Export-Import Bank *of the* United States

REPORT TO THE U.S. CONGRESS ON EXPORT CREDIT COMPETITION AND THE EXPORT-IMPORT BANK OF THE UNITED STATES

FOR THE PERIOD
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

JUNE 2012

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 25, 2012

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

Dear Mr. Chairman:

In accordance with Section 8A of the Export-Import Bank Act of 1945, as amended, I am pleased to forward the report of the Export-Import Bank of the United States on the competitiveness of its export credit support. This report covers the period from January 1, 2011, through December 31, 2011.

This report assesses how well the Export-Import Bank was able to compete with the major export credit agencies throughout the world in 2011. Against the backdrop of the European sovereign debt crisis and tight liquidity constraints, Ex-Im Bank has proven itself ready and able to step in with its long-term, fixed rate support for U.S. exports when the private sector had withdrawn from export finance. With the close of fiscal year 2011, Ex-Im Bank reported a third consecutive record-breaking year of more than $32 billion in export financing, up 127 percent from fiscal year 2008. These transactions supported an estimated $41 billion worth of American exports and an estimated 290,000 American jobs at more than 3,600 U.S. companies.

As the recovery continues and liquidity gradually returns to commercial markets, different competitive challenges are emerging. Most notably, significant volumes of unregulated export credit programs (that fall outside the purview of the OECD rules) and non-OECD export credit programs (offered by Brazil, India and, most prominently, China) are being deployed strategically around the globe, in favor of foreign exporters. In fact, regulated OECD country activity, at approximately $94 billion, now constitutes just over a third of global government export credit. This report's analysis and its findings can contribute to the discussion on the role of Ex-Im Bank in supporting and maintaining U.S. jobs in a changing world.

Sincerely,

Fred P. Hochberg
Chairman and President

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 25, 2012

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

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THE 2012 ADVISORY COMMITTEE'S STATEMENT ON THE 2011 COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Members of the 2012 Advisory Committee ("Members") have reviewed the 2011 Competitiveness Report to Congress and present this statement reflecting views voiced by the Advisory Committee members regarding the Report. Although each of these points may not be shared equally by all members, the Report reflects the themes and points that the Advisory Committee considers important enough to address going forward.

Overall Context and Theme

The Advisory Committee Members generally agreed with the context and theme of the 2011 Competitiveness Report. Specifically, we agree that Ex-Im Bank demonstrated its unique competitiveness at a time in the global marketplace when ECA support was not only critically needed, but essential to supporting U.S. exports. Ex-Im's direct loan program and its innovative approach to structuring transactions have put the Bank in a position of prominence in the OECD ECA world in a difficult economic environment. The Bank has performed extremely well under its current leadership in helping to level the playing field for U.S. exporters. We congratulate the Bank on its recent 3-year reauthorization, which will permit a growth in lending commitments of 40% and set a stable framework for U.S. exporters.

Equally as important are Benchmarking Study findings confirming the observations in last year's Report on the existence and rapid growth of unregulated sectors of government export credit. Regulated OECD country activity, at $94 billion, now constitutes just over a third of global government export credit. Non-regulated OECD activity (untied, market window and investment financing) now affords an additional $92 billion annually, and lending from non-OECD players such as China, India and Brazil is at least $64 billion and perhaps much more. The Advisory Committee shares the Report's concern about the size and clear challenge of these burgeoning new export credit areas, which may impact the ability of U.S. exporters to fully compete in this rapidly evolving and non-transparent framework. We fully agree that the second year of the Benchmarking Study be completed with a focus on further understanding these alternative financing vehicles and advancing greater transparency on the part of all of the relevant ECAs.

Methodology

Last year's statement from this Committee recommended that the Bank increase the size of the survey pool and improve the level of responses, and also recommended that the Bank undertake a process to improve the survey methodology.

The Committee commends the Bank in its effort to increase the survey respondent pool, and the special attention paid by senior management in eliciting responses from key users of Ex-Im Bank's medium- and long- term programs. We are further pleased that pending OMB approval the Bank has commissioned a new survey and methodology that are being developed by an outside expert for next year's survey process. The Committee

appreciates the expansion of participation in the focus groups for this year's Report and hopes that this can continue in future years. We are encouraged that the Bank understands and is implementing these corrective measures. Finally, we would also like to see the Bank explore other options, beyond a survey, to assess competitiveness, particularly with regard to the impact of public policy mandates.

Overall Grading

The Advisory Committee generally agrees that the Report's overall grade of A-/B+ for 2011 is a fair representation of Ex-Im Bank competitiveness. However, as noted above and below, the Members believe that improvements of the grading scale and factors taken into account to arrive at a grade or assessment of a policy need to be considered. Presumably, these considerations are being addressed with the development of the new survey.

Specific Findings:

With respect to the specific findings of the Report, the Advisory Committee members offer the following observations:

First, the Advisory Committee Members applaud the Bank for its active participation in supporting U.S. exports, especially in the use of direct loans in the project finance area where long-term, fixed rate funding is in high demand. These efforts have made a meaningful impact on growing our nation's exports at a critical time.

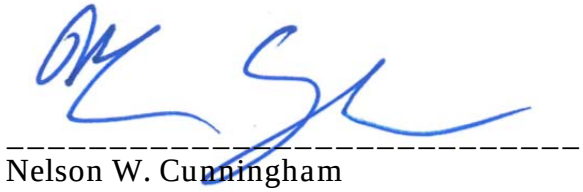
Second, the members of the Advisory Committee acknowledge that some respondents to the survey identified public policy mandates such as domestic content, MARAD/PR-17/shipping requirements and environmental conditions, as presenting challenges to U.S. exporters seeking Ex-Im support. We recognize, however, that these public policy mandates are required by law and protect broader public policy goals, such as enhanced domestic employment, a robust merchant marine, or a better environment. Not all Members agree about the value of individual public policy mandates or the methodology used to assess them. The more precise, accurate, and balanced the Report can be in assessing the overall benefits and costs of individual public policy mandates, relying not just on the survey but on other factors such as U.S. jobs supported, the better informed policymakers will be in making judgments on these mandates.

Third, the Advisory Committee agrees with the programmatic grade changes in two key areas: services and environmental policies. With regard to services, the 2011 Report lowers the grade down to a B, reflecting that services exporters encountered new challenges. The Advisory Committee agrees that the Bank can and should devote more resources for services exports, which can benefit employment. With regard to environmental policies, which saw their grade improve to a B, the Advisory Committee is in agreement with this improved assessment. The Committee notes that market awareness of the new Ex-Im Bank Carbon Policy requirements and associated due diligence led to a better understanding of the policy and its competitive impact, resulting in an appropriately improved grade for 2011.

Fourth, the Advisory Committee encourages the Ex-Im Bank to continue to enhance its outreach and product offerings to small businesses. Small businesses represent up to 75% of new jobs in the United States, and are critical to our nation's health as well as to achieving President Obama's goal in the National Export Initiative to double exports by 2015. The Committee suggests that the Bank consider formally grading its progress on small business support in the annual Reports.

Finally, the Advisory Committee believes that it is critically important for Ex-Im to further investigate the evolving nature and expansion of unregulated export financing tools being used by OECD as well as non-OECD countries, and which now account for almost two-thirds of total government export credit support. The Committee finds that the rising tide of these forms of support is a significant potential threat to U.S. exporter competitiveness now and into the future. We recommend that the Bank continue to document these competitive threats and to begin to examine potential approaches to address them. These include documenting the size of the unregulated support, and working with Congress and the Administration to ensure that both OECD and non-OECD countries comply with appropriate international guidelines in their official export credit support programs. In that regard, the Committee commends the announcement in February 2012 that the United States and China will establish an international working group of major providers of government export financing to set guidelines by 2014 governing official export financing practices outside the OECD framework.

Summary: The 2012 Advisory Committee commends the Bank for ensuring U.S. export success in a very difficult global environment in which concerns about risk and volatility are the order of the day. At the same time, the Bank should not be complacent with its success because the financial markets will return (at some point), and our ECA counterparts will have adapted competitively with improved product attributes and quality. In addition, the explosion of unregulated government financing support – not an option for Ex-Im Bank since it operates exclusively within the OECD framework – needs to be more fully understood so that mechanisms to address them can be developed. Clearly, the old competitiveness yardstick, comparing Ex-Im Bank only with its OECD counterparts on standard export credits, no longer fully addresses the broader range of players and extent of challenges posed to U.S. exporters. The Advisory Committee believes that the Administration and Congress need to be more fully educated on how the export credit landscape has changed, so that options on how to address current and future challenges can be thoughtfully considered.



_____
Nelson W. Cunningham
Chairman
2012 Ex-Im Bank Advisory Committee

2012 ADVISORY COMMITTEE MEMBERS

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

Nelson Cunningham	Advisory Committee Chairman; representing services
Peter Baranay	Representing manufacturing
Leslie Bergland	Representing small business
C. Fred Bergsten	Representing commerce/trade
John Brislin	Representing government
Owen Herrnstadt	Representing labor
Thea Lee	Representing labor
Nancy Mercolino	Representing small business
Michael O'Neill	Representing finance
Deven Parekh	Representing finance
Steven Parrish	Representing services
Garrett Pierce	Representing manufacturing
Dan Tishman	Representing environmental
Kirk Wagar	Representing small business
Kelly Williams	Representing finance
Joanne Witty	Representing environmental
Randy Zwirn	Representing manufacturing

2011 Competitiveness Report

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Executive Summary

Background

The 2011 Annual Report to Congress on Export Credit Competition provides a comprehensive assessment of the competitiveness of Ex-Im Bank's medium- and long term programs and policies compared to those of the major export credit agencies (ECAs) during the calendar year. Ex-Im Bank based its evaluation on quantitative and qualitative data and information available from the export finance marketplace, including surveys of banks and exporters and data from the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD) and the Bank for International Settlements (BIS), among other reliable sources. In addition, this year Ex-Im Bank incorporated data from a buyer survey and export credit agency interviews that were conducted as a follow up to the 2010 Competitiveness Report. The purpose of the Competitiveness Report is to present an evaluation of Ex-Im Bank's ability to offer "fully competitive" financing, and it does so in a report card format. A description of the grading scale is included in Appendix A.

Context

The most significant events that have shaped ECA activity in 2011 were: 1) the Eurozone sovereign debt crisis and 2) commercial bank efforts to prepare for compliance with the Basel III regulations. These influenced every aspect of international commercial bank lending, including the level of commercial bank net lending, capital flows into developing countries, and even the role of commercial banks in ECA export finance.

Findings

The global financial crisis of 2008 steadily impacted commercial bank appetite for risk, thereby pushing spreads up and the cost of financing to the forefront as a key competitive factor among ECAs, reaching a dominant role in 2011. Moreover, anticipation of Basel III requirements combined with the European crisis reduced the final marketability of all long-term commercial bank financing.

Against this backdrop, Ex-Im Bank reported a third consecutive year of record-breaking activity in excess of $32 billion in FY 2011. This surge in demand was led by the unprecedented activity in the aircraft, and the project and structured finance arenas, with the latter surge funded almost entirely by direct loans.

In that context, Ex-Im Bank scored high marks in 2011 and its overall competitiveness grade stayed strong at "A-/B+". The main factors that contributed to the "A-/B+" grade reflected the aforementioned developments and exporter and lender input in the following key areas:

First, the aforementioned developments that led to tight credit market conditions influenced Ex-Im Bank's grades in interest rates and project finance.

With respect to interest rates, the year 2011 moved Ex-Im's interest rate programs into an absolutely competitive position vis-à-vis the G-7 (and OECD), receiving an "A+" grade. As spreads increased and commercial bank financing contracted on pure cover transactions, those ECAs with limited official financing tools searched for direct loan mechanisms and liquidity sources to an even greater degree than they did in 2010. While the G-7 ECAs looked to develop such tools in 2011, Ex-Im was at a distinct advantage due to its existing direct loan program.

With respect to project finance, the financing and capacity advantages associated with Ex-Im Bank's project finance cover appear to have outweighed the non-financial and long-standing disadvantages associated with Ex-Im Bank foreign content, MARAD and economic impact policies that typically take the center stage in the Bank's competitiveness assessment and weigh down Ex-Im Bank's grade point average. This edge was significant enough to induce a shift in sourcing in certain cases. As a result, in 2011, Ex-Im Bank earned an "A+" in the area of project finance.

Moreover, exporter and lender input impacted two programmatic components of Ex-Im Bank grades. Specifically, the grade for Ex-Im Bank Services support worsened while the marks for Ex-Im Bank's Environmental Policies improved.

With respect to the Services policy, Ex-Im Bank's available support for services appears to be lacking competitiveness relative to other G-7 ECAs' services policies. Information from buyers, exporters, and lenders on competitor practices related to services suggests that Ex-Im Bank's willingness to support services is impacted by how it applies its content policy to services. The main difference between Ex-Im Bank and competitor ECAs is that Ex-Im Bank evaluates the eligibility of the U.S. export (and the corresponding benefit to U.S. employment), while some foreign ECAs support their national exporters without further documentation requirements. This resulted in a downgrade in Bank competitiveness when compared to last year or a grade of "B" for 2011, down from the "A-/B+" earned in 2010

With respect to Ex-Im Bank's Environmental Policies, Ex-Im Bank continued to garner an "A" in the area of environmental guidelines (because Ex-Im applies the environmental guidelines that all OECD ECAs apply, known as the Common Approaches); and "B" in the area of transparency (because Ex-Im continues to have increased transparency requirements relative to foreign ECAs, especially as they apply to the disclosure of project monitoring reports). However, although no other OECD ECA adopted a Carbon Policy in 2011, rendering Ex-Im as relatively less competitive compared to other OECD ECAs, exporter and lender feedback on the Carbon Policy was not as negative as the commentary provided for the 2010 assessment. Therefore, the Carbon Policy grade improved from a "C" in 2010 to a "B-/C+" rating for 2011. Taking all three of these grades into account, the overall rating for Ex-Im's environmental guidelines and carbon policy was "B" in 2011.

Finally, Chapter 8 will examines the findings of the benchmarking study that was conducted to gauge the size, scope and impact of other forms of official financing that fall outside the purview of the OECD.

The benchmarking study brought into focus many important issues, of note:

First, the benchmarking study revealed opposing assessments of Ex-Im Bank competitiveness. On the one hand, Ex-Im Bank support for large commercial aircraft or infrastructure projects in better risk markets, where the competitive financing costs, aggressive risk coverage, and all the extras (e.g. 30 percent local cost support), was widely considered exceptionally competitive. Conversely for transactions involving buyers (or in markets) with moderate to high risk, where Ex-Im coverage was viewed as more expensive and onerous (in terms of security requirements and related costs stemming from risk mitigation), and included fewer extras than most other ECAs, Ex-Im was considered less competitive.

Second, with respect to unregulated financing offered by OECD ECAs, the benchmarking study revealed that over half of the entities interviewed were either offered, or had benefitted from, unregulated financing programs. These unregulated financing programs were reportedly priced on commercial terms , but their flexibility regarding other financing terms and parameters and ease of documentation typically made such financing very attractive (e.g., no cash payment was required; tenors were not limited; sourcing was not limited to procurement from the country of the ECA).

With respect to the impact of export credits and insurance coverage provided by non-OECD ECAs, specifically from Brazil, India and China (BICs) , almost half of the entities interviewed reported that they were aware of, or had benefitted from, BIC financing in some form. Buyers and lenders reported that Chinese products in certain sectors (e.g., renewable energy, power, “off the shelf” capital equipment) were competitive with comparable U.S. products while the United States was more competitive in specialized technical equipment (e.g., oil and gas).

Looking Forward

The aggregate impact on U.S. exporters of roughly $100 billion per year of unregulated financing by OECD ECAs, coupled with the $60 billion in BIC export credit support is not fully apparent. However, the benchmarking study cannot discount the hefty volume (roughly $160 billion) of and ready access to unregulated and BIC financing because its availability was so frequently noted by respondents. Irrespective of the fact that there have been no cases reportedly lost to unregulated or BIC financing, the strategic use and large volume of such financing by foreign ECAs undoubtedly will constrain the future scope and scale of U.S. exports and cannot be considered irrelevant to long range U.S. export competitiveness.

The benchmarking study has made clear that U.S. exporters do compete in certain markets and sectors that foreign ECAs have “targeted” as a national interest either explicitly as part of their national economic policy or implicitly by making available a range of official financing tools to maximize the flow of national benefits. Therefore, the potential competitive impact of such foreign ECA strategies and their official programs on US export prospects is a research objective that warrants a further and more detailed analysis.

Chapter 1: Introduction

Background

In Section 2(b)1(B) of the Ex-Im Bank Charter, Congress directs Ex-Im Bank:

> "...in the exercise of its functions, to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are fully competitive with the Government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with United States exporters, including countries the governments of which are not members of the Arrangement...".

Accordingly, Ex-Im Bank prepares its Annual Competitiveness Report to Congress on the basis of the Congressional guidance set forth above and pursuant to Chapter 8 of the Ex-Im Bank Charter, where Congress instructs the Bank as follows:

> "Not later than June 30 of each year, the Bank shall submit to the appropriate congressional committees a report that includes ... a survey of all other major export-financing facilities available from other governments and government-related agencies through which foreign exporters compete with United States exporters (including through use of Market Windows) ... and, to the extent such information is available to the Bank, indicate in specific terms the ways in which the Bank's rates, terms, and other conditions compare with those offered from such other governments directly or indirectly. With respect to the preceding sentence, the Bank shall use all available information to estimate the annual amount of export financing available from each such government and government-related agency. In this part of the report, the Bank shall include a survey of a representative number of United States exporters and United States commercial lending institutions which provide export credit on the experience of the exporters and institutions in meeting financial competition from other countries whose exporters compete with United States exporters."

The purpose of the Competitiveness Report is to present Congress with an assessment of Ex-Im Bank's success in providing U.S. exporters with financial terms and conditions that are "fully competitive" or considered "standard" with respect to support provided by the major official export credit agencies (ECAs).

Scope of Report

This report compares Ex-Im Bank's competitiveness with that of the other G-7 ECAs. Additionally, given the increasing role that emerging markets play in the export finance space, Ex-Im Bank has added quantitative information and comparisons of the programs and policies of the G-11 ECAs, among others, in Chapters 2, 8, and Appendix D[1] of this report. A detailed comparison of Ex-Im Bank programs with those of emerging

[1] Dollar volume data contained in the Report is in non-inflation-adjusted U.S. dollars.

market ECAs is not fully possible given limited transparency surrounding such programs and ECA activity.

Furthermore, the Competitiveness Report focuses on medium- and long-term export credits because medium- and long-term transactions are typically subject to direct and indirect official ECA competition. Short-term programs are excluded from the analysis because there are few instances of ECA-supported competition (short-term deals are generally negotiated sales) and because few ECAs have short-term programs. Moreover, those ECAs that do have short-term programs have vastly different approaches to such coverage (e.g., NEXI of Japan is legally bound to support all of Japanese exports while ECGD of the U.K. is legally prohibited from providing short-term cover for U.K. exports when a private insurer can do so). However, 2010 and 2011 proved an exception to this rule, as some ECAs provided temporary short-term support to offset the global shortage of short-term trade finance resulting from the lingering financial crisis.

Competitiveness Assessment

The Report's competitiveness assessment is a series of comparisons which draw on quantitative information about the programs and policies of the major foreign ECA, as well as qualitative information collected through a survey and focus group meetings with exporters and lenders.

Chapter 8 of the 2010 Competitiveness Report titled "Emerging Issues" identified an increasingly large volume of MLT activity attributable to certain non-OECD ECA "exceptional" programs, as well as the growth of "unregulated" OECD ECA export credit programs not governed by the OECD Arrangement on Export Credits. In order to more deeply study these developments, Ex-Im embarked on a two-year benchmarking study to better understand the impact of an expanded scope of reference on U.S. exporters and U.S Ex-Im Bank competitiveness (see Benchmarking Study Methodology section below and Chapter 8 Annex II for more details). The results of the first year's efforts are reported in Chapter 8 of this report, broadening the Report's content beyond its traditional G-7 scope.

This report also includes supplemental information on the G-11 ECA export credit programs and activity levels to the extent this information was available (see Data Qualification section below). G-11 ECAs are the G-7 ECAs (Canada, France, Germany, Italy, Japan, United Kingdom and United States) plus Brazil, Russia, India and China, also known as the BRICs.

Overall Report Methodology

With the aim of providing a generally understood measurement of accomplishment, Ex-Im Bank uses a "report card" (A-F) methodology to evaluate each of the essential components of Ex-Im Bank's financing as compared to the capabilities of the Bank's primary foreign ECA competitors. Because the economic philosophy and public policy issues do not affect every case—and because not all of these issues can be evaluated on a comparable basis with other ECA policies– the Report only notes the *direction* (positive, neutral, or negative) of their potential competitiveness impact on individual transactions. These grades are computed based on survey and focus group feedback

from lenders and exporters. See Appendix A for more information on the Report's grading system and letter grade definitions used in the calculation of the Ex-Im Bank Grade.

Data Qualification

The data in this Report provide a reasonable indication of both the comparable and total size of G-7 MLT standard activity that is regulated by the OECD Arrangement and the overall size of G-7 unregulated activity. As was done in the 2010 Report, this year's analysis makes a special effort to:

- differentiate within the OECD/G-7 population between standard, officially supported export credits that are regulated by the OECD Arrangement and "unregulated" export-related credits or those that are not subject to the OECD Arrangement rules; and
- quantify the volume of "exceptional" export financing by non-OECD ECAs, which refers to commercially-based, "tied" export financing that is functionally quite similar to activity covered by the OECD Arrangement but on terms regularly a little better.

The data for the United Kingdom, China, and Brazil have been revised compared to past Competitiveness Reports. The U.K. adjustment minimally increased the volumes of standard activity by G-7 ECAs, and the aggregate G-7 totals presented in Figure 2 are slightly higher than in previous reports. New data for Chinese activity have been developed to reflect 1) updated snippets of information on China Exim, Sinosure, and China Development Bank; and 2) user comments that the ultimate disbursement value of large Chinese credit lines is much less than their face value (see Chapter 8 for a more thorough explanation of Chinese data calculations). The Brazil estimates have been reduced to reflect a change from outstanding exposure to annual activity.

As much of the non-OECD "activity" is translated from figures for programs which have no counterpart in OECD structures, there is a considerable possibility for error in the translation. The lack of transparent and comparable data for some of these ECAs has been an ongoing challenge in the preparation of some figures. Hence, the data for the non-OECD countries are mostly an extrapolation from some dated reports and represent, at best, an approximation of activity based on the information available at this time.

Survey Methodology

The Bank is required by its Charter to conduct an annual survey of exporters and lenders to determine their experience with competition supported by official export credit agencies during the previous calendar year. In 2003, Ex-Im Bank revised its survey to correspond with the letter grading methodology referenced in the Overall Report Methodology section above. After each section, respondents have space to provide qualitative comments on each of their responses. See Appendix A for full grade definitions.

The Bank continued its practice of distributing the survey to respondents over the internet. This year, the survey was administered with a newly-designed, more user-friendly survey platform. By using internet distribution, Ex-Im Bank has been able to reach a greater number of Bank customers as respondents to the survey with the explicit goal of gathering a broader and more representative population of Bank customers.

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

Focus Group Methodology

In addition to the annual survey of the export community, the report also incorporates the results from focus group discussions—two with commercial lenders and another with exporters. The focus groups are a venue for Ex-Im staff to elicit more comprehensive information on market trends and hear anecdotal experience from members of the export community. This information is used to supplement the survey responses. While individual focus group comments are occasionally cited in this report, these individual comments were chosen because they best represent the general view of the group.

Benchmarking Study Methodology

For year one of the two-year benchmarking study, the Bank broadened the scope of its research through interviews with ECAs, foreign lenders, and international companies familiar with ECA financing (referred to as "buyers" throughout the Report). The goal of the interviews was to better understand the scope and impact of official financing not governed by the OECD Arrangement. Ex-Im staff conducted a total of 49 interviews, including 17 buyers, 12 ECAs, two distributors, two U.S. companies with global procurement, four U.S. Commercial Service offices, and 12 foreign lenders. These interviews were conducted in Mexico, Brazil, India, Switzerland (corporate headquarters based in Switzerland for sales into Former Soviet Union/CIS), Korea, and Japan. Ex-Im staff also attended conferences to further study export finance trends. (See Chapter 8 Annex II for more information on interview methodology.)

During year two of the study, Ex-Im will launch a new lender and exporter survey. This survey will also include short-term participants. Ex-Im intends to conduct follow-up interviews with buyers, international lenders, and ECAs to supplement the first year's findings.

Report Structure

This year's report follows the same structure used in last year's report. The Ex-Im Bank Advisory Committee Statement follows directly after the transmittal letters to members of Congress. The Executive Summary, which precedes Part I, provides an overview of the major findings of the Report. Following the Executive Summary and this

introductory Chapter 1, Chapter 2 focuses on the international framework within which official ECAs operated in 2011 and the philosophies and missions of competing G-7 ECAs. Chapter 3 evaluates Ex-Im Bank's competitiveness on the core financing elements of official export credit support. Chapter 4 provides a comparative assessment of how well the financing elements are packaged into major programs (aircraft, project finance, co-financing, foreign currency guarantees, and services exports support). In Chapter 5, the evaluation of competitiveness addresses U.S. economic philosophy and competitiveness as evidenced by its approaches to (a) tied and untied aid and (b) Market Windows. Chapter 6 evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity. Chapter 7 summarizes Ex-Im Bank's overall competitiveness, taking into account core financing elements, major programs, and U.S. economic philosophy and public policies. Chapter 8 discusses the benchmarking study's first year findings regarding unregulated and exceptional financing by ECAs in OECD and non-OECD countries and the effect of this financing on Ex-Im's competitive ranking.

The appendices following the body of the Report include a 2011 Ex-Im Bank transaction list showing the purpose of the Bank's support, Ex-Im Bank efforts to support renewable energy, and other materials intended to provide greater detail and insight into Ex-Im Bank efforts to meet its Congressional mandates while maintaining a focus on exporter competitiveness.

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

Introduction

The most significant events that have shaped ECA activity in 2011 were 1) the Eurozone sovereign debt crisis and 2) commercial bank efforts to prepare for compliance with the Basel III regulations. These influences affected every aspect of international commercial bank lending, including the level of commercial bank net lending, capital flows into developing countries, and even the role of commercial banks in ECA export finance.

Against those two significant influences, 2011 witnessed a surge in Ex-Im Bank activity. Moreover, this surge was embodied in a sustained and more pronounced surge in Ex-Im Bank direct lending, most notably in the area of project finance.

According to a March 2012 *International Banking and Financial Market Developments* quarterly report published by the Bank for International Settlements (BIS), "EU banks have reduced their funding contributions to new syndicated and large bilateral leveraged and project finance loans between the third and fourth quarters of 2011." Funds for project financings, they assert, declined more than proportionately among weaker EU banks. The BIS also notes the sharper decline in EU bank lending into emerging markets. The statistics are even more stark with regards to the $319 billion in lending for project finance globally, as EU lenders reportedly reduced their lending anywhere from 21 to 39 percent over the last two quarters of 2011.

The tighter EU lending terms referenced by the BIS are in line with sharp capacity restrictions reported by commercial banks. That is, there are a dwindling number of commercial banks that have capacity to take ECA debt on their balance sheets. Of those banks willing to book and hold ECA-covered debt, the terms provided have become more restrictive. For example, one bank reported that prior to the financial crisis the bank would have underwritten an entire loan for a 12-15 year debt priced at Libor plus 150 basis points; however, today that same bank would seek other banks to do a "club deal" for a 7-10 year maturity and charge Libor plus 350 basis points.

Moreover, the European sovereign debt crisis itself has had a direct and significant impact on the ECA arena. As a consequence of Standard and Poor's sovereign rating downgrades, the spreads on the associated ECAs have risen (and in some countries quite dramatically). Those ECAs are facing particularly daunting challenges in maintaining a level playing field.

Finally, adding to the complexity of the ECA landscape is the fact that ECA funding has become generally more critical to supporting medium- and long-term exports since 2008. With projects in both developing and developed markets getting even larger, particularly for infrastructure, mining, and refining projects, the sheer size and longer tenors are out of reach for most of even the strongest commercial banks. Hence, more project finance transactions and other projects requiring long tenors are being developed and supported by the top tier ECAs while medium-term transactions are finding ECA financing more critical, if less accessible.

Export Trends

Figure 1 depicts the global export of goods over the last five years. Preliminary estimates for 2011 show significant growth of export activity across the globe in 2011. Although OECD countries continued to support the majority of world trade in goods and capital goods, maintaining an annual export activity growth of about 8% since 2007, the BRICs show a significant annual growth rate of roughly 20% over the same period. As a consequence of the divergence in growth rates, the global share of OECD capital goods exports has declined in inverse proportion to gains made by BRICs.

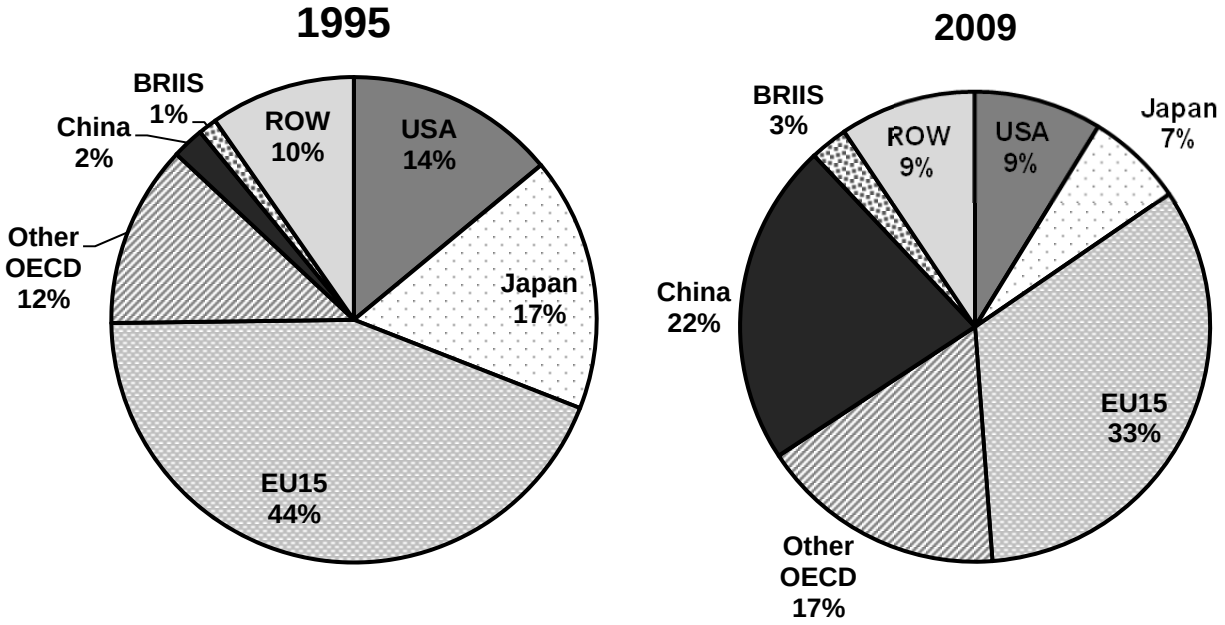
Figure 1: World Exports of Goods and Capital Goods, 2006-2011 (Billions USD)

	2006	2007	2008	2009	2010	2011*
Exports of Goods						
World Exports	$11,531	$13,177	$15,076	$11,695	$13,910	$16,233
OECD	$7,432	$8,402	$9,296	$7,300	$8,552	$9,929
BRICs	$1,550	$1,892	$2,275	$1,831	$2,406	$2,981
Rest of World	$2,550	$2,883	$3,505	$2,565	$2,952	$3,323
Exports of Capital Goods (excluding automobiles)						
World	$3,882	$4,310	$4,697	$3,851	$4,570	N/A
OECD	$2,707	$2,948	$3,165	$2,533	$2,878	N/A
BRICs	$609	$751	$874	$776	$996	N/A
Rest of World	$565	$611	$658	$542	$696	N/A
OECD Exports/ World Exports (%)						
Goods	64%	64%	62%	62%	61%	61%
Capital Goods	23%	22%	21%	22%	21%	NA
BRICs Exports/ World Exports (%)						
Goods	13%	14%	15%	16%	17%	18%
Capital Goods	5%	6%	6%	7%	7%	NA

Sources: WTO Time Series Statistics; OECD International Trade (MEI) dataset
** Estimate based on extrapolating full year data.*
*** Divisor is equal to World Exports of Goods*
**** Divisor is equal to World Exports of Capital Goods*

By way of example, **Figure 2** illustrates the enormous gains made by China with respect to capital goods exports over a longer timeframe, from 1995 to 2009. That is, Figure 2 evidences that over this period China's proportional share of capital goods exports to the world increased from 2% to 22%. Moreover, in 2009, the value of Chinese capital goods exports was about twice that of U.S. capital goods exports.

Figure 2: Capital Goods Exports to the World by Origin, 1995 and 2009[1]



Source: OECD Science, Technology and Industry Scoreboard 2011 (OECD, STAN Bilateral Trade Database by Industry and End use); pages 30-31.

[1]For Figure 2:
EU15 includes EU members as of 1st January 1995: Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.
Other OECD includes Australia, Canada, Chile, the Czech Republic, Estonia, Hungary, Iceland, Israel, Korea, Mexico, New Zealand, Norway, Poland, the Slovak Republic, Slovenia, Switzerland and Turkey.
BRIIS consists of Brazil, India, Indonesia, South Africa and the Russian Federation (i.e. BRIICS without China).
ROW = Rest of the World

Figure 3 illustrates that overall capital flows into emerging markets are expected to decrease significantly in 2012. Forecasts for 2012 external cash flows into emerging markets envision a dramatic decline in commercial bank lending (down 75%) with overall capital flows declining by almost 18%, as both commercial banks and international capital markets are expected to see major declines in activity during 2012.

Figure 3: Net External Capital Flows into Emerging Markets, 2007-2012 (Billions USD)

	2007	2008	2009	2010	2011	2012*
Official Flows						
IFIs**	2.7	26.5	46	29	20.1	16.9
Bilateral Creditors	8.7	30.7	21	26	27.4	25.9
Private Flows						
Equity Investment	296	413.4	475	550	472	496.9
Commercial Banks	410	123.7	-15	164	137.3	38.2
Non-Banks	222	130	142	194	300.7	211
Total	$939.4	$724.3	$669.0	$963.0	$957.4	$788.7

Source: Institute of International Finance, "Capital Flows to Emerging Market Economies," January 24, 2012
** IIF projections*
*** International Financial Institutions*

Export Finance Trends

Figure 4 indicates a significant dichotomy among G-7 ECAs in terms of standard official export credit volumes. Most prominently, there was a surge in U.S. and Italian volume (65% and 50%, respectively), as well as a noticeable rise in Japanese activity (22%) from 2010 to 2011. These increases in American and Japanese activity may be due in part to the existence of long-term lending programs at U.S. Ex-Im Bank and JBIC. This stands in contrast to the generally modest downward activity levels in other G-7 countries. Germany and France, the two largest G-7 ECAs in 2010, declined almost 10% and 30%, respectively, in 2011. Canada and the United Kingdom, the two smallest G-7 providers of standard export credit, followed suit with decreasing 2011 volumes of about 30% and 7%, respectively.

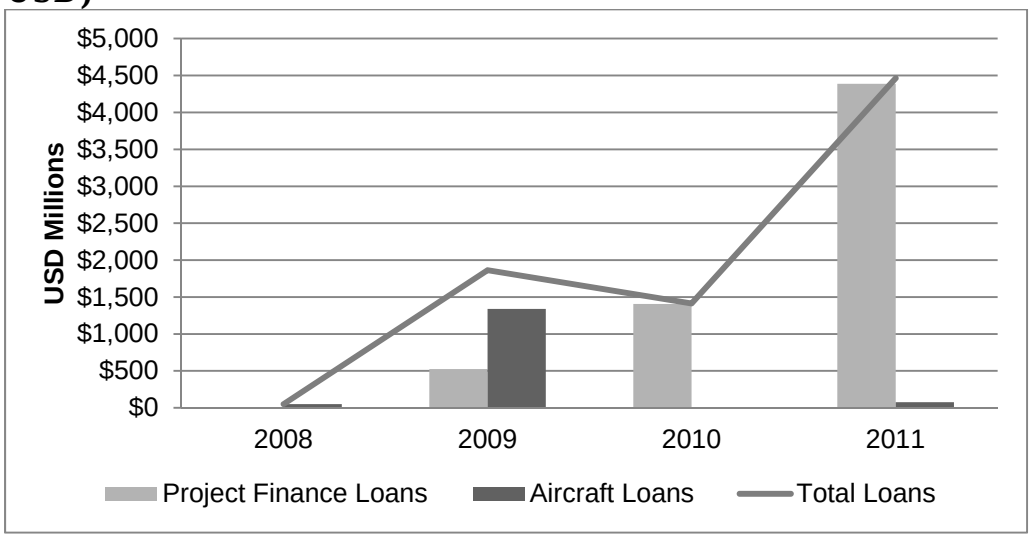
Figure 4: New Medium- and Long-term Official Export Credit Volumes, CY2006 – 2011 (Billions USD)

	2007	2008	2009	2010	2011
Canada*	0.5	1.5	2.0	2.6	1.7
France**	10.1	8.6	17.8	17.4	12.2
Germany	8.9	10.8	12.9	22.5	20.3
Italy***	3.5	7.6	8.2	5.8	8.6
Japan****	1.8	1.5	2.7	4.9	6.0
U.K.**	1.6	2.7	3.4	4.1	3.8
Total G6 (without U.S.)	26.4	32.7	47.0	57.2	52.6
U.S.	8.2	11.0	17.0	13.0	21.4
Total G-7	$34.6	$43.7	$64.0	$70.2	$74.0
U.S. % of G-7	24%	25%	27%	19%	29%
BICs^					
Brazil^^	0.6	0.2	6.1	3.5	4.8
China^^^	33.0	52.0	51.1	43.0	48.5
India^^^^	8.5	8.7	7.3	9.5	11.4
Total B,C,I	$42.1	$60.9	$64.5	$56.0	$64.7
B,C,I % of G-7	122%	139%	101%	80%	87%

*These figures have been adjusted to exclude Market Window and domestic financing.
**These figures have been adjusted to exclude defense.
***These figures have been adjusted from previous reports to exclude untied or domestic activity. The 2007 figure is a U.S. Ex-Im Bank estimate (comparable data not available).
****These figures include JBIC export loans and NEXI's medium- and long-term official export cover.
^ Russian MLT activity has been quite limited and is included in Vnesheconombank (VEB) activity. Activity for EXIAR, the recently founded Russian ECA, was not included but was also limited.
^^Brazilian data represents SBCE activity combined with an estimate of MLT BNDES export finance activity *without* SBCE cover.
^^^Refer to Chapter 8 for a detailed explanation of Chinese ECA activity.
^^^^Includes ECGC and India Ex-Im Bank activity.

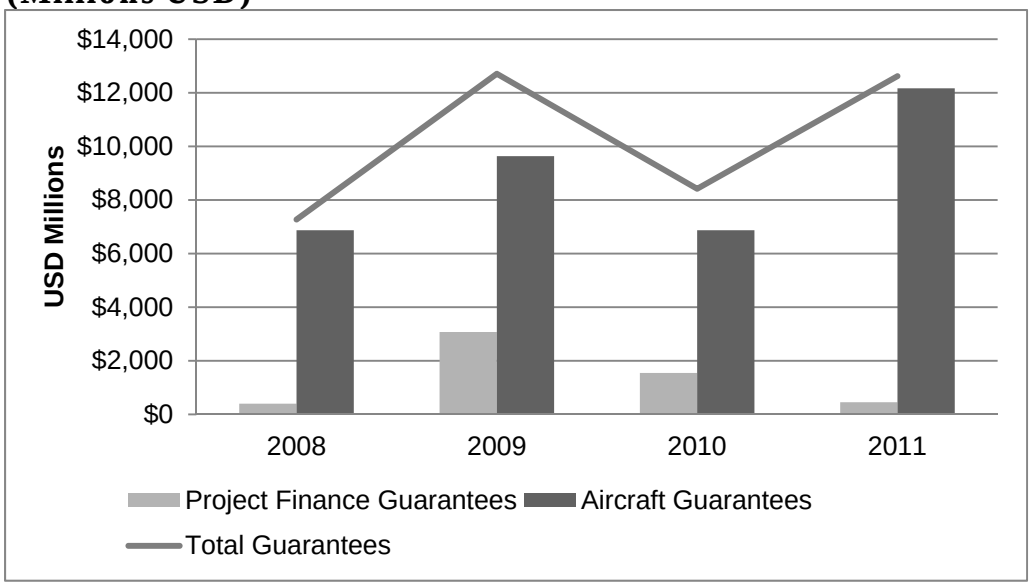
Figure 5A illustrates the dramatic surge in direct lending at U.S. Ex-Im Bank, in particular in the area of project finance where long-term fixed rate financing was most needed. Taken together, **Figures 5A** and **5B** also indicate a new dichotomy: loans are now the primary source of Ex-Im funding for project finance while guarantees constitute the vast majority of aircraft financing.

Figure 5A: Aircraft and Project Finance MLT Loans, 2008 – 2011 (Millions USD)



Source: Ex-Im Bank data

Figure 5B: Aircraft and Project Finance MLT Guarantees, 2008 – 2011 (Millions USD)



Source: Ex-Im Bank data

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

The Role of Export Credit Agencies

Traditionally, the purpose of an ECA has been to directly support the financing of domestic exports. However, for a variety of reasons, an increasing number of ECAs have broadened the scope of their activity to include untied export credit support. In addition, many export credit agencies have ramped up their investment insurance programs. Although untied financing and insurance programs are not required to be tied to domestic procurement and exports, Market Window financing (at least from EDC of Canada) is tied to domestic procurement and exports. Moreover, such programs may often be priced on commercial terms even if the parameters of the financing may be more attractive than standard OECD Arrangement terms (e.g., no 15% cash payment requirement or tenor restrictions).

In light of the foregoing, it is clear that the rise of the untied and overseas investment programs needs to be examined under a second framework – rather than an international OECD Arrangement framework - which is more ECA-specific: the ECA's mission as defined by its sponsoring government. This framework determines the extent to which an ECA is able to adapt its policies and operations to a changing landscape and what methods it is allowed to employ to continue to work toward its central goal. These factors define the parameters within which ECAs will compete with each other to facilitate domestic exports and/or promote their respective governments' national interests. For details on the untied financing programs and overseas investment programs see Chapter 8.

Ex-Im Bank's Mission and Place in Government

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

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

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

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

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

All these directives aim to achieve common public policy goals and to reflect the interests of Ex-Im Bank's diverse stakeholders, such as NGOs (non-governmental organizations), other U.S. government agencies, Labor, financial intermediaries, and exporters. Thus, Ex-Im Bank must constantly find and maintain a balance among its multiple, sometimes competing, goals and objectives. At the same time, Ex-Im Bank is expected to provide the U.S. exporting community with financing that is competitive with officially supported offers made by foreign governments.

By contrast, the G-7 ECAs and emerging ECAs have widely varying missions and operating strategies that do not typically include many of the public policy considerations Ex-Im Bank is legally bound to address. However, foreign ECAs are used to address other policy concerns, such as foreign currency appreciation and access to natural resources. Accordingly, comparing Ex-Im Bank's competitiveness vis-à-vis its ECA counterparts requires a more comprehensive review that goes beyond the series of comparisons set forth in Chapters 3, 4, 5 and 6 of the cost aspects of financing parameters governed by the OECD Arrangement. To that end, Chapter 8 has sought to provide a framework with which to understand and assess what impact, if any, the differing programs and foreign ECA strategies, goals and missions have on U.S. exporter competitiveness.

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

Introduction

Cover policy in the context of export credit agency financing refers to an ECA's willingness to assume the repayment risk for export sales to a specific country under applicable terms and conditions. Ex-Im Bank's cover policy decisions take into consideration the results of an interagency country risk assessment. Ex-Im Bank's own experience with a buyer may also determine cover policy, particularly if there is an unresolved, protracted default. In addition, the President of the United States in consultation with the appropriate Congressional committees may impose sanctions prohibiting Ex-Im Bank from providing support. Ex-Im Bank's Board of Directors has no discretion on cover policy when sanctions are imposed.[1]

Ex-Im Bank's Policies and Procedures

Ex-Im Bank 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. Ex-Im Bank is off-cover in 11 countries for economic or business reasons but will consider arrangements that externalise the payment transfer risk. There are six countries, however, in which Ex-Im Bank is legally prohibited from providing support because of official sanctions.[2]

The current methodology and procedure for assessing each country's economic, financial, and political situations that could impact repayment prospects were put in place following the Credit Reform Act of 1990. That legislation led to the creation of an OMB-led Interagency Country Risk Assessment System (ICRAS) to provide a systematic approach for evaluating country risk for medium- and long-term repayment terms. Ex-Im Bank is the Secretariat for ICRAS and undertakes the country risk analysis for the organization. Since repayment risk can vary within a country depending on the nature of the buyer, the ICRAS framework provides a separate assessment for the sovereign and non-sovereign (including private) sectors.

Ex-Im Bank does not have any internal exposure limits for countries or sectors. In some cases, Ex-Im Bank may condition coverage based on credit concerns or known operating procedures in a particular market. For example, Ex-Im Bank typically requires a foreign financial institution to act as an obligor or guarantor if private sector buyers are largely unable to provide acceptable financial statements or related documentation.

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[1] The President of the United States, after consultation with the Committee on Financial Services of the House of Representative and the Committee on Banking, Housing and Urban Affairs of the Senate, may determine that official export credit support to a particular market would be against the foreign policy interest of the United States.

[2] In 2011, sanctions prohibited Ex-Im Bank from considering support in Burma, Cuba, Iran, North Korea, Sudan, and Syria. Though U.S. sanctions are unilateral actions that do not apply to other ECAs, there has been an ongoing effort since 2010 to urge multilateral support for sanctions against Iran, in line with U.S. and UN policies.

Non-sovereign risk taking is defined as the willingness to accept risk and the extent to which additional forms of security or means to minimize the risks are required. In 2011, Ex-Im Bank adopted a more standardized approach in its medium-term insurance and guarantee programs. The new approach was established to create an offset to repayment trends in recent years and to fundamentally improve the balance of future flows. In the Bank's long-term programs, many corporate/non-sovereign transactions are already asset-protected, meaning that the assets of the project or the borrower are pledged as collateral to the Bank in the event of default.

Ex-Im Bank's Risk Profile for Medium- and Long-Term Authorizations

In 2011, Ex-Im Bank's authorizations spanned all geographic areas, included countries at all levels of development, and were distributed across a wide range of country risk categories. Of the approximately $22 billion authorized in medium- and long-term export sales, 69% was private sector risk. Sovereign and public non-sovereign risk accounted for 9% and 22%, respectively.

From a risk distribution perspective, on a weighted average basis, Ex-Im's medium- and long-term approvals were heavily dominated by mid-range risk: on a scale of 1-8 with 8 representing the riskiest buyers, mid-range is a 4, which typically is considered a relatively good risk. Countries with a rating of 4 generally have a cover policy of "open" without any or very few restrictions. When all aircraft cases are excluded, the average MLT risk was a 4 in 2011.

When project finance cases are also excluded from Ex-Im Bank activity, not only does the portfolio of authorizations radically shrink, the composition of the remaining portfolio also changes. (Project Finance cases are removed for similar reasons as aircraft: they are heavily structured and secured with off-shore escrow accounts or other security structures to mitigate default and transfer risk.) Specifically, the size of the portfolio goes from almost $22 billion to $2.5 billion and the risk profile on a weighted average basis is within the 1 to 3 risk range for most cases. Thus, the overall risk profile of Ex-Im's authorizations during 2011 was mid-range to good risk.

G-7 ECAs Policies and Practices

Ex-Im Bank routinely exchanges information with other ECAs in G-7 countries regarding their cover policies. A review of cover policies for 25 emerging and lower income markets in Africa, Asia, Eastern Europe, and Latin America shows both similarities and differences. For relatively low risk markets, including five of the nine markets that Ex-Im Bank has identified as target markets, all of the reporting ECAs are open without restriction. There are, however, differences in cover policy and risk management strategies in greater risk markets. Other ECAs sometimes restrict coverage to foreign exchange earning transactions only, set a per transaction limit, or adopt a case-by-case approach. The case-by-case approach allows an ECA to pick and choose among applicants but does not provide transparency regarding the decision criteria.

A comparison between Ex-Im Bank and its G-7 counterparts across the greater risk markets indicates that Ex-Im is generally more risk averse with its cover policy. For example, Ex-Im is off-cover for public sector transactions in several markets, whereas a

majority of other ECAs are open for cover on a case-by-case basis with transaction limits, typically requiring a sovereign guarantee or foreign currency earning projects. Rarely is Ex-Im Bank more aggressive in the higher risk markets than other ECAs and, at best, offers similar cover policies. In the mid-range and good risk markets, the ECAs are all fairly comparable.

Exporter and Lender Survey and Focus Group Discussions

In its customer survey, Ex-Im Bank was rated relative to other ECAs on three elements: Scope of Country Risk Coverage; Depth of Non-Sovereign Risk Coverage, and Breadth of Availability of Coverage (e.g. restrictions). Respondents were not limited to comparing Ex-Im Bank with ECAs from G-7 countries only. Other OECD countries and some emerging markets, such as Brazil, China, and India, also provide official export credits, and their exporters sometimes compete with U.S. exporters.

The overall rating of the respondents was an "A-/B+" for Ex-Im's risk appetite. Lenders were relatively more satisfied with Ex-Im's risk appetite with the average grade of an "A". Exporters were more critical, especially of Ex-Im's medium-term program requirements, and awarded a grade of "A-/B+".

One of the three sub-components of the Cover Policy grade, Breadth of Availability, declined from a "A-/B+" rating in 2010 to "B-/C+" in 2011. This reflects negative feedback received from both lenders and exporters on Breadth of Availability. One exporter, who gave Ex-Im Bank a "C" (Barely Competitive) in all three Cover areas, expressed the view that "Export credit agencies representing Canada, China, Japan, and many European countries continue to find ways to work in difficult markets within Africa, Latin America (including Argentina and Ecuador) and the NIS region where the U.S. has conceded its leadership role." Another exporter noted that "Ex-Im is seen as a white-shoe lender, for only the most stellar credits." Several lenders also observed that the changes in the medium-term program (e.g., tightening of collateral requirements) appears to have choked off the use of these products in times when the support is greatly needed.

The Exporter and Lender Focus Group discussions yielded a more critical evaluation of Ex-Im Bank, especially in the medium-term programs. In particular, both groups almost unanimously agreed that the shift in Ex-Im's attitude regarding risk has had a significant impact on their competitiveness in the medium term. What were once case-by-case requirements for additional forms of security—such as collateral and liens–have now become standard conditions of cover that no other ECA imposes on every deal. With respect to medium-term business, lenders and exporters characterized Ex-Im as profit-driven when compared to other ECAs, like Euler Hermes, that break-even and work to promote exports.

In addition, the focus groups explained that medium-term cases have a transaction size that tends to be relatively small ($1 million on average) and that the buyers are generally small- and medium-sized companies. Therefore, the additional security requirements are expensive, difficult, and time-consuming to obtain, resulting in a number of lost deals. In fact, in discussions during the buyer survey for the Benchmarking Study, there was a consistent message across the countries visited that Ex-Im's medium-term

programs are no longer a viable option, and procurement decisions are going to foreign competitors backed by more flexible ECAs that are more willing to do transactions with repeat buyers based on a positive credit history without burdensome requirements.

Conclusion

There are various considerations, such as country risk, actual repayment experience, and broader governmental initiatives, which official ECAs typically weigh in setting their cover policies. These considerations could impact an ECA's risk assessment, attitude, and cover policy. In addition, ECAs differ in the parameters used to manage the risk, particularly for high risk markets.

Unlike some other ECAs, Ex-Im Bank does not have country exposure limits or explicit buyer limits. However, in riskier markets, Ex-Im Bank's cover policy and risk management approach are perceived to be generally more restrictive than our ECA counterparts unless there is a way to externalize repayment risk. Moreover, in the medium-term area, Ex-Im Bank has become less competitive than other ECAs with a number of exporters indicating that sales have been lost because of the limited risk appetite. Consequently, risk taking and cover policy are graded at "A-/B+".

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

Introduction

Among the first accomplishments of the 1978 Arrangement on Guidelines for Officially Supported Export Credits was the establishment of minimum official interest rates. Until an agreement on minimum interest rate benchmarks was achieved, differences in interest rates among OECD ECAs and their respective currencies were exploited as a competitive tool, an incentive that could influence a buyer's purchase decision in favor of the lower cost financing package. The constant attention over the years to refining the minimum official interest rates that OECD Participants charge on direct loans (or their equivalent) has rendered interest rates a non-competitive issue for the past three decades.

However, the global financial crisis of 2008 has steadily pushed interest rates into the forefront as a key competitive factor among ECAs, reaching a dominant role in 2011 as the Eurozone crisis and concerns relating to Basel III exacerbated both credit differences among OECD countries and commercial bank liquidity issues. As a result, in 2011, *cost of financing* has emerged as the single most relevant and differentiated component in determining an ECA's competitiveness (and influence on ECA activity). Hence, demand for long-term, fixed-rate ECA financing increased significantly.

The competitive issues are directly related to the three ways in which interest rates factor into ECA support:

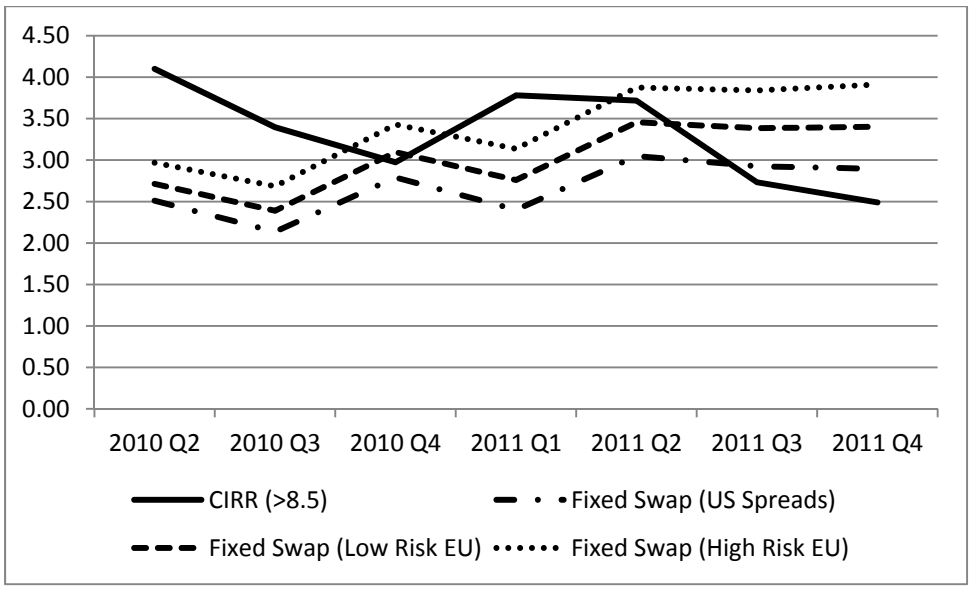
1) The ECA can lend directly to a borrower and charge the official minimum interest rate for the currency of the loan[1];
2) An ECA can offer interest make-up (IMU) support to a financial institution that agrees to provide a loan to a borrower at the official minimum interest rate. (Through IMU support a lender guarantees that its cost of funds plus a mark-up will be covered no matter what the CIRR rate is); and
3) The market rate for "pure cover" support from an ECA. ECAs that offer "pure cover" provide only a repayment guarantee or insurance on lenders financings to a foreign borrower.

In 2011, the transition to Basel III reserving practices required most banks to boost lending spreads considerably (e.g. from 50-100 bps on ECA paper to 100-200 bps) and increasingly made it financially infeasible for many banks to hold assets with a term of ten years or more. Thus, commercial bank financing (in aggregate) has become much more expensive, and its capacity for longer term projects (over 10 years) is quite limited.

[1] These minimum interest rates, known as Commercial Interest Reference Rates (CIRRs), are market-related fixed rates calculated using a government's borrowing cost plus a 100 to 130 basis point spread (spread is dependent on the tenor of the transaction). A CIRR is set for each currency based on the borrowing cost of the government that uses that currency; all ECA support for financing in this currency then utilizes the same CIRR.

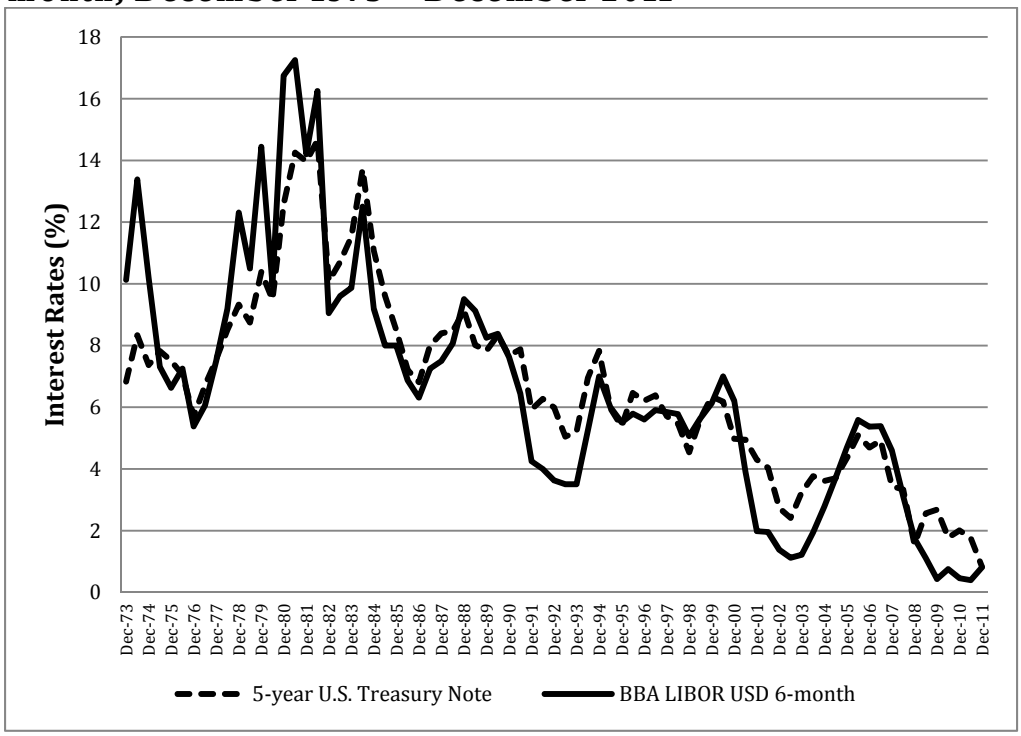
Consequently, ECA direct loans became the tool of choice on the longest term non-aircraft deals, e.g. project finance and renewable energy projects (see **Figure 6**).

Figure 6: CIRR versus Fixed Swap Rates, Non-Aircraft Transactions, 2010-2011



Another macroeconomic factor is the widespread perception that the world is at the bottom of a 20-year interest rate cycle, with a high likelihood that rates will trend up for the next decade or so (see **Figure 7**).

Figure 7: Biannual 5-year U.S. Treasury Notes and BBA LIBOR USD 6-month, December 1973 – December 2011



The competitive implication of this shift in financing is that ECAs without direct loan capabilities are at a considerable disadvantage. Moreover, those ECAs offering direct loans at the CIRR levels (e.g. Ex-Im Bank) were in a stronger competitive position than those ECAs providing CIRR through IMU (because the commercial banks had to put surcharges on the CIRR to cover their new reserve requirements).

In addition to the impact of Basel III, the Eurozone Crisis has led to a wide differentiation of sovereign risk ratings among high-income OECD countries, primarily countries in the European Union. Countries whose sovereign risk ratings were downgraded in 2011 have been put at a distinct competitive disadvantage.

Ex-Im Bank's Policy and Practice

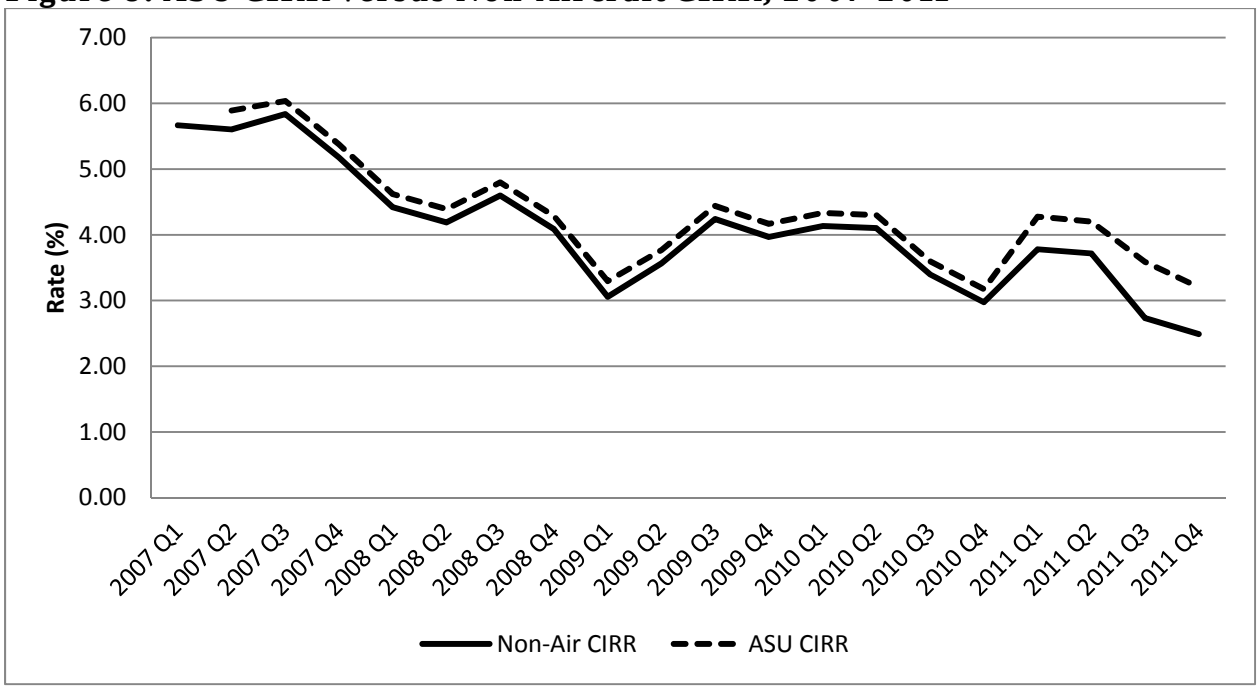
Ex-Im Bank's fixed-rate direct loan program has been in effect since 1934. Except for the provision of fixed interest rates instead of floating interest rates, Ex-Im's direct loan program offers the exact same coverage and repayment terms as under the Bank's pure cover guarantee program. This fixed interest rate is set at the current OECD minimum official interest rate (CIRR) for the U.S. dollar. Given the macroeconomic factors described in the previous section, over the past two years Ex-Im has experienced a shift from pure cover transactions to direct loans.

In 2011, Ex-Im direct loan activity had an all-time high of 15 transactions at approximately $5.7 billion. However, none of this activity was for large commercial jet aircraft. Large aircraft cases accounted for 86% of the $15.1 billion of long-term guarantees.

However, even with the increase in direct loan activity, Ex-Im's pure cover program remains the predominant form of medium- and long-term support in 2011. Ex-Im authorized 161 transactions for approximately $15.4 billion (as compared to 303 transactions worth $10.6 billion in 2010), comprised of 79 long-term guarantees worth $15.1 billion and 82 medium-term guarantees worth $320 million.

The net result is an almost totally bifurcated long-term program, with most long-term non-aircraft transactions using CIRR and all aircraft using guarantees. The reason for the difference is that the implementation of the 2011 ASU sets CIRR roughly 100 bps higher than the non-aircraft CIRR, leaving direct loans comparable only for the highest spread ECAs (not Ex-Im) (see **Figure 8**).

Figure 8: ASU CIRR versus Non-Aircraft CIRR, 2007-2011



The story is very different for medium term. All medium-term transactions were done with guarantees and insurance, and spreads for 3-5 year terms were much higher (35-60 bps for long-term versus 200 bps for medium-term). These differences reflect the higher overhead costs relative to larger, long-term transactions.

During 2011, Ex-Im did see a rise in spreads for long-term deals in both the aircraft and non-aircraft sectors. As detailed in **Figure 9** below, average spreads for long-term non-aircraft deals rose by about 30 bps and nearly 50 bps for long-term aircraft deals. This rise largely reflects the move to Basel III liquidity requirements.

Figure 9: Weighted Average of Ex-Im Bank Spreads, First and Fourth Quarter of CY2011 (bps)

	Long-Term Aircraft	Long-Term Non-Aircraft	Medium-Term
First Quarter	32	47	222
Fourth Quarter	77	78	191

Nonetheless, Ex-Im has been able to maintain lower spreads than its G-7 (and OECD) counterparts as it has a 100% unconditional guarantee due to the ultimate safe haven of the U.S. dollar.

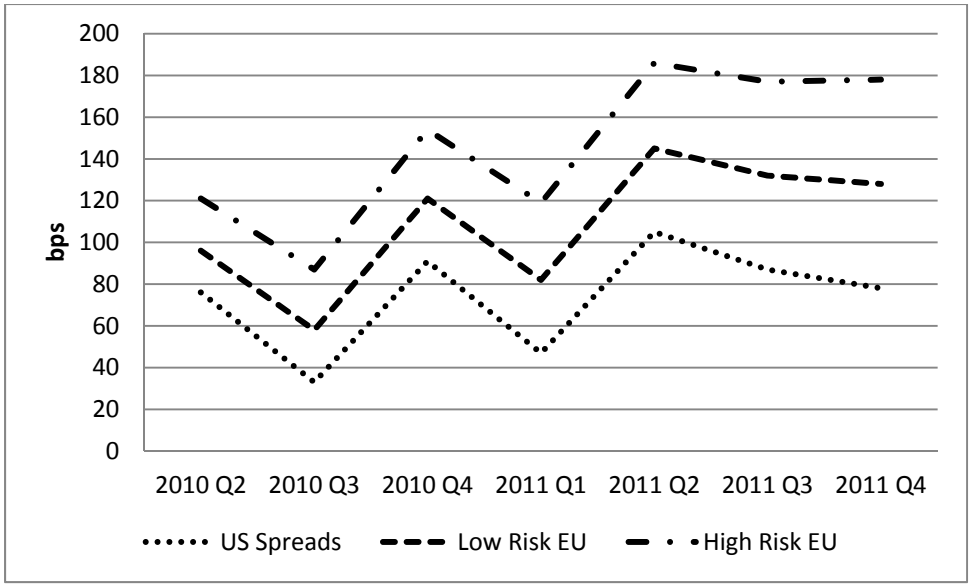
G-7 ECAs' Policies and Practices

Fixed-rate financing at CIRR levels is offered for medium- and long-term transactions by all but one of the G-7 ECAs (the United Kingdom). Four ECAs have direct lending capabilities, with Japan and Canada offering the majority of their support via direct

loans. While U.S. Ex-Im direct lending support has dramatically increased over the past two years, Germany has had a limited capacity in which to offer direct loans. France and Italy offer CIRR lending through IMU support. In 2011, the United Kingdom discontinued its IMU program. Even with fixed-rate financing capabilities, Germany, France, Italy, the United Kingdom, and the U.S. provide the majority of their support through pure cover programs.

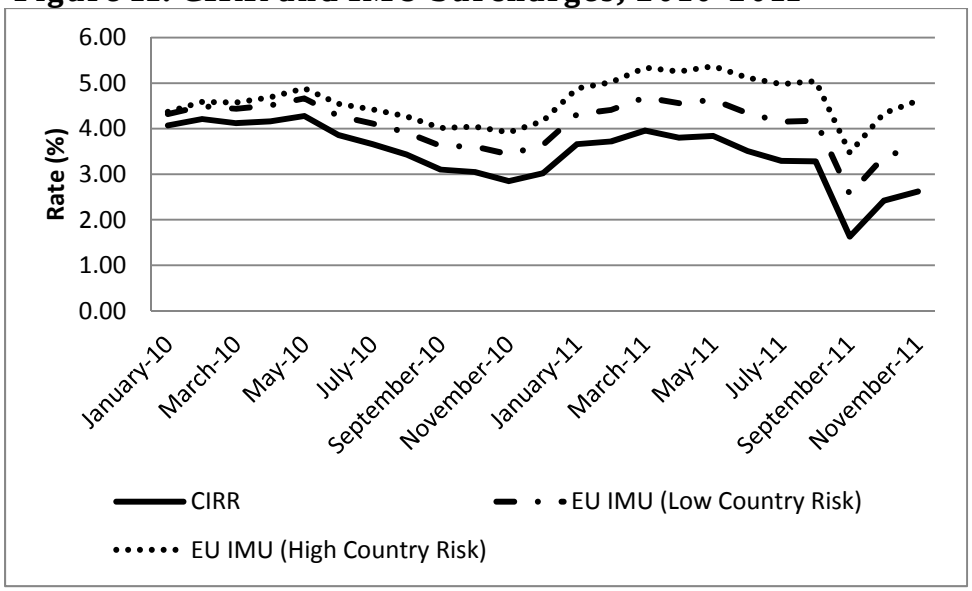
Among Ex-Im's G-7 counterparts, the European countries have been most acutely impacted by changes to the global export finance market. Spreads on pure cover transactions have increased at a faster pace than have spreads on Ex-Im paper, with some European ECAs' spreads rising even more (the rate of difference seems to be highly correlated with the degree to which a country is experiencing sovereign risk issues) (see **Figure 10**).

Figure 10: Spreads on Pure Cover in United States and European Union, 2010-2011



Furthermore, within the European Union, IMU programs have been directly impacted by the distress in the financial markets. The major increase in spreads needed by all commercial banks has led banks to add surcharges on to all IMU CIRR lending of at least 50-100 bps and as much as 150-200 bps. To maintain competitiveness for their exports, some ECAs have agreed to lower spreads that they would otherwise have collected to allow banks to continue to keep interest rates down. Nevertheless, all IMU CIRRs continue to carry surcharges, with some countries' surcharges higher than others (**Figure 11**).

Figure 11: CIRR and IMU Surcharges, 2010-2011



Exporter and Lender Survey and Focus Group Results

Exporters and lenders alike commended Ex-Im's continued effort to provide affordable financing throughout 2011, especially in the context of a tighter liquidity market in a year that saw both European markets crash and Basel III regulations begin to gain traction in the commercial banking industry.

However, lenders were concerned about the impact of Ex-Im Bank direct loans on their ability to provide or participate in project finance deals. For long-term transactions, commercial banks were split in some respects. While banks did note that certain banks were not well-capitalized and had trouble regularly funding 10-18 year deals, other banks indicated their willingness to fund such deals, having already been called in to do so in certain instances when MARAD or other factors made it impossible for Ex-Im Bank to close a direct loan. For those banks able to fund long-term transactions, Ex-Im Bank direct lending resulted in a double-edge sword. That is, in some cases an Ex-Im Bank direct loan made the all-in cost of a project palatable to a cash-strapped buyer, while other times the Ex-Im Bank direct loan negatively impacted private banks' commercial lending prospects because commercial banks' inability to compete with the CIRR rate associated with Ex-Im Bank direct loans. Hence, commercial banks are somewhat conflicted between their fiduciary responsibility to exporters and their institutional interest in covering their funding costs (which are higher for some banks than for others) profitably.

Conclusion

The year 2011 moved Ex-Im's interest rate programs into an absolutely competitive position vis-à-vis the G-7 (and OECD). As spreads increased and commercial bank financing contracted on pure cover transactions, those ECAs with limited official financing tools searched for direct loan mechanisms and liquidity sources to an even greater degree than they did in 2010. Furthermore, ECAs that financed aircraft tried to

find ways to access the capital markets and keep spreads on pure cover down. While the G-7 ECAs looked to develop such tools in 2011, Ex-Im was at a distinct advantage due to its existing direct loan program and capital market tool. Through these mechanisms Ex-Im's products are consistently offered at a noticeably lower cost; hence the Bank has a major competitive edge with respect to its interest rate programs in 2011, one naturally generated by market forces, in relation to its counterpart ECAs. This edge was significant enough to induce a shift in sourcing in certain cases. Consequently, the Bank's interest rates were absolutely competitive in 2011, resulting in a grade of "A+".

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

Introduction

To cover the risk of non-payment for a transaction, ECAs charge risk premia, otherwise known as exposure fees. The 1999 Knaepen Package implemented by the OECD Participants was negotiated to level the playing field among ECAs. The agreement defined the elements for determining sovereign buyer fees and set Minimum Premium Rates (MPRs) for transactions with sovereign buyers. The MPR sets the floor for standard export credit pricing of sovereign buyers. Shortly after the Knaepen Package was implemented, the Participants embarked on negotiations to institute a buyer risk classification and pricing system, as it was evident that ECA business was moving from sovereign to non-sovereign buyers. The negotiations continued for many years but with no success. After a two-year lapse, the OECD Participants reignited the negotiations in June 2008. A new comprehensive fee structure, referred to as the Malzkuhn-Drysdale Package was approved in February 2010 with an implementation date of September 1, 2011.

The Malzkuhn-Drysdale Package established a non-sovereign buyer fee system, including both guidance on risk classification as well as MPRs for non-sovereign buyers. It also updated the MPRs for sovereign buyers and established pricing protocols for transactions in high-income OECD and Euro-area countries (also known as Category 0 markets).

Several elements determine the MPR for both sovereign and non-sovereign buyers: (i) the percentage of cover; (ii) the quality of the product—that is, whether the financing is an unconditional guarantee or conditional insurance; and (iii) the claims payment policy. The latter two factors determine whether a product is considered "above standard", "standard", or "below standard."[1] Because coverage may differ based on these factors, the three types of products are priced differently, with "above standard" being the most expensive and "below standard" the least expensive. These variations allow for surcharges or discounts based on the type of product to ensure a level playing field among ECAs. In addition, surcharges and discounts are applied when the cover differs from the typical 95% level of coverage. For example, for 100% cover, there is a surcharge between 5.3% and 14.3% depending on the country's risk level; and for 90% cover, there is a discount of 5.4%.

Under the Malzkuhn-Drysdale Package there are now 7 categories of buyer risk in which obligors may be classified: better than sovereign, sovereign or equal to sovereign and 5 buyer risk categories riskier than the sovereign classification. The riskier the buyer, the

[1] *Above Standard Product* – i.e. guarantees; *Standard Product* – i.e. insurance with cover of interest during the claims waiting period without an appropriate premium surcharge and direct credit/financing; and *Below Standard Product* – i.e. insurance without cover of interest during the claims waiting period and insurance with cover of interest during the claims waiting period with an appropriate premium surcharge.

higher the risk premium an ECA must charge. Whereas under the Knaepen Package ECAs could add additional surcharges to the MPR for non-sovereign transactions per an ECA's individual risk assessment, ECAs must now abide by the new MPRs for buyer risk. The MPR that must be charged still depends on how the individual ECA classifies the buyer under their internal risk classification system, but the result is all OECD ECAs will charge the same risk premium for buyers rated at the same level in specific countries.

Ex-Im Bank's Policy and Practice

Per the OECD rules, Ex-Im Bank charges the MPR as set by the OECD for sovereign transactions. Prior to the implementation of the Malzkuhn-Drysdale Package, Ex-Im Bank used a rating methodology for non-sovereign buyers that cross-referenced a borrower's financial information with various financial indicators, while also taking into account various credit enhancements that may be applied to the case in order to reach a final rating. For borrowers rated equal to or better than the sovereign, the applicable fee was the sovereign MPR. For pricing the non-sovereign risk, Ex-Im used an incremental approach to setting the applicable private buyer risk premia, adding an incremental surcharge to the base MPR rate. Ex-Im used 5 increments, each 10%, that were added to the sovereign MPR. Hence, Ex-Im's private buyer fees never went higher than 50% over the MPR.

On September 1, 2011, Ex-Im Bank's medium- and long-term fee structure changed due to the implementation of the Malzkuhn-Drysdale Package. However, new rates and buyer risk classifications were not entirely new to the Bank in 2011. In 2010, as the OECD-mandated implementation date of the Malzkuhn-Drysdale Package grew closer, the Bank decided to introduce the new fees for the Bank's medium-term program in order to test the impact and utility of the new system. While the OECD Agreement also takes an incremental approach to pricing risk, the surcharge between each risk level (CC1-CC5) is much higher than Ex-Im's internal pricing system. As a result, exposure fees for medium-term guarantees increased by 27 percent, and fees for medium-term insurance transactions increased by 42 percent. This temporary bifurcated pricing structure for the Bank's medium- and long-term programs enabled the Bank to address any internal issues with the new fee system before the formal September 1, 2011 implementation date.

The most fundamental changes Ex-Im Bank made during 2011 to comply with the Malzkuhn-Drysdale Package by September 1, 2011 were establishing a structure that integrated the OECD risk categories into the Bank's long-term risk assessment model, as well as educating staff and instituting the new Category 0 pricing procedures. Aside from the general increase in exposure fees for all non-sovereign medium- and long-term transactions, Ex-Im had to get comfortable with using market benchmarks to price transactions in Category 0 markets. The approach under the OECD has a wide scope that leaves significant room for a range of prices for specific obligors. This not only created a large level of "sticker shock" for Ex-Im buyers (in the past the Bank priced Category 0 transaction at the OECD Category 1 level) but also led to competitive concerns given the many different options OECD Participants can use to price such transactions. Hence, Ex-Im's future efforts on monitoring and assessing the new

premium package will be very much focused on the Category 0 pricing procedures to ensure a level playing field among all OECD ECAs.

G-7 ECAs' Policies and Practices

Given the Malzkuhn-Drysdale Package was implemented by all of the OECD ECAs in the last quarter of 2011, it is still too soon to determine the impact the new fee structure has on Ex-Im's competitiveness vis-à-vis the G-7 ECAs.

Traditionally G-7 ECAs typically charged the MPR for sovereign transactions. Furthermore, even under the common risk pricing system of the OECD premium package, risk-rating methodologies and use of risk mitigants vary widely among the G-7 ECAs. As a result, under the pre-September 1, 2011 non-sovereign pricing structures, there was a fairly wide divergence in the fees charged by G-7 ECAs for similar transactions. The key drivers of such differences among the ECAs are credit philosophy, buyer experience, and portfolio composition.

During the years of premia negotiations, risk rating and pricing exercises differentiated those countries that take an incremental approach to pricing non-sovereign risk from those that take a more comprehensive approach, or pricing based off of the total risk of the buyer rather than surcharging for that risk. Canada, Italy, and the United Kingdom take a more comprehensive pricing approach, while France, Germany and Japan use an incremental system for pricing risk. Typically, incremental pricing systems yield lower non-sovereign fees and higher risk premia when using comprehensive risk pricing. A key goal of Malzkuhn-Drysdale Package was to develop a common risk rating and pricing system so as to reduce pricing disparities among the OECD ECAs, particularly in competitive situations.

The monitoring and analysis of the Malzkuhn-Drysdale Package over the next year will highlight what impact the new premium structure has on risk rating and pricing convergence, and to what extent any differences have on the competitive position of Ex-Im Bank relative to the G-7 ECAs.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders indicated that non-sovereign fee increases have had a negative impact on transactions, but respondents did not contend that such increases resulted in a competitive disadvantage, as the all-in costs on Ex-Im transactions still remain low. However, lender and exporter focus group discussions did address Ex-Im Bank risk premia, considering it to be on par with or more competitive than that of foreign ECAs. In the benchmarking study interviews, buyers indicated that the all-in cost of Ex-Im Bank support was equally or more competitive than that of foreign ECAs across the board in 2011.

Conclusion

With the implementation of the new premium package it is expected that disparities in pricing among the G-7 and other OECD ECAs will fall away in most markets, with the exception of High Income OECD markets where market benchmark pricing experience

is being developed. However, a comprehensive analysis of the data reported on the new pricing regime will be needed in order to validate whether comparable pricing among ECAs is emerging. Given that Ex-Im has dramatically increased its medium- and long-term fees due to the new premia system in 2011, the "competitive edge" the Bank once had through its lower non-sovereign premium rates has been neutralized. Nonetheless, while Ex-Im may now have a higher level of fees, the fact that all OECD ECAs have instituted the same premia system nullifies any negative impact on competitiveness, giving Ex-Im a grade of "A".

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

Overall, Ex-Im Bank's core business policies and practices were once again graded as generally competitive and thereby received an "A" in 2011. A grade of "A" indicates that over the past year, Ex-Im Bank consistently offered terms that were equal to the average terms offered by the typical ECA. **Figure 12** illustrates how Ex-Im Bank fared competitively on sub-elements of each policy or practice, in addition to an aggregate grade for each element. Cover policy remained at A-/B+, or moderately to generally competitive, for 2011. Breadth of availability, however, was downgraded from 2010's "A-/B+" assessment to "B-/C+" due to exporter and lender feedback indicating that in riskier markets, Ex-Im Bank's cover policy and risk management approach are perceived to be generally more restrictive than Ex-Im's G-7 ECA counterparts, particularly for medium-term deals.

Compared to 2010, the Bank's Interest Rates grade improved from "A" to "A+" in 2011 due to increased relative competitiveness of Ex-Im's CIRR rate lending. As noted in the Overall Report Methodology section of Chapter 1, grades are derived from both the survey and focus group results and the Bank's analysis of how it performed in comparison to its G-7 counterparts. See Appendix A for detailed definitions of the letter grades.

Figure 12: Grading of Ex-Im Bank's Core Competitiveness, 2011

Key Elements	Grade
Cover Policy	**A-/B+**
Scope of Country Risk	A
Depth of Non-Sovereign Risk	A-/B+
Breadth of Availability (e.g. Restrictions)	B-/C+
Interest Rates	**A+**
CIRR	A+
Pure Cover	A
Risk Premium	**A**
Sovereign	A
Non-Sovereign	A
Total Average Grade	A

Chapter 4: Major Program Structures
Section A: Aircraft

Introduction

In spite of major liquidity constraints and major regulatory changes affecting the long-term lending practices of commercial banks, 2011 brought record levels of ECA aircraft financing. Ex-Im fully supports the entire spectrum of aircraft, ranging from small agricultural aircraft valued at less than $5 million and regional business jets at $5 to $50 million, to between $100 and $200 million large aircraft. The following section discusses the Bank's support of civil and large commercial aircraft for the export.

OECD Aircraft Sector Understanding

ECA financing of large commercial aircraft has been governed by the rules outlined in the OECD's sector understandings on aircraft since the mid-1980s when the Large Aircraft Sector Understanding (LASU) came into effect. The LASU agreement, which established standard financing terms for the provision of official export credit support for the sale of large aircraft, was replaced by an updated and more expansive Aircraft Sector Understanding (2007 ASU) in July of 2007. In an effort to keep pace with the dynamic global aircraft industry, the ever-evolving OECD aircraft agreement was further updated with a significantly more detailed and complex Aircraft Sector Understanding (2011 ASU) that went into effect in February of 2011.

Although the 2007 ASU came into effect in 2007, negotiations on the agreement started in earnest in 2001 when the absence of up-to-date export credit rules governing the financing of newer and smaller commercial aircraft became the source of competitiveness concerns. The 2007 ASU negotiations sought to include a wider group of ECAs involved in the production and export financing of aircraft, namely Brazil and Canada, and to incorporate the various types of aircraft financing disciplines. The 2007 ASU was agreed to by the Participants to the OECD General Arrangement on Officially Supported Export Credits (OECD Arrangement) and also by Brazil, who is a Participant to the aircraft agreement but not to the overall OECD Arrangement. Like the LASU before it, the 2007 ASU set the maximum repayment terms, minimum exposure fees, and minimum interest rates that an ECA can charge for all non-defense aircraft finance transactions.

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

> **Classifies civilian aircraft into three types**: (1) Category 1: large commercial aircraft; essentially, almost all Boeing and Airbus aircraft are termed by the ASU as Category 1 aircraft; (2) Category 2: Regional aircraft (props and

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

jets) that are made by, for example, Bombardier (Canada) and Embraer (Brazil), are considered to be Category 2 aircraft; and (3) Category 3: smaller aircraft such as helicopters, executive jets, and agricultural aircraft, which are made by a wide variety of manufacturers.

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

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

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

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

As referenced above, the 2007 ASU agreement was again opened at the end of 2009. This new round of negotiations occurred throughout 2010 and concluded by year-end with the 2011 ASU going into effect on February 1, 2011. The impetus for this round of reassessment was the development of a new line of aircraft, the C-Series by Bombardier of Canada. The C-Series family of aircraft posed challenges under the 2007 ASU because the Participants of the agreement could not agree upon its proper technical classification. Due to the Participants' inability to come to consensus on which aircraft category (Category 1, 2, or 3) the C-Series should be placed under the 2007 ASU, it was decided that the agreement needed to be renegotiated.

The 2011 ASU is significantly more complex than the previous arrangements, and is distinguished by the following notable characteristics:

Market-based fee system: One primary goal in the negotiation of the 2011 ASU was to have the fee structure closely tied to and reflective of the market. This goal was in response to criticisms of the 2007 ASU for providing "lower than market" financing terms and thus undercutting the commercial market. As a result of this market orientation, the 2011 ASU fee structure is significantly higher than that of the 2007 ASU.

Only one classification for civilian aircraft: Given the challenge the C-Series posed with regards to classification under the 2007 ASU, the 2011 ASU does away with the three-tiered classification system. As a result, under this agreement all civil aircraft are subject to the same financing terms and conditions.

Repayment Term: The maximum repayment term for all civilian aircraft under the 2011 ASU is 12 years, but 15 year terms are allowable on an exceptional basis if a 35% surcharge is applied.

Just as an overlap existed between the LASU and 2007 ASU agreements, so too now does an overlap exist between the LASU, 2007 ASU, and 2011 ASU as a result of a provision in the 2011 agreement allowing for a limited number of aircraft transactions to be financed under LASU through 2017 and 2007 ASU terms and conditions to be available on aircraft orders contracted by December 2010 and delivered by December 2012.

Large Commercial Aircraft Industry in 2011

As **Figure 13** indicates, 2011 saw further improvement in the large commercial aircraft industry after the devastating effects of the 2008 financial crisis, with total large commercial jet aircraft orders experiencing a 200% increase from 2010 to 2011, with Boeing and Airbus orders exhibiting increases of about 150% and 250%, respectively. For further discussion of the liquidity crisis please see Chapter 2 of this report.

Figure 13: Number of Large Commercial Jet Aircraft Orders

	2007	2008	2009	2010	2011
Boeing	1413	662	142	530	805
Airbus	1341	777	310	574	1419
Total	2754	1439	452	1104	2224

Source: www.airbus.com, ATWOnline, The Washington Post

Now at 73% of their total business, Boeing's foreign deliveries in 2011 remained consistent with the trend in recent years, as indicated by **Figure 14** below.

Figure 14: Number of Boeing Commercial Jet Aircraft Deliveries

	2007	2008	2009	2010	2011
Domestic	108	118	116	119	129
Foreign	333	257	365	343	348
Total	441	375	481	462	477
Foreign as % of Total	76%	69%	76%	74%	73%

Source: www.boeing.com

Given the funding gap resulting from the global financial crisis and now the European debt crisis, Ex-Im Bank has increased its role in supporting large commercial aircraft exports in the absence of historically prominent and willing commercial lenders. In 2009, export credit agencies stepped in because other funding options were not available from liquidity-restricted markets. This trend continued in 2010 and was exacerbated in 2011 as a result of the compounding effect of the European debt crisis. The commercial market continues to be restricted with banks exhibiting a very limited appetite for long-term risk. These factors have led commercial banks to seek guaranteed loans that have the backing of export credit agencies. At its peak in 2009, ECA financing represented roughly 40% of the total export market for aircraft financing. However,

since the 2009 high water mark, ECA financing has decreased to closer to 30% of the total market.

Ex-Im Bank's Policy and Practice

While 2010 and 2011 have demonstrated a rebound in the large commercial aircraft industry from the devastating effects of the financial crisis, the commercial financial market has yet to fully recover. This precarious and incomplete recovery exhibited by the commercial aircraft industry has been further jeopardized by the aforementioned recent European debt crisis. For reasons described above, market factors influencing the large commercial aircraft industry have again required Ex-Im Bank to play a prominent role in the financing of this industry in 2011. Indicative of this continued role, Ex-Im authorized a record high $13.3 billion in total aircraft transactions in 2011.

In response to the 2008 financial crisis, in 2009 Ex-Im introduced a capital markets funding option used primarily for aircraft transactions. Instead of providing a guarantee on a loan made from a commercial bank, Ex-Im guaranteed a bond issued in the capital markets and funded mostly by institutional investors. This structure created an alternative source of funding during the difficult lending environment pervasive throughout 2009, and has continued to be a popular funding option in subsequent years. Under the capital markets funding option, Ex-Im authorized 19 transactions worth $6.8 billion in 2011, up from the 13 transactions worth $3.2 billion authorized in 2010.

In addition to the financing structures and terms noted above, and in a manner comparable to Airbus ECA export credit support, Ex-Im Bank also offered co-financing support for U.S. aircraft sales. Specifically, Ex-Im Bank provides one financing package to buyers and, behind the scenes, secures a reinsurance commitment from foreign ECAs such that to reinsure Ex-Im Bank for their respective portion of the sale. Co-financing for both large commercial and small aircraft represented a major portion of the Ex-Im Bank co-financing portfolio. See Chapter 4C of this report to review Ex-Im's co-financing support for aircraft.

In 2011, Ex-Im Bank approved 42 large aircraft transactions worth $13.0 billion. Compared to total medium- and long-term transactions authorized, large aircraft orders represented 14% in numeric terms and 60% in dollar value of total Ex-Im Bank business in 2011. The majority of the 42 transactions were denominated in U.S. dollars; however, Ex-Im Bank provided the buyer the option for a foreign currency (i.e. Euros) denominated loan on a handful of occasions.

In addition to Ex-Im's large aircraft portfolio, it is important to note that the Bank supports smaller business and agricultural aircraft, referred to as "Category 3" aircraft in the 2007 ASU. In 2011, Ex-Im approved 42 Category 3 transactions for a total authorized amount of $269 million. Of these business and agricultural aircraft transactions, 26 in 2011 and 14 in 2010 were co-financed predominantly with the Canadian ECA, Export Development Canada (EDC).

Another special feature available for aircraft transactions involves an OECD-allowable discount on the exposure fee for airlines in countries that have ratified the Cape Town

Convention (CTC)[2] and have made the necessary declarations. While in 2011, Ex-Im Bank discontinued its policy of applying a one-third discount to the exposure fee for transactions grandfathered under the LASU agreement, the Bank continues to offer a CTC discount in the range of 5% to 20% for those aircraft covered under the 2007 ASU. For aircraft governed by the 2011 ASU, a CTC discount not in excess of 10% was offered. The following airlines were some of the beneficiaries of the CTC discount during 2011: COPA (Panama), Air New Zealand, and Ethiopian Airlines (Ethiopia).

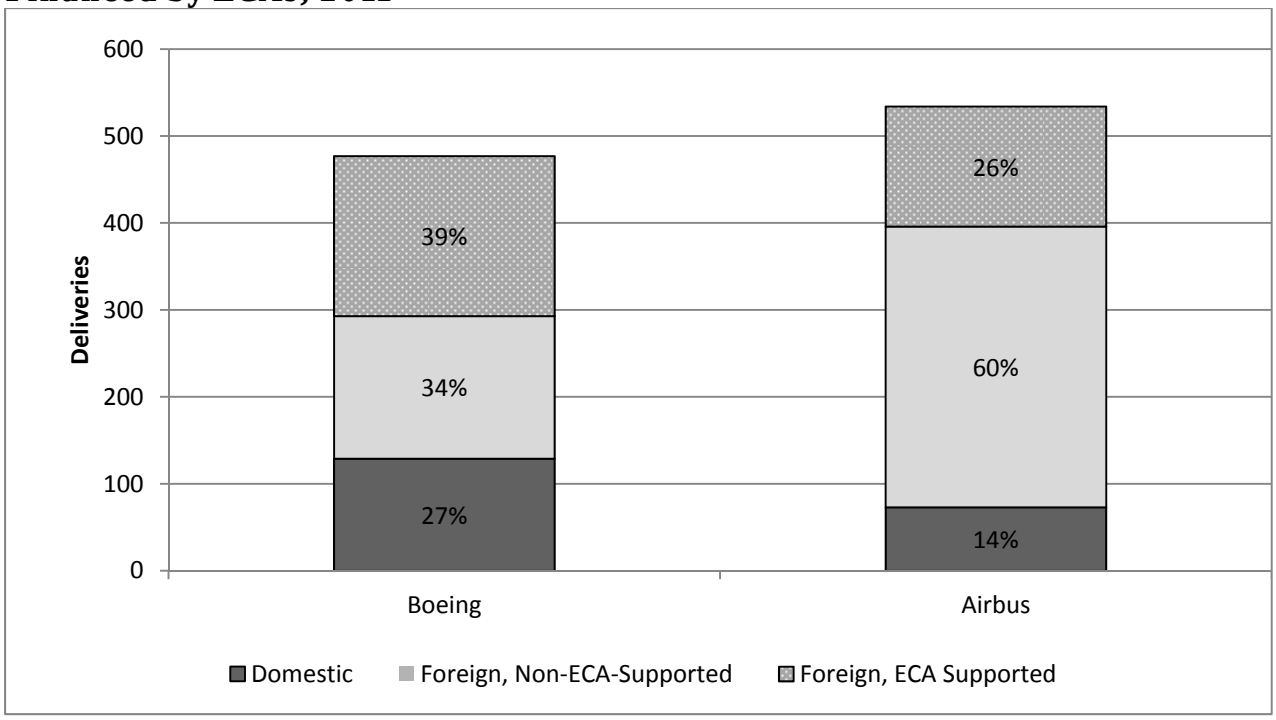
ASU ECA Policies and Practices

Historically, the primary ECAs providing financing for large aircraft have been Ex-Im Bank and the Airbus ECAs (COFACE/France, Euler Hermes/Germany, and ECGD/UK). However, in recent years EDC of Canada and BNDES and SBCE of Brazil have increased their activity in this area due to the emergence of their home country aircraft manufacturers (Bombardier in Canada and Embraer in Brazil). In 2011, EDC financed 74 aircraft for foreign deliveries worth a total of $1.8 billion (EDC financing for domestic deliveries was 20 aircraft worth a total of $600 million), and BNDES/SBCE provided financing for a total of 74 aircraft worth $1.5 billion. While the Canadian and Brazilian volume of business is not yet at the level of Ex-Im and the Airbus ECAs, their entry into ECA aircraft financing makes the space that much more complex and competitive.

The Airbus ECAs (COFACE/France, Euler Hermes/Germany, and ECGD/UK) supported 138 Airbus aircraft, or 26% of all Airbus aircraft financed during 2011, for a total of approximately $8.5 billion. The only Airbus ECA that offers a product similar to Ex-Im's capital markets option is ECGD of the United Kingdom, which launched a capital markets program in 2009. While Ex-Im offered the capital markets option on 19 transactions, ECGD offered this flexibility on only 2 transactions in 2011. Given the limited use of innovative products by other ECAs, the sentiment among those familiar with export credit providers is that Ex-Im has a perceived competitive advantage over its peers due to its willingness to offer these flexibilities. Regarding ECA activity in support of large aircraft, **Figure 15** illustrates the distribution of Boeing and Airbus deliveries, broken out by domestic and export sales with and without ECA support. When comparing the two aircraft manufacturers, significantly more of Airbus' deliveries are to foreign markets (86%) compared to Boeing (73%). Interestingly, of those foreign deliveries, Boeing deliveries more often received ECA financing than those of Airbus, with foreign, ECA supported deliveries at 39% and 26%, respectively.

[2] The following countries are on the OECD Cape Town list as of December 13, 2011, thus making them eligible to receive the Cape Town Convention discount as of this date: Angola, Ethiopia, Indonesia, Luxembourg, Malaysia, New Zealand, Nigeria, Norway, Oman, Panama, Pakistan, Rwanda, Senegal, Singapore, and Tajikistan.

Figure 15: Percentage of Total Large Commercial Aircraft Deliveries Financed by ECAs, 2011



Source: www.airbus.com, www.boeing.com, Airfinance Journal, Trade Finance Magazine

Exporter and Lender Survey and Focus Group Results

The 2011 survey results and focus group discussions indicated that exporters and lenders involved in large aircraft exports found Ex-Im Bank to be very competitive in foreign markets when compared to other ECAs, particularly in 2011 as a result of the Eurozone crisis. Ex-Im Bank's tools for supporting large commercial aircraft, which include the capital markets program, set Ex-Im Bank apart from its ECA counterparts during 2011. Lenders were especially laudatory of Ex-Im Bank openness to working with them on funding and other issues, especially in the face of the liquidity crisis and an increasingly complex regulatory environment.

Despite these positive remarks, aircraft sector survey respondents had more critical feedback on several issues, principally foreign content. Multiple respondents—particularly small and business aircraft manufacturers– noted that Ex-Im's high U.S. content requirements lessened the Bank's competitiveness vis-à-vis foreign export credit agencies, recommending that Ex-Im instead place an emphasis on job benefits rather than on straight foreign content percentage. Specifically, the small and business aircraft manufacturers noted that foreign content is an area that Ex-Im Bank exhibits less flexibility than its foreign ECA competitors, namely EDC of Canada, and this inflexibility puts U.S. exporters at a disadvantage when competing globally. In addition to criticism concerning the Bank's foreign content policy, survey respondents registered concerns about Ex-Im's authorization cap and small business requirements given the current high demand for commercial aircraft in the global aircraft market.

Conclusion

Ex-Im Bank continues to maintain its competitive edge among ECA peers due to its willingness to take a more creative and innovative approach to financing of aircraft. In the still constrained post-2008 financial crisis economic environment that has been further hampered by the 2011 European debt crisis, Ex-Im continues to aggressively fill the financing gap in the commercial markets and, in so doing, supports valuable exports and jobs within the U.S. aerospace industry. As depicted by Ex-Im's record high volume of business this year, Ex-Im continues to respond to the needs of the U.S. exporting community in this sector, as indicated by the "A" grade survey respondents gave the Bank for 2011.

Chapter 4: Major Program Structures
Section B: Project Finance

Introduction

Project finance (PF) is defined as the financing of projects whose creditworthiness depends on the project's cash flow for repayment. In such a structure, the project itself becomes the borrower, one separate from the project sponsor. Accordingly, the lender has recourse only to the revenue generated by the project (and its assets) in the event of non-payment or default.

In 2011, total global PF debt issuances increased to $213.5 billion as compared to $208.1 million issued in 2010. Although this slight increase is reassuring, PF activity has not yet achieved pre-crisis levels as a result of the lingering effects of the global financial collapse, exacerbated by the 2011 Eurozone sovereign debt crisis.

Figure 16 depicts OECD ECA involvement in project finance transactions for the period of CY2007 through CY2011. OECD ECA participation, as a percentage of total dollar volume project finance loans, averaged 1.4% for years 2007 and 2008; however, their involvement more than tripled to approximately 5% in 2009 and 2010. In 2011, total OECD ECA project finance participation shrank to 3% of total activity, as all of the major OECD ECAs except Ex-Im saw lower activity levels.

Figure 16: Distribution of PF Loans by Originator, 2007-2011 (Billions USD)

	OECD ECAs (excluding Ex-Im)	Ex-Im Bank	All OECD ECAs	Private Lenders	Total	OECD ECAs as % of Total
2011	$2.5	$4.0	$6.5	$207.0	$213.5	3%
2010	$7.5	$2.7	$10.2	$197.9	$208.1	5%
2009	$7.5	$3.6	$11.1	$212.8	$223.9	5%
2008	$2.9	$0.5	$3.4	$247.2	$250.6	1.4%
2007	$2.6	$0.6	$3.2	$223.0	$226.2	1.4%

Source: PFI and the OECD

In 2009, the OECD instituted temporary measures regarding flexibility on maximum repayment terms for transactions in high income OECD countries. These provisions extended maximum repayment terms from 10 to 14 years as long as ECA participation constituted more than 35% of the syndication but less than 50%. Set to expire at the end of 2011, these provisions were extended through 2012, when the need for such temporary measures will be reassessed. In 2011, four of the transactions approved by

the OECD ECAs were in high income OECD countries (two approved by Ex-Im and two approved by OECD ECAs).

Ex-Im Bank's Policy and Practice

The OECD Arrangement allows for flexible coverage in terms of tailored repayment profiles, grace periods, and total repayment terms; qualifying transactions for such terms are considered on a case-by-case basis by Ex-Im. Furthermore, Ex-Im Bank's project finance program has no dollar limits on project size, sector, or country. Since 2008, project finance transactions have moved from being financed as primarily guarantees to largely direct loans. In 2008, Ex-Im approved no direct loans for project finance transactions; however, in 2011 the composition of the Ex-Im Bank PF portfolio was predominantly direct loans (about 75-80%). This market move towards the Ex-Im Bank direct loan is a clear signal of a fundamental shift in the comparative economics of direct loans versus pure cover. Moreover, combined with the ineffectiveness of the IMU mechanism in delivering CIRR when commercial bank spreads exceed 100 bps, the "new economics" of direct loans give Ex-Im/EDC/JBIC an absolute competitive cost advantage. Finally, on exceptionally large transactions where most ECAs have per transaction caps, Ex-Im may have a considerable competitive advantage. Refer to Chapter 3B for details on the interest rate issue and refer to Chapter 3A for details on Cover Policy.

Many projects are too large to be considered strictly from a balance sheet perspective, while others are too small to be to merit the time and expense associated with project finance transactions. For such cases, "structured" finance can be considered an alternative, particularly when the company may have a sufficiently large asset base and cash flows but lack credit or operating history, or when the company has strong credit and operating history but lacks the size required to take on a large project. Including structured finance activity into the assessment of project finance deals allows for a more comprehensive perspective on the gamut of non-sovereign, project financing.

Thus, as can be seen in **Figure 17**, the Bank authorized 24 structured finance deals for a total of $6.5 billion in 2011, an increase from the 20 structured finance transactions totaling merely $3.5 billion in 2010.

Figure 17: Ex-Im Bank Transaction and Volume Data on Project Finance and Structured Finance Financings, 2010-2011 (Billions USD)

	Project Finance		Structured Finance		Total	
	# Deals	Volume	# Deals	Volume	# Deals	Volume
2011	9	4.0	24	6.5	33	10.5
2010	8	2.7	20	3.5	28	6.2

While those factors holding down the Project Finance activity of other ECAs may be nothing more than natural fluctuations of case sizes (i.e., same number of deals with smaller contract values), there are some very basic and powerful drivers underlying the mushrooming volume of project finance and structured finance transactions at Ex-Im. The six core factors that characterize Ex-Im Bank's competitiveness in project finance transactions are:

1) An easily accessible and lowest cost tool in direct loans.
2) A generally unlimited exposure per project/country;
3) Financing of local costs (up to 30% of the amount of U.S. export contracts, plus 30% of the foreign export contracts when co-financing with a foreign ECA is available)[1];
4) Liberal willingness to utilize the project finance flexibilities provided by the OECD Arrangement with respect to pricing and repayment terms;
5) Liberal willingness to capitalize interest during construction; and
6) A reasonable and pragmatic commercial approach to project analysis and risk mitigation.

Despite consistent Ex-Im Bank excellence on these aforementioned fronts, each year Ex-Im Bank does register reports from exporting community members that note that deals can be hindered by a range of non-financial requirements that are unique to Ex-Im. Those factors include the Bank's content policy, shipping requirements, and economic impact analysis (see the Foreign Content, U.S. Shipping Requirements, and Economic Impact sections in Chapter 6 for more detail). These policies can and reportedly have negatively impacted actual and *potential*[2] Project Finance transactions more than other types of transactions because of the unique nature of project finance deals. Specifically, Project Finance sponsors are able to choose from several different sourcing alternatives, making the cost and quality of competition the most sensitive and intense factor in the financing decision. Any extra costs or delays associated with a financing source can cause the project sponsor to look elsewhere for funding. Additionally, the desire of project sponsors to minimize the number of sources of financing gives an advantage to other ECAs with less restrictive content or shipping requirements.

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[1] The OECD rules permit local cost support of up to 30% of the contract value and capitalized interest during the construction period. Most of these tools are used most often in PF transactions (though not exclusive to Project Finance). All of the G-7 ECAs use such rules. However, Ex-Im makes a distinction between foreign content and local costs, treating them separately, and will support a maximum of up to 15% foreign content AND 30% local costs. G-7 ECAs generally consider the level of support on the total non-domestic content (foreign and local) on an aggregate basis. As a result, if a G-7 ECA's content policy states that it will allow up to 50% non-domestic content, and if the local costs are maximized at 30%, the foreign ECA will limit the eligible foreign content to 20% of the export contract. (See **Chapter 6C** for details).

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

G-7 ECAs' Policies and Practices

The other G-7 ECAs offer similar project finance coverage, although with some slight differences in terms of the quality of their guarantee. However, that difference has diminished over time as ECAs such as SACE and ECGD moved to 100% unconditional guarantees. Furthermore, EDC provides direct loans, while Coface and Euler Hermes of Germany provide conditional insurance.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders consider Ex-Im Bank's Project Finance program as very competitive vis-à-vis the other G-7 ECAs, especially in light of Ex-Im Bank's direct loan program. Despite the sustained and relatively robust project finance activity relative to its foreign ECA counterparts, exporters highlighted issues like MARAD and foreign content as impediments to getting deals through the pipeline. Nevertheless, lenders were concerned about the impact of Ex-Im Bank direct loans on their ability to provide or participate in project finance deals.

Conclusion

In 2011, the crush of major multi-billion dollar projects hitting a financial world with reduced term and volume capacity and an ECA world with few direct loan options—and generally bounded by country and/or project limits—created a "perfect storm" that pushed Ex-Im's project finance program into a very competitive and influential position. Put simply, when faced with a decision to use either the limited and expensive financing options available from other ECAs or access the dwindling long-term financing available from commercial banks, project sponsors time and again preferred a single Ex-Im Bank loan or guarantee (and the corollary U.S. sourcing). Sometimes the tilt was due to nothing more dramatic than price and being administratively less cumbersome to allocate everything to one Ex-Im direct loan rather than multiple ECA loans or funding options. Thus, in 2011, the financing and capacity advantages associated with Ex-Im Bank's project finance cover appear to have outweighed the non-financial disadvantages and to create a dynamic in which Ex-Im's program seems to have the potential to shift sourcing in certain circumstances. Accordingly, as Ex-Im continued to provide project finance solutions in record volumes during the volatile economic environment in 2011, such aggressive application of project financing within the OECD rules affected a shift in sourcing, justifying an upgrade of "A+" for 2011 from an "A" in 2010.

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

Introduction

"Co-financing," also known as "reinsurance" and "one-stop shop" financing, is a tool used to address some of the financing challenges posed by multi-sourcing involved in the procurement of capital goods or with respect to an ECA financing package for a buyer interested in procuring goods and services from two (or more) countries. Without co-financing, foreign buyers would need to secure multiple financing packages and therefore incur additional expense and administrative burden to ensure ECA support for exports from various countries.

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

Ex-Im Bank's Policy and Practice

Ex-Im Bank introduced the co-financing program in 2001 with the signing of its first bilateral agreement with ECGD (United Kingdom). Since that time, Ex-Im Bank has signed eleven co-financing agreements[1], authorized more than 100 transactions supporting almost $20 billion, and approved over a dozen case-specific co-financing arrangements on a transaction basis with OECD ECAs with whom Ex-Im Bank does not have an overall co-financing framework agreement. Ex-Im has not signed any co-financing agreements with ECAs in the BRIC countries or Mexico, but the Bank could consider individual requests to co-finance with these ECAs on a case-by-case basis.

In 2011, aircraft continued to lead the co-financing program as it constituted the majority of the overall number and volume of activity in 2011. As such, approximately $5.2 billion, or more than 95% of the volume of all 2011's co-financed transactions, involved some type of aircraft. Specifically, Ex-Im Bank provided co-financing support for 15 large or OECD Category 1 aircraft and 25 small Category 3 aircraft transactions, including agricultural aircraft. In the majority of the aircraft transactions, without co-financing, the exporter would not have been able to offer the maximum 85% support to its customers in one financing package. Thus, co-financing allowed Ex-Im and NEXI to

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

level the playing field by acting like the Airbus ECAs do in terms of their seamless financing for the European-based commercial aircraft manufacturer.

As in 2010, Ex-Im authorized 20 long-term co-financed transactions in 2011; however, Ex-Im authorized 13 more medium-term co-financed deals in 2011 than in 2010 (28 vs. 15). Nevertheless, 99% of the total value of all co-financed transactions was in support of long-term deals. In 2011, despite authorizing 14 more co-financed deals than in 2010, the overall amount of support was 15% less. The decrease in volume is largely attributable to the fact that several voluminous large aircraft transactions were approved in 2010. With respect to non-aircraft transactions, Ex-Im Bank more than doubled its amount of support for non-aircraft transactions in 2011 from $100 million in export value supporting five transactions to approximately $250 million in export support for 8 transactions as a result of support for several large oil and gas projects. In addition to the oil and gas projects, the non-aircraft 2011 portfolio included support for agricultural and medical equipment. (See **Figure 18** below for a complete listing of the specific transactions).

Figure 18: Ex-Im Bank Co-Finance Transactions, 2011 (Millions USD)

Ex-Im Bank & Co-Financing ECA	Market	Sector	Financed Amount*
Ashr'a	China	Agricultural Equipment	$63
Ashr'a	China	Agricultural Equipment	$12
Atradius	Brazil	Medical Equipment	$1.5
Coface/EKF	Turkey	Oil and Gas	$37
ECGD/ EDC	India	Oil and Gas	$75
EDC	Argentina	Agricultural Aircraft	$1.1
EDC	Argentina	Agricultural Aircraft	$1.7
EDC	Argentina	Agricultural Aircraft	$0.9
EDC	Argentina	Agricultural Aircraft	$0.8
EDC	Argentina	Agricultural Aircraft	$0.6
EDC	Brazil	Agricultural Aircraft	$1.4
EDC	Brazil	Agricultural Aircraft	$1.1
EDC	Brazil	Agricultural Aircraft	$0.8
EDC	Brazil	Agricultural Aircraft	$0.8
EDC	Brazil	Agricultural Aircraft	$0.8
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7

Ex-Im Bank & Co-Financing ECA	Market	Sector	Financed Amount*
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Brazil	Agricultural Aircraft	$0.7
EDC	Costa Rica	Agricultural Aircraft	$1.3
EDC	Paraguay	Agricultural Aircraft	$0.6
Hermes	Brazil	Medical Equipment	$2.2
Hermes	Uruguay	Manufacturing Equipment	$0.7
KEXIM	South Korea	Large Aircraft	$415
KEXIM	South Korea	Large Aircraft	$270
NEXI	Angola	Large Aircraft	$255
NEXI	Bangladesh	Large Aircraft	$263
NEXI	Chile	Large Aircraft	$230
NEXI	China	Large Aircraft	$270
NEXI	China	Large Aircraft	$150
NEXI	Hong Kong	Large Aircraft	$450
NEXI	India	Large Aircraft	$1,275
NEXI	Mexico	Oil and Gas	$75
NEXI	Netherlands	Large Aircraft	$120
NEXI	New Zealand	Large Aircraft	$325
NEXI	Turkey	Large Aircraft	$430
NEXI	United Arab Emirates	Large Aircraft	$272
NEXI	United Arab Emirates	Large Aircraft	$138
NEXI	United Arab Emirates	Large Aircraft	$320
Total			**$5,472**

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

Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions. Additionally, recognizing the shift away from the typical structure of a co-financing transaction in which there is a single export contract, Ex-Im has created specific criteria that allows co-financing coverage to include wholly-foreign contracts under its co-financing program as a carefully parametered "Associated Contracts" structure. The "Associated Contracts" structure allows foreign buyers, arrangers or financiers—as well as U.S. exporters– to package multiple contracts that are associated to a project (but may be functionally unrelated) into a single ECA financing package. In 2011, Ex-Im Bank supported one co-

financing deal under an Associated Contract structure to support an oil and gas project in Turkey. Ex-Im Bank is unique in offering this structure; competitor ECAs require the foreign ECA-supported portion to be explicitly included as part of the main, single export contract.

G-7 ECAs' Policies and Practices

The G-7 ECAs have multiple framework agreements among themselves (as shown in **Figure 19**) and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure because many had country limits that made it impossible for them to provide support for exports to riskier markets or to markets where the ECA was close to reaching its country limit. Even in an environment of increasingly liberalized foreign content allowances, co-financing helps achieve operational efficiency and risk management in a world of multi-sourcing.

Figure 19: G-7 Co-financing Agreements, 2011

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

Source: U.S. Ex-Im Bank

Exporter and Lender Survey and Focus Group Results

Survey respondents acknowledged that though Ex-Im is willing to enter into one-off co-financing agreements without a framework agreement in place, they complained that Ex-Im has still not established co-financing agreements with emerging market ECAs, such as Brazil and other non-OECD ECAs. (Note: No other G-7 ECA has established a bilateral co-financing agreement with the emerging market ECAs.) Exporter and Lender Focus group participants acknowledged the utility of the co-financing program.

Conclusion

In 2011, Ex-Im Bank's co-financing program has continued to support a significant number and volume of transactions. This steady activity, willingness to engage in case-specific co-financing when an agreement is not in place, and flexibility to extend support to associated contracts, earned Ex-Im Bank an "A-/B+". Although Ex-Im's lack of signed co-financing arrangement with ECAs in emerging markets is an area that stakeholders have urged Ex-Im to consider (appearing to be the rationale for the "B" given by survey participants), the lack of signed agreements with emerging market ECAs does not make Ex-Im less competitive with its G-7 counterparts. To date, no other G-7 ECA has signed a co-financing framework agreement with an emerging market ECA.

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

Introduction

In 1992, Congress mandated that Ex-Im Bank examine the potential environmental effects of Ex-Im Bank financed projects. The language, which was incorporated into Ex-Im's Charter, compels the Bank to "establish procedures to take into account the potential beneficial and adverse environmental effects of goods and services for which support is requested." The Charter language also allowed the Board of Directors to deny a transaction based on the findings of the environmental impact analysis.

Three years later, in 1995, Ex-Im Bank created its Environmental Procedures and Guidelines (EPG) which codified the Bank's environmental review process. Ex-Im Bank became the first official Export Credit Agency to implement a set of environmental procedures and guidelines. Since Ex-Im's adoption of the EPGs, the Bank has engaged with stakeholders to ensure that EPG implementation strikes a balance between the environmental stewardship sought by Congress and Ex-Im's mission of fostering U.S. exports.

Ex-Im Bank, along with the U.S. Government, negotiated the "Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits" (the Common Approaches) in 2003. The Common Approaches are a set of international environmental guidelines that establish a framework for environmental review for all OECD ECAs. The Common Approaches were reassessed and expanded in 2007, and are currently under review for inclusion of "climate" aspects.

Ex-Im Bank's Environmental Procedures and Guidelines

Consistent with the Common Approaches, Ex-Im Bank's EPG provides a framework with which transactions are screened and classified based on their likely environmental impact. After conducting an environmental review, Bank staff provides a recommendation to the Board of Directors for approval, approval with conditions, or denial of the project.

Ex-Im Bank's Policy and Practice

Ex-Im's environmental disclosure requirements have expanded even as the reporting requirements for other ECAs have remained static. Ex-Im was the first ECA to make Environmental Impact Assessments (or EIAs) publicly available. Ex-Im began to track and publish greenhouse gas emission data for Ex-Im financed projects in 1998. Then, in 2006, Congress required the Bank to make public supplemental environmental reports such as project monitoring and mitigation plans.

The requirement that EIAs, greenhouse gas emissions, and supplemental environmental reports be made available to the public has resulted in a certain amount of reluctance among buyers and borrowers. The most common criticism submitted to Ex-Im Bank by

these stakeholders reflects a concern that by publishing these data, it will expose the borrower or buyer to public criticism. In contrast to Ex-Im's policy, other ECAs generally limit the amount of publicly available information to the minimum required by the Common Approaches. Most often the amount of information made publicly available is limited to EIAs. Foreign ECAs maintain that the project sponsor, not the ECA, should be responsible for the environmental impact analysis. Ex-Im Bank's environmental policy is more comprehensive than other ECAs as both Ex-Im and the project sponsor are required to publicly disclose environmental impact information (including CO_2 emissions).

Ex-Im Bank's Carbon Policy

In 2009, Ex-Im Bank became the first Export Credit Agency to adopt a comprehensive Carbon Policy. Ex-Im's Carbon Policy was created as a response to growing concerns about global climate change. Ex-Im's Carbon Policy was designed to address the climate change issues raised by its export financing activities while remaining flexible and responsive to the needs of U.S. exporters in the application of the Policy. The Bank's Carbon Policy was formally implemented in 2010.

The Carbon Policy directs Ex-Im to undertake the following initiatives:

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

To implement these initiatives, the Bank enacted a variety of programs and policies. Ex-Im Bank will continue to encourage other ECAs, multilateral banks, and other lending institutions to adopt similar CO_2 policies which will increase global transparency with regards to CO_2 emissions.

In order to be more broadly transparent, Ex-Im publishes the projected greenhouse gas emissions for the fossil fuel power plants the Bank supports on the Ex-Im website. In CY 2011, Ex-Im financed four fossil-fuel power plants whose combined CO_2 emissions are expected to be approximately 37.55 million metric tons per year. This is an overall decrease from 2010 when the estimated CO2 emissions for eight Ex-Im supported fossil fuel power plants came to an estimated 41.85 million metric tons per.

On the "incentive" side of the Carbon Policy, Ex-Im Bank approved $721 million in renewable energy transactions in FY 2011, a 117% increase from FY 2010 (please refer to Appendix J for more details). Despite Ex-Im Bank efforts to promote renewable energy, standard Ex-Im Bank financing terms cannot compete with foreign concessional tied and untied aid financing for renewable energy projects (please refer to Chapter 5A for additional details on tied and untied aid).

One transaction in calendar year 2011 required enhanced due diligence under Ex-Im's Carbon Policy, the Kusile 4,800 megawatt coal-fired power plant located in South

Africa. The Kusile project met the threshold for a "high carbon intensity project" and was therefore reviewed under Ex-Im's EPG Annex G, "Supplemental Guidelines for High Carbon Intensity Projects." During the environmental review of the Kusile project, the expected level of greenhouse gas emissions was posted on the Ex-Im website. The Kusile project took steps to help mitigate the impact of the coal fire power plant on the environment. These steps included installing scrubbers to remove the sulfur dioxide generated by the plant, using filters to reduce particulate matter, utilizing an air cooling system to conserve water, and designing the plant to be carbon capture and sequestration (CCS) ready. The transaction was ultimately approved by the Bank's Board of Directors in May of 2011.

Joining the Equator Principle Banks

In March of 2011 Ex-Im Bank joined the Equator Principles (EPs), an international, voluntary framework through which to manage environmental and social risk in project finance transactions. The EPs apply to project finance transactions where project capital costs exceed $10 million. The list of EP Financial Institutions includes more than seventy members comprised of private banks, as well as four ECAs, including Ex-Im Bank. Ex-Im Bank's current environmental policies are consistent with those of the EPs. By joining the EPs, Ex-Im aligns its environmental requirements with those of other EP financial institutions. In having shared standards, Ex-Im anticipates that this will lead to a simpler, more streamlined environmental and social review of transactions that involve other EP banks.

G-7 ECAs' Policies and Practices

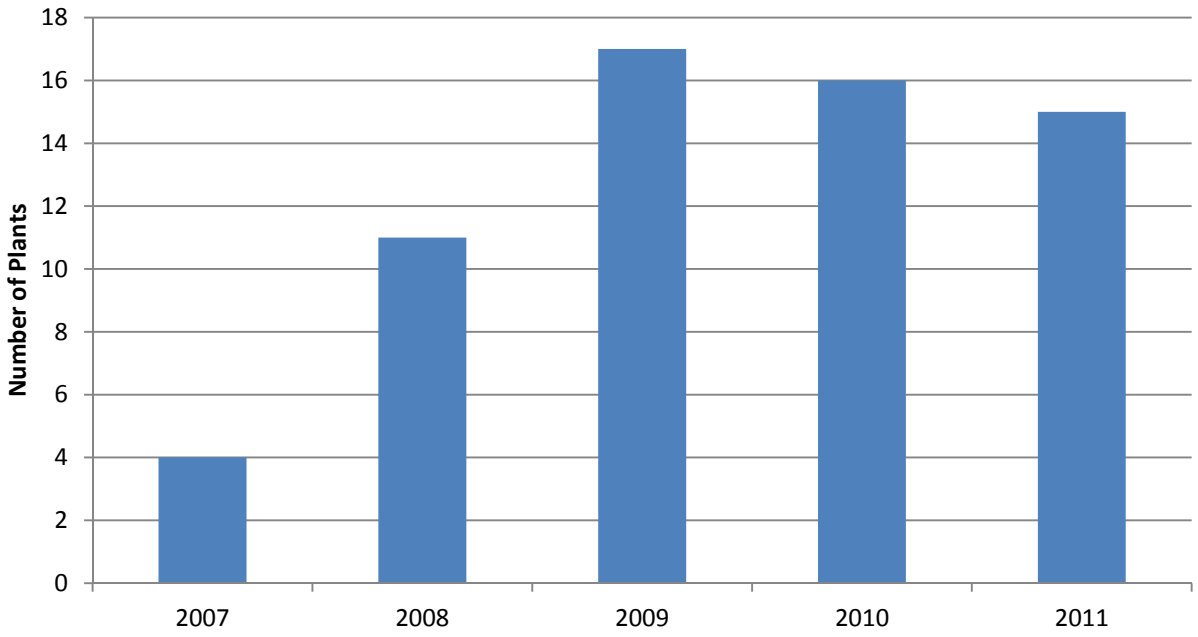
Although the environmental standards used by individual ECAs vary, G-7 OECD ECAs historically have had a harmonized approach to environmental policies as all G-7 ECAs adhere to the Common Approaches. This has resulted in a leveling of the playing field in terms of environmental review among OECD ECAs.

The G-7 OECD ECAs meet on an annual basis to undertake a peer review process of the implementation of the Common Approaches. This process provides an opportunity to monitor ECA environmental reviews, as well as a chance to collaborate and discuss the various aspects of environmental due diligence. This annual meeting also helps to ensure that a level playing field is maintained through a relatively consistent application of the provisions of the Common Approaches.

With respect to climate issues, Ex-Im is at the forefront in addressing the effects of CO_2 on the global environment as the first and only G-7 ECA to adopt an official Carbon Policy.

The number of OECD notifications for fossil fuel power plants from 2007-2011 are illustrated in **Figure 20**. Each of the G-7 ECAs reported an average of nine fossil fuel power plants over this five-year period. Fossil fuel power plants comprise a small portion of total G-7 ECA activity, which suggests that implementing a shared Carbon Policy across all OECD ECAs would not overly tax the resources of OECD ECAs.

Figure 20: G-7 OECD ECA Thermal Power Plants 2007-2011[1]



Source: OECD

Exporter and Lender Survey

The Exporter and Lender Survey broadly addressed Ex-Im's environmental policies and their effect on the Bank's competitiveness when compared to other ECAs. Of the respondents who had experience with Ex-Im's environmental requirements, most found that these policies had minimal impact, and a neutral effect overall on the Bank's competitiveness. Neither lenders nor exporters provided specific comments on Ex-Im's environmental requirements in 2011.

Conclusion

Ex-Im Bank's environmental requirements are defined by the Bank's EPG, Carbon Policy, public reporting, and ongoing monitoring and mitigation of projects. Although the EPG is consistent with the OECD's Common Approaches, the Bank's Carbon Policy and reporting requirements are standards not shared by other OECD ECAs.

Ex-Im Bank will continue to encourage its OECD counterparts to adopt a carbon policy in an effort to collectively address the issue of global climate change. Since neither the OECD as a whole, nor the individual OECD ECAs have adopted these policies, Ex-Im Bank's public disclosure requirements will continue to be more comprehensive than other OECD ECAs. Ex-Im's disclosure requirements, when compared to other OECD

[1] The thermal power plants in this figure include all coal-fired, gas-fired and oil-fired facilities. 2011 numbers represent partial reporting.

ECAs, may result in foreign buyers and U.S. exporters feeling an elevated potential for public scrutiny.

With Ex-Im's adoption of the Equator Principles, this enables Ex-Im to streamline the environmental review process for project finance transactions that involve other Equator Principle Banks.

Ex-Im Bank, like other OECD ECAs, uses the Common Approaches to initiate environmental reviews of transactions. This concordance garners Ex-Im an "A", equal to the average ECA. However, Ex-Im's increased transparency requirements, especially as they apply to the disclosure of project monitoring reports, is more rigorous than other OECD ECAs, which garners Ex-Im a "B" in this area, equal to the least competitive ECA. As no other OECD ECA has a Carbon Policy, Ex-Im is relatively less competitive compared to other OECD ECAs. Exporter and lender feedback on the carbon policy indicates a "B-/C+" rating. Taking all three of these grades into account, the overall rating for Ex-Im's environmental guidelines and carbon policy would be a "B".

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

Introduction

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

As the U.S. dollar is the key international trade currency, most Ex-Im Bank transactions are financed in U.S. dollars. The types of currencies typically eligible for cover by ECAs are generally referred to as either *hard*, or readily convertible currencies (such as the U.S. dollar, the Euro, or the Yen), and *soft*, or emerging market currencies (such as the Brazilian Reais or Mexican peso). Until the 2008 financial crisis struck global currency markets, phenomenal growth in liquidity in emerging markets during the course of the past decade had resulted in steadily increasing borrower demands for export credit cover in local currency-denominated debt. This dropped off precipitously in 2009 and 2010 and only began to increase in 2011 as a result of the notable constriction in commercial bank flows, as reported in Chapter 2.

Ex-Im Bank Policy and Practice

Ex-Im Bank offers foreign currency support through its guarantee and insurance programs. Foreign currency coverage has been used most widely in aircraft financing because it is an attractive way for an airline borrower to reduce currency risks by matching the currency of its debt obligations to the currency of its revenues.

Ex-Im's foreign currency claims procedure requires that, in the event of default and irrespective of whether the foreign currency is a hard or soft currency, Ex-Im purchases the foreign currency to pay the claim to the lender and then converts (or "crystallizes") the debt obligation by the borrower into U.S. dollars equal to the amount that Ex-Im Bank paid to obtain the foreign currency. This policy effectively shifts the post-claim exchange rate risk from Ex-Im Bank to the obligor. In addition, if the note rate is floating, Ex-Im Bank typically accelerates the debt and pays the claim in a single lump-sum payment; however, for fixed rate notes Ex-Im Bank may provide the option for an installment repayment schedule, crystallizing the portion of the obligation due at each

[1] In the event of a claim payment by the ECA, crystallization requires that the debt (along with any fees incurred) be converted into its hard currency equivalent. This is sometimes referred to as conversion. The ECA seeks recovery of the hard currency obligation, and exchange rate risk during the recovery period is borne by the obligor.
[2] However, the use of local currency can be eligible for a premia discount under the OECD Arrangement if certain conditions are met.

payment.[3] While most hard currency cover is readily available with crystallization, Ex-Im only considers soft currency cover on a case-by-case basis (even with the crystallization contingency) after a thorough internal review of the relevant local currency market.

There are two exceptions to Ex-Im's crystallization/conversion requirement policy. First, with respect to co-financed transactions, Ex-Im Bank may offer cover for Euro-denominated debt without the conversion/crystallization requirement. In 2011 as in 2010, none of the foreign currency guarantees authorized involved co-financing. Second, if Ex-Im Bank receives valid evidence that a foreign ECA will provide coverage without conversion for the same transaction, Ex-Im Bank has a matching provision that would allow the Bank to provide foreign currency (including soft currency) coverage without the requirement for conversion. However, this option has never been used.

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

In 2011, Ex-Im Bank supported 19 foreign currency guarantee transactions with a total financed amount of $1.8 billion (compared to 12 transactions valued at about $1.4 billion in 2010). Of the 19 transactions, 3 supported purchases of large commercial aircraft for airlines located in Ireland, Italy, and the Cayman Islands. These transactions amounted to $1.2 billion, a high proportion of the total amount of foreign currency guarantees in terms of volume. It is not surprising that almost 70% of the volume of foreign currency guarantees went to support aircraft transactions, as airlines prefer to match for the currency of their large debt to that of their revenue streams. Such coverage also results in a lower probability of default to Ex-Im Bank. The remaining 16 transactions represented 85% in of the number of foreign currency guarantees and totaled $661 million. These went to support solar facilities, wind turbine units, locomotives, and mining— all domestic infrastructure where local revenue is the source of repayment.

Additionally, in 2011, Ex-Im supported 14 foreign currency insurance transactions with a total financed amount of $40 million. One transaction worth nearly $15 million involved agricultural commodities in Mexico. The remaining 13 transactions were for foreign buyers in Mexico, the Canary Islands, United Kingdom, Turkey, Ireland, Poland, Australia, and Hungary, in support of exporting various types of equipment, agriculture commodities, and other consumable items.

G-7 ECAs' Policies and Practices

The G-7 ECAs distinguish between two types of foreign currency coverage: *hard currency cover* which is readily available without crystallization and usually at no

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

additional cost compared to domestic currency coverage; and *soft currency cover* which is available on a case-by-case and/or currency-by-currency basis and usually results in additional ECA considerations on appropriate risks and mitigants that should be brought to bear on the transaction.

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

Soft Currency Cover: As **Figure 21** shows, no formal policies exist among G-7 ECAs with respect to acceptance of soft currency foreign exchange risk; such risk is predominantly managed on a case-by-case basis. The information contained in **Figure 21** was verified through a late 2010 inquiry to OECD ECAs and demonstrates that most (if not all) G-7 ECAs are willing to consider (and several have offered) non-crystallized soft currency support. Some ECAs have found that local laws prohibit crystallization of the debt or severely restrict an ECA's recovery efforts, thereby rendering conversion of local currency debt cumbersome and, in some instances, illegal or ineffective. Thus, ECAs assess risk versus reward in order to find ways to manage their risks in the face of legal and practical constraints on crystallization.

Figure 21: G-7 ECA Foreign Currency Approaches: Willingness to Accept Exchange Rate Risk and Activity, 2011

	Exchange Risk Accepted?		Currencies[1] of Approved Transactions (2005-2011)	
	Hard Currency	Soft Currency	Hard Currency	Soft Currency
EDC[2]	Yes	Yes	USD, EUR, CND, JPY, GBP, AUD, NZD	MXN, PLN, SGD, HUF, CZK, HKD
Coface[3]	Yes	Yes	USD, AUD, JPY	ZAR, XAF, EGP, MXN, DZD, MYR, SGD, HKD
Hermes[4]	Yes, with surcharge	Case-by-case, always with a minimum surcharge	USD, GBP, CHF, CND, AUD, JPY	MXN, INR, TWD, ZAR, MYR, SGD, NIS, MAD, RUB, HKD
SACE[5]	Yes	Case-by-case	USD, CND, GBP, JPY	ZAR, BRL, TL
NEXI[6]	Yes	No experience	USD, EUR, NZD, GBP	none
ECGD[7]	Yes	Limited experience	GBP, USD, EUR, JPY, AUD, NZD	none
U.S. Ex-Im Bank[8]	No, convert obligation to dollars at time of payment	No, convert obligation to dollars at time of payment	EUR, JPY, AUD, CND, NZD	MXN, COP, ZAR

1 Currency Key - *Hard:* AUD – Australian dollars, CHF – Swiss francs, CND – Canadian dollar, EUR – Euro, GBP – British pounds, JPY – Japanese yen, NZD – New Zealand Dollar, USD – U.S. dollar
Soft: AED – United Arab Emirates dirham, BRL – Brazilian real, COP – Colombian peso, CZK – Czech koruna, DOP – Dominican Republic peso, DZD - Algerian dinar, EGP – Egyptian pounds, HKD - Hong Kong dollar, HUF - Hungarian forint, INR – Indian rupee, MAD – Moroccan dirham, MXN – Mexican pesos, MYR – Malaysian ringgit, NIS - Israeli new shekel, PLN - Polish zloty, RUB – Russian ruble, SGD – Singapore dollar, TL – Turkish Lira, TWD – New Taiwan dollar, XAF – Central African Franc, ZAR – South African rand
2 EDC will cover Australian dollar, British pounds, Euro, Japanese yen, U.S. dollar, New Zealand dollar, Norwegian kroner, Czech koruna, Hong Kong dollar, Hungarian forint, Mexican peso, Polish zloty, Singapore dollar, South African rand, and Swedish kroner.
3 COFACE accepts exchange risk for the South African rand, the Singapore dollar, the Mexican Peso, the Russian ruble, the Hong Kong dollar, the Brazilian real, the New Taiwan dollar, and the Malaysian ringgit; the insurance policy for the Brazilian real, the Thai baht, and the Malaysian ringgit provides for indemnifying euros in the case where Coface could not buy enough of the local currency to pay the claim. Coface does not accept exchange risk—but does provide foreign currency financing—for the Moroccan dirham, the Indian rupee, the Algerian dinar, the Turkish lira, the Chilean peso, and the Colombia peso. Cover is reviewed on a case-by-case basis for additional currencies.
4 Hermes accepts hard currency exchange risk with a premium surcharge of 10 % in any case, independent of of the credit period. Hermes accepts sort currency exchange rate on a case-by-case basis with a premium surcharge of 10 % in any case, independent of the credit period. In case of credit periods exceeding two years, an additional premium surcharge is stipulated, depending on the interest differentials between Euro/Local Currency financing, i.e. each percentage point exceeding an interest differential of three percentage points will result in an additional premium surcharge of 0.25 % on the basic premium.
5 SACE determines on a case-by-case basis.
6 NEXI – U.S. dollars and Euro. Hard currency exchange risk is accepted with 200% appreciation of foreign currency in terms of USD and EUR, 300% appreciation for others.
7 ECGD will consider coverage for any currency that is readily convertible, and where the local financial markets have sufficient depth and capacity to fund the transaction.
8 U.S. Ex-Im Bank will cover Euros, Japanese yen, Australian dollars, Canadian dollars, New Zealand dollars, Brazilian real, British pound, Central African franc, Colombian pesos, Egyptian pound, Indian rupee, Indonesian rupiah, Korean won, Malaysian ringgit, Mexican pesos, Moroccan dirham, Norwegian kroner, Pakistani rupee, Philippine peso, Polish zloty, Russian ruble, Swedish kroner, Swiss franc, South African rand, Taiwanese dollar, Thai baht, and West African franc.

Exporter and Lender Survey and Focus Group Results

Although foreign and local currency cover was not in high demand during 2011, exporter and lender surveys conducted by Ex-Im Bank indicated that lenders and exporters viewed Ex-Im's foreign currency policy as slightly uncompetitive compared to those of other ECAs in 2011. As in 2010, in 2011 lenders and exporters alike found Ex-Im Bank's crystallization of all non-U.S. dollar denominated credits to be the main source of the lack of competitiveness. Regardless, lenders understand Ex-Im's crystallization policy and while they may not consider it competitive, they accept it as something with which they have to work, as it is a U.S. government policy to avoid taking foreign exchange risk. Neither the Lender nor Exporter Focus Groups raised the issue of local or foreign currency lending during the meetings.

Conclusion

Due to the U.S. Dollar's prominent role in international transactions, issues surrounding U.S. exporter competitiveness of Ex-Im's policies regarding local and foreign currency coverage were less central in 2011 than in previous years. Ex-Im's strict crystallization policy—that is, the requirement to convert the obligation post-claim payment to U.S. dollars on all foreign currency transactions—is viewed as detrimental to Ex-Im Bank competitiveness. The fact that the major ECAs can cover non-crystallized hard currency deals on a routine basis and are willing to offer non-crystallized cover for soft currencies on a case-by-case basis continues to render Ex-Im Bank approach to foreign and local currency coverage a "B".

Chapter 4: Major Program Structures
Section F: Services

Introduction

Services exports remain an increasingly important component of international trade, especially for the United States, where services exports are a major part of the National Export Initiative to double exports in five years. U.S. exports of services continued to grow, as does the U.S. services trade surplus. In 2011, U.S. services exports reached $605 billion from $549 billion in 2010, a 10.2% increase mostly realized in 'other private services' (e.g., business, professional and technical services) royalties and license fees, travel and transportation.[1] Over the same time period, U.S. services imports increased 5.7% to reach a record level of $426 billion.[2] The trade surplus for U.S. services exports increased by 23% in 2011 over the 2010 period, to $178 billion, compared to the $738 billion deficit for goods.[3]

Ex-Im's commitment to financing services exports is mandated in Section 2(b)(1)(D) of Ex-Im Bank's Charter, which states that "the Bank shall give full and equal consideration to making loans and providing guarantees for the export of services (independently or in conjunction with the export of manufactured goods, equipment, hardware, or other capital goods) consistent with the Bank's policy to neutralize foreign subsidized credit competition and to supplement the private capital market."

The overarching principle of Ex-Im support for services exports is the linkage of U.S. jobs to a specific export transaction, rather than support of a particular U.S. exporter or company. Currently, to comply with its jobs mandate, the Bank is required to verify U.S. content (jobs) in order to provide financing for services exports, as is the case with capital goods exports. Updating of the Ex-Im Bank's services policy would entail a fundamental change in the services policy criteria rather than a technical one.

Ex-Im Bank's Policy and Practice

Ex-Im Bank supports services exports over a wide range of service-providing industries. As seen in **Figure 22,** over the last three years Ex-Im Bank has provided financing for almost $9 billion of U.S. services exports (representing about 17% of the total export value supported by Ex-Im over this period). Ex-Im's support for services includes both "stand-alone" services (services that are not part of a capital goods/project-related transaction) and "associated services" (services that are associated with capital goods exports and/or large projects).

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[1] U.S. Commerce Department, International Trade Administration, U.S. Export Fact Sheet released February 12, 2012
[2] U.S. Commerce Department, International Trade Administration, U.S. Export Fact Sheet released February 12, 2012
[3] U.S. Commerce Department, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf.

In 2011, Ex-Im Bank supported over $2.9 billion in "stand-alone" and "associated" services exports. Several major industry sectors that received the largest proportion of the financing in 2011 were: engineering and consulting services, oil and gas drilling services, and information technology services. In fact, Bank's support for oil and gas and engineering and consulting services alone made up 72% of all services exports support in 2011.

Figure 22: Services Supported by Ex-Im Bank, CY 2009-2011 (Million USD)[1]

	2009			2010			2011		
	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total	Stand-Alone	Assoc.	Total
Engineering & Consulting	$24.2	$2,232.0	$2,256.2	$673.0	$338.0	$1,011.0	$1,169.3	$23.1	$1,192.4
Oil & Gas Drilling and Mining	--	$769.0	$769.0	--	$893.0	$893.0	$1.6	$874.9	$876.5
Construction[2]	--	$20.0	$20.0	--	--	--	$500.0	--	$500.0
Information Technologies & Telecom	$37.0	$98.1	$135.1	$11.0	$141.0	$151.0	$319.6	--	$319.6
Other Services[3]	$11.2	$2.6	$13.8	$24.0	$56.0	$80.0	$10.0	--	$10.0
Legal & Banking	--	$143.7	$143.7	$3.0	$47.0	$50.0	$2.0	$8.0	$10.0
Medical	$0.8	$1.0	$1.8	$0.1	--	$0.1	--	--	--
Transportation	$0.5	$21.5	$21.9	--	$51.0	$51.0	--	--	--
Rental & Leasing	$10.5	$416.1	$429.6	--	--	--	--	--	--
TOTAL	**$84.2**	**$3,706.9**	**$3,791.1**	**$711.1**	**$1,526.0**	**$2,236.1**	**$2,002.5**	**$906.0**	**$2,908.5**

Source: U.S. Ex-Im Bank
[1] Due to methodology differences, 2009 and 2010 data is not immediately comparable to 2011 data.
[2] Construction: Electrical Appliance Installation, Manufacturing, construction for petroleum refining project.
[3] Other services include: Administrative & Support, Repair/Maintenance, Personal Care, and Photography.

Most of the stand-alone services supported in 2011 were for engineering and consulting services and construction, with the others dispersed across the remaining sectors. Support for stand-alone services in engineering and consulting was significantly larger in 2011 than in the previous two years due to several major projects for which Ex-Im financing only involved U.S. services exports. Specifically, the two large stand-alone engineering and consulting services transactions in 2011 included a petroleum refining project and power generation project. Further, Ex-Im Bank supported about $320 million in information technology services in 2011, which included computer systems design, software, and computer programming.

Generally, Ex-Im Bank provided associated services exports with repayment terms of 5-12 years. These repayment terms reflect the medium- to long-term nature of the financing requirements of the large projects with which they are associated. In contrast, stand-alone services tend to receive short-term (6-18 months) support because of the useful life of these services.

G-7 ECAs' Policies and Practices

All G-7 OECD ECAs appear willing to support services as a general category of exports, with most medium- and long-term support provided for services associated with capital goods exports, although there is little official data from other G-7 ECAs regarding the

amount of services supported annually. Official G-7 ECA data on support for stand-alone services is unavailable[4]; however, almost all G-7 ECAs are willing to provide insurance cover for stand-alone services. The stand-alone services other G-7 ECAs are most likely to support include engineering and consulting services, software, and licensing services. Additionally, Euler Hermes launched a new insurance program targeted exclusively for architects, engineers, and other services exporters in early 2010.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders believe other ECAs are much more flexible and willing to support services exports. Foreign ECAs can support services included in or as an export contract for services being rendered by the exporter, without any requirement to disclose in detail the nationality of the service provider or their country of residence, where they pay taxes, as required by Ex-Im Bank. No ECA however, appears to have a well-defined services policy.

According to the annual Competitiveness Report survey completed by lenders and exporters using Ex-Im's medium- and long-term programs during 2011, there was a general consensus similar to the focus groups that improvements could be made in terms of the availability and flexibility of Ex-Im's services cover. For example, survey respondents commented that it can be challenging to meet Ex-Im Bank's eligibility requirements with respect to identifying U.S. content and origin of intangible services, particularly in those services exports involving intellectual property (e.g. was service provided by U.S. citizen, not just a U.S. company).

During the Lender and Exporter Focus Group meetings, engineering and, in particular, IT companies complained of Ex-Im Banks' detailed information requirements surrounding services contracts and how such requirements were unique to Ex-Im Bank. Foreign ECAs can cover a range of IT, legal, and engineering services without having to document the exact details surrounding the case-specific service provider. Lenders and exporters expressed that they desire different services export support from Ex-Im that is not strictly U.S. content or U.S. jobs centric and is instead much broader in scope. In the course of the benchmarking study interviews, the issue of services came up routinely, with examples of foreign ECA willingness to cover services based on either a global business perspective or services simply contracted through the country of the ECAs' exporter. Relative to its foreign ECA counterparts, Ex-Im Bank was considered to have an inflexible approach to documenting service exports.

Conclusion

Ex-Im Bank's available support for both associated and stand-alone services appears to be lacking competitiveness relative to other G-7 ECAs' available support. Information from buyers, exporters, and lenders on competitor practices related to services suggest that Ex-Im Bank's willingness to support services is equal to at least the average willingness of other ECAs. However, exporter and lender survey results indicate Ex-Im's services support has room for improvement in terms of availability and flexibility, which

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

diminishes Ex-Im's inferred relative competitiveness. More specifically, U.S. exporters proposed similar changes to the content policy applied to services as they have for the content policy overall; they contend that a shift from evaluating the eligibility of U.S. content (and the corresponding benefit to U.S. employment) to basing Ex-Im Bank support on the ownership or headquarters of the service exporter. This, coupled with onerous documentation requirements unique to the Ex-Im evaluation process for services, resulted in a downgrade in Bank competitiveness when compared to last year. While Ex-Im remains willing to provide support for service exports, for reasons cited above, the continued binding constraint in both lack of availability and flexibility in both process and terms for services transactions decreased Ex-Im Bank's competiveness in 2011. Thus, a grade of "B" for 2011, down from "A-/B+", is most appropriate, conveying the Bank's modest competitiveness when compared to other major ECAs

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

This year, Ex-Im Bank's Major Program Structures were considered moderately to generally competitive with their G-7 ECA counterparts, maintaining an average grade of "A-/B+" in 2011 (**Figure 23**).Project Finance had a banner year, outperforming all 0ther Ex-Im programs with an "A+", up from an "A" rating in 2010. Large Aircraft continued to rate very favorably, earning an "A". Additionally, with respect to Co-financing, Ex-Im Bank was generally to moderately competitive (A-/B+) with the Co-Financing programs of the major ECAs. The Bank's overall Environment policy held steady at "B", or generally competitive, in 2011, as did the Bank's Foreign Currency Guarantee. Ex-Im's performance in Services earned a "B," a downgrade from "A-/B+" in 2010 due to increased negative exporter feedback on the flexibility of Ex-Im's services support. The overall "A-/B+" score for the Bank's Major Program Structures reflect another fairly competitive year for Ex-Im. See Appendix A for letter grade definitions.

Figure 23: Grading of Ex-Im Bank's Major Program Competitiveness, 2011

Key Elements	Grade
Large Aircraft	**A**
Interest Rate Level	A
Percentage of Cover	A-/B+
Risk Capacity	A
Project Finance	**A+**
Core Program Features	A+
Repayment Flexibilities	A
Co-Financing	**A-/B+**
Bilateral Agreements	B
Flexibility in One-Off Deals	A
Environment	**B**
Environmental Guidelines	A
Transparency	B
Carbon Policy	B-/C+
Foreign Currency Guarantee	**B**
Availability of Hard Cover	B
Availability of Soft Cover	B
Accepts Exchange Rate Risk	B
Services	**B**
Availability	A-/B+
Flexibility	B
Total Average Grade	**A-/B+**

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

Introduction

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

The Ex-Im Bank Tied Aid Capital Projects Fund totals approximately $160 million. The fund was not used in 2011, and furthermore, has only been used once over the past eight years (See Appendix F for details).

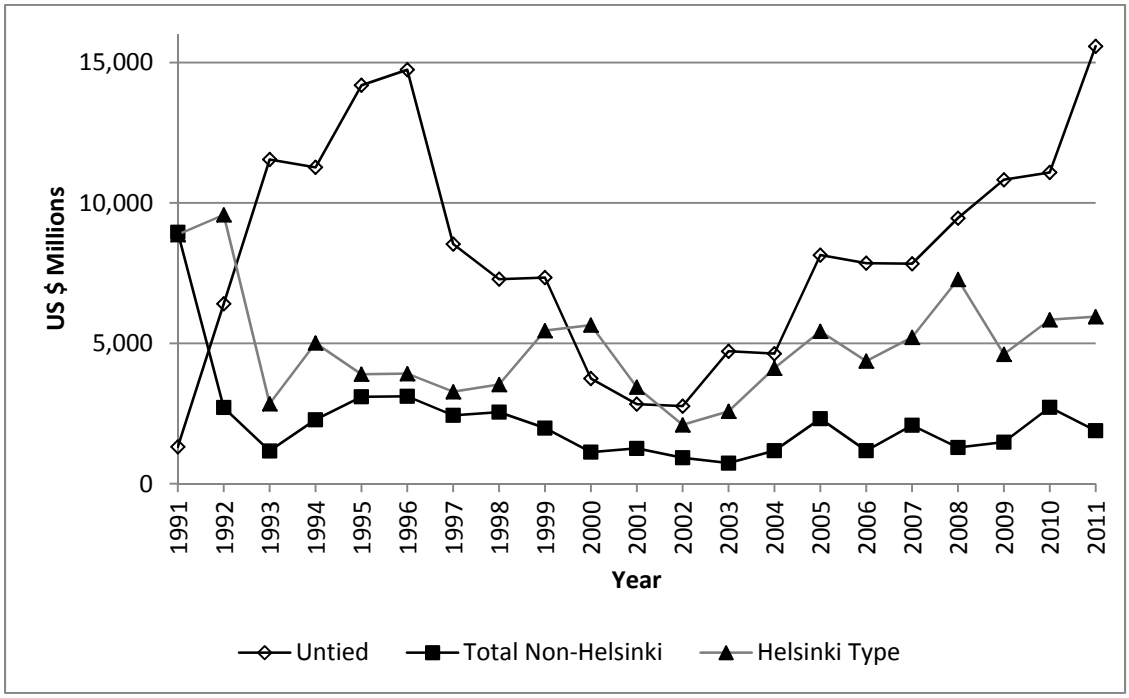
Overview of Tied and Untied Aid

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

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

As indicated in **Figure 24** the volume of Helsinki-type tied aid showed a slight increase of 0.3% to approximately $5.9 billion in 2011. The number of Helsinki-type tied aid notifications decreased almost 10% in 2011, to 123 notifications as compared to 132 in 2010 (**Figure 25**). In 2011, these slight adjustments evidenced that the decreased number of Helsinki-type tied aid notifications and minor increase in volume are in line with the 5 year trend, asserting that Helsinki-type tied aid activity has remained stable even during the financial crisis. Variations in volume since 2007 are dependent on the size of the actual transactions approved.

Figure 24: Aid Credit Volume by Type, 1991-2011 (Millions USD)



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

Figure 25: Number and Volume of Helsinki-type Tied Aid Notifications (2007-2011)

	2007	2008	2009	2010	2011
Helsinki-type Tied Aid Notifications (Number)	135	116	135	132	123
Helsinki-type Tied Aid Notifications (USD)	$5,213	$7,271	$4,609	$5,838	$5,949

Ex-Im Bank's Policy and Practice

Ex-Im Bank applies the Helsinki Disciplines more stringently than other OECD Members. For transactions to be eligible for tied aid, the Bank, in consultation with Treasury, must first attempt to get competitors to withdraw tied aid offers. If that action does not prove successful, tied aid support will be limited in order to support only those transactions whose benefits extend beyond the particular projects (e.g. follow-on sales on commercial terms). Furthermore, Ex-Im does not have an untied aid program.

In 2011, tied aid or concessional financing allegations reported to Ex-Im that were represented as a threat to U.S. exporter sales prospects were related to tied aid or concessional financing offers by both OECD and non-OECD countries. While the actual

tied aid applications that were submitted to Ex-Im in 2011 were requesting matching offers to counter OECD ECA tied aid offers, exporters and lenders made frequent allegations of non-OECD ECA tied aid use. Nonetheless, access to the specific financing terms by non-OECD ECAs remains an ongoing obstacle to Ex-Im intervening and matching such financing offers.

In 2011, the Bank authorized a Tied Aid Letter of Interest for the sale of fire trucks to Indonesia. This transaction met all of Ex-Im's tied aid criteria to match, and authorization of the Tied Aid Letter of Interest will help a U.S. exporter from losing its commercial market share due to tied aid use by an OECD ECA.

Ex-Im also denied three transactions in 2011. Two of the projects faced standard OECD ECA tied aid offers, but both transactions were denied based on the fact that there was no derogation from the OECD tied aid rules and no evidence of future follow-on sales on commercial terms. Lastly, the Bank denied another tied aid transaction facing non-OECD competition in 2011 because the case also did not satisfy Ex-Im's criteria for standard export credit support due to concerns related to operational and financial risks. As Ex-Im looks to a reasonable assurance of repayment (RAOR) on all transactions, including tied aid, this transaction was denied. Furthermore, had the deal passed the RAOR test, the transaction did not meet the tied aid criteria for support. In 2011, Ex-Im did not hear of any allegations regarding tied aid offers from OECD counterparts for projects or sectors considered to be financially and/or commercially viable.

G-7 ECAs' Policies and Practices

The G-7 ECAs and other OECD Participants apply the Helsinki Disciplines to their tied aid programs. In contrast to Ex-Im Bank, however, their tied aid programs are not subject to such rigid criteria for use. Hence, the majority of data related to tied aid transactions is derived from OECD member application of the Helsinki Disciplines, rather than Ex-Im Bank activity.

Specific trends in 2011 with respect to Helsinki-type tied aid were:

- The volume and number of OECD Helsinki-type tied aid offers has remained stable (or slightly declined) over the past five years. Appendix F of this report details specific trends.

- Japan has maintained its status as the largest donor of tied aid by volume, although the volume of Japanese tied aid increased significantly. In 2011, Japan offered over $4.5 billion in tied aid activity accounting for 69% of total volume, an increase of 66% from 2010 (see **Figure 26**).

- In 2011, Austria was the second largest donor of tied aid, offering over $650 million (11% of the total volume). Interestingly, France and Spain, historically two of the biggest tied aid donors, decreased their tied aid support in 2011 by approximately 90% and 81%, respectively.

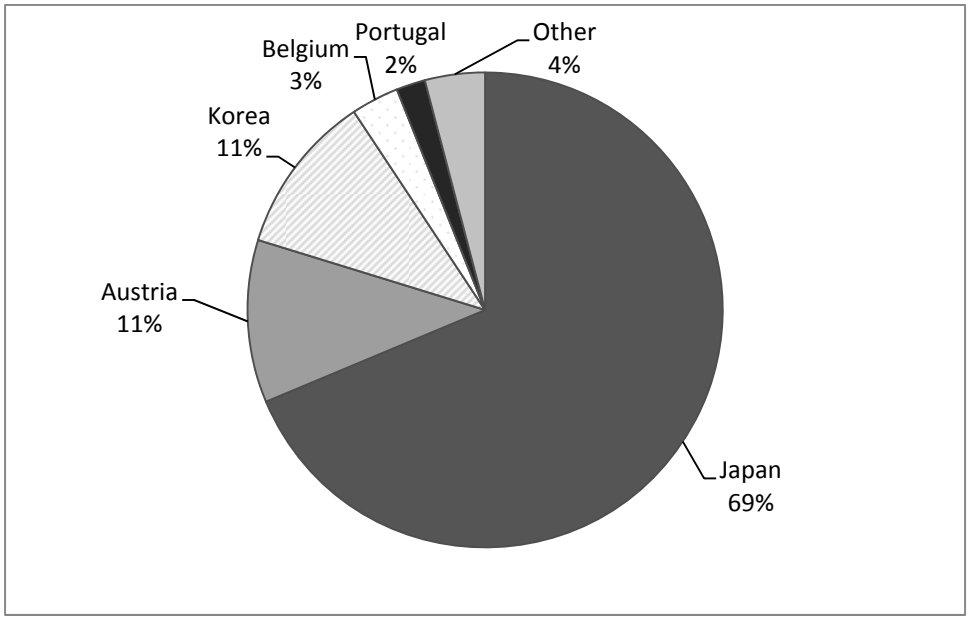
- Korea was the third largest donor ($644 million), with Belgium ($191 million) and Portugal ($116 million) as the fourth and fifth largest donors, respectively.

- In 2011, the East Asia and Pacific region continued to be the largest recipient region of Helsinki-type tied aid (see **Figure 27**). Iraq received over $2 billion in tied aid for one project, making it the largest recipient in 2011. Vietnam was the second largest recipient ($1.86 billion). China continued to be the largest recipient of tied aid in terms of the number of tied aid offers (26 notifications).

- Unlike past years, business areas not considered to be "major" sectors receiving tied aid (Education, Health, and Water Supply and Sanitation) accounted for the largest volume tied aid in 2011 ($2.3 billion). The Mineral Resources and Mining sector received the second largest volume of tied aid due to the 1 project in Iraq ($2 billion).

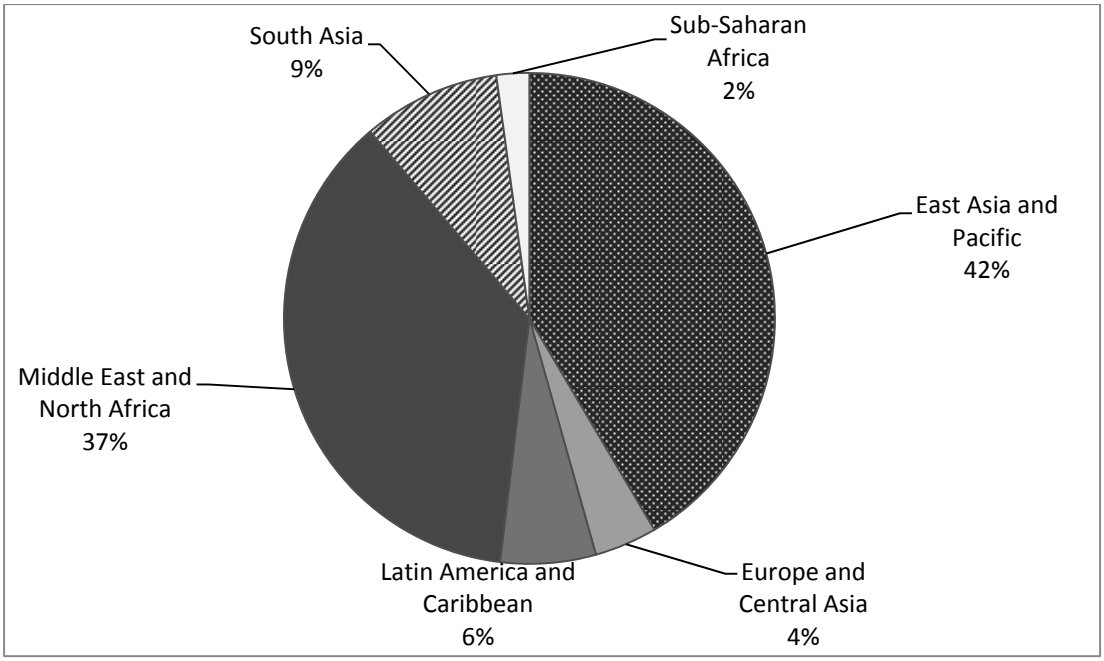
In 2011, five of the projects notified were in sectors considered to be financially viable.[1] Four of the projects were in the Energy Generation and Supply sector, while one project was in the Mineral Resources and Mining sector (Iraq project). None of these projects were subject to the OECD consultations process, although OECD member countries did exchange views on the Iraq project, ultimately determining that the project would not be commercially viable regardless of its cash flow and review of financial viability.

Figure 26: Helsinki-type Tied Aid Notifications by Donor (by value), 2011



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

Figure 27: Helsinki-type Tied Aid Notifications by Region (by value), 2011



Data from the OECD untied transparency agreement shows that in 2011, untied aid notifications increased slightly from 81 in 2010 to 85 in 2011. However, untied aid volume increased significantly to close to $15.6 billion (a 40% increase as compared to 2010). Hence, the total average transaction value of untied aid transactions went up in 2011. Other points of interest:

- As in 2010, six countries reported untied aid notifications. The reporting countries are Belgium, Denmark, France, Germany, Japan, and Korea.

- Japan reported the largest number of untied aid transactions both in terms of number (39) and volume ($12.6 billion). France followed with 35 notifications worth a total of approximately $2.7 billion. Korea notified the third largest amount with 5 notifications and $256 million.

- Similar to 2010, India received the largest amount of untied aid notifications both in terms of volume ($3.7 billion) and number of notifications (9). In terms of volume, India was followed by Indonesia ($3.6 billion) and Iraq ($2.4 billion). Indonesia received the second higher number of notifications (8), followed by Philippines (7) and Vietnam (5).

- The largest sector by volume in 2011 was for the Energy Generation and Supply sector ($5.6 billion), followed by Transport and Storage ($3.3 billion). Mineral Resources and Mining received $2 billion in untied aid notifications. Energy Generation and Supply received the largest number of notifications (23), followed by Water Supply and Sanitation (14).

Exporter and Lender Survey and Focus Group Results

Both exporters and lenders assert that Ex-Im is unwilling to authorize tied aid transactions even though they encounter OECD and non-OECD ECA tied and untied aid programs. This fact puts Ex-Im and U.S. exporters at a disadvantage vis-à-vis its competitors. Of particular concern to exporters and lenders were concessional financing offers in Africa that China was providing as governmental lines of credits, used to fund a variety of projects of interest to the recipient and donor.

Conclusion

In 2011, Ex-Im Bank received more applications for tied aid support than in recent years. Out of four applications that were submitted to the Bank for consideration in 2011, the Bank approved a standard tied aid letter of interest for one tied aid offer. Obtaining credible evidence of case-specific financing terms from non-OECD ECA competitors continues to be a difficult benchmark for applicants to meet. Furthermore, for the OECD ECA matching transactions, exporters have had difficulty proving that the authorization of a tied aid transaction will secure future transactions financed on commercial terms. Hence, Ex-Im Bank's tied aid policy can have a negative influence in U.S. exporter competitiveness.

Chapter 5: Economic Philosophy
Section B: Market Windows

Introduction

Market Windows are entities or programs run by government-owned institutions that offer official credits on "mark-to-market terms. Although they are often tied to some extent, these fully market-oriented operations lie outside the WTO subsidy process and, thus, fall outside of the realm of the OECD Arrangement. However, the benefits exporters receive from these programs, such as implicit or explicit government guarantees, tax exemptions and equity capital provided by the home government, are benefits that commercial banks cannot offer. Importantly, with the introduction of the new OECD premium agreement – specifically the Category 0 pricing rules which establishes pricing in those countries based on market terms – the differentiation between non-Arrangement-regulated financing and Arrangement-regulated financing is becoming more difficult to see clearly. Market Windows pose a potential competitive threat in the export finance market, as such programs are not subject to the rules established by the OECD Arrangement that official ECAs must follow, nor to the limitations of a true commercial bank.

The competitive impact of Market Windows programs is difficult to establish due to the lack of data on such transactions. Because these transactions fall outside of the OECD rules there is no transparent mechanism with which to obtain data on deal specific terms. Market Window institutions do provide publicly available data on aggregate terms on the basis of specific regions or sectors, however bifurcating such data between Market Window and official export credit activity is difficult to obtain. Hence, measuring and assessing the competitive impact is quite difficult. Moreover, there have been no recent allegations or evidence of competitive harm from such programs to look to for tangible evidence.

Ex-Im Bank's Policy and Practice

Ex-Im Bank cannot provide untied or Market Window financing. All of Ex-Im Bank's medium- and long-term transactions comply with the terms and conditions of the OECD Arrangement. A fundamental principle driving the absence of a Market Window program is the long-standing U.S. government policy of prohibiting Ex-Im Bank from competing with commercial banks for export credit business, as well as specific legislative limitations. In 2002, Congress gave Ex-Im Bank the ability to match the terms and conditions offered by Market Windows. As of 2011, Ex-Im Bank has yet to use this matching authority.

G-7 ECAs' Policies and Practices

Three G-7 countries provide explicit Market Window support: Canada through EDC; Germany through KfW IPEX-Bank, a KfW subsidiary; and Italy through SACE, which started an untied program in 2008. The SACE program supports untied loans through insurance or guarantees as long as the transaction is in the "national and strategic

interests" of Italy. In 2011, SACE authorized over $30 million under its untied program. The following discusses the recent activities of the two historical G-7 Market Window institutions.

- **EDC**

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

Prior to the implementation of the 2007 Aircraft Sector Understanding, Canada authorized most of its aircraft business through its Market Window program. However, when the ASU came into effect, EDC moved its aircraft business to its official window. EDC's medium- and long-term export credit activity from 2006 to 2011 shows that with the onset of the financial crisis, EDC's official window activity increased. Nevertheless, both Market Window and official window activity for Canada fell considerably over the past year (**Figure 28**).

Figure 28: EDC Medium- and Long-Term Activity, 2006-2011 (Billions USD)

	2006	2007	2008	2009	2010	2011
Total MLT Export Credits	$5.3	$2.8	$4.6	$4.6	$5.4	$3.3
Market Window	5.1	2.3	3.3	1.8	2.8	1.5
Official Window	0.2	0.5	1.3	2.5	2.6	1.7

Source: EDC

- **KfW IPEX-Bank**

In 2004, KfW Bankengruppe began conducting much of its export credit and project finance activity through IPEX-Bank, a newly-created, 100% KfW-owned, arms-length subsidiary (i.e., a "bank-in-a-bank"). The decision to separate Market Window activity from KfW's state-sponsored economic support activities was motivated by the European Commission's concern that KfW's export financing was unfairly competing with European commercial banks due to KfW's state support. To fully address the European Commission's concern, on January 1, 2008, KfW IPEX-Bank began operating as a legally independent entity but still remains a subsidiary of KfW and continues to be closely integrated into KfW's overall strategy. Although KfW IPEX-Bank received an initial equity injection from its spin-off from KfW, it has a stand-alone credit rating, which is the basis of its funding costs. KfW IPEX-Bank is also subject to taxation and German banking regulations. It must earn a risk-adjusted return on capital of 13%, a level determined by IPEX-Bank management and endorsed by KfW's Board.

KfW IPEX-Bank's export credit business is provided both on Arrangement terms, with official export credit insurance coverage by Euler Hermes (Germany), and on Market Window terms. The Market Window support is provided in connection to European

Union (and German) interests. KfW IPEX Bank's total medium- and long-term activity increased by 55% in 2011. In 2011, KfW IPEX Bank's Market Window activity remained stable, while support under its official window doubled. **Figure 29** below provides a breakdown between the Market Window and official window support provided by KfW IPEX-Bank since 2006.

Figure 29: KfW IPEX-Bank Medium- and Long-Term Activity, 2006-2011 (Billions USD)

	2006	2007	2008	2009	2010	2011
Total MLT Export Credits	$4.0	$5.4	$5.9	$3.4	$4.0	$6.2
Market Window	2.2	2.7	2.7	1.1	1.8	1.8
Official Window	1.8	2.7	3.2	2.3	2.2	4.4

Source: KfW IPEX Bank

Summary Data

Combining the two estimates for EDC and KfW IPEX-Bank yields a total of $3.3 billion in Market Window volume for 2011, with much of the decrease attributed to EDC's lower Market Window activity (see **Figure 30**).

Figure 30: Market Window Activity, 2006-2011 ($U.S. Billions)

	2006	2007	2008	2009	2010	2011
EDC	5.1	2.3	3.3	1.8	2.8	1.5
KfW/IPEX-Bank	2.2	2.7	2.7	1.1	1.8	1.8
Total	$7.3	$5.0	$6.0	$2.9	$4.6	$3.3

Exporter and Lender Survey and Focus Group Results

The perception among survey respondents is that Ex-Im Bank is unwilling to match Market Window programs. Furthermore, one exporter commented that it is difficult to mobilize Ex-Im to match Market Window financing; subsequently, sales are lost. Exporter and lenders consider the absence of an Ex-Im Market Window program a negative impact on the Bank's overall competitiveness. Moreover, during focus group meetings, exporters noted that the lack of a U.S. government program that is comparable to the foreign Market Window programs does leave U.S. exporters with fewer financing options.

Conclusion

In 2011, Ex-Im Bank received no information on specific transactions posing a competitive threat due to Market Window financing. However, the absence of Market Window financing allegations does not minimize the effect that such programs can have on U.S. exporter and lender competitiveness. The flexible terms and attractive financing Market Windows programs can offer on a case-by-case basis remain a concern for Ex-Im Bank and its stakeholders. While activity deemed "Market Window" appeared to decline in 2011, untied financing is becoming more prevalent in the export finance

world, as noted in Chapter 8. Nonetheless, absent direct competition of Market Window programs on U.S. lenders and exporters, Market Windows have a neutral impact on Ex-Im's competitiveness.

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

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

After not executing any Tied Aid deals in 2010, Ex-Im Bank authorized a Tied Aid Letter of Interest relating to a transaction involving fire trucks to Indonesia during calendar year 2011. This transaction met all of Ex-Im's tied aid criteria to match, and authorization of the Tied Aid Letter of Interest may have helped a U.S. exporter from losing its commercial market share due to tied aid use by another OECD ECA. Ex-Im also denied 3 transactions in 2011. The overall impact of Ex-Im's tied aid policies is negative.

Overall Market Window activity has still not recovered to pre-crisis levels and, in fact, declined in 2011. No specific cases of Market Windows were highlighted in 2011. Some exporter and lenders consider the absence of an Ex-Im Market Window program a negative impact on the Bank's overall competitiveness, but with the decreased volume coupled with the lack of direct competition, Market Windows continue to have a neutral impact on Ex-Im's competitiveness.

Figure 31 shows the range of impact that these financing features (e.g., *de facto* "tied" untied aid, Market Windows) could have on Ex-Im Bank's competitiveness in individual cases when similar terms and conditions are not made available by Ex-Im Bank to U.S. exporters. See Appendix A for more on the Report's grading methodology.

Figure 31: Grading of Ex-Im Bank's Competitiveness When Confronted with Differing Government Financing Philosophies and Programs, 2011

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

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

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

Pursuant to its Congressional mandate, Ex-Im Bank's mission is to support U.S. jobs through exports by filling gaps not met by the private sector. These gaps generally occur when transactions require certain terms (e.g., 10-year repayment terms) not available from commercial sources of financing or when U.S. exporters encounter foreign competition benefitting from officially supported financing. By correcting these imperfections in the market, Ex-Im Bank provides U.S. exporters with competitive financing on terms and conditions consistent with market-based principles (e.g., charge fees that reflect risk).

At the same time, because Ex-Im Bank uses U.S. taxpayer-backed funds, Congress requires the Bank to be mindful of certain public policy considerations in providing export credit financing. These considerations tend to constrain Ex-Im Bank activity and, therefore, can affect Ex-Im Bank competitiveness.

This chapter of the Report focuses on three of the more noteworthy public policy considerations that have the potential to impact U.S. exporter competitiveness. These policy mandates are summarized below:

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

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

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

  In addition, Ex-Im Bank can cover up to 30% of the U.S. export contract in local costs, or goods and services procured in the buyer's country. Long-term transactions are automatically eligible for local cost support, while medium-term transactions can only obtain local cost support if the applicant demonstrates need.

Medium-term applicants must demonstrate either: (1) foreign competition with ECA-backed local cost financing; or (2) lack of private market local cost financing for the transaction.

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

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

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

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

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

Introduction

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

In 2011, economic impact policy directly affected approximately 40% (135) of medium- and long-term transactions that were "acted on,"[1] while less than 1% (2) were subject to a detailed economic impact analysis.[2] (See **Figures 32** and **33**.)

Ex-Im Bank's Policy and Practice

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

- Foreign production of substantially the same product that is the subject of specified trade measures;[3] or

- Poses the risk of substantial injury to the U.S. economy.[4] All applications seeking over $10 million in Ex-Im financing where the new foreign production exceeds 1% or more of U.S. production of the same good, are subject to a detailed

[1] "Acted on" refers to transactions the Bank authorized, denied, and applications that were withdrawn by the applicant prior to Bank's action. Note this number is different from the number of reported authorizations for the year.

[2] In accordance with the Bank's Charter and economic impact procedures, to trigger a detailed economic impact analysis a transaction must have all of the following characteristics: (a) an application request for more than $10 million in Ex-Im financing (or aggregate requests for Ex-Im financing that have exceeded $10 million over the past 24 months and have involved the same foreign entity and substantially the same product to be produced); (b) the export is capital goods and/or services; and (c) the new foreign production has met the statutory threshold of 1% or more of U.S. production of the same or similar product.

[3] The relevant trade measures are: anti-dumping (AD) or countervailing duty (CVD) orders; Section 201 injury determinations under the Trade Act of 1974; and suspension agreements from AD/CVD investigations.

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

economic impact analysis.[5] In a detailed economic impact analysis, staff examines global supply and demand for the good in an effort to assess the broad competitive impacts on U.S. industry arising from the new foreign production (e.g., whether U.S. production is likely to compete with the new foreign production).

The Bank's Charter also requires Ex-Im Bank's Chairman to submit a Sensitive Commercial Sectors and Products list ("Sensitive Sectors List") to Congress each year. This list is designed to inform potential applicants of industries that have historically faced significant difficulty obtaining Ex-Im Bank support. However, it is important to stress that inclusion on the Sensitive Sectors List does not indicate an automatic denial of Ex-Im support. The 2011 Sensitive Sectors List, comprised of "raw steel-making capacity," "DRAM semiconductors," and "U.S. market oriented" production, was submitted to Congress in May of that year. [6]

Ex-Im Bank Summary Data

In CY 2011, the Bank "acted on" 344 medium- and long-term applications. Again, "acted on" refers to transactions the Bank authorized, denied, and applications that were withdrawn prior to Bank's action. Of the 344 applications, 228 were applications for medium- and long-term loans and guarantees at the Preliminary Commitment and Final Commitment stages, and 116 were medium-term insurance applications. (See **Figure 32**.)

Figure 32: Applications "Acted On" by Ex-Im Bank, CY 2008- 2011

	2008	2009	2010	2011
Long- and Medium-Term Loans and Guarantees (PC or AP)	287	218	192	228
Medium-Term Insurance	223	106	144	116
Total Long- and Medium-Term Transactions	**510**	**324**	**336**	**344**

Source: U.S. Ex-Im Bank Data

In CY 2011, the Bank analyzed those 344 medium- and long-term applications for economic impact implications, and identified 135, which involved the export of capital goods and services. None of the applications supported in 2011 enabled the foreign buyer to produce a good subject to trade measures. Further analysis indicated that:

- 18 of the 135 applications involved exports that would enable the foreign buyer to produce goods that are deemed to be in undersupply and therefore were not subject to further economic impact analysis. Undersupply, as described in the publicly available economic impact procedures,[7] is characterized by long-term

[5] Legislation enacted in December 2006 requires that, for the purposes of determining whether a proposed transaction exceeds the $10 million threshold, the Bank aggregates the dollar amount of the proposed transaction and the dollar amount of all transactions approved by the Bank in the preceding 24-month period that involved the same foreign entity and substantially the same product to be produced.

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

[7] Bank's economic impact procedures are available at http://exim.gov/products/policies/econ_impact_proc.cfm

excess demand as compared to expected available supply of a good. Products currently on the undersupply list are diamonds and oil and gas.

- 111 of the 135 applications involved requests for $10 million or less in Ex-Im financing in CY 2011. Individually, these applications are not subject to detailed analysis; however, as previously mentioned, the Charter and the Bank's economic impact procedures require that all applications requesting $10 million or less in Ex-Im financing to the same foreign entity and substantially the same product to be produced be aggregated over the past 24 months. If the aggregated amount exceeds $10 million, then the transaction would receive further scrutiny to determine whether the new foreign production would meet the 1% threshold for substantial injury.

- six of the remaining 135 applications were reviewed to determine whether the new foreign production would exceed 1% of comparable U.S. production. Four of these six did not meet the 1% threshold for substantial injury, and therefore, did not require any further economic impact review. The remaining two cases were subject to detailed economic impact analysis, yielded a net positive economic impact finding, and were approved by Ex-Im's Board of Directors.[8]

Figure 33: Applications That Triggered One or More Economic Impact Filters and as a Result Were Subject to Further Economic Impact Scrutiny CY 2008- 2011, by Economic Impact Filter

Economic Impact Filters:	Number of Long- and Medium-Term Applications			
	2008	2009	2010	2011
Undersupply	14	16	16	18
$10 Million or Less Requested in Ex- Im Financing	162	60	91	111
No Substantial Injury Determination	4	5	3	4
Subject to Detailed Economic Impact Analysis	10	7	8	2
Total Number of Cases Caught by Economic Impact Filters	**190**	**88**	**118**	**135**
Percent of "Acted On" Cases Directly Affected by Economic Impact Mandate	37%	27%	35%	40%
Percent of "Acted On" Cases that Received Detailed Economic Impact Analysis	2%	2%	2%	<1%

Source: U.S. Ex-Im Bank Data

[8] In CY 2011, three detailed economic impact analyses were conducted and notified to the Federal Register, however, of those three, only two transactions were authorized that year. The third transaction was approved in CY2012 and will be accounted for in the next year's Competitiveness Report.

Exporter and Lender Survey and Focus Group Results

Exporters and lenders once again gave Ex-Im Bank's economic impact policy a negative rating. The general consensus in the export community is that the economic impact requirement has a "chilling effect" on potential applicants and is subsequently viewed as a distinct competitive impediment to potential transactions.

Exporter and Lender Focus Group meeting participants did not identify economic impact as an area of major concern as they recognized that the requirements were not within Ex-Im Bank's control, irrespective of the fact that foreign ECAs do not have an economic impact review.

G-7 ECAs' Policies and Practices

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

Conclusion

Ex-Im Bank's economic impact policy directly affected approximately 40% (135) of the Bank's medium- and long-term transactions "acted on" in CY 2011. The U.S. export community expressed that the economic impact mandate has a negative effect on the Ex-Im Bank's competitiveness relative to foreign ECAs. However, given the small number of applications subject to detailed economic impact scrutiny (less than 1% of 344, or 2 transactions in CY 2011), the actual effect of the economic impact mandate on overall Ex-Im Bank's activity is relatively narrow.

Because no other G-7 ECA is prohibited from supporting transactions due to economic impact considerations, this requirement has a negative impact on Ex-Im Bank's competitiveness. As such, the economic impact policy was once again given a negative rating. However, because applications subject to detailed economic impact scrutiny represent a distinct minority of Ex-Im Bank transactions, the actual effect of the economic impact mandate on Ex-Im Bank's competitiveness should be weighted accordingly.

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

Introduction

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

For many years, eligibility and cover criteria for foreign content have been identified by many exporters as their number one concern. In 2011, concerns regarding Ex-Im Bank content policies increased in tandem with the spike in demand for Ex-Im Bank direct loan financing, which was prompted by the liquidity constraints caused by the 2008 financial crisis, the Eurozone crisis, and the new regulatory environment resulting from banks preparing to implement Basel III requirements. For more information about the financial crisis please refer to Chapter 2.

As such, there is a growing interest in introducing flexibility into the domestic content rules because they are not governed by international agreement. That is, each ECA establishes its own guidelines. Thus, exporters have most frequently identified foreign content as an area where ECA policies and practices substantially diverge as they are driven by the political and economic environment in which each ECA operates. By contrast, the OECD Arrangement sets the basic parameters on official local cost support and, as a result, ECA policies appear to be more closely aligned.

Ex-Im Bank's Foreign Content Policy and Practice in 2011

In keeping with its mandate to maintain or increase U.S. employment through the financing of U.S. exports, Ex-Im Bank's foreign content policy ensures that its export financing targets U.S. content that is directly associated with goods and services exported from the United States. Ex-Im Bank relies on U.S. content as a proxy to evidence support for U.S. jobs. During fiscal year 2011, the Bank reported $32.7 billion in export financing that supported $41.3 billion worth of American exports and supported an estimated 288,000 jobs. Thus, the content policies aim to provide incentives to maximize sourcing of U.S. content. Nevertheless, in some situations U.S. export contracts contain essential goods and services that are foreign-originated. To accommodate these goods and services, Ex-Im Bank's policy allows the inclusion of some foreign content in the U.S. export contract with certain restrictions and limitations.

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

For all medium- and long-term transactions, Ex-Im Bank's foreign content policy *restricts* the scope of its financial support to cover only those products that are shipped from the United States to a foreign buyer, and then it *limits* the level of its support to the **lesser of**: (1) 85% of the value of all eligible goods and services contained within a U.S. supply contract; or (2) 100% of the U.S. content of that export contract. Hence, there is no minimum U.S. content requirement.

G-7 ECAs' Policies and Practices: Foreign Content

As a general rule, all ECAs seek to maximize their own national benefit resulting from their respective activities. Traditionally, the level of domestic content has been used to establish the level of official support available. Today, however, G-7 ECA policy and practice vary widely on the determination of national benefit. Specifically, while Ex-Im Bank's definition of national interest is linked to national content and the U.S. jobs that result from it, foreign ECAs have added to the domestic content criteria, which is now but one of many indicators of national benefit. Other indicators include indirect job support resulting from future sales, future employment prospects resulting from the procurement of parts and technology from the domestic parent company, and relationship building with foreign exporters that would be incentivized to increase their investments to further access ECA financing. Thus, the national benefit evaluation is considered on a broad spectrum that includes not only the assessment of the benefits that a single transaction has on the ECA's domestic economy, but also projections of future benefits. Therefore, ECAs have adopted different content policies depending on the country's political and economic landscape.

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

Ex-Im Bank is the only G-7 ECA that does not provide any direct support for third country content. That is, though the Bank does not require a minimum amount of domestic content for medium- and long-term transactions, the Bank has the lowest "foreign content allowance" (15%). In addition, Ex-Im Bank is the only ECA requiring that goods be shipped from domestic shores in order to be eligible for support. However, unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and will support a maximum of up to 15% foreign content AND 30% local costs. In contrast, G-7 ECAs generally consider the level of support on the total non-domestic content (foreign and local) on an aggregate basis. That is, if a G-7 ECAs content policy states that it will allow up to 50% non-domestic content, if the local costs are maximized at 30%, the foreign ECA will limit the eligible foreign content to 20% of the export contract. **Figure 34** compares the main aspects of the content policies of the G-7 ECAs in 2011. The data illustrate that Ex-Im Bank's content requirements and implementation of those requirements are significantly more restrictive than those of its G-7 counterparts. In summary, foreign ECAs generally offer a more flexible, case-by-case approach to domestic, foreign, and local content than is currently available from Ex-Im Bank.

Figure 34: Comparison of Content Policies of the G-7 ECAs, 2010

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

Ex-Im Bank Summary Foreign Content Data

In 2011, the data indicate that the incidence of foreign content in Ex-Im Bank transactions (as shown in **Figure 35**) is on the rise. Specifically, the dollar volume of transactions which include foreign content as a share of total exports has jumped to 92%, while the number of transactions comprises slightly more than 40% of all medium- and long-term activity. Ex-Im authorized almost twice as many long-term deals with foreign content than medium term. In 2011, while the incidence of foreign content is increasing, the average foreign content ratio dipped slightly from the previous year to 12%, but remains in line with the 11-14% levels that foreign content has been during the past five years. Medium-term transactions are lower dollar value, but the average foreign content is marginally higher (16%) than the average foreign content in long-term transactions (12%). (See Appendix E for foreign content transaction detail.[1])

Figure 35: Recent Trends in Ex-Im Bank Foreign Content Support, 2006-2011 (U.S. $ Million)

	Authorizations	2007	2008	2009	2010	2011
Total activity	Export value ($MM)	$7,833	$12,082	$17,449	$14,398	$20,695
	Number of transactions	412	333	275	320	308
Transactions containing Foreign content	Export value ($MM)	$7,457	$10,750	$15,946	$11,342	$18,997
	Percentage of total value	95%	89%	91%	79%	92%
	Number of transactions	143	141	115	122	124
	Percentage of total number	35%	42%	42%	38%	40%
Foreign content	Volume ($MM)	$919	$1,164	$2,106	$1,604	$2,373
	Average per transaction	12%	11%	13%	14%	12%

Source: U.S. Ex-Im Bank

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

Ex-Im Bank's Local Cost Policy and Practice in 2011

When Ex-Im Bank provided medium- or long-term guarantee, loan or insurance support for exports in 2011, it could also provide support up to 30% of the value of the U.S. exports (including eligible foreign content) for locally originated or manufactured goods and services connected to the U.S. export contract. Ex-Im Bank's local cost policy reflects the premise that some amount of local labor and raw materials are necessary to efficiently build or assemble the end product of the U.S. export. The absence of Ex-Im Bank support for local costs that is integral to the U.S. exporter's contract could undermine the U.S. exporter's chances of winning the sale.

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

In 2011, Ex-Im Bank approved an expansion of the local cost eligibility criteria to all long-term transactions. The expansion allows Ex-Im local cost support to be offered for local costs that are beneficial to the project as a whole. The previous requirement was that local costs relate directly to the U.S. exporter's contract. Automatic local cost support continues to be available for all environmentally beneficial exports, the engineering multiplier program, medical equipment exports, and exports of products related to transportation security projects (also known as the Transportation Security Export Program), regardless of term.

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

Ex-Im Bank Summary Local Cost Data

Figure 36 illustrates recent trends in Ex-Im Bank's support of local costs. In 2011, the dollar volume of transactions that received local cost support represented 11% of total medium- and long-term transactions. In 2011, though the distribution between medium- and long-term deals receiving local costs support was even, long-term transactions comprised close to 98% of the volume of all local cost authorizations, with project finance transactions accounting for 68% of the overall local cost volume. In 2011, about 70% of local cost financing supported installation costs, on-site construction, and labor costs. Almost 18% was generally comprised of import duties and value added taxes and the remaining approximately 12% was to support capital equipment. It is important to note, however, that aircraft (large and small) transactions do not typically receive local cost support and have been excluded from **Figure 36**.

Figure 36: Recent Trends in Ex-Im Bank Local Cost Support, 2007-2011 (U.S. $ Million)

	Authorizations	2007	2008	2009	2010	2011
Total medium- and long-term activity*	Authorized Amount	$3,682	$4,292	$7,330	$7,152	$8,780
	Number of transactions	438	377	303	284	266
Medium- and long-term activity containing local costs	Number of transactions	35	37	47	46	58
	Percentage of total number of transactions	8%	10%	16%	16%	22%
Local costs	Volume ($MM)	$30	$211	$1,299	$705	$955
	Percentage of total medium- and long-term activity	1%	5%	18%	10%	11%

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

G-7 ECAs' Policies and Practices: Local Cost

All G-7 ECAs adhere to the basic local cost parameters set forth in the OECD Arrangement. In the calendar year 2011, 19 OECD Participants notified 160 transactions where local cost support exceeded 15%. Specifically, Ex-Im notified the most transactions (46), followed by Germany (Euler Hermes) (24), Sweden (EKN) (13) transactions, and Italy (SACE) (9). About 80% of local cost financing supported installation costs, on-site construction and labor costs, almost 10% of local cost financing supported capital equipment, and the remaining 10% supported a combination of local costs delivered from local subsidiaries and VAT/import duties.

Exporter and Lender Survey and Focus Group Results

The overwhelming number of survey respondents indicated that Ex-Im Bank's foreign content policy had a negative impact on Ex-Im Bank's competitiveness. Exporters and lenders expressed the view that Ex-Im Bank's foreign content policy is the "most significant hindrance to using Ex-Im programs" and "places U.S. exporters at a very large disadvantage." Exporters went on to complain that "Ex-Im Bank's content policy is by far the most restrictive of any ECA and ignores modern supply chain practices." Exporters urged Ex-Im to review its content policy and introduce flexibilities that recognize the changes in the global economy. To that end, exporters have repeatedly encouraged Ex-Im Bank to adopt a content policy that would allow Ex-Im to offer support, as other ECAs do, based on the involvement of a U.S. exporter rather than limiting support to the U.S. content included in the Ex-Im Bank supported transaction.

In contrast, exporters and lenders indicated that Ex-Im Bank's local cost policy had a positive impact on Ex-Im Bank's competitiveness. Survey respondents indicated that Ex-Im Bank's local cost policy is more competitive than its G-7 counterparts and recognized that the new flexibilities introduced to the local cost policy have been "very positive in structuring new deals."

Conclusion

As Ex-Im Bank is the only G-7 ECA that does not allow for any direct support of foreign content and doesn't consider other factors (e.g., unavailability of materials) when determining its level of support, Ex-Im Bank's foreign content policy is increasingly less competitive relative to other G-7 ECAs. Moreover, unlike its G-7 counterparts, Ex-Im treats the foreign content and local costs separately and does not apply eligibility criteria flexibly, taking into account other factors beyond the strict limits, i.e., Ex-Im Bank will support a maximum of up to 15% foreign content AND 30% local costs. Therefore, though Ex-Im Bank's approach to foreign content appears to be more transparent and predictable than the approaches taken by its G-7 counterparts, exporters and lenders alike maintain that it is the lack of flexibility – both in definition and direct support of foreign content – that results in a negative impact on Ex-Im Bank's competitiveness.

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

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

Introduction

Public Resolution 17 (PR-17) enacted on March 26, 1934 and most recently reaffirmed in Public Law 109-304 on October 6, 2006 requires that loans made by U.S. Government instrumentalities to finance exports specify that ocean-borne shipments use U.S. flag vessels, unless a waiver is granted. Congress charges the Secretary of Transportation with deciding whether to waive the shipping requirement and allow a non-U.S. flag vessel in certain specified instances. The U.S. Marine Administration (MARAD) is the branch of the Department of Transportation that conducts the required investigation to determine whether U.S. flag vessels are available in sufficient number, tonnage capacity, at the necessary time, and at a reasonable rate in considering a waiver request.

This longstanding requirement is part of a broader U.S. Government national policy consideration. The underlying objective is to maintain a well-trained merchant marine able to maintain the flow of waterborne domestic and foreign commerce. Additionally, the merchant marine could serve as a naval or military auxiliary force during war or a national emergency. Merchant marine vessels must be U.S. Government or citizen-owned and manned by U.S. citizens.

Shipping on U.S. flag vessels is considered to be a U.S service export, and the ocean freight cost is eligible for Ex-Im Bank financing. Notwithstanding the potential benefit of qualifying for Ex-Im Bank financing, some U.S. exporters and lenders contend that the requirement to ship on U.S. flag vessels places them at a competitive disadvantage relative to other countries' exporters. Exporters report that arranging U.S. transport typically results in higher costs, which can be as much as two or three times the cost of other rates, and delays of several weeks or more, both of which pose hurdles not shared by foreign competitors. MARAD concurs that no other G-7 country imposes a similar shipping requirement.

Exim- MARAD Understanding on PR-17

PR-17 was enacted when Ex-Im Bank only offered direct loans to support U.S. exports. MARAD and Ex-Im Bank subsequently agreed that PR-17 would apply to certain Ex-Im Bank guaranteed transactions that were the equivalent of direct loans. Based on a Memorandum of Understanding (MOU), PR-17 requirements apply to guaranteed transactions when the financed amount is above $20 million (excluding the exposure fee) or the repayment term is longer than 7 years.[1] The size and repayment term

[1] Ex-Im bank has special programs to promote medical and environmental exports. The programs allow the repayment term to exceed the standard 7-year limit for products that qualify for medium-term support. Irrespective of the longer repayment period, environmental and medical equipment transactions authorizations under $20 million are treated as other medium-term, guaranteed transactions and considered exempt from PR-17 shipping requirements.

thresholds are meant to capture those guaranteed transactions that would commonly qualify for a direct loan.

MARAD issues waivers to PR-17 that permit exporters to ship on a non-U.S. flag vessel, in certain instances. Most waiver determinations are shipment specific.[2,3]

The four types of waivers are:

Statutory (Non-Availability)
An exporter or foreign borrower, directly or indirectly through a representative or shipper, may seek a Statutory waiver when it appears that U.S. vessels will not be available within a reasonable time or at reasonable rates.

General
If a U.S. vessel is available, a waiver to ship up to 50% of the exports under a foreign flag carrier could be allowed, if equitable treatment is given to U.S. carriers from the recipient country. A General waiver could be arranged to apply to all shipments that will occur in conjunction with an export sale.

Compensatory
When through honest error or extenuating circumstances exports were shipped under a non-U.S. flag vessel, a Compensatory waiver would allow an exporter to fulfill the PR-17 requirement by substituting shipments of equal value that are not subject to the PR-17 requirement on a U.S. vessel.

Conditional
When no U.S.-flag service is capable of accommodating shipments of over-dimensional cargo, a Conditional waiver would allow shipment on a non-U.S. vessel.

Activity Related to PR-17 in 2011
During 2011, Ex-Im Bank authorized 17 transactions that would be subject to PR-17 shipping requirements. Most, if not all, of the exports sales that proceed will require multiple shipments, some spanning several years.

According to MARAD, transactions supported by Ex-Im Bank and subject to PR-17 generated nearly $60.8 million in ocean freight revenue in 2011, 97% of which accrued to U.S. flag vessels. The three percent difference between the total revenue generated by Ex-Im Bank-supported transactions and the 97% that accrued to U.S. flag carriers reflects the revenue that foreign flag carriers earned as a result of Statutory waivers.

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[2] General Waivers may be given for an entire transaction covering multiple shipments, but that decision could be reconsidered at any time in light of altered circumstances. Similarly, a Conditional waiver for multiple shipments could be withdrawn, if a U.S. vessel of appropriate size were to become available.
[3] When direct U.S. flag service is not available, if MARAD provides its concurrence, a shipment that leaves on a U.S. flag carrier may be transferred to foreign flag service without a waiver. In 2011, MARAD gave concurrence for U.S. to foreign carrier combo shipments in three instances. In 2010, MARAD had approved five such concurrences. The revenue earned by the foreign flag carriers is included as U.S. carriers' revenue.

During 2011, MARAD granted 16 waivers, including nine Statutory waivers, six Compensatory waivers, and one General waiver (the transaction for which the General waiver was issued was cancelled, though). See **Figure 37** below. Some of the waivers were for shipments related to transactions that had been authorized pre-2011. In at least three instances, MARAD considered waiver requests concomitant with Ex-Im Bank's credit analyses, and waivers were granted before Ex-Im Bank authorized the transactions. Some shipments that received waivers in 2011 were not shipped until 2012; therefore the revenue is not included in the 2011 tally. For these reasons, there is not a direct correspondence between the number of waivers granted in 2011 and ocean freight revenue or between the number or waivers granted and the number of Ex-Im Bank's authorizations approved during the year that would be subject to PR-17 shipping requirements.

It is evident, however, that the number of waivers granted in 2011 was within the range of outcomes seen over the prior three years. According to MARAD, no waiver request was denied in 2011. Before granting a waiver, however, MARAD may try to facilitate an acceptable arrangement to enable shipment on a U.S. flag vessel and only grant a waiver as a last resort.

Figure 37: MARAD Waivers by Type, 2011

Waiver Type	2008	2009	2010	2011
Statutory	12	6	6	9
General	0	0	0	1
Compensatory	9	7	4	6
Conditional	0	0	0	0
TOTAL	**21**	**13**	**10**	**16**

Exporter and Lender Survey and Focus Group Results

Since the PR-17 shipping requirement only affects a small number of very large transactions that require ocean borne transport, slightly over half of the survey respondents reported that this policy issue was "Not Applicable" for them in 2011. Of those respondents for which PR-17 was relevant, approximately 64% characterized it as "Negative". The majority of the remaining responses were "Neutral".

Though the majority of responses continue to be negative, two respondents changed from "Negative" in 2010 to "Neutral". One had witnessed "freight differentials (U.S. flag versus foreign flag) come down ...to more manageable levels..." On the other hand, some other respondents remained staunchly "Negative". One characterized the PR-17 shipping requirement as "a real road block for Ex-Im eligibility all over the world".

The focus group discussions yielded a similarly negative reaction to the U.S. shipping hurdles and requirements, and several participants explained that deals are going elsewhere because of them. That some transactions never reach Ex-Im Bank due to MARAD was an opinion held by virtually all of the buyers Ex-Im Bank visited during the Benchmarking Study. They emphasized that no other country or ECA has a similar shipping requirement. Thus, if all other factors are comparable in a procurement situation, but the U.S. supplier has to obtain a MARAD waiver or use U.S. flag vessels,

the strong tendency is to go with a non-U.S. supplier to avoid the hassle, delays, and extra costs that the U.S. shipping requirement inevitably creates.

Conclusion

PR-17 was enacted nearly 80 years ago before advancements in communication and transportation revolutionized the international marketplace. Just-In-Time production strategies and other cost conscious measures are now the norm. In today's global trading environment, the price and availability of transportation services may be a critical factor in securing an export sale.

Bridging the requirement to use U.S.-flag vessels to ensure that the merchant marine force retains the skills and capability needed for the broad national policy objectives that underlie PR-17 and the needs of U.S. exporters to deliver products in a cost-effective and timely manner is a major challenge. Price differentials of 200 – 300% have historically been referenced and exporters regularly report tales of long delays. However, at least one exporter reported recent price differentials in the 25 - 30% range.

Exporters have been encouraged to contact MARAD even before a sale is finalized. In fact, according to MARAD, in 2011, it provided a waiver for a potential shipment on a transaction that had not yet been submitted to Ex-Im for formal consideration[4]. Though early attention to shipping requirements may be part of the solution, it is not a panacea for all the cost and timing issues that concern U.S. exporters.

The majority of exporters and lenders that faced PR-17 shipping requirements in 2011 believed PR-17 placed Ex-Im Bank's support at a competitive disadvantage relative to that of other ECAs, because the requirement to ship using U.S. flag vessels can adversely impact the schedule and cost of an export sale. Overall, the opinion of the U.S. exporting community on the PR-17 requirement is negative.

[4] An exporter that had requested and received a letter of interest from Ex-Im Bank asked MARAD for a determination regarding the PR-17 shipping requirement and received a Statutory waiver.

Chapter 6: Public Policies – Stakeholder Considerations
Section E: Ex-Im Bank's Public Policy Competitiveness

Ex-Im Bank follows a set of public policy requirements that define the boundaries of where and how Ex-Im Bank can offer support to U.S. exports. These requirements set Ex-Im Bank apart from other ECAs because, of the four policies, only foreign content and local costs have similar counterparts within other ECAs, and only one—local cost—is controlled by the OECD. Therefore, the potential impact of these factors on case-specific competition has ranged from extremely positive to extremely negative. The following **Figure 38** displays the directional influence of those public policies on the Bank's competitiveness in 2011.

Figure 38: Grading of Ex-Im Bank's Public Policy Competitiveness, 2011

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

Chapter 7: Overall Results

In 2011, Ex-Im Bank's overall competitiveness with its G-7 ECA peers was deemed to be a "A-/B+", maintaining its 2010 grade of "A-/B+".

Figure 39: Grading of Ex-Im Bank's Overall Competitiveness, 2011

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

As illustrated in **Figure 39,** while Ex-Im Bank's overall competitiveness is once again rated at an "A-/B+", the Bank's Economic Philosophy and Public Policies were once again rated negative as shown in **Figure 40.**

Figure 40: Direction of Competitive Impact of U.S. Economic Philosophy & Public Policy, 2011

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

Trends

Figure 41 illustrates the five-year trend for assessments of both the structural elements and overall grade for the Bank. As seen below, Ex-Im Bank's overall competitiveness again returned a grade of "A-/B+" in 2011, remaining in line with its five-year average. Accordingly, the Bank's Core Business Policies and Practices continued its consistent success in offering terms equal to the average terms of the typical major ECA; furthermore, it is notable that Ex-Im improved its competitive position markedly in the area of interest rates. The Bank's Major Program Structures followed a similar path in maintaining its long-term average grade of "A-/B+", but its individual programs fared in varied ways. For example, Project Finance moved to the head of the class in 2011, earning a grade of "A+" by offering terms consistently equal to the most competitive offer from any other major ECA. On the other hand, evaluation of the Bank's Services program came in under expectation due to the indirect influence from the Bank's content policy.

Figure 41: Grade Trends of Ex-Im Bank's Overall Competitiveness (2007-2011)

Structural Elements	2007	2008	2009	2010	2011
Core Business Policies and Practices	**A**	**A**	**A**	**A**	**A**
Cover Policy and Risk Taking	A	A-/B+	A-/B+	A-/B+	A-/B+
Interest Rates	A	A	A	A	A+
C. Risk Premia	A	A	A	A	A
Major Program Structures:	**A-/B+**	**A-/B+**	**A**	**A-/B+**	**A-/B+**
Large Aircraft	A	A	A	A	A
Project Finance	A	A	A	A	A+
Co-Financing	B-/C+	B	A-/B+	A-/B+	A-/B+
Foreign Currency Guarantee	B-/C+	B	B	B	B
Services	N/A	N/A	A-/B+	A-/B+	B
OVERALL GRADE	**A-/B+**	**A-/B+**	**A**	**A-/B+**	**A-/B+**

Influencing the overall assessment of Ex-Im Bank's competitiveness are the philosophical and public policies that the Bank is either required explicitly or implicitly to incorporate into its operational procedures. Tied aid and Market Windows represent two areas of philosophy in which Ex-Im Bank can respond when faced with foreign ECA competition.

On the other hand, the public policy considerations of economic impact, PR 17/MARAD requirements, and U.S. content have represented negative influences on Ex-Im's overall competitiveness.

Figure 42: Directional Trends of U.S. Economic Philosophy & Public Policy on Official Export Credit Activity, Procedures and Practices (2008-2011)

	Potential Case-specific Impact on Competitiveness		
	2009	**2010**	**2011**
Economic Philosophy:			
Tied Aid (de jure or de facto)	**Neutral to Negative** (infrequent; modest overall impact)	**Neutral to Negative** (infrequent; modest overall impact)	**Neutral to Negative** (infrequent; modest overall impact)
Market Windows	**Neutral** (would likely be negative if encountered)	**Neutral** (would likely be negative if encountered)	**Neutral** (would likely be negative if encountered)
Public Policy:			
Economic Impact	**Negative**	**Negative**	**Negative**
Foreign Content	**Extremely Negative** (frequent; significant impact)	**Extremely Negative** (frequent; significant impact)	**Extremely Negative** (frequent; significant impact)
Local Costs	**Positive**	**Extremely Positive**	**Extremely Positive**
Shipping - PR 17	**Negative**	**Negative**	**Negative**

As is illustrated in **Figure 42**, the views of the exporting community on the public policy aspects have not changed in any measurable degree despite the shift in local costs continuing to be a positive competitive factor in 2011. This continuing trend is especially related to the issue of content, an area that the exporting community views as having extremely negatively affected the Bank's competitiveness over the last four years.

Chapter 8: Benchmarking the Export Credit Landscape

I. INTRODUCTION

In last year's Competitiveness Report, the Bank identified several forms of official financing that fall outside the purview of the OECD Arrangement. These forms have the potential to play a role equivalent to that of export credits in specific transactions. Given these findings, the traditional scope and scale of Ex-Im's competitiveness assessments no longer appeared to capture the full competitiveness story. What was not certain from the 2010 Report effort was the true nature, end use and size of these new financing forms, and what impact, if any, these other forms of official financing could have on the competitiveness of U.S. exporters and the effectiveness of Ex-Im Bank.

The focus of Chapter 8 is to gauge Ex-Im Bank competitiveness in this wider context, beyond the universe of G-7 officially supported export credits governed by the OECD Arrangement. Thus, this chapter is an analytical framework in which to interpret trends and information captured from a variety of sources and entities interviewed (buyers, lenders, exporters and ECAs). This framework builds on last year's findings that, taken together, the activity reported by the non-OECD BIC countries (Brazil, India and China) combined with untied financing and overseas investment activity of the major ECAs, far surpasses G-7 OECD regulated medium- and long-term activity. This "tipping point" sparked interest in a more comprehensive picture of the players and tools available in the official financing world (see Chapter 1 and Chapter 8 Annex II for details on the study's methodology and approach) that would support a better understanding of the size and scope of these "three universes" of trade and investment finance in which U.S. exporters must compete:

- OECD regulated (already examined in Chapters 3, 4, 5 and 6)
- OECD unregulated (that includes untied financing, Market Window and overseas investment support)
- BIC programs (Brazilian, Indian and Chinese export credit programs)

One of the core objectives of this chapter is to draw attention to a broadly opaque, under-reported, and yet surprisingly large segment of official support. However, quantifying the amount of financing and support of unregulated and BIC export finance (especially Chinese financing and insurance) is challenging. The months-long review yielded an impressive stream of data and information that has been difficult to confirm and/or refine. Hence, to minimize the chance that anecdotal or incomplete (perhaps inaccurate) data and information could result in overstatement, this chapter intentionally underestimates data drawn from anecdotal reports or aggregated from diverse sources. Therefore, the evaluation uses conservative activity estimates for its analyses (that, in the case of China, may well understate reality by 50-100%). While core trends have been identified and activity levels estimated, every point made or trend illustrated should carry the qualification of a "preliminary finding" that could be understated in size or terms of competitive implications.

II. EXECUTIVE FINDINGS

- The benchmarking study revealed **considerable** overlap among the three universes of official finance and support. That is, the entities interviewed had **routine** access to standard export credits; **substantial** exposure to, and experience with, unregulated and BIC export credit programs, but limited knowledge of official overseas investment. [1]

- With respect to standard export credit support governed by the OECD Arrangement in 2011, Ex-Im Bank support for standard export credits was generally very competitive with the best support offered by its traditional G-7 competitors, particularly with respect to large-scale, long-term financing where fixed rate financing is typically preferred. [2]

- The benchmarking study also brought into focus opposing assessments of Ex-Im Bank competitiveness. On the one hand, Ex-Im Bank support for large commercial aircraft or infrastructure projects in better risk markets, where the competitive financing costs, aggressive risk coverage, and all the extras (e.g. 30 percent local cost support), was widely considered exceptionally competitive. Conversely for transactions involving buyers (or in markets) with moderate to high risk, where Ex-Im coverage was viewed as more expensive and onerous (in terms of security requirements and related costs stemming from risk mitigation), and included fewer extras than most other ECAs, Ex-Im was considered less competitive.

- With respect to unregulated financing offered by OECD ECAs, the benchmarking study revealed that **over half of the entities** interviewed were either offered, or had benefitted from, unregulated financing programs. These unregulated financing programs were reportedly priced on commercial terms but their flexibility regarding other financing terms and parameters and ease of documentation typically made such financing very attractive (e.g., no cash payment was required; tenors were not limited; sourcing was not limited to procurement from the country of the ECA).

- With respect to the impact of BIC export credits and insurance coverage, almost **half of the entities interviewed** reported that they were aware of, or had benefitted from, BIC financing in some form. Buyers and lenders reported that Chinese products in certain sectors (e.g., renewable energy, power, "off the shelf"

[1] Information about overseas investment programs was not captured in the benchmarking study as overseas investors were not interviewed directly. The target population for the study was buyers and multinational companies that made procurement decisions on their global supply chain. In addition, ECAs were interviewed. See Appendix D for details on the Benchmarking Study methodology.

[2] Ex-Im Bank offers fixed rate financing at CIRR rates. These minimum interest rates, known as Commercial Interest Reference Rates (CIRRs), are market-related fixed rates calculated using a government's borrowing cost plus a 100 to 130 basis point spread (spread is dependent on the tenor of the transaction). A CIRR is set for each currency based on the borrowing cost of the government that uses that currency; all ECA support for financing in this currency then utilizes the same CIRR.

capital equipment) were competitive with comparable U.S. products while the United States was more competitive in specialized technical equipment (e.g., oil and gas).

- The aggregate impact on U.S. exporters of roughly $100 billion per year of unregulated financing by OECD ECAs, coupled with the $60 billion in BIC export credit support is not fully apparent. However, the benchmarking study cannot discount the hefty volume (roughly $160 billion) of and ready access to unregulated and BIC financing because its availability was so frequently noted by respondents. Irrespective of the fact that there have been no cases reportedly lost to unregulated or BIC financing, the strategic use and large volume of such financing by foreign ECAs undoubtedly will constrain the future scope and scale of U.S. exports and cannot be considered irrelevant to long range U.S. export competitiveness.

- The benchmarking study has made clear that U.S. exporters do compete in certain markets and sectors that foreign ECAs have "targeted" as a national interest either explicitly as part of their national economic policy or implicitly by making available a range of official financing tools to maximize the flow of national benefits. Therefore, the potential competitive impact of foreign ECA strategies and official financing and support on U.S. export prospects would be a research objective of further more detailed analysis.

III. FINDINGS OF THE BENCHMARKING STUDY

The purpose of the benchmarking study was to establish the size and nature of a broadly defined global official finance market for trade and to identify whether the newly identified ECA players and programs are posing a threat to Ex-Im's competitiveness. In other words, what is the nature and scope of the official global financing market within which Ex-Im should compare the competitiveness of its programs and policies; how does Ex-Im Bank compare and what are the major areas or aspects that make a difference? Accordingly, the interviews conducted in four key markets involving buyers, lenders and ECAs addressed three core questions:

1. Do three universes exist, and if so, are they all relevant to the general arena of government financing support for foreign procurement?
2. Do the universes overlap materially or marginally?
3. How well does Ex-Im Bank fare across the whole spectrum?

Three Universes

Based on the information and data gathered, Ex-Im Bank can confirm that the three official financing universes of Regulated OECD, Unregulated OECD (untied, Market Window and investment programs) and Non-OECD BIC export credit programs exist and do overlap. However, more detailed information is required to augment and better refine the impact of these preliminary findings beyond the rough estimates of activity levels. **Figure 43** presents preliminary data for 2011 that suggests that the 2010 trend continues as activity grows for all three universes. That is, the unregulated trade and

investment programs' activity (e.g., untied financing, Market Window, and overseas investment) of the major OECD ECAs is roughly equivalent to regulated OECD export credit support. Moreover, although Arrangement regulated activity is perhaps 50% greater than the conservative activity estimates of non-OECD MLT export credit activity (Brazil, India and China), a more aggressive crediting of the literally hundreds of $ billions of annual Chinese activity found reported in various news accounts could easily put the BIC totals well above Arrangement-regulated annual activity. Irrespective of whether a conservative or aggressive estimate of Chinese activity is used, taken together, the unregulated and BIC activity far surpasses OECD regulated activity.

Figure 43: Export Credit and International Financing World, 2010-2011 (Billions USD)

UNIVERSE	2010	2011
Regulated OECD Standard MLT Export Credit of all OECD	**88.2**	**94.0**
Unregulated OECD	**89.6**	**91.3**
Market Windows/Untied	27.6	32.3
Investment Financing and Insurance	62.0	59.0
Non-OECD MLT Export Credit	**58.0**	**64.2**

Relative Importance of the Universes: Do they overlap materially or marginally?

Overlap between the three types of financing OECD regulated, OECD unregulated (mostly untied financing and BIC programs) was cited by a majority of respondents. In addition, respondents expressed a clear preference for the flexibility and ease of use typical with unregulated financing. Thus, the simultaneous availability of standard MLT tied, , unregulated, and BIC financing packages was very attractive because this overlap of programs allowed buyers to select the financing form that was best suited to the particular purchase situation (see **Figure 44**).

Figure 44: Summary of Lender & Buyer ECA Experience by Country

	OECD Untied & Market Window Financing			Non-OECD Export Credits		
Total Lender & Exporter Interviews	**Financing available**	**Used Financing**	**ECAs Used**	**Financing available**	**Used Financing**	**ECAs Used**
BRAZIL						
8	7	6	SACE; EDC; JBIC; EKF	3	2	BNDES; CXM*
% of Total	88%	75%		38%	25%	
INDIA						
7	4	4	EDC; JBIC; SACE	6	3	CDB*; Sinosure; CXM
% of Total	57%	57%		86%	43%	
MEXICO						
10	3	3	JBIC; KEXIM; EDC	5	1	CDB; CXM
% of Total	30%	30%		50%	10%	
SWITZERLAND						
5	2	0	NEXI; KEXIM	0	0	N/A
% of Total	40%	0%		0%	0%	

** CDB = China Development Bank; CXM = China Eximbank*

When asked specifically about Chinese, Brazilian or Indian financing programs, about half of the entities interviewed indicated that BIC financing and/or untied and Market Window financing had been offered to them and was readily available as one more financing tool that could be used to finance procurement.

On the unregulated side, the intersection with buyers is considerably more frequent, but the implications for competition (versus complementary) are uncertain and probably vary with the forms and source of the unregulated financing. For example, as Market Window financing is often connected to exports, such financing is more likely to support an alternative to U.S. sourcing. On the other hand, the untied financing (especially from Japan) reportedly seeks to minimize Japanese sourcing[3] as it is being provided with the goal of off-setting costly Japanese Yen pricing and encouraging sourcing from Japanese companies or partners located outside Japan that are not subject to the appreciating value of the Yen.

Hence, at least in 2011 with the entities interviewed, two of the three universes seem to directly overlap to some extent. However, there is no concrete evidence that OECD regulated export credits and unregulated or BIC forms of financing are currently competing for the same business. On the other hand, very little of the financing from the

[3] Information about overseas investment programs was not captured in the benchmarking study as overseas investors were not interviewed directly. See footnote 1.

other two universes (OECD unregulated and non-OECD standard export credit) seemed to support U.S. exports. Hence, it is hard to conclude that the massive volumes of official financing – offered to support the long-term national interest of the providing country – are not a significant (if indirect in time and place) obstacle to the long run scope and scale of U.S. exports.

In fact, stepping back from the individual financing offers and specific providers, a major discovery or revelation of this research into the official financing for trade is that the United States is virtually alone – among all the major trading nations of the world – in taking a largely transactional, defensive, and hands-off approach to the maintenance and development of long-run U.S. trade prospects. Irrespective of the apparently rare incidence of a direct and specific displacement of a U.S. export, all of the unregulated and exceptional financings (over $150 billion per year worth) are facilitating the status of foreign national champion companies and planting seeds of potential future export sales and market share around the globe.

Impact on the United States

The model that emphasizes global foreign direct investment to supplement exports and imports is a model that appears to be gaining traction with greater frequency around the world. Official unregulated financing (untied, Market Window, and investment credits) represent a major vehicle for implementing this strategy. While the direct and immediate implications for U.S. exporters were not obvious from the information obtained in the study, over the long term, the cumulative impact of roughly $150 billion per year of financing and investment support to encourage buyers toward countries other than the United States will presumably constrain the further scope and scale of U.S. exports.

In perhaps the most unanticipated finding of this year's benchmarking study, interviews of Asian and Brazilian ECAs, buyers, lenders, and exporters revealed a surprising common ground in the range of strategic approaches to official finance used by ECAs around the world to pursue their national objectives. These strategic initiatives go beyond the traditional project-by-project, tied-to-exports official export financing approach for which the OECD rules were written. Indeed, the picture that is coming into focus de-emphasizes the use of tied export credits in favor of a deliberate use of unregulated financing offered as untied financing or foreign direct investment support that promotes the long-run interests of national companies. Hence, the combination of official export credit and official financing support (including untied, Market Window and investment credits) plays a large role in the export strategies of every other major trading nation, and the lines between tied and untied debt financing, and debt and equity financing are becoming quite blurred.

The exact implications and relevance of this finding to the competitiveness of Ex-Im's tools and programs is not altogether clear, especially in light of the continuing rapid growth in Ex-Im Bank medium- and long-term activity in 2011. Nevertheless, the emergence of a new outward-focused, export and investment- led growth "model" aimed at using ECA programs and resources to support national industry champions in increasing their global footprint and enabling national governments to increase domestic output is clear. As a result, many companies (and their government partners)

particularly in Asia (e.g., Japan, Korea and China) and beyond (e.g., Canada and Italy) have either shifted from (or added to) their basic models for driving long-term national growth. See Annex I for details on the Three Universes of the Export Landscape of OECD Regulated, OECD Unregulated, and non-OECD BIC Standard Export Credit.

How does Ex-Im fare across the spectrum?

Given the implications from the previous section, the key question for 2011/2012 competitiveness really comes down to is, "how does Ex-Im compare to its traditional OECD competitors on the ground in various countries and with various products and risk situations?" The answer to that question is a lot more diverse than previously perceived. Answering this question requires first examining what might be called the "general perceptions of each ECA system."

Viewed globally, the foreign buyers acknowledged little differentiation across ECAs regarding the actual financing terms regulated by the Arrangement such as repayment terms, down payments, premia, cover and local costs. However, examining other features of the financing that are not specifically defined by the OECD Arrangement – such as content supported, local currency availability, ease of use, documentation requirements, and turnaround time – there were fairly clear and significant differences perceived. The ECA most cited as offering the best overall package, (efficient and flexible) was Euler Hermes of Germany. The other ECA regularly identified as having similar or better characteristics was EDC of Canada. In addition, EDC has a strong international presence in most of the emerging markets and uses this local presence to advocate for and support Canadian interests by building relationships with companies and the business community.

Other OECD ECAs appear episodically (e.g., SACE, ECGD, Finnvera, EKN, EKF, and Cesce), and while several have sectoral/product advantages (e.g. wind power and solar), no consistent financing advantages were identified. The Japanese ECAs of NEXI and JBIC and the Korean ECAs of K-Sure and Kexim were cited in all markets. However, while these ECAs were present in these markets, their presence appeared to be confined to several specific sectors (energy, mining, power, infrastructure, oil and gas) vs. actively engaged in every sector.

The Japanese ECAs of JBIC and NEXI continue to be seen as supportive providers of export credits, but based on the views of many of the buyers who have considered or actually used their financing, the Japanese ECAs have become less flexible and more difficult to use. In fact, until 2011, the Japanese ECAs were viewed as effectively phasing out official export credits in favor of investment and untied financing.

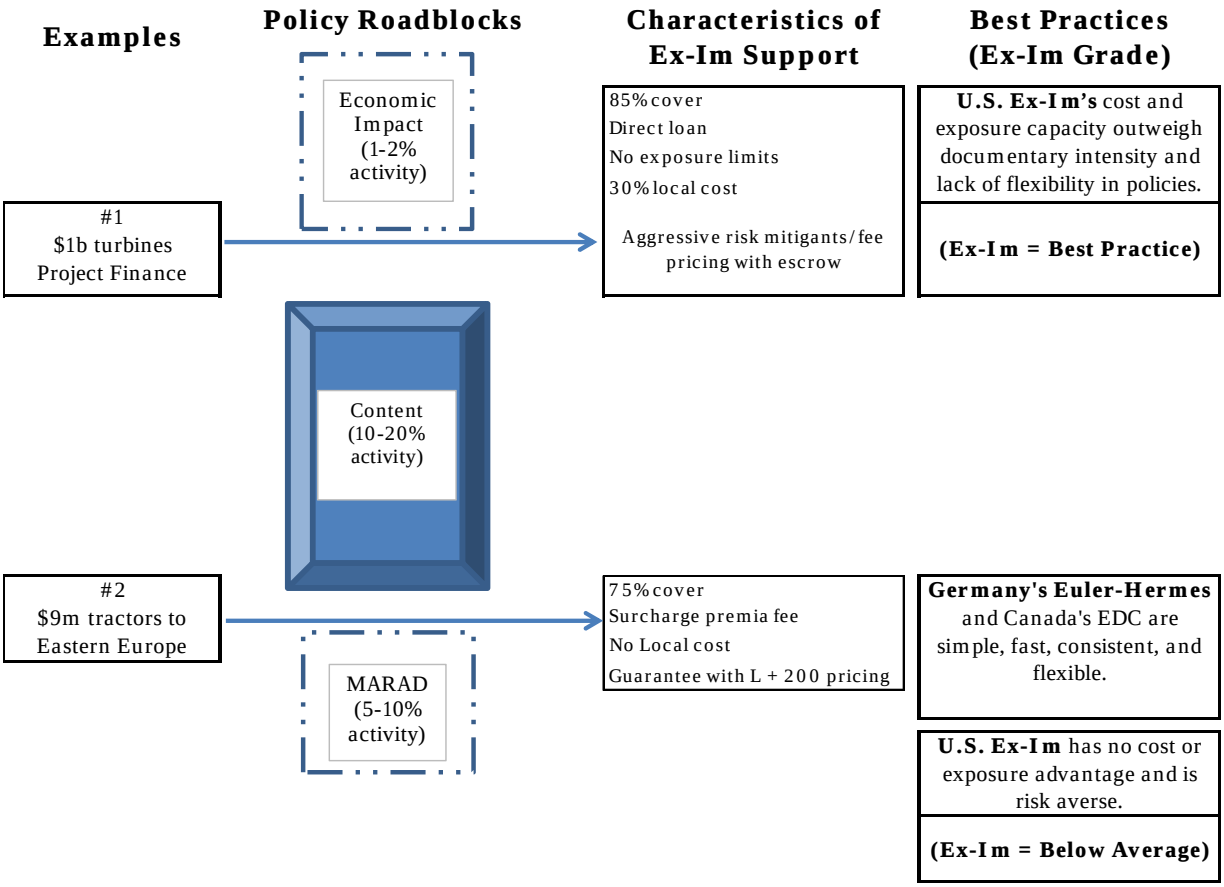
The Korea ECAs, Kexim and K-Sure, on the other hand, are seen as expanding their reach with an equal emphasis on financing exports and foreign direct investment using tied, untied and investment financing. Moreover, they are viewed as being highly aggressive in a number of sectors. Ships, port constructions, and other major infrastructure (bridges) and power (nuclear, hydro) projects seem to be their areas of primary expertise and reputation.

Ex-Im Bank was also cited as an ECA present in all countries visited. While Ex-Im was considered generally competitive on the OECD regulated terms and conditions, other factors proved – in certain cases or with specific buyers – to be strong disincentives. The list of factors mentioned by virtually every buyer include content limitations, MARAD shipping requirements, turnaround times, documentation requirements, and aversion to risk (especially in the medium-term programs). All of these factors were considered to potentially be so significant in a particular case as to tilt the purchase decision in favor of non-U.S. suppliers.

However, 2011 was not a normal year for export finance, and the macroeconomic challenges of 2011 increased the importance of traditional Ex-Im strengths in the eyes of buyers. Those strengths – a direct loan program, no exposure caps (by transaction or country), and capacity for innovative approaches to project or economic (e.g. liquidity) risk – led many buyers to look to Ex-Im more often and for larger amounts. Hence, if an Ex-Im offer could make it over the shoals of economic impact, content or MARAD, many buyers were willing to tolerate the traditional hassles to gain access to the Ex-Im financing products favored by buyers.

Figure 45 tries to illustrate the complexity and diversity that is the story of the 2011/2012 visits to buyers. Starting from the left side of the chart, the story goes as follows:

Figure 45: Ex-Im Bank Model Transactions and Path to Approval



U.S. exporters and their buyers face an official financing system that has some obstacles for certain exports (e.g. content), some tools and programs that can be powerful and competitive enough as to increase buyer interest in U.S. sourcing, and some practices (e.g. underwriting) that effectively stymie individual export proposals. To exporters, banks and buyers, these variations do not seem to appear randomly.

Using a model with two very different transaction types, the chart in **Figure 45** tries to identify the patterns seen by 2011 survey respondents. The two model transactions are:

(1) A very large (e.g., $ 1 billion) project involving something like turbines to a good to excellent buyer in a stable country; and,

(2) A relatively small (e.g., $9 million) transaction involving something like tractors to a risk-challenged buyer or market.

The Ex-Im policies most likely to determine eligibility or feasibility of using Ex-Im financing for a transaction are foreign content, economic impact, and MARAD. Both hypothetical transactions in **Figure 45** would likely comply with these three policies.

Once inside the Ex-Im tent, the two transactions then tend to flow into very different arenas. The large project tends to get what one buyer described as the "white shoes and spats" treatment – aggressive openness to exposure, 30% local cost, a CIRR direct loan (or capital market access via a guarantee) – all very supportive of maximized U.S. exports. However, the mid-size case with a challenging buyer hits a more restricted willingness to take exposure, additional security requirements, high fees, limited local cost support and a guarantee based on Libor + 200 basis points commercial financing. The result can potentially minimize U.S. exports.

Buyers are particularly interested in using Ex-Im Bank's fixed rate financing in today's market for the first arena of transactions and have even reported a willingness to increase U.S. sourcing in order to benefit from such Ex-Im Bank support. In this scenario, Ex-Im is the poster child for "best practices."

For the second arena of transactions, buyers see the consistent and efficient German and Canadian approaches as superior and may – as was reported in at least one instance – shift sourcing away from the U.S. to avoid the documentary and security hurdles associated with securing Ex-Im Bank support. In effect, buyers see an Ex-Im that is set up to serve the globally competitive U.S. exporter quite well, but then shunts them into two very different paths for individual cases, over which the exporter and/or buyer has no option or recourse.

Overarching Implications of 2011 Re-Benchmarking Exercise

When viewed in the context of all sources of official MLT financing of trade, the information collected in early 2012 from exporters and buyers to inform the status of Ex-Im competitiveness yields the following broad implications:

1) The three universes of official financing for trade and investment are steadily growing. However, while there is no clear evidence that U.S. exporters directly experienced adverse effects in 2011, the overlap between these universes is considerable. The attractiveness of the overlap between tied and untied financing and the flexibility that overlap confers to buyers is high. However, the exact implications on U.S. competitiveness would require not only further study but also great transparency with respect to the program descriptions and activity levels of the unregulated and BIC ECA programs. However, Ex-Im Bank can add to its findings. For example, the findings for 2011 may have largely been a function of both the buyers interviewed and the macro situation. Changing the nature of buyers interviewed (e.g., more sovereign), in other markets (riskier), and for more standard products might evidence different or clear implications.

2) At least in the circumstances (and with the buyers interviewed) in 2011, the main case-by-case competition came from OECD ECAs. Although buyers see the macro-forces of 2011 enhancing Ex-Im's strengths so greatly as to neutralize the long-standing weaknesses, they cannot but take note of the disparity between the financing "tools" and options available from other OECD ECAs (and, increasingly, the BICs) relative to Ex-Im Bank. Against that stark contrast, buyers have advised Ex-Im to address these differences now, before changes in the macro-environment render Ex-Im Bank's strengths as less potent.

3) The benchmarking study made it clear that the outside world sees two very different sides of Ex-Im Bank. One side for large infrastructure projects in better risk markets showed low-cost financing, aggressive risk coverage, all the extras (e.g. 30 percent local cost support) and was widely considered exceptionally competitive. However, for transactions for buyers (or in markets) with significant risk, the associated costs of risk mitigants and security required for Ex-Im financing were more expensive, more onerous (in terms of documentation for security), and had fewer incentives, such as local costs than other ECAs. The latter side of Ex-Im was at a competitive disadvantage vis-à-vis the Bank's traditional G-7 competitors.

Chapter 8 Annex I

EXPORT CREDIT LANDSCAPE

ECA Financing: OECD Regulated, OECD Unregulated, and Non-OECD (BIC) Standard Export Credit

As identified in last year's Competitiveness Report, the world of export credits has expanded beyond the basic "regulated by the OECD" universe. Often driven by the strategic export policies described above, both OECD and non-OECD ECAs offer financing outside the scope of the Arrangement.

Non-OECD ECAs, most importantly China, Brazil and India, have become significant players over the past few years and are steadily becoming a major segment of the official financing community. Russia just established its own ECA in 2011/2012 and is planning to ramp up its activity quickly. Furthermore, as OECD countries look for ways in which to support their national economies, particularly during the extended global economic crisis, a number of OECD ECAs have also taken to offering financing outside the scope of the OECD Arrangement, falling within Ex-Im Bank's term of "unregulated financing."

As a key focus of the Benchmarking study, Ex-Im queried exporters, buyers, lenders and ECAs about their experiences and knowledge with these three universes of financing. In addition, the Bank also gathered as much data as ECAs would provide in order to quantify the size and scope and better understand the nature and scope of these funding vehicles.

The picture that has emerged this year is one that is more complex and nuanced, especially within the OECD ECAs. The sections that follow describe these three universes in more detail and in particular, the dynamics within the two OECD universes. One fact that seems abundantly clear is that the macroeconomic factors at play over the past year are having, and will continue to have, a major impact on ECAs, their activities, and their relevance.

Regulated OECD ECAs

A dichotomy among the OECD ECAs emerged during 2011. In particular, those ECAs with only pure cover programs (e.g., guarantees or export credit insurance) are witnessing more expensive and term-constrained lending capabilities while those ECAs with (or that have access to) official direct lending programs have become relatively more competitive. For example, the European ECAs that only offer insurance are obliged to partner with the commercial banking industry to extend the credit that the ECA insures. However, Basel III is forcing commercial banks to significantly increase spreads on loans even if insured by an ECA. Additionally, a number of the OECD countries have been downgraded, making the cost of funding by these ECAs another notch higher. Consequently, export credits from European ECAs are, in general, more expensive than before – and some are particularly more expensive.

However, the few ECAs that have (or have access to) direct lending capabilities are faring much better. Included in this small group are JBIC, EDC, Korea Eximbank (Kexim), several of the Scandinavian ECAs, U.S. Ex-Im Bank, and to some extent, Euler Hermes (whose exporters have access to KfW-Ipex Bank for a limited volume of direct financing and access to *Pfandbrief* funds[1]. Each of these entities has the ability to lend directly to the foreign buyer, bypassing the commercial lenders altogether and avoiding higher funding costs associated with commercial bank lending. While the direct lending OECD ECAs are required to lend at minimum OECD interest rates known as CIRRs (e.g., Commercial Interest Reference Rates), the CIRR is currently lower than the all-in cost for an ECA-insured or guaranteed transaction (as measured by a hypothetical interest rate swap into fixed rates). Hence, in 2011 (and today), direct lending ECAs have a clear cost advantage over pure cover ECAs.

Figure 46 shows the total MLT activity of the G-7 and the BIC ECAs in 2011 (as reported in Chapter 2), illustrating that those countries with direct loan or direct lending capabilities did witness a rise in activity in 2011, in many respects due to their direct loan programs. As a consequence, what was once a fairly level playing field across pure cover and direct lending ECAs has now been shifted in favor of direct lending ECAs, creating a dichotomy within the OECD ECA world. Moreover, the funding problems in select Eurozone countries create a small "third tier."

Whatever the reason, U.S. Ex-Im rose to number one in standard MLT activity authorized in 2011, jumping nearly 70% to edge out last year's leader Germany, that dropped about 5 percent. The G-7 as a whole only rose some 5% due to downturns in four of the seven countries.

[1] a mostly triple-A rated German Bank debenture that is collateralized by long-term assets such as property mortgages or public sector loans as stipulated in the Pfandbrief Act.

Figure 46: New Medium- and Long-term Official Export Credit Volumes, 2006 – 2011 (Billions USD)

	2007	2008	2009	2010	2011
Canada*	0.5	1.5	2.0	2.6	1.7
France**	10.1	8.6	17.8	17.4	12.2
Germany	8.9	10.8	12.9	22.5	20.3
Italy***	3.5	7.6	8.2	5.8	8.6
Japan****	1.8	1.5	2.7	4.9	6.0
U.K.**	1.6	2.7	3.4	4.1	3.8
Total G6 (without US)	26.4	32.7	47.0	57.2	52.6
U.S.	8.2	11.0	17.0	13.0	21.4
Total G-7	$34.6	$43.7	$64.0	$70.2	$74.0
U.S. % of G-7	24%	25%	27%	19%	29%
BICs^					
Brazil^^	0.6	0.2	6.1	3.5	4.8
China^^^	33.0	52.0	51.1	43.0	48.0
India^^^^	8.5	8.7	7.3	9.5	11.4
Total B,C,I	$42.1	$60.9	$64.5	$56.0	$64.2
B,C,I % of G-7	122%	139%	101%	80%	87%

*These figures have been adjusted to exclude Market Window and domestic financing.
**These figures have been adjusted to exclude defense.
***These figures have been adjusted from previous reports to exclude untied or domestic activity. The 2007 figure is a U.S. Ex-Im Bank estimate (comparable data not available).
****These figures include JBIC export loans and NEXI's medium- and long-term official export cover.
^Russian MLT activity has been quite limited and is included in Vnesheconombank (VEB) activity. Activity for EXIAR, the recently founded Russian ECA, was not included but was also limited.
^^Brazilian data represents SBCE activity combined with an estimate of MLT BNDES export finance activity *without* SBCE cover.
^^^Refer to Chapter 8 for a detailed explanation of Chinese ECA activity.
^^^^Includes ECGC and India Ex-Im Bank activity.

Unregulated OECD ECA Programs

The second universe is comprised of OECD ECAs that operate official financing programs outside of the Arrangement. The types of financing that fall within the "unregulated" category include Market Window financing, untied (to exports) financing, and investment financing.

Market Window and untied financing can be different in how they are used. Market Windows are typically tied to exports and are used to ensure that exporting companies are well financed across a wide spectrum of needs over the long term. Conversely, untied

financing appears to be tilted away from financing exports and more focused on national interests in the project or the sector supported. Nevertheless and most importantly, both programs reflect a political commitment by governments to the long-run health and dynamism of one or more arenas of their international trade (export companies, international champions, and/or key imports).

Untied Financing: As noted in **Figure 47**, the use of untied financing is dominated by the Japanese, mainly in the form of pure untied financing.

Figure 47: Unregulated Financing (Billions USD)

ECA	2010		2011	
	Market Window	Untied	Market Window	Untied
EDC/Canada	2.8	2.0	1.5	5.0
Coface/France	n/a	1.0	n/a	0.0
Euler Hermes/ Germany	1.8	2.0	1.8	1.0
SACE/Italy	0.4	3.0	Negligible	3.0*
NEXI/Japan	n/a	9.0	n/a	10.0*
JBIC/Japan	n/a	3.0	n/a	5.0*
K-Sure/Korea	n/a	2.0	n/a	2.0
Kexim/Korea (Kexim)	n/a	0.6	n/a	3.0
TOTAL	**5.0**	**22.6**	**3.3**	**29.0**

*Estimate

For the Japanese, both JBIC and NEXI offer untied support: JBIC with loans, and NEXI with insurance, although NEXI offers relatively more untied support than JBIC.

As previously noted, the model of Japanese ECAs reflects a growth strategy that includes exports, but with greater emphasis on assisting Japanese companies establish a global presence through foreign direct investment, untied lending, or both. Japan's goals are to give global scale to its most competitive industries and to acquire long-term access to raw materials needed to sustain the country's long-term growth. Untied financing from the Japanese ECAs is mainly concentrated in the energy and resource development sectors, such as renewable and "green" technologies, oil, minerals, hydro power, wind power, thermal power, etc. In JBIC's own words:

> "Untied loans provide funds to support improvements in the overseas business environment to facilitate Japanese trade, investments and other overseas business activities. Untied loans also support projects undertaken by foreign governments and government agencies."

Typically, the untied loan is used to help a Japanese investor acquire exploration rights in another resource-rich country, or gain an equity stake in a foreign company or for general purposes by a Japanese company operating overseas. JBIC may also deliver the untied funding via a foreign bank (2-step loan) so long as the end-user of the funds has a Japanese connection. In all cases there has to be a Japanese company involvement in some aspect of the project or undertaking, whether it is as project developer or off-taker. The Japanese see untied financing as a valuable and strategically important tool, and appear to minimize any direct links to Japanese exports.

The same basic structure exists in South Korea: Kexim offers loans and K-Sure, insurance for untied cases. The Korean ECAs' models are very similar to those of the Japanese ECAs, each having recently created a "green" platform and making a concerted effort to gain access to strategic natural resources through their respective financing tools. For example, K-Sure has two conditions that must be met in order to obtain untied financing: 1) there must be 10% equity held by a Korean company and 2) there must be a long-term off-take agreement held by a Korean company. Further, K-Sure explained that they are careful to avoid cases in which Korean exports would be directly supported, and if that was to occur, they would require that an export credit be used instead. However, so long as the loan was being extended to a Korean entity outside of Korea (for investment or basic capital support), any goods or services that might occur within the scope of that loan would be considered "indirect" and would be eligible under the untied credit. Similar to the Japanese expectations, the Koreans also believe that the use of untied financing will continue to increase.

The other EU ECAs who reported untied support last year appear to have scaled back in 2011, with only small amounts having been reportedly committed. However, they do expect to see a continued effort by governments to seek out natural resource opportunities; therefore, untied financing may tip upward over time.

Investment Financing: The other form of unregulated financing that many ECAs provide as part of their international scope is investment financing (loans, insurance, guarantees) in which an ECA backs or provides a loan on behalf of a company from the ECA's country investing in a foreign entity either in the form of equity or debt. Because the financing is not tied to exports, investment financing is also not covered by the OECD Arrangement.

As illuminated in **Figure 48**, this form of untied financing is dominated by the Japanese. Together NEXI and JBIC account for roughly half of all investment financing. Korea, Germany and France compose a second tier, at approximately one-quarter of Japanese levels.

All of the ECAs – except the United States – house both the export credit and investment financing under one roof. The Overseas Private Investment Corporation (OPIC) operates the U.S. Government investment financing entity and is entirely separate from Ex-Im Bank because of its mandate to support development (vs. exports for Ex-Im). OPIC's financing may result in U.S. exports because OPIC also requires that there be a minimum U.S. participation for OPIC involvement. There are no policies restricting exports within the OPIC support.

A shared commercial objective between the two program types seems to be the underlying reason for the combined structure within the other non-U.S. ECAs. . That is, the goal is to support their national companies in their trade and foreign investment endeavors, with the understanding that together, they contribute to the betterment of their respective economies. Irrespective of the basis for the shared structure, these ECAs seem to take a strategic approach that draws upon the best aspects of the export credit and investment financing products and deploys them tactically.

Figure 48: ECA Investment Financing (Billions USD)

ECA	2010	2011
EDC/Canada	3.0	4.0
Coface/France	5.0	7.0*
Euler Hermes/Germany	8.0	7.0
SACE/Italy	1.0	1.0
NEXI/Japan	11.4	12.8
JBIC/Japan	23.0	16.0
K-Sure/Korea	4.0	3.0
Kexim/Korea	4.0	4.0
ECGD/United Kingdom	1.0	1.0
OPIC/U.S.	2.0	3.0
TOTAL	**62.4**	**58.8**

*Estimate

JAPAN

Japan has long been the champion, in both volume and number, of untied financing. Although Japan is a prominent competitor on the global front, unfavorable foreign exchange rates and high wage costs have combined to impair the cost competitiveness of Japanese exports, despite export quality and reliability. Moreover, Japan's most important markets (United States and Europe) are suffering from their own financial and economic instability. The combination of the necessity of more stable engines of sustainable growth and the country's need for assured long-term supplies of natural resources (many of which are required by the high technology industries), seems to have led Japan to the conclusion that a more aggressive strategy of global expansion via foreign direct investment in resource-rich countries is needed. Thus, a two-tier policy emerged involving investment and untied financing aimed at ensuring that Japanese companies are well financed across their wide spectrum of needs over the long term. This model for achieving long-term growth for companies is supported by the Japanese government. The model is intended to achieve competitiveness for Japanese companies

in the short-run, while gaining long-run strategic advantages for the country as a whole, even if none of the financing offered is contingent on the inclusion of Japanese exports today.

KOREA

Korean ECAs interviewed indicated a slightly different approach compared to the Japanese whose main focus is no longer on exports; Instead, standard Korean official export financing is greatly supplemented by growing volumes of untied and investment insurance financing aimed at expanding Korea's global presence and ensuring the sustained provision of natural resources to domestic Korean industries. Further, K-Sure explained that they are careful to avoid cases in which Korean exports would be directly supported and if that was to occur, they would require that an export credit be used instead. The Koreans also believe that the use of untied financing will continue upward.

CANADA

Canada was often cited by buyers as the example of a flexible and forward-leaning ECA. With few constraints on how "Canadian national interest" is defined and no direct mandate to exclusively promote exports, Canada has been able to deliver a variety of official financing (e.g., standard export credits, Market Window and untied) that is intended to facilitate the promotion of long-run benefits for Canada from multiple methods and sources around the globe.

Exceptional Non-OECD (BIC) Standard ECA Programs

The non-OECD ECAs that Ex-Im Bank examined were selected based on their volumes of medium- and long-term official financing. Over the past several years, those ECAs with the largest volumes are from China, Brazil and India. Russia has recently established its own ECA, EXIAR, and understandably has not generated significant volumes of export credit activity. Accordingly, this Report will examine the ECAs from China, Brazil and India.

It is worth noting that each of the ECAs discussed below offers financing that looks to be generally consistent with the international guidelines of the Arrangement. Based on the limited information obtained over the past year, however, it continues to be difficult to say with any certainty what these ECAs are doing either in aggregate (for China) or in cases (for all). None of these players provide any list of cases authorized or any specifics regarding program attributes. However, there are many press reports regarding their involvement in transactions that can be aggregated to provide at least a rough estimate of their volumes. Hence, the figures reported here is an empirically-based estimate.

Figure 49 illustrates the levels of medium- and long-term export credits reported by (or attributed to) these ECAs.

The Report makes several major corrections to the data it has been providing on these ECAs over the past few years. For one, we had been both double counting the Brazil programs and reporting outstanding exposure, not annual activity. In China, we are still

aggregating press reports and evaluating the likely use of "lines", but are constantly trying to improve the accuracy of the data.

Figure 49: Non-OECD (BIC) ECA Standard Medium and Long-Term Export Credits (Billions USD)

ECA	2010	2011
SBCE & BNDES/Brazil	3.5	4.8
China Eximbank/China	23.0	26.0
China Development Bank/China	10.0	12.5
Sinosure/China	10.0	10.0
India Eximbank/India	8.2	10.9
ECGC/India	1.3	0.5
TOTAL	**56.0**	**64.7**

The scale and scope of the Chinese official export credit "package" remains particularly difficult to quantify, but too important and large to not try. The total system appears to consist of at least three institutions playing broadly complementary roles, but with significant overlap possible (including in individual cases). Estimates of aggregated annual MLT activity confront two problems:

1) Only Sinosure presents an estimate of annual activity in any form. For the other two agencies, China Export-Import Bank (China Exim) and China Development Bank (CDB), one has to work back from broad exposure estimates or aggregated press reports.

2) Both China Exim and CDB do the bulk of their activity in multi-billion dollar "lines of credit" to domestic exporters or foreign buyers/countries. Press reports over the years indicate these ECAs may offer $50 billion (+/-) a year of such lines. However, reports from users indicate that relatively little of such lines actually turn into disbursements. Moreover, the use (investment versus export financing) is often difficult to determine.

For 2011, this chapter uses published annual estimates for Sinosure, estimates China Exim figures with from its most recent English language Annual Report available supplemented with press clips for China Exim, and simply creates an estimate for CDB out of press reports. For example, based on a collection of press reports conservatively allocated to probable export credit – versus investment financing – one could see approximately $10 billion in cases and $70-80 billion of lines offered by CDB in 2011. Reflecting the intentional tilt to understate when the data and/or trends are based on anecdotal and aggregated information, this table includes only half of the potential cases and 10 percent of the value of the lines of credit for CDB's 2011 activity.

In effect, this chapter constructs a picture of a Chinese system providing around $25 billion of case-specific standard export credit financing in 2011 and anywhere from $10 to $100 billion (conservatively picking $25 billion) of ultimate exports from 2011 authorizations of $2-30 billion-a-pop facilities or lines of credit. The estimated total for 2011 is $48.5 billion. Given the hard data for Sinosure and the unit volume of very precise press reports, it is hard to believe the actual activity by all 3 is much less than $50 billion. However, it would not be hard to make a credible argument that the three-entity total is 50% larger, or $75 billion a year.

Based on the estimated figures above, China – with nearly $50 billion of standard export credit – continues to rank first among the non-OECD ECAs (and all ECAs) in its support for medium- and long-term export credits.

The general consensus from the foreign buyers, lenders and other ECAs Ex-Im visited for this study is that while China is aggressive with its offerings of standard financing, these offerings are very slow in coming. Just how competitive Chinese products and financing are depends on the market and the sector. For example, a number of buyers did not view Chinese products as competitive in quality, value and dependability with the highly engineered products dominating Ex-Im's historical activity. In other sectors, however, the quality of Chinese products was considered as good as the other competitors' products and could be procured at a very reasonable all-in cost.

Moreover, there are several sectors in which Chinese companies are highly regarded (e.g., telecommunications and coal fired power). In addition, in certain sectors or segments, the trade-off implicit in Chinese equipment is more accepted by smaller companies and some utilities that tend to be more price-sensitive. Notwithstanding the generally limited acceptability of most Chinese products/sectors for buyers surveyed in 2011, a number noted that as the product quality and support is likely to improve over the next 3-5 years (see the experience of Huawei and Harbin), the Chinese companies are going to become worthy competitors across many sectors. If low cost, readily available financing is an added complimentary feature, procurement decisions in the latter half of this decade could be swayed in favor of the Chinese goods.

Chapter 8 Annex II

BENCHMARKING STUDY METHODOLOGY

Introduction

As a result of the findings in the Emerging Issues chapter of the 2010 Report, Ex-Im Bank embarked on a two-year benchmarking study to more broadly assess Ex-Im competitiveness, examining the utility and effectiveness of the whole spectrum of official export credit activity around the world, and not just looking at what a few players (G-7) are doing within the narrow confines of the Arrangement. One critical component of this research was an Ex-Im Bank interview-based survey of foreign ECAs, foreign banks, and most importantly, foreign companies making international procurement decisions, referred to as "buyers.'' This interview effort is more broadly referenced as the International Buyer Survey.

The objective of these international interviews was to gain a holistic understanding of the global world of export financing from all participants' perspectives, identifying key drivers for use of export credit by buyers, exporters, and lenders. The findings were intended to not only provide feedback on Ex-Im competitiveness in standard "micro" issues (e.g. foreign content, MARAD, and tied aid), but also broader trends and issues affecting Bank competitiveness, such as differences in national philosophies and organizational missions, the size and terms of the various unregulated and exceptional programs, and whether or not these "nonstandard" forms of financing represent alternatives to export credits.

Market and Survey Participant Selection Methodology

In order to properly identify target markets for interviews, Ex-Im conducted a cross-cutting evaluation of export credit agency activity volumes from multiple sources, including the Berne Union, OECD reporting data, and open source articles reporting on ECA transactions, which were logged by Ex-Im staff. Ex-Im focused on emerging markets with the assumption that they held more potential for growth in ECA-supported U.S. exports than mature, developed markets. (The spike in demand for ECA financing in developed European countries is viewed as a temporary trend that is likely to subside with the eventual resolution of the European debt crisis.)

Initially, Ex-Im identified eight markets with large volumes of ECA activity: Brazil, Indonesia, India, Mexico, Ukraine, Turkey, United Arab Emirates, and Russia. These markets were further narrowed to those with ECA activity in multiple sectors, a robust and varied field of ECAs participating in the markets, and a number of large buyers that had worked with multiple ECAs.

To select the most knowledgeable lenders and buyers for interviews, Ex-Im identified those with the broadest experience through OECD data, open source articles, and Ex-Im loan officers and business development specialists. Ex-Im targeted large companies because they usually have the most extensive ECA experience and are the most

knowledgeable buyers. Ex-Im gathered information on SME financing in each market through commercial lender and ECA interviews.

The most important step was then to identify the most knowledgeable individuals within these organizations. Ex-Im loan officers and business development specialists shared their contacts for lenders and exporters. For organizations without existing Ex-Im Bank contacts, Ex-Im obtained introductions through the U.S. Commercial Service posts, U.S. exporters, and Ex-Im contacts at consulting firms and trade associations.

Scope of Interviews

Ex-Im interviewed companies, banks, and ECAs in Mexico, Brazil, India, Switzerland, Korea, Japan, and China. **Figure 50** breaks down the buyer and lender interviews by market. The bank interviewed buyers in the following sectors: telecommunications, renewable energy, power generation, mining, oil and gas, construction, infrastructure, and EPC (engineering, procurement, and construction). The interview results were reported in aggregate, with no comments or feedback attributed to any specific company.

In total, the Bank conducted 49 interviews:

- 17 buyers
- 12 ECAs
- 12 commercial lenders
- four U.S. Commercial Service offices, including one joint briefing with State Department Economic Section officers
- two distributors
- two U.S. firms with global procurement experience

Figure 50: International Buyers and Lenders Interviewed

	Foreign Buyer	Commercial Lender
Brazil	5	4
Mexico	4	6
India	6	1
Switzerland	-	1
CIS* (Corporate HQ based in Switzerland)	2	-
Total	**17**	**12**

*CIS: Commonwealth of Independent States

Survey Questions and Interview Methodology

Prior to the interviews, survey participants received a list of questions. The survey questions for international buyers, lenders, and ECAs are available in Annexes I-III of this section. Two Ex-Im staff were present at all interviews. The Foreign Commercial Services offices in Mexico City, Sao Paulo, Rio de Janeiro, and Mumbai provided invaluable logistical support and market knowledge. All interviews were carried out

during February and March of 2012. Since these surveys occurred internationally, they fall outside the jurisdiction of OMB Paperwork Reduction Act requirements.

Analysis of Results

Ex-Im staff summarized all buyer, lender, and ECA interviews from meeting notes. Ex-Im compared ECAs on the basis of mandate or mission, volumes and types of activity under and outside of the OECD arrangement, and ECA policies such as content requirements, co-financing, and services support. The exporter and lender findings were compiled into spreadsheets form, distilling the interviews down to the key topics, including:

- Experience with competitor ECAs
- Assessments of U.S. Ex-Im programs and policies
- Sources of financing used by buyers
- Competitive U.S. products and services and their competitors
- Impact of the Eurozone crisis and/or Basel III
- Sourcing decision factors and procurement processes
- Local banking sector environment and banking regulations

Ex-Im staff then compared the ECA, buyer, and lender results, analyzing differences and similarities across markets and sectors to identify global and market-specific trends. The results of this exercise are captured in Chapter 8. See **Figure 51** in Chapter 8 Annex VI for a breakdown of buyer and lender experience with competitor ECAs.

Conclusion

The surveys were an effective means of holistically studying the global official export credit sector and the role of official financing in procurement decisions. These interviews were also valuable tools for better understanding market-specific trends in the Mexican, Brazilian, Indian, and CIS markets.

Foreign Buyer questions

1. What are your current procurement needs and expectations for the next 2-5 years, and what portion will be sourced domestically vs. internationally?
2. How are procurement decisions made in your company, and what is the timing of the various steps? For example, do you put out bids for request for proposals (RFPs), negotiate with a number of suppliers on a bilateral basis, or use a different method?
3. What are the factors driving your choices during your procurement process? (e.g. price, quality, service, reputation, performance guaranties, financing, timing/delivery date/schedule, geographic proximity, ease of purchase process, etc.) What is the rank of their importance?
4. Do you anticipate requiring dollar/hard currency financing to secure internationally sourced goods and services, and, if so, why? Are there tax incentives or domestic policy incentives to do so? Which types of financing? (short term, medium term, long term, project finance, insurance, direct loans, other)
5. From what sources will you seek financing (e.g. local lenders, international lenders, MDBs, ECAs, insurers), and why?
6. If you have used ECA financing, which ones, why, how often, and what is your opinion of each?
7. Of the best ECAs, what factors make them stand out in your mind in a positive way?
8. Of those ECAs that rank low on your list of best ECAs, which ones are they and why?
9. Have you used other forms of official financing (e.g., investment, untied, Market Window, other), and under what circumstances? Were you given a choice? How were the options presented? Was it effectively competing with export credits?
10. Have you ever used or tried to use U.S. Ex-Im Bank? If so, when and in what capacities? Please identify specific products and the outcome of this relationship?
    a) Please describe the process and how does it compare to other ECAs with whom you have worked in a similar capacity? Please be specific.
    b) Identify the positive and the negative experiences and/or exchanges you have with a foreign ECA and explain why. What would be the single, most important, thing you could change at Ex-Im if you could?
11. What are the perceived advantages and disadvantages of products produced by American suppliers in your industry? What are the perceived advantages/disadvantages of competitors in other countries? In which sectors or industries are American exporters especially competitive in this market?

Foreign Export Credit Agency Questions

Given the state of the global financial markets, in 2011 Ex-Im Bank noticed a rise in requests for longer term financing generally with some portion in better risk markets while also in forms that are not necessarily the same as standard export credits. Ex-Im would like to better understand how common this activity is for all ECAS, and the nature and levels of support offered in the variety of forms of financing so that we might better understand this market activity (e.g., is it a trend or an anomaly) and its impact on the world of export credits.

1. Has the form of support your ECA offers changed over the past 2-3 years? For example, what %/$ of your support fall within the bounds of the OECD Arrangement vs. untied loans/insurance vs. investment insurance/financing?

2. To what factors/influences do you attribute any shifts in forms of support and why?

3. What criteria are used to determine which form of support your ECA will provide for OECD export credit, untied support and investment support? For example, how do you evaluate the use of untied support in the context of related exports?

4. What do your exporters identify as the most critical and least important factors driving the sourcing decisions of their clients? (E.g. price, quality, service, reputation, performance guaranties, financing, timing/delivery date/schedule, geographic proximity, ease of purchase process, etc.)

5. How do your exporters believe that financing impacts the sourcing decision – what is its relative weight compared to the other factors?

6. Do your exporters report competitiveness issues *vis*-à-*vis* OECD and non-OECD ECAs? If so, what are they and are the issues reported different for OECD vs., non-OECD ECAs? If so, in what ways?

Chapter 8 Annex V

Foreign Lender Interview Questions

1. ECAs: Trends and experience
   - Have you worked with foreign ECAs? If so, which ones?
   - Of the best ECAs with which you've worked, what factors make them stand out in your mind in a positive way? Any negatives?
   - Of those ECAs that rank low on your list, which ones are they and why?
   - If you've worked with U.S. Ex-Im, for how long and in what capacities? Please identify specific products and the outcome of this relationship.
     - How did working with U.S. Ex-Im compare to other ECAs with whom you have worked in a similar capacity? Please be specific.
     - What were the positives and the negatives and why?
     - What would be the single most important thing you could change at Ex-Im if you could?
   - Do you have experience with other forms of official financing? (e.g. investment insurance, untied support, Market Window, etc.)
     - In your opinion, do the alternative forms of official financing effectively compete with export credits?

2. Future Outlook
   - How do you see the impact of the financial crisis in terms of commercial lending in export finance?
   - What are your expectations for the role of banks, capital markets, and ECAs for export financing over the next 2-5 years?

3. Export Finance Market Trends
   - Can you comment on liquidity restrictions and whether they have impacted your activity?
   - Have the recent Eurozone instability and/or the Arab Spring significantly affected export finance? If so, how? What observations can you share that evidence these trends?
   - How has your bank responded to these developments, and what is your future outlook for your export finance business?
   - Can you comment on the typical spreads you see on Ex-Im versus foreign ECA deals, perhaps distinguishing among asset backed aircraft and non-air, project finance, corporate credits or other?

4. Financing and Procurement
   - In your experience, does availability of financing ever influence procurement decisions for your customers? (e.g. sourcing domestically v. importing; importing from one country v. a different foreign competitor)

Figure 51: ECA Experiences of Lenders and Buyers Interviewed

	OECD Untied & Market Window Financing			Non-OECD Export Credits		
	Financing available	Used Financing	ECAs	Financing available	Used Financing	ECAs
BRAZIL						
Buyer 1	Y	Y	EKF; EDC; JBIC	Y	Y	BNDES; CXM*
Buyer 2	Y	Y	EDC; SACE			
Buyer 3	Y	Y	SACE			
Buyer 4	Y	Y	EDC; JBIC	Y	Y	BNDES
Lender 1	Y	Y	SACE			
Lender 2	Y	Y	SACE	Y		
Lender 3						
Lender 4	Y		SACE; KEXIM; JBIC			
INDIA						
Buyer 1				Y		CDB*
Buyer 2				Y	Y	Sinosure
Buyer 3	Y	Y	EDC; SACE	Y	Y	
Buyer 4	Y	Y	EDC			
Buyer 5	Y	Y	JBIC	Y	Y	CDB; Sinosure
Buyer 6				Y		Sinosure
Lender 1	Y	Y	JBIC	Y		CXM
MEXICO						
Buyer 1				Y		CDB & CXM
Buyer 2						
Buyer 3						
Buyer 4	Y	Y	JBIC; EDC	Y		CDB
Lender 1	Y	Y	JBIC	Y		CDB
Lender 2						
Lender 3				Y		CDB
Lender 4						
Lender 5						
Lender 6	Y	Y	JBIC; KEXIM	Y	Y	Chinese ECAs
SWITZERLAND						
Distributor 1**						
Distributor 2**						
Buyer 1*	Y		NEXI			
Buyer 2*						
Lender 1	Y		KEXIM			
Total	**16**	**13**		**14**	**6**	
% of Total	**53%**	**43%**		**47%**	**20%**	

**CDB = China Development Bank; CXM = China Eximbank*
***Corporate offices based in Switzerland with sales or distribution into Former Soviet Union/CIS*

Appendix A: Calculation of Ex-Im Bank Grade

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

Figure A1: Definition of Select Grades

Grade	Definition	Score
A+	Fully competitive compared to other ECAs. Consistently equal to the (or is the sole) ECA offering the **most competitive** position on this element. Levels the playing field on this element with the most competitive offer from any of the major ECAs.	4.33
A	Generally competitive compared to other ECAs. Consistently offers terms on this element **equal to the average** terms of the typical major ECA. Levels the playing field on this element with the typical offer from the major ECAs.	4.00
A-/B+	Level of competitiveness is in between grades A and B.	3.50
B	Modestly competitive compared to other ECAs. Consistently offers terms on this element **equal to the least** competitive of the major ECAs. Does not quite level the playing field on this element with most of the major ECAs.	3.00
B-/C+	Level of competitiveness is in between grades B and C.	2.50
C	Barely competitive compared to other ECAs. Consistently offers terms on this element that are a **notch below** those offered by any of the major ECAs. Puts exporter at financing disadvantage on this element that may, to a certain extent, be compensated for in other elements or by exporter concessions.	2.00
C-/D+	Level of competitiveness is in between grades C and D.	1.5
D	Uncompetitive compared to other ECAs. Consistently offers terms on this element that are **far below** those offered by other major ECAs. Puts exporter at financing disadvantage on this element so significant that it is difficult to compensate for and may be enough to lose a deal.	1.00
F	Does not provide program.	0.00
N/A	Does not have experience with policy/program.	

Figure A2: Range of Averaged Scores for Each Grade

Grade	Maximum Score	Minimum Score
A+	4.330	4.165
A	4.164	3.75
A-/B+	3.74	3.25
B	3.24	2.75
B-/C+	2.74	2.25
C	2.24	1.86
C-	1.86	1.50
D	1.49	0.50
F	0.49	0

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

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

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

Appendix B: Purpose of Ex-Im Bank Transactions

Congress requires Ex-Im Bank to include in the annual Competitiveness Report a breakdown of the purposes for Ex-Im Bank support for transactions. In that regard, the two objectives behind Ex-Im Bank support for transactions are to either fill the financing gap when private sector financing is not available or to meet foreign competition. **Figure B1** breaks down the number and amount of Ex-Im Bank transactions authorized in 2011 by purpose and program type. See Appendix C for relevant lender and exporter survey feedback on purpose of Ex-Im financing.

Figure B1: Ex-Im Bank Transactions by Purpose and Program, 2011

	No Private Sector Finance Available		Meet Competition		Not Identified	
	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working Capital Guarantees	$3	525	$0	0	$0	0
Short Term Insurance	$5	2,733	$0	0	$0	0
Medium Term Insurance	$49	16	$207	98	$0	0
Medium & Long Term Guarantees	$4,496	39	$10,895	122	$0	0
Loans	$998	8	$4,732	7	$0	0
TOTAL	**$5,551**	**3,321**	**$15,834**	**227**	**$0**	**0**

Appendix C: Exporter and Lender Survey Background

Introduction

As part of Ex-Im Bank's statutory requirement to report annually on the Bank's competitiveness with its G-7 ECA counterparts, Ex-Im Bank is required to conduct a survey of exporters and lenders that used the Bank's medium- and long-term programs in the prior calendar year. By encouraging respondents to evaluate the competitiveness of Ex-Im policies and practices with those of its G-7 ECA counterparts during the calendar year, this Congressionally-mandated survey not only provides critical information to the Bank, but it also facilitates valuable lines of communication that strengthen the long-term relationships between Ex-Im and various lenders and exporters necessary for their shared success going forward.

As a means of supplementing the survey results, Ex-Im Bank conducts focus group discussions with experienced users (exporters and lenders) of Ex-Im Bank programs to obtain more detailed comments about the global market in which they operated in 2011 and any competitive implications for Ex-Im Bank. Ex-Im held two lender meetings and one exporter meeting. These meetings supplement the results from our annual survey and serve as a crucial factor impacting the competitiveness of Ex-Im's various policies and practices with that of the G-7 ECAs.

For the past two years, the Advisory Committee has expressed an interest in revising the exporter and lender survey and has recommended that resources be devoted to enhancing the survey and expanding the survey pool. Therefore, in 2011 Ex-Im Bank embarked on a two-year process that is aimed at ensuring the ultimate validity and utility of the survey results. With respect to the 2011 survey, Ex-Im Bank introduced an enhanced online survey platform to increase user friendliness while reaching a larger number of potential participants. Furthermore, in an attempt to enhance the survey pool and ensure the appropriate individuals at these companies and banks, Ex-Im Bank management and staff vetted the contact lists and personally reached out to respondents to express the importance that Ex-Im Bank places on the survey and input gathered from the survey participants. Continuing this progress of improving all aspects related to the Competitiveness Report Survey, Ex-Im is currently overhauling the 2012 survey design and platform under the guidance of a consultant that was selected from a pool of survey experts on the basis of their extensive experience in survey methodology, execution, and analysis.

Survey Questions

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

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

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

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

Part 4: Additional comments.

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

Participant Selection

The survey was sent to lenders and exporters that directly used Ex-Im Bank's medium- and long-term programs during calendar year 2011. All lenders meeting those criteria received survey invitations. Exporter survey recipients included exporters with three or more Ex-Im transactions of any value or a total authorization value of at least $500 thousand for whom contact information could be obtained. These criteria were applied to target exporters that would most likely be aware of foreign ECA competition and Ex-Im Bank's programs. With the exception of five exporters that were substantially involved as suppliers to project finance transactions, exporters that were strictly suppliers to Ex-Im project finance transactions were excluded from the survey pool because those entities were not directly involved in the contract bid or financing arrangements with the buyer. (Ultimately, those five project finance suppliers were unable to provide responses and were therefore removed from the survey participant pool.)

Initially surveys were sent to 65 exporters and 42 lenders. In addition to the five project finance sub-suppliers that were excluded, a few of other respondents indicated that they had no information or knowledge of the competitive factors of U.S. Ex-Im relative to other ECAs. Four lender surveys and one exporter survey were omitted for this reason. One additional exporter had a corporate policy of not participating in surveys, so the company was also excluded from the final numbers. Of the nineteen small business exporters surveyed, four responded. The exporter and lender survey respondents account for almost 70% of MLT authorizations for calendar year 2011 (see **Figures C1a and C1b** below).

Figure C1a: Exporter Survey Respondent MLT Authorization Values, CY2011

	Loans	Guarantees	Insurance	Total
Respondent authorization value	$13,922,125,275	$56,950,317	$1,198,235,636	$15,177,311,228
CY2011 Total authorization value	$15,391,000,000	$256,000,000	$5,730,000,000	$21,377,000,000
Percentage of total value (%)	90%	22%	21%	71%

Figure C1b: Lender Survey Respondent MLT Authorization Values, CY2011

	Guarantees	Insurance	Total
Respondent authorization value	$11,550,766,343	$177,135,044	$11,727,901,387
CY2011 Total authorization value	$15,391,000,000	$256,000,000	$15,647,000,000
Percentage of total value (%)	75%	69%	75%

Survey Results

Figure C2 highlights the response rate for the survey participants. Overall, the response rate for the survey was 50%. The response rate for lenders was higher than for exporters, with 63% of lenders responding and 41% of exporters responding. Due to the many initiatives taken by Ex-Im to improve the size of the respondent pool, overall number of responses increased to 48 when compared to last year's 46 total survey responses. However, the larger 2011 survey pool also resulted in a decrease in lender responsiveness, which largely influenced the slight year-over-year decline in the overall response rate, which once again, totaled 50% in 2011 versus last year's rate of 52%. Please note that the 2010 survey results are included below to allow for a more concrete comparison with the 2011 results.

Figure C2a: Survey Response Rate, 2011

	Lenders	Exporters	Total
Number surveyed	38	58	96
Number responded	24	24	48
Response rate (%)	63%	41%	50%

Figure C2b: Survey Response Rate, 2010

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

Lenders

Figure C3 shows the lender experience levels for both length of time in business and experience in export finance. A majority of lenders 71% have been in business for over 21 years. With the exception of one lender with less than 3 years in business, the remaining 25% have been in business anywhere from 4-20 years. Lender's years of experience in export finance showed that less than 8% were relatively new to the business (2 lenders had between 1 to 10 years of experience), while the overwhelming majority of 92% had over 11-plus years of experience in export finance.

Figure C3: Lender Experience Levels, 2011

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	1	0	6	17
Time in export finance	1	1	9	13

Figure C4 shows the volume of export credits extended during 2011. Of the 24 lenders who indicated these values, 21% reported having extended $50 million or less during 2010, while the remaining 79% offered more than $50 million. These data suggest that the more active lenders participating in Ex-Im Bank medium- and long-term programs were focused more on higher value export transactions.

Figure C4: Volume of Lenders' Annual Export Credits, 2011

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Number of Lenders	5	0	2	6	0	11

Figure C5 shows the percentage of lenders' export credits extended during 2011 that were supported by Ex-Im Bank. Just over 33% of lenders noted that 75% of their export credits had Ex-Im Bank support, while almost 42% reported that less than 10% of their export credit portfolio had been supported by Ex-Im Bank. The remaining 25% fell between 10% and 75% in terms of percentage of exports supported by the Bank.

Figure C5: Percentage of Lender Export Credits That Were Ex-Im Bank Supported, 2011

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Number of lenders whose export credits were supported by Ex-Im Bank	10	2	1	3	8

Additionally, out of all 24 responding lenders, 20 noted that the lack of useful private sector financing was regularly the reason for pursuing Ex-Im Bank financing and that this need was worldwide. Sixteen of the 24 lenders stated that Ex-Im Bank support was regularly needed to meet competition from foreign companies receiving ECA financing, with Euler-Hermes/Germany, EDC/Canada, and China Ex-Im/China cited as the most frequent ECAs with whom they had competed. Other ECAs cited on a slightly less frequent basis were ECGD/UK, NEXI/Japan, and COFACE/France, and SACE/Italy, respectively.

Exporters

Figure C6 shows the distribution of exporters by time in business. All exporter respondents were long-standing, large companies. Almost 83% of responding exporters had been in business for 21 years or more, and of these, a large majority (87%) had been exporting for 21 years or more.

Figure C6: Exporter Experience Levels, 2011

	1-3 years	4-10 years	11-20 years	21+ years
Time in business	0	1	3	20
Time in exporting	0	1	8	15

Figure C7 shows the size of exporters based on sales and export sales volume. Almost 63% of exporters who reported sales figures showed 2011 sales volumes of $1 billion or greater. Additionally, almost half of exporters with sales of over $1 billion also reported the same volume of export sales.

Figure C7: Volume of Exporter Annual Sales and Exports, 2011

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Total sales volume	0	3	3	3	0	15
Total export sales volume	1	5	1	7	3	7

Figure C8 shows the distribution of exporters by the percentage of export sales that were supported by Ex-Im Bank. Of the 24 companies who responded to this question, 13 showed that Ex-Im Bank support comprised less than 10% of their export sales while the 10 indicated that Ex-Im Bank supported from 10% to up to 75% of their sales. Only one company reported that Ex-Im programs supported over 75% of its export sales.

Figure C8: Percentage of Exporters' Sales That Were Ex-Im Bank Supported, 2011

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export sales supported by Ex-Im Bank	13	5	5	0	1

Twenty of the 24 exporters reported facing regular competition from foreign companies supported by their national ECAs throughout 2011. The most frequently identified competitor ECAs (in descending order) were Euler Hermes/Germany; China Eximbank,

COFACE/France, and NEXI/Japan in a three-way tie; followed by EDC/Canada and EGDC/UK; and lastly, SACE/Italy. Other less-frequently mentioned competition included Finnvera/Finland, BNDES/Brazil, ONDD/Belgium, EKF/Denmark, GIEK/Norway, Korea Ex-Im Bank, EKN/Sweden, OeKB/Austria, CESCE/Spain, and IFTRIC/Israel.

Working with Other ECAs

Frequent partners identified by the lenders were generally G-7 ECAs, as 16 exporters noted that they regularly worked with at least one G-7 ECA. Ten of the 24 lenders reported working regularly with at least one other ECA. Of these, the most frequently identified partner ECAs (in descending order) were EDC/Canada; Euler Hermes/Germany; China Eximbank, COFACE/France, SACE/Italy, and EGDC/UK in a four-way tie; followed closely by NEXI/Japan. Other less-frequently cited ECA support includes EKN/Sweden, Czech Export Bank/ Czech Republic, EKF Denmark, and EXIM Slovakia Republic.

Factors Driving Use of Ex-Im Bank Financing

Twenty-two of the 24 exporters that responded indicated they used Ex-Im because of both lack of useful private market financing *and* competition they face from companies receiving ECA support as reasons for seeking ECA financing. Lender results were similar. These responses indicate that for survey respondents, Ex-Im played an important role in offsetting ECA competition and filling private market financing gaps during calendar year 2011.

Figure C9a: 2011 Reasons for Seeking ECA Financing – Exporters

	Rarely	Regularly	N/A
Competition*	3	20	1
Lack of Financing**	4	19	1

* Facing Competition from Companies that Receive ECA Support
** Lack of Useful Private Market Financing (e.g. Unavailable for Term or Market, or Prohibitively Expensive)

Figure C9b: 2011 Reasons for Seeking ECA Financing – Lenders

	Rarely	Regularly	N/A
Competition*	3	16	5
Lack of Financing**	0	20	4

* Facing Competition from Companies that Receive ECA Support
** Lack of Useful Private Market Financing (e.g. Unavailable for Term or Market, or Prohibitively Expensive)

Exporter Comments on the Survey

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

Appendix D: G-11 Export Credit Institutions

Introduction

The G-11 consists of the United States, United Kingdom, Germany, France, Japan, Italy, Canada, Russia, Brazil, China, and India. These countries play a major role in the global economy. In 2011, they were responsible for approximately 63% of global economic output on a purchasing power parity basis. These countries are also the leaders in providing export credit to facilitate international trade through their ECAs.

Brazil

The **Brazilian Development Bank (BNDES)** is a state-0wned development bank serving as the primary entity for development in Brazil. BNDES offers medium- and long-term financing through its three subsidiaries FINAME, BNDESPAR, and BNDES Limited, an investment holding company created in 2009. BNDES finances the export of goods and services through pre-shipment and post-shipment cover, primarily through export credit guarantee instruments. In May 2010, the BNDES established EXIM Brazil, a new subsidiary solely dedicated to foreign trade.

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

Canada

Export Development Canada (EDC) is a "Crown Corporation" (i.e., a government entity that operates on private sector principles) that provides, among other products, short-term export credit insurance, medium- and long-term guarantees, and medium- and long-term direct loans, which may or may not be provided on a CIRR basis. EDC offers investment financing products and operates a "Market Window." EDC also offers domestic credit insurance. In addition, on with authorization from the Ministers of Trade and Finance, EDC may occasionally support export sales that do not conform to its risk parameters but which the Government of Canada considers to be in the national interest. In these instances, EDC executes and monitors the transactions, but they are maintained in a "Canada Account", which is separate from EDC's accounts.

China

The China Development Bank (CDB) is a joint stock company, fully owed by the Government of China. It is development-oriented with a mandate is to support the development of China's public infrastructure and strategic sectors. CDB engages in long-term financing to support these policy objectives.

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

The **Export-Import Bank of China (China Eximbank)** is wholly-owned by the Government of China through the Ministry of Finance and is one of China's two "policy banks". It provides support for the import and export of capital goods and services. It also supports Chinese companies' overseas construction and investment projects. Additionally, China Eximbank is the conduit for the Government of China's official concessionary credits to developing countries. Conversely, it may onlend support that China receives from foreign governments or international financial institutions to government departments or enterprises.

France **Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)** is a private insurance company. Its core activity is short-term insurance, but it has also diversified its business to include factoring and information services for its customers. In addition to the business it conducts for its own account, COFACE also provides official medium- and long-term export credit insurance on behalf of the French government.

Germany **Euler Hermes Kreditversicherungs-AG (Hermes)** is a consortium comprised of a private sector insurance company and a quasi-public company that provides official export credit insurance on behalf of the German government, similar to COFACE of France. Hermes also provides short-term export credit insurance for its own account according to standard market practices as well as a small portion for the state account under an EU "escape clause" that has been extended due to the financial crisis on a temporary basis.

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

India **Export Credit Guarantee Corporation of India Ltd (ECGC)**, founded in 1957, is an autonomous company with the Government of India holding 100% of its shares. ECGC's major programs include export

credit insurance to private buyers and banks, overseas investment insurance, export factoring, and domestic credit insurance.

Export-Import Bank of India (EXIM-Bank), established in 1981, is 100% owned by the state. Its purpose is to support the government's export objectives. It provides export and import financing, market research, and finances overseas equity investment.

Italy

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

SIMEST provides interest rate support to commercial banks in order to achieve CIRR. SIMEST is a development financier, with public and private participation, instituted in 1990 for the promotion and construction of joint ventures abroad. The Ministry of Foreign Trade is the majority shareholder. The private shareholders consist of Italian financial institutions, banks and business associations.

Japan

Nippon Export and Investment Insurance (NEXI) is an incorporated administrative agency formed on April 1, 2001. NEXI is responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI). Historically, Japanese exporters were required to insure all of their short-term business through NEXI, but in 2004, the Japanese government removed this requirement and began welcoming private insurers into the Japanese export credit insurance market. NEXI offers short, medium- and long-term export credit insurance, insurance for project finance, investment insurance, untied loan insurance, and bonds and guarantees coverage.

The **Japan Bank for International Cooperation (JBIC)** is a government bank that falls under the Ministry of Finance. In its capacity as an export credit agency, JBIC provides direct loans for export credits in combination with commercial bank financing. In addition, JBIC provides untied and investment loans, guarantees, and import credits. Beginning in October 2008, JBIC began operating within the purview of the Japan Finance Corporation Law. As a result of this change, JBIC is responsible for promoting overseas development of strategic natural resources, supporting efforts of Japanese industries to develop international business operations, and responding to financial disorder in the international economy. In April 2012, JBIC will have the statutory authority to work with Ex-Im Bank on a reinsurance/co-financing basis. Moreover, JBIC will have statutory authority to provide cover into high income OECD countries for strategic sectors, e.g., high speed rail.

Russia

The Bank for Development and Foreign Economic Affairs (Vnesheconombank or VEB) is a 100% state-owned corporation responsible for enhancing the competitiveness of Russia's economy. VEB acts in various capacities. In its role as a development bank, VEB finances the modernization of domestic infrastructure and high tech production, and it provides assistance to Russian corporations that manufacture and export high tech products. In addition, VEB also has a broader role in supporting foreign trade operations across industries. Its activities include export credit insurance and consultancy, as well as export finance.

Russian Agency For Export Credit and Investment Insurance (EXIAR) is the newly-founded export credit insurer of Russia. Registered in October 2011, its Board of Directors includes representatives from the Russian Government and other independent members. EXIAR's charter included a 30 billion ruble (roughly $1 billion USD) capital base. EXIAR operations are regulated by a special Decree of the Russian Government. The Decree calls for EXIAR to contribute to the design of an export credit culture in Russia through the use of export credit insurance products and the development of domestic regulations that supports commercial bank activity. EXIAR provides insurance, co-insurance and reinsurance. EXIAR sovereign guarantee is governed by separate acts of the Government of Russia. That is, EXIAR does not carry the full faith and credit of the Russian government.

United Kingdom

UK Export Finance (formerly called Export Credits Guarantee Department) is a separate department of the UK government. It is the UK's official export credit agency and provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions, project finance, export credit insurance, bonds and guarantee coverage, and investment insurance.

Appendix E: Ex-Im Bank Foreign Content Support

Figure E1: All Transactions

	Medium-Term *		Long-Term	
Product/Project	**Export Value**	**FC %**	**Export Value**	**FC %**
Aircraft	$14,208,479	20%	$12,723,132,050	12%
Oil and Gas			$3,813,105,013	10%
Construction Equipment	$37,006,667	19%	$60,000,000.00	9%
Power Plants (excluding environmentally beneficial plants)			$646,000,000	9%
Environmentally Beneficial Exports			$567,355,546	8%
Agricultural Equipment	$26,077,369	17%	$83,674,585	5%
Other	$39,074,465	11%	$987,380,838	21%
All	**$116,366,980**	**16%**	**$18,880,648,032**	**12%**

Figure E2: Medium-Term Transactions

Country	Product/Project	Export Value	Foreign Content %**
Argentina	Printing Machinery	$603,325	33%
Argentina	Small Aircraft	$828,950	35%
Brazil	Small Aircraft	$5,300,000	21%
Brazil	Manufacturing Equipment	$4,300,000	15%
Brazil	Medical Equipment	$2,105,588	1%
Brazil	Medical Equipment	$740,000	15%
Brazil	Wireless Communication Equipment	$540,670	12%
Brazil	Manufacturing Equipment	$1,160,000	15%
Brazil	Railroad Transportation Equipment	$1,016,987	25%
Brazil	Manufacturing Equipment	$1,370,000	4%
Brazil	Construction Equipment	$4,922,000	10%
Brazil	Agricultural Equipment	$11,385,225	21%
Brazil	Railroad Transportation Equipment	$1,250,000	12%
Brazil	Small Aircraft	$2,123,781	38%
Brazil	Medical Equipment	$730,000	15%
Brazil	Small Aircraft	$3,550,000	16%
Brazil	Manufacturing Equipment	$4,300,000	15%
Brazil	Medical Equipment	$730,000	15%
Chile	Construction Equipment	$7,000,000	35%
Chile	Small Aircraft	$2,405,748	1%

Dominican Republic	Printing Machinery	$600,000	2%
Dominican Republic	Agricultural Equipment	$1,139,123	5%
Dominican Republic	Recycling Plant	$483,000	9%
Dominican Republic	Printing Machinery	$600,000	2%
India	Solar Power Equipment	$3,520,000	10%
Kuwait	Construction Equipment	$11,306,464	15%
Mexico	Printing Machinery	$4,800,000	14%
Mexico	Construction Equipment	$1,909,008	3%
Mexico	Agricultural Equipment	$1,049,797	10%
Mexico	Agricultural Equipment	$384,566	6%
Mexico	Agricultural Equipment	$846,529	5%
Mexico	Paper Packaging Equipment	$635,000	30%
Mexico	Printing Machinery	$312,000	3%
Mexico	Construction Equipment	$768,900	20%
Mexico	Construction Equipment	$9,341,891	21%
Mexico	Agricultural Equipment	$740,959	21%
Mexico	Lighting and Audio Equipment	$1,005,014	12%
Mexico	Printing Machinery	$628,000	5%
Mexico	Medical Equipment	$2,584,331	12%
Panama	Construction Equipment	$685,604	17%
Peru	Construction Equipment	$1,072,800	15%
Russia	Mining Equipment	$2,914,000	6%
Sri Lanka	Printing Machinery	$474,300	8%
Turkey	Geothermal Power Plant	$1,126,000	14%
Ukraine	Agricultural Equipment	$9,731,400	16%
Uruguay	Agricultural Equipment	$799,770	18%
Uruguay	Medical Equipment	$546,250	6%
TOTAL & AVERAGE		**$116,366,980**	**16%**

Table E3: Long-Term Transactions

Country	Product/ Project	Export Value	Foreign Content %**
Australia	Large Aircraft	$86,600,000	15%
Australia	Oil and Gas	$48,335,987	9%
Australia	Large Aircraft	$448,600,000	15%
Azerbaijan	Satellite	$122,120,000	15%
Azerbaijan	Satellite	$122,120,000	15%
Bangladesh	Large Aircraft	$269,910,057	11%
Brazil	Large Aircraft	$212,052,225	15%
Brazil	Small Aircraft	$23,853,634	29%
Brazil	Aircraft Propulsor	$24,727,975	16%

Canada	Solar Power Plant	$174,009,811	5%
Canada	Solar Power Plant	$230,564,700	5%
Canada	Construction Equipment	$60,000,000	9%
Chile	Large Aircraft	$237,052,305	8%
China	Small Aircraft	$97,700,545	23%
China	Large Aircraft	$306,231,300	11%
China	Large Aircraft	$152,911,200	11%
China	Agricultural Equipment	$55,824,947	3%
China	Agricultural Equipment	$11,956,882	17%
Colombia	Oil and Gas	$1,956,217,831	11%
Ethiopia	Large Aircraft	$222,209,067	17%
France	Satellite	$75,952,623	18%
Hong Kong	Large Aircraft	$718,000,000	10%
Hong Kong	Large Aircraft	$494,116,000	10%
India	Oil and Gas	$57,979,035	15%
India	Solar Power Panels	$19,052,000	24%
India	Oil and Gas	$486,548,795	25%
India	Solar Power Dishes	$19,800,000	5%
India	Solar Power Plant	$65,950,000	15%
India	Large Aircraft	$680,507,000	5%
India	Large Aircraft	$496,073,400	5%
Indonesia	Large Aircraft	$230,310,164	15%
Indonesia	Large Aircraft	$192,739,019	15%
Indonesia	Large Aircraft	$191,025,696	15%
Ireland	Large Aircraft	$261,525,074	15%
Ireland	Small Aircraft	$102,678,979	13%
Ireland	Large Aircraft	$90,100,000	16%
Ireland	Large Aircraft	$231,000,000	15%
Ireland	Large Aircraft	$594,000,000	15%
Israel	Aircraft Engine	$8,078,088	50%
Kazakstan	Locomotives	$507,456,447	25%
Kenya	Large Aircraft	$88,702,502	14%
Luxembourg	Large Aircraft	$726,328,302	10%
Luxembourg	Large Aircraft	$175,477,450	10%
Luxembourg	Large Aircraft	$176,812,855	10%
Mexico	Audio Equipment	$20,860,410	15%
Mexico	Oil and Gas	$181,505,057	4%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$224,346,031	2%
Mexico	Oil and Gas	$112,173,016	2%
Mexico	Oil and Gas	$112,173,016	2%

Mexico	Large Aircraft	$8,530,600	47%
Mexico	Large Aircraft	$22,415,800	31%
Netherlands	Large Aircraft	$88,676,816	15%
Nigeria	Drilling Liftboat	$22,600,000	5%
Norway	Large Aircraft	$500,250,000	15%
Panama	Large Aircraft	$213,586,879	15%
Panama	Large Aircraft	$302,400,000	15%
Russia	Mining Equipment	$76,470,588	30%
Singapore	Large Aircraft	$249,905,942	15%
South Africa	Power Plant	$646,000,000	9%
South Africa	Mining Equipment	$17,320,970	21%
South Korea	Large Aircraft	$254,745,000	11%
South Korea	Large Aircraft	$163,200,000	10%
Switzerland	Large Aircraft	$49,300,000	16%
Tajikistan	Large Aircraft	$103,000,000	15%
Turkey	Oil and Gas	$18,767,187	20%
Turkey	Large Aircraft	$422,520,908	11%
Turkey	Large Aircraft	$502,518,242	15%
Turkey	Large Aircraft	$188,052,397	15%
Turkey	Large Aircraft	$378,947,603	15%
Ukraine	Mining Equipment	$22,479,800	24%
Ukraine	Agricultural Equipment	$15,892,756	4%
United Arab Emirates	Large Aircraft	$280,245,275	11%
United Arab Emirates	Large Aircraft	$121,832,695	13%
United Arab Emirates	Large Aircraft	$313,200,000	11%
United States***	Large Aircraft	$1,020,481,056	10%
Total & Average		**$18,880,648,032**	**12%**

Source: U.S. Ex-Im Bank

* Data excludes Credit Guarantee Facilities

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

***U.S. company leased aircraft to European firm.

Appendix F: Tied Aid Report

Introduction

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

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

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

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

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

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

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

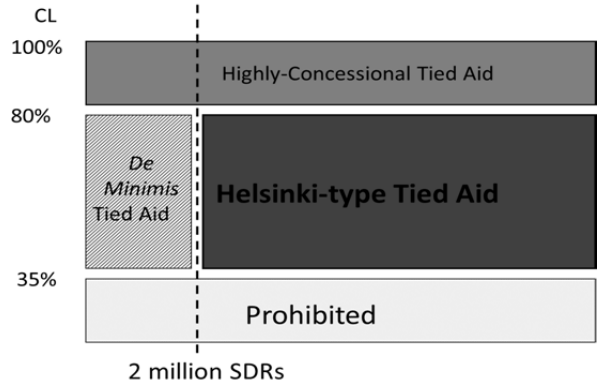
governed by the Helsinki Disciplines and is summarized as: (1) no tied aid for commercially viable projects[3]; (2) all tied aid must be notified to OECD Members at least 30 business days before the country makes a financing commitment; (3) no tied aid for wealthy countries [defined as those with a per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

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

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

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

Figure F1: Scope of OECD Helsinki Disciplines



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

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

Implementation of the OECD Arrangement

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

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

Current Status of the OECD Negotiations on Tied and Untied Aid 2011

The OECD and the U.S. continue to monitor the effectiveness of the Helsinki tied aid rules. The trend since 2005 highlights that tied aid disciplines have generally kept the tied aid use at the $5 billion per year level mentioned prior. Furthermore, the OECD Consultations Group has not examined any tied aid offers since 2008.

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

Tied Aid and Untied Aid Activity

In 2011, with respect to tied aid, the volume of Helsinki-type tied aid increased slightly to approximately $5.9 billion from $5.8 billion in 2010. The data for aggregate activity in 2011 shifted from the trends of tied and untied aid activity over the last five years (see **Figures F2** and **F3**). Japan remained the largest donor of tied aid in terms of volume, accounting for over $4.5 billion or 69% of OECD tied aid activity (see **Figure F3**).

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

However, traditional tied aid donors, France and Spain decreased their tied aid activity in 2011, not even ranking as the top 5 donors of tied aid.

The number of tied aid notifications decreased from 132 in 2010 to 123 in 2011, continuing the trend of increasing average transaction size rather than incidences of tied aid transactions (**Figures F4** and **F5**). Furthermore, Austria continues to be the largest donor in terms of the number of tied aid offers.

Figure F2: Major Helsinki-type Tied Aid Notifications by Donor (by value), 2007-2011

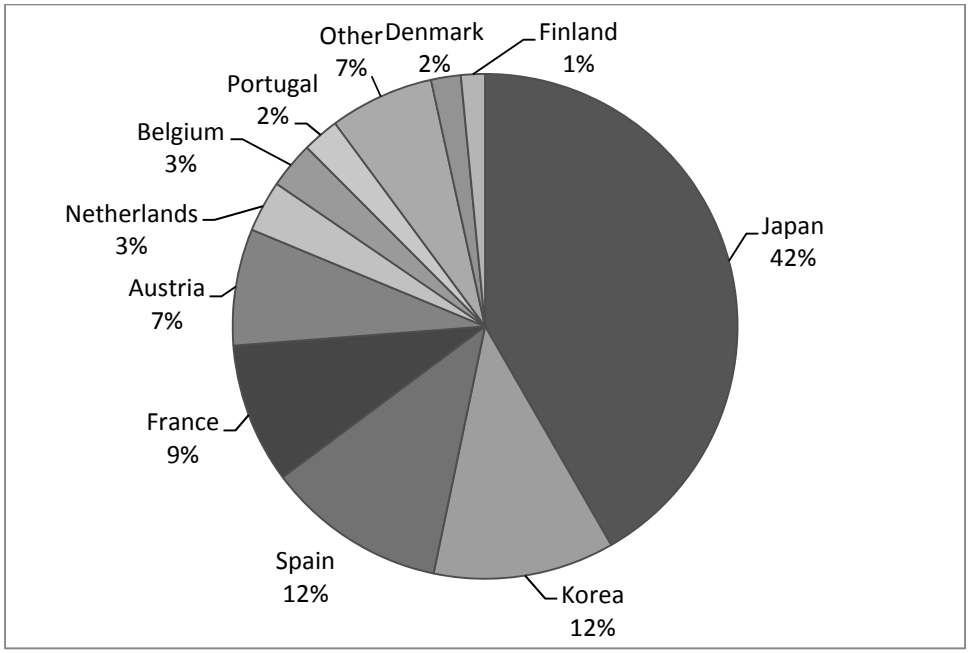


Figure F3: Helsinki-type Tied Aid Notifications by Donor (by value), 2011

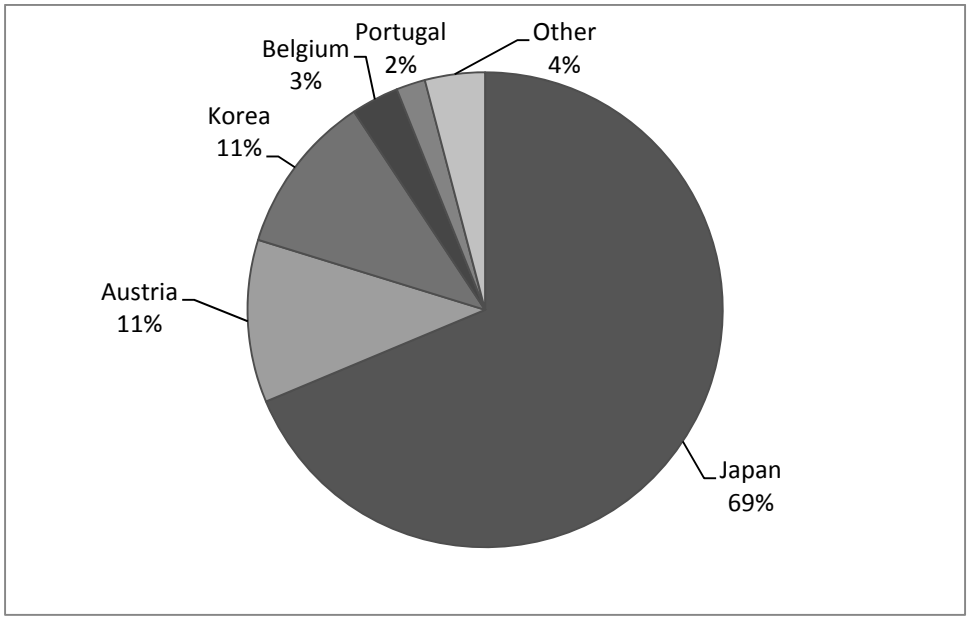


Figure F4: Major Helsinki-type Tied Aid Notifications by Donor (by number of transactions), 2007-2011

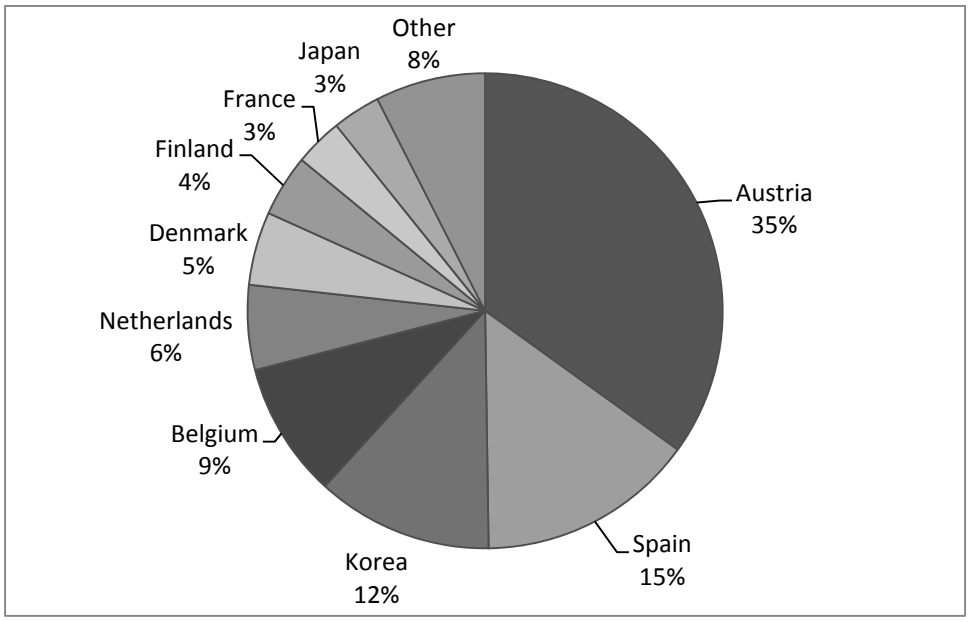
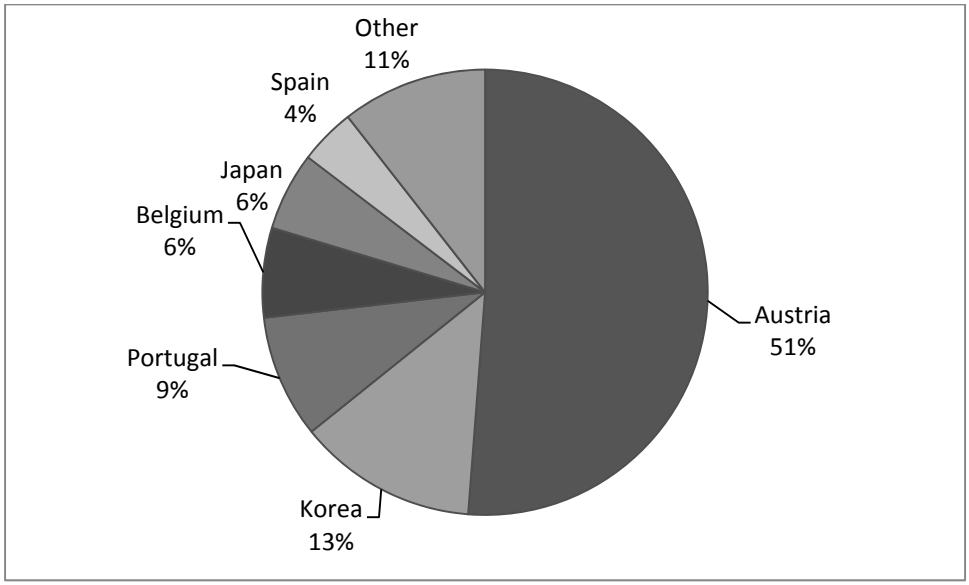


Figure F5: Helsinki-type Tied Aid Notifications by Donor (by number of transactions), 2011



In 2011, the number of untied aid notifications as well as the volume of such notifications increased when compared to 2010. Accordingly, the number of notifications modestly increased going from 81 in 2010 to 85 in 2011, and volume increased by approximately 40% to $15.6 billion. As in 2010, Japan reported the largest number of untied aid transactions both in terms of number (39) and volume ($12.6 billion). Similar to 2010, India received the largest amount of untied aid notifications both in terms of volume ($3.7 billion) and number of notifications (9), followed by

Indonesia in terms of volume ($3.6 billion) and Indonesia in terms of the number of notifications. The largest sector by volume in 2011 was for the Energy Generation and Supply sector ($5.6 billion), followed by Transport and Storage ($3.3 billion). Energy Generation and Supply received the largest number of notifications (23), followed by Water Supply and Sanitation (14).

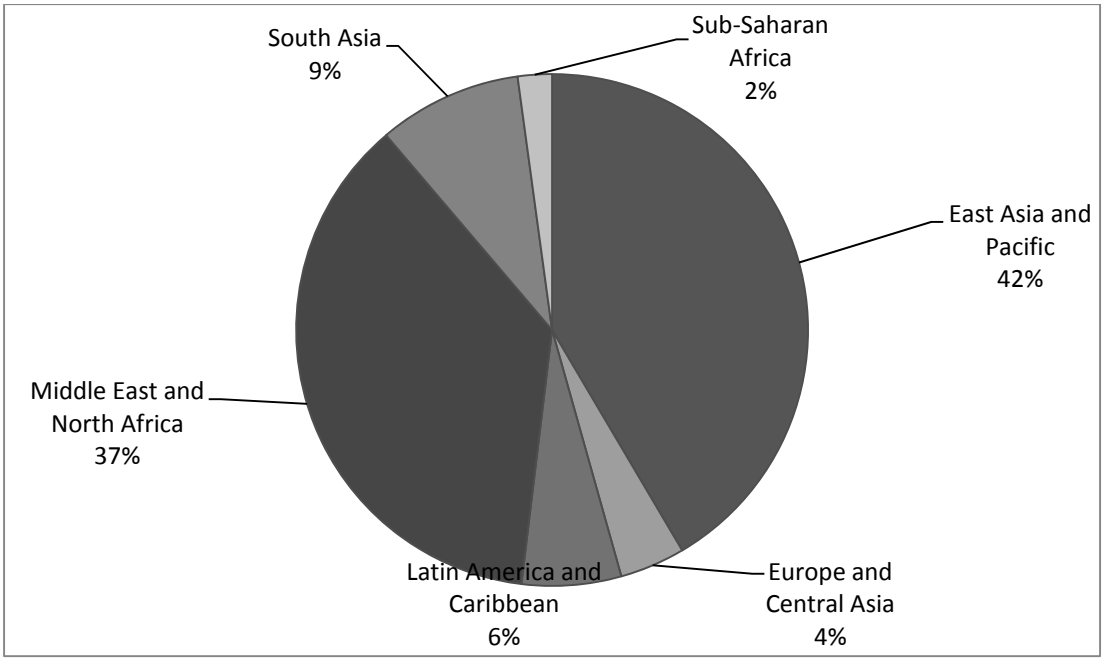
Taking a longer-view at untied aid activity trends the same pattern continues. Over the past six years Japan has notified the largest number and volume of untied aid transactions, followed by France. India continues to be the largest recipient of untied aid both in terms of number and volume, followed by China (number of notifications) and Indonesia (volume). The Transport and Storage, as well as Energy Generation and Supply sectors continue to be the largest sectors receiving untied aid notifications. 2011 data reinforces this long-term trend.

Eligible Markets, Major Donors and Sector Concentration

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

Figure F6 shows the distribution of Helsinki-type tied aid offers by region in terms of value. The East Asia and Pacific region continues to be the primary region receiving tied aid in 2011. Similar to past years, China received the most number of notifications in 2011; however, Iraq was the main recipient country in terms of volume due to one large project.

Figure F6: Helsinki-type Tied Aid Notifications by Region (by Value), 2011



While over the past 5 years, Transport and Storage projects received the most notifications (with Water Supply and Sanitation as the second largest sector notified), the trend changed in 2011 "Other" sectors (Education, Health, and Water Supply and Sanitation) representing 40% of volume and number of offers (102 notifications). One project in the Mineral Resources and Mining sector received the second largest volume of tied aid ($2 billion). Energy Generation and Supply (including renewable and non-renewable energy projects), projects often deemed commercially viable, received only 4 notifications in 2011, and were not evaluated by the OECD Consultations Group.

The Mineral Resources and Mining sector project in Iraq did not go through the OECD Consultations process; however, information was exchanged related to the commercial viability of the project. Through that process, it was determined that the project would be found to be commercially non-viable.

Trends in the Use of the Tied Aid Capital Projects Fund

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

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

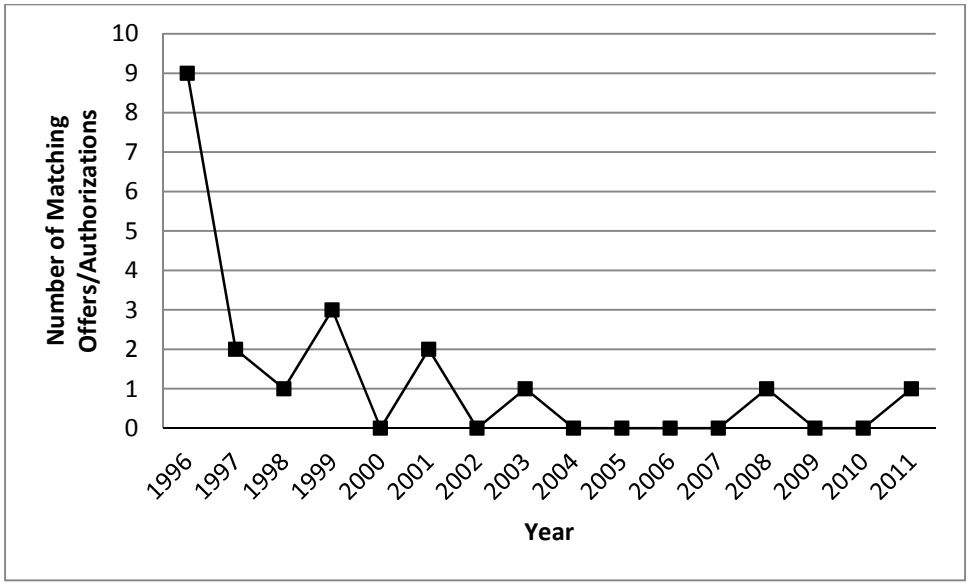
Ex-Im Bank issued one Tied Aid Letter of Interest in 2011 for the sale of fire trucks to Indonesia (See **Figures F7** and **F8**). This transaction met all of Ex-Im's tied aid criteria to match, and authorization of the Tied Aid Letter of Interest will help a U.S.exporter from losing their commercial market share due to tied aid use by an OECD ECA.

In 2011, the Bank also received 3 other applications for tied aid. Two of the three applications were denied due to there being no derogation from the OECD tied aid rules and no evidence of future follow-on sales on commercial terms. Lastly, the Bank denied another tied aid transaction facing non-OECD competition in 2011 because the case also did not satisfy Ex-Im's tied aid and standard credit criteria for support. **Figure F7** also shows cumulative Ex-Im offers against OECD tied aid offers since 1992, and compares the offers and outcomes from the years 1992-2002 to the past nine years, 2003-2011. The period-to-period comparison contrasts the sharp decline in Ex-Im Bank tied aid offers in recent years when compared with Ex-Im Bank tied aid matching activity between 1992 and 2002. Over the past nine years, Ex-Im Bank approved one transaction that benefitted from OECD tied aid funds. The project, a waste water treatment plant in Sub-Saharan Africa, was approved in 2008.

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

	2011	1992-2002	2003-2011
Total matching offers	1	**46**	**4**
U.S. wins	0	**19**	**2**
U.S. losses	0	**24**	**1**
Outstanding, no decision	1	**3**	**1**

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



It is not coincidental that the sharp decline in U.S. tied aid matching offers relates to the data showing that the majority of foreign tied aid offers are made in accordance with the OECD rules. U.S. exporters continue to report encountering competitive situations with non-OECD countries, particularly in the renewable energy and rail sectors. However, obtaining credible evidence of such projects has hindered the ability of Ex-Im Bank to match such tied aid offers.

China continues to be a major a player in the area of concessional financing and tied aid. However, due to the unique challenges of matching Chinese competition due to the lack of credible information on Chinese terms and reaching a level of comfort that tied aid competition exists and/or that multiplier benefits will be achieved for U.S. exporters, the applications for tied aid matching offers that have come to Ex-Im have been to match OECD member countries.

Furthermore, U.S. exporters seeking to conduct business in Sub-Saharan Africa or certain Least Developed Countries (LDCs) face other challenges. Oftentimes, such countries have commercial lending limits and borrowing restrictions. These limitations are exacerbated by the multiplicity of aid financing rules established by the OECD, the Development Assistance Committee (DAC), the International Monetary Fund (charged with monitoring country debt) and the borrower countries. Thus, U.S. exporters confront varying financing packages (provided by OECD or non-OECD Members, in accordance with OECD, DAC, IMF or borrower country rules) that are not readily comparable or "matchable." For example, the DACs rules governing aid offers requires that aid financing be 25% concessional (compared to the OECD 35% concessionality requirement). Such disparities create lengthy processing delays and result in U.S. exporter frustration regarding the role and purpose of the Tied Aid Fund.

U.S. Government Actions to Combat Foreign Tied Aid

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

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

In sum, U.S. exporter experience with common lines has been mixed. Of the 15 common lines proposed since 2000, a little less than half (7 of 15) were accepted. Because of the potential for buyer backlash, common lines are not issued without prior exporter approval and none have been issued in recent years. There have been no requests for a common line by OECD members since 2005.

Combatting predatory financing practices by foreign governments

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

Appendix F Annex I

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

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

Appendix F Annex II

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

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

Appendix F Annex III

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

Appendix F Annex IV

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

Appendix G: Human Rights and Other Foreign Policy Considerations

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

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

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

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

Appendix H: Equal Access for U.S. Insurance

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

At the time the legislation was enacted, Ex-Im Bank had neither encountered nor been informed about any long-term transaction for which equal access for U.S. insurance companies was not afforded. Consequently, Ex-Im Bank, the Department of Commerce and the Office of the United States Trade Representative agreed that the establishment of a formal reporting mechanism was not necessary. It was also agreed that should Ex-Im Bank identify any long-term transaction in which U.S. insurance companies are not allowed equal access, a more formalized procedure would be created. As of December 2011, Ex-Im Bank had not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix I: Trade Promotion Coordinating Committee

Introduction

Pursuant to Section 8A(a)(2) of Ex-Im Bank's charter, Ex-Im Bank is required to report on its role in the "National Export Strategy" (the NES), a report to Congress prepared by an interagency committee called the Trade Promotion Coordinating Committee (TPCC).[45] The NES outlines the trade promotion agenda of the acting Administration.

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

Ex-Im Bank Performance Metrics

As the official export credit agency of the U.S., Ex-Im Bank plays a central role in providing U.S. companies with competitive financing for their export sales. **Figure J1** below summarizes the key Ex-Im Bank performance measures included in the 2012 National Export Strategy.

Table I1: Key Ex-Im Bank Performance Measures Reported in the 2012 TPCC National Export Strategy (Values in Billions USD)

General Performance Measures:	CY2010	CY2011	% Change
U.S.Export Value Supported	$32.5	$38.1	+20%
Number of Transactions Supported	3,589	3,752	+5%
Small Business Performance Measures:			
U.S.Export Value of Small Businesses Supported	$10.3	$12.2	+18%
Number of Small Businesses Assisted by Ex-Im	2,586	2,550	-1%
Number of Lenders Trained on Ex-Im Programs	729	717	-2%

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

As shown in **Figure I1**, highlights related to Ex-Im Bank activity and initiatives reported on in the 2011 National Export Strategy include:

- Increases in both the export value and number of transactions that benefitted from Ex-Im Bank financing from 2010 to 2011. Specifically, the value of exports increased from $32.5 billion in 2010 to $38.1 billion in 2011 (a 20% increase) and the number of transactions increased from 3,589 in 2010 to 3,752 in 2011 (a 5% increase).

- The export value of small business exports increased from $10.3 billion in 2010 to $12.2 billion in 2011 (an 18% increase).

Ex-Im Bank Initiatives

In support of its mission to support jobs through exports, Ex-Im has introduced new processes and program enhancements that improve performance and created products that fill gaps in the market. These innovations represent Ex-Im's efforts to both enhance its product portfolio and promote an atmosphere of innovation. A few examples of new products and processes include:

- *The bond product/capital market option* taps new funding sources by allowing the guaranteed commercial lender to issue bonds against Ex-Im guaranteed loans; this financing option was revitalized in FY2009 and has grown significantly over the past several years as liquidity in the private lending community has tightened. Ex-Im authorized six capital market transactions worth about $2.4 billion in authorization value in FY2009, sixteen worth $3.6 billion in FY2010, and twenty worth nearly $7 billion in FY2011.

- *The Supply Chain Finance Guarantee program* was launched in 2010 to inject liquidity in the marketplace and provide U.S.-based suppliers—particularly small businesses—with access to capital faster and at a lower cost; Ex-Im authorized $90 million for this program in FY2010 and $1.1 billion in FY2011.

- *The Express Insurance Policy* streamlines the credit insurance application process for small businesses and aims for a turnaround time of five days. Ex-Im has issued over 230 Express policies since its inception in mid-FY2011.

Appendix J: Efforts to Promote Renewable Energy Exports

Introduction

In response to the 2002 Congressional mandate set forth in Ex-Im Bank's Charter, the Bank annually reports on its efforts to foster renewable energy exports. The Charter requires Ex-Im to describe "the activities of the Bank with respect to financing renewable energy projects undertaken...and an analysis comparing the level of credit extended by the Bank for renewable energy projects with the level of credit so extended for the preceding fiscal year."[46]

Special financing is available through the Ex-Im Bank Environmental Exports Program and the Bank's Renewable Express Program. Through the Environmental Exports Program, eligible renewable energy exports may receive extended repayment terms of up to 18 years. In 2011, Ex-Im Bank expanded its Solar Express Program by introducing Renewable Express to cover financing for a wider array of renewable energy technologies. The Renewable Express assists small renewable power producers with project financing.

In 2011, Ex-Im responded to the Congressional mandate through the following activities:

1. Authorizations: Ex-Im Bank more than doubled renewable energy authorizations to $721 million in fiscal year 2011. As illustrated by **Figure J1**, the Bank facilitated a 117% increase in renewable energy authorizations from fiscal year 2010 to fiscal year 2011.

Figure J1: Renewable Energy Authorizations by Year

Fiscal Year	Renewable Energy Authorizations	Percent Change from Prior Year
2011	$721 million	117%
2010	$332 million	230%
2009	$101 million	71%
2008	$30.4 million	28%
2007	$2.7 million	-73%

Source: U.S. Ex-Im Bank

Some of the renewable energy transaction highlights of fiscal year 2011 include:

- Ex-Im's authorization of almost $180 million in financing to support seven solar power transactions in India.
- The issuance of $1.9 million in medium-term insurance for a landfill-gas fueled power plant.
- The Bank's guarantee of $22.2 million in euro-denominated loans which supported the export of 40 wind turbines to Italy.

[46] Ex-Im Bank Charter Sec. 8A(5)

2. Policy implementation: Ex-Im Bank's Carbon Policy, adopted in 2009, seeks to address the climate change issues that stem from the Bank's export financing activities. For high carbon intensity transactions (i.e., coal fired power plants), the Bank performs an early review of the potential climate change implications of the transaction under the Carbon Policy, in addition to its regular due diligence. The Carbon Policy calls for increased transparency in the tracking and reporting of CO2 emissions, promotes renewable energy exports where carbon dioxide emission levels are very low to zero, and establishes a $250 million facility to promote renewable energy.

3. Streamlined Option for Renewable Energy Financing: In 2011, Ex-Im's Solar Express program was expanded to include renewable energy projects and was renamed "Renewable Express". The Renewable Express program provides project financing for small renewable energy-power producers where the loan amount is at least $3 million and less than $10 million. Eligible transactions are subject to a streamlined application review which can result in a case processing time of as little as 60 days.

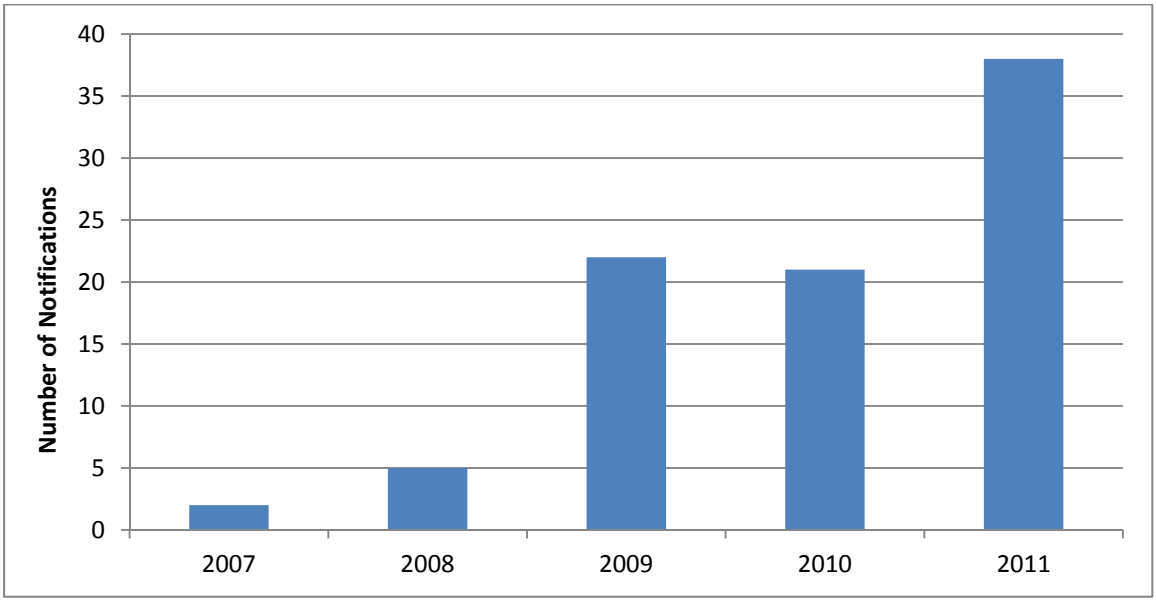
   Ex-Im created Renewable Express to address the fact that for small transactions, expenses related to due diligence and advisory fees often makes project finance cost prohibitive.

4. Marketing efforts: Presented at and participated in 38 environmental export industry events hosted by industry participants, trade organizations, and other USG agencies, both domestically and abroad.

G-7 ECAs

G-7 OECD ECAs have consistently increased the number of Renewable Energy Notifications as illustrated in **Figure J2.** This trend is paralleled by the increase in Ex-Im's Renewable Energy authorizations in **Figure J1**. Note that these figures only refer to official export credits for renewable energy.

Figure J2: Total G-7 OECD ECA Renewable Energy Notifications by Year 2007-2011



Source: OECD

Appendix K: Legal and Regulatory Requirements

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

Ex-Im Bank Charter Requirements

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

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

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

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

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

(5) The Bank's Renewable Energy export promotion, including the analysis of the level of credit extended by the Bank for renewable energy projects with the level of credit so extended for the preceding fiscal year.

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

Lender and Exporter Competitiveness Survey

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

Regulatory Survey Requirements: The Paperwork Reduction Act (PRA)

All federal public organizations must comply with the Paperwork Reduction Act (44 U.S.C. Chapter 35) to ensure that information collected from the public "minimizes burden and maximizes public utility." [47] The PRA dictates that organizations must have Office of Management and Budget (OMB) approval before collecting information from the public. Organizations must display the current OMB control number on the collection documents.

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

The PRA Information Collection Request (ICR) Review Process

There are several steps to submitting an Information Collection Request (ICR) to the OMB. Prior to submission, an agency must first publish a 60-day notice in the *Federal Register* to obtain public comment. Any comments should then be addressed in the ICR application to the OMB. Once the ICR has been submitted, the OMB has a total of 60 days upon receipt of an ICR to make a decision. An agency must also place a second notice in the *Federal Register* for a public comment period of 30 days. This notice runs

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

concurrent with the first 30 days of OMB review. Thus, agencies should allow at least 120 days for the review process, plus additional time for preparing the ICR and time lags for publication in the *Federal Register*. The internal agency review procedures must also be factored into a survey's completion schedule. A six month period from ICR completion to OMB approval is fairly common, but this varies significantly across agencies. [48]

[48] Office of Management and Budget. "Memorandum for the President's Management Council: Guidance on Agency Survey and Statistical Information Collections." 20 Jan. 2006. Web.