

## **Economic Impact Analysis for Transactions that Enable Foreign Airline Services Information Needed to Conduct an Analysis**

Policy staff reviews all applications seeking Ex-Im Bank financing for potential economic impact implications. The Bank's Economic Impact Procedures and Methodological Guidelines set forth the stages of the procedures to apply to the Ex-Im Bank supported financing of aircraft.<sup>1</sup> Stage I requires that the Bank, on an annual basis, determine if a long-run structural oversupply exists in the airline industry. In accordance with the Bank's procedures, in the absence of structural oversupply the analysis proceeds to Stage II. This Stage sets forth three screens to determine if the evaluated transaction<sup>2</sup> has the potential to yield a substantial injury to the U.S. economy. Policy staff applies the three screens in order, and failure of the evaluated transaction to pass through any screen ends the analysis. The three screens include: (1) the export value<sup>3</sup> exceeds \$200 million; (2) the additional capacity totals 1% or more of comparable U.S. capacity and; (3) the airline will operate the specific aircraft for which Ex-Im Bank supported financing is being requested on routes that are in direct competition with U.S. airlines. If an evaluated transaction passes through all three screens, it has the potential to have a "substantial injury" on the U.S. economy.

Pursuant to the Bank's Economic Impact Procedures and Methodological Guidelines, applications that have the potential to cause substantial injury to the U.S. economy are subject to a "detailed economic impact analysis" (Stage III).

Several key pieces of information are required in order for the Policy staff to apply the three screens and, if necessary, to conduct the detailed economic impact analysis. As has been the historical practice for economic impact procedures for goods, Ex-Im Bank relies on the transaction participants to provide the necessary information to apply the screens and to conduct the detailed economic impact analysis. Without the required information, Ex-Im Bank may not have the ability to apply the screens or conduct the detailed economic impact analysis and, therefore, the Bank would not be able to proceed with the transaction.

Specifics on the requested information for both Stage II and Stage III are described below:

### **Stage II: Information provided to the Bank in advance of submitting the application**

1. Net contract value of aircraft in the transaction (not the financed amount).  
*Policy staff will use this information to determine whether the transaction exceeds the \$200 million threshold when performing the first screen of Stage II.*
2. Type and number of aircraft that the airline expects to take delivery of (differentiating between those with the support of Ex-Im Bank financing and those without) over the next 12 months.
3. The type and number of aircraft that the airline expects to take out of service as a result of acquiring the aircraft with Ex-Im Bank support referenced in Item 2.  
*Policy staff will use the information in Items 2 and 3 to perform the 1% test when performing the second screen of Stage II.*
4. Specific routes that the airline expects or anticipates to operate with the Ex-Im Bank supported aircraft on a non-stop and one-stop (with no change of aircraft) basis, if known. For each route, identify if U.S. carriers operate any of these same routes.  
*Policy staff will use this information to determine if the transaction will compete with U.S. airlines on routes to the U.S. when performing the third screen of Stage II*

<sup>1</sup> The Export-Import Bank 2013 economic impact procedures and methodological guidelines can be accessed at: <http://exim.gov/generalbankpolicies/economicimpact/economic-impact-procedures.cfm>

<sup>2</sup> The "evaluated transaction" equals the total value of Ex-Im Bank supported aircraft that the exporter delivers in the current transaction as well as any other aircraft with Ex-Im Bank support expected to be both approved by the Board of Directors and delivered within the next 12 months from the date of the initial presentation of the current transaction to the Board of Directors.

<sup>3</sup> The export value is the "net price" of the aircraft (i.e., after deducting all applicable credit memoranda and other concessions provided by the airframe, engine and other component suppliers).

**Stage III: Information provided when a transaction is subject to a detailed economic impact analysis (i.e., only needed when the application meets all three Stage II criteria)**

5. For each route to or from the U.S. (as identified in number 4, above), provide the total number of aircraft/flights/seats per week serving the route with details on the number and type of flights (both non-stop and one-stop, no change of aircraft).
  - Break out from Item 5 the total number of aircraft/flights/seats per week on each route currently provided by U.S carriers.
  - Break out from Item 5 the total number of aircraft/flights/seats per week on each route to be provided by the airline flying the Ex-Im Bank financed aircraft with the Ex-Im Bank financed aircraft. Note details on any current flight by foreign airline such as which routes have been flown in the past and which ones will be introduced due to the purchase of the new aircraft.
  - Break out from Item 5 the total number of aircraft/flights/seats per week on each route currently provided by other foreign airlines.
6. For each route to or from the U.S., provide a projection of the annual growth in traffic in the market over the next five years, as well as a discussion of the drivers of this expected growth.
7. For each route to or from the U.S., describe the primary business model being employed by the foreign airline operating the Ex-Im Bank financed aircraft, and how it compares to the business model of other competitors in the market. For example, discuss the mix of business and leisure traffic that the airline expects to carry and how this mix compares to the traffic carried by other airlines in the market.
8. As each transaction presents different features, Ex-Im Bank may request additional information it may deem necessary to complete a detailed economic impact analysis.

*Policy staff will use the information in Items 5-8 to determine where U.S. carriers and foreign carriers compete for the same passengers.*

**Note for leasing companies:** In the case of an Ex-Im Bank supported financing of an aircraft for an aircraft leasing company, to the extent the “initial operating lessee” of such aircraft is known at the time of application, Ex-Im Bank needs all the information requested above for the **end-user (airline)** of each aircraft for which Ex-Im Bank supported financing is being requested, NOT for the aircraft leasing company.