

Detailed Economic Impact Analysis for Transactions that Enable Foreign Production of an Exportable Good,¹ Information Needed to Conduct an Analysis

Policy staff reviews all applications seeking Ex-Im financing. For applications that involve the export of U.S. capital equipment and services that will result in an increase in the production of a foreign good, staff determines whether there are any relevant trade measures associated with the resulting foreign good. Applicable trade measures² may include: (i) Final Antidumping or Countervailing Duty Orders; (ii) Suspension Agreements Arising from Antidumping or Countervailing Duty Injury Duty Investigations; (iii) Preliminary Anti-Dumping or Countervailing Duty Injury Determinations; and (iv) Section 201 Injury Determinations. Transaction processing ceases if trade measures apply, unless the Board of Directors exercises an exception.³ In addition, staff determines whether Ex-Im Bank's financing exceeds \$10 million and whether the increased capacity of the proposed foreign project is one percent or more of U.S. production of the same good. If the application meets both the \$10 million and 1% thresholds, the project has the potential to have a "substantial" impact on the U.S. economy.

Pursuant to the Bank's Economic Impact procedures, applications that have the potential to cause substantial injury to the U.S. are subject to a detailed economic impact analysis. The analysis is based on the data listed below (and the attached checklist), which is divided into two categories: 1) project-specific information, and 2) global industry-specific information. Staff may request additional information, as needed, on a case by case basis.

I. Project-Specific Information

A. New Foreign Production

- 1) List of **countries** where the buyer will sell the new foreign good along with the associated percentage of sales (e.g., 20% to China, 80% to Ukraine). Policy staff will use this information to determine possible markets where U.S. production may be displaced by the new foreign good.
- 2) **Total demand** (or consumption) of good **by country** where the buyer plans to sell the new foreign good (e.g., total Chinese demand for iron ore last year equaled 599 million metric tons, and total Ukrainian demand for iron ore last year equaled 233 million metric tons). Policy staff will use this information to determine the U.S. market share in those markets where both U.S. producers and the foreign buyer compete.
- 3) Total **project capital costs**. This information along with the value of Ex-Im financing will be used to determine Ex-Im's proportional share in the project.
- 4) **Date** when the new foreign production will come on stream, (e.g., year 2017). If the project requires a ramp up period, please specify the year when it will be fully ramped up and production levels during the intervening years. This information will be used in the trade flow analysis.

B. Foreign Competition Encountered by the U.S. Exporter. Specifically, where applicable, please provide information on whether:

- 1) Foreign companies produce the equipment or service⁴ that has the same technical specifications as the proposed U.S. export;
- 2) At any point in the project development process, has any foreign company (identified in question B1) been contacted by the buyer and responded (e.g., expressed interest in supplying equipment) either formally or informally;

¹ "Throughout the document, "good" is defined as the product that will "hit the market". This product is involved in the first commercial sale that the foreign buyer sells to other parties, regardless of whether the Ex-Im Bank-supported exports directly or indirectly contributes to the new production.

² http://www.usitc.gov/trade_remedy/731_ad_701_cvd/investigations/active/index.htm

³ Ex-Im Bank automatically denies transactions in which trade measures are applicable unless the applicant shows that the exporter and/or the U.S. economy will be extraordinarily harmed by denial of Ex-Im Bank support, in which case the Board may consider such transactions after public notice and comment.

⁴ Specific equipment or services refers to competing rather than complementary equipment or services.

- 3) The ECA of a major foreign equipment or service provider supported the direct competitor (referenced in B1) in the recent past? If so, provide any specifics possible on the ECA willingness to provide financing; and
- 4) The ECA of a major foreign equipment or service provider supported the buyer in the recent past? If so, provide any specifics possible on the ECA willingness to provide financing.

II. Global Industry-Specific Information

Industry Studies: Policy staff will use historical market trends and forecast data to place the transaction in context of the global industry. To that end, the applicant will submit one of two types of studies⁵:

- A. Independent industry studies, and/or white papers (from applicants on larger transactions). Additionally, Policy staff welcomes any economic or financial feasibility analysis that the applicant uses to evaluate the credit worthiness of the project, with a clear explanation of the assumptions used in the analysis (e.g. projections of world growth, supply and demand, etc.), **or**
- B. The best available market information available (relevant for applicants on smaller transactions).

Historical data: Relevant industry study information should contain underlying data sets on historical trends (going back five years, if available). Policy staff will use this information to determine if the foreign good will be in structural oversupply on the world markets during the repayment term of the Ex-Im facility. Relevant data includes:

- Global **installed production capacity** for the foreign good per year (e.g., global installed production capacity for aluminum cans was XXX million cans in 2000, YYY million cans in 2001, etc.).
- Global **capacity utilization rates** by year for the foreign good, if relevant for the industry under review (e.g., iron ore industry operated at 80% capacity in 2001).
- Global **demand** of the foreign good per year (e.g., global consumption of iron ore in 2001 totaled XXX million metric tons). Demand is measured in volume.
- Global **supply** of the foreign good per year (e.g., global production of iron ore in 2001 totaled XXX million metric tons). Supply is measured in volume.
- Annual average global market **price** for the foreign good (e.g., the average global price for iron ore equaled \$130/metric ton in 2012). Data must include the most recent price available.

Forecasts: Underlying data set containing forecast figures on all of the above spanning the tenor of Ex-Im financing, or the standard time frame used in the industry.⁶ Policy staff will use this information to determine if the foreign good will be in structural oversupply on the world markets during the repayment term of the Ex-Im facility.

Supplemental Analysis (Optional)

Per the 2013 economic impact procedures and guidelines, Ex-Im Bank will accept an optional, supplemental trade flow analysis that will be submitted at the discretion of the applicant to be provided for Board consideration alongside Policy's trade flow analysis.⁷ The supplemental analysis will describe why displaced U.S. production can be sold in alternate markets, and will identify any net costs associated with shift of production by the U.S. producers from existing (primary) markets to new (secondary) end-markets. The analysis will lay out the assumptions used (e.g., discount rate) and state why any assumptions would differ from Ex-Im's analysis. The supplemental analysis will be prepared by an independent market consultant.

Attachment

⁵ The designation of "larger" or "smaller" will depend upon the market sector and the transaction and availability of information.

⁶ Preferably, the applicant will supply historical data and forecast data from the same independent, third party source.

⁷ Characteristics that are considered, among other things, in evaluating whether the U.S. industry would qualify for a market-based supplemental analysis include: (i) The U.S. industry is a major player in the global market (e.g., current U.S. share of world exports is substantial, by industry standards); (ii) The U.S. domestic industry has global reach and global distribution network/market presence (at least 1% of all major regions); and (iii) The U.S. industry has a globally competitive cost structure.

Attachment

Detailed Economic Impact Analysis Checklist:

Project-Specific Information

- ✓ List of countries the buyer will sell the foreign good along with the associated percentage of sales
- ✓ Total demand of foreign good by country where the buyer plans to sell the foreign good
- ✓ Total project capital costs
- ✓ Date when the new foreign production will come on stream. If a ramp up period applies, please specify the year when the new foreign production will be fully ramped up.

Foreign Competition Encountered by the U.S. Exporter

- ✓ A) Technical; **and**
B) Foreign ECA

Global Industry-Specific Information

- ✓ Industry study:
 - Independent industry studies, and/or white papers (from applicants on larger transactions); **or**
 - Packet containing the best available market information (from applicants on smaller transaction)
- ✓ Historic global installed capacity and actual production of the foreign good per year. Or historic global capacity utilization rates by year for the foreign good.
- ✓ Historic global demand and actual consumption of the foreign good per year.
- ✓ Historic annual average global market price for the foreign good (data must include the most recent price available).
- ✓ Forecast of global installed capacity and production of the foreign good per year. Or forecast of global capacity utilization rate for the foreign good.
- ✓ Forecast of global demand and consumption of the foreign good per year.
- ✓ Forecast of global market prices of the foreign good per year.
- ✓ *Supplemental analysis (Optional)*

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