

**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, 2001 THROUGH DECEMBER 31, 2001**

JULY 2002



EDUARDO AGUIRRE
VICE CHAIRMAN

EXPORT-IMPORT BANK
OF THE UNITED STATES

July 10, 2002

Dear Chairman Sarbanes and Chairman Oxley:

Pursuant to Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to submit the Competitiveness Report for the period January 1, 2001 through December 31, 2001.

Sincerely,

A handwritten signature in cursive script, appearing to read "E. Aguirre".

Eduardo Aguirre
Vice Chairman

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

The Honorable
Michael Oxley
Chairman, Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

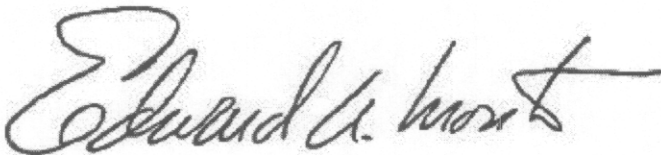
**THE 2002 ADVISORY COMMITTEE'S STATEMENT ON THE
COMPETITIVENESS REPORT OF
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

The members of the 2002 Ex-Im Bank Advisory Committee, having reviewed the Competitiveness Report for Calendar Year 2001, would like to put forward the following statement on the competitiveness of the Bank with regard to other major export credit agencies (ECAs):

The Advisory Committee supports the conclusion of the Report that the Ex-Im Bank remains competitive vis-à-vis the other major ECAs. Many of the Advisory Committee members have had extensive experience with Ex-Im Bank programs and believe that – with the possible exception of tied aid – the Bank offers support that is highly competitive in its risk coverage, financial terms and pricing for all categories of borrowers. To better support this conclusion, however, the Advisory Committee would like to see in future Competitiveness Reports quantifiable measures of competitiveness – e.g., loss ratios as a measure of risk appetite.

The Advisory Committee notes the Report's findings that certain non-financial factors continue to impact Ex-Im Bank and could impair its competitiveness long-term if not properly addressed. The Advisory Committee also recognizes, however, that many of these non-financial factors are geared towards addressing other public policy objectives.

Ex-Im Bank has a critical role in facilitating U.S. exports and in creating and maintaining U.S. jobs. As such, the Bank should be both aggressive and creative in meeting competition, and it should partner with the private sector to meet market needs. The Bank must expedite the advancement of its information technology capabilities to make internal processes more efficient and to deliver trade finance to the marketplace effectively. Further, it is essential that the Bank continue to “fill the gap” in the volatile emerging markets where private sector financial institutions cannot accept risk.



Edward A. Monto
Chairman
2002 Ex-Im Bank Advisory Committee

Table of Contents

Executive Summary	1
Introduction: Ex-Im Bank and Competitiveness	3
Part 1: Standard Official Export Credit:	
A: Country Cover Policy and Risk-Taking Practices	6
B: All-In Cost	11
C: Content Policies - Foreign Content and Local Costs	16
Part 2: Official Export Credit for Large Commercial Aircraft	22
Part 3: Trade-Related Aid.....	27
APPENDICES:	
A: G-7 Official Export Credit Institutions.....	36
B: Exporter and Bank Survey Overview and Methodology	43
C: Progress Towards Reducing Government Supported Export Credit Subsidies	47
D: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions in 2001	53
E: Human Rights and Other Foreign Policy Considerations	56
F: Equal Access for U.S. Insurance.....	57
G: The Trade Promotion Coordinating Committee	58
H: Tied Aid.....	59
I: Market Windows	75
J: Co-Financing.....	78

Executive Summary

This report provides an analytical assessment of the competitiveness of the Export-Import Bank of the United States (Ex-Im Bank), from both an objective perspective, based on published program and policy information on the foreign export credit agencies (ECAs), and a more subjective perspective as perceived by Ex-Im Bank program users. ECA competition generally centers on medium- and long-term business in developing countries. Ex-Im Bank gauges its competitive position in relation to the official ECAs of the G-7 countries, which provided, on average over the last ten years, 80% of the medium- and long-term official export credits of the OECD countries.

Taking a broader view, calendar year 2001 was characterized by widespread review of the basic mission and scope of virtually every G-7 ECA. Although the goals and reasons for the changes are not fully transparent in many of these situations, there appear to be two major tendencies emerging. Specifically:

- ◆ The ECA world is becoming more disciplined financially and budgetarily, though not necessarily more constrained in volume. This discipline generally takes the form of applying transactional reserves to a capital base to ensure “good practice” in overall resource allocation.
- ◆ There is a broader connection to social concerns in general. While this tendency was most obviously exhibited in 2001 with regards to the environment, the movement also applied to other topics such as human rights and sustainable development.

Specific programmatic and policy findings of this year’s *Competitiveness Report* can be summarized as follows:

Cover Policy

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

All-in Cost

Ex-Im Bank is quite competitive in terms of all-in cost with the other major ECAs. The level playing field created by the Commercial Interest Reference Rate (CIRR) and exposure fee rules helps ensure that borrowers see about the same all-in costs regardless of the ECA providing official support. While the sovereign exposure fee floor for Ex-Im Bank’s “above standard”

products is higher than that for ECAs that offer “standard” or “below standard” products, this cost is neutralized by the lower interest rates available under Ex-Im Bank’s 100% pure cover guarantee. There are two key characteristics of the all-in cost components. First, the United States is generally offering the best all-in rate on non-sovereign transactions. Second, in some transactions, the potential for cross-subsidy in interest make-up may unlevel the playing field and put U.S. exporters at a competitive disadvantage.

Content Policy

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

Aircraft

Ex-Im Bank financing for large aircraft exports is generally competitive with financing offered by its European counterparts.

Tied Aid

While the Helsinki Package has successfully disciplined the provision of tied aid credits, reducing overall volumes and directing aid to countries and sectors that cannot sustain market financing, trends within the past few years indicate a willingness among some countries to consistently devote significant resources to providing tied aid. In addition, some countries may be using carve-outs to the Helsinki disciplines to provide aid credits to commercially viable projects (and gain long-term commercial advantages). Further, OECD negotiations made little progress in 2001 on controlling practices of concern. Hence, Ex-Im Bank’s tied aid policies and practices in 2001 appear less than fully competitive in comparison to those of other countries.

Introduction

INTRODUCTION

Pursuant to its charter (the Export-Import Bank Act of 1945, as amended) Ex-Im Bank is mandated to provide U.S. exporters with financing terms and conditions that are competitive with those financing terms and conditions provided by foreign governments to their exporters. The purpose of this report, which is required by Section 2(b)(1)(A) of the charter, is to measure the effectiveness of Ex-Im Bank's programs and policies in meeting the competitiveness mandate during calendar year 2001.

Methodology and Scope

In preparing this report, Ex-Im Bank draws upon: (1) policy and programmatic information of other export credit agencies (ECAs) obtained from a variety of sources, including publications that report on activities and trends in the official ECA arena; and (2) anecdotal information provided by the U.S. export community based on transactional experience throughout calendar year 2001. The latter information is gathered by a survey of the export community conducted by Ex-Im Bank specifically for this report. Accordingly, this report provides an analytical assessment of Ex-Im Bank's competitiveness from both an objective perspective, based on published program and policy information on the foreign ECAs, and a more subjective perspective as perceived by Ex-Im Bank program users. This approach lends itself to translating abstract standards of competition to real world experiences that directly impact U.S. exporters seeking official financing support from Ex-Im Bank.

ECA competition generally centers on medium- and long-term business in developing countries. Ex-Im Bank gauges its competitive position in relation to the official export credit agencies of the G-7¹ countries. The comparison is limited to the G-7, because these countries have provided, on average over the last ten years, 80% of the medium- and long-term official export credits of the Organization for Economic Cooperation and Development (OECD) countries. More specifically, the focus is on medium- and long-term export credits, because such activity supports predominantly capital goods export transactions (where there is a substantial possibility of international competition). Moreover, most G-7 ECAs no longer operate official export credit programs for short-term transactions. Quantitative comparisons and information on the G-7 ECAs can be found in **Appendix A** of this report.

¹ The G-7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

CONTEXT: STATE OF THE ECA WORLD

Background

An important component of any discussion of Ex-Im Bank competitiveness is the OECD Arrangement on Guidelines for Officially Supported Export Credits, also known simply as the “Arrangement.” The Arrangement is a “gentleman’s agreement” that defines the ground rules for all OECD-member countries that participate. In the Arrangement’s twenty-plus years of existence, the U.S. negotiators to the Arrangement have strived to reduce many of the market-distorting aspects of officially supported export credits. Among the successes of the U.S. negotiators are: a market-oriented interest rate system; a harmonized risk-differentiated fee regime; a reduction in the incidence of trade-distorting tied aid; and limitations on the length of repayment terms of officially supported export credits. The U.S. Treasury Department has estimated that these rules save the U.S. government about \$800 million in expenditures per year.

These negotiating successes have also served the U.S. export community well, as reflected by many of the findings of this report. Outside these technical aspects of export credit policy, however, are areas in which philosophical and structural differences with other G-7 economies and ECAs have generated competitive challenges to U.S. exporters. These differences historically have been manifest in, for example, other ECAs adopting less restrictive approaches to content policies and the willingness of some ECAs to exploit loopholes in the rules of competition, such as untied aid and market window activity.

Trends in 2001

A major trend affecting the ECAs in 2001 was the widespread review of the basic mission and scope of these institutions. While the reasons for these reviews tended to vary widely among the entities (government-wide reform and reorganizing in Japan, institutional revitalization in Italy, repositioning regarding civil society in Canada and the United Kingdom, re-chartering in the United States, and EU integration in Germany), in 2001 every G-7 system save one was just emerging from, in the midst of, or about to begin a process that would have a fundamental bearing on either the missions or operations of these entities.

Although the goals and reasons for the changes are not fully transparent in many of these situations, there appear to be two major tendencies emerging. Specifically:

- ◆ The ECA world is becoming more disciplined financially and budgetarily, though not necessarily more constrained in volume. This discipline generally takes the form of applying transactional reserves to a capital base to ensure “good practice” in overall resource allocation.
- ◆ There is a broader connection to social concerns in general. While this tendency was most obviously exhibited in 2001 with regards to the environment, the movement also applied to other topics such as human rights and sustainable development.

When such reviews have been conducted in the past, the process has tended to make the affected institution somewhat more risk averse and somewhat less oriented to the development of new programs and initiatives. Looking forward, the expected impacts over the near to mid-term might include:

- ◆ more competition for better risk transactions (e.g., well structured project finance deals and known corporates and sovereigns) and less competition for more marginal risks;
- ◆ less “aid intrusion” (most directly connected to the budget tightening in Japan); and
- ◆ greater incidence of transactions and borrowers for which broader considerations (than credit) have a major impact on the resolution.

In effect, calendar year 2001 was a year of transition for many ECAs, as they moved into the 21st century. The ECA emerging in 2001 appears more market sensitive – both in customer service orientation and financial discipline – but has yet to find a growth niche (except for those supporting sales into the United States). Moreover, at the end of 2001, the major concerns of this new ECA seem much less in the new business area and much more in how to manage the turmoil and restructuring affecting current assets worldwide. This ECA tends to be financially careful, user friendly, but highly selective in terms of risk-taking.

Ex-Im Bank is positioned competitively in this world. The United States has gone through similar exercises over the past decade, and Ex-Im Bank is operating competitively within its parameters in a broad span of markets and businesses.

REPORT

This report proceeds in the following manner. Part 1 is comprised of individual analytical sections that provide an assessment of Ex-Im Bank competitiveness with respect to core ECA competitiveness issues: country cover policy and risk-taking willingness, the all-in cost of an export credit, and ECA content requirements (including recent co-financing initiatives). These sections compare Ex-Im Bank programs, policies and practices with those of foreign ECAs. The following sections focus on large commercial jet aircraft and on tied aid. Finally, the report includes a series of appendices including descriptions of and data from the G-7 official export credit institutions, a summary of the state of play of international negotiations on export credit issues and a variety of other factors that impact Ex-Im Bank’s overall competitiveness.

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

INTRODUCTION

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

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

EVALUATION OF OBJECTIVE DATA

Country Cover Policy

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

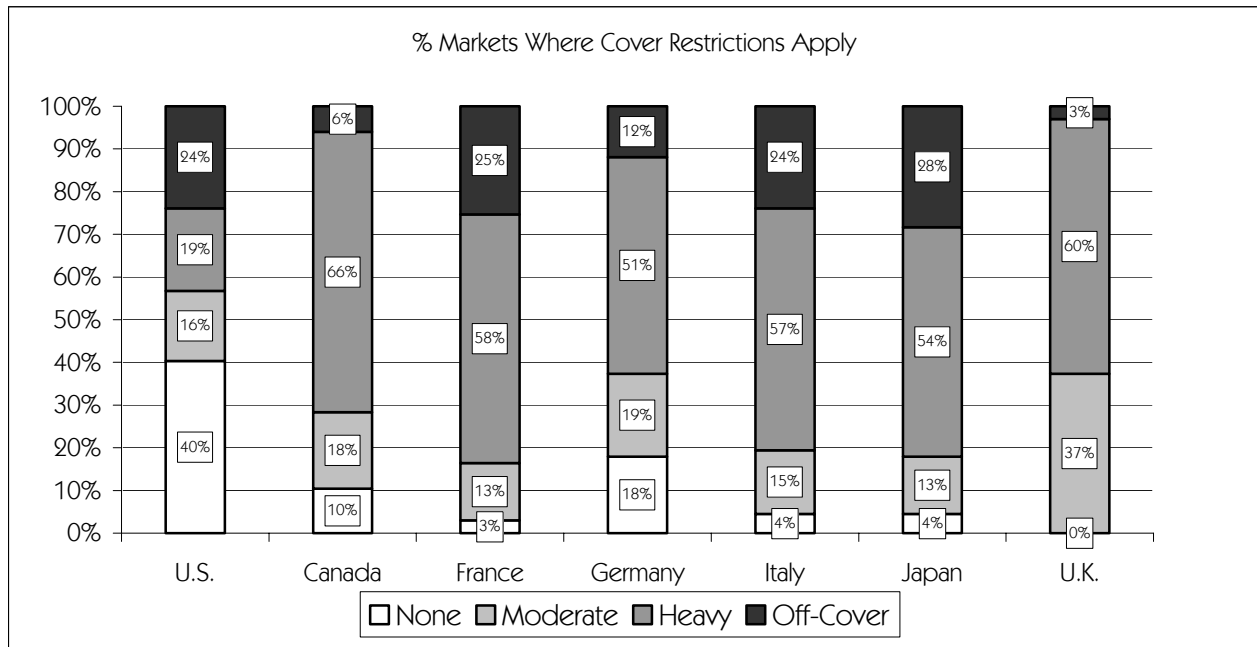
- ◆ National/foreign policy interests in specific transactions;
- ◆ Traditional economic ties (e.g., former colonial relationships); and
- ◆ Official export philosophy (e.g., an aggressive policy on supporting exports may bias risk assessment towards optimism).

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

Ex-Im Bank takes a different approach to country cover policy. The goal for Ex-Im Bank is to provide financing for creditworthy export transactions, regardless of destination, when there is foreign ECA supported competition or when private sector finance is unavailable. In other

words, restrictions on the provision of Ex-Im Bank cover in a given market pertain to creditworthiness issues, as opposed to portfolio controls. Ex-Im Bank will, once open in a market for a given repayment term, support transactions, without size or country limits, so long as a reasonable assurance of repayment and additionality in each transaction. This difference in approach is reflected in **Figure 1**, which illustrates the overall openness of the G-7 ECAs by comparing cover policy in 2001 for a sample of 67 major ECA markets.

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



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

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

As illustrated in **Figure 2**, Ex-Im Bank was legislatively prohibited from doing business for most of 2001 in five markets in the 67-country sample. One significant change in U.S. policy was the

lifting of sanctions against Pakistan in the fall of 2001. Nonetheless, legislative prohibitions continued to pose a competitive disadvantage to U.S. exporters, with one more G-7 ECA open in each of Cuba, Iran and Libya during 2001. While no G-7 ECAs were open in Cuba in 1999, half of the other G-7 ECAs are currently on cover there. In addition, half of the other G-7 ECAs are now open in Libya and all of the other G-7 ECAs are now open in Iran.

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

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

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

Commercial Risk-Taking Practices

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

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

Figure 3: ECA Risk-Taking Practices

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

Ex-Im Bank seeks to minimize the requirement for a bank guarantee to minimize the associated costs of these guarantees on U.S. exporters. Ex-Im Bank, therefore, must evaluate borrowers in detail. Conversely, most ECAs prefer to focus on well-known or rated entities (which are

usually banks) or to rely (by requiring risk-sharing of 5%-20%) on the due diligence and underwriting approaches of the banks they cover.

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

EVALUATION OF SUBJECTIVE DATA

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

Exporter Surveys

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

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

Banker Surveys

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

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

CONCLUSION

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

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

INTRODUCTION

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

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

EVALUATION OF OBJECTIVE DATA

Interest Rates

CIRR Regime

Whenever a government provides direct interest rate support, whether as a direct credit, through interest rate support or refinancing, the interest rate charged is bound by the CIRR regime. The CIRR, or Commercial Interest Reference Rate, represents a market-related rate that is based on the secondary market yield for fixed rate government debt plus a fixed spread of 100 basis points (b.p.). The U.S. dollar, Canadian dollar and Euro CIRR rates are based on a three-tiered system¹. While the CIRR rates for other currencies are based on the appropriate 5-year government bond

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

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

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

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

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

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

Interest Rates Under Pure Cover

On pure cover transactions, i.e., those with only insurance or guarantee cover and no interest rate support, the interest rates under Ex-Im Bank's cover are generally lower than those of its competitors. Banks lending under Ex-Im Bank's guarantee take no risk on the guaranteed portion due to the fact that the guarantee is a 100% comprehensive guarantee. In contrast, most

other ECAs offering pure cover only offer 95% insurance cover that is conditional. **Figure 4** provides an illustration of the range of pure cover products offered by the G-7 ECAs².

Figure 4: Spectrum of G-7 Pure Cover Products

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

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

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

Exposure Fees

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

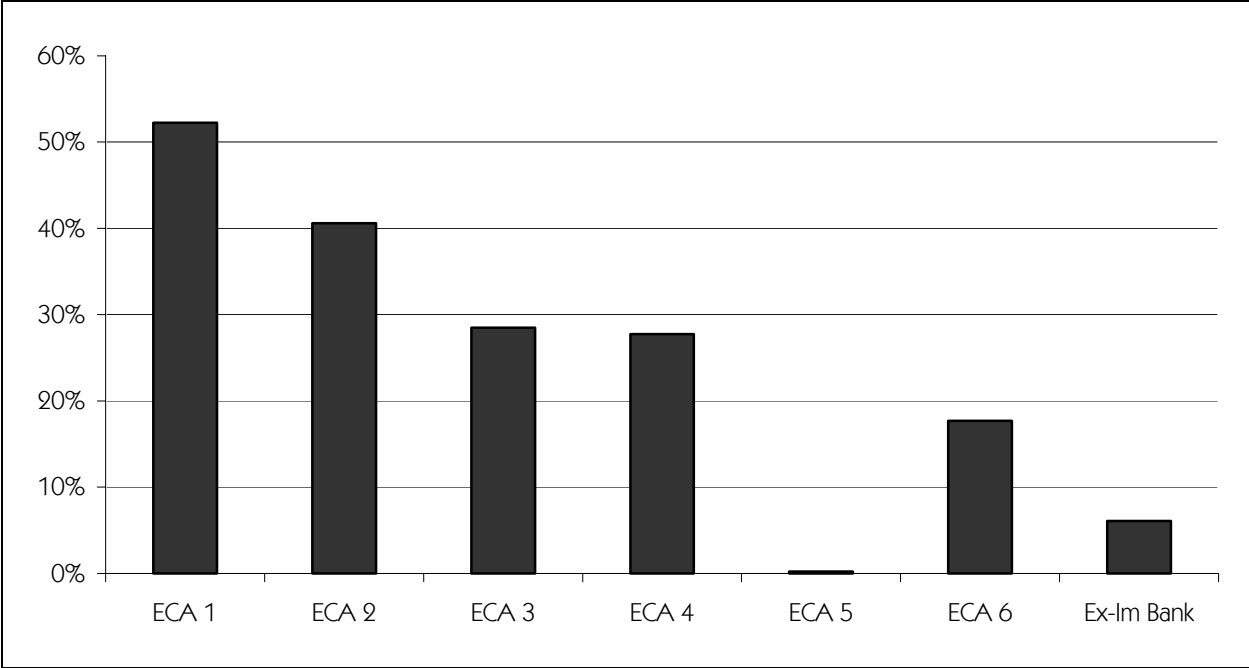
As mentioned above, however, ECAs offer different types of financing products. Fees are thus further differentiated by the quality of the ECA product (guarantees, loans or insurance) and by the percentage of cover provided (100% versus something less, usually 95%). These differences reflect the fact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

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

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

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

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



EVALUATION OF SUBJECTIVE DATA

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

Interest Rates

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

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

Exposure Fees

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

All-In Costs

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

CONCLUSION

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

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

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

INTRODUCTION

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

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

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

EVALUATION OF OBJECTIVE DATA

Foreign Content Policy

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

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

Foreign Content Procedural Changes

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

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

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

Recent Trends

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

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

Competitor Practices

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

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

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

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

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

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

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

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

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

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

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

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

Local Costs Policy

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

Prior to 2001, Ex-Im Bank’s policy was to provide up to 15% of the U.S. export value in local costs support only in circumstances where the U.S. exporter could prove official foreign ECA competition supporting local costs or evidence of non-availability of commercial sources of

funding for local costs (with limited exceptions for the environmental exports and engineering multiplier program and for project finance transactions).

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

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

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

*Medium-Term Transaction

**Project Finance Transaction

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

Competitor Practices

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

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

EVALUATION OF SUBJECTIVE DATA

Exporter and Bank Survey Findings

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

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

CONCLUSION

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

Part 2: Official Export Credit for Large Commercial Aircraft

INTRODUCTION

Large Commercial Aircraft

In the context of officially supported export credits, the term “large aircraft” refers to airplanes with 70 seats or more¹. Today there are two primary producers of large aircraft in the world – Boeing in the United States and Airbus Integrated Company (Airbus) in Europe. Airbus is a corporation owned by two European aerospace companies: the European Aeronautic Defence and Space Company (EADS; the result of a merger in 2001 between Aerospatiale-Matra of France, DaimlerChrysler Aerospace of Germany and CASA of Spain) and BAE SYSTEMS of the United Kingdom. The Russians also build large aircraft, however, their products do not compete globally with U.S.- and European-produced aircraft.

As illustrated in **Figure 9**, Boeing and Airbus have accounted for roughly equal shares of large aircraft orders over the past five years. This 50/50 split of orders reflects the highly competitive environment in which large aircraft manufacturers operate. The downward trend in orders that began in 2001, and that is expected to continue over the near term, creates additional competitive pressure on both Boeing and Airbus to provide aircraft that meet their customers’ technical requirements, at the lowest possible price and with an attractive financing package.

Figure 9: Orders of Large Commercial Jet Aircraft

	1997	1998	1999	2000	2001
Boeing	568 (55%)	656 (54%)	391 (45%)	611 (54%)	334 (47%)
Airbus	460 (45%)	556 (46%)	476 (55%)	520 (46%)	375 (53%)
Total	1,028	1,212	867	1,131	709

U.S. Aerospace Industry

The aerospace industry is associated with high-skilled and high-paying jobs that contribute significantly to U.S. economic growth and national security interests. In terms of international trade, the aerospace sector consistently generates a net positive impact on the U.S. trade balance. During 2000 and 2001, U.S. civil aerospace exports exceeded U.S. civil aerospace imports by \$21.7 billion and \$21.9 billion, respectively. Boeing is both the largest U.S. aerospace company and the largest U.S. exporter. During 2001, Boeing delivered 526 commercial aircraft of which 163 (or 31%) were delivered to foreign buyers. Exports (by number of aircraft deliveries) have accounted for 30% or more of Boeing’s deliveries since 1998 and Ex-Im Bank has supported

¹ Comparably sized aircraft configured for carrying cargo are also included in the definition of large aircraft.

approximately one-quarter of Boeing's export deliveries over each of the past four years (see Figure 10).

Figure 10: Deliveries of Boeing Commercial Jet Aircraft (By Number of Aircraft)

	1998	1999	2000	2001
Domestic	252 (45%)	356 (57%)	283 (58%)	370 (70%)
Foreign	311 (55%)	264 (43%)	206 (42%)	157 (30%)
% of Foreign Deliveries Supported by Ex-Im Bank	20%	27%	27%	32%
Total	563	620	489	527

Availability of term financing is a key variable that impacts the success of the U.S. aerospace industry in winning export orders. Accordingly, international disciplines exist for officially supported export credits for large aircraft. These guidelines were established under the auspices of the OECD. The specific OECD guidelines are summarized below, followed by a description of how the U.S. and European export credit agencies implement these guidelines and the volume of large aircraft supported through officially supported export credits.

EVALUATION OF OBJECTIVE DATA

The Large Aircraft Sector Understanding

Because the financing requirements of large aircraft exports differ from other manufactured products (e.g., significant capital costs and a longer useful life may justify longer repayment terms), the U.S. and European export credit systems negotiated an Annex to the OECD Arrangement dedicated to civil aircraft issues. The section of the Civil Aircraft Annex that pertains to large aircraft is known as the Large Aircraft Sector Understanding, or LASU for short. The principal participants to the LASU are the United States and the European Union, which, in this context, represents the interests of France, Germany and the United Kingdom.

The LASU establishes the terms, conditions and special guidelines of export credit support that OECD governments can extend to buyers of large aircraft. It sets the minimum cash payment of 15%, a market-based interest rate for loans extended by an export credit agency (set at 120 basis points and 175 basis points over 10-year treasuries for 10- and 12-year repayment terms, respectively) and a maximum 12-year repayment term. It also limits the amount of spare parts that can be included in the financing package and generally bans ECAs from providing tied aid financing for aircraft.

International Negotiations

While Ex-Im Bank and the European ECAs that support Airbus met regularly (two to three times per year) during the 1990's in an attempt to update the LASU (particularly with respect to establishing a risk-differentiated fee system), there have not been any formal bilateral meetings since June 1999.

Export Credit Agency Practices

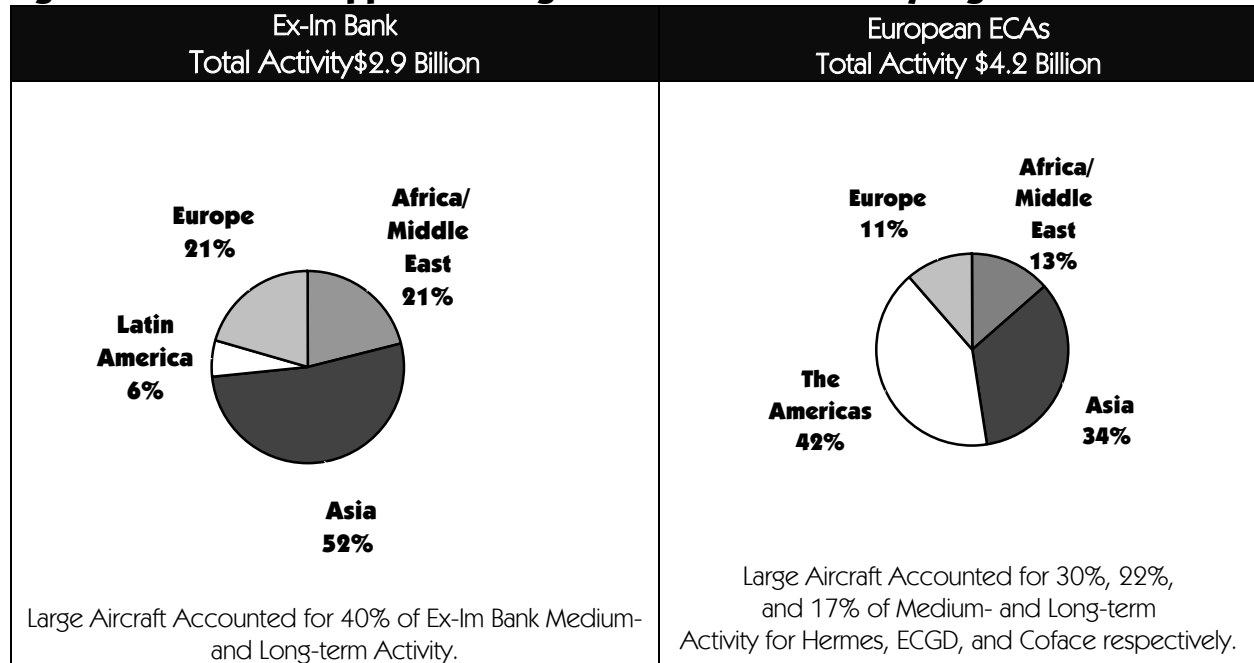
Although Ex-Im Bank and the European ECAs are subject to the same OECD guidelines, there are differences in the financing techniques each export credit system uses to support large aircraft transactions. These differences enable each side to capitalize on the relative strengths of its respective export credit system. For example, nearly all Ex-Im Bank support for large aircraft is done through the financial guarantee program, a financing option that provides lenders with 100% unconditional cover. This approach yields attractively priced financing on the Ex-Im Bank covered portion of the transaction.

The European ECAs provide a combination of insurance and guarantee support and offer financing enhancements, such as a free interest rate option. This option allows buyers to lock-in a fixed interest rate up to three years prior to delivery, provided the buyer has entered into a purchase contract with Airbus. Buyers may choose between this locked-in interest rate or another market-determined interest rate established between the time of contract signing and delivery of the aircraft. In a rising interest rate environment, the free interest rate option could yield significantly lower financing costs to the foreign buyer. Even in an interest rate environment in which the prevailing interest rates are falling or stable, the option is still an attractive feature of the European program since it represents a free hedge against rising interest rate costs.

The three European ECAs that support Airbus export sales have announced their intention to revise their official financing programs (including a modification to the duration of the free interest rate option) for large aircraft exports. These changes, which the Europeans will likely implement over the next year, are expected to yield financing terms and conditions that are more closely aligned with the Ex-Im Bank approach (e.g., shifting from a conditional insurance product to a guarantee product).

Export Credit Agency Activity

As shown in **Figure 11**, Ex-Im Bank and the European ECAs that support Airbus financed more than \$7 billion in large aircraft exports during the calendar year 2001. Of that amount, Ex-Im Bank accounted for \$2.9 billion (or 41%) and the European ECAs accounted for \$4.2 billion (or 59%). Large aircraft transactions supported by Ex-Im Bank were concentrated in Asia (52%), followed by Africa/Middle East and Europe (each accounting for 21%) and Latin America (6%). European ECA activity for large aircraft was distributed across regions as follows: the Americas (41%), Asia (34%), Europe (11%) and Africa/Middle East (14%). As noted, large aircraft support accounts for a significant share -- between 17% and 40% of medium- and long-term activity -- of all four ECAs that support the large aircraft sector.

Figure 11: 2001 ECA Support for Large Commercial Aircraft by Region

EVALUATION OF SUBJECTIVE DATA

Although there were only two survey responses that addressed the competitiveness of Ex-Im Bank programs and policies for large aircraft exports, the comments addressed several key issues. Specific comments included:

- ◆ The “financial” cost of Ex-Im Bank financing (i.e., interest rate and exposure fees) is competitive with the cost of financing provided by the European ECAs that support Airbus. On the other hand, the nature and cost of legal documentation associated with Ex-Im Bank financing appear to be more complex and more expensive when compared with the European export credit system. *[Note: Because legal fees are not governed by international agreement, the cost competitiveness of Ex-Im Bank in this area is not known. However, the LASU interest rate system, which yields margins of either 120 basis points for 10-year repayment terms or 175 basis points for 12-year repayment terms over 10-year treasuries, may provide a non-transparent means by which legal fees are charged on European-ECA supported large aircraft transactions. If so, these amount could easily rival the legal fees associated with Ex-Im Bank supported large aircraft transactions.]*
- ◆ With respect to foreign content, the European ECAs provide more flexibility (for example, the European ECAs finance the cost of U.S. engines on Airbus aircraft). Ex-Im Bank’s willingness, beginning in 2001, to allow foreign content to be calculated on an aggregate basis provides limited benefit to large aircraft transactions. Increasing the maximum foreign content allowance (without a reduction in cover) from 15% to 25% would benefit the aerospace industry.

- ◆ Regarding market windows, the survey respondents indicated that the lack of transparency associated with KfW financing prevents a definitive assessment of how market windows affect U.S. competitiveness. Nevertheless, anecdotal evidence suggests that KfW is a very important source of financing for Airbus aircraft.
- ◆ Improved Ex-Im Bank support for spare engines and spare parts (particularly in asset-based financing structures) would benefit the U.S. aerospace industry.

CONCLUSION

Ex-Im Bank financing for large aircraft exports is generally competitive with financing offered by its European counterparts. While the comments from the export community indicated that certain elements of Ex-Im Bank financing could be improved (e.g., lower legal fees and increased support for foreign content and spare engines/parts), the export community did not cite issues related to Ex-Im Bank financing as a reason for any lost U.S. export opportunity.

Over the next year, changes to the European system, which could have implications for Ex-Im Bank policies, procedures and overall competitiveness, are likely to emerge. As such, Ex-Im Bank will consult regularly with the European ECAs and monitor any changes the Europeans ECAs make with respect to financing for large aircraft exports, including the impact of market window financing on the U.S. large aircraft sector.

Part 3: Trade-Related Aid

INTRODUCTION

Definitions

Trade-related aid credits are concessional financial support from a donor country to a recipient country for the purposes of importing equipment necessary for a development project. Trade-related aid may be provided in two forms: tied and untied aid. Both forms can advance the recipient country's developmental goals, yet both, if undisciplined, can be highly trade-distorting.

Tied aid refers to government-to-government concessional financing of public sector capital projects in developing countries that is conditioned upon the purchase of equipment from suppliers in the donor country. Tied aid provided on generous terms to certain public sector projects can facilitate the development objectives of recipient countries; however, tied aid is trade-distorting if offered with the intention of subsidizing a domestic exporter to win a competition for an otherwise commercial project. The United States does not oppose tied aid flows that represent *bona fide* development assistance, even if some capital goods are included. Rather, the United States seeks to reduce (and hopefully eliminate) tied aid that is trade-distorting. The U.S. position on this topic is driven by two long-standing objectives for trade-related aid:

- ◆ Minimize trade-distorting tied aid because it disadvantages U.S. exporters, i.e., redirects business away from U.S. suppliers whose products are superior in quality and price.
- ◆ Minimize trade-distorting tied aid because it is a misallocation of both international and developing country resources. Furthermore, it results in higher contract prices, a capital-intensive development bias, and skewed technology choices.

The potential for tied aid to distort trade is most serious in cases where a donor government offers to provide relatively low concessionality¹ tied aid financing for projects that have the potential to borrow and repay on commercial terms, including standard official export credit terms, i.e., are commercially viable. Under these circumstances, a donor government's tied aid offer represents an attempt to "buy" a sale for its national exporters through the provision of subsidy to a recipient country.

Untied aid is the provision of concessional financing for public projects in developing countries that is not contractually tied to exports from the donor country. Provided in a fully transparent, open and objective manner, untied aid allows recipient countries to purchase the best products

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 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 of 35%.

available on generous financing terms. Of growing concern, however, is untied aid that is *de facto* tied and therefore trade-distorting, i.e., linked in a variety of informal ways to donor country suppliers. Some such informal linkages are: technical design compatible only with, or most conveniently with, donor country equipment; non-transparent bidding procedures; or quiet political pressure on the procurement decisions.

Context

The U.S. government actively participates in ongoing OECD negotiations that aim to discipline trade-related aid practices. In 1991, this work yielded the “Helsinki Package”, which limits the provision of tied aid to “non-commercially viable” projects in lower income countries. OECD negotiations in the mid-1980’s ensured that such aid must have a minimum 35% concessionality. Following aggressive implementation of the Helsinki tied aid rules, the systematic use of tied aid for export promotion has now been greatly reduced.

On the premise that untied aid should provide no competitive advantage, such aid has had no disciplines attached to it. However, over the past decade there has been considerable anecdotal evidence that untied aid is often linked to the donor country exporters *de facto*. Hence, negotiations as to whether, and if so how, to discipline untied aid have been a major focus of U.S. government efforts at the OECD during the last three years.

To complement the Helsinki Package, in 1992 Congress renamed the War Chest within Ex-Im Bank to the Tied Aid Capital Projects Fund (TACPF) and expanded its mandate to match tied aid that met the Helsinki rules when such action is in the trade or economic interests of the United States. However, reflecting the long-standing, bi-partisan U.S. position that the provision of trade-distorting tied aid subsidies is inherently bad economic policy, Ex-Im Bank does not use the TACPF to initiate tied aid. Whether to use the TACPF to leverage OECD negotiations for disciplines on untied aid is today one of the prime U.S. trade policy issues.

This chapter will:

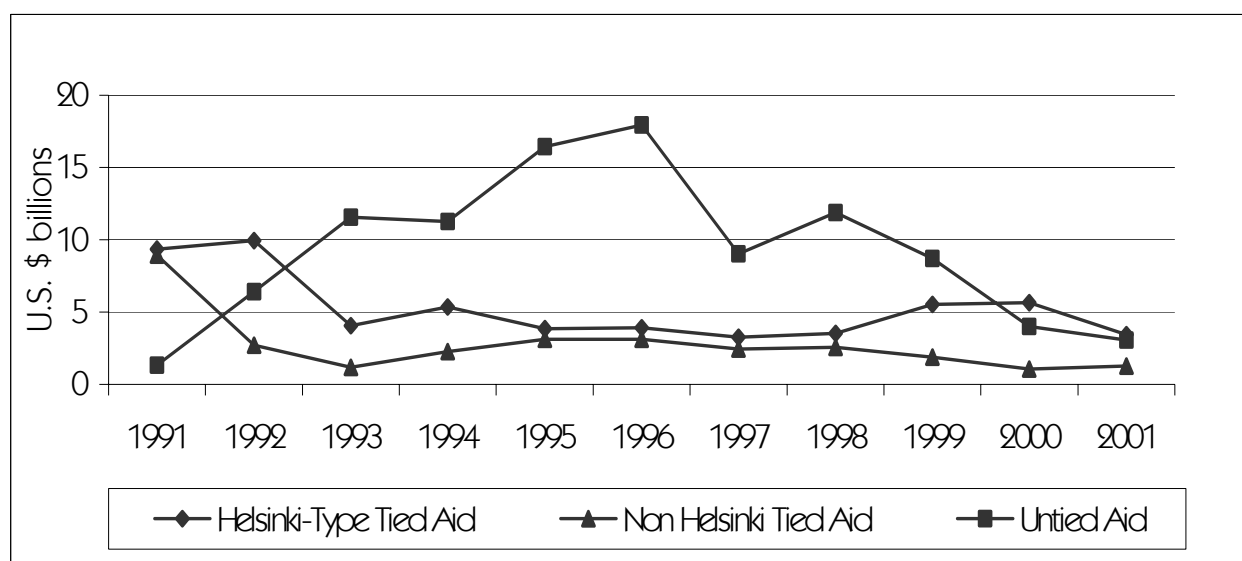
- ◆ evaluate trends in trade-related aid financing worldwide;
- ◆ review areas of concern to U.S. exporters confronting foreign trade-related aid; and
- ◆ summarize export community views on the competitiveness of the TACPF.

A more detailed discussion of the tied and untied aid negotiations and the use of the TACPF are found in **Appendix H**, which contains the Annual Report to Congress on tied aid use.

EVALUATION OF OBJECTIVE DATA

Trends in Trade-Related Aid Financing

This section reports on trade-related aid offers by foreign countries and examines the trends in those offers. **Figure 12** summarizes the trends by OECD agreement status.

Figure 12: Aid Credit Volume By Type

“Helsinki-type” tied aid is subject to three principal disciplines: 1) no tied aid for commercially viable projects; 2) minimum 35% concessionality; and 3) country limitation (no country recipients with a per capita income above \$2,995). Commercial viability is an important element of the tied aid rules, as concessional funding for commercially viable projects is considered the most potentially trade-distorting type of aid.

These disciplines are “enforced” through the OECD Tied Aid Consultations Group process (the Group is a working group of the Participants to the Arrangement). This process consists of a requirement that all proposed Helsinki-type aid credits be notified before being committed and, if challenged by a member, must have their commercial non-viability proven. The two key tests to determine commercial viability are: 1) whether the project is financially viable (able to support at least standard official export credit terms); and 2) whether financing would actually be available for the project on those same terms or market terms. Without a majority of the Group’s support for a conclusion on commercial non-viability, the project is considered ineligible for tied aid and tied aid financing is expected to be withdrawn.

“Non-Helsinki-type” tied aid includes: stand-alone *de minimis* projects (under approximately \$2.6 million); grants or near-grants (at least 80% concessionality); and partial grants (at least 50% concessionality) offered to the poorest countries (the UN declared Least Developed Countries, or LLDCs). These types of aid are normally considered to not have serious trade-distorting effects and, therefore, are exempt from the Helsinki rules regarding commercial viability and the consultations process (although all tied aid is subject to notification requirements, and *de minimis* tied aid still has to meet minimum concessionality and per capita income requirements).

While untied trade-related aid must be prior-notified under the OECD Arrangement, just like its tied aid counterpart, it is exempt from the other disciplines which pertain to tied aid. For example, untied aid credits need only have a minimum “grant element” level of 25% as

measured by the OECD Development Assistance Committee (DAC). This is equivalent to only 12-17% concessionality as measured by the tied aid rules. Furthermore, even this small real resource transfer is required, only if the donor wishes to count the untied aid as official development assistance (ODA) under the DAC rules. Therefore, the current lack of international disciplines for untied aid allows it to be used to provide a miniscule level of aid resource transfers, and such small subsidies potentially generate the most serious trade distortions. Commercial viability and country eligibility rules do not apply either. Untied aid is free to crowd out market term financing for commercially viable projects, and projects in wealthier developing countries with access to market-term financing. Moreover, untied aid credits are not subject to the OECD challenge and consultations process, although the United States has challenged, ex post, some untied aid offers as being *de facto* tied.

The year 2001 was remarkable in that the total volume of aid credits notified, at \$7.7 billion, was the lowest notified since the implementation of the Helsinki Package in 1992. Tied aid volume was \$3.4 billion, or only 40% of the pre-Helsinki level in 1991. Moreover, tied aid offered by all donors except Japan (which represents 95% of all tied aid offered before the Helsinki agreement), has declined from \$9 billion in 1991 to only \$1.5 billion last year. This is an 83% reduction in the national tied aid programs for which the tied aid rules were developed. This dramatic reduction in tied aid activity indicates that the Helsinki rules and their ongoing implementation have significantly disciplined the provision of aid credits, both reducing the overall volume of these credits and redirecting their use away from certain countries and sectors, as indicated in **Appendix H**, that can bear market or Arrangement terms. The tied aid that remains is concentrated in *bona fide* development sectors that are appropriate to receive aid, such as roads, water, health, education, etc.

The steep decline in total aid activity also resulted largely from changes in untied aid activity. Untied aid showed dramatic growth from 1992 through 1996, after which annual volumes began to decline. Since the implementation of the Helsinki rules in 1992, untied aid volumes rose from approximately \$1.3 billion to nearly \$13 billion in 1996. Subsequently, untied aid activity has fallen precipitously to only \$3 billion in 2001; and it appears that a significant amount of the reduction in untied aid since 1998 (about \$8 billion) has been shifted to tied aid, now making Japan the largest tied aid donor by far.

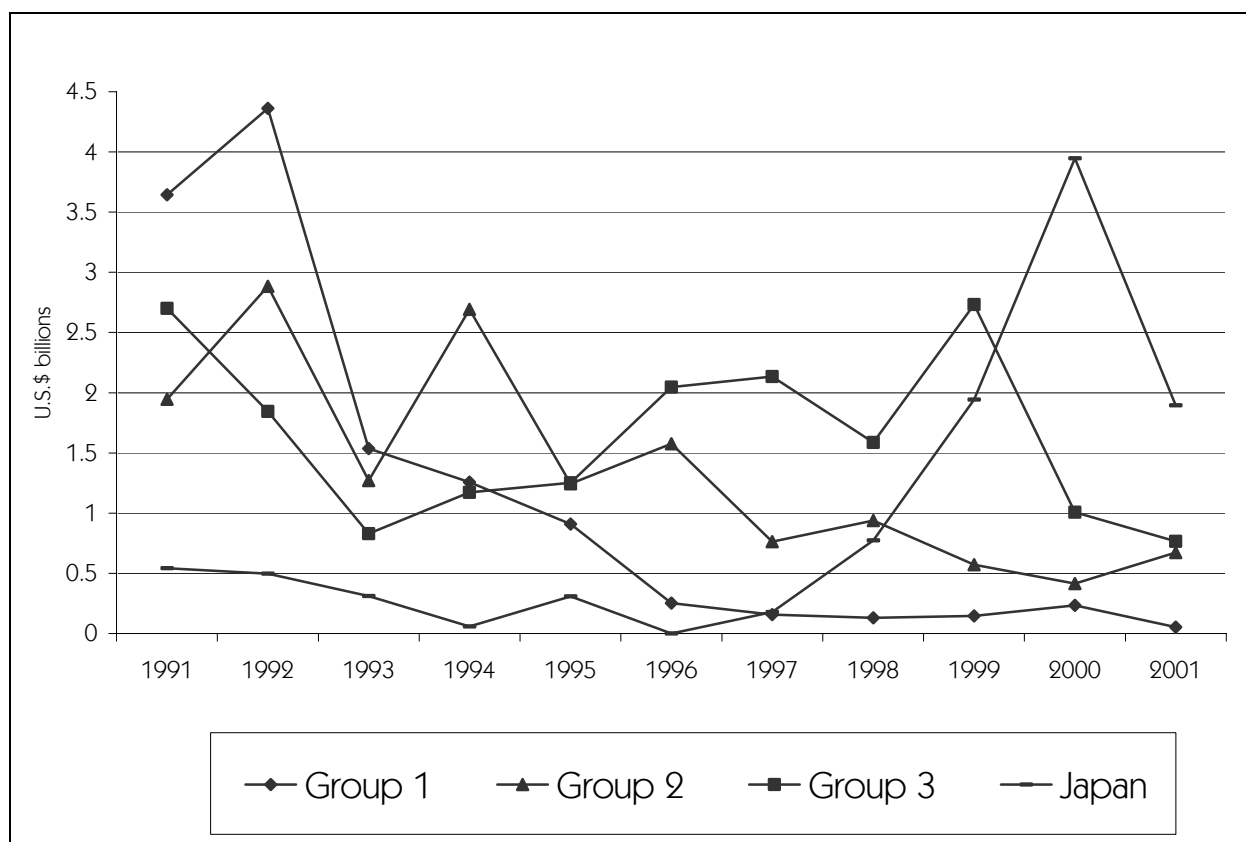
The annual volume of non-Helsinki-type tied aid has remained more or less constant since the implementation of the 1992 agreement, ranging from a high of \$3.1 billion in 1995 to a low of \$1 billion in 2000. Calendar Year 2001 saw a slight increase to \$1.3 billion.

Donor Countries

When viewed in the aggregate, the above numbers clearly indicate that the Helsinki disciplines have greatly reduced tied aid trade distortions in volume as well as sector and country terms, and helped optimize the allocation of scarce aid resources. That reduction is an unambiguous and major benefit to U.S. exporters. Cumulatively, since 1993, the Helsinki rules have reduced trade-distorting aid by about \$50 billion, and, as a result, it is estimated that U.S. capital goods exports financed on market related terms are \$1 billion higher each year than they would have been without these rules.

However, these overall trends mask widely varying profiles of tied aid volumes among groups of countries. As indicated below, post-1995 data shows four distinct trends among tied aid donors (see **Figure 13**). First, there is a group of countries that have taken the Helsinki rules as a signal to significantly reduce (if not cease altogether) the provision of tied aid credits. Second, a few countries have, since Helsinki's implementation, gradually reduced their previously heavy reliance on tied aid, although they continue to offer significant amounts of tied aid. Third, there is one group of smaller countries for which the Helsinki disciplines have had a bigger impact on reallocating the sectoral and country focus of tied aid than in reducing tied aid volumes. Within this group, individual countries' tied aid notifications tend to fluctuate over time without any continuing downward trend. This group is a mixture of countries that traditionally have been among the largest aid donors as a share of their GNP and those that have a stronger export promotion history. Finally Japanese tied aid activity has dramatically increased since 1998 on an order of magnitude not ever witnessed for any other country; while Japanese tied aid activity halved in 2001, it still dominates the OECD in terms of tied aid credit support.

Figure 13: Trends in Tied Aid Activity by Donor



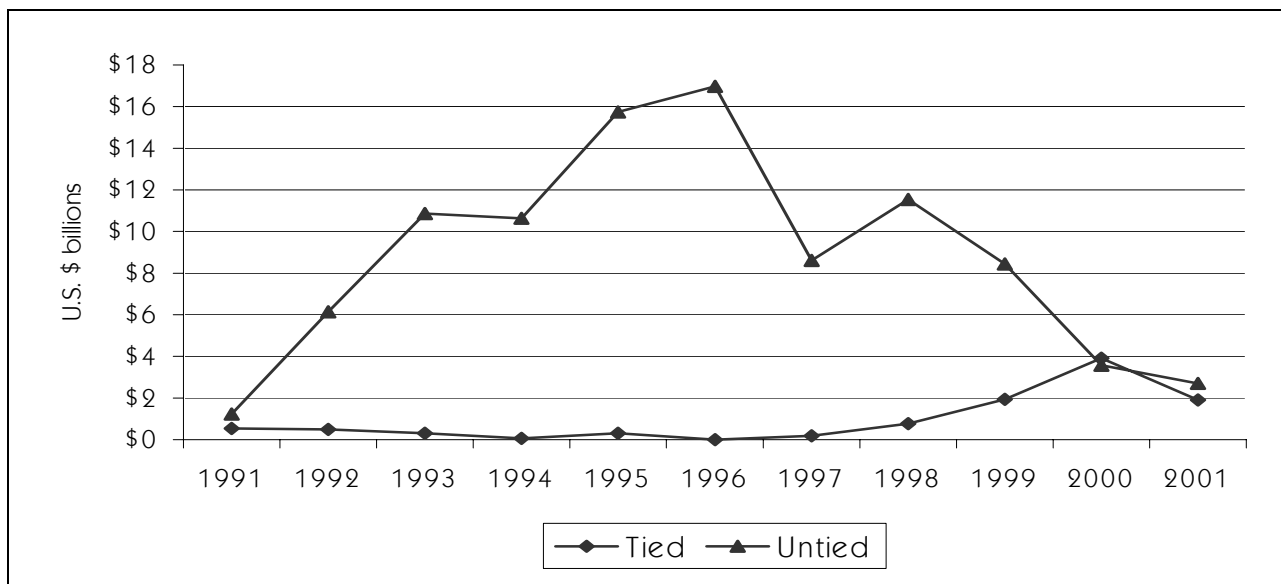
Group 1 consists of countries (Australia, Canada, Italy, Sweden, Switzerland, U.K., U.S.) that were players in the pre-Helsinki and immediate post-Helsinki periods and have now significantly scaled down their tied aid programs, notifying very few tied aid transactions per year (see **Figure 13**). Group 1's average tied aid volume in the 1992-1996 period was 46% of the 1991 level, while the 1997-2001 period's average decreased to 4% of 1991's level.

Group 2, France and Germany, has slowly but steadily decreased tied aid activity in the post-Helsinki period. While Group 2's 1992-1996 average tied aid volume was roughly equal to 1991 activity, in the 1997-2001 period that average dropped to 35%. Of some concern in 2001, however, is that this group was the only one to increase its tied aid activity, up 62% from 2000 to a total of \$672 million (though only 35% of 1991 activity).

There are several smaller countries (Spain, Austria, Belgium, Denmark, Netherlands) in Group 3 that have clearly not committed to the volume reductions in tied aid activity in the post-Helsinki era on par with others. Despite reallocating the project and country focus of its aid to conform to the tied aid rules, Spain remains by far the most aggressive user of tied aid in the group with respect to volume. Spanish tied aid averaged \$740 million annually (60% of its 1991 level) with a surge in its tied aid volume in 1999 almost equaling that of 1991 [change in dollar/SRD rate makes 1991 larger in dollar terms]. In addition to being the leading provider of tied aid from 1992 to 1999 (\$6.5 billion), Spain has been the second largest tied aid player after Japan since the implementation of the Helsinki package, with 18% of the total notified volume. From 1992 to 1996, Group 3's average tied aid volumes were 47% of the 1991 level. During the 1997-2001 period, the average volume was 61% of 1991's activity.

Finally, Japan stands alone as dominating aid finance in the post-Helsinki era. By 2000, the volume of Japanese tied aid jumped from an annual average of slightly over \$200 million between 1992-1997, to \$4 billion in 2000 – 70% of all OECD tied aid. In 2001, Japanese tied aid activity dropped by half to about \$1.9 billion; nonetheless, Japanese activity comprised 55% of the total tied aid in 2001, with France a distant second at 17%. From 1992 to 1997, Japan's average tied aid activity was 40% of its low 1991 level and reached zero in 1996. Remarkably, during the period from 1998 to 2001, Japanese tied aid financing soared to average over 400% of its pre-Helsinki total. In contrast, over this same period, all other donors together reduced tied aid to less than 20% of their collective pre-Helsinki total.

Figure 14: Japanese Aid



Japan's Intention with Aid

Japan averaged \$10 billion in untied support during the 1993-1996 period, with a drop to just under \$3 billion in 2001 (see **Figure 14**)². Japanese aid in the first years of the 21st century is under immense budget pressure, the impact of which is as yet undeterminable regarding volume and distribution.

Irrespective of the trends and shifts in Japanese aid, its total volume continues to dwarf all other players. More importantly, during 2001, the Japanese took several actions that raise critical questions regarding the use of its tied aid program and its support of the Helsinki disciplines. First, Japan committed untied aid to a project despite an on-going examination of the project's tying status by the OECD, which shortly thereafter led the Participants to conclude that the project was *de facto* tied aid and ineligible for tied aid. Japan also used a seldom-invoked OECD derogation procedure in order to use tied aid for a related project determined to be ineligible for tied aid. Finally, Japan converted several tied aid projects to untied aid projects after they were determined to be ineligible for tied aid by the OECD.

De Facto Tied Untied Aid

Of great concern is the view by many exporters that Japanese untied aid is *de facto* tied, i.e., untied aid provided in such a fashion that it is, in reality, tied. Illustrating this concern are three transactions referred to in the preceding section that Japan converted from tied to untied aid in 2001.

In 2000, Japan notified tied aid for three power projects in China that the United States, based on previous case-by-case experience, believed could be considered commercially viable and therefore not eligible for tied aid. Following normal procedures, the United States challenged these Japanese projects in the Consultations Group, in early 2001. After reviewing the cases, the Consultations Group considered the transactions commercially viable and ineligible for tied aid. Ten days later, Japan notified the Consultations Group that it was converting its support for the power projects from tied aid to untied aid. In addition to on-going concerns about the *de facto* tied status of untied aid, the ease and speed with which Japan was able to switch from tied to untied aid raises further concerns about whether there are really significant differences between the two forms of aid financing within the Japanese government.

Given the volumes of untied aid that will probably continue to be provided by Japan in the future – averaging over \$8 billion annually between 1995-2002, and the fact that Japan seems to be able to switch between its tied and untied aid programs with great ease, untied aid has become an issue of concern equal to what tied aid was prior to the Helsinki Package of disciplines. As a consequence of these and previous cases³, and the long-standing perception that some, if not

² Japan was the predominant provider of untied aid credits, at almost of 90% of the OECD total from 1992 through 2001. The untied aid figures for Japan include Other Official Flows (OOF). Japanese OOF comprises untied loans with usually zero concessionality that is used primarily for balance of payment financing. Japanese OOF comprises approximately 17% of the untied aid volumes in Figure 14 for the years 1995-2001.

³ See the 2000 *Competitiveness Report* for a description of the Severnaya power plant in Azerbaijan, for which Japan offered untied aid support that was determined by the Consultations Group to be not truly untied

much, of Japan's untied aid program is *de facto* tied, the United States has been advocating that the Participants extend the OECD tied aid disciplines to untied aid. These three disciplines are: 1) the commercially viable project prohibition; 2) the 35% minimum concessionality requirement; and 3) the country limitation on eligibility (no country recipients with per capita income above \$2,995). Given Japan's unwillingness thus far to bring discipline to untied aid, the United States is considering whether to make Japanese untied and tied aid a target of the TACPF as a means to promote agreement on OECD disciplines.

Non-Helsinki Tied Aid for Commercially Viable Projects

Non-Helsinki tied aid includes *de minimis* aid (under approximately \$2.6 million), aid to the least developed countries (LLDCs; such aid must have a minimum of 50% concessionality), tied aid credits that are more than 80% concessional and tied aid for ships. Cumulatively, since the implementation of the Helsinki rules, *de minimis* aid and aid to LLDCs has totaled approximately 20% of Helsinki-type tied aid. Considering that these credits are not subject to all of the Helsinki disciplines, there is some concern that these two exceptions provide an opportunity for donor countries to obtain market presence through tied aid credits in commercially viable sectors. U.S. exporters have raised concerns about the use of *de minimis* tied aid by other OECD donors in major markets such as China to establish footholds in new sectors or technologies. China represented the largest target market for *de minimis* notifications in 2001, with 53.6% of total volume notified. There is some implication of such use in the patterns of *de minimis* activity from the Group 3 countries of Spain, Austria, Denmark and the Netherlands. However, overall *de minimis* tied aid in 2001 declined to its lowest level since 1993 and totaled just under \$100 million.

Ex-Im Bank Tied Aid Activity

Figure 15: Ex-Im Bank Tied Aid Authorizations

	1997	1998	1999	2000	2001
Authorizations	2	1*	3	0	2
Amount Financed (U.S.\$ MM)	\$75.5	\$16.6*	\$54.7	0	\$59.3

*Authorization subsequently cancelled as bidding decision deferred.

Figure 15 provides details on Ex-Im Bank's authorizations for tied aid transactions in the past five years⁴. In summary, Ex-Im Bank has authorized eight transactions in the past five years, providing approximately \$200 million worth of official export credit support. This figure puts Ex-Im Bank on the top half of the donors over this period, but represents less than 1% of Helsinki tied aid activity in those years.

⁴During this five-year period, Ex-Im Bank notified a total of 13 tied aid offers with a value of \$368 million.

EVALUATION OF SUBJECTIVE DATA

Few survey respondents replied to questions about Ex-Im Bank's tied aid policy competitiveness. The few respondents that did comment tended to rank Ex-Im Bank as less competitive than other ECAs.

CONCLUSION

While the Helsinki Package has successfully disciplined the provision of tied aid credits, significantly reducing overall volumes and directing aid to countries and sectors that cannot sustain market financing, trends within the past few years indicate a willingness among some countries to consistently devote significant resources to providing their aid in a tied form. While the OECD tied aid rules have eliminated the systemic use of tied aid to distort trade, the United States needs to be vigilant to ensure that such aid is used for real development purposes and not to create longer-term commercial advantages.

In addition, some countries may be using carve-outs to the Helsinki disciplines (primarily untied aid and *de minimis* exceptions) to provide aid credits to commercially viable projects (and gain long-term commercial advantages). So long as Japan continues to resist disciplines on untied aid, and in some cases, such as when it provided tied aid to a project deemed commercially viable, and is prepared to treat even the letter of the law flexibly, the competitive prospects of U.S. exporters will be constrained in certain overseas markets. Use of the TACPF to leverage OECD negotiations on untied aid disciplines would address this problem. The United States also needs to continue to monitor the levels of *de minimis* tied aid and be prepared to use the TACPF to neutralize such credits when they are used to establish foothold in new sectors or technologies.

Hence, viewed in the context of its accomplishments in leveling the playing field for U.S. exporters, Ex-Im Bank's tied aid policies and practices in 2001 appear less than fully competitive.

Appendix A: G-7 Official Export Credit Institutions

INTRODUCTION

This section provides both quantitative and qualitative information on the G-7 export credit institutions. As mentioned in the introduction to this report, Ex-Im Bank focuses on the G-7 because, collectively, these countries have provided on average 80% of OECD medium- and long-term export credits in the past decade. In addition, medium- and long-term export credits are the key products with which to compare Ex-Im Bank performance, because such activity supports predominantly capital goods export transactions (where there is a substantial possibility of international competition).

A straight numerical comparison of G-7 ECA activity is challenging for a number of reasons. First, differing national philosophies regarding official market intervention, as well as differing government systems, lead to a variety of structures for official export credit programs. For example, official export credits may be provided via an independent government agency, through a private insurance company as directed by a government ministry or through a unit of a government ministry. In addition, some government institutions that provide export credits on “market” terms primarily to developed country buyers may mix their market window data, which is not comparable to Ex-Im Bank activity, with their official window data. Second, different national philosophies regarding transparency pose obstacles to obtaining useful data.

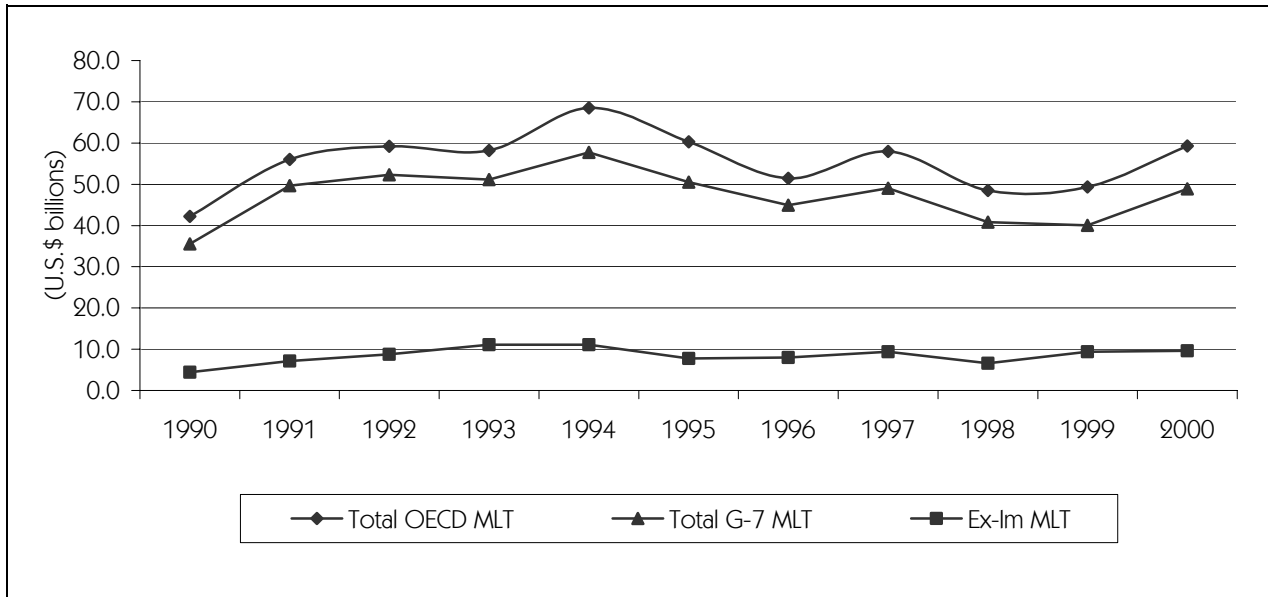
Nonetheless, this appendix provides as detailed information as possible on G-7 official export credit programs. The first section of this Appendix aggregates historical data on G-7 ECAs. The second section provides fact sheets on each of the other G-7 export credit programs, describing the national export credit structures and extracting medium- and long-term (MLT) export credit data from total business results to highlight the figures that are most comparable to Ex-Im Bank activity.

AGGREGATED DATA

A review of the 1990-2001 activity levels of the G-7 official export credit programs, and the OECD member programs as a whole, shows (as illustrated in **Figure A1**) a rather flat activity level in official medium- and long-term business since 1994. Given the growth in exports from these countries, this stagnation in activity may have many causes within the global economy, but there were three quite intentional steps taken by members of the OECD that contributed. First, the 1994 completion of the CIRR system, which replaced subsidized interest rates, greatly reduced the attractiveness of officially supported loans. Second, the 1991 Helsinki disciplines on tied aid have reduced tied aid provided by countries other than Japan; most of this non-Japanese tied aid was in the form of mixed credits, i.e., a grant portion coupled with a standard export credit portion, the standard export credit part of which would be included in the data above. Finally, the 1999 introduction of minimum sovereign exposure fees has set a floor on exposure fees, which have greatly reduced the subsidization of risk. All of these reductions in subsidies

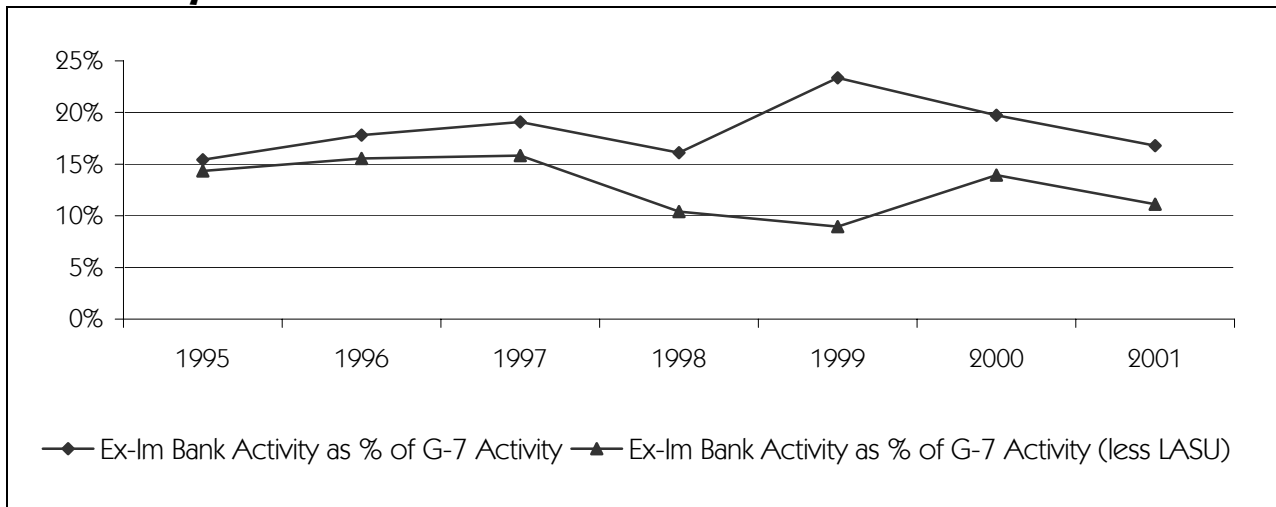
have effectively “de-linked” ECA activity from global trade trends, allowing substantial volumes of business to move away from official ECA to other sources of private financing.

FIGURE A1: NEW MEDIUM- AND LONG-TERM OFFICIAL EXPORT CREDITS



Whatever combination of influences is keeping aggregate volumes stable may also be working to keep “Ex-Im Bank’s market share” fairly stable, which has shifted slightly up when including large aircraft (LASU) business and slipping downward without large aircraft business, as can be seen in Figure A2¹.

FIGURE A2: EX-IM BANK PERCENT OF G-7 MEDIUM- AND LONG-TERM ACTIVITY With/Without LASU Activity



¹ The spike in activity in 1999 is due to a single multi-billion dollar aircraft transaction. Had this transaction been handled by the private market as originally planned, prior to a contraction in the commercial bank market following the Asia crisis, the curve would have been more consistent with the trend line.

Figure A3 provides an abridged breakdown by G-7 ECA of the data provided above in **Figure A1**. Japan, Germany and France tend to be the dominant providers of medium- and long-term export credits. The growth in Canada's activity levels is due to EDC's increased market window activity. A large portion of the German, French and U.S. activity is attributable to large aircraft business.

Figure A3: G-7 New Medium- And Long-Term Official Export Credits (U.S.\$ BN)

	1990	1995	1996	1997	1998	1999	2000	2001*
Canada	2.0	1.9	2.8	4.9	4.5	3.7	4.8	5.3
France	7.6	10.5	6.6	6.6	8.4	5.4	4.5	6.3
Germany	7.2	9.8	13.6	11.3	8.3	6.7	10.1	4.2
Italy	6.3	3.3	1.2	1.7	1.0	1.6	3.2	2.3
Japan	4.7	13.7	10.2	11.3	8.8	8.0	10.8	12.4
U.K.	3.3	3.5	2.5	3.8	3.2	5.2	5.8	3.3
U.S.	4.4	7.8	8.0	9.4	6.6	9.4	9.6	6.8
Total G-7	35.6	50.5	44.9	49.0	40.8	40.0	48.8	40.4
U.S. % G-7	12.5%	15.3%	17.8%	19.2%	16.1%	23.4%	19.7%	16.8%
Total OECD	42.2	60.3	51.4	58.0	48.5	49.3	59.3	NA

* Preliminary results

CANADA

Institutional Component(s) of Official Export Credit Program

- ◆ Export Development Canada (EDC): independent bank-like governmental institution

Description

EDC is a "Crown Corporation", (i.e., a government entity that operates on private sector principles) that operates autonomously within the Canadian government and is financially self-sustaining. In addition to providing official export credit support, EDC also offers such domestic products as contract insurance and bonding. Reflecting the dominance of the market window approach, almost all of EDC's medium- and long-term activity is done with direct loans.

EDC's export credit business falls into two accounts, the Corporate Account and the Canada Account. The bulk of its business is done under the Corporate Account, for which it raises funds directly in the global and Canadian capital markets. These transactions are structured according to either Arrangement terms or market window, i.e., not on Arrangement terms. "National interest" transactions that cannot be structured on private market terms are done under the Canada Account, which is funded through appropriations from the Canadian government. EDC does not publicly provide information comparing Arrangement versus market window business volumes transacted; evidence suggests that approximately 90% of EDC's export credit business is done through the market window, most of which is directed to higher income countries.

EDC's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Brazil	6%
France	1%
Mexico	10%
UK	3%
United States	58%

FRANCE

Institutional Component(s) of Official Export Credit Program

- ◆ **Compagnie Française d'Assurance pour le Commerce Extérieur (Coface):** private credit insurer that provides official export credits on behalf of the French government
- ◆ **Direction des Relations Economiques Extérieures (DREE):** French government office responsible for export credit policy

Description

Coface, formerly a state-owned enterprise, is one of the largest private export credit insurance companies globally. In addition to short-term insurance and other services it provides as a private company, Coface administers official export credit insurance on behalf of the French government.

DREE is the office of the French government that is responsible for framing government export credit policy and coordinating official assistance. In addition to export credit support, which it channels through Coface, DREE also provides such services as trade promotion and investment insurance. DREE is overseen by a committee comprised of, *inter alia*, representatives from the Ministry of Economic Affairs and Finance, the Ministry of Foreign Affairs and Coface.

Coface's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Algeria	9%
Iran	9%
Liberia	16%
Mexico	7%
United States	13%

GERMANY

Institutional Component(s) of Official Export Credit Program

- ◆ **Hermes Kreditversicherungs AG (Hermes):** private credit insurer that provides official export credits on behalf of the German government

- ◆ **Ministry of Economics and Technology:** German government ministry that oversees export credit policy
- ◆ **Kreditanstalt für Wiederaufbau (KfW):** public financial institution responsible for German economic development

Description

Hermes, a private sector insurance company, provides official export credit support on behalf of the German government in consortium with a quasi-public company. Hermes is responsible for the export credit support, while its consortium partner handles investment insurance. Hermes provides short-term export insurance on its own account while serving as a mechanism through which the German government extends its official export credit support.

Like France's official export credit system, the German federal government provides funds for and directs official export credit policy, while a private company provides the front-end administration of the program. Germany's Ministry of Economics and Technology chairs the Interministerial Committee, which is responsible for major credit decisions and basic policy issues. Also serving on the committee are the Ministry of Finance, the Ministry for Economic Cooperation and Development, the Foreign Office, Hermes and KfW, among others.

KfW is a financial institution that is owned by the German government (80%) and the federal states (20%). 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 that does business on Arrangement terms. Funds for the former are raised on the German and international capital markets, while the government window receives allocations from the federal budget through a vestige of the Marshall Plan.

Hermes's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Bermuda	15%
Brazil	13%
China	8%
South Africa	26%
Turkey	33%

ITALY

Institutional Component(s) of Official Export Credit Program

- ◆ **Istituto Per I Servizi Assicurativi Del Credito all'Esportazione (SACE):** independent bank-like governmental institution
- ◆ **Società Italiana per le Imprese all'Estero S.p.A. (SIMEST):** semi-public development finance institution

Description

SACE is a public company with its own operational authority, although its Board of Directors is comprised of representatives from other government ministries. SACE may occasionally receive allocations from the state, but it is largely a self-sufficient institution. In addition to export credit products, it also provides investment insurance.

SIMEST is a development finance institution, 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. Among its responsibilities, which include direct investment, SIMEST provides interest rate support to commercial banks in order to achieve CIRR. No Italian public institution provides direct export finance; thus, official support for export loans comes in the form of interest make-up. Interest make-up support will only be granted for transactions that are covered by SACE; hence, only data from SACE are provided below.

SACE's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Argentina	4%
Iran	18%
Romania	2%
Russia	17%
South Africa	3%

JAPAN

Institutional Component(s) of Official Export Credit Program

- ◆ **Nippon Export and Investment Insurance (NEXI):** independent governmental institution responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI)
- ◆ **Japan Bank for International Cooperation (JBIC):** unit of the Japanese Ministry of Finance that provides official export credit loans

Description

NEXI, established April 1, 2001, is a government institution that provides official export credit support in the form of short- to long-term insurance for exports and projects, in addition to other services. Formerly the Export Insurance Division of the Ministry of International Trade and Industry (EID/MITI), the group was spun off from MITI, which has been renamed the Ministry of Economy, Trade and Industry (METI). Now an "Independent Administrative Institute", NEXI manages trade and investment insurance programs and maintains its own capital base while being 95% reinsured by METI. Japanese exporters are required to insure all of their short-term business through NEXI, the result being that NEXI provides a tremendous volume of short-term insurance relative to other countries, where the lion's share of short-term export credit insurance is provided by the private sector.

JBIC is a government bank that falls under the Ministry of Finance and is divided into two operations: International Financial Operations, which manages, *inter alia*, export credit programs; and Overseas Economic Cooperation Operations, which manages Japan's aid programs. In its capacity as an export credit agency, JBIC provides direct loans in combination with commercial bank financing. In addition, JBIC provides tied and untied aid, as well as direct investment and import credits. JBIC receives appropriations from the state and borrows directly from the domestic and international capital markets.

Japan's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Bermuda	9%
Korea	9%
China	11%
Taiwan	6%
United States	14%

UNITED KINGDOM

Institutional Component(s) of Official Export Credit Program

- ◆ **Export Credits Guarantee Department (ECGD):** separate governmental institution

Description

ECGD is a separate department of the U.K. government although it is responsible to the Secretary of State for Trade and Industry and consults the Treasury department on certain cases. ECGD provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions. In addition to investment insurance, it also provides re-insurance support to supplement the private sector's provision of short-term export credit. ECGD receives funding from, and invests its cash surpluses in, the UK Consolidated Fund. Its prime income sources are from premium charges.

ECGD's Top Export Markets for New Medium- and Long-Term Commitments in 2000	
Malaysia	3%
Saudi Arabia	17%
South Africa	28%
Turkey	8%
United States	4%

Appendix B: Exporter and Bank Survey Overview and Methodology

INTRODUCTION

Every year, as mandated by Congress, Ex-Im Bank conducts a survey of exporters and banks that have experience with Ex-Im Bank and competitor ECAs. This survey is a vital part of the *Competitiveness Report*, as it encourages respondents to compare Ex-Im Bank's policies and programs against those of the other G-7 ECAs. With this information, Ex-Im Bank can better evaluate its competitiveness. Exporters and banks selected for this survey were among the "Top 100" users of Ex-Im Bank programs for 2001, based on total yearly authorizations and the total number of transactions. In addition, this year's survey was revised to reflect policy and procedural changes and to elicit different responses by asking older questions in new ways.

Survey

Ex-Im Bank's revised survey consisted of five parts, seeking information in 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 supported by other ECAs, in addition to reasons for approaching Ex-Im Bank for support.

Part 3: Respondent ratings of and comments on Ex-Im Bank's competitiveness with foreign ECAs in two major areas:

- ◆ Cost of financing: fees and interest rates
- ◆ Non-cost policies: environment, content requirements, co-financing, local costs support, cover policy, and tied aid policy.

Part 4: Additional comments.

Part 5: Specific instances of competition faced as a result of the above policies.

Participant Selection

To establish the list of respondents, Ex-Im Bank screened for survey participants that met the following criteria:

- ◆ Used Ex-Im Bank's medium- and long-term programs during 2001;
- ◆ Faced officially supported competition in their sale; and
- ◆ Were knowledgeable about both Ex-Im Bank and foreign ECA programs and practices.

SURVEY RESULTS

Overall

Figure B-1 highlights the response rate for survey participants. The bank respondent rate was slightly higher than in 2000. Of Ex-Im Bank's top ten bank users by dollar volume, only four responded. Exporters had a much better response rate (76%), although fewer were surveyed this year due to the high number of exporters who used Ex-Im Bank only once in 2001 and/or who do not use Ex-Im Bank frequently enough to be able to comment on programs and policies.

Figure B-1: Survey Response Rate

	Banks		Exporters	
	2000	2001	2000	2001
Number Surveyed	31	30	29	17
Number Responding	14	16	12	13
Response Rate	45%	53%	41%	76%

Banks

The majority of bank respondents were regional banks. Of the remainder, five were foreign, and only one large U.S. bank responded. As **Figure B-2** shows, experience with trade finance in the respondent group spans a spectrum from a few relative newcomers to several very experienced institutions.

Figure B-2: Banker Experience Levels

	1-3 years	4-10 years	11-20 years	20+ years
Time in Business	1	1	2	12
Time in Trade Finance	1	5	2	8

Eleven of the 16 participating banks at one point received support from another ECA, while 14 of the 16 experienced some competition supported by other ECAs. The participating banks could be broken into three general groups in terms of experience with other ECAs. Six of the banks, all of which were large and/or foreign-owned, frequently used other ECA support in 2001 in addition to seeing competition supported by other G-7 ECAs on a semi-frequent basis. The second group of five middle market banks occasionally made use of another G-7 ECA's programs, Canada's EDC being the most frequently cited, and saw foreign ECA-supported business from time to time. The third group, which was comprised of three middle market banks and two foreign banks, reported that they never used other ECA support in 2001; while two of these banks saw no competition supported by other ECAs, the other three occasionally did. When asked why banks approached Ex-Im Bank for support, the number one reason by far was lack of market financing in a given market, with Latin America often referenced. The distant second reason in terms of frequency of mention was the existence of official ECA competition, although two banks often approached Ex-Im Bank for support to leverage U.S. involvement.

As **Figure B-3** shows, respondent levels of Ex-Im Bank supported trade finance business spanned the available range, with most of the lenders reporting between \$10 million and \$100 million. Ten of the respondents reported that their level of export/trade finance had increased relative to 2000, while one reported such business was the same and five reported lower levels.

Figure B-3: Total 2001 Export Credit Business

Sales Category	Volume (\$MM)			
	<10	10 – 100	100 – 1000	>1000
2001 Total Export Finance Credit Extended	-	5	5	6
2001 Total Ex-Im Bank Supported Export Finance Credit Extended	-	11	5	-

Exporters

Exporter respondents to Ex-Im Bank's competitiveness survey are predominantly large multinational corporations that, as **Figure B-4** shows, have had extensive experience with exporting. Two of the smaller respondents, however, have only recently entered the export business.

Figure B-4: Exporter Experience Levels

	1-3 years	4-10 years	11-20 years	20+ years
Time in Business	1	-	1	11
Time in Exporting	2	-	-	11

Respondents' many years in the exporting business corresponds with their experience both in receiving support from and facing competition supported by the other G-7 ECAs. In fact, only two of the respondents never receive support from other ECAs, although they did report frequently meeting ECA-supported competition. Of the ECAs from which exporters often sought support, Germany was the most frequently cited, followed closely by Canada and the United Kingdom. Japan and France tied as the ECAs that most frequently provided support for exporters' competitors, although Canada and the United Kingdom again followed closely. The ECAs from which exporter respondents sought support were often the same ECAs reported as frequently providing competition for the same exporters. Not surprisingly, exporters based in foreign countries often seek support from their home country ECA.

Exporters provided a broader range of reasons than did banks for applying for support from Ex-Im Bank. Lack of market financing in emerging markets – with Russia mentioned most – was the most frequently listed reason for seeking Ex-Im Bank support; however, the 12 exporters listing that reason often weighted it equally with other reasons. Nine exporters stated that they come to Ex-Im Bank when ECA-supported competition exists, while six stated that they will sometimes approach Ex-Im Bank for support seeking U.S. government leverage in a project. Two exporters wrote that they apply for Ex-Im Bank financing because their customers request it. Other reasons given were familiarity with Ex-Im Bank and U.S. suppliers, cost of financing and U.S. origin of goods.

As shown in **Figure B-5**, the bulk of exporter respondents reported export sales and total sales in excess of \$1 billion. Four exporters experienced higher export sales in 2001 than they did in 2000, while five reported lower sales.

Figure B-5: Total 2001 Sales

Sales Category	Volume (\$MM)			
	<10	10 – 100	100 – 1000	>1000
2001 Total Sales	1	1	-	11
2001 Total Export Sales	1	1	2	9

Appendix C: Progress Towards Reducing Government Supported Export Credit Subsidies

INTRODUCTION

The fundamental rationale for Ex-Im Bank's existence is to try to ensure that a level playing field exists for U.S. exporters who face competitors backed by official export credit finance support from their respective governments. With respect to this "*raison d'être*", Ex-Im Bank has two major avenues of action at its disposal.

First, through its financial support, Ex-Im Bank enables U.S. exporters to successfully compete for sales of high value-added capital goods and equipment and highly skilled services in emerging markets. Working within budgetary and personnel constraints, Ex-Im Bank leverages its resources to the fullest extent possible. Nonetheless, Ex-Im Bank cannot neutralize every competitor's best offer on every deal, and should there be no "rules of engagement," Ex-Im Bank would quickly be overwhelmed by the aggregate weight of the competition, who are all actively engaged in "picking winners" and "promoting" exports. Moreover, to the extent that governments are allowed to subsidize export financing (e.g., by charging below-market interest rates, providing tied aid for commercially viable transactions or not charging risk-related fees, etc.), the role of the private sector is minimized (i.e., "crowded out") as exporters and buyers are drawn to cheap government-provided financing.

In this context, the best tool for long-run success in achieving a level playing field is the second avenue: the negotiation table. Since the inception of the "Consensus" on official export credits in 1976 (the precursor to the OECD Arrangement established in 1978) among a small but important group of competing industrialized nations, the United States and the OECD as a whole have now been able to achieve significant reductions in foreign export credit subsidies in a number of areas, including interest rates, tied aid and the large commercial aircraft sector, thus reducing the potential volume of subsidized transactions that would need to be neutralized and creating more room for the private sector to operate.

With respect to official export credit interest rates, the negotiations have yielded a system that requires ECAs to charge rates that are a full percentage point above the government's cost of funds. This means that today there are no losses as a result of the spread on interest rates charged on Ex-Im Bank loans, whereas in the early 1980s (when Ex-Im Bank was forced to lend at rates which were far below the rates at which it had to borrow) Ex-Im Bank experienced losses of \$50-\$100 million for every \$1 billion loaned. Moreover, the elimination of ECA lending at below-market rates allows for a greater role for private market sources of export finance.

The tied aid story is characterized by success of a similar magnitude. As a result of the negotiation of the Helsinki tied aid rules in 1991, the volume of trade-distorting tied aid offers for commercially viable projects has decreased by more than 50% of pre-Helsinki levels. This tremendous decrease in the universe of tied aid offers that Ex-Im Bank might need to match increases the potential leverage of Ex-Im Bank Tied Aid Capital Projects Fund.

OFFICIAL EXPORT CREDIT NEGOTIATIONS – KEY 2001 DEVELOPMENTS

The process of adopting multilateral rules to eliminate official export credit subsidies and level the playing field involves the following five stages:

1. Agreement to exchange information or establish transparency in order to provide the basis for work on a particular issue;
2. Creation of a system or framework of rules that can lead to reductions in subsidy and/or further level the playing field;
3. Establishment of a yardstick within the framework by which progress can be measured (e.g., charging market level interest rates or requiring a project to be commercially non-viable in order to allow tied aid);
4. Moving the yardstick higher (i.e., requiring ever higher interest rates until zero subsidy is achieved, or increasing the minimum concessionality in tied aid); and
5. The ongoing process of refining and adapting any rules as more knowledge becomes available and/or the world changes.

Against this framework, the following developments were witnessed in calendar year 2001.

Standard Official Export Credits

Interest Rates

Official export credit interest rates are subject to disciplines that have, for the most part, eliminated potential subsidies in this area. In principle, ECAs that compete on a CIRR basis should be in a neutral competitive position with respect to interest rates. However, there are two areas of potential competitive concern. First, the different ways in which ECAs interpret the CIRR rules (setting and holding of CIRR rates) can have potential competitive implications. Second, the CIRR regime provides potential for a certain degree of subsidization via interest make-up (IMU) schemes. As has been the case since 1998, little formal action was taken on any of the CIRR issues during 2001. This lack of formal action was primarily due to the fact that the issue of revising the CIRR regime has been linked to other issues, such as market windows and interest make-up. It is uncertain when or if work will progress on this issue. In sum, the interest rate negotiations on the current CIRR regime as a whole have advanced to stage 5 and represent the issue for which the most progress has been achieved to date.

Nonetheless, substantial work and discussion took place concerning the creation of a floating rate CIRR. This issue arose in 2000 as part of the WTO dispute between Canada and Brazil over export credit support for regional aircraft. In the Canada/Brazil cases, the WTO held that, under the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement), officially supported export credits are a prohibited subsidy unless they are on market terms (from the

borrower's perspective, i.e., the benefit to the borrower test) or the support is in compliance with the OECD Arrangement interest rate provisions. The WTO held that the OECD interest rate provisions only yield a safe harbor for the CIRR fixed interest rate and, therefore, provide no safe harbor for floating rate lending by ECAs.

During 2001, the Participants, following substantial technical work, held several discussions on the creation of a floating rate CIRR. However, due to a substantial philosophical difference on whether the minimum official interest rates (the current fixed and possible floating CIRRs) should also be minimum interest rates for commercial lending under pure cover programs (insurance and guarantees), there is the recognition that further work in this area by the Participants to the Arrangement is virtually impossible. Thus, work on a floating rate CIRR is not expected to progress beyond stage 1 for the foreseeable future.

Market Windows

A related topic usually considered part of the interest rate subject, the so-called "market-windows" discussions, continued to make no progress in 2001. A market window is an institution (or a part of an institution) that claims to operate on a commercial basis while benefiting either directly or indirectly from some level of government support. Over the years, market windows have come under scrutiny with allegations that they provide non-market financing terms that skirt Arrangement restrictions. Market windows have posed transaction-specific problems to other ECAs because:

- ◆ the support provided by such entities is only available to their national economic interests; and
- ◆ the attractiveness of the financing packages (especially interest rates) provided by market windows tends to stretch the boundaries of what a private institution might be willing to provide.

The United States believes that the growth in market window activity represents a potential threat to the disciplines that the OECD Arrangement negotiations have sought to instill in all official lenders. The Participants with major market windows (Canada and Germany) have made it abundantly clear that they have no interest in pursuing any transparency or disciplines for market windows. In this context, the market windows issue has not even reached stage 1.

Exposure Fees (Risk Premia)

The Knaepen Package, which seeks convergence on the pricing of officially supported export credits of over two years repayment term, came into force on April 1, 1999. The agreement sets minimum exposure fees for sovereign transactions. In addition, the sovereign benchmark sets the minimum rate for all other transactions within the country. Exposure fees are the charges imposed by ECAs for taking the risk that the obligor will not repay. All transactions other than aircraft, military, agriculture and ships were subjected to its disciplines. In the past these charges varied tremendously between ECAs in any given market.

Since the implementation of this package, negotiations have focused on transparency and the early stages of feedback on the new system to check whether the assumptions and agreed fees are appropriate. Thus, the fee negotiations have achieved stage 3. Going forward into 2002, technical negotiations on premia agreement implementation and follow-up will continue.

Large Commercial Aircraft

The provision of official export credit support for large commercial aircraft (typically those airplanes that have more than 70 seats and are powered by a jet engine) is governed by a special sub-set of rules, known as LASU (Large Aircraft Sector Understanding). In short, the rules that apply to large commercial aircraft have been customized to better fit the unique characteristics of this business. As is the case for standard official export transactions, LASU does not address the issue of exposure fees (risk premia).

Ex-Im Bank meets regularly with its foreign counterparts to discuss issues of common interest and to refine the rules of the Arrangement that govern official export credit support provided by OECD members. However, there have been no significant discussions between the European ECAs and Ex-Im Bank for several years regarding modifications to the LASU.

Reopening the LASU requires agreement by both the U.S. and European negotiators, neither of which has formally requested a new round of negotiations. In the meantime, Ex-Im Bank will continue to aggressively explore options that provide U.S. aerospace exporters with financing terms and conditions that are competitive with financing provided by the European ECAs. Thus, this issue remains stalled in stage 4.

Tied/Untied Aid

A decade of implementation of the Helsinki tied aid rules and their general success in reducing trade related tied aid mean that these rules are at the beginning of stage 4. Last year this report noted a disturbing trend that began in 1997 with the reemergence of Japanese untied aid (from \$0 in 1994 to near \$4 billion in 2000). This trend raised the concern that trade related tied aid may again become a major competitive problem. However, Japan's untied aid dropped by about one third in 2001 to \$2.6 billion. In addition, Japan's tied aid dropped over 50% from \$3.9 billion to \$1.9 billion. The preliminary consensus is that these drops are due primarily to budgetary pressures. Next year's report will be better able to tell whether this is a one year change or the beginning of a new trend.

In 2001, the Participants continued to discuss the application of tied aid rules to untied aid. There are currently no Arrangement rules governing untied aid because the donor government does not legally tie procurement to its firms. However, untied aid can be *de facto* tied and used to circumvent the tied aid disciplines that require a minimum concessionality and preclude tied aid for commercially viable projects and to rich countries.

In addition, the untied aid negotiations seek to encompass the related, trade-distorting practice of "associated financing" that has been the subject of stalled negotiations for some time. Associated financing refers to tied concessional financing for engineering and design work and

for procurement-related technical assistance. The United States sought for years to have this type of financing subject to the tied aid rules, because discussions with U.S. exporters yielded a uniform opinion that tied technical assistance virtually dictates the outcome of the bidding process for the ensuing project procurement receiving untied aid support. Both associated financing and *de facto* tied untied aid undermine the intent of the Helsinki disciplines to reduce trade distorting tied aid and raise significant competitive concerns. Discussions on extending the Helsinki disciplines to untied aid continued during 2001 with little progress. Untied aid discussions have therefore still not yet reached stage 1.

Unproductive Expenditure (HIPC)

In June 2001, the Working Party on Export Credits and Credit Guarantees (ECG) finalized a statement of principles on unproductive expenditure to highly indebted poor countries (HIPCs). The Principles respond to calls from the OECD and G-8 Ministers to strengthen measures towards ensuring that export credit support to the HIPCs is not used for unproductive purposes. Thus, non-essential capital goods and projects that do not contribute to the social and/or economic development of HIPC nations, but have the effect of increasing their debt burdens, should not benefit from OECD governments' support. The Principles are consistent with both the efforts in OECD countries to ensure that trade and sustainable developmental policies are complementary and with the World Bank-led HIPC Initiative which attempts to lower the debts of the poor countries to sustainable levels.

Environment

During 2001, the negotiations within the ECG on common environmental guidelines reached a climax. With the exception of the United States and one other country (for totally different reasons), the other 24 members of the ECG were ready to agree to the current text of an agreement on common approaches to the environment. The United States was unwilling to agree to the current text because it failed to provide sufficient *ex ante* transparency with regard to sensitive projects and because it failed to require the use of international environmental standards (e.g., World Bank) as a minimum set of standards rather than as a benchmark. Nonetheless, those members willing to accept the current text unilaterally agreed to voluntarily implement the draft common approaches as of January 1, 2002.

The United States has two major goals in these negotiations. One is to establish common rules of engagement so that a level playing field is maintained among competing exporters backed by their respective ECAs. The other is to prevent an environmental "race to the bottom", in which the lack of common rules provides a competitive advantage to financing packages and project design supported by ECAs with the most lax standards. Other ECAs, however, are not yet comfortable with the detailed rules and criteria that would narrow the differences among ECAs with respect to environmental reviews.

Thus, the environment negotiations have proceeded to a temporary standstill on the text of an agreement. However, discussions on this issue will continue in 2002, focusing on the technical issues of implementation by those members who have voluntarily decided to unilaterally implement the current draft proposal.

CONCLUSION

In 2001, the OECD's work was predominantly focused on progressing the issues of a floating rate CIRR, tied/untied aid, unproductive expenditure and environment, while continuing maintenance work on the exposure fee agreement. With the exception of unproductive expenditure and the environment, little progress is being made on these issues.

Appendix D: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions* In 2001

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Algeria	Large Aircraft	\$265,000,000	16%	****
Algeria	Oil and Gas Production	\$55,893,332	8%	\$939,061
Argentina	Supermarket	\$1,920,403	11%	\$16,632
Argentina	Solar Energy Sets	\$1,087,193	37%	\$10,168
Austria	Large Aircraft	\$161,812,811	12%	\$882,331
Brazil	Circuit Board Assembly System	\$1,065,000	18%	\$12,125
Brazil	Video Editing/Production Equipment	\$497,690	11%	\$4,140
Brazil	Power Plant	\$76,927,000	12%	\$2,018,191
Brazil	Power Plant	\$77,093,000	12%	\$2,017,029
Brazil	Electronic Channel Counter	\$308,096	10%	\$812
Brazil	Power Plant	\$31,523,848	16%	\$346,241
Brazil	Polyethylene Plant	\$150,435,000	9%	\$186,612
Brazil	Gas Turbines	\$136,572,062	13%	\$2,115,478
Chile	Large Aircraft	\$175,000,000	9%	\$1,328,169
China (Mainland)	Large Aircraft	\$78,332,535	9%	\$161,561
China (Mainland)	Large Aircraft	\$282,345,758	14%	\$913,837
Dominican Republic	Hospital Project	\$9,200,000	13%	\$103,541
Dominican Republic	New Hotel Resort	\$2,500,000	11%	\$21,737
Dominican Republic	Patrol Boats	\$23,834,087	3%	\$97,341
Dominican Republic	National Road Network Toll Extension	\$28,430,000	15%	\$727,234
Dominican Republic	Government Housing Projects	\$85,487,954	6%	\$1,146,073
Egypt	Steel Slitting System	\$1,480,000	5%	\$3,073
Ghana	Solar Power Generation	\$4,820,000	3%	\$387,776
Ghana	Road Construction	\$799,972	5%	\$3,277
Ghana	Produce Transport	\$934,350	15%	\$11,106
India	Large Aircraft	\$395,000,000	14%	\$6,449,881
India	Gas Turbine Engine	\$5,800,000	18%	\$28,341
Indonesia	Police Protection Equipment	\$3,510,000	10%	\$62,330
Indonesia	Seafarer Training Facilities	\$53,800,000	5%	\$2,318,499
Ireland	Large Aircraft	\$162,000,000	13%	\$593,141
Ireland	Large Aircraft	\$170,000,000	13%	\$115,474
Kazakhstan	Iron Ore and Manganese Mining	\$4,774,195	11%	\$14,502

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Republic of Korea	Large Aircraft	\$757,258,874	7%	\$7,963,671
Lebanon	Landfill Reclamation	\$15,832,573	3%	\$143,165
Federation of Malaysia	Semiconductor Plant	\$24,000,000	12%	\$1,720,599
Mexico	Disposable Diaper Manufacturing Plant	\$16,818,600	7%	\$17,596
Mexico	Transmitters and Electronic Equipment	\$2,404,267	8%	\$6,585
Mexico	Screen Printing and Image Setting	\$219,836	22%	\$966
Mexico	Two Power Plants	\$97,996,523	12%	\$973,750
Mexico	Oilfield Service Equipment and Parts	\$145,050,433	4%	\$296,920
Mexico	Oilfield Production Enhancement	\$335,336,034	4%	\$590,400
Mexico	Cable Television Equipment	\$1,500,000	15%	\$3,919
Nigeria	Oilfield Service and Support	\$6,071,057	13%	\$104,393
Peru	Grain Storage Conveyers and Accessories	\$837,338	10%	\$13,798
Romania	Patient Monitors and Medical Equipment	\$35,780,532	6%	\$210,875
Romania	Patient Monitors and Medical Equipment	\$23,007,193	11%	\$339,707
Romania	Large Aircraft	\$81,373,250	15%	\$1,200,659
Romania	Automatic Building Machine	\$769,216	1%	\$809
Russia	Refrigeration Units Manufacturing Facility	\$47,589,200	5%	\$640,714
Russia	Medical Equipment	\$41,176,471	2%	\$198,538
Senegal	Produce Refrigeration Equipment	\$498,622	12%	\$7,765
Senegal	Heavy Construction	\$843,375	6%	\$7,045
Senegal	Road, Bridge, Water System Construction	\$1,112,129	3%	\$5,166
South Africa	Large Aircraft	\$311,916,432	13%	\$5,791,350
Thailand	Large Aircraft	\$249,278,701	13%	\$2,049,938
Thailand	Asphalt Road Paving	\$1,135,854	1%	\$609
Turkey	Automobile Seat Manufacturing	\$450,000	15%	\$8,811
Turkey	Gas Power Plant	\$10,000,000	5%	\$63,086
Turkey	Gas Turbines	\$22,956,415	14%	\$427,564
Turkey	Medical Therapy Equipment	\$1,176,460	11%	\$17,251

Country	Product	Export Value	Foreign Content %**	Estimated Budget Increase***
Turkey	Light Duty Helicopters	\$23,681,381	1%	\$19,195
Turkey	Large Aircraft	\$80,040,000	13%	\$1,178,910
Uzbekistan	Agricultural Harvesting	\$32,666,400	7%	\$335,880
Venezuela	Wastewater Treatment and Sewage Project	\$8,416,721	10%	\$160,908
Venezuela	Wastewater Treatment and Sewage Project	\$11,035,257	10%	\$221,249
Venezuela	Patrol Boats with Trailers	\$8,318,737	5%	\$5,715
Venezuela	Engineering and Procurement Services	\$15,294,118	14%	\$231,848
Venezuela	Heavy Oil Upgrading	\$503,561,000	17%	\$17,406,492
Venezuela	Rehabilitation of Power Plants	\$29,410,688	15%	\$445,766
Venezuela	Water Purification Equipment	\$6,119,305	5%	\$9,044
Venezuela	Water Purification Equipment	\$2,044,577	5%	\$3,053
Venezuela	Procurement Services	\$3,139,443	15%	\$43,167
Venezuela	Hydroelectric Power Production	\$49,686,698	15%	\$971,325
Venezuela	Curbing and Construction Equipment	\$3,253,472	15%	\$53,810
Venezuela	Aircraft Instrumentation	\$7,000,000	1%	****
Venezuela	Engine Repair Services	\$6,000,000	2%	****
Venezuela	Aircraft Parts and Components	\$8,500,000	1%	****
Venezuela	Light Rail System	\$29,187,684	8%	\$319,980
Venezuela	Transport Barges	\$30,955,247	8%	\$9,839
Venezuela	Transport Barges	\$1,995,378	1%	****
Total		\$631,151,938	11%	\$67,257,541

*Preliminary Data, excludes Credit Guarantee Facilities

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

***Increase in the estimated budget amount for the U.S. portion of the contract due to the inclusion of foreign content in the financing package

****No Budget Increase (Negative Budget Cost)

Appendix E: Human Rights and Other Foreign Policy Considerations

Pursuant to the 1978 amendments to the Export-Import Bank Act of 1945, Ex-Im Bank may deny financing based on international human rights or other foreign policy considerations only upon a determination by the President that such denial furthers U.S. policy goals. (This legislation, P.L. 95-630, 92 Stat. 3724, is also referred to as the “Chafee Amendment”.) The Chafee Amendment, as amended in 1997 by P.L. 105-121, states that the Board of Directors of Ex-Im Bank may not deny applications for non-financial or non-commercial reasons unless the President determines that such denial will clearly and importantly advance U.S. policy in areas including international terrorism, nuclear proliferation, environmental protection and human rights (including child labor). It should also be noted that, pursuant to Executive Order 12166, the President has delegated his authority to make Chafee determinations to the Secretary of State, who must consult with the Secretary of Commerce and the heads of other interested executive agencies.

Ex-Im Bank has developed procedures with the State Department, including the Bureau for Democracy, Human Rights, and Labor, for regular consultation regarding human rights concerns. According to these procedures, Ex-Im Bank periodically receives a list of countries where the State Department has found no “consistent pattern of gross violations of internationally recognized human rights.” Where a proposed transaction over \$10 million involves goods or services to be exported to a country that has not received “pre-clearance” on such list, Ex-Im Bank refers the transaction to the State Department for human rights review. In addition, Ex-Im Bank country economists may work in concert with the State Department to, where appropriate, examine human rights and other foreign policy considerations in their assessment of the risks associated with transactions in specific countries.

Appendix F: 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 legislative requirement was imposed on Ex-Im Bank, 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 2001, Ex-Im Bank has not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix G: The Trade Promotion Coordinating Committee

The Trade Promotion Coordinating Committee (TPCC) is an interagency committee consisting of 19 U.S. Government agencies¹. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. Government export promotion activities under the leadership of the Secretary of Commerce as Chairman of the TPCC. The President and Chairman of the Export-Import Bank traditionally serves as Vice-Chairman of the TPCC.

Among the responsibilities of the TPCC is to prepare and submit to Congress an annual report that outlines the national export strategy. While no report was issued during the reporting period of this *Competitiveness Report* due to the transition in Administrations, late in 2001, the TPCC began the 2002 process by surveying and interviewing U.S. exporters to ascertain their competitive concerns. The goal was to generate practical recommendations to maximize U.S. export potential by creating programs, policies and procedures that address real obstacles to exporting so that U.S. companies can participate fully in the economic growth that trade provides. Regarding Ex-Im Bank's competitiveness, the focus of the TPCC's efforts in 2001 was the trade-distorting effect of commercially driven tied aid and *de facto* untied aid, the means by which other countries provide partial grants and/or concessional loans either alone or combined with export credits and linked to procurement from the donor country.

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

Appendix H: Tied Aid

INTRODUCTION

This appendix is the annual report on tied aid credits, required by Sections 10(G) and 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended. This appendix first addresses the implementation of the OECD Arrangement rules on tied aid during 2001 followed by a discussion of trends in the use of the TACPF, or Tied Aid War Chest, through 2001.

IMPLEMENTATION OF THE OECD ARRANGEMENT

Tied aid is financing provided by donor governments on concessional terms, in the form of a grant or a “soft” loan, that contractually binds developing country recipients to procure capital goods from the donor country. In December 1991, the Participants to the Arrangement concluded the Helsinki Package of rules on tied aid credits, which became effective February 15, 1992; the goal of the agreement was to limit the use of concessional financing for projects that should be able to support commercial financing. The Helsinki Package established: 1) minimum terms and conditions for the provision of tied aid; 2) transparency procedures requiring the notification of tied aid offers; and 3) mechanisms for consulting and in some cases challenging whether tied aid offers conform to established guidelines.

The Helsinki rules on minimum terms and conditions for tied aid resulted in three key disciplines for tied aid: country eligibility, i.e., no tied aid in “rich” countries; commercial viability, i.e., no tied aid for projects that can sustain financing on market or Arrangement terms; and a minimum concessional level for tied aid of 35%¹.

This section elaborates on the practical effects of these three disciplines, as well as the results of the consultation procedures.

TIED AID ELIGIBLE MARKETS

The country eligibility rule of the Helsinki Package requires that countries above a certain income threshold, as determined by the World Bank, may not receive tied aid. As a result of the implementation of the Helsinki Package and other OECD agreements, many key markets are no longer potential targets for tied aid financing. These markets include several important countries in Africa, the Americas, Asia and the Middle East, all of which are either “high income” or “upper middle income” countries according to World Bank criteria. Furthermore, a separate OECD agreement incorporated in the Arrangement ensures that U.S. exporters bidding on

¹ The term “concessional” refers to the total value of the subsidy being provided by the donor to the recipient country for any one project or purchase. For example, if a country receives a grant of \$100 million for a \$100 million project, the concessionality 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 of 35%.

commercial type transactions in the major markets of Eastern Europe and the former USSR do not confront tied aid (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.

TIED AID ELIGIBLE PROJECTS AND THE CONSULTATIONS PROCESS

The Helsinki Package established the principle that tied aid should not be used for “commercially viable” projects, defined as revenue-generating projects which:

- ◆ generate operating cash flows sufficient to repay debt obligations on standard OECD Arrangement export credit terms; and
- ◆ could potentially attract standard export credit financing (several OECD export credit agencies would be prepared to provide export credit).

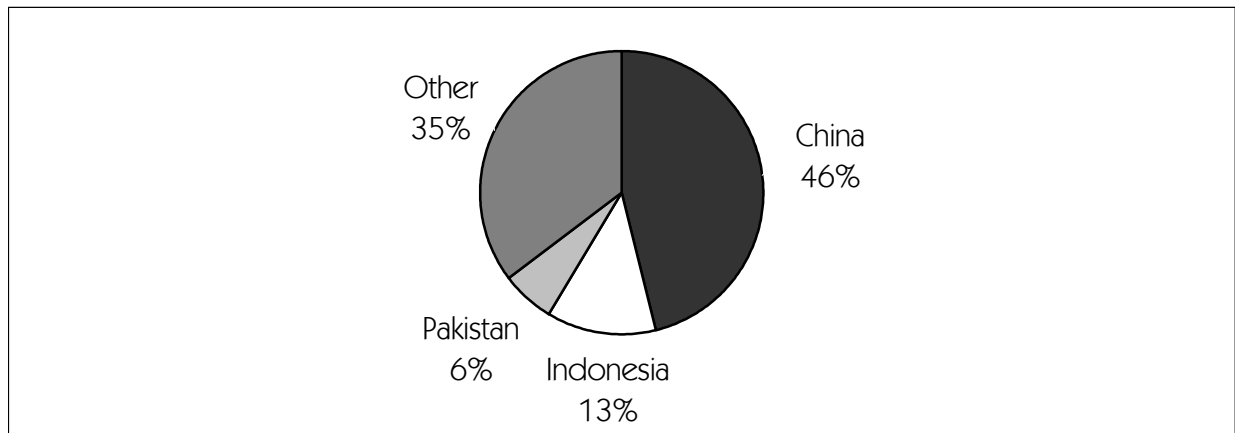
To create a forum for addressing issues related to projects that may be challenged by other governments as potentially commercially viable, the Tied Aid Consultations Group was formed, and from March 1992 to March 2002, the Consultations Group examined 128 projects, primarily those challenged by the United States as potentially commercially viable. Through its experience, the Consultations Group has delineated various types of projects within the power, telecommunications and transport sectors. Within these sectors, commercially non-viable projects still eligible for tied aid typically have weak revenue potential, high unit costs and/or a small-scale rural focus. As donor countries gained experience with the Helsinki rules, the Consultations Group increasingly dealt with cases at the margin of commercial viability, and the number of cases challenged as commercially viable has dropped steadily from a high of 33 in 1993 (22% of cases notified) to a low of 2 each in 1996, 1999 and 2000, comprising approximately 1% of cases notified in each of those years.

To share the experience of the Consultations Group and assist export credit agencies, aid agencies, project planners and aid recipients in judging at the outset whether potential projects will be eligible for tied aid, the OECD countries in December 1996 agreed to and publicly disseminated the *Ex Ante Guidance for Tied Aid*. These guidelines have been a useful tool in discouraging the use of official aid to support exports that could proceed without aid. From 1992 to 1995, an average of 27 cases were challenged each year, with on average half found commercially viable. Since 1996, a total of 18 cases have been challenged, with 16 of these deemed commercially viable. See **Annex 3** for a list of projects generally considered commercially viable, for which tied aid is prohibited. See **Annex 4** for a list of projects generally considered commercially non-viable, for which tied aid is permitted.

Of the 128 projects examined by the Consultations Group in the ten years since March 1992, 48 projects (37.5%) were found to be commercially non-viable, or acceptable for tied aid use, and 69 projects (46.6%) were found to be commercially viable. Of the remaining 11 cases, no conclusion was reached on commercial viability on four cases, three cases were committed before the inception of the Helsinki disciplines, three cases had been committed prior to notification (and therefore considered derogations) and one was a matching transaction.

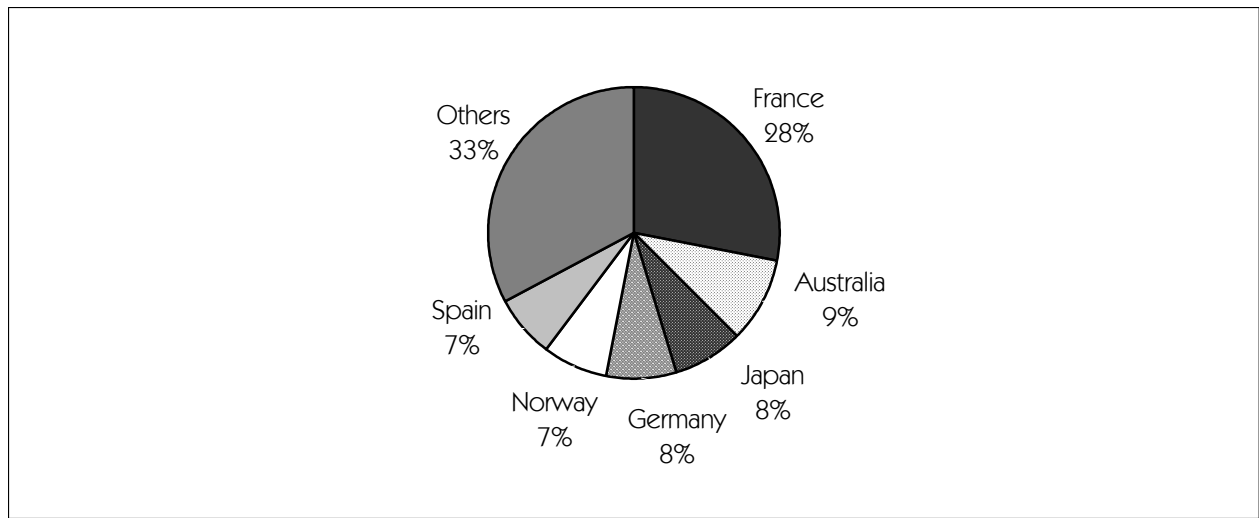
In the years following the implementation of the Helsinki rules, energy (43%), telecommunications (26%), manufacturing (16%) and transportation (13%) represented 98% of all the projects challenged and considered by the Consultations Group. Only two projects in the social services sector were challenged. In terms of challenged markets, projects in China accounted for the largest number of notifications evaluated by the Consultations Group during the post-Helsinki period with 59 notifications (46%), followed by Indonesia with 16 notifications (13%) (see **Figure H-1**).

FIGURE H-1: CHALLENGED NOTIFICATIONS BY RECIPIENT COUNTRY



In the same time period, France initiated the highest number of notifications considered by the Consultations Group (36), followed by Australia (12), Japan (10) and Germany (10) (see **Figure H-2**). More recently, however, six of the eight transactions challenged in the Consultations Group from 1999 through 2001 were notified by Japan.

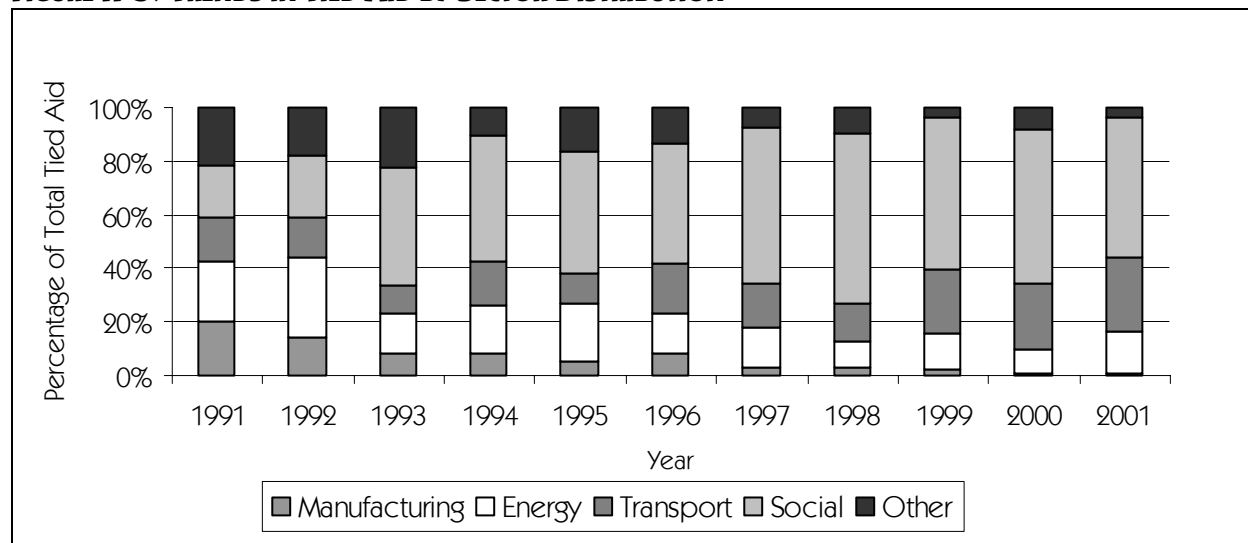
FIGURE H-2: CHALLENGED NOTIFICATIONS BY NOTIFYING COUNTRY



As **Figure H-3** illustrates, the Helsinki Package has profoundly impacted the sectoral distribution of tied aid credits. Prior to this package, energy and manufacturing projects

comprised over 40% of tied aid notifications; by mid-2001, the transport (e.g., subways) and social sectors accounted for nearly 80% of activity. This trend indicates that the commercially non-viable sector can support a growing level of tied aid. The types of projects notified and the decrease in the number of projects challenged suggest that the Helsinki disciplines have succeeded in encouraging donors to redirect tied aid towards commercially non-viable projects.

FIGURE H-3: TRENDS IN TIED AID BY SECTOR DISTRIBUTION



TRENDS IN THE USE OF THE TACPF

Ex-Im Bank, in conjunction with the Treasury Department, developed in 2001 a new set of guidelines and procedures for the use of the TACPF. See **Annex 5** for these guidelines and procedures. There are three main components of the new guidelines:

1. A set of principles governing the use of the TACPF, e.g., to police the Helsinki accords and to defend U.S. exporters from patterns of tied aid use that present a threat to long-run U.S. interests in emerging markets;
2. Procedures for implementing the TACPF matching policy if a case is deemed to be tied aid eligible or if a donor government is determined to proceed with an ineligible project; and
3. Procedures for cooperating with the Treasury Department in deciding the outcome of tied aid applications and in reviewing the new guidelines.

Ex-Im Bank has three tools with which it may leverage the TACPF to attempt to deter or match tied aid offers. These tools are: tied aid “willingness-to-match” indications and tied aid matching offers in the form of preliminary commitments and authorizations. Ex-Im Bank has been relatively successful in the post-Helsinki period in discouraging foreign tied aid use with the tools available to it, and it has been somewhat successful in matching foreign tied aid when necessary.

From 1994 through 2000, Ex-Im Bank tried to discourage tied aid use by issuing “willingness-to-match” indications for 25 cases, of which seven saw the competing tied aid offer withdrawn, five

of which were subsequently won by U.S. exporters on standard Arrangement terms. Eight cases were lost to foreign tied aid financing, while ten are outstanding or have been indefinitely delayed. Nonetheless, the bulk of Ex-Im Bank's success in matching occurred in the years immediately following the Helsinki Package: 20 matching offers had been made by the end of 1996, and six out of the seven withdrawn offers had been withdrawn by then. Since 1997, only one tied aid willingness-to-match indication has succeeded in assisting a U.S. exporter.

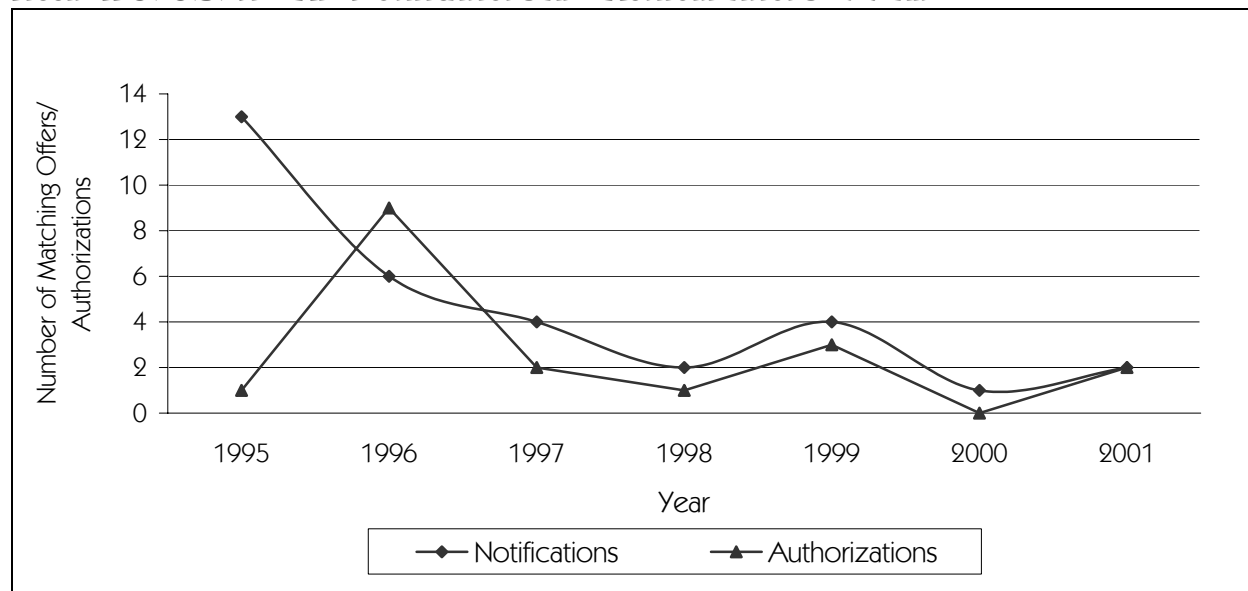
Figure H-4 shows that, of the 41 cases where Ex-Im Bank has provided matching offers, the United States has won 19 while losing 23. The one remaining case was indefinitely delayed.

Figure H-4: Cumulative Ex-Im Bank Matching of Previously Notified Foreign Tied Aid Offers

	1996	1997	1998	1999	2000	2001
New matching offers during year	6	4	2	4	1	2
U.S. win	10	12	13	16	17	19
U.S. loss	7	10	10	21	23	23
Outstanding, no decision	13	12	13	3	1	1
Cumulative total	30	34	36	40	41	43

As shown in Figure H-5, the pace of Ex-Im Bank tied aid matching notifications has slowed dramatically in recent years. The number of tied aid authorizations shows a similar downward trend.

FIGURE H-5: U.S. TIED AID NOTIFICATIONS AND AUTHORIZATIONS BY YEAR



EX-IM BANK INITIATED NO AID COMMON LINES

In addition to the tools above, Ex-Im Bank may also initiate a no aid common line to deter tied aid offers. When Ex-Im Bank receives an application for a project about which the U.S. exporter has reason to be concerned about the possibility of tied aid competition, Ex-Im Bank may propose a “no aid” common line to the OECD to attempt to prevent tied aid use. If the common line request is accepted by all OECD Participants, OECD member countries are prohibited from offering tied aid financing for the particular project for a period of two years (with the possibility of extensions). U.S. exporters may therefore compete without fear of tied aid offers from other countries and without the need for Ex-Im Bank to provide a matching tied aid offer. Common lines must be agreed by consensus; hence, if one country rejects the no aid common line request, the project remains eligible for tied aid. There have been 26 cases since April 1994 for which the OECD Secretariat has obtained, at Ex-Im Bank’s request, OECD-wide approval of agreements not to provide aid to particular projects of interest to U.S. exporters. **Figure H-6** shows the results of the no aid common line requests initiated by Ex-Im Bank from 1996 through 2001.

FIGURE H-6: U.S. Proposed No Aid Common Lines

	1996	1997	1998	1999	2000	2001
Proposed	19	24	5	13	8	1
Rejected	13	17	5	12	5	0
Accepted	6	7	0	1	3	1

Thirteen, or 30%, of Ex-Im Bank’s 43 proposed no aid common lines in 1996 and 1997 were accepted. Since that time, Ex-Im Bank has proposed a total of 27 no aid common lines, only 5 (19%) of which have been accepted. As this trend illustrates, while no aid common lines are useful tools to clarify situations where tied aid is alleged, they have not proven to be successful deterrents to foreign tied aid offers from competing tied aid donor countries.

Appendix H: Annex 1

Key Markets Where Tied Aid is Prohibited	
Americas*	Argentina, Brazil, Mexico, Venezuela
Asia*	Hong Kong, Korea, Malaysia, Singapore, Taiwan
Middle East*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates
Africa*	Botswana, Gabon, South Africa
Soft Ban Countries** (subject to annual review)	Belarus, Estonia***, Latvia, Lithuania, Russian Federation, Ukraine
Soft Ban Countries** (not subject to annual review)	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic

*These markets are not eligible for tied aid as a result of the fact that their Gross National Income (GNI) per capita was sufficient to make them ineligible for 17-year loans from the World Bank for at least two consecutive years (using 2000 data, those countries with a GNP per capita above U.S. \$2,995).

**These markets are covered by the Participants' agreement to try to avoid tied aid credits other than outright grants, food aid and humanitarian aid. For the purposes of the soft ban, the decommissioning of nuclear power plants for emergency or safety reasons can be regarded as humanitarian aid.

***At the November 2001 Participants meeting, it was agreed that Estonia should be removed from the list of countries subject to the soft ban in view of its past and current very high GNP per capita income, which was significantly above the tied aid eligibility threshold.

Appendix H: Annex 2

Key Tied Aid Eligible Markets*	
Asia	China, India, Indonesia**, Philippines, Sri Lanka, Thailand, Vietnam**
Latin America	Colombia, Costa Rica, Dominican Republic, El Salvador
Africa	Egypt, Ghana, Morocco, Namibia, Tunisia

*Markets classified as both eligible for tied aid by the OECD and eligible for Ex-Im Bank tied aid support as “Dynamic Markets”.

**May need additional factors to enhance eligibility under Ex-Im Bank tied aid guidelines due to budget cost impact.

Appendix H: Annex 3

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	<ul style="list-style-type: none"> ◆ Oil-fired power plants ◆ Gas-fired power plants ◆ Large stand-alone hydropower plants ◆ Retrofit pollution-control devices for power plants ◆ Substations in urban or high-density areas ◆ Transmission lines in urban or high-density areas
Telecommunications	<ul style="list-style-type: none"> ◆ Equipment serving interurban or long-distance communications ◆ Telephone lines serving interurban or long-distance communications ◆ Switching equipment serving urban or high-density areas ◆ Radio-communications equipment serving urban or high-density areas
Transportation	<ul style="list-style-type: none"> ◆ Air traffic control ◆ Freight railroad operations (locomotives, cars, signaling)
Manufacturing	<ul style="list-style-type: none"> ◆ Manufacturing operations intended to be profit-making ◆ Privately-owned manufacturing operations ◆ Manufacturing operations with export markets ◆ Manufacturing operations with large, country wide markets

Appendix H: Annex 4

Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted)	
Power	<ul style="list-style-type: none"> ◆ Transmission lines to low-density, rural areas ◆ Geothermal power plants ◆ Small wind turbine farms ◆ District heating systems ◆ Small hydropower plants connected with irrigation
Telecommunications	<ul style="list-style-type: none"> ◆ Telephone switching equipment serving low-density, rural areas ◆ Switching equipment serving low-density, rural areas ◆ Radio-communications equipment serving low density, rural areas
Transportation	<ul style="list-style-type: none"> ◆ Road and bridge construction ◆ Airport terminal and runway construction ◆ Passenger railroad operations (locomotives, cars, signaling) ◆ Urban rail and metro systems
Manufacturing	<ul style="list-style-type: none"> ◆ Highly-localized cooperatives ◆ Highly-localized food processing ◆ Highly-localized construction supply
Social Services	<ul style="list-style-type: none"> ◆ Sewage and sanitation ◆ Water treatment facilities ◆ Firefighting vehicles ◆ Equipment used for public safety ◆ Housing supply ◆ School supply ◆ Hospital and clinic supply

Appendix H: Annex 5

John E. Robson
Chairman and President

July 16, 2001

The Honorable Doug Bereuter
United States House of Representatives
2184 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Bereuter:

We are pleased to report to you that the Export-Import Bank of the United States and the U.S. Treasury Department have reached agreement on the principles and procedures for administration of the Tied Aid Credit Program which are attached hereto.

We are optimistic that these will facilitate a responsible but purposeful administration of the Tied Aid War Chest, and we look forward to continuing to work with you, your committee and other members of Congress.

John E. Robson
Chairman
Export-Import Bank of the United States

John B. Taylor
Under Secretary (International Affairs)
U.S. Department of the Treasury

PRINCIPLES AND GUIDANCE ON THE TIED AID WAR CHEST

Principle #1: The Tied Aid War Chest is a resource that should be used purposefully and selectively, with the simple standard being that applications would be where there is a clear and precise purpose evidenced. Such use not only maximizes the probable value of its employment, but also enhances the actual deterrence value of the amounts remaining.

Principle #2: The War Chest is not to be applied “offensively”; that is, there will be no initiation of Tied Aid using the War Chest. Rather, the War Chest will be used to counter situations where there is a reasonable evidentiary basis that there is (either formally or informally) a foreign tied aid offer. In countering such offers the U.S. offer is not necessarily constrained by the terms of the original offer. Moreover, the “no initiation” principle does not preclude technical initiation when that approach is the only way to effectively counter the offer of another country.

Principle #3: A prime use of the War Chest is to “police” the Helsinki accords – aggressively counter such actions as *defacto* tied aid (so called “untied” aid), absence of mandated notification rules, or refusal to abide by Consultation findings. In this context, Treasury has an explicit right (or “put”) to recommend Tied Aid use for specific cases – or categories of cases – in support of Tied Aid Negotiating objectives.

Principle #4: Another prime (not secondary) use is in defending U.S. exporters from examples or patterns of use that effectively (whether intentional or not) form a threat to long-run U.S. market share/access in emerging markets. The idea is to respond to reasonable evidence of tied aid use that may create long-run trade advantage for foreign exporters.

Principle #5: Any use of the War Chest should be for a project which meets Ex-Im Bank’s environmental guidelines.

TIED AID DEFINED

Tied aid is government-to-government concessional financing of public sector capital projects in developing countries. Tied aid is provided by the aid agencies of OECD member governments, sometimes in joint financing packages with their national export credit agencies (their Ex-Im Banks), or by their export credit agencies alone. Tied aid terms are much more concessional than the typical export credit terms offered by Ex-Im Bank and its counterparts. Tied aid usually involves total maturities longer than 20 years; interest rates equal to one-half to two-thirds of market rates in the currency of denomination; or large grants (equal to 35 percent or more of contract value) offered in conjunction with regular export credits. Regular export credits – involving terms up to and including 10-12 years – are not tied aid, and are not the subject of this Fact Sheet.

PRINCIPLES FOR USE OF THE TIED AID WAR CHEST

1. The Tied Aid War Chest is a resource that is governed by the simple standard of purposeful and selective use to deter or defend against foreign tied aid that distorts trade, and it is utilized so as to maximize the value of these resources. A prime use of the War Chest is to leverage OECD

negotiations to restrict the scope for aid-financed trade distortions through new multilateral rules, and to police existing multilateral rules. Another prime use is to defend U.S. exporters from examples or patterns of foreign tied aid use that effectively (whether intentional or not) form a significant threat to U.S. market share/access in emerging markets. In this regard, its aim is to deter, or if not possible, to match trade distorting foreign tied aid offers by reopening bid opportunities closed to U.S. exporters by foreign tied aid offers.

2. The War Chest is not to be applied “offensively” to introduce tied aid into an export competition; that is there will be no initiation of tied aid using the War Chest to give exporters an advantage over standard export credits. Rather, the War Chest will be used to counter situations where there is credible evidence that a foreign government is offering tied aid (formally or informally) to distort trade to provide a significant competitive advantage for foreign exporters. The War Chest is not an instrument for the routine support of U.S. exports and jobs. However, the “no initiation” principle does not preclude technical initiation when that approach is the only way to effectively counter the offer of another country.

3. The War Chest will be used aggressively to counter violations of the OECD tied aid rules. In pursuing this objective, the War Chest will be used to counter uses of *de facto* tied aid (so-called untied aid), absence of mandated notification rules, exploitation of the OECD exemption for small projects, or refusal to abide by Tied Aid Consultations findings. More generally, Ex-Im Bank will consider matching a foreign tied aid offer if it receives credible evidence that another OECD member government’s export credit agency or aid ministry is violating the internationally-agreed rules in letter or in spirit for competitive gain. In using the War Chest to leverage negotiations for multilateral agreements to restrict aid-financed trade distortions, Ex-Im Bank will work with Treasury to identify projects or categories of projects where such financing can advance U.S. international negotiating objectives.

4. Any use of the War Chest should be for a project which meets Ex-Im Bank’s environmental guidelines.

IMPLEMENTATION OF WAR CHEST MATCHING POLICY

Determination of Eligibility for Tied Aid Under the OECD Rules

Before a foreign tied aid matching offer will be made, the Treasury Department (in coordination with Ex-Im) will try to determine whether or not the project is eligible for tied aid under the OECD rules. If the project appears ineligible for tied aid, Treasury will “challenge” the project in the OECD in order to have it formally declared ineligible for tied aid. In this case any OECD government would be prevented from offering tied aid for the project under the OECD tied aid rules and competition would proceed on market, or standard Ex-Im Bank, financing terms. If the donor persists in an offer determined by the OECD to be ineligible for tied aid, whether through a direct violation of the rules or by seeking formally to derogate from the rules, Ex-Im Bank will automatically offer matching financing.

If the project is eligible for tied aid, Ex-Im Bank will proceed consistent with timing needs of the case to evaluate the matching request against its principles.

Ex-Im Bank requires credible information about foreign tied aid offers before offering specific matching terms. Ex-Im Bank has access to formal prior notifications of foreign tied aid offers required under OECD tied aid rules. Ex-Im Bank will also review recipient governments' written or oral (e.g., to Ex-Im Bank or U.S. Embassy) confirmations; press reports; and/or copies of correspondence or bilateral aid protocol agreements among foreign exporters, donor, and recipient governments. Ex-Im Bank seeks as much of the following information as practicable regarding each foreign tied aid credit for which matching is requested: specific financing terms (including currencies of denomination, grace periods, repayment terms, interest rates, grant amounts); amounts of tied aid financing; dates of foreign tied aid offers; descriptions of projects; names of donor agencies; names of recipient government agencies; names of foreign exporters.

Ex-Im Bank carefully screens tied aid matching requests. Tied aid matching cases are reviewed by Ex-Im Bank's Board of Directors, with input from other agencies, especially from the Treasury Department, which has policy oversight responsibility. Ex-Im Bank prefers to use standard export credits and does not seek competitive advantage in approving tied aid. Ex-Im Bank does not offer tied aid in order to reserve otherwise competitive contracts solely for U.S. exporters, nor to induce approval of contracts that would not otherwise be approved.

Ex-Im Bank will consider as many of the following factors as may be relevant to a specific case at a particular time.

- ◆ total budget cost of the transaction;
- ◆ clarity and extent of any pattern or trend indicating intent to use tied aid funds to acquire commercial advantage for specific exporters or products;
- ◆ clarity and extent of any pattern or trend indicating intent by donor country to use tied aid funds as part of a national strategy of trade promotion;
- ◆ nature of the export of project in terms of environmental benefits;
- ◆ economic/developmental feasibility of structuring such transactions in the specific market on standard export credit terms;
- ◆ possible effect of the loss of the sale/access to market/market share on the medium- and long-term viability of the supplier(s) as an entity or exporter;
- ◆ small business status of the supplier(s);
- ◆ The existence/reality of International Competitive Bidding procedures;
- ◆ extent of competitor displacement;
- ◆ clarity and specificity of documents relating to the foreign tied aid offer;
- ◆ existence and extent of any pattern or trend in terms of tied aid use by the donor country (i.e., is it a "spoiled market");
- ◆ ability of any War Chest use to be successful within the bounds of the Helsinki rules;
- ◆ ability of any War Chest use to be successful without posing a danger to the parameters to tied aid use derived from case precedent and laid out in the Ex Ante Guidance; and
- ◆ available War Chest resources.

PROCEDURES FOR ENHANCED EX-IM BANK/TREASURY COOPERATION ON TIED AID TRANSACTIONS

1. Ex-Im and Treasury staffs shall promptly share with each other all written materials received from exporters, other government agencies, or third parties relating to proposed or pending Ex-Im Bank tied aid transactions. In particular, Ex-Im staff shall provide Treasury staff with a copy of each tied-aid application received by Ex-Im Bank within 5 business days of receipt.
2. Within 10 business days of receiving an application or inquiry on possible tied aid use, Ex-Im staff (after consulting with Treasury staff) will contact the exporter/applicant and either provide a preliminary indication on the likelihood that the transaction would meet the parameters for tied aid use or identify specific information needed for Ex-Im and Treasury staff to provide such an indication.
3. In order to further the negotiations of improved OECD tied aid rules or enforce compliance with existing OECD rules, Treasury staff may recommend that the Bank support specific tied aid applications or that the Bank support tied aid applications countering certain categories of foreign aid credits.
4. Ex-Im staff shall send Treasury staff a report at each month's end indicating the status of pending and outstanding tied aid transactions. Where there is a significant mid-month status change, Ex-Im staff shall alert Treasury staff
5. Within 30 business days of receipt of a tied aid application, Ex-Im and Treasury staffs shall meet to discuss their preliminary views on the merits of the application and to develop an approach regarding processing of the application.
6. Ex-Im staff shall provide Treasury staff drafts of all tied-aid Board memos at least 10 business days before the projected date for final-memo distribution. Within 5 business days of receiving such drafts, Treasury staff shall either provide written comments to Ex-Im Bank staff or provide written notice that Treasury staff has no comments. Written comments or a statement of Treasury staff views shall be attached to the Board memos. Treasury staff may request in writing that distribution of the final memo and Board consideration of the application be delayed for up to 10 business days in order to provide additional time for consultation or for Treasury to submit written comments. Any such written request received prior to the close of the business day immediately preceding the scheduled Board meeting will be honored by Ex-Im Bank. If, after these consultations, Treasury and Ex-Im staffs disagree on the merits of a particular matching tied aid offer, Board consideration of the application shall be delayed for up to an additional 10 business days during which time the Under Secretary of the Treasury for International Affairs and the Ex-Im Bank Chairman will meet to seek to resolve the differences. Should agreement not be reached following such consultation, within 10 business days the Secretary of the Treasury and the Ex-Im Bank Chairman shall exchange letters setting forth their written views on how agreement might be reached.
7. Ex-Im Bank's Board will not take any final action on any tied aid application unless the

procedures for Ex-Im Bank/Treasury cooperation described above have been followed.

Review

1. Treasury and Ex-Im Bank staff will meet on an annual basis to review and discuss data and trends on the application for and use of the War Chest and the use of tied aid credit financing by foreign governments.
2. Treasury and Ex-Im Bank staff will meet on a semi-annual basis to review Ex-Im Bank and Treasury cooperation with respect to the administration of the War Chest and to discuss any changes to the procedures outlined above that may be necessary to improve cooperation and more effectively administer the program.
3. The Annual Tied Aid Report to Congress, which Ex-Im Bank staff and Treasury together prepare, will henceforth contain a section reviewing Ex-Im and Treasury cooperation with respect to this Understanding.

Appendix I: Market Windows

INTRODUCTION

“Market window” financing refers to medium- and long-term credits provided by a government owned or directed financial institution to foreign buyers for purchases of capital equipment and services. Institutions with a market window claim exemption from OECD Arrangement disciplines on this activity because the support is on “market” terms (e.g., priced on a market basis and break even financially) and/or is not explicitly tied to domestic content. The term “market window” illustrates that such activity typically takes place within an institution that does other types of lending. Hence, in a literal sense, an institution is not a market window; rather, market window is a “program” offered within an institution that provides a variety of financing programs.

Although market window credits are not programmatically tied to domestic content, they usually involve domestic content or are linked to some form of national interest. In addition, market window activity is generally on terms (or for availability) modestly better (more liberally) than what a specific borrower could have attained at that time from the market, thereby creating a trade distortion that is not subject to any transparency or discipline. The two primary institutions with market windows in the world today are EDC of Canada and KfW of Germany.

Market windows programs have existed for decades, but became prominent in the world of official export credit over the last decade as:

- ◆ interest rates for official export financing were required to be at least 100 b.p. over the cost of funds (combined with existing requirements for cash payments, limitations on local cost financing, and maximum repayment schedules);
- ◆ the scope for the use of tied aid was greatly circumscribed; and
- ◆ minimum risk fees were instituted.

With official ECA export credit support on fairly rigid “market-related terms”, it is now much more frequently the case that the key to a particular export deal is an exporter’s ability to find some financing institution that can fill holes in the overall financing package (e.g. cash payment), do something special (e.g. repayment terms beyond 10-12 years), or accept a level of risk that an ECA or the private markets will not take. Creating such a marginal competitive advantage lends itself well to market window programs, and such programs are seen by some as the last remaining competitive imbalance in the “official” export finance field.

The issue of market windows has proven very challenging in the OECD negotiating context, primarily because of the unwillingness of two major institutions, EDC and KfW, to provide any transparency to their market window business (e.g., either to clearly delineate market window activity in annual reports or to apply Arrangement disciplines to this activity). Unlike tied aid, therefore, there is no requirement for EDC and KfW to notify/report market window activity or even respond to an Ex-Im Bank inquiry. This lack of transparency has made the issue very

difficult to progress. It has also made it difficult to clearly define the extent of the problem. Nonetheless, the following sections use objective data and anecdotal evidence to provide as much detail as possible on the market window activity of EDC and KfW.

MARKET WINDOW PROGRAMS

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. The majority of EDC's business is in high-income countries (i.e., the United States and Western Europe) and highly concentrated in the few sectors where Canada has world-class companies -- about 78% of EDC's 2001 medium/long-term business was in the telecom (30%; e.g. Nortel), aerospace/transportation (28%, e.g. Bombardier) and mining (19%) sectors.

The general rule of thumb over the last several years has been that 90% of EDC's medium- and long-term export credit business has been done under its market window. However, in any year the ratio may vary. Applying the general ratio to EDC's medium- and long-term activity over the last five years yields the following (**Figure I-1**):

Figure I-1: EDC Medium/Long-Term Activity 1997-2001 (U.S.\$ BN)

	1997	1998	1999	2000	2001
Medium- and Long-Term Export Credits	4.9	4.5	3.7	4.8	5.3
Market Window	4.4	4.0	3.3	4.3	4.8
Official Window	0.5	0.5	0.4	0.5	0.5

KfW

Kreditanstalt Fur Wiederaufbau (KfW) is a financial institution that is owned by the German government (80%) and the federal states (20%). KfW exists to promote the growth of the German economy in a variety of ways. These include primarily domestic investment; export finance, and foreign development assistance. Since the reunification of Germany, about 70% of KfW's activity has been domestic, focused on investment and development in the former East German states. **Figure I-2** provides a breakdown of KfW's activity for the period 1997 through 2001.

Figure I-2: KfW Activity 1997-2001 (U.S.\$ BN)

	1997	1998	1999	2000	2001
Total Activity	27.0	29.7	38.7	32.6	32.8
Domestic	18.9	22.5	28.8	21.2	22.7
Export and Project Finance	6.3	6.3	8.1	10.1	7.4
Development Assistance	1.8	0.9	1.8	1.3	2.5

When it comes to export and investment credits, approximately 24% of KfW's annual activity falls under the category "export credits and project finance." This category is broader than just export credits, as it includes corporate and investment finance. "Corporate and investment

finance” includes foreign direct investment and investment support, such as that provided by OPIC in the United States. While historical figures are not currently available, in 2001 corporate and investment finance comprised about 40% of the “export credit and project finance” activity.

The other 60% of the export and project finance business is export credit support. KfW’s export credit support is provided both through its “market” window and its “official” window. The market window support (roughly 60-70% of the export credits) is considered to be on market terms and exempt from OECD rules; while the official window support is on OECD Arrangement terms (and mostly covered by Hermes insurance).

Applying a market window figure of 65% to KfW’s export credit activity (60% of export and project finance activity) over the last five years yields the following (**Figure I-3**):

FIGURE I-3: KfW EXPORT CREDIT/MARKET WINDOW ACTIVITY 1997-2001 (U.S.\$ BN)

	1997	1998	1999	2000	2001
Export Credit Support	3.8	3.8	4.9	6.0	4.5
Market Window	2.5	2.5	3.2	3.9	2.9

MARKET WINDOW TOTALS

Combining the two estimates yields an average total market window activity in the neighborhood of \$7.0 billion per year over the last five years (see **Figure I-4**). The bulk (at least two-thirds to three-fourths of this activity) is in the United States and Western Europe, largely supporting Bombardier and Airbus aircraft). In such situations there is no official ECA competition (and no U.S. exports for the huge chunk in the United States). The “adversely impacted” entities are the commercial banks and any U.S. companies pursuing such business.

However, there is a segment of some \$1.0 to \$2 billion per year in market window activity in upper tier less developed counties (LDCs) (especially in project finance). This estimate is the market window area of potential impact on Ex-Im Bank “competitiveness” as measured in this report. [For context, the volume of LDC market window activity is about equal to all non-Japanese tied aid.]

FIGURE I-4: MARKET WINDOW ACTIVITY 1997-2001 (U.S.\$ BN)

	1997	1998	1999	2000	2001
EDC	4.4	4.0	3.3	4.3	4.8
KfW	2.5	2.5	3.2	3.9	2.9
Total	6.9	6.5	6.5	8.2	7.7

Appendix J: Co-Financing “One Stop Shop”

INTRODUCTION

Responding to exporter concerns regarding competitiveness, Ex-Im Bank has established a “One-Stop-Shop” co-financing program. “One-Stop-Shop” arrangements allow products and services for one purchase from two (or more) countries to benefit from a single ECA financing package. Without co-financing, the parties would have to make separate financing arrangements with two (or more) ECAs to ensure support for exports from various countries. The country with the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction.

The Lead ECA provides export credit support for the entire transaction and the follower ECA provides reinsurance for its respective share of the transaction. This results in the Lead ECA being able to provide a common documentation structure, one set of terms and conditions and one set of disbursement and claims procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package.

EX-IM BANK CO-FINANCING “ONE STOP SHOP” AGREEMENTS

In 2001, Ex-Im Bank signed bilateral (i.e., lead and follow) agreements with ECGD (U.K.) and EDC (Canada) and initiated discussions with other ECAs to sign bilateral agreements. Unlike most other ECAs, Ex-Im Bank does not require there to be a formal bilateral agreement before considering co-financing transactions and will consider co-financing under any of its programs (insurance, guarantees or direct loans). Thus, Ex-Im Bank will process co-financing requests for transactions with ECAs on a case-by-case basis. In addition, Ex-Im Bank will co-finance with ECAs whose risk rating exceeds level 1. In that regard, in 2001, Ex-Im Bank approved co-financed transactions with the ECAs of Norway (GIEK) and Hungary (Hungarian Export Import Bank). Nevertheless, Ex-Im Bank reserves the right to decide on a case-by-case basis whether to authorize transactions under any bilateral co-financing agreement.

COMPETITOR PRACTICES

As shown below in **Figure J1**, the bulk of co-financing support has come from the European ECAs who have signed multiple framework agreements between themselves and have been processing co-financed transactions since 1995. These agreements have allowed European ECAs to manage their exposure in markets where they have reached their country limit. In addition, most ECAs have seized upon the administrative efficiency that results from the “one-stop-shop” for export financing as a means of improving their customer service and competitive image.

Figure J1: G-7 Co-financing “One-Stop-Shop” Agreements

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

Among the non-European ECAs, JBIC and NEXI are the only G-7 ECAs that have not signed any co-financing framework agreements. Both EDC and Ex-Im Bank are new to co-financing and have worked together to gain transactional experience during 2001.

As far as determining which transactions are eligible for co-financing, most ECAs agree that this program can be used across sectors and transaction size. While certain ECAs prefer to use co-financing for larger transactions, no fixed dollar limits currently exist. In addition, due to the complex nature of project finance transactions, the “one-stop-shop” is not often used to support exports to non-recourse projects.