

EXPORT-IMPORT BANK *of the* UNITED STATES

REPORT TO THE U.S. CONGRESS ON GLOBAL EXPORT CREDIT **COMPETITION**

JUNE 2015

For the period January 1, 2014 through December 31, 2014

EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES



Reducing Risk. Unleashing Opportunity.

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EXIM Bank Chairman and President Fred P. Hochberg



ADVISORY COMMITTEE'S STATEMENT ON THE 2014 EXIM COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

2015 EXIM BANK ADVISORY COMMITTEE

Standing (from left):

Fred P. Hochberg, *Chairman and President*
Sean Mulvaney, *EXIM Board Member*
Caroline Freund
Gabriel Ojeda
Bob Perciasepe
Jenny Fulton
Wanda Felton, *Vice Chair and First Vice President*
John White
Mary Howe
Celeste Drake

Sitting (from left):

Don Nelson
Steve Stephens
Sydney Thwaites
Matthew Slaughter
Christine Gregoire

Not Pictured:

Patricia Loui, *EXIM Board Member*
Owen Herrstadt
Kusum Kavia
Tom Kiernan
Gwynne Shotwell
Luis Ubiñas

A complete list of the EXIM Bank Board of Directors and 2015 Advisory Committee Members is found on page 104.

JUNE 2015

TO: Members of the United States Congress

FROM: 2015 EXIM Bank Advisory Committee

INTRODUCTION

The 2014 Competitiveness Report of the U.S. Export-Import Bank (EXIM) shows that EXIM is an essential resource for American exporters and workers in the face of an increasingly competitive global landscape. The past year has seen EXIM continue to support U.S. job growth, equipping American businesses to create or maintain 164,000 jobs during 2014 while generating a surplus of \$675 million for taxpayers. As with previous Competitiveness Reports, this year's edition provides data and analysis on a host of issues impacting EXIM's ability to compete on behalf of U.S. jobs and exports vis-à-vis the world's other export credit agencies.

The report's findings are especially important in the context of EXIM's impending congressional reauthorization deadline, a factor that has already had a significant negative impact on American competitiveness. The uncertainty of reauthorization is identified as a problem by the export community in the report's survey results. The report further notes that a number of Asian export credit agencies (ECAs) are using the uncertainty "as a tool to win business away from American exporters." This is troubling given the simultaneous rise of opaque financing being offered by ECAs in Asia; China, to take one example, has been estimated to have provided its exporters with at least \$670 billion in ECA financing over the last two years, while EXIM has equipped American exporters with only about \$590 billion in financing—over its entire 81-year history. The number of ECAs worldwide

has been growing rapidly, reaching as many as 85 last year, with over half operating programs that are not regulated by the OECD Arrangement.

Among the major ECAs, there is near-uniform agreement on two critical points: first, they are not experiencing a political threat to their existence, and second, they anticipate doing more, not less, financing of their domestic exporters in the years ahead. Countries are endowing their ECAs with the capacity to compete for global opportunities. In the face of those unmistakable trends, America stands alone. At a time when EXIM is operating in a limited capacity under the threat of closure, as compared with other ECAs that are expanding, uncertainty creates a major competitive disadvantage for U.S. exporters. A long-term reauthorization would provide a more stable climate for American export financing, without any additional cost to taxpayers.

In uncertain global economic times, EXIM plays a critical role by filling the export financing gap on behalf of American exporters and workers. That role has proven to be countercyclical in nature: as commercial bank liquidity receded in the wake of the global financial crisis, EXIM's financing volumes rose to record heights in response to the resulting demand from U.S. exporters; when private financiers' appetites for lending began to return, EXIM was relied upon for fewer transactions. Were it not for EXIM, U.S. exports would have undoubtedly taken a bigger hit during the financial crisis, exacerbating the economic downturn and job losses. Despite a 12 percent drop in global trade volumes in 2009, both the number and volume of long-term direct loan transactions offered by EXIM surged. We live in a world of unpredictable markets, and it is often impossible to predict when and where the next financial downturn will hit. Commercial liquidity can be impacted by crises, by lenders' adjustments to banking reforms, and by any number of external happenings—but EXIM provides confidence for exporters and their employees who might otherwise lose deals and jobs when commercial banks experience periods of tight lending. Countercyclical lending underscores the point that EXIM does not replace commercial banks in transactions but fills the gaps where the risk profile of a transaction does not fit with the commercial banks underwriting.



EXIM is an essential resource for American exporters and workers in the face of an increasingly competitive global landscape.

COMPETITIVE ISSUES FACING EXIM

The report shows the ballooning of export finance around the world, particularly of the opaque, non-OECD-compliant variety. EXIM collected and analyzed data on ECAs around the world, producing results that demonstrate how export powerhouses like China, Japan, and Korea make use of medium- and long-term trade-related financing that is many times the amount that EXIM covers. Moreover, the report indicates that the large amounts provided by these competitors—using programs not governed by the Arrangement—can often be on financing terms more lenient than the Arrangement, with rates below what EXIM can offer and minimal risk-related fees. In contrast, U.S. export financing volumes are similar to countries like Canada, France, and Italy, despite the fact that America's actual exports represent about three times as much as these countries. This financing gulf raises concerns about the long-term competitiveness of U.S. exports in the global economy.

Aside from the gap in volumes, EXIM is competitive many areas, though the report also highlights some areas where EXIM financing is not as competitive as

that of its foreign counterparts. One area in particular where this may be the case is risk premia in medium-term lending, where EXIM fees are relatively high and less flexible than those of other ECAs. There are also a few areas in which America is unique in its requirements that EXIM financing programs be directly related to supporting U.S. jobs. Some exporters believe that these policies create an additional competitive toll on them, especially in light of the expanded use of global supply chains, though other stakeholders disagree. These areas include policies reflecting economic impact, U.S. content, and U.S. flag shipping requirements.

As part of its 2012 reauthorization, Congress directed EXIM to implement 18 new reforms, including a number of new reporting requirements. EXIM has completed or is on track to complete each of these directives, and we commend the Bank for its responsiveness to Congress. Given the host of existing requirements that serve to dampen EXIM's competitiveness relative to its peers, our hope is that, should Congress choose to require further reforms in the Bank's next reauthorization, they refrain from adding additional reports and studies, and err on the side of making EXIM more competitive rather than less.

OBSERVATIONS AND RECOMMENDATIONS

We commend EXIM on the creation of a clearer, more concise 2014 Competitiveness Report. Many of the recommendations made by last year's Advisory Committee were implemented, while some remain outstanding. EXIM staff gathered new data from a variety of sources in order to present a fuller, more comprehensive view of how export credit functions around the world, particularly in countries operating outside of the OECD Arrangement—and we urge them to continue to track this activity in the future.

We recommend that the newly gathered raw data be made publicly available, so that outside researchers can explore the important questions raised by the report, such as the extent to which growing ECA financing is influencing global trade patterns and the how ECA credit can help reduce trade and income volatility. We urge EXIM to develop a plan to maintain, update, and share the raw data it uses to generate its quantitative findings in the interest of transparency and historical comparison.

EXIM has followed through on previous recommendations to make the report more readable—one that maintains its comprehensive nature without sacrificing clarity. While we commend the Bank for its progress on that front, we recommend continuing to focus on improving readability in future editions. This effort could include the creation of simple, understandable charts explaining how EXIM customers work with the Bank (and the private sector partners with which EXIM partners on 98 percent of transactions) to acquire financing. Clear, concise explanations of terms related to financing (e.g., Basel III) that may not be readily understood by all readers would further contribute to improved readability.

At the suggestion of last year's Advisory Committee, EXIM removed letter grades from its chapters in favor of a qualitative system that we feel offers a more accurate, more succinct representation of results. This year's report has also followed through on the recommendation to strengthen the use of customer surveys to determine how EXIM compares with other financing sources, as well as the recommendation to summarize trends in global trade and America's place within it so as to better inform Congress.

We believe that the report would be further improved if it could provide a fuller measurement of the true impact of EXIM on U.S. jobs, including, especially, indirect jobs supported through the supply chains of EXIM customers. Understanding that data in this area can be hard to come by, we recommend that the Bank assemble a case study, or case studies, to accompany next year's report, which would trace an EXIM loan through its lifespan, identifying all of the businesses,

workers, and U.S. states that were touched along the way. Such an illustration would provide a more thorough understanding of the broader impact that often accompanies individual EXIM transactions.

EXIM has made strides over the course of the last year not only in its Competitiveness Report, but in its operations as well. The introduction of a new customer contact center is an excellent innovation that will improve efficiency and bolster EXIM's ability to serve its small business customers. Gathering data from contact center calls, e-mails, and online chat interactions will help EXIM further adjust to customer needs; this is one area where EXIM remains ahead of other ECAs in terms of pursuing customer service best practices and implementing new technologies. We also commend EXIM for implementing 'point of experience' surveys this year—and would note that, according to Bank staff, early feedback has indicated that responses regarding customer experience have been overwhelmingly positive thus far. We look forward to an analysis of the responses in next year's report.

While EXIM's small business support is not the subject of this report, it nevertheless represents the vast majority of the Bank's transactions—to say nothing of the many small business suppliers that feel the benefit of larger EXIM authorizations. We therefore recommend that Bank staff explore avenues to improve the way it works with both small businesses themselves and with the commercial banking system as partners to make smaller American firms more competitive in global markets. We urge the Bank to include in that effort the development of new ideas to further streamline the financing process from start to finish for small business customers.

CONCLUSION

The members of the Advisory Committee submit this letter as a commentary on the contents of the report; while not every opinion included in this statement may be held equally by each member, the observations herein are generally representative of our collective impressions. The membership of the Advisory Committee is comprised of professionals representing a range of export-related interests, including small business, manufacturing, labor, environment, finance, services, and textiles. We are united in our assessment that the competitive disadvantages faced by EXIM—and therefore faced by the thousands of American businesses that make use of its financing—are significantly exacerbated by the ongoing uncertainty surrounding the Bank's congressional reauthorization.



Christine Gregoire

Chair

2015 Export-Import Bank Advisory Committee

Former Governor, Washington State



Meeting of EXIM Advisory Committee's subcommittee on the Competitiveness Report



*EXIM is the official
export credit agency of
the United States with a
singular mission:
to propel American
job growth.*

Chief Industries Inc., Grand Island, Nebraska

Executive Summary

OVERVIEW OF THE COMPETITIVENESS REPORT

The Export-Import Bank of the United States (EXIM) is the official export credit agency (ECA) of the United States. EXIM is an independent, self-sustaining executive agency with a singular mission: to propel American job growth by equipping U.S. businesses with the financing tools they need to succeed on the global stage. Its products can be accessed by companies only in cases when private sector financing is unavailable, or when competitive financing backed by the full faith and credit of the United States is necessary for American firms to meet foreign government-backed competition.

Each year, EXIM is required by law to report on its competitiveness relative to the world's other major ECAs. This Competitiveness Report provides Congress with an assessment of EXIM's ability to support U.S. exporters with competitive financing that empowers them to compete on a level playing field and sustain American jobs. Despite the fact that the vast majority of EXIM transactions (nearly 90 percent) directly serve American small businesses engaged primarily in the short-term financing realm, due to wide disparities in countries' practices concerning ECA support for short-term transactions, the focus of the Competitiveness Report is on medium- and long-term transactions—areas that allow for a more clear, 'apples to apples' frame of comparison, and where financing makes the most significant difference in export competition. Specifically, this comprehensive review focuses on EXIM's medium- and long-term programs and policies during the calendar year 2014.

EXIM's support for American export-backed jobs takes place against the backdrop of a rapidly shifting global competitive landscape. A consequence of the 2007–2008 global financial crisis has been many countries' reliance on exports as a wellspring of jobs and economic growth; as the world's ECAs

have accordingly seen their capacities strengthened by their respective governments, competition has ramped up markedly for U.S. exporters seeking to win deals in global markets. Thus, in addition to assessing EXIM's performance over the previous year, the Competitiveness Report also examines trends and challenges that ECAs currently face, as well as those they may face in the future.

GLOBAL COMPETITION IN 2014

Each medium- and long-term transaction that EXIM finances falls under the Organisation for Economic Cooperation and Development's (OECD) Arrangement on Officially Supported Export Credits (Arrangement).¹ While the Arrangement is a "gentlemen's agreement" among OECD members that describes the most generous terms and conditions members should offer when providing official export credit support, the OECD views the Arrangement as "rules" defining constraints on members' lending activity. EXIM treats the Arrangement terms as "rules," and follows them for each medium- and long-term transaction.

Furthermore, the WTO Subsidies Agreement provides a "safe harbor" for certain types of export credits if they are given on terms consistent with the Arrangement. Under the Arrangement, ECAs are held to uniform lending and transparency rules designed to prevent a global financing race to the bottom. These rules have long helped to ensure that global competition is influenced primarily by free market factors such as quality and price of goods and services. The Arrangement covers "traditional export credit support," meaning export credit activity that is directly tied to exports. This activity includes direct loans, guarantees, and insurance products.

¹ Export credit financing given by World Trade Organization (WTO) Members is subject to specific obligations under the Agreement on Subsidies and Countervailing Measures (Subsidies Agreement), while untied financing and investment support are generally not. However, the Subsidies Agreement does not require the same level of transparency as the OECD Agreement, which makes monitoring under the Subsidies Agreement difficult.

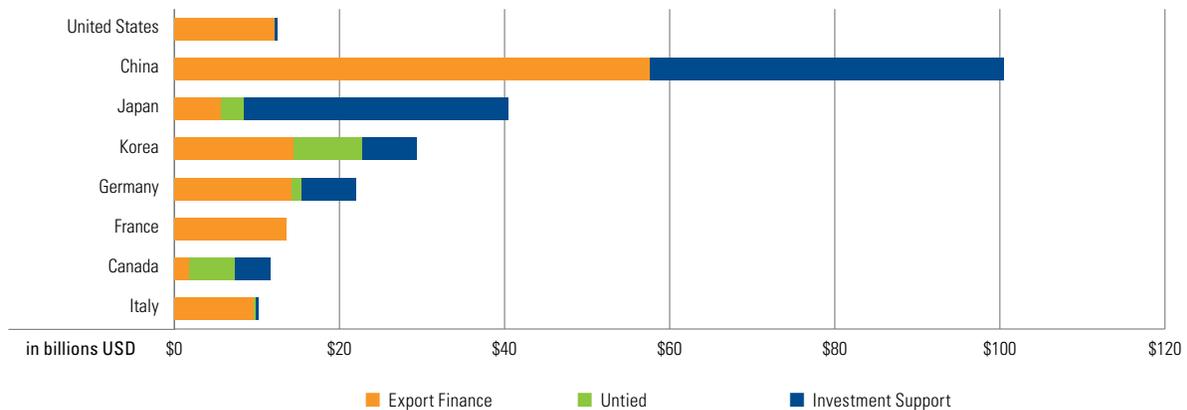
Beginning at the turn of the century, China and other countries' ECAs began to institute trade-related overseas financing programs operating outside of the OECD Arrangement. These activities include the following programs:

- **Market window and market-oriented activity:** Commercially-priced ECA activity that takes a market-based approach to setting all financing terms.
- **Untied support:** Financing not directly linked or tied to procurement from the country of the ECA providing the support. ECAs often use such untied financing to support national interests or promote business interests in a market.
- **Investment support:** Financing that may not be directly linked or tied to procurement from the country of the ECA providing the support. ECAs use this financing to support projects where home country companies have equity participation or there is benefit to the national interest. Organizations offer this support in the form of loans, guarantees, or insurance.

With the introduction of these programs, the share of trade-related official support governed by the Arrangement began to fall rapidly. Where 100% of trade-related official support fell under the aegis of the Arrangement in 1999, today that share has been reduced to only 34%.

The impact of this trend is felt most significantly in the medium- and long-term lending arenas, where financing can make a significant difference in export competition. EXIM Bank authorized \$12 billion in medium- and long-term official export support in 2014, all of which fell under the OECD Arrangement. Figure 1 shows how the United States' official export credit support compares with the trade-related support of other countries, including G-7 countries (which offer both support governed by the OECD as well as non-Arrangement activity, including untied and investment financing) and China (which is not an OECD member and whose programs are therefore not subject to the OECD Arrangement). The United States total includes financing from the Overseas Private Investment Corporation (OPIC).

FIGURE 1: Medium- and Long-Term Trade-Related Financing and Total Exports by Country, 2014



This year, the report will explore in greater detail non-Arrangement trade-related government support offered by China, Japan, and Korea. Together, the approaches taken by these countries have established a new model for ECAs—referred to in this report as the Asian Model.

As shown in Figure 2, China, Japan, and Korea account for an estimated 83% of the entire worldwide amount of trade-related official support that does not fall under the OECD Arrangement. The scope and scale of financing offered under their programs are larger than anything typically offered under the

Arrangement. The size of the programs can act as an incentive for international buyers to maximize sourcing from the Asian countries. Instead of acquiring financing from multiple sources, buyers for large projects prefer the one-stop-shop approach offered by these countries, which could put U.S. workers at a disadvantage in the global marketplace.

FIGURE 2: Total Unregulated Trade-Related Official Support

(in billions USD)

	2013	2014
Asian ECAs – Unregulated Financing		
China	77	101
Japan	31	35
Korea	9	15
TOTAL	117	151
Worldwide ECAs – Unregulated Financing		
Asian ECAs	117	151
Total ECAs	154	183
% OF UNREGULATED FINANCING FROM ASIAN ECAS	75%	83%

STAKEHOLDER VIEWS

In surveys and focus groups conducted by EXIM, U.S. exporters and lenders have remarked that the competitive position of EXIM relative to other ECAs is weakening. For instance, stakeholders described other ECAs as “creative, competitive, and flexible” in the medium-term arena. In comparison, EXIM is stricter with credit standards, including tenor, risk limitations, and documentation requirements in its medium-term business. In addition, they believe that the congressional debate over extending EXIM Bank’s Charter has already hurt, and will continue to hurt, EXIM’s competitiveness. Evidence has emerged that Asian ECAs now use the uncertainty surrounding EXIM’s reauthorization as a tool to win business away from American exporters. Nevertheless, stakeholders valued the innovative support offered by EXIM for project and aircraft finance, in particular extending covered bond support (guaranteeing bonds issued by the borrower in U.S. capital markets).

LOOKING FORWARD

U.S. exporters regularly compete with foreign companies whose host countries’ ECAs have multiple flexible financing options available to support their respective national interests. This is happening at a time when nations around the world have relied on exports to foster national growth and spur job creation. Consequently, many ECAs (particularly those in Europe) are being restructured in order to expand capacity and permit access to non-bank funding sources. At the same time, new multilateral institutions such as the Asian Infrastructure Investment Bank (AIIB) are being created that may ultimately change the landscape of official trade finance. The AIIB has already attracted OECD members such as France, Italy, and the UK. If China and other leading members opt not to adhere to principles similar to those put in place by the OECD this could further erode transparency in global finance.

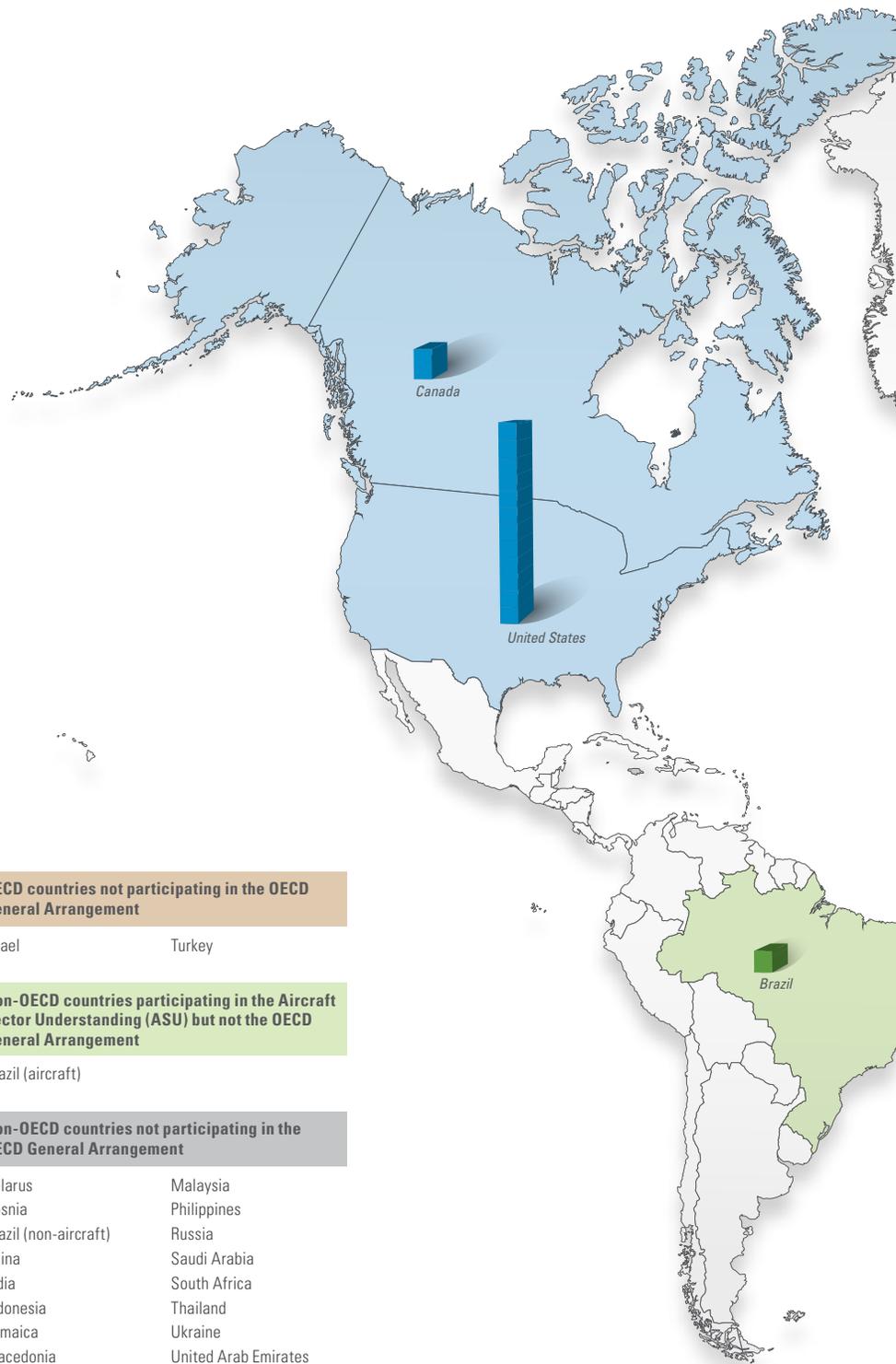
In spite of the growing trend of ECAs operating outside of the OECD Arrangement, EXIM has up to this point managed to remain competitive relative to the broader community of ECAs. While there may be no singular ‘tipping point’ at which attractive, non-rules-based financing outside of the OECD Arrangement once and for all trumps quality, innovative products in the global marketplace, the impact of the OECD Arrangement’s waning potency has already begun to manifest in individual project sourcing decisions taking place around the world. Should that trend towards a more ‘Wild West’ global financing environment continue, the consequences for U.S. exporters in the era of globalization could be significant in the long term.

Korea’s trade-related official support was more than double that of the United States in 2014, despite the fact that U.S. total exports were nearly triple the size of Korea’s total exports. In addition, the U.S. economy is eleven times larger than the Korean economy.

New Major Medium- and Long-Term Official Export Credit Volumes

in billions USD

Austria	\$1.1
Brazil	\$1.3
Canada	\$1.8
China	\$58.0
Denmark	\$2.5
Finland	\$3.6
France	\$8.3
Germany	\$14.2
India	\$4.5
Italy	\$5.9
Japan	\$5.6
Netherlands	\$4.5
Norway	\$6.4
Russia	\$1.0
South Korea	\$14.4
Spain	\$1.7
Sweden	\$2.3
United Kingdom	\$3.0
United States	\$12.1



OECD countries participating in the OECD General Arrangement

- Australia
- Austria
- Belgium
- Canada
- Croatia*
- Czech Republic
- Denmark
- Estonia*
- Finland
- France
- Germany
- Greece*
- Hungary
- Italy
- Japan
- Latvia*
- Luxembourg*
- Netherlands
- New Zealand*
- Norway
- Poland
- Portugal
- Romania*
- Slovenia
- Slovak Republic
- South Korea
- Spain
- Sweden
- Switzerland
- United Kingdom
- United States

* Very little or no MLT activity reported

OECD countries not participating in the OECD General Arrangement

- Israel
- Turkey

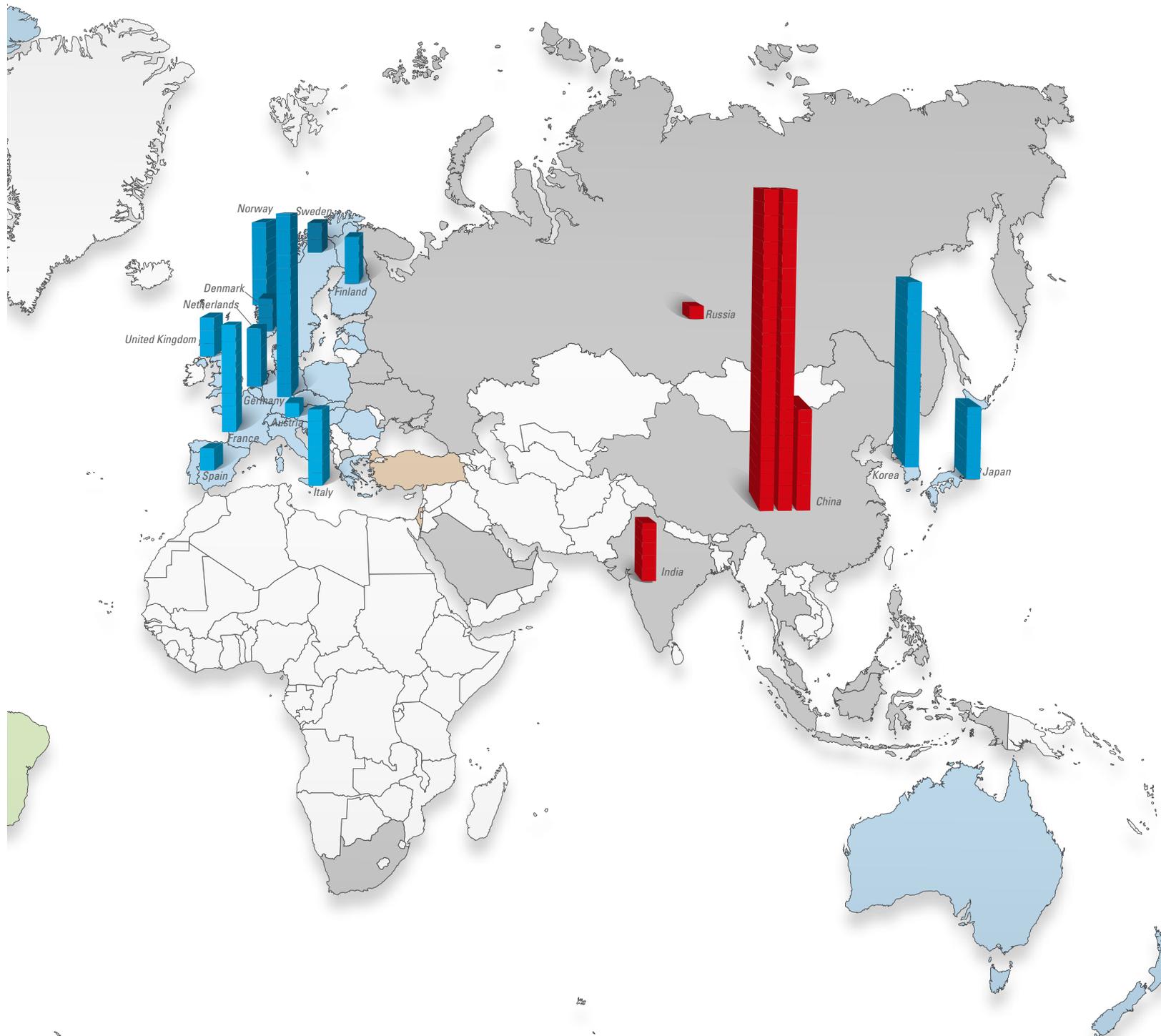
Non-OECD countries participating in the Aircraft Sector Understanding (ASU) but not the OECD General Arrangement

- Brazil (aircraft)

Non-OECD countries not participating in the OECD General Arrangement

- Belarus
- Bosnia
- Brazil (non-aircraft)
- China
- India
- Indonesia
- Jamaica
- Macedonia
- Malaysia
- Philippines
- Russia
- Saudi Arabia
- South Africa
- Thailand
- Ukraine
- United Arab Emirates

Countries not represented in color or listed do not have significant levels of medium- and long-term official export credit.



CHAPTER 1

Introduction and Overview of the Report

REPORT CONTENT

- An overview of 85 official export credit agencies and their different approaches to export credit
- Medium- and long-term activity of EXIM and its ECA counterparts
- No analysis of short-term transactions due to wide disparities in countries' practices

The world of export credit has both grown and changed dramatically since Congress established the Export-Import Bank over 80 years ago; EXIM's Competitiveness Report reflects this evolution. In 1972, when the first Competitiveness Report was published, 17 pages were enough to cover the activity of the major export credit agencies. As trade-related official support evolved over the years—particularly as countries began operating outside of the OECD's lending and transparency rules—the scope of the report expanded in turn.

Initially, the Competitiveness Report compared EXIM activity to that of the G-7 ECAs (Canada, France, Germany, Italy, Japan, and the United Kingdom). Over time, the report began to follow other major OECD countries (Denmark, Finland, South Korea, Netherlands, Norway, Spain, and Sweden). As the BRIC countries (Brazil, Russia, India, and China) have become increasingly active in their use of official export credit support, the report now covers these non-OECD member countries. As their levels of support grow, all of these ECAs pose increasingly competitive threats to EXIM, and by extension, U.S. manufacturers. The 2014 edition of the report covers competition among 85 official ECAs. Of these ECAs, 58 have medium- and long-term programs that compete with EXIM on transactions with tenors over two years. Many of these ECAs now offer trade-related official support not governed by the OECD Arrangement which may support their country's exports.

Chapters 2, 3 and 4 provide an overview of these ECAs and explain their different approaches to export credit. They also explore the medium- and long-term activity of EXIM and its ECA counterparts. The end of Chapter Two provides context for the financial sector in which those ECAs operate, with a special focus on the decrease in commercial bank activity in 2014.

In most cases, EXIM gathered information for the report from the ECAs themselves. Data on China's export credit activity comes from a comprehensive study which included official figures published by the three relevant agencies, including China Ex-Im Bank, Sinosure, and China Development Bank. EXIM has had to supplement published figures with desktop audits of the Chinese ECA programs and activity levels to better represent aggregate Chinese export credit support. In addition, EXIM developed a database that includes cases of Chinese lending reported in press articles from 2012 to 2014. Given the lack of transparency regarding the Chinese data, these figures should be considered as broad estimates and subject to change.

Chapter 3, like the rest of the report, does not include any analysis of short-term transactions due to wide disparities in countries' practices in that sphere which render comparison of limited usefulness. For example, some countries (e.g., in Asia) legally require short-term exports to be insured by the state while other countries (e.g., in Europe) are legally prohibited from insuring short-term "marketable risks." Figure 3 shows the variety and disparity in short-term cover provided by the major export credit agencies.

FIGURE 3: New Short-Term Official Export Credit and Working Capital Volumes, 2014

Country	Authorized Amount (in billions USD)
U.S. (EXIM)	7.01
China (Sinosure)	344.82
Korea	165.57
Japan	63.73
Canada	52.11
Germany	17.32
Italy	0.82
United Kingdom	0.05

Each year, the Competitiveness Report also addresses emerging issues in the world of export credit. This year's report explores in greater detail the scope and impact of trade-related government support offered by China, Japan, and Korea where financing not subject to the terms of the OECD Arrangement has grown rapidly. Chapter 5 discusses the degree to which trade-related financing support outside of the OECD Arrangement has increased, the reasons for its growth, and the competitive issues it potentially poses for U.S.

This year the report explores trade related financing support outside of the OECD Agreement and the potential issues it poses for U.S. export competitiveness.

export competitiveness. In addition to specific data regarding financing ungoverned by the OECD Arrangement, the report adds anecdotal information pertaining to its scope.

Chapters 6, 7 and 8 evaluate the key determinants of EXIM's competitiveness, such as risk appetite, interest rates, and risk premia. Chapter 6 highlights how exporters and lenders found EXIM generally competitive with respect to risk taking in its long-term activity and less competitive in its medium-term activity.

Chapters 9, 10, 11, 12, and 13 evaluate EXIM's competitiveness in five major programs: aircraft, project finance, co-financing, services, and environmentally beneficial exports. Chapter 11 highlights EXIM's recent expansion of its co-financing program to allow co-financing with any official ECA when there is a net benefit to the U.S. economy.

As a public institution, EXIM must comply with the public policy mandates in its Charter. Chapters 14, 15, 16 and 17 evaluate the effect on EXIM's competitiveness of the four major mandates: economic impact, foreign content, local costs, and shipping policy. In almost all cases, EXIM's foreign ECA counterparts do not face similarly stringent mandates.

Chapters 18 and 19 report stakeholders' views through information gathered from an annual survey, focus group meetings, and ad hoc conversations with exporters and lenders. The annual survey, required by EXIM's Charter, obtains the views of exporters and lenders to determine their experience with competition supported by foreign ECAs during the previous calendar year. To supplement the feedback collected in the survey, EXIM facilitated two roundtable discussions, one each with lenders and exporters that used EXIM financing in 2014.

The appendices following the body of the report include additional information required by the Charter. Appendix A shows how many transactions EXIM financed in 2014 to either fill the financing gap when private sector financing proved to be unavailable; or counter foreign ECA competition. Appendix B reports on the access of U.S. private insurers to cover EXIM-supported transactions. Appendix C reports on EXIM's role in implementing the strategic plan prepared by the Trade Promotion Coordinating Committee, of which EXIM is a member. Appendix D includes an assessment of other ECAs' tied and untied aid policies relative to those of EXIM. Appendix E lists all of the transactions that EXIM co-financed with other ECAs in 2014.



CHAPTER 2

The Role of Export Credit Agencies

KEY FINDINGS

- EXIM and other parties to the OECD Arrangement conduct rules-based official export support in a relatively clear, transparent manner. Thus, the competitive implications of this support can be readily understood.
- Trade-related official support conducted by OECD and non-OECD ECAs *outside* the purview of the Arrangement suffers from a lack of transparency inherent in such non-Arrangement support. This makes the competitive impact of such activity challenging to ascertain, as countries may set the terms as they see fit.
- Trade-related official support ungoverned by the OECD Arrangement has increased. Both OECD and non-OECD members have introduced, modified, or expanded programs aimed at promoting “national interests,” defined broadly as economic benefits accruing to one’s domestic economy.

EXPORT CREDIT AGENCIES’ MISSIONS

ECAs exist to facilitate cross-border trade, yet each ECA has individual priorities and operates in different political environments, which result in distinct approaches to trade-related official support. Historically, ECAs have provided export credit support that is directly tied to the export of domestic goods and services. For example, in 2014 EXIM financed the government of Lagos to purchase 32 American-made fire trucks manufactured in Wisconsin. EXIM “tied” the financing to the export—fire trucks.

Following the 2007–2008 global financial crisis, many OECD ECAs (but not EXIM) widened their trade-related support beyond traditional tied export programs. These ECAs can base their support on other policy considerations, such as securing access to national resources for national companies or supporting sectors of strategic significance. At the same time, non-OECD members (such as Brazil, Russia, India, and China) have claimed a prominent role as official export credit support providers. As a result, over the last ten years the global share of official export credit support that is tied to exports and bound by the Arrangement transparency and lending rules described below has shrunk.

The OECD Arrangement establishes rules for how ECAs must structure their medium- and long-term (MLT) export credit programs. The Arrangement governs MLT tied export credits offered by OECD countries.² This report defines export activity in three broad spheres:

- 1) **OECD Member, OECD Arrangement Governed:** This sphere includes export credit activity directly tied to exports, such as direct loans, guarantees, and insurance products. All of EXIM’s MLT activity falls within this sphere.

Historically, OECD ECAs have operated their programs broadly within the rules of the Arrangement to ensure compliance.

2 While there are no prescribed penalties or enforcement mechanisms for deviating from the established financing terms stated in the OECD Arrangement (e.g., maximum tenors, minimum interest rates, and minimum risk premiums), the Arrangement has evolved from “soft law” into “hard law” and is treated as such by many of the participants, most notably the European Union.

MARKET-TYPE FINANCING

The EXIM Charter requires the Competitiveness Report to discuss how foreign exporters compete with the U.S. “through use of market windows.” Today several foreign institutions offer either market window or market-based support.

Market window: Support by ECAs that take a market-based approach to setting all financing terms. The pricing of market window transactions is established on what can be shown as a systematic approach to market-based pricing. These programs are deemed to reflect commercial pricing because they are “price and terms takers.” Currently, EDC (Canada) offers market window programs.

Market-based support: Support by non-ECA government institutions operating with government mandates. These institutions are designed to finance entities operating on market principles with national interests as a goal. These institutions are “market makers” because they can transact on their own, without other commercial institutions, setting the terms and conditions for repayment in accordance with the market principles they have established. Currently five entities (or programs) provide “market-based” support: Kfz/IPEX (Germany); SEK (Sweden); Finnfund (Finland); Export Credit Norway (Norway); and Cassa de Credit Postale or CDP (Italy).

Although both market window and market-based programs operate on market principles, they are driven by national interests and can therefore hold competitive implications. For example, although often provided at costs higher than the Arrangement, the terms and conditions offered under market window programs could be more flexible than permitted under the Arrangement (e.g., an ECA could waive a cash payment requirement; or give longer repayment terms).

2) **OECD Member, Ungoverned by the OECD Arrangement:** This sphere includes official support which an ECA or other official institution within a country that is a party to the OECD Arrangement provides to secure national benefits. Domestic, political, financing, and budgetary considerations have driven an increasing number of ECAs to take a more commercially-oriented approach to official export finance. For example EDC (Canada) introduced “market window” financing programs (see sidebar for more information.)

In addition, ECAs can offer the following two forms of activity ungoverned by the OECD Arrangement in which they do not tie the financing to exports:

- **Untied Support:** Financing not directly linked to procurement from the country of the ECA or other official institution providing the support. An ECA or other official institution may use such untied financing to support national interests or promote business interests in a market. With untied support, an ECA can provide terms that have more flexibility than the terms offered under the OECD Arrangement.
- **Investment Support:** An ECA or other official institution may support projects where home country companies have equity participation or in which the national interest could benefit generally. ECAs or other official institution offer this support primarily in the form of loans but also as guarantees or insurance. They do not directly tie this support to exports.

3) **Non-OECD Member:** ECA support that is not governed by any formal lending or transparency standards.

As shown in Figure 4, in 2014 MLT official export credit support that followed the OECD Arrangement fell slightly to US\$97 billion, while MLT activity ungoverned by the Arrangement grew by nearly 19% from the previous year.

The Chinese numbers reported for the years 2008-2013 have been revised slightly downward from the estimates reported in past years due to:

- The Chinese designation that only China Ex-Im and Sinosure are “official” ECAs, thereby limiting EXIM estimates of standard and overall official activity to those two entities; and
- The refinement of data due to availability of information at the time of the report.

These revisions have altered EXIM's estimate of the share of trade-related official support worldwide that is Arrangement-based upward for the year 2013, from about 34% to about 39%. For 2014, this new methodology has resulted in an estimate of 34.6%, a drop of about 4 percentage points over the course of one year in the share of trade-related official support that is governed by the Arrangement's transparency and lending rules. Please note that the Non-OECD Member support includes both official export support as well as investment support.

FIGURE 4: Total Official Medium- and Long-Term Trade-Related Support

(in billions USD)	2013	2014
OECD Member, OECD Arrangement Regulated		
United States	15	12
G-6 ECAs	45	39
Other Major OECD ECAs ^a	38	46
Total	98	97
OECD Member, Unregulated by the OECD Arrangement		
Market Window ^b	7	3.8
Untied support	14	18
Investment support ^c	42	51
Total	63	71
Non-OECD Member		
China ^d	77	101
Brazil ^e	4	1
India ^f	9	9
Russia ^g	1	1
Total	91	112
TOTAL EXPORT SUPPORT	252	280

a Includes major OECD ECAs of Austria, Denmark, Finland, Korea, the Netherlands, Norway, Spain, and Sweden.

b Includes EDC market window activity only. KfW/IPEX information is no longer available due to a change in their disclosure policies.

c Includes bilaterally-reported MLT-related investment insurance, guarantees, and loans.

d Sinosure and China Ex-Im Bank standard and investment support.

e Traditional SBCE and BNDES export credit and BNDES investment support.

f Traditional export credit, investment support, untied support.

g Traditional export credit support from EXIAR and VEB but excluding support from ROSATOM, the Russian nuclear financing program.

CONCLUSION

Since the 2007–2008 global financial crisis two steady trends have emerged. First, non-OECD ECAs—led by China—have steadily and significantly increased their trade-related official support for exports through a variety of financial tools. Secondly, within the OECD, ECA's have increasingly turned to tools outside of the Arrangement (e.g., market windows, untied financing, and investment support) to finance projects abroad. In 2014, as these two trends deepened, Arrangement-compliant financing—to which EXIM adheres—constituted a shrinking portion of global trade-related official support.

CHAPTER 3

Official Medium- and Long-Term Export Financing Activity

KEY FINDINGS

- Medium- and long-term activity by OECD nation export credit agencies, and governed by the OECD Arrangement, fell slightly in 2014, with Korea leading the OECD countries by financing \$14.4 billion of activity.
- By itself, Chinese “standard”³ official export credit support represents about 60% as much tied export credit as the entire OECD combined.
- A strong regional dynamic has emerged, with the Asian model of an ECA system dominating growth. The Japanese, Korean, and Chinese ECA activity, including activity both governed and ungoverned by the OECD Arrangement, grew by over 25% from 2013.

3 Standard official export credit support refers to commercially-oriented support (as opposed to concessional aid or low concessionality aid export credit support).

TRADITIONAL EXPORT FINANCE ACTIVITY—OECD ECAs

As Figure 5 demonstrates, the combined Arrangement-compliant activity of the OECD ECAs remained largely stable from its 2013 levels. OECD export credits have decreased from their spike in 2012, and have historically counter cyclically followed the private market with a significant lag. As market conditions improved, OECD ECA support in 2013 and 2014 decreased but still remained 20% above pre-crisis levels.

FIGURE 5: OECD New Medium- and Long-Term Official Export Credit Support Volumes

(in billions USD)^a

Country	2011	2012	2013	2014
Austria	0.7	1.4	1.1	1.1
Canada ^b	1.9	1.9	1.9	1.8
Denmark ^c	2.2	3.9	3.8	2.5
Finland ^d	3.1	1.8	2.3	3.6
France ^e	15.9	13.0	9.5	8.3
Germany ^f	16.7	21.6	22.6	14.2
Italy ^g	8.0	5.4	5.4	5.9
Japan ^h	5.9	3.9	2.1	5.6
Korea ⁱ	9.8	22.6	14.8	14.4
Netherlands	2.9	2.2	3.2	4.5
Norway ^j	3.0	2.2	2.8	6.4
Spain	4.4	2.0	1.2	1.7
Sweden ^k	6.3	5.1	4.2	2.3
United Kingdom ^l	4.2	2.9	3.9	3.0
United States	21.4	31.3	14.5	12.1
Rest of the OECD ECAs (Estimated)	4.2	4.7	4.5	4.7
TOTAL	110.6	126.0	97.8	96.7

a Dollar values in non-inflation-adjusted U.S. dollars.

b Adjusted to exclude market window and domestic financing.

c EKF guarantees and insurance (all EKF ELO direct loans require EKF guarantee).

d Finnvera direct loans plus guarantees and insurance not covering the direct loans.

e Adjusted to exclude defense export support.

f Excludes KfW funding for 2014.

g Adjusted to exclude defense export and domestic support.

h Includes JBIC export loans and NEXI's medium- and long-term official export cover.

i K-sure guarantees and insurance plus KEXIM direct loans, guarantees, and insurance.

j GIEK activity adjusted to exclude domestic activity plus Export Credit Norway activity not covered by GIEK.

k EKN guarantees and insurance (most SEK loan activity covered by EKN).

l Adjusted to exclude defense export support.

TRADITIONAL EXPORT FINANCE ACTIVITY— EMERGING MARKET ECAs

While the majority of global official ECA activity remained flat in 2014, China's grew by over 40%. As shown in Figure 6, EXIM estimates that Chinese institutions supported roughly \$58 billion in "standard" export credits in 2014. While this total does not capture the full amount of Chinese medium- and long-term "standard" export credit support, this conservative estimate still renders China the single largest provider of export finance in 2014. This total of medium- and long-term exports exceeds the combined medium- and long-term support from the G-7 countries (that totaled \$50.9 billion in 2014).

FIGURE 6: Emerging Markets New Medium- and Long-Term Official Export Credit Volumes

(in billions USD)^a

Country	2011	2012	2013	2014
Brazil ^b	4.8	2.7	4.1	1.3
China ^c	28.3	35.4	40.6	58.0
India ^d	6.2	5.3	5.1	4.5
Russia ^e	n/a	0.0	0.7	1.0
TOTAL	39.3	43.4	50.5	63.9

- a Dollar values in non-inflation-adjusted U.S. dollars.
- b Brazilian data represents SBCE and BNDES activity, which overlaps.
- c Activity figures adjusted from previous years using new calculation methodology. Includes only Sinosure and China Ex-Im standard export credit activity.
- d Includes ECGC insurance support and India Ex-Im Bank guarantee and export loan activity.
- e Includes EXIAR support plus estimated activity for Vnesheconcombank for 2014 based on informal exchanges.

The increase in Chinese activity also signifies a regional shift that is underway. While Asian ECAs have long claimed a large portion of Arrangement and non-Arrangement activity, most of the growth in ECA activity over the past couple of years has been with the Asian ECAs. With the rise of Chinese lending and Japanese and Korean untied lending and investment support these three "Asian giants" constitute nearly two-thirds of total trade-related official support as depicted in Figure 7.⁴ All three share a range of the most competitive attributes of an ECA: good sovereign ratings, direct loan options, tied and untied program offerings, and seemingly unlimited capacity to go along with no country or debt limits.

FIGURE 7: Medium- and Long-Term Export Financing by Country—The Big Three of Asia

(in billions USD)

	2013	2014
Korea: KEXIM & K-sure		
Arrangement activity	15	14
Untied & investment support	9	15
Total	24	29
Japan: JBIC & NEXI		
Arrangement activity	2	6
Untied & investment support	31	35
Total	33	40
China: Sinosure & China Ex-Im		
Export financing	41	58
Investment financing	37	43
Total	78	101
TOTAL	135	170

CONCLUSION

Reflecting the global macroeconomic environment, MLT activity is generally stable or down throughout the world. However, two areas have emerged as exceptions to this trend: Chinese activity and Japanese and Korean trade-related activity ungoverned by the OECD Arrangement.

⁴ KEXIM data for transactions with greater than one-year tenor. All other ECA data: greater than two years tenor.



CHAPTER 4

Factors Influencing Export Finance

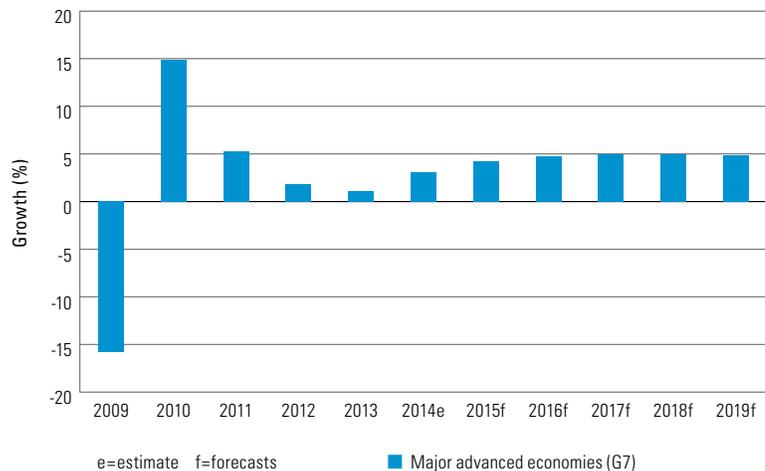
KEY FINDINGS

- More and more OECD member countries are turning to exports as a source of GDP growth.
- Commercial banks indicate that, in the absence of ECA guarantee cover, they will do very little lending to non-investment grade foreign borrowers beyond 5–7 years.
- In the context of these macroeconomic and banking trends, many G-20 countries have taken steps to improve and expand the scope of their official export financing, except the United States.

MACROECONOMIC CONTEXT

Worldwide growth in developed countries has been less buoyant in the wake of the 2007–2008 global economic crisis than in previous recoveries. Though the recovery in export volumes has been subdued, even weaker domestic activity in many countries has meant that exports have played an important role in driving growth in these economies. As shown in Figure 8, G-7 countries' export volumes grew 3.1% in 2014. The consensus forecast of continued heavy growth in exports over the next five years is one of the few bright spots in the G-7 macroeconomic outlook.

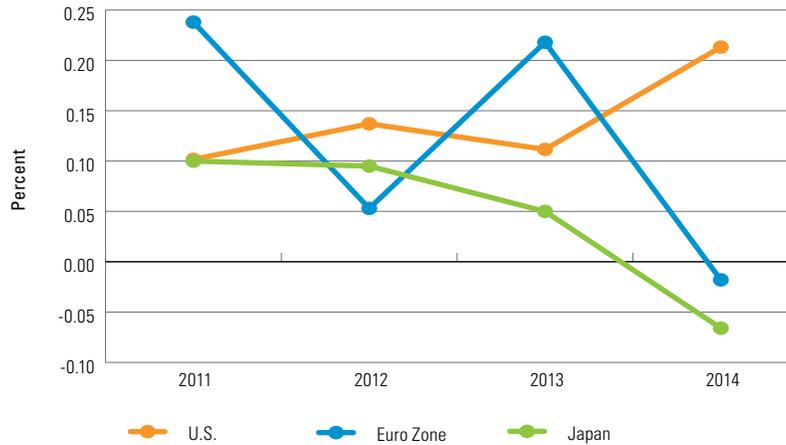
FIGURE 8: Growth Rate in Export Volumes of Goods



Source: IMF

As shown in Figure 9, actual interest rates in 2014 were near 0% throughout the OECD. Thus, monetary policy can only have a minimal stimulating impact. Numerous ECAs have commented that given these constraints to the traditional macroeconomic tools for increasing GDP, during the past year over half of the G-20 countries have taken actions to enhance the competitiveness of their exports and increase their dependence on exports for GDP growth.

FIGURE 9: Government Borrowing Costs - One Year Treasury Bills from Select Countries

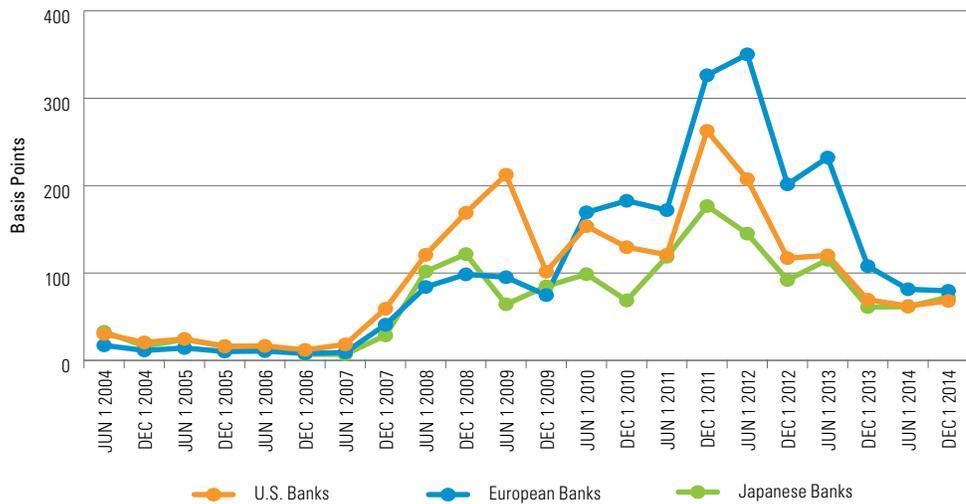


Source: Bloomberg

REDUCED COMMERCIAL SOURCES OF EXPORT FINANCE

The liquidity position of commercial banks has improved greatly since the 2007–2008 global financial crisis as evidenced by falling borrowing costs. Figure 10 uses Credit Default Swap (CDS) spreads as a proxy for these costs. Despite the improved liquidity, based on numerous discussions with major banks it appears that in aggregate, commercial banks have less appetite for medium- and long-term international lending than before the financial crisis.

FIGURE 10: Proxy for Bank Borrowing Costs—Select Banks’ Average Five Year Senior CDS Curves



Source: Bloomberg⁵

5 Averages made up of Banks active in export finance. U.S. Banks include: Bank of America Merrill Lynch, J.P. Morgan, Citigroup, Goldman Sachs, and Wells Fargo. European banks include: Commerzbank, ING, BBVA, Santander, BNPP, Credit Agricole, Societe Generale, and UniCredit. Japanese Banks include: Bank of Tokyo Mitsubishi, Mizuho Bank, and SMBC.

Despite exports now exceeding pre-crisis levels and commercial bank liquidity exceeding pre-crisis capacity, levels of international lending by banks are 20% to 40% below pre-crisis levels. Figure 11 depicts a proxy for medium- and long-term commercial bank export. The chart shows financing cross-border claims on U.S., Japanese, and European companies of over two years. In 2014 these claims were about 7% lower than the pre-crisis level in 2007. Similarly, Figure 12 shows that net flows of capital from commercial banks and non-banks in 2014 remained roughly 40% below pre-crisis levels.

FIGURE 11: Selected Consolidated Cross Border Claims of Over Two Years on All Currencies and Local Claims on Non Local Currencies⁶

(in billions USD)	2007	2008	2009	2010	2011	2012	2013	2014e
Europe	3,388	3,411	3,469	2,977	2,605	2,884	2,814	3,039
Japan	77	83	64	57	58	44	50	76
US	870	937	868	882	1,009	947	890	912
TOTAL	4,335	4,430	4,402	3,916	3,672	3,875	3,754	4,027

Source: Bank for International Settlements: Quarterly Review

FIGURE 12: Net External Capital Flows into Emerging Markets

PRIVATE FLOWS

(in billions USD)	2007	2008	2009	2010	2011	2012	2013	2014e	2015f
Commercial Banks ^a	446	73	-8	170	199	132	294	128	169

Source: Institute for International Finance

a Net disbursements from commercial banks (excluding credits guaranteed or insured under credit programs of creditor governments). This generally includes bond purchases by commercial banks.

Furthermore, it appears that the constraints are not just on total volume. Commercial bank comments indicate that, in the absence of ECA guarantee cover, they will do very little lending to foreign borrowers rated below investment grade or beyond a 5-7 year maturity.

CONCLUSION

Given that the standard macroeconomic tools of fiscal and monetary policy are insufficient under current macroeconomic conditions to allow countries to reach their respective GDP growth targets, many OECD countries are increasingly reliant on exports for national growth. As this dependency leaves them vulnerable to the declining commercial bank commitment to export finance, the official export financing mechanisms of most ECAs (particularly in Europe) are being restructured to add access to non-bank funding sources and expand capacity.

6 Comprises all balance sheet items which represent claims on residents in other individual countries or economies. The instruments include certificates of deposit, promissory notes and other negotiable paper issued by non-residents, banks' holdings of international notes and coins, foreign trade-related credits, claims under sale and repurchase agreements with non-residents, deposits and balances placed with banks, loans and advances to banks and non-banks, holdings of securities and participations including equity holdings in other banks or non-bank subsidiaries.



While the majority of global official ECA activity remained flat in 2014, China's grew by over 40%.

CHAPTER 5

The Growth of Competitive Financing Ungoverned by the OECD Arrangement

KEY FINDINGS

- Financing programs ungoverned by the OECD Arrangement are offered by China (tied and untied), Japan (untied), and Korea (untied) and appear to offer financing on terms and conditions largely similar to the Arrangement in many of the same sectors and regions.
- The scope and scale of financing offered under the programs outside of the OECD Arrangement are larger than anything typically offered under the Arrangement, thereby incentivizing sourcing from the Asian countries.

BACKGROUND

As shown in Chapter 2, trade-related official financing outside of the OECD Arrangement increased by four percentage points last year, and now totals more than 65% of all official medium- and long-term trade-related support. The massive increase of financing by China—and a major increase by Japan and Korea to support national interests—has been a main driver of this shift.

Over the last 15 years, some of the world's largest economies, including China, India, and Brazil have expanded their production and export of capital goods. This expansion has contributed to these countries putting in place new or revitalized MLT official ECA systems to support the export of these new and advanced products. While the standard financing programs offered by these ECAs fully tie to exports and in many respects would comply with Arrangement parameters, the countries are not parties to the Arrangement. Thus, their ECA programs are not bound by the Arrangement (except for aircraft from Brazil). Between 2000 and 2014, the BRIC countries' ECAs have increased their volume of MLT trade-related official support activity from less than 3% of the world total to 40% today. China dominates this new trend, constituting about 90% of the MLT trade-related official support activity of BRIC countries.

In addition to the rise of activity by BRIC countries, OECD ECAs around the globe have increasingly focused on support of "national interests." Over the last five years, an increasing number of ECAs introduced or expanded financing programs that do not fall under the OECD Arrangement. Although these programs have no formal requirement for a minimum percentage of national content, they serve broadly defined national interests which typically include exports.

Together, these sources of official financing outside of the OECD rules now represent the majority of MLT trade-related ECA activity. Such financing can appear to compete with official export credit support and exporters and trade experts allege that it has an influence on sourcing.

EVALUATING THE CONSEQUENCES FOR EXIM COMPETITIVENESS

For several years, the Competitiveness Report has noted the expanding role of financing outside of the OECD Arrangement with considerable interest, as it has grown rapidly with practically no transparency. As foreign institutions do not regularly provide data on activity outside of the OECD Arrangement, EXIM has faced difficulties in attempting to quantify the potential impact of this trend on the competitiveness of U.S. exporters. In an effort to introduce more data into this critical discussion, during the past year EXIM has combed through publications, periodicals, and other resources to generate more information.

For the purposes of this analysis, this chapter focuses on official ECA activity from China Ex-Im Bank and Sinosure (China), JBIC and NEXI (Japan), and K-sure and KEXIM (Korea). While several OECD members have untied or national interest programs, Japan and Korea account for three-quarters of total OECD activity unregulated by the Arrangement.

The following section will analyze the activity of these countries in order to answer the following questions:

- 1) What goals do countries have for their non-Arrangement programs?
- 2) How do these programs' financing terms and conditions compare to those in the Arrangement?
- 3) Do the projects financed outside of OECD Arrangement have similar characteristics to projects financed with Arrangement programs?

WHAT GOALS DO COUNTRIES HAVE FOR THEIR NON-OECD PROGRAMS?

China, Japan, and Korea each have ECAs with similar structures; however, China's connection of financing to national policies and interests is tighter. Japan and Korea direct their non-Arrangement programs at improving the competitiveness of Japanese or Korean companies globally. Their financing activity does not need a direct or formal connection to Japanese or Korean exports; however, exports from these countries may result from these transactions, particularly when the financing supports a project with a Japanese or Korean sponsor, which is more likely to source from its home country. Sectors targeted by Japan for support in developed markets are all key sectors for U.S. exporters; Japanese government support for the country's companies in those industries could increase competition for U.S. exporters.

China: China Ex-Im has several MLT direct lending programs which the country uses to advance larger Chinese economic objectives. China's two official ECAs, the China Ex-Im Bank (a direct lender for MLT financing) and Sinosure (an insurer for short-term as well as MLT financing), do standard tied business. In short, China Ex-Im advances national interests through support for national exports, while Sinosure responds to the commercial demands inspired by national policies.

Japan and Korea: Japan has two ECAs, one for MLT-focused direct lending (JBIC) and the other for short-term and MLT insurance (NEXI). Both entities offer both Arrangement and non-Arrangement programs. The JBIC annual report presents its mission for the non-Arrangement programs as follows:

"Overseas investment loans are aimed at helping SMEs, the overseas deployment of Japanese companies, as well as developing or securing interests in overseas resources that are strategically important to Japan. Also, in developed countries, for the development of industries of long-run value to Japan—high speed rail, water, renewable, highly-efficient power from fossil fuels, aircraft maintenance, etc."

"Untied loans are used to: secure stable supplies of mineral and energy resources for Japan; promote business activities of Japanese companies; maintain trade and investment from Japan."

Loans are not contingent on procurement of equipment and materials for Japan.

The Korean export credit system is representative of the model for Asian ECAs. Like Japan, Korea also has two ECAs, one for MLT-focused direct lending (KEXIM) and the other for short-term and MLT insurance (K-sure) each of which offer both Arrangement and non-Arrangement programs.

For Korea, the underlying goal of all ECA activity is to increase the competitiveness of Korean industries, with a focus on helping Korean companies become large globalized companies. Hence, Korea has multiple investment financing programs. Some programs provide financing directly to the Korean companies making foreign investment while others provide financing for foreign companies in which Korean companies have equity interests. Korea does not require a Korean export in either approach.

Similarly, Korea has an untied facility that extends credit lines to foreign banks so that those banks can finance local firms doing business with Korean companies, subsidiaries or partners, regardless of whether the financing includes an underlying trade transaction.

The extent to which untied or investment programs actually include national exports is a reasonable indicator as to how competitive these programs may be with regard to Arrangement programs. Over the past year, several senior administrators of Asian programs ungoverned by the OECD have noted that many investment or untied cases are effectively transactions that did not meet minimum content requirements (but met the criteria for investment or untied support).

HOW DO THESE PROGRAMS' FINANCING TERMS AND CONDITIONS COMPARE TO THOSE IN THE ARRANGEMENT?

Standard Chinese terms and conditions may give Chinese exporters a modest advantage in direct competition with U.S. exporters supported by standard EXIM programs. Japanese and Korean non-OECD programs likely provide terms and conditions on par or better than those set by the Arrangement.

China: Published data on the financing terms and conditions of Chinese export credit transactions is nonexistent. However, years of research have yielded anecdotal evidence that the core financing terms, including interest rates and repayment terms, of the standard export credit programs of both China Ex-Im and Sinasure closely approximate the standard Arrangement terms. Nevertheless, the similarities must note the following qualifications:

- 1) China Ex-Im has a low concessionality aid program which offers financing at below market rates.
- 2) China Ex-Im or Sinasure may not regularly charge risk fees and if they do charge fees, the fees do not approach Arrangement levels. This lack of fees, which would apply to all standard program applications, could provide a significant advantage to the Chinese exporter.

Japan and Korea: The terms of the Japanese and Korean activity ungoverned by the OECD Arrangement generally matches the Arrangement parameters. For example, JBIC's annual report states that untied financing in U.S. dollars bears interest at a spread of 44 basis points over 6-month Libor—a rate certainly in the lowest quartile of EXIM rates, but very similar to the rate on EXIM aircraft cases and some larger non-aircraft cases.

In addition, a review of the repayment terms stated in press releases for JBIC, NEXI, KEXIM, and K-sure non-OECD Arrangement activity finds repayment terms very similar to those of the Arrangement—7 years for trucks (vs Arrangement

standard of 5–7 years); 13 years for power (vs Arrangement standard of 12 years plus additional time for disbursement); 14 years for hydro (vs Arrangement standard of 12–18 years plus additional time for disbursement). These institutions offer no insight on the fees charged or the percentage of cover.

DO THE PROJECTS FINANCED OUTSIDE OF OECD ARRANGEMENT HAVE SIMILAR CHARACTERISTICS TO PROJECTS FINANCED WITH ARRANGEMENT PROGRAMS?

China: Chinese MLT official ECA activity has a growing impact on EXIM competitiveness—a change from years past. Chinese exports continue to expand into new markets and move up the value chain. In responses to the annual survey, and in focus groups, U.S. exporters have in 2014 reported competition with Chinese firms. In addition, Western European ECAs have noted with increasing frequency that Chinese ECA competition seriously threatens their exports in Eastern Europe, the Middle East, and North Africa.

Japan and Korea: The projects Japan and Korea finance with programs not governed by the OECD Arrangement are consistently similar to projects financed by EXIM and ECAs following the rules-based OECD Arrangement. For instance, the Asian ECAs have financed LNG projects in Indonesia, iron ore mines in Australia, solar power plants in North Africa, and oil and gas developments in the Middle East. U.S. exporters and EXIM have conducted activity in all of these sectors and regions in the past decade. In sum, the sector and regional overlap of Japanese and Korean non-OECD Arrangement activity and EXIM activity is large and direct.

IMPACT ON U.S. EXPORTERS

Recent evidence indicates the overall effectiveness of the “Asian Model,” which offers a menu of very competitive standard programs, untied programs, and investment funding. Currently, China follows the same model while slowly and steadily producing more advanced products. Some comments from U.S. exporters illustrate this trend:

- “The ability of Korea to offer untied financing packages neutralizes any problems with content on the standard product”
- “With Japan and Korea the amount of financing only goes up (rather than down in the U.S. if the U.S. content is shaved)”
- “Korean ECAs can drive procurement towards Korea using their untied financing that entice a borrower to reward

the EPC contractor with more misc procurement from Korea for use in standard financing, leaving the US/ EXIM only with those specialized pieces of equipment that are hard to find anywhere else”

- “The Japanese and Koreans effectively approach a buyer with a menu of programs—standard very competitive (but somewhat constrained) products and very generous/ aggressive untied/investment funding—and say ‘mix and match to your heart’s content,’ with the result being allocation of the EPC contractor and maximum misc procurement.”

CONCLUSION

While the major Asian ECAs seem to have developed a model that can be largely effective in maximizing sourcing from their respective countries, the lesson of the rise of non-Arrangement financing is not about the emergence of a tool that every other ECA must copy. Given the variety of budget, legal, and institutional frameworks around the world, every ECA cannot possibly offer the most attractive version of every program or policy. Rather, the fact that some ECAs have new and highly competitive tools simply means that other ECAs need to make sure their existing tools of comparative advantage (e.g., risk appetite, local cost access, etc.) are as effective as possible.



ECAs need to make sure their existing tools of comparative advantage are as effective as possible.



Risk-Taking Appetite

KEY FINDINGS

- Exporters and lenders found EXIM generally competitive with respect to risk taking in its long-term activity and less competitive in its medium-term activity.
- In terms of volume (authorized amount), the majority of EXIM's authorizations fell within relatively low-risk categories in both 2013 and 2014. In terms of count (number of transactions), the majority of EXIM authorizations fell within higher-risk categories, suggesting that the lower dollar transactions were in the higher-risk categories.
- Future research will focus on developing comparable data on foreign ECA activity to round out the overall picture of EXIM's risk-taking appetite.

BACKGROUND

The Export-Import Bank Act of 1945 established “reasonable assurance of repayment” as a criterion for the Board of Directors to use in deciding whether to approve requests for EXIM support. Today, this requirement remains the principal factor used to determine the risk of non-payment and, as such, sets EXIM's risk appetite in the broadest sense, taking into account a range of qualitative and quantitative factors.

EXIM's approach to risk is central to its goal of being a self-sustaining institution and supporting U.S. jobs. However, EXIM must maintain a balance between its willingness to absorb the nature and level of risk necessary to be competitive with its ECA counterparts and its commitment to fiscal responsibility.

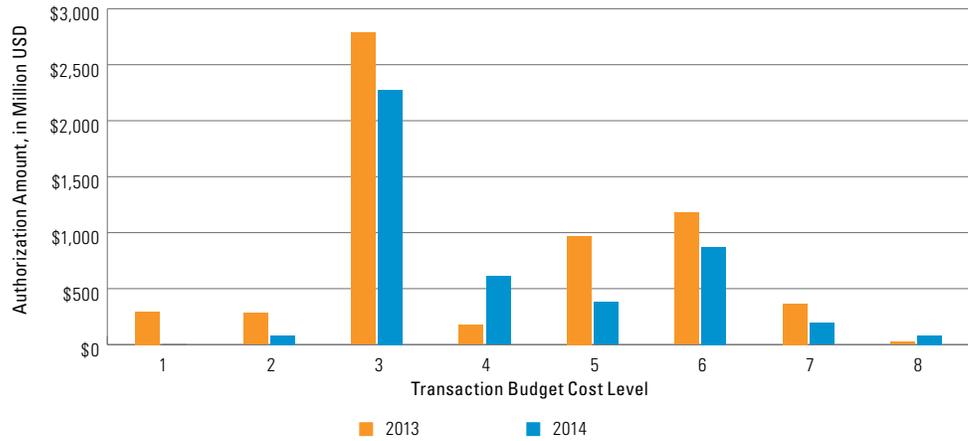
EXIM POLICY AND PRACTICE

EXIM uses the cover policy to determine which countries EXIM will do business in and assigns risk ratings to each country. When EXIM is “open” in a country, Bank support is generally available for transactions in that country; when EXIM is “closed” in a country, Bank support is generally not available for transactions in that country. Furthermore, to come up with a risk rating for countries where EXIM is open, EXIM subdivides the countries by tenor of deals and then assigns a Budget Cost Level (BCL) from 1 (least risky) to 8 (most risky)⁷ to each transaction. In 2014, EXIM's authorizations spanned all risk categories from BCL 1 to BCL 8.⁸ Figure 13 and Figure 14 below show the distribution of the BCL of EXIM's transactions, both in terms of volume and number of deals. As in 2013, in 2014 the majority of EXIM's financing volume falls within moderate risk categories (BCL 3–BCL 6).

7 Given the highly prescribed risk rating and mitigants required in the Aircraft Sector Understanding (ASU), this chapter only includes non-aircraft cases for a competitive evaluation.

8 EXIM has higher BCL ratings (9–11), but did not have any medium- or long-term transactions in those categories in 2013 and 2014.

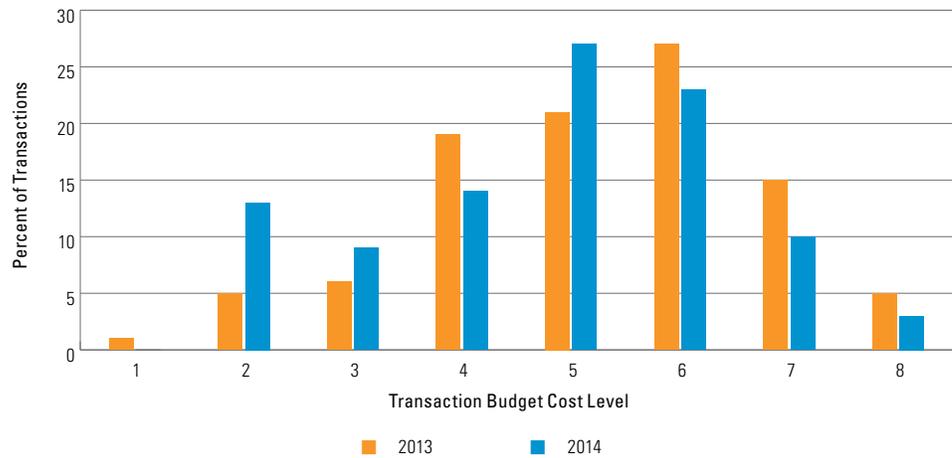
FIGURE 13: Authorization Amount by Transaction Budget Cost Level



Source: EXIM

By number of transactions, the majority of financing falls within the medium- to-high risk categories. The average risk rating has changed slightly from BCL 6 in 2013 (Standard & Poor’s: BB/BB-) to BCL 5 in 2014 (Standard & Poor’s: BB+/BB). The data in Figure 13 and Figure 14 suggests that relatively higher risk transactions tend to be for relatively lower dollar values.

FIGURE 14: Transaction Count by Transaction Budget Cost Level



Source: EXIM

FOREIGN ECAs' POLICIES AND PRACTICES

EXIM appears to be unique in that it distinguishes cover policy on the basis of tenor, while other ECAs draw differences in their cover policy on the basis of public versus private sector obligors. Moreover, EXIM does not have country exposure limits like other countries such as Finland. However, using cover policy as the sole measure to gauge ECA risk appetite fails to capture the reluctance of ECAs to approve transactions in markets where they are purportedly open. Thus, to obtain a more accurate picture of an ECA's risk appetite, in 2014 EXIM embarked on an effort to identify and evaluate how ECAs address their most fundamental role as risk takers and identify the key drivers. To date, EXIM is still developing a clear picture on foreign ECA risk-taking appetites. Consequently, this analysis cannot draw definitive conclusions on the competitiveness of EXIM's risk-taking appetite using objective ECA data and practices. However, EXIM has designed a risk inquiry, the results of which will be included in subsequent reports.

Figure 15 below illustrates the Exporter and Lender Survey and Focus Group Results regarding the competitiveness rating of EXIM with foreign ECAs in the areas of cover policy and use of risk mitigants for medium- and long-term transactions. A "+" indicates the sentiment expressed by a majority of survey respondents believed EXIM is equal or more competitive than other ECAs. A "-" indicates that a majority of survey respondents believed EXIM is less competitive than other ECAs.

FIGURE 15: EXIM Relative Competitiveness with Other ECAs on Cover Policy and Use of Risk Mitigants

	Cover Policy		Risk Mitigants	
	2013	2014	2013	2014
Long-Term Project Finance	+	+	+	+
Long-Term Other	+	+	+	+
Medium-Term	+	+	-	-

Source: EXIM Data

CONCLUSION

While EXIM's absence of explicit buyer and country limits is seen as a competitive advantage over other ECAs for long-term programs, EXIM's extensive use of additional risk mitigants in the medium-term program is clearly perceived to be significantly less competitive than its ECA counterparts. Nevertheless, it is important to note that other ECAs have different missions and objectives (such as national interests), while EXIM's mission is to support U.S. jobs.

Moreover, EXIM activity is highly concentrated, both in terms of volume and number of deals, within moderate level risk categories (BCL 3 to BCL 6). Over the coming months, EXIM will endeavor to develop comparable data on the risk profile of foreign ECA activity to inform the issue of overall EXIM competitiveness on risk-taking.



Interest Rates

KEY FINDINGS

- The significant competitive advantage held by the United States following the 2007-2008 global financial crisis decreased significantly by the end of 2014, as OECD country borrowing costs returned to historical levels in most competitor countries.
- Moreover, OECD countries continued to introduce new, and expand existing, lending programs in 2014, thereby further narrowing EXIM's competitive position on cost of funds versus other ECAs.

BACKGROUND

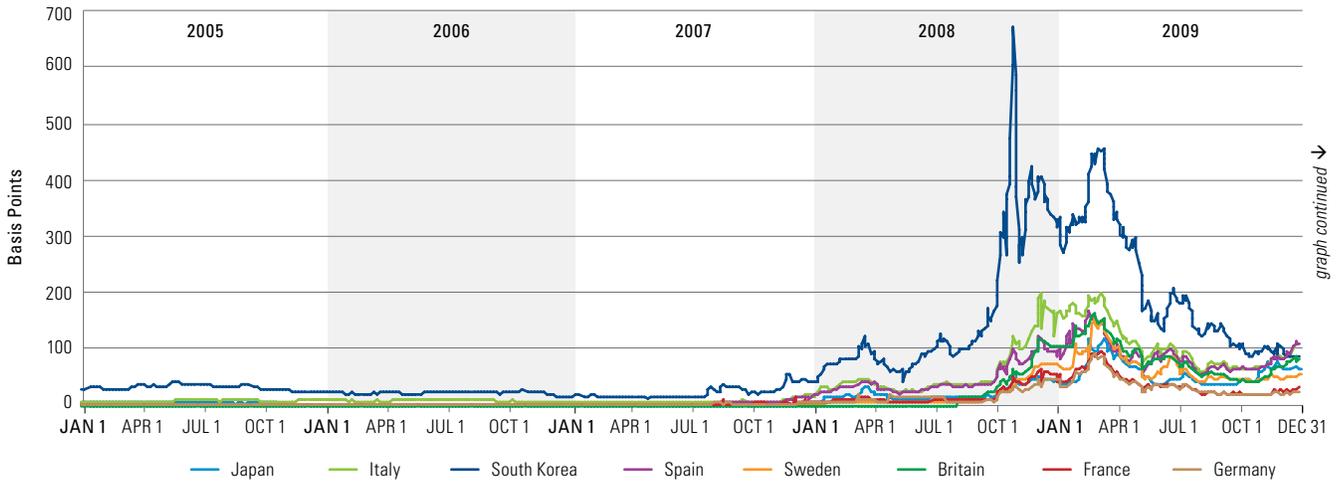
As a Participant to the OECD Arrangement, the United States adheres to the minimum official interest rates known as the Commercial Interest Reference Rates (CIRR). The CIRR is a fixed rate calculated using a government's borrowing cost plus a spread of 100–120 bps. A CIRR is set for each currency; thus all OECD ECA support for financing in this currency is eligible to use the same rate.

The competitive issues with the CIRR are a function of the different types of support offered by ECAs.

- 1) **Direct Lending:** The ECA can provide direct lending to a borrower and charge the CIRR for the currency of the loan.
- 2) **Interest Make-Up:** The ECA can offer interest make-up support to a financial institution that agrees to provide a loan to a borrower at the CIRR.
- 3) **Pure Cover Guarantee:** The ECA can offer market rate "pure cover" support. ECAs that offer "pure cover" provide only a repayment guarantee or insurance on lenders' financings to a foreign borrower.

EXIM only offers direct lending and pure cover guarantee (in 2014, the vast majority of support offered by EXIM was through the guarantee program). Similarly, most Asian ECAs also only offer direct lending and pure cover guarantee. Most European ECAs offer only interest make-up and pure cover support. Accordingly, the varying sovereign borrowing costs (as illustrated in Figure 16 using Credit Default Swaps as a proxy) have influenced the degree of competition among ECAs. As demonstrated, the competitive advantage in direct lending held by the United States following the financial crisis has decreased significantly over the past few years. Notably, the extremely high rates seen by France, Spain, and others following the 2007–2008 global financial crisis have receded closer to normal levels, though they are still above the U.S. levels by an estimated 50–75 bps.

FIGURE 16: Sovereign Borrowing Cost, Selected Sovereign Five Year CDS Curves

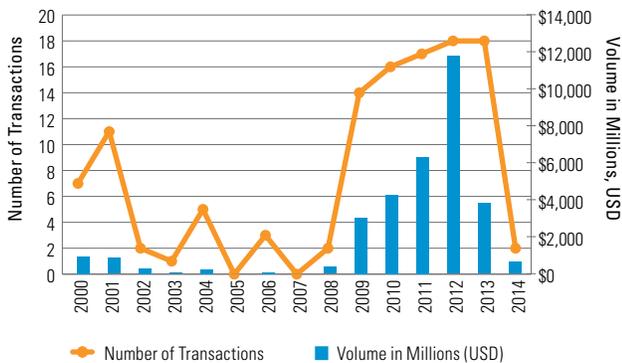


Source: Bloomberg

EXIM POLICY AND PRACTICE

EXIM’s direct loan activity has reduced to more normal levels after a spike in the number and volume of requests for direct loan financing following the financial crisis. As shown in Figure 17, four years of rapid growth peaked in 2012 with \$16 billion of direct loan support distributed among 18 transactions. While the number of transactions remained steady in 2013, the volume dropped precipitously by 76% to \$3.8 billion. The trend continued in 2014. The number of transactions fell to 2, and the volume dropped below \$1 billion (\$919 million) for the first time since before the financial crisis. EXIM provided all of the direct loan activity at OECD CIRR rates.

FIGURE 17: Number and Volume of Long-Term Direct Loan Transactions



Source: EXIM Data

EXIM’s guarantee program was the most widely used of EXIM’s medium- and long-term programs in terms of number of transactions (99). These 99 cases totaled \$11 billion. As

shown in Figure 18, these authorizations comprised 54 long-term guarantees worth \$10.9 billion and 45 medium-term guarantees worth approximately \$100 million. Guarantees fell 38% from their peak in 2012, but are up from 2013 by 9.6%.

FIGURE 18: Volume of EXIM Direct Loans and Guarantees



Source: EXIM Data

In the aircraft sector, borrowers selected the capital market for \$3.8 billion of EXIM guarantees in 2014. Additionally, one capital goods borrower also used the capital markets to fund \$1 billion in guarantees. These volumes reflect that, due to the continued familiarity of investors with EXIM’s capital markets issuances, aircraft borrowers are regularly able to achieve better pricing than banks. Moreover, as shown in Figure 19, capital markets can regularly beat the ASU CIRR. While non-aviation cases can also beat the CIRR, the non-aviation cases are taken to the capital markets more infrequently. In the first half of 2014, Aircraft transactions beat the CIRR by an average of 49 basis points.



FIGURE 19: Fixed Rate EXIM Guaranteed Bond Issuances Discount to CIRR, 2014 (bps)⁹

	Capital Goods and Services	Aircraft
2013	47	28
2014	70	50

Source: EXIM Data

Continuing the trend of previous years, the general trend of spreads for EXIM pure cover deals during 2014 varied greatly depending on the program and term type. As shown in Figure 20, for long-term aircraft deals, the increasing attractiveness of the capital markets has continued to put downward pressure on the pricing on all other aircraft deals to remain narrow; however, the difference between EXIM and its OECD counterparts for average long-term aircraft deals has narrowed considerably over the past year. By the end of 2014, there was no discernable difference.

For capital goods and services, the liquid position of banks dramatically reduced spreads for all ECAs. Hence the 50% reduction of our spreads placed EXIM in a competitive versus "best in class" position.

FIGURE 20: Weighted Average of EXIM Spreads over LIBOR, 2014 (bps)

	Long-Term Aircraft	Long-Term Capital Goods and Services
2013	47	135
2014	46	60

Source: EXIM Data

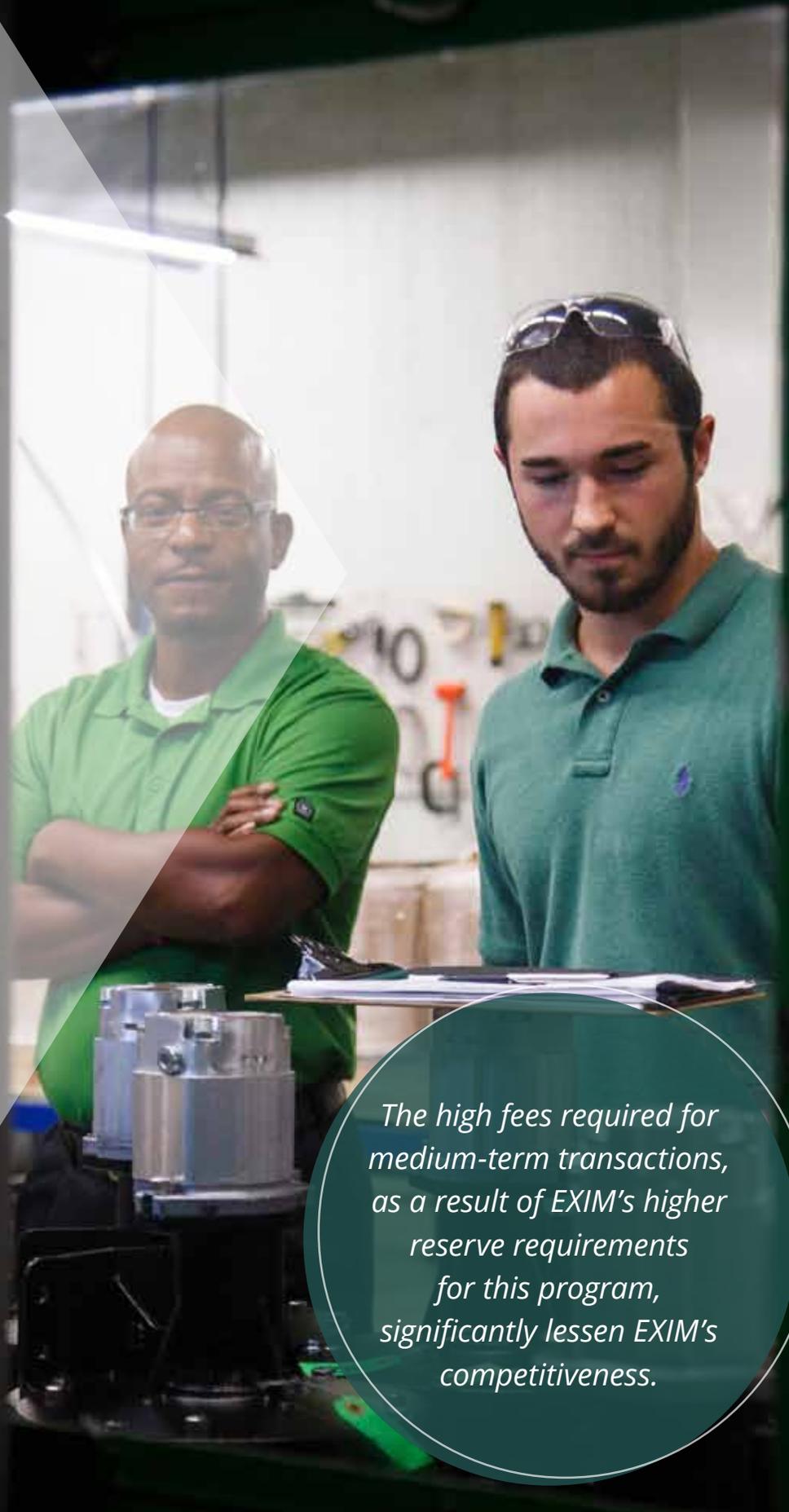
FOREIGN ECAs' POLICIES AND PRACTICES

Foreign ECAs continued to expand their lending offerings in 2014, with many ECAs increasing their capabilities in the debt capital markets. For example, EKF (Denmark) introduced a new securitization guarantee, which it employed in the German Pfandbrief market. UKEF (United Kingdom) also improved its debt capital markets capabilities by launching its Export Refinancing Facility. This program allows borrowers to issue bonds in order to refinance loans. Under the scheme, should the borrower be unable to refinance the loan, UKEF becomes the lender until alternative funding is found. UKEF's direct lending program also doubled in capacity to £3 billion. In addition, JBIC, the Japanese ECA, issued its first sterling bonds since 1995 in support of a rail construction project. Finally, KEXIM guaranteed \$125 million in bonds to finance the purchase of shipping vessels.

CONCLUSION

In terms of the cost of financing, EXIM remains generally competitive compared to other OECD ECAs for 2014. Although EXIM still provides a competitive advantage over other ECAs in the aviation sector through the capital markets, most OECD ECAs have significantly narrowed the gap, and now are able to offer comparable pricing to EXIM. Outside of the aviation-sector, EXIM's ability to offer more attractive rates than its OECD counterparts still exists when the financing is in dollars, although the advantage has narrowed significantly when completed in currencies other than dollars.

9 All values compared to Capital Goods and Services CIRR.



The high fees required for medium-term transactions, as a result of EXIM's higher reserve requirements for this program, significantly lessen EXIM's competitiveness.

Risk Premia

KEY FINDINGS

- All OECD ECAs charge risk premia, also known as exposure fees, but differences among ECAs with respect to risk rating as well as methods used to calculate and collect premia can have a competitive impact on transactions.
- One of the primary goals of the current OECD premia negotiations is to streamline the pricing practices for High Income markets so that there is more consistency and convergence in pricing among different ECAs.
- EXIM charges fees that cover its reserve requirements, which for medium-term transactions can at times be higher than the minimum premium rates required by the OECD Arrangement. Given that EXIM ensures all of its transactions cover their loan loss requirements, in 2014 EXIM was considered less competitive in the medium-term space.
- However, with respect to long-term transactions and transactions in High Income OECD and Euro Area countries, EXIM risk premia was considered to be consistent with those of our foreign ECA counterparts.

BACKGROUND

ECAs charge risk premia, also known as exposure fees, to cover the risk of non-payment for a transaction. ECAs arrive at this calculation in different ways because there is no uniform risk classification system. Nevertheless, in 2011 the Participants to the OECD Arrangement reached an agreement to complete Arrangement rules on risk premia by introducing a comprehensive premia framework that covers all types of buyer risk. The agreement sets minimum premia rates for both sovereign and non-sovereign borrowers, and seeks to price risk on a transaction-specific basis.

Under the premia rules that went into effect in September 2011, OECD ECAs now operate within a detailed framework for pricing buyers receiving export credit financing under the OECD Arrangement with the goal of maintaining a level playing field. The fee system provides guidance on risk classification, and established Minimum Premium Rates (MPRs) for non-sovereign buyers in addition to sovereign buyers. The package also established pricing protocols for transactions in High Income OECD and High Income Euro Area countries (formally known as Category Zero markets).

One of the major provisions of the 2011 package attempts to achieve a level playing field by requiring extensive transparency in exchange for allowing each ECA to classify the risk of each buyer according to their own evaluation system. This means that ECAs are allowed certain flexibilities when it comes to the risk classification or pricing of buyers as long as the ECA agrees to provide detailed information on the rationale for its classification and/or pricing to other ECAs prior to authorization.¹⁰ Since the introduction of the

¹⁰ Under the premium agreement, ECAs must prior notify to the OECD if a transaction meets any of the following criteria:

- Involves an obligor or guarantor in a High Income OECD or High Income Euro Area country having a credit value of greater than USD 15 million;
- Applies MPR associated with a third party guarantor located in a country other than that of the obligor;
- Applies MPR associated with a multilateral or regional institution acting as a guarantor;
- Involves non-sovereign obligor or guarantor where the premium rate charged is below that set by Buyer Risk Category CC1 (i.e., CCO or SOV+);
- Support of transaction involving a non-sovereign obligor or guarantor where the buyer risk rating is assessed as being better than the Accredited Credit Rating Agency (CRA) rating and having a credit value of greater than USD 10 million;
- Application of an MPR reflecting the use of country risk mitigation (i.e., offshore escrow account or local currency financing); or
- Application of an MPR reflecting the use of buyer risk credit enhancements (i.e., asset security, assignment of contract proceeds).

2011 Package, there have been approximately 729 notifications of such flexibilities by OECD members that relate to the premium agreement. It is clear from the large number of notifications that many ECAs are either using the flexibilities allowed under the agreement (i.e., rating a buyer better than its credit rating), or are authorizing transactions that meet certain thresholds (e.g., approving transaction in High Income OECD or High Income Euro Area countries with credit values over USD 15 million). Such notifications provide key insight into how other ECAs rate buyers for risk and the implications of such diverse ratings on competitiveness.

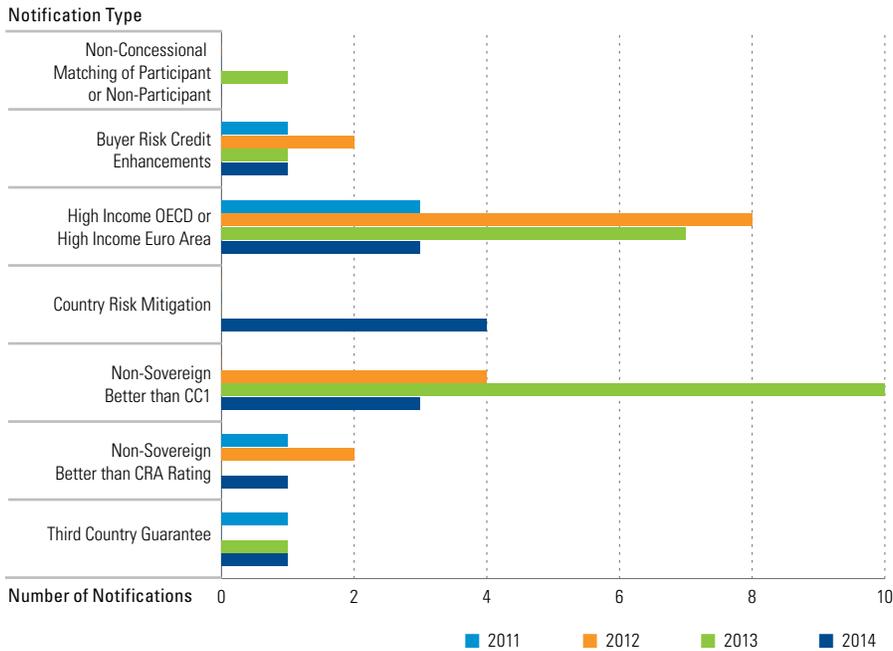
With respect to ECA transactions in High Income OECD or High Income Euro Area countries, a market segment of particular interest to EXIM, OECD members have not yet concluded negotiation of detailed disciplines for this market segment. When the new rules went into effect in 2011, High Income markets had few rules and maximum flexibility because they had historically seen little ECA activity given the historic widespread availability of private sector financing in these relatively “wealthier” markets. However, in the years since the 2007–2008 global financial crisis, OECD ECA activity in High Income markets has increased dramatically, and differences in pricing have been significant in size and number, creating competitiveness concerns. In an effort to mitigate these concerns, OECD ECAs have been working to renegotiate premia rules for High Income OECD and High Income Euro Area markets with the goal being less flexibility and more consistency in pricing practices across OECD ECAs. However, these negotiations are still ongoing and as such OECD ECAs continue to operate with maximum flexibility, and as a result of such flexibilities ECAs also must comply with significant transparency requirements.

EXIM POLICY AND PRACTICE

EXIM charges the MPR for sovereign buyers as dictated by the OECD Arrangement rules. In addition, consistent with the management of a self-sustaining institution, EXIM must also ensure that the premia collected meets the U.S. Government’s minimum budgetary requirements. As a result, in certain cases (e.g., medium-term transactions), EXIM must charge fees that are higher than the minimum fees allowed under the OECD premia system. EXIM reserve requirements are dictated by internally developed and annually updated credit loss factors, which are based on EXIM’s historical loss experience and relevant qualitative and environmental factors. The new credit loss factors that went into effect on October 1, 2014 (the start of EXIM’s fiscal year), resulted in a decrease in reserve requirements, thus making EXIM less uncompetitive in the last quarter of 2014 compared to the first three quarters of the year.

Since the new premia rules went into effect in 2011, EXIM has notified a total of 55 transactions. As shown in Figure 21, in 2014 EXIM had 13 transactions that met the OECD ex-ante notification requirements.

FIGURE 21: EXIM Premia-Related OECD Notifications



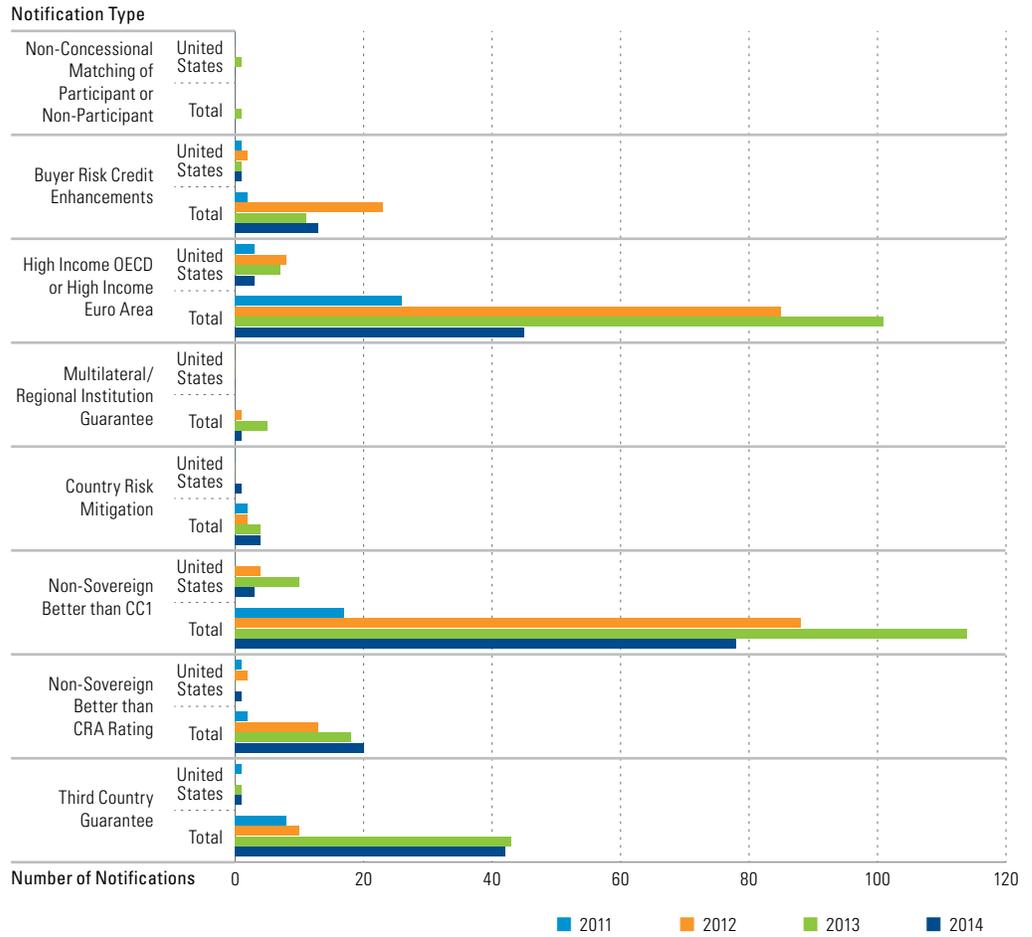
Source: EXIM data

As Figure 21 indicates, in 2014, consistent with previous years, the majority of EXIM notifications have been in relation to either a transaction in a High Income OECD or High Income Euro Area market, or a transaction dealing with a Better than CC1. In addition, also consistent with previous years, in 2014 Buyer Risk Credit Enhancements, Non-Sovereign Better than CRA Rating, and Third Country Guarantee flexibilities were also used, however to a lesser extent than the two flexibilities mentioned above. Also notable, 2014 was the first year that EXIM utilized the Country Risk Mitigation flexibility since the new premia rules went into effect in 2011.

FOREIGN ECAs’ POLICIES AND PRACTICES

Currently the only way to compare ECA activity under the premia agreement is through the ex-ante notifications. Figure 22 below demonstrates the trends in notification over the years since the premia rules went into effect in 2011. Interestingly, from year to year the reasons for notifications across ECAs are remarkably consistent. Given this consistent trend, the use of flexibilities has not seemed to create a competitive advantage by any single ECA.

FIGURE 22: Total Premia-Related OECD Notifications



Source: EXIM data

COMPETITIVE ISSUES

One premia-related element that has competitiveness implications is the willingness of ECAs to offer buyer risk credit enhancements, or discounts on the risk premia charged, in the transactions they support. In 2014, there were a total of 13 transactions that included buyer risk credit enhancements, eight of which were supported by Germany, three of which were supported by Denmark, and one each supported by Sweden and the United States. Given Germany’s willingness to offer credit enhancement discounts on their transactions it is clear that they are more competitive than other ECAs in this regard.

Another area with premia-related competitiveness implications is ECA activity in High Income OECD and High Income Euro Area countries. Since the premia agreement went into effect in September 2011, the most challenging aspects of operating under this new regime have been applying the pricing rules for these high income markets. The current rules for pricing High Income OECD and High Income Euro Area countries state that an ECA should not undercut private market pricing when setting premia in such markets. To meet this test, there are currently seven different market benchmarks ECAs can use for pricing. However given that a number of these market benchmarks have not been heavily utilized since 2011, it is anticipated that some of them will be discontinued as a result of the negotiations currently being undertaken to refine the High Income OECD and High Income Euro Area premia rules. Due to the different methods of market benchmark pricing currently allowable, the rates generated from these methods can be as far apart as 200%–300% or more. Given the methodology currently being employed, the outcomes of operating in a structure with such wide range of market benchmarks and associated rates means that there is significant divergence in pricing in High Income OECD and High Income Euro Area countries. However, as stated previously, one of the primary goals of the current negotiations in this area is to streamline the pricing practices for High Income markets so that there is more consistency and convergence in pricing among different ECAs, and based on the status of these negotiations thus far EXIM is optimistic that this goal will be achieved.

CONCLUSION

With regards to exposure fees, there seems to be a fundamental difference in perception of EXIM's competitiveness between EXIM's medium- and long-term programs. While the long-term program is understood to be generally competitive in most long-term industry sectors, and fully competitive in some industry sectors such as satellites, this is not the case with the medium-term program. Instead, the high fees required for medium-term transactions, as a result of EXIM's higher reserve requirements for this program, significantly lessen EXIM's competitiveness and as such, EXIM should be understood to be less competitive in the medium-term space. More generally, potential competitiveness concerns were raised about EXIM's inability to charge the risk premia as a per annum spread on guarantee transactions as some other ECAs offer this flexibility. While this difference is notable for its potential to compromise EXIM's competitiveness, to date no deals have been actually lost as a result of EXIM's inability to charge the risk premia as a per annum spread on its guarantee transactions.

CHAPTER 9

Aircraft

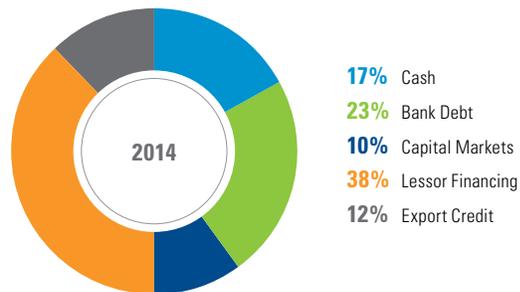
KEY FINDINGS

- During 2014, EXIM’s support for aircraft should be understood to be generally competitive compared to other ECAs active in aircraft finance with EXIM’s competitive edge being in large part the result of its robust capital markets program.
- For large commercial aircraft, total 2014 EXIM support amounted to \$7.1 billion, down from \$8.1 billion in 2013.
- For all other aircraft types, such as business jets, helicopters, and agricultural aircraft, EXIM support amounted to \$1.1 billion, up from \$0.7 billion in 2013.
- For large aircraft, EXIM’s support fell from 15% of all Boeing deliveries in 2013 to only 11% of total Boeing deliveries in 2014 in comparison with Airbus ECA support which fell to 8% of Airbus deliveries in 2014 from 15% of Airbus deliveries in 2013.

BACKGROUND

As Figure 23 depicts, diversification in the commercial aircraft finance market continued in 2014, a year characterized by the availability of multiple aircraft financing options, including commercial bank financing, funding via the capital markets, and leasing company support, providing liquidity into the market. As a result of this continued market improvement, the need to rely on ECA aircraft financing has further diminished compared to previous years.

FIGURE 23: Diversified Funding Sources for Large Commercial Aircraft, 2014



Source: Estimates roughly based on Boeing Current Aircraft Finance Market Outlook 2015 figures

As Figure 24 below indicates, with continued growth in aircraft orders, 2014 was another strong year for the large commercial aircraft industry. While Airbus orders were down slightly compared to 2013, the European manufacturer edged out its North American rival in net orders in 2014. However, as a result of Boeing’s year-over-year increase in net orders, the large commercial aircraft industry as a whole registered a modest increase of 1% in 2014.

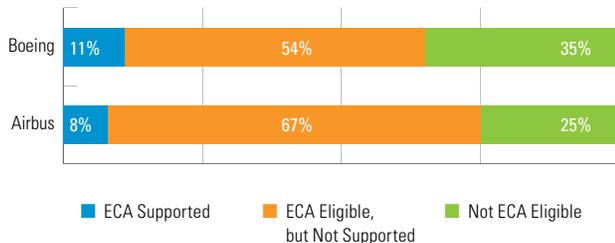
FIGURE 24: Number of Large Commercial Jet Aircraft Net Orders

	2007	2008	2009	2010	2011	2012	2013	2014
Boeing	1,413	662	142	530	805	1,203	1,355	1,432
Airbus	1,341	777	271	574	1,419	833	1,503	1,456
Total	2,754	1,439	413	1,104	2,224	2,036	2,858	2,888

Source: Boeing, Airbus

In 2014, the private sector financed a greater portion of large commercial aircraft deliveries, the largest amount in the post 2007–2008 global financial crisis era. Figure 25 illustrates the distribution of Boeing and Airbus deliveries, by ECA supported and non-ECA supported. As the chart below indicates, on a percentage of deliveries basis Boeing received slightly more ECA support than Airbus did in 2014, 11% compared to 8%. However, generally speaking, the level of ECA support for both large aircraft manufacturers is generally equivalent hovering around 10% of total deliveries in 2014. ECA support for 11% of Boeing deliveries in 2014 and 8% of Airbus deliveries in 2014 compares favorably to ECA support for 15% for each aircraft manufacturer in 2013. It is notable that demand for ECA commercial aircraft financing continues to decrease in the post-financial crisis years. This decreased reliance on ECA financing is a positive trend, insofar as it indicates the return and attractiveness of commercial market financing options, including traditional commercial bank financing as well as capital markets financing and the ever increasing role of leasing companies in the financing of large commercial aircraft globally.

FIGURE 25: Percentage of Total Large Commercial Aircraft Deliveries Financed by ECA, 2014



Source: Boeing, Airbus

The ECA financing discussed above is governed primarily by the terms and conditions of the 2011 Aircraft Sector Understanding (“2011 ASU”), the most recent version of the OECD Arrangement governing ECA finance of aircraft.¹¹ The fundamental goals of the 2011 ASU are to level the playing field among ECA-supported aircraft financing, and to not undercut the commercial aircraft finance markets. Indicative of this second goal, the exposure fee levels under the 2011 ASU represent a significant increase from the levels under the 2007 ASU, the fee regime in place prior to the 2011 ASU entering

¹¹ In prior years, specifically through 2012, a Transitional Arrangement allowed ECAs to offer terms in line with ASU agreements that preceded the 2011 ASU. These are the 1986 Large Aircraft Sector Understanding, or “LASU,” and the 2007 Aircraft Sector Understanding, or “2007 ASU”). While seven transactions in 2014 were authorized under this grandfathered provision, all other EXIM aircraft transactions were governed by the 2011 ASU terms and conditions.

into force. Furthermore, the 2011 ASU includes a dynamic minimum premium rate structure that is updated on a quarterly basis to ensure that 2011 ASU pricing reflects current market conditions to ensure that export credit financing for aircraft does not compete with the private sector.

EXIM POLICY AND PRACTICE

EXIM supports the export of the full spectrum of U.S.-manufactured aircraft, ranging from small agricultural aircraft valued at less than \$2 million, to helicopters and business aircraft valued between \$1 million and \$50 million, to commercial aircraft valued between \$40 million and \$200 million. For all of these aircraft types, EXIM finances aircraft in full and complete accordance with the 2011 ASU (including the above referenced transitional arrangement contained in the 2011 ASU). Therefore, EXIM’s policy and practice is similar to those of competing ECAs for aircraft financing.

As indicated in the previous section, with respect to aircraft finance trends, (i) the continued resurgence in the commercial aircraft finance market, coupled with (ii) the robust activity in both the leasing market and capital markets, and (iii) the significant increase in risk premia or exposure fees under the 2011 ASU, has led to a significant decrease in EXIM’s role in financing commercial aircraft in the years following the financial and Eurozone crises. Indicative of this reduced role, in 2014 EXIM authorized only 26 large commercial aircraft transactions in the amount of \$7.7 billion, down from 41 authorizations in the amount of \$8.1 billion in 2013. In addition to the standard bank or PEFCO funded aircraft loan guarantee product, EXIM also offers a capital market-funded EXIM Guaranteed Bond, which was initially developed in response to the 2008–2009 global financial crisis, and to date, has been used primarily for aircraft transactions. Given the strength of the capital markets in recent years, EXIM’s capital markets funding option, the hallmark of EXIM’s competitiveness in the aircraft finance arena in recent years, the EXIM Guaranteed Bond continued to be very popular in 2014 as indicated by the fact that there were 34 EXIM aircraft-related capital markets issuances totaling \$3.9 billion.

During 2014, EXIM’s total aircraft activity (for all aircraft types) amounted to \$8.2 billion, down from the 2013 total aircraft authorized amount of \$8.8 billion. In addition to EXIM’s large commercial aircraft portfolio, it is important to note that EXIM also supports smaller aircraft types, specifically helicopters, business and corporate jets, and agricultural aircraft. In 2014, consistent with the reduction in EXIM support for large commercial aircraft, EXIM support for these other aircraft

types was also reduced from 2013 levels with 2014 authorizations of other aircraft totaling \$546 million (down from \$646 million in 2013).

FOREIGN ECAs' POLICIES AND PRACTICES

Foreign aircraft manufactures and corresponding ECAs:

- **Airbus:** United Kingdom (UKEF), France (COFACE), and Germany (Euler Hermes)
- **Bombardier:** Canada (EDC)
- **Embraer:** Brazil (BNDES)
- **ATR:** France (COFACE) and Italy (SACE)

Similar to EXIM, the ECAs of several other countries finance aircraft. For example, Boeing's main competitor, Airbus, has three ECAs that support its sales. In addition, although not yet at the activity levels of EXIM and the Airbus ECAs, the following ECAs are active in export credit aircraft support for smaller aircraft types: the Canadian ECA, EDC, in support of Bombardier, BNDES in Brazil in support of Embraer, and COFACE and SACE in support of the European manufactured ATR aircraft. Like U.S. EXIM, these ECAs also provide their aircraft financings in accordance with the terms and conditions of the 2011 ASU. Given that all ECAs providing support for aircraft similarly apply the terms and conditions of the 2011 ASU, this section is focused on the general activity levels for 2014 of the Airbus ECAs, EXIM's principal competitors, as opposed to policies and practices that might differentiate them or create a competitive advantage vis-à-vis EXIM.

The Airbus ECAs authorized 23 Airbus aircraft transactions in the amount of approximately \$2.4 billion in 2014. European ECA support for Airbus aircraft is below EXIM support for Boeing in 2014 both in terms of number of aircraft and dollar value of aircraft supported. However, over an extended period of time, the number of aircraft, the amount of authorizations, and the percentage of Airbus aircraft deliveries that are supported by the Airbus ECAs are remarkably similar to that of EXIM vis-à-vis Boeing aircraft deliveries.

COMPETITIVENESS ISSUES

The 2011 ASU governs the terms and conditions ECAs can offer when financing aircraft, and has proven to provide a level playing field among ECAs active in aircraft finance. As such, the competitiveness differences among ECAs providing support for aircraft under the 2011 ASU stem primarily from differences in product availability. EXIM was at the forefront in introducing a capital markets option for large commercial aircraft, and although EXIM's Guaranteed Bond continues to be a popular funding option for some airlines, 2014 was a year in which commercial banks and PEFCO also funded a significant number of EXIM guaranteed aircraft financings at an all-in-cost that was generally very competitive with EXIM Bank Guaranteed Bonds. However, while other ECAs capital market funded products have not yet reached parity with EXIM Bank Guaranteed Bonds in terms of volume and market acceptance, competitors are catching up.

Particularly innovative in recent years, UK Export Finance (UKEF) has been aggressive in differentiating itself from other export credit agencies in its new product development, many of which have been geared towards aviation finance. UKEF has built-up its capital markets bond program, expressed its willingness to do sukuk financing and financing denominated in Chinese RMB, and developed a new refinancing facility designed to relieve commercial banks of unwanted long-term lending commitments and take advantage of competitive capital markets pricing.

In addition to UKEF, other ECAs active in the aircraft finance segment are also looking to innovate and develop new tools in support of their domestic aircraft manufacturing industry. As evidenced by the UKEF example, it is clear that EXIM's foreign ECA counterparts are aggressively working to reinvent themselves to provide solutions to today's challenges in the export finance realm.

CONCLUSION

The year 2014 was characterized by the welcomed continued improvement in the commercial aircraft financing and leasing markets, driven by the number and diversity of financing options providing considerable liquidity for certain types of aircraft to certain types of borrowers. As a result, EXIM's role, although prominent, has been somewhat diminished compared to previous years during the financial crisis and in the immediate post-financial crisis period. Nevertheless, while EXIM's activity levels have been reduced as a result of greater availability of commercial aircraft financing options, EXIM was still able to maintain competitiveness in both long-term and medium-term aircraft finance.

While EXIM enjoys a slight advantage currently, foreign ECA counterparts such as UKEF and others are working to quickly close this gap by actively developing new and innovative product offerings as described in the section above. In addition, while Boeing and Airbus are currently the only two manufacturers of large commercial aircraft, new entrants from Canada, Brazil, Russia, and China are expected to enter this market in the coming years. Thus potentially providing the legacy manufacturers increased and significant competition in the future.

EXIM maintains policies, namely the economic impact procedures and the stringent content requirements, which serve to detract from its overall competitiveness. Both of these elements serve to marginalize EXIM's competitiveness vis-à-vis our foreign ECA counterparts, and also have the potential of negatively impacting U.S. manufacturers and exporters. Notwithstanding the concerns resulting from EXIM's content and economic impact policies, analysis of the institution's aircraft financing indicate that the program is "generally competitive" in 2014.



*ECA financing
for projects in
developing countries
fell across the board
in 2014.*

Project Finance

KEY FINDINGS

- EXIM's project and structured finance activity fell in 2014, reflecting a marked decline in mega project finance deals in developing countries in 2014.
- Although global project finance rebounded in 2014 in developed countries, projects in developing countries dwindled, leaving those ECAs mandated to fill market gaps with few opportunities to support their exporters.
- Asian ECAs in particular registered a highly competitive position vis-à-vis EXIM in large measure due to the full range of support that they can offer to project sponsors which renders Asian ECA project finance support more competitive than that of EXIM. Asian ECA's in addition to tied financing also offer untied financing that can have the effect of enhancing the competitive position of their exporters.

BACKGROUND

Project¹² and structured¹³ finance deals, made up nearly 20% of EXIM's medium and long-term transactions in 2014 vs 36% in 2013. All of EXIM's project finance support is done on OECD Arrangement terms. In 2014, despite the return of liquidity to pre-crisis levels, increased regulatory limits continued to affect commercial bank willingness to fund and hold large, uncovered project loans with tenors beyond 5–7 years.

Although overall global project financing went up slightly in 2014, and much has been said about how the increased liquidity may have contributed to this increase, a closer look at the underlying project finance activity reveals a marked difference in project financings in the developed countries versus the developing countries. In 2014, global project lending outside the United States totaled \$200.1 billion, up from \$172.6 billion (16%) in 2013. Projects in developed countries such as Australia (up 85% from \$20.4 billion in 2013 to \$38.0 billion in 2014); Canada (up 47% from \$6.3 billion in 2013 to \$9.3 billion in 2014); and the Netherlands (up 103% from \$2.6 billion in 2013 to \$5.3 billion in 2014) drove this increase.¹⁴ This increased project financing in developed countries in 2014 stood in contrast to the drop in project financing in the developing world from \$22 billion to \$14 billion.

EXIM POLICY AND PRACTICE

EXIM authorized fourteen structured and project finance deals in 2014. Of these, eight transactions involved guaranteed commercial bank loans, five were direct loans, and one had a combination of a guarantee and a direct loan. With respect to the direct loans offered in 2014, three were for renewable energy (wind) transactions requiring longer tenors while two were for satellite transactions that commercial banks typically do not want to take on absent ECA cover.

As shown in Figure 26, EXIM's project finance activity totaled \$2.4 billion in 2014—down from \$5.2 billion the previous year. EXIM's project and structured finance deals mainly fell in the power sector (5 deals) and oil and gas sector

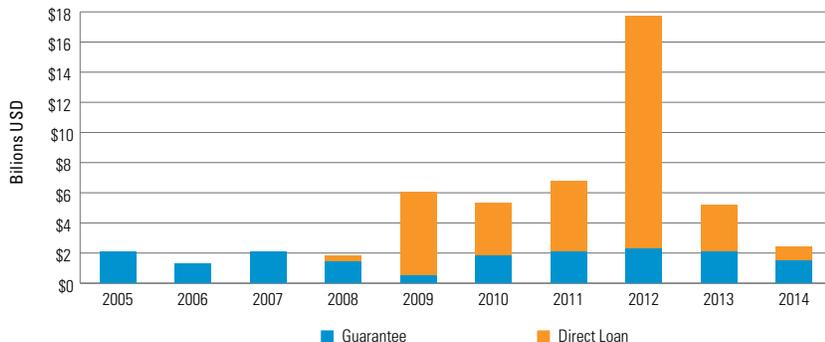
¹² Project finance: The financing of an asset (or "project") whereby the lender relies purely on the underlying cashflows being generated by the asset as the sole source of repayment for the loan.

¹³ Structured finance: The financing relies on the underlying project's revenues to ensure against the risk of non-payment, but is not the sole source of repayment.

¹⁴ Project Finance International, 2014 League Tables, January 14, 2015 and Project Finance International, 2013 League Tables, January 14, 2014.

(4 deals). Roughly 80% of EXIM transactions took place in developing countries. In 2014, EXIM did not participate in large “mega projects” that defined the record setting year in 2012.

FIGURE 26: EXIM Project and Structured Finance Guarantees and Direct Loans



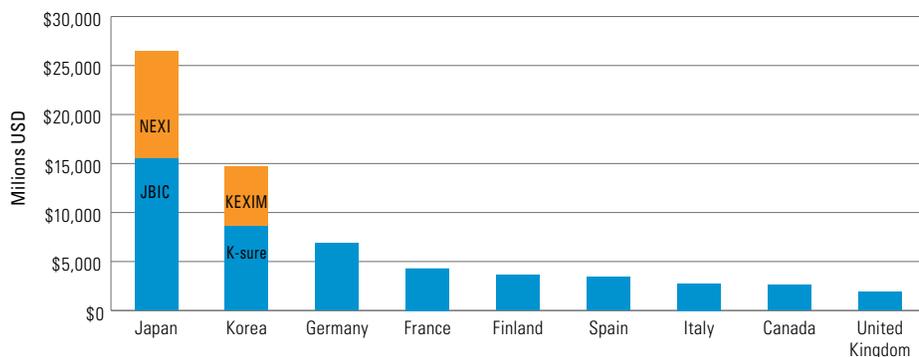
Source: EXIM Data

FOREIGN ECAs’ POLICIES AND PRACTICES

ECA financing for projects in developing countries fell across the board in 2014. In its 2014 League Tables, Dealogic reported even multilateral support for projects in developing countries plummeted from \$9.4 billion in 2013 to about half or \$5.6 billion in 2014. However, although OECD regulated export credits were down in 2014, total Asian ECA support—including untied and investment support—was substantial. A recent European Banking Federation report estimated the top 12 ECA activity for 2014 at \$70 billion, which includes OECD regulated export credits as well as unregulated support provided by the top 10 ECAs in 2014. Of that \$74 billion, a sizeable \$41 billion was attributable to four major Asian ECAs (JBIC, NEXI, KEXIM and K-sure).

Figure 27 uses TXF data to give an illustration of the relative amount of project finance in FY2014. TXF database includes lender reviewed, active deals.¹⁵ Their data shows two Japanese agencies (JBIC and NEXI) accounted for over 28% of total export credit volume in FY 2014.

FIGURE 27: Total Deals Registered in TXF Data for Fiscal Year 2014



Source: TXF Data

¹⁵ EXIM data uses authorized deal information, independent of when a project commences, while TXF uses data beginning once a project begins. Additionally, TXF depends on the lender; if a lender does not share the information, then their data is not included in the database—even if the information is in the public domain.

Consequently, EXIM project finance support cannot be considered “best in class” when compared to the support provided by the Asian ECAs. The magnitude of Asian ECA support relative to that of EXIM, coupled with the flexibility associated with unregulated (compared to regulated) financing terms, render the Asian ECA model most competitive. That is, finance offered by ECAs like JBIC and KEXIM have high flexibility valued by project sponsors, making these tools highly competitive. ECAs able to offer regulated and unregulated support alongside each other—a “menu” of financing options—can make needed adjustment to accommodate the case-specific financing needs that typically characterize project finance.

The “menu” of financing is particularly a competitive advantage with respect to mega-projects that require multiple funding sources. Flexible ECA policies can influence whether a sub-supplier receives an invitation to participate in the project. For instance, in a 2014 press article referencing EDC support for a project, one official noted that “EDC’s participation in this financing has allowed us to establish a constructive relationship ... and will undoubtedly yield substantial Canadian procurement opportunities in the future.”¹⁶

COMPETITIVE ISSUES

Overall, U.S. exporters and lenders believed that the full spectrum of EXIM’s policies within its long-term project and structured finance programs to be competitive. For example, survey respondents found EXIM’s project finance support to be competitive with other ECAs—80% of respondents said that EXIM was either “equal to average” (six respondents) or “equal to the most competitive” (six respondents). Several aspects of EXIM’s project finance program lead to this finding such as:

- **Direct loans:** EXIM offers direct loans with an interest rate set at the OECD official minimum interest rate of CIRR (Commercial Interest Reference Rate). See Chapter 7 for details on EXIM Interest Rate support.
- **Bond program:** In 2014, EXIM continued to issue guaranteed bonds in the capital markets to fund the purchases of exports associated with project finance transactions. For instance, EXIM used this capital-markets funding to finance U.S. exports to Mexico’s national oil-and-gas company, Pemex. Survey respondents mentioned

U.S. EXIM’s “[e]xcellent Bonds cover program” as a competitive advantage with respect to other ECAs.

- **No Exposure Limits:** EXIM does not set any limits on project size, sector, or country. So, for exceptionally large transactions where some ECAs have transaction caps, EXIM may have a competitive advantage.
- **Local cost financing:** U.S. EXIM will finance costs originated and incurred within a buyer’s country. EXIM will finance an amount up to 30% of the total U.S. export contracts (the maximum allowed by the OECD). More information on local cost financing may be found in Chapter 16.

Despite these strengths, each year exporters and lenders report a range of non-financial requirements unique to EXIM that can hinder deals such as narrow, inflexible domestic content eligibility requirements; MARAD PR-17 shipping requirements; and economic impact analysis. One exporter stated that the “due diligence program required by EXIM was more intensive, more time consuming and more costly than the other ECAs ... [such as] JBIC, NEXI, KEXIM and K-sure.” However, other exporters felt with sufficient planning these policies did not have a major effect. For instance, one exporter stated that “U.S. content was not an issue as in other programs because of the flexibility offered in local cost.” More information on these policies may be found in Chapter 17.

CONCLUSION

In 2014 commercial banks continued repopulating their balance sheets with long-term ECA covered assets, including many project finance transactions. The liquidity surge that fueled demand for ECA guaranteed assets was inversely proportional to EXIM’s direct loan offerings—which were way down in 2014. However, the decline in project finance in developing countries tempered demand for project finance support in those markets.

With respect to competitive pressures, although EXIM project finance support in 2014 remained competitive to the extent that it was competing with OECD regulated project finance support, Asian ECAs in particular registered a highly competitive position vis-à-vis EXIM in large measure due to the “menu” of regulated and unregulated financing alternatives that they can offer to project sponsors which renders Asian ECA project finance support more competitive than that of EXIM.

16 Trade and Forfeiting Review, *STAR refinery attracts largest ECA-covered project financing in Turkey at US\$3.29bn*, available at <http://www.tfreview.com/news/deals/star-refinery-attracts-largest-eca-covered-project-financing-turkey-us329bn>



Co-Financing

KEY FINDINGS

- Co-financing allows EXIM to provide a seamless and comprehensive financing package when there is multi-sourcing and the U.S. content is less than 85% of the U.S. export contract. Consequently, this enables exporters to maximize financing and remain competitive while using global supplies to manufacture their products.
- Aircraft continues to dominate EXIM's co-financing program, with all 51 co-financed transactions in 2014 involving either agricultural or large commercial aircraft.
- EXIM is working to expand the co-financing program to new partners, beyond the OECD ECAs, when a benefit to the U.S. economy would result.

BACKGROUND

In 2014, a family farm in Brazil purchased an Air Tractor 402B agricultural aircraft equipped with a Canadian-manufactured engine. EXIM's co-financing agreement with EDC (Canada) enabled both the exporter and farmer to benefit from a seamless financing package that maximized support for the sale of the aircraft.

EXIM's co-financing¹⁷ policy was designed in response to the increasing use of global supply chains and addresses some of the financing challenges posed by multi-sourcing, or the procurement of capital goods and services from two or more countries. Without co-financing, foreign buyers would need to secure multiple financing packages and therefore incur additional expense and administrative burden to ensure ECA support for exports with inputs sourced from various countries.

With co-financing, the lead ECA provides the applicant (buyer, bank or exporter) with export credit support in a single transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee) to the lead ECA for the follower ECA's share of the net contract price of the transaction. The country of the largest share of the sourcing or the location of the main contractor generally determines which ECA leads the transaction. The lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package. As the surge in use of EXIM co-financing agreements stabilizes and availability and ease of ECA co-financing becomes routine, EXIM is considering new competitive factors, including partnering with emerging economy ECAs for co-financing.

EXIM'S POLICY AND PRACTICE

EXIM introduced the co-financing program in 2001 with the signing of its first bilateral agreement with UK Export Finance (United Kingdom). These agreements have allowed EXIM to provide U.S. exporters with the ability to offer a comprehensive financing package (a guarantee or insurance) to support transactions seeking to include content from two or more countries. Although the program has been very successful, it does have restrictions.

¹⁷ Also referred to as "reinsurance" and "one-stop shop" financing.

Though EXIM's policy allows EXIM to lead or follow foreign ECAs on co-financing transactions, in practice there are few requests to follow foreign ECAs. Moreover, certain legal, political, and business considerations make it challenging for EXIM to assume the role of follower ECA. For example, if EXIM were to follow in a co-financing structure, the lead ECA would need to implement EXIM's Iran Sanctions Certification, which is not required by any other G-7 ECAs. Restrictive eligibility for certain transaction types under the current co-financing policy is another obstacle to expanding the program. For example, co-financing is not permitted under EXIM's direct loan program.

Despite the above challenges, since the signing of the first agreement in 2001, EXIM has signed 12 co-financing agreements,¹⁸ authorized close to 200 co-financed transactions supporting approximately \$25 billion in lending, and approved over a dozen co-financing arrangements on a transaction-specific basis with OECD ECAs with whom EXIM does not have an overall co-financing framework agreement.

In 2014, aircraft continued to dominate the co-financing program. All 51 co-financed transactions, approximately \$7 billion, involved either agricultural (OECD Category 3) or large aircraft (OECD Category 1). In the majority of the aircraft transactions, without co-financing, the exporter would not have been able to offer the maximum 85% support to its customers in one financing package. Thus, co-financing allowed EXIM to level the playing field by matching the seamless financing provided by the Airbus ECAs. (See Appendix E for a complete list of specific transactions.)

FOREIGN ECAs' POLICIES AND PRACTICES

As shown in Figure 28, ECAs have multiple framework agreements among themselves. These ECAs have been processing co-financed transactions since 1995, with EXIM first entering into an agreement with a foreign ECA in 2001. These agreements were originally designed to help European ECAs manage their country exposure limits, which had made it impossible for them to provide support for exports to riskier markets or to markets where the ECA was close to reaching its country limit.

¹⁸ ASHRA (Israel), Atradius (The Netherlands), Coface (France), ECGD (UK), EDC (Canada), EFIC (Australia), EKF (Denmark), Hermes (Germany), KEXIM (Korea), NEXI (Japan), JBIC (Japan) and SACE (Italy).

FIGURE 28: G-7 Co-Financing Agreements, 2014

	EXIM	UKEF	EDC	Euler Hermes	COFACE	SACE	NEXI/JBIC
EXIM		●	●	●	●	●	●
UKEF	●		●	●	●	●	
EDC	●	●		●	●	●	
Euler Hermes	●	●	●		●	●	●
COFACE	●	●	●	●		●	●
SACE	●	●	●	●	●		●
NEXI/JBIC	●			●	●	●	

Source: EXIM

COMPETITIVE ISSUES

In an environment of increasingly liberalized foreign content allowances, co-financing helps achieve operational efficiency and risk management in a world of multi-sourcing. To date, no G-7 ECA (including EXIM) has entered into a true co-financing (reinsurance or “one-stop-shop”) framework agreement with non-OECD ECAs. However, unlike most other ECAs, EXIM does not require a formal bilateral framework agreement before considering co-financing transactions. Furthermore, in 2014, the EXIM Board of Directors authorized an expansion of the program to allow co-financing with official ECAs to the extent that the arrangement would benefit the U.S. economy. Work to expand the list of existing co-financing partners has already begun with EXIM identifying opportunities and exploring framework agreements with ECAs in emerging markets, although no framework agreement was yet concluded in 2014.

CONCLUSION

In 2014, EXIM’s co-financing program has continued to support a significant number and volume of aircraft transactions. Co-financed transactions constituted almost 60% of EXIM’s total dollar volume of authorizations (primarily aircraft). EXIM’s flexibility to engage in transaction-specific co-financing absent a framework agreement, and the prospect of additional framework agreements to come, has made EXIM’s co-financing policy more competitive than its foreign ECA counterparts.



The sharp increase in support for renewable energy projects by EXIM's OECD counterparts in 2014 resulted in a distinct reduction in EXIM's share of OECD member support for renewable energy exports.

Environmental Mandate

KEY FINDINGS

- EXIM's authorizations for environmentally beneficial exports dropped from \$433 million in FY2013 to \$336 million in FY2014. However, as a percentage of EXIM's total lending, support for environmentally beneficial exports increased slightly.
- While EXIM's support for renewable energy projects declined, OECD support for renewable projects increased significantly in 2014, more than doubling to \$6.3 billion.
- Overall, EXIM's survey participants found EXIM's environmental procedures to be roughly equivalent to those of its counterpart ECAs in terms of review and support for exports.
- Chinese export credit agency support for renewable energy exports is estimated to have been four times greater than EXIM's support for renewables in 2014.

BACKGROUND

In 1992 a mandate was added to EXIM's Charter by Congress to require the Bank to "encourage the use of its programs to support the exports of goods and services that have beneficial effects on the environment or mitigate potential adverse environmental effects." Congress made some further adjustments to EXIM's Charter and in 2002 directed the Bank to promote exports related to renewable energy sources. In addition to the general mandates in the Charter, since 2008, through appropriations bills Congress has given Ex-Im Bank the following goal: "That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should be used for renewable energy technologies or energy efficiency technologies." EXIM fulfills this requirement through a carbon policy and a screening process that reviews transactions based on the likely environmental impact of the project. In 2014, EXIM continued to apply its environmental screening policies and promote environmentally beneficial exports against a backdrop of increased support for renewable energy projects by foreign ECAs.

EXIM POLICY AND PRACTICE

EXIM both supports environmentally beneficial exports and maintains its commitment to environmental stewardship through several policies and programs. Promotion of environmentally beneficial exports, and in particular renewable energy projects, is facilitated by EXIM's Environmental Exports Program. In the Environmental Exports Program qualifying exports can receive enhanced EXIM assistance, including support for interest payments during construction, in addition to extended maximum repayment terms permitted under the OECD Arrangement and automatic local cost support.

EXIM may support renewable energy, water, and certain climate change mitigation projects for terms up to 18 years under the OECD Arrangement's Sector Understanding on Renewable Energy, Climate Change Mitigation and Water projects (CCSU).

Finally, EXIM also promotes its support for environmentally beneficial exports through focused outreach to exporters and foreign buyers through industry conferences, trade shows, company visits and meetings with key foreign buyers in international markets. Overall, in FY2014, EXIM authorized \$336

million to support \$550 million in environmentally beneficial exports.¹⁹ While this was a 29% decrease in total support from FY2013 (\$433 million authorized to support \$638 million in exports in FY2013), as a percent of EXIM’s total lending, support for environmentally beneficial exports remained constant (1.6% of total authorizations in FY2013 and FY2014).

Figure 29 shows renewable energy authorizations, a subset of environmentally beneficial exports. Renewable energy refers to green energy projects. In 2014, EXIM authorized \$208 million, down 19% from 2013.

FIGURE 29: Renewable Energy Authorizations

Fiscal Year	Renewable Energy Authorizations (in millions USD)	Change from Prior Year (Percent)
2014	208	-19%
2013	257	-28%
2012	356	-51%
2011	721	117%
2010	332	–

Source: EXIM

EXIM upholds its environmental stewardship commitment through rigorous application of its environmental and social due diligence procedures and guidelines. In place since 1955, these guidelines require EXIM to screen and review projects based on their likely environmental or social impact. The Board of Directors independently approves or denies support to transactions based on their environmental impact. EXIM is also a participant to the Equator Principles and closely follows the IFC Performance Standards on Environmental and Social Sustainability.

FOREIGN ECAs’ POLICIES AND PRACTICES

Against the backdrop of decreased EXIM support for environmentally beneficial exports, support for renewable energy projects among OECD ECAs more than doubled this year to a total of \$6.3 billion. However, the overall number of renewable energy projects supported by OECD members was slightly lower in 2014 than in 2013. As shown in Figure 30, the total number of transactions fell from 39 to 37.

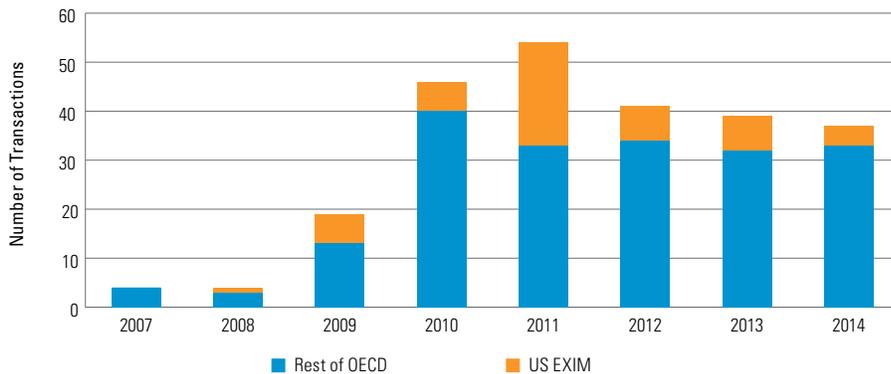
However, the total contract value of these projects expanded significantly as OECD ECAs undertook larger energy projects. Thus, while in 2013 EXIM supported roughly 20% of all OECD supported renewable energy projects, in 2014 EXIM accounted for about half of that percentage or 10% of OECD notified renewable energy projects. As a percentage of total renewable energy exports supported by OECD ECAs, EXIM’s renewable energy authorizations in 2014 constituted the lowest contribution since 2007. As such, EXIM placed third in the number of transactions authorized by an OECD ECA.

This reduced relative activity in supporting renewable energy exports resulted despite EXIM’s best efforts and proactive marketing of its long-term financing and support. EXIM’s support for renewable projects was also in line with U.S. exporters’ share of the global clean energy market. For example, EXIM authorized roughly 4% of the dollar value of all OECD ECA wind power transactions. Similarly, U.S. exporters only hold between 2%–3% of the global wind energy export market.²⁰ As EXIM support is demand-driven, it is guided by U.S. exporter competitiveness abroad.

¹⁹ The EXIM Charter requires EXIM to report on its support for environmentally beneficial exports in fiscal year terms.

²⁰ International Trade Administration, *Renewable Energy Top Markets for US Exporters 2014–2015*

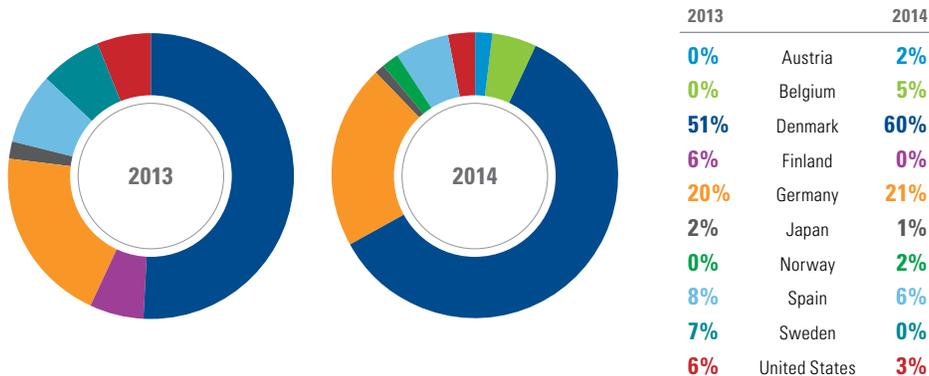
FIGURE 30: Number of OECD ECA Renewable Energy Transactions



Source: OECD Notifications

While the number of OECD renewable energy transactions declined, much of the sizeable increase in dollar-value volume of OECD support for renewables came from one country, Denmark. Germany maintained its second place position behind Denmark. As shown in Figure 31, Denmark increased its overall share from 51% in 2013 to 60% in 2014.

FIGURE 31: Country Share of OECD Notified Renewable Energy Volumes

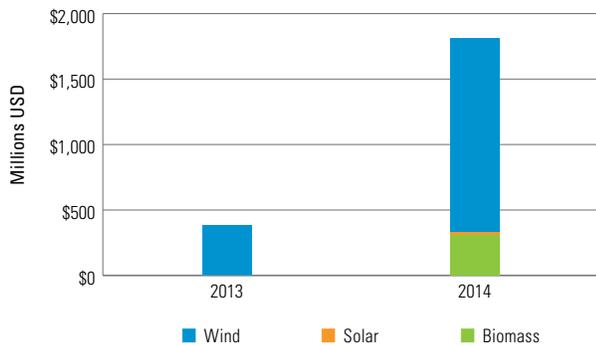


Source: OECD Notifications

From a competitive standpoint, the Danish threat to U.S. wind power exporters could be growing. EKF reports that “For more than two decades, EKF has been helping Danish wind technology gain a foothold abroad...This is important, as competitive financing is key to winning orders in the wind industry of today.” Notably, EKF of Denmark significantly outpaced EXIM in support for renewable energy projects. EKF funded a majority of OECD ECA-funded renewables in 2013 and 2014 and its share is growing.

The sharp increase in support for renewable energy projects by EXIM’s OECD counterparts in 2014 resulted in a pronounced reduction in EXIM’s share of OECD member support for renewable energy exports. Figure 32 below shows EKF’s growth in support for wind projects, nearly all of which went to developed countries, between 2013 and 2014. By contrast, EXIM supported projects in different markets—principally East Asia, Africa, and South and Central America.

FIGURE 32: Denmark’s Renewable Projects in Developed Countries



Source: OECD Notifications

To ensure that transactions support environmental stewardship, as enacted by Congress, EXIM is a party to the Common Approaches, a set of recommendations followed by OECD ECAs to handle possible environmental and social impacts of officially supported export credits. The Common Approaches instruct OECD ECAs to apply either the World Bank Safeguard Policies or the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability to evaluate potential environmental and social impacts of non-project finance transactions. The Common Approaches also require OECD ECAs to conduct Environmental and Social Impact Analyses (ESIA) for limited or non-recourse projects with the “potential to have significant adverse environmental and/or social impacts, which are diverse, irreversible and/or unprecedented.” Despite this shared set of recommendations on how to screen and limit adverse environmental impacts, even within the OECD practices on how to implement these recommendations vary considerably. Many ECAs—including EXIM—apply the more comprehensive IFC Performance Standards, while others use the World Bank Safeguards.

Historically there have been varying levels of transparency among ECAs in environmental review processes. ECAs differ in several respects, including how environmental information on a project is disclosed (directly by the ECA or indirectly by the project sponsor), differences in disclosing post-approval environmental impact information, and an inability by some ECAs to report required greenhouse gas emissions for project finance transactions due to a cited lack of leverage in acquiring information. Taken together, these differing practices create an uneven playing field as some ECAs apply more or less rigorous procedures according to their policies. EXIM has been a leader in carefully applying the Common Approaches by adopting the IFC Performance Standards, disclosing information on projects prior to authorization, and upon request, providing most environmental information on transactions post-approval.

Non-OECD ECAs have also been active in support for renewable energy projects. The environmental practices of these ECAs can be difficult to determine. For example, while China Ex-Im maintains that it has stringent environmental standards and maintains a green lending program, its annual report only identifies projects within China as examples of support for environmental projects seemingly excluding export credits. Sinosure makes no mention of environmental standards in its annual report, but as a member of the Berne Union is subject to non-public guiding principles on environmental practices. Comparing EXIM’s environmental stewardship against non-OECD ECAs is a murky and difficult endeavor.

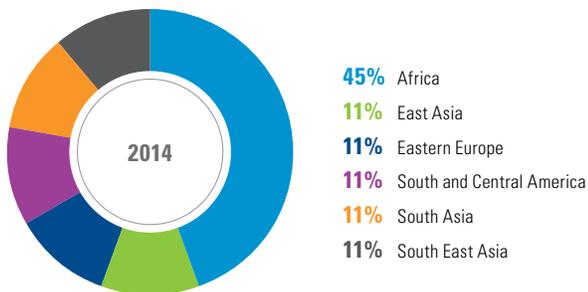
There is anecdotal evidence that non-OECD ECAs have supported large renewable energy projects. In 2014, EXIM identified six renewable projects supported by China Ex-Im totaling \$833 million. As shown in Figure 33, EXIM discovered four overseas renewable projects funded by the Chinese Development Bank or the Industrial and Commercial Bank of China with Chinese suppliers totaling an estimated \$5.49 billion. These projects consisted almost entirely of hydropower plants and together rivaled the combined OECD support for all renewable projects in 2014.

FIGURE 33: Estimated Chinese Support for Renewable Energy Exports



As shown in Figure 34, Chinese support for renewable projects was largely centered in developing markets, particularly in Sub-Saharan Africa. These projects were found through EXIM's article search for Chinese authorizations and may underrepresent total Chinese support for renewable energy.

FIGURE 34: Chinese Support for Renewable Projects by Region, 2014



Source: EXIM

COMPETITIVE ISSUES

U.S. lenders and exporters rated EXIM's overall environmental policies to be equivalent to other ECAs in 2014, both with respect to promoting environmental exports and safeguarding against negative environmental impacts. Of responding survey participants, 83% responded that EXIM's overall environmental review process was equivalent to the average ECA review in terms of impact on potential exports. Similarly, with respect to transparency and application of EXIM's internal guidelines and obligations under the Common Approaches, all responding participants rated EXIM's review process as the same or better than that of competing ECAs. With respect to EXIM's support for environmentally beneficial exports, 75% of respondents stated that EXIM's expanded terms for renewable energy and support for energy efficient exports were equivalent or better to those of foreign ECAs.

However, exporters did voice some concern regarding the impact of these policies. Some exporters remarked that EXIM generally requires a more rigorous process for environmental review, which can add time before an authorization is approved. Similarly, EXIM's Supplemental Guidelines for High Carbon Intensity Projects were identified as having a potentially negative impact on exporters; with two out of five respondents stating that it had a negative impact on their exports and that the carbon policy caused exporters to lose coal projects to non-U.S. exporters. However, other exporters noted that EXIM's environmental review process was both transparent and similar to those of other ECAs.

CONCLUSION

In 2014, EXIM complied with its dual environmental mandate through its Environmental and Social Due Diligence Procedures and Guidelines, carbon policy, participation in the Equator Principles Association, and promotion of environmentally beneficial exports. EXIM's commitment to transparent application of these policies allowed stakeholders to hold EXIM accountable for their consistent and full implementation. Overall, EXIM's environmental policies succeed in upholding its environmental mandate while remaining marginally competitive with its peers.

EXIM's Environmental and Social Due Diligence Procedures and Guidelines are compliant with the OECD Common Approaches. EXIM's review process is generally competitive and comparable to those of other ECAs. However, some differences in standards and information disclosure among EXIM and other ECAs exist. In the future, ECA practices and policies are likely to converge as OECD ECAs attempt to develop shared carbon accounting and reporting methodologies.

With respect to its Environmental Export Program and efforts to support renewable energy exports, EXIM is losing ground to OECD ECAs, like Denmark and Germany. Moreover, Chinese support for renewable energy projects appears very large and at a government-wide level may eclipse combined OECD support for renewables, although transparency regarding this figure is lacking. In 2014, EXIM's relative support for renewable energy projects declined compared to 2013, this was largely due to significantly greater support from relatively few but highly focused ECAs such as Denmark and Germany. Nevertheless, EXIM continues to actively promote renewable energy projects through competitive terms as it has done in the past.

Finally, survey respondents have noted that EXIM's Supplemental Guidelines for High Carbon Intensity Projects are unique and impose an additional procedural and informational burden. However, in 2014, OECD ECAs worked to reach a climate agreement that would level the playing field for exports supporting carbon intensive power plants. Until this agreement is reached, EXIM's guidelines promote environmental stewardship while negatively impacting some U.S. exporters.



EXIM supported \$1.673 billion in services exports in 2014, an increase of 10.5% over 2013.

Services

KEY FINDINGS

- EXIM supported nearly \$1.7 billion in services exports in 2014, led by leasing, engineering and consulting services.
- According to EXIM program users, in 2014, EXIM effectively addressed long-standing ambiguity and lack of transparency by clarifying and codifying EXIM's policy on U.S. content in services exports.
- While data limitations on foreign ECA support for the services sector prevents a definitive conclusion on overall EXIM competitiveness in this sector, best available information indicates that EXIM support for services remains competitive with other OECD ECAs.

BACKGROUND

EXIM offers support for services performed by a U.S. firm and paid for by a foreign entity. Both stand-alone services and services associated with the export of goods are supported by EXIM. Associated services generally receive longer repayment terms (5–12 years) due to the nature of the financing requirements of large projects with which the goods and services are associated. Services exports supported by EXIM are also subject to the same foreign content policies applied to goods.

In 2014, EXIM built on research conducted in the previous year to clarify and codify its services content policy by defining eligibility standards for: 1) what constitutes an eligible services contract; 2) which workers qualify as U.S. content; 3) the treatment of licenses; and 4) the content requirements for tools used in the execution of a services export contract.

EXIM POLICY AND PRACTICE

Services exports are a significant and growing component of U.S. exports, reaching \$709.4 billion in 2014. This amount is a 3.2% increase compared to U.S. services exports figures from 2013.²¹ The largest increases were in *other business services* (\$5.08 billion, 4.1%), *financial services* (\$4.4 billion, 5.2%), and *travel* (\$3.8 billion, 2.2% increase).²²

As shown in Figure 35, EXIM supported \$1.673 billion in services exports in 2014, an increase of 10.5% over 2013. The top services sectors in 2014 were Rental & Leasing and IT & Telecommunications, with the largest year-over-year increases occurring in the IT & Telecommunications (\$255 million, 1705% increase), Transportation (\$179 million, 240%) and Construction (\$60 million, 257%) sectors.

21 U.S. Department of Commerce, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf

22 U.S. Department of Commerce, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf

FIGURE 35: EXIM Support of Services Exports

in millions USD

Industry	2012			2013			2014		
	Stand-Alone	Associated	Total	Stand-Alone	Associated	Total	Stand-Alone	Associated	Total
Rental & Leasing	–	740.8	740.8	–	579.8	579.8	–	396.5	396.5
IT & Telecommunications	45.0	44.8	89.8	3.1	11.9	15.0	216.5	54.3	270.8
Engineering & Consulting	4,448.3	3,632.7	8,080.9	156.9	194.6	351.5	249.9	5.8	255.7
Transportation	110.2	58.2	168.5	66.7	8.0	74.7	231.6	22.0	253.7
Oil & Gas and Mining	23.6	220.2	243.8	5.4	131.4	136.8	0.1	186.5	186.6
Legal & Banking	–	95.1	95.1	–	253.4	253.4	0.8	109.0	109.8
Other Services	24.6	–	24.6	5.4	59.3	64.7	4.5	89.0	93.5
Construction	62.5	1,228.0	1,290.5	6.8	16.6	23.4	0.6	83.0	83.6
Admin. & Support Services	125.0	23.0	148.0	15.5	–	15.5	0.1	12.1	12.2
Management Services	64.6	–	64.6	–	–	–	6.4	4.6	11.0
Medical	1.3	–	1.3	–	–	–	–	0.1	0.1
TOTAL	4,905.0	6,042.8	10,947.8	259.8	1,255.1	1,514.9	710.4	962.9	1,673.4

Source: EXIM Data

EXIM's services export financing was split between associated services (\$963 million, 58%) and stand-alone services (\$710 million, 42%). This is a stark difference from 2013 when stand-alone services only made up 17% of all services financing for EXIM, while associated services received the bulk (83%) of EXIM support. The significant decrease in associated services support is a function of the overall decline in project finance transactions. Nevertheless, the increase in Bank support for IT & telecommunications transactions and high value aircraft engine maintenance services more than compensated for the decline in associated services.

FOREIGN ECAs' POLICIES AND PRACTICES

EXIM surveyed OECD ECAs to identify trends in their support for services exports in 2014. Most ECAs were not able to provide detailed information regarding the volume of their support for services either because of system limitations or because they simply do not track this specific data point. One ECA was able to estimate that 5% of their portfolio was comprised of services in 2014. Services comprised 12.5% of the total volume of exports supported by EXIM in 2014.

Much like EXIM, other OECD ECAs offer repayment terms based on the useful life of the services or associated goods export. In addition, many ECAs offer tenors for less than 5 years, except in rare cases or when associated with a longer-term project or good.

ECAs that were able to share information on the nature of their services financing indicated a wide array of sectors and industries. Sectors supported included education, engineering, construction, media, project management, and design services. Furthermore, most ECAs do support both stand-alone and associated services; however the extent of support for stand-alone services varies dramatically. Some ECAs have specific products that explicitly provide support for service exports such as K-sure's service export credit insurance or KEXIM's initiative to support exports related to creative industries (i.e., films, games, and software). Other ECAs admittedly support services not associated with a good or a project on a very limited basis.

CONCLUSION

EXIM support for services in 2014 remained a small portion of the business supported by ECAs despite the fact that the value of services exports has increased by more than a trillion dollars worldwide from 2009 to 2013.²³

Notwithstanding the relatively small amount of EXIM support for U.S. services exports, EXIM support for services increased by roughly 10% last year. Consequently, EXIM appears to be “equal to most competitive” in terms of services export support provided by foreign ECAs. EXIM offers flexible tenors and supports services in a wide variety of industries. What differentiates EXIM from other OECD ECAs is the wealth of available data on both Bank supported associated and stand-alone services. Furthermore, EXIM has strived to build on its support for both stand-alone and associated services over the last year. One EXIM user specifically commended EXIM on the codification of its services content policy which has provided additional flexibility and clarity that has allowed exporters to maximize their coverage and expedite the financing process. Over the coming year, EXIM will endeavor to expand its services presence, and gain more insight into other ECAs support for services exports.

²³ Based on Statistics from the International Trade Centre: http://www.trademap.org/tradestat/Service_SelService_TS.aspx?nvpm=1|000|1111|200|BPM5|3|2|2|2|1|1



EXIM reviews all applications on a case-by-case basis for adverse economic impact on industry or employment in the United States.

Economic Impact

KEY FINDINGS

- EXIM's economic impact policy makes EXIM less competitive, because no other ECA has a similar policy.
- In 2014, 48% (or 103) of EXIM's 216 medium- and long-term transactions were directly affected by EXIM's economic impact policy. Six transactions were subjected to detailed economic impact analysis.
- In 2014, 100% (or 27) of EXIM's long-term and preliminary commitment transactions involving commercial passenger aircraft were directly affected by EXIM's economic impact policy. One long-term commercial passenger aircraft transaction was subjected to detailed economic impact analysis.

INTRODUCTION

In accordance with the EXIM Charter, EXIM reviews all applications on a case-by-case basis for adverse economic impact on industry or employment in the United States. EXIM determines whether its support would cause substantial injury to U.S. industry or enable the production of a good that is subject to a trade measure.

EXIM POLICY AND PRACTICE

Pursuant to the EXIM charter, the Bank evaluates all transactions it receives for potential adverse economic impact. Transactions are first subject to a series of screens designed to identify those transactions associated with:

- Specific legislative prohibitions, such as cases in which countervailing duties are applicable; and
- The potential to cause substantial injury to the U.S. economy such as cases where the export of capital goods and services allows the foreign buyer to establish or expand foreign production by an amount that is 1 percent or more of U.S. production.

This screening process enables the Bank to flag transactions that require more in-depth review and to subject those transactions to detailed economic impact analyses. The detailed economic impact analysis estimates the costs (e.g., value of displaced U.S. production) and benefits (e.g., value of U.S. exports) to determine the net impact of the transaction on the U.S. economy. Detailed economic impact analyses are presented to the EXIM Bank Board of Directors for their deliberations on whether to support the transaction.

As shown in Figure 36, EXIM "acted on"²⁴ 216 medium- and long-term applications in 2014. Of the 216 applications, 147 were applications for medium- and long-term loans and guarantees at the preliminary and final commitment stages, and 69 were medium-term insurance applications.

²⁴ "Acted on" refers to transactions EXIM authorized, denied, or withdrew. This number may differ from reported authorizations for the year as this measure includes cases that EXIM did not support.

FIGURE 36: Applications “Acted On” by EXIM

	2010	2011	2012	2013	2014
Medium- and Long-Term Loans and Guarantees ^a (Commercial Passenger Aircraft)	192	228	174	192 (32)	147 (27)
Medium-Term Insurance (Commercial Passenger Aircraft)	144	116	104	63 (NA)	69 (NA)
Total Medium- and Long-Term Applications (Commercial Passenger Aircraft)	336	344	278	255 (32)	216 (27)

Source: EXIM Data

a Includes preliminary and final commitments.

EXIM’s economic impact procedures state that all applications involving the export of capital goods and services that would enable the increased production of an exportable good or provision of passenger airline services must be analyzed. As shown in Figure 37, in 2014 there were 103 such applications.

Of all the cases EXIM acted on, six were subjected to detailed economic impact analysis. Five cases supported the foreign production of exportable goods, and one case involved commercial passenger aircraft. Four of the six cases yielded a net positive economic impact finding (i.e., there was no adverse economic impact on U.S. industry or employment) and were approved by EXIM’s Board of Directors. The remaining two cases were withdrawn. The first case was converted to a medium-term application, and in the second case, the borrower decided not to pursue EXIM financing for reasons unrelated to economic impact. As displayed in Figure 37, these six cases accounted for 2.8% of total “acted on” cases in 2014.

FIGURE 37: Acted On Applications Captured by One or More Economic Impact Screens

Medium- and Long-Term Applications	2010	2011	2012	2013	2014
Cases Directly Affected by Economic Impact Mandate (Commercial Passenger Aircraft)	118	135	98	103 (17)	103 (27)
Percent of Total Cases Directly Affected by Economic Impact Mandate (Commercial Passenger Aircraft)	35%	40%	35%	40% (53%)	48% (100%)
Percent of Total Cases that Received Detailed Economic Impact Analysis (Commercial Passenger Aircraft)	2%	<1%	4%	3.1% (0%)	2.8% (3.7%)

Source: EXIM Data

In accordance with the April 2013 procedures, EXIM reviewed all aircraft applications involving commercial passenger aircraft for economic impact implications. Aircraft cases that do not involve passenger aircraft for commercial use (such as freight or agricultural aircraft) are not subject to the aircraft procedures but are reviewed under the non-air procedures.

In 2014, EXIM acted on 27 large commercial passenger aircraft transactions. This consisted of 21 long-term loan guarantees and six preliminary commitments. All 27 transactions were approved by the EXIM Board of Directors. EXIM analyzed all 27 transactions according to the aircraft economic impact procedures. One of the 27 transactions triggered all three screens in the procedures and was therefore subjected to detailed economic impact analysis.

The screens used to determine the level of scrutiny address the size and operational characteristics of the evaluated transaction and are as follows:

1. Is the net contract price of the evaluated transaction over \$200 million?
2. Does the number of narrow-body and wide-body seats exceed 1% of the seats in the U.S. fleet of narrow-body or wide-body aircraft, as applicable?
3. Are the aircraft likely to be flown on a significant number of flights in direct competition with U.S. carriers?

If the response to all three of the screens is affirmative, then the case requires a detailed economic impact analysis.

FOREIGN ECAs' POLICIES AND PRACTICES

No other ECA formally reviews the transactions they finance for potential adverse economic impact on their domestic economies. This approach is in contrast to EXIM, which is required by law to assess each transaction for potential adverse impact on U.S. industry and can lead to a denial of financing.

COMPETITIVE ISSUES

As in previous years, exporters and lenders expressed that EXIM's economic impact policy had a negative effect on competitiveness relative to foreign ECAs because no other ECA has a comparable policy. Of the respondents to the Exporter and Lender Survey who considered economic impact relevant to any of their transactions in 2014, 90% indicated the economic impact policy negatively affected application processing time, 50% indicated the policy negatively affected the availability of EXIM financing, and 70% indicated the policy negatively affected their overall experience with EXIM. Zero respondents declared that the policy positively affected any of the preceding categories. Survey respondents voiced their frustrations on how the economic impact policy was a process with "no transparency" that had a "significant impact" on their transactions; exposed their companies to a "competitive disadvantage" by adding "data requirements, processing time, and complexity;" and increased "uncertainty for [their] customers who rely on EXIM financing."

CONCLUSION

EXIM's economic impact policy directly affected approximately 48% (or 103) of EXIM's 216 medium- and long-term transactions acted on in 2014. The policy also directly affected 100% (or 27) of EXIM's long-term and preliminary commitment transactions involving commercial passenger aircraft. As in previous years, the U.S. export community gave the economic impact mandate negative ratings. Along with EXIM's distinction in being the only ECA that reviews its transactions for potential adverse economic impact on domestic industry and employment, EXIM's economic impact policy can be described as less competitive relative to other ECAs.



Foreign Content

Key Findings

- The OECD Arrangement does not govern content policies, thus foreign ECAs have designed their content policies in ways that support their individual mandates and national interests. As such, comparisons between EXIM's content policy, which has a singular focus to support domestic employment, and foreign ECAs' content policies, which vary in mission, is not unidimensional.
- EXIM's domestic content requirements are more stringent and their implementation more rigid than those of any other ECA.
- EXIM's content policy offers less flexibility in terms of shipping requirements, transformation of foreign inputs, and overall coverage for foreign content. However, EXIM remains competitive regarding minimum domestic content requirements and separate treatment of local and foreign content.

BACKGROUND

EXIM's content policy consists of three interrelated segments, all of which affect the amount of coverage available for a particular transaction:

- Domestic content;
- Foreign content; and
- Local costs.

Domestic content represents the portion of the export that originates in the United States. Foreign content consists of any portion of an export, both for goods or services, which originates outside of the U.S. and outside the foreign buyer's country. Finally, local costs are project-related costs originated and incurred within a buyer's country. The report will discuss local costs in more detail in Chapter 16.

While the OECD Arrangement outlines provisions for local costs support, the Arrangement remains silent on foreign content. This absence has resulted in a stark variation in domestic and foreign content policies prescribed by ECAs. EXIM's content policy has remained a contentious issue within the export community who disagree on the extent of flexibility in the amount of foreign content that is eligible for support by EXIM.

EXIM POLICY AND PRACTICE

According to EXIM's content policy, all eligible foreign²⁵ and domestic content must be shipped from the U.S. to the foreign buyer. EXIM relies on the U.S. content of an export to function as a proxy indicator for EXIM's support of U.S. jobs.

For medium- and long-term transactions, EXIM limits support to the lesser of:

- 1) 85% of the value of all U.S. originated goods and services (including eligible foreign content) within the export contract; or
- 2) 100% of the U.S. produced or originated content within the U.S. export contract.

²⁵ Eligible foreign content refers to third country content in a U.S. supply contract that is shipped from the United States. EXIM does not disburse against eligible foreign content, however, it may be included in the cash payment.

While EXIM seeks to maximize the amount of U.S. content in each transaction, EXIM recognizes that the vast majority of exports contains some components that originated abroad. In order to reconcile this reality with the intent of EXIM’s content policy to support U.S. employment, if the eligible foreign content exceeds the OECD-mandated 15% cash payment, the cash payment increases commensurately with the amount of eligible foreign content within a U.S. export contract.

Figure 38 shows the amount of foreign content supported by EXIM through medium- and long-term transactions in 2014. Data for 2014 show 102 authorized medium- and long-term transactions that contained foreign content, which amounts to 62% of total medium- and long-term deals. This represents a 3% decrease from 2013, but overall the percentage of transactions with foreign content remains on an upward trend. The average amount of foreign content per transaction for 2014 was 15%, representing a slight increase compared to 2013. Furthermore, the average amount of foreign content per Bank-supported transaction remains at the 15% benchmark where EXIM begins to decrease its level of financing.

FIGURE 38: EXIM-Supported Foreign Content

		Authorizations	2009	2010	2011	2012	2013	2014
Total Activity	Export Value (in millions USD)		17,449	14,398	20,695	29,625	12,759	12,599
	Number of Transactions		275	320	308	258	198	165
Transactions Containing Foreign Content	Export Value (in millions USD)		15,946	11,342	18,997	23,705	11,363	11,502
	Percentage of Total Value		91%	79%	92%	80%	89%	92%
	Number of Transactions		115	122	124	125	129	102
	Percentage of Total Number		42%	38%	40%	48%	65%	62%
Foreign Content	Volume (in millions USD)		2,106	1,604	2,373	3,545	1,242	1,444
	Average per Transaction ^a		13%	14%	12%	15%	11%	15%

Source: EXIM Data

a "Average per Transaction" was calculated based on the average percentage of foreign content per individual transaction.

Figure 39 breaks down Bank supported transactions with foreign content by medium- and long-term, as well as by industry. On average, medium-term aircraft deals in 2014 had relatively high amounts of foreign content per transaction. This result was mainly due to four transactions for agricultural aircraft, which contained an average of 34% foreign-made parts. In these four cases, the buyers opted to make a cash payment to cover the value of the foreign content in place of pursuing co-financing, which has been done in the past when transactions have had high levels of foreign content. A large amount of eligible foreign content only limits the amount of financing EXIM can provide but does not disqualify a transaction for support.

FIGURE 39: EXIM Transactions Containing Foreign Content by Export Classification, 2014

Product	MEDIUM-TERM TRANSACTIONS			LONG-TERM TRANSACTIONS		
	Number of Transactions	Export Value (in millions USD)	Average Foreign Content %	Number of Transactions	Export Value (in millions USD)	Average Foreign Content %
Agriculture Equipment	10	19.7	11%	0	0	0%
Aircraft	7	10.3	25% ^a	33	7,909.8	14%
Construction Equipment	9	15.9	21%	0	0	0%
Medical Equipment	11	56.7	9%	0	0	0%
Mining Equipment	0	0	0%	1	18.0	20%
Miscellaneous Equipment	2	3.0	5%	1	87.6	7%
Oil and Gas	1	1.3	8%	4	624.5	13%
Power Generation	1	5.3	15%	9	1,251.8	21%
Printing Equipment	3	10.2	13%	0	0	0%
Public Safety Equipment	2	10.5	9%	2	67.1	8%
Telecommunications	0	0	0%	3	867.8	13%
Transportation	1	2.4	27%	2	540.4	29%
TOTAL	47	135.3	15%	55	11,367.1	15%

Source: EXIM Data

a Despite the significant level of foreign content within the transaction, the buyer opted to make a cash payment equal to or more than the amount of foreign content within the U.S. export. Traditionally, co-financing has been used to cope with transactions with high levels of foreign content.

Both medium- and long-term transportation financing, excluding aircraft, contained the highest volume of foreign content compared to other types of transactions. This high percentage was due in large part to two transactions involving the export of trucks, one of which contained 45% foreign content and the other 27% foreign components. In both transactions EXIM only disbursed against the U.S. content. The high foreign content in transportation related exports supported by EXIM is indicative of the U.S. auto and truck manufacturing industry.

Overall, the average foreign content for both medium- and long-term transactions in 2014 increased by 4% relative to 2013. This increase in foreign content is a result of the continued expansion of global supply chains that has changed the composition and origin of products. While EXIM may support transactions with an increasing amount of foreign content, EXIM only disburses against U.S. content and goods procured in the buyer's country (local costs).

FOREIGN ECAs' POLICIES AND PRACTICES

The OECD Arrangement does not govern the scope of foreign content policies administered by individual ECAs. Rather, the Arrangement allows each OECD participant to design its own content policy in a manner that advances its unique domestic export agenda. This freedom has produced content policies that vary substantially among OECD ECAs. While EXIM's mission is to support U.S. jobs through facilitating the export of U.S. produced goods, other ECAs use alternative metrics, such as: the development of preeminent industries and technologies; indirect job support resulting from future sales; the potential for future follow-on sales; and future employment opportunities as a result of the procurement of parts and technology from a domestic parent company. This wide array of considerations gives some context in terms of the balance EXIM must work to achieve in using its content policy as a means to accomplish its mission while remaining competitive.

Unlike many other G-7 ECAs, EXIM treats foreign content and local costs separately. EXIM allows for a maximum of 15% foreign content before it begins to reduce the maximum amount of support offered. EXIM can finance up to 30% of the U.S. export contract for locally procured goods and services. Currently, other ECAs consider the level of non-domestic support on an aggregate basis. This decision means that if local costs are maximized at 30%, as prescribed by the OECD Arrangement, the ECA will consider what level of foreign content they will support based on their established non-domestic content policy. This method gives other ECAs more flexibility, but does not necessarily make them more competitive, when determining what level of support can be given for transactions that include both foreign content and local costs. An argument can be made that EXIM is more competitive as it does not restrict the amount of eligible foreign content within a financing package when local costs are maximized at 30%. Foreign content and local costs are treated separately when calculating the level of support EXIM can offer an exporter.

Figure 40 compares the primary content policy components of the G-7 ECAs for 2014. The data show that EXIM’s content requirements are more prohibitive than its G-7 counterparts in terms of transformation,²⁶ shipping requirements, and level of coverage. However, EXIM remains competitive regarding minimum domestic content requirements and through the disparate treatment of local costs and foreign content.

FIGURE 40: Comparison of Content Policies of the G-7 ECAs, 2014

	EXIM	EDC (Canada)	Coface (France)	Hermes (Germany)	UKEF (United Kingdom)	Sace (Italy)	JBIC & NEXI (Japan)
Is there a requirement to ship foreign content from ECA’s country?	Yes	No	No	No	No	No	No
Will the cover automatically be reduced if foreign content exceeds 15%?	Yes	No	No	No	No	No	No
Is there a minimum amount of domestic content required to qualify for cover?	No	No	Yes (20%)	Yes (30%–70% based on a three-tiered policy)	Yes (20%)	No	Yes (30%)
Are foreign inputs still considered foreign content despite being transformed through domestic assembly?	Yes	No	No	No	No	No	No
When local cost support is maximized at 30%, is the amount of eligible foreign content decreased?	No	No	Yes	Yes	No	No	No

Source: EXIM and OECD ECAs

²⁶ Transformation allows for the final product resulting from domestic assembly of foreign inputs to be counted as domestic content.

CONCLUSION

Exporters and lenders perceived EXIM's overall content policy as less competitive compared to competitor ECAs. In general, the lack of flexibility was cited as a deterrent to borrowers pursuing EXIM financing. Other foreign ECAs have been known to allow anywhere from 50% to 80% foreign content without decreasing support for a given transaction. Furthermore, EXIM does not allow for transformation, an additional hindrance to EXIM's competitiveness. However, EXIM remains fully competitive relative to other ECAs by not imposing minimum domestic content requirements or trading-off local and foreign content when calculating its level of support.





Chad-Cameroon pipeline project in sub-Saharan Africa

Local Costs

KEY FINDINGS

- Although the OECD Arrangement limits the maximum amount of local cost support an ECA can offer, the way ECAs calculate local cost support can and in 2014 did yield competitive differences among ECAs, rendering EXIM more competitive than its foreign counterparts.
- In 2014, EXIM supported local costs that were associated with 20 project transactions, representing 14% of EXIM’s medium- and long-term deals and totaling \$275 million. The \$275 million worth of local cost support was disbursed through EXIM transactions representing 6% of EXIM’s medium- and long-term volume.
- EXIM’s local cost policy gives exporters increased flexibility in documenting local costs. For long-term transactions only, an exporter’s local cost documentation does not have to explicitly link to their scope of work but only needs to be beneficial to the project as a whole.

EXIM POLICY AND PRACTICE

EXIM is able to provide support for costs originated and incurred within a buyer’s country. The availability of local cost support reflects the fact that some amount of local labor and materials may be necessary to assemble, install, or establish components of a project related to a U.S. export. These costs can include construction, labor, and installation costs that may be necessary to complete an export sale.

EXIM is able to provide financing for up to 30% of the value of the U.S. exports for locally originated or manufactured goods and services. Local cost support for long-term transactions must be beneficial to the project or export. For medium-term transactions, a U.S. exporter seeking local cost support must demonstrate either: 1) the availability of local cost support from a competitor ECA; or 2) private market financing of local cost was difficult to obtain. However, EXIM offers “automatic” local cost financing for strategic sectors such as environmental exports, medical exports, project finance transactions, and transportation security exports.

Figure 41 shows that, in 2014, 14% of the total medium- and long-term transactions received local cost support. The dollar volume of transactions that received local cost support represented 6% of the total volume of medium- and long-term transactions in 2014. This amount is the lowest volume of local cost support offered by EXIM in the last six years.

FIGURE 41: Recent Trends in EXIM Local Cost Support

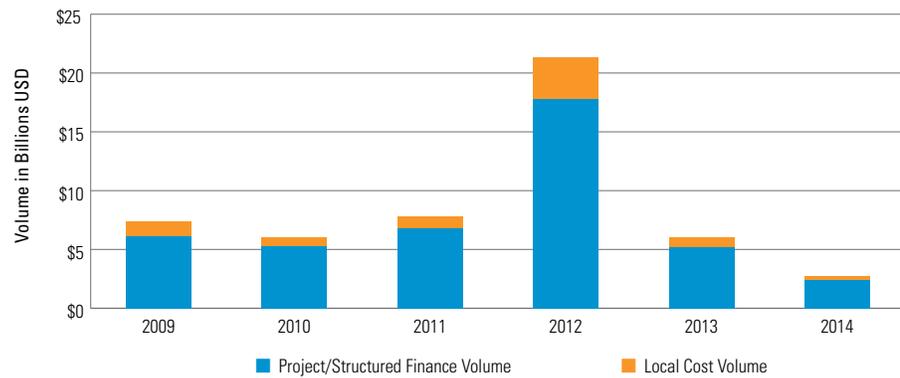
in millions USD	Authorizations	2009	2010	2011	2012	2013	2014
Total Medium- and Long-Term Activity ^a	Authorized Amount	\$7,330	\$7,152	\$8,780	\$15,118	\$5,824	\$4,383
	Number of Transactions	303	284	266	197	152	139
Medium- and Long-Term Activity Containing Local Costs	Number of Transactions	47	46	58	44	35	20
	Percentage of Total Number of Transactions	16%	16%	22%	22%	23%	14%
Local Cost	Volume	\$1,299	\$705	\$955	\$3,534	\$808	\$275
	Percentage of Total Medium- and Long-Term Activity	18%	10%	11%	23%	14%	6%

Source: EXIM Data

^a Data reflect authorized amount instead of export value, as the authorized amount includes local cost. Data exclude large aircraft transactions since they do not finance local costs.

One explanation for the decline in local cost financing is the decrease in the volume and number of project and structured finance transactions supported by EXIM as these deals usually require financing for local installation, construction, freight, etc. Figure 42 shows the export volume of project finance transactions, as well as the volume of local cost disbursements from 2009 to 2014. The graph shows the volume of Bank-supported project and structured finance deals has decreased by 87% since its peak in 2012. Furthermore, the volume of local costs has followed the same downward trajectory decreasing by 91% since over the same timeframe.

FIGURE 42: Volume of Local Cost Disbursements and Project and Structured Finance Transactions



Source: EXIM Data

FOREIGN ECAs’ POLICIES AND PRACTICES

All OECD participants adhere to the local cost rules set forth in the OECD Arrangement. In 2014, 17 OECD nations reported 148 transactions where local cost support exceeded 15%. Germany reported the most transactions (25), followed by the United States (16)²⁷ and Spain (15).

For long-term transactions, local costs can be categorized as “inside” or “outside” the export contract. Local costs are either explicitly connected to the costs an exporter must incur to complete their contractual obligation (inside the export contract) or local costs can be beneficial to a project as a whole and not directly linked to the exporter’s scope of work (outside the export contract). EXIM’s local cost policy gives exporters increased flexibility in the way in which local costs are documented in that they can be outside of the export contract while foreign ECAs, in particular insurer ECAs, typically limit their support to costs included in the exporter’s scope of work. Germany had the most notifications of transactions with local costs inside the export contract (25), while the United States had the most notifications of local costs outside the export contract (8).

Overall, the majority of local cost financing provided by all OECD ECAs was used to support local construction, labor, and installation costs. Local costs were also used to cover taxes, inland freight, and deliveries from local subsidiaries and/or affiliates.

²⁷ Does not include transactions that were notified but subsequently withdrawn, cancelled, or not authorized in 2014.

CONCLUSION

EXIM's local cost policy is considered fully competitive relative to that of other ECAs. Both exporters and lenders were generally pleased with the flexibility and levels of local cost financing offered by EXIM. Eight out of 13 exporters and lenders who gave material responses through EXIM's Competitiveness Report Survey indicated that EXIM's local cost policy was "equal to the most competitive" local cost policy offered by other ECAs in 2014.²⁸

²⁸ Three survey participants gave a response of "Don't Know," bringing the total number of responses to the question regarding EXIM's local cost competitiveness to 16.



Since no other ECA imposes a similar requirement, EXIM shipping rules add an additional hurdle to securing a foreign sale.

U.S.-Flag Shipping Requirement

KEY FINDINGS

- Although few transactions are subject to PR-17, the transactions impacted often face stiff foreign competition.
- No other ECA requires that the exports they support be shipped on domestic flag vessels, and imposing an additional requirement renders EXIM less competitive than its foreign counterparts.

BACKGROUND

Public Resolution 17 (PR-17)²⁹ expresses the sense of Congress that ocean-borne exports financed by the U.S. Government should be transported on U.S. flag vessels. This U.S.-flag shipping requirement is meant to ensure a well-trained merchant marine able to maintain the flow of waterborne domestic and foreign commerce during wartime or national emergency. U.S. flag vessels must be U.S. Government or citizen-owned and manned by U.S. citizens. The freight charges are service exports and eligible for EXIM financing.

EXIM POLICY AND PRACTICE

This U.S.-flag shipping requirement applies to U.S. exports supported by either EXIM loans (of any size) or guarantees over \$20 million.³⁰ EXIM financing is not available if foreign flag-carriers are used to transport U.S. exports that are subject to PR-17. Exceptions are permitted when U.S.-flag vessels are not available in sufficient numbers or tonnage capacity, on the necessary sailing schedule, or at reasonable rates.^{31,32} Exceptions may also be granted when a shipment was transported on a foreign vessel, if the exporter enters into a Compensatory commitment to ship future (non-EXIM financed) cargo on U.S.-flag ships.³³

In 2012, EXIM and MARAD entered into an agreement to increase transparency and improve the overall functionality of the U.S. shipping requirement. Detailed guidance is available on MARAD's website. This guidance encourages parties to contact MARAD as early as possible when help is needed to facilitate shipments and explains the PR-17 shipping process, including a description of the certification and determinations that an exporter could request, when U.S.-flag shipping is not feasible. MARAD

29 Enacted on March 26, 1934, and reaffirmed in Public Law 109-304 on October 6, 2006.

30 A 2006 Memorandum of Understanding signed by EXIM and MARAD set the parameters for applying PR-17 to guaranteed transactions at \$20 million (excluding the exposure fee) or a greater than seven year repayment term (unless the export qualifies for a longer repayment term under EXIM's special medical, transportation security, and environmental initiatives).

31 The Secretary of Transportation delegates this authority to MARAD.

32 In these circumstances, MARAD may issue a "Statutory" certification of vessel non-availability. EXIM may support the goods, but not the non-U.S. freight charges.

33 In this circumstance, MARAD may issue a "Compensatory" determination. EXIM may support the goods, but not the non-U.S. freight charges.

now posts its decisions made on these requests on its website. MARAD also initiated a process to allow a shipper to request formal reconsideration of a determination.

Since 2012, for exporters unable to compensate for a shipment made in error by promising future shipments, MARAD has allowed EXIM to provide a reduced rate of coverage on the initial shipment transported on a foreign-flag vessel, if future cargo shipments associated with the authorization comply with PR-17.³⁴ In addition, MARAD may allow up to 50%, on a revenue ton basis, of a total export sale to ship on carriers of the cargo purchaser’s nation, if the nation has a merchant navy and does not engage in discriminatory treatment of U.S.-flag vessels in foreign trade.³⁵

In 2014, 14 transactions with an authorized value of approximately \$1.72 billion or approximately 14.5% of all loans and long-term guarantees were subject to U.S.-flag shipping.³⁶ According to MARAD, PR-17-impelled shipments generated approximately \$35.39 million in revenue for U.S. carriers in 2014.³⁷ As shipments associated with large transactions often occur over several years, some of the revenue earned in a given year is the result of previous years’ authorizations.

As shown in Figure 43, in 2014, MARAD approved 21 certifications or determinations to allow shipments on foreign-flag carriers.³⁸ Certifications and determinations are considered on an individual shipment basis, not for an entire transaction, which can encompass multiple shipments. According to MARAD, only one request was denied over the past three years.³⁹ In both 2012 and 2013, two Statutory certifications were granted because cargo was placed on the wrong vessel due to an error by the ocean carrier operator.

FIGURE 43: MARAD Shipping PR-17 Determinations

Determinations	2012	2013	2014
Statutory (Non-Availability)	8	15	9
General	2	1	1
Compensatory	4	9	9
Reachback	1	0	2
TOTAL	15	25	21

Source: MARAD <http://www.marad.dot.gov/documents/Ex-ImDeterminations.pdf>

Despite the accommodations noted above with respect to Certifications and Determinations, in the survey and roundtable discussions, participants were generally critical of PR-17, contending higher costs and delays discourage some potential customers from sourcing purchases from the U.S. Participants claimed that U.S.-flag carriers may charge higher rates than foreign-flag carriers for the same routes. In addition to higher ocean freight costs, complying with PR-17 may result in overland transportation charges to reach a distant port, if U.S.-flag service is unavailable close to the supplier. This can cause both higher total freight costs and delays. Through feedback outside

34 In this circumstance, MARAD may issue a “Reachback” determination which allows EXIM to provide 80% of the normally available coverage to 10% of the initial shipment made on a foreign vessel.

35 In this circumstance, MARAD may issue a “General” determination allowing some non-U.S. transport, and freight costs are eligible for EXIM’s support.

36 In 2013, 19 transactions totaling \$2.82 billion or approximately 20% of loans and long-term guarantees were subject to PR-17. Exports of large commercial aircraft do not use ocean borne transport. Similarly, some satellites are launched into space or flown to their destination, and exports to Mexico and Canada are usually transported by road or rail rather than ship.

37 Approximately \$56 million was earned in 2013.

38 When direct U.S.-flag service is not available, shipments that leave on a U.S.-flag carrier may be transferred to foreign flag service based on a “P-2 concurrence.” These are not included in the chart, since exports leave on a U.S.-flag vessel.

39 In 2012, MARAD was able to identify a U.S.-flag vessel that could be used and therefore did not approve the request to allow a foreign-flag vessel.

of these fora, one firm also alleged it received two separate quotes showing a stunning 169% difference in the “per 40 foot rate” depending on whether or not the shipment would be covered by EXIM and subject to PR-17.⁴⁰

FOREIGN ECAs’ POLICIES AND PRACTICES

No other ECA mandates usage of its home country’s vessels.

COMPETITIVE ISSUES

U.S. exporters and lenders have asserted that PR-17 places them at a competitive disadvantage. Fourteen survey respondents reported transactions subject to PR-17. According to nine survey respondents, arranging U.S.-flag shipping is “somewhat” or “very” difficult. Eight respondents sought facilitation assistance from MARAD.

Ten survey respondents provided written comments to elaborate on their experience. Three responses were generally positive, but seven were critical of higher costs charged by U.S.-flag carriers, delays, and the fact that other countries’ exporters are not subject to a similar requirement. Shipping was not extensively discussed during the roundtable discussions, but the brief comments made were also critical of the policy.

CONCLUSION

PR-17 does not impact all EXIM-supported transactions, but it does impact some large export sales often related to projects where competition with non-U.S. producers supported by foreign ECAs is intense. Despite transparency regarding PR-17 and MARAD’s willingness to assist in arranging for U.S.-flag shipping, the requirement may result in higher freight charges and delays that would not otherwise be incurred. Since no other ECA imposes a similar requirement, EXIM shipping rules add an additional hurdle to securing a foreign sale. For these reasons, the U.S.-flag shipping requirement is less competitive.

⁴⁰ MARAD’s own investigation of the allegation showed a 43% difference in quotes.



EXIM solicits feedback on its competitiveness from as many of its stakeholders as possible.

Stephanie Thum, EXIM Vice President, Customer Experience (left), and Christine Gregoire, 2015 EXIM Bank Advisory Committee Chair (right)

Stakeholder Views

KEY FINDINGS

- The competitive position of EXIM relative to other ECAs is weakening due primarily to EXIM's cover policy, foreign currency coverage, medium-term programs, and uncertain reauthorization status.
- Nevertheless, exporters and lenders valued the innovative support for project and aircraft finance, in particular extending covered bond support beyond aircraft.

INTRODUCTION

Throughout each year, EXIM solicits feedback on its competitiveness, informally and formally, from as many of its stakeholders as possible. In 2014, EXIM received feedback from a majority of stakeholders who were involved in EXIM's medium- and long-term programs. These exporters, lenders, and project sponsors commented on EXIM's competitiveness as it impacted their specific businesses. The exporters' views also reflected on their work with hundreds of sub-suppliers for the completion of their export contracts.

The most formal of these methods for gathering input is EXIM's Annual Competitiveness Survey. EXIM's Charter requires the Competitiveness Report to include a survey of exporters and lenders. EXIM invited exporters and lenders who directly used EXIM's medium- and long-term programs in 2014 to participate in the survey. Over 55% of all exporters and lenders invited to participate in the survey responded.

In addition to the survey, EXIM held two focus groups, one that discussed issues important to lenders and the other which addressed exporter concerns. Finally, many EXIM stakeholders reached out through phone calls, emails, and in-person meetings to comment on EXIM's competitiveness in 2014. Through these three channels, EXIM received comments and suggestions on EXIM's competitiveness relative to other ECAs.

EXIM invited a total of 70 lenders, exporters, and project sponsors that directly used EXIM's medium- and long-term programs during calendar year 2014 to complete the survey. The survey was completed by 50% of the invited exporters, 69% of the invited lenders, and 38% of the invited project sponsors. The exporters worked with various sub-suppliers. These sub-supplier relationships are important, and 50% of respondents worked with 100 or more sub-suppliers in performing export contracts during 2014.

While the chapters throughout the Competitiveness Report include results from the survey and focus groups, several additional areas are discussed here due to the breadth of topics considered. The following section highlights those competitive issues that EXIM faced in 2014.

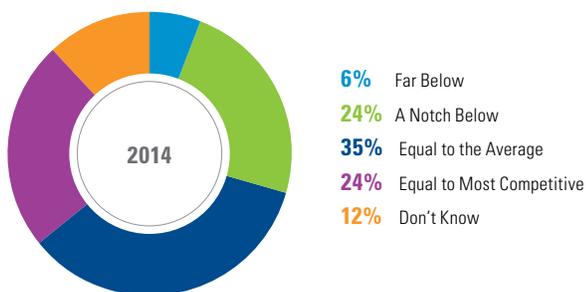
COVER POLICY

Cover policy refers to an ECA’s willingness to assume the repayment risk for export sales to a specific country under applicable terms and conditions. EXIM’s cover policy decisions take into consideration the results of an interagency country risk assessment. EXIM’s own experience with a buyer may also determine cover policy, particularly if there is an unresolved, protracted default.

EXIM provides coverage under all programs in 137 countries, including many that commercial rating agencies and others consider as high risk markets. In an additional 49 countries, coverage is available under some programs.

EXIM received negative feedback on the availability of cover from exporters. They believed EXIM has not been consistent with other U.S. agencies and foreign competitors with respect to whether the agency is open or closed in a particular country. Exporters wanted to conduct transactions in countries where other U.S. agencies with the same risk standards as EXIM (e.g., Overseas Private Investment Corporation) or other countries (e.g., China) were open. Survey results, as shown in Figure 44, reveal that most exporters rated EXIM as “equal to average,” followed by “a notch below” and “equal to most competitive,” to other ECAs.

FIGURE 44: Competitiveness of EXIM Cover Policy Compared to Other ECAs, 2014



Source: EXIM Data

FOREIGN CURRENCY GUARANTEES

EXIM’s foreign currency support requires that, in the event of a default, EXIM purchases the foreign currency to pay the claim to the lender and then converts (or “crystalizes”) the debt obligation of the borrower into a U.S. dollar amount equal to the amount EXIM paid to obtain the foreign currency. Lenders indicated that EXIM’s foreign currency guarantee was comparable to other ECAs, although one lender did indicate EXIM’s crystallization policy slightly hinders competitiveness. Another lender remarked that demand for ECA support of foreign currencies is down because of the increase in local funding solutions, potentially making a local currency guarantee program even more appealing in the future.

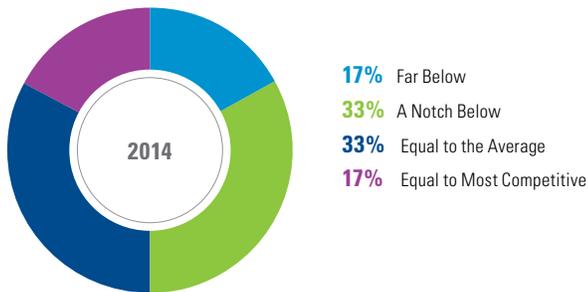
MEDIUM-TERM PROGRAMS

No international standards exist as to what constitutes a medium-term transaction among ECAs. Each agency has its own characterization and range of medium-term products, usually with repayment terms of up to five years.

EXIM, somewhat arbitrarily, defines a medium-term transaction as having a financed amount (excluding exposure fees) not exceeding \$10 million and a repayment term not exceeding seven years, unless the Board of Directors has approved an exception. In 2014, EXIM conducted 105 medium-term transactions for a total authorization value of approximately \$216 million and a total export value estimated at \$245 million. These transactions comprise guarantee and insurance products.

Exporters described challenges in conducting medium-term transactions with EXIM in the following areas: tenor constraints, risk mitigation requirements, content policy, documentary requirements, and exposure fees. To increase competitiveness in the medium-term space and align with more competitive foreign ECAs, exporters suggested EXIM use its capacity to reform its medium-term programs to better facilitate transactions. They also recommended that EXIM reevaluate its thresholds that determine which transactions are categorized as medium-term. As shown in Figure 45, exporter ratings on EXIM’s medium-term programs covered a range of responses, with exporters generally assessing EXIM as “a notch below” and “equal to the average” compared to other ECAs.

FIGURE 45: Competitiveness of EXIM Support for Medium-Term Transactions Compared to Other ECAs, 2014



Source: EXIM Data

REAUTHORIZATION

In September 2014, Congress extended EXIM's Charter for nine months through June 2015 using a continuing resolution. If EXIM's Charter is not renewed by June 30, 2015, it will sunset and the agency will no longer have the statutory authority to incur new obligations or exercise all of its functions. Congress is currently debating whether to renew EXIM's Charter beyond June 2015. The Administration has requested a five-year reauthorization, which would provide exporters with some certainty regarding the availability of EXIM financing.

Exporters perceived the debate surrounding EXIM's existence to be detrimental to the agency's competitiveness. While EXIM and its supporters are concentrated on reauthorization, foreign ECAs are focused on becoming more effective at enabling their domestic exports. The uncertainty in the Charter's renewal could also affect EXIM's ability to attract and retain employees.

CONCLUSION

This year's survey and focus groups of exporters, lenders, and project sponsors yielded comments and critiques of EXIM and its program parameters as detailed throughout this Competitiveness Report, as well as in the following areas: cover policy, foreign currency guarantees, medium-term programs, and reauthorization. Using their experience with EXIM's medium- and long-term programs in 2014, these stakeholders provided their opinions and recommendations to improve EXIM's programs and policies, thereby increasing EXIM's competitiveness.

CHAPTER 19

Customer Experience and Competitiveness

KEY FINDINGS

- EXIM has a new customer contact center which includes a 1-800 number, e-mail, and online chat.
- Unlike other ECAs' contact centers, EXIM's contact center offers services in multiple languages.

EXIM'S NEW CUSTOMER CONTACT CENTER

In November 2014, EXIM opened a new and improved customer contact center. The contact center is designed to support EXIM's goal, as noted in its strategic plan, to improve the ease of doing business for customers. It is a central, general point of inbound inquiries for new and existing customers, lenders, and brokers seeking to obtain timely information and new connections to EXIM subject matter experts.

The customer contact center includes an improved 1-800 number experience, along with a new e-mail response system and online chat. It is a "Tier One" operation, meaning agents handle routine customer inquiries, while transferring more nuanced questions to EXIM staff. At the beginning of 2015, the contact center consisted of 57 agents answering calls, e-mails and online chats from 8 a.m. EST to 8 p.m. EST, Monday through Friday (excluding Federal holidays). Agents received training, an exhaustive list of Frequently Asked Questions to be referred to when fielding inquiries, a list of Bank points of contact for handling complex inquiries, and other materials designed to help customers and other inquirers get expedited answers to their questions.

DIRECT IMPACTS AND BENEFITS TO THE CUSTOMER EXPERIENCE

Prior to the contact center's opening, general, incoming calls to EXIM were answered by an automated voice response system that some customers noted through surveys and anecdotal conversations with Bank staff was frustrating to navigate. Incoming, general e-mails went to an e-mail box that, over time, became riddled with spam and unmanageable for EXIM's relatively small staff. Long-time customers with existing relationships and direct points of contact within EXIM typically had no need to use EXIM's 1-800 telephone number and general e-mail box and were at an advantage, while new customers without existing Bank relationships may have been at a disadvantage. With the contact center's opening, we believe that many new customer inquiries that may not have been answered in a timely fashion in the past, or answered at all, will now be fielded in real time by live contact center operators during operating hours.

The contact center is a multichannel resource, meaning that EXIM now has the ability to answer new customer inquiries through more than one communication channel, such as telephone only. The practice is similar to the contact center operations of many large private sector organizations,

and likely has a strengthening effect on EXIM's overall competitiveness as a result of increased responsiveness to new customers—particularly small business customers who may only be getting started in the world of export finance. No other major ECA contact center offers the breadth of availability to customers.

Additionally, EXIM's customer contact center allows EXIM to lean into a "one government" approach for responding to customer inquiries. EXIM partnered with the General Services Administration (GSA) to leverage GSA's contracted contact center to answer EXIM inquiries. The same agents who respond to EXIM calls, e-mails, and online chats are also trained to answer inquiries for other U.S. government agencies such as BusinessUSA and the International Trade Administration. Therefore, in the instances where EXIM is not the appropriate resource for the customer, agents may still be able to help with information about other business-oriented U.S. government resources. This feature of the contact center also contributes to EXIM's competitiveness, as it allows us to bring a wider range of U.S. government assistance to U.S. exporters even if the customer does not become an EXIM customer right away.

Sophisticated Key Performance Indicators (KPIs) are built into the operation and help EXIM better understand the needs and expectations of customers. EXIM management now maintains a view of:

- The number of incoming calls, e-mails and chats
- How many customers received a "first contact resolution" to their inquiry
- Average time customers spent on hold for telephone calls
- How many customers abandoned their calls
- How long customers waited before abandoning their calls
- How long customers had to wait for a response to an e-mail
- How long customers had to wait before making contact through online chat
- The topics customers inquire about most frequently

COMPARISONS TO OTHER ECAS

EXIM's more modern, multichannel "contact center" (as opposed to "call center") approach mirrors best practices of the private sector. When compared to other ECAs, EXIM's model appears to be ahead of the pack. During the developmental phases of our contact center project, EXIM polled ten major ECAs to find out more about their contact centers. Eight ECAs responded to our poll and findings included:

- Seven out of eight ECAs operate a "Tier One" call or contact center. Only one ECA did not.
- EXIM's contact center has longer operating hours than any other ECA. Other ECAs operate during the ECA headquarters' business hours only.
- EXIM's contact center is the only one to offer online chat.
- EXIM's contact center is the only one to offer a language line—calls to the contact center are answerable in 20 languages (e-mail and online chat inquiries are handled in English only).
- Only three ECA contact centers besides EXIM handle e-mail inquiries.
- EXIM is the only ECA that measures and monitors contact center activity via modern contact center KPIs.

OPERATIONAL NOTES

In 2012, in a step toward implementing innovations that focus on customers and improving EXIM's competitiveness, EXIM created a position for and hired its first Vice President of Customer Experience. The customer contact center project was developed and directed by the Office of the Vice President of Customer Experience with assistance from a multidisciplinary internal team of telecommunications, web, procurement, and training professionals. In 2015, a new full-time employee was hired to oversee the day-to-day administration of the contact center. Over the next three to five years, EXIM will continue to identify and understand customers' needs and implement appropriate innovations that focus on customers, which will continue to strengthen EXIM's competitiveness.



Fritz-Pak Corp., Mesquite, Texas

APPENDIX A

Purpose of EXIM Transactions

Congress requires EXIM to include in the annual Competitiveness Report a breakdown of the purposes for EXIM support for transactions. The three purposes of EXIM support for transactions are to fill the financing gap when private sector financing is limited or unwilling to take risks, or to counter potential foreign ECA competition. Each transaction may satisfy one or all of the purposes.

Figure 46 breaks down the number and amount of EXIM transactions authorized in 2014 by purpose and program type. In 2014, EXIM transactions totaled over \$19 billion compared to \$22 billion in 2013.

FIGURE 46: EXIM Transactions by Purpose, 2014

	PRIVATE SECTOR LIMITATIONS		PRIVATE SECTOR UNWILLING TO TAKE RISKS		POTENTIAL COMPETITION		ALL TRANSACTIONS	
	(in millions USD)	(#)	(in millions USD)	(#)	(in millions USD)	(#)	(in millions USD)	(#)
Working Capital Guarantees	\$7.2	2	\$1,870.9	468	\$0.0	0	\$1,878.81	470
Short-Term Insurance	\$723.0	1128	\$4,403.4	1853	\$2.5	2	\$5,128.8	2983
Medium-Term Insurance	\$0.0	0	\$38.3	20	\$66.4	40	\$104.7	60
Medium & Long-Term Guarantees	\$1,536.9	14	\$1,509.2	41	\$8,005.7	44	\$11,051.8	99
Loans	\$144.0	2	\$0.0	0	\$775.6	4	\$919.7	6
TOTAL	\$2,411.1	1146	\$7,821.8	2,382	\$8,850.2	90	\$19,083.1	3618

Source: EXIM data

APPENDIX B

Equal Access for U.S. Insurance

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

At the time of the enactment of the legislation, EXIM had neither encountered nor been informed about any long-term transaction for which equal access for U.S. insurance companies was not afforded. Consequently, EXIM, 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. The agencies also agreed that should EXIM 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 2014, EXIM had not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

APPENDIX C

Trade Promotion Coordinating Committee

KEY FINDINGS

- EXIM approved 13 additional banks as delegated lenders under EXIM's working capital program, which provides small business exporters with needed liquidity.
- EXIM expanded outreach through quarterly webinars with financial institutions and brokers involved in export finance.
- Authorizations for exports to sub-Saharan Africa, a target market for the TPCC, reached a record breaking \$2.22 billion in 2014.

BACKGROUND

EXIM is a member of the interagency Trade Promotion Coordinating Committee (TPCC), and section 8A(a)(2) of EXIM's Charter requires EXIM to report on its role in implementing the TPCC's strategic plan. In 2014, the TPCC introduced a revised strategic plan called NEI/NEXT, which builds on the National Export Initiative (NEI) launched by the Obama Administration in 2010 to expand U.S. exports. NEI/NEXT focuses on ways to position the U.S. economy for long-term economic growth. It seeks to create and support good-paying American export-related jobs by ensuring our companies are poised for success in the global marketplace. To accomplish this, NEI/NEXT developed a five-pronged framework to:

- 1) Connect more American businesses to the next global customer by providing more targeted and tailored assistance on how to reach customers in more markets and give special attention to companies in emergent U.S. industries.
- 2) Ease international shipping and reduce costs through enhanced interagency co-operation, streamlined procedures, and improvements in domestic infrastructure.
- 3) Expand American businesses' access to export finance by educating more financial institutions and corporations regarding U.S. Government-provided financing options and streamlining service.
- 4) Engage local and regional communities in promoting exports, since localities stand to benefit when companies expand sales and when businesses increase fixed investment to support new, export-related opportunities.
- 5) Improve export opportunities through concerted interagency efforts to build trade capacity in foreign markets, reduce trade barriers, and other measures.

ANALYSIS

During 2014, EXIM was very actively engaged in outreach efforts to increase awareness of EXIM's programs and expand U.S. companies' access to export financing. In addition to hosting a widely attended annual conference and training sessions, EXIM worked in conjunction with local and regional authorities to reach beyond our existing client base. Additionally, EXIM began working on technological improvements to streamline procedures, particularly related to disbursements.

EXIM's 2014 annual conference drew a record crowd with some 1,200 attendees. This annual event remains an excellent platform to educate U.S. and foreign business and banking representatives about export financing options. Attendees not only learned about EXIM's programs, but also had the opportunity to connect with various public and private sector entities that provide financing, insurance, logistical support, and other services to U.S. exporters.

In support of the TPCC's Global Access for Small Business Initiative, which was started in 2011, EXIM co-hosted 14 business events during 2014 across the U.S. These forums are held in collaboration with Members of Congress, other elected officials, local chambers of commerce, federal and local government agencies, and others. EXIM also held four training events in Washington, D.C., attended by over 100 participants, including lenders, businessmen, and insurance brokers, as

well as individuals who work with EXIM through city/state partnerships.

In 2014, EXIM embarked on a new outreach program in partnership with the International Bankers' Association for Trade and Finance (BAFT). Beginning in March, EXIM held quarterly webinars for BAFT's membership of nearly 200 banks, suppliers, and government agencies worldwide. The webinars gave EXIM a venue to regularly connect with BAFT's members and engage in a discussion of pertinent issues affecting trade finance.

In 2014, EXIM approved 13 additional banks as lenders under EXIM's Working Capital Program. This 10% increase in eligible lenders will expand the reach of this program, which is a valuable source of liquidity for small business exporters. In 2014, EXIM authorized over \$4.59 billion in financing and insurance for American small business exporters. Although this represents a small decline from the \$5.21 billion authorized in 2013, EXIM support for small business increased as a percentage of annual activity to 24.6%.

EXIM also remained committed to building on the TPCC's existing efforts to reach more customers abroad, especially in target markets, such as through the Doing Business in Africa Campaign. In 2014, EXIM approved a record-breaking \$2.22 billion in authorizations for U.S. exports to sub-Saharan Africa versus \$541.27 million in 2013.

APPENDIX D

Tied Aid Credit Program and Fund

KEY FINDINGS

- In 2014 tied aid support provided by OECD countries increased from 2012 and 2013 levels.
- Despite a decrease in untied aid in 2014, untied aid finance continued to outpace tied aid.
- EXIM was not approached for tied aid in 2014 and did not provide tied aid support.
- In 2014, EXIM Bank estimated Chinese concessional lending to be around \$12 billion—which exceeds total OECD tied aid support in 2014 by a factor of two.

For over 20 years, tied aid has been a competitive issue for U.S. exporters. While the degree and scope of competitive concerns were greatly diminished by the introduction in 1991 of the OECD tied aid rules, known as the Helsinki Package, in certain circumstances U.S. exporters have faced competitive challenges that result from foreign tied aid offers. Although the OECD rules successfully redirected tied aid away from commercially-viable projects in the higher income markets, non-OECD countries are not bound by the OECD tied and untied rules and can, therefore, issue concessional and low concessionality tied aid to foreign buyers that fall outside the purview of the OECD disciplines.

The U.S. Government seeks to deter trade-distorting tied aid offered by foreign ECAs and promote transparency in the use of both tied and untied aid. This appendix details competitive issues pertaining to the use of tied and untied aid and contains information that addresses the tied aid reporting requirements of EXIM's Charter.

TIED AID AND EXIM TIED AID PRACTICES

"Tied aid" is a concessional, trade-related aid credit provided by a donor government to induce the borrower to purchase equipment and/or services from suppliers in the donor's country. Tied aid (when initiated) is typically offered as a component of development assistance to the recipient country. Tied aid can distort trade flows when the recipient country makes its purchasing decision based on the bidder offering the cheapest financing rather than the best price, quality or service. Under these circumstances, a donor government's tied aid offer may be used as an attempt to "buy" a sale for its national exporter through the provision of low cost financing to a recipient country. As such, the OECD rules allow governments that typically do not initiate tied aid, like the United States, to match foreign tied aid offers that are either not compliant with OECD rules or competing with standard export credit support.

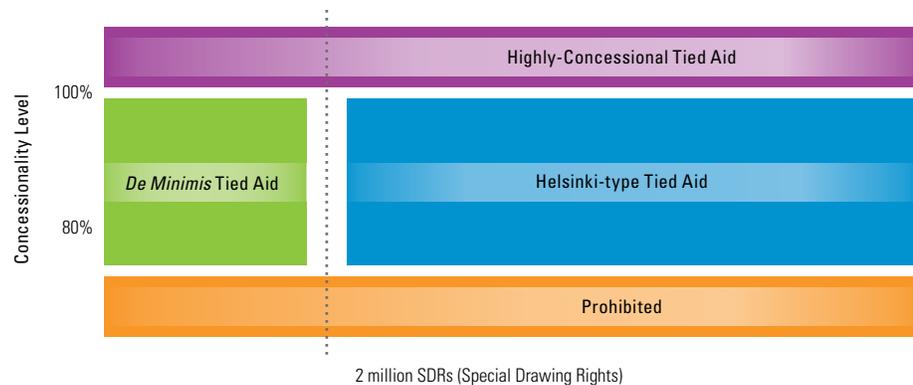
Tied aid can take the form of a grant, a mixed credit—a grant plus a standard export credit—or a "soft" loan that can be offered as a long-term loan bearing a low interest rate and/or extended grace period.

The OECD Participants have agreed to a set of rules known as the Helsinki Package. These rules govern *Helsinki-type tied aid*, the form of tied aid that has the greatest potential for trade distortion. The Helsinki Disciplines can be summarized as follows:

- 1) No tied aid for commercially viable projects;⁴¹
- 2) Tied aid must be notified to OECD Members at least 30 business days before the country makes a financing commitment;
- 3) No tied aid for upper-middle income and high-income countries—defined as those with a per capita Gross National Income (GNI) at or above \$4,126 and \$12,746, respectively, with this figure updated yearly based on annually-adjusted World Bank income classification criteria; and
- 4) Tied aid offers must have a minimum concessionality level of 35%.

“Non-Helsinki-type” tied aid includes all other tied aid offers. These are: (i) de minimis projects (valued at less than approximately \$3 million), (ii) grants or near-grants (at least 80% concessionality), and (iii) partial grants (at least 50% concessionality) that are offered to UN-declared Least Developed Countries or LDCs. Figure 47 illustrates these types of tied aid

FIGURE 47: Scope of OECD Tied Aid Rules



Source: OECD Arrangement on Export Credits

“Untied aid” differs from tied aid in that it is not formally conditioned on the purchase of equipment from suppliers in the donor country. Hence, recipients of untied aid funds can use the funds to purchase goods from suppliers outside of the donor’s country.

EXIM strictly applies the Helsinki Disciplines and is more stringent than most other OECD members in that it does not initiate tied aid for commercial purposes. Instead, EXIM seeks to match foreign offers through its Tied Aid Capital Projects Fund (TACPF). The TACPF can be used in consultation with the Department of the Treasury once information about competing offers has been collected and certain criteria have been fulfilled, including the prospect of future sales on non-concessional terms.

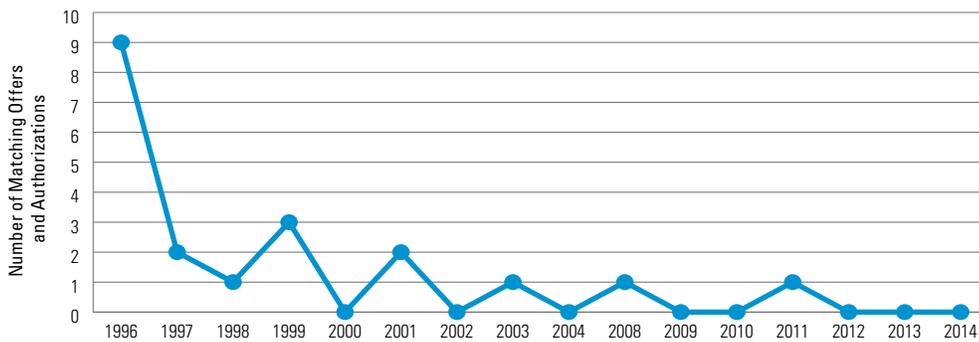
Historically, exporters and lenders have had difficulty meeting the requirements necessary to match foreign tied aid. Verifying the terms and conditions of a foreign tied aid offer may take

⁴¹ Commercial viability, which OECD members determine on a case-by-case basis, has two components: (1) financial viability, which refers to a project’s ability to service market-term, or standard Arrangement-term, financing over 10–15 years (depending on the type of project); and (2) the general availability of ECA financing for such a project.

longer than the timeframe associated with the bid tender. Moreover, establishing that future transactions would be financed on commercial terms can be equally difficult as many of the tied aid recipient countries rely on concessional and standard export credits. Finally, a lack of awareness among exporters of EXIM's tied aid matching procedures can further impact EXIM's effectiveness as matching cases must be brought to the Bank by concerned exporters.

These factors coupled with a successful OECD rules regime have significantly reduced—and, in some years, eliminated—requests from U.S. exporters to match foreign tied aid offers. As such, Figure 48 shows that no EXIM matching authorizations have been issued since 2011.

FIGURE 48: EXIM Foreign Aid Matching Offers and Authorizations



Source: EXIM

EXIM does not have an untied aid program.

IMPLEMENTATION OF THE OECD ARRANGEMENT AND OECD TIED AND UNTIED ACTIVITY

The Helsinki Disciplines agreed to by the Participants to the OECD Arrangement in 1991 went into effect in February 1992. Since that time, the use of tied aid for commercially-viable projects has significantly declined.

The OECD tied aid rules have helped reduce tied aid from OECD countries to an annual average of about \$5 billion. This is down from an estimated average of \$10 billion annually prior to 1992. Almost all remaining tied aid volumes have been re-directed away from commercially-viable sectors and toward commercially non-viable sectors and from high and middle income countries to lower income countries.

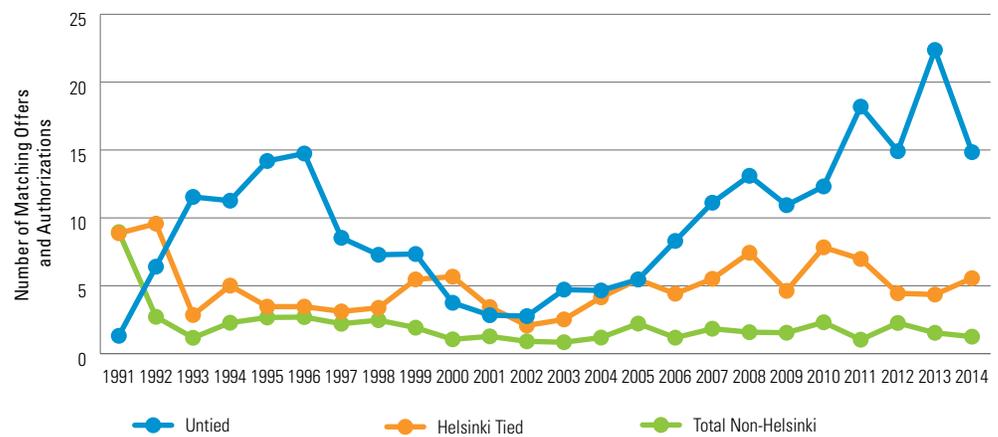
In 2014, OECD Helsinki tied aid increased 28% to roughly \$5.6 billion in supported contracts. Despite this increase, the number of notifications decreased as OECD countries funded a smaller pool of higher-value projects. Overall, 2014 Helsinki tied aid volumes stayed largely within the historical ranges of tied aid activity that followed the 1991 agreement.

With respect to untied aid, historical concerns regarding the implicit tying of untied aid prompted the United States to seek the same disciplines for untied aid that were agreed for tied aid. Donor and recipient countries resisted U.S. efforts to discipline untied aid, claiming that untied aid did not pose a serious threat to free trade and that disciplines for untied aid would only reduce much needed aid to developing countries. However, in 2005, the OECD did agree to an Untied Aid Transparency Agreement that requires OECD Members to:

- 1) Notify project loan commitments at least 30 days prior to the opening of the bidding period to allow for international competitive bidding; and
- 2) Report the nationalities of the bid winners on an annual ex-post basis.

As shown in Figure 49, untied aid dropped precipitously in 2014 to \$14.8 billion after hitting an all-time high of \$22.4 billion in 2013. Nevertheless, untied aid volumes were double the total tied aid financing. Untied aid can have a concessionality level that falls below the 35% minimum concessionality level required for Helsinki tied aid and thus has the potential to be more trade-distorting than tied-aid if it is *de-facto* tied. In 2013, almost half of the untied aid provided (by volume) was below the 35% floor for required for tied aid.⁴²

FIGURE 49: OECD Aid Credit Volume by Type



Source: OECD notifications

As the Helsinki concessionality requirements do not apply to untied aid, it is important to monitor its use. The transparency provisions for untied aid agreed in 2005 seek to confirm whether untied aid can be accessed globally to benefit suppliers from all countries, donor and non-donor alike.

Review of untied notifications suggests that untied aid is open to third-party suppliers. Among OECD countries, suppliers from the untied aid donor’s country won less than a quarter of untied aid contracts by value in 2014. Moreover, over three-fourths of the notified OECD untied aid offers followed international competitive bidding procedures in 2013. The remainder used either local bidding procedures or credit lines from banks for refinancing.^{43,44}

42 2013 Shadow Helsinki Report.

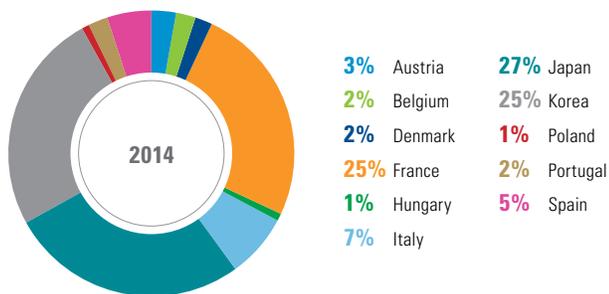
43 2013 Annual Review of Agreement on Untied ODA Credits.

44 Despite this openness, anecdotal information and donor country policies suggest that donor-country suppliers often serve as sub-contractors to untied projects won by third-party exporters. This particular form of *de-facto* tying is not captured under current OECD procedures.

Among the OECD Members, some notable trends emerged in 2014:

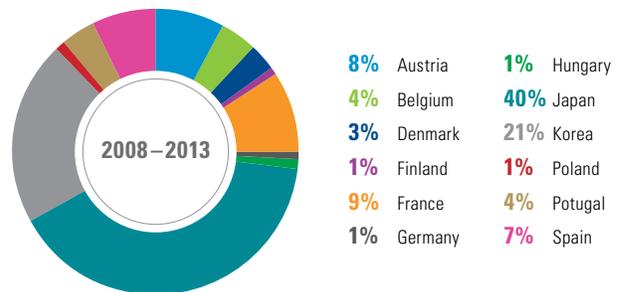
- Tied aid increased from 2012 and 2013 levels while untied aid dropped.
- Combined tied aid support from Asian ECAs (Korea and Japan) represented over half of all tied aid support both in terms of volume and number of transactions.
- French tied aid increased significantly in 2014—to \$1.4 billion from \$836 million in 2013. At the same time, French support for untied aid decreased by 36% from \$7.8 billion to \$5 billion.
- Japan followed a similar trajectory, nearly doubling tied aid from \$790 million in 2013 to \$1.5 billion in 2014 and cutting back untied authorizations by 24% from \$12.3 billion to \$9.4 billion.
- Korea, the second largest provider of tied aid in 2014, largely kept its support steady relative to 2013 levels, at around \$13.8 in 2014 up from \$12.8 billion in 2013.

FIGURE 50: OECD ECA Helsinki-Type Tied Aid Volume, 2014



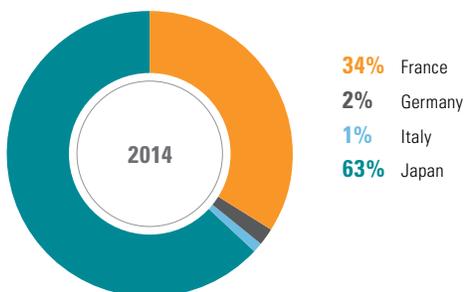
Source: OECD notifications

FIGURE 51: OECD ECA Helsinki-Type Tied Aid Volume, 2008–2013



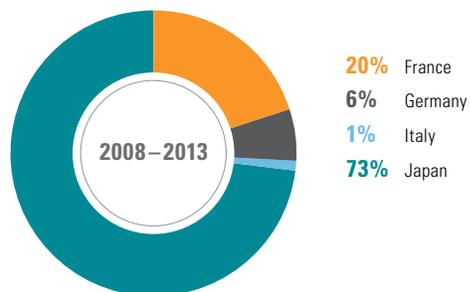
Source: OECD notifications

FIGURE 52: OECD ECA Untied Aid Volume, 2014



Source: OECD notifications

FIGURE 53: OECD ECA Untied Aid Volume, 2008–2013



Source: OECD notifications

NON-OECD ACTIVITY

OECD tied aid rules and transparency requirements do not apply to non-OECD ECA tied aid offers. Additionally, U.S. exporters have expressed competitive concerns regarding non-OECD concessional aid offers, in particular with respect to Chinese offers. Given the unregulated nature of this aid, and the difficulty in obtaining information on its volume or terms, EXIM conducted a survey of press articles to find instances of Chinese concessional export credit. In 2014, EXIM found almost \$12 billion worth of transactions authorized by China Ex-Im that were reported to be concessional or were given to governments with mandatory concessionality lending requirements. Although term information is difficult to obtain, in many cases the concessional loans offered appeared to be trade-distorting, low-concessional finance. The sheer volume of this lending combined with the difficulty in matching it presents a new challenge to EXIM in countering distorting concessional finance.

SURVEY RESULTS

Only five out of 31 survey respondents (16%) indicated that they had encountered foreign competition benefiting from tied aid financing. This figure is not significantly different from 2013 survey results with 14% of respondents encountering competitors backed by tied aid. However, significantly more survey respondents indicated that they were familiar with EXIM's tied aid matching policy (13 out of 25 or 52% in 2014 versus 14% in 2013). However, no respondents indicated that they had requested a tied aid matching offer from EXIM in 2014. Only one respondent indicated that it was facing significant competition from a non-OECD ECA offering concessional terms but was unable to obtain documentary evidence of the foreign terms that would be necessary in the matching process.

CONCLUSION

In 2014, the tied aid disciplines binding OECD members continued to operate effectively. Although a handful of U.S. exporters indicated that they had encountered foreign tied aid offers, no request for an EXIM tied aid matching offer was submitted in 2014.

Untied aid continued to considerably outpace tied aid, but competitive bidding procedures appear to have limited the potential for *de facto* tying between donors and recipients.

With respect to tied aid offered by non-OECD countries, the lack of transparency regarding the terms and conditions of these offers coupled with their sheer volume creates a competitive concern whose consequences are unclear.

APPENDIX E

EXIM Co-Financed Transactions

The following table lists all of the transactions that EXIM co-financed with other ECAs in 2014.

FIGURE 54: EXIM Co-Financed Transactions, 2014

Co-Financing ECA	Market	Sector	Financed Amount (in millions USD)	Co-Financing ECA	Market	Sector	Financed Amount (in millions USD)
EDC	Brazil	Agricultural Aircraft	0.7	EGAP	Uruguay	Agricultural Aircraft	0.7
EDC	Brazil	Agricultural Aircraft	0.6	NEXI	Angola	Large Aircraft	200.0
EDC	Brazil	Agricultural Aircraft	0.7	NEXI	Canada	Large Aircraft	300.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Canada	Large Aircraft	185.0
EDC	Brazil	Agricultural Aircraft	0.7	NEXI	Canada	Large Aircraft	190.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Chile	Large Aircraft	250.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	China	Large Aircraft	300.0
EDC	Brazil	Agricultural Aircraft	1.7	NEXI	China	Large Aircraft	735.0
EDC	Brazil	Agricultural Aircraft	1.7	NEXI	China	Large Aircraft	425.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	China	Large Aircraft	220.0
EDC	Brazil	Agricultural Aircraft	1.4	NEXI	China	Large Aircraft	280.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	China	Large Aircraft	390.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	China	Large Aircraft	200.0
EDC	Brazil	Agricultural Aircraft	0.7	NEXI	Colombia	Large Aircraft	185.0
EDC	Brazil	Agricultural Aircraft	1.6	NEXI	Ethiopia	Large Aircraft	300.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Ireland	Large Aircraft	95.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Kenya	Large Aircraft	220.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Kenya	Large Aircraft	220.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Kenya	Large Aircraft	400.0
EDC	Brazil	Agricultural Aircraft	0.8	NEXI	Mexico	Large Aircraft	205.0
EDC	Brazil	Agricultural Aircraft	1.4	NEXI	Morocco	Large Aircraft	230.0
EDC	Paraguay	Agricultural Aircraft	0.7	NEXI	Russian Federation	Large Aircraft	705.0
EDC	Uruguay	Agricultural Aircraft	0.6	NEXI	Thailand	Large Aircraft	500.0
EGAP	Brazil	Agricultural Aircraft	0.7	NEXI	United Arab Emirates	Large Aircraft	280.0
EGAP	Brazil	Agricultural Aircraft	0.8				
EGAP	Brazil	Agricultural Aircraft	0.8				
EGAP	Brazil	Agricultural Aircraft	0.8				
TOTAL							7,040.0

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APPENDIX F

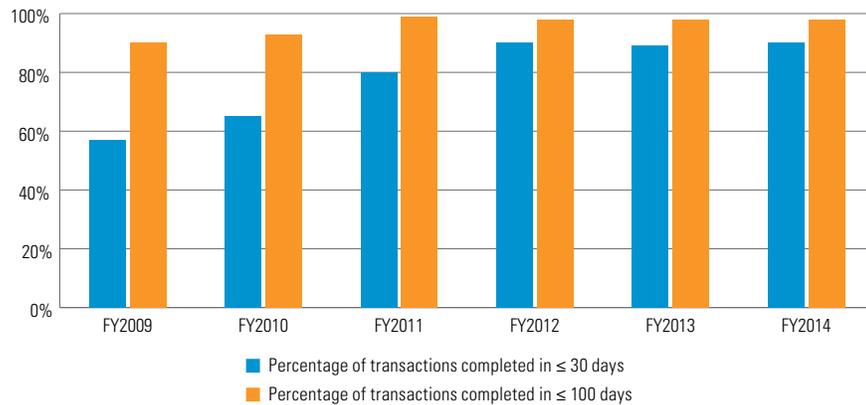
Transaction Processing Times

Customer feedback continually indicates that the time it takes to complete a transaction matters when they choose whether or not to utilize EXIM, versus a competitor ECA. Therefore, in FY2014, EXIM continued to measure and monitor cycle times as key customer experience performance metrics. Monitoring practices put in place over the past two years have helped to heighten internal visibility of the importance of cycle times. In some instances, cycle time monitoring has helped to push transactions through in a timely manner, or has flagged for

management certain transactions that need additional team communication and support due to the complexity of the transaction, incomplete customer applications, or the changing landscape as a U.S. government agency. Figure 55 and Figure 56 outline cycle time averages over time at the Bank.

Cycle time monitoring will continue to be part of our customer experience improvement endeavors in FY2015.

FIGURE 55: Overall Cycle Times



Source: Government Performance and Results Act Reports, FY2011, FY2012, FY2013, FY2014.

FIGURE 56: New Cases—Application Submitted to Decision Average Cycle Times for High-Volume Product Lines

Product	Target Days to Decision	FY2012 Average Days to Decision (Cases)	FY2013 Average Days to Decision (Cases)	FY2014 Average Days to Decision (Cases)
Short-term multibuyer, exporter held insurance	15	19 (649)	15 (627)	13 (531)
Short-term single buyer, exporter-held insurance	21	15 (469)	14 (490)	16 (470)
Short-term single-buyer, bank-held insurance	45	43 (229)	44 (190)	50 (158)
Medium-term credit insurance	60	42 (117)	45 (100)	52 (84)
Medium-term guarantees	60	54 (84)	66 (93)	74 (89)

Source: Government Performance and Results Act Reports, FY2011, FY2012, FY2013, FY2014.

Glossary

CIRR: Commercial Interest Reference Rates. Commercially-indexed official lending rates for export credit agencies established under the OECD Arrangement as a base for setting interest rates for export finance.

Concessional Aid: These are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these.

Coverage: The percentage of the total cost of a project that is funded through export finance.

Cover Policy: A risk-rating policy used by EXIM to determine which markets the Bank will extend credit to and what premia rates to charge to cover risk in those markets.

Export Credit Agency: An agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services.

Investment Support: Official loans, guarantees, insurance, or other finances typically given to support domestic companies in overseas projects where they have equity participation.

Line of Credit: A financing framework, in whatever form, for exports that covers a series of transactions which may or may not be linked to a specific project.

Long-term finance: EXIM treats export financing with repayment terms greater than five years and for amounts greater than \$10 million as long-term finance.

Low Concessional Aid: Export financing offered at below market rates, but generally not reaching the 35% concessionality required for OECD tied aid. This financing is often considered to be “soft” with expanded tenors and low interest rates, but not as generous in terms as tied development aid provided by OECD countries.

Market Window and Market-oriented Finance: Official export financing that is commercially priced by setting all financing terms on market conditions. This finance falls outside the OECD Arrangement.

Medium-term finance: EXIM treats export financing with repayment terms between two and five years and for amounts up to \$10 million as medium-term.

Non-OECD Export Credit Agencies: ECAs that are not a party to the OECD Arrangement on Export Credits or its rules. Notable ECAs include India Export Import Bank, Sinosure, and Export Import Bank of China.

OECD Arrangement: A set of rules setting financing terms and conditions for participating ECAs. The arrangement is a “gentleman’s agreement” with no enforceable punishments for misbehavior.

Premia: Fees charged in addition to interest that reflect the risk borne by the financier of an export.

Pure Cover: Official support provided by or on behalf of a government by way of export credit guarantee or insurance only.

Short-term finance: Export financing with repayment terms less than two years. The OECD Arrangement rules do not apply to these transactions.

Tenor: The amount of time left on a loan before it must be repaid in full.

Tied Aid: Aid which is in effect (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or a restricted number of countries, including loans, grants, or associated financing packages with a concessionality level greater than zero percent.

Untied Aid: Aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country.

Untied Export Support: Official export financing on non-concessional terms not directly linked or tied to procurement from the donor country. This finance falls outside the OECD Arrangement.

EXIM BANK

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JUNE 2015

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