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, 2010 THROUGH DECEMBER 31, 2010

JUNE 2011

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 30, 2011

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing and Urban Affairs
SD-534 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

In accordance with Section 8A of the Export-Import Bank Act of 1945, as amended, I am pleased to forward the report of the Export-Import Bank of the United States on the competitiveness of its export financing services. This report covers the period from January 1, 2010, through December 31, 2010.

This report assesses how well the Export-Import Bank was able to compete with the major export credit agencies throughout the world in 2010. In light of one of the world's most hard-hitting economic crises, Ex-Im Bank has proven itself ready and able to step in with a full range of creative tools and responsive programs when the private sector withdrew from export finance. Remarkably, 2010 was the Bank's second consecutive record-breaking year, with total authorizations of $24.5 billion supporting $34.4 billion worth of U.S. exports and an estimated 227,000 American jobs at more than 3,300 U.S. companies. Furthermore, Ex-Im Bank issued a historic high of $5.1 billion in authorizations directly supporting small businesses (20.8% of total dollar-value authorizations).

As recovery continues and liquidity returns to commercial markets, different competitive challenges are emerging in the form of significant volumes of exceptional and unregulated financing outside of the OECD's purview from OECD and non-OECD export credit agencies alike. This report's analysis and its findings can contribute to the discussion and decision making by Ex-Im Bank and Congress with regard to how the Bank can maintain its competitive footing and continue to support U.S. jobs in a changing world.

Sincerely,

Fred P. Hochberg

Fred P. Hochberg
Chairman and President

811 Vermont Avenue, N.W. Washington, D.C. 20571

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 30, 2011

The Honorable Spencer Bachus
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

In accordance with Section 8A of the Export-Import Bank Act of 1945, as amended, I am pleased to forward the report of the Export-Import Bank of the United States on the competitiveness of its export financing services. This report covers the period from January 1, 2010, through December 31, 2010.

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THE 2011 ADVISORY COMMITTEE'S STATEMENT ON THE 2010 COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Members of the 2011 Advisory Committee ("Members") have reviewed the 2010 Competitiveness Report to Congress and present this statement that reflects the views voiced by the members regarding the Report. Although each of these points may not be the shared equally by all members, they, nonetheless, reflect the themes and points that the Advisory Committee considers important enough to address going forward.

Context and Theme

First, the Advisory Committee Members generally agreed with the context and theme of the 2010 Competitiveness Report. As noted in the Report, export credit agencies played a key role in 2010 in the area of export credit. Against the backdrop of the lingering effects of the financial crisis and corollary impacts on credit availability and risk appetite, in particular with respect to medium and long term export credits, export credit agency financing increased in relevance in 2010 by stepping in where banks were either unwilling or unable to act. ECA credit enhancements again proved their worth during the recent financial crisis.

Second, and most importantly, the Advisory Committee notes that the dramatic growth in export finance available from the export credit agencies of the BICs (Brazil, India and China) arguably rendered 2010 the "tipping point" for the G-7 export credit activity conducted within the bounds of the OECD rules. The rising prominence of exceptional financing offered by the BICs exceeded the regulated financing available from the G-7 ECAs in 2010. Moreover, OECD ECAs have introduced sizeable unregulated financing programs that are equally a competitive concern. The total impact of the exceptional financing being offered by the BICs and the unregulated financing being offered by OECD ECAs should continue to be monitored and reported on in the future. To that end, the Advisory Committee recommends that Ex-Im Bank staff better understand the products, terms and conditions associated with the increasingly important competitive threat emerging from the BICs and other forms of financing outside of the purview of the OECD guidelines.

Methodology

Although the committee is pleased to see the measures taken to expand the survey participant pool and the higher number of responses that resulted, the committee believes that the Report would benefit from an even broader survey pool – to include additional Ex-Im Bank users from previous years and applicants who withdrew or lost contracts after applying to Ex-Im Bank. Therefore, the Advisory Committee recommends that Ex-Im Bank devote resources to identifying additional respondents to ensure the utmost validity and utility of the survey results. In addition, the Advisory Committee recommends that Ex-Im Bank invest in the services of a survey expert to evaluate and recommend changes to the survey to ensure that the survey questions are presented in a user-friendly and sound format. Finally, the Advisory Committee suggests that efforts be made to include additional exporters and lenders in focus group meeting who have particular knowledge of Ex-Im Bank and foreign export credit agency financing terms and conditions.

Overall Grading

With respect to the overall grading of the report, the Advisory Committee generally agreed that, in 2010, Ex-Im Bank was on par with the four previous years and an "A-/B+" grade is a fair representation of Ex-Im Bank competitiveness. However, the Advisory Committee does believe that some improvements should be made regarding the grading scale and factors taken into account to arrive at a grade or assessment of a policy. For example, the Advisory Committee believes the grading scale should make clear the distinction between the effects of a public policy on the competitiveness of Bank finance offerings and U.S. exports, and the effectiveness of a public policy to promote a public policy objective (for example, in the environmental policy area or economic impact).

Specific Findings:

With respect to the specific findings of the report, the Advisory Committee members would like to make the following observations:

First, the Advisory Committee Members applaud the Bank for their innovations to deal with depleted liquidity in the financial markets. The "Take-Out" Option and capital markets structure have proven to be key competitive tools for Ex-Im and the Advisory Committee commends the use of such tools to help U.S. exporters compete in the global marketplace.

Second, with respect to the major program structures, the Advisory Committee recognizes the competitiveness of the Project Finance and Aircraft financing programs, particularly given their important role in boosting Ex-Im's precedent-setting 2010 activity and volume. However, the Members encourage the Bank to address the technical issues that are constraining Ex-Im's ability to compete vis-à-vis the other ECAs when it comes to the foreign currency guarantee program.

Third, the members of the Advisory Committee acknowledge that public policies such as economic impact, content, and MARAD/PR-17/shipping requirements that come into play in specific competitive circumstances require the Bank to balance disparate views. Moreover, it is difficult to derive a sense of statistical validity and/or policy relevance to the overall competitiveness of an exporter in a given transaction from the limited number of projects and/or applicants impacted by each of these policies. Thought must be given to the grading of these policies in a manner that ensures that it is not just the "squeaky wheel" view being represented.

In that respect, the Advisory Committee had a particular observation regarding the grading of the environmental policy. Members believe that the grade was too negative and not representative of the real competitive effect of the environmental policies of the

Bank. The fact that only one project was subjected to the enhanced due diligence review required under Ex-Im Bank's new Carbon policy - and that those exports were not lost – should factor into and be weighed along-side the public policy goal being achieved by the Carbon Policy. Accordingly, we would encourage Ex-Im Bank to reconsider its grading of this particular policy and to consult with the various stakeholders impacted by the policy to reach an agreement on alternate grading approaches to these issues.

Summary: The 2011 Advisory Committee would like to commend the Bank for its role in helping to keep exports flowing in a year of tight credit and high risk aversion. However, the Bank cannot be content with its record-breaking volumes and high marks on competitiveness because the reality is that Ex-Im Bank is only comparing itself vis-à-vis the regulated OECD-compliant export credit financing. Ex-Im Bank must make every effort to quantify and track the programs and policies of the major OECD ECAs that are unregulated (because they are not governed by the OECD rules) and exceptional financing terms being provided by the BICs (who are not members of the OECD). These programs are overshadowing the universe in which Ex-Im bank currently operates and their competitive effects are not well known. The Bank must be prepared to anticipate the new challenges and threats emerging on the horizon, but first Ex-Im must acknowledge that the world is a very different place in 2010. The year 2010 represents a tipping point for Ex-Im Bank and for all OECD ECAs. Hence, the Advisory Committee strongly urges the Bank to build on the efforts made in 2010 to concentrate on the new competitive landscape to ensure that the Bank maintains a high degree of competitiveness with its ECA counterparts.

James B. Murray, Jr.
Chairman
2011 Ex-Im Bank Advisory Committee

2011 ADVISORY COMMITTEE MEMBERS

The Advisory Committee Members represent various broad interests including environment, production, commerce, finance, agriculture, labor, services, and State government. The 2011 Advisory Committee Members are listed below:

James B. Murray, Jr.	Advisory Committee Chairman; representing finance
Luis Arguello,	Representing small business
Catherine Bessant,	Representing finance
Nelson Cunningham,	Representing services
Debbie Dingell,	Representing manufacturing
Owen E. Herrnstadt,	Representing labor
Richard Kauffman,	Representing finance
James Kolbe,	Representing government
Thea Lee,	Representing labor
Deven Parekh,	Representing finance
Steven Parrish,	Representing services
John Rauber,	Representing manufacturing
Maria de Lourdes Sobrino,	Representing small business
Daniel R. Tishman,	Representing environmental
Kirk Wagar,	Representing small business
Joanne Witty,	Representing environmental
Randy Zwirn,	Representing manufacturing

Preface

The 2010 Competitiveness Report provides a comprehensive evaluation of the competitiveness of the Export-Import Bank of the United States (Ex-Im Bank) as it relates to the medium- and long-term programs during calendar year 2010. The assessment excludes short-term financing because such financing is not available through the official export credit agencies of more than half of the OECD ECAs. Moreover, most of the short-term business covers trade where there is generally no competitive financing factor impacting the sourcing decision.

The Annual Competitiveness Report is prepared pursuant to the Ex-Im Bank Charter that directs the Bank to submit an annual report to Congress that describes the actions taken by the Bank:

1. "…to provide guarantees, insurance…and on terms and other conditions which are <u>fully competitive</u> with the…rates and terms and other conditions available…from the principal countries whose exporters compete with United States exporters, including countries the governments of which are not members of the [OECD] Arrangement."; and
2. "…seek to <u>reach international agreements</u> to reduce government subsidized export financing."

Congress further directs Ex-Im Bank to collect a wide variety of information and views, most explicitly from a survey of exporters and banks, which would be the basis of the report. Accordingly, the report is a representation of the quantitative and qualitative data and information available from the export finance marketplace.

Consistent with the approach adopted in 2003, the 2010 Competitiveness Report presents the summary of Ex-Im Bank's ability to offer "fully competitive" financing in a report card format. The report card uses two grading scales. The first scale ranges from "A+" to "F", with "A" being generally competitive. Exporters and lenders surveyed were asked to grade the core business policies of the Bank (described in **Chapter 3**) and the major program structures (described in **Chapter 4**). A description of the grading scale follows (see also **Appendix A**).

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.

A second scale was introduced because public policies and economic philosophies are not expected to impact the same volume of transactions as the core financing and program elements do. Thus, survey respondents were also asked to indicate if the public policies and economic philosophies would positively, negatively or neutrally affect Ex-Im Bank's competitiveness. The scale was used by survey respondents to assess the competitive impact of these policies and philosophies (see **Chapter 5** and **Chapter 6**, respectively). A detailed description of this grading scale is on the following page (also see **Appendix A**).

Notwithstanding the precision exhibited in the grading scales described above, the grading systems used are intended to illustrate a spectrum of differences among ECA policies rather than an exact evaluation of competitiveness. Moreover, it is worth noting that certain programs and policies identified in the report are not being graded in terms of their effectiveness as instruments to encourage certain policy objectives. For example, Ex-Im Bank's Carbon Policy is not being graded in terms of its efficacy as a benchmark or standard used to promote the use of low to zero carbon emitting technologies and lead the world towards greater energy efficiency and renewable energy use, a mandate that Ex-Im Bank is committed to promote. Instead, the Carbon Policy is being evaluated according to the standards set out in the Charter, noted above, that direct Ex-Im Bank to compare its programs (terms, conditions, etc.) with those offered by our major ECA counterparts. The resulting grade of "C" for the Carbon Policy only reflects the fact that the major ECAs do not have formal carbon policies like Ex-Im

Bank, which is why Ex-Im Bank is working to bring foreign ECA policies in line with the Carbon Policy that Ex-Im Bank adopted in 2010.

Assessing Impact of Economic Philosophies and Public Policies on Ex-Im Bank's Overall Competitiveness

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

Ex-Im Bank's Charter also directs the Bank to include a statement from the Advisory Committee on the findings of the report. The Charter further states that "The Advisory Committee shall advise the Bank on its programs, and shall submit, with the report specified in section 2(b)(1)(A) of this Act, its own comments to the Congress on the extent to which the Bank is meeting its mandate to provide competitive financing to expand United States exports, and any suggestions for improvements in this regard."

2010 COMPETITIVENESS REPORT

TABLE OF CONTENTS

Executive Summary

Background

The 2010 Annual Report to Congress on Export Credit Competition provides a comparative evaluation of the competitiveness of Ex-Im Bank's medium- and long-term programs and policies with those of the major G-7 export credit agencies (ECAs) during the calendar year. Ex-Im Bank based its assessment on information obtained from the ECAs themselves, surveys and focus group discussions with the U.S. exporting community (both exporters and lenders), and other reliable data sources like the World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD). The analysis compares the specific features and elements of Ex-Im's programs and policies with those of the Bank's major official ECA counterparts (programs regulated by the Arrangement on Officially Supported Export Credits, hereinafter, the Arrangement). In addition, Ex-Im Bank has included information on other major export credit programs of the G-7 ECAs and from Brazil, India and China (programs not regulated by the Arrangement), as those programs represent a growing competitive presence that U.S. exporters encountered more frequently than ever in 2010.

Findings

In 2010, ECAs emerged as key players in combating the negative effects of the financial crisis in the areas of short-term trade finance and medium- and long-term export credits. The general risk reticence that characterized lender and exporter activity and the lack of liquidity in the financial markets propelled ECAs to the forefront of trade finance as they were often the only option, truly the lenders of last resort. ECA programs and activity levels – which had been languishing only two years prior – now surged in response to exporter demands for innovative products and methods to keep exports flowing.

In that context, Ex-Im Bank reported a second consecutive record-breaking year in FY 2010, with $24.5 billion in export financing, up 70% from FY 2008. During FY 2010, Ex-Im Bank supported $34.4 billion in U.S. exports and an estimated 227,000 U.S. jobs. Thus, the Bank was able to readily meet exporters' needs and keep transactions viable, even as the effects of the financial crisis lingered.

Ex-Im's Bank overall competiveness "grade" remained at par with the four year "A-/B+" average. Only one area of Ex-Im Bank competitiveness experienced a downgrade from the 2009 "A" grade. Specifically, one component of Ex-Im Bank's Environmental Policy, the Carbon Policy, was rated a "C" in 2010, due to the fact that Ex-Im Bank is the only official export credit agency with a Carbon Policy. A summary table in Chapter 7 reveals the details of the overall ratings.

The main factors that contributed to the 2010 grade reflect developments and sustained efforts in three key areas, including: (1) content rules; (2) environmental policy; and (3) sustained activity in the Bank's direct lending program and innovations to Ex-Im's long-term guarantee program, such as the “Take-Out” Option and, the reemergence of a capital markets structure.

First, the U.S. exporting community continues to view Ex-Im Bank’s foreign content policy as a significant competitive issue. In fact, the U.S. exporting community noted with emphasis that the aggregate impact of the public policy considerations of economic impact, PR 17/MARAD requirements, and U.S. content have represented a negative influence on Ex-Im’s overall competitiveness. Nevertheless, Ex-Im Bank’s local cost policy application has become a more positive attribute to Ex-Im’s overall competitiveness because Ex-Im Bank is one of the few G-7 ECAs that does not explicitly require local costs to be in the exporter’s contract in order to be eligible for coverage. As a result, foreign buyers who benefit from Ex-Im Bank financing support have more liberal access to local cost financing when purchasing goods and services from the U.S.

Second, Ex-Im Bank Environmental Policies were deemed competitive with those of the G-7 ECAs. However, Ex-Im Bank’s Carbon Policy was viewed as an additional layer of due diligence that placed the Bank at a competitive disadvantage compared to its OECD peers. The chilling effect of the Carbon Policy may also play a role in the assessment as only a small number of transactions in 2010 were subject to the provisions of the Carbon Policy and only one transaction required Enhanced Due Diligence due to its high carbon intensity.

Finally, regarding financing solutions in response to U.S. exporter and lender needs, the fact that Ex-Im Bank cover and direct lending support was available through a variety of programs did enhance Ex-Im Bank competitiveness and facilitate U.S exports in 2010. In particular, Ex-Im Bank’s direct lending capacity, the Take-Out option, and the capital markets program did contribute to Ex-Im Bank’s overall competitiveness. Although these niche programs impacted a limited subset of Ex-Im Bank business, such risk mitigating programs were considered critical to ensuring that lenders remained engaged in export finance in support of U.S. exports. In fact, Ex-Im has been able to offer competitive financing under its direct loan program more consistently than any other ECA in the post-crisis economic environment.

Nevertheless, the wide program availability cannot fully offset U.S. exporter concerns regarding other program and public policy considerations described in the report, including content (considered to have an “Extremely negative” impact on competitiveness) and carbon policy considerations, which is why despite the recent surge in Ex-Im Bank’s activity, its overall competitiveness remained at par with the four year “A-/B+” average (and slightly declined in 2010).

Looking Forward

Although Ex-Im Bank programs are generally competitive with those of its OECD G-7 counterparts, innovative, unregulated programs as well as new, exceptional (non-OECD) players now represent a significant – if not majority share – of export credit financing. The fact that unregulated export credit and financing programs continue to grow and evolve has prompted U.S. exporters to demand more information on the implications of these unregulated financing flows on U.S. exporter competeviveness. In response to such interest, Ex-Im Bank continues to expand its efforts to define, explain, and quantify the bounds of the unregulated and exceptional financing available to foreign exporters, and, in that way, contribute to an informed consideration of Ex-Im Bank competitiveness.

Chapter 1: Introduction

Background

Ex-Im Bank prepares its Competitiveness Report on an annual basis as mandated by section 8A of its Charter (the Export-Import Bank Act of 1945, as amended). The purpose of the Competitiveness Report is to present Congress with an assessment of Ex-Im Bank's success in providing U.S. exporters with financial terms and conditions that are "fully competitive" with support provided by the major official export credit agencies (ECAs).

Competitiveness Assessment

Competitiveness is gauged within the context of the medium- and long-term (MLT) official export credit programs of the G-7 countries (as these ECAs have historically accounted for about 80% of MLT export finance). The competitiveness assessment is a series of comparisons that draw on quantitative information about the programs and policies of the major foreign ECAs' activity and qualitative information collected through a survey of lenders and exporters and exporter and lender focus group meetings.

In light of the increasing volume of MLT activity attributable to certain non-OECD ECAs and the steady drum beat of general and specific references to the impact that such an increase is having on U.S. exporter competitiveness, Ex-Im Bank has also included supplemental information on the G-11 ECA export credit programs and activity levels to the extent this information was available (see Data Qualification section below). G-11 ECAs are the G-7 ECAs (Canada, France, Germany, Italy, Japan, United Kingdom and United States) plus Brazil, Russia, India and China, also known as the BRICs.

Data Qualification

The lack of transparent and comparable data for some of these ECAs has been a major challenge in the preparation of this year's Competitiveness Report. The difficulty was greater this year because the analysis was trying to reach more precise degrees of differentiation. That is, this year's analysis is making a special effort to:

Differentiate within the OECD/G-7 population between standard, officially supported export credits that are regulated by the OECD Arrangement and "unregulated" export-related credits or those that are not subject to the OECD Arrangement rules; and
Identify "exceptional" financing by non-OECD ECAs that refers to forms of financing that are not comparable to OECD ECA official programs.

Reflecting this focus on revisions to present comparable data as accurately as possible, Ex-Im Bank made adjustments (compared to previous Competitiveness Reports) to the data for Canada, Italy, Japan, UK, and China. As most of the adjustments pushed volumes of standard activity by G-7 ECAs down, the aggregate G-7 totals presented in Table 2 are lower than in previous reports. Nevertheless, the data can now provide a reasonable indication of both the comparable and total size of G-7 MLT standard activity that is regulated by the OECD Arrangement and the overall size of G-7 unregulated activity.

On the other hand, the data for the non-OECD countries (which have an even greater diversity of programs, very different reporting systems, and limited transparency) is mostly an extrapolation from dated reports and represents at best an approximation as possible of each country's activity based on the information available at this time. As much of the non-OECD "activity" is translated from figures for programs that have no counterpart in OECD structures, there is a considerable possibility for error in the translation. Given the growth rates of some of the non-OECD entities, the analytical assumption used in the translations of historical program reports to current annual activity was to **overstate** the direct implications. Hence, the non-OECD activity levels are more likely to be overstated than understated.

Scope of Report

This report compares Ex-Im Bank's competitiveness with that of the other G-7 ECAs[1], as these ECAs have historically accounted for approximately 80% of medium- and long-term official export finance. Further, the Competitiveness Report focuses on medium- and long-term export credits (but not short-term activities) because medium- and long-term transactions are typically subject to direct and indirect official ECA competition. In addition, there are very few official ECAs that continue to offer short-term support as an ongoing program. [Note: In 2010, many ECAs did continue to provide some temporary short-term support to offset the global shortage of short-term trade finance resulting from the lingering financial crisis.] Quantitative comparisons and information on each of the G-11 ECAs can be found in Chapter 2, Chapter 8 Annex, and Appendix D.[2]

Overall Report Methodology

Based on the "report card" methodology that was introduced in 2002, this year's Competitiveness Report provides a grade for the competitiveness of Ex-Im Bank support. This approach evaluates each of the essential components of Ex-Im Bank's financing and compares them to the capabilities of the Bank's primary foreign ECA competitors. See **Appendix A** for more information on the Report's grading system and letter grade definitions used in the calculation of the Ex-Im Bank Grade.

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

[1] The names and brief descriptions of the other G-11 ECAs are contained in Appendix D.
[2] All dollar volume data contained in the Report is in non-inflation-adjusted U.S. dollars.

Survey Methodology

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

Ex-Im Bank carefully evaluated the quality of each survey response. Some specific responses were discarded if a respondent graded a program or feature with which it had explicitly noted or exhibited no experience. The survey results are used throughout the Report, and, specifically in each chapter, as a component that impacts the competitiveness of each select component or policy. Appendix C provides background on the survey and respondents.

Focus Group Methodology

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

Report Structure

This year's report follows the same structure used in last year's report. The Ex-Im Bank Advisory Committee Statement follows directly after the transmittal letters to members of Congress. The Executive Summary, which precedes Part I, provides an overview of the major findings of the Report. Following the Executive Summary and this introductory Chapter 1, Chapter 2 focuses on the international framework within which official ECAs operated in 2010 and the philosophies and missions of competing G-7 ECAs. Chapter 3 evaluates Ex-Im Bank's competitiveness on the core financing elements of official export credit support. Chapter 4 provides a comparative assessment of how well the financing elements are packaged into major programs (aircraft, project finance, co-financing, foreign currency guarantees, and services exports support). In Chapter 5, the evaluation of competitiveness addresses U.S. economic philosophy and competitiveness as evidenced by its approaches to (a) tied and untied aid and (b) market windows. Chapter 6 evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity. Chapter 7 summarizes Ex-Im Bank's overall competitiveness, taking into account core financing elements, major programs, and U.S. economic philosophy and public policies. Chapter 8 discusses unregulated and exceptional financing by ECAs in OECD and non-OECD countries.

The appendices following the body of the Report include a 2010 Ex-Im Bank transaction list showing the purpose of the Bank's support, Ex-Im Bank efforts to support renewable energy, and other materials intended to provide greater detail and insight into Ex-Im Bank efforts to meet its Congressional mandates while maintaining a focus on exporter competitiveness.

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

Introduction

This chapter provides the context for the environment in which ECAs operate. To understand how ECAs pursue their missions and make changes to operational strategies, one must understand the developments and trends of the wider world of export finance over the past several years.

The most significant trend in the ECA world over the past decade has been the emergence of three distinct ECA business models, each with a specific mandate. They are:

(1) Lenders of last Resort: ECAs who maintain their position as government agencies seeking to minimize their participation in export promotion vis-à-vis commercial banks.
(2) Quasi-market players: ECAs who aggressively seek commercially-oriented approaches to their export credit programs.
(3) Industrial policy institutions: ECAs that contribute to a concerted government strategy aimed at expanding exports from (and increasing employment in) "strategic" sectors.

The operational objectives, risk appetites, pricing and financial drivers associated with each of these models are quite different. Moreover, as a result of the financial crisis, ECAs have made efforts to innovate their models to accommodate growing demands for medium- and long-term trade finance. Thus, foreign competitor ECAs - including G-7 and non-OECD ECAs - have devised instruments and capabilities to supplement their business models. For example, a quasi-market player, EDC, has introduced a "pull strategy" to help draw strategic industries to Canada through credit lines to foreign buyers for products with limited Canadian content (with the intent of expanding Canadian content or benefits in the future).

The dominant ECA focus on effective responses to financial crisis constraints does not mean that the three models are moving closer together. The differences between each of the models are being blurred as ECAs test and modify their respective models to meet the demands of both their governments and their exporters and banks to keep national exports fueling the much-needed economic recovery. As a result, ECAs generally became more aggressive and innovative in 2010, in part by adopting programs or attitudes from other models in order to expand their export credit support. As ECAs found new programs, roles and relevance during the financial crisis, their activity levels increased across the board.

Export Trends

Figure 1 illustrates the global export of goods over the last five years, with worldwide trade rebounding in 2010 – but not yet back to pre-crisis levels. As the five year data evidences, the OECD countries still compose the most significant portion of world trade in goods and capital goods, maintaining steady export activity growth of about 10% since 2006. By contrast, the BRICs show a significant increase of roughly 35% in export activity growth since 2006, when export activity was reported as $1,550 billion compared to 2010, when export activity rose to $2,370 billion. As a result of the faster growth in BRIC export activity, the share of OECD exports to the world has declined slightly (by 1-3%) while the proportion of BRIC exports to the world rose by a slightly higher margin of about 5% over the same period (from 2006 to 2010).

Figure 1: World Exports of Goods and Capital Goods, 2006 – 2010 (Billions USD)

	2006	2007	2008	2009	2010*
Exports of Goods					
World Exports	$11,541	$13,195	$15,105	$11,695	$13,293
OECD	$7,430	$8,393	$9,291	$7,285	$8,288
BRICs	$1,550	$1,893	$2,276	$1,810	$2,370
Rest of World	$2,158	$2,561	$2,906	$3,533	$3,911
Exports of Capital Goods (excl. autos)					
World	$3,898	$4,328	$4,723	$3,869	NA
OECD	$2,707	$2,944	$3,172	$2,538	NA
BRICs	$609	$752	$876	$774	NA
Rest of World	$582	$632	$675	$558	NA
OECD Exports/World Exports (%)					
Goods	64%	64%	62%	62%	62%
Capital Goods	69%	68%	67%	66%	NA
BRICs Exports/World Exports (%)					
Goods	13%	14%	15%	15%	18%
Capital Goods	16%	17%	19%	20%	NA

*Preliminary Statistics
Source: WTO Time Series Statistics; OECD International Trade (MEI) dataset

Export Finance Trends

Figure 2 shows that medium- and long-term G-7 official export credit volumes dipped slightly in 2010, with France and Germany jockeying for the lead position. Nevertheless, the total 2010 activity was still over 50% higher than the average volume in the years leading up to the financial crisis. Hence, with exports still down from the 2008 peak levels and ECA volumes up significantly, the share of OECD capital goods supported by G-7 ECAs remained at about 3% of the total world exports (compared to the less than 2% participation in the year prior to the financial downturn).

Although specific volumes for BRIC ECAs represent the broadest of estimates, the data trend continue to indicate that in 2010 China was by far the largest provider of medium- and long-term officially supported export credits among G-11 ECAs (G-7 ECAs plus

BRIC ECAs), offering two times more official export support than the largest G-7 ECA. Taken together, the Brazilian, Indian and Chinese ECA data shows that the activity of these ECAs (referred to here also as "BICs") equaled or surpassed G-7 medium- and long-term export credit financing in 2010.

Figure 2: New Medium- and Long-term Official Export Credit Volumes, 2006 – 2010 (Billions USD)

	2006	2007	2008	2009	2010
Canada*	0.2	0.5	1.5	2.0	2.5
France**	7.3	10.1	8.6	17.8	17.4
Germany	13.3	8.9	10.8	12.9	22.5
Italy***	4.0	3.5	7.6	8.2	5.3
Japan****	2.4	1.8	1.5	2.7	2.9
U.K.**	0.6	0.4	0.8	1.4	1.9
Total G6 (minus US)	27.7	25.2	30.8	45.0	52.4
U.S.*****	8.6	8.2	11.0	17.0	13.0
Total G-7	$36.3	$33.4	$41.8	$62.0	$65.4
U.S. % of G-7	24%	25%	26%	27%	20%
BICs^					
Brazil^^	7.5	7.0	7.6	10.5	18.2
China^^^	22.0	33.0	52.0	51.1	45.0
India	5.6	8.5	8.7	7.3	9.5
Total B,C,I	$35.1	$48.5	$68.3	$68.9	$72.7
B,C,I % of G-7	97%	145%	163%	111%	111%

*These figures have been adjusted from previous reports to exclude market window and domestic financing.
**These figures have been adjusted to exclude defense.
***These figures have been adjusted from previous reports to exclude untied or domestic activity. The 2006 and 2007 figures are U.S. Ex-Im Bank estimates (comparable data not available).
****These figures reflect an aggregation of JBIC export loans and an estimate of NEXI medium- and long-term official export cover. The 2010 figure is a U.S. Ex-Im Bank estimate (data not available).
*****Data presented on a calendar year basis. Data for first four months of CY 2011 indicates that 2011 may top 2010 activity numbers.
^Activity data for Brazil, India and China as Russian medium and long activity data is limited and not a competitive concern.
^^Brazilian data represents SBCE activity as BNDES data was not available for 2010.
^^^Refer to Chapter 8 for a detailed explanation and information about Chinese ECA activity.

Figure 3 illustrates that, in 2010, overall capital flows into emerging markets are improving. The data indicates that in 2010 overall capital flows into emerging markets surpassed pre-crisis levels. With respect to official flows, bilateral creditors did increase their flows to emerging markets while the international financial institution (IFI) flows dropped dramatically from 2009 levels. The 2010 data appears to show that the net external flows did experience a bottoming out in 2009 and are slowly rebounding. Recent reports support indications that world-wide economic and market conditions are now on the upswing. These conditions illustrate the environment in which ECAs operated in 2010 and project 2011 flows.

Figure 3: Net External Capital Flows into Emerging Markets, 2006-2011 (Billions USD)

	2006	2007	2008	2009	2010*	2011**
Official Flows						
IFIs***	-30.0	2.7	26.5	46.0	29.0	21.0
Bilateral Creditors	-27.0	8.7	30.7	21.0	26.0	27.0
Private Flows						
Equity Investment	222.0	296.0	413.4	475.0	550.0	572.0
Commercial Banks	212.0	410.0	123.7	-15.0	164.0	179.0
Non-Banks	131.0	222.0	130.0	142.0	194.0	210.0
Total	$508.0	$939.4	$724.3	$669.0	$963.0	$1,009.0

Source: Institute of International Finance, "Capital Flows to Emerging Markets," January 2011
* Indicates estimated figures
** IIF projections
*** International financial institutions

Trends in 2010: Focus Group Discussions

Exporters and lenders reported that ECA financing was more relevant than ever in 2010 due to the continued fallout from the global financial crisis and the weakened dollar. The financial sector has not fully recovered from the financial crisis. Tenor is increasingly an important factor for funding. Both banks and non-bank lenders (e.g. captive finance companies) are flush with cash, but they are reluctant to commit their cash into long-term assets.

Ex-Im Bank played a critical role in continuing to fill in the liquidity gap in 2010. In fact, ECA cover was considered particularly essential for projects with a longer business cycle, and exporters and lenders noted that suppliers from the countries with the most effective and flexible ECA financing programs will get the business.

Nevertheless, exporters and lenders did reference the philosophical limitations of the U.S government's "lender of last resort" model that stems from what was called a "purist free trade" model. Exporters and lenders increasingly report their encounters with OECD and non-OECD financing programs that go beyond the free trade or traditional approach, and instead draw on aggressive "quasi-commercial" financing programs or concerted or targeted approaches (like EDC, which has market window capacity and expertise; and JBIC, which now promotes strategic sectors, like high speed rail). Also noted was the Chinese Model of a state run bank that supports broader Chinese government priorities. By contrast, the Ex-Im Bank "purist free trade model" lacks flexibility and cannot incorporate such elements or compete with the emerging and "mixed models."

In general, exporters and lenders noted that Ex-Im Bank's "cushion of competitive advantage," as one exporter called it, is gone. U.S. exporters indicated that a tipping point was approaching where ECA financing was becoming critical due to the increasing reserve requirements on banks (resulting from the evolving regulatory environment that has emerged from the Basel accords) and general lack of term financing. Although the weak dollar did boost export credit activity in 2010, strategic U.S. government approaches are needed in order to address the major (and looming) competitive threats (e.g., non-standard and unregulated programs within both OECD and non-OECD export credit agencies).

Overarching Trends

The biggest question today is what the role of ECAs will be once the international financial and credit markets finally settle down. The financial crisis brought ECAs to the forefront and they have played a critical role in keeping capital goods trade flowing. However, forecasting when and what will happen once liquidity returns to the markets and the private lending community gets back on its feet is difficult. Furthermore, the full depth and breadth of the impact that the crisis has had on the three philosophical ECA models is not yet known, and may not be for several years.

Nevertheless, there are several underlying assumptions or influences that are likely to be on stage going forward. First, exports and their importance in sustaining and supporting economic growth are likely to get more attention as economies search for areas of growth beyond their national borders and capacities. Second, more regulation of private financial services (e.g., Dodd-Frank; Basel) seems like an obvious factor that financial markets will have to address. Third, supporting domestic employment and aligning ECA efforts with domestic benefits could become a more central driving force than before.

Taken together, these influences suggest that the "new normal" may exhibit the following characteristics:

1. ECA activity will be a larger share of national exports than in the past decade.
2. As OECD governments focus more on the direct benefits of exports as an important support for jobs, the ECAs could (a) push the pendulum more toward national exports (made in vs. made by); and (b) expand their range of products to include unregulated products (i.e., financing forms not regulated by the OECD Arrangement) such as untied loans, market windows, and investment financing – yielding stagnant volumes of activity that is subject to the OECD Arrangement.
3. Non-OECD countries will continue expanding their market share by using exceptional financing methods, that comport with WTO provisions, but that are outside of the purview of the OECD rules, further expanding the scope of unregulated financing vis-à-vis constant volumes of OECD Arrangement-compliant activity.

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

The Role of Export Credit Agencies

Traditionally, the purpose of an ECA has been to support the financing of domestic exports. In order to reach this goal, a number of ECAs have changed the scope of their export credit support. While the G-7 ECAs must abide by the OECD Arrangement, which sets the most favorable financing terms and conditions that may be offered for official export credit support, each agency's operational structures differ greatly. As long as they stay within the parameters of the Arrangement, individual ECAs have the latitude to pursue their own national policies in support of their country's exports. However, the G-7 ECAs also work under a second framework which is more ECA-specific: the ECA's mission as defined by its sponsoring government. This framework determines the extent to which an ECA is able to adapt its policies and operations to a changing landscape and what methods it is allowed to employ to continue to work toward its central goal. These factors define the parameters within which ECAs will compete with each other to facilitate domestic exports and to promote their respective governments' national interests.

Ex-Im Bank's Mission and Place in Government

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

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

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

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

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

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

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

Introduction

The traditional measure of official ECA competitiveness in cover policy and risk-taking is based on the number of countries in which an ECA provides official export support. Moreover, the breadth of markets and depth of risk appetite within specific countries further determine the competitiveness of an ECA in this area. Hence, ECA competitiveness can be measured based on the number of countries in which it is "open" for business, the nature and level of risk within those markets, on what terms, and its willingness to take on new business with entities other than sovereign governments or first-class private institutions.

However, the ability to measure the breadth and depth of ECAs cover policies and risk appetites can be difficult as ECAs use varying reporting techniques and methodologies. Hence, comparable data is often scarce. As a result, the data presented in this chapter is more indicative of overall trends rather than a precise measure of an ECA's cover policy.

Ex-Im Bank's Policy and Practice

Sanctions

Historically, Ex-Im Bank has been one of the leading ECAs in terms of the number of countries in which it is open, its overall willingness to take risk in these countries, and its appetite for non-sovereign business. Moreover, the one factor that has typically been a drain on Ex-Im's competitiveness in this area – the number of countries subject to U.S. sanctions barring Ex-Im Bank support – was multi-lateralized in 2010 for the major target (Iran), thus minimizing the negative competitive implications of this factor. Ex-Im Bank currently has sanctions against providing support to the following countries: Burma, Cuba, Iran, North Korea, Sudan, and Syria.

In 2010, the United States Government acted both to multi-lateralize the Iran sanctions and to ensure they were applied consistently through all federal agencies. As a result, the Bank introduced actions to monitor exporter activities related to Iranian buyers. Although all ECAs dramatically reduced activity in Iran, Ex-Im Bank was the only export credit agency to introduce a case-specific questionnaire and processes to ensure that Iran sanctions were applied to officially supported export credits.

General Cover Policy and Risk-Taking

Outside national policy considerations, Ex-Im cover policy is driven by the economic classification of countries and financial evaluations of non-sovereign borrowers. In 2010, Ex-Im was open for medium and/or long-term cover in a total of 175 countries. Moreover, Ex-Im had a relatively well-balanced portfolio across geographic regions in 2010. The portfolio was spread over Asia/Middle East, the Americas, EU and Africa. Moreover, the overwhelming majority of cases were non-sovereign.

Furthermore, Ex-Im's approval of medium- and long-term transactions is not constrained by country cover limits (e.g. denying a transaction because the Bank has reached an exposure threshold in a specific market). Each case is evaluated on the merits of its risk profile, the Bank's ability to determine a reasonable assurance of repayment, and in the context to the market in which the transaction is domiciled.

G-7 ECAs' Policies and Practices

Comparing G-7 ECAs cover policies on a country-by-country basis to Ex-Im's is extremely difficult due to the disparity in data. However, observations highlight that many of the G-7 ECAs adhere to country cover limits, where transactions may be limited in a certain market if the ECA's exposure has reached the determined ceiling. Furthermore, where Ex-Im Bank states explicitly if it is "open for cover" in a given market, many of the G-7 ECAs make their decision to consider a transactions, most commonly in high-risk markets, on a "case-by-case" basis. Hence, it is difficult to know what the risk appetite of the ECA is in a specific market when cover is considered on a one-off basis. This approach to cover policy could have competitive implications on U.S. exporters where Ex-Im is off-cover and other ECAs are willing to consider transactions based on the specific deal. However, this cover policy approach could also have positive benefits for U.S. exporters where Ex-Im is on-cover and other ECAs are only willing to consider a transaction in the same market on a "case-by-case" basis.

Exporter and Lender Survey and Focus Group Results

The exporter and lender focus groups claimed that Ex-Im "was more conservative in its credit philosophy" than most other ECAs. The survey also emphasized the perception that Ex-Im is not as flexible in its risk-taking and not as willing to take on levels of risk that other ECAs are assuming.

Conclusion

Ex-Im Bank continues to be competitive vis-à-vis the other G-7 ECAs in terms of the scope of its cover policy and approach to market-specific risk taking. Ex-Im's ability to authorize transactions without taking country limits into consideration is a competitive advantage for the Bank; its transparency on off-cover may be a modest negative. Moreover, although Ex-Im may utilize a more conservative credit philosophy, the Bank has not been made aware of transactions lost because of a more conservative cover policy. Hence, as in past years, Ex-Im's cover policy approach puts the Bank on the same level with the other G-7 ECAs, a grade of "A-/B+".

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

Introduction

Utilization of official interest rates as a competitive tool in the 1960s and 1970s was the impetus for the OECD countries to negotiate the Arrangement on Guidelines for Officially Supported Export Credits in 1978, which established minimum interest rates benchmarks. As a result of more than three decades of fine-tuning, the minimum official interest rate that export credit agencies charge on direct loans or that private financial institutions charge on export credit transactions receiving official interest rate support has become essentially an non-issue competitively.

Nonetheless, interest rates can still be a competitive factor when ECA support is involved, especially in economic environments where liquidity has dried up. Demonstrative of this point, the 2008 financial crisis significantly constrained liquidity in the global markets, and prompted renewed interest in long-term, fixed-rate ECA financing. That importance continued for Ex-Im in the recovering, but still volatile, financial environment of 2010.

Interest rates factor into ECAs' support in three ways:

1) the ECA lends directly to a borrower and charges the official minimum interest rate for the currency of the loan[1], or
2) by providing interest make-up (IMU) support to a financial institution that agrees to provide a loan to a borrower at the official minimum interest rate. (IMU support guarantees a lender that its cost of funds plus a mark-up will be covered no matter what the CIRR rate is); and
3) the market rate for "pure cover" support from an ECA. ECAs that offer "pure cover" provide a repayment guarantee or insurance to a lender willing to lend to a foreign borrower. The repayment guarantee or insurance promises the lender that, in the event the borrower fails to make a payment on the guaranteed/insured loan, the ECA will pay the lender the funds it lent and pursue collections from the foreign borrower.

In light of the unprecedentedly low interest rates commercially available over the past decade, demand for official interest rate support (in the form of either direct lending or IMU) has been consistently low while pure cover has become the overwhelmingly dominant form of ECA support. However, in 2009, for the first time in decades, ECAs experienced an increase in demand for their direct lending facilities and programs. This increased demand continued through 2010 and is attributable to several factors related to the 2008 financial crisis. First, liquidity dried up and what funding was available was expensive. Additionally, private lenders, having to find new capital in a highly adverse

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

environment, could not take on new assets while they were rebuilding their balance sheets. Hence, in many cases, even a 100% guarantee was not enough to draw in or retain commercial bank funding for export credits. Those ECAs who could offer a form of direct loan support that did not rely on the private lender for the actual funding were able to draw on that flexibility and provide highly competitive financing.

Ex-Im Bank's Policy and Practice

Since 1934, Ex-Im Bank has had a fixed-rate direct loan program. Ex-Im Bank's direct loan program provides the same coverage and repayment terms as is provided under Ex-Im Bank's pure cover programs, with the only difference being the interest rate. Under Ex-Im Bank's direct loan program, the interest rate is fixed at the time of first shipment at the then-current OECD minimum official interest rate (CIRR) for the U.S. dollar. Under Ex-Im Bank's pure cover program, the interest rate is established by the lender and almost always starts as a floating rate. The rate will be based on LIBOR, the U.S. prime rate, a commercial paper rate, equivalent Treasuries or any other relevant interest rate benchmark.

Historically, Ex-Im Bank has allowed foreign borrowers to determine whether they want to take advantage of the direct loan or pure cover program. In the post-financial crisis environment, borrowers have requested and used Ex-Im Bank's direct loan program more frequently due to the predictability it offers. While Ex-Im Bank approved only one direct loan during 2007, the Bank has seen a marked increase in the demand for this product in the period from 2008 through 2010. After a high water mark of 21 direct loans valued at approximately $5.5 billion in 2009, Ex-Im saw its direct loan activity decrease slightly to 17 direct loan authorizations worth $3.6 billion in 2010.

Nevertheless, pure cover remained Ex-Im Bank's dominant form of medium-and long-term support in 2010, with the Bank authorizing 303 transactions for approximately $10.6 billion. However, the competitiveness of pure cover interest rates differed markedly between the medium-term and long-term programs. Medium-term transactions supported under the Bank's insurance and guarantee programs do **not** typically achieve spreads anywhere near as attractive as the long-term pure cover transactions. For example, while long-term spreads have historically averaged 35-65 basis points, medium-term spreads have typically been in the 200-300 basis point range. (The difference in spreads between long-term, large transactions and medium-term, small transactions appear to be the result of commercial banks' pricing strategies to account for higher overhead costs relative to larger, long-term transactions rather than a function of any Ex-Im Bank support element.)

Historically, Ex-Im Bank has been able to offer highly competitive spreads on long-term cases compared to other peer ECAs. Nevertheless, as Ex-Im both covers and is affected by dramatically higher spreads that could put non-sovereign cases at a higher risk of default, Ex-Im has more than a competitiveness reason to care if external events cause an irrational spike in spreads. Hence, when the financial crisis generated a significant spike starting in 2008, Ex-Im took action to control both competitiveness and credit worthiness. One step was to allow borrowers to choose direct loans more frequently; the other steps involved rolling-out two new and innovative products in 2009.

One new product, the Take-Out Option, protected commercial lenders/banks from the spike in spreads arising from an irrational fear of illiquidity by giving commercial lenders who receive a comprehensive guarantee from Ex-Im the option of having Ex-Im buy back loans should the lender find that its funding costs were changing or that funding was becoming unavailable. The second new product Ex-Im introduced in 2009, the capital markets option, enhances the role of the capital markets by enabling Ex-Im Bank's guarantees to be directly placed in the capital markets. Both the Take-Out Option and the capital markets option were initially designed for large aircraft transactions, and they continue to be primarily utilized for these types of transactions. As such, more of the details surrounding the Take-Out Option and the capital markets option will be discussed in the Large Aircraft chapter of this report (4A).

G-7 ECAs' Policies and Practices

The G-7 ECAs all offer the ability for exporters to access medium- and long-term fixed rate financing at CIRR levels. While Japan and Canada provide the majority of their support through direct loans, the United States and to a lesser extent Germany, in a limited capacity, also offer direct loan programs. In addition, France, Italy and the U.K. offer IMU support. However, in 2010, Germany, France, Italy, and the United States continued to provide the bulk of their support under their pure cover programs.

In 2009, as commercial banks pushed up the spreads required to keep them involved, all ECAs were faced with similar increases. However, countries using IMU to generate fixed rate CIRRs found the increased spreads coming as a surcharge on top of CIRRs to buyers. These surcharges were put on top of CIRRs and caused competiveness problems for France, the UK, and Italy given their capacity for IMU support. However in 2010, modest reductions in surcharges and spreads moderated the problem for IMU competition and pure cover spreads.

Exporter and Lender Survey and Focus Group Results

Both lenders and exporters applauded Ex-Im Bank's continued effort throughout 2010 to step in and provide financing in light of the still constricted commercial markets that characterize the post-financial crisis economic environment. Similar to the sentiment communicated in 2009, however lenders again highlighted that CIRR-based financing, particularly within the context of project finance transactions, is an area in which Ex-Im competed with commercial bank financing. Finally, commercial banks reported an environment of heightened uncertainty due to residual financial crisis impacts and an adverse regulatory environment, particularly in light of the Basel III agreement. As a result, banks reported a reluctance to allocate funding towards low yielding export credits absent official support. Accordingly, commercial banks are seeing an upswing in the need for ECA and multilateral development bank participation in what were previously private transactions.

Conclusion

As the ECA with perhaps the widest range of interest rate programs and longest history of interest rate innovation, Ex-Im has historically been able to offer the most competitive level of spreads more consistently than any other ECA. In the post-crisis economic environment of the last couple of years, this capacity has become a critical component of Ex-Im's competitiveness. Within this context, there has been a renewed interest in long-term, fixed rate ECA financing, which has been confirmed by Ex-Im's direct loan activity. Moreover, for pure cover cases, Ex-Im Bank has been able to respond well to market uncertainties through its implementation of innovative products. Specifically, the Take-Out option and the capital markets option provided buyers with much needed assurances and flexibilities in these still volatile economic times. These accomplishments place Ex-Im in a highly competitive position when compared to other major ECAs, as indicated by the Bank's "A" grade in the area of interest rates for 2010.

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

Introduction

ECAs charge risk premia, or exposure fees, to cover the risk of non-payment for a transaction. In 1999, in order to level the playing field among ECAs, the OECD implemented the Knaepen Package which defined the elements for determining sovereign buyer fees and set Minimum Premium Rates (MPRs) for transactions with sovereign buyers. The MPR sets the floor for standard export credit pricing of sovereign buyers. Because there is currently no OECD system that specifically addresses non-sovereign buyers, the MPR also serves as the floor for fees of non-sovereign buyers. Due to the concentration of ECA business with non-sovereign buyers, the OECD Participants then sought to establish a common buyer risk-rating and premia system. After years of languishing talks, the Participants reopened negotiations to create a buyer fee system in June 2008 and approved a new comprehensive fee structure in February 2010 (referred to as the Malzkuhn-Drysdale Package) which includes a non-sovereign buyer fee system, updated MPRs, and pricing protocols for transactions in high-income OECD and Euro-area countries (also known as Category 0 markets). This new structure will be implemented by all OECD ECAs on September 1, 2011.

Several elements determine the MPR: (i) the percentage of cover; (ii) the quality of the product; that is, whether the financing is an unconditional guarantee or conditional insurance; and (iii) the claims payment policy. The latter two factors determine whether a product is considered "above standard", "standard" or "below standard." Because coverage may differ based on these factors, the three types of products are priced differently, with "above standard" being the most expensive and "below standard" the least expensive. These variations allow for surcharges or discounts based on the type of product to ensure a level playing field among ECAs. In addition, surcharges and discounts are applied when the cover differs from the typical 95% level of coverage. For example, for 100% cover, there is a surcharge between 5.3% and 14.3% depending on the country's risk level; and for 90% cover, there is a discount of 5.4%. While the Knaepen Package establishes a floor for the fees ECAs charge, depending on an ECA's individual risk assessment, the ECA may add other surcharges to the MPR for sovereign risk transactions, as well as for non-sovereign risks.

Ex-Im Bank's Policy and Practice

As standard policy, Ex-Im Bank charges the MPR as set by the OECD for sovereign transactions. For non-sovereign transactions, Ex-Im Bank uses a rating methodology that cross-references a borrower's financial information to various financial indicators and takes into account various credit enhancements that may be applied to the case in order to reach a final rating. If the borrower is rated equal to or better than the sovereign, then the applicable fee is the MPR. For pricing the non-sovereign risk, Ex-Im takes an incremental approach to setting the applicable private buyer risk premia, adding an incremental surcharge to the base MPR rate. There are 5 increments, each

10%, that are added to the MPR. Hence, the private buyer fee does not go higher than 50% over the MPR.

In 2010, as the OECD-mandated implementation date of the Malzkuhn-Drysdale Package grew closer, the Bank decided to introduce the new fees for the Bank's medium-term program in order to test the impact and utility of the new system. While the OECD Agreement also takes an incremental approach to pricing risk, the surcharge between each risk level (CC1-CC5) is much higher than Ex-Im's internal pricing system. This action created a temporary bifurcated pricing structure for the Bank's medium- and long-term programs, but will enable the Ex-Im to address any internal issues with the new fee system before the formal September 1, 2011 implementation date.

G-7 ECAs' Policies and Practices

Like Ex-Im Bank, the G-7 ECAs generally charge the MPR for sovereign transactions. However, risk-rating methodologies, use of risk mitigants, and pricing mechanisms vary widely among the G-7 ECAs. As a result, there is a fairly wide divergence in the fees charged by G-7 ECAs for similar non-sovereign transactions. The difference among ECAs in terms of experience, portfolios and philosophies generate this wide range in private buyer risk-rating and pricing. This was evidenced during the many years of premia negotiations when different ratings for the same or similar buyers emerged.

Years of risk rating and pricing exercises during the premia negotiations drew out the countries that take an incremental approach to pricing non-sovereign risk and those that take a more comprehensive approach – pricing based off of the total risk of the buyer rather than surcharging for that risk. France, Germany and Japan use an incremental system for pricing risk. Canada, Italy, and the United Kingdom take a more comprehensive pricing approach. The difference in such methods generally yields lower private buyer fees for the incremental pricing systems and higher risk premia when using comprehensive risk pricing. A key goal of the premia negotiations was to develop a common risk rating and pricing system so these disparities in pricing would come closer together, particularly in competitive situations.

Over the next few years, the implementation and transparency procedures of the Malzkuhn-Drysdale Package will be a telling sign as to whether the G-7 ECAs and other OECD Participants in actuality are very far apart on their rating and pricing of private buyer risk as the evidence will be based on real ECA transactions.

Exporter and Lender Survey and Focus Group Results

Results from the Exporter and Lender Survey and Focus Group indicate Ex-Im's fees are on average competitive with other ECAs.

Conclusion

There is a wide range in approaches to risk-based pricing among the G-7 ECAs with some using the OECD MPRs as a reference point rather than as a benchmark. While sovereign minimum rates no longer differ among OECD ECAs, these two approaches to pricing results in wide range in fees for comparable private buyer risks. In order to close this gap, the OECD members continue to push for a level playing field, most recently with the acceptance of the Malzkuhn-Drysdale Package. Historically, Ex-Im Bank's underwriting and claims experience enables it to typically price within a narrow band above the MPR while maintaining a better-than-breakeven portfolio. However, given the increase in medium-term fees, Ex-Im premium rates are slightly less competitive than last year but not enough to justify a downgrade from 2009, giving Ex-Im a grade of "A".

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

Overall, Ex-Im Bank's core business policies and practices were once again graded as generally competitive and received an "A" grade. That means that in 2010 Ex-Im Bank consistently offered terms that were equal to the average terms offered by a typical ECA such that the core policies and practices level the playing field with the standard ECA offer.

Figure 4 illustrates how Ex-Im Bank fared competitively on sub-elements of each policy or practice, in addition to an aggregate grade for each element. The grades are derived from both the survey and focus group results and the Bank's analysis of how it performed in comparison to its G-7 counterparts.

Figure 4: Grading of Ex-Im Bank's Core Competitiveness, 2010

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

Chapter 4: Major Program Structures
Section A: Aircraft

Introduction

In an effort to meet the financing needs for specific export-intensive industries, Ex-Im Bank offers several specialized financing programs in addition to its standard export credit support. The following section discusses one of those types of programs: the Bank's support for the export of civil and large commercial aircraft.

OECD Aircraft Sector Understanding

ECA financing of large commercial aircraft has been governed by the rules outlined in the OECD's sector understandings on aircraft since the mid-1980s when the Large Aircraft Sector Understanding (LASU) came into effect. The LASU agreement, which established standard financing terms for the provision of official export credit support for the sale of large aircraft, was replaced by an updated and more expansive Aircraft Sector Understanding (2007 ASU) in July, 2007. Although the ASU came into effect in 2007, negotiations on the agreement started in 2001, when the absence of up-to-date export credit rules governing the financing for newer (and smaller) commercial aircraft became the source of litigious and competitiveness concerns. From a technical perspective, the ASU negotiations were focused on bringing the agreement up-to-date with the aircraft financing practices used in the 21st century. From a political perspective, the ASU negotiations sought to include a wider group of ECAs involved in the production and export financing of aircraft, namely Brazil and Canada, and incorporate the diverse types of aircraft financing disciplines. The 2007 ASU was agreed to by the Participants to the Arrangement and also by Brazil who is a Participant to this agreement only and not to the overall OECD Arrangement. The 2007 ASU, like the LASU before it, sets out the maximum repayment terms, minimum exposure fees and minimum interest rates that an ECA can charge for all non-defense aircraft finance transactions.

The 2007 ASU went into effect in July 2007[1] and has several notable characteristics that are summarized below.

> **Classifies civilian aircraft into three types**: (1) Category 1: large commercial aircraft; essentially, almost all Boeing and Airbus aircraft are termed by the ASU as Category 1 aircraft; (2) Category 2: Regional aircraft (props and jets) that are made by, for example, Bombardier (Canada) and Embraer (Brazil), are considered to be Category 2 aircraft; and (3) Category 3: smaller aircraft such as helicopters, executive jets, and agricultural aircraft that are made by a wide variety of manufacturers.

[1] While the 2007 ASU became effective in July of that year, a clause was included in the agreement that allowed any Category 1 aircraft under a firm contract that was concluded by April 30, 2007, and scheduled for delivery by December 31, 2010, to be grandfathered under the terms of the old LASU.

Risk Classified Obligors: The ASU requires that each obligor be assigned a risk rating. This risk rating must be agreed to by all Participants to the ASU and is used to determine the exposure fee for the obligor.

Repayment Term: The maximum repayment term is determined by the type of aircraft:

- Category 1 aircraft: 12 years
- Category 2 aircraft: 15 years
- Category 3 aircraft: 10 years

Note that an overlap exists between the ASU agreement that went into effect in July 2007 and the LASU, mainly for Category 1 sales that were grandfathered under the LASU, depending on the original delivery date.

At the end of 2009, the 2007 ASU agreement was again opened. The impetus for this round of renegotiations was the development of a new line of aircraft, the C-Series, by Bombardier of Canada. The C-Series family of aircraft posed challenges under the 2007 ASU because the Participants of the agreement could not agree upon its proper technical classification. Due to the Participants' inability to come to consensus on which aircraft category (Category 1, 2, or 3) the C-Series should be placed in under the 2007 ASU, it was decided that the agreement needed to be renegotiated.

The renegotiation occurred throughout 2010 and concluded by year end with the 2011 ASU having come into effect on February 1, 2011. It is important to note that because ECAs party to the agreement are governed by the terms and conditions laid out in the 2011 ASU, competitiveness is less of an issue within the aircraft finance space because ECAs are offering largely the same financing terms and conditions as dictated by the international agreement. The 2011 ASU is significantly more complex than the previous arrangements, with the following notable characteristics: its market-based fee system, and the fact that it does away with the three tiered classification system for civilian aircraft. In addition to outlining the terms and conditions for aircraft financed under the 2011 ASU rules, a provision in the agreement allows for a certain limited number of aircraft transactions to be financed under LASU terms and conditions if the aircraft are listed on a document previously submitted to the OECD Secretariat. Similarly, the 2011 ASU also allows for aircraft to be financed under the 2007 ASU if they meet specific criteria outlined in the agreement. Given these transitional arrangements, for the next few years it is anticipated that Ex-Im Bank will be financing aircraft according to three different sets of rules determined by the three governing regimes: LASU, 2007 ASU, and 2011 ASU.

Large Commercial Aircraft Industry in 2010

As **Figure 5** indicates, 2010 marks the beginning of the aircraft industry's rebound in orders after the devastating effects of the 2008 financial crisis. This rebound is largely due to the return to liquidity within the aircraft sector after 2008 and 2009 experienced widespread illiquidity in the market. While orders for large aircraft are not equal to the record setting pace the commercial aircraft industry experienced in the 2005 – 2007 period, 2010 orders were markedly improved from the industry's 2009 low point. Total large commercial jet aircraft orders experienced a 244% increase from 2009 to 2010, with Boeing and Airbus orders exhibiting increases of 373% and 185%, respectively. Given that 2009 was such an outlier year with regard to large commercial aircraft orders, perhaps more meaningful is to compare the 2010 figures to the five year averages from 2005 through 2009, which is 853 orders for Boeing, 861 orders for Airbus, and 1163 total aircraft orders. Comparing the 2010 orders to these five year averages it is clear that the global aircraft industry has not fully recovered to its pre-financial crisis levels.

Figure 5: Number of Large Commercial Jet Aircraft Orders

	2005	2006	2007	2008	2009	2010
Boeing	1002	1044	1413	662	142	530
Airbus	1055	824	1341	777	310	574
Total	2057	1868	2754	1439	452	1104

Source: www.airbus.com, ATWOnline

However, even while the industry as a whole is still in recovery, Boeing managed to achieve deliveries in 2010 that were on par with recent years. At 74% of their total business, Boeing's foreign deliveries in 2010 remained consistent with the trend in recent years, as indicated by **Figure 6** below.

Figure 6: Number of Boeing Commercial Jet Aircraft Deliveries

	2005	2006	2007	2008	2009	2010
Domestic	90	106	108	118	116	119
Foreign	200	292	333	257	365	343
Total	290	398	441	375	481	462
Foreign as % of Total	69%	73%	76%	69%	76%	74%

Source: Boeing Capital Corporation

The funding gap that existed in 2009 as a result of the global financial crisis continued through 2010, and, as a result, Ex-Im Bank continued to provide financing for an increased number of deliveries. In 2009, export credit agencies stepped in because other funding options were not available from liquidity-restricted banks. Similarly in 2010, demand for export credit agency support is still strong because of liquidity issues that continue to restrict commercial loans and a limited risk appetite. These factors have led commercial banks to seek guaranteed loans that have the backing of export credit agencies. At its peak in 2009, ECA financing represented roughly 40% of the total market for aircraft financing. However in 2010, ECA financing decreased to closer to 30% of the total market.

Ex-Im Bank's Policy and Practice

While 2010 demonstrated a rebound in the large commercial aircraft industry from the devastating effects of the financial crisis, the commercial financial market has yet to fully recover. Notable effects of the financial crisis that manifested themselves in the aircraft industry were significantly decreased appetite for risk as well as increased unemployment within the aircraft manufacturing sector. Given that the aircraft industry is still dealing with these effects, in 2010 Ex-Im continued the role it assumed in 2009, stepping up and playing a crucial role financing aircraft on a counter cyclical basis. Indicative of its continued crucial role, Ex-Im authorized $7.1 billion in aircraft transactions in 2010, down from the 2009 record of $11 billion in aircraft financing support.

In 2009, in response to the difficult market conditions, Ex-Im introduced two new financing options intended to simultaneously increase liquidity and reduce the impact of exaggerated risk perceptions on pricing. Given the still precarious market in 2010, Ex-Im continued to offer and utilize these innovative products throughout the year. First, Ex-Im introduced the "Take-Out" Option, which gave lenders that received a comprehensive guarantee from Ex-Im the option of having Ex-Im buy back loans from the lender should the lender find that its funding costs were changing or that funding was becoming unavailable. This option to sell the loans to Ex-Im gave the lender the flexibility to use the acquired capital for additional lending needs and to minimize or eliminate the risk of losses due to a negative spread by selling it to Ex-Im Bank. Indicative of Ex-Im's continued use of the Take-Out Option, the Bank authorized 14 transactions valued at $2.8 billion with this flexibility in 2010.

Additionally in 2009, Ex-Im also introduced a capital markets funding option used primarily for aircraft transactions. Instead of providing a guarantee on a loan made from a commercial bank, Ex-Im guaranteed a bond issued in the capital markets and funded mostly by institutional investors. This structure created an alternative source of funding during the difficult lending environment dominant throughout 2009, and has continued to be a popular funding option in 2010 as demonstrated by the fact that Ex-Im authorized 13 transactions worth $3.2 billion with this component.

In addition to the financing terms and structures noted above, and in a manner comparable to Airbus ECA export credit support, Ex-Im Bank also offered co-financing support for U.S. aircraft sales such that Ex-Im Bank and another ECA could offer support for their respective portions of the sale. To review Ex-Im's co-financing support for aircraft please see Co-Financing chapter (Chapter 4C) of this report.

In 2010, Ex-Im Bank approved 36 large aircraft transactions worth over $7.1 billion as referenced above. Compared to total medium- and long-term transactions Ex-Im authorized, large aircraft orders represented 23% in numeric terms and 50% in dollar value terms of total Ex-Im Bank business in 2010. The majority of the 36 transactions were denominated in U.S. dollars, however, on 5 occasions Ex-Im Bank provided the buyer the option for a foreign currency (i.e. Euros) denominated loan.

In addition to Ex-Im's large aircraft portfolio, it is important to note that the Bank also supports smaller business and agricultural aircraft (referred to as "Category 3" aircraft in the 2007 ASU). In 2010, Ex-Im approved 36 Category 3 transactions with a total authorized amount of $237 million. The 2010 dollar value of Category 3 transactions is significantly below the $700 million for 26 transactions authorized in 2009. However, 2009 was an atypical year with regards to small aircraft transactions because Ex-Im approved a very large small aircraft facility. Although relatively unusual, Ex-Im made the decision to provide financial support for this small aircraft facility due to the post-financial crisis constraints of the commercial market. Of these business and agricultural aircraft transactions, 14 in 2010 and 11 in 2009 were co-financed transactions predominantly with the Canadian ECA, Export Development Canada (EDC).

Another special feature available for aircraft transactions involves an OECD-allowable discount on the exposure fee for airlines in countries that have ratified the Cape Town Convention (CTC)[2] and have made the necessary declarations. In 2010, Ex-Im Bank continued its policy of giving a one-third discount to the exposure fee for transactions grandfathered under the LASU agreement. For those aircraft covered under the ASU, a CTC discount in the range of 5% to 20% was offered. The following airlines were some of the beneficiaries of the CTC discount during 2010: COPA (Panama), TAAG – Angola Airlines (Angola), and Ethiopian Airlines (Ethiopia).

ASU ECA Policies and Practices

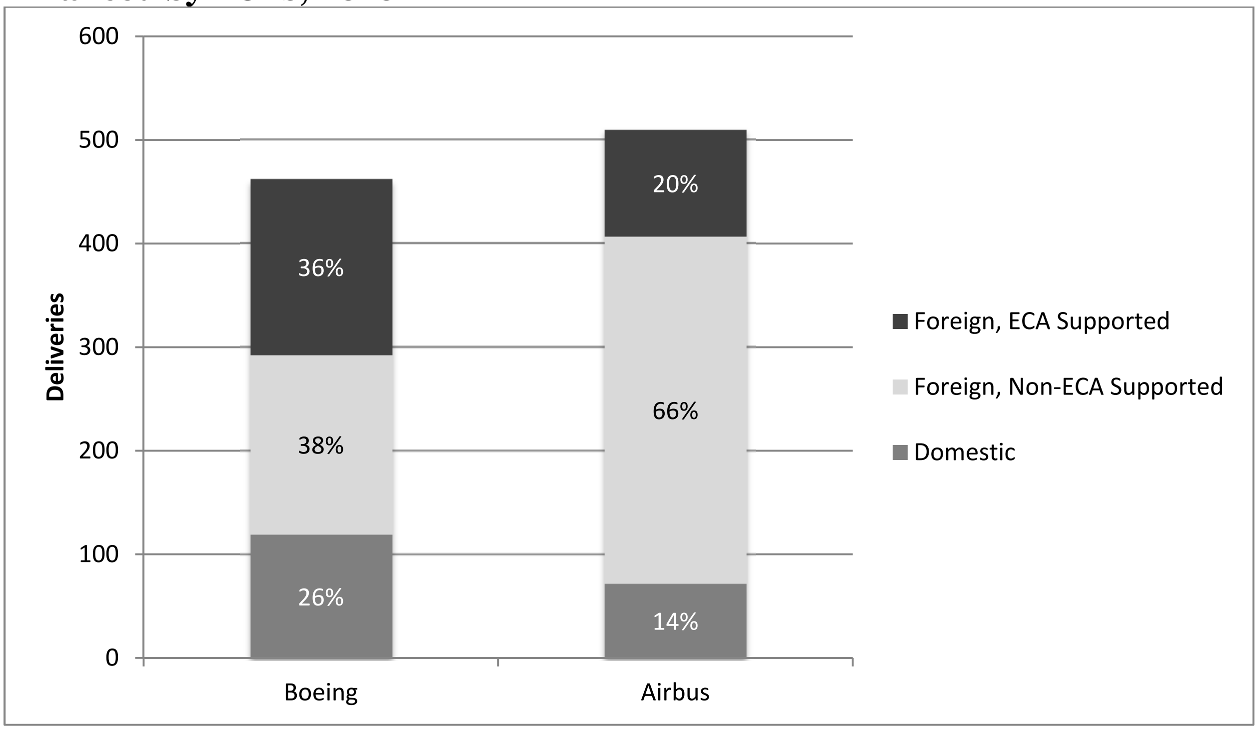
Historically the primary ECAs providing financing for large aircraft have been Ex-Im Bank and the Airbus ECAs (COFACE/France, Euler Hermes/Germany, and ECGD/UK). However, in recent years EDC of Canada and BNDES and SBCE of Brazil have increased their activity in this area due to the emergence of their home country aircraft manufactures (Bombardier in Canada and Embraer in Brazil). In 2010, EDC financed 81 aircraft for foreign deliveries worth a total of $1.6 billion (EDC financing for domestic deliveries was 15 aircraft worth a total of $300 million), and BNDES/SBCE provided financing for a total of 55 aircraft worth $2.2 billion. While the Canadian and Brazilian volume of business is not yet to the level of Ex-Im and the Airbus ECAs, their entry into the ECA aircraft financing space makes the dynamics within it that much more complex and competitive.

In 2010, the Airbus ECAs (COFACE/France, Euler Hermes/Germany, and ECGD/UK) supported an estimated 103 Airbus aircraft delivered during the year for a total of approximately $6 billion. While none of the Airbus ECAs offers a product similar to Ex-Im's Take Out Option, ECGD did launch a capital markets program after Ex-Im introduced the product. While Ex-Im offered the capital markets option on 13 transactions, as stated above, ECGD only offered this flexibility on one transaction in 2010. Given the limited use of these new and innovative products by other ECAs, the sentiment among those familiar with export credit providers is that Ex-Im has a perceived competitive advantage over its peers due to its willingness to offer and utilize these flexibilities. Regarding ECA activity in support of large aircraft, **Figure 7** illustrates the distribution of Boeing and Airbus deliveries, broken out by domestic and

[2] The following countries are on the OECD Cape Town list, thus making them eligible to receive the Cape Town Convention discount as of January 2011: Afghanistan, Angola, Ethiopia, Indonesia, Kenya, Malaysia, Mongolia, New Zealand, Nigeria, Oman, Pakistan, Panama, Senegal, Singapore, and South Africa.

export sales with and without ECA support. When comparing the two aircraft manufacturers, significantly more of Airbus' deliveries are to foreign markets (86%) compared to Boeing (74%). Of those foreign deliveries, however, Boeing deliveries more often receive ECA financing than those of Airbus, with foreign, ECA supported deliveries at 36% and 20%, respectively.

Figure 7: Percentage of Total Large Commercial Aircraft Deliveries Financed by ECAs, 2010



Source: Boeing Capital Corporation, www.airbus.com, www.speednews.com

Exporter and Lender Survey and Focus Group Results

The 2010 survey results and focus group discussions indicated that exporters and lenders involved in large aircraft exports again found Ex-Im Bank to be competitive compared to other ECAs. The creativity in structuring aircraft transactions as well as the willingness to work hard for customers throughout this difficult economic environment were aspects of Ex-Im's work that received high marks. Additionally, one exporter noted that the Bank's ability to offer foreign currency denominated loans was a particularly attractive option for many airlines that only operate domestically.

Despite these positive remarks, aircraft sector survey respondents had more critical feedback on several issues, principally foreign content. Multiple respondents, particularly small aircraft manufacturers, noted that Ex-Im's high foreign content requirements lessened the Bank's competitiveness vis-à-vis foreign export credit agencies. However, exporters appreciate that Ex-Im had worked to mitigate these concerns through co-financing arrangements and recognized that there were no transactions impacted or lost due to Ex-Im Bank's foreign content rules in 2010. Other exporters and bankers noted that the Iran sanctions questionnaire was a competitive issue as no other ECA applies such a process to its transactions.

Conclusion

Even with the increased competitiveness in the ECA aircraft finance space, Ex-Im Bank maintains its competitive edge among ECA peers due to its willingness to take a more creative and innovative approach to financing. In the still constrained economic environment after the 2008 financial crisis, Ex-Im has continued to aggressively fill the financing gap in the commercial markets and, in so doing, supported valuable exports and jobs within the U.S. aerospace industry. As depicted by the higher volume of large aircraft business within the past two years, Ex-Im has answered the needs of the U.S. exporting community in this sector as indicated by the "A" grade survey respondents gave for 2010.

Chapter 4: Major Program Structures
Section B: Project Finance

Introduction

Project Finance (PF) is defined as the financing of projects whose creditworthiness depends on the project's cash flow for repayment. With such a structure, the lender cannot access the assets or revenue of the project sponsor to repay the debt and only has recourse to the assets and revenue generated by the borrower (i.e. the project being financed). PF structures usually cover large, long-term infrastructure and industrial projects.

In 2010, total global PF debt issuances again declined to $188 billion after suffering a decline in 2009 as a result of the 2008 financial crisis. The further decline in global PF activity in 2010 can be attributed to the 1-2 year lagging effect the 2008 financial crisis had on the suppliers of large projects within the industry. The major ECAs supported 25 project finance deals in 2010, signifying an increase from the 2009 figure of 21 total ECA supported PF deals. However, preliminary information indicates the total dollar amount of 2010 ECA-supported PF transactions was only roughly $10.2 billion, a decrease from the $11.1 billion portfolio of PF business that received ECA support in 2009.

Figure 8 illustrates the involvement of ECAs in project finance transactions from 2007 through 2010. ECA participation as a percentage of total PF loans (based on dollar volume) averaged 1.4% during 2007 and 2008, but increased to roughly 5% for 2009 and 2010 as a result of reduced liquidity during the difficult market conditions.

Figure 8: Distribution of PF Loans by Originator, 2007 through 2010 (Billions USD)

	OECD ECAs (excluding Ex-Im)	Ex-Im Bank	All OECD ECAs	Private Lenders	Total
2010	$7.5	$2.7	$10.2	$167.4	$187.6
2009	$7.5	$3.6	$11.1	$212.8	$223.9
2008	$2.9	$0.5	$3.4	$247.2	$250.6
2007	$2.6	$0.6	$3.2	$223.0	$226.2

Source: Dealogic, 2011 and the OECD

Private financing by commercial lenders and other capital market players and their share of global PF activity has declined as a result of the global financial crisis in favor of ECA-backed financing. In the 2010 economic environment, it became evident that financing offered in conjunction with a bid was a crucial element taken into account in the awarding of contracts. As in 2009, 2010 was characterized by borrowers who looked to Ex-Im to fill funding gaps in project finance transactions where private sector debt was no longer willing to add exposure. Consequently, in 2010, Ex-Im's deal flow continued the 2009 upward trend, and, yielded more PF transactions in 2010 than in previous years.

In January 2009, the financing constraints that resulted from the 2008 financial crisis led the OECD to institute temporary flexibility on maximum repayment terms for transactions in high income OECD countries. The temporary provisions extended repayment terms up to 14 years (compared with 10) so long as ECA participation constituted more than 35% but less than 50% of the syndication. Given that the global project finance industry was still experiencing the effects of the crisis throughout 2010, the repayment term flexibility was extended for 2011. At the end of this extension period, the OECD will consider whether to discontinue or extend the temporary provisions for project finance support to High Income OECD countries into 2012.

Ex-Im Bank's Policy and Practice

In 2010, Ex-Im Bank authorized a total of 7 PF transactions amounting to roughly $2.7 billion. However, restricting the scope to strict PF transactions is misleading given the recent blurring of the line between project and structured finance. Project and structured finance have historically been distinguished based on the source of repayment for the loan: PF transactions rely on repayment from revenue generated by the project alone, while *structured* finance transactions generally involve large expansions of companies where repayment is derived from a combination of reliance on the existing company's balance sheet as well as on future revenues resulting from the expansion project. However, in cases where the success of the expansion is integral to the survival of the existing company, they could just as easily be considered "project finance." As such, to present a clearer, more accurate picture of Ex-Im Bank's total business in this area, it is important to also note that the Bank authorized 20 additional structured finance transactions, totaling $3.5 billion, in 2010,

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

At the same time, transactions using Ex-Im Bank's PF program can be constrained by a variety of non-financial requirements that other ECAs do not have, including the Bank's content policy, shipping requirements, and economic impact analysis (see the Foreign Content, U.S. Shipping Requirements, and Economic Impact sections in Chapter 6 for more detail). These policies can negatively impact actual and *potential*[1] PF transactions more than other types of transactions for two reasons. First, PF sponsors can choose among several sourcing alternatives from around the world, making the cost and quality of competition the most sensitive and intense factor when making the financing decision. Any extra costs or delays associated with a financing source can cause the project sponsor to look elsewhere for funding. Second, the desire of project sponsors to minimize the number of sources of financing gives an advantage to other ECAs with less restrictive content or shipping requirements.

G-7 ECAs' Policies and Practices

Compared with Ex-Im Bank, the other G-7 ECAs offer broadly similar coverage for PF transactions with some minor differences in the quality of the guarantee. While these quality differences have largely disappeared as other ECAs – including SACE (Italy), ECGD (UK) and JBIC (Japan) – have moved to 100% unconditional guarantees, EDC provides direct loans, and the other two G-7 ECAs (COFACE/France and Euler Hermes/Germany) provide conditional insurance. In addition, though not exclusive to Project Finance but used most often in PF transactions, are the OECD-compliant features of local cost support of up to 30% of the contract value and capitalized interest during the construction period that are utilized by all of the G-7 ECAs. However, unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and will support a maximum of up to 15% foreign content AND 30% local costs. In contrast, G-7 ECAs generally consider the level of support on the total non-domestic content (foreign and local) on an aggregate basis. That is, if a G-7 ECAs content policy states that it will allow up to 50% non-domestic content, if the local costs are maximized at 30%, the foreign ECA will limit the eligible foreign content to 20% of the export contract. (See Chapter 6C for details).

Exporter and Lender Survey and Focus Group Results

Exporters and lenders rated Ex-Im Bank's Project Finance operations as generally competitive again in 2010. While MARAD continues to be a contentious issue among exporters and lenders, content was identified as the single most significant impediment to Ex-Im Bank competitiveness by survey respondents this year. Specifically, respondents commented that Ex-Im Bank's foreign content policies are outdated, especially in comparison to modifications made by other ECAs last year to update their policies to reflect the increasingly globalized business that characterizes the 21st century economy.

Conclusion

In 2010 Ex-Im Bank's core PF offerings continue to be competitive with other G-7 ECAs. Having said this, it is important to note that the Bank's public policy requirements, namely foreign content policy, shipping requirements, and economic impact analysis,

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[1] The distinction between *potential* cases brought to Ex-Im Bank (as opposed to actual cases supported by Ex-Im Bank) is an important one. Potential cases are those transactions which are brought to Ex-Im Bank and worked on by the Bank but which are not ultimately supported by the Bank. Potential cases do not include transactions that could have come to Ex-Im, but did not.

have an adverse impact on Ex-Im's PF transactions when present (See Chapter 6 for details on these public policy issues). Although criticizing some of the Bank's public policies, survey respondents still gave Ex-Im an "A" grade in the area of project finance for 2010.

Chapter 4: Major Program Structures
Section C: Co-Financing

Introduction

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

With co-financing, the lead ECA provides the applicant (buyer, bank or exporter) with export credit support for the entire transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee) to the lead ECA for the follower ECA's share of the procurement. The country of the largest share of the sourcing and/or the location of the main contractor generally determines which ECA leads the transaction. 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. As the surge in use of Ex-Im Bank co-financing agreements stabilizes and availability and ease of ECA co-financing becomes routine, new competitive factors, including ECA willingness to address co-financing requests involving emerging ECAs as potential co-financing partners, are being evaluated.

Ex-Im Bank's Policy and Practice

Ex-Im Bank introduced the co-financing program in 2001 with the signing of its first bilateral agreement with ECGD (UK). Since that time, Ex-Im Bank has signed eleven co-financing agreements[1] and approved case-specific co-financing arrangements on a transaction basis with OECD ECAs with whom Ex-Im Bank does not have an overall co-financing framework agreement. Ex-Im Bank has not signed any co-financing agreements with ECAs in the BRIC countries or Mexico, but could consider individual requests to co-finance with these ECAs on a case-by-case basis.

In 2010, aircraft continued to lead the co-financing program as it constituted the majority of the overall number and volume of activity in 2010. As such, approximately $6.5 billion, or over 98% of the volume of all 2010's co-financed transactions, involved some type of aircraft. Specifically, Ex-Im Bank provided co-financing support for 15 large or OECD Category 1 aircraft and 14 small Category 3 aircraft transactions, including agricultural aircraft. In the majority of the aircraft transactions, without co-financing the exporter would not have been able to offer the maximum 85% support to its customers in one financing package. Thus, co-financing allowed Ex-Im and NEXI to level the playing field by acting like the Airbus ECAs do in terms of their seamless financing for the European-based commercial aircraft manufacturer.

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

With respect to non-aircraft transactions, Ex-Im Bank supported five transactions totaling almost $100 million in export value. The non-aircraft 2010 portfolio included large power plant projects as well as medical equipment. (See **Figure 9** below for a complete listing of the specific transactions).

Figure 9: Ex-Im Bank Co-Finance Transactions, 2010 (Millions USD)

Ex-Im Bank & Co-Financing ECA	Market	Project	Financed Amount*
ATRADIUS	China	Medical Equipment	$12
EFIC	Australia	Mining	$15
Hermes	Argentina	Medical Equipment	$1.3
HEXIM	Slovak Republic	Power Plant	$20
HEXIM/EKF	Turkey	Power Plant	$50
EDC	Argentina	Agricultural Aircraft	$0.7
EDC	Argentina	Agricultural Aircraft	$0.7
EDC	Argentina	Agricultural Aircraft	$0.8
EDC	Argentina	Agricultural Aircraft	$0.8
EDC	Argentina	Agricultural Aircraft	$1.1
EDC	Argentina	Agricultural Aircraft	$1.3
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.8
EDC	Brazil	Agricultural Aircraft	$0.8
EDC	Brazil	Agricultural Aircraft	$1.1
NEXI	Angola	Large Aircraft	$255.6
NEXI	Australia	Large Aircraft	$149.7
NEXI	Ethiopia	Large Aircraft	$604.8
NEXI	Ethiopia	Large Aircraft	$1,065.7
NEXI	New Zealand	Large Aircraft	$175.3
NEXI	New Zealand	Large Aircraft	$175.3
NEXI	New Zealand	Large Aircraft	$653.1
NEXI	New Zealand	Large Aircraft	$653.1
NEXI	Singapore	Large Aircraft	$474.0
KEXIM	South Korea	Large Aircraft	$140.7
KEXIM	South Korea	Large Aircraft	$140.9
KEXIM	South Korea	Large Aircraft	$151.4
KEXIM	South Korea	Large Aircraft	$170.0
NEXI	Turkey	Large Aircraft	$397.4
NEXI	Turkey	Large Aircraft	$1,222.7
TOTAL			**$6,539**

Source: U.S. Ex-Im Bank
*The financed amount includes financed exposure fee

Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions. In 2010, Ex-Im Bank supported two co-financing deals under a one-off co-financing agreement that involved reinsurance from HEXIM (Hungary) to support power plants in Turkey and the Slovak Republic. Additionally, recognizing the shift away from the typical structure of a co-financing transaction in which there is a single export contract, Ex-Im has created, specific criteria that allows co-financing coverage to include wholly-foreign contracts under its co-financing program as a carefully parametered "Associated Contracts" structure. The "Associated Contracts" structure allows foreign buyers, arrangers or financiers - in addition to U.S. exporters – to package multiple contracts that are associated to a project (but may be functionally unrelated) into a single ECA financing package. In 2010, Ex-Im Bank supported one co-financing deal under an Associated Contract structure to support a power plant in Turkey. Ex-Im Bank is unique in offering this structure; competitor ECAs require the foreign ECA-supported portion to be explicitly included as part of the main, single export contract.

G-7 ECAs' Policies and Practices

The G-7 ECAs have multiple framework agreements among themselves (as shown in **Figure 10**) and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure because many had country limits that made it impossible for them to provide support for exports to riskier markets or to markets where the ECA was close to reaching its country limit. Even in an environment of increasingly liberalized foreign content allowances, co-financing helps achieve operational efficiency and risk management in a world of multi-sourcing.

Figure 10: G-7 Co-financing Agreements, 2010

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

Source: U.S. Ex-Im Bank

Exporter and Lender Survey and Focus Group Results

Though participants appreciated Ex-Im's willingness to engage in co-financing as both a lead and follower ECA, especially with respect to large commercial aircraft financing where co-financing support was described as "seamless", exporters criticized Ex-Im Bank's significantly limited co-financing activity as a follower ECA. Moreover, when Ex-Im does act as a follower ECA, exporters have expressed frustration with the required up-front documentary requirements (as opposed to foreign ECAs' streamlined approach).

In addition, survey respondents acknowledged that though Ex-Im is willing to enter into one-off co-financing agreements without a framework agreement in place, they complained that Ex-Im has been unwilling to consider co-financing agreements with Brazil and other non-OECD ECAs. The difficulty with case-specific reviews are that they are burdensome and the individual transaction timelines cannot accommodate the time Ex-Im Bank needs to determine how or if it could proceed with the co-financing request.

Conclusion

In 2010, Ex-Im Bank's co-financing program has continued to support a significant number and volume of transactions. This steady activity, willingness to engage in case-specific co-financing when an agreement is not in place and flexibility to extend support to associated contracts, earned Ex-Im Bank an "A-/B+". Ex-Im's lack of experience as a follower ECA and the up-front documentary requirements hinder a fully competitive performance in the area of co-financing. Nevertheless, co-financing represents an important competitive tool for U.S. exporters to use as they rise to the increasing challenge to export more, especially with respect to large commercial aircraft.

Chapter 4: Major Program Structures
Section D: Environmental Guidelines and Carbon Policy

Introduction

Ex-Im Bank first addressed the potential environmental effects of Bank financed projects in 1992 in response to a Congressional mandate. This mandate was incorporated into Ex-Im's Charter and directed the Bank to "establish procedures to take into account the potential beneficial and adverse environmental effects of goods and services for which support is requested." The Charter language allows the environmental impact finding to be a cause for denial of the transaction by the Bank's Board of Directors. The environmental review process was codified by the Bank through the adoption of Ex-Im's Environmental Procedures and Guidelines (EPG) in 1995. Thus, Ex-Im Bank became the first official Export Credit Agency to adopt a set of environmental procedures and guidelines. Over the following years, Ex-Im has worked with stakeholders to ensure that the EPG is implemented in a way that balances the environmental stewardship that Congress sought with Ex-Im's mission of fostering U.S. exports.

Acknowledging the disparity between Ex-Im's adherence to its EPG and the lack of international environmental guidelines required for foreign ECAs, in 2003, Ex-Im, along with the U.S. Government negotiated the "Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits" (the Common Approaches). The Common Approaches establishes an environmental review framework that is shared among all of the OECD ECAs. The Common Approaches were revised and broadened in 2007, and are once again under review.

Ex-Im Bank's Environmental Procedures and Guidelines

Ex-Im Bank's EPG provides a framework, consistent with the Common Approaches, through which transactions are screened and classified based on their likely environmental impact. Based on the findings from the environmental review, Bank staff recommends to the Board of Directors approval, approval with conditions, or denial of the project. The Board of Directors, through the Bank's Charter, is authorized to deny financing for a transaction based on the findings of the environmental impact.

Ex-Im Bank's Policy and Practice

In response to interest from Congress and other stakeholders in expanding transparency, Ex-Im's environmental disclosure requirements have increased even as the reporting requirements for other ECAs have stood still. Ex-Im was the first ECA to make Environmental Impact Assessments (or EIAs) publicly available. In 1998, Ex-Im began to track and publish information on the amount of greenhouse gas emissions from Bank-supported projects. Then, in 2006, Congress required the Bank to make public supplemental environmental reports such as project monitoring and mitigation plans. Certain buyers and borrowers are hesitant to make environmental monitoring information public as this would expose them to public scrutiny. The stipulation that this type of information be disclosed has decreased Ex-Im's competitiveness relative to other ECAs, since most foreign ECAs limit the availability of project-specific information, such as EIAs, to the minimum required under the Common Approaches. This stems from the view that the project sponsor, not the ECA, is considered accountable for the environmental impact analysis. Ex-Im Bank policy is more robust in that both the project sponsor and Ex-Im Bank, as a U.S. government agency, are required to publicly disclose environmental impact information (including CO2 emissions).

Ex-Im Bank's Carbon Policy

To address increasing concerns about global climate change, in 2009 Ex-Im became the first Export Credit Agency to adopt a comprehensive Carbon Policy. The Bank then took specific action to implement the Carbon Policy in 2010, including revisions to Ex-Im Bank's EPG.

Ex-Im's Carbon Policy was designed to address the climate change issues raised by its export financing activities while remaining flexible and responsive to the needs of U.S. exporters in the implementation of the Policy. The Carbon Policy directs Ex-Im to undertake the following initiatives:

- Improve transparency in the tracking and reporting of CO_2 emissions;
- Create financing incentives for very low to zero carbon dioxide-emitting renewable energy exports; and
- Reduce CO_2 emissions through the promotion of energy efficient exports and other measures.

In response, the Bank implemented a variety of programs and policies. First, in an effort to promote projects with very low to zero CO_2 emissions, the Bank established a $250 million renewable energy facility, the "Solar Express"[1] program for small ($3-$10 million) project finance transactions, and two new financing incentives for renewable energy transactions. Second, Ex-Im committed to expand the scope of eligible energy efficient exports, and support the export of technologies that reduce CO_2 emissions from energy production. Third, the Bank is working to increase transparency in documenting CO_2 emissions by continuing to engage stakeholders in discussions about underlying methodology. In international fora, Ex-Im Bank will continue to encourage other export credit agencies, multilateral banks, and other lending institutions to adopt similar CO_2 policies which will increase global transparency with regards to CO_2 emissions. Lastly, Ex-Im Bank adopted a rigorous enhanced due diligence process for all "high carbon intensity projects"[2] with a requirement for verifiable offsets to reduce the CO_2 intensity of projects in the highest category. This process for an early review by Ex-Im Bank's Board of the environmental issues associated with high carbon intensity projects, such as coal fired power plants, was incorporated into the EPG.

[1] The Solar Express Program was expanded in 2011 and renamed "Renewable Express".
[2] "High Carbon Intensity Projects" are defined as fossil fuel projects that will produce greenhouse gas emissions equivalent to a level greater than 700 grams CO2 per kilowatt-hour (kWh) of generated electricity.

Ex-Im broadly pursues transparency of CO_2 emissions by publishing projected greenhouse gas emissions of the fossil fuel power plants that it supports. In that regard, the Bank financed five fossil-fuel power plants, and three other projects that included fossil-fuel plants in 2010. During the environmental review process, Ex-Im publishes the anticipated CO_2 emissions on the Bank's website. The annual carbon emissions, from the eight fossil fuel power plant projects approved by the Bank in 2010, is approximately 41.85 million metric tons per year.

On the "incentive" side of the Carbon Policy, Ex-Im Bank approvals of renewable energy transactions in fiscal year 2010 reached $332 million, a 230% increase over fiscal year 2009 (please refer to **Appendix J** for more details).

The enhanced due diligence review process under Ex-Im Bank's Carbon Policy was employed once in 2010 in connection with the Bank's review and ultimate approval of the Sasan Power Ltd. project, a 3,960 megawatt coal-fired power plant and associated dedicated coal mine located in India. This transaction met the criteria designating it as a "high carbon intensity project" and underwent the extra climate change review by the Ex-Im Board prior to the ordinary review of credit, environmental and other issues. In addition, the other three Carbon Policy initiatives discussed above came into play: the anticipated level of greenhouse gas emissions was reported through the Ex-Im website during the environmental review of the Sasan Power Ltd. application; Reliance Power, Sasan's parent company, signed an MOU with Ex-Im to develop a 250 megawatt renewable energy facility in India; and Sasan also agreed to cap CO_2 emissions at 850 grams per kilowatt hour in an effort to reduce its CO_2 emissions.

G-7 ECAs' Policies and Practices

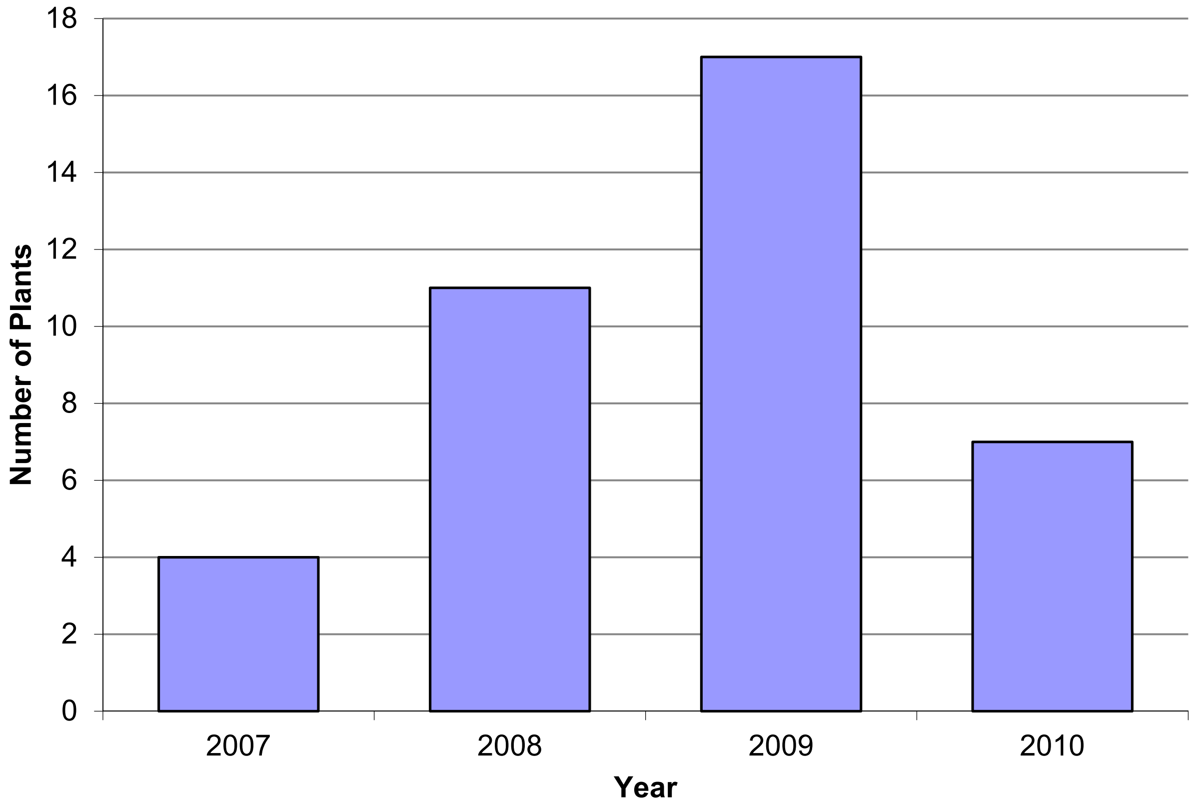
Historically, the G-7 OECD ECAs have taken a harmonized approach to environmental policies through the Common Approaches. By adopting the Common Approaches, OECD ECAs have effectively leveled the playing field in the area of environmental review. Although the use of environmental standards by ECAs is varied, because the Common Approaches allow for a number of internationally recognized environmental standards, the majority of ECAs use similar standards for comparable projects.

An annual OECD peer review process allows for a robust monitoring of ECA environmental reviews as well as collaboration and discussions about the various aspects of environmental due diligence to ensure that a level playing field is maintained through a relatively consistent application of the provisions of the Common Approaches.

With respect to climate issues, Ex-Im is at the forefront in addressing the effects of CO_2 on the global environment as the first and only G-7 ECA to adopt an official Carbon Policy. However, as Ex-Im has adopted an official Carbon Policy and implemented various transparency initiatives and other ECAs have not, these differences inevitably leave Ex-Im at a competitive disadvantage in coming years.

Figure 11 illustrates the number of fossil fuel power plants financed by G-7 OECD ECAs between 2007 and 2010. On average, each G-7 ECA reported a total of six fossil fuel power plants over this four year period. Fossil fuel power plants comprise a small portion of total G-7 ECA activity, which suggests that implementing a shared Carbon Policy across all OECD ECAs would not overly tax the resources of the OECD ECAs.

Figure 11: G-7 OECD ECA Thermal Power Plants 2007-2010[3]



Source: OECD

Exporter and Lender Survey and Focus Group

The Exporter and Lender Survey and Focus Group addressed both broad environmental policies, and more specifically, Ex-Im's Carbon Policy. Based on participant responses, the consensus was that the Bank's environmental requirements had a low overall impact on respondents. Of the lenders and exporters that did report experiences with Ex-Im's environmental policy, most found it had a neutral effect on the Bank's competitiveness.

Lender and exporter comments on Ex-Im Bank's environmental policies were focused primarily on the Carbon Policy. In general, the comments were negative as respondents felt that the rigors of the additional review required of high intensity carbon projects under the Carbon Policy put U.S. exporters at a competitive disadvantage. Respondents noted that no other ECA has a Carbon Policy, which means that Ex-Im appears to be playing by a stricter set of rules compared to all other ECAs. The different requirements, as compared to other ECAs, create additional hurdles for U.S. exporters and reduce U.S. competitiveness.

[3] The thermal power plants in this figure include all coal-fired, gas-fired and oil-fired facilities. 2010 numbers represent partial reporting.

Conclusion

Ex-Im's EPG is consistent with the OECD's Common Approaches, putting Ex-Im on a level playing field with other OECD ECAs. However, Ex-Im Bank's transparency requirements are not shared by other OECD ECAs, making the Bank less competitive. These ECAs are not required to disclose details related to the environmental impact or the future monitoring and mitigation of financed projects.

The Carbon Policy adds an additional layer of due diligence beyond the OECD Common Approaches. These additional levels of reporting and review position the Bank at a competitive disadvantage compared to its OECD peers. In light of global climate change concerns, Ex-Im will encourage other OECD ECAs to adopt a Carbon Policy. However, until the other OECD ECAs adopt broader transparency requirements and their own Carbon Policies, or an agreement is reached on a multilateral basis through the OECD process, Ex-Im's policies will likely have a "chilling effect" on applications to Ex-Im that involve significant greenhouse gas emissions and environmental review. Although only one transaction in 2010 triggered the enhanced due diligence review process for high carbon intensity projects under the Bank's Carbon Policy, according to exporters and lenders its existence is considered a significant challenge as part of the environmental review process.

Ex-Im Bank's application of the Common Approaches puts the Bank on par with other OECD ECAs. This garners Ex-Im an "A", equal to the average ECA. However, with the requirement for increased transparency compared to other ECAs, particularly as it applies to the disclosure of project monitoring reports, Ex-Im would receive a "B", or equal to the least competitive ECA. For the creation and implementation of the Carbon Policy, Ex-Im could be graded as a "C", less competitive compared to other ECAs. On balance, the overall grade would be a "B".

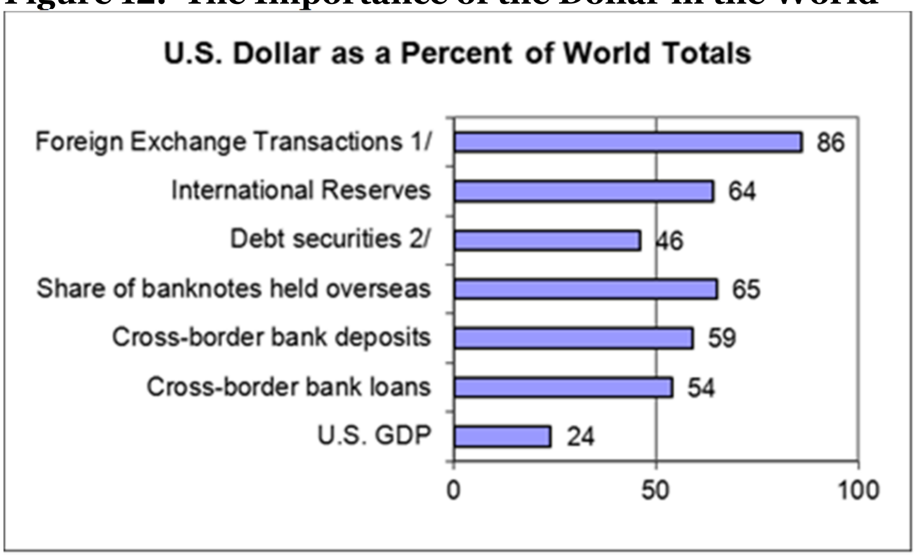
Chapter 4: Major Program Structures
Section E: Foreign Currency Guarantees

Introduction

A foreign currency guarantee refers to an ECA-covered export credit that is denominated in a currency other than the ECA's domestic currency. The OECD rules apply similarly to all transactions, regardless of the currency in which the contracts and/or financing is denominated. Thus, ECAs are able to individually determine whether to provide foreign currency cover, on what basis to provide it (i.e., loans, guarantees, or insurance), and on what terms to provide it (e.g., interest rate to be covered, whether to crystallize[1] the debt in the event of default, etc.).[2]

As the U.S. dollar is a key international trade currency, especially pronounced in recent years due to the financial crisis, most Ex-Im Bank transactions are financed in U.S. dollars. According to a 2010 IMF report, the U.S. dollar continues to act as the world's major trade and reserve currency, accounting for 86% of international transactions and almost two-thirds of the world's reserve assets as shown in **Figure 12**.

Figure 12: The Importance of the Dollar in the World



1/ Share from 200 (each transaction involves two currencies).
2/ Foreign currency debt sold outside the issuer's home country.
Source: International Monetary Fund, "Reserve Accumulation and International Monetary Stability", April 2010

The types of currencies typically eligible for cover by ECAs are generally referred to as either "hard" or readily convertible currencies (such as the U.S. dollar, the euro, or the

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

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

yen) and "soft" or emerging market currencies (such as the South African rand or Mexican peso). Until the 2008 financial crisis struck global currency markets, phenomenal growth in liquidity in emerging markets during the course of the past decade had resulted in steadily increasing borrower demands for export credit cover in local-currency-denominated debt. Now, after the 2009 global liquidity crunch, traditional lenders are less able or willing to provide local currency financing.

Ex-Im Bank Policy and Practice

Ex-Im Bank offers foreign currency support through its guarantee and insurance programs by working with a commercial bank. The program has been used most widely in aircraft financing because it is an attractive way for an airline borrower to reduce its currency risks by matching the currency of its debt to the currency of its revenues when most of those revenues are not in U.S. dollars.

Ex-Im's foreign currency claims procedure requires that, in the event of default and irrespective of whether the foreign currency is a hard or soft currency, Ex-Im purchases the foreign currency to pay the claim to the lender and then converts (or "crystallizes") the debt obligation by the borrower into U.S. dollars equal to the amount that Ex-Im Bank paid to obtain the foreign currency. This policy effectively shifts the post-claim exchange rate risk from Ex-Im Bank to the obligor. In addition, if the note rate is floating, Ex-Im Bank typically accelerates the debt and pays the claim in a single lump-sum payment; however, for fixed rate notes Ex-Im Bank may provide the option for an installment by installment repayment schedule, crystallizing the portion of the obligation due at each payment.[3] While most hard currency cover is readily available with crystallization, Ex-Im only considers soft currency cover on a case-by-case basis (even with the crystallization contingency) after a thorough internal review of the relevant local currency market.

There are two exceptions to Ex-Im's crystallization/conversion requirement policy. First, for co-financed transactions Ex-Im Bank may offer cover for Euro denominated debt without the conversion/crystallization requirement. None of the foreign currency guarantees authorized in 2010 involved co-financing. Second, if Ex-Im Bank receives valid evidence that a foreign ECA will provide coverage without conversion for the same transaction, Ex-Im Bank has a matching provision that would allow the Bank to provide foreign currency (including soft currency) coverage without the requirement for conversion. However, these options have never been used.

Further, should circumstances warrant, Ex-Im Bank may attempt to structure foreign currency transactions in a way that accommodates local provisions on a strictly case-by-case basis. In these circumstances, should a default occur, Ex-Im will then have the option to pursue foreign currency denominated debt in a way that minimizes potential losses given default.

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

In 2010, Ex-Im Bank supported 12 foreign currency guarantee transactions with a total financed amount of over $1.4 billion (compared to 9 transactions valued at about $1.6 billion in 2009). Unlike previous years, in 2010 Ex-Im Bank supported several foreign currencies, including the Canadian dollar, South African Rand, New Zealand dollar, Mexican peso, and the Euro. Six of the 12 transactions (worth $911 million) were in support of aircraft exports for airlines located in Morocco, Turkey, New Zealand, and Ireland. It is not surprising that airlines are among the main users of Ex-Im's foreign currency guarantees, as airlines prefer to match funding for its large debt volumes from the currency of their revenue streams. Such coverage also results in a lower probability of default to Ex-Im Bank. The remaining 6 transactions (worth $505 million) supported truck building equipment, power equipment, and telecommunications equipment.

Also in 2010, Ex-Im Bank supported 14 foreign currency insurance transactions with a total financed amount of almost $63 million. One transaction worth $49 million was for agricultural commodities in Mexico. The remaining 13 transactions were for foreign buyers in Mexico, France, Germany, Spain, Denmark, and the United Kingdom, and supported the export of various types of equipment and consumable items.

G-7 ECAs' Policies and Practices

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

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

Soft Currency Cover: As **Figure 13** shows, no formal policies exist among G-7 ECAs with respect to acceptance of soft currency foreign exchange risk; it is predominantly considered on a case-by-case basis. The information contained in **Figure 13** was verified through a late 2010 inquiry to OECD ECAs, and demonstrates that most (if not all) G-7 ECAs are willing to consider (and several have offered) non-crystallized soft currency support. Some ECAs have found that local laws prohibit crystallization of the debt or severely restrict an ECA's recovery efforts, thereby rendering conversion of local currency debt cumbersome and, in some instances, illegal or ineffective. Thus, ECAs assess the risk/reward equation in order to find ways to manage their risks in the face of legal and practical constraints on crystallization.

Figure 13: G-7 ECA Foreign Currency Approaches: Willingness to Accept Exchange Rate Risk and Activity, 2010

	Exchange Risk Accepted?		Currencies[1] of Approved Transactions (2005-2010)	
	Hard Currency	Soft Currency	Hard Currency	Soft Currency
EDC[2]	Yes	Yes	USD, EUR, CAD, JPY, GBP, HKD, AUD	MXN, NZD, PLN, SGD, HUF, CZK
COFACE[3]	Yes	Yes	USD, AUD, JPY	ZAR, XAF, EGP, MXP
Hermes[4]	Yes, with surcharge	Case-by-case, always with a minimum surcharge	USD, GBP, CHF, CND, AUD, JPY	MXP, ZAR, INR, RUB, TWD
SACE[5]	Yes	Case-by-case	USD, CND, GBP, JPY	ZAR, BRL, TL
NEXI[6]	Yes	No experience	USD, EUR	none
ECGD[7]	Yes	Limited experience	GBP, USD, EUR, JPY	AUD, NZD
U.S. Ex-Im Bank[8]	No, convert obligation to dollars at time of payment	No, convert obligation to dollars at time of payment	EUR, JPY, AUD, CND, NZD	MXP, COP, ZAR

1 Currency Key: USD – U.S. dollar, EUR – Euro, GBP – British pounds, JPY – Japanese yen, AUD – Australian dollars, CHF – Swiss francs, NZD – New Zealand Dollar, EGP – Egyptian pounds, CND- Canadian dollar, CZK – Czech koruna, MXP – Mexican pesos, DOP – Dominican Republic peso, ZAR – South African rand, AED -- United Arab Emirates dirham, COP – Colombian peso, BRL – Brazilian real, XAF – Central African Franc, INR – Indian rupee, RUB – Russian ruble, TWD – Taiwan dollar, TL – Turkish Lira, and MAD – Moroccan dirham.
2 EDC will cover Australian dollar, British pounds, Euro, Japanese yen, U.S. dollar, New Zealand dollar, Norwegian kroner, Czech koruna, Hong Kong dollar, Hungarian forint, Mexican peso, Polish zloty, Singapore dollar, South African rand, and Swedish kroner.
3 COFACE will cover Algerian dinar, Brazilian real, Colombian peso, Indian rupee, Malaysian ringgit, Mexican peso, Morocco dirham, Russian ruble, South African rand, Thailand baht, CFA franc, Turkish lira, Chilean peso.
4 Hermes determines on a case-by-case basis.
5 SACE determines on a case-by-case basis.
6 NEXI – U.S. dollars and Euro.
7 ECGD will consider coverage for any currency that is readily convertible, and where the local financial markets have sufficient depth and capacity to fund the transaction.
8 U.S. Ex-Im Bank will cover Euros, Japanese yen, Australian dollars, Canadian dollars, New Zealand dollars, Brazilian real, British pound, Central African franc, Colombian pesos, Egyptian pound, Indian rupee, Indonesian rupiah, Korean won, Malaysian ringgit, Mexican pesos, Moroccan dirham, Norwegian kroner, Pakistani rupee, Philippine peso, Polish zloty, Russian ruble, Swedish kroner, Swiss franc, South African rand, Taiwanese dollar, Thai baht, and West African franc.

Exporter and Lender Survey and Focus Group Results

Lenders continue to express interest in foreign and local currency guarantees provided by Ex-Im Bank, even as the financial downturn continues to cause lenders to pursue less risky transactions. However, they repeated calls that Ex-Im's automatic crystallization and acceleration policies upon first default were uncompetitive with other ECAs.

Additionally, the Exporter and Lender Survey and Focus Groups conducted by Ex-Im Bank echoed similar sentiments regarding the uncompetitiveness of Ex-Im's foreign currency policies. Lenders continued to view Ex-Im Bank's crystallization of all non-U.S. dollar denominated credits as uncompetitive relative to other ECAs.

Conclusion

Ex-Im's strict crystallization policy – that is, the requirement to convert the obligation post-claim payment to U.S. dollars on *all* foreign currencies – is viewed as detrimental to its competitiveness given other ECAs' standard acceptance of non-crystallized cover for hard currencies and more flexible willingness to offer non-crystallized cover for soft currencies. Accordingly, the grade for Ex-Im Bank's foreign currency guarantee program in 2010 remains a "B."

Chapter 4: Major Program Structures
Section F: Services

Introduction

Services exports are an increasingly important component of international trade, especially for the United States, where services exports are a major part of the National Export Initiative to double exports in five years. As of 2009, the U.S. was the top country exporting commercial services in the world, making up almost 15 percent of world services exports. [1] Further, U.S. exports of services continue to grow, as does the U.S. services trade surplus. Nominal U.S. exports of services went from $502 billion in 2009 to $543 billion in 2010, an 8% increase mostly realized in business and technical services, travel, and royalty and licensing fees. The trade surplus for U.S. services exports increased by 13% in 2010 over 2009, to $149 billion, compared to a $647 billion deficit for goods.[2] In real terms, services exports have grown by an average 6% every year since 2003, despite the decline during the global financial crisis.[3] Services exports continued to make up about one-third of all U.S. exports in 2010, though its share has been gradually increasing over time.[4]

Ex-Im's commitment to financing services exports is mandated in Section 2(b)(1)(D) of Ex-Im Bank's charter, which states "the Bank shall give full and equal consideration to making loans and providing guarantees for the export of services (independently, or in conjunction with the export of manufactured goods, equipment, hardware or other capital goods) consistent with the Bank's policy to neutralize foreign subsidized credit competition and to supplement the private capital market." In fact, in 2010, Ex-Im Bank's ongoing commitment to supporting services resulted in Ex-Im forming a services team targeted toward finding new ways to facilitate services exports.

Ex-Im Bank's Policy and Practice

Ex-Im Bank supports services exports over a wide range of service providing industries. As seen in **Figure 14,** over the last three years Ex-Im Bank has provided financing for over $8 billion of U.S. services exports (which represents about 10% of the total export value supported by Ex-Im over this 3 year period). Ex-Im Bank support for services includes both "stand-alone" services (services that are not part of a capital goods/project-related transaction) and "associated services" (services that are associated with capital goods exports and/or large projects). The 2010 figure of $2.2 billion is illustrative of the types of services supported by Ex-Im Bank, with several major industry sectors receiving a large amount of financing.

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[1] World Bank, "Global Economic Prospects: Navigating strong currents", released January 2011 (page 51).
[2] U.S. Commerce Department, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf.
[3] U.S. Commerce Department, Bureau of Economic Analysis, National Income and Product Accounts.
[4] U.S. Commerce Department, International Trade Administration, U.S. Export Fact Sheet released February 11, 2011.

During 2008-2010, the majority of Ex-Im Bank's support for services was a function of the major oil and gas project-related authorizations each year. The decrease from 2009 to 2010 was the result of less support involving large oil and gas projects from previous years, many of which have a substantial amount of engineering and consulting associated services. For example, in 2009 one large natural gas project alone had almost $2 billion in related services. In general, most of Ex-Im's support for services is concentrated in engineering and consulting services, oil and gas drilling services, and information technology. In fact, Ex-Im Bank support for oil and gas and engineering and consulting services alone made up 85% of all services support in 2010. Ex-Im Bank also supported $151 million in information technology services in 2010, including computer systems design, software, and computer programming. These services typically are financed on shorter terms.

Most of the stand-alone services supported in 2010, again, were for engineering and consulting services and construction, with the others dispersed across the remaining sectors. Support for stand-alone services in engineering and consulting was much larger in 2010 than in previous years due to several major projects for which Ex-Im financing only involved U.S. services exports. For example, Ex-Im Bank approved two large stand-alone engineering and consulting services transactions in 2010, one relating to an oil project and one relating to an ethanol fuel project. Another stand-alone highlight in 2010 not seen in previous years was a legal services transaction, which supported the export of legal services related to intellectual property and patent issues.

Generally, Ex-Im Bank provided associated services exports with repayment terms of 5-12 years. These repayment terms reflect the medium- to long-term nature of the financing requirements of large projects with which they were associated. On the other hand, stand-alone services tend to receive short-term (6-18 months) support because of the nature and useful life of these services, although the large stand-alone engineering and consulting transactions received long terms as they related to oil and gas projects.

Figure 14: Services Supported by Ex-Im Bank, 2008-2010[1] (Millions USD)

	2008			2009			2010			Total		
	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total
Engineering & Consulting	24.4	1,490.4	1,514.8	24.2	2,232.0	2,256.2	673.0	338.0	1,011.0	721.6	4,060.4	4,782.0
Oil & Gas Drilling and Mining	2.1	372.7	374.8	--	769.0	769.0	--	893.0	893.0	2.1	2,034.7	2,036.8
Information Technologies & Telecommunications	17.9	195.5	213.4	37.0	98.1	135.1	11.0	141.0	151.0	65.9	434.6	499.5
Other Services*	4.2	1.9	6.1	11.2	2.6	13.8	24.0	56.0	80.0	39.4	60.5	99.9
Transportation	7.7	35.9	43.6	0.5	21.5	21.9	--	51.0	51.0	8.2	108.4	116.5
Legal & Banking	--	22.7	22.7	--	143.7	143.7	3.0	47.0	50.0	3.0	213.4	216.4
Medical	0.7	--	0.7	0.8	1.0	1.8	0.1	--	0.1	1.6	1.0	2.6
Rental & Leasing	3.6	1.5	5.1	10.5	416.1	429.6	--	--	--	14.1	420.6	434.7
Construction	6.0	5.0	11.0	--	20.0	20.0	--	--	--	6.0	25.0	31.0
TOTAL	**66.6**	**2,124.6**	**2,192.2**	**84.2**	**3,706.9**	**3,791.1**	**711.1**	**1,526.0**	**2,236.1**	**861.9**	**7,357.5**	**8,219.4**

Source: U.S. Ex-Im Bank

[1]Due to methodology differences, 2010 & 2009 data is not immediately comparable to 2008 data.

[2]Includes repair services, personal care services, and printing press services.

G-7 ECAs' Policies and Practices

All G-7 OECD ECAs appear willing to support services as a general category of exports, with most medium- and long-term support provided for services associated with capital goods exports, although there is little official data from other G-7 ECAs regarding the amount of services supported annually. Bilateral discussions with a variety of G-7/OECD ECAs, along with a 2010 Berne Union query suggest that the sectors reported to be receiving the largest amounts of medium- and long-term support include oil and gas development, power plant construction, mining and refining, and telecommunications. Official G-7 ECA data on support for stand-alone services is unavailable[5]; however, almost all G-7 ECAs are willing to provide insurance cover for stand-alone services. The stand-alone services other G-7 ECAs are most likely to support include engineering and consulting services, software, and licensing services. Additionally, in January 2010 Euler Hermes launched a new insurance program targeted exclusively for architects, engineers, and other services exporters.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders believe other ECAs are much more flexible and willing to support services exports, but none appear to have a well-defined services policy.

According to the annual Competitiveness Report survey completed by lenders and exporters using Ex-Im's medium- and long-term programs during 2010, there was a general consensus similar to the focus groups that improvements could be made in terms of the availability and flexibility of Ex-Im's services cover. For example, survey respondents commented that it can be challenging to meet Ex-Im Bank's eligibility requirements with respect to identifying U.S. content and origin of intangible services, especially those services exports involving intellectual property.

Conclusion

In effect, Ex-Im Bank's available support for services that are both associated with capital goods exports and are stand-alone appears to be at least as competitive as other G-7 ECAs' available support. Therefore, based on exporter and partial information on competitor practices related to services, it would appear that Ex-Im Bank's willingness to support services is equal to at least the average willingness of other ECAs. However, exporter and lender survey results indicate Ex-Im's services support has room for improvement in terms of availability and flexibility, which slightly mitigates Ex-Im's inferred relative competitiveness. Thus, the grade for Ex-Im Bank services cover is an "A-/B+" for 2010.

[5] Based on a review on the G-7 ECAs' websites, none of the other G-7 ECAs referenced support for stand-alone services.

Chapter 4: Major Program Structures
Section G: Ex-Im Bank's Major Program Competitiveness

Although Ex-Im Bank's major program structures were considered to be generally competitive with their G-7 ECA counterparts, in 2010 they were downgraded to "A-/B+" primarily due to the introduction of Ex-Im Bank's Carbon Policy which was rated as a "C". See **Figure 15**. That is, Ex-Im Bank environmental policies were deemed modestly competitive compared to other ECAs. The Bank's environmental guidelines attracted an "A" grade or were generally competitive, and the Bank's transparency policies were rated as a "B". The Carbon policy yielding a "C" brought the average grade for the entire environmental program down to a "B". The Bank's aircraft and project finance programs continued to be generally competitive with their foreign ECA counterparts, and both were highly rated again. The co-financing program has continued to support a significant number and volume of transactions earning the program an "A-/B+". The Bank's foreign currency support for soft cover was viewed as detrimental to competitiveness given that most ECAs (if not all) are now willing to consider (and several have offered) non-crystallized soft currency support. The foreign currency guarantee program received a "B"; however, the sub-grade for the availability of soft cover remained a "B-/C+".

Figure 15: Grading of Ex-Im Bank's Major Program Competitiveness, 2010

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	**A-/B+**
Bilateral Agreements	A-/B+
Flexibility in one-off deals	A-/B+
Environment	**B**
Environmental Guidelines	A
Transparency	B
Carbon Policy	C
Foreign Currency Guarantee	**B**
Availability of Hard Cover	A-/B+
Availability of Soft Cover	B-/C+
Accepts Exchange Rate Risk	B-/C+
Services	**A-/B+**
Availability	A-/B+
Flexibility	A-/B+
Total Average Grade	**A-/B+**

Figure 15 shows how Ex-Im Bank's major programs were rated on individual and the overall aspects. The grades are based on the survey and focus group results and Ex-Im Bank's analysis of how it performed in relation to its G-7 ECA counterparts.

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

Introduction

Tied and untied aid has been a longstanding competitive concern among U.S. exporters. However, those concerns have diminished over the last 20 years through the introduction of multilateral rules which restrict donor use of tied and untied aid for commercial or trade purposes. Nonetheless, certain donor governments continue to offer tied aid for which commercial considerations seem to be a significant factor. The remaining competitive issues regarding tied aid use are detailed in this chapter. See Appendix F for a more comprehensive summary of the OECD tied aid rules and definitions, as well as data on tied and untied aid trends that draw out the competitive implications of foreign tied and untied aid on U.S. exporters.

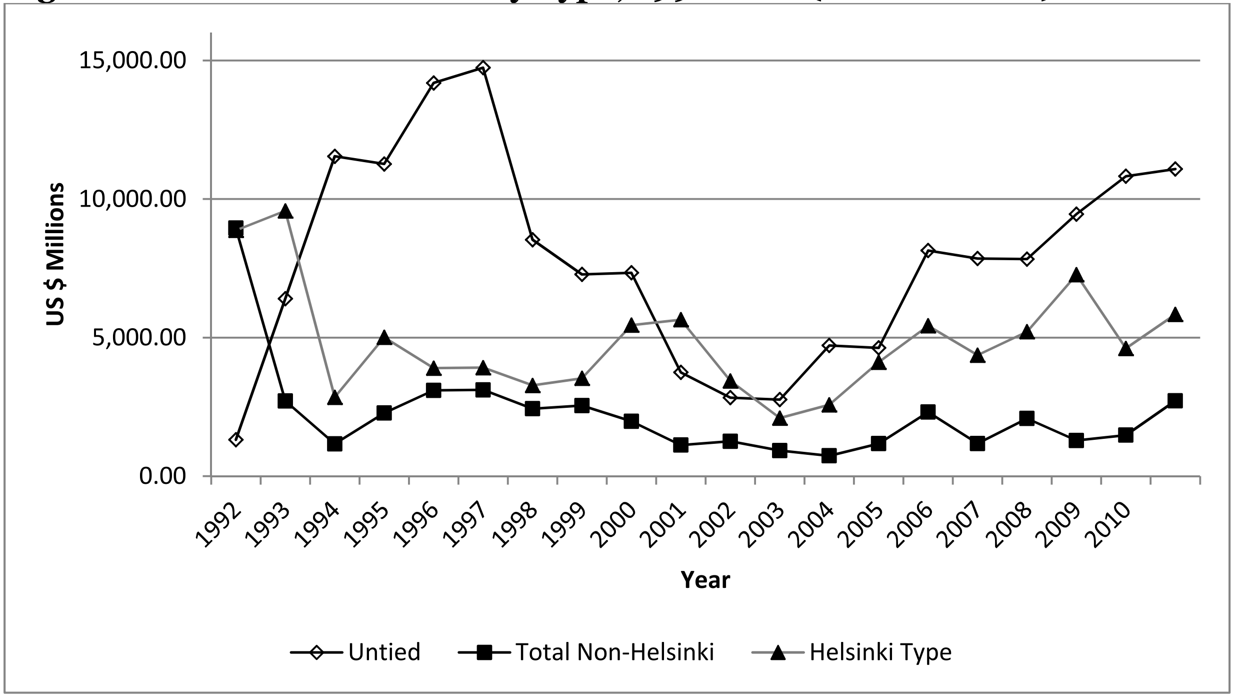
Overview of Tied and Untied Aid

"Tied aid" is a concessional, trade-related aid credit, provided by a donor government, to induce the borrower to purchase equipment from suppliers in the donor's country. Tied aid is typically offered as a component of development assistance to the recipient country. "Untied aid" differs from tied aid in that it is not formally conditioned on the purchase of equipment from suppliers in the donor country. That is, recipients of untied aid technically can use the funds to purchase goods from suppliers located anywhere in the world, not just in the donor's country.

U.S. Government efforts to discipline tied aid at the OECD resulted in a 1991 agreement (also known as the Helsinki Disciplines) that has significantly limited the trade-distorting effects of tied aid and focused tied aid flows on legitimate development projects. With respect to untied aid, in 2005, the U.S. secured a transparency agreement that requires OECD Members to (a) notify untied aid project loan commitments at least 30 days prior to the opening of the bidding period (to allow for international competitive bidding) and (b) report the nationalities of the bid winners of untied aid on an annual ex-post reporting basis.

Figure 16 indicates that in 2010, the volume of Helsinki-type tied aid increased 26.2% from 2009, to approximately $5.8 billion. However, the number of Helsinki-type tied aid transactions notified to the OECD remained stable at 132 (as compared to the 135 notifications reported in 2009). As shown in **Figure 17,** the last five years have experienced a very stable "incidence" of tied aid (an average of 131 cases per year), with volume going up and down as the size of cases varied. Moreover, this plateau has existed for almost the entire period since the introduction of the Helsinki Disciplines.

Figure 16: Aid Credit Volume by Type, 1991-2010 (Millions USD)



Note: Consistent untied aid data reporting began in 1994. Discrepancies between untied aid data reported under the OECD Arrangement and data captured under the 2005 Transparency Agreement on Untied ODA Credits can be attributed to differences in the timing of OECD Notifications – which are typically made well in advance of (perhaps years before) the contract bid is awarded – and are, therefore, not comparable on an annual basis with ODA Credit amounts, which reflect actual credit commitments included in bid tenders.

Figure 17: Number and Volume of Helsinki-type Tied Aid Notifications (2006-2010)

	2006	2007	2008	2009	2010
Helsinki-type Tied Aid Notifications (Number)	141	135	116	135	132
Helsinki-type Tied Aid Notifications (Value USD)	$4,367	$5,213	$7,271	$4,609	$5,838

Specific trends in 2010 with respect to Helsinki-type tied aid were:

- The volume and number of OECD Helsinki-type tied aid offers have remained fairly stable over the past five years. See Appendix F for details on specific trends.

- Japan continues to be, by far, the largest donor of tied aid, accounting for over $2.7 billion of tied aid activity in 2010 and 47% of the total volume (see **Figure 18**).

- Korea was the second largest donor of tied aid, with offers totaling over $900 million (a 17% of the total volume).

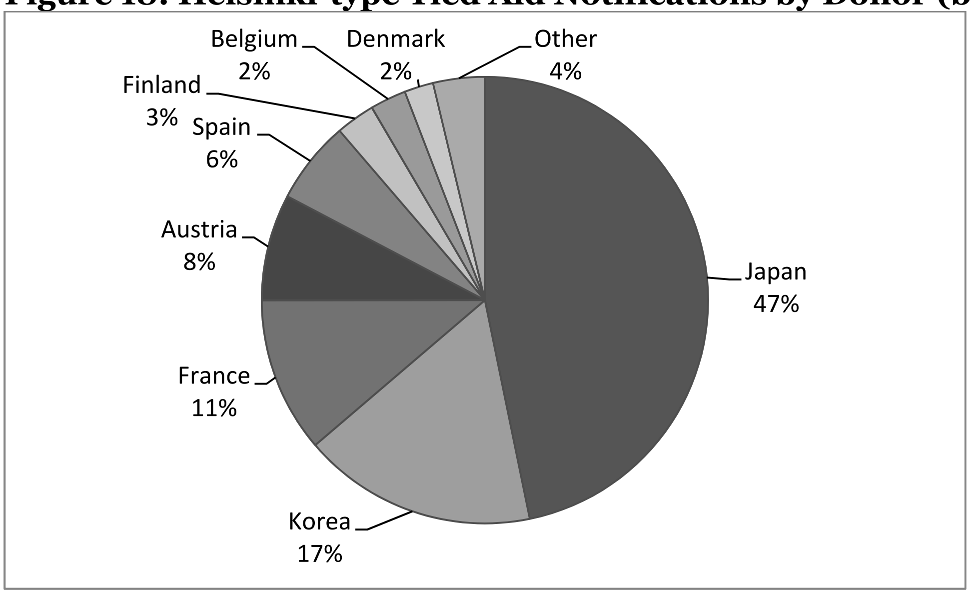
- Spain, which was the largest tied aid donor in 2009, was the fifth largest donor in 2010 ($350 million), trailing behind France ($656 million) and Austria ($450 million)

- The East Asia and Pacific region received over half of all Helskinki-type tied aid (see **Figure 19**). Vietnam was the largest recipient of tied aid in 2010 in terms of volume, with 17 notifications totaling $2.7 billion. China maintained its position as the largest recipient of tied aid in terms of number of tied aid offers (29 offers).

- Over 60% of Helsinki-type tied aid went to Transport and Storage projects, which include rail projects. Education, Health and Water Supply as well as Sanitation made up 25.6% of tied aid offers. These types of projects tend to be commercially non-viable.

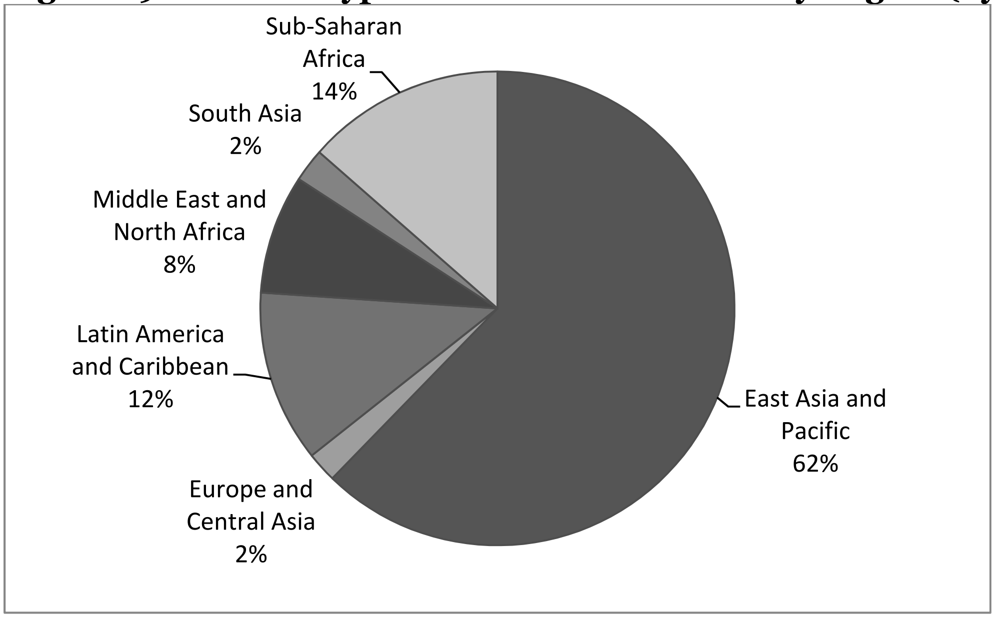
- In 2010, twelve projects were notified in sectors that are typically considered financially viable.[1] Out of the recipient countries of these projects, half are under IMF programs and subject to non-concessional borrowing limits, hence there would not be access to market financing for such transactions. However, the other half do not have restrictions on non-concessional borrowing, therefore it is possible market financing would have been available for these projects. The projects were in the following three sectors: (1) Electrical Transmission and Distribution, (2) Power Generation for Renewable Energy and (2) Power Generation for non-Renewable Energy. The fact that none of these projects were subject to the OECD consultations process implies that no potential competitor felt competitively harmed by the use of tied aid in these situations.

Figure 18: Helsinki-type Tied Aid Notifications by Donor (by value), 2010



[1] A financially viable project is a project that has the capacity, with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project's operating costs and to service the capital employed.

Figure 19: Helsinki-type Tied Aid Notifications by Region (by value), 2010



In 2010, the data stemming from the OECD untied aid transparency agreement showed that the number and volume of untied aid notifications increased significantly in number – from 53 notifications in 2009 to 81 notifications in 2010 (a jump of over 50%) – yet modestly in terms of volume, from $10.8 billion in 2009 to $11.1 billion in 2010, an increase of only 2%. Additional, points of interest:

- Six countries reported untied aid notifications in 2010. Those countries are Belgium, Denmark, France, Germany, Japan and Spain.

- Japan continued to report the largest number (41) and volume ($8 billion) of untied aid notifications, followed by France (28 notifications, $1.7 billion) and Germany (9 notifications, $1.3 billion).

- In 2010, India was the largest recipient country of untied aid notifications in terms of volume ($1.2 billion), followed by Indonesia ($1.1 billion) and Vietnam ($0.9 billion). Whereas neither China nor India received any untied aid notifications in 2009, in 2010 China garnered the largest number of notifications (8 notifications), followed by Morocco (7) and India (6).

- In terms of sectors, Energy Generation and Supply ($3.7 billion) received the largest volume of untied notifications, with Transport and Storage ($3.4 billion) closely behind. Water Supply and Sanitation received $2.4 billion in untied aid notifications. Transport and Storage received the largest number of notifications (19) followed by Water Supply and Sanitation (18) and Energy Generation and Supply (15).

Competitive Situation

In 2010, the majority of tied aid or concessional financing allegations reported to Ex-Im that were represented as a threat to a U.S. exporter sales prospects were related to tied aid or concessional financing offers by **non-G-7** countries and, most notably, **non-OECD** nations. There is a general concern that such countries are using tied aid or other forms of concessional financing to gain market share in target countries or for the promotion of strategic sectors and new technologies. Ex-Im stakeholders have repeatedly encountered such scenarios involving allegations of attractive foreign financing offers in discussions with buyers, on the ground and when bidding on projects. However, access to data on specific tied aid offers issued by non-OECD countries is almost impossible to obtain. The lack of transparency of tied aid offers by such players makes it particularly problematic for Ex-Im Bank to consider matching such transactions due to the lack of credible evidence of such offers. In mid-2010, Ex-Im received an application to match a tied aid offer by a non-OECD country. This case was still being evaluated at the end of 2010. Ex-Im determined in early 2011 that it was not able to conclude that the transaction satisfied the Bank's tied aid and standard credit criteria for support. As a result, the applicant may resubmit the transaction to the Bank with more information that will possibly enable the transaction to meet Ex-Im's tied aid and credit criteria. In terms of standard OECD tied aid competition, the Bank was approached in 2010 for several water projects that are under consideration. Ex-Im was not made aware of any tied aid offers from OECD counterparts for projects or sectors considered to be financially and/or commercially viable in 2010.

U.S. Government and Ex-Im Bank Policy

Long-standing U.S. Government policy seeks to encourage all aid flows. As a corollary to that policy, the U.S. tries to ensure that legitimate development assistance be freely available to bidders from all countries. Trade-distorting aid, or preferential treatment that could be aid, is aid that is offered to benefit suppliers in the donor's country. During the 1970s and 1980s, trade-distorting tied aid was a major competitive issue for U.S. exporters because it was undisciplined and frequently used by foreign nations. The U.S. Government has since sought to limit – if not eliminate – trade-distorting tied aid and has subjected untied aid to transparent reporting procedures. Thus, foreign tied aid from OECD countries is <u>now only sporadically</u> cited as a competitive factor impacting U.S. exporter sales abroad.

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

The Tied Aid Capital Projects Fund now totals approximately $171 million. The U.S. did not use the fund in 2010. In fact, the U.S. has used the fund only once over the past 7 years (See **Appendix F** for details).

Exporter and Lender Survey and Focus Group Results

Both exporters and lenders pointed out that they are increasingly confronted by tied and untied aid programs that put them at a competitive disadvantage – and particularly in Asian and African markets – from both the OECD countries and non-OECD members such as China. Although data on OECD activity does not indicate an increase in aggregate activity, these observations are most likely due to the structural shift of tied aid by a few donors for technologies that are especially relevant for U.S. exporters. In 2010, exporters saw increased use of concessional financing by the European countries in Africa, specifically for water projects. As for China, anecdotal evidence does support a growing Chinese presence in more advanced, developing markets – which stimulates the perception that the Chinese are using tied aid and other forms of concessional financing as a way to gain market share. In general, external stakeholders believe Ex-Im is not competitive in tied aid and needs to become more so due to the increase in tied and untied aid activity by the G-7 and other countries.

Conclusion

In 2010, U.S. exporters reported that they were facing more tied aid competition than 5 years ago. While Ex-Im Bank was approached with more allegations of tied aid competition in 2010 than in any recent year, evidence regarding case-specific Chinese financing terms – concessional or other – was not available. Hence, in 2010, Ex-Im Bank received only one formal application for tied aid and the case was subsequently considered ineligible for Ex-Im support in early 2011.

Ex-Im's matching procedures are considered by external stakeholders to keep U.S. exporters at a competitive disadvantage particularly vis-à-vis non-OECD countries that do not have to adhere to the OECD disciplines or any transparency regime. Hence, in 2010, the few cases with tied aid continue to be a niche area where Ex-Im Bank tied aid policy can have a negative influence on U.S. exporter competitiveness.

Chapter 5: Economic Philosophy
Section B: Market Windows

Introduction

Market Windows are government-owned institutions that assert to offer export credit on market terms, thereby circumventing the OECD Arrangement rules. The implication of Market Windows is that these institutions operate as private sector lenders. In reality, however, exporters receive benefits from their home governments that commercial banks cannot access, such as implicit or explicit government guarantees, tax exemptions, and equity capital provided by the government. ECAs Market Window programs often simultaneously manage an "Official Window" that offers Arrangement terms for riskier transactions. As domestic export-promoting institutions are neither subject to the constraints placed upon official ECAs via the OECD Arrangement nor to the market limitations of a true commercial bank, Market Windows pose a potential competitive threat in the export finance market.

Given the nature of Market Window programs, these institutions consistently avoid discipline in the OECD. Trade distortion is difficult to prove as empirical evidence does not exist, namely due to the lack of transparency on deal specific terms. Hence, although Market Window institutions publicly provide data on their activity in certain regions or sectors, programmatic data that segregates Market Window activity from official export credit activity is not available, making it difficult to measure and assess the competitive impact of Market Windows. Moreover, there have been no recent allegations or evidence of competitive harm.

Ex-Im Bank's Policy and Practice

Ex-Im Bank does not operate a Market Window. All of Ex-Im Bank's medium- and long-term transactions comply with the terms and conditions of the OECD Arrangement. Moreover, long-standing U.S. government policy and legislative limitations prohibit Ex-Im Bank from competing with commercial banks for export credit business. However, in Ex-Im Bank's re-authorization in 2002, Congress gave the Bank the ability to match the terms and conditions offered by Market Windows. In 2010, Ex-Im Bank has yet to use this matching authority as no U.S. exporters have requested matching due to an inability to obtain similar financing terms while facing Market Window competition.

G-7 ECAs' Policies and Practices

Three G-7 countries provide explicit Market Window support: Canada through EDC and Germany through KfW IPEX-Bank, a KfW subsidiary; and SACE (Italy), which started a Market Window program in 2007. The SACE program supports untied loans through insurance or guarantees as long as the transaction plays a strategic role for the Italian economy. In 2010, 30% of SACE's new commitments were done under their Market

Window program. Although only three G-7[1] countries have programs explicitly called "Market Windows," a variety of factors (such as WTO panel decisions and domestic mandates to generate profits for the ECA) create incentives for ECAs to increasingly employ commercial-like procedures and standards. Hence, as more ECAs look to creating such programs, the distinction between "Market Window" and "official" ECA activity is leaning toward a distinction without a difference for many ECAs.

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

- **EDC**

Export Development Canada (EDC) is a Canadian Crown Corporation that operates on private commercial bank principles (i.e., seeks to maximize profits) while providing export credits for Canadian exporters. EDC also operates Canada's official ECA and allocates business between its official window and Market Window with little transparency.

With the agreement of the new Aircraft Sector Understanding in 2007, Canada agreed to bring its aircraft business under its official window. Previously, most of the aircraft business was done through EDC's Market Window. Data for EDC's medium- and long-term export credit activity in 2005-2010 indicate that the aircraft shift (probably combined with the financial crisis) has leveled off EDC's Market Window program at half its 2006 peak (**see Figure 20**).

Figure 20: EDC Medium- and Long-Term Activity, 2005-2010 (Billions USD)

	2005	2006	2007	2008	2009	2010
Total MLT Export Credits	$3.3	$5.3	$2.8	$4.6	$4.6	$5.4
Market Window	2.8	5.1	2.3	3.3	2.7	2.8
Official Window	0.5	0.2	0.5	1.3	1.9	2.6

Source: EDC

- **KfW IPEX-Bank**

In 2004, KfW Bankengruppe began conducting much of its export credit and project finance activity through IPEX-Bank, a newly-created, 100% KfW-owned, arms-length subsidiary (i.e., a "bank-in-a-bank"). The decision to separate Market Window activity from KfW's state-sponsored economic support activities was motivated by the European Commission's concern that KfW's export financing was unfairly competing with European commercial banks due to KfW's state support. To fully address the European Commission's concern, on January 1, 2008, KfW IPEX-Bank began operating as a legally independent entity but still remains a subsidiary of KfW and continues to be closely integrated into KfW's overall strategy. Although KfW IPEX-Bank has been

[1] Several non-G-7 EU ECAs have started Market Window programs such as ONDD of Belgium and OeKB of Austria.

provided with initial equity upon spin-off by KfW, it has a stand-alone credit rating, which is the basis of its funding costs. KfW IPEX-Bank is also subject to taxation and German banking regulations, and must earn a risk-adjusted return on capital of 13%, a level determined by IPEX-Bank management and endorsed by KfW's Board.

In 2010, KfW IPEX-Bank's medium- and long-term activity increased by 18%. KfW IPEX-Bank's export credit business is provided both on Arrangement terms, with official export credit insurance coverage by Euler Hermes (Germany) and on Market Window terms. The Market Window support is considered exempt from OECD rules. **Figure 21** below provides a breakdown between the Market Window and official window support provided by KfW IPEX-Bank since 2005. In 2010, KfW IPEX-Bank's Market Window activity increased as compared to 2010, but still was below 2007 and 2008 levels.

Figure 21: KfW IPEX-Bank Medium- and Long-Term Activity, 2005-2010 (Billions USD)

	2005	2006	2007	2008	2009	2010
Total MLT Export Credits	$3.2	$4.0	$5.4	$5.9	$3.4	$4.0
Market Window	1.9	2.2	2.7	2.7	1.1	1.8
Official Window	1.3	1.8	2.7	3.2	2.3	2.2

Source: KfW IPEX Bank

Summary Data

Combining the two estimates for EDC and KfW IPEX-Bank yields a total of $4.6 billion in Market Window volume for 2010 (see **Figure 22**).

Figure 22: Market Window Activity, 2005-2010 ($U.S. Billions)

	2005	2006	2007	2008	2009	2010
EDC	2.8	5.1	2.3	3.3	2.7	2.8
KfW/IPEX-Bank	1.9	2.2	2.7	2.7	1.1	1.8
Total	$4.7	$7.3	$5.0	$6.0	$3.8	$4.6

Exporter and Lender Survey and Focus Group Results

Lenders were the most vocal regarding Market Window programs for financing. In the focus group discussion, Lenders pointed out that other ECAs seem to be starting Market Window programs, such as ONDD (Belgium) and SACE (Italy). Survey results indicated that Ex-Im stakeholders do not consider Ex-Im competitive with Market Window programs since the Bank does not have one itself. In addition, exporters were concerned about Market Window financing into the U.S. market and the impact that such financing would have on U.S. market share of U.S. based companies.

Conclusion

While no specific cases involving Market Window financing were referenced by Ex-Im stakeholders in 2010, the threat of such programs given their ability to offer flexible terms and attractive financing remain a concern for Ex-Im Bank as well as exporters and lenders. It appears as the residual impact of the global financial crisis wanes, Market Window financing by EDC and KfW IPEX-Bank is once again on the rise. There is also a rising threat of new Market Window programs by other OECD ECAs, however the competitive effect of their programs is still not known. Given the lack of direct competition for Ex-Im lenders and exporters, Market Windows in general are judged to have a neutral impact on Ex-Im's competitiveness.

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

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

In 2010, Ex-Im Bank did not authorize any tied aid. U.S. exporters faced few instances of tied aid competition when competing for export sales. However, the conditions where U.S. exporters saw tied aid competition tended to be for commercially non-viable transactions through which Ex-Im Bank's matching procedures are considered a "hassle" and, as such, a limited competitive response. Therefore, Ex-Im provided no tied aid support in 2010, and tied aid continues to have an increasingly negative influence on U.S. exporter competitiveness.

Additionally, there were no specific cases of market windows highlighted in 2010. The fact that market window activity declined for both two prominent ECAs is representative of the fact that market activity declined during the financial crisis. Given this fact and the lack of direct competition, market windows continue to have a neutral impact on Ex-Im's competitiveness.

Figure 23 shows the range of impact that these financing features (e.g., *de facto* "tied" untied aid, Market Windows) could have on Ex-Im Bank's competitiveness in individual cases when similar terms and conditions are not made available by Ex-Im Bank to U.S. exporters.

Figure 23: Grading of Ex-Im Bank's Competitiveness When Confronted with Differing Government Financing Philosophies and Programs, 2010

Program	Ex-Im Bank has program (Yes/No)	Impact on Competitiveness
Tied Aid (*de jure or de facto*)	Yes[1]	Negative
Market Windows	No[2]	Neutral
Overall Assessment		**Negative (on a limited number of transactions)**

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

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

Congress mandates that Ex-Im Bank perform its core mission of supporting U.S. jobs through exports and, at the same time, pay attention to broad public policy objectives relevant to Bank activity. Issues addressed in this report that fall within the public policy sphere are: (1) economic impact; (2) content (i.e., U.S. content, foreign content, and local costs); and (3) U.S. shipping requirements.

All three issues addressed in this chapter are rooted in long-standing legislative mandates, some of which date back to the 1930's. These mandates reflect the core U.S. jobs mission Congress created the Bank to pursue. In response, Ex-Im Bank has developed procedures and policy requirements that determine transaction eligibility and level of Ex-Im Bank financing. Because all Ex-Im Bank transactions are subject to at least one of these requirements, their potential impact on Ex-Im Bank competitiveness is extensive.

A summary of each topic follows:

- The <u>economic impact</u> mandate requires Ex-Im Bank to evaluate the potential positive (e.g., benefit of the export) and negative (e.g., displace U.S. production) effects of an application on the U.S. economy. Only applications for capital goods and services exports that enable foreign production of an exportable good (e.g., increase in foreign fertilizer production capacity) are subject to economic impact limitations. If the economic impact evaluation yields a net negative finding, it can be a basis for withholding Ex-Im Bank support.

- <u>Content</u> refers to the country of origin of the goods and services that make up an export contract. The U.S. content in Ex-Im Bank supported transactions serves as a proxy for U.S. jobs. Thus, Ex-Im Bank's content requirements are a direct result of the U.S. jobs mandate. Ex-Im Bank supported transactions include U.S. content (that is, U.S.-originated goods and services) foreign content (that is, third country-originated goods and services), and local content (that is, goods and services that originate in the foreign buyer's country).

  Of the goods and services exported from the United States, Ex-Im Bank generally limits its cover to U.S. content in an export contract. Thus, if a U.S. export contract contains 70% U.S. content and 30% eligible foreign content, Ex-Im Bank limits its financing to 70% of the U.S. export contract, thereby requiring the buyer to identify alternative ways to cover the foreign content.

  In addition, Ex-Im Bank can cover up to 30% of the U.S. export contract in local costs, or goods and services procured in the buyer's country. Long-term transactions are automatically eligible for local cost support, while medium-term transactions can only obtain local cost support if the applicant demonstrates need. Medium-term applicants must demonstrate either: (1) foreign competition with ECA-backed local cost financing; or (2) lack of private market local cost financing for the transaction.

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

While every ECA has its own public policy goals, and conditions its support on a case-by-case basis accordingly, the resulting limits on Ex-Im Bank financing due to these specific and transparent public policy considerations are generally unique to the United States. These unilateral requirements have the potential to create tensions between the goals of maximizing U.S. exporter competitiveness vis-à-vis foreign ECAs (which tends to maximize Ex-Im Bank financing) and satisfying public policy mandates (which may limit Ex-Im Bank financing).

In assessing the impact of public policy considerations on Ex-Im Bank competitiveness, Bank stakeholders generally fall into one of two distinct camps. The first camp consists of stakeholders who directly participate in Ex-Im Bank-supported transactions (e.g., exporters and lenders). These stakeholders want to minimize conditions attached to Ex-Im Bank support; in their view, the Bank's mandate is best served by maximizing the amount of financing available to U.S. export transactions. The second camp consists of stakeholders who want Ex-Im Bank to consider the impact of its financing more broadly (e.g, organized labor and NGO's), especially when tradeoffs among U.S. jobs are at stake; in their view, the costs of supporting certain transactions may outweigh the benefit.

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

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

Introduction

According to Ex-Im Charter, all applications received by the Bank are subject to economic impact review. The Bank must determine, on a case-by-case basis, whether its support would likely cause substantial injury to U.S. industry or enable the production of a good that is subject to a trade measure. While all cases seeking Ex-Im Bank support are screened for economic impact, only cases that include capital equipment transactions that enable foreign buyers to establish or expand production capacity of an exportable good are subject to a more detailed analysis. The conditions that prompt a detailed economic impact analysis are discussed below.

In 2010, economic impact policy directly affected approximately 35% (118) of medium- and long-term transactions that were "acted on" while only about 2% (8) were subject to a detailed economic impact analysis.[1] (See **Figures 24** and **25**.)

Ex-Im Bank's Policy and Practice

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

- Foreign production of substantially the same product that is the subject of specified trade measures;[2] or

- Poses the risk of substantial injury to the U.S. economy. [3] All transactions receiving over $10 million in Ex-Im financing where the new foreign production exceeds 1% of U.S. production of the same good, are subject to a detailed economic impact analysis.[4] In a detailed economic impact analysis, staff examines global supply and demand for the good, and assesses the broad competitive impacts on U.S. industry arising from the new foreign production

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[1] "Acted on" refers to transactions the Bank authorized, denied, and applications that were withdrawn by the applicant prior to Bank action.
[2] The relevant trade measures are: anti-dumping (AD) or countervailing duty (CVD) orders; Section 201 injury determinations under the Trade Act of 1974; and suspension agreements from AD/CVD investigations.
[3] Congress defined the threshold for substantial injury in Ex-Im Bank's Charter. The threshold is met if the foreign buyer's new production is equal to or greater than one percent of U.S. production of the same, similar, or competing good.
[4] Legislation enacted in December 2006 requires that, for the purposes of determining whether a proposed transaction exceeds the $10 million threshold, the Bank aggregate the dollar amount of the proposed transaction and the dollar amounts of all transactions approved by the Bank in the preceding 24-month period that involved the same foreign entity and substantially the same product to be produced.

(e.g., whether U.S. production is likely to be displaced as a result of new production abroad).

If a transaction meets these legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. However, in cases where Ex-Im Bank's Board of Directors concludes that the benefits of financing a given transaction exceeds its potential injury to the U.S. economy, Ex-Im's Charter allows the Board's decision to override the economic impact recommendation.

The Bank's Charter also requires Ex-Im Bank's Chairman to submit a Sensitive Commercial Sectors and Products list ("Sensitive Sector List") to Congress each year. This list is designed to inform potential applicants of industries that have historically faced significant difficulty obtaining Ex-Im Bank support. However, it is important to stress that inclusion on the Sensitive Sector List does not indicate an automatic denial of Ex-Im support. The Sensitive Sector List submitted to Congress in April 2010 was comprised of "raw steel-making capacity," "DRAM semiconductors" and "U.S. market oriented" production. [5]

Ex-Im Bank Summary Data

In 2010, Ex-Im Bank "acted on" a total of 336 medium-term insurance and medium- and long-term loan and guarantee transactions. Of those, 192 were applications for medium- and long-term loans and guarantees at the Preliminary Commitment and Final Commitment stages, and 144 were medium-term insurance applications. (See **Figure 24**.)

Figure 24: Transactions "Acted On" by Ex-Im Bank, 2008- 2010

	2008	2009	2010
Long- and Medium-Term Loans and Guarantees (PC or AP)	287	218	192
Medium-Term Insurance	223	106	144
Total Long- and Medium-Term Transactions	**510**	**324**	**336**

Source: U.S. Ex-Im Bank

As shown in **Figure 25**, 118 medium- and long-term transactions were scrutinized for economic impact in 2010 because they supported a foreign buyer's production of an exportable good. Though nowhere near the 2008 level of 190 transactions, this is about a 31% increase from 2009 levels, when the Bank reviewed 88 such transactions. Of the 118 transactions reviewed for economic impact in 2010, 8 were subject to a detailed economic impact analysis.

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

Figure 25: Transactions Scrutinized for Economic Impact Implications, 2008- 2010

	Number of Long- and Medium-Term Transactions		
	2008	2009	2010
Subject to Detailed Economic Impact Analysis	10	7	8
Substantial Injury Determination of <1% of U.S. production[6]	4	5	3
$10 Million or less	162	60	91
Undersupply[7]	14	16	16
Total Cases Reviewed for Economic Impact	**190**	**88**	**118**
% of Total Cases Reviewed for Economic Impact	**37%**	**27%**	**35%**

Source: U.S. Ex-Im Bank

As previously mentioned, a negative economic impact finding can in fact be the basis for denial of Ex-Im support. However, the Board of Directors may make an exception and override the finding. In 2010, none of the "acted on" transactions that were subject to a detailed economic impact analysis reached the point where the Board of Directors was compelled to make an exception to a case because the economic impact analysis yielded a negative finding. Staff estimates that in 2010 one applicant did not pursue Ex-Im Bank financing for a potential transaction (equipment to process steel) after learning about the existence of an applicable trade measure.[8]

Exporter and Lender Survey and Focus Group Results

Exporters and lenders once again gave Ex-Im Bank's economic impact policy a negative rating and opined that the policy decreases the Bank's overall competitiveness relative to its peer ECAs. The general consensus in the export community is that the policy has a "chilling effect" on potential applicants and, as such, is viewed as a distinct competitive impediment to potential transactions, particularly those in the steel sector**.** Specifically, one firm noted that it has not been impacted directly by the economic impact policy, but it wondered how and why this policy would affect its future transactions. Exporters also reported competition from SACE and Euler Hermes (who do not conduct economic impact reviews) as resulting in lost sales into key markets, such as Mexico.

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[6] Congress defined the threshold for substantial injury in Ex-Im Bank's Charter. The threshold is met if the foreign buyer's new production is equal to or greater than one percent of U.S. production of the same, similar, or competing good.

[7] Product or sector is deemed to be in undersupply when it is facing a long-term excess demand over foreseeable available supply and additional production capacity would benefit the overall U.S. economy. Presently, the U.S. remains heavily dependent on imports of oil, natural gas and diamonds because those commodities are considered to be currently in undersupply in the U.S. economy. It is important to note that undersupply is not opposite of oversupply.

[8] The distinction between *potential* cases brought to Ex-Im Bank (as opposed to actual cases supported by Ex-Im Bank) is an important one. Potential cases are those transactions which are brought to Ex-Im Bank and worked on by the Bank but which are not ultimately supported by the Bank. Potential cases do not include transactions that could have come to Ex-Im, but did not.

G-7 ECAs' Policies and Practices

All G-7 ECAs have a broad mandate to support transactions that benefit their domestic economies and condition their decisions to provide or withhold official support based on benefits to their national economies. Ex-Im Bank is the only ECA required by law to weigh the potential economic costs against the benefits of Bank-supported exports as well as to consider outstanding and preliminary trade measures when evaluating transactions on a case-by-case basis.

Conclusion

In 2010, Ex-Im Bank's economic impact policy directly affected approximately 35% of the Bank's medium- and long-term "acted on" transactions while approximately 2% (8) were subject to a detailed economic impact analysis. The U.S. export community once again expressed that the economic impact mandate has a negative effect on the Ex-Im Bank's competitiveness relative to its peer ECAs. However, given the small number of transactions subject to a detailed economic impact scrutiny (about 2% of 336, or 8 transactions in CY 2010), the actual effect of the economic impact mandate on overall Ex-Im Bank's activity is relatively narrow. For those few applications subject to a detailed analysis, the economic impact process appears onerous and the outcome uncertain. On the other hand, since applications subject to detailed economic impact scrutiny represent a distinct minority of Ex-Im Bank transactions, the actual effect of the economic impact mandate on Ex-Im Bank's competitiveness should be weighted accordingly.

Chapter 6: Public Policies – Stakeholder Considerations
Section C: Foreign Content and Local Costs

Introduction

Ex-Im Bank's content policies can be grouped into three general categories: U.S. content, foreign content, and local costs. U.S. content is the portion of an export that originated in the United States. Foreign content is the portion of an export that originated outside the seller's and the buyer's countries, and local costs are goods and services manufactured or originated in the buyer's country.

Eligibility and cover criteria for foreign content have been identified by many exporters as their number one concern. As the domestic content rules are not governed by international agreement, each ECA establishes its own guidelines. Thus, exporters have most frequently identified foreign content as an area where ECA policies and practices substantially diverge as they are driven by the political and economic environment in which each ECA operates. By contrast, the OECD Arrangement sets the basic parameters on official local cost support and, as a result, ECA policies appear to be more closely aligned.

Ex-Im Bank's Foreign Content Policy and Practice in 2010

In keeping with its mandate to maintain or increase U.S. employment through the financing of U.S. exports, Ex-Im Bank's foreign content policy ensures that its export financing targets the U.S. content that is directly associated with goods and services exported from the U.S. Ex-Im Bank relies on U.S. content as a proxy to evidence support for U.S. jobs. Thus, with the close of fiscal year 2010, the Bank reported $24.5 billion in export financing that supported $34.4 billion worth of American exports and created or sustained an estimated 227,000 American jobs at more than 3,300 U.S. companies. Thus, the content policies aim to provide incentives to U.S. companies to maximize its sourcing of U.S. content. Nevertheless, in some situations U.S. export contracts contain essential goods and services that are foreign-originated. To accommodate these goods and services, Ex-Im Bank's policy allows the inclusion of some foreign content in the U.S. export contract with certain restrictions and limitations.

Ex-Im Bank's foreign content policy is consistent with the objectives mandated in its Charter; however, there are no specific statutory requirements per se relating to foreign content. Rather, the policy reflects a concerted attempt to balance the interests of multiple stakeholders.

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. Hence, there is no minimum U.S. content requirement.

G-7 ECAs' Policies and Practices: Foreign Content

As a general rule, all ECAs seek to maximize their own national benefit resulting from their respective activities. However, the priority given to domestic content and its application as an indicator of national benefit varies widely among ECAs. While Ex-Im Bank's definition of national interest is linked to national content and the U.S. jobs that result from it, foreign ECAs consider domestic content as merely one of many indicators of national benefit. Other indicators include: indirect job support resulting from foreign subsidiaries and future employment prospects that will result from relationship building with foreign exporters that would be lured to increase their investments to further access ECA financing. Thus, the national benefit evaluation varies widely from country to country, depending on the political and economic landscape in each and, consequently, has led to differing content policies among all ECAs.

OECD Arrangement participants recognize that each country develops its content policy to further individual domestic policy goals. Hence, no OECD Arrangement guidelines govern the scope or design of foreign content in an officially supported export credit. Given the vastly different sizes and compositions of the G-7 economies and their respective views on national interest, it is not surprising that foreign content policies vary widely and substantively.

Ex-Im Bank is the only G-7 ECA that does not provide any direct support for third country content. That is, though the Bank does not require a minimum amount of domestic content for medium- and long-term transactions, the Bank has the lowest "foreign content allowance" (15%). In addition, Ex-Im Bank is the only ECA requiring that goods be shipped from domestic shores in order to be eligible for support. However, unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and will support a maximum of up to 15% foreign content AND 30% local costs. In contrast, G-7 ECAs generally consider the level of support on the total non-domestic content (foreign and local) on an aggregate basis. That is, if a G-7 ECAs content policy states that it will allow up to 50% non-domestic content, if the local costs are maximized at 30%, the foreign ECA will limit the eligible foreign content to 20% of the export contract.

Figure 26 compares the main aspects of the content policies of the G-7 ECAs in 2010. The data illustrate that Ex-Im Bank's content requirements and implementation of those requirements are significantly more restrictive than those of its G-7 counterparts.

Figure 26: Comparison of Content Policies of the G-7 ECAs, 2010

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

Ex-Im Bank Summary Foreign Content Data

In 2010, the data indicates that the incidence of foreign content in Ex-Im Bank transactions (as shown in **Figure 27**) is declining. Specifically, the dollar volume of transactions which include foreign content as a share of total exports is approximately 80% (down from 90-95% in 2007-2009), while the number of transactions comprises less than 40% (down from 42% in 2008/2009) of all medium- and long-term activity. Though Ex-Im authorized almost twice as many long-term deals with foreign content than medium term, an explanation as to why the dollar volume is going down may be attributable to the increasing inclusion of U.S. services in the long-term, high-dollar deals. Nevertheless, while the incidence of foreign content is declining, the average foreign content ratio is at 14%, slightly higher than the 10-12% it has been over the past five years. Medium-term transactions are lower dollar value, but the average foreign content is marginally higher (15%) than the average foreign content in long-term transactions (14%). (See Appendix E for foreign content transaction detail. [1])

Figure 27: Recent Trends in Ex-Im Bank Foreign Content Support, 2006-2010 (Millions USD)

	Authorizations	2006	2007	2008	2009	2010
Total activity	Export value ($MM)	$8,718	$7,833	$12,082	$17,449	$14,398
	Number of transactions	485	412	333	275	320
Transactions containing Foreign content	Export value ($MM)	$7,235	$7,457	$10,750	$15,946	$11,342
	Percentage of total value	83%	95%	89%	91%	79%
	Number of transactions	149	143	141	115	122
	Percentage of total number	31%	35%	42%	42%	38%
Foreign content	Volume ($MM)	$855	$919	$1,164	$2,106	$1,604
	Average per transaction	12%	12%	11%	13%	14%

Source: U.S. Ex-Im Bank

[1] Appendix E provides a more detailed listing of foreign content contained in Ex-Im Bank's medium- and long-term transactions (including medium-term insurance) at the time of authorization in 2010.

Ex-Im Bank's Local Cost Policy and Practice in 2010

When Ex-Im Bank provided medium- or long-term guarantee, loan or insurance support for exports in 2010, it could also provide support up to 30% of the value of the U.S. exports (including eligible foreign content) for locally originated or manufactured goods and services connected to the U.S. export contract. Ex-Im Bank's local cost policy reflects the premise that some amount of local labor and raw materials are necessary to efficiently build or assemble the end product of the U.S. export. The absence of Ex-Im Bank support for local costs that are integral to the U.S. exporter's contract could undermine the U.S. exporter's chances of winning the sale.

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

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

Unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and will support a maximum of up to 15% foreign content AND 30% local costs. In contrast, G-7 ECAs generally consider the level of support on the total non-domestic content (foreign and local) on an aggregate basis. That is, if a G-7 ECAs content policy states that it will allow up to 50% non-domestic content, if the local costs are maximized at 30%, the foreign ECA will limit the eligible foreign content to 20% of the export contract.

Ex-Im Bank Summary Local Cost Data

Figure 28 illustrates recent trends in Ex-Im Bank's support of local costs. In 2010, the dollar volume of transactions that received local cost support represented 6% of total medium- and long-term transactions requesting local cost support. In 2010, 51% of all transactions that received local cost support were for medium-term transactions valued at less than $10 million. In 2010, almost 75% of local cost financing supported installation costs, on-site construction and labor costs, almost 15% was generally comprised of import duties and value added taxes and the remaining approximately 10% was to support capital equipment. It is important to note, however, that aircraft (large and small) transactions do not typically receive local cost support and have been excluded from **Figure 28**.

Figure 28: Recent Trends in Ex-Im Bank Local Cost Support, 2006-2010 (Millions USD)

	Authorizations	2006	2007	2008	2009	2010
Total medium-and long-term activity	Authorized Amount	$7,697	$8,070	$10,120	$7,585	$7,212
	Number of transactions	485	412	333	279	277
Medium- and long-term activity containing local costs	Number of transactions	47	36	37	46	57
	Percentage of total number of transactions	10%	9%	11%	16%	21%
Local costs	Volume ($MM)	$54	$119	$211	$1,299	$926
	Percentage of total medium-and long-term activity	1%	1%	2%	17%	13%

*Data reflects authorized amount instead of export value, as the authorized amount includes local cost. Data excludes aircraft transactions since aircraft transactions do not contain local cost.
Source: U.S. Ex-Im Bank

G-7 ECAs' Policies and Practices: Local Cost

All G-7 ECAs adhere to the basic local cost parameters set forth in the OECD Arrangement. In the calendar year 2010, 24 OECD Participants notified 165 transactions where local cost support exceeded 15%. Specifically, Germany (Euler Hermes) notified the most transactions (36), followed by Spain (CESCE) (31) transactions, and the U.S. (28) transactions. About 75% of local cost financing supported installation costs, on-site construction and labor costs, almost 15% of local cost financing supported capital equipment, and the remaining 10% supported a combination of local costs delivered from local subsidiaries and VAT/import duties.

Exporter and Lender Survey and Focus Group Results

The vast majority of survey respondents indicated that Ex-Im Bank's foreign content policy had a negative impact on Ex-Im Bank's competitiveness. Exporters and lenders expressed the view that Ex-Im Bank's foreign content policy is their "most significant impediment to competitiveness." Chief among the criticisms from exporter and lender groups was that while "other major ECAs have evolved and loosened their content requirements," Ex-Im has failed to recognize the structural shift in the U.S. economy and its industrial base and is now "being left in the dust with an out-of-date policy. " Exporters have urged Ex-Im Bank to "expand its support beyond content and consider support based on national interest and the company's footprint." In addition, participants suggested that Ex-Im should explore extending exceptions to its content policy to support priority sectors, such as environmentally beneficial projects.

In contrast, exporters and lenders indicated that Ex-Im Bank's local cost policy had a positive impact on Ex-Im Bank's competitiveness. Lenders praised the local cost policy as “innovative” and competitive with its G-7 counterparts, but noted that the requirement for non-project finance transactions to “validate and link every local cost to the U.S. export component was overly burdensome.”

Conclusion

As Ex-Im Bank is the only G-7 ECA that does not allow for any direct support of foreign content and doesn’t consider other factors (e.g., national interest) when determining its level of support, Ex-Im Bank’s foreign content policy is increasingly less competitive relative to other G-7 ECAs. However, it is important to note that unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and will support a maximum of up to 15% foreign content AND 30% local costs.

Nevertheless, given the incidence of foreign content in Ex-Im Bank supported transactions, in cases where foreign content exceeds 15% Ex-Im Bank’s policy and practice can have a negative impact on U.S. competitiveness because it may deter exporters from using Ex-Im’s products.

Ex-Im Bank is one of the few G-7 ECAs that does not explicitly require local costs to be in the exporter’s contract. Thus, by broadening the definition of local cost eligibility to include costs that may be “connected” to the overall project, but not directly associated with the source of supply and based on both comparative information regarding our G-7 ECA counterparts and on the exporting community’s actual experience with Ex-Im Bank’s local cost policy, Ex-Im Bank’s local cost policy is considered to have a very positive impact on the Bank’s competitiveness.

Chapter 6: Public Policies – Stakeholder Considerations
Section D: U.S. Shipping Requirements

Introduction

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

PR-17 and other cargo preference legislation aim to support the U.S.-flagged commercial fleet, which serves as an important national security asset during times of war or national emergency. Despite this broader public benefit, U.S. exporters have alleged to experiencing competitive implications resulting from being required to ship on U.S. flag vessels in light of the fact that such requirements are not imposed on foreign exporters and typically result in increased costs and delays.

Ex-Im Bank's Policy and Practice

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

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

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

Currently, the U.S. is a party to four bilateral Maritime Agreements (with Brazil, Vietnam, China and Russia) negotiated by U.S. delegations headed by the U.S. Maritime Administrator. However, the Brazilian Maritime Agreement is the only agreement that includes provisions for cargo preference.[1] The Brazilian Maritime Agreement allows for half of the shipments under a transaction to be shipped on Brazilian-flagged ships provided the exporter obtains a general waiver from MARAD. For Ex-Im Bank purposes, Ex-Im Bank treats the Brazilian shipping costs as U.S. content. Of note, no waivers were requested or granted under the Maritime Agreement with Brazil in 2010.[2]

Figure 29 shows the number of Ex-Im Bank-related waivers granted by MARAD over 2008-2010. Although the waivers were granted in these years, the Ex-Im transactions they are associated with may have been approved by Ex-Im in different years. Total revenues to U.S. and non-U.S. flag carriers from 2010 shipments that fell under Ex-Im Bank's PR-17 program was $34.8 million in 2010, compared to $35.2 million in 2009. On average, about 95% of these revenues go to U.S. flag carrying vessels.

Figure 29: Number of Approved Ex-Im Bank Related PR-17 Waivers*

Waiver Type	2008	2008	2010
Statutory	12	6	6
Compensatory	9	7	4
Conditional	0	0	0
General	0	0	0
Total	**21**	**13**	**10**

*Totals reflect the number of Ex-Im Bank transactions associated with individual waivers.
Source: MARAD

As reflected above, granted waivers have been consistently kept to a minimum since MARAD only has exporters apply for a waiver after MARAD has determined it could not accommodate them with a U.S. flag carrying vessel. This is intentionally accomplished by MARAD staff working with and educating Ex-Im Bank customers on U.S. carrier service options for project cargoes. In tandem with this, MARAD keeps in contact with the U.S. flag representatives enabling them to adjust their schedules to new cargo opportunities under this Program. When existing service may initially appear absent, MARAD on an ad hoc basis and when warranted, has been able to influence carriers in diverting ship itineraries to book Ex-Im Bank cargoes. These working arrangements have helped ensure that if there is truly no existing U.S.-flag service, a waiver will be granted.

Because shipping ocean-borne cargo on a U.S. flag carrying vessel can be associated with a higher cost, and because granted waivers are intentionally kept to a minimum, few transactions end up coming to Ex-Im where the PR-17 requirement applies and the

[1] For more information on the bilateral Maritime Agreements, visit http://www.marad.dot.gov/about_us_landing_page/international_activities/international_agreements/International_Agreements.htm.

[2] In January 2011 MARAD granted its first waiver under the Brazil Maritime Agreement for a transaction worth $134mn involving power equipment. As part of this Agreement, the exporter has to ship 50% of the Ex-Im financed goods on U.S. flagged ships, and also submit monthly shipping reports to MARAD to ensure compliance.

cargo is ocean-borne. In 2010, Ex-Im authorized 18 transactions that were subject to PR-17 and the cargo was ocean-borne (e.g., transactions over $20 million, over 7 years, and direct loans that were not aircraft or for exports to Canada or Mexico), compared to 11 such transactions in 2005 and 21 such transactions in 2000. The 18 transactions in 2010 represent 25% of all 2010 authorizations meeting the PR-17 eligibility criteria. The associated ocean-borne cargo for these transactions included mining equipment and power generation equipment.

G-7 ECAs' Policies and Practices

Of the G-7 ECAs, only France and Italy were reported to at one time have cargo preference requirements, though very little is known about the nature of these requirements or if they are still in place or enforced.[3] In previous years, lenders indicated to Ex-Im Bank that France's cargo preference restrictions are more easily waived than the MARAD restrictions that Ex-Im Bank users must follow, however, lenders did not comment on Italy's cargo preferences.

Exporter and Lender Survey and Focus Group Results

Cargo preference requirements can make U.S. goods less competitive relative to foreign goods because most foreign exporters have no shipping requirements and U.S.-flagged shippers generally charge higher rates. Lenders and exporters explained that the higher shipping costs and route scheduling challenges associated with shipping via U.S.-flagged vessels is a prohibitive aspect of using Ex-Im Bank support. They note that in some cases U.S. shipping requirements may be the sole reason why a U.S. exporter may lose business to a foreign competitor. These requirements can actually hinder the realization of U.S. exports by mandating shipping logistics and/or costs that make sourcing U.S. equipment prohibitive. Thus, while relatively few Ex-Im transactions are directly affected by PR-17 each year, the freight and logistical costs are large for the affected exports, impacting U.S. competitiveness. The implications of PR-17 are especially acute if the cargo requires a specialized vessel such as a heavy lift vessel (e.g., power turbines) as there are fewer such vessels in the U.S. flagged fleet.

An exporter and lender survey conducted by Ex-Im Bank echoed similar sentiments regarding the uncompetitiveness of Ex-Im's U.S. shipping requirements.

Conclusion

As a condition of Ex-Im Bank's direct loan and long-term guarantee financing, U.S. exporters are required to comply with U.S. flag vessel requirements. The MARAD waiver data and anecdotal evidence from the focus groups and survey results suggest that only those exporters pre-approved for waivers by MARAD will be told to apply and eventually obtain a waiver. The process for obtaining a waiver can be long from initial contact with MARAD, and some exporters report having to hire a consultant to navigate the process. Exporters and lenders both assert the cargo preference rules and the higher

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

costs associated with U.S. flag vessels present a competitive disadvantage. Thus, the PR-17 policy, if present in a transaction, remains a negative aspect of Ex-Im financing relative to other ECAs.

Chapter 6: Public Policies – Stakeholder Considerations

Section E: Public Policy Competitiveness

Ex-Im Bank follows a set of public policy requirements that define the boundaries of where and how Ex-Im Bank can offer support to U.S. exports. These requirements set Ex-Im Bank apart from other ECAs because, of the four policies, only foreign content and shipping have similar counterparts within other ECAs, and only one – local cost – is controlled by the OECD. Therefore, the potential impact of these factors on case-specific competition has ranged from extremely positive to extremely negative.

Figure 30: Grading of Ex-Im Bank's Public Policy Competitiveness, 2010

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

Chapter 7: Overall Results

In 2010, Ex-Im Bank's overall competitiveness as compared to its G-7 ECA peers is deemed to be an "A-/B+", a one notch downgrade from an "A" grade last year.

Figure 31: Grading of Ex-Im Bank's Overall Competitiveness, 2010

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

As illustrated in **Figure 31,** Ex-Im Bank's overall competitiveness is rated at an "A-/B+", while the Bank's Economic Philosophy and Public Policies were rated negative, **Figure 32.** On balance, all of the factors discussed in this report yield an "A-/B+" for 2010.

Figure 32: Direction of Competitive Impact of U.S. Economic Philosophy & Public Policy, 2010

Areas Affected by U.S. Economic Philosophy or Public Policy	Potential Case-Specific Impact
Economic Philosophy:	**Negative**
Tied Aid (de jure or de facto) Market Windows	Negative Neutral
Public Policy:	**Negative**
Economic Impact Foreign Content Local Costs Shipping – PR 17	Negative Extremely Negative Extremely Positive Negative
OVERALL COMPETITIVENESS GRADE	**Negative**

Trends

Ex-Im's Bank overall competiveness remained at par with the four year "A-/B+" average. The Bank' Core Business Policies and Practices marks also remained constant over the 2007-2010 period. See **Figure 33**. Major Program Structures was the only area that experienced a change in the form of a downgrade from the 2009 "A" grade. Specifically, one component of the Environmental Policy, the Carbon Policy, was introduced in 2010 as a rated feature and it received a "C" in 2010, which brought the overall grade average down to "A-/B+" from an "A" in 2009.

Figure 33: Grade Trends of Ex-Im Bank's Overall Competitiveness (2007-2010)

	2007	2008	2009	2010
Structural Elements				
Core Business Policies and Practices	A	A	A	A
Cover Policy and Risk Taking	A	A-/B+	A-/B+	A-/B+
Interest Rates	A	A	A	A
C. Risk Premia	A	A	A	A
Major Program Structures	A-/B+	A-/B+	A	A-/B+
Large Aircraft	A	A	A	A
Project Finance	A	A	A	A
Co-Financing	B-/C+	B	A-/B+	A-/B+
Environment	N/A	N/A	A-/B+	B
Foreign Currency Guarantee	B	B	B	B
Services	N/A	N/A	A-/B+	A-/B+
OVERALL GRADE	**A-/B+**	**A-/B+**	**A**	**A-/B+**

Influencing the overall assessment of Ex-Im Bank's competitiveness are the philosophical and public policies that the Bank is required either explicitly or implicitly to incorporate into its operational procedures. Tied aid and market windows represent two areas of philosophical differences with some of the major ECAs in which Ex-Im Bank can only respond in select situations when faced with foreign ECA competition.

Figure 34: Directional Trends of U.S. Economic Philosophy & Public Policy on Official Export Credit Activity, Procedures and Practices (2007 – 2010)

Areas Affected by U.S. Economic Philosophy and Public Policy	**Potential Case-specific Impact on Competitiveness**		
	2008	**2009**	**2010**
Economic Philosophy			
Tied Aid (de jure or de facto)	**Neutral to negative** *(**infrequent**; modest overall competitive impact)*	**Neutral to Negative** ***(infrequent**, modest overall competitive impact)*	**Neutral to Negative** ***(infrequent**, modest overall competitive impact)*
Market Windows	**Neutral** *(would likely be negative if encountered)*	**Neutral** (*would likely be negative if encountered)*	**Neutral** (*would likely be negative if encountered)*
Public Policy			
Economic Impact	**Negative**	**Negative**	**Negative**
Foreign Content	**Extremely Negative** *(frequent; significant impact)*	**Extremely Negative** *(frequent; significant impact)*	**Extremely Negative** *(frequent; significant impact)*
Local Costs	**Neutral**	**Positive**	**Extremely Positive**
Shipping – PR 17	**Negative**	**Negative**	**Negative**

Figure 34 summarizes the views of the U.S. exporting community on the Bank's public policies. Those views remained mostly unchanged in 2010, except for the local cost policy which has become a more positive attribute to Ex-Im's overall competitiveness. Nevertheless, the U.S. exporting community noted with emphasis that the aggregate impact of the public policy considerations of economic impact, PR 17/MARAD requirements, and U.S. content have represented a negative or extremely negative influence on Ex-Im's overall competitiveness, as illustrated in **Figure 34** above.

Chapter 8: Unregulated and Exceptional Financing
Section A: Introduction

It appears that the Bank's traditional tools and measures for assessing Ex-Im's competitiveness may no longer capture the full and real story. Expansions in ECA autonomy and developments of non- standard programs or financing tools within the OECD combine with the emergence of China as a bold export credit financier to yield activity so different in form and significant in level that it creates a new competitive universe. The "island" of Arrangement-compliant MLT activity is emerging as – or soon may be – not even the largest volume collectively, but possibly not even in second place either. Consequently, Ex-Im Bank may now require a recalibration and realignment in its yardstick to effectively and accurately gauge Ex-Im's institutional – as opposed to specific policy and program – competitiveness.

Ten years ago, the practices and tools that happened to be governed by the Arrangement represented the only universe of export finance activity in the world. There was commercial export finance and its government twin – the activities of the world's ECAs. The coexistence of that universe and the Arrangement had then lasted for roughly a quarter century and there were no signs of impending revolution. However, over the last decade – with a rapid acceleration in the last five years – two fundamental developments now challenge the relevance of the Arrangement.

First, in the OECD export credit world, the practices have historically been governed by a set of international guidelines aimed at limiting the role of governments in export credit financing to activities and cases where the private sector would or could not operate effectively or regularly as the "lender of last resort." For the most part, the participating ECAs respected the guidelines, with the resulting environment being one of relative stability and predictability. When issues arose, the OECD provided a forum within which resolutions could generally be reached and new standards set.

However, motivated by a variety of influences emerging over the past decade, a number of Ex-Im's OECD counterparts, armed with greater flexibility and autonomy, began moving away from the "lender of last resort" role. Rather than simply filling in where private financing could or would not go, many OECD/G-7 ECAs adopted a role more reflective of a commercial market participant – only this participant had "national benefits and/or national interest" as the core objective (vs. private market focus on profitability). While all ECAs accept the basic premise that they have to break-even over the long term to be compliant with WTO rules, there is a significant gap between market pricing and government capacities, especially given the risk aversion in the private sector since 2008. As "national corporations," which means they are targeting national interests with commercial financing rather than responding to market problems, a number of our ECA counterparts now offer forms of financing that either fall outside of the OECD agreement (e.g. untied loans), or are not considered by them to be "export" financing, for example, support directly to a domestic exporter.

Second, over roughly the same 5-7 year period, China (a non-OECD country) moved from a position outside the top 25 of ECAs to the front of the pack as probably the single largest MLT export credit provider. Associated with this combination of low price exports and exceptional export financing has been a likely but unquantified loss of market share by all OECD capital goods export nations.

Thus, in evaluating Ex-Im's competitiveness today, the lens through which we have traditionally viewed this comparison may no longer be adequate. The nature of export credit competition has changed dramatically and the scope expanded almost exponentially. If one bases their judgment on the traditional standards and traditional features of Arrangement-compliant official export credit, Ex-Im Bank can be seen as generally competitive. However, when adding the new dimensions of non-standard financing by OECD counterparts that includes untied loans or Market Windows and the exceptional nature of much of some non-OECD export credits, Ex-Im appears to be more isolated and falling behind. Today, and increasingly going forward, this apparent trend represents perhaps the single most serious issue facing the competitiveness mandate of Ex-Im Bank.

Within this context, Chapter 8 tries to identify, define, and quantify to the greatest extent possible the various forms of unregulated financing that have emerged over the last several years. (It is important to note that the attempts at identifying and quantifying unregulated and exceptional financing – especially for non-OECD aspects – are frequently based on nothing more than estimates from extrapolating historical data and/or tying together anecdotal comments. Consequently, this effort should be seen as the first draft of a larger research effort that could take years to achieve precision and nuance.) Most particularly, this chapter will highlight the "unregulated" activities by OECD/G-7 entities and the "exceptional" practices of non-OECD countries. The Chapter will conclude by attempting to provide an overall assessment of the possible competitive implications for Ex-Im Bank.

The developments this chapter tries to identify and explain are the trends that underlie the figures in **Figure 35** below.

Figure 35: MLT International Financial "Islands" (Billions USD)

	2001 (Estimate)	2006	2011* (Projected)
OECD – within Arrangement	50.0	50.0	75.0
OECD – Unregulated	5.0	6.5	75.0
Non-OECD	5.0	30.0	75.0

*The use of the same figures for each "island" is not based on technical trends analysis. Rather, this consistent placeholder is just to indicate that while all three universes appear to be at very similar levels right now, the growth rates implied by the level in the table suggest a very different scale for each in a five year trend.

Chapter 8: Unregulated and Exceptional Financing
Section B: Unregulated Forms of Financing

The identification and definitions of the unregulated forms of financing are based on information and data gathered over the past several years from OECD ECAs and their annual reports, press reports, and other presumed reliable sources. While some descriptions and quantifications are clear and detailed, others are less well defined due to the lack of specificity and/or transparency provided in the information we have collected.

In all forms of unregulated financing described in this Chapter (Market Windows, untied loan support, and certain forms of foreign direct investment support), none are governed by the OECD Arrangement or any other international guidelines. Perhaps most important is the fact that they represent new business models adopted by the official ECAs, presumably because they offer economic opportunities otherwise unattainable with other forms. Finally, none are necessarily "bad" or "good"; rather they are different from the traditional, more standard forms of official support. Nevertheless, their existence does give rise to questions about the net effect of their utilization and the implications of that use for Ex-Im Bank.

A. Market Windows

A Market Window is a government-owned entity or program that offers export credits on market terms. While this definition suggests that the Market Window operates on purely commercial terms, in reality the entities running the program tend to receive benefits from their government status that commercial lenders cannot access, such as implicit or explicit government guarantees, tax exemptions and equity capital. Market Windows are not covered by the OECD Arrangement and can, therefore, offer whatever terms they deem necessary. Moreover, while Market Windows explicitly operate to benefit the broad national economy of the provider, in many instances this benefit is an export. Hence, as governmentally supported (but untied) national benefit promoting institutions are neither subject to the constraints placed on official ECAs via the OECD Arrangement nor to the market limitations of a true commercial bank, Market Windows can pose a competitive threat in the export credit world.

While anecdotal information and limited data clearly suggest that Market Window financing has been instrumental in purchase decisions, no hard data regarding the consequences of the support has been provided. This absence of hard empirical data has prevented the collection of detailed information needed to gauge the scope and nature of its use and to evaluate the competitive effects of Market Window financing.

The ECAs that have confirmed that they specifically offer Market Window financing include EDC of Canada, KfW-Ipex Bank of Germany, SACE of Italy and ONDD of Belgium. The volume of MLT activity of these institutions over the past five years has been fairly stable at around $5 billion/year (See Chapter 5B for more details.)

The newest Market Window is offered by Italy. A brief description of its goals and practices (as drawn from its own public documents) illustrates the significant – even though indirect – competitive potential.

Italy/SACE: SACE created its Market Window program in 2008 under the auspices of its "national and strategic interests" focus supporting the "Made for Italy" through the internationalization of Italian companies. Under an expansion of SACE's mandate authorized by the Italian government in 2007, these interests include infrastructure both domestic and internationally, strategic imports of oil and gas among other commodities, economic growth and employment, and strategic industries such as renewables, environment, and technology innovation. In addition, SACE will participate in joint venturing with Italian companies in their investment strategies, including acquisitions. Market window activity is not reported separately, but rather under the "non-export credit activity" which presumably also includes SACE's untied loan support. This figure is noted in the section that follows that focuses on Untied Lending. Also, as noted in Chapter 5.B, total known Market Window activity in 2010 is estimated at around $4 billion.

B. Untied Lending Support (<u>Not</u> Untied Aid)

An untied loan (or guarantee or insurance) is technically a form of credit support that is extended by a government entity to a recipient, for the purpose of providing credit for "strategic" reasons and not linked to or conditioned upon the purchase of goods and services/exports from the "donor" government. Because the credit support is not linked to exports but rather to the strategic interests of the donor country, the support is not considered to be subject to OECD export credit guidelines. Hence, the terms of the support can take whatever form to which the two governments agree. However, based on information gathered thus far, there is certainly the possibility that the unconditional nature of the untied lending may in fact be linked to exports albeit perhaps not explicitly, directly or immediately.

The ECAs that have indicated that they offer untied support include COFACE/France, Euler Hermes/Germany with KfW-Ipex Bank, SACE/Italy, JBIC/Japan, NEXI/Japan, ONDD/Belgium and OeKB/Austria. The five largest providers of untied support are NEXI, SACE, JBIC, COFACE and EulerHermes/Kfw-Ipex Bank. Over the last five years untied activity from these five entities rose from perhaps $3-4 billion/year to over $30 billion, with roughly 90% of the growth from Japan's NEXI.

NEXI can support untied loans in the form of insurance with little to no Japanese content so long as the projects have a strategic interest for the country as determined by NEXI's guardian authority such as acquisition of raw materials or energy supplies. Eligible lenders are Japanese banks or banks that have branches in Japan. Eligible borrowers are foreign governments and companies.

The insurance covers losses suffered by a Japanese company or commercial bank that provided a foreign government or a company with long-term business funds untied to exports from Japan. The insurance also covers losses to Japanese companies and banks that purchased bonds issued by a foreign government or a company for the purpose of long-term financing.

Since 2006, NEXI's support through its untied insurance program has exploded from $1.5 billion to nearly $25 billion in 2009.

NEXI's Japanese counterpart **JBIC** defines untied loans as loans not conditioned upon the procurement of equipment and materials from Japan and are used to finance untied project loans ($1-2 billion/year) for developing natural resources and economic infrastructure, including power, telecommunications and transportation facilities. However, JBIC's Annual Report says: "A project loan may take the form of a 2-step loan which ***supports the promotion of exports*** and the development of supporting industries in a developing country through its official financial institution" (*emphasis added*). (JBIC Annual Report)

The newest member of this fraternity is France's **COFACE.** In the October 8, 2009 decree authorizing the creation of the untied program, COFACE was given a "strategic" objective associated with its untied lending tool: it is focused on establishing relationships with governments to acquire long-term sources of supply of strategic resources such as energy and natural resources. Specifically, strategic interest is defined as:

> "Related to the supply in energy products and raw materials, if scarce on the French territory, in order to meet the needs of companies, households and public entities located in France."

In addition, long-term off-take contracts are required to ensure that most of the production will be delivered to France. Decisions are made by the French Minister of Finance. According to COFACE, the untied lending is not linked in any way to French exports of goods and services.

COFACE's untied loan program is offered in the form of credit insurance. COFACE requirements are that no more than 20% of the goods and services financed can be of French content, and the loans supported have to demonstrate a strategic interest for the French economy.

COFACE notes that the terms of cover are in full compliance with the OECD Arrangement (though they do not have to be) and the amount and types of cover (commercial and political) are the same as COFACE's other credit products.

Summary of Estimated Untied Support Programs

As Illustrated in **Figure 36,** the amount of estimated G-7 MLT support devoted to untied credit programs has grown from an estimated $3-4 billion/year in 2005/6 to approximately $30+ billion in 2009/10. NEXI, with two-thirds of the volume, is the most dominant player.

Figure 36: Total Untied Support Programs 2009-2010 (Billions USD)

ECA	2005/6	2009/10
NEXI	$1.5	$23.0
SACE	NA	$3.0
JBIC	$1.0*	3.0*
EH/PWC	$0.5*	$2.0
COFACE	NA	$1.0
TOTAL	**$3.0**	**$32.0**

*Estimate

C. Investment Finance

Background: The interaction between foreign direct investment (FDI) and trade has been studied to determine what linkages might exist between the two from both the perspective of trade generating FDI and from FDI generating trade. According to an OECD study in 1999:

> "Evidence gathered indicates that FDI stimulates the growth of exports from originating countries and that this investment is complementary to trade. An analysis of 14 countries demonstrated that each $1 of outward FDI produces about $2 worth of additional exports. Conversely, in host countries, short-term foreign investment most often tends to increase imports, whereas an increase in exports appears only in the longer term. However, in the short term, host countries enjoy many benefits from FDI (technology transfers, job creation, local subcontracting, etc." Further, empirical results show that the nature and extent of the relationship (complementary or substitution) can differ from one country to another. (OECD Directorate for Science, Technology and Industry, STI Working Papers 1999/3, "Foreign Direct Investment and International Trade: Complements or Substitutes?," Lionel Fontagne.)

In any event, the relationship between FDI and trade, while not fully understood or conclusive, has clearly become an important mechanism which many countries have employed as a way to achieve a broad and influential global position. It is within this context that official support for FDI provided by ECAs (or other governmental institutions) has become a more critical competitive component to the international landscape.

FDI can also include financing benefits that have traditionally been reserved for export credit agencies. In other words, official support for FDI can often envelop investor country exports but be outside of the traditional export credit financing vehicles. The FDI financing may be competing against standard export credits without the constraints that apply to standard export credits (e.g., OECD Arrangement on Export Credits, or the WTO Agreement on Subsidies and Countervailing Measures [ASCM]). In fact, the model used by the Chinese – a model characterized by FDI support for needed infrastructure (e.g., railroad) or industry with the expectation that the follow-on purchase of the goods and services will be sourced from China – appears to now represent the norm, and not the exception.

FDI and Export Credit: Most of Ex-Im Bank's ECA counterparts operate both an export credit and investment finance program under one roof. In the U.S., these functions are split between the Overseas Private Investment Corporation (OPIC) and Ex-Im Bank. Most importantly, while Exim has a clear commercial mandate (jobs through exports), OPIC's main objective is to facilitate development.

The OECD export credit guidelines do not pertain to investment finance; nor are there OECD or other international guidelines or "constraints" comparable to the OECD Arrangement for official investment finance.

Investment finance can take many forms and can be offered on a wide variety of terms: loans, guarantees and insurance. The guarantees and insurance are aimed at protecting the financial and physical interests of private investors against adverse actions that a foreign government might take with regard to the investors' projects abroad. Typically, the protections offered to the investors cover the risk of loss due to political risks associated with convertibility (of currencies), expropriation, and nationalization ("CEN") as well as war, revolution, and civil unrest. Investment loans are typically extended to provide the project sponsors with *the ability to finance the costs of the projects, including the purchase of goods and services* necessary to complete the project. These *goods and services are often imported into the foreign country* where the project is domiciled. It is at this juncture where the line between investment financing and export financing can become blurred.

Specifically, when exports are supported within an investment financing structure, competitive implications can arise. Whether intentional or not, differences in the terms of financing can create advantages to one party at the expense of another. In any event, patterns in ECA behaviors and activity levels in investment finance give rise to questions about this practice.

The section that follows provides a brief description of some illustrative FDI programs at OECD ECAs. It is important to note that there are no quantifiable data on volumes of activity related to possible export credits (and exports supported) going forward as FDI support.

1. Japan/JBIC: Perhaps the ECA that has shown the most dramatic shift in resource allocation between export credit financing and investment financing is JBIC of Japan. Specifically, in 2000, the share of export credits in JBIC's total operations was around 15% and FDI was 43%, whereas, by 2009, the balance shifted to a much heavier concentration in investment finance: export credits had shrunk to 3% while FDI was 65%.

According to JBIC's Annual Report 2009 (most recent available data), 23% of their investment support was devoted to "maintaining and improving the international competitiveness of Japanese industries, another 16% was attributable to promoting the overseas development and the acquisition of strategically important natural resources to

Japan." The bulk of the commitments were allocated to responding to disruptions in financial order in the international economy.

In this context, although JBIC still generated a large volume of "competitiveness" FDI (roughly $5-7 billion/year), the tripling of JBIC's FDI over the past few years probably does NOT represent a tripling of its competitiveness intent.

2. SACE/Italy: SACE has acknowledged that it is "broadening its scope and developing a business model focused on supporting the international expansion of projects by Italian companies and enhancing Italy's competitiveness." SACE's focus on "internationalization" is the main driver of its business model whereby the objectives of Italian companies, their foreign subsidiaries, and Italian banks are achieved through several product offerings that are, in addition to its export credit programs, involving direct investment and indirect investments:

SACE deploys two primary types of guarantees for investment financing support: Internationalization Guarantee and the Investment Guarantee. The Internationalization Guarantee is specifically designed to support the internationalization process of Italian companies and guarantees a portion of the non-payment risk of loans granted by Italian or foreign banks. The purpose of the guaranteed loan is to comply with specific criteria measuring the effect of the financed investment on the international profile or the export orientation of the company.

The Investment Guarantee Program guarantees loans granted to foreign subsidiaries of Italian banks or to foreign banks as part of the internationalization process of Italian banks. It was introduced to address the Italian banks' need to meet the growing financial requirements and the need to back the activities of their foreign subsidiaries.

In addition, under its untied program, SACE can guarantee bank-to-bank loans. ***"The guarantee, for up to 80% of the loan, is intended to strengthen commercial relations with foreign banks that finance imports from Italy*** *or direct investments by Italian enterprises* in countries where Italian banks are not directly present "(*emphasis added*) (SACE website).

Finally, the International Guarantee for Credit Portfolios covers the credit portfolios held by banks or financial intermediaries "***relating to loans to foreign buyers of Italian exports"*** *(emphasis added) (*SACE website*)*.

3. The Overseas Private Investment Corporation (OPIC) is the U.S. government agency responsible for providing foreign direct investment financing for the primary purpose of supporting development in developing countries. Facilitating U.S. exports is not a primary mandate but OPIC reports the impact of their support on the amount of U.S. exports that occurred as a result of their financing.

Figure 37: Summary of G-7 Investment Support (Billions USD)

ECA/ Organization	2009/2010*
JBIC	$23.4
NEXI	$7.0
SACE	$0.5
EDC	$3.0
ECGD	$0.1
COFACE	$0.1
Euler Hermes	$8.0
OPIC	$10.3
TOTAL	**$52.4**

*estimate

Focusing only on the G-7 ECAs' support for foreign direct investment that has a commercial orientation, the amount that was dedicated toward this kind of official support appears to have grown from about $10 billion (excluding OPIC) five years ago to perhaps $35-$40 billion today. OPIC's non-commercially-oriented $10 billion represents roughly one-fifth of G-7 FDI.

Aggregate Unregulated Financing

As shown in **Figure 38**, best estimates indicate that total "unregulated" MLT international financing by G-7 countries to have grown from perhaps $15-20 billion/year five years ago to approximately $75-$80 billion today. At this level, "unregulated" activity roughly **equals** the volume of standard G-7 activity.

Figure 38: Total G-7 Unregulated Financing (Billions USD)

Program	2005/6	2009/10
Untied	$ 3.5	$30.0
FDI	$10.0	$42.0
Market Window	$ 3.5	$ 5.0
Total	**$16.5**	**$77.0**

Chapter 8: Unregulated and Exceptional Financing

Section C: Non-OECD ECAs and Exceptional Financing Practices

Introduction

In previous Competitiveness Reports over the last 5 years, Ex-Im Bank provided details regarding the growing significance of export credit activities of three emerging market ECAs: China, India and Brazil. Since those reports, Ex-Im Bank has continued to gather information and data regarding the nature, terms, and levels of support being offered by the ECAs in these markets. While most of these non-OECD ECAs' core programs operate within or close to OECD parameters, some of these programs – especially in China – appear to consistently operate with a financial edge over standard OECD financing. However, the real threat posed by several of these ECAs is in the truly different and exceptional programs they operate. This section will highlight what these ECAs do that is exceptional in nature. Unfortunately, the lack of transparency in some areas hinders the ability of the analysis to reasonably quantify size or competitiveness.

[In addition, an Annex follows immediately after this chapter that provides background on each of the non-OECD ECAs. This annex is included in this format because ECAs do not necessarily offer the same set of "standardized" products on the same terms as are offered by the OECD ECAs. While the focus of this section of Chapter 8 is on the non-OECD ECAs, it is specifically aimed at the exceptional nature of their financing practices and not on the entire ECA per se. Indeed, by reading the Annex, one will be more informed about the overall philosophies, nature, and scope of each ECA and the context as to "how and why" they are proceeding down their respective paths.]

It is important to note that none of these government entities, whether they are considered to be official *export* credit institutions or development entities, are institutions in countries that are members of the OECD Arrangement on Export Credits (although Brazil is a signatory to the OECD Aircraft Sector Understanding). Accordingly, with the exception of Brazil in the aircraft sector, none are obliged to follow the OECD guidelines on export credits. Each of these countries and one of their ECAs is a member of the Berne Union, an international association of export credit insurers/guarantors that advocates for commercial principles and practices within the export credit field. While the Berne Union has a set of guidelines, the Union is not a negotiating forum but rather an information sharing organization regarding "best practices." Ex-Im Bank is also a member of the Berne Union. All of these countries, along with the OECD countries, are members of the World Trade Organization (WTO), and have agreed to adhere to the WTO rules prohibiting export subsidies.

A. China[1]

Of the three countries, China and its ECAs have shown the most dramatic increase in terms of activity levels. China has two official ECAs (China Eximbank and Sinosure) and another policy bank (the China Development Bank), all of which participate in slightly different functions and in varying degrees in the export credit, foreign investment, or untied financing realm. However, collectively the net effect is the same: each supports the Chinese Government's "Going Out" policy as a central means to establish long-term "mutually beneficial relationships with other foreign governments.

Moreover, as China is not a member of any part of the OECD, none of China's ECAs are under any obligation to follow the OECD Arrangement on Export Credits, which sets the guidelines for official export credits.

1. China Eximbank is the sole operating bank responsible for providing Government concessional loans and preferential credits. In addition, it offers a stable of medium- and long-term programs to its "standard" export credit support (in the form of loans or guarantees).

The *Concessional Loan* program is described by China Eximbank as "official assistance," meaning that it is comparable to what the OECD refers to as official development assistance (ODA). (ODA flows of official financing to developing countries provided by official agencies are to have a clear development or anti-poverty purpose and are to contain a grant element of at least 25%). Moreover, the China Exim program would appear to fall within the category of "tied aid" because Chinese goods must be purchased with the loan.

The eligibility standards are somewhat ambiguous and non-specific, other than the statement that the "loans are to fund manufacturing projects, infrastructure constructions projects (e.g., electric power, transportation and telecommunications) and social welfare projects in the borrowing country which can generate promising economic returns or good social benefits." (China Eximbank Annual Report 2009) Hence, it appears China Eximbank's concessional loans could support "commercially viable" projects anywhere. OECD Tied Aid rules prohibit tied aid use for commercially viable projects in all but the least developed countries. The terms and conditions of the Chinese concessional loans (such as interest rates and repayment terms) are not publicly available, but terms such as 1-2% interest over 20-30 years have been repeatedly alleged. China Eximbank charges no exposure fees on these loans. In a relatively few (but large) situations, the concessional loans have been used to secure long-term supply contracts of needed raw materials such as copper, oil, and steel – with the tied aid loans often repaid with these natural resources rather than in currency.

[1] Each ECA/institution was given a copy of the Report sections relevant to their ECA with the opportunity to edit for accuracy. China Development Bank did not respond while Sinosure and China Eximbank did respond. China Eximbank made a number of points about the inaccuracy or unreliability of the information but did not provide the correct information that could replace the original data and information. As US Ex-Im Bank noted to China Eximbank, until we are provided with their accurate data, we have to rely on "best available" information.

No figures on the annual volume of such activity are available, but the sum of individual loans reported in the press document an annual volume of several hundred million dollars and suggests an annual volume in the billions of dollars. Such levels of concessional activity would make this single institution one of the largest providers of tied aid in the world (probably at least second to Japan).

China Exim's concessional loan program does not appear to be "exceptional" in its terms or operations. However, its scope (including support for commercially viable projects anywhere) and size make it an **exceptionally** competitive program. In fact, its presence as a competitor almost precludes use of a program such as Ex-Im's Tied Aid Credit Fund because there is no credible chance of follow on sales at commercial terms in any sector or country China Exim has identified as a target for concessional activity.

China Eximbank also offers an *Export Seller Credit* program that is broadly defined as a line of credit and can be extended either in Renminbi or foreign currencies. China Eximbank provides these credits (with the individual lines frequently exceeding $1 billion) to Chinese enterprises for financing their construction projects implemented in foreign countries, which may bring forth the export of Chinese equipment, machinery, building materials, technology, and labor services. These credits typically support the exports of "national champion" companies that are oftentimes State Owned Enterprises (SOEs) as well. The uses of the export seller credit program includes loans for overseas projects, equipment export, ship export, high and new tech products export, mechanical and electronic products, overseas construction contracts, overseas investment projects, and agricultural products. (Similar to the Concessional Loan Program, the terms and conditions for these loans are not made publicly available; however, there have never been any allegations that the terms are concessional.)

This program seems to be the "program of choice" for major industrial policy targets as its annual activity appears to be both large and growing rapidly – it has reportedly grown from $15 billion (+/-) a couple of years ago to over $30 billion (+/-) today.

The size, nature, and purposes of this program make it truly **exceptional** as compared to OECD/G-7 ECAs (Italy seems to have a small-scale operation of similar nature). However, it is very difficult to estimate how much MLT financing flows out of such broad lines of credit and in what time frames. The total of annual approvals of such lines does not translate directly into financial activity hitting the world's markets. The assumptions made about how these lines turn into transaction-specific loans in any year is the single most determinative decision in constructing just how "large" (in terms of annual activity) China Exim is.

Under the *Exporter Buyer Credit* program, China Eximbank funds specific transactions and is fairly transparent about the terms provided. According to published information, the terms are generally consistent with the OECD guidelines: the interest rate charged would be the CIRR or a floating LIBOR based rate; a minimum down payment of 15%; maximum maturity of 15 years from the date of first disbursement until the date of final repayment. In addition, an exposure fee along with management and commitment fees are also required.

This program is perhaps the most similar of all China Exim programs to the type of transaction-specific long-term support made available by the OECD/G-7 ECAs. Annual activity has appeared to be running at a fairly steady $3-5 billion a year recently.

It is important to note here that while the terms provided under China Eximbank's standard program may be generally consistent with the OECD standard export credit guidelines, in most instances, China Exim's terms turn out to be just a noticeably bit better. For example, repayment terms may be for 12 years where the OECD maximum is 10 years; exposure fees are regularly at levels 50% below OECD minimum fees. These terms do not imply a subsidy; they are arguably "market based" and WTO compliant. This "market-based, but better than Arrangement" structure (but not concessional) is so persistent that it has been given its own name – such structures are deemed "Arrangement-Light" transactions due to the fact that these transactions are commercial in nature and with no concessionality.

In this area, Ex-Im Bank has recent experience in a competitive transaction involving China Eximbank. Historically, the Bank and U.S. exporters passed on matching such transactions, but as China has become a player in nearly every market and sector, the U.S. government has looked for ways in which to keep U.S. exporters from losing market share to such financing packages that fall outside of the OECD rules, with the intention of effectively neutralizing Chinese offers.

Hence, in 2010, Ex-Im Bank set a precedent within the OECD ECA community by precisely matching a Chinese Arrangement-Light offer for a rail transaction in Pakistan. In this transaction the Bank had precise information on the terms of the Chinese offer, confirmation that financing was a/the critical factor in bid award, and had determined that exact matching of the China Exim terms would still provide a transaction-specific financial surplus. Furthermore, this transaction was in a strategic sector for the United States and many U.S. jobs were dependent on this transaction. After being presented to the OECD to ensure full transparency of the U.S. government's intention to match the Chinese offer, Ex-Im Bank issued a commitment to match. As of the end of 2010, the Pakistani government had not yet made a determination on the bid. Regardless of the outcome, however, Ex-Im Bank actions were aimed at ensuring that the bid award was decided based on market factors such as price and quality.

Finally, China Exim has the *Guarantee* program – which appears to be something similar to Exim's MLT guarantee program. That is, it does a pretty steady $7-10 billion a year over several hundred transactions on terms very compatible with Arrangement guidelines for "medium to long-term" deals.

In sum, China Exim has a very broad array of MLT export credit programs running the gamut from transaction-specific loans and guarantees very similar to G-7 programs (but on slightly better terms) to sizeable lines of credit to exporters that are very dissimilar to G-7 programs and ending with a large scale concessional program that is driven by commercial considerations. The lines of credit to exporters are a truly exceptional program that no G-7 ECA has the capacity to match and the concessional program is difficult to effectively match in a long-run context.

If one only counts the transaction-specific programs, China Exim appears to be a $10-15 billion institution for MLT non-concessional activity – comparable to Exim. However, if even only a third of its exporter credit programs yield specific MLT financing transactions each year, China Exim turns into a $20-25 billion a year entity – comparable to the largest G-7 ECA.

2. **Sinosure** is the official export credit insurer of China and offers programs covering the entire spectrum: short-term, medium- and long-term export credit insurance as well as foreign investment insurance. Sinosure is a member of the Berne Union, an international association of export credit insurers/guarantors with both government and private sector members operating in the short term, and FDI, while only governments are members of the medium- and long-term group of the organization. The Berne Union has operating principles and guidelines, but they are less rule-like when compared with the OECD; however, members are expected to be transparent and follow the guidelines (some of which were created in the Berne Union and then picked up by the OECD, such as repayment terms).

Traditionally, Sinosure's portfolio has been dominated by short-term export credit insurance, whereas medium- and long-term export credit insurance and FDI insurance have played a much smaller role. However, it is not unusual that Sinosure will insure transactions funded by China Eximbank in the MLT (but that is not a requirement). Sinosure typically operates in conjunction with private lenders, which Sinosure insures against the risk of default, just like Ex-Im Bank's credit insurance functions and in the same type of structure.

Little public information is available on specific Sinosure transactions, but they are occasionally reported in the press. A recent report indicated that Sinosure will be supporting Huawei, a major Chinese telecommunications and systems manufacturer that is considered one of the premier Chinese "national champions," in its recently awarded contract with Telkom of South Africa worth $127 million

In addition, Sinosure also offers support directly to Chinese companies through lines of credit. For example, the insurer signed Strategic Cooperative Agreements with both Huawei and ZTE (the latter which is a State Owned Enterprise [SOE] and another Chinese telecom/technology company; amounts not disclosed). By signing strategic cooperation agreements, Sinosure will provide short-term export credit insurance, medium- and long-term export credit insurance, overseas investment insurance and other insurance products; support their capital, technology, service and goods export; assist them to expand import and export businesses; and offer a full range of services in credit management, guarantee, and financing facilities for the two corporations.

Sinosure had also strengthened its support for other key industries. For example, the photovoltaic (PV) industry is regarded as the national sunrise industry supported by the state. Sinosure has conducted in-depth analysis on risk of states, industries, and buyers, to provide solutions for corporations to participate in international competitions and compete for orders. From January to July 2009, Sinosure had underwritten exports of $1.25 billion for the Chinese PV industry, 6.2 times as much as that in 2008. For the first half of 2009, the penetration rate of the export credit insurance for China PV industry had reached up to 46.3%. One such photovoltaic manufacturer, LDK Solar, recently signed an agreement with Sinosure to support the company's expansion overseas through exports and investment. However, the specific terms of the agreement were not disclosed.

Sinosure also provides investment insurance, and its volume has roughly doubled over the last few years to approximately $12 billion in 2010. There is nothing particularly exceptional about Sinosure's MLT insurance programs (which are running at $10-15 billion a year, with some overlap with China Eximbank activity). However, the lines of credit to exporters are – like those of China Exim – out of the G-7 league; moreover, the special industry support is probably unmatched/unmatchable within the G-7.

3. China Development Bank

By the end of 2010, CDB held $141 billion in outstanding foreign currency loans, 80% of which were issued to support Chinese enterprises seeking or having a global presence. Best estimates indicate that CDB offered $100 billion in foreign loans in 2009 and $80 billion in 2008.[2]

Unfortunately, CDB does not publish these data. There are, however, reports about CDB employing strategic practices similar to China Exim that support key industries and specific companies within these select industries. Significant projects in which CDB expanded its international cooperation endeavors included a large credit agreement between China and Venezuela which will support the overseas expansion of PetroChina, Sinopec, CITIC Pacific, and Xi'an Electric Engineering Co. In late 2010, CDB also entered into a $10 billion strategic cooperation agreement with Xinjiang TBEA, a major equipment manufacturer in China, to assist in its international expansion and to "sharpen its internationally competitive edges of China's equipment manufacturing industry."

Other examples of CDB's growing activity in the global markets includes its relationship with Brazil where, since 1997, CDB committed to lend Brazil $13 billion (as part of CDB's formal Economic and Trade Cooperation Agreement between China and Portuguese speaking countries). More recently CDB entered into a $10 billion loan agreement with Petrobras, financed the Gasene pipeline project, and supported the Candiota thermal power plant, all which resulted in CDB being the largest Chinese financial partner of Brazil. A final example involves CDB's $15 billion commitment to ZTE for a credit line to assist ZTE in its overseas project financings and to help ZTE in further strengthening and upgrading its position in the global telecom industry. (However, the terms of the credit line were not disclosed.)

Further, reports indicate that in 2009 and 2010 combined, CDB and China Eximbank together supported loans of at least $110 billion – more than the World Bank's commitments of $100 billion during the period between 2008 and 2010. According to the Financial Times, "CDB and China Eximbank provide more preferential terms than the World Bank and other lenders for certain deals that are strongly supported by

[2] Geoff Dyer, Jamil Anderlini, and Henny Sender. "China's lending hits new heights." *Financial Times* 17 Jan. 2011: Web.

Beijing, but offer terms that are closer to international standards for less politically sensitive deals. They also tend to impose less onerous transparency conditions."[3]

China Development Bank seems to be an **exceptional** institution within the context of, and compared to, OECD/G-7 MLT export credit.

In sum, China seems to have a team of financial institutions doing vast amounts of short-term and medium- and long-term export finance (including massive amounts directly to exporters and multi-billion-dollar concessional activity). In aggregate, the institutions' activity could well total over $100 billion a year in both short-term and MLT business. From the top down, the size, scope, and focus of this team is simply incomparable to anything within the OECD/G-7.

Looking at MLT on a case-specific basis, the Chinese world looks much more comparable. China Exim and Sinosure appear to do perhaps $20-25 billion a year in transaction-specific business generally comparable to what OECD/G-7 ECAs do. From this perspective, the Chinese ECA aggregate is probably the largest ECA in the world's MLT market (but not by much). However, when the exporter, buyer, and country lines of credit from China Exim and China Development Bank are brought into the picture (at perhaps $50-100 billion a year), it is very hard to gauge the comparability or competitiveness. With lines of credit coming from the very top down, there are untold transactions that probably never show up on G-7 exporter radar screens; there are no lost sales or smoking guns. But then, how does one measure what one cannot see?

Simply translating the steadily building stock of these lines into annual MLT transaction levels at $20-30 billion a year makes the Chinese export credit team a $40-50 billion-a-year behemoth that is regularly competing with OECD/G-7 exporters in third markets.

B. Brazil

Brazil has two ECAs: SBCE and BNDES. SBCE is partly owned by the government (BNDES and Banco do Brasil) which holds 24.18%, with COFACE (of France) owning the remaining balance with 75.82%. SBCE is an export credit insurance agency and acts on behalf of the Brazilian government, and as such, is able to offer support in the form of short-term support to SMEs and also medium- and long-term export credit risk cover on the basis of the Brazilian Treasury Export Guarantee Fund (FGE). SBCE is a member of the Berne Union, and Brazil is a full participant in the OECD Aircraft Sector Understanding (ASU) counting on the expertise of SBCE as a legitimate agent of the Brazilian government. SBCE appears to comply with OECD Arrangement rules since it started the business in 1997 with none of its programs or activities suggesting any exceptional behavior. Further to the export credit insurance provided to the Brazilian official banks (BNDES and Banco do Brasil, which plays the role of a commercial bank as well) late in 2010, the Brazilian government issued the first pure export credit cover policy to a private lender, under the ASU provisions and related to a transaction structured by SBCE, on behalf of the Brazilian government, in co-ordination with a commercial bank.

[3] Dyer, Anderlini, and Sender.

BNDES is the government-owned official development bank for Brazil. Its primary focus has and continues to be on supporting investment and development within Brazil. However, since 1990, it has also been a direct, medium- and long- term export credit lender supporting Brazilian exporters. In this regard, BNDESs' goal is to support the development of a dynamic export sector which operates as a powerful instrument for Brazilian companies to increase productivity and improve the quality of their goods and services. BNDES is setting up a national export import bank, Agencia Credito a Exportacao do Brasil (BREXIM) that is expected to become operational in 2011. As a subsidiary of BNDES, BREXIM will have access to BNDES' existing foreign trade division and operations portfolio of around $13 billion in operations and $20 billion in prospective projects.

Like SBCE, BNDES programs appear to be within the guidelines of the OECD even though they are not required to be with the exception of aircraft. Recent MLT activity (i.e. 2010) was around $18 billion.

Though BNDES does operate a type of exporter line of credit program (like China Exim and China Development Bank), it is not perceived to be of the scale and intention to have the exceptional impact as in China.

C. India

India has two export credit agencies: the **Export Import Bank of India** (India Eximbank), which provides loans and guarantees, and the **Export Credit Guarantee Corporation of India (ECGC)**, which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions) while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. The Indian team appears to generate about $10 billion a year in MLT activity recently.

A noteworthy development during the financial crisis was the creation of the National Export Insurance Account (NEIA) and Trust operated by ECGC to provide adequate credit insurance cover to protect medium- and long-term exporters against political and commercial risks. Within this framework, ECGC evaluates proposals against the standards provided by a Cabinet level committee with the committee making the decisions. Approved transactions are underwritten within the NEIA account with premiums received and credited to and claims paid from the NEIA Trust. For projects to be eligible for NEIA the project must be commercially viable; it must be strategically important to India; there needs to be a well-founded expectation of reliable exporter performance and, finally, ECGC – because of its own underwriting constraints – is not able to cover the project. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions are unavailable.

Aside from the NEIA noted above, neither ECGC nor India Eximbank appear to offer exceptional financing programs.

Chapter 8: Unregulated and Exceptional Financing
Section D: Competitive Implications

What seems to have evolved is a "race to the top" among both the OECD and non-OECD ECAs. China, and to some extent, Brazil and India have emerged with all their resources chasing strategic goals. In response, many of the OECD ECAs have modified their business models and responded by setting up strategic financing programs outside of the OECD parameters by either expanding or creating new products that will take them to another "universe."

Moreover, the nature of the competition has moved from the transaction to the country or product market (e.g., renewables) – a more industrial policy-like approach, with the nature of the tools having become a mix of non-standard, unregulated and exceptional. However, ECAs that are more transaction-oriented and focused, and operate more reactively (as Ex-Im Bank) appear at a decided disadvantage in any attempt to help its exporters achieve a level playing field – the deal gets done before it ever gets to the competitive bid stage and the U.S. company never gets to see it. Hence, the main impact of these new tools and entities is to render the concepts of a "lender of last resort" and "level playing field" as less relevant.

Chapter 8: Unregulated and Exceptional Financing
Annex: Non-OECD ECAs

BACKGROUND

The purpose of this Annex is to provide a more detailed understanding of the objectives, goals, programs, and approaches that the primary non-OECD ECAs from China, Brazil and India have adopted on behalf, and in support, of their governments' respective global economic and growth strategies. The primary focus is with regard to export credits and other forms of financing and how they fit into their individual strategic frameworks.

CHINA

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.

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 12th 5 Year Plan announced in 2011, the theme is "scientific development and peaceful development" which freely translated connotes an acknowledgement of the need to upgrade their growth model and focus on the development of higher quality, new technologies and home-grown national champions accompanied by domestic consumption by an ever larger and growing middle class and through investment and exports.

Included in this plan is the strengthening of social programs and improving living standards through good education, decent incomes, quality health care, pensions and suitable housing. Finally, peaceful development will be characterized by a more open international cooperation and becoming a more active player in global economic governance and regional cooperation, including the environment.

Accordingly, the current strategy is to raise the standard of living for all Chinese who will contribute to the economic vitality through innovation, domestic consumption and responsible and responsive global participation in all forms.

Organization of "Export China"

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 State Council 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.

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 was 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.

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, or 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.

In 2005, CXM reported a commitment level of roughly $15 billion for its medium- and long-term export credit business, and for 2009, an estimated $48 billion (which is on the conservative side because it does not include data on CXM's preferential or concessional lending programs). Based on these figures, CXM is either closely tied with or slightly ahead of JBIC as the largest ECAs. Moreover, it intends to keep growing at a rapid clip, with a goal of supporting a larger share of Chinese exports.

CXM currently offers five primary products: (1) export credit (buyer and supplier), (2) concessional and preferential loans to other governments, and (3) guarantees, (4) pre-shipment loans and (5) import loans (as of 2007). [1]

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 (USD) 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 to 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 and preferential loan programs, CXM provides only an outline of information and does not publish either the overall amount of preferential loans it had made during recent years, nor does it provide the specific terms and conditions (e.g., interest rate, repayment term tenor) that are offered. According to its 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). Previous discussions with CXM officials revealed that these loans typically are at interest rates in the 2-4% range (RMB) and repayment terms generally ranging from 10 years 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 owned companies in certain key sectors: ship building, telecom, power, and high technology.

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[1] CXM also offers an on-lending program to domestic projects with foreign government loan funds and foreign direct investment financing. By 2007, CXM began offering import credits to support the development of certain industry sectors of strategic importance.

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.

Since CXM's formation, it has been offering of lines of credit and/or loan commitments on behalf of several of the large companies, most of which are SOEs (State Owned Enterprises) 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.) Specific SOEs that have been the recipient of these credits include Huawei, ZTE, CNOOC, Sinopec, China Engineering and Construction, and Shanghai Electric.

Sinosure

Sinosure, 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, Sinosure does not develop policy; rather, it implements policy. Sinosure was created in 2001 when PICC, the then-export credit agency that included China Eximbank, was dissolved and China Eximbank and Sinosure were formed as separate entities reporting to different authorities. Sinosure'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 Sinosure as well. Sinosure states that it operates on commercial terms and abides by the guidelines of the Berne Union[2] and the OECD (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 (MoF) approval. Moreover, the MoF also plays a more hands-on role in the medium- and long-term area, often participating in transaction decisions

[2] The Berne Union is an international membership organization comprised of 52 public and private sector export credit insurance providers 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.

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 38: Sinosure Activity 2008-2010 (Billions USD)

	2008	2009	2010
Short term	$36	$84	$155
MLT	$5	$15	$10
Overseas Investment Insurance	$5	NA	$12
TOTAL	**$46**	**$99**	**$177**

As shown in **Figure 38** Sinosure's book of business has grown dramatically and can be attributed to mainly the short-term business whereas MLT activity levels have stabilized around $12 billion on average. The United States, Hong Kong, Germany, Korea and Japan represented the top country exposures in 2008 and 2009 with the light industrial sector and machinery and electronics representing over 90% of the short-term business.

The MLT portfolio has traditionally had a different risk profile with a heavy concentration in Africa (e.g., Sudan, Angola, and Nigeria), Cuba, Iran, Philippines, and Pakistan.

In its capacity as a credit insurer, Sinosure 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**.** Sinosure has also entered into a number of cooperative financing agreements with other ECAs with the most recent being EDC/Canada, ECGD/UK, COFACE/France, KSure/Korea, NEXI/Japan in addition to Euler Hermes/Germany, SACE/Italy, and MIGA/World Bank).

According to Sinosure, it cooperates with China Eximbank and, more recently, with China Development Bank. Sinosure does provide insurance for transactions funded by China Eximbank with an estimated 25 – 35% of Sinosure's MLT activity is risk cover for transactions originated and funded by China Eximbank. Sinosure 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 Sinosure's current portfolio has a large concentration of 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 the state-owned ZTE); Sinopec (petroleum); forestry (mainly in Russia); and hydropower.

Sinosure's medium- and long-term export credit product is in the form of export credit insurance in which Sinosure assumes the risk of non-payment by the foreign buyer due to either/or both commercial and political events. Sinosure charges an exposure fee, but their fee system and details regarding the levels of fees are not published. Sinosure 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), Sinosure's terms and conditions for its product appear to be:

- 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 transactions in which their financing has not exactly matched the Berne Union Guidelines. However, absent more reliable information, the specific transactions cannot be cited as examples of not matching the Berne Union Guidelines.

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 has been 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 (1) in rural development in the western and northeastern regions of China, (2) all areas around the Yangtze River where efforts are being made to revitalize old industrial bases, and (3) 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.

In 2002 and under the leadership of Chen Yuan, who has been credited with creating the CDB "blue ocean" strategy, which is the creation of new market space at home and abroad[3], CDB 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."

Since then, CDB has been expanding its international portfolio, further spurred on by what one CDB official described as that CDB should continue supporting government projects and policies with the international expansion of Chinese

[3] Rui Chenggang(Chen Yuan: Recommending Chinese enterprises make acquisitions in overseas areas with resources and energy"), Economic Observer, July 17, 2009, as reposted at http://finance.ifeng.com/news/hgjj/20090717/956257.shtml#.

firms ranking as one of CDB's most important tasks.[4]

To this end, 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. 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.

In terms of volumes of CDB's business activities, minimal data are reported. CDB's foreign currency loans outstanding in 2005 were $16.5 billion and by year end 2006, the amount had grown to $141 billion. By 2008, it was reported that CDB became the Chinese bank with the largest portfolio of foreign currency denominated loans.

While domestic lending still clearly dominates CDB's activities if measured by annual amounts approved, foreign lending has grown from 10% of total loans to approximately 20% by 2009 with roughly $100 billion approved for foreign lending (out of a total of $540 billion).

INDIA

India has two export credit agencies: the Export Import Bank of India (India Eximbank), which provides loans and guarantees, and the Export Credit Guarantee Corporation of India (ECGC), which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions), while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions is unavailable.

Historically dissimilar roots also separate India Eximbank and ECGC. At its inception in 1957, ECGC's main function was to provide official export credit insurance. However, at that time India's trade policies focused on import finance rather than export finance. By the early 1980's, India realized that its import substitution policies were discouraging exports. As a result, trade policy shifted from import finance to export finance, and

[4] Jamil Anderlini, "CDB turns away from the path of reform," *Financial Times*, November 2, 2009

India Eximbank was established to implement India's export policy. India Eximbank became the central export funding institution while ECGC continued in its role as official export credit insurer.

Export-Import Bank of India

Established by an Act of the Indian Parliament in 1981, India Eximbank is India's principal provider of trade finance and export promotion. Its goal is to finance, facilitate and promote India's international trade and investment. Although India Eximbank is a public sector institution, approximately 80% of its total resources are funded through the market on its own authority.

India Eximbank provides several products aimed at the pre-export production process as well as performance bonds and guarantees. In addition, India Eximbank offers post-shipment direct loans and lines of credit. India Eximbank's target markets are Africa, Latin America and China.

Data for 2009/2010 for total India Eximbank lending activity (as presented by India Eximbank) that includes all lending and guarantee programs shows MLT support of approximately $4 bn. FDI support is estimated at $226 million.

India Eximbank finances a wide range of sectors, including turnkey projects such as hydroelectric facilities, infrastructure (roads, utilities), telecommunications, engineering services, information technology services, financial services, hospitality services, auto components, consumer goods, gems and jewelry, etc. (31%).

India Eximbank will finance up to 90% of the contract value of the exports it supports. Eligible products are classified into two product groups. Group A includes capital equipment and may receive credit terms ranging from three to 11 years, although 3-5 year terms are most common. Group B is comprised of consumer durables and industrial items usually exported on a cash basis, with maximum credit terms of two years. When providing rupee loans, India Eximbank sets a fixed market-based interest rate, while it will provide foreign currency loans on a floating rate basis with a spread over LIBOR.

Export Credit Guarantee Corporation of India (ECGC)

Founded in 1957, ECGC operates under the administrative control of the Ministry of Commerce and Industry, but like India Eximbank, it raises funds in the market. Its mission is "to support and strengthen the export promotion drive in India." Of note, the Ministry of Commerce and Industry is also the oversight body for concessionary financing.

To accomplish this broad mandate, ECGC offers a range of credit risk insurance products to exporters and financial institutions. Insurance cover is available for short, medium, and long terms. ECGC also provides pre-shipment support, guarantees for commercial bank loans, and exchange rate fluctuation cover on a risk shared basis with the exporter for both pre- and post-shipment financing. In addition, ECGC provides foreign direct investment insurance. Banks financing exports, including India Eximbank, are eligible for ECGC cover. ECGC insurance covers approximately 11% of India's exports. ECGC is the only official trade insurance agency but may share coverage with private insurance companies for short-term insurance.

Of ECGC activity in 2009, medium- and long-term insurance totaled approximately $1 billion.

ECGC coverage spans an array of sectors, including engineering (14%), chemicals (12%), leather (9%), textiles (7%) and "other categories" (40%). The remaining 18% includes sectors such as gems and jewelry, tea and handicrafts.

ECGC will provide 90% cover on insurance policies for commercial and political risks. The remaining 10% is borne by the exporter. ECGC reserves the right to offer a lower percentage of cover in certain cases. Premia vary depending on the payment terms, country risk classification, and type of risk covered (commercial, political, or a combination of the two). Based on the information available, ECGC will generally issue coverage for up to a one-year term, but terms may be extended for longer-term transactions.

BRAZIL

Brazil has two ECAs: SBCE and BNDES.

Seguradora Brasileira de Crédito à Exportação (SBCE)

SBCE is partly owned by the government (BNDES and Banco do Brasil) which holds 24.18%, with COFACE (of France) owning the remaining balance with 75.82%. SBCE is an export credit insurance agency and acts on behalf of the Brazilian government, and as such, is able to offer support in the form of short (SME) and also medium- and long-term export credit risk cover on the basis of the Brazilian Treasury Export Guarantee Fund (FGE).

SBCE is a member of the Berne Union and Brazil is a full participant in the OECD Aircraft Sector Understanding counting on the expertise of SBCE as a legitimate agent of the Brazilian government. SBCE appears to comply with OECD Arrangement rules since it started the business in 1997 with none of its programs or activities suggesting any exceptional behavior. Further to the export credit insurance provided to the Brazilian official banks (BNDES and Banco do Brasil which plays the role of a commercial bank as well) late in 2010, the Brazilian government issued the first pure export credit cover policy to a private lender under the Sector Understanding on Export Credits for Civil Aircraft (ASU) provisions and related to a transaction structured by SBCE, on behalf of the Brazilian government, in co-ordination with a commercial bank.

SBCE works very closely with BNDES to provide official export credit support for Brazil's exports. BNDES, the state development bank, provides funding for transactions, while SBCE will provide credit risk insurance for the transaction, so rather than competing with one another they provide complementary roles in financing Brazilian exports. Approximately 98% of SBCE's medium- and long-term export credit insurance is provided to transactions where BNDES is the lender, with the remaining 2% insuring Banco do Brasil loans. In addition, BNDES holds half of the Brazilian government's shares in SBCE. The two agencies also collaborate in the management of the FGE, with SBCE responsible for risk monitoring and portfolio analysis and BNDES responsible for accounting.

SBCE indicates that it generally complies with Arrangement rules, with the exception of regional aircraft transactions where Canada's market window, EDC, is its biggest competitor. SBCE's reported total MLT export credit support for 2010 is $18 billion.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

BNDES was created in 1952 to be the main source of long-term financing for the Brazilian domestic economy. Similar to Germany's KfW, BNDES serves many domestic development functions in addition to providing export finance, including social programs, infrastructure support and the development of small and medium-sized enterprises (SMEs). BNDES' total disbursements have ranged from $11 billion to $18 billion from 1997 to 2004.

BNDES began its export finance program in 1991. The program has four key objectives:

1. Offer financing for the export of goods and services of "greater added value" under internationally competitive conditions;
2. Increase Brazil's export base, with an emphasis on SMEs;
3. Generate foreign currency, income and employment; and
4. Promote the integration of South America (an overarching Brazilian government goal).

Because Brazil's domestic banks have been unable to provide long-term financing for Brazilian exporters, and because foreign banks have been unwilling to finance Brazilian exports without a Brazilian government guarantee, BNDES operates as the country's primary provider of medium- and long-term export finance. Thus, the "internationally competitive conditions" articulated in the first objective above mean that BNDES will both meet official export credit competition on OECD Arrangement terms and private finance on market terms (i.e., market window financing). Rather than operating as a lender of last resort, BNDES is Brazil's trade finance lender of only resort.

BNDES provides direct loans for both short-term pre-shipment (working capital) and medium- and long-term post-shipment transactions. Its post-shipment support includes both suppliers' and buyers' credits. In 2009, BNDESs' reported disbursements for exports rose 26% to $8.3 billion (vs. authorized which is not reported). Capital goods supported included aircraft, industrial and farming machinery, power generation and transmission equipment, telecommunications, and vehicles. Engineering and construction services also accounted for an important portion.

Latin America and Africa represent the largest regional concentrations for BNDES. For example, in 2008/2009, BNDES signed an MOU with Angola for a credit line of $1.75 billion that will support Brazilian exports of goods and services that have been identified as priority projects by the Angolan Government mainly for public works infrastructure projects. In 2009, $766 million had been disbursed

BNDES uses LIBOR as the base rate for its loans. It charges a 2% spread for its risk, and the guaranteeing bank will charge an additional spread. Additional commitment fees or other charges may also be added. BNDES generally tries to reference the Arrangement, although it will provide more flexible terms when necessary. BNDES will typically not offer more than 12-year repayment terms, and its average repayment term is eight years. However, it has provided up to 20-year repayment terms, including for exports to China's Three Gorges Dam. It will also provide 15-year terms for aircraft transactions. BNDES will finance 100% of an export transaction, rather than the OECD's required 85% maximum, although BNDES will not provide local costs support. When BNDES loans receive SBCE cover on behalf of the Brazilian government, SBCE will charge a premium in compliance with the Arrangement.

Appendix A: Calculation of Ex-Im Bank Grade

This report presents "grades" that the U.S. export community assigned to Ex-Im Bank's policies and programs. In the sections of the report pertaining to the core financing programs and practices, grades based upon survey responses coupled with focus group responses and Ex-Im Bank's analyses were assigned to each program and practice. In order to aggregate and average these grades for the determination of the overall competitiveness grade in Chapter 7, values were assigned to each grade that are comparable to those used in a typical U.S. university. First, **Figure A1** provides the meaning and score of select grades. Averaged sub-category grades determined a category's grade, and **Figure A2** illustrates the range of possible averaged scores that defined each grade. If a survey respondent did not have experience with a program or policy (that is, response was 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
C-/D+	Level of competitiveness is in between grades C and D.	1.5
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	1.86
C-	1.86	1.50
D	1.49	0.50
F	0.49	0

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

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

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

Appendix B: Purpose of Ex-Im Bank Transactions

Congress requires Ex-Im Bank to include in the annual Competitiveness Report a breakdown of the purposes for Ex-Im Bank support for transactions. In that regard, the two purposes of Ex-Im Bank support for transactions are to either fill the financing gap when private sector financing is not available or to meet foreign competition. **Figure B1** breaks down the number and amount of Ex-Im Bank transactions authorized in 2010 by purpose and program type.

Figure B1: Ex-Im Bank Transactions by Purpose and Program, 2010

	No Private Sector Finance Available		Meet Competition		Not Identified	
	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working capital Guarantees	$1,503	369	$0	0	$0	0
Short-term Insurance	$5,846	2,786	$0	0	$0	0
Medium-term Insurance	$101	59	$205	88	$0	0
Medium- & Long-Term Guarantees	$3,409	90	$6,786	65	$0	0
Loans	$1,677	12	$1,961	5	$0	0
TOTAL	**$12,535**	**3,316**	**$8,952**	**158**	**$0**	**0**

Appendix C: Exporter and Lender Survey Background

Introduction

As part of Ex-Im Bank's statutory requirement to report annually on the Bank's competitiveness with its G-7 ECA counterparts, Ex-Im Bank is also required to conduct a survey of exporters and lenders that used the Bank's medium- and long-term programs in the prior calendar year. This Congressionally-mandated survey provides critical information for the Report, as it encourages respondents to compare Ex-Im Bank's policies and practices with those of its G-7 ECA counterparts during the calendar year. Ex-Im Bank continued its approach of administering the survey on-line, which allowed the survey to reach a larger number of potential participants. In addition to the formal on-line survey, and as a way to accommodate respondent preferences with respect to survey format, Ex-Im Bank provided exporters and lenders with a newly-introduced, electronic "fillable format" document they could return either by facsimile or as an email attachment. As a means of supplementing the survey results, Ex-Im Bank conducted focus group discussions with experienced users (exporters and lenders) of Ex-Im Bank programs to obtain more detailed comments about the global market in which they operated in 2010 and the competitive implications for Ex-Im Bank.

Survey Questions

Ex-Im Bank's survey consisted of five parts that focused on the following areas:

Part 1: General information on the profile of the respondent.

Part 2: Respondent's experience in both receiving support from and facing competition from other ECAs, in addition to reasons for using Ex-Im Bank.

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

Part 4: Additional comments.

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

Participant Selection

The survey was sent to lenders and exporters that directly used Ex-Im Bank's medium- and long-term programs during CY2010. All lenders meeting those criteria received survey invitations. Exporter survey recipients included exporters with two or more Ex-Im transactions of any value, or a single Ex-Im Bank transaction of $10 million or greater. These criteria were applied to target exporters that would most likely be aware of foreign ECA competition and Ex-Im Bank's programs. In total, 85 lenders and exporters were asked to participate in the survey. Additionally, in an effort to increase the number of exporters being surveyed, Ex-Im Bank included certain exporters that were substantially involved as suppliers to project finance transactions.

Note that initially surveys were sent to 102 exporters. Of those, 53 exporters were strictly suppliers to Ex-Im project finance transactions. Most of those project finance suppliers who attempted to respond to the survey were usually unable to provide responses to the survey questions as those entities were not involved in the contract bid or financing arrangements with the buyer. As such, many of those respondents explained that they had not information or knowledge of the competitive factors surrounding their sale. Accordingly, those responses were excluded from the overall results.

Survey Results

Figure C1 highlights the response rate for the survey participants. Overall, the response rate for the survey was 52%. The response rate for lenders was higher than for exporters, with 67% of lenders responding and 41% of exporters responding. The response rate and overall number of responses increased significantly compared to last year's 32 survey responses and 32% overall response rate. Last year's lender and exporter response rates were 50% and 21%, respectively. Please note that the 2009 survey results are included below to allow for a concrete comparison with the 2010 results.

Figure C1: Survey Response Rate, 2010

	Lenders	Exporters	Total
Number surveyed	39	49	88
Number responded	26	20	46
Response rate (%)	67%	41%	52%

Figure C1(bis): Survey Response Rate, 2009

	Lenders	Exporters	Total
Number surveyed	38	62	100
Number responded	19	13	32
Response rate (%)	50%	21%	32%

Lenders

Figure C2 shows the lender experience levels for both length of time in business and experience in export finance. A majority of lenders (65%) have been in business for over 21 years or more while the remainder (35%) has been in business from 4 to 20 years. Years of experience in export finance showed that 19% were relatively new to the business (5 had 1 to 10 years), while the large majority (81%) had over 11-plus years of experience in export finance.

Figure C2: Lender Experience Levels, 2010

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	3	6	17
Time in export finance	1	4	7	14

Figure C3 shows the volume of export credits extended during 2010. Of the 16 lenders who indicated these values, around one-third (37%) reported having extended $50 million or less during 2010, while the remaining 63% offered more than $50 million. These data suggest that the more active lenders participating in Ex-Im Bank medium- and long-term programs were focused more on larger (in value) export transactions.

Figure C3: Volume of Lenders' Annual Export Credits, 2010

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Number of Lenders	5	1	3	3	0	4

Figure C4 shows the percentage of lenders' export credits extended during 2010 that were supported by Ex-Im Bank. Seventeen of the 26 lenders indicated the percentage of lender export credits that were Ex-Im Bank supported in 2010. Of these, 47% of the lenders noted that 75% of their export credits had Ex-Im Bank support, while 24% reported that less than 10% of their export credit portfolio had been supported by Ex-Im Bank. The remaining 29% fell between 10% and 75%.

Figure C4: Percentage of Lender Export Credits That Were Ex-Im Bank Supported, 2010

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Number of lender's whose export credits were supported by Ex-Im Bank	4	2	1	2	8

Additionally, out of all 26 lenders, 22 noted that the lack of useful private sector financing was regularly the reason for pursuing Ex-Im Bank financing and that this need was worldwide. Sixteen of the 26 lenders stated that Ex-Im Bank support was regularly needed to meet competition from foreign companies receiving ECA financing, with Euler-Hermes/Germany, SACE/Italy, COFACE/France, EDC/Canada, and China Ex-Im/China cited as the most frequent ECAs with whom they had competed. Other ECAs cited on a slightly less frequent basis were NEXI/Japan and ECGD/UK.

Exporters

Figure C5 shows the distribution of exporters by time in business. All exporter respondents were long-standing, large companies. All exporters had been in business for 21 years or more, and of these, 80% had been exporting for 21 years or more.

Figure C5: Exporter Experience Levels, 2010

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	0	0	20
Time in exporting	0	0	4	16

Figure C6 shows the size of exporters based on sales and export sales volume. Eleven of the 16 exporters who reported sales figures showed 2010 sales volumes of $1 billion or greater. Eight exporters with sales of over $1 billion also reported the same volume of export sales.

Figure C6: Volume of Exporter Annual Sales and Exports, 2010

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Total sales volume	1	2	2	0	0	11
Total export sales volume	2	2	0	4	0	8

Figure C7 shows the distribution of exporters by the percentage of export sales that were supported by Ex-Im Bank. Of the 16 companies who responded to this question, 11 showed that Ex-Im Bank support comprised less than 10% of their export sales while the remaining 5 indicated that Ex-Im Bank supported from 10% to up to 50% of their sales.

Figure C7: Percentage of Exporters' Sales That Were Ex-Im Bank Supported, 2010

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export sales supported by Ex-Im Bank	11	3	2	0	0

Seventeen of the 20 exporters reported facing regular competition from foreign companies supported by their national ECAs throughout 2010. The most frequently identified competitor ECAs (in descending order) were COFACE/France; Euler Hermes/Germany, China Eximbank, NEXI/Japan, and SACE/Italy in a four-way tie; followed closely by BNDES/Brazil and EDC/Canada. Other less-frequently mentioned competition included EGDC/UK, EKF/Denmark, ONDD/Belgium, GIEK/Norway, Czech Eximbank/Czech Republic, Finnvera/Finland, the Saudi Development Fund, and EKN/Sweden.

Working with Other ECAs

Ten exporters noted that they regularly worked with at least one other ECA. The most frequently identified ECAs in descending order included EDC/Canada, China Eximbank/China, ECGD/UK, Euler Hermes/Germany, SACE/Italy, CESCE/Spain, BNDES/Brazil, Atradius/Netherlands, and ONDD/Belgium.

Fifteen of the 26 lenders reported working regularly with at least one other ECA. Frequent partners identified by the lenders were generally G-7 ECAs. The ECAs cited in descending order included Euler Hermes/Germany, COFACE/France, ECGD/UK, SACE/Italy, NEXI/Japan, China Eximbank/China, Finnvera/Finland, EDC/Canada. The remaining ECAs were identified as regular partners by one or two lenders: EKF/Denmark, Atradius/Netherlands, KEIK/Norway, EKN/Sweden, EFIC/Australia, and CESCE/Spain.

Exporter Comments on the Survey

Exporters and Lenders noted in the survey responses and in the focus group meetings that the survey was, in the words of one exporter, "geared towards traditional export financing. What we need…is a very creative type of financing solution." The point was also made that the foreign ECAs have introduced a variety of products and services that fall outside the traditional export credit model and that the survey does not track.

Appendix D: G-11 Export Credit Institutions

Brazil The **Brazilian Development Bank (BNDES)** is a state-owned development bank serving as the primary entity for development in Brazil. BNDES offers medium- and long-term financing through its three subsidiaries FINAME, BNDESPAR and BNDES Limited, an investment holding company created in 2009. BNDES finances the export of goods and services through pre-shipment and post-shipment cover, primarily through export credit guarantee instruments. In May 2010, the BNDES established EXIM Brazil, a new subsidiary solely dedicated to foreign trade.

Seguradora Brasileria de Crédito À Exportação S/A (SBCE) is an export credit insurance agency and acts on behalf of the Brazilian government, and as such, is able to offer support in the form of short (SME), medium- and long-term export credit risk cover on the basis of the Brazilian Treasury Export Guarantee Fund (FGE). SBCE is jointly held by Banco do Brasil, the Brazilian Development Bank (BNDES), and Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE).

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

China **The China Development Bank (CDB)** is a state-owned development-oriented financial institution focusing on investment in regional and urban/town development, industrial and social development, global collaboration and market planning. CDB engages in long-term financing for key projects and supportive construction in infrastructure, and basic pillar industries with the mission of strengthening China's competitiveness and improving the living standards of the Chinese population though medium- and long-term development strategies and policies.

China Export and Credit Insurance Corporation (Sinosure) is a state-owned insurance company whose major facilities include export credit insurance, investment insurance, domestic trade credit insurance, bonds and guarantees, debt collection services and credit rating services. Sinosure's specialty is in credit and investment insurance.

The **Export-Import Bank of China (China Ex-Im)** is a Chinese "government policy bank" that provides export and import credits, overseas investment loans and concessional lending. China Ex-Im holds the same international credit rating as the government of China.

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

Germany **Euler Hermes Kreditversicherungs-AG (Hermes)** is a consortium comprised 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 credit insurance for its own account according to standard market practices as well as a small portion for the state account under an EU "escape clause" that has been extended due to the financial crisis on a temporary basis.

Kreditanstalt für Wiederaufbau (KfW) is a financial institution that is owned by the German government and the federal states (Länder). KfW exists to promote the growth of the German economy in a variety of ways. One of its missions, though not its largest, is the funding of German export credits, both at market rates and through a government-supported window to achieve CIRR financing. KfW offers trade and export credit support on a limited basis and also administers the provision of German tied aid funds on behalf of the German government. The decision as to where and how tied aid should be used rests with another part of the German government. In 2008, the majority of KfW's export credit business was spun off into an independent, 100%-owned subsidiary called KfW-IPEX Bank. In addition, the KfW-IPEX Bank offers project finance and carries an AA-rating.

India **Export Credit Guarantee Corporation of India Ltd (ECGC)**, founded in 1957, is an autonomous company with the Government of India holding 100% of its shares. ECGC's major programs include export credit insurance to private buyers and banks, overseas investment insurance, export factoring and domestic credit insurance.

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

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 incorporated administrative agency formed on April 1, 2001. NEXI is responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI). Historically, Japanese exporters were required to insure all of their short-term business through NEXI, but in 2004, the Japanese government removed this requirement and began welcoming private insurers into the Japanese export credit insurance market. NEXI offers short, medium- and long-term export credit insurance, insurance for project finance, investment insurance, untied loan insurance and bonds and guarantees coverage.
	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 for export credits in combination with commercial bank financing. In addition, JBIC provides untied and investment loans, guarantees and import credits. Beginning in October 2008, JBIC began operating within the purview of the Japan Finance Corporation Law. As a result of this change, JBIC is responsible for promoting overseas development of strategic natural resources, supporting efforts of Japanese industries to develop international business operations, and responding to financial disorder in the international economy.
Russia	**The Bank for Development and Foreign Economic Affairs (Vnesheconombank)** is a 100% state-owned corporation responsible for promoting competitiveness of the Russian Federation economy, its diversification and to encourage investment activity through investment, foreign economic activities, export credit insurance and consultancy. Vnesheconombank's major facilities include export finance support and medium- and long-term export credit insurance.
United Kingdom	**Export Credits Guarantee Department (ECGD)** is a separate department of the UK government that provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions, project finance, export credit insurance, bonds and guarantee coverage and investment insurance. As a consequence of the financial crisis, ECGD created a temporary letter of credit guarantee program for short-term transactions that is still in place.

Appendix E: Ex-Im Bank Foreign Content Support

Figure E1: All Transactions

	Medium-Term*		Long-Term*	
Product/Project	**Export Value**	**FC%**	**Export Value**	**FC%**
Aircraft	$15,570,966	20%	$5,973,530,059	15%
Oil and Gas Projects			$1,564,808,182	4%
Construction Equipment	$18,341,714	13%		
Power Plant			$1,050,048,691	20%
Other	$79,598,093	14%	$2,639,925,957	17%
All	**$113,510,773**	**16%**	**$11,228,312,889**	**14%**

Figure E2: Medium-Term Transactions

Country	Product/Project	Export Value	Foreign Content %**
Argentina	Large Aircraft	$1,354,200	19%
Argentina	Large Aircraft	$2,158,000	18%
Argentina	Manufacturing	$1,305,140	9%
Argentina	Medical Equipment	$877,200	15%
Argentina	Medical Equipment	$446,992	7%
Argentina	Medical Equipment	$1,807,710	7%
Argentina	Small Aircraft	$780,050	35%
Argentina	Small Aircraft	$7,243,368	17%
Australia	Manufacturing	$798,174	6%
Brazil	Construction Equipment	$10,821,262	10%
Brazil	Medical Equipment	$486,939	10%
Brazil	Medical Equipment	$720,000	15%
Brazil	Medical Equipment	$540,000	37%
Brazil	Medical Equipment	$450,000	15%
Brazil	Medical Equipment	$1,250,000	22%
Brazil	Medical Equipment	$644,886	17%
Brazil	Medical Equipment	$699,992	17%
Brazil	Medical Equipment	$724,392	17%
Brazil	Medical Equipment	$1,220,000	15%
Brazil	Medical Equipment	$562,900	10%
Brazil	Medical Equipment	$700,000	15%
Brazil	Small Aircraft	$796,630	35%
Brazil	Small Aircraft	$701,633	33%
Brazil	Small Aircraft	$648,760	36%
China	Medical Equipment	$4,315,748	12%
China	Medical Equipment	$5,195,862	33%
China	Technical Services	$3,250,000	4%
Colombia	Construction Equipment	$908,000	9%
Colombia	Telecommunications Equipment	$2,171,435	9%

Czech Republic	Construction Equipment	$1,578,259	15%
Egypt	Textile Machinery	$7,800,000	15%
Ghana	Medical Equipment	$3,648,228	14%
India	Medical Equipment	$4,731,036	14%
Kenya	Agriculture Equipment	$821,632	36%
Mexico	Agriculture Equipment	$2,205,718	7%
Mexico	Agriculture Equipment	$802,036	10%
Mexico	Agriculture Equipment	$279,077	10%
Mexico	Agriculture Equipment	$1,429,900	32%
Mexico	Equipment Manufacturing	$712,532	1%
Mexico	Manufacturing	$1,025,000	4%
Mexico	Printing Equipment	$11,500,000	9%
Mexico	Small Aircraft	$1,888,325	19%
Mexico	Storage Equipment	$3,475,800	4%
Panama	Construction Equipment	$359,061	15%
Panama	Construction Equipment	$203,632	18%
Panama	Refurbishment	$12,300,849	17%
Saudi Arabia	Construction Equipment	$4,471,500	19%
Turkey	Medical Equipment	$698,915	5%
TOTAL & AVERAGE		**$113,510,773**	**15%**

Table E3: Long-Term Transactions

Country	Product/Project	Export Value	Foreign Content %**
Australia	Large Aircraft	$132,849,000	13%
Australia	Large Aircraft	$174,300,000	16%
Australia	Mining Equipment	$20,842,716	22%
Brazil	Large Aircraft	$141,427,964	15%
Brazil	Small Aircraft	$33,857,734	23%
Brazil	Telecommunications Equipment	$117,712,212	18%
Canada	Power Plant	$9,011,127	17%
Canada	Small Aircraft	$58,000,000	14%
Colombia	Oil and Gas	$443,078,027	9%
Costa Rica	Telecommunications Equipment	$22,134,483	28%
Egypt	Large Aircraft	$243,704,000	15%
Ghana	Emergency Vehicles	$44,001,926	11%
Honduras	Power Plant	$153,605,882	29%
Hungary	Power Plant	$102,259,615	4%
India	Coal and Mining	$641,240,000	12%
India	Power Plant	$4,100,000	8%
India	Small Aircraft	$19,200,000	27%
Indonesia	Large Aircraft	$154,705,882	15%
Indonesia	Large Aircraft	$234,823,529	15%
Indonesia	Small Aircraft	$614,074,879	15%
Ireland	Large Aircraft	$231,000,000	16%

Ireland	Large Aircraft	$165,000,000	16%
Ireland	Large Aircraft	$231,000,000	16%
Ireland	Small Aircraft	$231,000,000	15%
Ireland	Small Aircraft	$165,000,000	15%
Ireland	Small Aircraft	$99,000,000	15%
Kuwait	Large Aircraft	$204,960,347	15%
Kuwait	Large Aircraft	$41,919,075	15%
Luxemburg	Telecommunications Equipment	$207,660,000	16%
Mexico	Equipment Manufacturing	$3,693,252	18%
Mexico	Equipment Manufacturing	$1,019,607	45%
Mexico	Equipment Manufacturing	$2,606,644	23%
Mexico	Equipment Manufacturing	$2,526,379	21%
Mexico	Equipment Manufacturing	$3,347,313	24%
Mexico	Mining Equipment	$328,191,765	14%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$448,692,062	2%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Truck Manufacturing	$105,882,353	15%
Morocco	Large Aircraft	$94,435,000	16%
Netherlands	Small Aircraft	$76,000,000	16%
New Zealand	Small Aircraft	$180,215,000	12%
Nigeria	Large Aircraft	$46,000,000	16%
Panama	Large Aircraft	$84,445,454	15%
Panama	Large Aircraft	$122,873,920	15%
Panama	Large Aircraft	$11,800,000	36%
Russia	Agriculture Equipment	$10,000,000	14%
Saudi Arabia	Equipment Manufacturing	$66,622,752	6%
Saudia Arabia	Power Plant	$319,537,600	25%
Slovak Republic	Power Plant	$16,293,803	11%
South Korea	Large Aircraft	$86,700,000	12%
South Korea	Large Aircraft	$86,700,000	12%
South Korea	Large Aircraft	$81,957,000	12%
South Korea	Large Aircraft	$82,059,000	12%
South Korea	Large Aircraft	$169,900,000	12%
South Korea	Power Plant	$156,005,640	16%
South Korea	Small Aircraft	$88,235,287	15%
Spain	Telecommunications Equipment	$240,506,336	12%
Switzerland	Small Aircraft	$23,500,000	16%
Turkey	Power Plant	$26,856,052	15%
Turkey	Large Aircraft	$40,280,105.00	15%
Turkey	Large Aircraft	$279,191,360	16%
Turkey	Large Aircraft	$244,527,829	16%
Turkey	Large Aircraft	$40,280,105	15%
Turkey	Large Aircraft	$279,191,360	16%
Turkey	Large Aircraft	$47,100,700	22%

Ukraine	Mining Equipment	$18,838,219	9%
United Arab Emirates	Large Aircraft	$122,332,000	15%
United Arab Emirates	Power Plant	$262,378,972	20%
United Kingdom	Telecommunications Equipment	$803,100,000	21%
United States	Small Aircraft	$274,430,000	15%
United States	Small Aircraft	$176,730,000	15%
United States	Small Aircraft	$58,823,529	13%
TOTAL & AVERAGE		**$11,228,312,889**	**14%**

Source: U.S. Ex-Im Bank
*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.

Appendix F: Tied Aid Report

Introduction

Sections 10(G) and 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, require Ex-Im Bank to submit a report to Congress on tied aid. Congress specifies that the report contain descriptions of the following: (a) the implementation of the OECD Arrangement rules restricting tied and partially untied aid credits for commercial purposes, including notification requirements and consultation procedures; (b) all principal offers of tied aid credit financing by foreign countries, including information about offers notified by countries who are Participants to the Arrangement, and in particular, any exceptions under the Arrangement; (c) any use of the Tied Aid Credit Fund by the Bank to match specific offers; and (d) other actions by the United States Government to combat predatory financing practices by foreign governments, including additional negotiations among participating governments to the Arrangement.

Implementation of the OECD Arrangement Rules Governing Tied and Partially Tied Aid: Overview and Definitions of the Various Types of Aid

Tied aid can distort trade flows when the recipient country makes its purchasing decision based on the bidder offering the cheapest financing rather than the best price, quality or service. The potential for trade distortion is most serious in cases where a donor government provides relatively low concessionality[1] tied aid financing for "commercially viable"[2] projects. Under these circumstances, a donor government's tied aid offer may be used as an attempt to "buy" a sale for its national exporter through the provision of an official subsidy to a recipient country. This action can establish the exporter's presence and technology in the market as a means to generate longer-term international trade advantages. Below is a description of the various forms of aid and the OECD disciplines that may apply to each.

Tied aid is generally considered to be concessional financing support provided by donor governments that links procurement by recipient countries to firms located in the donor country or a limited number of countries. Tied aid can take the form of a grant (that can be offered as a grant plus a standard export credit) or a "soft" loan (that can be offered as a long-term loan bearing a low interest rate and/or extended grace period).

The OECD Participants have agreed to rules (also known as the "Helsinki Rules or Disciplines") that govern a subset of the broader tied aid actions – the most egregious subset from a trade-distorting perspective. Tied aid referred to as *"Helsinki-type"* tied aid, was agreed to in 1991 under the Helsinki Disciplines. Thus, today tied aid is

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

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

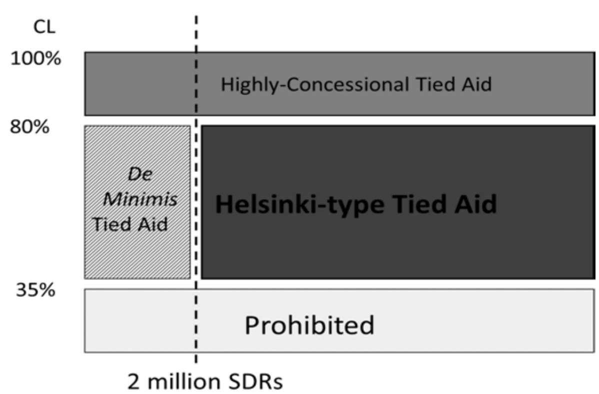
governed by the Helsinki Disciplines and is summarized as: (1) no tied aid for commercially viable projects[3]; (2) all tied aid must be notified to OECD Members at least 30 business days before the country makes a financing commitment; (3) no tied aid for wealthy countries [defined as those with a per capita Gross National Income (GNI) at or above $3,855, with this figure changing annually because it is based on annually-adjusted World Bank lending criteria – see **Annex 1** and **2** for details]; and (4) tied aid offers must have a minimum of 35% concessionality (see **Figure F1**).

"Non-Helsinki-type" tied aid includes all other tied aid offers excluded from "Helsinki-type" tied aid. These are (1) *de minimis* projects (valued at less than approximately $3 million), (2) grants or near-grants (at least 80% concessionality), and (3) partial grants (at least 50% concessionality) that are offered to the UN-declared Least Developed Countries or LDCs.

Official Development Assistance (ODA), or aid, is concessional financial support of which at least 25% is intended to carry no repayment obligations (i.e., contains 25% grant element)[4], and the vast majority of ODA is 100% pure grant (such as grants from United States Agency for International Development or USAID). Aid from a donor government to a recipient government that supports the purchase of specific goods and/or services from local, donor country and/or third country suppliers, necessary for the completion of an investment or specific project is trade-related. ODA can be tied or untied to procurement from the donor's country.

Untied aid refers to concessional financing that is trade-related, but which should **not** be conditioned (contractually or otherwise) upon the purchase of goods and/or services from any particular country.

Figure F1: Scope of OECD Helsinki Disciplines



[3] Commercial viability, which OECD members determine on a case-by-case basis, has two components: (1) financial viability, which refers to a project's ability to service market-term, or standard Arrangement-term, financing over 10-15 years (depending on the type of project); and (2) the general availability of ECA financing for such a project. See **Annex 3** and **4** for details.

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

Implementation of the OECD Arrangement

In 1991, the Participants to the OECD Arrangement agreed to the Helsinki Disciplines that govern the use of tied aid. The tied aid rules went into effect in February 1992. Since that time, the use of tied aid for commercially-viable projects has significantly declined. In 2005, the OECD Participants updated a 1997 document known as "Ex-Ante Guidance Gained for Tied Aid" which compiles the project-by-project outcomes of OECD consultations that were held from 1992 through 1996. The "Ex-Ante Guidance" describes which projects are typically considered to be commercially viable (CV) and commercially non-viable (CNV). See **Annex 3** and **4** for details[5].

In sum, since the OECD tied aid rules came into effect in early 1992, they have helped reduce tied aid to an annual average of about $5 billion. This is down from an estimated average of $10 billion annually prior to 1992. Almost all remaining tied aid volumes have been re-directed away from commercially-viable sectors and toward commercially non-viable sectors.

Current Status of the OECD Negotiations on Tied and Untied Aid 2010

The OECD and the U.S. continue to monitor the effectiveness of the Helsinki tied aid rules. The trend since 2005 highlights that the tied aid disciplines have generally kept the tied aid use at the $5 billion per year level. Furthermore, the OECD Consultations Group did not examine any tied aid offers in 2009 or 2010.

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

Tied Aid and Untied Aid Activity

With respect to tied aid, in 2010, the volume of Helsinki-type tied aid increased to approximately $5.8 billion (up from $4.6 billion in 2009). The data for aggregate activity in 2010 is consistent with the trends of tied and untied aid activity over the last five years or so (see **Figures F2** and **F3**). Specifically in 2010, Japan was the largest donor of tied aid in terms of volume, accounting for over $2.7 billion, nearly 50 percent, of OECD tied aid activity (see **Figure F3**). However, the number of tied aid

[5] The OECD Consultations Group examines projects that have been notified by a Participant as eligible for tied aid, but which another Participant believes to be *ineligible* for tied aid because they appear to be CV. Sovereign guarantees from the recipient government do not factor into the determination of "commercial viability" because they can be provided for any kind of project – CV or CNV.

notifications slightly decreased to 132 from 135 in 2009, indicating an increase in the average transaction size – not the incidence – of tied aid transactions (**Figures F4** and **F5**). Asia continues to be the primary region receiving tied aid in 2010 (See **Figure F6**). As in 2009, the main recipient countries were Vietnam (in terms of volume) and China (in terms of number) in 2010.

Figure F2: Major Helsinki-type Tied Aid Notifications by Donor (by value), 2005-2010

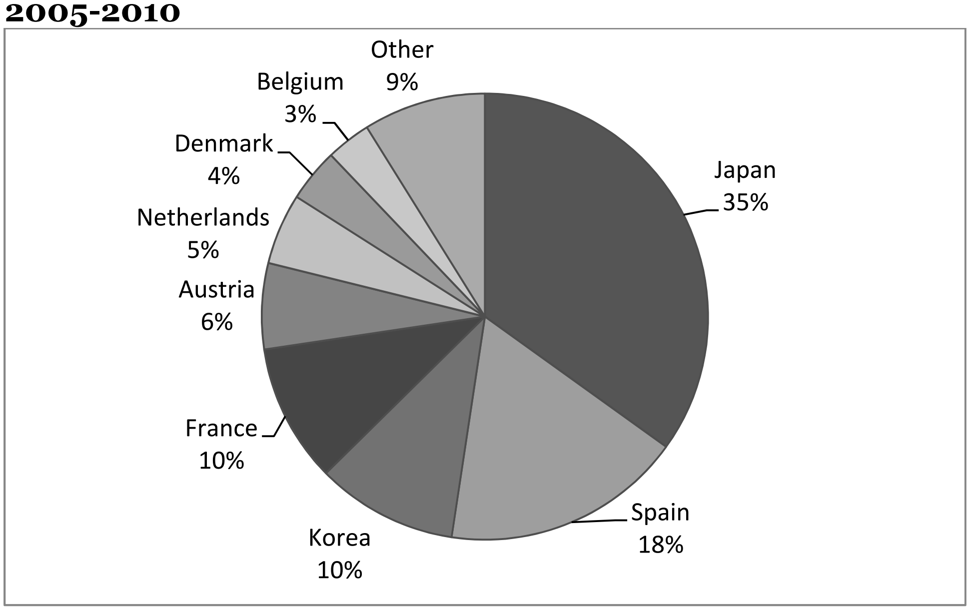


Figure F3: Helsinki-type Tied Aid Notifications by Donor (by value), 2010

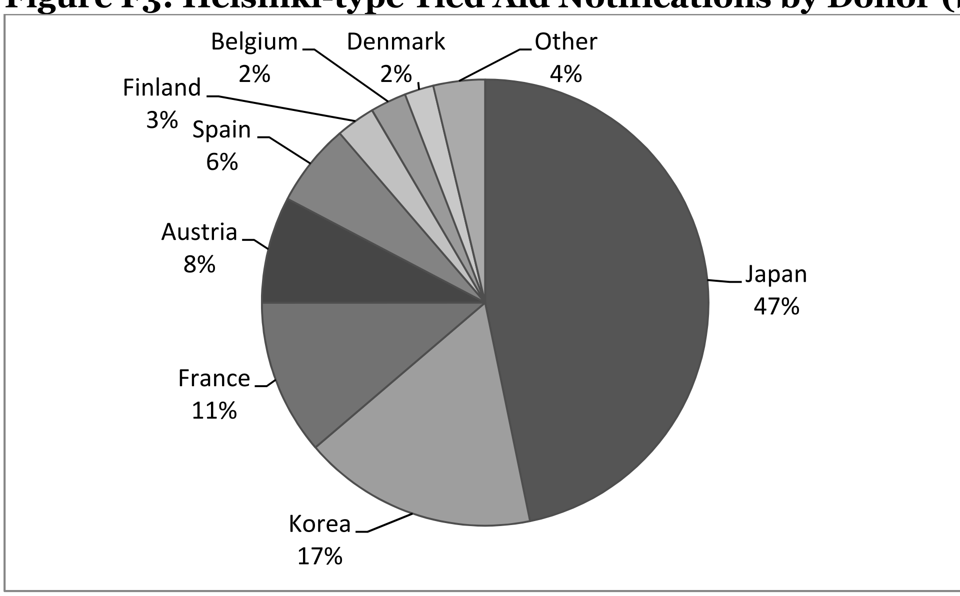


Figure F4: Helsinki-type Tied Aid Notifications by Donor (by number of transactions), 2005-2010

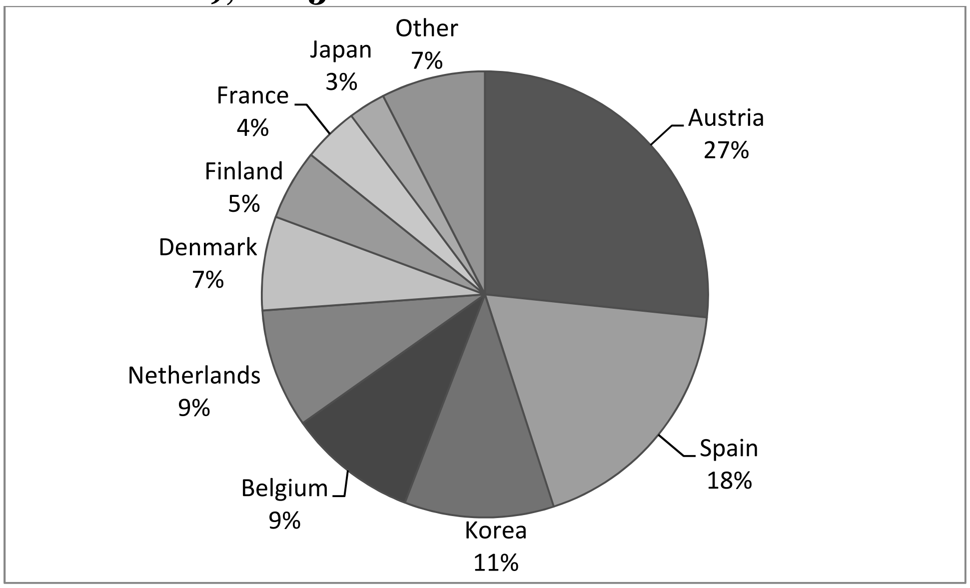
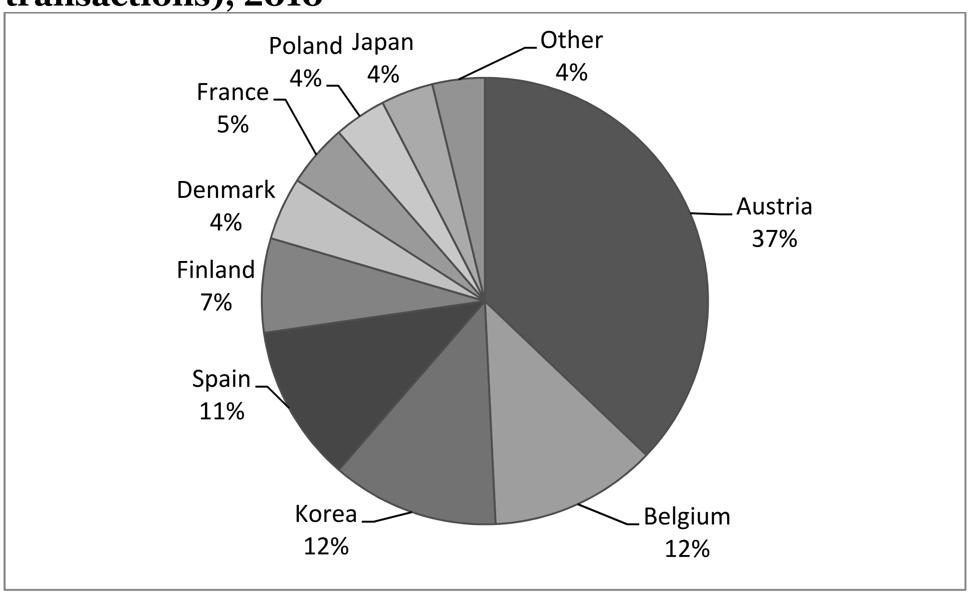


Figure F5: Helsinki-type Tied Aid Notifications by Donor (by number of transactions), 2010



In 2010, both the volume and number of untied aid notifications increased as compared to 2009. The volume of untied aid increased to $11.1 billion in 2010, a slight increase of 2% over the $10.8 billion offered in 2009. The number of untied aid notifications in 2010 increased more significantly, up from 53 notifications in 2009 to 81 notifications in 2010 (a 53% rise). Japan reported the largest volume and number of untied aid notifications, accounting for 51% of all untied aid notifications in terms of number and 71% in terms of volume). The main recipient of untied aid was India, attracting 10% of the total volume of untied aid, followed by Vietnam with 8%. China received the largest number of untied aid notifications, with 8 notified transactions. In terms of sectors, Energy Generation and Supply ($3.7 billion) received the largest volume of untied notifications, with Transport and Storage ($3.4 billion) closely behind. Water Supply and Sanitation received $2.4 billion in untied aid notifications. Transport and Storage received the largest number of notifications (19) followed by Water Supply and Sanitation (18) and Energy Generation and Supply (15).

Over the past five years, Japan has notified the largest volume and number of untied aid transactions totaling $40 billion and 213 notifications, which constitute approximately 85% of the volume of untied aid notifications from 2006 to 2010. The next largest donor of untied aid was France ($4.4 billion, 86 notifications), followed by Germany ($2.1 billion, 24 notifications). From 2006 to 2010, India received the most untied aid notifications in terms of volume and number of notifications ($9.6 billion, 39 notifications), followed by Indonesia in terms of volume ($5.6 billion) and China in terms of notifications (31 notifications). The Transport and Storage received the largest volume of untied notifications from 2006 to 2010, totaling $15.4 billion, with Energy Generation and Supply the second largest sector ($12.7 billion) and Water Supply and Sanitation the third largest sector ($8.4 billion). In terms of number of notifications, Water Supply and Sanitation received the largest notifications (78) followed by Transport and Storage (74) and Energy Generation and Supply (56).

Based on the five-year trend, the three major donors of untied aid – Japan, France and Germany – remain consistent with the 2010 data. While the recipient countries differ in 2010 as compared to the five-year average, the Asian region appears to be the primary target for untied aid projects. Lastly, Transport and Storage (including rail), Water Supply and Sanitation, and Energy Generation and Supply remained the key sectors for untied aid notifications in 2010, consistent with the five-year trend.

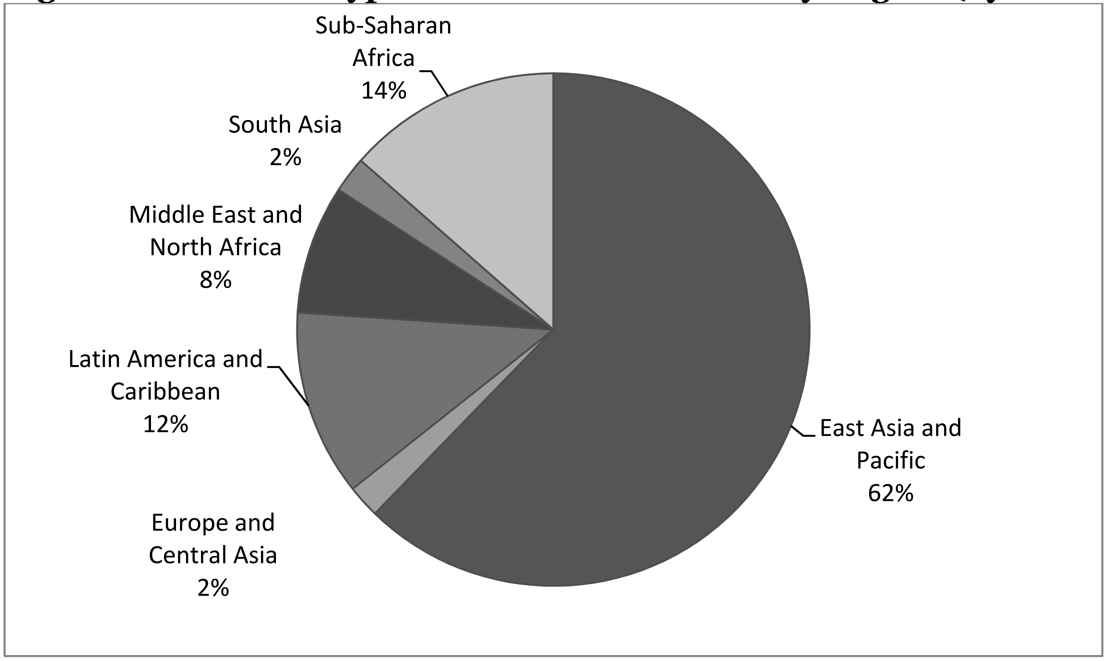
Eligible Markets, Major Donors and Sector Concentration

The OECD rules designate a number of key markets as ineligible for tied aid financing. Specifically, the OECD rules ban tied aid into high or upper middle-income markets (those that are ineligible to receive 17-year loans from the World Bank) and tied aid into Eastern Europe and select countries of the former Soviet Union, unless the transaction involves outright grants, food aid or humanitarian aid. (See **Annex 1** for a list of key markets for which tied aid is prohibited and **Annex 2** for a list of key markets eligible for Ex-Im Bank tied aid support.)

Figure F6 shows the distribution of Helsinki-type tied aid offers by region in terms of value. In 2010, the major beneficiary region continued to be Asia (including South and East Asia and Pacific), attracting 64% or almost two-thirds of the Helsinki tied aid offers. The main recipient countries were Vietnam (in terms of volume) and China (in terms of number).

The fact that the largest donor of both tied and untied aid and the two largest recipients are in Asia gives a good indication as to why U.S. exporters trying to gain capital goods sales in many Asian countries confront buyers who “expect” aid with any purchase.

Figure F6: Helsinki-type Tied Aid Notifications by Region (by Value), 2010



Between 2005 and 2010, Transport and Storage projects received the most notifications (rail projects accounting for 40% of the notifications), with Water Supply and Sanitation as the second largest sector notified. In 2010, the trend continued with over 60% of Helsinki-type tied aid went to Transport and Storage projects (principally road, rail and water transport). Energy Generation and Supply (including renewable and non-renewable energy projects), projects often deemed commercially viable, received 12 notifications in 2010, but were not evaluated by the OECD Consultations Group. Other projects benefitting from tied aid were in the Education and Health and Water Supply and Sanitation sectors.

Trends in the Use of the Tied Aid Capital Projects Fund

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

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

No new tied offers were issued by Ex-Im Bank in 2010 (See **Figures F7** and **F8**). Furthermore, Ex-Im received one application for matching a non-OECD tied aid offer in 2010. The transaction was still being reviewed at the end of 2010, and in early 2011 the Bank determined the transaction did not satisfy Ex-Im's criteria for support (both from a tied aid and standard credit perspective). **Figure F7** also shows cumulative Ex-Im offers against OECD tied aid offers since 1992, and compares the offers and outcomes from the years 1992-2002 to the past seven years, 2003-2010. The period-to-period comparison contrasts the sharp decline in Ex-Im Bank tied aid offers in recent years when compared with Ex-Im Bank tied aid matching activity between 1992 and 2002. Over the past seven years, Ex-Im Bank approved one transaction that benefitted from OECD tied aid funds. The project, a waste water treatment plant in Sub-Saharan Africa, was approved in 2008.

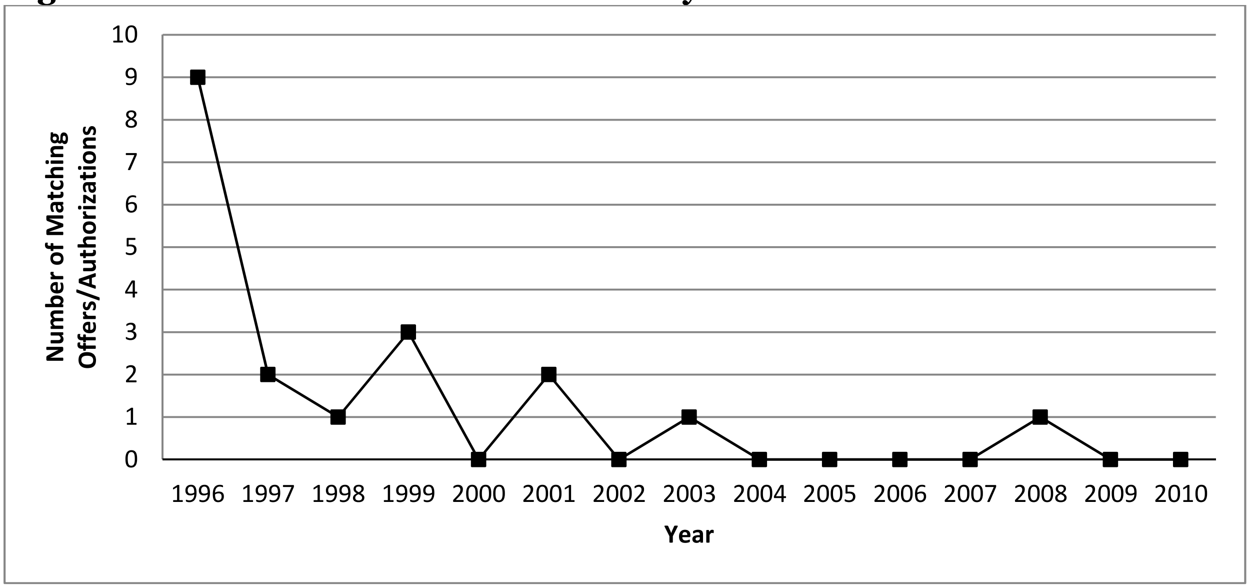
It is not coincidental that the sharp decline in U.S. tied aid matching offers relates to the data showing that the majority of foreign tied aid offers are made in accordance with the OECD rules. However, U.S. exporters are reporting that – within and facing stable aggregate tied aid activity over the last 5-10 years – there appears to be a shift in tied aid use by OECD member countries, where they appear to be moving tied aid funds to national strategic sectors that have a long-term strategic benefit for the donor country's economy. As non-OECD members shift concessional or tied aid financing into sectors such as renewable energy and rail, U.S. exporters are experiencing more frequent competitive situations because such projects are of significant interest for U.S. exporters, hence the impact on U.S. companies of not being able to compete with tied aid funds is felt more acutely than before.

The most noticeable trend of the past 5 years is the emergence of China as a player in the area of concessional financing and tied aid. Just 5 years ago almost all tied aid cases vetted by Ex-Im involved competition or allegations of abuse by OECD countries, however in the past year or so, China has emerged as a (if not the) major tied aid player that U.S. exporters encounter. While any tied aid transaction that comes to the Bank is scrutinized under the tied aid lens described above, Chinese competition poses unique challenges. These challenges are mostly related to obtaining credible evidence of competition that gives Ex-Im and Treasury comfort in either the existence of tied aid competition or the possible multiplier benefits that could accrue from matching.

Figure F7: Cumulative Ex-Im Bank Matching of OECD Foreign Tied Aid Offers

	2010	1992- 2002	2003- 2010
New matching offers	0	**43**	**3**
U.S. wins	0	**19**	**2**
U.S. losses	0	**24**	**1**
Outstanding, no decision	0	**3**	**0**

Figure F8: U.S. Tied Aid Authorizations by Year



In addition, U.S. exporters seeking to conduct business in Sub-Saharan Africa or certain Least Developed Countries (LDCs) encounter commercial lending limits and borrowers requiring concessional financing for U.S. goods, which U.S. exporters are not able to provide as a part of the financing package. These concerns regarding limited financing availability are exacerbated by the multiplicity of aid financing rules established by the OECD, the Development Assistance Committee (DAC), the International Monetary Fund (charged with monitoring country debt) and the borrower countries. Thus, U.S. exporters confront varying financing packages (provided by OECD or non-OECD Members, in accordance with OECD, DAC, IMF or borrower country rules) that are not readily comparable or "matchable". For example, the DACs rules governing aid offers requires that aid financing be 25% concessional (compared to the OECD 35% concessionality requirement). Such disparities create lengthy processing delays and result in U.S. exporter frustration regarding the role and purpose of the Tied Aid Fund.

U.S. Government Actions to Combat Foreign Tied Aid

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

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

In sum, U.S. exporter experience with common lines has been mixed. Of the 15 common lines proposed since 2000, a little less than half (7 of 15) were accepted. Because of the potential for buyer backlash, common lines are not issued without prior exporter approval and none have been issued in recent years. There have been requests for a common line by OECD members since 2005.

Combatting predatory financing practices by foreign governments

Section 8A of the Ex-Im Bank Charter requires that the Bank include information on "other actions by the United States Government to combat predatory financing practices by foreign governments, including additional negotiations among participating governments in the Arrangement" in the Tied Aid Credit report to Congress required under Section 10(g).

Accordingly, in this area, Ex-Im Bank has recent experience in a competitive transaction involving China Eximbank. Details regarding Ex-Im Bank response to the foreign financing can be found in Chapter 8, under the China Eximbank section.

Appendix F Annex 1

Key Markets Where Tied Aid is Prohibited	
East Asia and Pacific*	Hong Kong (China), Korea, Malaysia, Singapore
Europe and Central Asia	Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Romania, Russian Federation
Latin America and Caribbean*	Argentina, Chile, Colombia, Jamaica, Mexico, Panama, Uruguay, Venezuela
Middle East and North Africa*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates
South Asia*	N/A
Sub-Saharan Africa*	Botswana, Gabon, South Africa

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

Appendix F Annex 2

Key Tied Aid Eligible Markets	
East Asia and Pacific	China, Indonesia, Philippines, Vietnam
Europe and Central Asia	Estonia, Lithuania, Ukraine**
Latin America and Caribbean	Ecuador, El Salvador, Paraguay
Middle East and North Africa	Algeria, Jordan, Morocco, Tunisia
South Asia	India, Pakistan, Sri Lanka
Sub-Saharan Africa	Angola, Ghana, Ivory Coast, Kenya

Note: In addition to OECD tied aid eligibility, the U.S. Government has developed criteria to apply to tied aid requests to determine whether tied aid can be made available (e.g., follow on sales criteria and “dynamic market” evaluation).
**Article 33. b 5 of the OECD Arrangement states the Participants’ agreement to “avoid providing any tied aid credits, other than outright grants, food aid and humanitarian aid as well as aid designed to mitigate the effects of nuclear or major industrial accidents or prevent their occurrence” to these markets. Only such projects as described here would be eligible for tied aid in these markets.

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

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

Appendix G: Human Rights and Other Foreign Policy Considerations

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

It should also be noted that, pursuant to Executive Order 12166, the President has delegated his authority to make Chafee determinations to the Secretary of State, who must consult with the Secretary of Commerce and the heads of other interested Executive agencies.

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

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

Appendix H: Equal Access for U.S. Insurance

Pursuant to the Export Enhancement Act of 1992, Ex-Im Bank is required to report in the annual Competitiveness Report those long-term transactions approved by Ex-Im Bank for which an opportunity to compete was not available to U.S. insurance companies.

At the time the legislation was enacted, Ex-Im Bank had neither encountered nor been informed about any long-term transaction for which equal access for U.S. insurance companies was not afforded. Consequently, Ex-Im Bank, the Department of Commerce and the Office of the United States Trade Representative agreed that the establishment of a formal reporting mechanism was not necessary. It was also agreed that should Ex-Im Bank identify any long-term transaction in which U.S. insurance companies are not allowed equal access, a more formalized procedure would be created. As of December 2010, Ex-Im Bank had not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix I: Trade Promotion Coordinating Committee

Introduction

Pursuant to Section 8A(a)(2) of Ex-Im Bank's charter, Ex-Im Bank is required to report on its role in the "National Export Strategy" (the NES), a report to Congress prepared by an interagency committee called the Trade Promotion Coordinating Committee (TPCC).[1] The NES outlines the trade promotion agenda of the acting Administration.

The Obama Administration has defined its export strategy in the National Export Initiative (NEI), a key objective of which is to double American exports during the 2010 – 2015 time frame. The NEI consists of five broad themes: (1) advocacy and trade promotion; (2) access to export financing; (3) removal of barriers to trade; (4) enforcement of trade rules; and (5) promotion of strong, sustainable and balanced growth. The NES provides a report card on the administration's progress against the objectives laid out in the NEI.

Ex-Im Bank Activity and Initiatives

As the official export credit agency of the U.S., Ex-Im Bank plays a central role in providing U.S. companies with competitive financing for their export sales. Highlights related to Ex-Im Bank activity and initiatives reported on in the 2011 National Export Strategy include:

- An increase of 17% in Ex-Im Bank authorizations, rising from $21 billion in FY 09 to $24.5 billion in FY 10.

- The establishment of new Ex-Im Bank financing products aimed at providing support to U.S. exports in priority sectors: 1) Renewable Energy Express, where Ex-Im Bank provides streamlined, cost effective financing for U.S. exports to buyers building small renewable-energy projects; 2) Express Insurance that provides a simplified and speedy application process for program users, especially for small business exporters; and 3) Supply Chain finance that enables suppliers, many of which are small businesses, to U.S. exporters to access attractively priced credit.

- The launch of the Small Business Global Access in partnership with the National Association of Manufacturers, the U.S. Chamber of Commerce, and several financial institutions active in small business lending. This series of nationwide

[1] The TPCC is an interagency committee comprised of 20 USG agencies responsible for trade-related functions. Members of the TPCC are: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor, the Overseas Private Investment Corporation, Ex-Im Bank, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Security/National Economic Council, the Department of Homeland Security, and the Office of Management and Budget.

forums is aimed at helping small business exporters better utilize tools offered by Ex-Im Bank and other TPCC agencies.

- Increased marketing of Ex-Im Bank programs to small businesses at domestic and international trade shows and trade missions sponsored by the Department of Commerce.

- Creation of user-friendly applications, webinars and websites aimed at educating and guiding U.S. exporters, particularly small businesses.

- Identification of nine priority markets with the greatest potential for increasing U.S. exports. These countries are: Brazil, Colombia, Mexico, Nigeria, South Africa, Turkey, India, Indonesia, and Vietnam. The Bank has stepped up its business development efforts for these countries and will create a team dedicated to these markets.

Appendix J: Efforts to Promote Renewable Energy Exports

Introduction

Ex-Im Bank reports on an annual basis, its work to promote renewable energy exports, and related achievements. This practice began in response to a 2002 Congressional mandate which was renewed in 2006, to describe "the activities of the Bank with respect to financing renewable energy projects undertaken…and an analysis comparing the level of credit extended by the Bank for renewable energy projects with the level of credit so extended for the preceding fiscal year."[1]

Ex-Im Bank offers loans, guarantees, insurance and working capital support for renewable energy transactions. Special financing is also available through the Ex-Im Bank Environmental Exports Program and the newly introduced Solar Express Program[2] for renewable energy power projects (see below for details). The enhanced financing packages include a repayment term of up to 18 years.

In 2010, Ex-Im responded to the Congressional mandate through the following activities:

1. Authorizations: Ex-Im Bank more than tripled its renewable energy authorizations to $332 million in fiscal year 2010. As illustrated by **Figure J1**, the Bank experienced a 230% increase in renewable energy authorizations from fiscal year 2009 to fiscal year 2010.

Figure J1: Renewable Energy Authorizations by Year

Fiscal Year	Renewable Energy Authorizations	Percent Change from Prior Year
2010	$332 million	230%
2009	$101 million	232%
2008	$30.4 million	1026%
2007	$2.7 million	-73%
2006	$9.8 million	-42%

Source: U.S. Ex-Im Bank

Some of the renewable energy transaction highlights of fiscal year 2010 include:

- Ex-Im's authorization of a $159 million loan to finance the export of 51 wind turbines.
- The issuance of a $3.6 million working capital line for the production of a geothermal power plant.

[1] Ex-Im Bank Charter Sec.8A(5)
[2] The Solar Express Program was expanded in 2011, and renamed "Renewable Express".

- The Bank's approval of $15 million in export credit insurance to finance the export of solar modules.

2. Policy implementation: Ex-Im Bank's Carbon Policy, which was approved by the Bank's Board of Directors in November of 2009, was implemented for the full calendar year of 2010. Ex-Im Bank's Carbon Policy was designed to address the climate change issues raised by the Bank's export financing activities while remaining flexible and responsive to the needs of U.S. exporters. The Carbon Policy promotes renewable energy exports where carbon dioxide emission levels are very low to zero, established a $250 million facility was established to promote renewable energy, and calls for increased transparency in the tracking and reporting of CO2 emissions. In addition, for high carbon intensity transactions (such as coal fired power plants), the Bank performs and early review of the potential climate change implications of the transaction under the Carbon Policy.

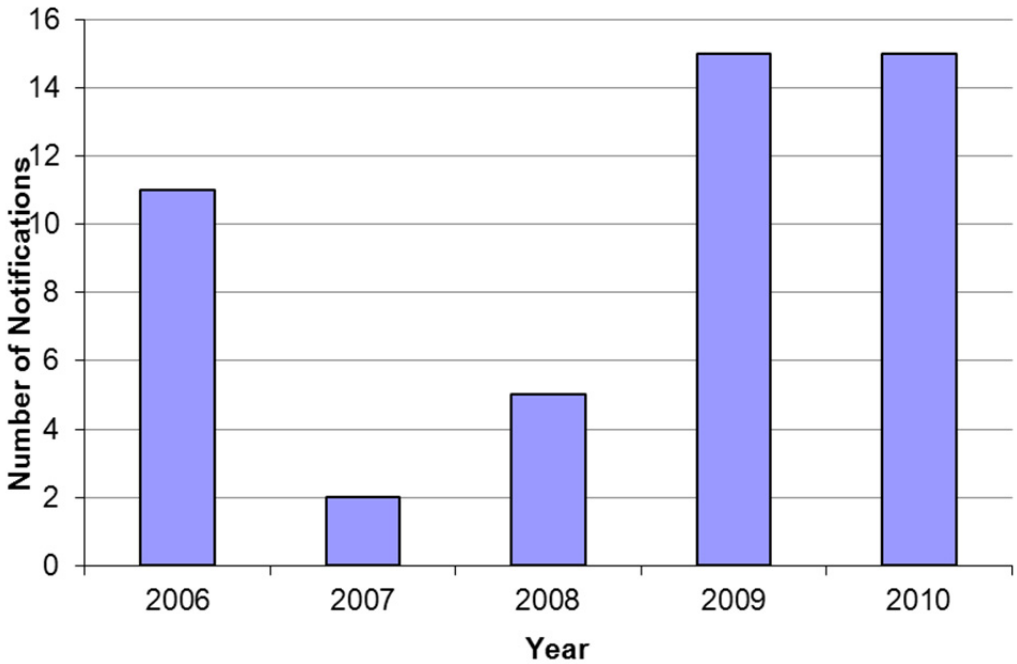
3. Streamlined Solar Financing Option: Solar Express was introduced by Ex-Im in April of 2010. This program provides project financing for small solar-power producers where the loan amount is at least $3 million and less than $10 million. Recognizing that for small transactions, the expense of due diligence and advisory fees often times makes project financing cost prohibitive, the Bank created Solar Express. Eligible transactions are subject to a streamlined application review which can result in a case processing time of as little as 60 days.

4. Marketing efforts: Participated in renewable energy conferences hosted by industry participants, trade organizations, and other USG agencies, presented at numerous conferences, and in December 2010 Ex-Im Bank joined in with seven other USG agencies to launch the Renewable Energy and Energy Efficiency Export Initiative.

G-7 ECAs

As **Figure J2** illustrates, the number of Renewable Energy Notifications by G-7 OECD ECAs has been growing. This parallels the increase in the total value of Ex-Im Renewable Energy authorizations in **Figure J1**. Note that these figures only refer to official export credits for renewable energy.

Figure J2: Total G-7 OECD ECA Renewable Energy Notifications by Year



Source: OECD

Appendix K: Legal and Regulatory Requirements

Pursuant to the 2010 Advisory Committee recommendation that Ex-Im Bank include an appendix in the Competitiveness Report that sets out the legal and regulatory requirements related to the production of the Competitiveness Report, below is a listing and, where appropriate, a description of the requirements associated with the Competitiveness Report.

Ex-Im Bank Charter Requirements

Section 8A of the Ex-Im Bank Charter requires that the Bank submit to the appropriate congressional committees a report assessing Ex-Im's competitiveness relative to the "major export-financing facilities available from other governments and government-related agencies through which foreign exporters compete with United States exporters" no later than June 30 of each year. Section 8A also stipulates that the report include a discussion of the following:

An Assessment of the Bank's actions to provide competitive financing and minimize competition in government-supported export financing, including:

(1) An Assessment of the Bank's actions to provide competitive financing and minimize competition in government-supported export financing, including:
    - an overview of major export credit programs offered by other ECAs (including countries whose governments are not members of the Arrangement) [henceforth referred to as "major ECAs"];
    - estimates for the annual amounts of export financing available from each major ECA;
    - a survey of a representative number of lenders and exporters on the experience of the exporters and institutions in meeting financial competition from other major ECAs.

(2) The Bank's role in implementing the Strategic Plan prepared by the Trade Promotion Coordinating Committee (TPCC).

(3) Ex-Im Bank's Tied Aid Credit Program and Fund report required by Section 10(g), including:
    - the implementation of the Arrangement restricting tied aid and partially untied aid credits for commercial purposes;
    - all principal offers of tied aid credit financing by foreign countries during the previous one year period, including all offers notified by countries participating in the Arrangement;
    - any use by the Bank of the Tied Aid Credit Fund to match specific offers, including those that are grandfathered or exceptions under the Arrangement;
    - other actions by the United States Government to combat predatory financing practices by foreign governments, including additional negotiations among participating governments in the Arrangement.

(4) Description of the purpose of all Bank transactions (e.g. correct a market failure or provide matching support).

(5) The Bank's Renewable Energy export promotion, including the analysis of the level of credit extended by the Bank for renewable energy projects with the level of credit so extended for the preceding fiscal year.
(6) Size of Bank Program Account
    - Comparison of the Bank's size relative to that of other major ECAs
    - If appropriate, recommendations with respect to the relative size of the Bank program account, based on factors including whether the size differences are in the best interests of the United States taxpayer
(7) Co-financing
    - A list of countries with which the United States has in effect a memorandum of understanding for ECA co-financing
    - If such a memorandum is not in effect with a country with a major ECA, an explanation as to why one is not
(8) Description of the Services supported by the Bank and other major ECAs
(9) Cases reported to the Bank not in compliance with the OECD Arrangement or appear to exploit loopholes in the Arrangement
(10) Foreign ECA activities out of compliance with the WTO Agreement on Subsidies and Countervailing Measures

Lender and Exporter Competitiveness Survey

With regard to the lender and exporter Competitiveness Report survey, Section 8A(a)(1) requires the report to include a "survey of a representative number of United States exporters and United States commercial lending institutions which provide export credit on the experience of the exporters and institutions in meeting financial competition from other countries whose exporters compete with United States exporters."

Regulatory Survey Requirements: The Paperwork Reduction Act (PRA)

All federal public organizations must comply with the Paperwork Reduction Act (44 U.S.C. Chapter 35) to ensure that information collected from the public "minimizes burden and maximizes public utility." [1] The PRA dictates that organizations must have Office of Management and Budget (OMB) approval before collecting information from the public. Organizations must display the current OMB control number on the collection documents.

Under the PRA, OMB-approved collections must be reevaluated through the Information Collection Request (ICR) process at least every three years. Any material changes to the collection (e.g. change in collection instrument, instruction, frequency of collection, use of information collected) also require reevaluation by the OMB.

[1] General Services Administration. "Paperwork Reduction Act (PRA)." 17 Jun. 2010. http://www.usa.gov/webcontent/reqs_bestpractices/laws_regs/paperwork_reduction.shtml

The PRA Information Collection Request (ICR) Review Process

There are several steps to submitting an Information Collection Request (ICR) to the OMB. Prior to submission, an agency must first publish a 60-day notice in the *Federal Register* to obtain public comment. Any comments should then be addressed in the ICR application to the OMB. Once the ICR has been submitted, the OMB has a total of 60 days upon receipt of an ICR to make a decision. An agency must also place a second notice in the *Federal Register* for a public comment period of 30 days. This notice runs concurrent with the first 30 days of OMB review. Thus, agencies should allow at least 120 days for the review process, plus additional time for preparing the ICR and time lags for publication in the *Federal Register*. The internal agency review procedures must also be factored into a survey's completion schedule. A six month period from ICR completion to OMB approval is fairly common, but this varies significantly across agencies. [2]

The E-Government Act: Privacy Impact Assessment (PIA) Requirement

The E-Government Act requires agencies to conduct a Privacy Impact Assessment (PIA) before initiating a new electronic collection of information in identifiable form from 10 or more members of the public. A PIA is an analysis of how information is handled. It must describe:

- what information is being collected
- why the information is being collected
- intended use of information
- with whom the information will be shared
- opportunities participants have to decline participation (voluntary/non-voluntary) and how participants can grant consent
- manner in which the information will be secured
- identification of the choices the agency made regarding an IT system or collection of information as a result of the PIA analysis

It is not necessary to submit a new PIA for simple renewal requests under the Paperwork Reduction Act. Agencies must separately consider the necessity of an updated PIA when amending an ICR to collect information that is "significantly different in character than the original collection." A PIA should be undertaken when an update creates new privacy risks in the form of a significant system change (e.g. a change in information collection authorities, new interagency uses, requesting additional identifiable information, converting paper-based records to electronic formats). [3] Agencies may submit a joint ICR and PIA to OMB if a PIA is deemed necessary.

[2] Office of Management and Budget. "Memorandum for the President's Management Council: Guidance on Agency Survey and Statistical Information Collections." 20 Jan. 2006. Web.
[3] Office of Management and Budget. "Memorandum for the Heads of Executive Departments and Agencies: M-03-22, OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002." 23 Sep. 2003. Web.