

Ch. 6: Public Policies - Stakeholder Considerations

Section C: Foreign Content

Introduction

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. U.S. content is the portion of the export that originated in the United States.

Ex-Im Bank's Policy and Practice

In keeping with its objective of maintaining or increasing U.S. employment through the financing of U.S. exports, the Bank has adopted a content policy to ensure that its export financing targets the U.S. content associated with goods and services exported from the United States. In order to accommodate U.S. export contracts that contain goods and services that are not completely U.S.-produced, the Bank's policy allows inclusion of some foreign content within the U.S. export contract with certain restrictions and limitations. Ex-Im Bank's policy on non-U.S. content stems from its Charter but has no specific statutory requirement *per se* as it relates to non-U.S. content; rather, it reflects a concerted balance between organized labor and industry interests.

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

G-7 ECAs' Policies and Practices

In general, all export credit agencies seek to maximize the national benefit for their respective activities. However, context for that evaluation varies widely and has led to very different content policies.

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 foreign content, 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 27: ECA Foreign Content Support - Comparison of Policy Parameters

	Ex-Im Bank	EDC	European ECAs	JBIC & NEXI
Application of the policy	In aggregate	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	Decided on a case-by-case basis* *Cover is not reduced for transactions that include up to 30% EU content	Decided on a case-by-case basis *Cover is not reduced for transactions that include up to 70% foreign content
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	Generally, domestic content needs to 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

Figure _ compares the main aspects of the content policies of the G-7 ECAs in 2003. The data illustrate that Ex-Im Bank's content requirements are far more restrictive than Canada's and Japan's but are not so different overall than those of its European counterparts. The following two points regarding competitor ECA practices and policies 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.
- Ex-Im Bank does not have a required minimum level of domestic content for an export contract to be eligible for support, while European ECAs require 60%-90% domestic or EU content. Nevertheless, **Figure 27** shows that though Ex-Im Bank's implementation procedures appear to be generally competitive with the Europeans, the requirement that the foreign content be shipped from the United States is a constraint unique to Ex-Im Bank.

Summary Data

As shown below in **Figure 28**, of those transactions that contained foreign content, the average percent of foreign content per transaction stayed generally within the 10%-12% range for the last five years. However, the export value (as a percentage) for transactions containing foreign content remains significant, which is attributable to the fact that in 2003 Ex-Im Bank support for large aircraft constituted approximately 40% of Ex-Im Bank's medium- and long-term activity. Large aircraft transactions are typically high dollar value and include, on average, 11% eligible foreign content. Conversely, smaller value transactions tend to include less foreign content, and approximately 60% of the total number of transactions supported by Ex-Im Bank contained no foreign content.

Figure 28: Recent Trends in Ex-Im Bank Foreign Content Support for Medium- and Long-Term Activity*

Authorizations		1999	2000	2001	2002	2003
Total activity	Export value (\$MM)	\$10,500	\$9,455	\$7,109	\$8,212	\$8,386
	Number of transactions	211	267	227	222	232
Transactions containing foreign content	Export value (\$MM)	\$9,001	\$7,759	\$5,757	\$7,842	\$7,823
	Percentage of total value	86%	82%	81%	95%	93%
	Number of transactions	92	100	80	96	85
	Percentage of total number	44%	37%	35%	43%	37%
Foreign content	Volume (\$MM)	\$1,076	\$805	\$631	\$836	\$814
	Average per transaction	12%	10%	11%	11%	11%

*These figures exclude medium-term insurance.

Appendix F provides a more detailed listing of foreign content contained in Ex-Im Bank's medium- and long-term transactions in 2003 at the time of authorization.

Exporter and Lender Survey Results

Several exporters maintained that although the Bank's aggregate approach to foreign content "has helped a great deal", "it still lags behind the European, Canadian, and Japanese ECAs policy", which allows them to directly finance non-domestic content. Moreover, one exporter noted that Ex-Im Bank's policy with regard to foreign content was forcing a shift in production of some products to Europe. Overall, survey respondents found that Ex-Im Bank's foreign content policy, when present in a given transaction, could negatively impact the Bank's competitiveness.

Conclusion

Ex-Im Bank's approach to foreign content appears to be more transparent and predictable than the approaches taken by our G-7 counterparts. Moreover, the Bank's approach is viewed as more competitive in 2003 than before the 2001 changes. On the other hand, the other ECAs still have more flexibility and a broader band within which they permit foreign content to be included. Consequently, Ex-Im Bank's foreign content policy can have a negative impact on competitiveness.