

## Executive Summary

The 2003 Competitiveness Report provides a comprehensive analysis of Ex-Im Bank's competitiveness as it relates to the medium- and long-term programs during calendar year 2003. This evaluation is based on both qualitative information gathered from a variety of sources, including a survey of and focus groups with exporters and lenders, and quantitative information from sources such as the Organization for Economic Cooperation and Development (OECD) and the G-7 export credit agencies (ECAs).

The findings of this year's report are presented within the framework of major trends in the international marketplace during 2003 and the net effect of these influences on Ex-Im Bank activity and competitiveness during this period. The major trends identified are:

- Activity levels of the G-7 ECAs in the medium- and long-term financing areas reflect a continuing decline as a share of national exports and significant fluctuation in absolute terms over the last several years, with preliminary results for 2003 suggesting a return to more normal levels from a low point in 2002;
- The distribution of ECA financings is shifting to an overall greater concentration of medium-term activity; with long-term financings concentrating in larger transactions and/or riskier markets; and
- Emerging market borrowers are attracting more, and increasingly diverse, sources of financing outside of the traditional ECA environment – a trend that was first reported last year and is continuing steadily upward.

The activities of the G-7 ECAs during 2003 suggest that they have adopted strategies characterized by exploration of niche roles and cooperative relationships with private and other official ECAs.

### Core Business Policies and Practices

Overall, Ex-Im Bank is generally competitive with the other G-7 ECAs. In particular, Ex-Im Bank's exposure fees (risk premia) were considered to be generally competitive with our foreign counterparts. In addition, Ex-Im Bank's 100% unconditional guarantee continues to be a very competitive financing product. Finally, Ex-Im Bank's approach to risk is perceived by the exporting community to be generally competitive in most markets. Thus, on balance, Ex-Im Bank levels the playing field with the typical ECA offer in the core business policies and practices.

### Comparison of Major Program Structures

Ex-Im Bank's project finance and aircraft programs are considered highly competitive, a ranking that is consistent with last year's report. Co-financing, however, is an area in which Ex-Im Bank lags its European counterparts because of the absence of a full complement of bilateral co-

financing agreements. Finally, the foreign currency program is comparable to the programs offered by other G-7 ECAs.

### **Economic Philosophy and Competitiveness**

As the Arrangement has increasingly codified export credit rules over the last decade, the potential for the use of official financing tools outside the scope of the Arrangement to tilt the playing field has grown. These tools such as untied aid and market windows – can be used to exploit public policy niches that are antithetical to the U.S. export credit philosophy. Our first goal, as was achieved with tied aid two decades ago, is to discipline the use of these tools under the Arrangement. Due to lack of progress in the OECD on untied aid, the Administration is attempting to use the G-7 to initiate OECD negotiations to bring transparency and discipline to the use of this particular tool. Progress in the OECD on market windows has also been difficult, given the lack of hard evidence of competitive harm. While Congress has provided Ex-Im Bank authority to match egregious practices in both areas, these financing tools operate in a grey zone, and evidence of adverse impacts on U.S. exporters in particular transactions has been hard to establish.

### **Public Policies: Stakeholder Considerations**

The existence of the Ex-Im public policy areas stemming from broader USG philosophy and policy can influence the overall competitiveness of an individual transaction in varying degrees, and colors the exporting community's perceptions of Ex-Im's overall competitiveness, as the Bank tends to have more such constraints than other ECAs and, is the only ECA to have economic impact and shipping policies requirements. While economic impact guidelines affect a limited number of transactions, the MARAD/PR 17 requirements impact a somewhat larger number of deals (e.g., non-containerized major capital goods). Consequently, the U.S. exporting community views the public policy requirements as disadvantageous when they arise.

### **Operational Efficiency**

A new factor considered in this year's analysis is the issue of operational efficiency. Ex-Im Bank, like the other G-7 ECAs, has undertaken a number of initiatives aimed at providing better and more effective customer service – especially as a way of differentiating itself in the processing of standard transactions. However, while Ex-Im Bank is not on equal footing with the most advanced ECAs in the development and implementation of infrastructural changes to achieve these goals, it is consistent with the more typical ECA. Nonetheless, a number of participants in the focus groups noted concerns about Ex-Im Bank's case processing time, and the Bank launched a number of initiatives in 2003 to improve customer service and case processing efficiency.

## Overall

Similar to last year's report, the 2003 Competitiveness Report presents the summary of Ex-Im Bank's ability to offer comparable financing in a report card format. On a grading scale from "A+" to "F", with "A" being generally competitive (see **Figure 1** below for the competitive definitions of select grades), Ex-Im Bank's core financing programs receive an "A", which translates into being generally competitive with the average G-7 ECA. However, in the economic philosophy and public policy areas, over which Ex-Im Bank has little to no control, survey respondents rated these areas, when present in an individual transaction, as having a negative impact on Ex-Im Bank's competitiveness. Respondents noted in particular, foreign content, tied and untied aid, PR 17, market windows or economic impact, when and if encountered in a specific transaction (with market windows not yet encountered in a specific transaction), tend to offset the competitiveness of Ex-Im Bank's core financing.

**Figure 1: Definition of Grades**

Grade	Definition
<b>A+</b>	Fully competitive compared to other ECAs. Consistently equal to the (or is the sole) ECA offering the <b>most competitive</b> position on this element. Levels the playing field on this element with the most competitive offer from any of the major ECAs.
<b>A</b>	Generally competitive compared to other ECAs. Consistently offers terms on this element <b>equal to the average</b> terms of the typical major ECA. Levels the playing field on this element with the typical offer from the major ECAs.
<b>A-/B+</b>	Level of competitiveness is in between grades A and B.
<b>B</b>	Modestly competitive compared to other ECAs. Consistently offers terms on this element <b>equal to the least</b> competitive of the major ECAs. Does not quite level the playing field on this element with most of the major ECAs.
<b>B-/C+</b>	Level of competitiveness is in between grades B and C.
<b>C</b>	Barely competitive compared to other ECAs. Consistently offers terms on this element that are a <b>notch below</b> those offered by any of the major ECAs. Puts exporter at financing disadvantage on this element that may, to a certain extent, be compensated for in other elements or by exporter concessions.
<b>D</b>	Uncompetitive compared to other ECAs. Consistently offers terms on this element that are <b>far below</b> those offered by other major ECAs. Puts exporter at financing disadvantage on this element so significant that it is difficult to compensate for and may be enough to lose a deal.
<b>F</b>	Does not provide program (Note: The Exporter and Lender Survey included a grade of "F" in the event no Ex-Im program was available. In the future, the absence of an Ex-Im program will be included in the "NA" category.)
<b>NA</b>	Does not have experience with policy/program.

