign, then the applicable fee will be the MPR. If the borrower is rated worse than the sovereign, an incremental surcharge is added to the MPR.

G-7 ECAs’ Policies and Practices

The G-7 ECAs generally charge the MPR for sovereign transactions. However, with regard to non-sovereign transactions, there are fairly significant differences in both the risk rating methodologies and pricing by the G-7 ECAs which leads to

a divergence in the fees charged for this borrower class. Many of those differences stem from different underwriting processes, as well as different claims experience, that lead to different ratings and differences in pricing for the same borrower.

Exporter and Lender Survey Results

Exporters and lenders are generally satisfied with the premia Ex-Im Bank charges.

Conclusion

Although the introduction of the Knaepen package in 1999 provided all OECD members with access to a level playing field on premium, differences in underlying financial goals have led several ECAs to treat the minimum premium more as a reference point (to which significant surcharges are applied for any type of non-sovereign risk) than as a benchmark. As Ex-Im Bank's very healthy financial situation is strongly supported by the MPR, Ex-Im Bank has historically priced at or near the MPR for a majority of cases. Hence, again in 2005, Ex-Im Bank rates as fully competitive on risk premia.

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 an "A", generally competitive, meaning that Ex-Im Bank consistently offered terms that were equal to the average terms offered by the typical ECA such that the core programs level the playing field with the standard ECA offer. **Figure 6** illustrates how Ex-Im Bank fared competitively on sub-elements of each program, in addition to an aggregate grade for each program. Of particular note is that no element received less than an A- and 1/3 of the elements received an A+. The grades are derived from both the survey results and the Bank's analysis of how it performs in comparison to its G-7 counterparts.

Figure 6: Grading of Ex-Im Bank's Core Competitiveness, 2005

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

Chapter 4: Comparison of Major Program Structures

Section A: Large Aircraft¹

Introduction

Since the early 1980s, Annex III of the OECD Arrangement called the Sector Understanding on Export Credits for Civil Aircraft (ASU) has embodied the guidelines that apply to ECA-supported aircraft financings. Designed to address an industry with significant economic and strategic importance within the United States and Europe, the ASU has generally facilitated a “level playing field” for the official OECD export credit agencies that support their domestic aircraft manufacturers. Despite significant changes in the aircraft manufacturing industry, the aircraft finance industry and the airline industry, these guidelines have not changed since they were first agreed. As a result, a concerted effort is currently underway at the OECD to update the ASU, which if successful, may have a significant impact on the activity of the ECAs that support aircraft exports.

The section of the ASU that pertains to large aircraft is known as the Large Aircraft Sector Understanding, or LASU. Today there are two primary producers of large aircraft in the world: Boeing in the United States and Airbus in Europe. Accordingly, the Participants that are active under the LASU are the United States and the European Union, which, in this context, represents the interests of France (Coface), Germany (Hermes) and the United Kingdom (ECGD), collectively known as the “Airbus ECAs”. The LASU sets a minimum cash payment of 15%, an interest rate structure for ECA direct loans and a maximum 12-year repayment term. In implementing the LASU, Ex-Im Bank and the Airbus ECAs have agreed not to provide support for large aircraft into those producer country markets that do not have a government supported import program (also known as “home market countries”, which currently includes the United States, France, Germany, the United Kingdom and, as a result of a separate agreement between the Airbus ECAs and Ex-Im Bank, Spain).

In recent years, both Embraer in Brazil and Bombardier in Canada have begun producing and delivering regional jets with more than 70 seats in addition to smaller aircraft. Neither Canada nor Brazil routinely follow or apply the ASU guidelines, in part because the Canadian ECA, EDC, believes it is not compelled to follow the OECD Arrangement when supporting aircraft through its market window, and in part because Brazil is not a member of the OECD. In 2004, the United States, the European Union, Canada and Brazil began discussions on revising the ASU.

¹ “Large aircraft” are defined as airplanes with 70 seats or more. Comparably sized aircraft configured for cargo operations also are included in the defined term “large aircraft”.

Ex-Im Bank's Policy and Practice

Ex-Im Bank supports large aircraft transactions through its guarantee loan program, in which the Bank provides a 100% unconditional payment guarantee of the repayment of principal plus interest at the contractual rate. In addition to U.S. dollar financings, Ex-Im Bank will also guarantee loans denominated in foreign currencies. In 2005, Ex-Im Bank guaranteed foreign currency loans for eight (8) aircraft transactions (please see **Chapter 4D** for further information on Ex-Im Bank's foreign currency guarantee program). Finally, during 2005, Ex-Im Bank co-financed four (4) large aircraft transactions with three different export credit agencies (ECGD of the United Kingdom, NEXI of Japan and KEXIM of Korea). Please see Chapter 4C for further information on Ex-Im Bank's co-financing of large aircraft.

In 2005, Ex-Im Bank extended its offer, through September 30, 2006, for airlines and aircraft operating lessors based in countries that adopt, ratify and implement the Cape Town Treaty (including certain optional provisions) (i) to reduce by one-third (1/3) Ex-Im Bank's exposure fee on asset-backed large aircraft transactions and (ii) to provide a longer repayment term and lower exposure fee on asset-backed spare engine transactions. The Cape Town Treaty is an international treaty that will facilitate asset-backed financing and leasing of aircraft and aircraft engines by reducing the risk in cross-border asset-backed aircraft financing. Ex-Im Bank believes the decrease in risk due to the improved legal environment resulting from the adoption and ratification of the Cape Town Treaty justifies the exposure fee reduction and/or the extended repayment term. Since Ex-Im Bank first adopted this initiative in 2003, airlines in Panama, Ethiopia, Pakistan, Oman and Senegal have qualified for improved financing terms with respect to the export of a total of 15 aircraft and 10 spare engines.

Airbus ECAs' Policies and Practices

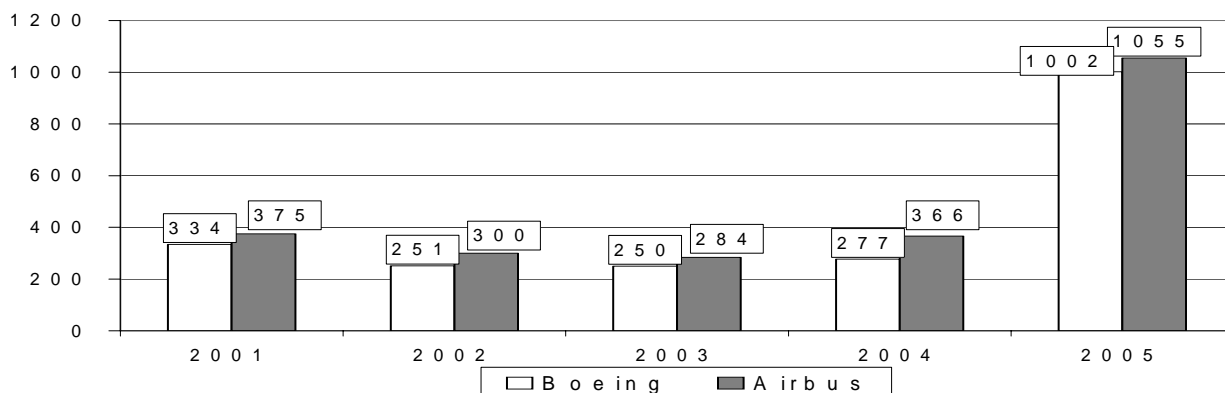
The Airbus ECAs provide support for large aircraft transactions that is very similar to that provided by Ex-Im Bank. Since 2003, all three of the Airbus ECAs offer a 100% unconditional guarantee for large aircraft financings and generally charge an upfront fee of at least 3%, as does Ex-Im Bank. Accordingly, the Airbus ECAs and Ex-Im Bank now compete on a basically "level playing field".

Summary Data

2005 was a significant year for orders of large aircraft, with both Boeing and Airbus dramatically increasing their orders over 2004 orders (see **Figure 7**). In fact, the total number of orders for large aircraft more than tripled from 2004 to 2005, with Airbus maintaining its slight advantage over Boeing in terms of number of aircraft ordered (but not in terms of value of aircraft ordered). Most of these orders were from airlines outside the United States, France, Germany and the United Kingdom and therefore will result in exports for either Boeing or Airbus. Due to an expected significant increase in air travel to, from and within China and India, a significant number of the orders for large aircraft

during 2005 were from airlines in China and India. 80% of Boeing's 2005 orders were to overseas buyers.

Figure 7: Orders of Large Commercial Jet Aircraft



As indicated in **Figure 8**, since 2001, exports (by number of aircraft deliveries) have accounted for a growing portion of the aircraft delivered by Boeing, exceeding 50% in each of 2003, 2004 and 2005. During the five-year period since 2001, the percentage of such exports supported by Ex-Im Bank has averaged 36% (ranging from a low of 27% in 2001 to a high of 44% in 2003).

Figure 8: Deliveries of Boeing Commercial Jet Aircraft

	2001		2002		2003		2004		2005		Total	
	#	%	#	%	#	%	#	%	#	%	#	%
Domestic	370	70%	199	52%	127	45%	142	50%	135	47%	973	55%
Foreign	157	30%	182	48%	154	55%	143	50%	155	53%	791	45%
Foreign supported by Ex-Im Bank	43	27%	72	40%	68	44%	53	37%	52	34%	288	36%
Total	527		381		281		285		290		1,963	

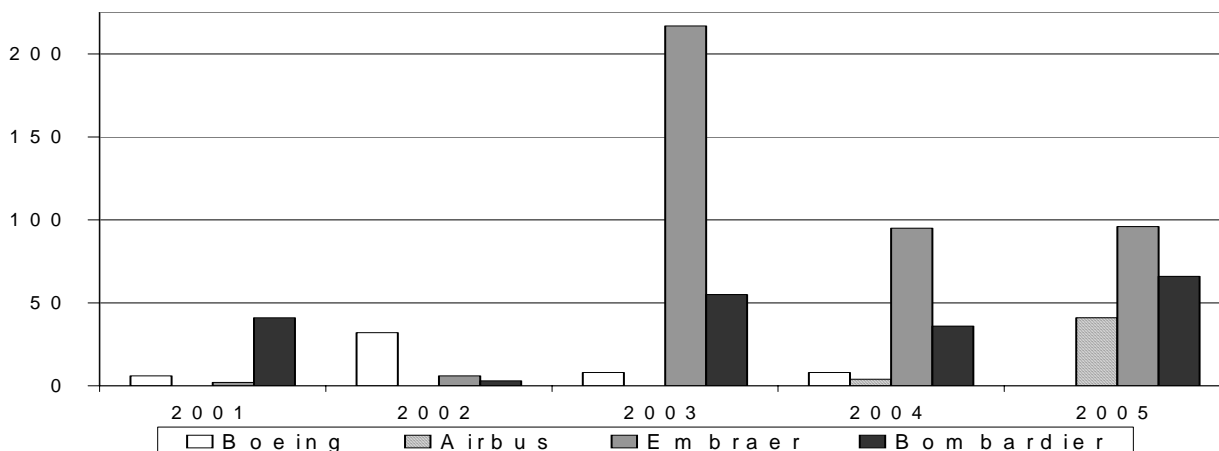
As previously noted, the regional jet manufacturers in Canada (Bombardier) and Brazil (Embraer) have recently begun producing large aircraft (i.e., regional jets with 70 or more seats). Although to date the primary market for the smaller regional jets manufactured by Bombardier and Embraer has been U.S.-based airlines, the larger regional aircraft manufactured by Bombardier and Embraer are expected to appeal to a much more geographically diverse group of airlines. Both regional jet manufacturers have received orders for their larger regional jets from European based airlines, as well as from airlines

in Asia, South America, Africa and the Middle East. This is because some of the same factors that caused U.S.-based airlines to acquire small regional jets (i.e., bringing passengers from smaller cities to hub airports and more point-to-point flights between smaller city pairs) apply to airlines outside the United States. However, because many foreign airlines do not have “scope clauses” in their pilots’ contracts (which limited the size of the regional jets that could be acquired by U.S.-based airlines), foreign airlines are expected to be more interested in acquiring the larger regional jets. While the largest regional jets available today still do not generally compete with the smallest commercial aircraft sold by Boeing and Airbus, occasionally there is competition among manufacturers of large aircraft and manufacturers of regional jets. As a result, in the future, in some sales campaigns, it is possible that all four aircraft manufactures will be competing for the same order as the large regional jets will be competing with the smallest U.S. and European manufactured large aircraft. **Figure 9** indicates the aircraft models that could generate such competition, and **Figure 10** shows orders for these aircraft.

Figure 9: Aircraft Models That May Result in Four-way Competition, 2005

Manufacturer	Model	Seats	Maximum Range (nautical miles)
Boeing	B-737-600	110 - 145	3,050 nm
Boeing	B-717 ²	106 - 125	2,060 nm
Airbus	A-318	107 - 129	2,850 nm
Embraer	ERJ-190/195	94 - 106	2,200 nm
Embraer	ERJ-170/175	70 - 86	2,000 nm
Bombardier	CRJ-900 ³	86 - 90	1,798 nm
Bombardier	CRJ-700	70 - 75	2,000 nm

Figure 10: Orders of 70–130 Seat Jet Aircraft



² Production scheduled to end 2006.

³ In early 2006, Bombardier announced that it would postpone production of the CSeries, a proposed new aircraft with 110-130 seats. Instead, Bombardier will devote resources to its turboprop aircraft and possibly explore enhancements to its existing family of large regional aircraft or developing a new aircraft in the 80-100 seat range.

Exporter and Lender Survey Results

Exporters and lenders find Ex-Im Bank's aircraft finance program to be very competitive.

Conclusion

Ex-Im Bank's aircraft financing support continues to be competitive with the financing offers provided by the Airbus ECAs. Exposure fees, foreign currency guarantees, co-financing, and an aggressive risk posture all contribute to this assessment. The U.S. exporting community believed that Ex-Im Bank remained very supportive of U.S. aircraft exports during 2005.

Chapter 4: Comparison of Major Program Structures

Section B: Project Finance

Introduction

Project Finance (or limited recourse project finance) is one of the major programs offered by Ex-Im Bank. Under this program structure, the lender has recourse only to the assets and revenue generated by the borrower (i.e., covered project), and cannot access the assets nor the revenue of the project sponsor to repay the debt. This structure normally covers relatively large, long-term infrastructure and industrial projects that benefit from ECA support because financing terms in the private market (e.g. commercial banks) are often unavailable or unfavorable due to the risk associated with such projects in developing countries and the longer repayment period required to make these projects economically feasible.

Private lenders often insist on ECA participation in project finance (PF) transactions in order to share the risk with OECD government-backed ECAs. ECAs are an important aspect of PF transactions, as they bring value to the negotiation process between the PF lending consortium and the foreign buyer's government, and throughout the debt repayment period. Many private lenders are unwilling to assume a project's risk without ECA support. Therefore, ECAs occupy a special niche in the field of project finance as an enhancer to a transaction, especially in developing countries. **Figure 11** shows the relative importance of ECA project finance support in developing countries, where – based on dollar volume – ECA participation represents approximately 10% of all PF loans, as opposed to developed countries where ECA supported PF loans constitute less than 1% of total PF loans.

Despite their added value to PF transactions, with increasing commercial bank and other liquidity sources in the market, ECAs have seen a decrease in the total dollar volume of the financing requests over the past years. (**Figure 11**¹ shows the dominance of non-ECA financing in both developed countries (99.6% of total PF financing) and developing countries (89.7%) However, the number of requests to ECAs for PF support has remained constant due to the desire of private lenders to benefit from the inclusion of ECAs in sharing the risk in these transactions.

¹ Source: Project Finance International, January 2006. (Note: The ECA project finance deals identified are as reported by the OECD ECAs and may not include all ECA project finance deals completed in 2005. The total volume of project finance deals comes from the Project Finance International and includes also brown-field projects and refinancing deals).

Figure 11: Distribution of PF Loans by Level of Development and Share of Total Market (in million \$US), 2005

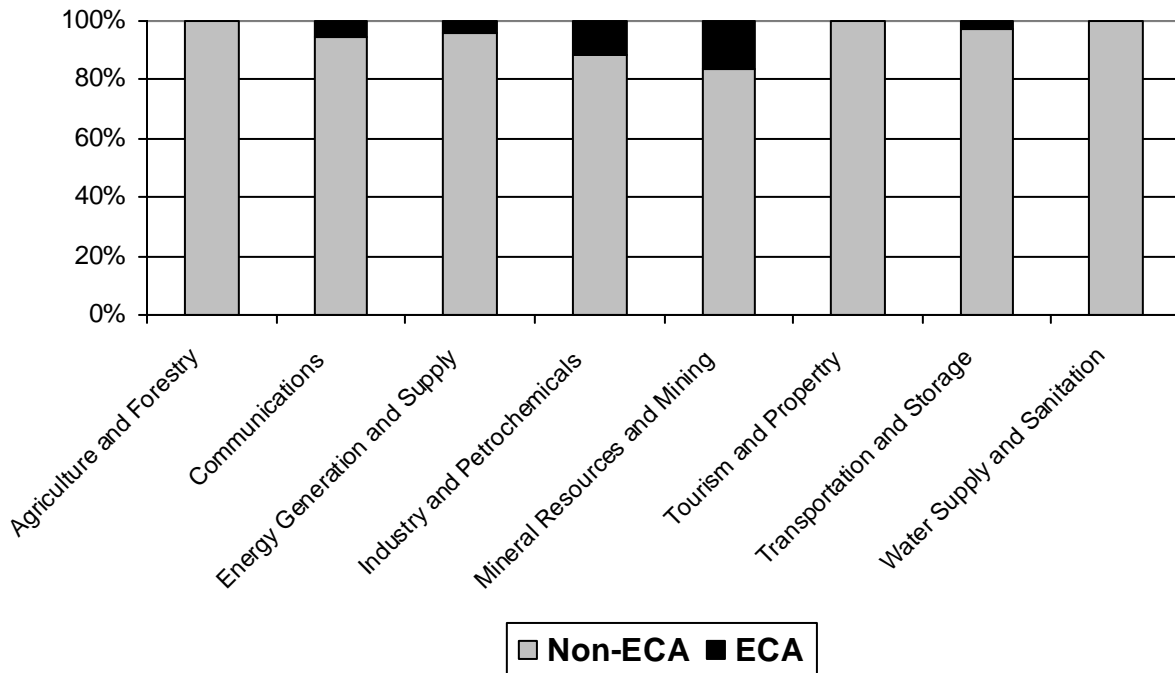
	Other OECD ECAs	US Ex-Im	All ECAs	Non-ECA	Total
Developed countries	\$304.5	\$0.0	\$304.5 (less than .4% of DC)	\$85,378.0 (99.6%)	\$85,682.5 (100%)
Developing countries	\$4,727.0 (84% of ECAs)	\$928.0 (16% of ECAs)	\$5,655.0 (10% of total DC)	\$48,968.3 (89.7%)	\$54,623.3 (100%)

Ex-Im Bank's Policy and Practice

Ex-Im Bank's project finance program was created in 1994. In the developing countries that represent Ex-Im Bank's traditional markets, Ex-Im Bank is an important player. Out of the total OECD ECA support for project finance in 2005 (\$5.655 bn), Ex-Im Bank's share accounted for 16% of total dollars in developing countries. **(See Figure 11).**

While ECA support in PF transactions is relatively small overall, it does have a more important role to PF transactions to particular industries, which is the reason why Ex-Im Bank support is continuously sought. **(See Figure 12).** In particular, the petrochemicals and mineral resources/mining industrial sectors use a relatively larger share of ECA backed PF support than the other six major industry categories.

Figure 12: Distribution of PF Loans by Sector, 2005



Overall, there are five main factors that characterize Ex-Im Bank’s competitive posture in project finance. Those include: (1) 100% (of 85% of the US 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 on Officially Supported Export Credits with respect to pricing and repayment terms, (3) financing of local costs (up to 15% of total financing), (4) availability for capitalization of interest during construction and, (5) Ex-Im Bank’s commercial approach to project analysis and risk mitigation.

G-7 ECAs’ Policies and Practices

G-7 ECAs offer similar coverage for project finance transaction with some differences in the quality of the coverage. For example, Ex-Im Bank and ECGD provide unconditional guarantees, EDC and JBIC provide direct loans, and the other four G-7 ECAs provide conditional insurance. While Ex-Im Bank provides a 100% unconditional guarantee cover for political and commercial risks, other ECAs provide less than 100% cover. Insurer ECAs generally provide 90% to 95% cover of the political and commercial risks. (Note: SACE now provides 100% cover insurance product on a case-by-case basis.) Included in all the ECAs’ cover is support for local costs up to the amount of the down payment (typically 15%) and cover for capitalized interest that accrues during the construction period.

In 2005, the total dollar volume (\$2.42 billion) of project finance deals notified (as required by the OECD Agreement for project finance deals that apply certain modifications to the standard repayment structure) was lower than in 2004 (\$2.85 billion). However, the total number of project finance deals notified has remained unchanged from 2004 (20). This is a reflection of the increase in market liquidity, which has led to a decrease in the dollar volume of financing requests made to ECAs.

Exporter and Lender Survey Results

Of the survey respondents who had experience with Ex-Im Bank's project finance program in 2005, the reviews were more mixed than in previous years, but with most offering highly positive comments. However several respondents noted the need for faster response times, more flexibility and more effective eligibility criteria. On balance, the project finance program was rated highly.

Conclusion

Despite decreasing dollar volumes in ECA-backed PF transactions, ECAs still play a valuable role in terms of enhancing PF negotiations with their governmental status and their relative importance to particular industries. With regard to Ex-Im Bank's project finance program, it is generally competitive with those offered by the other G-7 ECAs.

Chapter 4: Comparison of Major Program Structures

Section C: Co-Financing “One-Stop-Shop”

Introduction

“Co-financing” or “reinsurance” are terms used to 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, the U.S. parties would need to secure separate financing contracts with each ECA to ensure support for exports from various countries. The location of the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction.

The lead ECA provides 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 its share of the procurement. 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 growth 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 Co-Financing “One-Stop-Shop” Arrangements

During 2005, Ex-Im Bank approved 11 transactions totaling \$900 million, of which 3 were co-financed with EDC; 3 were co-financed with ECGD; 2 were co-financed with NEXI¹; 1 was co-financed with SACE; 1 was co-financed with Korea Exim; and the remaining 2 were co-financed as one-off transactions with ASHRA (formerly IFTRIC/Israel). (See **Figure 13** for a listing of specific transactions).

¹ Note that one transaction was co-financed with ECGD and NEXI.

Figure 13: Ex-Im Bank "One-Stop-Shop" Co-Finance Transactions in 2005

Ex-Im Bank & Co-financing ECA	Market	Project	Amount
ECGD: United Kingdom	Kenya	Aircraft	\$115 million
SACE: Italy	Russia	Heavy Equipment	\$8.5 million
ECGD: United Kingdom	Kenya	Aircraft	\$115 million
K-EXIM: Korea	Korea	Aircraft	\$303 million
ECGD & NEXI: United Kingdom & Japan	New Zealand	Aircraft	\$225 million
ASHRA: Israel	Brazil	Medical Equipment	\$1.2 million
ASHRA: Israel	Brazil	Medical Equipment	\$1.2 million
NEXI: Japan	Ethiopia	Aircraft	\$120 million
EDC: Canada	Brazil	AG Equipment	\$875,000
EDC: Canada	Mexico	Small Aircraft	\$1.5 million
EDC: Canada	Brazil	AG Equipment	\$460,000
TOTAL			\$891,735,000

G-7 ECAs' Policies and Practices

As shown below in **Figure 14**, the bulk of co-financing agreements exist among the G-7 European ECAs who have signed multiple framework agreements among themselves and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure. That is, EU ECAs would seek reinsurance for third country content rather than cover it on its own book for exports (a) to riskier markets; or (b) to markets where the ECA was close to reaching its country limit.

Today, the utility of co-financing agreements to European ECAs is largely as an efficient mechanism to deal with increased multi-sourcing and globalization. In addition, many ECAs are addressing globalization by introducing flexible domestic content policies that allow the ECAs to directly cover greater proportions of third country content in their standard financing package (see Foreign Content Chapter). Moreover, ECA trends to go into better markets (where they could capture greater profits and/or break even) make co-financing less necessary from an exposure management perspective (because an ECA doing business in a low risk market may be more willing to cover third country content on its own instead of seeking co-financing/reinsurance from another ECA). Nevertheless, current anecdotal and public data continues to show that co-financing and reinsurance are used by G7 and other ECAs to facilitate financing for larger and high profile transactions. In light of the foregoing, Ex-Im Bank will monitor the possible competitive impact of these ECA policy shifts on co-financing activity of foreign ECAs.

Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions. For those ECAs where Ex-Im Bank has not been able to conclude a bilateral agreement, Ex-Im Bank will process transactional co-financing requests on a case-by-case basis. However, the same technical issues that prevented Ex-Im Bank from signing the bilateral framework agreements (that include issues such as following the lead ECA’s claims and recovery practices in the event of a default), have led some ECAs to reject Ex-Im Bank requests for co-financing on a one-off basis. Moreover, transactional time constraints sometimes discourage exporters or applicants to pursue co-financing on a one-off basis.

Figure 14: G-7 Co-financing “One-Stop-Shop” Agreements in 2005

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

Exporter and Lender Survey Results

Survey respondents who commented on co-financing indicated that Ex-Im Bank’s lack of signed bilateral agreements makes the co-financing program less competitive than its foreign counterparts. In particular, several exporters and lenders remarked that the lack of co-financing arrangements has resulted in “Ex-Im Bank falling behind instead of leading as European ECAs continue to aggressively expand co-financing agreements” with non-OECD and some riskier ECAs.

Conclusion

Ex-Im Bank’s co-financing program is less available, and, to that extent, not quite generally competitive with the programs of most of the other G-7 ECAs. The lack of signed bilateral agreements with insurer ECAs is the main contributor to the Bank’s disadvantage vis-à-vis foreign export credit agencies. However, transactional circumstances sometimes allow Ex-Im Bank to temper the competitive disadvantage by pursuing co-financing on a one-off basis.

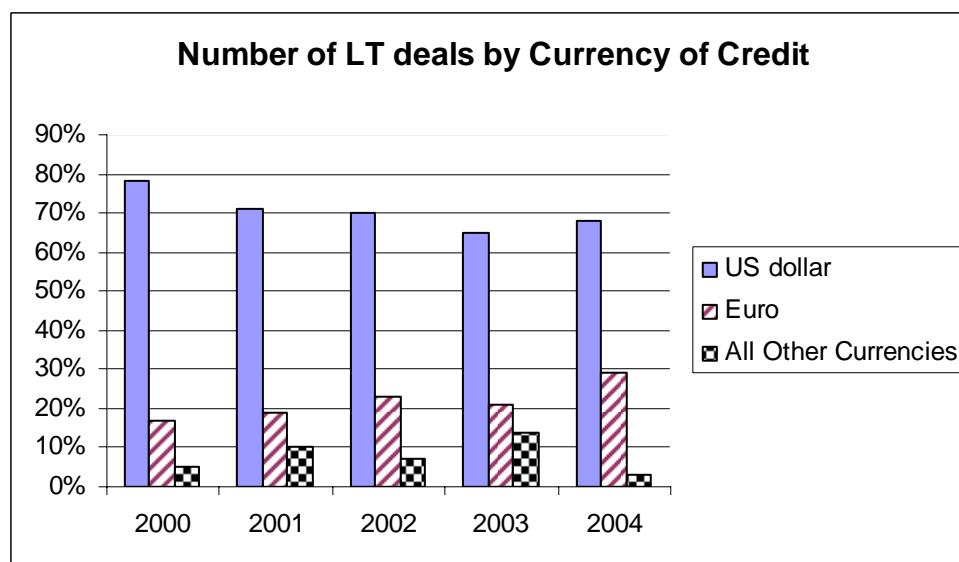
Chapter 4: Comparison of Major Program Structures

Section D: Foreign Currency Guarantees

Introduction

Officially supported export credits may be denominated in any currency. Since international guidelines do not put any limits on currencies eligible for cover, each ECA independently determines its own currency cover policies. In practice, medium- and long-term export credits are usually denominated in U.S. dollars and Euros. In each of the past five years, about 95 percent of officially supported export credits with a repayment term of five-years or more were denominated in U.S. dollars and Euros (see **Figure 15**). The remaining five percent were denominated in a variety of currencies. Over time, ECAs have expanded the list of currencies eligible for support. In 2000, ECAs supported only three non-G-7 country currencies (the Norwegian kroner, Danish kroner and the Swiss franc). Since then, several currencies have been added, including the Algerian dinar, the South African rand, the Czech koruny, the Colombian peso, the Malaysian ringgit, the Mexican peso and the Thai baht (see **Figure 16**).

Figure 15: Long-Term OECD Export Credit Financing by Currency



Source: OECD Statistics on Export Credit Activities

Emerging market borrowers are increasingly interested in obtaining financing where the obligation to repay is denominated in the borrower's local (or domestic) currency. Debt denominated in local currency enables borrowers to reduce financing costs and limit exchange rate risks. The IMF and others

regularly cite these benefits when they advise emerging market borrowers to incur debt in the same currency in which they earn revenue. Some ECAs are responding to this increased demand by “testing” the local currency waters and offering limited coverage for credits denominated in soft local currencies.

Figure 16: Currencies Covered by Export Credit Agencies

	2000	2001	2002	2003	2004
Australian dollar				X	X
Canadian dollar			X	X	
Colombian peso					X
Czech koruny					X
Danish kroner	X	X		X	
Euro/Former ECU	X	X	X	X	X
Japanese yen	X	X		X	X
Malaysian ringgit			X		
Mexican peso				X	X
Norwegian kroner	X				
South African rand			X		
Swedish Kroner		X			
Swiss franc	X	X	X	X	X
UAE dirham			X		
UK pound	X	X	X	X	X
US dollar	X	X	X	X	X

Source: OECD 2004 Report on Export Credit Activities

Ex-Im Bank Policy and Practice

Ex-Im Bank’s foreign currency guarantee program was introduced in 1980 in response to the significant interest rate differential (commonly referred to as “the interest rate illusion”) that existed between the U.S. dollar (a relatively high interest rate currency at that time) and other low interest rate foreign currencies, such as the German mark and Japanese yen.

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). In the event of a default, Ex-Im Bank purchases the foreign currency to pay the claim to the lender and then converts (or “crystallizes”¹) the obligation to 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 retains the right to either pay the claim under foreign currency guarantees as a single lump sum payment or installment-by-installment. Typically, on fixed rated notes, Ex-Im Bank elects to pay claims on an installment-by-installment

¹ Crystallization: the requirement that the depreciation (of the currency) risk must remain with the borrower who will need to pay sufficient local currency to ensure that the costs the ECA has incurred in meeting a local currency claim are met in full.

basis. However, on floating rate notes Ex-Im Bank typically accelerates the debt and pays the claim in a single lump sum payment. However, paying claims in installments is attractive to lenders who want to maintain the original repayment schedule (e.g., to facilitate a securitized structure).

Details of Ex-Im Bank's Foreign Currency Guarantee Activity

In 2005, Ex-Im Bank supported 10 transactions, valued at more than \$1.3 billion, where the repayment was in a currency other than the U.S. dollar. The majority of foreign currency business was denominated in currencies traditionally covered by Ex-Im Bank, such as the Euro (six transactions, valued at \$550 million) and the Canadian dollar (one transaction, valued at USD \$400 million). In addition, Ex-Im Bank guaranteed the New Zealand dollar (one transaction, valued at USD \$225 million), the Mexican peso (one transaction, valued at \$130 million), and the Australian dollar (one transaction, valued at USD \$65 million). Of the 10 foreign currency guarantee transactions, all but two were on behalf of foreign airlines for large aircraft purchases. The two non-aircraft transactions were Euro denominated loans for buyers in Turkey and Albania.

G-7 Policies and Practice

All G-7 ECAs are willing to provide cover in foreign currencies; however, certain distinctions exist. For example, Ex-Im Bank is the only G-7 ECA that pays the entire outstanding amount of the claim once the lender demands payment under the guarantee. The other G-7 ECAs usually maintain the original repayment schedule by paying claims on an installment-by-installment basis. In addition, most ECAs draw distinctions between cover for hard currencies and soft currencies.

Hard Currency Cover: Like every other G-7 ECA, Ex-Im Bank provides support for export credits denominated in hard currencies. However, Ex-Im Bank is the only G-7 ECA that consistently converts hard currency obligations into U.S. dollars after paying a claim. The ECAs in Canada (EDC), Italy (SACE), Japan (NEXI), and the UK (ECGD), do not convert the obligation post claim payment since they have the capability to assume and manage the foreign exchange rate risk. The German ECA (Hermes) is willing to bear the exchange rate risk for a higher fee.

Soft Currency Cover: With respect to coverage for soft currencies, distinctions are beginning to emerge among ECAs with respect to: (1) offering cover for "soft" local currencies; and (2) taking the associated foreign exchange risk (defined as paying claims and accepting recoveries in the local currency without using any hedging mechanism) (see Figure 17). Discussions with G-7 ECAs reveal an increase in the number of requests for ECA support of credits denominated in

soft local currencies, with some ECAs providing flexibility to accommodate these requests. For example, one G-7 ECA reported providing support in 2005 for a long-term transaction denominated in Mexican pesos without a conversion clause². Another G-7 ECA reported that it is willing to cover local currency receivables on credit terms on a case-by-case basis and recently supported two local currency transactions without requiring a conversion clause: a medium-term transaction denominated in the Dominican Republic peso and a long-term transaction denominated in United Arab Emirates dirham. This ECA added a 10% premium surcharge to cover the incremental exchange rate risk.

ECAs' willingness to cover soft currencies (with or without a conversion clause) hinges on a variety of criteria, such as:

- Limiting the transaction size.
- Providing cover for currencies with stable and relatively low interest rates.
- Limiting soft currency cover to borrowers with relatively good credit standings.
- Restricting soft currency cover to transactions with floating interest rates.
- Pricing incremental risk (mark-to-market).
- Confirming that the legal regime in the local market is sufficiently developed (e.g., so as to not interfere with implementation of conversion clauses in the event of a claim).
- Sufficient depth and liquidity in the market so as to enable the ECA to purchase the local currency without moving the market.

² Conversion clause: A clause in the legal documentation of an export credit that permits ECAs to convert post-claim debt into the national currency of the ECA. In the case of Ex-Im Bank, post-claim debt is converted to a U.S. dollar obligation equal to the amount of U.S. dollars Ex-Im Bank expended to acquire foreign currency to pay the claim.

FIGURE 17: G7 ECA Foreign Currency Attitude: Willingness to Accept Exchange Rate Risk and Activity

	Exchange Risk Accepted?		Currencies ¹ of Approved Transactions (2001-2005)	
	Hard Currency	Soft Currency	Hard Currency	Soft Currency
EDC	Yes	n/a	USD	none
Coface	Case-by-case	Case-by-case	USD, AUD, JPY	EGP, MXP
Hermes	No, fix rate at time of default, but 10% surcharge lifts cap	No, fix rate at time of default, but 10% surcharge lifts cap	USD, GBP, CHF, AUD, JPY	AED, DOP ²
SACE	Yes	n/a	USD, CHF, GBP, JPY	none
NEXI	Yes	n/a	USD, EUR	none
ECGD	Yes	No, convert obligation to Sterling at time of payment	USD, EUR, JPY	none ³
Ex-Im Bank	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 ⁴

¹Currency Key: USD – U.S. dollar, EUR – Euro, GBP – United Kingdom pounds, JPY – Japanese yen, AUD – Australian dollars, CHF – Swiss francs, EGP – Egyptian pounds, MXP – Mexican pesos, DOP – Dominican Republic peso, ZAR – South African rand, AED -- United Arab Emirates dirham, and COP – Colombian peso.

²Hermes will cover the following currencies on a case-by-case basis: Hong Kong dollars, Indian rupees, Malaysian ringitts, Mexican pesos, Singapore dollars, South African rand, Yuan renminbi, Taiwan dollars, Turkish lira.

³ECGD will cover the following currencies: Egyptian pounds, Indian rupees, Mexican pesos, Singaporean dollars, Czech korunas, Polish zlotys, and Thai baht.

⁴Ex-Im Bank will cover the following currencies: Brazilian real, British pound, CFA franc, Moroccan dirham, Philippine peso, Russian ruble, Swedish krona, Thai baht and Swiss franc.

Exporter and Lender Survey Results

Ex-Im Bank’s foreign currency guarantee program was among the top four priorities identified by the export community where changes in Ex-Im Bank current policy could yield noticeable improvements in U.S. exporter competitiveness. The respondents to the survey identified two specific changes to the foreign currency guarantee program Ex-Im Bank could consider:

Drop the conversion requirement - Do not convert post-claim debt into a U.S. dollar obligation. Explore options that would allow Ex-Im Bank to assume/manage foreign exchange risk. If this proposal is not possible for all currencies, at least implement a program without the conversion feature for certain hard currencies (e.g., the euro and yen). Alternatively, limit non-conversion for small-sized transactions.

- Drop the conversion requirement - Do not convert post-claim debt into a U.S. dollar obligation. Explore options that would allow Ex-Im Bank to assume/manage foreign exchange risk. If this proposal is not possible for

all currencies, at least implement a program without the conversion feature for certain hard currencies (e.g., the euro and yen). Alternatively, limit non-conversion for small-sized transactions.

- Allow an installment-by-installment claim procedure – Do not accelerate the entire outstanding debt in the event of a claim. This flexibility is particularly important for fixed-rate loan structures that would have to be unwound (at considerable costs) if the entire outstanding debt is accelerated.

In sum, the export community perceives Ex-Im Bank's foreign currency guarantee program to be slightly less competitive relative to G-7 ECAs.

Conclusion

Ex-Im Bank's current foreign currency program has been in place since the early 1980's. Since that time, the number of currencies eligible for Ex-Im Bank cover has expanded from a handful of hard currencies to several hard and soft currencies.

On the other hand, Ex-Im Bank's foreign currency program has not evolved as much as the foreign currency programs provided by other G-7 ECAs. Exporters and banks would like Ex-Im Bank to exercise more flexibility with respect to: (1) not converting post claim debt into U.S. dollars; and (2) paying the lender by installments according to the original amortization schedule rather than paying the entire claim in a single payment. On the first point, other G-7 ECAs have shown very limited flexibility; and on the second point, no other G-7 ECA consistently requires acceleration.

The objective data and the survey response data imply that Ex-Im Bank's competitive position is slightly below generally competitive.

Chapter 4: Comparison of Major Program Structures

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

Ex-Im Bank's major program structures were graded "A-" which translates into the Bank being a step below competitive with its G-7 counterparts. While Ex-Im Bank's aircraft and project finance programs are rated as competitive with our foreign ECA counterparts, the co-financing and foreign currency guarantee programs came out less than fully competitive. **Figure 18** shows how Ex-Im Bank's major programs were rated on individual aspects as well as overall. The grades are based on the survey results and Ex-Im Bank's analysis of how it performs in relation to its G-7 ECA counterparts.

Figure 18: Grading of Ex-Im Bank's Major Program Competitiveness, 2005

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	A-
Availability of Hard Cover	A
Availability of Soft Cover	A
Accepts Exchange Rate Risk	B+
Pricing	A
Total Average Grade	A-

Ch. 5 Economic Philosophy and Competitiveness

Section A: Trade-related Tied and Untied Aid

Introduction

U.S. government efforts to discipline aid at the OECD have resulted in rules that have (a) helped limit the trade distorting effects of tied aid; and (b) redirect tied aid flows to bona fide aid projects. The OECD tied aid rules (also known as the “Helsinki Agreement”) govern aid that has the greatest potential to be trade distorting, i.e., “tied aid” or aid tied to procurement from the donor’s country. Since their inception in 1992, the OECD tied aid rules have helped reduce tied aid to an average of about \$4-4.5 billion annually, from an average of \$10 billion a year previously. In 2002-3, Helsinki-type tied aid had reached its two lowest levels on record of approximately \$2.1 and \$2.6 billion. In 2004, Helsinki-type tied aid was \$4.1 billion (see **Figure 19**), and in 2005 it crept up to \$6.1 billion, an almost 50% increase over 2004 levels. With respect to sector distribution, tied aid business continued to evidence an overall shift away from sectors generally considered to be commercially attractive – like energy and industry. This continued in 2005, with remaining tied aid activity concentrated primarily in the transport and storage sectors (principally rail and water transport), and water and health sectors (both of which tend to be considered commercially non-viable), although the number of tied aid notifications for the energy sector increased substantially in 2005.

Nevertheless, several foreign tied aid programs maintain a level of vitality within the OECD disciplines. Specifically, in 2005, Japan and Spain significantly increased their tied aid notifications over 2004 levels and accounted for over 60% of the volume of tied aid notifications. Some projects supported by these programs continue to contain a considerable portion of capital goods that may have commercial implications. In fact, over the past few years, U.S. exporter allegations of foreign tied aid competition have predominantly been related to specific capital goods (e.g., locomotives, harvesters) that are included in large projects considered to be commercially non-viable (e.g., railways, agriculture). Experience has shown that some U.S. exporters are periodically at a competitive disadvantage when bidding on the sale of capital goods equipment against foreign exporters benefiting from tied aid associated with commercially non-viable projects.

With respect to untied aid, in the mid 1990s (when Japanese untied aid rose to about \$15 billion a year), fears of foreign efforts to redirect tied aid flows into (potentially and equally) trade distorting untied aid (or “de facto tied” untied aid) led the U.S. to present a series of proposals to the OECD geared towards disciplining foreign untied aid offers.

Since that time the U.S. has sought to extend the principles of the tied aid disciplines to untied aid. However, these discussions have met opposition from certain untied aid donors and the donor community at large, who claim that untied aid poses no serious threat to free trade. These donors argue that disciplines for untied aid would only serve

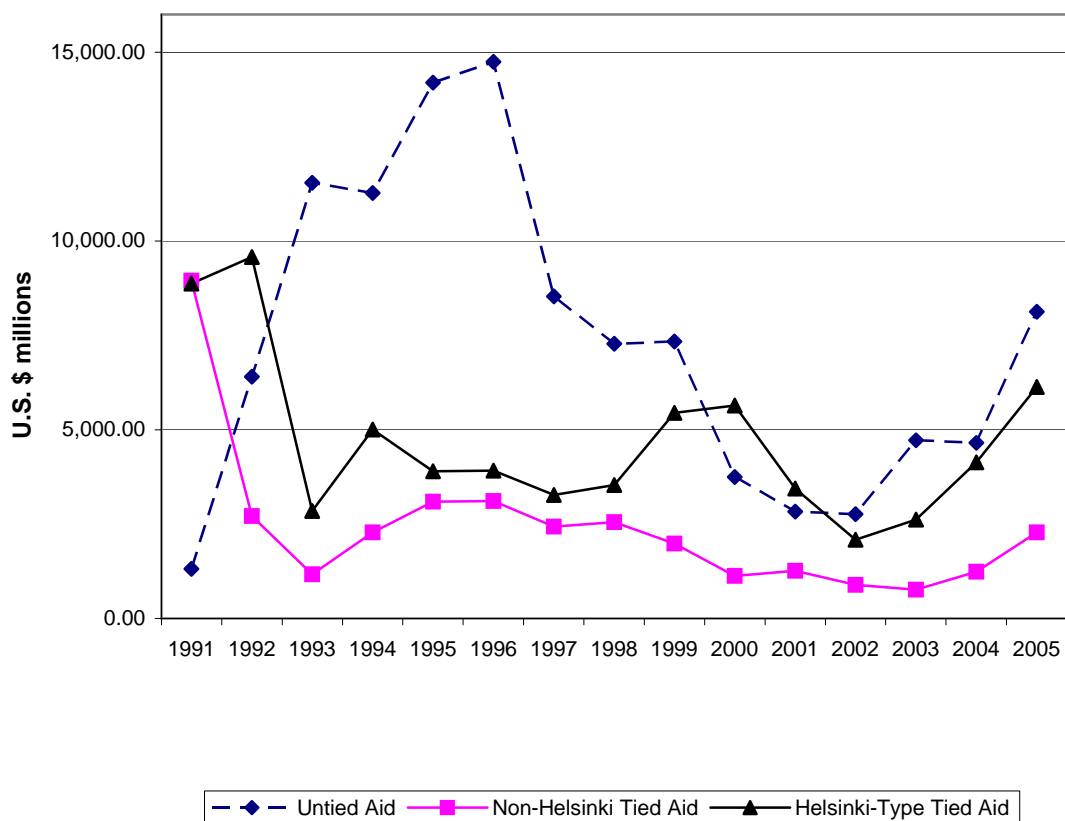
to reduce much needed aid to developing countries. Moreover, the total annual volume of untied aid had dropped to about \$2-3 billion a year since 2000).

Nevertheless, in 2004 the OECD Members accepted the United States proposal to enhance transparency of untied aid offers by agreeing to make their offers public to allow for competitive international bidding and to report the nationalities of bid winners. The transparency agreement should allow OECD Members to: (1) access information that will help all exporters (not just exporters from donor countries) compete for sales financed with foreign untied aid; and (2) compile any evidence of de facto tying of “untied” aid to procurement from the donor country. During 2005, as untied aid rose from \$4.7 billion in 2004 to \$8.1 billion, up \$3.5 billion from 2004 levels Or 75%. Members began implementing the transparency agreement and data is now being compiled and being made available to exporters.

Data

Although tied and untied aid activity levels rose noticeably in 2005, the resulting levels are roughly where both stood in the 1999-2000 timeframe. Hence, it is not clear whether recent trends are part of an up-tick or just a return to normalcy after a depressed period in 2001-2003. Within the tied aid market, however, there does appear to be movement and trends. For example, after nearly a decade of recovering from the Asian financial crisis, Indonesia is again a prominent tied aid recipient along side countries as varied as Algeria and Vietnam. Meanwhile, in what is likely a long-run trend, China continues to drop from its historical lead recipient position.

Figure 19: Aid Credit Volume by Type



Note: Consistent untied aid data reporting began in 1994.

Definitions¹

“Helsinki-type” tied aid is subject to three principal disciplines: (1) no tied aid for commercially viable projects; (2) minimum 35% concessionality; and (3) country limitation (no country recipients with a per capita income above \$3,255, but the figure may change annually as it is based on annual World Bank lending criteria; see **Appendix F, Annex 1**). OECD Participants determine commercial viability based on the potential cash flows of the project, a feasibility study presented by the donor, and, if needed, a “consultations” meeting held to discuss the commercial viability of the project.

“Non-Helsinki-type” tied aid includes: stand-alone *de minimis* projects (valued at less than approximately \$3 million), grants or near-grants (at least 80% concessionality), and partial grants (at least 50% concessionality) offered to the poorest countries (the UN declared Least Developed Countries, or LDCs). These types of tied aid offers are normally not considered to have serious trade-distorting effects and, therefore, are exempt from the Helsinki rules regarding commercial viability and the consultations process (although all tied aid is subject to notification requirements). In addition to

¹ See Appendix F for a more detailed list of definitions of the various types of aid.

notification, stand-alone de minimis projects are also subject to minimum concessionality and country eligibility requirements. De minimis tied aid can be trade-distorting but, given its small size, does not typically impact the competitive position of U.S. exporters.

“Untied aid” refers to aid credits that are **not** contractually conditioned upon the purchase of goods and/or services from any particular country. However, trade-distorting implications result when untied aid is “de facto tied” (e.g., through informal understandings) to procurement from the donor’s country.

Competitive Situation

During 2005, Ex-Im Bank did not authorize any tied aid use and therefore did not expend any of the \$263.2 million in the Tied Aid Capital Projects Fund (TACPF). Although the volume of tied aid notifications increased significantly in 2005, they were directed at projects in sectors considered to be financially non-viable (see Appendix F for definitions of financial and commercial viability) and for countries eligible for tied aid. Nevertheless, the inclusion of capital goods procurement in these projects (e.g., tractors) continues to cause competitive concerns among certain U.S. exporters.

U.S. Government and Ex-Im Bank Policy

The U.S. favors aid that represents *bona fide* development assistance. The U.S. only seeks to reduce and ideally eliminate aid that is trade distorting because it:

- Disadvantages U.S. exporters, i.e., redirects business away from U.S. and other suppliers whose products are superior in quality, price, and service.
- Closes markets and misallocates both international and developing country resources. Furthermore, it results in higher contract prices, a capital-intensive development bias, skewed technology choices, and an increased debt burden.

Consistent with long-standing U.S. export financing policy, Ex-Im Bank does not initiate tied aid. Instead, Ex-Im Bank and the U.S. Treasury Department work together to determine whether to match a foreign tied aid offer. The decision to match is made on the basis of largely objective criteria used to determine whether or not: (1) tied aid is useful for enforcement of existing disciplines; or (2) an otherwise OECD-legal tied aid credit will distort commercially-financed trade in favor of donor country firms (rare occurrence in recent years). In a special effort to facilitate small business access to competitive financing, the U.S. Government would generally not require multiplier criteria to match de minimus tied offers for commercially viable projects.

Exporter and Lender Survey Results

Similar to last year, in 2005 most of the respondents were not familiar with tied aid offers from foreign ECAs or the U.S. However, the few that had encountered foreign tied aid reported losing sales to their competitors in a variety of sectors including road infrastructure (e.g., bridges) and agriculture equipment sales (particularly in China) (i.e., for capital equipment that could be used in projects considered by the OECD as financially non-viable). These losses resulted in these respondents rating Ex-Im Bank's tied aid program as having a negative impact on U.S. exporter competitiveness.

Conclusion

Although tied aid appears to be a \$4-4.5 billion/year market, very little of it seems to compete with potentially commercial sales of U.S. exporters. The untied aid market has no adverse record of impact although the new transparency agreement may shed more light on the uses of the growing untied aid. Hence the weight of these components in the overall competitiveness grade is minimal. Nevertheless, some U.S. exporters of product-specific goods do episodically encounter foreign tied aid that displaces commercial sales. In those few instances, the exporters consider that Ex-Im Bank's matching procedures do not typically provide a competitive response.

Chapter 5: Economic Philosophy and Competitiveness

Section B: Market Windows

Introduction

Market windows are government-owned institutions that claim to offer export credits on market terms and therefore are not required to apply Arrangement rules, although these institutions may also manage an “official window” that offers Arrangement terms for riskier transactions. While they may operate on a profit-maximizing basis, market windows have traditionally received government benefits that are not available to commercial banks. These benefits include implicit or explicit government guarantees, tax exemptions and equity capital provided by the government. In addition, these institutions condition support on national benefit which typically involves some portion of domestic content. Without being subject to the Arrangement constraints of an official ECA or the market limitations of a true commercial bank, market windows pose a potential competitive challenge to both. As the Arrangement has increasingly codified export credit rules over the last decade, market windows’ ability to offer flexible terms – such as longer repayment periods or cash payment financing – has enabled them to provide financing on terms that official ECAs may not offer. Should U.S. exporters not find terms in the market for a specific buyer at a specific time similar to those available from a market window entity, the playing field would be tilted in favor of foreign competitors with access to market window financing.

Market window institutions have avoided disciplines in the OECD for years because there has never been an empirical case made of specific harm (due, at least in some part, to lack of functional transparency). In addition, there has been little pressure for the United States to pursue such disciplines in recent years. U.S. exporters, some of which now benefit from market window financing (either through a foreign subsidiary or through foreign sourcing), have provided no recent evidence of competitive harm from these institutions.

Ex-Im Bank 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 Arrangement. In its re-authorization in 2002, however, Ex-Im Bank was given permission by the U.S. Congress to match the terms and conditions offered by market windows, regardless of whether such terms are consistent with the Arrangement and even if the market window does not provide sufficient information for Ex-Im Bank to exactly match the terms of financing. Ex-Im Bank’s matching authority has not yet been used because 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 of the G-7 countries provide market window support: Canada through EDC and Germany through KfW. It is important to note that other G-7 ECAs (particularly Japan) could become market window players should they perceive a competitive advantage to doing so. Moreover, a variety of forces (e.g., WTO panel decisions and domestic imperatives to make a profit) create incentives for ECAs to act like market windows by, for example, increasing activity in developed markets with significant private banking capacity and charging “market” prices. However, the recent action by the EU to impose market disciplines on KfW may act as a counterforce to the incentives to create market windows.

However the future evolves, today there are only two formal market windows. The rest of this chapter addresses recent activities and changes in these two 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 and market windows without effective transparency.

In the recent past, Ex-Im Bank estimates that approximately 90% of EDC’s medium- and long-term export credit business has been offered through its market window, although the percentage may vary from year to year. Applying the general ratio to EDC’s medium- and long-term activity over the last five years yields the following **Figure 20**:

Figure 20: EDC Medium- and Long-Term Activity 2001-2005 (\$Bn)

	2001	2002	2003	2004	2005
MLT export credits	8.7	8.4	8.1	8.6	9.9
Market window	7.8	7.6	7.3	7.7	8.9
Official window	0.9	0.8	0.8	0.9	1.0

KfW

KfW Bankengruppe is a multi-purpose financial institution that is owned by the German government (80%) and the federal states (20%). Founded shortly after World War II to support Germany’s reconstruction, KfW continues to promote the growth of the German economy in a variety of ways, primarily focusing on domestic investment such as housing finance and support to small businesses. Historically, from 10% to 25% of KfW’s annual financing activity fell under the category “export credits and project finance,” which includes export credits as well as corporate finance and investment guarantees both inside and outside Germany.

Concern that Germany's state banking system (of which KfW is a part) was putting European commercial banks at a competitive disadvantage led to an investigation by the European Commission. In 2002, as part of a settlement with the Commission, Germany agreed to separate KfW's economic support activities from its commercial business. Starting in 2004, KfW began conducting much of its export credit and project finance activity through KfW IPEX-Bank, a newly-created, 100% KfW-owned, arms-length subsidiary. IPEX-Bank will be subject to taxation and German banking regulations, and it must earn a risk-adjusted return on capital (RAROC) of 13%. Currently, that 13% RAROC is judged against IPEX-Bank's hypothetical funding costs with a risk rating of AA- or A+. It will support exports from Europe, not just Germany, and will build its ability to lead syndicated underwritings. It anticipates doing EUR8-10 billion of total business volume annually. Until 2008, IPEX-Bank will operate as a "bank-in-a-bank," i.e., an independent unit of KfW Bankengruppe.

Over 60% of IPEX-Bank's \$15.1 billion business volume in 2005 consisted of commitments outside Germany, of which one-third, or \$3.2 billion, was export credit business. Consistent with expectations that IPEX-Bank will function more like a private sector entity, over 65% of its 2005 export credit business was in support of entities in Europe or North America. In contrast, these markets consisted of 50% of IPEX-Bank's new business in 2004. The three largest sectors receiving IPEX-Bank export credit support were basic industries (32%), ships (25%), and power and water (17%). Historically, KfW's support for aircraft concerned U.S. exporters, as KfW would often provide the cash payment financing to supplement the officially supported financing, in effect providing Airbus with 100% financing from government-backed sources. However, IPEX-Bank's support for aircraft declined significantly in 2005 to only 12% of its new business, down from nearly 25% in 2004.

IPEX-Bank's export credit business includes transactions booked on its own account as well as transactions on KfW's accounts, although both types of transactions must meet KfW's 13% RAROC requirement. If a transaction meets one or more of the following criteria, it will be placed on KfW's books, although it will be administered through IPEX-Bank: 1) a fixed rate loan priced at CIR; 2) co-financing with a multilateral development bank; or, most commonly, 3) a buyer in a country with an OECD risk category of 5 through 7. Only 25% of IPEX-Bank's export credit transactions in 2005 met those criteria and were placed on KfW's books, down from 40% in 2004.

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. In 2005, approximately 60% of IPEX-Bank's total export credit support was provided without official ECA cover, although some of these transactions may also comply with the Arrangement. Sixty-six percent of IPEX-Bank's "book" was provided without official ECA cover, while only 40% of KfW's "book" was provided without official ECA cover.

Figure 21 below provides a breakdown between the market window and official window support provided by IPEX-Bank in 2004 and 2005 and compares it with the equivalent support provided by KfW prior to the creation of IPEX-Bank.

Figure 21: KfW/IPEX Medium- and Long-Term Activity 2001-2005 (\$Bn)

	2001	2002	2003	2004	2005
MLT export credits	5.6	3.3	2.0	3.0	3.2
Market window	3.7	2.1	1.3	1.8	1.9
Official window	1.9	1.2	0.7	1.2	1.3

Summary Data

Combining the two estimates for EDC and KfW yields an average total market window volume of approximately \$10 billion per year over the last five years (see **Figure 22**). The majority, by dollar volume, is destined for the United States and Western Europe. Nonetheless, from year to year there is \$1-\$2 billion in traditional Ex-Im Bank markets, where market windows potentially have a negative impact on Ex-Im Bank competitiveness.

Figure 22: Market Window Activity 2001-2005 (\$Bn)

	2001	2002	2003	2004	2005
EDC	7.8	7.6	7.3	7.7	8.9
KfW	3.7	2.1	1.3	1.8	1.9
Total	11.5	9.7	8.6	9.5	10.8

Exporter and Lender Views

Exporters and lenders note EDC's and KfW's flexibility with respect to issues such as eligible foreign content, as well as the two institutions' proactive marketing strategies. Indeed, one multi-national U.S. exporter indicated that both EDC and KfW aggressively sought its business. However, there were no allegations of any business lost to either EDC or KfW.

Conclusion

Consistent with recent history, U.S. exporters have not highlighted any competition from market window institutions for Ex-Im Bank's attention. Both EDC and IPEX-Bank appear to be transitioning away from activity that is likely to compete with Ex-Im Bank, with EDC shifting its activity towards non-export credit support and IPEX-Bank progressing with its separation from KfW. Nonetheless, there remains the potential that either one of these institutions could offer more attractive terms than Ex-Im Bank in head-to-head competition; thus, market window institutions in general have a neutral impact on the Bank's competitiveness with the potential to have a negative impact in specific cases.

Chapter 5: Economic Philosophy and Competitiveness

Section C: U.S. Philosophy and Ex-Im Bank 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 not compete with the private sector, and should operate at a minimum cost to the taxpayer. These parameters define a framework within which Ex-Im Bank offers export credit support to U.S. exporters. The United States has worked very hard at ensuring this framework and those principles are adopted by our official ECA counterparts within the OECD and are accurately and fully depicted in the OECD Arrangement. For the most part, the competitiveness issues necessary to form the basis of a level playing field are in place. However, there are a few areas in which several ECAs do not share the same philosophical approach and, in practice, do not abide by the spirit of a level playing field. These areas are “de facto tied” untied aid, tied aid and market windows. When any of these forms of financing are present in an individual transaction, they can have an adverse effect on the competitiveness of Ex-Im Bank and the U.S. exporter. **Figure 23** shows the span of impact that these financing features are likely to have on Ex-Im Bank’s competitiveness on individual cases when similar terms and conditions are not available to U.S. exporters.

During 2005, there was tied aid activity. However, there has been no documented existence of any “de facto tied” untied aid or instances when market windows have undercut both the market and ECAs, nor even reasonable allegations. The U.S. exporting community continues to believe that when U.S. exporters face any one of these forms of financing (the details of which are next to impossible to obtain or criteria are difficult to meet), their competitive position can be undermined.

Figure 23: Grading of Ex-Im Bank’s Competitiveness When Confronted with Differing Government Financing Philosophies and Programs, 2005

Program	Ex-Im Bank has program (Yes/No)	Impact on Competitiveness
Tied Aid (direct or “de facto”)	Yes*	Neutral to Negative (infrequently encountered)
Market Windows	No**	Neutral (would likely be negative if encountered)
Overall Assessment		Negative (on what appears to be a very limited number of transactions)

* Ex-Im Bank could use TACPF to match “de facto tied” untied aid

** In Ex-Im’s 2002 Charter Reauthorization, Ex-Im 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

Ex-Im Bank is the official export credit agency of the U.S. government. In this role, Congress has given the Bank a mission to provide export financing assistance to the U.S. exporting community that is competitive with, and serves to neutralize, financing offered by the major foreign government ECAs. The basis for this mission is that government intervention is in the national interest when necessary to ensure that purchase decisions are made on the basis of market factors such as price, quality and service.

As a U.S. government institution, Ex-Im Bank is entrusted with public funds to carry out its mission. As such, Ex-Im Bank is expected to consider broader U.S. policies in how it carries out its core mission of providing export finance to U.S. exporters. Sometimes these broader U.S. policy objectives conflict with the Bank's main objective of facilitating exports, and, consequently, may impact its competitiveness. Some of these other policy objectives are specified in Ex-Im Bank's Charter or other legislation (e.g., economic impact and PR 17 on U.S. shipping). Other issues, such as content requirements, reflect the clear intent of Congress expressed over the years regarding the support of U.S. jobs. The impact of these other policy objectives on Ex-Im Bank's competitiveness can be magnified in specific cases because, in general, other G-7 ECAs have few such broad public policy considerations.

The following sections of this chapter present a contextual description of selected public policies and an analysis of the competitive implications related to each issue.

Chapter 6: Public Policies – Stakeholder Considerations

Section B: Economic Impact

Introduction

Ex-Im Bank's Charter requires Ex-Im Bank to assess whether its financial support for a transaction would likely cause substantial injury to U.S. industry or would result in the production of a good that is subject to a relevant trade measure.¹ A finding that would lead to either of these outcomes could result in a denial of Ex-Im Bank support. In response to the Congressional mandate, Ex-Im Bank revised its economic impact procedures in 2003 to ensure that all of the transactions the Bank supports meet this requirement. While all cases seeking Ex-Im Bank support are subject to economic impact scrutiny, only cases that include capital equipment transactions that enable foreign buyers to establish or expand production capacity of an exportable good are subject to more detailed analysis.

Ex-Im Bank's Policy and Practice

An economic impact constraint was first incorporated into Ex-Im Bank's Charter in 1968 and has been subsequently modified seven times (the most recent change to the economic impact section of Ex-Im Bank's Charter occurred in June 2002). Ex-Im Bank's Charter requires the Bank to assess whether the extension of its financing support would:

- Result in the production of substantially the same product that is the subject of specified trade measures (i.e., transactions resulting in the production of a good subject to an anti-dumping (AD) or countervailing duty (CVD) order, a Section 201 injury determination under the Trade Act of 1974 or a suspension agreement from an AD/CVD investigations); or
- Pose the risk of substantial injury to the U.S. economy. Ex-Im Bank's Charter defines the substantial injury threshold to be transactions that establish or expand foreign production capacity by an amount that equals or exceeds 1% of U.S. production. Transactions over \$10 million that meet the substantial injury threshold require a detailed economic impact analysis in which 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 could be directly or indirectly displaced as a result of the new foreign production).

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 an AD/CVD investigations.

If a transaction meets these legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. However, the economic impact 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 costs.

G-7 ECAs' Policies and Practices

Although many ECAs have a broad mandate that the transactions they support should benefit their domestic economies, only Ex-Im Bank is required – on a case-by-case basis -- to weigh the potential economic costs to domestic industries with the benefits associated with a specific Ex-Im Bank-financed export. In addition, only Ex-Im Bank considers the relevance of trade measures to a transaction.

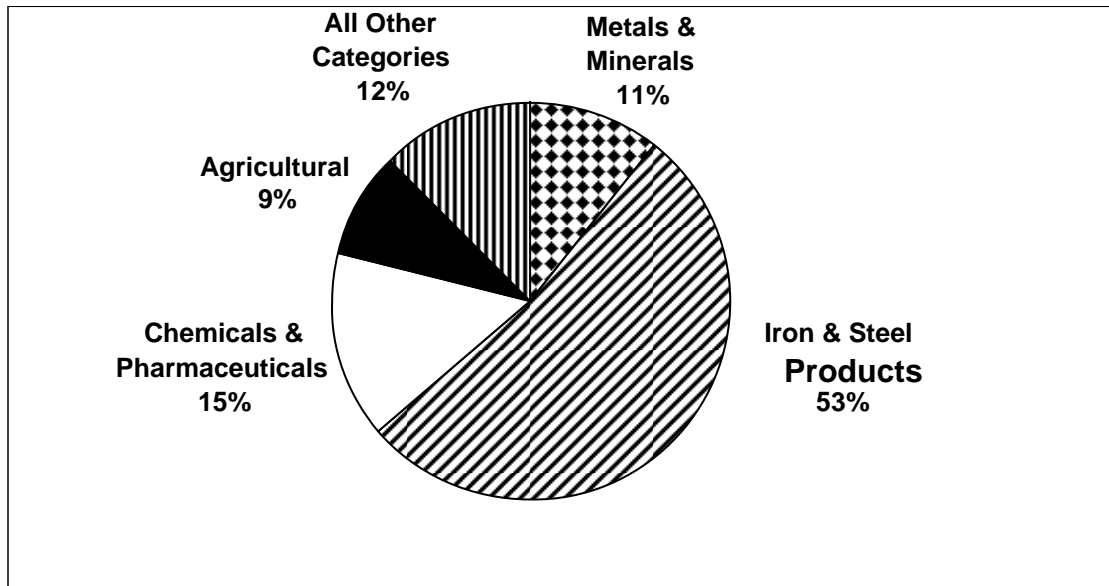
Summary Data

In 2005, Ex-Im Bank acted on 850 medium-term insurance and medium- and long-term loan and guarantee transactions. Of these transactions, 397 were applications for loans and guarantees at the Preliminary Commitment (PC) and Final Commitment (AP) stages, and 453 were applications for medium-term insurance. Forty-percent (344 cases) of total transactions acted upon were reviewed for economic impact relevance because they supported a foreign buyer's production of an exportable good.

Of these 344 transactions, six required a detailed economic impact analysis. Four of the analyses yielded a net positive economic impact outcome and were subsequently approved by the Board of Directors. The other transactions that required a detailed economic impact analysis were eventually withdrawn before the case came to fruition. The remaining 338 transactions were subject to a post-authorization review to ensure that there were no aggregations of more than \$10 million to a single buyer that would have required a detailed economic impact analysis.

Because the economic impact policy prohibits Ex-Im Bank from supporting any transactions that would result in the production of a good subject to a relevant trade measure, applicants did not pursue Ex-Im Bank financing for 14 potential transactions after learning about the existence of an applicable trade measure. Of these 14 potential transactions, 13 (or 93%) involved the export of steelmaking equipment, which is a natural result of the fact that iron and steel products account for over half of all current AD/CVD orders (see **Figure 24**). A review of G-7 ECA data show that the other G-7 ECAs supported approximately \$390 million worth of steelmaking machinery exports during 2005.

Figure 24: Anti-dumping and Countervailing Duty Orders by Sector, 2005



Exporter and Lender Survey Results

Lenders and exporters consider the economic impact issue to be among the most serious facing Ex-Im Bank today. Many respondents to the survey expressed particular concern that the economic impact issue needs greater transparency and predictability. Said one respondent, “If your company is a manufacturer of anything, they will think long and hard about coming to Ex-Im Bank.” Another noted that the unpredictability of the economic impact process hurts U.S. sourcing in projects, and that project sponsors are being warned by their technical advisers to “find a non-U.S. alternative and source of financing” if the project would be subject to economic impact analysis.

Conclusion

Although the economic impact policy affected only 5-10% of medium- and long-term activity, nearly 20% of non-aircraft cases going to the Board went through the detailed analyses. Moreover, the prospects of the process appear to be having a “chilling effect” on users’ willingness to approach Ex-Im Bank when the economic impact issue would arise. The observable effect of this policy was to create the risk of denial (which increased uncertainty for stakeholders in transactions) and/or increase case processing time. The less measurable effect of the policy is that some applicants have avoided pursuit of Ex-Im Bank financing because of the existence of the economic impact policy. Because no G-7 ECA other than Ex-Im Bank has a similar requirement to review transactions for trade measures and potential injury to the domestic economy, the economic impact element can have a negative impact on Ex-Im Bank’s competitiveness in specific transactions.

Chapter 6: Public Policies – Stakeholder Considerations

Section C: Foreign Content

Introduction

Foreign content is the portion of the export that originates outside of 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 of the export. The U.S. content is the \$8.5 million portion of the export that originates in the United States. Since eligibility and cover criteria for foreign content is 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.

Ex-Im Bank's Policy and Practice

In keeping with Ex-Im Bank's objective of maintaining or supporting U.S. employment through the financing of U.S. exports, Ex-Im Bank has adopted a foreign content policy to ensure that its export financing targets the U.S. content associated with goods and services exported from the United States. To accommodate U.S. export contracts that contain goods and services that are not entirely U.S.-produced, Ex-Im Bank's policy allows inclusion of some foreign content within the U.S. export contract with certain restrictions and limitations. Although Ex-Im Bank's foreign content policy derives from the purpose and objectives referenced in its Charter, there are no specific statutory requirements *per se* relating to non-U.S. 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

In general, all export credit agencies have designed their programs in such a way as to maximize the national benefit for their respective activities. However, the context for evaluating domestic impact varies widely and has led to very different ECA content policies.

OECD Participants recognize that each country has developed its content policy to further unique domestic policy goals. Hence, the OECD Participants have not pursued common ECA rules on foreign content, and there are no OECD Arrangement guidelines governing the scope or design of foreign content in an officially supported export credit.

Thus, given the vastly different sizes of the G-7 economies and their respective views of national interest, it is not surprising that foreign content policies vary widely and substantially.

There is a growing and accelerating tide of change (particularly in Europe) in the focus of the content policies of ECAs. The shift effectively copies the long-standing approach in Japan and Canada to focus on national companies and their long-term benefit to the economy rather than on the direct labor/job impact of specific transactions. The shift is known as a move from “**made in “X”** (by national label) to “**made by “X”** (national corporation somewhere in the world).

In the past, the “Made in” approach allowed only products manufactured in the ECA’s country to be treated as eligible national content. The new “Made by” approach allows products manufactured by companies located outside of the ECA’s country, but headquartered in the ECA’s country, to qualify as eligible national content. This approach is similar to the longstanding “Made by Japan” philosophy. Presently, all but three G-7 ECAs (U.S., UK and France) have adopted this approach, but recent information indicates that France is steadily moving to the more “flexible” approach.

Figure 25 compares the main aspects of the content policies of the G-7 ECAs in 2005. The data illustrate that Ex-Im Bank’s content requirements are more restrictive than its G-7 counterparts.

Figure 25: Comparison of Content Policies of the G-7 ECAs in 2005

	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	Yes	Yes	Yes

Ex-Im Bank is the only G-7 ECA that requires all goods be shipped from its country to be eligible for support. Moreover, Ex-Im Bank has the lowest “foreign content allowance” (i.e., 15). In contrast, the European ECAs generally don’t reduce cover for transactions that include up to 30-40% EU content and the Japanese ECAs are even more flexible in that cover is not reduced for transactions that include up to 70% foreign content. While Ex-Im Bank doesn’t have a minimum amount of domestic content requirement, Ex-Im Bank limits its support to cover 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.

Ex-Im Bank Summary Data

As shown below in **Figure 26**, 42% of all Ex-Im Bank transactions contain foreign content. The average percent of foreign content per transaction has stayed within the 10-12% range for the last five years. Moreover, the export value (as a percentage) for transactions containing foreign content remains significant due to the prevalence of large aircraft activity, which constituted approximately 40% of Ex-Im Bank’s medium- and long-term activity. Large aircraft transactions are typically high dollar value and include, on average, 12% eligible foreign content. Conversely, smaller value transactions tend to include smaller percentages (e.g. under 10%) of foreign content. Approximately 55% of the total number of transactions supported by Ex-Im Bank contained no reported foreign content.

Figure 26: Recent Trends in Ex-Im Bank Support for Medium- and Long-Term Activity Containing Foreign Content*

Authorizations		2001	2002	2003	2004	2005
Total activity	Export value (\$MM)	\$7,109	\$8,212	\$8,386	\$8,935	\$9,341
	Number of transactions	227	222	232	241	262
Transactions containing foreign content	Export value (\$MM)	\$5,757	\$7,842	\$7,823	\$7,821	\$6,713
	Percentage of total value	81%	95%	93%	88%	72%
	Number of transactions	80	96	85	95	111
	Percentage of total number	35%	43%	37%	39%	42%
Foreign content	Volume (\$MM)	\$631	\$836	\$814	\$904	\$691
	Average per transaction	11%	11%	11%	12%	10%

*These figures exclude medium-term insurance

Appendix E provides a more detailed listing of foreign content contained in Ex-Im Bank's medium- and long-term transactions in 2005 at the time of authorization.

Exporter and Lender Survey 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. Several exporters urged Ex-Im Bank to consider shifting to a "national interest" policy as a way to meet the competition. In multiple instances, survey respondents indicated that Ex-Im Bank's requirement to identify the origin of all components puts "US exporters at a disadvantage in a global environment."

Conclusion

As foreign ECAs increasingly adopt a "national interest" policy and lower the minimum threshold of required domestic content, Ex-Im Bank's foreign content policy appears increasingly less competitive. Though Ex-Im Bank's approach to foreign content is more transparent and predictable than the approaches taken by our G-7 counterparts, it is the flexibility -- both in definition and direct support of foreign content -- that could result in a negative impact on Ex-Im Bank's competitiveness in specific cases.

Chapter 6: Public Policies – Stakeholder Considerations

Section D: Local Costs

Introduction

Local costs are goods and services originated or manufactured 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. (e.g., cement, construction workers, etc.). In contrast to foreign content, the OECD Arrangement sets the basic parameters on official local cost support. The OECD parameters allow ECAs to provide support for local costs up to the amount of the down payment, which according to OECD Arrangement rules is at least 15%.

Ex-Im Bank's Policy and Practice

When Ex-Im Bank provides medium- or long-term guarantee, loan or insurance support for U.S. exports, it may also provide up to 15% of the value of the U.S. exports (including eligible foreign content) for locally originated or manufactured goods and services. Ex-Im Bank's local cost policy reflects the premise that there is some amount of local labor and raw materials necessary to efficiently build or assemble the end product of the U.S. export.

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

For long-term transactions, automatic local cost support is generally available provided the local costs are related to the U.S. exporter's scope of work. Automatic local cost support is 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, the local costs need not be related to the U.S. exporter's scope of work, although the local costs must be beneficial to the project.

G-7 ECAs' Policies and Practices

All G-7 ECAs adhere to the basic local cost parameters set forth in the OECD Arrangement. That is, ECAs may provide support for local costs related to officially supported export transactions up to the amount of the down payment, which is typically 15%.

Over the past five years, pressure from both a globalizing world and content regulations in many buyer countries have been forces leading to a large expansion in the existence of local subsidiaries around the world. As a consequence, local capacity has dramatically improved, which has led to a change in the nature of the local goods and services ECAs are being requested to support. Traditionally, ECAs have provided local cost support for local labor and basic materials; however, due to a combination of the legal requirement to procure locally and improved local capacity, ECAs are being requested to provide support for locally manufactured capital goods.

There is growing interest among some ECAs (especially smaller ECAs) and exporters in enlarging the scope of official local cost support to cover more non-domestic content. ECAs are increasingly tempted to use expanded local costs support as a way to secure a “piece of the pie”.

The primary way ECAs have responded to pressure for expansion of local costs is to offer what is allowed more frequently. From broad information available, it appears that most ECAs now offer more local costs support fairly regularly.

Another way the pressure for enhanced local costs support shows up is in an ECA’s official proposal to eliminate local costs restrictions from the OECD Arrangement. That is, local cost support would no longer be restricted to the amount of the down payment (typically 15%), but rather, local costs could be financed up to 85% of the exporter’s contract. The essence of this proposal is gaining momentum within the context of the exporter agenda. Exporters argue that the OECD local cost limitations increase the cost to the buyer unnecessarily because to receive maximum ECA support, exporters are being forced to intentionally divert sourcing to a third country when the goods could actually be sourced locally.

A final way the pressure shows up is in the increased flexibility some ECAs are exhibiting in the definition of national content. For example, many foreign ECAs sometimes consider import duties and value added taxes as part of the domestic supply; in contrast, Ex-Im Bank always considers those costs as eligible for local cost cover only.

Summary Data

Figure 27 illustrates recent trends in Ex-Im Bank’s support of local costs. Since the Bank’s 2001 local cost policy revisions allowing greater flexibility for local cost support, there has been an overall increase in Ex-Im Bank support of local costs. The increase (from 18 transactions in 2000 to 88 in 2005) can be attributed to the fact that the revised procedures provided more small and medium-sized U.S. exporters with greater certainty that local costs support would generally be available. Although the dollar volume of local costs dipped in 2003, the dollar volume more than doubled from 2003 to 2004 and again doubled from 2004 to 2005, which has surpassed historical levels. The increase may be the result of applicants requesting the maximum local cost support in 2005. In 2005, three-quarters of local cost financing supported installation costs, on-

site construction, and labor costs. The remaining one-quarter was generally comprised of import duties and value-added taxes.

Figure 27: Recent Trends in Ex-Im Bank Local Costs Support

	Authorizations	2001	2002	2003	2004	2005
Total medium- and long-term activity	Export value (\$MM)	\$7,417	\$8,554	\$8,873	\$10,949	\$7,791
	Number of transactions	494	525	569	757	587
Medium- and long-term activity containing local costs	Number of transactions	17	33	57	79	88
	Percentage of total number of transactions	3%	6%	10%	10%	15%
Local costs	Volume (\$MM)	\$200	\$184	\$123	\$312	\$669
	Percentage of total medium- and long-term activity	3%	2%	1%	3%	9%

Exporter and Lender Survey Results

Though the majority of survey respondents indicated that Ex-Im Bank’s local costs policy was generally competitive when compared to its counterparts, exporters and lenders alike indicated that Ex-Im Bank’s local costs policy needs to go even further. Exporters have urged Ex-Im Bank to consider extending the “project finance flexibility” (i.e., the local costs need not be related to the U.S. exporter’s scope of work, but rather be beneficial to the project as a whole) to all programs.

Conclusion

Based on both comparative information regarding our G-7 ECA counterparts and on the exporting community’s actual experience with Ex-Im Bank’s revised local costs support policy, Ex-Im Bank’s local costs policy is considered to have a neutral impact on competitiveness.

Chapter 6: Public Policies – Stakeholder Considerations

Section E: U.S. Shipping Requirements

Introduction

In accordance with policies implementing Public Resolution No. 17 (PR 17) of the 73rd Congress, certain ocean-borne cargo financed by loans or credit guarantees from a U.S. government entity, such as Ex-Im Bank, must be transported on U.S. flag vessels, unless a waiver of this requirement is obtained from the U.S. Maritime Administration (MARAD). Exports financed through Ex-Im Bank's direct loan and long-term guarantee programs are subject to the U.S. flag vessel requirement.

The stated goal of PR-17 and other cargo preference legislation is to support the continued viability of the U.S.-flagged commercial fleet, which among other things, serves as an essential national security asset during times of war or national emergency. However, from the perspective of U.S. exporters, cargo preference requirements can make U.S. exports less competitive vis-a-vis foreign competitors, since foreign competitors have no similar requirements and U.S.-flagged shippers generally charge higher rates than their competitors.

Policy and Practice

In October 2004, Ex-Im Bank and MARAD negotiated a new Memorandum of Understanding on PR-17 shipping requirements that raised the threshold for the application of the requirement to Ex-Im Bank's guarantee program from \$10 million to \$20 million. The Memorandum, which includes the language below, went into effect on October 26, 2004.

“For transactions that are greater than \$20 million or are of terms greater than 7 years (even if the transaction is for less than \$20 million), exporters are still required to follow the traditional process. Specifically, exporters are responsible for ensuring that they comply with Ex-Im Bank policy implementing PR 17. Pursuant to PR 17, upon request, MARAD may waive the U.S. flag vessel requirement on a case-by-case basis.”

If a waiver is obtained, Ex-Im Bank may provide financing for goods shipped on vessels of non-U.S. registry. Since 2002, and including 2005, 100% of all waivers requested have been approved, except in the category of Statutory Waivers, which has a 90% approval rate. Statutory waivers may be granted if MARAD determines that a U.S.-flagged vessel will not be available within a reasonable amount of time or at a reasonable rate.

G-7 ECAs' Policies and Practices

None of the other G-7 ECAs have similar cargo preference restrictions.

Summary Data

Figure 28: Number of PR17 Waivers Approved and Denied

Waiver Type		2002	2003	2004	2005	Total	Percentage of Waivers Approved
General Waivers	Approved	3	0	0	1	4	100
	Denied	0	0	0	0	0	
Statutory Waivers	Approved	22	29	26	19	96	90
	Denied	1	5	2	2	10	
Compensatory Waivers	Approved	10	11	5	3	29	100
	Denied	0	0	0	0	0	
Conditional Waivers	Approved	0	0	0	1	1	100
	Denied	0	0	0	0	0	

Source: MARAD

Figure 28 shows the status waiver applications to MARAD for the years, 2002-2005. According to MARAD, all applications for statutory waivers that were denied were due to a determination by MARAD that U.S.-flagged vessels were available to carry the cargo within a reasonable amount of time and/or at a reasonable rate.

Exporter and Lender Survey Results

Exporters noted that the MARAD requirement is a factor that places them at a competitive disadvantage. Reasons for the disadvantage may include higher costs associated with shipping via U.S.-flagged vessels. Further compounding the problem coordinating shipping on these vessels may be relatively more difficult. One exporter stated that customers refuse to buy its equipment or use Ex-Im Bank financing because of the MARAD requirement. This exporter also noted recent MARAD program changes in support of small business have not been implemented despite Ex-Im Bank Board approval. (The program is to be implemented in 2006.)

Lenders claim that MARAD is not consistent in how it applies waivers. Several lenders note that the MARAD process has recently become more problematic. One lender provided the example of a deal in Brazil where the buyer wanted Ex-Im Bank as a participant in a seven-ECA transaction. However, because of the difficulty in obtaining MARAD waivers, the deal closed without Ex-Im Bank's participation. This hurts Ex-Im Bank's opportunity (and U.S. exporters) to participate in subsequent transactions.

A couple of recent oil and gas transactions illustrate the potential increased costs imposed by the MARAD requirement and its competitive implications to U.S. exporters. In a transaction that closed in December 2004 with shipments occurring in 2005, the borrower needed highly specialized ocean vessels to transport the required equipment. The borrower noted that the ocean freight price differential between a U.S. flag vessel and a foreign flag vessel was about \$3.6 million, where the U.S. flag vessel was more expensive. The project required about 8 more shipments of this kind and the borrower indicated to Ex-Im Bank that the MARAD requirement had created a financial burden on the project. Additionally, in a similar transaction that closed in December 2005, the borrower has so far not drawn any funds from Ex-Im Bank as the project is now re-evaluating the use of Ex-Im Bank due to the added financial burden caused by the required compliance with MARAD.

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 cargo preference rules appear to present a competitive disadvantage for U.S. exporters because none of the other G-7 ECAs have similar requirements related to shipping. However, although the MARAD waiver data appear to present the waiver process as an effective means of addressing any potential hardship or limitation placed on exporters by PR 17, the requirement remains a negative factor affecting Ex-Im Bank's competitiveness.

Chapter 6: Public Policies – Stakeholder Considerations

Section F: Ex-Im Bank’s Public Policy Competitiveness

The public policy requirements imposed on Ex-Im Bank are largely unique to the Bank as compared to the other G-7 ECAs. The exceptions are (i) local costs support where Ex-Im Bank has traditionally been fully competitive with its ECA counterparts, and (ii) foreign content where Ex-Im Bank is rated to be more restrictive than its counterparts. The other public policy factors which are shown below in **Figure 29** are areas, when present in a given transaction – and this appears to be happening more frequently -- that have a negative effect on Ex-Im Bank’s competitiveness, as no other G-7 ECA has a comparable requirement.

Figure 29: Grading of Ex-Im Bank’s Public Policy Competitiveness, 2005

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

Chapter 7: Results

For 2005, Ex-Im Bank’s overall competitiveness as compared to its G-7 ECA counterparts is deemed to be an “A”, meaning that the Bank was generally competitive with the other ECAs. This rating is the same as in 2004. Specifically, for 2005, Ex-Im Bank is rated as consistently offering terms equal to the average G-7 ECA. **Figure 30** shows that the core financing elements of premia, interest rate, and cover policy are important areas in which Ex-Im Bank met its competition. Overall, the Bank performed slightly less well against the average G-7 ECA in the major program structures, but still within the “generally competitive” range. While the aircraft and project finance programs are on par with competitors’ programs, the foreign currency guarantee and co-financing programs were not considered as favorably.

Figure 30: Grading of Ex-Im Bank’s Overall Competitiveness, 2005

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

In addition to the core structural elements of Ex-Im Bank’s financing, there are philosophical/policy aspects to the Bank’s support of transactions that may impact its competitiveness (see **Figure 31**). Chapters 5 and 6 described the Economic Philosophy and Public Policy objectives of Ex-Im Bank in comparison to its G-7 competition. With respect to Tied Aid and Market Windows, the U.S. position may have a **negative (or neutral)** impact on the competitiveness of Ex-Im Bank transactions—although the overall impact to competitiveness is minimal as these types of cases are infrequently encountered. With regard to the Bank’s public policy requirements, the Bank’s Economic Impact, Foreign Content and Shipping policies have always been considered to have a negative impact to competitiveness, while the Bank’s Local Costs policy’s impact on competitiveness was considered to be positive. However, in 2005, because other ECAs have changed to make local costs support more broadly available than in prior years, the Bank’s own Local Costs policy was considered to have a neutral impact on competitiveness.

Figure 31: Direction of Case-Specific Competitive Impact of U.S. Economic Philosophy or Public Policy on Certain Official Export Credit Activity, Procedures or Practices, 2005

Areas Affected by U.S. Economic Philosophy or Public Policy	Potential Case-specific Impact on Competitiveness
Economic Philosophy A. Tied Aid (direct or “de facto”) B. Market Windows	Negative (<i>infrequently encountered, therefore, a modest overall competitive impact</i>) Neutral (<i>would likely be negative if encountered</i>)
Public Policy A. Economic Impact B. Foreign Content C. Local Costs D. Shipping - PR 17	Negative Negative Neutral Negative

Ch. 8: Emerging Issues - Commercialization of ECAs

Section A: Overview

Purpose

The purpose of this chapter is to identify and broadly describe an emerging trend that could soon have a major impact on Ex-Im Bank's competitiveness. This trend is referred to here as the "commercialization" of ECAs – a short handed description that depicts the transformation of a steadily increasing number of ECAs from government/public policy focused organizations to entities that increasingly resemble private sector, profit oriented financial entities. There are three primary developments that seem to reflect this evolution toward commercialization:

- The introduction of portfolio management capabilities,
- The shift in focus toward high income/mature markets by ECAs, and
- The move from "national content" to "national interest"/"made in" vs. "made by"

While the latter development (made in vs. made by) may not necessarily fit neatly within the "commercialization" banner, the characteristics associated with this shift reflect private sector practices. Hence, this broad topic is included in this chapter.

This overview provides a broad framework of ECAs commercializing their operations by explaining:

- Why these developments are occurring
- How these developments relate to commercialization, and
- What the overall implications of these developments are that constitute this emerging trend called "commercialization."

Elements of "Commercialization"

Portfolio Management: The introduction of a portfolio management approach by ECAs reflects their attempt to better manage risks in such a way that the overall portfolio facilitates achievement of financial objectives. In a world of WTO mandates to run at a break-even and to price at market, as well as budget pressures to avoid any drain on national finances, portfolio management is a logical tool.

The importance of portfolio management to competition is that by substituting overall financial consideration of a portfolio for individual case "need/credit"

considerations as the determinant of ECA engagement on a specific case, the appetite of an ECA for transaction specific risk is likely to be different. Most particularly, it is possible that an ECA aggressively taking on “upside” business (in which “need” is little or none) could stretch a little further for individual “downside” business than a traditional case-by-case ECA.

High Income Markets: The shift in focus to high-income markets by the major ECAs represents an important mechanism with which to achieve and support a portfolio management and balancing objective. It may also reflect a desire on the part of these ECAs to expand their reach into riskier markets that they may not otherwise venture with the move toward high-income markets as the balancing component of such a strategy. Data to date strongly indicate that ECAs are putting a portion of activity in high-income markets. Whether the shift is facilitating “downside” expansion has yet to be determined.

“Made By vs. Made In”: The shift from national content to national interest is driven in large part by the compartmentalization of production/supply chains associated with globalization and the desire of many ECAs to keep their relevance by following their principal companies offshore. Hence, the rationalization is that it is better to win part of a contract rather than none at all. The competitive implications of a race to the bottom on content (both 3rd country and local) are obvious and substantial.

Ch. 8: Emerging Issues - Commercialization of ECAs

Section B: Portfolio Management

The term portfolio management (PM) is a short hand reference to the explicit undertakings (e.g., strategy and tools) used to manage the risks of a set of financial assets. Within the context of export credits, PM refers to actions ECAs take to evaluate, assume, manage and monitor the foreign commercial and political risks associated with a pool of credit risks they are asked to assume. The underlying theory and benefit of portfolio management is that when the assets (typically heterogeneous and diversified) are pooled together, the better risks help to offset the higher risks, yielding a portfolio that is “balanced.” The theory further states that as new assets are presented to be considered for inclusion in the portfolio and with a PM approach in place, the likelihood of a higher risk asset being undertaken improves because its effect (higher risk) on the overall portfolio is likely to be marginal/minimal (unless it is a very large dollar amount that distorts the balance in the portfolio) and therefore more acceptable as a risk to be taken. Simply put, PM is a strategy that requires the accumulation of low risk assets to create opportunities to assume higher risk assets leading to a balanced spread of risk.

Portfolio management is becoming a competitive issue. As explained in the Chapter regarding Cover Policy and Risk Taking (Chapter 3, Section A), cover policy describes whether and to what extent an ECA is willing to accept risk in a particular market and, if so, to what extent. Thus, an ECA’s willingness and ability to assume risks can have a significant impact on the overall competitiveness of a transaction. In an environment where most competitive factors, such as the terms and conditions involved in a given transaction are governed by the OECD Arrangement, the edge that an ECA can achieve in cover capacity, e.g., via “portfolio management,” has become a more important competitive factor.

Within this context of a rapidly evolving framework of export credits characterized by changing buyer risk profiles and the emergence of more and different tools to mitigate them, combined with the new pressures that are being brought to bear on ECAs, a number of the ECAs, as part of their more private sector-oriented approach to handling their business, have adopted new business models that include PM as an integral tool.

Portfolio Management Strategies and Tools for the Medium/Long Term

Traditionally, most ECAs, in addition to using cover policy as a risk management tool (open or closed and, if open, under what conditions?) have used country/buyer/sector exposure limits, credit standards, risk rating systems, and

exposure fee/pricing-to-risk models. Over time, the tools available to ECAs have become more sophisticated and allow ECAs to more precisely manage and monitor their portfolios on a real time basis. **Figure 32** is an indication of the range of differences in the underlying philosophies and the strategies and tools being used by a number of ECAs.

Figure 32: Risk Mitigation Techniques used by Major ECAs, 2005

ECA	LT BE /profit ¹	Budget flexibility ²	Pricing/risk models	Portfolio Management	PM IT systems ³	NIA ⁴	Reinsurance/risk sharing ⁵	FE: swaps ⁶
EDC	Y 2	Y	Y	Y	Y	Y	Y	
COFACE	Y 2	Y	Y	Y	Y			
ECGD	Y 2	Y	Y	Y	Y			Y
EFIC	Y 2	Y	Y	Y	Y	Y	Y	Y
EKN	Y 2	Y	Y	Y	Y		Y	
EKF	Y 2	Y		Y				
SACE		Y		Y	Y			
Hermes	Y 2	Y	Y				Y	
Atradius	Y 2	Y	Y	Y	Y		Y	
ERG	Y 2	Y				Y		
Finnvera	Y 2	Y					Y	
US Exim	Y1 LTBE	N	Y	N	N	N	N	N

Blank cells = unknown

¹ Y/N: ECA has either or both an explicit goal of a LT Break Even and/or to make a profit.

1-2: 1= only one of these objectives; 2= has both objectives

² Budget Flexibility: refers to the accounting standards used by ECAs' and their ability to capture repayments and other income to offset losses and administrative expenses.

³ Portfolio Management IT systems: The development and implementation of risk and portfolio management systems technologies has greatly facilitated, expanded, streamlined, and elevated ECAs' capabilities in this field to an entirely new level with access to comprehensive and real time knowledge about the nature of their portfolios. Moreover, with this knowledge, ECAs now have the added ability to adjust exposure limits, credit standards, cover policy, exposure fees, and risk rating systems in order to proactively rebalance their portfolios in a time-responsive manner like never before.

⁴ NIA: National Interest Account: Several ECAs have the option of creating and placing certain high risk or "national interest" transactions into a "National Interest Account" in which the ECA manages but does not bear the risk of any losses that may arise. A NIA provides a venue for ECAs to shift the high risk transactions from their balance sheet to their government's balance sheet.

⁵ A number of ECAs actively pursue private sector reinsurance as a means to spread the risk with other participants in the market generally on a facultative basis (one-off deals) but also on a treaty basis (portfolio). Reinsurance however tends to be limited in tenor, availability and in scope and does carry a cost. Several ECAs have also developed relationships with other lending organizations such as the multilateral development banks, private lenders, as well as with other ECAs.

⁶ FE: Examples of Financial Engineering such as ECA swaps, credit default swaps, creation and use of a Risk Sharing House, and syndications.

Ch. 8: Emerging Issues - Commercialization of ECAs

Section C: High-Income Markets

Background

As ECAs face a variety of pressures in a changing environment, one approach many are taking is to redirect their focus to operating in developed markets, particularly in high-income OECD countries such as the United States and Europe. The pressures driving ECAs in this direction include WTO findings that ECAs must break-even in order to avoid being considered a prohibited subsidy, as well as domestic demands to increase exports and to not drain limited budgetary resources. ECAs believe that by increasing their support into developed markets, they can increase profits and balance out the risks of their portfolios.

Rationales

ECAs pursuing a strategy of increased business in developed markets argue that they are complementing the private markets rather than competing with them. They contend that much of their support (based on number of transactions) goes to small buyers who would otherwise have difficulty finding financing for their purchases. ECAs' justification for their support of larger transactions is that they believe they are necessary due to banks' internal lending limits or other limits (e.g., sector concentrations). Finally, these ECAs claim that such business is fully compliant with OECD and WTO obligations because they require minimal subsidy, if any at all, and the premiums charged are market-based, do not undercut the private market, and are sufficient to break-even or make a profit.

Practices

This strategy is directly yielding a reallocation of ECA activity. While support to buyers in high-income OECD countries comprised only 20% of total ECA activity in the late 1990s, almost one-third, or \$21 billion, of all official export credits went to wealthy countries in 2004 (the last year for which data are available). Support for aircraft and ships comprise the largest portion (78%) of this activity by dollar volume, and a distant third being telecommunications projects estimated to represent roughly 6% (based on data from 1999 – 2005). The vast majority of transactions by number are spread across diverse industries.

While several ECAs have noted that they have specific quantitative criteria to determine whether a high income/mature market transaction can be financed with official ECA support (e.g., minimum dollar thresholds, minimum repayment terms), others have more qualitative standards such as whether the transaction is

worthy of, or requires state support, the acceptability of the risk, and finally, whether the transaction contains OECD compliant repayment terms as well as market benchmark premium/exposure fees.

The trend suggests that Ex-Im Bank's official ECA competitors are behaving more like private export credit providers by offering official export credit support in markets that are traditionally serviced by the private sector. As a result, Ex-Im Bank has seen an increase in requests to match competing ECA offers in high-income countries, and expects more such activity in the future. In light of its additionality policy, Ex-Im Bank will always be reactive rather than proactive in these markets.

Ch. 8: Emerging Issues - Commercialization of ECAs

Section D: National Content v. National Interest

There is a growing and accelerating tide of change (particularly in Europe) in the focus of the content policies of ECAs. The shift effectively copies the long-standing approach in Japan and Canada in which the focus is on national companies and their long-term benefit to the economy rather than on the direct labor/job impact of specific transactions. The shift is known as a move from “**made in “X”** (by national label) to “**made by “X”** (national corporation somewhere in the world). This new vector is reflective of a more comprehensive change in approach by an ever-growing cadre of ECAs regarding the issue of “content” and the location of the source of that content, and the amount of financing support that an OECD ECA can provide.

An important starting point regarding the issue of content is the current distinction of local cost/content and foreign content in the OECD Arrangement. “Local cost” is defined as an “expenditure for goods and services in the buyer’s country that are necessary either for executing the exporter’s contract or for completing the project of which the exporter’s contract forms a part.” The OECD Arrangement sets the terms allowable for local cost support that effectively translates into a maximum local cost support of 15%. For transactions in Category I countries, local cost support is limited to pure cover only. Over the past year or so, an effort has been underway to gradually relax the local cost limitation. The proposal is on the Participant’s formal agenda and momentum is growing among ECAs to address this concern.

“Foreign content” is neither defined nor governed by the OECD Arrangement. In Ex-Im Bank vernacular, foreign content is defined as content that originates in a 3rd country not including the buyer’s country (with the latter being “local cost.”)

The ultimate goal of those pushing the local cost issue (who are also moving toward a “made by” foreign content approach) is to eliminate the difference in treatment between local cost and foreign content, leaving only the 85% of “contract value” constrained. In fact, the line between “local cost/content” and “foreign content” has gotten blurred in specific cases over the past year or so. This opaque treatment is most pronounced within the context of the components of the good or project that are sourced from a foreign subsidiary (i.e., of the ECA’s country) in the buyer’s country and treated as either domestic or foreign content.

Although the underlying driving force of the content issue is the legitimate ECAs’ desires (perhaps need) to follow the fortunes of their national champion companies as globalization pushes them offshore, the net result is the creation of a totally “unregulated” component of official export credit that is both significant in its competitive implications and subject to widely varying philosophical applications within the Arrangement members. Such a development seems to set the stage for exactly the type of “race to the bottom” that the OECD Arrangement was created to deter.

As ECAs agree to stretch beyond their borders and Ex-Im Bank continues to confine its support to domestic production, the playing field is likely to become more uneven. U.S. exporters are likely to find themselves competing against foreign ECA-backed financing packages that extend cover to a larger share of the contract when third country content exceeds 15%. The ability to access this additional ECA financing to support goods and services that originate outside the ECA country may influence procurement decisions away from the U.S., which would leave U.S. exporters at a competitive disadvantage.

Chapter 9: Emerging Issues - Emerging Market ECAs of China

I. Introduction

Over the course of the last several years, three emerging market export credit agencies (ECAs) outside of the OECD have surfaced as potentially significant players in the ECA world. The countries are China, India, and Brazil. Of the three, China and its ECAs have shown the most dramatic increase in terms of activity levels: China Eximbank is the lending ECA; Sinosure is the insurer/guarantor ECA, and most recently, the China Development Bank has become an export credit lender in addition to its more traditional international role in the foreign direct investment field. However, none of China's ECAs are members of the OECD and are under no obligation to follow the OECD Arrangement on Export Credits which sets the rules for official export credits (e.g., credits offered by governments). On the other hand, the insurer/guarantor ECA, Sinosure, is a member of the Berne Union that offers guidelines and general principles for export credits.

The balance of this chapter concentrates on the strategies, programs, and practices of the Chinese ECAs. Collectively, the published reports by China Eximbank, Sinosure, and to a lesser degree, China Development Bank, offer clear evidence that their activity levels are surging dramatically higher. At this pace, the Chinese ECAs, as a collective entity, will become the single largest export credit provider among all countries by 2010. While Sinosure and China Eximbank each note in their annual reports that they generally abide by the Berne Union Guidelines (Sinosure) and the OECD Arrangement (China Eximbank), the latter also acknowledges in the same report that they offer financing on preferential terms through their Concessional/Preferential Loan program and their buyer's export credit program. However, details regarding specific financing offers in these two programs are not published. Thus, the best information Ex-Im Bank has been able to collect regarding China's export credit financing practices is a combination of US exporter and/or lender allegations, information from other OECD ECAs regarding their own experiences, and press reports both before and after the contract award process.

The purpose of this special analysis chapter is to provide (1) a more detailed understanding of the objectives, goals, programs, and approaches that the Chinese ECAs have adopted on behalf, and in support, of the Chinese government's economic and growth strategy, and (2) where these strategies and intent take them in terms of their breadth and incidence as a US competitor if one extrapolates to 2010.

II. Chinese Strategy

A. Background

In 2001, China joined the World Trade Organization (WTO), and as part of that accession, agreed to implement policies and reforms that would lead to broad access to the Chinese market place by other countries. Since then, China has made steady progress towards these goals. One observer characterized this transformation as a methodical pacing of reforms that allows the Chinese industrial and services sectors time to adapt to the pressures of the international competitive marketplace. Accordingly, the balance of this chapter concentrates on the Chinese government's strategy, programs and practices particularly regarding Chinese exports and the official export credit support for its most important industrial sectors.

B. Chinese Strategy

Key to understanding the vision of China as it applies to its strategy regarding exports and export credit financing is recognizing that export credit strategies are an integral component of an overarching Chinese economic strategy. Specifically, in the 10th 5 Year Plan announced in 2001, the theme was a "going out/going global" strategy in which companies of all types (and the agencies designed to assist them) were strongly encouraged to identify and pursue international recognition and markets where Chinese economic interests could best be served. The recently adopted 11th 5 Year Plan, while very similar to the 10th Year Plan, reflects the recognition that this strategy will require a substantive and timely response to the growing perceptions of inequality (e.g., wages/income, education, employment opportunities) among the population, especially in the rural and less developed provinces in the western and northeastern parts of the country. Accordingly, the current strategy is to broaden and deepen the beneficial impact of the "going out" strategy to all sectors, regions and populations within China's borders.

One aspect of the overall strategy is to put special support on activities where China benefits from both sides of the "equation"/activity. Hence, an example might be a case in which China gives special financing support to the Indonesian rail sector to both help Chinese exports of locomotives get a foothold in a major market and simultaneously, assist financially in the development of an improved rail system that facilitates the shipments of Indonesia's many resources to China.

C. Organization of “Export China”

1. Oversight

The State Council (of the People’s Republic of China), also known as the Central People’s government, is the highest executive body of State power. The State Council is chaired by the premier and comprised of the vice premiers, State counselors, and ministries – in total about 50 individuals representing key government agencies/ministries. The State Council is comparable to our cabinet, although the SC is much larger. The three ministries that are members of the State Council, and are directly relevant to and have varying degrees of oversight responsibilities for the two Chinese ECAs, China Eximbank (CXM) and Sinosure, include the Ministry of Commerce (MOFCOM), the Ministry of Finance (MOF), and the Ministry of Foreign Affairs (MOFA). The role that the ministries play in the ECAs is described in more detail in the ECA sections below.

2. Export Credit Agencies

The Chinese agencies that support Chinese exports are the China Eximbank, Sinosure, and the China Development Bank (CDB). Each has a specific responsibility with China Eximbank and, more recently, CDB assigned the task of providing direct lending to foreign buyers. Sinosure provides export credit insurance, assuming the risks of the foreign buyer on behalf of private lenders willing to extend the actual funding. Notwithstanding the discrete functions assigned to each agency, there is the potential for significant overlap among them. This cadre of ECAs as organized today is modeled after the Japanese export credit structure.

a. China Eximbank

China Eximbank (CXM) was formed in 1994 as the official export credit financing agency of the Chinese government, is wholly owned by the Government of China (GOC), and operated as a policy bank. As such, CXM implements the policy of the GoC (as opposed to making it). CXM has a Board of Directors comprised of various members of the State Council and reports directly to the State Council with “authority” over its activities loosely governed by the Ministry of Commerce (MOFCOM) – and, to a lesser degree, the Ministries of Finance and Foreign Affairs. Most recently, the Chinese banking regulators (Chinese Banking Regulatory Commission – CRBC) announced that a special department is being created to provide greater supervision of “policy-oriented banks,” with a special focus on the risk profile of these lending agencies. Supervision of China Eximbank and China Development Bank will fall within this new department.

CXM officials noted that it focuses its support to promote the export of Chinese mechanical and electronic products, complete sets of equipment,

high and new tech products, and to support Chinese companies with comparative advantages to go abroad for overseas construction contracts and offshore investment projects. Further, the implementation of a new five point proposal is under consideration in which CXM committed to help developing countries by providing \$10 billion of preferential credits within 3 years, another \$5 billion preferential credits for the ASEAN countries, as well as the implementation of the \$900 million preferential export buyer's credit for other Shanghai Cooperation Organization (SCO)¹ member states. (See also China Development Bank section.) However, it is not clear under which of the existing programs these commitments would be pursued.

Figure 33: China Eximbank Activity 2000-2005 (in \$mns)*

China Eximbank	2000	2001	2002	2003	2004	2005**	2010***
M- & L-term	NA	NA	\$4,560	\$ 8,690	\$10,100	\$15,000	\$40,000

* These data are based on the China Eximbank annual report and/or their press releases. It should be mentioned that the M/LT data is probably overstated by \$1 billion or more because it includes investment loans.

** Estimate: In 2005, CXM portion of Chinese exports supported = 2%.

***2% of estimated Chinese exports of \$1.720.6 bn in 2010 = \$34 bn.

In 2004, CXM reported a commitment level of roughly \$10 billion for its medium and long-term export credit business and for 2005, an estimated \$15 billion. Based on these figures, CXM is claiming to be the 3rd largest ECA in the world. Also, it intends to keep growing at a rapid clip, and if CXM achieves its goal of supporting a larger share of Chinese exports -- for example a 5% share -- its volume of medium and long term activity could reach \$85 billion by 2010.

¹ Shanghai Cooperation Organization (SCO) is an intergovernmental international organization founded in Shanghai on June 15, 2001 and is comprised of 6 countries: China, Russia, Kazakhstan, Tajikistan, Krygystan, and Uzbekistan. The main purposes of the SCO include strengthening mutual trust, friendship among member states, developing effective cooperation in political affairs, the economy and trade, science and technology, culture, education, energy, transportation, environmental protection, and working together to maintain regional peace, security and stability and promoting the creation of a new international political and economic order featuring democracy, justice and rationality. As part of the economic cooperation strategy, the SCO also adopted a "Process of Trade and Investment Facilitation" and in 2002, mechanisms for economic and trade cooperation were established.

CXM currently offers three primary products: (1) export credit (buyer and supplier), (2) concessional loans to other governments, and (3) guarantees.²

CXM's buyer credit program is available for medium and long-term tenors to creditworthy foreign borrowers to support the export of Chinese capital goods, services and overseas construction projects in amounts greater than \$2 million. According to CXM, these credits are normally in dollars (US \$) or other hard currencies and carry a "competitive interest rate" which they define as either a fixed rate based on the OECD CIRR for the currency or a floating rate of LIBOR + a spread. There also appears to be another category of loans within the buyer credit program defined as "special cases" in which the interest rate can be negotiated and decided between the lender and the borrower, possibly on a "preferential" basis. In addition, the buyer credits carry a longer repayment period than supplier credits (e.g. 15 years – 20 years according to the CXM information). A management fee of .5% is charged. In addition, a commitment fee and exposure fees are charged, but it is unclear on what basis.

Regarding CXM's concessional loan program, CXM provides only an outline of information and does not publish either the overall amount of preferential loans they had made during recent years, nor do they provide the specific terms and conditions (e.g., interest rate, repayment term tenor) that are offered. According to their annual report, these loans are medium and long term, low interest rate renminbi /Yuan credits extended typically to foreign governments to purchase Chinese mechanical and electrical products, sets of equipment, high tech products, services and other materials.

This program is typically used when Chinese benefits can occur on both sides of the transaction. An example would be the sale of Chinese manufactured locomotives and an improved rail system in the buyer's country. These transactions also generally involve infrastructure development (e.g., energy, transportation and telecommunications), industrial development (e.g., manufacturing and mining), and social welfare (e.g., health care, housing). Discussions with CXM officials revealed that these loans typically are at interest rates in the 2-4% range (RMB) and repayment terms generally at 10 years (but can be up to 20-30 years).

CXM will only provide support to Chinese-owned and domiciled companies. Accordingly, their exporter profile consists of large state owned enterprises (SOEs) or large wholly private or partially government

² CXM also offers an on-lending program to domestic projects with foreign government loan funds and foreign direct investment financing, and in 2006, they intend to offer import credits to support the development of certain industry sectors of strategic importance.

owned companies in certain key sectors: ship building, telecom, power, and high technology.

When compared with the OECD Arrangement, CXM's terms and conditions for its products are:

- Similar with regard to the minimum fixed rate CIRR lending rate for “standard” buyer credits.
- Probably a little less than the CIRR for the “special”/”preferential rate” cases within the Buyer Credit and the concessional loan programs as the OECD Arrangement does not permit the flexibility for negotiated rates lower than the CIRR.
- Probably a little longer as 15 years is only available for nuclear power plants and renewable energy within the OECD.
- Generally the OECD Arrangement has a protocol for the minimum exposure fees allowable.

During 2004 and 2005, CXM undertook a number of lines of credit and/or loan commitments on behalf of several of the large companies, most of which are SOEs in a range of countries/regions. (NB: the information and specific details provided below are based on information from press reports and other sources deemed highly reliable.)

Country or region-specific export credits:

- 2004/2005: Philippines: CXM extended a concessional loan of \$400 million to support the development of Phase 1, Section 1, of the North Rail project. 20 year repayment, including a 5-year grace, 3% interest rate. China National Machinery and Equipment (CNMEG) was awarded the contract.
- 2005: Tunisia: CXM offered 13 years repayment including 3 years grace period at 2.5% \$US³ loan for telecommunications equipment.
- 2005: Uzbekistan: CXM offered a loan with 25 years total maturity, including 5 years grace at 2% interest for computer equipment
- 2002/2004: Indonesia: CXM offered an export credit package of approximately \$400 million for three projects of which one involved the construction of a bridge and tied to Chinese exports.

³, ⁴ While the information obtained states that these loans were in \$US, CXM's concessional loan program information notes that CXM lends only in RMB in this program whereas the Buyer Credit program can lend in other currencies. Thus, it is not entirely clear under which program these credits were extended or the actual currency of the loan.

The financing offer included a \$US⁴ loan with a repayment term of 15 years with a 7 year grace period at 3%.

Exporter-specific “going global” credits⁵

- December 2005: CXM signed agreements totaling 10.3 billion RMB with Beijing Construction Engineering Group Corporation (BCEGC), the Founder Group and CGC Overseas Construction Co. Ltd. to support their “going global” strategies.
- December 2005: CXM signed an export credit financing agreement on behalf of Hunan Valin Steel and Iron valued at RMB 5 billion (\$620 million) for world wide exports.
- December 2005: CXM signed an export credit agreement with China Machinery Group (CMGC) for \$3 billion to support its exports of electronics and hi tech products and overseas investment.
- March 2005: World-wide: CXM provided RMB 6 billion (\$750 million equivalent) export credit support to TCL Group for their exports of mechanical and electronic products, high and new tech products, overseas investment projects and offshore contracting projects and other “going global” activities.
- August 2005: World wide: CXM and China Huaneng Group signed a Strategic Cooperation Agreement for a \$5 billion line of credit for 3 years to finance Huaneng Group’s “going global” activities that includes both exports and foreign investments.

b. Sinasure

Sinasure is the official export credit insurance agency of the Government of China, is wholly owned by the GoC, and is operated as a policy agency of the GoC; that is, Sinasure does not develop policy, rather, it implements policy. Sinasure was created in 2001 when PICC, the-then export credit agency that included China Eximbank, was dissolved and China Eximbank and Sinasure were formed as separate entities reporting to different authorities. Sinasure’s primary guardian authority is the Ministry of Finance but the Ministries of Commerce (industrial policy) and Foreign Affairs (diplomatic/political policy) have a tangential relationship with Sinasure as well. Sinasure states that it operates on commercial terms and

⁵ The exact CXM program, the specific terms and conditions that have been used to fund these credits, and the specific uses of these credits are not known.

abides by the guidelines of the Berne Union and the OECD⁶ (although it is not a member of the latter).

According to Sinosure, their authority to make independent decisions on transactions is limited primarily to the short-term area and smaller sized deals. In the medium and long term export and investment insurance areas, any (including short term) transaction greater than \$30 million requires the Ministry of Finance approval. Moreover, the MoF also plays a more hands-on role in the medium and long-term area, often participating in transaction decisions and setting policy and guiding practices. Sinosure has operated primarily as a short term export credit support institution, with the majority of its medium and long term assistance provided for CXM transactions/projects.

Figure 34: Sinosure Activity 2000-2005 (in \$mns)

Sinosure	2001	2002	2003	2004	2005*	2010**
Short term	\$1,430	\$1,750	\$4,260	\$10,640	\$17,777	\$90,000
M- & L-term	\$940	\$ 820	\$1,360	\$2,060	\$3,423	\$30,000
TOTAL	\$2,370	\$2,820	\$5,620	\$12,700	\$21,200	\$120,000

* Estimate

** Projection based on a conservative estimate factoring in the average rate of growth over last 5 years.

As shown in **Figure 34**, Sinosure's book of business has grown dramatically: from a low of \$ 2.4 billion in 2001 to an estimated \$21 billion in 2005 representing roughly 6.4% of Chinese exports. Of that amount, roughly 86% (in dollar volume) is short-term business spread across 160 countries in the developing and developed world (e.g., US, Hong Kong, the EU, South Korea representing the top country exposures). The remaining 14% is spread across the other product lines, with a little over half being medium/long term (while investment finance accounts for the remainder).

⁶ The Berne Union is an international membership organization comprised of public and private sector export credit insurance providers with 52 members from 42 countries. Its focus is to promote the international acceptance of sound underwriting principles of export credit insurance and the establishment and maintenance of discipline in the terms for international trade and foreign direct investment. To this end, the Berne Union has a set of guidelines which contains guidance regarding repayment terms, form of repayment, lines of credit and down payments.

The medium/long term portfolio however has a very different and higher risk profile: Sudan, Cuba, Angola, Nigeria, Iran, Philippines, Brazil, and Pakistan. Sinasure's management has stated that they intend to increase its new business commitments to \$30 billion in 2006, increase its share of Chinese exports to 10% by 2007, which could mean an annual volume of \$170 billion by 2010 (with a medium/long term volume of \$45 billion at the current proportion of 25%).

In its capacity as a credit insurer, Sinasure works closely with the private banking community which is currently dominated almost entirely by foreign banks operating in China, namely Societe Generale, BNP Paribas, and Citigroup as the largest players. Sinasure has also entered into a number of cooperative financing agreements with other ECAs with the most recent being EDC/Canada (others include: Euler Hermes/Germany, Sace/Italy, MIGA/World Bank).

According to Sinasure, it cooperates with China Eximbank and most recently, but to a lesser degree, China Development Bank. Sinasure does provide insurance for transactions funded by China Eximbank and thus far, reportedly roughly 60% of Sinasure's medium/long term activity is risk cover for transactions originated and funded by China Eximbank. Sinasure indicated that this business is evaluated on the same basis as non-Eximbank directed business – i.e., on commercial terms.

The exporter/sectoral composition of Sinasure's current portfolio is apparently dominated by large SOEs as well as a number of private or minority government share companies in certain key sectors: Telecommunications (both Huawei which is employee-owned and ZTE, state owned); Sinopec (petroleum); forestry (mainly in Russia); and hydropower.

Sinasure's medium and long term export credit product is in the form of export credit insurance in which Sinasure assumes the risk of non-payment by the foreign buyer due to either/or both commercial and political events. Sinasure charges an exposure fee but their fee system and details regarding the levels of fees are not published. Sinasure is a member of the Berne Union and states that its programs operate on a commercial basis and are in compliance with the Berne Union guidelines. When compared with the Berne Union (and by reference, the OECD Arrangement as previously noted), Sinasure's terms and conditions for its product are generally:

- Similar with regard to total repayment term and form of repayment
- Similar with regard to down payments (15% minimum)
- Unclear with regard to minimum exposure fees as required by the OECD

However, anecdotal information regarding Sinosure's practices suggests that there have been a limited number of situations in which their financing has not exactly matched the Berne Union Guidelines. However, because sufficient information/documentation has not been provided, the specific transactions cannot be cited as examples of not matching the Berne Union Guidelines.

c. China Development Bank (CDB)

CDB was formed in 1994 and is under the jurisdiction of the State Council. Similar to CXM and Sinosure, the CDB is a policy bank that has traditionally focused primarily on internal domestic economic development with special emphasis on infrastructure and pillar industries.

Given this focus, CDB's financial support has been concentrated in rural development in the western and northeastern regions of China, all areas around the Yangtze River where efforts are being made to revitalize old industrial bases as well as facilitating the development of new and efficient industries, especially in those sectors of critical importance, e.g., energy independence (oil, coal, electricity), transportation (railways, highways) and telecommunications. More recently, CDB has expanded its focus in several areas considered essential to establishing and maintaining China's long term competitiveness: R&D/innovation and the development of Chinese high quality "brand name" industries/companies; SME's; and support for certain companies in their overseas expansion in the form of foreign investments and trade of a "developmental nature."

CDB offers loans which are divided between short term (less than one year), medium term (1-5 years) and long-term (> than 5 years). For large infrastructure projects, the maturity can be extended based on the needs of the industry and project. The loans are available in RMB and in foreign currencies with interest rates set according to the People's Bank of China. Based on available information, it appears that export credits in the form of direct loans are available primarily in foreign currencies and are held for CDB's account. Finally, none of the published information regarding CDB addresses whether an exposure fee is charged for the risks the Bank is assuming.

Activity levels for CDB's foreign lending for the purposes of "going global" show that during 2004, CDB approved \$780 million, and by 2005 year-end, the cumulative total amounted to roughly \$8 billion. Recent examples of CDB funded overseas projects are noted below:

- January 2006: Uzbekistan: CDB to open by mid 2006 a \$20 million credit line for Uzbek National Bank for Foreign Economic

Activity to support the deliveries of Chinese-made equipment and technology on 9 year terms, 2 year grace period.

- August 2005: World wide: CDB agreed to provide a RMB 8 billion (approximately \$1 billion) for TCL's overseas expansion projects involving multi-media terminals, mobile handsets, accessories and parts and household appliances and as noted by CDB " a non commercial strategic cooperation intended to promote the Chinese company's competitiveness in international markets."

III. Summary

Figure 35: Total Chinese Officially Supported Export Finance (in \$mns)*

China	2000	2001	2002	2003	2004	2005	2010**
M- & L-term	\$1,770	\$ 940	\$5,380	\$10,050	\$12,940	\$18,423+	\$70,000

* This probably overstates the total business done by China Eximbank and Sinosure. This is due to the fact that Sinosure insures a portion of China Eximbank's business. As mentioned above, the extent to which the two agencies work together is uncertain. ** Projected & does not include any estimate for CDB.

China has defined and is implementing its short and long-term strategy to ensure a prominent position. Export credits play a major and integral role in this strategy. Some implications include:

- China intends to use export credits aggressively and expansively on a global basis as they represent critically useful instruments in achieving an improved position for the country's key industries.
- To the extent possible, the use of the financing instruments will comport with international guidelines and standards; however if necessary to consolidate this position, the financing offered may be extended on terms and conditions that give them a competitive advantage.

Appendix A: Calculation of Ex-Im Bank Grade

In the body of this report, Ex-Im Bank graded its policies and programs. In the sections of the report pertaining to the core financing programs and practices, grades 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 (i.e., response was an '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. The following chart in **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 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. For this report, 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 2005 by purpose and program type.

Figure B1: Ex-Im Bank Transactions by Purpose, 2005

	No Private Sector Finance Available		Meet Competition		Not Identified	
	(\$MM)	(#)	(\$MM)	(#)	(\$MM)	(#)
Working capital guarantees	\$697	339	0	0	\$445	202
Short-term insurance	\$3,630	1,855	0	0	0	0
Medium-term insurance	\$349	286	\$22	18	\$0	0
Guarantees	\$3,242	236	\$3,391	25	\$1	1
Loans	\$0	0	\$0	0	0	0
TOTAL	\$7,918	2,716	\$3,413	43	\$446	203

Appendix C: Exporter and Lender Survey Results

Introduction

Ex-Im Bank annually surveys exporters and lenders that use the Bank's medium- and long-term programs. 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 exporters and lenders of Ex-Im Bank programs to get more detailed comments about the global market in which they operated in 2005 and the competitive implications for Ex-Im Bank.

Survey

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 in the policies and programs 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 2005. In total, 53 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 55%. The response rate for lenders and exporters was roughly the same, with 57% of lenders responding and 52% of exporters responding.

Figure C1: Survey Response Rate, 2005

	Lenders	Exporters	Total
Number surveyed	28	25	53
Number responded	16	13	29
Response rate	57%	52%	55%

Lenders

Figure C2 shows the lender experience levels for both length of time in business and experience in export finance. All, except for one lender, had been in business for more than ten years and the vast majority had well over 20-plus years of experience in export finance. **Figure C3** shows the volume of export credits extended during 2005. The respondents to the survey were roughly split equally between the larger lenders (i.e., banks with over \$500 million in export credits) and the smaller regional lenders. [Note: Four of the 16 surveyed lenders did not report information related to their volume of export credits or the portion of their export credits supported by Ex-Im Bank.]

Figure C2: Lender Experience Levels, 2005

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	1	3	12
Time in export finance	0	4	2	10

Figure C3: Volume of Lenders' Annual Export Credits, 2005

	Under \$10 million	\$10 - \$50 million	\$51 - \$100 million	\$101 - \$500 million	\$501 million - \$1 billion	Over \$1 billion
Number of Lenders	1	3	0	3	2	3

Figure C4 shows the percentage of lenders' export credits extended during 2005 that were supported by Ex-Im Bank during the year. Six of the reporting lenders noted that Ex-Im Bank support constituted less than 25% of their export credits extended during the year. Of those lenders reporting the volume and percentage of export credits, five of the lenders reported having over 50% of their export credit being supported by Ex-Im Bank.

Figure C4: Percentage of Lender Export Credits That Were Ex-Im Bank Supported, 2005

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Number of lender's whose export credits were supported by Ex-Im Bank	3	3	1	3	2

Nearly all of the lenders surveyed (15 of 16) noted that the lack of useful private sector financing was the reason for pursuing Ex-Im Bank financing, particularly for financing transactions in Asia and Eastern Europe. Also, nearly all of the lenders (14 of 16) stated that Ex-Im Bank support was needed to meet competition from foreign companies that receive ECA financing. The ECAs identified by the lenders as the most “regular” partners were EDC, Euler-Hermes, and ECGD. Euler-Hermes, EDC and Coface were cited as the ECAs that lenders most often faced in competition.

Exporters

Figure C5 shows the distribution of exporters by time in business, and **Figure C6** shows the size of exporters based on sales and export sales volume, for those that reported sales volumes. The majority of exporter respondents were long-standing, large companies. The majority of exporters reported being in business for greater than 21-plus years, and nearly all of these have also been involved in exporting for well over 20 years. All exporters that reported sales indicated 2005 sales volumes over \$1 billion and three exporters also had export volumes over \$1 billion. [Note: Nine of thirteen exporters did not report their volume of annual and export sales, yet the majority of these non-reporting exporters could be considered large businesses.]

Figure C5: Exporter Experience Levels, 2005

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	2	1	10
Time in exporting	0	1	3	9

Figure C6: Volume of Exporter Annual Sales and Exports, 2005

	Under \$10 million	\$10 - \$50 million	\$51 - \$100 million	\$101 - \$500 million	\$501 million - \$1 billion	Over \$1 billion
Total sales volume	0	0	0	0	0	4
Total export sales volume	0	0	0	0	1	3

Figure C7 shows the distribution of exporters by the percentage of export sales that were supported by Ex-Im Bank. Of the three respondents that indicated using Ex-Im Bank for less than 10% of export sales, two were larger corporations with annual export sales greater than \$1 billion.

Figure C7: Percentage of Exporters Sales That Were Ex-Im Bank Supported, 2005

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export sales supported by Ex-Im Bank	2	1	1	0	0

Roughly half of the exporters surveyed (7 of 13) indicated regular experience working with other ECAs. Two of the exporters indicated that they had worked with every G-7 ECA during 2005. Of the non G-7 ECAs, Sinosure (China) and KEIC (Korea) were most often cited as a partner with the exporters. However, most of the exporters surveyed (10 of 13) reported facing regular competition from foreign companies that were supported by their national ECAs throughout 2005. The most commonly identified ECAs were Euler-Hermes and ECGD.

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.
- France** ▪ **Compagnie Française d’Assurance pour le Commerce Extérieur (Coface)** is a private insurance company that provides, in addition to short-term insurance that goes on its own book, official medium- and long-term 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 on 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. KfW also administers the provision of German tied aid funds. The decision as to where and how tied aid should be used rests with another part of the German government. At the end of 2003, KfW announced that the majority of its export credit business would be spun off into an independent, 100%-owned subsidiary called KfW IPEX-Bank (this spin-off will be finalized by 2008). KfW will continue to offer export credit support on a limited basis: in a syndicate for less risky markets and on its own only in the riskiest markets.
- Italy** ▪ **SACE**, or the Istituto per i Servizi Assicurativi del Commercio Estero, provides official export credit insurance. Pursuant to 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 new structure, SACE continues providing medium- and long-term official export credit insurance and began to provide short-term insurance on 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.

- 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, investment and import credits.

- 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 to provide short-term export insurance to a U.K. exporter who wishes to sell a product to a market where official export credit support is customarily available from other countries.

In July 2004 the U.K. government announced a series of changes to ECGD that were designed to provide greater certainty for ECGD’s future. The most significant of these changes was the announcement that a pilot ECGD Trading Fund will operate from April 2005 as a trial for the statutory Trading Fund, which is scheduled to start in April 2007. The Trading Fund will have a specific target rate of return, but despite fears expressed by U.K. exporters, ECGD’s Chairman of the Board has stated in ECGD’s 2003-2004 Annual Report that the Trading Fund “should not result in any increase in premium or reduction in cover.”

Appendix E: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions in 2005*

Country	Product/Project	Export Value	Foreign Content Percentage**
Albania	Air Navigation System***	\$42,000,700	6%
Australia	Large Aircraft***	\$76,339,173	15%
Austria	Large Aircraft***	\$86,571,017	15%
Belize	Transportation Equipment	\$10,780,959	9%
Brazil	Generator	\$22,287,093	15%
Brazil	Medical Equipment	\$633,475	23%
Brazil	Medical Equipment	\$880,388	6%
Brazil	Medical Equipment	\$886,180	7%
Brazil	Medical Equipment	\$1,653,965	29%
Brazil	Transportation Equipment	\$6,500,000	11%
Canada	Large Aircraft	\$145,831,925	16%
Canada	Large Aircraft	\$326,488,091	17%
Chile	Navigation Equipment	\$388,949	7%
Chile	Large Aircraft***	\$79,073,307	9%
Chile	Large Aircraft***	\$178,427,192	9%
China (Mainland)	Plastic Production Equipment	\$1,112,050	15%
China (Taiwan)	Large Aircraft	\$157,500,000	5%
China (Taiwan)	Large Aircraft	\$332,200,000	5%
Colombia	Machinery Equipment	\$1,479,258	4%
Costa Rica	Agricultural Equipment	\$1,137,325	2%
Costa Rica	Transportation Equipment	\$777,074	26%
Dominican Republic	Air Conditioning & Heating Equipment	\$1,263,680	11%
Egypt	Ammonia Plant	\$181,949,417	1%
Ethiopia	Large Aircraft	\$134,706,962	9%
Germany	Large Aircraft***	\$77,356,805	15%
India	Industrial Machinery	\$1,984,188	9%
Ireland	Large Aircraft	\$112,000,000	14%
Ireland	Large Aircraft	\$280,000,000	14%
Israel	Chemical Equipment	\$35,359,400	9%
Kazakhstan	Agricultural Equipment	\$580,000	14%
Kazakhstan	Agricultural Equipment	\$2,724,200	13%
Kazakhstan	Agricultural Equipment	\$5,540,000	11%
Kazakhstan	Agricultural Equipment	\$5,596,800	13%
Kazakhstan	Agricultural Equipment	\$5,686,780	13%
Kazakhstan	Agricultural Equipment	\$7,328,000	14%
Kazakhstan	Agricultural Equipment	\$13,912,800	13%
Kazakhstan	Agricultural Equipment	\$15,000,000	14%
Kazakhstan	Telecommunications Equipment & Services	\$50,400,222	23%
Kazakhstan	Transportation Equipment	\$5,312,287	12%
Kazakhstan	Transportation Equipment	\$19,969,000	14%

Country	Product/Project	Export Value	Foreign Content Percentage**
Kazakhstan	Transportation Equipment	\$21,740,000	14%
Kenya	Large Aircraft	\$123,938,536	12%
Kenya	Large Aircraft	\$124,540,593	12%
Korea	Large Aircraft	\$136,360,148	13%
Korea	Large Aircraft	\$139,369,480	13%
Korea	Large Aircraft	\$225,420,000	9%
Korea	Small Aircraft	\$7,446,000	4%
Mexico	Air Conditioning & Heating Equipment	\$485,880	2%
Mexico	Chemicals	\$343,863,188	1%
Mexico	Cinema Equipment	\$1,356,287	3%
Mexico	Construction Equipment	\$300,000	38%
Mexico	Commercial Equipment	\$796,812	5%
Mexico	Computer Equipment	\$458,752,423	1%
Mexico	Construction & Mining Equipment	\$650,500	10%
Mexico	Construction & Mining Equipment	\$4,054,118	9%
Mexico	Construction Equipment	\$600,000	5%
Mexico	Food production equipment	\$1,124,940	3%
Mexico	Greenhouses	\$636,488	7%
Mexico	Heating Equipment	\$685,780	4%
Mexico	Machine Tool Equipment	\$497,630	19%
Mexico	Medical Equipment	\$1,144,000	10%
Mexico	Mining Equipment	\$128,970,614	4%
Mexico	Oil & Gas Equipment	\$16,200,000	9%
Mexico	Printing Equipment	\$942,375	1%
Mexico	Printing Equipment	\$1,060,000	10%
Mexico	Radiator Equipment	\$885,000	2%
Mexico	Small Aircraft	\$5,665,000	10%
Mexico	Large Aircraft***	\$150,000,000	15%
Mexico	Textile Machinery	\$4,168,177	7%
Mexico	Transportation Equipment	\$300,872	15%
Mexico	Transportation Equipment	\$2,114,000	33%
Mexico	Transportation Equipment	\$312,500,000	20%
Mexico	Water Purification Equipment	\$772,827	15%
Mexico	Wood Container & Pallet Equipment	\$1,023,634	10%
Mexico	Wood Container & Pallet Equipment	\$2,625,789	10%
Morocco	Small Aircraft	\$82,900,000	15%
New Zealand	Large Aircraft	\$192,731,280	13%
Oman	Large Aircraft***	\$42,200,000	15%
Pakistan	Large Aircraft	\$309,744,209	12%
Panama	Small Aircraft	\$5,383,362	12%
Peru	Agricultural Equipment	\$771,949	22%
Peru	Marine Engines	\$2,121,000	8%
Qatar	Construction Equipment	\$29,763,603	6%
Qatar	Chemical Equipment	\$230,445,956	15%

Country	Product/Project	Export Value	Foreign Content Percentage**
Qatar	Oil and Gas Equipment	\$337,500,000	5%
Russia	Agricultural Equipment	\$1,534,499	9%
Russia	Agricultural Equipment	\$2,010,100	14%
Russia	Agricultural Equipment	\$2,075,752	15%
Russia	Agricultural Equipment	\$2,109,109	14%
Russia	Agricultural Equipment	\$2,690,000	14%
Russia	Agricultural Equipment	\$9,869,950	13%
Russia	Metal Fabrication Equipment	\$4,200,000	14%
Russia	Transportation Equipment	\$6,380,975	2%
Saudi Arabia	Industrial Machinery	\$81,300,000	15%
Senegal	Large Aircraft***	\$41,300,000	16%
Trinidad	Computer Equipment	\$564,025	5%
Turkey	Computer Equipment	\$1,274,980	15%
Turkey	Manufacturing Equipment	\$440,000	13%
Turkey	Medical Equipment	\$1,150,000	15%
Turkey	Power Plant	\$10,579,880	17%
Turkey	Printing Machine Equipment	\$1,605,530	2%
Turkey	Printing Machine Equipment	\$21,494,025	1%
Turkey	Transportation Equipment	\$16,174,825	12%
Turkey	Turbine Generators	\$7,199,723	19%
Ukraine	Agricultural Equipment	\$1,303,850	10%
Ukraine	Agricultural Equipment	\$2,099,500	17%
Ukraine	Printing Equipment	\$2,900,000	1%
Ukraine	Telecommunications Equipment	\$3,254,702	10%
United Arab Emirates	Large Aircraft	\$302,473,584	12%
TOTAL		\$6,410,156,121	10%

*Preliminary data, excludes Credit Guarantee Facilities

**When eligible foreign content exceeds 15%, the buyer is required to make a minimum cash payment equal to the amount of foreign content

*** Classification revised from printed publication

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 2005, followed by a discussion of trends in the use of the TACPF through 2005.

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 capital goods procurement by developing countries is contractually linked to procurement from firms located in (or in some way benefiting the economy of) the donor country (see below for “**Definitions of the Various Types of Aid**”).

In 1991, the Participants to the Arrangement agreed to OECD rules governing the use of tied aid (the Helsinki Package). The purpose of the OECD tied aid rules is to reduce the use of concessional financing for projects that should generate sufficient cash flows to support themselves, thereby being considered eligible for commercial – rather than concessional -- financing. The Helsinki Package specifically established the following: 1) country and project eligibility requirements for the provision of tied aid; 2) rules requiring notification of tied aid offers; and 3) mechanisms for consulting on (and in some cases challenging whether) tied aid offers conform to established guidelines. The Helsinki rules on country and project eligibility basically resulted in two disciplines to restrict 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 *concessional* level of 35% as measured with a market-based discount rate².

The OECD tied aid rules went into effect in early 1992. Since that time, the use of tied aid for commercially viable projects (as defined by the OECD) has significantly declined (for more details and data trends see Chapter 5). Participants are so satisfied with the results of the success of the tied aid rules that the OECD Participants have not found it necessary to change the framework of the rules at all for the past 14 years. However,

¹ Gross National Income (GNI) above \$3,035 per annum (based on 2003 data)

² The term “concessional” refers to the total value of the subsidy being provided by the donor to the recipient country for any one project or purchase. For example, if a country receives a grant of \$100 million for a \$100 million project, the concessional 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 concessional level of 35%.

Participants do have a mechanism that allows them to opine on the commercial viability of projects on a case-by-case basis. The process is known as the Consultations process and its results are compiled in a document known as the “Ex-ante Guidance” or case law of projects considered to be commercially viable and non-viable. See below for more details.

Definitions of the Various Types of Aid

When considering the various forms of aid, it is important to differentiate between bilateral aid to be used at the discretion of the buyer; trade-related aid that involves procurement of capital equipment, and trade-distorting aid, which is aid provided with the intent to favor procurement from the donor’s country. Specific definitions of the various forms of aid follow:

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*),³ and the vast majority of it is 100% pure grant. Aid from a donor government to a recipient developing country 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 may be either “tied” or “untied” to procurement from the donor country and can be provided in two forms: grants or credits⁴. However, because grants involve little or no repayment obligations (i.e., no export leverage), they are viewed as having a very small 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 countries must be at least 35% concessional, and tied aid to least developed countries must be at least 50% concessional.

³ The DAC’s technique for measuring concessionality (grant element) of ODA is antiquated, using a fixed 10% discount rate, and results in one half of annual ODA levels having a concessionality level below 25%, and some substantially less.

⁴ Credits with a concessionality level of 80% or more are viewed as grants and are not considered trade distorting.

Untied aid credits refer to concessional loan or credits with a repayment obligation. Untied aid financing should **not** be contractually conditioned 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 (DAC) rules, which differ from the OECD Arrangement rules in that the DAC provides virtually no restrictions on untied aid use. However, the Helsinki Agreement/Package included some basic transparency requirements for untied aid. Therefore, there is a wide gap in multilateral requirements between these two differing forms of aid credits. The resulting ambiguity has been used for commercial advantage by foreign untied aid donors.⁵

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, strict OECD rules 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 financing (i.e., CV projects). As a result, the Arrangement prohibits tied aid credits for such projects (unless located in an LDC, or unless the concessionality level is 80% or greater). The Arrangement also prohibits tied aid to countries with a per capita income level above \$3,035 (again, unless the concessionality level is 80% or greater), because they are considered to have ready access to market financing and official export credits for all types of projects.

Current Status of the OECD Negotiations on Tied and Untied Aid

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 2005, the data showed that Helsinki tied aid notifications rose by almost 50% (over 2004 levels of \$4.1 billion) to about \$6.1 billion⁶. The OECD has concluded that although the volume of the Helsinki tied aid notifications increased in 2005, no material undermining of the Helsinki Disciplines were revealed. In general, tied aid has been directed at projects in sectors considered financially non-viable and for countries where ECA and commercial sources of financing was either limited or restricted.

With respect to untied aid, in 2005 the OECD suspended discussions regarding rules to govern the use of untied aid and instead began implementing a U.S. proposed transparency agreement accepted by the OECD in 2004. The untied aid transparency agreement was accepted as a means of developing data that would form the basis for

⁵ DAC rules were developed decades ago. The nominal level of grant element that qualifies as Official Development Assistance (ODA) must be 25%. However, current DAC methodology allows the real level of concessionality to be much lower than 25% (e.g., 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 to update the methodology.

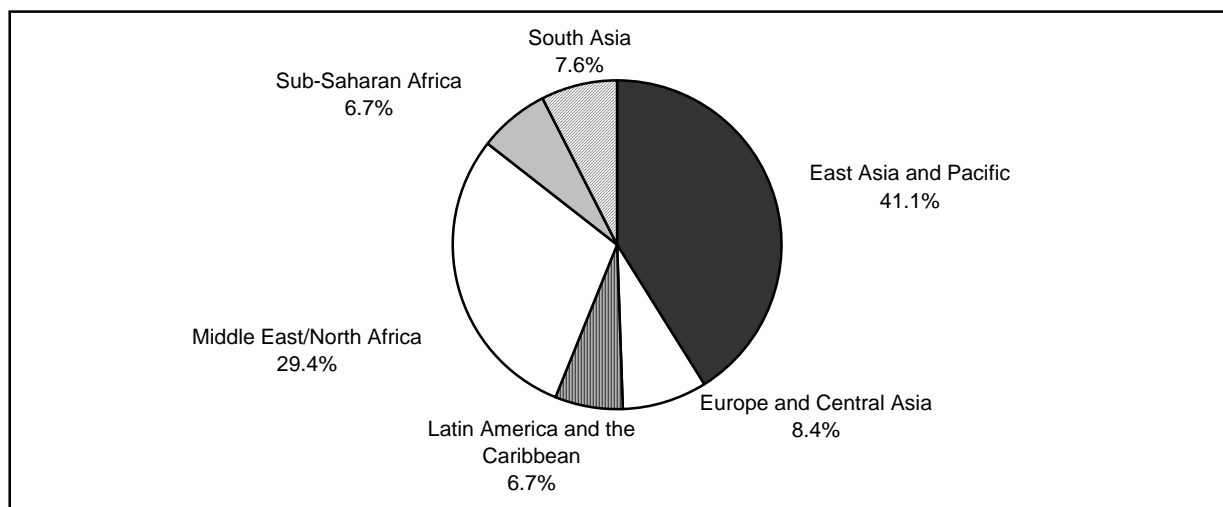
⁶ Note that one large tied aid notification for about \$590 million was subsequently changed by the donor to untied aid.

future negotiations on whether to extend the tied aid disciplines to untied aid. The two year transparency agreement represents a compromise between those countries seeking to discipline untied aid (as a way of reducing the potential for trade distortions arising from de facto tied untied aid offers) and donors that believe that untied aid rules are unnecessary and would limit bona fide developmental aid.

By definition, untied aid should not be trade-distorting because it should be equally accessible to exporters from all countries. However, through influence exerted indirectly (e.g., through lack of transparency, special procedures, required designs and specifications, promises of additional aid, political pressures, gratitude shown by the recipient, lack of multilateral accountability, etc.), untied aid can become effectively (i.e., de facto) tied.

The 2004 agreement requires donors to enhance the transparency of untied aid offers by (a) making their offers public to allow for competitive international bidding and (b) reporting the nationalities of bid winners. Members began implementing the transparency agreement on January 1, 2005 and data is now being compiled and made available to exporters. The U.S. will continue to monitor the untied aid data to evaluate the magnitude of the competitive threat. The transparency agreement expires at the end of 2005. The U.S. is seeking to extend it, but is having some difficulty getting Members to agree.

Figure F1: Helsinki-type Tied Aid Notifications by Region, 2005



Tied Aid Eligible Markets

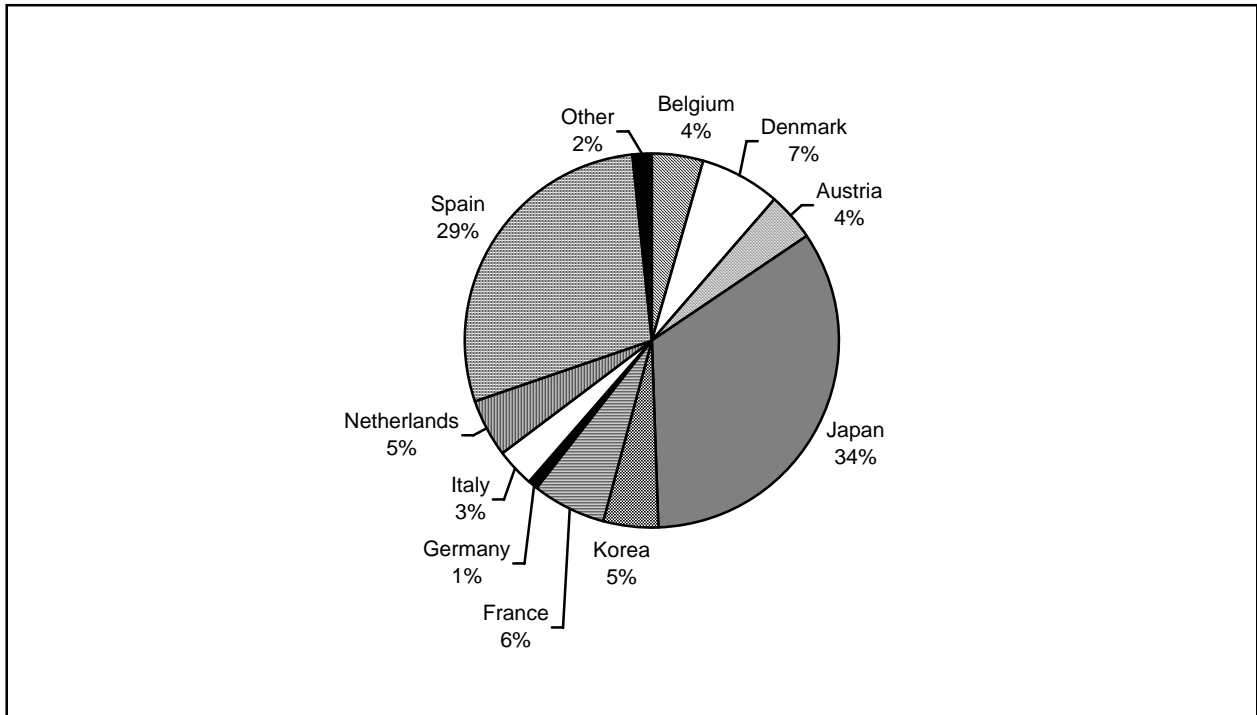
The OECD rules designate a number of key markets as ineligible for tied aid financing. Specifically, the Helsinki rules ban tied aid into high or upper middle-income markets, as defined by the World Bank, and tied aid into Eastern Europe and select countries of the former Soviet Union, unless the transaction 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 volume. In 2005, the major beneficiary region was again Asia, as it includes the most significant recipient – Indonesia - that was offered \$1 billion (\$1014 million) in tied aid. Other major recipients in Asia include Vietnam (\$670 million) and China (\$580 million), although the latter’s prominence as a tied aid beneficiary is waning. Significant portions of tied aid also went to projects in Iraq (for the first time since 1995) which amassed \$628 million in tied aid offers in 2005.

Although the sub-Saharan Africa region continued to receive relatively low levels of tied aid, in 2005 the proportion of tied aid to this region has increased significantly as it doubled (from 3% to almost 7% of total tied aid offers) and amounted to \$413 million (up from roughly \$107 million in 2004). The remaining regions registered less significant changes and remained fairly stable in terms tied aid receipts.

Figure F2 shows the variety of donor countries that offered tied aid in 2005. Japan continued to surpass Spain – with France, Denmark and the Netherlands trailing far behind and by a notable margin. Japan notifications more than doubled in 2005, reaching \$2 billion, while Spain’s tied aid almost tripled, reaching \$1,729 million compared to France and Denmark which notified about \$385 and \$420 respectively. The United States notified \$1,361 million in tied aid in 2005 – and no Helsinki-type tied aid. Note that U.S. tied aid notifications are 100% grants and are therefore not considered to be Helsinki-type tied aid.

Figure F2: Tied Aid Notifications by Donor Country, 2005



As far as sector concentration, during 2005, Helsinki-type tied aid business continued to evidence an overall shift away from sectors generally considered to be commercially attractive – like energy and industry. In 2005, tied aid activity was concentrated primarily in the transport and storage sectors (principally rail and water transport), and water and health sectors (all of which tend to be considered commercially non-viable).

Tied Aid Eligible Projects

The Helsinki Package established the principle that tied aid should not be used for CV projects, defined as revenue-generating projects adequate to service ECA financing and for which ECA financing is available:

- Generate operating cash flows sufficient to repay debt obligations on standard OECD Arrangement export credit terms (referred to as “financially viable (FV)”); and,
- Could potentially attract standard export credit financing (at least two OECD export credit agencies would be prepared to provide export credit) 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 that another Participant may consider ineligible for tied aid because it appears to be CV. Sovereign guarantees from the buyer do not factor into the determination of “commercial viability”. The results of the Consultations Group decisions are compiled in “Ex-Ante Guidance”, which serves as a guide to exporters and ECAs regarding possible commercial viability of particular projects by sector⁷. As **Figure F3** illustrates, the Consultations Group has not examined many projects in recent years. In 2005, the Consultations Group examined only two projects notified by Members as eligible for tied aid, reflecting the view that foreign tied aid programs generally operate within the agreed tied aid rules. Of the two projects examined, one was found to be commercially viable (and therefore ineligible for tied aid) and one was found to be commercially non-viable due to lack of commercial and export credit financing availability in the market (and therefore eligible for tied aid).

Of the 2,453 tied aid projects notified to the OECD from March 1992 to December 2005, 133 projects were examined by the Consultations Group. Of the 133 projects examined, 71 projects were found to be CV or ineligible for tied aid. The remaining cases were found eligible for tied aid based on a variety of factors, including lack of commercial or standard export credit term financing in the market and no follow up was subsequently done. Of the 71 projects deemed ineligible for tied aid, 43 projects proceeded with other

⁷ In December 2003, the OECD countries agreed to update the *Ex Ante Guidance for Tied Aid*, a set of guidelines which assists export credit agencies, aid agencies, project planners and aid recipients in judging at the outset whether potential projects will be eligible for tied aid. These guidelines, designed to avoid the use of official aid for exports that could proceed without aid, encapsulate the body of experience of the Consultations Group and have been a useful tool.

financing sources, including tied⁸ and untied aid , commercial financing, and standard export credits. See **Annex 3** for a list of projects generally considered CV, for which tied aid is prohibited. See **Annex 4** for a list of projects generally considered commercially non-viable, for which tied aid is permitted.

Figure F3: Notifications of Helsinki Tied Aid and Consultations Group Examinations

Year	Number of Notifications	Number of Projects Examined by the Consultations Group	Number of Non-compliant Projects
1992	128	39	16
1993	138	25	12
1994	262	31	21
1995	226	14	4
1996	212	4	3
1997	195	2	2
1998	191	5	5
1999	213	2	1
2000	181	4	4
2001	123	2	1
2002	136	1	0
2003	128	2	1
2004	145	0	0
2005	166	2	1
Totals	2,278	131	71*

*Of the 71 “non-compliant” cases (i.e., cases deemed commercially viable by the OECD Consultations Group), 19 were abandoned and 33 proceeded within Arrangement procedures or on commercial terms. The disposition of several cases is presently unknown.

Trends in the Use of the TACPF

Ex-Im Bank, in consultation with Treasury, has established guidelines for the use of the TACPF. These guidelines have two core components:

1. A series of multilateral and/or domestic steps (e.g., no-aid agreements, preliminary offer of matching, 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

⁸ The OECD rules require tied aid donors who elect to proceed with a tied aid offer that was “deemed ineligible for tied aid” to provide a letter from their government to the OECD Secretary General indicating the Participant’s intent to derogate from a Consultations Group finding. Three derogations have occurred since 1995.

with a benefit that would extend beyond the individual tied aid offer and generate the most benefit to the U.S. economy.

Although in the past, Ex-Im Bank matching policy achieved some limited success in deterring foreign tied aid offers as part of the overall U.S. tied aid strategy, in recent years Ex-Im Bank has been faced with fewer opportunities to match due to low levels of tied aid. From 1994 through 2005, of the 26 cases in which Ex-Im Bank tried to discourage tied aid use by issuing a “willingness-to-match” indication, seven saw the competing tied aid offer withdrawn. U.S. exporters won five out of seven cases on standard Arrangement terms. Nine cases have been lost to foreign tied aid financing, while ten remain outstanding or have been indefinitely delayed. Notably, however, most matching success occurred in the years immediately following the Helsinki Package when the lines between commercial and aid financing were being drawn.

By the end of 2005, Ex-Im Bank had issued 44 tied aid matching offers. As shown in **Figure F4**, of the 44 cases where Ex-Im Bank matched, the United States has won 19 and lost 24. One case remains outstanding with no decision. In 2005, Ex-Im Bank did not issue any new tied aid commitments⁹.

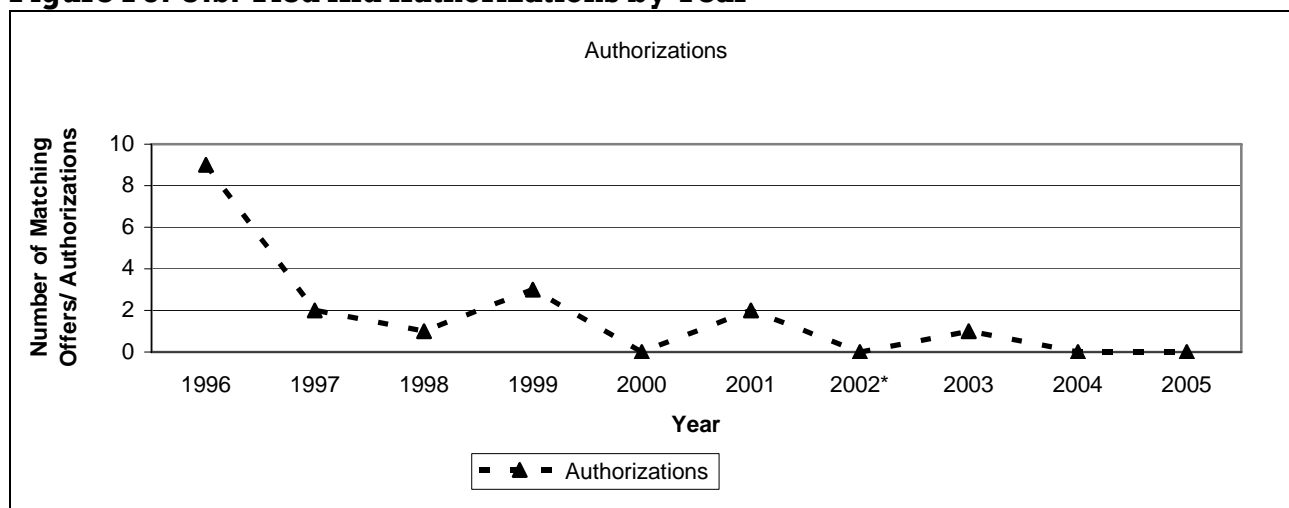
Figure F4: Cumulative Ex-Im Bank Matching of Previously Notified Foreign Tied Aid Offers

	1997	1998	1999	2000	2001	2002	2003	2004	2005
New matching offers during year	4	2	4	1	2	0	1	0	0
U.S. win	12	13	16	17	19	19	19	19	19
U.S. loss	10	10	21	23	23	23	24	24	24
Outstanding, no decision	12	13	3	1	1	1	1	1	1
Cumulative total	34	36	40	41	43	43	44	44	44

As shown in **Figures F4 and F5**, 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 no authorizations in 2005. This tracks with a sharp increase in compliance with the tied aid rules as 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 1997-2005.

⁹ However, in March, 2006 Ex-Im Bank issued a tied aid Willingness to Match offer to a U.S. exporter competing for tied aid for a rail project (locomotives) in Indonesia.

Figure F5: U.S. Tied Aid Authorizations by Year



Ex-Im Bank Initiated No Aid Common Lines

Acting upon Ex-Im Bank's request, the OECD Members may approve “no aid” agreements for particular projects of interest to U.S. exporters that could otherwise receive tied aid under the OECD rules. With such agreements in place, U.S. exporters can compete without fear of tied aid competition and without the need for Ex-Im Bank to provide a matching tied aid offer. When Ex-Im Bank receives an application for financing in a tied aid eligible country for a project that is commercially non-viable, 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), other OECD member countries may make a tied aid financing offer for the project. **Figure F6** shows the results of the no aid common line requests initiated by Ex-Im Bank from 1996 through 2005.

Figure F6: U.S. Proposed No Aid Common Lines

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Proposed	24	5	13	8	1	0	3	2	1
Rejected	17	5	12	5	0	0	1	1	1
Accepted	7	0	1	3	1	0	2	1(*)	0

U.S. exporters do not want “no aid” common line requests made when they believe that the buyer will “penalize” the U.S. supplier for their role in seeking to limit concessional

funds available to foreign buyers (so-called “buyer-backlash” against the U.S exporter seeking to win the bid on standard - rather than concessional - terms).

(*)For example, in 2004 an accepted U.S. proposed no-aid common line resulted in subsequent bidding difficulties for the U.S. exporter who lost the sale (despite the fact that it had previously sold equipment on commercial terms). The U.S. exporter claimed to be shut out of the market as a result of the U.S. no-aid request. Moreover, the buyer contacted U.S. Ex-Im Bank seeking assurances that the U.S. would no longer interfere with bilateral aid offers from third countries.

Nevertheless, in 2005 the U.S. proposed one common line for rail cars (locomotive sales) to Indonesia. As the common line was rejected, in 2006 Ex-Im Bank issued a tied aid Willingness to Match offer to the U.S. exporter. The results of the bid are not yet known.

In sum, U.S. exporter experience with no-aid common lines has been mixed. Common lines can have negative effects on the competitiveness of U.S. exporters as they can result in buyer reticence to approach a U.S. supplier (or “buyer backlash” against a U.S. supplier) who may be seen as limiting concessional funds available to the buyer. Therefore, common lines are not issued without prior exporter approval.

Appendix F Annex 1

Key Markets Where Tied Aid is Prohibited	
Americas*	Argentina, Mexico, Venezuela
Asia*	Hong Kong (China), Korea, Malaysia, Singapore
Middle East*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates
Africa*	Botswana, Gabon
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 as a result of the fact that their Gross National Income (GNI) per capita was sufficient to make them ineligible for 17-year loans from the World Bank for at least two consecutive years (using 2004 data, those countries with a GNI per capita above U.S.\$3,255).

**Article 33. b 5 of the OECD Arrangement states the Participants' agreement to "try to avoid 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, Ecuador, El Salvador, Guatemala, Paraguay, Peru
Africa	South Africa, Egypt, Namibia
Middle East	Jordan, Turkey

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).

Appendix F Annex 3

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Gas transportation and distribution pipelines ▪ Gas & oil transportation pipelines
Telecommunications	<ul style="list-style-type: none"> ▪ Equipment serving intra and interurban or long-distance communications ▪ Telephone lines serving intra and interurban or long-distance communications ▪ Switching equipment serving urban or high-density areas ▪ Radio-communications equipment serving urban or high-density areas
Transportation	<ul style="list-style-type: none"> ▪ Freight railroad operations (locomotives, cars, signaling)
Manufacturing	<ul style="list-style-type: none"> ▪ Manufacturing operations intended to be profit-making ▪ Privately-owned manufacturing operations ▪ Manufacturing operations with export markets ▪ Manufacturing operations with large, country wide markets

Appendix F Annex 4

Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted)	
Power	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Telephone switching equipment serving low-density, rural areas ▪ Switching equipment serving low-density, rural areas ▪ Radio-communications equipment serving low density, rural areas
Transportation	<ul style="list-style-type: none"> ▪ Road and bridge construction ▪ Airport terminal and runway construction ▪ Passenger railroad operations (locomotives, cars, signaling) ▪ Urban rail and metro systems
Manufacturing	<ul style="list-style-type: none"> ▪ Highly-localized, small scale cooperatives ▪ Highly-localized, small scale food processing ▪ Highly-localized, small scale construction supply
Social Services	<ul style="list-style-type: none"> ▪ 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 has developed procedures with the State Department, including the Bureau for Democracy, Human Rights, and Labor, for regular consultation regarding human rights concerns. According to these procedures, Ex-Im Bank periodically receives a list of countries of human rights concern. Countries not on that list are pre-cleared. Where a proposed transaction over \$10 million dollars involves goods or services to be exported to a country that has not received “pre-clearance” on such list, Ex-Im Bank refers the transaction to the State Department for human rights review. In addition, Ex-Im Bank country economists may work in concert with the State Department to, where appropriate, examine human rights and other foreign policy considerations in their assessment of the risks associated with transactions in specific countries.

Various other statutory provisions implicating 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 2005, Ex-Im Bank has 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

The Trade Promotion Coordinating Committee (TPCC) is an interagency committee that is comprised of 19 U.S. government agencies.¹ Each TPCC agency plays a key role in advancing the Administration's goal of maximizing U.S. export potential. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. government export promotion initiatives under the leadership of the Secretary of Commerce. The President and Chairman of the Export-Import Bank serves as the Vice-Chair of the TPCC.

Among the responsibilities of the TPCC is to prepare and submit to Congress an annual report entitled the National Export Strategy (NES) that outlines the Administration's trade promotion agenda. The TPCC issued its most recent NES report to Congress in May 2005 that lays out focused commercial strategies to help small businesses take advantage of opportunities in China and free trade agreement (FTA) countries, as well as six commercially significant markets. TPCC accomplishments during 2005 that pertain to Ex-Im Bank are summarized below.

Highlights of TPCC Accomplishments during 2005

Highlights of the TPCC's major accomplishments during 2005 that directly impact Ex-Im Bank and its competitive position vis a vis foreign export credit agencies include:

- Expansion of Ex-Im Bank's City-State Partner program. Ex-Im Bank now has 45 city-state partnerships with 35 states plus the Commonwealth of Puerto Rico, with the latest partner added in January 2006 with the signing of an agreement between Ex-Im and California's Centers for International Trade Development (CITD) with 14 offices covering every major economic region in the state.
- During 2005, Ex-Im Bank officials participated in a number of initiatives designed to support the US government's efforts regarding Free Trade Agreements (FTAs). These included:
 - A business mission to Central America in support of the CAFTA-DR agreement that involved Ex-Im Bank Director Linda Conlin along

¹ Members of the TPCC are the following U.S. government agencies: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor, the Overseas Private Investment Corporation, Ex-Im Bank, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Economic Council and the Office of Management and Budget.

with OPIC President Robert Mosbacher and USTDA Director Thelma Askey.

- Ex-Im Bank and Commerce notified their respective exporting communities regarding the benefits of trade with Mexico. Ex-Im Bank has participated in several conferences in North Africa and the Middle East in an effort to facilitate FTAs as well as being supportive of improvements in the business climate in these regions. Specifically, in 2005, Ex-Im Bank staff conducted an International Business Development trip that included stops in Egypt, Jordan and Bahrain. In Bahrain, Ex-Im Bank participated in the U.S. – Bahrain FTA Conference.
- In the energy, energy efficiency and environmental technologies sectors, the TPCC agencies are more closely coordinating their activities to support the development of new capacities and capabilities in these areas and to obtain more private sector involvement. In particular, Ex-Im Bank financing was supportive of clean coal technology, renewable energy projects and rural/village energy systems in India and clean coal technology and grid connected clean energy projects, especially wind power in China.

Appendix J: Efforts to Promote Renewable Energy Exports

In Ex-Im Bank's 2002 reauthorization process, Congress added to Ex-Im Bank's Charter the requirement to report on efforts to promote renewable energy exports.

During 2005, Ex-Im Bank responded to the Congressional mandate in a variety of ways:

First, under the leadership of Ex-Im Bank Director Linda Conlin, Ex-Im Bank supported an OECD proposal to permit export credit agencies (ECAs) to offer extended repayment terms (up to 15 years) for renewable energy exports. In 2005, the OECD concluded an Agreement on Special Financial Terms and Conditions for Renewable Energies and Water Projects that went into effect on July 1, 2005. In addition, the OECD agreed to permit the 15-year term for hydropower projects beginning December 1, 2005 ¹.

Second, as a means of highlighting Ex-Im Bank commitment to environmental exports promotion and drawing attention to the extended repayment terms now available to renewable energy exporters, the Bank launched the new Environmental Export Program in September 2005 in a one-day interactive workshop entitled -"Sharing Risk, Opening Opportunities." More than 50 business, banking, and governmental leaders attended the seminar.

Third, extensive outreach and marketing efforts – some of which are highlighted below - led Ex-Im Bank to be the first ECA to make use of the special financial terms provided for under the OECD Agreement. Specifically, in 2005, Ex-Im Bank approved support for a 1.8 MW solar power project for an Exhibition and Convention Center in Korea

In addition, Director Conlin led 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. As a result, staff (a) added new, enhanced information dedicated to the Environmental Program on its website, to include success stories, events, presentations, press releases and links to relevant environmental or market sites; and (b) participated in a number of outreach and marketing events intended to promote renewable energy exports. Participation in these events involved organizing panels, making presentations, meeting with individual exporters and meeting potential buyers. Specifically:

1. Presentation at the Hydro Finance Forum in Washington, D.C held in April 2005.

¹ The agreement was accepted for a two-year trial period. Hydro power projects would be eligible for up to 15 year repayment terms provided that the projects "in all respects meet the requirements of the relevant aspects of all World Bank Group Safeguard Policies...[recognizing] the value of the relevant aspects of other international sources of guidance, such as the draft sustainability guidelines produced by the International Hydropower Association and the Core Values and Strategic Priorities of the World Commission on Dams report."

2. Staff attended the 2005 Renewable Energy and Water Forum in New York City.
3. Ex-Im Bank hosted a strategy session with industry and bank representatives on extended terms for renewable energy exports in July 2005.
4. Staff attended Infocast's Latin American Renewable Energy Conference that was held in Miami, Florida on August 17-19. The conference focus was on development and financing opportunities in the Latin American renewable energy sector.
5. Director Conlin spoke at the "Financing Environmental Exports" event at the San Francisco Chamber of Commerce, sponsored by City National Bank, as well as an environmental breakfast meeting sponsored by HSBC Trade Bank at the City Club of San Francisco. The trip also included meetings with environmental companies and lending institutions in the San Francisco area regarding environmental export opportunities, September 20-22, 2005.
6. Staff attended Solar Power Conference that was held from October 5-9. The Solar Electric Power Association and the Solar Energy Industries Association presented this conference in Washington, D.C. The timing of the conference was intended to coincide with the Solar Decathlon sponsored by the Department of Energy. Many of the well-known companies in the industry were represented.
7. Staff attended Wind Power Conference, which was held in Denver, Colorado on May 19.
8. Staff participated in the Water Environment Federation Trade Show in Washington, D.C., October, 2005.

Finally, as part of a continuing effort to showcase environmental success stories, in 2005, GT Equipment was named Ex-Im Bank's Small Business Environmental Exporter of the Year. GT is a small business designer, manufacturer and assembler of manufacturing equipment for solar energy.