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, 2012 THROUGH DECEMBER 31, 2012

JUNE 2013

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 30, 2013

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, 2012, through December 31, 2012.

This report assesses how well the Export-Import Bank was able to compete with the major export credit agencies (ECAs) throughout the world in 2012. In 2012, the global export finance market experienced many continued challenges, namely the European sovereign debt crisis and limited commercial bank liquidity. Nonetheless, Ex-Im once again stepped in where the private sector could not participate and did a superb job of supporting U.S. exports and U.S. jobs. With the close of fiscal year 2012, Ex-Im Bank supported more than $35.8 billion in export financing. These transactions supported an estimated $50 billion worth of American exports and an estimated 255,000 American jobs at more than 3,400 U.S. companies.

As the global export finance market continues to rebound from these macroeconomic challenges, Ex-Im faces different competitive issues not only from its counterparts within the Organization for Economic Cooperation and Development (OECD), but also from ECAs in major emerging markets. As the world of export finance changes globally, this report's analysis and its findings contribute to the continuing discussion on the role of Ex-Im Bank in supporting and maintaining U.S. jobs within this context.

Sincerely,

Fred P. Hochberg
Chairman and President

FRED P. HOCHBERG
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 30, 2013

The Honorable Jeb Hensarling
Chairman
Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

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, 2012, through December 31, 2012.

This report assesses how well the Export-Import Bank was able to compete with the major export credit agencies (ECAs) throughout the world in 2012. In 2012, the global export finance market experienced many continued challenges, namely the European sovereign debt crisis and limited commercial bank liquidity. Nonetheless, Ex-Im once again stepped in where the private sector could not participate and did a superb job of supporting U.S. exports and U.S. jobs. With the close of fiscal year 2012, Ex-Im Bank supported more than $35.8 billion in export financing. These transactions supported an estimated $50 billion worth of American exports and an estimated 255,000 American jobs at more than 3,400 U.S. companies.

As the global export finance market continues to rebound from these macroeconomic challenges, Ex-Im faces different competitive issues not only from its counterparts within the Organization for Economic Cooperation and Development (OECD), but also from ECAs in major emerging markets. As the world of export finance changes globally, this report's analysis and its findings contribute to the continuing discussion on the role of Ex-Im Bank in supporting and maintaining U.S. jobs within this context.

Sincerely,

Fred P. Hochberg
Chairman and President

THE 2013 ADVISORY COMMITTEE'S STATEMENT ON THE 2012 COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Members of the 2013 Advisory Committee ("Members") have reviewed the 2012 Competitiveness Report to Congress and present this statement reflecting the observations and thoughts by the Advisory Committee members regarding the Report. Although these statements may not be shared equally by all Members, they, nonetheless, represent the issues that the Committee considers Ex-Im should address going forward.

Overall Context and Theme

The Advisory Committee Members agree with 2012 Competitiveness Report's focus and theme. Ex-Im stood out in 2012 as an exceptional competitor, not just because of continued disruptions in the private market due to global financial issues and liquidity concerns but because of Ex-Im's own initiatives. ECA support continued to be in high demand in 2012, and Ex-Im's financing programs filled critical gaps in the export finance segment. The Report notes once again that some stakeholders have concerns about the impact on competitiveness of certain policy issues such as domestic content requirements, economic impact, and MARAD restrictions. The Committee engaged in a vigorous discussion of both Ex-Im's methodology and conclusions regarding the impact of these policies on competitiveness, in light of Ex-Im's mandate to support U.S. jobs. Some members were critical while others were very supportive. All Members call on the Bank to continue to develop data on the impact on Ex-Im's competitiveness.

Importantly, this year's Report provided more depth and detail on ECA lending that is outside the traditional regulated OECD world. Ex-Im's research has confirmed new "universes" of official financing support, including both OECD support that is not covered by the OECD framework, and unregulated support by non-OECD players, that are now being offered by competitor ECAs. These ECAs, both OECD and non-OECD, continue to develop financing programs that address the needs of their country's exporters and national interests outside the scope of OECD-compliant financing – and beyond the scope of what Ex-Im can offer. While there are still many unknowns related to how and when these programs compete with U.S. exporters, the 2012 Report confirmed the Committee's view that Ex-Im needs to continue to monitor how these programs develop and their impact on U.S. competitiveness.

Methodology of the Report

The Committee is pleased that the survey respondent pool increased for the 2012 report, and that Ex-Im senior management devoted additional resources to hire a survey consultant in order to overhaul the exporter and lenders survey. We believe this new survey helped to elicit a wider breadth and depth of respondent experience from a larger pool of Ex-Im stakeholders and drew out where specific competitiveness issues exist across more of the ECA world. Specifically, the Advisory Committee appreciates the efforts taken to include the Bank's short-term programs and their users (particularly, given that short-term programs are not covered by the OECD but are nonetheless important to U.S. exporters), especially the brokers who service the vast majority of Ex-Im short-term insurance and also had the highest response rate of the three groups.

The data gathered adds another informative dimension and offers a more holistic view of Ex-Im. The survey feedback indicates the benefit of Ex-Im's financing support for indirect beneficiaries that also support many U.S. jobs. In addition, it appears that the new survey format tailored to users of specific programs and the survey tool itself were well-received by the respondents and that perhaps contributed to a higher response rate overall. The Committee supports the creation of a new role at Ex-Im for a Vice President for Customer Experience, and expects that this new position should be extremely helpful in gaining more exporter feedback. Still, Ex-Im should continue to improve its efforts to obtain reliable data on the customer experience, through further survey improvements and through roundtable briefings designed to reach a representative range of Ex-Im stakeholders. And, given the focus in last year's reauthorization on the textile industry, it may be useful to break out those respondents that are from the textile sector.

Overall Grading

The Advisory Committee agreed that the Ex-Im's 2012 grade of "A" was warranted. The new grading scale and factors used to assess Ex-Im's competitiveness have improved and the granularity of the results seems to have provided a credible base with which to grade Ex-Im's performance. We congratulate Ex-Im on this continued improvement.

Specific Findings:

With respect to the specific findings of the report, the Advisory Committee members would like to make the following observations:

First, the Committee commends the Bank for its continued success in filling commercial financing gaps in support of U.S. exports. In particular, Ex-Im's use of the capital markets option, as well as the direct loan, have contributed to increased U.S. exports and injections of needed capacity into the export finance market.

In this regard, the Committee is concerned about the negative commercial impact of uncertainty concerning Ex-Im's congressional authorization process. One of our Members noted that this past year, one of her customers who was a potential Ex-Im borrower was deterred by the uncertainty of Ex-Im's reauthorization. The Committee is concerned that this uncertainty could be a serious competitive disadvantage compared to other ECAs that do not experience this legal uncertainty.

Second, the Report indicates that certain public policy issues – domestic content, economic impact and MARAD/PR-17/shipping requirements – continue to be concerns of some Ex-Im stakeholders. Some Committee Members agreed with these concerns based on their own experiences, while other Members questioned whether the Report contained sufficient findings to support its conclusions. These Members noted that the policies exist to support Ex-Im's congressional mandate to support U.S. jobs and other public policy goals, and that changing these policies could derogate from those mandates. These Members also noted that such issues did not impede Ex-Im's ability to authorize record amounts in 2012. The Members of the Committee did agree that Ex-Im should continue to develop survey and roundtable methodologies to accurately

assess the stakeholder impact of these policy restrictions, weighed against the central mandate to create and support U.S. jobs.

Third, the Advisory Committee agrees with the programmatic grade changes in three key areas: aircraft, services and environmental policies. With regard to aircraft, Ex-Im stepped in to fill commercial bank capacity with its capital markets option which provided competitive financing for buyers of U.S. aircraft. We believe this fact justifies the upgrade of the long-term aircraft program to an "A+". We also appreciate the fact that Ex-Im has been receptive to and recognizes the competitive issues facing the general aviation segment of the industry. In terms of services, the Advisory Committee agrees with the new grade of "A-/B+" for 2012. The increase in Ex-Im's services support and on-par competition with other OECD ECAs justifies such an upgrade. However, Ex-Im should focus on ways to harmonize the Bank's services policy within the content policy to ensure the competitiveness of the services program. Lastly, the "A-/B+" environmental policy grade is justified due to increasing interest in Ex-Im's Environmental Exports Program and support for renewable energy technologies.

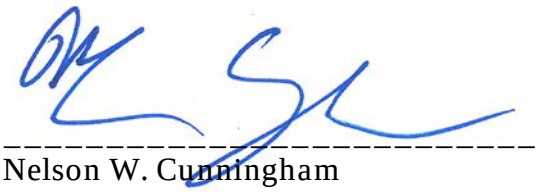
Fourth, the Committee continues to believe that Ex-Im provides unique opportunities for small and medium businesses to access export markets, and calls for the Bank to sustain its focus on increasing small business support. Paperwork costs can be significant even for enterprises large enough to be deemed "medium" enterprises, and the Committee would encourage the Bank to continue to standardize and simplify loan documentation. Small and medium enterprise support is an area where the Bank has a clear public mission to fill a gap that commercial lenders may not fill on their own, and the Committee calls for the Bank's continued support and focus. The same may be said for renewable energy sources, where the market can benefit from Ex-Im's public mission to promote important environmental goals.

Lastly, the Advisory Committee encourages Ex-Im to continue to research and evaluate the alternate financing tools now being used by OECD as well as non-OECD ECAs. The Report documents the dramatic increase in recent years of this non-traditional ECA support, presenting perhaps the clearest threat to Ex-Im Bank competiveness on behalf of U.S. exporters. Should any of these programs be deemed to have an adverse effect on U.S. export competitiveness, the Advisory Committee urges the Bank to initiate a dialogue and work with Congress and the Administration on a strategic approach that ensures that the competitiveness of U.S. exporters is maintained.

Summary:

Ex-Im Bank did an exemplary job in 2012 to support U.S. exports in light of the continued macroeconomic challenges impacting the export finance space. As the Report indicates, Ex-Im remains very competitive with other ECAs, earning an "A" for 2012. Still, Ex-Im faces many challenges, including aggressive policies of other OECD and non-OECD ECAs, also laid out in the Report. Accordingly, the 2012 Advisory Committee recommends that the Bank continue to study the new competitive forces, and to continue to innovate so that it does not risk losing its competitiveness, and

potentially U.S. jobs, as the global economy continues to recover from the financial crisis.



_____

Nelson W. Cunningham
Chairman
2013 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 2012 Advisory Committee Members are listed below:

Nelson W. Cunningham	Advisory Committee Chairman; representing services
Mary Andringa	Representing manufacturing
John Bakane	Representing textiles
Peter Baranay	Representing small business
C. Fred Bergsten	Representing commerce and trade policy
Michael Boyle	Representing small business
Carol Browner	Representing environment
Celeste Drake	Representing labor
Mark Fallon	Representing services
Christine Gregoire	Representing government
Owen Herrnstadt	Representing labor
Nancy Mercolino	Representing small business
Michael O'Neill	Representing finance
Garrett Pierce	Representing manufacturing
Bill Richardson	Representing energy
Cherod Webber	Representing small business
Steve Wilburn	Representing environment

Table of Contents

PART II: EMERGING ISSUES

PART III: APPENDICES

Executive Summary

Background

The 2012 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 world's major export credit agencies (ECAs) during the calendar year. Until this 2012 report, Ex-Im Bank had measured the competiveness of its policies against those of the G-7[1] ECAs, which supported about 80% of the official medium- and long-term export credit activity globally. Over the past few years, Ex-Im Bank has reported on the increasing number of ECA programs warranting attention from a competitive standpoint. As a result, in 2012, Ex-Im Bank expanded the scope of the report to include the ECA activity of most of the major Organization for Economic Cooperation and Development (OECD) members[2] and ECA activity of three major non-OECD countries. Almost all of those ECAs participated in bilateral interviews and surveys, as well as provided data used as a basis of analysis for this report. Other references for the evaluation included a variety of quantitative and qualitative data made available in the export credit marketplace, including a revised survey of banks, exporters and, this year, brokers. Ex-Im developed the revised survey tool and improved survey platform in conjunction with an expert survey consultant. (See Data Qualification section in Chapter 1 and Appendices C and D for details.)

Despite the broader focus of the 2012 report, the purpose of the Competitiveness Report continues to be to present a perspective based on the data and information, complemented by the views of the U.S. exporting community on Ex-Im Bank's ability to offer "fully competitive" financing vis-à-vis its competitor ECAs. At the same time, it is important to explain that these views obtained and information derived reflect an overall context in which the U.S. Congress has imposed certain requirements to meet particular public policy objectives (e.g., economic impact, support for U.S. jobs, and U.S. flag shipping). As no other ECAs have any comparable public policy requirements, the U.S. exporting community reports that, at the transactional level, these requirements can have a dampening effect on their ability to compete at the global level. Finally, the evaluation continues to be presented in a report card format with a description of the grading scale and new survey rating tool included in Appendix A.

[1] The G-7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and United States.
[2] OECD member countries are Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

Context

The year 2012 brought increasing clarity to an ECA competitive landscape that was turned upside-down by the macro-economic and regulatory factors that were set into motion by the demise of Lehman Brothers in 2008. In 2012, ECAs continued to play a key role in overcoming fundamental – and likely long-run – obstacles to the ability of commercial banks to step back into their roles as the primary and dominant source of medium- and long-term export finance funding. The European, Asian, and U.S. ECA responses to evolving regulatory regimes, splintering sovereign debt ratings, and shrinking commercial bank balance sheets influenced every aspect of ECA competiveness in 2012.

Findings

The overarching challenge that these past few years present to the purpose of the report is developing a framework that can broadly measure the consequence of the financial crisis, Basel III, and the European sovereign debt crisis on ECA competitiveness. The basic assumption of the Competitiveness Report evaluation for roughly 40 years has been that the OECD ECAs were aligned in a fairly narrow spectrum based on overall competitiveness. In fact, the aim of the 35 years of OECD negotiations was achieving a level playing field for export credit agencies under the rules of the Arrangement and the agreements of the OECD Export Credits Group. For this reason, Ex-Im Bank has traditionally measured its competitiveness against the backdrop of OECD regulated programs and, in particular, the G-7 OECD ECAs, where the aggregate competitiveness on a typical standard transaction has historically been assumed to be nearly the same for all Participants[3] to the OECD Arrangement on Officially Supported Export Credits (referred to as "the Arrangement" in this report).

However, the appearance and expansion of the Chinese ECAs in the mid-2000s and a recent surge in OECD unregulated financing yields a broader export credit landscape that necessitates an even wider lens with which to view competitiveness. Assessing this wider scope in tandem with the differentiation of ECA support arising from cost and capacity handicaps associated with the financial turmoil of the last five years undercuts that assumption of ECA homogeneity. Instead, the result is an export credit environment in which ECA competiveness comes in tiers or hierarchies, referred to in this report as "situational competitiveness" (see Chapter 7 for more details on this concept).

[3] The Participants to the Arrangement include Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, and the United States. Other OECD and non-OECD countries can be invited to become Participants by the current Participants.

Consequently, the competitiveness of an individual ECA is determined based on which ECA(s) it is competing against and the financing tools being used. For example, when facing the European Union (EU) ECAs, Ex-Im fares very well and, in most cases, is likely to be highly competitive. However, within the context of the Asian ECAs that have a full menu of financing tools at their disposal (governed and not governed by the OECD Arrangement), Ex-Im could be viewed as generally less competitive than these ECAs.

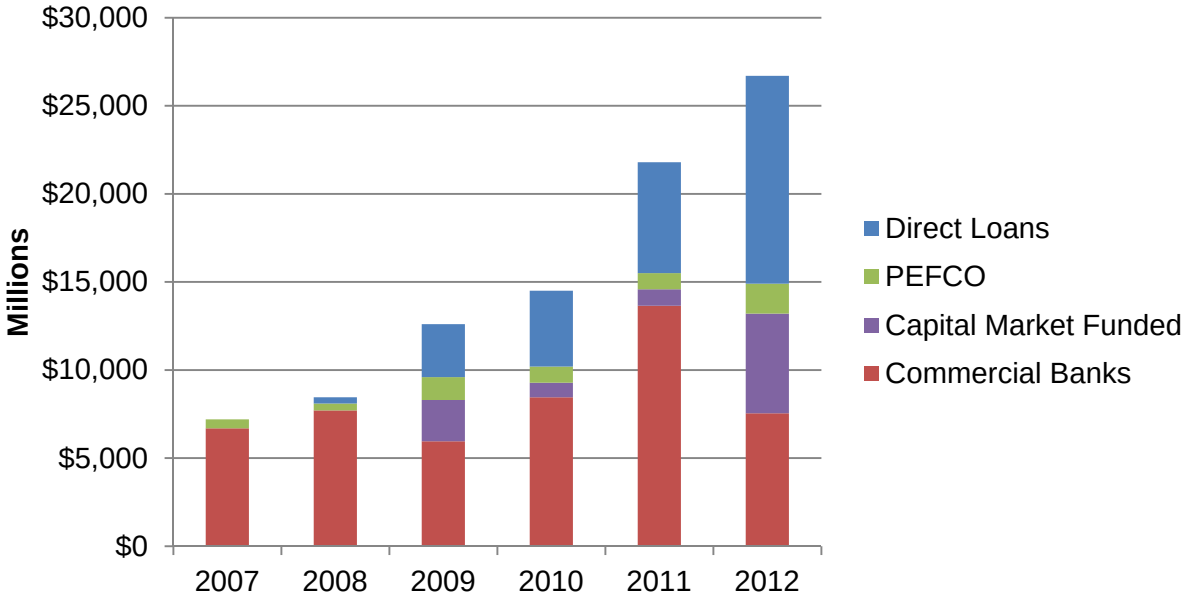
Nevertheless, making the 2012 evaluation in accordance with the historical "scorecard," Ex-Im Bank scores high marks in many financial aspects and its overall competitiveness grade moves up to an "A" from last year's grade of "A-/B+." The main factors that contributed to the "A" grade reflected the aforementioned financial market developments and exporter and lender input in the following key areas:

First, tight credit market conditions enhanced Ex-Im Bank's grades with respect to interest rates and project finance, thereby promoting Ex-Im Bank to the top of the list of major ECAs in competitiveness on these aspects. With respect to interest rates, the year 2012 consolidated Ex-Im's interest rate programs into an absolutely competitive position vis-à-vis the G-7 and OECD, receiving an "A+." In Project Finance, Ex-Im Bank's third consecutive year of record-breaking activity was led by the unprecedented activity in project and structured finance ($17.8 billion in calendar year 2012), with this surge continuing to be fueled almost entirely by direct loans.

In addition, Ex-Im Bank support for large commercial aircraft also contributed to a positive competitive landscape. In particular, Ex-Im Bank facilitation of the capital market funding option has yielded an attractive financing option for foreign buyers seeking to fund their purchases of large commercial aircraft in an environment in which liquidity is tight. The Ex-Im Bank capital markets program, which has also been used by other buyers and for non-aircraft projects, was used mostly by commercial airlines in 2012. Capital markets support of aircraft was more widely available under Ex-Im Bank's program in 2012 relative to the aircraft support made available by the European ECAs in 2012. See **Figure 1** for details regarding the surge in Ex-Im Bank direct loan and capital markets activity.

On the other hand, despite the accolades received by Ex-Im Bank for the competitiveness of its direct loan program (limited in terms of number of deals, but high in terms of volume), the newly-revised survey yielded concerns about certain key public policies (e.g., U.S. content rules and MARAD shipping requirements) and risk-taking practices. Specifically, the concerns exporters and lenders registered with respect to risk-taking were associated in particular with the Bank's medium-term programs and Ex-Im Bank's "risk appetite" relative to that of the foreign ECAs. Respondents noted that Ex-Im Bank requirements for risk mitigants (e.g., asset security, liens, and personal guarantees) were not only burdensome, but also costly.

Figure 1: Ex-Im Bank Sources of Long-Term Funding for FY2007-FY2012 Authorizations*



**Values represent estimated funding sources.*

In summary, commercial bank capacity has declined and cost of funds has increased worldwide since the global financial crisis, shifting the volume of demand from commercial lenders to ECAs. Consequently, *capacity* and *cost* are the dominant factors that contribute to an ECA competitiveness rating *vis-à-vis* other ECAs. Ex-Im Bank's abilities to take on large exposures and offer access to private capital markets funding are tools not currently accessible to all ECAs. Despite these critical advantages, some U.S. exporters believe that the congressionally mandated requirements pertaining to U.S. content – a proxy for supporting U.S. jobs – and other Ex-Im public policy restrictions diminish U.S. Ex-Im's otherwise stellar competitiveness as compared to other ECAs. However, on balance, the funding and capacity advantages significantly outweighed the negative policy considerations, resulting in an upgrade to an "A" grade (but not an "A+") for the year 2012.

Nevertheless, despite Ex-Im Bank's superlative financial competitiveness in the OECD regulated export credit universe, Chapter 7 reveals that Ex-Im Bank competitiveness is less obvious or certain when compared to the capacities of other ECAs in the other two "universes" – the Unregulated OECD Universe and the non-OECD BRIC Universe. The 2012 Competitiveness Report builds on the 2011 finding that the OECD regulated activity *overlaps* with activity generated by the two other financing "universes" and seeks to examine in further detail the dimensions and impact of these "universes" on Ex-Im competitiveness.

Chapter 7 concludes that of the major players in the "Three Universes" (Europe, Asia and the United States), the United States has the narrowest stance; it is a significant player in only one universe[4]. With respect to unregulated financing offered by OECD ECAs, the benchmarking study revealed that roughly a one-third of the buyers 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 aspects (e.g. cash payments) and ease of documentation typically made such financing very attractive. The Asian ECAs have reported the largest volumes in the unregulated financing space.

In 2012, the U.S. exporting community reported few complaints with respect to the impact of export credits and insurance coverage provided by non-OECD ECAs, specifically from Brazil, India and China. However, they continue to remain relevant because of the enormity of their estimated activity levels, in particular that of China. Due to new data availability, Ex-Im has further refined these ECAs' activity levels in this report.

Looking Forward

The year 2012 made clear that in the world governed by the current OECD rules, Ex-Im Bank's multi-program structure, the backing of a solid U.S. sovereign rating, and enormous capacity to take on assets yielded a very competitive ECA operation earn U.S. Ex-Im an overall "A" rating. However, two aspects bring uncertainty to the long-term ability of Ex-Im Bank to maintain that status.

First, if and when the current crisis situation settles and a "new normal" ECA activity emerges from all the new programs and structures being developed, how competitive will a re-chartered Ex-Im Bank be in a world in which other ECAs (especially EU ECAs) have matched and, in some cases, exceeded Ex-Im's advantages by:

(1) developing their own direct loan and capital markets capacities;
(2) recalibrating their risk appetites; and
(3) maintaining much more operational flexibility than Ex-Im Bank.

Second, the hefty volume (roughly $180 billion) of unregulated and non-OECD/BRIC financing, and its overlap with official OECD regulated financing cannot be considered irrelevant to long-range U.S. export competitiveness. U.S. exporters compete in many markets and sectors that other countries have targeted as a "national interest," either

[4] Technically, no country or ECA can be in all three universes. Yet, many ECAs could offer financing consistent with the disciplines in all three universes (e.g. non-OECD members can and do offer OECD-compliant support even though not formally bound to the OECD Arrangement rules; see Figure C13). For the United States, OPIC plays a relatively modest role in the unregulated universe as the U.S. official foreign direct investment financing support agency (e.g., insurance, loans, and guarantees).

explicitly as part of their national economic policy, or implicitly by making available a range of official financing tools intended to maximize the flow of national benefits.

The potential competitive impact of other ECAs' new programs and foreign strategies remains an area that warrants a further and more detailed analysis and merits further monitoring and close examination over time in future editions of this report.

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 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 "equal to the most competitive" with respect to support provided by the major official export credit agencies (ECAs). For details please see Appendix A.

Scope of Report

Over the past few years, Ex-Im Bank has regularly reported on the growing number of ECA programs warranting attention from a competitive standpoint. The increasing number and scale of such programs has led Ex-Im Bank to expand the base of ECAs against which Ex-Im Bank assesses its programs and policies. As a result, in 2012, Ex-Im Bank has added to the scope of the report that had, until this year, routinely compared Ex-Im Bank's competitiveness only with that of the other G-7 ECAs. The G-7 ECAs are the ECAs of Canada, France, Germany, Italy, Japan, United Kingdom and United States.

The expanded scope of ECAs added to the 2012 report includes those ECAs whose volume and relevance to U.S. exporter interests warranted inclusion. The expanded base included ECAs from the following countries: Austria, Denmark, Finland, Korea, Netherlands, Norway, Spain and Sweden. See **Figure 4** in Chapter 2 for a list of the historical and new major providers of official export credit support and their activity levels. Please note that this is Ex-Im's first year of this expanded data capture; these data elements will be built upon and refined over time. In addition, Ex-Im Bank has added to the data collected last year on foreign ECA programs and, in particular, has added information about new and growing direct lending programs established since the financial crisis. The expanded list of ECAs and ECA programs included in this report represents an incomplete, but fully-framed, snapshot of the real-world competitive landscape as we see it today. (See Data Qualification section below and Appendix L for more information.)

Likewise, although the major emerging market economies of the BRIC (Brazil, Russia, India, and China) countries experienced a degree of economic slowdown in 2012, their ECAs continued to play a significant role in export finance. Thus, Ex-Im Bank has added to the quantitative information and comparisons of the programs and policies of the G-7 plus BRIC (or G-11 ECAs), which were first reported on in the 2011 report. Please see Chapters 2, 7, and Appendix E of this report for more information about the BRIC and other major ECA export credit programs. A detailed comparison of Ex-Im Bank programs with those of the BRIC ECAs is not possible given their relative newness and the limited transparency of their operations.

Furthermore, the Competitiveness Report focuses on medium- and long-term export credits because medium- and long-term transactions are the type of transactions where ECA competition is most likely to occur. Short-term programs are excluded from the analysis because there are few instances of official ECA-supported competition for such sales (i.e., short-term deals are generally negotiated sales between the exporter and the foreign buyer) and because few ECAs have short-term programs. Moreover, those ECAs that do have short-term programs have vastly different approaches to such coverage.

For example, NEXI of Japan is legally bound to support all Japanese exports, while UK Export Finance of the UK is prohibited from providing short-term cover for UK exports when a private insurer can do so.

However, since the 2009, more ECAs have introduced temporary short-term support to offset the global shortage of short-term trade finance resulting from the lingering effects of the financial crisis. As a result of the increase in official short-term financing activity and the potential competitive implications of that new short-term business on U.S. exporters, Ex-Im Bank added a short term survey to the competitiveness survey. This short term survey canvassed exporters, lenders, and brokers that participated in Ex-Im programs in calendar year 2012. The addition of brokers was valuable given their contribution to the short-term business of the Bank as multipliers. The resulting analysis can be found in Appendix D.

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 ECAs, as well as qualitative information collected through a survey and roundtable meetings with exporters and lenders. Chapters 3-6 of the report focus on specific assessments of policies and programs that lead to an overall assessment Ex-Im Bank competitiveness that is summarized in Chapter 7.

The Competitiveness Report also includes a chapter on competitive issues looming on the horizon. The emerging issues chapter (this year, Chapter 7) contains an analysis of current trends and their potential implications for the future. This year's report is the third of a three part series that started with the 2010 Competitiveness Report. At that time, the analysis reported on an increasingly large volume of MLT activity attributable to certain non-OECD ECA programs of Brazil, Russia, India, and China[5], as well as the growth of "unregulated" OECD ECA credit programs not governed by the OECD Arrangement on Export Credits. In order to better interpret these developments, Ex-Im embarked on a subsequent two-year benchmarking study to better understand the impact of an expanded scope of foreign ECA export-related activity on U.S. exporters and U.S Ex-Im Bank competitiveness. See Chapter 7 for details.

Overall Report Methodology

Ex-Im Bank continues to use a "report card" (A-F) methodology to evaluate each of the essential components of Ex-Im Bank's support relative to the support provided by the

[5] In the 2010 and 2011 reports, non-OECD financing offered by Brazil, Russia, India, and China (the BRIC countries) was referred to as "exceptional" financing. To avoid confusion and possible misunderstanding, Ex-Im is changing the reference from "exceptional" to non-OECD BRICs.

Bank's primary foreign ECA competitors. The "grade" awarded to a particular program or aspect of Ex-Im Bank competitiveness is based on data and information collected on the programs and policies of foreign ECAs from the ECAs themselves and other sources outlined above. In addition, Ex-Im Bank uses the information collected through its exporter and lender survey process and roundtable discussions to arrive at the competitive assessment. See below for details on the Ex-Im Bank Lender and Exporter Survey and Roundtable Discussion methodology. The resulting grade and rationale for its award is explained in the "Conclusion" section of each chapter. A summary of all of the grades can be found in Chapter 6. As far as the evaluation of the economic philosophy and public policy issues, the Report only notes the *direction* (positive, neutral, or negative) of their potential competitiveness impact on individual transactions. 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 attempts to provide a balanced perspective on the size and scope of G-11 MLT standard activity and activity associated with the additional OECD ECAs that have been added to the scope of the 2012 report. This report also estimates the size and significance of financing offered by non-OECD ECAs. As was done in the 2010 and 2011 reports, this year's analysis makes a special effort to:

- differentiate within the major OECD ECA population between standard, officially supported export credits that are regulated by the OECD Arrangement, and "unregulated" credits that could be export-related or those that are not subject to the OECD Arrangement rules (i.e., untied financing and investment support by OECD ECAs); and
- more precisely quantify the volume of export financing by non-OECD BRIC ECAs, which refers to commercially-based, "tied" export financing that is functionally quite similar to activity covered by the OECD Arrangement but on different – and in some cases more advantageous – terms.

If a foreign ECA provided revised data, that data was updated in the current report. This explains any discrepancies between this report's figures and past Competitiveness Report activity estimates. [6]

Once again, data for Chinese activity has been developed using an array of sources, including published figures from the Chinese ECAs, periodical articles, and information gained through bilateral exchanges. As noted last year, much of the Chinese activity is translated from figures for programs which have no counterpart in OECD structures. Hence, there is a considerable possibility for error in the translation. The lack of

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

transparent and comparable data has been an ongoing challenge in the preparation of some figures. Accordingly, the data for the Chinese ECAs represent, at best, a conservative approximation of activity based on the information available at this time.

Lender and Exporter Survey and Roundtable Results

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 2012, Ex-Im Bank revised its survey based on guidance from an expert survey consultant. As a result, the Bank introduced a new survey platform and directed user questions. This survey also solicited input from exporter and lender short-term insurance users and brokers. Appendix C provides background on the survey revision process and the new resulting survey methodology.

To supplement the feedback collected in the lender and exporter survey, Ex-Im facilitated two Roundtable discussions, one each with lenders and exporters that used Ex-Im financing in calendar year (CY) 2012. The discussions were a venue for Ex-Im staff to elicit more comprehensive information on Ex-Im program and policy competitiveness and to hear anecdotal experience from Ex-Im Bank users, therefore better informing Ex-Im program and policy ratings.

While individual survey and roundtable comments are occasionally cited in this report, these individual comments were chosen because they best represent the general views of the group.

Ex-Im Bank Liquidity Interviews

This year, Ex-Im Bank expanded exporter and lender input with information captured during meetings with lenders that formed part of a broader dialogue taking place between Ex-Im Bank and commercial banks regarding the changing role of commercial banks in export credit finance. Through these interviews, Ex-Im staff collected comprehensive information on market trends and availability of financing worldwide. Liquidity interviews were conducted in Europe as well as in New York and Washington, DC. Some of the results of those discussions are reported in Chapters 2 and 7.

Benchmarking Study Methodology

For year two of the two-year benchmarking study, the Bank broadened the scope of its research through interviews with ECAs and foreign and domestic lenders. The goal of the interviews was to better understand the new and emerging lending programs and the factors that led governments to expand or introduce these programs. The views of

commercial banks and ECAs contributed to the broader and deeper understanding of the impact that the liquidity crisis is having on ECA competitiveness. Moreover, foreign ECA interviews included discussions on the scope and impact of official financing not governed by the OECD Arrangement. Ex-Im staff conducted a total of 43 interviews in 2012, including 25 ECAs, and 18 commercial banks. These interviews were conducted across Europe (Australia, Denmark, Finland, France, Germany, Italy, Norway, Spain, Sweden, and the United Kingdom), Asia (Korea and Japan) and North America (Canada). Ex-Im staff also attended various conferences throughout the year to further study export finance trends.

Report Structure

This year's report follows the same structure used in last year's report – with an expanded scope of ECAs now being referenced where applicable in each section. The Ex-Im Bank Advisory Committee Statement follows directly after the transmittal letters to members of Congress. The Executive Summary 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 2012 and the philosophies and missions of major competing ECAs. In addition, Chapter 2 includes a section on traditional market window programs, now called market approaches to official export financing. 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 addition, Chapter 4 includes an assessment ECAs' tied and untied aid policies relative to those of Ex-Im Bank. Chapter 5 evaluates the competitiveness of Ex-Im's U.S. economic philosophy and competitiveness as evidenced by its approaches to economic impact, content, shipping requirements, and stakeholder considerations. Chapter 6 summarizes Ex-Im Bank's overall competitiveness, taking into account core financing elements, major programs, and U.S. economic philosophy and public policies. Chapter 7 discusses the benchmarking study's second year findings on the effect of unregulated OECD ECA financing and BRIC ECA financing on Ex-Im's competitive ranking.

The appendices following the body of the Report include a 2012 Ex-Im Bank transaction list showing the purpose of the Bank's support. This year, Ex-Im Bank has consolidated some of the appendices with the relevant chapters. Specifically, the report on Ex-Im Bank efforts to support renewable energy has been included as an Annex of Chapter 4D: Environment, while the report on Tied Aid has been included in Chapter 4G, which discusses "Trade Related Tied and Untied Aid."

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

Introduction

Since the onset of the 2008 financial crisis, export credit agencies (ECAs) have played a critical role in maintaining the flow of medium- and long-term (MLT) export finance in the face of an extensive and forceful contraction by commercial banks. While this backfill role for ECAs in MLT export finance was originally considered by many to be a short-run phenomenon, evolving macro-economic and regulatory factors continue to construct fundamental (and likely long-run) obstacles to the ability of commercial banks to step back into their roles as the primary and dominant source of MLT export financing.

In 2012, the European Central Bank made clear its goal to protect the integrity of the Eurozone, thereby affording European banks the opportunity to reorganize and develop strategies to secure their client base and future growth. This singular action represented a turning point with respect to European ECA competitiveness. As commercial banks in Europe regained their balance sheets, these banks reinvigorated their export finance portfolios.

Nevertheless, the regulatory impact of Basel III continued to limit the amount of the balance sheet that each commercial bank was able to allocate to export credit business in 2012. Similarly, ECAs in countries whose borrowing costs escalated as a result of their downgraded sovereign risk rating were forced to impose surcharges on their ECA pricing. In 2012, the implications of these factors had a major impact on relative ECA competitiveness.[7] The net effect of these factors was a liquidity-constrained commercial banking sector reluctant to extend long-term export credit. Moreover, some of the private sector lending was more expensive due to negative sovereign country ratings – ratings which were worse than a number of developing countries' ratings.

Given these fundamental developments, the emerging international finance landscape forces ECAs to address a fundamental question: What structure and tools will be necessary to be relevant and effective for the rest of the decade? The answer to those questions and how various ECAs adapt to them will be a (if not *the*) major determinant of what future editions of this report will contain.

For Ex-Im Bank, its independent structure and multi-faceted tool box of programs have proven well-matched for the times. In 2012, Ex-Im Bank activity hit another record

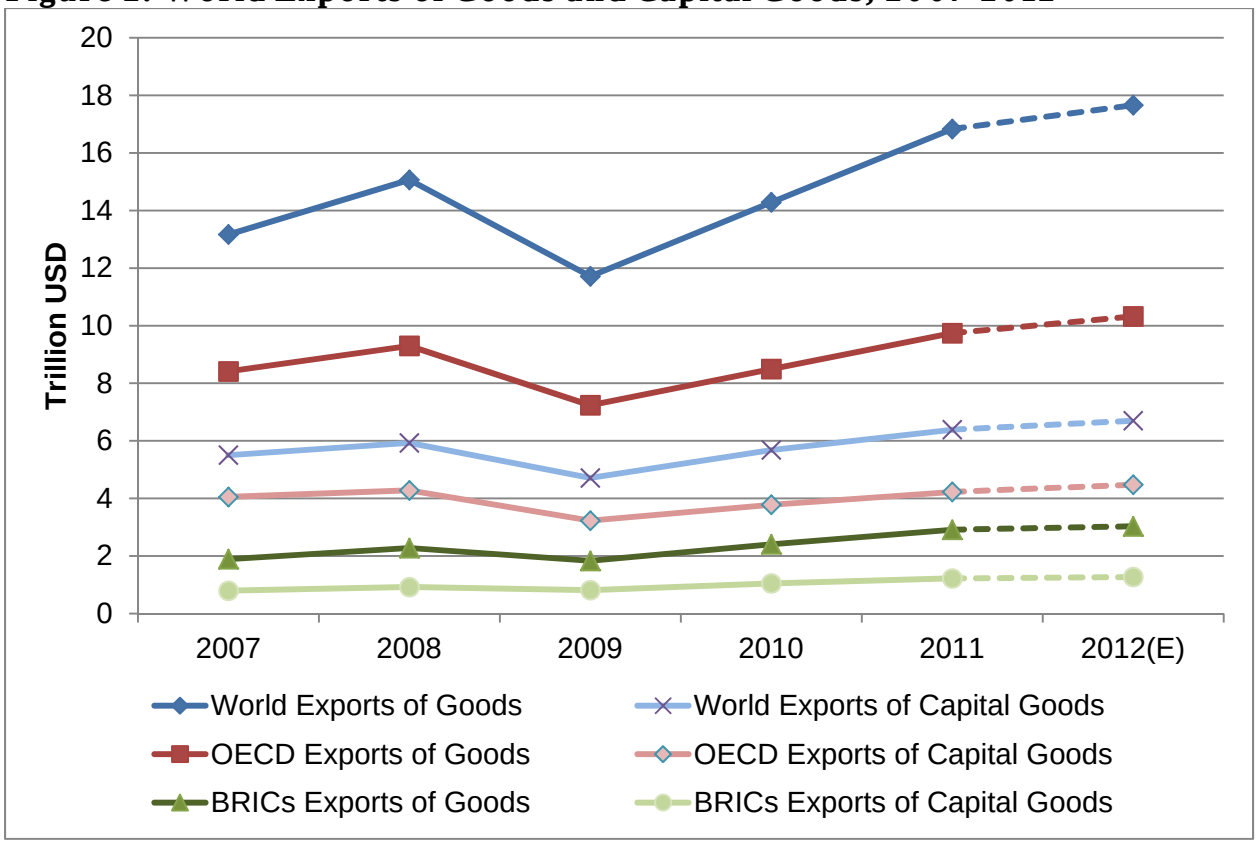
[7] Ex-Im researched these fundamental developments reported over the past year through its Liquidity Interviews, which are referenced in Chapter 1 and further explained in Chapter 7.

high. The major programs of aircraft finance and project finance adjusted very effectively to the developments of the market place.

Export Trends

As illustrated by **Figure 2,** export growth rates in 2012 slowed significantly across the globe. OECD export credit growth slowed from 15% to 6% while the growth rate of BRIC exports to the world fell from 20% in 2011 to 4% in 2012. The OECD and World Trade Organization forecasts for 2013 suggest another year of modest export growth globally. In 2012, BRIC and OECD exports of goods as a proportion of world exports held steady at 17% and 58%, respectively.

Figure 2: World Exports of Goods and Capital Goods, 2007-2012



Source: World Trade Organization Time Series Statistics; OECD International Trade MEI Dataset
*Estimate

Figure 3 illustrates that overall capital flows into emerging markets remained fairly stable in 2012 with commercial bank flows down "only" 20%, as opposed to the virtual collapse anticipated at this time a year ago. The macroeconomic indicators suggest that commercial bank activity in 2013 (including medium- and long-term export financing) may look much like 2012.

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

	2007	2008	2009	2010	2011	2012*	2013**
Official Flows							
International Financial Institutions	2.7	26.5	46.0	29.0	17.0	***16.9	18.0
Bilateral Creditors	8.7	30.7	21.0	26.0	44.0	33.0	37.0
Private Flows							
Equity Investment	296.0	413.4	475.0	550.0	528.0	572.0	616.0
Commercial Banks	410.0	123.7	-15.0	164.0	177.0	143.0	152.0
Non-Banks	222.0	130.0	142.0	194.0	379.0	365.0	351.0
Total	939.4	724.3	669.0	963.0	1,145.0	1,113.0	1,174.0

Source: Institute of International Finance, "Capital Flows to Emerging Markets," January 2013
* Indicates estimated figures
** Indicates projection
*** IIF January 2012 report

Export Finance Trends – G-7 and Major OECD ECA Competitors

As noted in Chapter 1, over the past few years, Ex-Im Bank has regularly reported on the increasing number of ECA programs warranting attention from a competitive standpoint. Thus, in 2012, Ex-Im Bank expanded the scope of competitor ECAs against which Ex-Im Bank assesses its programs and policies beyond the other G-7 ECAs. The expanded scope of ECAs includes those ECAs whose volume and relevance to U.S. exporter interests warranted inclusion. Please note that this is Ex-Im's first year of this expanded data capture, and further refinements to the data will follow in the coming years.

Figure 4: New Medium- and Long-term Official Export Credit Volumes, 2007 – 2012 (Billions USD[8])

Country	Year					
OECD ECAs	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
G-7 Total	**34.6**	**43.7**	**64.0**	**70.2**	**74.0**	**73.9**
Canada*	0.5	1.5	2.0	2.6	1.9	1.7
France**	10.1	8.6	17.8	17.4	15.9	13.0
Germany*	8.9	10.8	12.9	22.5	16.7	15.3
Italy***	3.5	7.6	8.2	5.8	8.0	5.2
Japan****	1.8	1.5	2.7	4.9	5.9	4.4
United Kingdom**	1.6	2.7	3.4	4.1	4.2	2.9
United States	8.2	11.0	17.0	13.0	21.4	31.3
Expanded Eight OECD ECAs – Total					**32.4**	**40.7**
Austria					0.7	1.4
Denmark‡‡					2.2	3.9
Finland††					3.0	2.0
Korea†					9.8	22.6
Netherlands					2.9	2.2
Norway†††					3.0	2.2
Spain					4.4	1.4
Sweden‡					6.3	5.1
Other OECD ECAs					**4.5**	**5.0**
Major Emerging Market ECAs (B, C, I)^	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Brazil^^	0.6	0.2	6.1	3.5	4.8	2.7
China^^^	33.0	52.0	51.1	43.0	35.0	45.0
India^^^^	8.5	8.7	7.3	9.5	13.0	10.6
TOTALS	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total OECD ECAs					**110.9**	**119.6**
Total B, C, I	**42.1**	**60.9**	**64.5**	**56.0**	**52.8**	**58.3**
U.S. % of G-7	24%	25%	27%	19%	29%	42%
U.S. % of OECD ECAs					19%	26%
B, C, I % of G-7	122%	139%	101%	80%	71%	79%
B, C, I % of OECD ECAs					48%	49%

* These figures have been adjusted to exclude market window and domestic financing.
** These figures have been adjusted to exclude defense.
*** 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.
† K-sure guarantees and insurance plus KEXIM direct loans, guarantees, and insurance
†† Finnvera direct loans plus guarantees and insurance not covering the direct loans
††† GIEK guarantees & insurance *(minus domestic activity)* plus Export Credit Norway loans not covered by GIEK
‡ EKN guarantees and insurance (most SEK loan activity covered by EKN)
‡‡ EKF guarantees and insurance (all EKF ELO direct loans require EKF guarantee)
^^ Brazilian data represents SBCE and BNDES activity, which is reported to overlap
^^^ Refer to Chapter 7 for a detailed explanation of Chinese ECA activity.
^^^^ Includes ECGC and India Ex-Im Bank activity.
The new Russian ECA EXIAR, est. in 2011, is not included because it has very limited activity.

[8] Dollar volume data contained in this figure is in non-inflation-adjusted U.S. dollars.

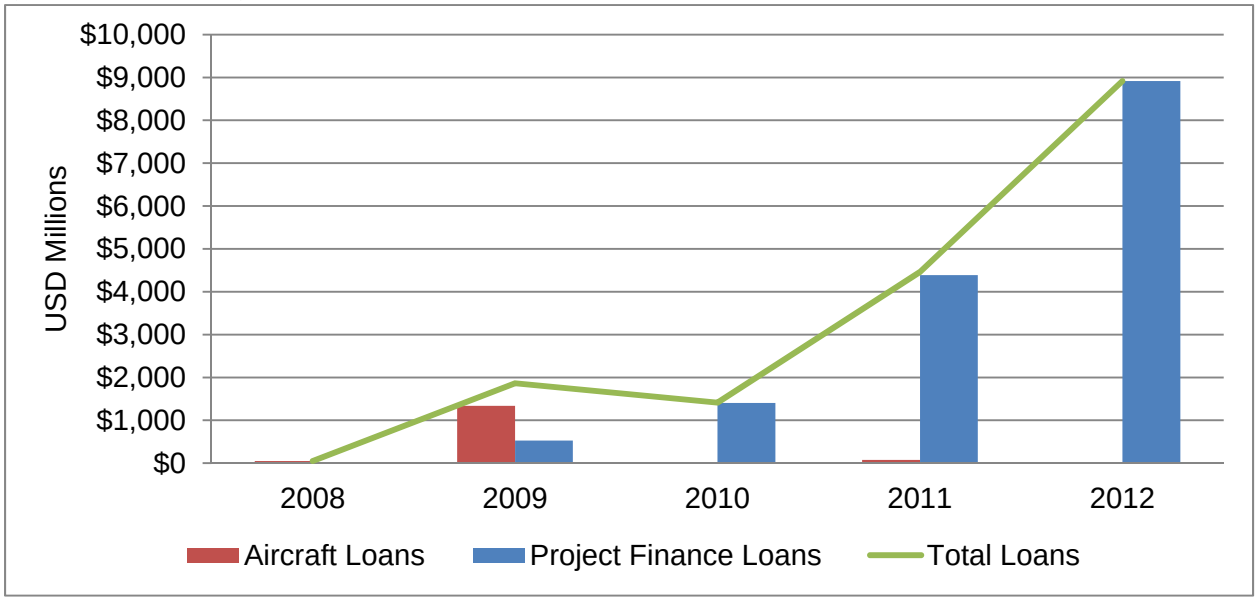
Figure 4 illustrates steady to stagnant G-7 ECA activity in terms of standard official export credit volumes, with the exception of Ex-Im Bank. Ex-Im Bank contributed to roughly half of the G-7 ECA activity, up from under one-third last year, and one-quarter of total OECD ECA activity. Meanwhile, in 2012, BIC activity exceeded three-quarters of the G-7 ECA activity (up from the two thirds in 2011).

The global export slowdown was reflected in a reduction of the overall growth in activity of Brazil, India and China. Nevertheless, the export credit activity of Brazil, India and China increased to $58.3 billion from $52.8 billion in 2011. However, this increase is largely attributable to the estimated activity for China, as the data show a pronounced decrease in both the Brazilian and Indian export credit activity in 2012. In any event, the export credit activity of these three countries is equal to roughly half of all OECD ECA regulated activity. Note that for the purposes of Chapter 2, the estimated standard official export credit activity for China may be a conservative figure as it only reflects estimated activity from their export credit agencies (Sinosure and China Exim Bank), but excludes estimates from China Development Bank that are considered in Chapter 7. Also note that activity from Russia has been limited due to the establishment of a new export credit agency, EXIAR. For details on EXIAR and other Russian export credit agencies please refer to Appendix E.

Figure 4 above shows that the combined OECD Arrangement-compliant activity of the OECD ECAs totaled approximately $120 billion in 2012. This volume is more than twice the activity of the three emerging market ECAs. While that ratio is constant in 2012 compared to 2011, that stability masks increasingly dramatic differences among OECD ECAs. In effect, U.S. and Korean activity combined exceeded the total of most other OECD ECA activity. Similarly, China's activity is estimated to have increased by $10 billion while Brazil and India's activity combined is down by $5 billion. These dichotomies well illustrate the diverse nature of global ECAs in 2012.

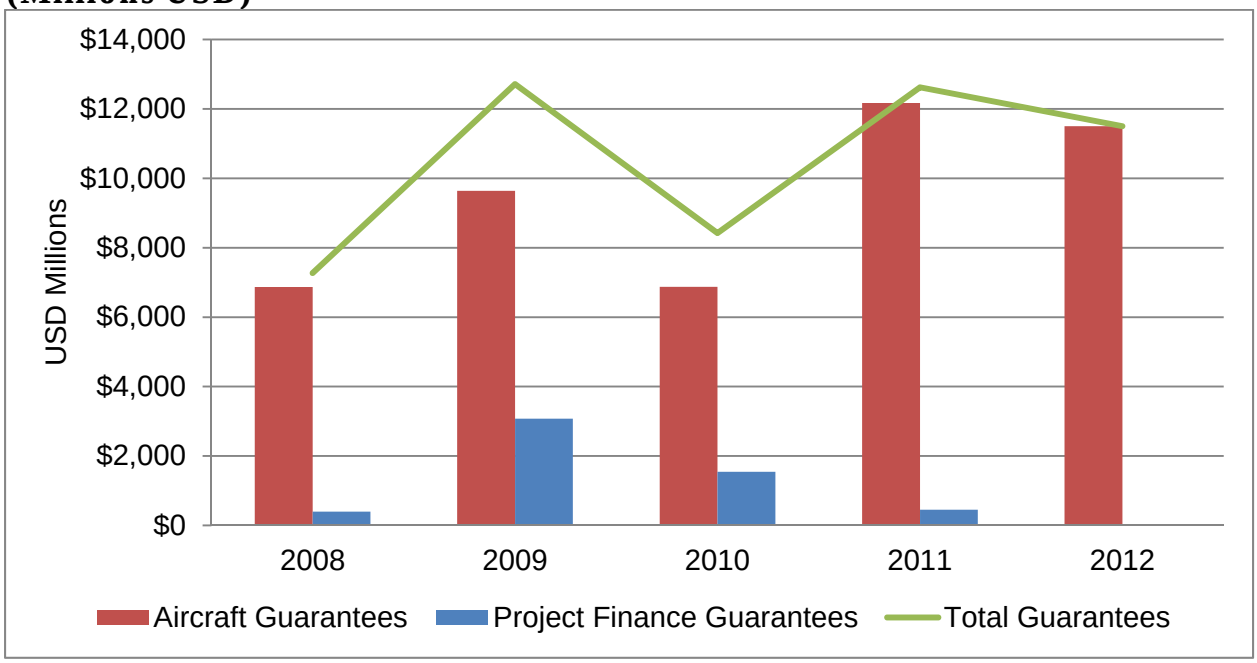
Figure 5 illustrates the sustained increase in direct lending at U.S. Ex-Im Bank, which reached a record high of $9 billion for 2012 – twice the 2011 figure. Most of this volume was in the area of project and structured finance, in which long-term fixed rate financing is essential for borrowers. Taken together, **Figures 5 and 6** 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 5: Aircraft and Project Finance MLT Direct Loans, 2008 – 2012 (Millions USD)



Source: Ex-Im Bank data

Figure 6: Aircraft and Project Finance MLT Guarantees, 2008 – 2012 (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, many governments have broadened the scope of their export credit activity beyond the specific OECD-regulated export credit programs. These broader programs encompass support for *export-related* activity, including market-oriented approaches to export credits that could be either tied or untied export credit support (see Chapter 2C regarding market-oriented approaches to tied export credits). Market Window financing (at least from EDC of Canada) can be tied to domestic procurement and exports. Moreover, such programs may often be priced on commercial terms even if elements of the financing may be more attractive than standard OECD Arrangement terms (e.g., no 15% cash payment requirement or tenor restrictions).

In addition, many governments have ramped up their foreign direct investment (FDI) programs, most of which reside within the ECAs, that can result in direct or indirect trade benefits to the country providing the investment support – even though the programs are not tied to domestic procurement. (This is because investment support is typically restricted to companies domiciled in the FDI provider's country.) With the export credit and FDI support programs under one roof, the ECA (and its government) is able to coordinate financing strategies, depending on the needs of the particular products and buyers. In the United States, the export credit and foreign direct investment functions are divided between U.S. Ex-Im Bank and the Overseas Private Investment Corporation (OPIC). Each agency has a different focus: OPIC supports U.S. FDI mainly in developing countries with a concentration on developmental needs, while Ex-Im Bank's goal is to support U.S. exports on more commercial terms by providing financing that is competitive with other ECAs. For details on the untied financing programs and overseas investment programs see Chapter 7.

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. This public policy mission effectively directs Ex-Im Bank in two ways: 1) to fill market gaps that the private sector is not willing or able to meet (e.g. volumes or length of repayment beyond the scope of commercial lender capacity and reasonable risks that the private sector is unable to cover), and 2) to provide competitive financing (largely determined by interest rates and repayment terms) so as to "level the playing field" for U.S. exporters in the face of ECA competition.

To support its core mission, Congress has also legislated that Ex-Im Bank condition its financing 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, OECD ECAs and emerging market (BIC[9]) 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 and 5 of the cost aspects and programmatic parameters governed by the OECD Arrangement. To that end, Chapter 7 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.

[9] The ECAs of Brazil, India and China. See Chapter 2 for details.

Chapter 2: Competitiveness Framework
Section C: Market Approaches to Official Export Financing

Introduction

Over the last decade or so, the operations of export credit agencies (ECAs) have been guided by two different philosophies. The first philosophy drives those ECAs that seek only to fill gaps where the private market is absent ("lender of last resort"). Therefore, these ECAs, including U.S. Ex-Im, operate in spaces where private market financing is generally unavailable (due to term, volume, and risk constraints) or where ECA competition exists. The second philosophy leads those ECAs operating as commercial, market-based entities. Such "commercial" ECAs are considered to operate under market-oriented principles, trying to complement the private market, but not reluctant to compete with it.

ECAs operating under either philosophy must ensure compliance with international trade rules while operating their export credit programs, and look to international trade regimes for guidance on how to administer such programs. The first, the World Trade Organization (WTO), including its Agreement on Subsidies and Countervailing Measures (ASCM) and the Dispute Settlement Body findings in specific export credit disputes, provides broad guidance on how export credits are treated under the ASCM, based on assessments as to how the financial parameters of export credit programs relate to the definition of export credits within the context of prohibited subsidies.

The second, the Organization for Economic Cooperation and Development's (OECD) Arrangement on Officially Supported Export Credits (OECD Arrangement) establishes "rules" on how official ECAs must structure their medium- and long-term programs to minimize subsidies and compete on a level playing field. While there are no prescribed penalties or enforcement mechanisms for deviating from the established financing terms stated in the OECD Arrangement (e.g. maximum tenors, minimum interest rates, and minimum risk premiums), the Arrangement has evolved from "soft law" into "hard law" and is treated as such by many of the Participants, most notably the European Union.

While the WTO ASCM and the Arrangement overlap in their focus on minimizing subsidies, including by government-supported ECAs, and are linked by the ASCM "carve out" language, it is important to highlight that these are separate agreements. Simply put, WTO rules set the boundaries within which ECAs must operate (e.g. long-run

break-even), and OECD Arrangement rules are a set of operating disciplines that ECAs can use in order to comply with WTO rules.[10]

ECAs can choose to operate either directly under the conceptual market-determined parameters of the WTO, or indirectly by following the technically precise rules of the Arrangement on a case-by-case or programmatic basis. Historically, OECD ECAs have operated their ECA programs broadly within the rules of the OECD Arrangement to ensure such compliance, and over the last decade have pursued stricter OECD financing disciplines to better account for the risks posed by borrowers and avoid a WTO suit. Through these amended disciplines, the Arrangement terms and conditions have moved closer to reflecting market-based philosophies.

However, over the years, domestic political, financing, and budgetary considerations have driven a few ECAs to take a more commercially-oriented approach to official export finance. These ECAs introduced programs or engaged other institutions in what have traditionally been referred to as "Market Window" activities. (The "Market Window" concept reflected the fact that the programs were a "window" off of the main ECA menu for which only a few cases qualified). Such programs were considered to be able to operate outside the bounds of the OECD Arrangement on Export Credits, either case-by-case or programmatically, because they involved no subsidy and/or were not tied to exports.

Market Windows protection under the WTO (as ruled in the 2000 panel decision) is based on the fact that the WTO rules do not regulate market practices, only subsidies. So long as the pricing of such transactions is established on what can be shown as a systematic approach to market-based pricing, these programs are deemed to reflect the commercial pricing practices of financial institutions and are consistent with WTO rules.

Although these programs operate on market principles, they are driven by "national interest" and can impart competitive implications. For example, although often provided at costs higher than the Arrangement, the terms and conditions offered under Market Window programs could be more flexible than permitted under the OECD Arrangement. Moreover, Market Windows may not require a 15% down payment, and can allow for local cost financing in excess of 30%.

[10] In short, WTO rules and Dispute Panel rulings state that export credits financed as direct loans which follow the interest rate provisions of the OECD Arrangement are not prohibited subsidies and fall within the "safe harbor" clause of the ASCM. Furthermore, to the extent an ECA can confidently argue that its financial terms provide no "benefit to the borrower" (compared to the terms available from private lenders), an ECA may be immune from a WTO suit whether its terms are within the OECD Arrangement parameters or not.

Ex-Im Bank's Policy and Practice

Ex-Im Bank's Charter allows Ex-Im to match market window financing terms and conditions inconsistent with the OECD Arrangement.[11] A fundamental principle driving the absence of a Market Window program is the long-standing U.S. Government policy and Congressional mandate to Ex-Im Bank to supplement, not compete with the private sector. Hence, all of Ex-Im Bank's medium- and long-term transactions comply with the terms and conditions of the OECD Arrangement. In 2002, Congress gave Ex-Im Bank the ability to match the terms and conditions offered by Market Windows. Ex-Im Bank has yet to use this matching authority.

G-7 ECAs' Policies and Practices

Originally, two G-7 countries provided explicit Market Window support: Canada through EDC and Germany through KfW IPEX-Bank, a KfW subsidiary[12]. However, since the onset of the global financial crisis, ECAs have been creating and modifying export credit programs to meet the specific needs of exporters. Over the past five years, OECD ECAs, particularly in the European Union and more specifically the Nordic ECAs, have established floating rate direct loan programs. While the OECD Arrangement specifically sets the guidelines for fixed interest rate lending, it does not address floating interest rate lending. Thus, while most of these new programs are not considered to be "Market Windows" by their governing authorities, the fact that these programs offer floating interest rate direct lending based on up-to-date market indicators certainly creates the appearance of a Market Window but by another name. Whether there is a distinction with or without merit, the fact remains that more ECAs seem to be adding market-based financing (Market Window or otherwise) to their repertoire.

Whereas five years ago Market Window or market-based export credit programs were considered to be shrinking in the context of traditional ECAs, it appears that a new breed of market-oriented ECAs may be emerging. These ECAs consider themselves to be governed by the OECD Arrangement, but incorporate specific market-oriented principles not contemplated by the Arrangement into their programs and institutions as a whole. As many of these market-oriented programs are new and just ramping up

---

[11] U.S. Ex-Im Charter, Section 15: The Bank may provide financing on terms and conditions that are inconsistent with those permitted under the OECD Export Credit Arrangement
(1) to match financing terms and conditions that are being offered by market windows on terms that are inconsistent with those permitted under the OECD Export Credit Arrangement, if--
(A) matching such terms and conditions advances the negotiations for multilateral disciplines and transparency within the OECD Export Credit Arrangement; or
(B) transparency verifies that the market window financing is being offered on terms that are more favorable than the terms and conditions that are available from private financial markets; and
(2) when the foreign government-supported institution refuses to provide sufficient transparency to permit the Bank to make a determination under paragraph (1).

[12] Previously KfW Bankengruppe

business, the following discusses the recent activities of the two historical G-7 Market Window institutions.

- **EDC**

The framework within which EDC operates is parametered not by the OECD Arrangement, but by the WTO (most particularly the 2000 WTO Dispute Panel's findings regarding the export credit cases including, and subsequent to, their WTO suit with Brazil over regional aircraft). Specifically, EDC uses this collective body of knowledge as its "polar star" to guide its policy and programmatic decisions. Hence, so long as EDC can demonstrate that it is not providing any greater "benefits to the borrower" than the borrower would get absent EDC support, then EDC believes that it is operating consistent with WTO rules and therefore able to provide any terms within that market context. Accordingly, EDC's adherence to market principles flows directly from this perspective in which it views itself as a market institution offering financing on terms equal to what the private market can offer in relation to interest rates, repayment terms, special conditions, and fees. The only time EDC reverts to the OECD Arrangement guidelines (outside of aircraft[13]) is if it cannot find sufficient market information and/or there is official ECA competition that would undercut their market pricing.

The other critical feature of EDC's operating philosophy is that it has used the function and flexibility connected to its "market" status and expanded its scope to a multi-dimensional agency that includes the role of trade facilitator via export credit financing and a trade creator/developer via other financing tools. While the role of trade developer has been in EDC's authorizing language, it was not until the last few years that EDC actually acted on it by establishing several programs. These programs allow EDC to pursue other forms of financing, such as "Pull" loans[14], that could yield benefits to Canada in the form of eventual exports from Canada over a medium-term time horizon, e.g., three to five years.

Thus, taken together, EDC has transformed itself from a traditional export credit agency providing financing on OECD terms for current or near term exports to an aggressive, proactive and multi-tasking national banking agency responsible for a variety of financing. This variety includes domestic, export credit, and foreign investment

[13] 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.

[14] "Pull" loans are loans extended by EDC to a foreign company typically in emerging markets with the understanding that over the midterm (three to five years or whatever the term of the loan extended is), that for every $1 of credit, there will be at least $1 worth of Canadian export contracts that result from the original credit by the time the loan is paid off.

financing so long as these activities and specific transactions/projects promise to yield clear economic benefits to Canada.

EDC's medium- and long-term export credit activity from 2007 to 2012 shows that with the onset of the financial crisis, EDC's official window activity increased. However, activity has slowly decreased over the past two years. EDC's Market Window activity stabilized in 2012 (see **Figure 7**).

Figure 7: EDC Medium- and Long-Term Activity, 2007-2012 (Billions USD)

	2007	2008	2009	2010	2011	2012
Total MLT Export Credits	$2.8	$4.6	$4.6	$5.4	$4.2	$4.0
Market Window	2.3	3.3	1.8	2.8	2.3	2.3
Official Window	0.5	1.3	2.5	2.6	1.9	1.7

Source: EDC

- **KfW IPEX-Bank**

The KfW "Market Window" program was originally developed in the 1970s and 1980s to supplement Germany's official export credit business that fell under the OECD Arrangement due to the fact that Germany did not have an Interest Make-Up program. Moreover, it was a small offshoot of the broad development objective by KfW as a whole. Hence, KfW developed their "Market Window" program to be independent from the official window, issuing financing on market terms and conditions.

However, in 2004, KfW Bankengruppe spun off its core export credit and project finance activity to IPEX-Bank, a newly-created, 100% KfW-owned subsidiary (which pays taxes and is subject to typical commercial considerations such as Basel III). The decision to separate its export and project finance activity from KfW's state-sponsored economic support activities was motivated by the European Commission's concern that KfW's state-supported export financing was unfairly competing with European commercial banks. 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.

Currently, KfW IPEX-Bank extends export credits on either Arrangement terms with official export credit insurance coverage by Euler Hermes (Germany) or other European ECAs, or on Market Window terms. The Market Window support is always provided in connection to European Union and German interests and priced on current market terms and conditions. If KfW IPEX-Bank considers a transaction a quality risk they are comfortable putting on their balance sheet, they will issue financing on market terms

without ECA cover. They will also use market terms to finance the 15% down payment uncovered by ECAs as required by the OECD Arrangement.

KfW IPEX-Bank's medium- and long-term export credit activity has increased steadily since 2009. Similarly to 2010 and 2011, KfW IPEX-Bank's Market Window activity remained stable. However, official window business decreased as compared to 2011. Nonetheless, the export credit transactions financed by KfW IPEX-Bank appear to more frequently require official ECA cover rather than KfW IPEX-Bank financing these transactions uncovered. **Figure 8** below provides a breakdown between the Market Window and official window support provided by KfW IPEX-Bank from 2007 to 2012.

Figure 8: KfW IPEX-Bank Medium- and Long-Term Activity, 2007-2012 (Billions USD)

	2007	2008	2009	2010	2011	2012
Total MLT Export Credits	$5.4	$5.9	$3.4	$4.0	$6.2	$7.6
Market Window	2.7	2.7	1.1	1.8	1.8	1.8
Official Window	2.7	3.2	2.3	2.2	4.4	3.9

Source: KfW IPEX-Bank

Summary Data

Combining the two estimates for EDC and KfW IPEX-Bank, yields a total of $4.1 billion in Market Window volume for 2012, with both Market Window players seeing no change in activity between 2011 and 2012 (see **Figure 9**).

Figure 9: Market Window Activity, 2007-2012 (Billions USD)

	2007	2008	2009	2010	2011	2012
EDC	2.3	3.3	1.8	2.8	2.3	2.3
KfW/IPEX-Bank	2.7	2.7	1.1	1.8	1.8	1.8
Total	$5.0	$6.0	$2.9	$4.6	$4.1	$4.1

Exporter and Lender Survey and Roundtable Results

In 2012, 27 exporters and lenders responded to the market window portion of the Ex-Im competitiveness survey, as compared to 11 respondents in 2011. In 2012, 14% of respondents stated they encountered competition benefitting from other ECA Market Window financing programs. EDC and KfW IPEX-Bank's programs were specifically referenced. One exporter noted that the terms offered under these market window programs in regards to interest rates or pricing is highly competitive with the terms of Ex-Im Bank's direct loan. However, the exporter specified that repayment terms, policy issues such as content, in addition to documentation requirements are less cumbersome than Ex-Im's programs.

Conclusion

Traditionally, the majority of OECD ECAs have confined their tied export credit programs to within the parameters of the OECD Arrangement due to the considerations mentioned above. However, it has become evident that there are instances in which the rules outlined in the Arrangement do not fit with the financing needs of buyers, who are increasingly willing to pay more for greater flexibility and maximum financing support, especially during times of tight liquidity. Where and when organizations operate entirely within mark-to-market principles, the Market Window moniker seems outdated and potentially misleading. Hence, while an ECA can have a Market Window program, an institution following commercial practices should probably be called a "Market ECA." As such programs are evolving into a "new breed," the competitive impact on U.S. exporters is as yet unknown. Nonetheless, this is clearly a practice and trend that must be closely monitored given the potential adverse effects on U.S. competitiveness. However, for 2012, Market Windows are viewed to have a neutral impact on Ex-Im's competitiveness.

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

Introduction

Cover Policy in the context of an ECA refers to an institution's willingness to assume the repayment risk for export sales to a specific buyer and country and applicable terms and conditions. Ex-Im Bank's sovereign cover policy decisions are governed by the results of an interagency country risk assessment. For non-sovereign transactions, these are guided by individual case characteristics and underwriting requirements.

Ex-Im Bank's Policies and Procedures

Ex-Im Bank provides coverage under all programs in 140 countries, including many that commercial rating agencies and others consider as very high risk markets. In an additional 49 countries, coverage is available under some programs. Ex-Im Bank is off-cover in 10 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[15].

For sovereign transactions, Ex-Im Bank does not have any internal exposure limits for countries, but instead relies on its cover policy (per the Interagency Country Risk Assessment System, or ICRAS) generally setting the degree to which the Bank can take risk with that country's government and on what repayment term basis. Hence, the Bank can be very competitive relative to ECAs that do impose country limits.

Non-sovereign risk-taking is defined as the willingness to accept risk without the full faith and credit backing of the host country. For non-sovereign transactions, Ex-Im does not automatically impose buyer or sector limits. Depending on the risk of obligor, various forms of risk mitigants such as security in the assets could be required. For example, in 2011, Ex-Im Bank adopted a standardized approach in its medium-term insurance and guarantee programs for underwriting and approving non-sovereign transactions. These changes were introduced because previous losses from fraud resulted in larger reserve requirements for all medium-term cases. As a result, medium-term transactions require additional forms of security on a more routine basis. This approach has been carried forward, and has since been described as uncompetitive with other ECAs that do not require as much security for comparable deals. In the Bank's long-term programs, many corporate and non-sovereign transactions are asset-protected which means that the assets of the project (including revenue from the

[15] Burma, Cuba, Iran, North Korea, Sudan, Syria

project) or the borrower are available as collateral to the Bank in the event of a default. Hence, risk appetite for long-term transactions appears to be less of a competitive issue for long-term transactions as opposed to medium-term deals.

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

In 2012, 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 $30 billion authorized in medium- and long-term export sales, roughly 70% was attributable to private sector risk.

From a risk distribution perspective, on a weighted average basis, Ex-Im's medium- and long-term approvals in 2012 were heavily dominated by low risk: on a scale of 1 -8 with 8 representing the riskiest buyers, Ex-Im's overall portfolio had a rating of a "3.2" which is considered a good risk and lower than the risk rating for 2011 of approximately 4. Ratings of 3 have a cover policy of "open" without any or very few restrictions.

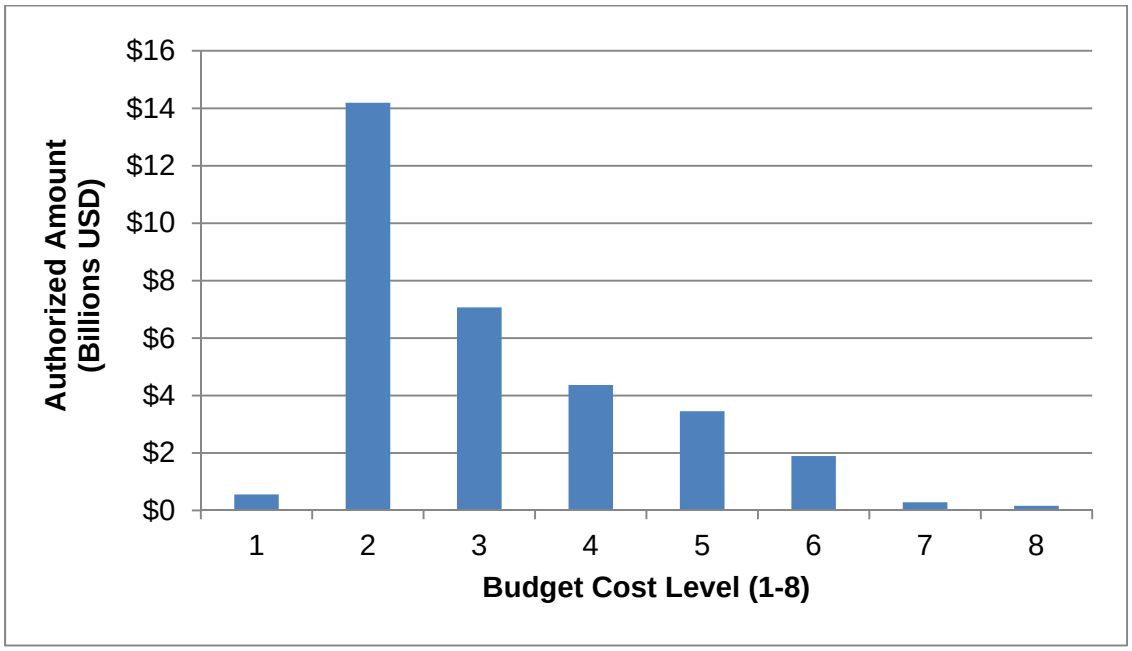
When all aircraft and project finance cases are excluded (approximately $20 billion), the 2012 risk is approximately 3.5, illustrating a riskier portfolio but one that is half the volume ($11 billion). When structured finance cases are excluded, leaving only the most standard medium- and long-term transactions, the volume drops considerably to $2 billion, but the overall risk of this smaller subset improves to 3.2 and is more comparable to the risk of the overall portfolio.

Interestingly, the risk rating of the medium-term only portfolio (comprised of 16 transactions valued at $326 million), jumps to a much riskier overall level of 5.5 (with more than 80% of the dollar value of the deals concentrated at an "8" risk rating). The majority of these cases were markets where other ECAs indicated a very restrictive cover policy. While Ex-Im's transactions were heavily secured and had mid-range triple digit basis point spreads, it would appear that the availability of cover was the most essential factor as opposed to the price of cover, including the spread, premium, and costs associated with security. Thus, in comparing perceptions of risk appetite and actual levels of risk taken, these findings are consistent with the lenders and exporters views who noted that for medium-term cases, Ex-Im was requiring additional security requirements, which in several cases, were believed to have been the cause for lost sales.

Thus, overall, the profile of Ex-Im's authorizations during 2012 was low risk (see **Figure 10**). The reason for this outcome is based on the fact that the portfolio as a whole was dominated by several very large project finance transactions in low risk markets, along with a number of aircraft cases with relatively modest degrees of risk. While the risk profile of the medium-term program was dramatically more aggressive

than the rest of the MLT portfolio, it had very little effect on the overall risk profile because the amounts authorized in 2012 were relatively small ($325 million).

Figure 10: Authorized Amount by Budget Cost Level All Ex-Im Transactions, Fiscal Year 2012



G-7 ECAs Policies and Practices

Ex-Im Bank routinely exchanges information with other ECAs in the OECD and Berne Union member 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 good risk markets, including two of the nine markets that Ex-Im Bank has identified as target markets, all of the reporting ECAs are open largely without restriction or added security and, where constraints were used (e.g., bank guarantees), the ECAs tended to share this common requirement. However, in Indonesia, one of the relatively low risk target markets, Ex-Im was more restrictive than other ECAs because of its routine security requirements, which other ECAs imposed less frequently.

As one moves up the scale to more risky markets, differences in cover policy and risk management strategies became more distinct. 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 indicate that Ex-Im's cover policies were comparable to the other ECAs in 52%

of the markets; less restrictive in 20% of the markets, and more restrictive in 28% of the markets. 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 require a sovereign guarantee, or require foreign currency earning projects. The converse is also true, but in fewer markets where Ex-Im is off-cover only the in long-term, whereas other ECAs are off-cover completely (see **Figure 14**).

Interestingly, Ex-Im appears to be the only ECA that distinguishes cover policy on the basis of tenor, while other ECAs draw differences in their cover policy on the basis of public versus private sector obligors. In the mid-range and good risk markets, the ECAs are all fairly comparable with few key differences.

Exporter and Lender Survey and Roundtable Results

In its customer survey, Ex-Im Bank was rated relative to other ECAs in two dimensions. First, Ex-Im was evaluated on its cover policy based upon the Bank's willingness to take risk, including the availability of cover by market and the use (or non-use) of country exposure limits. Willingness to take risk was also measured by the security/collateral requirements, the use of additional risk mitigants, and the percentage of cover. The second area respondents rated and compared was Ex-Im's risk taking posture with regard to sovereign, non-sovereign public and corporate risks with the approaches of other ECAs. The sections that follow correspond to these areas.

Figure 11: Overall Cover Policy and Risk Taking

Program/ Grade	Long Term: Air	Long Term: Project Finance	Long Term: Other	Medium Term: Air	Medium Term: Non-Air
Far Below	0%	0%	8%	0	3%
A Notch Below	5%	5%	27%	9%	**32%**
Equal to Average	20%	**43%**	19%	**18%**	10%
Equal to most competitive	**60%**	24%	**35%**	9%	19%
Don't know	15%	28%	12%	64%	35%
Total	100	100	100	100	100

As illustrated in **Figure 11,** the rating of the respondents varied depending on the program being reviewed. For example, for project finance and medium- and long-term aircraft, Ex-Im was either equal to the average or equal to the most competitive. However, regarding the "long-term other" category, the respondents showed a fairly wide range across competitive ratings: 27% notch below, 19% equal to the average, and a slightly higher portion (35%) viewing Ex-Im's long-term programs as equal to the most competitive. For medium-term "other-than aircraft," Ex-Im fared less favorably with

ratings dominated by a notch below other ECAs and were considered to be worse than other ECAs. The reason for the less favorable rating for the medium-term programs was related to a strongly held view that the Bank was more risk averse than other ECAs. However, the availability of Ex-Im to cover markets and the use (or non-use) of country limits were viewed more positively and considered to be equal to the other ECAs. Lenders and exporters were consistent in their views regarding medium-term programs.

In the long-term area, while respondents viewed Ex-Im as either equal to the average or equal to the most competitive, distinctions were drawn across sovereign, non-sovereign public buyers, and corporate buyers. Ex-Im's competitiveness on corporate risk was considered to be somewhat less competitive.

As illustrated in **Figure 12** below, the various aspects of MLT non-air/non-project finance risk taking, security requirements, use of additional risk mitigants, and percentage cover, percentage cover was clearly viewed as more competitive than other ECAs. For the other two factors – security and use of risk mitigants – both lenders and exporters believed Ex-Im was more risk averse and less competitive than other ECAs by a fairly large margin for the medium-term programs.

Figure 12: Risk Management: Ex-Im Comparison with ECAs

Program/ Factor	Long Term: Air (%)				Long Term: Project Finance				Long Term: Other				Medium Term: Air				Medium Term: Non-Air				TOTAL			
	W	S	B	?	W	S	B	?	W	S	B	?	W	S	B	?	W	S	B	?	W	S	B	?
Security	1	16	0	3	3	10	1	7	13	7	2	4	1	4	0	6	13	6	0	12	31	43	3	32
Additional Risk Mitigants	3	12	2	3	2	8	2	9	8	12	2	4	1	3	1	6	12	7	0	12	26	42	7	34
% Cover	4	12	1	3	4	3	6	8	2	4	15	5	1	3	0	7	2	3	14	12	13	25	36	35
TOTAL	8	40	3	9	9	21	9	24	23	23	19	13	3	10	1	19	27	16	14	36	70	110	46	101

Key: W = Worse; **S** = Same; **B** = Better; ? = Don't Know

The comments received on Ex-Im's cover policy and risk taking approaches were most pronounced on the low tolerance for risk in the medium-term program and the additional risk mitigation requirements and related costs that have been imposed on a routine basis. A number of respondents noted that the tightening of the medium-term program (e.g., collateral requirements) due to a significant amount of losses Ex-Im incurred from fraud reduced the number of transactions they brought to Ex-Im in 2012, some of which were lost to competitors with support from their ECAs. Other ECAs such as EDC, EKN, ONDD, the Japanese ECAs, and Euler Hermes were cited as more competitive than Ex-Im in this survey.

Overall, the "long-term other" survey participants split 50%/50% between Ex-Im being worse than or the same as other ECAs. Specifically, percentage cover offered by Ex-Im was clearly a positive attribute of the long-term other while security and risk mitigants detracted from a more favorable assessment. It is important to note that Ex-Im is one of

the few ECAs that offers 85% cover with no exposure limits, but instead uses various forms of security and risk mitigants to manage the transactional risks. On a very limited case-by-case basis, Ex-Im has taken less than the standard 85% (e.g., 75%) in exchange for fewer mitigants, but this practice has been rarely used.

The European ECAs in particular take an opposite approach in which their risk management tools come in the routine form of lower cover, exposure caps and higher fees (at times). For example, one of our ECA counterparts might provide only cover 70% of the contract value (vs. 85% for Ex-Im) but not require a lien on the underlying assets (but Ex-Im would require a lien or other forms of security). It is certainly possible that the differences between ECAs can be seen through their value trade-offs such as between forms of security versus percentage of cover, and that the net effect might be negligible either way when viewed from a competitiveness perspective.

Finally, the results from the Deterred/Denied sections of the survey identified risk-taking requirements for risk mitigation and related costs (See Appendix D – Short Term and Denied/Deterred Results) as being a key factor in cases being deterred or denied altogether).

The Exporter and Lender roundtable discussions yielded a common theme regarding Ex-Im's long-term and medium-term programs and their willingness to accept risk. In the long-term area, both groups noted that in a limited set of circumstances, Ex-Im required more "comfort" than the other ECAs; however, more generally, they believed that Ex-Im was relatively competitive for long-term transactions. In the medium-term area, the common view was that Ex-Im's approach to underwriting was more restrictive, risk-averse, costly, and less competitive.

Specifically, both groups agreed that Ex-Im's routine requirement for added security in the form of liens, guarantees, pledges, etc., has dramatically dampened interest in using this program. **Figure 13** below illustrates the declining trend in medium-term authorizations beginning in 2009, reflecting the imposition of more restrictive underwriting requirements put in place in 2008. While 2010 showed an anomaly with a significant increase in authorizations, this was due largely to the global financial credit crisis and its particularly viral effects in Europe and on the commercial banking industry. Since 2010, the previous downward trend in medium-term activity returned and has shown a steady decline since then.

Figure 13: Medium-Term Program Authorizations FY 2008-2012 (Millions USD)

Program	2008	2009	2010	2011	2012
Medium-Term Guarantees*	697	315	703	324/205**	193/152**
Medium-Term Insurance	228	237	313	256	166
Medium-Term Loans	0	0	5	8	8
TOTAL	925	552	1,021	588/469**	367/326**

*All MT guarantee data include Credit Guarantee Facilities: $119 million CGFs in 2011; $41 million in 2012. In 2012, MT guarantee vs. CGFs data began being reported separately.
** MT data excluding CGFs

Moreover, these requirements are often unenforceable or extremely difficult to obtain. Other ECAs however, use other, less visible approaches that do not jeopardize the competitiveness of their offer (e.g., risk sharing with other ECAs or private insurers). One lender noted that an application to Ex-Im for an export transaction was lost to a European competitor because of the Ex-Im security requirements coupled with the delay in trying to obtain them. Lenders noted that borrowers would rather pay more for Ex-Im cover than be required to secure collateral.

Conclusion

Unlike some other ECAs, Ex-Im Bank does not have country exposure limits or explicit buyer limits, which allows the Bank to support as many U.S. jobs as possible. Moreover, the U.S. exporting community perceives the absence of these limits and Ex-Im's percentage of cover as competitive advantages.

For long-term transactions, including project finance, aircraft, and corporate finance, Ex-Im cover policy and risk taking is considered to be either equal to the average or equal to the most competitive. However, for medium-term transactions, Ex-Im Bank's willingness to take risk and the requirements for security and risk mitigants are clearly perceived to be significantly less competitive than our ECA counterparts. On balance, if one viewed Ex-Im's overall cover policy and risk taking on a dollar volume weighted average basis, then Ex-Im Bank would be rated as equal to the average: an "A-/B+". When viewed on a simple average basis, however, Ex-Im's grade would be taken down at least one notch to less competitive, a "B," because of the low grades given for the Bank's approach to risk in its medium-term programs, a factor that has affected the volume of transactions approved in this program over the past year.

Figure 14: Cover Policy for 25 Selected Higher Risk Markets
(as of December 31, 2012)

Country	Ex-Im BCL Sov/ NonSov	Ex-Im More Restrictive	Same	Ex-Im Less Restrictive	Ex-Im Cover Policy	Other ECAs' Cover Policies More restrictive	Less restrictive
Albania	6/6		✓		Open; SG[16] & CBG		
Argentina	9/8		✓		Off cover LT		
Belarus	9/9	✓			Off cover all debtors	5 ECAs off cover	5 no fixed policy 11 open: ILC/CBG/SVG max. tenor 5 years
Bolivia	8/8	✓			Off-cover LT; SG & CBG	1 ECA limited to 3 years	FX earning; CBG may be req'd.; restrictively open on all debtors; risk participation
Burundi	9/9		✓		Off-cover		
Cote D'Ivoire	9/8			✓	Off-cover – sovereign; off cover LT all other debtors	7 off cover – all debtors; 2 closed public for all tenors	4 open on limited basis – ILC, SG
Ecuador	8/9	✓			Off-cover LT for sovereign; off cover for all other debtors	4 off cover **S-NS**	9 open S-NS restricted, small $; max.tenor 3 yrs., exposure limit (~$200 million)
Ethiopia	8/8		✓		Off-cover LT for all debtors; SG & CBG for all other		
Gambia	9/8			✓	Off-cover sovereign; off cover LT for all other debtors	2 off cover **S;** 4 off cover for all buyer types	7 open with restrictions: SG, max. tenor 3 yrs., smaller $ deals, FX earning
Ghana	7/7			✓	Open w/restrictions (SG & CBG)	1 off cover	10 open w/out restrictions; 10 open w/restrictions incl. Sustainable Lending
Indonesia*	4/5	✓			Open w/restrictions: SG & CBG	6 open on restricted basis (ILC,CBG, SG)	13 open w/out restrictions
Kyrgyzstan	8/8		✓		Off-cover LT for all; all other SG & CBG		

[16] SG = Sovereign Guarantee; CBG = Commercial Bank Guarantee**;** ILC = irrevocable letter of credit; S = sovereign; NS = non sovereign

Figure 14 (Continued): Cover Policy for 25 Selected Higher Risk Markets
(as of December 31, 2012)

Country	Ex-Im BCL Sov/ NonSov	Ex-Im More Restrictive	Same	Ex-Im Less Restrictive	Ex-Im Cover Policy	Other ECAs Cover Policies	
Libya	10/9		✓		Off-cover	10 off cover; 6 open w/restrictions	3 open w/out restrictions
Mauritania	9/9	✓			Closed – all debtors	10 open w/variety of restrictions (FX, transaction limits, Sustainable lending)	5 open w/out restrictions
Moldova	8/8	✓			Off-cover long term all debtors; SG & CBG	10 open w/restrictions	5 open w/out restrictions;
Mongolia	6/7		✓		Open; CBG		
Nicaragua	8/8		✓		Off-cover LT; SG & CBG		
Pakistan	8/8 *(7/8 as of 01/13)*		✓		In 2012: open SG		
Seychelles	9/9 *(8/8 as of 3/13)*	✓			Closed for all debtors	5 open w/restrictions	4 open w/out restrictions
Sri Lanka	7/7			✓	Open for all debtors w/out restrictions	8 open w/out restrictions	10 open w/restrictions
Togo	8/8			✓	Off-cover for all long term	5 off cover; 8 open	7 open w/restrictions; 1 open ST only
Ukraine	7/8		✓		Open S w/SG; All other: closed LT - CBG		
Uzbekistan	6/8		✓		Open S – SG; all other closed LT - CBG		
Zambia	8/8		✓		Off-cover LT all debtors		
Viet Nam*	5/7		✓		Open – SG & CBG		
TOTAL		**7**	**13**	**5**			

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

Introduction

One of the first international agreements reached by the Participants to the Arrangement on Officially Supported Export Credits was to establish minimum official interest rates. This prioritization reflected the fact that – absent international standards – governments would provide subsidized financing packages to entice buyers to make purchase decisions based on financing being offered rather than the quality or price of the goods being procured. As a result, the OECD Participants spent many years addressing and refining the minimum official interest rates that OECD ECAs may charge on direct loans and through interest makeup schemes, rendering a level playing field with respect to interest rates for some four decades.

However, the onset of the global financial crisis in 2008 and the subsequent weakening of the European financial markets led to a significant differentiation in the cost of financing among OECD ECAs and rekindled major competitive considerations. In fact, the depth and breadth of interest cost differentials among North American, Asian, and European ECAs may have been greater in 2012 than at any time in the past 30 years, making this factor one of the most significant competitive elements of 2012.

The liquidity crisis and underlying factors impacting the commercial banking community's ability to fund officially supported export credit transactions is discussed in Chapter 2. This chapter will discuss how the combination of the global financial crisis, European sovereign debt crisis, and Basel III created differences in the borrowing costs of various ECAs that have impacted their relative competitiveness.

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[17];
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 an ECA guarantees that a lender's cost of funds plus a mark-up will be covered no matter what the CIRR rate is); and

[17] 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.

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 general, higher cost of funds and capacity constraints among many (but not all) commercial banks continued to push long-term non-aircraft business, namely project and structured finance, to ECAs capable of offering direct loans in 2012. This realignment of export finance to a structure in which buyers strongly prefer an official direct loan created challenges for ECAs that only could offer pure cover (bank guarantees) because commercial banks were unable and/or unwilling to fund long-term ECA covered debt. Hence, 2012 saw a spike in existing and new funding mechanisms created by ECAs to ensure there was enough liquidity in the market for their exporters to compete globally. These new funding programs are of particular interest from a competitive standpoint because they not only issue CIRR-based financing, but many also offer floating rate funding options as well. Furthermore, IMU programs continued to be less competitive than ECA direct loan programs because of the surcharges many commercial banks added on top of CIRR to (at a minimum) cover their cost of funds.

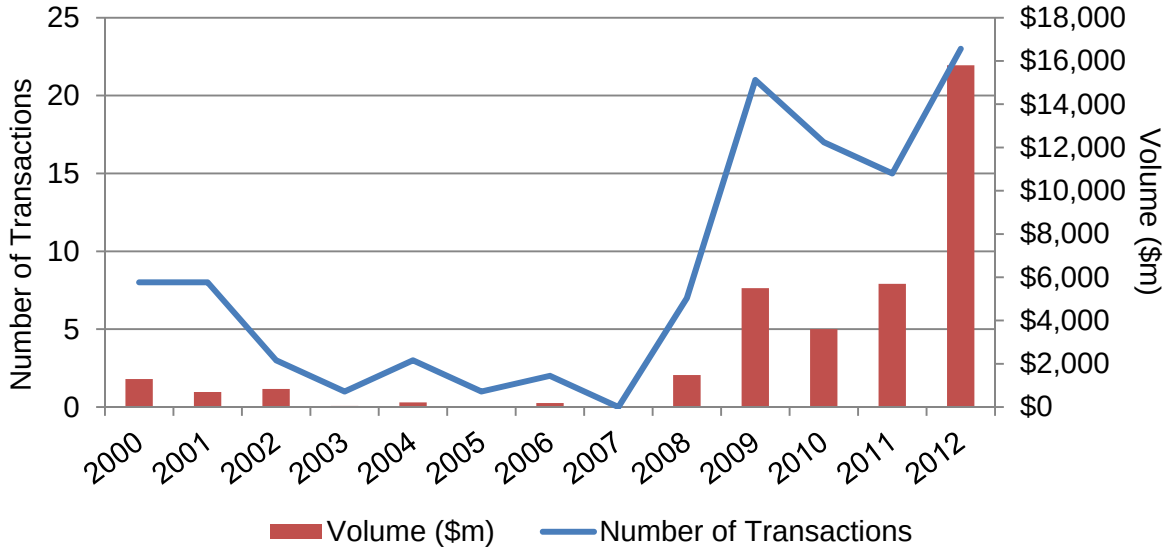
Lastly, an added layer to the stew that is OECD interest rate competitiveness is the impact sovereign risk continues to have on pricing and the ability for some OECD exporters to compete on a level playing field with other high-income OECD countries.

Ex-Im Bank's Policy and Practice

Ex-Im Bank's fixed-rate direct loan program was established in 1934. The OECD Arrangement and its rules on minimum interest rates govern Ex-Im's fixed interest rates. In 2012, Ex-Im's direct loan activity dramatically increased to the highest it has ever been in the history of Ex-Im Bank with authorizations for 24 transactions worth $15.8 billion. (See **Figure 15**.)

Nevertheless, Ex-Im's guarantee program was the most widely used of the Bank's medium- and long-term programs in terms of number of transactions with 138 authorizations for approximately $16 billion, comprised of 81 long-term guarantees worth $15.8 billion and 57 medium-term guarantees worth $200 million. Large aircraft cases accounted for 67% of the volume of long-term guarantees approved in 2012.

Figure 15: Number and Volume of Long-Term Direct Loan Transactions, 2000-2012



An important highlight of 2012 is that in terms of volume, Ex-Im's direct loan program achieved levels almost on par with the guaranteed loan program. However, the type of transaction (aircraft versus non-aircraft, medium-term versus long-term) determined the program used. Thus, long-term non-aircraft transactions predominately used CIRR-based direct loan financing, and all aircraft deals used Ex-Im's guaranteed loan programs, with many airline borrowers using the guarantee to move the transaction into the capital markets.

Airline borrowers took $ 5.3 billion of Ex-Im guarantees to the capital markets in 2012, and one non-airline borrower used the capital markets to fund a guarantee for $1.2 billion. This dichotomy reflects both vastly different structures/security and very different CIRR regimes. It is difficult for capital markets pricing to beat the non-aircraft CIRR and difficult for the aircraft CIRR to beat capital market pricing.

Guarantees and insurance are the preferred financing mechanisms for medium-term transactions and carry spreads well above long-term transactions. This is primarily due to the fact the per transaction overhead at the middle market commercial banks that do medium-term business is higher when compared to long-term transactions done by major commercial banks.

The general trends of spreads for Ex-Im deals during 2012 (see **Figure 16**) reflect the wide difference in the dynamics of the three separate systems. For long-term aircraft deals, the increasing efficiency of capital markets has forced all aircraft lenders to match the capital markets pricing with a result in spreads below 50 basis points (bps). Long-term non-aircraft transactions continue to be dominated by high quality project finance

deals, so spreads have remained basically stable at the 75-100 bps range. Medium-term spreads have remained stable at the 300 bps plus range.

Figure 16: Weighted Average of Ex-Im Bank Spreads, First and Fourth Quarter of Calendar Year 2012 (bps)

	Long-Term Aircraft	Long-Term Non-Aircraft	Medium-Term
First Quarter	88	75	342
Fourth Quarter	44	88	317

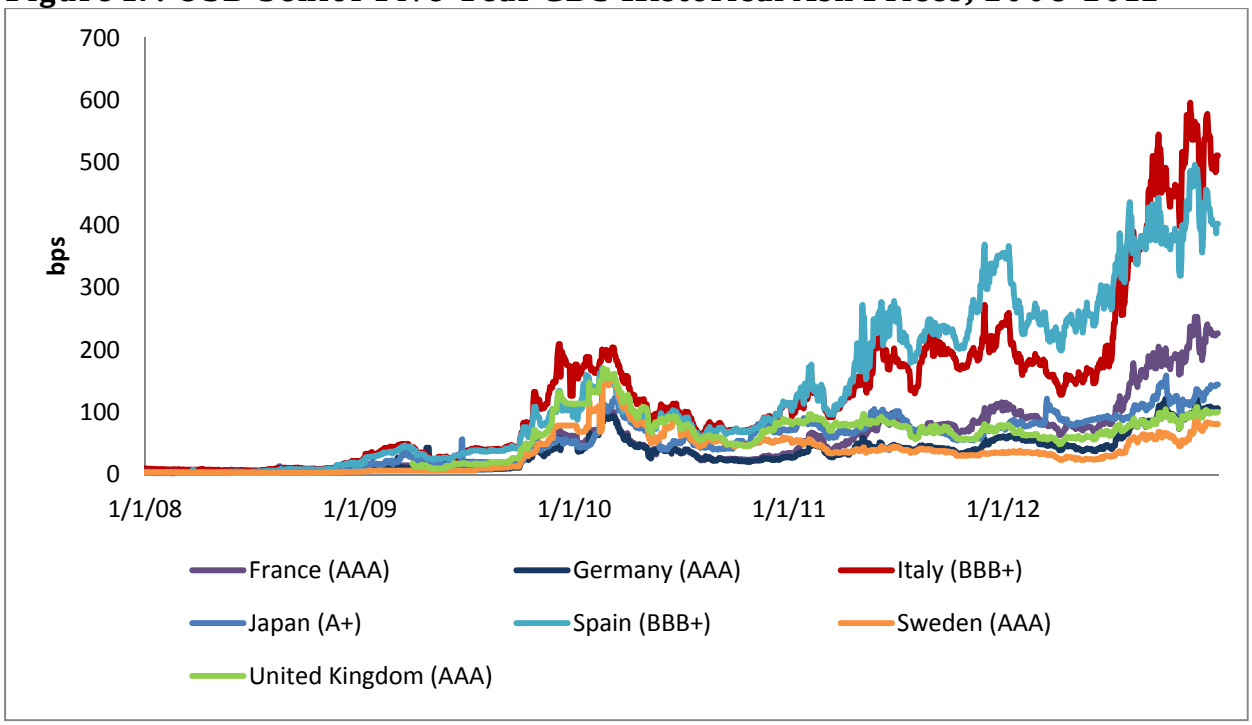
G-7 ECAs' Policies and Practices

In 2012, all of the G-7 ECAs, except the United Kingdom[18], offered fixed-rate financing at general CIRR levels for medium- and long-term transactions. Japan and Canada offer the majority of their export credit support via direct loans. Germany has limited capacity in which to offer direct loans (for transactions under approximately $100 million, and the loans can only be issued in least developed countries). France and Italy offer CIRR lending through IMU support. Furthermore, many other OECD ECAs, namely Denmark, Finland, Norway and Sweden, offer fixed-rate CIRR financing, but given their book of business, much of this is for the financing of ships. However, out of the ECAs that issue some type of CIRR-based financing, only a few ECAs regularly offer CIRR with no additional surcharge, namely U.S. Ex-Im, JBIC (Japan), KEXIM (Korea, for ship financing) and EFIC (Australia), making these direct loan programs the most competitive among the OECD ECAs.

The most important factor influencing competitiveness that emerged in 2011 and continued into 2012 relates to interest rates. The impact of the European sovereign debt crisis on long-term export finance has been unequivocal, particularly for European ECAs. Commercial banks have repeatedly indicated that spreads on pure cover transactions are now primarily driven by the underlying sovereign risk of the ECA involved as many sovereign credit ratings were downgraded over the past two years to levels that are below the ratings of some foreign borrowers. Credit default swap (CDS) data show how the perceived risk of different countries impacts pricing in the market (see **Figure 17**). These spreads provide a clear indication of how much interest rates for export finance transactions carrying certain European ECA cover differ from those covered by European ECAs with lower perceived sovereign risk, despite the fact that EU ECA-backed assets have performed well, irrespective of the country providing the cover. This new trend of pricing differentiation among OECD ECAs has made those markets with higher levels of sovereign risk quite uncompetitive as compared to direct lenders and those pure cover ECAs with more favorable sovereign credit ratings.

[18] In 2012, UK Export Finance announced the creation of a direct loan program that would become operational in 2013 (see Annex E for details).

Figure 17: USD Senior Five-Year CDS Historical Ask Prices, 2008-2012



IMU programs experienced continued competitive pressures in 2012. The increased spreads charged by commercial banks since 2008 exceed the margins negotiated between governments and commercial banks for CIRR, hence the commercial banks have to surcharge their IMU CIRR lending. Moreover, the commercial bank spreads have to incorporate any sovereign surcharges. Accordingly, the three main IMU ECAs – Coface (France), SACE (Italy), and CESCE (Spain) – have the highest interest rate charges for direct lending. See **Figure 17** above for details.

As these banking problems continued to strain the ability of commercial banks to originate export finance transactions, let alone be done at competitive rates, in 2012 ECAs responded with many new funding programs and institutions, as well as refinancing programs to provide cost relief for export finance. Such structures indicate the efforts ECAs are making to ensure their exporters can compete globally. It is not yet clear what the competitive implications of these new programs are on ECA competitiveness as most only became fully operational in 2012.

Exporter and Lender Survey and Roundtable Results

As compared to 2011, 2012 saw a significant increase in the number of responses to the survey as it relates to Ex-Im interest rates, with 37 answering survey interest rate questions in 2012 and 17 in 2011. Both exporters and lenders greatly appreciate the added capacity Ex-Im's direct loans provide for project and structured finance transactions. In fact, 35% of respondents considered Ex-Im's CIRR-flat financing to be

far superior to other OECD ECAs. Moreover, as compared to other ECA programs, respondents generally considered the floating rates charged on Ex-Im long-term pure cover transactions to be lower than its ECA counterparts.

Conclusion

Ex-Im overwhelmingly maintained its competitive position among the OECD ECAs in 2012. Spreads on long-term guaranteed loans remained lower than Ex-Im's ECA counterparts during 2012 (and spreads for aircraft fell). Much of this trend was due to the ability of aircraft transactions to access the capital markets. CIRR funding remained highly competitive vis-à-vis other ECAs, with Ex-Im's direct loan program reaching an all-time high in 2012. Whereas in 2011, Ex-Im was largely the only ECA that had a wide variety of tools to help maintain lower, stable interest rates, 2012 saw the introduction of many new or enhanced funding programs. Until Ex-Im can see how these new programs operate and what costs they achieve, Ex-Im will maintain its competitive edge over all OECD ECAs. For 2012, Ex-Im Bank's interest rates retained their absolute competitiveness in 2012, maintaining a grade of "A+."

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

Introduction

ECAs charge risk premia, also known as exposure fees, to cover for the risk of non-payment for a transaction. The Participants to the OECD Arrangement on Officially Supported Export Credits have long negotiated on an agreement to level the playing field in terms of the rates ECAs charge for the risk of covering a transaction. After years of negotiations, in 2011, the Participants achieved the goal of a comprehensive premia agreement that covered all types of buyer risks (e.g., sovereign and non-sovereign).

International Negotiations on Premia

The OECD Participants negotiated the Knaepen Package in 1999. The agreement established sovereign risk fees by setting Minimum Premium Rates (MPRs) for sovereign buyers. As ECA business shifted away from sovereign and towards non-sovereign buyers relatively soon after the implementation of the Knaepen Package, the OECD Participants embarked on and finally created a buyer risk classification and pricing system that formed the basis for a new comprehensive fee structure, referred to as the Malzkuhn-Drysdale Package in February 2010. The new fee agreement was implemented by all OECD ECAs by September 1, 2011.

Under the Malzkuhn-Drysdale Package, OECD ECAs now operate within a structured framework for pricing buyers receiving export credit financing under the OECD Arrangement. The new fee system provides guidance on risk classification as well as has established MPRs for non-sovereign buyers. The Malzkuhn-Drysdale package also updated the MPRs for sovereign buyers and established pricing protocols for transactions in High Income OECD and High Income Euro-Area countries (formally known as Category 0 markets).

Under the new system, buyers are classified into one of seven categories of risk: better than sovereign (SOV+), sovereign or equal to sovereign (SOV or CC0) and five buyer risk categories riskier than the sovereign classification (CC1 to CC5). As buyer risk increases, the risk premium an ECA must charge also increases. Individual ECAs are able to classify buyers through their own internal risk classification systems, but the end result is that all OECD ECAs will charge the same risk premium for buyers rated at the same level in the same market.

One of the major provisions of the Malzkuhn-Drysdale Package is that it allows risk rating and pricing flexibility in exchange for transparency to ensure a level playing field.

This means that ECAs are allowed certain flexibilities when it comes to the risk classification or pricing of buyers as long as the ECA can report the rationale for its classification and/or pricing to other ECAs on an ex-ante (prior to authorization) basis (e.g. support for a transaction in High Income OECD or High Income Euro Area countries).[19]

Since the introduction of the Malzkuhn-Drysdale Package nearly two years ago, there have been approximately 260 notifications of such flexibilities by OECD members that relate to the premium agreement. While Ex-Im does not have the total number of medium- and long-term transactions authorized by OECD ECAs since the agreement went into effect to benchmark this figure against, the large number of notifications highlight the fact that many ECAs are either using the flexibilities allowed under the agreement (e.g. rating a buyer better than its credit rating) or are authorizing transactions that meet certain thresholds (e.g. approving transactions in High Income OECD or High Income Euro-Area countries with credit values over USD 15 million). Such notifications provide key insight into how other ECAs risk rate buyers and the implications of such ratings on competitiveness. Of particular interest to Ex-Im is how OECD ECAs price transactions in High Income OECD and High Income Euro-Area countries. This market segment was set up with few rules and maximum flexibility because it had historically seen little activity. However, in 2012, OECD ECA activity in High Income markets increased dramatically with the financial crisis, and differences in pricing have been significant in size and number.

Ex-Im Bank's Policy and Practice

Ex-Im Bank charges the MPR for sovereign and non-sovereign buyers as dictated by the OECD rules. Per the OECD mandate, Ex-Im Bank comprehensively overhauled its medium- and long-term fee system on September 1, 2011.[20] Since then, Ex-Im Bank has

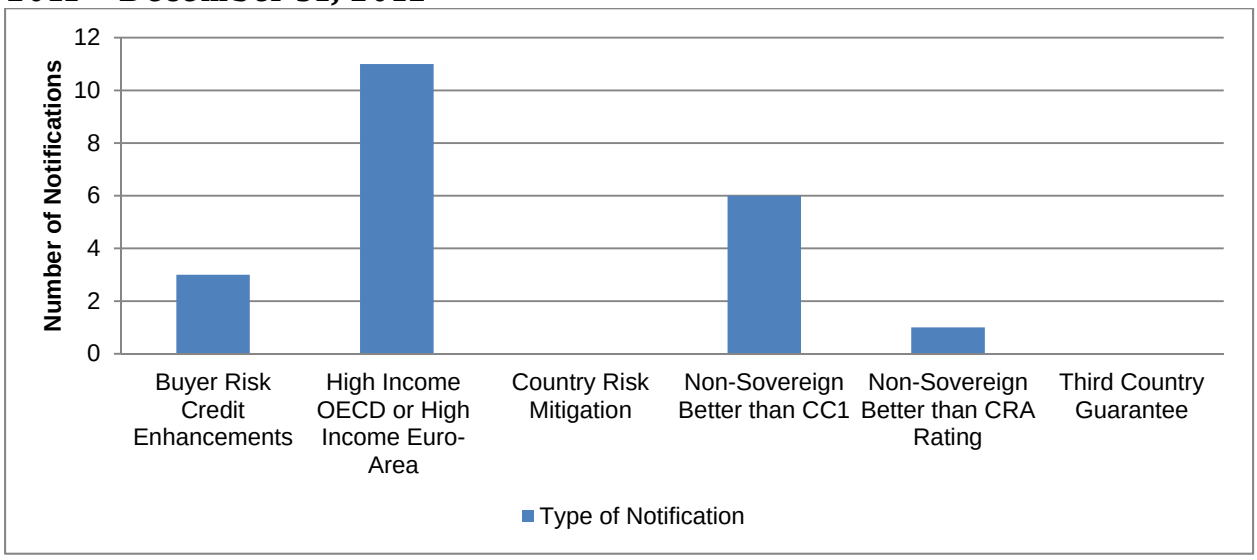
[19] Under the premium agreement, ECAs must prior notify to the OECD if a transaction meets any of the following criteria:

1) Involves an obligor/guarantor in a High Income OECD or High Income Euro Area country having a credit value of greater than USD 15 million;
2) Applies MPR associated with a third party guarantor located in a country other than that of the obligor;
3) Applies MPR associated with a multilateral or regional institution acting as a guarantor;
4) Involves non-sovereign obligor/guarantor where the premium rate charged is below that set by Buyer Risk Category CC1 (i.e. CC0 or SOV+);
5) Support of a transaction involving a non-sovereign obligor/guarantor where the buyer risk rating is assessed as being better than the Accredited Credit Rating Agency (CRA) rating and having a credit value of greater than USD 10 million;
6) Application of an MPR reflecting the use of country risk mitigation (i.e. offshore escrow account or local currency financing); or
7) Application of an MPR reflecting the use of buyer risk credit enhancements (i.e. asset security, assignment of contract proceeds).

[20] In 2010, as the implementation 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-

notified 21 transactions that met the OECD ex-ante notification requirements (see **Figure 18** for details). In general, Ex-Im tends to take a less conservative approach to rating buyers and prices buyers at the respective minimum premium and no more, but has not "taken advantage" of many of the OECD risk rating and pricing flexibilities. Hence, from a competitiveness standpoint, Ex-Im is quite competitive vis-à-vis its OECD peers.

Figure 18: Ex-Im Bank Premia-Related OECD Notifications, September 1, 2011 – December 31, 2012



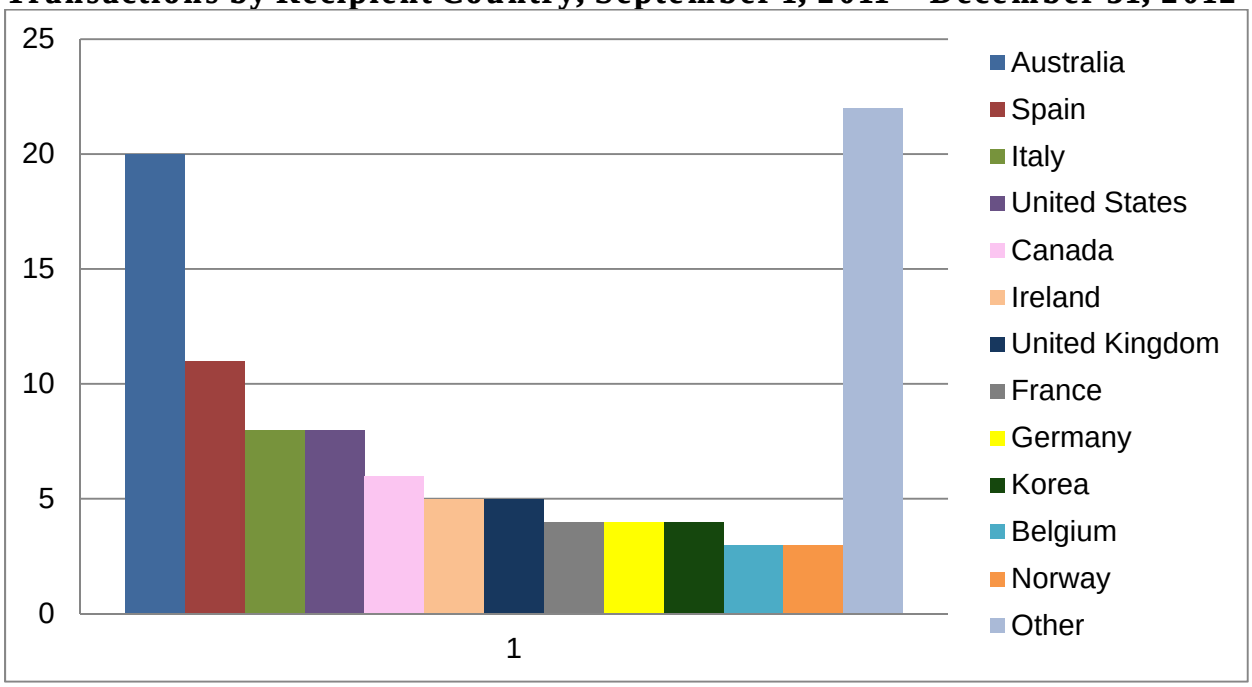
From Ex-Im's perspective, the most fundamental challenge of operating under the new structure in 2012 was applying the pricing rules for High Income OECD and High Income Euro Area countries. The current rules for pricing High Income OECD and High Income Euro Area countries state that an ECA should not undercut private market pricing when setting premia in such markets. To meet this test, there are seven different market benchmarks ECAs can use for pricing. The benchmarks range from name-specific market indicators (e.g. bonds and credit default swaps) to more general long-run average market data (e.g. fair market yield curves). The span of rates generated by the different benchmarks can be as far apart as 200-300%. The outcome of operating in a structure with such a wide-range of market benchmarks and associated rates means that there is limited convergence on pricing in High Income OECD and High Income Euro-Area countries.

This issue is of increased importance for Ex-Im Bank as business in these high-income markets has increased over the past few years. Given the liquidity constraints for export finance transactions, buyers who were able to readily access market financing in the past

CC5) is much higher than Ex-Im's internal pricing system. 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.

are now turning to ECAs for support. Australia and Spain have been the largest recipients of OECD ECA support in these High Income markets (see **Figure 19**).

Figure 19: High Income OECD and High Income Euro-Area Country OECD Transactions by Recipient Country, September 1, 2011 – December 31, 2012

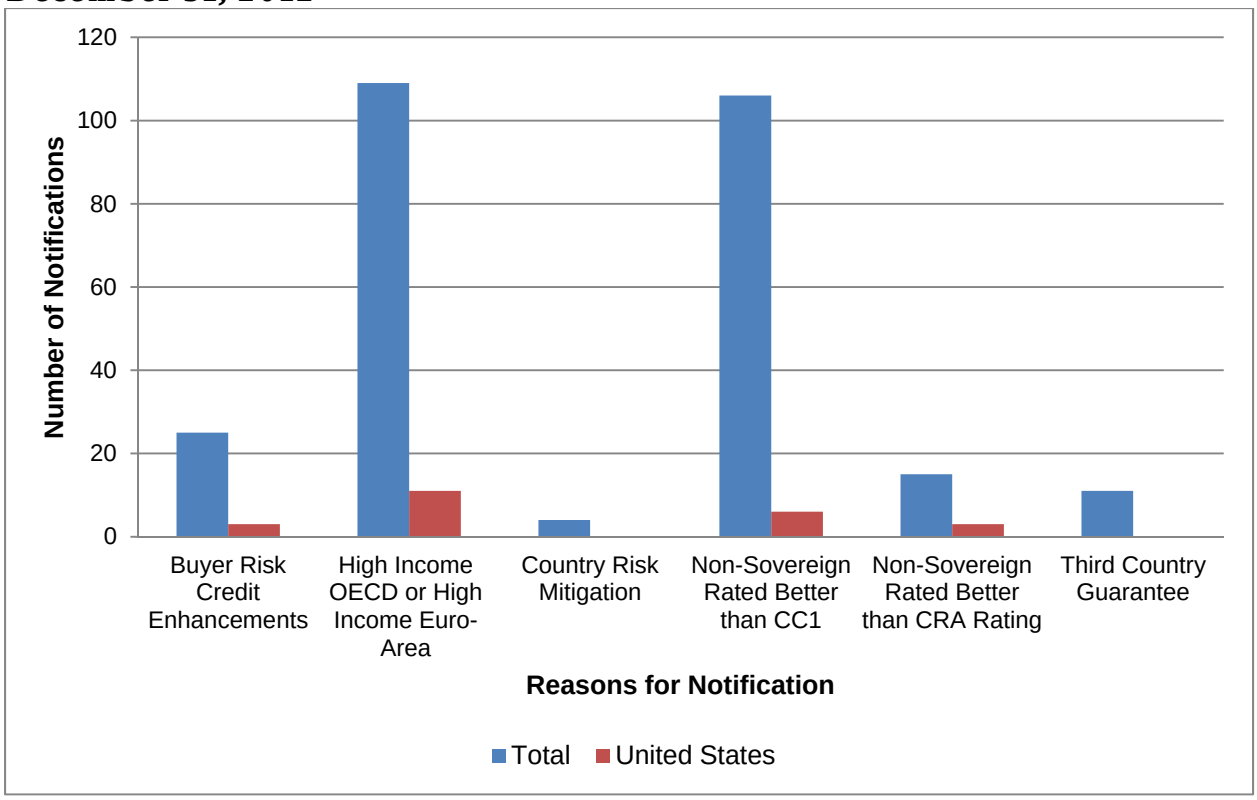


In 2011, Ex-Im authorized 16 transactions in High Income OECD and High Income Euro-Area markets worth a total of *$600 million*. By comparison, in 2012, Ex-Im authorized 11 transactions in these same markets worth a total of *$6.2 billion*. Hence, while the number of transactions authorized in these markets decreased in 2012, the authorized amount skyrocketed as large projects increasingly looked to ECAs as a liquidity source (see Chapter 3B).

G-7 ECAs' Policies and Practices

Currently the only way to compare ECA activity under the Malzkuhn-Drysdale Package is through the ex-ante notifications. Observations based on the aggregate notifications made under the agreement indicate that while ECAs are utilizing the flexibilities allowed (e.g. rating buyers better than their CRA rating with appropriate justification), the competitive implications on U.S. business appears to be negligible outside of the High Income OECD and High Income Euro Area segment. See **Figure 20**.

Figure 20: Total Premia-Related OECD Notifications, September 1, 2011 – December 31, 2012



More generally, in addition to the competitive implications within the specific segment of High Income OECD and High Income Euro-Area markets, the number of notifications related to ECAs rating buyers better than CC1 is significant. Under this flexibility, ECAs can rate buyers either at the same level of the sovereign or better than sovereign. Among the OECD ECAs there are competitive concerns related to this flexibility, particularly when ECAs are rating buyers that do not have credit rating agency ratings at the same level as the sovereign. The competitive aspect of such risk rating flexibility is not that ECAs are competing head to head for these specific notified transactions, but rather buyers will recognize which ECAs have more "liberal" rating practices and attempt to source the purchase of capital goods from those countries with the most liberal practices. However, to date Ex-Im has not received any information that U.S. exporters were adversely impacted by the use of such rating flexibilities.

Exporter and Lender Survey and Roundtable Results

Survey respondents generally considered Ex-Im to be equal to the average in terms of general exposure fee competitiveness in addition to the fees charged for sovereign buyers, non-sovereign buyers, and buyers in High Income OECD and High Income Euro-Area markets. Some exporters and lenders expressed their desire that Ex-Im be more flexible in terms of how the exposure fee is collected, indicating a preference that Ex-Im also charge exposure fees on a spread basis rather than upfront. However, the

majority of respondents did not consider this to have competitive implications on the ability to finance transactions through Ex-Im Bank.

Conclusion

With the introduction of the Malzkuhn-Drysdale package, the general disparities in pricing among the OECD ECAs have been minimized. However, competitive issues still remain. It is through the notification procedures that ECAs are able to monitor the effectiveness of the Malzkuhn-Drysdale Package and how it relates to competitiveness among the OECD ECAs. The most relevant to Ex-Im Bank relate to the wide range of pricing flexibilities for High Income OECD and High Income Euro-Area transactions given the Bank's increase of business in these markets. Nonetheless, based on the empirical data the system allows, Ex-Im is very competitive in the context of risk rating and pricing in all markets and should continue to carry 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 achieved an "A" rating in 2012. 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, or "generally competitive compared to other ECAs." **Figure 21** 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 2012.

The Bank's Interest Rates grade remained at an "A+" for 2012 due to the continued increased relative competitiveness of Ex-Im's CIRR rate lending. Risk premium also maintained its "A" grade from 2011. As noted in the Overall Report Methodology section of Chapter 1, grades are derived from both the survey and roundtable discussion results and the Bank's analysis of how it performed in comparison to its major competitor ECAs. See Appendix A for detailed definitions of the letter grades.

Figure 21: Grading of Ex-Im Bank's Core Competitiveness, 2012

Key Elements	Grade
Cover Policy and Risk Taking	**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
Cat 0	A
Total Average Grade	**A**

Chapter 4: Major Program Structures
Section A: Aircraft

Introduction

In 2012, the aircraft industry's challenges with liquidity constraints and increased regulation continued. A shortage of available cross-border commercial bank aircraft financing still exists as compared to pre-financial crisis levels, and as a result 2012 was another active year for ECA aircraft financing. Ex-Im Bank fully supports the export of the entire spectrum of U.S.-manufactured aircraft, ranging from small agricultural aircraft valued at less than $5 million, to helicopters and business aircraft valued between $5 million and $50 million, to commercial aircraft valued between $50 million and $200 million. Due to the significance of Ex-Im Bank support for commercial aircraft, the following section focuses primarily on this area as compared to that of other ECAs active in aircraft financing, but this section also discusses the Bank's activity in financing other types of aircraft.

OECD Aircraft Sector Understanding

Depending on when a large commercial aircraft was ordered, when it was scheduled to be delivered, and when it actually delivered, a number of different regimes under the OECD Arrangement governed ECA financing of large commercial aircraft in 2012. Specifically:

- The Large Aircraft Sector Understanding (LASU), which established the most favorable terms with respect to a limited number of financing terms (e.g., repayment term, amortization profile and interest rates on direct loans), for the provision of official export credit support for the sale of large aircraft when it came into effect in 1986;
- The 2007 Aircraft Sector Understanding (2007 ASU), which came into effect in July 2007 and represented a more expansive set of guidelines for export credits for aircraft than the LASU. One important aspect of the 2007 ASU was that it classified aircraft into three types (Category 1, large commercial aircraft; Category 2, regional aircraft; and Category 3, smaller aircraft such as helicopters, executive jets, and agricultural aircraft). Under the 2007 ASU regime, the financing terms applicable to the financing of an aircraft were determined by the categorization of such aircraft.
- The 2011 Aircraft Sector Understanding (2011 ASU), which came into effect in February 2011, was a further update to the guidelines for export credits for aircraft, with significantly more detail and complexity than the 2007 ASU. Of particular note is that this regime did away with the classification of aircraft

among Category 1, 2 or 3 aircraft, and as a result all aircraft are now subject to the same financing terms and conditions.

Over the last eight years (since negotiations began on the 2007 ASU), evolving changes in each of the aircraft manufacturing industry, the aircraft finance and leasing industries, and the airline industry necessitated two major changes to the OECD guidelines governing aircraft finance, resulting in the 2007 ASU and the 2011 ASU governing regimes. As of January 1, 2013, the net result is an Aircraft Sector Understanding that reflects the realities of the current state of the market, which was one of the major goals of the ASU Participants in their negotiation of the 2011 ASU. Another fundamental goal of the 2011 ASU was to level the playing field among ECA-supported aircraft financing. As a result, all ECA aircraft financing should theoretically follow generally the same structure as all transactions are all subject to the same guidelines and are governed by the same rules and conditions. Clearly the existence of the 2011 ASU, including (i) the requirement that each obligor in an ECA aircraft financing be assigned to a risk category on a consensus basis, and (ii) the detailed structuring requirements it imposes on ECA-backed aircraft financings (e.g., the use of a required number and type of risk mitigants) has implications with regards to the competitiveness among ECAs with respect to aircraft financings.

During 2012, ECAs financed aircraft according to all three of the above regimes because of the transition provisions in the 2011 ASU allowing for (i) a limited number of aircraft to be financed under either the LASU (great-grandfathered) or the 2007 ASU (grandfathered), and aircraft that were ordered by December 31, 2010 and delivered by December 31, 2012 to be financed under the 2007 ASU (grandfathered).

Large Commercial Aircraft Industry in 2012

As **Figure 22** indicates, the large commercial aircraft industry registered another strong year in 2012 for orders after the dramatic decrease in orders during 2009 as a result of the 2008-2010 financial crisis. In 2012 total large commercial jet aircraft orders were down 8.5% from 2011, but still significantly above historical levels. While Airbus orders decreased 41% from its very successful 2011 (due to the launch of the new, more fuel efficient Airbus A320 New Engine Option or A320 NEO), Boeing registered significant orders in 2012 (a 33% increase from the previous year) due to the launch of the new, more fuel efficient Boeing 737 MAX.

Figure 22: Number of Large Commercial Jet Aircraft Orders

	2007	2008	2009	2010	2011	2012
Boeing	1413	662	142	530	805	1203
Airbus	1341	777	310	574	1419	833
Total	2754	1493	452	1104	2224	2036

Source: www.euronews.com

With regards to 2012 deliveries, aircraft going to ECA eligible markets made up 71% of Boeing's total deliveries. While slightly down from the previous few years, Boeing's foreign market deliveries in 2012 remained consistent with the recent trend, as indicated by **Figure 23** below.

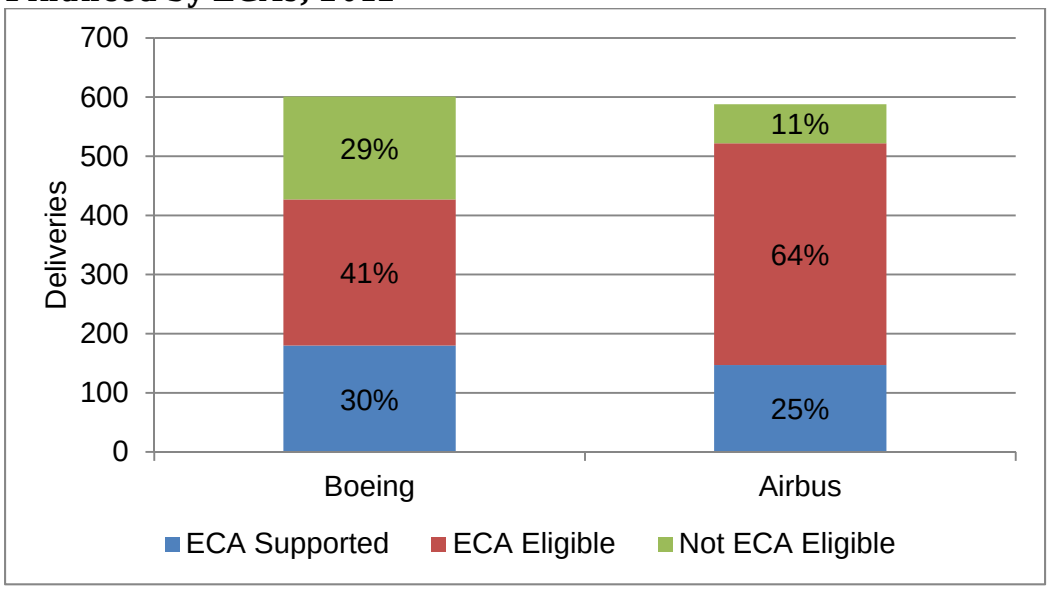
Figure 23: Number of Boeing Commercial Jet Aircraft Deliveries

	2007	2008	2009	2010	2011	2012
Not ECA Eligible	108	118	116	119	129	174
ECA Eligible	333	257	365	343	348	427
Total	441	375	481	462	477	601
ECA Eligible as % of Total	76%	69%	76%	74%	73%	71%

Source: www.boeing.com

Regarding ECA activity in support of large aircraft, **Figure 24** below illustrates the distribution of Boeing and Airbus deliveries, broken out by ECA supported, ECA eligible, and not ECA eligible sales. When comparing the two aircraft manufacturers, significantly more of Airbus' deliveries are to ECA eligible markets (89%) compared to Boeing (71%).

Figure 24: Percentage of Total Large Commercial Aircraft Deliveries Financed by ECAs, 2012



Source: Boeing, Airbus

Ex-Im Bank's Policy and Practice

While 2012 demonstrated a continued rebound in orders for large commercial aircraft industry from the decrease during the depths of the financial crisis, the cross-border, commercial bank aircraft financing market has yet to fully recover. This incomplete recovery exhibited by the commercial bank aircraft financing market has been further

jeopardized by the aforementioned European debt crisis from which the industry is still feeling the effects. 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 2012. Indicative of this continued role, Ex-Im authorized $11.5 billion in total aircraft transactions in 2012, slightly down from its record high $13.3 billion in 2011.

A particularly promising development in the aircraft finance industry is the strength of the capital markets and the willingness of capital market investors to become more involved in cross-border aircraft financings, either by funding ECA guaranteed bonds and/or by investing in capital market instruments issued by non-U.S. airlines. The capital market funded Ex-Im Bank Guaranteed Bond, which to date has been used primarily for aircraft transactions, was initially developed in 2009 in response to the 2008 financial crisis. Given current market conditions, the capital markets funding option continued to be popular in 2012, with Ex-Im Bank authorizing 18 transactions worth $6.0 billion incorporating a capital market funding option, down slightly from the 19 transactions worth $6.8 billion authorized in 2011.

In addition to Ex-Im Bank's large aircraft portfolio, it is important to note that the Bank supports smaller business and agricultural aircraft. In 2012, Ex-Im approved 56 smaller aircraft transactions for a total authorized amount of $633 million, which is a significant increase from the 2011 small aircraft transaction volume.

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 UK Export Finance/UK). However, in recent years EDC of Canada and BNDES and SBCE of Brazil have increased their activity in the aircraft area due to the continued development of aircraft manufacturers in their own countries (Bombardier in Canada and Embraer in Brazil). In 2012, EDC financed 191 aircraft for foreign deliveries worth a total of $2.2 billion (EDC financing for domestic deliveries was 11 aircraft worth a total of $225 million), and BNDES/SBCE provided financing for a total of eight aircraft worth $290 million. While the Canadian and Brazilian volume of business is not yet at the level of Ex-Im Bank and the Airbus ECAs, their increasingly important role in ECA aircraft financing makes the space that much more complex and competitive.

The Airbus ECAs (COFACE/France, Euler Hermes/Germany, and UK Export Finance/UK) supported 147 Airbus aircraft for a total of more than $10 billion. As a result of the interest in the capital markets, UK Export Finance of the United Kingdom launched its capital markets program in 2009 and Coface launched a similar program in 2012. Under these fledgling programs, UK Export Finance offered the capital markets

program on only two transactions in 2010, and Coface had its first experience with a capital markets transaction in early 2013. While the French and British ECAs have introduced this flexibility, their capital markets programs are still in their early phases.

Exporter and Lender Survey and Roundtable Results

The 2012 Exporters and Lenders survey results indicated no one ECA has a competitive advantage over the others when it comes to exposure fees for both long- and medium-term aircraft transactions. This response is to be expected because the minimum premium rates ECAs can offer under the ASU are tightly regulated so that all ECAs generally offered the same exposure fees.

Specifically with regards to medium-term aircraft transactions, survey respondents indicated that the export financing offered by Brazil was generally the same as what Ex-Im Bank was able to offer (except in countries in which members of the Paris Club have imposed a moratorium on new lending, e.g. Argentina). However, aircraft manufacturers in the United States and Canada have indicated to Ex-Im on multiple occasions throughout 2012 that the financing terms the Brazilians are offering through their domestic financing program for domestic aircraft sales of Embraer aircraft pose a significant competitive issue for U.S. exports to Brazil.[21] As such, U.S. business aircraft manufacturers indicate that they are losing sales and significant market share in Brazil, a key market for business aircraft, as a result of the allegedly better than 2011 ASU financing terms offered by the Brazil domestic program to promote their home manufacturer, Embraer. Medium-term aircraft survey respondents identified the Brazilian domestic financing issue as the most significant competitive issue for medium-term aircraft in 2012.

With regards to the large commercial aircraft segment, it seems that the most significant competitive issue referenced by Exporters and Lenders in their survey responses in 2012 was the growing divide between the interest rates on Ex-Im Bank guaranteed loans and on the guaranteed loans and direct loans offered by other ECAs providing aircraft finance. Survey respondents indicated that Ex-Im Bank guaranteed interest rates for 2012 were on par with Ex-Im's ECA peers except when compared to the interest rates on loans guaranteed by the three Airbus ECAs: Euler Hermes of Germany, UK Export Finance of the UK, and Coface of France. Respondents indicated that when compared to these three ECAs, the interest rates on Ex-Im Bank guaranteed loans on its aircraft deals in 2012 were below what the Europeans were able to offer, due to competition among

[21] The Brazilian domestic program finances domestic aircraft sales and is therefore not considered export finance. These deals, technically, are not governed by the terms and conditions of the 2011 ASU. As such, U.S. exporters with experience in this market allege that the terms and conditions Brazil offers are significantly below what is allowable under the 2011 ASU.

the wider variety of funding sources for Ex-Im Bank guaranteed loans (e.g., commercial banks, PEFCO and the capital markets).

Conclusion

Given the still strained current commercial bank market, there seems to be a growing bifurcation between the challenges faced by Ex-Im Bank with respect to its medium-term business, helicopter, and agricultural aircraft financings, and the Bank's long-term large commercial aircraft financings. However, while the issues for these two types of business are different, 2012 marked a year that Ex-Im Bank was able to achieve success and maintain competitiveness in both of these spaces, despite the challenging environment. Indicative of this success, Ex-Im Bank achieved a grade of "A" for its medium-term aircraft business and "A+" for its long-term aircraft business for 2012.

Chapter 4: Major Program Structures
Section B: Project and Structured Finance

Introduction

Underscoring commercial bank reports that in 2012, seven-year repayment term was the comfortable mark for non-recourse debt (and ten years was viewed as a ceiling), total global non-recourse and limited-recourse project debt issuances decreased 7% from 2011 to just under $200 billion in 2012, or the lowest level so far since the Lehman crisis[22].

Nevertheless, in 2012 Ex-Im Bank project finance activity reached a new high of almost $9 billion. Long-term structured loans also spiked at nearly $9 billion. Taken together, project and structured finance accounted for $17.8 billion in total authorizations (see **Figure 26**). Thus, for the first time since the establishment of the project finance program at Ex-Im Bank (in 1992), project and structured finance surpassed Ex-Im Bank support for large commercial aircraft ($11.5 billion in CY 2012). The competitiveness of Ex-Im's direct loan played a significant role in this growth, and as well as Ex-Im's capacity to take on large exposures without country limits or transaction caps.

Project and Structured Finance Definitions

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. Project finance is also referred to as non-recourse financing. Such projects are eligible for enhanced financing terms under the OECD rules. Refer to section below entitled "OECD provisions for Project Finance" for more details.

In addition, many other projects are financed by ECAs and are loosely referred to as "project finance" when, in fact, they are structured credits that rely to a greater or lesser extent on additional sources of repayment beyond the specific project revenue. Transactions in this category are referred to as "structured finance" in this chapter. Given the significance of Ex-Im Bank's activity associated with long-term project and structured financing, and the corollary competitive benefits of such growth, including structured finance activity into the assessment of project finance competitiveness allows for a more comprehensive perspective on the gamut of non-sovereign, long-term non-

[22] Project Finance International League Tables

corporate financing. In 2012, the value of U.S. Ex-Im's structured financing for projects was about equal to that of its non-recourse project finance support (see **Figure 26**).

Shifts in Commercial Lender and ECA Participation in Project and Structured Finance

As noted in Chapter 3B, the constricting impact that the global financial crisis, European sovereign debt crisis, and Basel III have had on project finance lending by banks led to increased ECA participation in project finance deals. Specifically, ECA participation in project finance deals became a function of two principal factors:

1) ECA program offerings: That is, ECAs that are able to lend directly to a borrower and charge the official minimum interest rate for the currency of the loan[23] can more readily respond to requests for large-scale, long-term project finance needs. Thus, those ECAs able to offer long-term funding to projects at CIRR or close to CIRR in 2012 had a competitive advantage over ECAs unable to do so.

2) Cost of funds: The recent sovereign risk rating changes have, in effect, differentiated the cost of OECD ECA guarantees or insurance in terms of commercial banks' reserve requirements under ECA cover. Namely, it is more expensive for a borrower's bank to hold a loan covered by an ECA in a downgraded market than if the loan were covered by a different ECA with a better sovereign risk rating. The impact sovereign risk ratings have on the cost of funds has been significant and is amplified in the context of a long-term project finance scenario. The differences in cost of funds across countries have made it impossible to ensure a level playing field among OECD ECAs. In some cases, commercial banks reported a lack of appetite for certain (downgraded) ECA covered assets – regardless of the creditworthiness of the project. In general, high cost of funds and capacity constraints among many (but not all) commercial banks continued to push project and structured finance business to ECAs capable of offering direct loans in 2012.

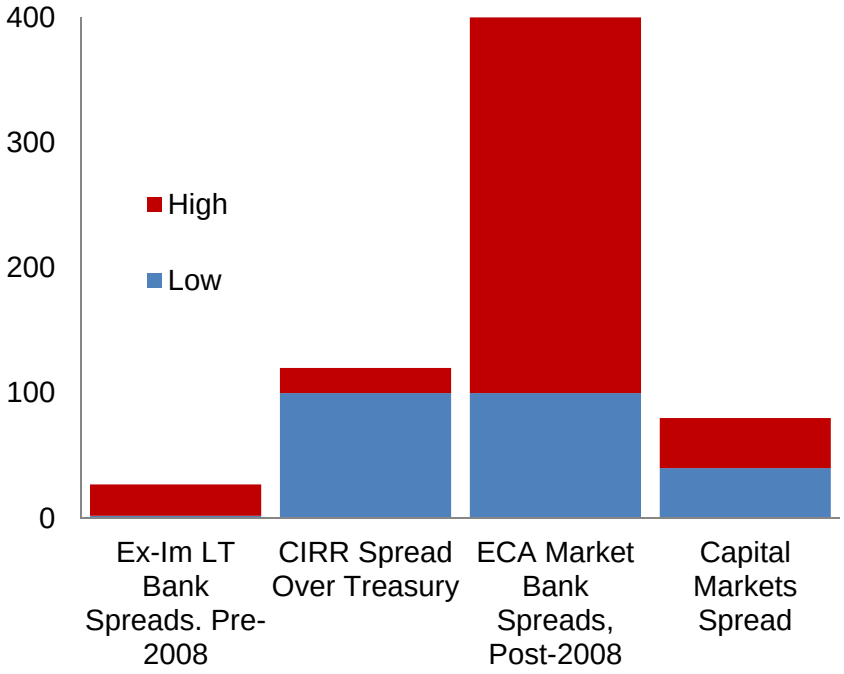
Consequently, ECAs support with direct loans became a core product within project finance and will likely continue to remain so for the next few years. ECA financing has played a critical role in keeping the cost of project financing reasonable. This realignment of export finance to a structure in which buyers strongly prefer an official direct loan created challenges for ECAs that only could offer pure cover (bank

[23] 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.

guarantees) because commercial banks were unable and/or unwilling to fund long-term ECA covered debt.

Figure 25 below depicts Illustrative Lending Spreads. This chart shows the high cost of funds for alternative funding relative to CIRR flat for a typical project finance deal. Hence, 2012 saw a spike in existing and new funding mechanisms created by ECAs to ensure there was enough liquidity in the market for their exporters to compete globally (See Appendix E for a listing of the new and growing ECA Funding Mechanisms).

Figure 25: Illustrative Lending Spreads (basis points over Libor/Treasury)



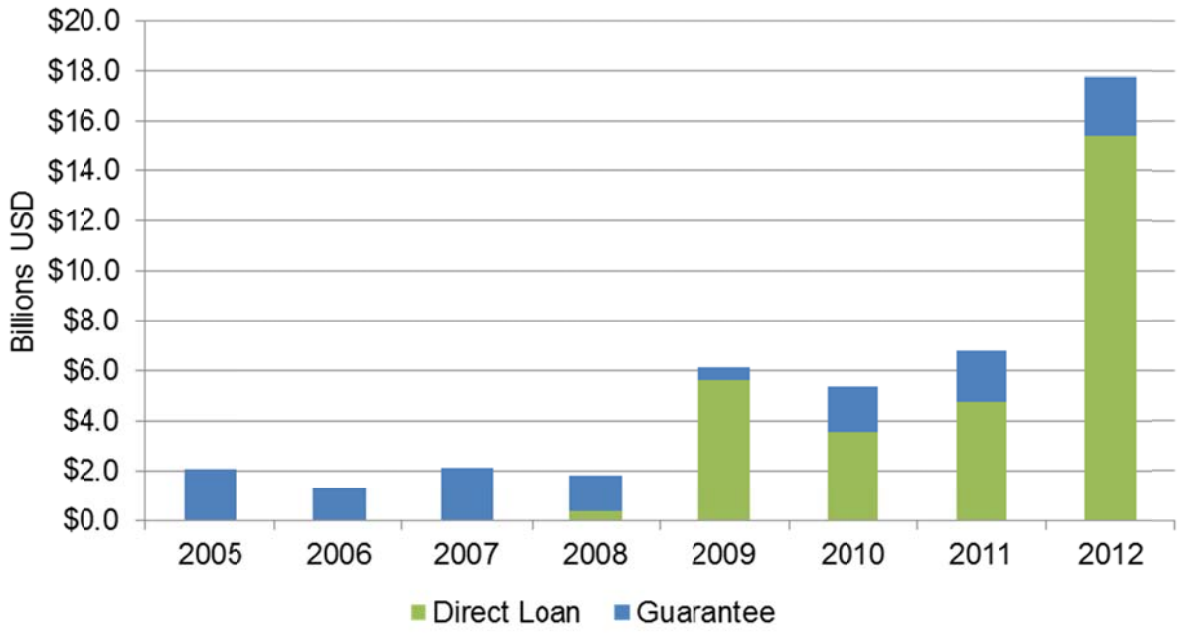
Impact of Commercial Lender Landscape on U.S. Ex-Im Project and Structured Finance Activity

As a result of the new post-crisis landscape, 2012 Ex-Im Bank project finance activity more than doubled, reaching a new summit of almost $9 billion. Long-term structured finance also spiked to nearly to $9 billion. Taken together, project and structured finance accounted for $17.8 billion in total authorizations (see **Figure 26**). Thus, for the first time since the establishment of the project finance program at Ex-Im Bank (in 1992), project and structured finance surpassed Ex-Im Bank support for large commercial aircraft ($11.5 billion in CY 2012). Much of this activity is comprised of direct lending (see **Figure 27**).

Figure 26: U.S. Ex-Im Bank Transaction and Volume Data on Project Finance and Structured Finance Financings, 2010-2012 (Billions USD)

	Project Finance		Structured Finance		Total	
	# Deals	Volume	# Deals	Volume	# Deals	Volume
2012	8	8.9	18	8.9	26	17.8
2011	8	3.8	28	3.0	36	6.8
2010	7	2.6	16	2.7	23	5.3

Figure 27: U.S. Ex-Im Bank Project and Structured Authorizations, 2005-2012



OECD Provisions for Project Finance

In 1994 the OECD developed a series of project finance flexibilities[24] for non-recourse projects to take into account the unique nature of such projects – especially when compared to sovereign guaranteed projects which had, until then, dominated ECA-backed projects.

Figure 28 depicts the aggregate OECD ECA involvement in project finance transactions that benefitted from the project financing flexibilities for a period of 2007 through 2012. Of note, U.S. Ex-Im Bank's support for non-recourse transactions using these flexibilities was roughly equal to the total of all other OECD ECA project finance activity combined that used these flexibilities. The jump in Ex-Im Bank activity in 2012 is largely attributable to the size of U.S. Ex-Im Bank's participation in three particularly

[24] The OECD enhanced financing terms for project finance include a maximum tenor of 14 years, a deferment of repayment of principal of up to 24 months and a sculpted repayment stream.

large, multi-billion dollar project financings. Twelve other OECD Members were involved in 18 project finance transactions.

Figure 28: Distribution of Non-Renewable Project Finance Support by Originator, 2007-2012 (Billions USD)

	Non-Recourse Project Financing: OECD ECAs (excluding Ex-Im)*	Non-Recourse Project Financing: U.S. Ex-Im Bank*	Non-Recourse Project Financing: All OECD ECAs*	Total Non-Recourse and Limited-Recourse Project Finance Loans**	Global Projects Bond Market	OECD ECAs' Activity as % of Total PF Loans
2012	$7.3	$8.4	$15.7	$198.7	$24	12%
2011	$2.5	$3.5	$6.0	$213.5	$22	3%
2010	$7.5	$1.5	$9.0	$208.1	$20	5%
2009	$7.5	$3.6	$10.7	$223.9	$9	5%
2008	$2.9	$0.5	$3.4	$250.6	$12	1.4%
2007	$2.6	$0.6	$3.2	$226.2	$28	1.4%

*Source: OECD. Volumes reflect ECA transactions that took advantage of the project finance flexibilities. Universe of project finance transactions include smaller projects with shorter repayment tenors or renewable energy projects that have a separate set of enhancements are not captured in this number.
** Source: Project Finance International League Tables

The total value of contracts supported by OECD ECAs under the enhanced OECD project finance provisions increased dramatically from 2011 to 2012, confirming reports of high demand for ECA participation in project finance. As the last column of **Figure 28** illustrates, OECD ECA PF non-recourse activity as a proportion of total limited- and non-recourse loans has increased more than tenfold since 2007.

Figure 28, however, shows that the global projects bond market remains relatively small in comparison to total non-recourse and limited-recourse project finance loan volume. In 2012, exporters and lenders praised Ex-Im Bank's role in facilitating its first capital markets solution for project and structured finance. This issuance is discussed further in the U.S. Ex-Im Bank Policy and Practice section below.

In 2009, the OECD instituted temporary measures that amounted to additional flexibility for transactions in High Income OECD countries. These provisions extended maximum repayment terms from 10 to 14 years and allowed for ECA participation of less than 50% of a syndication (up from 35% which is the standard rule). The extension of the repayment term and increase in maximum allowable ECA participation in high-

income OECD project financings was recognition of the tight liquidity of commercial banks in High Income OECD markets. Set to expire at the end of 2012, these provisions were re-extended through 2013, when the need for such temporary measures will be reassessed.

ECA financing of non-recourse project finance in High Income OECD countries remained strong in 2012 in terms of volume, however it was mostly driven by requests for ECA financing to a few megaprojects in markets like Australia.

U.S. Ex-Im Bank's Policy and Practice

As noted above, the OECD Arrangement allows for flexible coverage of project finance transactions in terms of tailored repayment profiles, grace periods, and total repayment terms. 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. As **Figure 27** shows, Ex-Im approved almost no direct loans for project finance transactions from 2005 through 2008; however, in 2012 the composition of the Ex-Im Bank project and structured finance portfolio was predominantly direct loans (about 87%).

Ex-Im's project and structured finance team was praised by lenders and buyers for its innovation and problem solving. In 2012, Ex-Im responded to borrower demand and began providing the option to finance the exposure fee of project finance deals as a spread, as opposed to one up-front payment. This option was already offered by other OECD ECAs. Additionally, Ex-Im also carried out its first guaranteed bond for structured finance for four PEMEX bond issuances. Use of Ex-Im's guarantee for the capital markets has been successful for aircraft (see Chapter 4A), but the 2012 PEMEX bond was the first instance of its application to project and structured finance by Ex-Im.

The continued demand for U.S. Ex-Im Bank direct loans 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 ECAs with direct funding programs like U.S. Ex-Im 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.

In summary, these core factors continued to characterize Ex-Im Bank's competitiveness in project finance transactions in 2012:

1) An easily accessible and lowest cost tool in direct loans.
2) A generally unlimited exposure per project/country (see Chapter 3A);
3) Financing of local costs (up to 30% of the total U.S. export contracts)[25];
4) Willingness to charge exposure fee as a spread
5) Guaranteed bonds – PEMEX precedent

Despite consistent Ex-Im Bank excellence on these aforementioned fronts, each year exporters and lenders report that a range of non-financial requirements that are unique to Ex-Im can hinder deals. Those factors include the Bank's content policy, shipping requirements, and economic impact analysis (see the Exporter and Lender Survey Results section below, as well as the Foreign Content, U.S. Shipping Requirements, and Economic Impact sections in Chapter 6 for more detail).

Major ECAs' Policies and Practices

Other major ECAs offer similar project finance coverage to that of Ex-Im Bank, although with some slight differences in terms of the quality of their conditional insurance coverage verses the Ex-Im Bank unconditional guarantee or direct loan. Those differences are diminishing over time as ECAs such as SACE, UK Export Finance, and CESCE are now able to offer a 100% unconditional guarantee structure and choose to do so in some cases. Nevertheless, in the context of the current liquidity environment those ECAs able to provide 100% cover on a routine basis (like Ex-Im Bank) and direct loans at CIRR have a unique competitive position. While European banks expressed confidence in the cover provided by Coface of France and Euler Hermes of Germany, their lack of direct loan offerings and use of conditional insurance was cited as a competitive disadvantage.

The Asian ECAs are particularly competitive in supporting project finance, specifically the ECAs of Korea and Japan. There are a considerable number of strong Korean EPC (Engineering, Procurement, and Construction) contractors able to secure funding from Asian banks and the Korean direct lender ECAs (KEXIM, and now Korean Funding Corporation). Japanese ECA involvement in projects is part of a larger Japanese government strategic approach aimed at securing natural resources, especially energy.

[25] The OECD rules permit local cost support of up to 30% of the contract value and capitalized interest during the construction period. This type of support is used most often in project finance transactions but is not exclusive to project finance. See Chapter 6C for details.

Exporter and Lender Survey and Roundtable Results

Overall, survey respondents praised Ex-Im's project finance program for its funding capacity and innovation. Twenty-two lenders and exporters involved in medium- and long-term activity responded to the project finance survey section. Of these respondents, 11 were lenders and 10 were exporters.

Respondents lauded Ex-Im Bank project finance coverage, specifically noting the competitive CIRR direct loan as a particularly effective financing option. The strength of the direct loan financing in particular has been a critical advantage for Ex-Im with its highly attractive pricing and availability, even to the point that some sourcing has reportedly been shifted to the United States. In addition, respondents stated that Ex-Im Bank's willingness to offer a capital markets option and automatically cover 30% local cost support were competitive features. Finally, exporters and lenders reported that Ex-Im's lack of country or sector limits relative to the exposure (country or sector) limitations imposed by foreign ECAs was another attractive feature, particularly for the ever-increasing set of mega-billion dollar projects.

Survey respondents also reported Ex-Im's willingness to use OECD project finance flexibilities and capitalize interest during construction as on par with competitor ECAs.

Despite these competitive features of the project finance program, exporters and lenders cited a number of competitive disadvantages impacting Ex-Im Bank's project finance program. Policies reportedly hindering Ex-Im competitiveness include foreign content support, MARAD shipping requirements, and economic impact processes; respondents said these policies reduced the flexibility of the financing and increased the risk of administrative delays. International borrowers highly value flexibility of official financing, which makes untied financing offered by ECAs like JBIC, KEXIM, and EDC very attractive. According to the project finance survey participants, Ex-Im's three fiercest ECA competitors in long-term project finance were, in this order, Korea's KEXIM/K-SURE, Japan's JBIC/NEXI, and Canada's EDC. Respondents also reported that Ex-Im's documentation requirements are "onerous" or "cumbersome" relative to other ECAs' documentation processes.

Conclusion

In 2012, Ex-Im's project finance program was well-positioned to support U.S. exports to international projects. Ex-Im Bank's CIRR direct loans and capacity advantages facilitated record volumes of project financing in an environment of constrained liquidity. These positive aspects outweighed the impact of any reported challenges. Thus, U.S. Ex-Im's project finance support continued to garner high marks, earning another "A+" for 2012.

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

Introduction

Co-financing[26] is a tool used to address some of the financing challenges posed by multi-sourcing—the procurement of capital goods and services from two or more countries. Without co-financing, foreign buyers would need to secure multiple financing packages and therefore incur additional expense and administrative burden to ensure ECA support for exports 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 UK Export Finance (United Kingdom). These agreements have allowed Ex-Im Bank to provide U.S. exporters with the ability to offer a comprehensive financing package (a guarantee or insurance) to support transactions seeking to include content from two or more countries. Although the program has been very successful, it does have restrictions. Though Ex-Im Bank's policy allows the Bank to lead or follow foreign ECAs on co-financing transactions, in practice, there are few requests to follow foreign ECAs. Moreover, there are some challenges involving legal, political, and business considerations to Ex-Im more regularly assuming the role of Follower ECA. For example, if Ex-Im were to follow in a co-financing structure, the Lead ECA would need to implement Ex-Im's Iran Sanctions Certification, which the other G-7 ECAs are not required to nor in a position to do. Another obstacle to Ex-Im's expansion of the co-

[26] Also referred to as "reinsurance" and "one-stop shop" financing

financing program involves the types of transactions that are eligible. Specifically, under the co-financing program, no direct loan financing is available to cover the foreign ECA supported portion.

Notwithstanding, since the signing of the first agreement in 2001 , Ex-Im Bank has signed 12 co-financing agreements[27], authorized close to 200 transactions supporting almost $20 billion in authorizations, 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.

In 2012, aircraft continued to dominate the co-financing program as it constituted a large majority of the overall number and volume of activity in 2012. As such, 99% of the volume, approximately $8 billion, of all 71 co-financed transactions authorized in 2012 involved some type of aircraft, with the exception of medical equipment and a communications equipment transaction. Specifically, Ex-Im Bank provided co-financing support for large or OECD Category 1 aircraft and 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 to level the playing field by acting like the Airbus ECAs do in terms of their seamless financing for the European-based commercial aircraft manufacturer.

G-7 ECAs' Policies and Practices

The G-7 ECAs have multiple framework agreements among themselves (as shown in **Figure 29**) 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. In fact, Ex-Im typically gets approached to follow in such situations (e.g., Sub-Saharan Africa). 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. Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions.

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

Figure 29: G-7 Co-financing Agreements, 2012

	Ex-Im	UK Export Finance	EDC	Euler Hermes	COFACE	SACE	NEXI/JBIC
Ex-Im		X	X	X	X	X	X
UK Export Finance	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/JBIC	X			X	X	X	

Source: U.S. Ex-Im Bank

Exporter and Lender Survey and Roundtable Results

Survey respondents acknowledged that Ex-Im's co-financing program in support of aircraft has been "seamless" and has been a very helpful competitive tool. Exporters contend that Ex-Im's co-financing program is "key" to maintaining content competitiveness and urged the Bank to explore ways to expand its applicability. Though respondents were largely complimentary of the program and maintained it is "one of the better programs at the Bank," exporters requested the Bank consider expanding the program by increasing the number of ECAs that Ex-Im accepts as partners. Specifically, there was a direct request for the Bank to "expand co-financing to include all countries where the United States has a Free Trade Agreement and to all the Bank's strategic markets." Nevertheless, it is important to note that no other G-7 ECA has established a bilateral co-financing agreement with the emerging market ECAs.

Conclusion

In 2012, Ex-Im Bank's co-financing program has continued to support a significant number and volume of transactions. In addition to the steady increase in Ex-Im's co-financing activities, the Bank's willingness to engage in case-specific co-financing on a one-off basis when an agreement is not in place has earned Ex-Im Bank an A-/B+. Stakeholders have urged Ex-Im to consider signing co-financing arrangements with ECAs in emerging markets and countries where the United States has a signed Free Trade Agreement. However, 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, Carbon Policy and Renewable Energy Promotion

Introduction

Ex-Im Bank's environmental policy framework is composed of three major instruments, as follows:

- Environmental Procedures and Guidelines (EPG)
- Environmental Exports Program (EEP)
- Carbon Policy (CP)

This three pronged environmental policy has evolved since 1992, when Ex-Im's Charter first introduced a mandate that the Bank establish environmental procedures to take into account the environmental impacts associated with the projects benefitting from Ex-Im Bank support. The transparency with which Ex-Im Bank has applied these policies amplifies the commitment Ex-Im Bank has to its twin goals of environmental stewardship and U.S. exporter competitiveness.

Ex-Im Bank's Policy and Practice

Ex-Im Bank's Environmental Procedures and Guidelines

In 1995, Ex-Im Bank became the first official Export Credit Agency (ECA) with a published environmental policy, known as the Ex-Im Bank Environmental Procedures and Guidelines (EPG). Ex-Im Bank's EPG provides a framework to screen, classify and review transactions based on the likely environmental impact of the underlying project. The Ex-Im Bank Charter authorizes the Board of Directors to grant or deny support taking into account the beneficial and adverse environmental impacts of proposed projects.

Since 1995, Ex-Im Bank has worked multilaterally to ensure both environmental stewardship and a level playing field among ECAs with respect to environmental reviews. In 2003, a decade long negotiation finally resulted an agreement among OECD members that codified environmental reviews for ECAs, known as the OECD Common Approaches. Since 2003, the OECD Export Credit Group members have monitored and revised the Common Approaches to take into account emerging issues and best practices. The most recent revision was concluded in June, 2012, when the "Common Approaches for Officially Supported Export Credits and Environmental and Social Due

Diligence" was approved by the OECD Council of Ministers. This latest revision emphasized two areas of greater work for ECAs, as follows: (1) climate change mitigation, including carbon or greenhouse gas (GHG) tracking[28], accounting and reporting; and (2) project related human rights impacts examined in ECAs' environmental and social due diligence procedures[29].

Ex-Im Bank's Environmental Export Promotion Programs

Special financing is available through the Ex-Im Bank Environmental Exports Program and the Bank's Renewable Express Program. Through the Environmental Exports Program (EEP), eligible exports may receive enhanced Ex-Im Bank support, including automatic local cost support and support for interest during construction in addition to maximum tenors allowed under the OECD Arrangement. Ex-Im Bank support for renewable energy, water and certain climate change mitigation technologies is further expanded pursuant to the recently approved Annex IV Sector Understanding on Renewable Energy, Climate Change Mitigation and Water Projects (abbreviated as the Climate Change Sector Understanding or CCSU). The CCSU is a revised version of the previous Renewable Energy and Water Project Sector Understanding, which was expanded to include climate change mitigation projects. The OECD ECAs approved the revised Common Approaches and expanded CCSU in tandem in June 2012, so experience under the revised agreements is limited. Under the CCSU, eligible renewable energy, water or climate change mitigation projects may receive enhanced financing terms including an extended repayment term of up to 18 years.

In addition to the EEP and the CCSU, in 2011, Ex-Im Bank introduced the Renewable Express Program. This program is designed to provide streamlined post-completion project financing to small renewable-power producers. Under Renewable Express, Ex-Im Bank can consider project financing for small renewable-power producers seeking loans of $3 million to $10 million. Renewable Express is available for both corporate and limited-recourse transactions. Traditionally, project financing has not been available for small transactions due to the high levels of due diligence and advisory fees incurred in a typical project financing. By comparison, with Renewable Express, Ex-Im Bank will use a streamlined procedure to more quickly and efficiently evaluate and underwrite the borrower's credit. If all of the requirements of the program are fully met, Ex-Im Bank can process a Renewable Express application in as little as 60 days.

Annex A to this chapter summarizes Ex-Im Bank efforts to foster renewable energy exports.

[28] CO_2 or carbon emissions refer to CO_2 or CO_2 equivalent emissions and are used interchangeably with GHG for the purposes of this report.
[29] Ex-Im Bank is currently revising its Environmental Procedures and Guidelines to align with the revisions made in the OECD "Common Approaches" and the Equator Principles.

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 in response to growing concerns about global climate change. Ex-Im designed its Carbon Policy 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 enhanced due diligence of high-carbon intensity projects, the promotion of energy-efficient exports, best available technologies, and other measures, including offsetting renewable energy investments.

To implement these initiatives, the Bank enacted a variety of programs and policies and works to encourage other ECAs and other commercial and official lending institutions to adopt similar policies which will increase global awareness and transparency with regards to greenhouse gas emissions.

In 2012 one project met the threshold for a "high carbon intensity project" and was therefore subject to an enhanced due diligence review by staff. The project was a coal fired power plant designed as a dedicated source of power to a mine. Pursuant to Ex-Im Bank's Supplemental Guidelines for High Carbon Intensity Projects, Ex-Im Bank staff presented the finding of an initial environmental review to the Board of Directors and posted the expected greenhouse gas emissions on its website. Based on the information available at the time of the initial presentation to the Board of Directors, the Board decided to proceed with the full environmental review of the project. The environmental and underwriting review continued into 2013.

Transparency

Ex-Im Bank's environmental disclosure requirements have expanded even as the reporting requirements for many other ECAs have remained static. Ex-Im Bank was the first ECA to make Environmental and Social Impact Assessments (or ESIAs) 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 provided by the borrower, such as project monitoring and mitigation plans.

The requirements that ESIAs, greenhouse gas emissions, and supplemental environmental reports be made available to the public have led some representatives of the business community to complain. 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 scrutiny. 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 ESIAs. 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.

Joining the Equator Principle Banks

In an effort to foster harmonization of environmental reviews of ECAs and commercial banks, in March of 2011 Ex-Im Bank joined the Equator Principles (EPs). The EPs are a commitment among project lenders[30] to apply IFC Performance Standards to project finance transactions where project capital costs exceed $10 million. The list of EP Financial Institutions (or EPFIs) includes seventy-eight members comprised of private commercial banks, as well as four ECAs (including Ex-Im Bank). Joining the EPFIs allows Ex-Im to align its environmental requirements with those of other EPFIs. Ex-Im anticipates that this will lead to a simpler, more streamlined environmental and social review of transactions that involve other EP banks. In 2012, Ex-Im Bank worked with Equator Banks to draft proposed revisions to the EPs to reflect greater attention to corporate credits for projects, climate change mitigation (e.g., high carbon) projects, as well as increased transparency and reporting requirements.

OECD ECA Environmental Policies and Practices

In 2003, the OECD Export Credits Group agreed to the Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (known as the Common Approaches). The Common Approaches provides for ECA environmental reviews of projects pursuant to internationally accepted standards, primarily those of the World Bank Group (e.g., the IFC Performance Standards and the World Bank Safeguard Policies in addition to the Environmental Health and Safety Standards underlying them both). The Common Approaches were reassessed and expanded in 2012 to include ECA efforts to address project related climate change and human rights impacts.

[30] There are 78 Equator Principle Financial Institutions or EPFIs of which 76 are full members – including Ex-Im Bank – and two are associate members.

OECD Practitioner peer review exercises and technical reports and presentations have revealed that as OECD ECAs have gained experience with the Common Approaches, differences among ECA application of environmental policies have narrowed. In fact, environmental requirements are often harmonized among ECAs and even, at times, commercial banks (particularly Equator Banks). This has resulted in a leveling of the playing field in terms of environmental review among OECD ECAs.

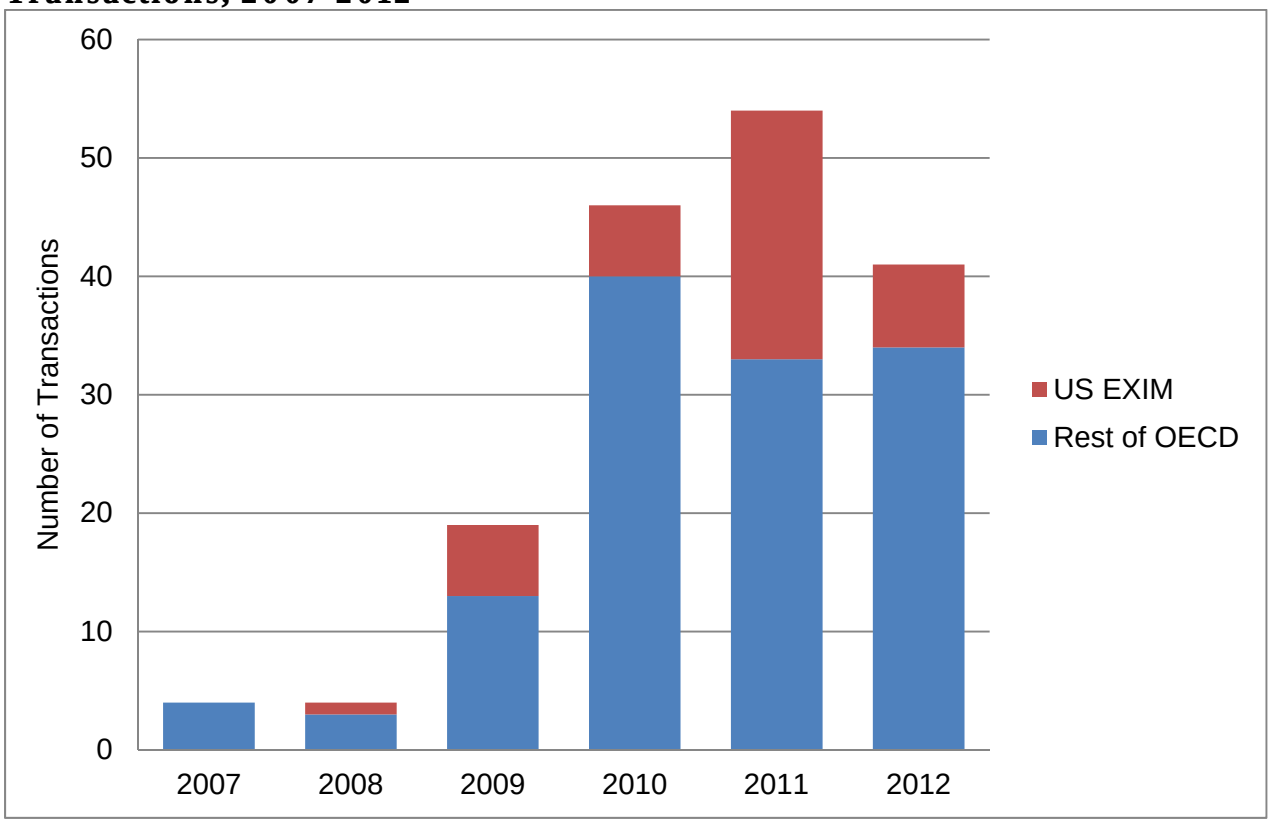
With respect to climate issues, however, Ex-Im is a forerunner relative to other OECD ECAs in addressing the potential impacts associated with CO_2 emissions of projects receiving Ex-Im Bank support on the global environment. Of note is the fact that Ex-Im Bank as the first and only OECD ECA to adopt an official Carbon Policy. However, the 2012 Common Approaches calls on Members to work on climate change impacts. Of particular competitive interest is the new OECD ECA commitment to report projected annual greenhouse gas emissions to other OECD ECAs. This commitment opens the door to establishing a common methodology for tracking and reporting carbon and greenhouse gas emissions.

In addition to the multilateral efforts to track and mitigate GHG emissions pursuant to the OECD Common Approaches agreement, as noted above, the OECD ECAs have ramped up support for climate change mitigation technologies and in particular for renewable energy projects pursuant to the CCSU.

Figure 30 below illustrates that since 2007, OECD ECA support for renewable energy projects has trended upwards. Although the relative share of Ex-Im Bank support for renewable energy projects decreased in 2012 when compared with the 2011 surge in activity, Ex-Im Bank support for renewable energy nevertheless represented about one-quarter of all renewable energy projects benefitting from OECD ECA support. Please note that these figures only refer to official export credits for renewable energy projects and exclude tied aid for renewable energy that certain countries allocate. These figures may exclude some smaller, shorter-term renewable export transactions.

See Annex A to this chapter for details regarding Ex-Im Bank Efforts to Promote Renewable Energy Exports.

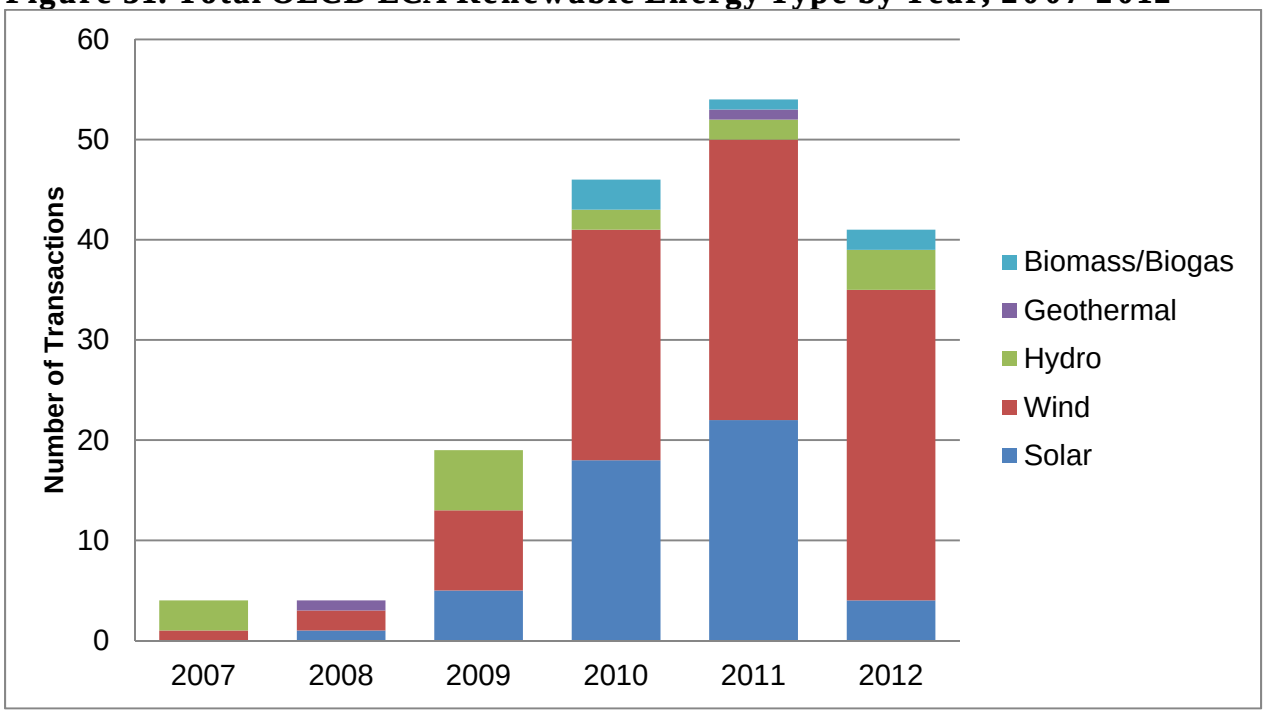
Figure 30: OECD ECA Support of Renewable Energy by Number of Transactions, 2007-2012



Source: OECD

Figures 31 shows the Total OECD ECA Renewable Energy Type by Year, 2007-2012. Interestingly, although the number of solar power projects declined in 2012, the trend line indicates that overall support for all types of renewable energy projects is growing. In addition, despite the decrease in the number of renewable energy deals supported by Ex-Im Bank in 2012 relative to 2011, the data shows Ex-Im Bank as increasingly consolidating its position among the major providers of export credits support for renewable energy technologies.

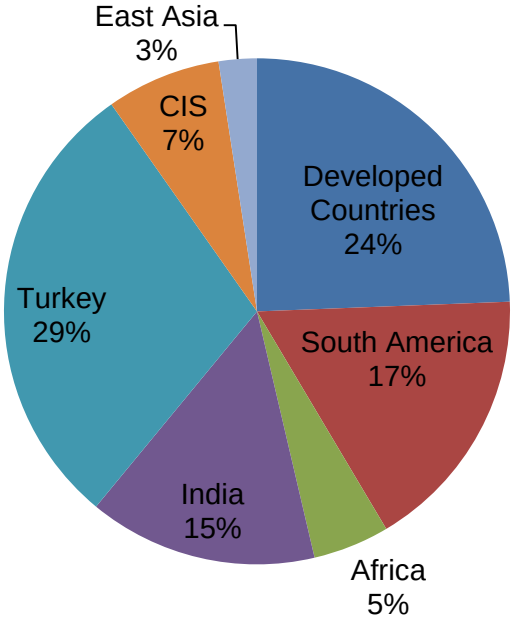
Figure 31: Total OECD ECA Renewable Energy Type by Year, 2007-2012



Source: OECD

Figure 32 represents the main country and region recipients of OECD supported renewable energy projects. Three quarters of the renewable energy projects benefitting from OECD ECA support were in developing countries. The main recipients (by number of projects) were Turkey and India.

Figure 32: Recipients of OECD ECA Renewable Energy Support by Number of Transactions, 2012



Exporter and Lender Survey and Roundtable Results

Of the 15 survey respondents that indicated experience with any of the environmental policies of Ex-Im Bank, most (12) noted that they had been subjected to an environmental review and a smaller number (3) had benefitted from the Ex-Im Bank EEP. The survey results largely revealed that the exporting community views the EPG as comparable to the environmental review of the major ECAs and lending institutions, pursuant to the Common Approaches and the Equator Principles, respectively. One respondent stated that Ex-Im Bank's EPG are "consistent with what we understand is the market's requirements ... maybe not all the ECAs but at least the [multilateral lending agencies] and the international lenders which follow the Equator Principles. As an Equator Principle bank, having Ex-Im follow the same principles has been a plus as we know that Ex-Im's benchmarks are the same as ours."

Although respondents were familiar with Ex-Im Bank EPG almost half of the respondents (7) generally perceived the Carbon Policy to be a competitive factor. One respondent noted that Ex-Im Bank's "review tends to be quite detailed."

With respect to the roundtable discussions, exporters and lenders did not refer to the environmental procedures and guidelines as competitive issue and were largely satisfied with the environmental review process. However, lenders did complain about the enhanced due diligence required for high carbon intensity projects, noting that no other ECA "asks so many questions" about coal fired power projects.

Conclusion

Ex-Im Bank's environmental requirements are defined by Ex-Im Bank's EPG, the Carbon Policy, and the Environmental Exports Program. The transparent application of these policies allows stakeholders to hold Ex-Im Bank more clearly accountable for their consistent and full implementation.

As in previous years, the EPG is considered consistent with that of OECD ECAs (pursuant to the OECD's Common Approaches) and increasingly with commercial lenders (in particular in the area of project finance, where Equator Principle banks are active in requesting compliance with IFC PS). Ex-Im Bank, like other OECD ECAs, recognizes the increasing convergence among the official and commercial lenders and insurers with respect to environmental reviews and therefore Ex-Im Bank has earned an "A" grade, or "generally competitive" to other ECAs.

With respect to Ex-Im's Environmental Export Program and, in particular, its efforts to foster renewable energy exports, Ex-Im Bank is among the top OECD ECAs that are actively involved in supporting renewable energy projects. Despite a drop in Ex-Im Bank

support for renewable energy in 2012 relative to 2011 – which was atypical in terms of its record high of $721 million in Ex-Im Bank authorizations, as explained in Annex A below – the Bank's support shows an overall positive five-year trend from 2007 to 2012. Therefore Ex-Im Bank also earned an "A" grade in this respect.

Ex-Im Bank's Carbon Policy is unique and does impose an additional procedural and informational burden which exporter and lender respondents have noted. The reporting requirements of the Carbon Policy that are particularly onerous stem from the transparency provisions that are not shared by other OECD ECAs. As the OECD ECAs have now committed to work at the technical level to develop carbon accounting and reporting methodologies, the potential for ECA practices and policies to converge now exists. Until then, Ex-Im Bank's Carbon Policy and its public disclosure requirements continue to be more comprehensive than those of other OECD ECAs. Thus, Ex-Im Bank earned a "B" grade in this area, or modestly competitive with the other OECD ECAs.

Taken together, these three grades result in an overall rating for Ex-Im's environmental policy of "A-/B+", which is an improvement over the "B" grade earned in 2011. Despite some of the limitations to Ex-Im Bank's competitiveness relative to other ECAs, with respect to its increased transparency requirements, the improvement in grade takes into account increasing borrower interest in Ex-Im Bank's Environmental Exports Program and support for renewable energy technologies that has solidified Ex-Im Bank as one of the major providers of official support for renewable energy projects.

Annex A: Ex-Im Bank Efforts to Promote Renewable Energy Exports

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."[31]

In 2012, Ex-Im responded to the Congressional mandate through the following activities:

1. Authorizations: Ex-Im Bank supported $356 million of renewable energy authorizations in fiscal year 2012. Despite a drop in Ex-Im Bank support for renewable energy in 2012, relative to 2011, as illustrated by **Figure 33**, the Bank's support shows an overall positive five-year trend from 2007 to 2012.

Figure 33: Renewable Energy Authorizations by Year

Fiscal Year	Renewable Energy Authorizations	Percent Change from Prior Year
2012	$356 million	-51%
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 2012 include:

- Ex-Im's authorization of almost $216 million in financing to support five solar power transactions in India, up from $180 in Indian solar support in 2011.
- Authorizations of $80.6 million for two renewable energy projects in Brazil, supporting exporters in the biogas-reclamation and wind energy sectors.

[31] Ex-Im Bank Charter Sec. 8A(5)

2. Marketing efforts: Ex-Im Bank actively engages in a wide array of environmental industry panels, workshops and marketing visits. In 2012, Ex-Im Bank presented at and participated in 38 environmental export industry events hosted by industry participants, trade organizations, and other U.S. Government agencies, both domestically and abroad.

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 can determine on what basis to provide foreign currency cover (i.e., loans, guarantees, or insurance), and the conditions for such support (e.g., surcharges, interest rate to be covered, and crystallization[32] of the debt in the event of default).[33]

The vast majority of Ex-Im Bank transactions are financed in U.S. dollars. As the U.S. dollar is a key international trade currency, in 2012, the U.S. dollar accounted for 62% of official foreign exchange reserves.[34] In export finance specifically, access to dollar funding was a key competitive issue in 2012. Over half of the OECD ECA-covered deals in 2012 were denominated in U.S. dollars. As shown in **Figures 34 and 35** below, the U.S. dollar was especially dominant in the aircraft industry, with the vast majority of ECA-covered activity was denominated in U.S. dollars. While not as overwhelmingly dominant as in the aircraft industry, the U.S. dollar was still the primary currency for non-aircraft deals; nearly 60% were denominated in U.S. dollars, while about a third of ECA-supported transactions were denominated in Euros.

Figure 34: Currencies of ASU Transactions, 2012

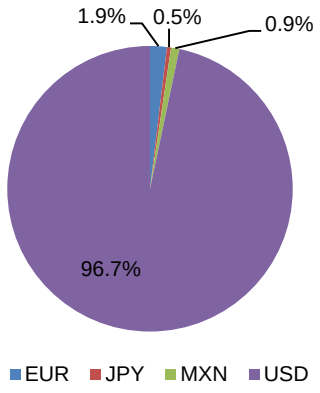
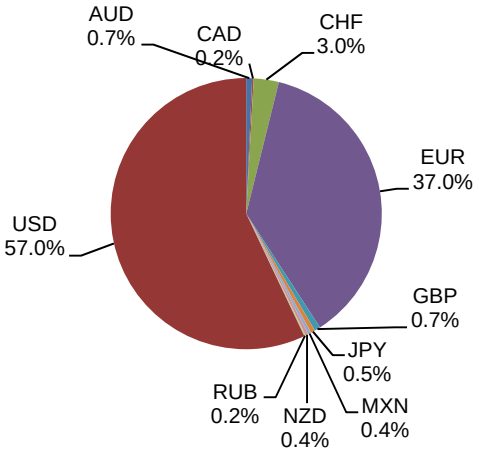


Figure 35: Currencies of Non-Air Transactions, 2012



[32]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.
[33] However, the use of local currency can be eligible for a premia discount under the OECD Arrangement if certain conditions are met.
[34] International Monetary Fund: Currency Composition of Official Foreign Exchange Reserves; 12/2/12. http://www.imf.org/external/np/sta/cofer/eng/cofer.pdf

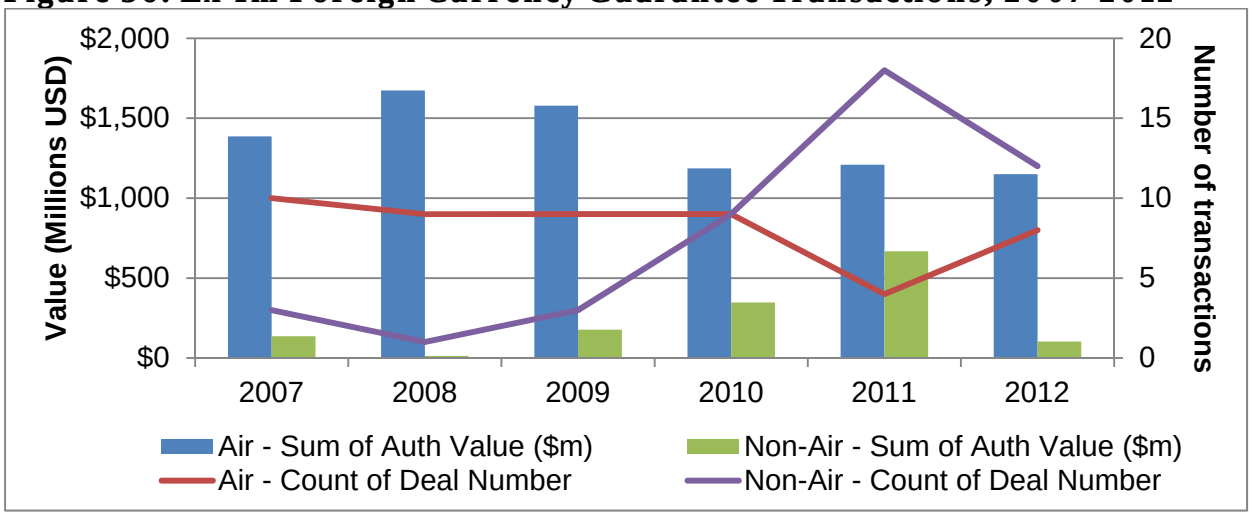
Ex-Im Bank Policy and Practice

Ex-Im Bank offers foreign currency support through its guarantee and insurance programs. Ex-Im's foreign currency guarantee policy requires that, in the event of default and irrespective of the foreign currency (i.e. regardless of whether it is a hard or soft currency), Ex-Im purchase the foreign currency to pay the claim to the lender and then convert (or "crystallize") 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.[35]

As shown in **Figure 36**, Ex-Im support for foreign currency transactions has remained fairly stable in aircraft, and more erratic in non-aircraft. In 2012, Ex-Im Bank supported 20 foreign currency guarantee transactions worth a total financed amount of $1.27 billion (compared to 19 transactions valued at about $1.2 billion in 2011). Of the 20 transactions, eight supported purchases of large commercial aircraft for airlines located in Canada, Morocco, Turkey, the Netherlands, China, Mexico, and South Africa. These transactions amounted to $1.15 billion, nearly the entire volume of the total amount of foreign currency guarantee transactions authorized in 2012 (92%).

Ex-Im authorized 12 non-air transactions containing a foreign currency guarantee in 2012, worth $104 million (8% of the total volume of transactions containing a foreign currency guarantee), down from 16 transactions worth $661 million in 2011.

Figure 36: Ex-Im Foreign Currency Guarantee Transactions, 2007-2012



[35] 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. 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. Neither of these exceptions has been used to date—in 2012, one of the foreign currency guarantee transactions authorized by Ex-Im involved co-financing; as the loan was dominated in Japanese yen, the co-financing exception was not applicable.

The decrease in Ex-Im's new non-air foreign currency guarantee transactions in 2012 may be due in part to the increase in Ex-Im's direct loan activity, which is concentrated in domestic infrastructure; Ex-Im does not provide direct loans denominated in any foreign currencies.

G-7 and Other Select ECAs' Policies and Practices

Currencies are generally referred to as either *hard* (readily convertible currencies, such as the U.S. dollar, the Euro, or the Yen), or *soft*, (emerging market currencies, such as Brazilian Reais or Mexican pesos). Many ECAs distinguish between these two types of foreign currencies for coverage: *hard currency cover* is typically readily available without crystallization and usually at no additional cost compared to domestic currency coverage, whereas *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 (e.g. a surcharge) relevant to the transaction. All G-7 ECAs provide support for export credits denominated in hard currencies.

In 2013, Ex-Im Bank surveyed ECAs—both OECD and non-OECD—to identify trends in foreign currency guarantee coverage. For hard currency coverage, Ex-Im is still the only ECA among its G-7 counterparts that does not accept foreign exchange risk. These other ECAs are willing to accept recoveries in hard currencies because they either (a) have accounts in the foreign currency (e.g. U.S. dollar, Euro, and Yen); (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. Ex-Im also learned from the survey that among the non-G-7 ECAs surveyed, none required crystallization; this makes Ex-Im the only ECA of those surveyed that requires crystallization for loans denominated in hard currencies.[36]

For soft currency coverage, many G-7 and select non-G-7 ECAs are willing to consider (and several have offered) non-crystallized soft currency support; other ECAs do not provide any soft currency coverage. No formal policies exist among G-7 and select non-G-7 ECAs with respect to acceptance of soft currency foreign exchange risk; such risk is predominantly managed on a case-by-case basis. 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. See Appendix J for a detailed comparison of G-7 and Other Select ECAs Foreign Currency Approaches and Their Willingness to Accept Exchange Rate Risk and Activity.

[36] While neither G-7 nor select non-G-7 ECAs questioned by Ex-Im reported requiring crystallization for hard currencies as a standard policy, some did express a preference for converting the outstanding debt into their home currency in the event of default.

Exporter and Lender Survey and Roundtable Results

As noted above, Ex-Im experienced low demand for guarantees of loans denominated in foreign currencies in 2012—and in 2010 and 2011—given the U.S. dollar's current and historical prominent role in international trade. As such, it comes as no surprise that of the exporters and lenders Ex-Im surveyed regarding 2012 activity, just 15% of respondents reported experience with the program in 2012. Of those with experience in the program during that period, only 10% reported familiarity with the program's competitiveness relative to other ECAs. The responses of the majority of exporters and lenders familiar with the program's competitiveness suggested that Ex-Im's foreign currency guarantee program is somewhat less competitive than that of other ECAs. As has been the case in years past, most lenders who responded to the foreign currency guarantee section of the survey reported that Ex-Im's crystallization policy was "a notch below" those offered by other ECAs in 2012 (no exporters responded to the question regarding crystallization). Survey participants indicated that Ex-Im's crystallization policy is subpar and awarded the program a "B-", but this rating was offset by their assertion that this policy had no effect on any transactions in 2012. Further, the comments provided by lenders and exporters alike suggested that although Ex-Im's foreign currency guarantee program may not be ideal, it is "manageable" and that "Ex-Im was quite accommodating" to the extent it could be.

Conclusion

As has been the case for many years, two main factors continue to drive the overall competitiveness of Ex-Im's foreign currency guarantee program: the U.S. dollar's strong position as the world's anchor currency and Ex-Im's strict crystallization policy. Given the former and the fact that access to U.S. dollar financing was a key competitive issue in 2012, the latter does not stimulate significant competitive repercussions for Ex-Im. The U.S. dollar accounts for the lion's share of foreign exchange reserves and for the vast majority of ECA-covered loans notified to the OECD; as such, the fact that Ex-Im is unwilling to accept foreign exchange risk given that it is a U.S. Government policy to avoid doing so allows Ex-Im to remain reasonably competitive with other ECAs. Accordingly, Ex-Im is about equal to the average ECA in this category and therefore the grade for Ex-Im Bank's foreign currency guarantee program in 2012 remains a "B."

Chapter 4: Major Program Structures
Section F: Services

Introduction

The export of services is an important component of global trade. Services exports are particularly significant to the U.S. economy as the nation endeavors to double exports by the end of 2014 under the National Export Initiative. In 2012, U.S. services exports reached $632.3 billion, up from $605 billion in 2011, a 4.4% increase mostly realized in 'other private services' (e.g., business, professional and technical services), royalties and license fees, and travel and transportation.[37] Over the same time period, U.S. services imports increased 2.2% to reach a volume of $437 billion.[38]

Despite growth in both imports and exports of services, the United States not only maintained, but expanded its trade surplus in services. The trade surplus for U.S. services exports increased by 9.4% in 2012 to reach a total of $195.3 billion. This compares to a $735.7 billion deficit for U.S. goods exports.[39]

The Ex-Im Bank Charter directs the Bank to offer financing for services exports, regardless of whether the services are associated with the export of goods, or are stand-alone services. Specifically, section 2(b)(1)(D) of Ex-Im's Charter states, "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." Ex-Im Bank has worked diligently to fulfill this directive, and in CY 2012, services exports comprised 32% of the export value of all medium- and long-term transactions supported by Ex-Im Bank, and 4% of the export value of all short-term transactions supported by the Bank. By offering support for U.S. services exports, Ex-Im Bank is contributing to an important component of the overall U.S. export portfolio.

[37] U.S. Commerce Department, International Trade Administration, U.S. Export Fact Sheet released February 8, 2013.
[38] U.S. Commerce Department, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf
[39] U.S. Commerce Department, Bureau of the Census: http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf

Ex-Im Bank's Policy and Practice

Ex-Im Bank support is available for both "stand-alone" services (services that are not part of a capital goods/project-related transaction) and "associated services" (services that are part of a capital goods/project-related transaction). Ex-Im Bank supports exports from a wide range of services industries. **Figure 37** illustrates how over the last three calendar years, Ex-Im Bank provided financing for nearly $15.7 billion in U.S. services exports.

In 2012 alone, Ex-Im Bank supported approximately $10.55 billion in services exports. The major industry sectors that received the largest proportion of the financing were engineering and consulting services (representing the bulk of Ex-Im services financing at $7.7 billion, or about 73% of Ex-Im's total), and construction. It is important to note that by their nature, services exports are not subject to U.S. flag shipping requirements. See Chapter 5D for details.

Figure 37: Export Value of Services Supported by Ex-Im Bank, 2010-2012 (Millions USD)*

	2010			2011			2012		
Industry	**Stand-Alone**	**Assoc.**	**Total**	**Stand-Alone**	**Assoc.**	**Total**	**Stand-Alone**	**Assoc.**	**Total**
Engineering & Consulting	$673.0	$338.0	$1,011.0	$681.0	$509.4	$1,190.4	$675.2	$7,031.1	$7,706.3
Construction**	--	--	--	--	$498.1	$498.1	$12.4	$1,278.0	$1,290.5
Rental & Leasing	--	--	--	--	--	--	--	$740.8	$740.8
Oil & Gas Drilling and Mining	--	$893.0	$893.0	--	$876.5	$876.5	--	$243.8	$243.8
Transportation	--	$51.0	$51.0	--	--	--	--	$168.5	$168.5
Admin. and Support Services	--	--	--	$2.0	--	$2.0	$125.0	$23.1	$148.1
Legal & Banking	$3.0	$47.0	$50.0	$2.0	$8.1	$10.1	--	$76.5	$76.5
Information Technologies & Telecom	$11.0	$141.0	$151.0	$318.0	$1.5	$319.5	$28.0	$61.8	$89.8
Management Services	--	--	--	--	--	--	$64.6	--	$64.6
Other Services***	$24.0	$56.0	$80.0	$8.0	--	$8.0	$24.6	--	$24.6
Medical	$0.1	--	$0.1	--	--	--	$1.3	--	$1.3
TOTAL	**$711.1**	**$1,526.0**	**$2,236.1**	**$1,011.0**	**$1,893.6**	**$2,904.6**	**$931.0**	**$9,623.5**	**$10,554.5**

Source: U.S. Ex-Im Bank
* 2011 data has been updated since the 2011 Competitiveness Report.
** Construction: Electrical Appliance Installation, Manufacturing, construction for petroleum refining project.
*** Other services include: Repair/Maintenance, Personal Care, and Photography. For 2010, this category also included Admin and Support Services.

As **Figure 37** illustrates, Ex-Im's support for associated services in 2012 more than quintupled from 2011. The bulk of associated services in 2012 are attributable to the following industries: engineering and consulting, construction, and rentals and leasing. Support for associated engineering and consulting services was significantly larger in 2012 than in the previous two years due to several major projects. Among all services transactions in CY 2012, the three largest supported the export of services for a nuclear power plant, a petrochemical project, and a liquefied natural gas project.

Ex-Im Bank provided repayment terms of 5-12 years for most associated services exports in CY 2012. These repayment terms reflect the medium- to long-term nature of the financing requirements of large projects with which the goods and services are associated. In contrast, stand-alone services tend to receive short-term (6-18 months) support because of the nature and shorter useful lives of these services compared to associated services.

ECAs' Policies and Practices

In 2012, Ex-Im Bank surveyed ECAs, both OECD and non-OECD, to identify trends in support of services exports. G-7 OECD ECAs expressed their willingness to support services as a general category of exports. Much like Ex-Im, the other G-7 ECAs offer repayment terms based on the useful life of the services or associated goods export. As a result of systems limitations, most G-7 ECAs were unable to provide specific details on the nature or volume of their support for services exports.

Responses received from select other OECD ECAs indicated a willingness to cover stand-alone services exports, although they noted that on the whole, most services exports were associated with a goods export. Non-OECD ECA respondents stated that they did not offer cover for stand-alone services exports, but that they do offer cover for services exports associated with goods exports.

Looking across all ECA responses, some of the major services sectors supported by ECAs included: engineering, construction, design, feasibility studies, shipping and management.

Exporter and Lender Survey and Roundtable Results

The exporter and lender survey indicated that fewer respondents utilized Ex-Im financing for services exports than for goods exports. However, of those that had experience with services exports, most found Ex-Im Bank's support for services to be slightly better than the average support offered by other ECAs. Exporters and lenders

also found the availability and flexibility of Ex-Im's services support to be about the same as other ECAs.

The exporter roundtable reported that Ex-Im Bank's content policy presents significant challenges for services exports. Roundtable members noted that service providers, much like manufacturers, engage in global supply chains. They stated that design and engineering is often executed in the United States however, the actual 'export' may come from another country, which significantly limits the amount of Ex-Im cover available for a transaction. The lender roundtable did not provide any specific critiques of the Bank's services policy.

Conclusion

Services continue to represent a growing segment of the U.S. export portfolio, a fact that is reflected in Ex-Im's total business. In CY 2012, services comprised about $10.55 billion of the Bank's total export value and were focused in engineering and consulting, construction, and rentals and leasing. Comparing Ex-Im Bank to all other ECAs, Ex-Im earned an "A -/B+" for CY 2012. This grade reflects the critique that the Bank's services policy is challenging to engage in the context of the Bank's content policy. However, the grade simultaneously acknowledges that the terms offered by Ex-Im Bank for services exports generally meet those of other G-7 OECD ECAs and recognizes that services exports are not subject to U.S. flag shipping requirements, as goods exports are. Despite the fact that there were no changes made to the Bank's services policy, there was an improvement in grade from a "B" in 2011 to an "A-/B+" in CY 2012. The change in grade is appropriate as evidenced by the $7.65 billion increase in services transactions from CY 2011 to CY 2012, and the results of the ECA services survey which revealed Ex-Im's services policy to be as competitive as other OECD ECAs vis-à-vis the terms and conditions offered for services exports.

Chapter 4: Comparison of Major Program Structures
Section G: Trade-related Tied and Untied Aid

Introduction

For over 20 years, tied and untied aid has been a competitive issue for U.S. exporters. However, those concerns have diminished through the introduction of multilateral rules that restrict donor use of tied and untied aid for commercial or trade purposes. Nonetheless, sporadically, tied aid is still used by certain donor governments for commercial as well as developmental purposes. This chapter details those remaining competitive issues as they pertain to tied and untied aid. This chapter also contains information that addresses the tied aid reporting requirements of Ex-Im's Charter, which was presented in a separate appendix in previous reports.[40]

Implementation of the OECD Arrangement Rules Governing Tied and Partially Tied Aid: Overview and Definitions of the Various Types of 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. 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[41] tied aid financing for "commercially viable[42]" 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 a foothold for the exporter in the market and bias future purchases in favor of donor country technology, thereby creating longer-term international trade advantages.

---

[40] 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.

[41] 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%.

[42] "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.

Tied Aid and Definitions

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 rules, referred to as "*Helsinki-type*" tied aid, were agreed to in 1991 under the Helsinki Disciplines. Thus, today tied aid is governed by the Helsinki Disciplines, which can be summarized as follows: (1) no tied aid for commercially viable projects[43]; (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 upper-middle income and high-income countries [defined as those with a per capita Gross National Income (GNI) at or above $4,036, with this figure updated annually because it is based on annually-adjusted World Bank lending criteria – see Annex A and B of this chapter for details]; and (4) tied aid offers must have a minimum of 35% concessionality (see **Figure 38**).

"*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 a 25% grant element). 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 and is necessary for the completion of an investment or specific project is considered trade-related. ODA can be tied or untied to procurement from the donor's country.

The OECD Development Assistance Committee's (DAC) technique for measuring concessionality (the grant element) of ODA is antiquated. The DAC uses a fixed 10% discount rate (regardless of currency), which results in one-half of annual ODA levels

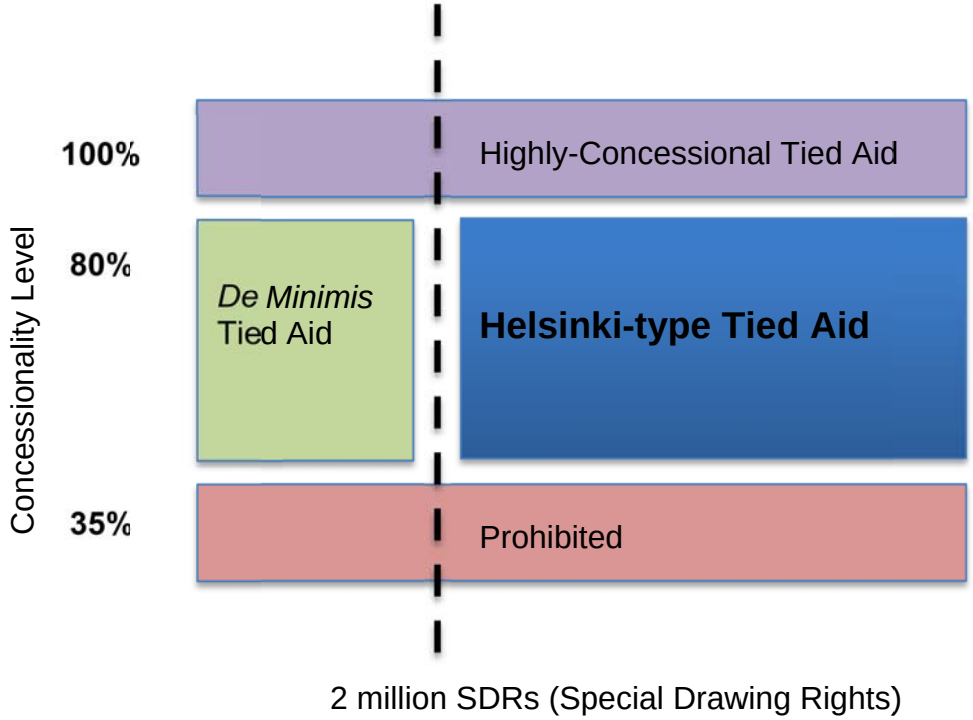
[43] Commercial viability, which OECD members determine on a case-by-case basis, has two components: (1) financial viability, which refers to a project's ability to service market-term, or standard Arrangement-term, financing over 10-15 years (depending on the type of project); and (2) the general availability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

having a real concessionality level (if a currency-specific discount rate were used) below 25%, and some substantially less.

As global aid budgets diminish, concerns regarding low concessional loans are heightened because donors are seeking to stretch their limited budgets further by reducing the grant element offered and leveraging funds for more offers. The fact that the OECD DAC uses this outdated technique for measuring concessionality (grant element) of ODA that is different from that of the OECD Participants makes this practice "legal."

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

Figure 38: Scope of OECD Helsinki Disciplines



Implementation of the OECD Arrangement

The Helsinki Disciplines agreed to by the Participants to the OECD Arrangement in 1991 went into effect in February 1992. Since that time, the use of tied aid for commercially-viable projects has significantly declined. 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 C and D for details. [44]

The OECD tied aid rules 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.

With respect to untied aid, historical concerns regarding the implicit tying of Japanese untied aid (w reached its highest levels—about $15 billion—a decade ago) prompted the United States to seek the same disciplines for untied aid that were agreed for tied aid. Donor and recipient countries resisted U.S. efforts to discipline untied aid, claiming that untied aid did not pose a serious threat to free trade and that disciplines for untied aid would only reduce much needed aid to developing countries. However, in 2005, the OECD 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.

Current Status of the OECD Negotiations on Tied and Untied Aid, 2012

The OECD and the United States continue to monitor the effectiveness of the Helsinki tied aid rules. The trend since 2005 highlights that tied aid disciplines have generally kept 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.

In 2012, however, there were two changes that impacted the tied aid rules. First, and most importantly, China became ineligible for tied aid, due to the fact that its income level moved above the upper-middle income per capita GNI threshold in 2010 and remained above it in 2011. Hence, the OECD saw a flood of notifications for tied aid projects in China prior to it becoming ineligible in July 2012 as it has been a major recipient of tied aid over the years. There have been some concerns about the lagging effect of tied aid offering into China beyond the July 2012 date but the competitive impact – if any - of such offers is not known.

Second, for many years the OECD rules included a "soft ban[45]" on tied aid for the former Soviet/Commonwealth of Independent States (CIS) countries of Eastern Europe. As

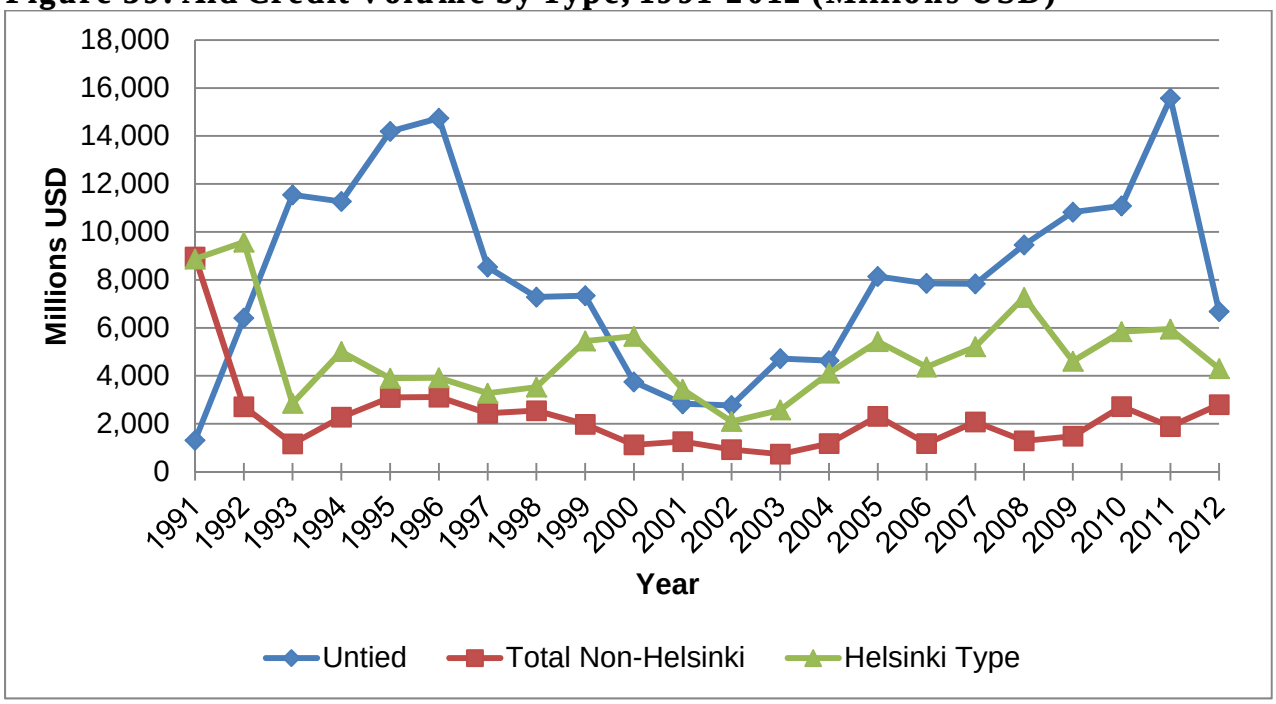
[44] The OECD Consultations Group examines projects that have been notified by a Participant as eligible for tied aid, but which another Participant believes to be *ineligible* for tied aid because they appear to be CV. Sovereign guarantees from the recipient government do not factor into the determination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

countries graduated from being tied aid eligible, only Ukraine was left in that category so the soft ban was removed. The removal of the "soft ban" made Ukraine eligible for all tied aid eligible projects. Furthermore, all decommissioning for nuclear power plants was excluded from tied aid eligibility, except for the event of a major nuclear accident, as new nuclear power projects should provide for decommissioning in the cost of the project.

OECD Tied and Untied Aid Activity

As indicated in **Figure 39** the volume of Helsinki-type tied aid showed a decrease of 27% to approximately $4.3 billion in 2012.[46] The number of Helsinki-type tied aid notifications increased by 14% in 2012 to 140 notifications, as compared to 123 in 2011 (**Figure 40**). These figures indicate that even with the uptick in number of transactions, Helsinki-type tied aid activity has generally remained stable in terms of volume over the past four years.

Figure 39: Aid Credit Volume by Type, 1991-2012 (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.

[45] The soft ban specified that OECD Participants should avoid providing tied aid credit, other than outright grants, food and humanitarian aid as well as aid designed to mitigate the effects of nuclear or major industrial accidents or to prevent their occurrence.

[46] Please note all figures in this chapter are based on preliminary data.

Figure 40: Number and Volume of Helsinki-type Tied Aid Notifications, 2007-2012

	2007	2008	2009	2010	2011	2012
Helsinki-type Tied Aid Notifications (Number)	135	116	135	132	123	140
Helsinki-type Tied Aid Notifications (USD)	$5,213	$7,271	$4,609	$5,838	$5,949	$4,300

Ex-Im Bank's Policy and Practice

Ex-Im Bank strictly applies the Helsinki Disciplines and is more stringent than other OECD Members. Ex-Im Bank has a Tied Aid Capital Projects Fund (TACPF), which it can use in consultation with the U.S. Department of the Treasury to match competitor tied aid offers as long as the following guidelines are met:

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 have been made.
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, have been developed.

Ex-Im does not have an untied aid program.

Ex-Im Bank issued one tied aid letter of interest in 2011 for the sale of fire trucks to Indonesia (See **Figures 41 and 42**). 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 avoid loss of its commercial market share due to tied aid use by an OECD ECA. As of 2012, it was still unknown if the U.S. exporter had won the contract. In 2012, Ex-Im did not receive any applications for tied aid.

Figure 41: Cumulative Ex-Im Bank Matching of OECD Foreign Tied Aid Offers

	2012	1992-2002	2003-2012
Total matching offers	**0**	**46**	**4**
U.S. wins	0	19	2
U.S. losses	0	24	1
Outstanding, no decision	1	3	1

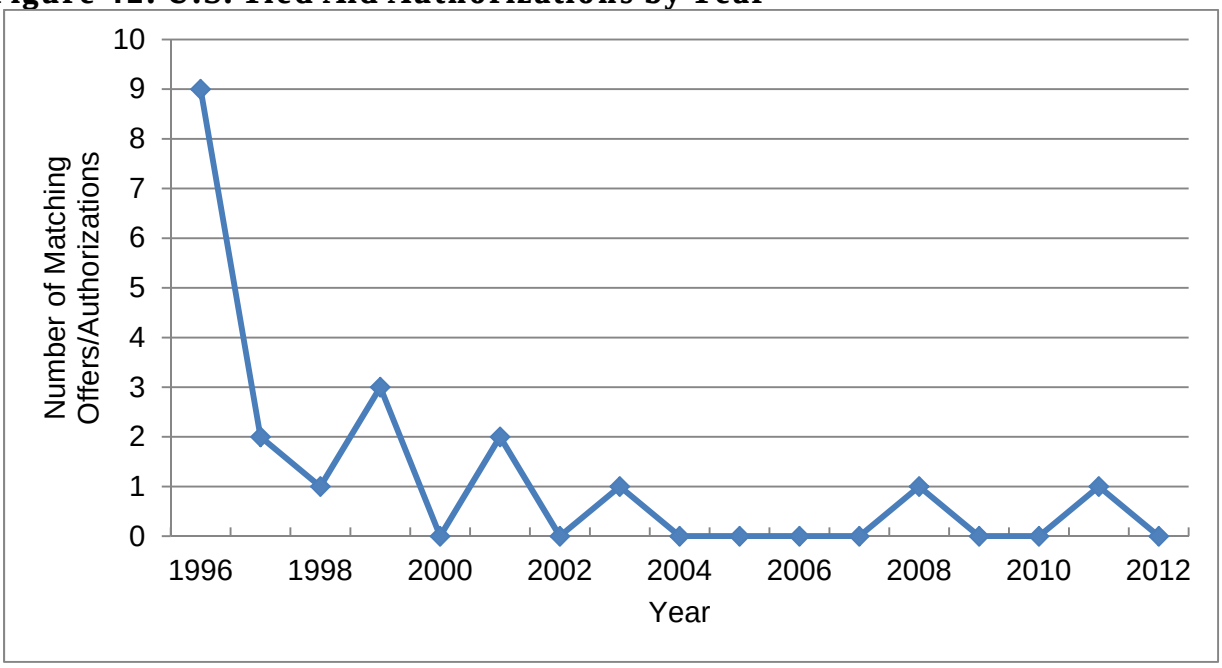
Over the past ten years, Ex-Im has seen a significant decline in the number of tied aid offers it has issued, as compared to 1992-2002 (see **Figure 42**). Ex-Im has approved

only two tied aid transactions in the past five years – one for a waste water treatment plant in Sub-Saharan Africa, approved in 2008, and also the above-mentioned fire truck transaction approved in 2011. Hence, the TACPF was not used in 2012. The fund totaled approximately $179 million at the end of 2012.

Furthermore, Ex-Im did not receive any formal complaints or allegations of tied aid that represented a competitive threat to U.S. exporter sales prospects in 2012. Additionally, 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 in 2012.

The decline in U.S. tied aid matching offers is strongly correlated to the fact that virtually all of the foreign tied aid offers are made in compliance with the OECD rules.

Figure 42: U.S. Tied Aid Authorizations by Year



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, Including Non-OECD Countries

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).

In terms of tied aid offers from non-OECD countries, over the past year U.S. exporters made sporadic reports to Ex-Im regarding non-OECD countries issuing tied aid, but difficulties in obtaining credible evidence of the terms being offered for these projects have hindered Ex-Im Bank's ability to match such offers. Of note, in 2012, China continued to be a major player as a provider of concessional financing and aid. However, despite the numerous allegations, there has not been a case presented to Ex-Im Bank where there was credible information on Chinese terms that would lead the Bank to consider a matching offer.

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 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 2012 with respect to Helsinki-type tied aid were:

- The volume of OECD Helsinki-type tied aid offers has remained stable, while the number of transactions increased slightly.

- In 2012, Japan once again has continued its position as the largest donor of tied aid in terms of volume offering over $1.7 billion in tied aid. However, this figure is a decrease of almost 60% as compared to 2011 (see **Figure 43**).

- Korea surpassed Austria in 2012, as the second largest donor of tied aid, offering over $900 million (21% of the total volume). These three countries have remained the largest donors of tied aid from the period of 2007-2012 (see **Figure 44**).

- **Figure 45** illustrates that in terms of number of transactions, Austria was the largest issuer of tied aid (64 transactions), with Portugal (19 transactions) and Korea (14 transactions). Over the time period of 2007-2012, however, Japan is the second largest issuer of tied aid transactions, behind Austria and in front of Portugal (see **Figure 46**).

- In 2012, the East Asia and Pacific region was once again the largest recipient region of Helsinki-type tied aid (see **Figure 47**). Vietnam was the largest recipient in terms of volume ($1.1 billion) and China was the largest recipient of tied aid in terms of the number of tied aid offers (37 notifications)[47].

- In 2012, water supply and sanitation accounted for the largest volume of tied aid ($1 billion, 12 projects) and rail transport was the second largest sector ($748 million, six projects). The rail transport projects were for rail infrastructure upgrades. Medical services (28 transactions) received the largest number of transactions followed by projects in the low-cost housing sector (24 transactions).

[47] As of July, 2012, China became ineligible for tied aid because its income level (per capita GNI or Gross National Income) remained above the threshold used to determine eligibility for tied aid.

Figure 43: Helsinki-type Tied Aid Notifications by Donor (by Value), 2012

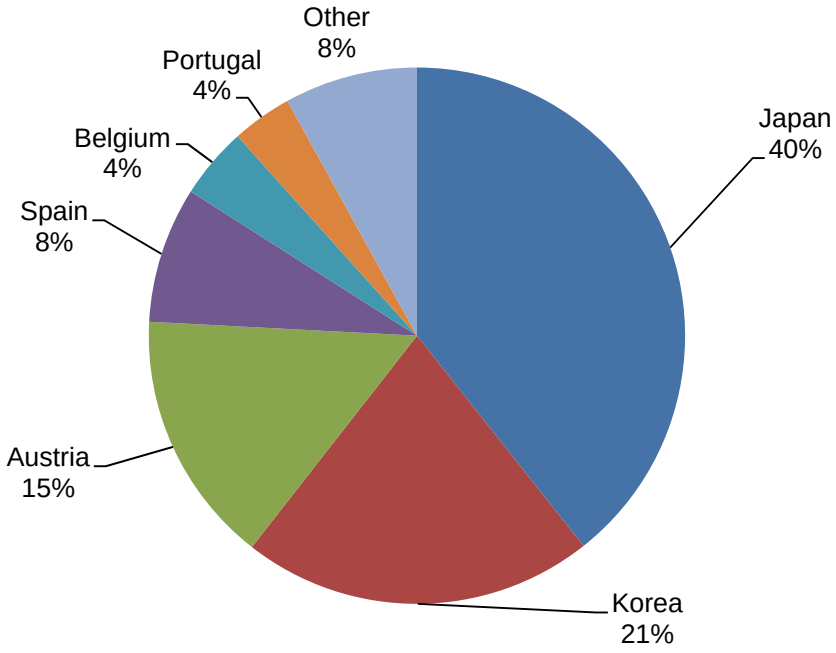


Figure 44: Helsinki-type Tied Aid Notifications by Donor (by Value), 2007-2012

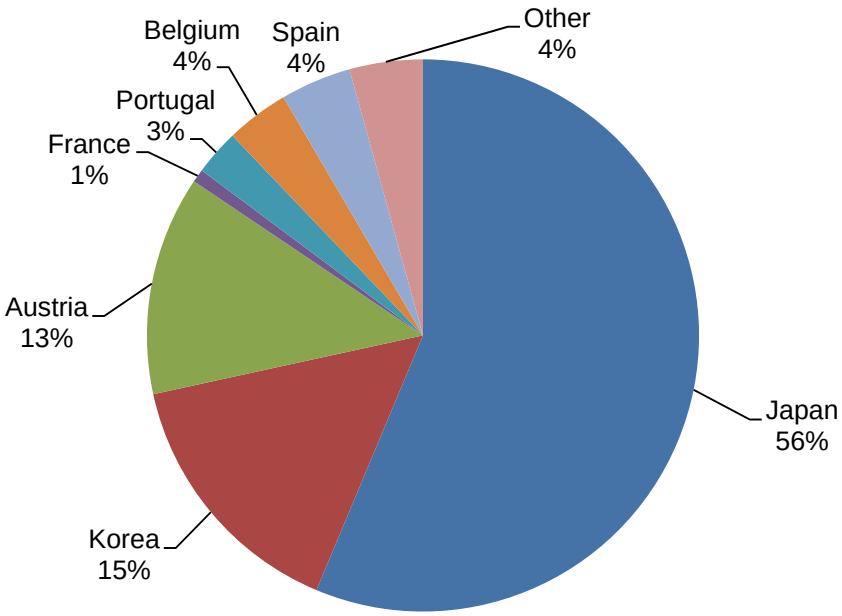


Figure 45: Helsinki-type Tied Aid Notifications by Donor (by Number of Transactions), 2012

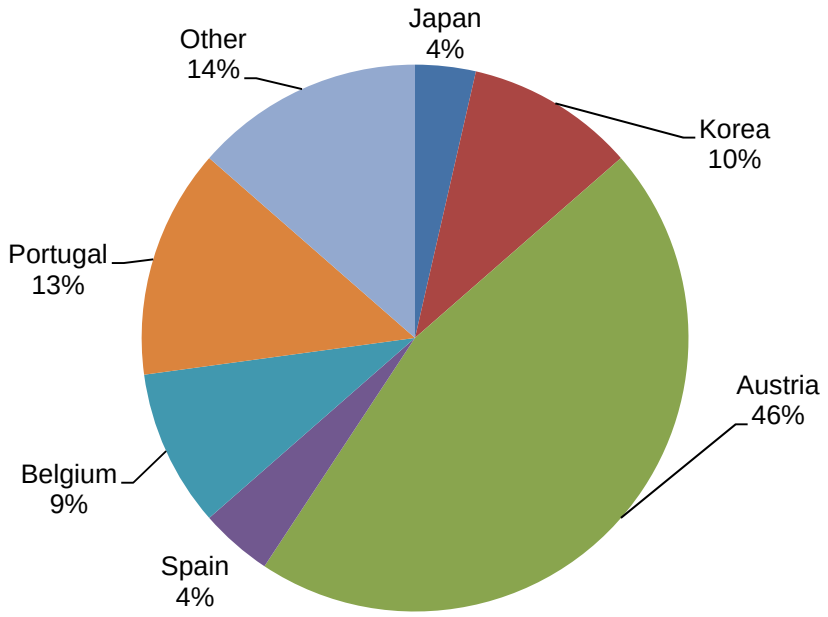


Figure 46: Helsinki-type Tied Aid Notifications by Donor (by Number of Transactions), 2007-2012

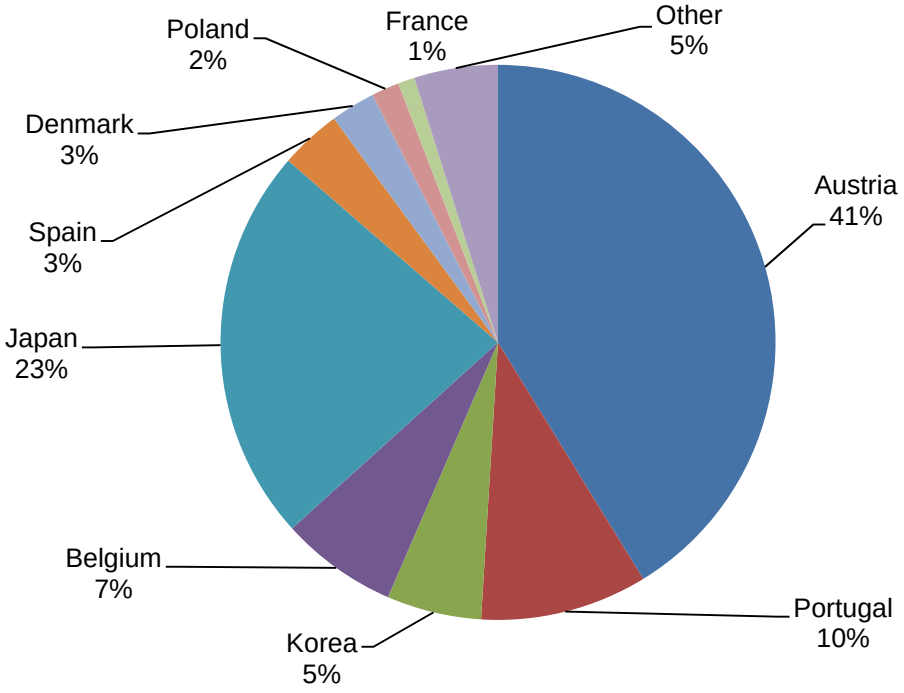
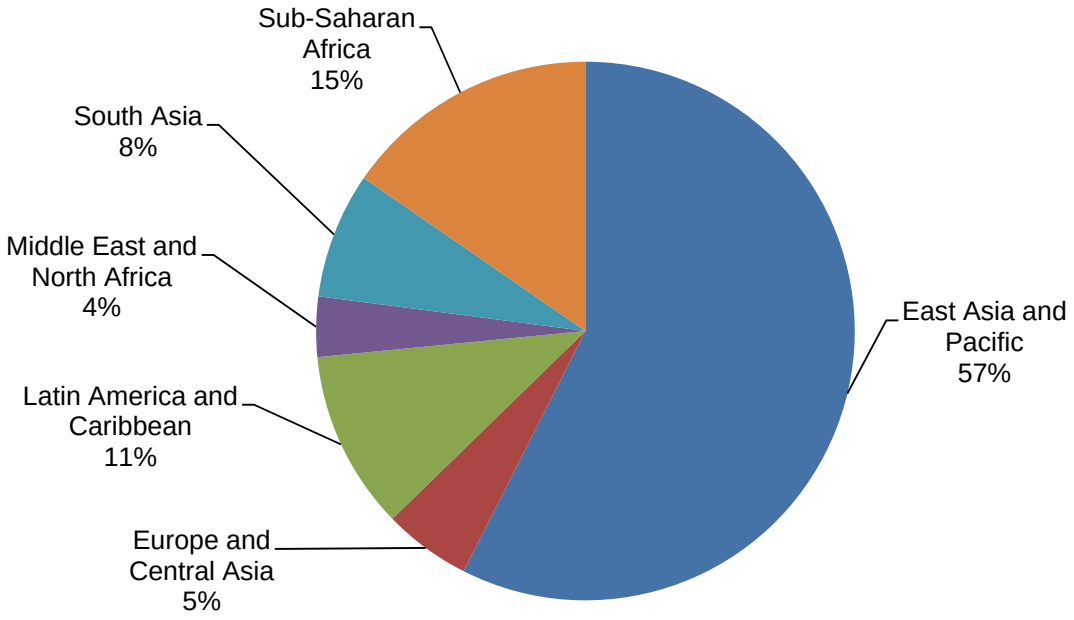


Figure 47: Helsinki-type Tied Aid Notifications by Region (by Value), 2012



The 2012 data from the OECD untied transparency agreement shows that the number of untied aid notifications decreased slightly in from 85 in 2011 to 83 in 2012. More importantly however, untied aid volume dramatically decreased from $15.6 billion in 2011, to $6.7 billion in 2012 (an almost 60% decrease). Therefore, while the total number of transactions stayed the same, the total average transaction value of untied aid transactions declined – an opposite trend from last year's activity. Other points of interest include the following:

- In 2012, only five countries reported untied aid notifications, Denmark, Germany, France, Italy, and Japan.

- Japan reported the largest number of untied aid transactions in terms of volume ($3.9 billion, 31 transactions) and France notified the largest number in terms of number of transactions (32 transactions, $2.2 billion). Germany notified the third largest amount with 17 notifications worth $507 million. Noticeably absent from this year's data was Korea, which was the third largest donor in 2011, but did not notify any transactions in 2012.

- In 2012, Vietnam received the largest volume of untied aid notifications ($1.4 billion), and China received the largest in terms of number of notifications (15 notifications). In terms of volume, Vietnam was followed by Egypt ($492 million) and Sri Lanka ($400 million). Vietnam received the second highest number of notifications (6), followed by Morocco (4).

- The largest sector by volume in 2012 was for the electrical transmission and distribution sector ($1.2 billion), followed by road transport ($890 million). Power generation and non-renewable sources received $700 million in untied aid notifications. Electrical transmission and distribution received the largest number of notifications (11), followed by water supply and sanitation (7) and road transport (6).

Exporter and Lender Survey and Roundtable Results

In 2012, of the 57 respondents who filled out the tied aid portion of the survey, 14% of exporters and lenders reported to have encountered foreign tied aid competition. Nonetheless, none of these exporters or lenders made formal requests for tied aid matching financing to Ex-Im. Ex-Im's policy on tied aid financing was considered by lenders and exporters to be worse than the Japanese, Korean, and Chinese programs, but generally the same as the UK, Germany, and Italy.

Conclusion

Although survey respondents encountered foreign tied aid competition in 2012, there were no requests for tied aid matching. Historically, exporters and lenders have had difficulty proving that the authorization of a tied aid transaction will secure future transactions financed on commercial terms, as many of the tied aid recipient countries rely heavily on tied aid financing. Furthermore, Ex-Im did not receive any specific evidence regarding non-OECD tied aid competition that would support a matching offer in 2012, which, in part, might be due to the difficulty in obtaining credible evidence of case-specific financing terms from non-OECD ECA competitors. Hence, although no specific tied aid transactions were brought to the Bank in 2012, Ex-Im Bank's tied aid policy can have a negative influence in U.S. exporter competitiveness.

Annex A: Key Markets Where Tied Aid is Prohibited

Key Markets Where Tied Aid is Prohibited	
East Asia and Pacific*	China, Hong Kong (China), Malaysia, Singapore, Thailand
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, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Tunisia, 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.

Annex B: Key Tied Aid Eligible Markets

Key Tied Aid Eligible Markets	
East Asia and Pacific	Indonesia, Philippines, Vietnam
Europe and Central Asia	Ukraine
Latin America and Caribbean	El Salvador, Paraguay
Middle East and North Africa	Morocco
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).

Annex C: Projects Generally Considered Commercially Viable

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

Annex D: Projects Generally Considered Commercially Non-Viable

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

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

In 2012, 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 2012 (**Figure 48**). Project finance maintained its "A+" rating. Large aircraft had a banner year, increasing its grade to "A+" from an "A" rating in 2011. Additionally, with respect to co-financing, Ex-Im Bank was moderately to generally competitive (A-/B+) with the co-Financing programs of the major ECAs. The Bank's overall environment policy increased its 2011 "B" rating to an "A-/B+" in 2012. Foreign currency guarantee held steady at a "B" rating, with exchange rate risk and hard cover availability weighing more in the grade than availability of soft cover. Services support increased to "A-/B+" from a "B" in 2011. The overall "A-/B+" score for the Ex-Im Bank's major program structures reflect another fairly competitive year for Ex-Im. See Appendix A for letter grade definitions.

Figure 48: Grading of Ex-Im Bank's Major Program Competitiveness, 2012

Key Elements	Grade
Large Aircraft	**A+**
Interest Rate Level	A+
Percentage of Cover	A
Risk Capacity	A
Small Aircraft	**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	**A-/B+**
Environmental Guidelines	A
Environmental Exports Program	A
Carbon Policy	B
Foreign Currency Guarantee	**B**
Availability of Hard Cover	A
Availability of Soft Cover	A
Accepts Exchange Rate Risk	B-/C+
Services	**A-/B+**
Availability	A-/B+
Flexibility	A-/B+
Total Average Grade	**A-/B+**

The rating for Ex-Im's economic philosophy and tied aid has remained the same as 2011 (**Figure 49**). As far as the evaluation of the economic philosophy and public policy issues, the Report only notes the direction (positive, neutral, or negative) of their potential competitiveness impact on individual transactions. See Appendix A for more information on this assessment method.

Figure 49: Direction of Competitive Impact of U.S. Economic Philosophy, 2012

Areas Affected by U.S. Economic Philosophy	Potential Case-Specific Impact
Tied Aid (de jure or de facto)	Negative

Chapter 5: Public Policies – Stakeholder Considerations
Section A: Introduction

Congress established Ex-Im Bank as a tool to fill certain financing gaps unmet by commercial lenders. These gaps generally occur when either foreign governments provide export credits in support of their own exporters or private sector lenders are constrained by risk, term or capacity limitations. Congress's purpose in establishing Ex-Im Bank – a public institution performing a traditionally commercial role – is to ensure that creditworthy transactions have access to competitive financing so that the U.S. economy can realize the employment benefits associated with exporting. In short, when Ex-Im Bank addresses financing shortcomings by leveling the playing field or complementing private sector financing sources for creditworthy transactions, U.S. exporters are afforded the opportunity to compete on pricing, technical, and other commercial factors.

As a public institution, Ex-Im Bank attaches conditions to its financing that address larger public policy considerations mandated by Congress. 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. During calendar year 2012, only applications for capital goods and services exports that enable foreign production of an exportable good (e.g., increase in foreign fertilizer production capacity) were 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.-flag shipping requirements are based on Public Resolution 17 of the 73rd Congress (PR-17) concerning transport of certain U.S. Government agency supported export cargos. Shipping on U.S.-flag vessels is required for direct loans regardless of term or amount and guarantees in excess of $20,000,000 or with a repayment period of greater than seven (7) years. If cargo subject to U.S.-flag shipping is transported on a non-U.S.-flag vessel, the transaction is ineligible for Ex-Im Bank support unless the exporter obtains a certification or determination from the Maritime Administration of the Department of Transportation (MARAD).

While every ECA has its own public policy considerations, and conditions its support on a case-by-case basis accordingly, these specific public policy considerations are cause for denial if conditions are not met – and there is no offsetting mechanism (e.g., higher fee paid to waive conditions). Hence, where relevant, these considerations can (and do) have a determinative impact on the viability of specific cases. The purpose of the sections that follow is simply to provide insight on the incidence and degree of impact these considerations may have on activity – and perceived competitiveness – of Ex-Im Bank.

Chapter 5: Public Policies – Stakeholder Considerations
Section B: Economic Impact

Introduction

According to the Ex-Im Charter, all applications received by the Bank are subject to economic impact review. No other foreign ECA has such a review of its applications, rendering this requirement an additional condition to Ex-Im Bank support that foreign exporters do not face.

Pursuant to the economic impact provisions, 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 implications, only certain cases undergo further review. That is, cases that involve the export of capital equipment that will enable foreign buyers to establish new (or to expand) production capacity of an exportable good are subject to a more detailed analysis.[48]

In 2012, economic impact policy directly affected approximately 35% (98 applications) of medium- and long-term transactions that were "acted on,"[49] and of those 4% (10 applications) were subject to a detailed economic impact analysis[50] (see **Figures 50 and 51**). As discussed in more detail below, a higher percentage of cases triggered a detailed economic analysis in 2012 compared to the previous years.

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 nine times, most recently in May 2012. The Charter requires the Bank to assess whether its extension of financial support would result in either of the following:

---

[48] The Bank updated and the Board approved the economic impact procedures in 2012. The new standards went into effect in April, 2013. Additional information on the changes may be found on the Ex-Im web site at: http://www.exim.gov/generalbankpolicies/economicimpact/.

[49] "Acted on" refers to transactions the Bank authorized, denied, or withdrew. Note this number is different from the number of reported authorizations for the year. "Acted on" cases are higher than authorizations as it includes cases that the Bank did not support.

[50] 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.

- Foreign production of substantially the same product that is the subject of specified trade measures;[51] or

- Risk of substantial injury to the U.S. economy.[52] All applications seeking over $10 million in Ex-Im financing where the new foreign production equals 1% or more of U.S. production of the same good, are subject to a detailed economic impact analysis.

Ex-Im Bank Summary Data

The Bank "acted on" 278 medium- and long-term applications in calendar year 2012. Of the 278 applications, 174 were applications for medium- and long-term loans and guarantees at the preliminary commitment and final commitment stages, and 104 were medium-term insurance applications. (See **Figure 50**.)

Figure 50: Applications "Acted On" by Ex-Im Bank, CY 2009- 2012

	2009	2010	2011	2012
Long- and Medium-Term Loans and Guarantees (PC or AP)	218	192	228	174
Medium-Term Insurance	106	144	116	104
Total Long- and Medium-Term Transactions	**324**	**336**	**344**	**278**

Source: U.S. Ex-Im Bank Data

In 2012, Ex-Im Bank evaluated those 278 medium- and long-term applications for economic impact implications. Ex-Im determined that 98 applications involved the export of capital goods and services that would enable increased production of an exportable good. None of the relevant applications acted on in 2012 enabled the foreign buyer to produce a good subject to trade measures.

Of the remaining 98 applications reviewed for economic impact, 10 cases were subject to a detailed economic impact analysis. Seven cases yielded a net positive economic impact finding and were approved by Ex-Im's Board of Directors.[53] The remaining three cases were withdrawn for various reasons, including economic impact. As shown in **Figure 51**, these 10 cases accounted for about 4% of total cases that the Bank acted on.

[51] The relevant trade measures are: anti-dumping (AD) or countervailing duty (CVD) orders; preliminary AD or CVD determinations; Section 201 injury determinations under the Trade Act of 1974; and suspension agreements from AD/CVD investigations.
[52] 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 1% of U.S. production of the same, similar, or competing good.
[53] One of the seven cases included a working capital guarantee.

When an application is withdrawn due to economic impact reasons, the foreign project may still move forward without the U.S. goods and services. For instance, in 2012 one multimillion dollar case was withdrawn due to a potentially negative economic impact finding. Instead of receiving Ex-Im support, the project went forward with support from the Italian and Canadian ECAs. The revised economic impact assessment procedures that went into effect April 2013 are more flexible and may serve to avoid situations where U.S. exporters lose the opportunity for Ex-Im support but U.S. manufacturers still suffer injury from new foreign production supported by Ex-Im.

Figure 51: Applications That Triggered One or More Economic Impact Filters and as a Result Were Subject to Further Economic Impact Scrutiny CY 2009- 2012, by Economic Impact Filter

Number of Long- and Medium-Term Applications				
	2009	**2010**	**2011**	**2012**
Cases that Involved the New or Expanded Production and thus Filtered Through an Economic Impact Review	**88**	**118**	**135**	**98**
Percent of "Acted On" Cases Directly Affected by Economic Impact Mandate	27%	35%	40%	35%
Percent of "Acted On" Cases that Received Detailed Economic Impact Analysis	2%	2%	<1%	4%

Source: U.S. Ex-Im Bank Data

Exporter and Lender Survey and Roundtable Results

Exporters and lenders once again gave Ex-Im Bank's economic impact policy a negative rating. For instance, 15 of 57 medium- and long-term respondents answered that economic impact considerations were relevant to their company's transactions. Of the 15 respondents, 10 had a negative overall experience (similar to last year's 2011 results where 13 of 46 respondents had a negative experience). The general consensus in the export community is that the economic impact requirement has an adverse effect on potential applications with respect to processing time and availability of Ex-Im Bank financing. Borrowers may switch away from U.S. exports to other ECAs which do not require this assessment. Some lenders said that the process was "long and cumbersome" and causes transactions to "struggle" to get approved.

G-7 ECAs' Policies and Practices

All G-7 ECAs have a broad mandate to support transactions that benefit their domestic exporters and condition their decisions to provide or withhold official support based on benefits to their national economies. These ECAs view the national interests as a positive aspect which can only add to the benefits already inherent in a transaction; however, under the Charter, Ex-Im Bank must assess the potential interests as a potential negative consequence which can lead to a denial. 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 remedy measures when evaluating each application as a basis for denying Ex-Im support.

Conclusion

Ex-Im Bank's economic impact policy directly affected approximately 35% (98) of the Bank's medium- and long-term transactions "acted on" in 2012. 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. While the level of detailed economic impact analysis conducted over the past year was larger than in the past, it still only subjected less than 4% of all "acted on" case to this additional scrutiny in 2012. Thus, the actual effect of the economic impact mandate on overall Ex-Im Bank's activity is relatively narrow but negative.

Chapter 5: 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. 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 2012

In keeping with its mandate to maintain or increase U.S. employment through the financing of U.S. exports, Ex-Im Bank's 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 2012, the Bank reported approximately $35 billion in export financing that supported $50 billion worth of American exports and supported an estimated 255,000 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. Of the 125 transactions authorized with foreign content in 2012, a little more than 70% of the cases (or 90+ deals) with foreign content were eligible for maximum 85% support.

Ex-Im Bank's 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 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. export 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 a major factor used to establish the level of official support available. Today, however, G-7 ECA policy and practice vary widely on the use of job considerations in the determination of the level of support. This variance reflects an increasingly different importance of jobs to the mission of the various ECAs. Specifically, while Ex-Im Bank's content policy is the tool used to achieve the Bank's mission (it serves as a proxy to link its support to U.S. jobs.) foreign ECAs for use in a variety of non-transactional specific criteria or indicators of national benefit that is broader than domestic employment. Indicators include <u>indirect</u> job support resulting from future sales projections, 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 data set rather that a transaction data set and allows the ECA to make a broad assessment of the benefits that a single transaction can have on the ECA's domestic economy as well as the potential 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-20 ECA that does not provide any direct support for foreign (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 52 compares the main aspects of the content policies of the G-7 ECAs in 2012. 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 much more flexible, case-by-case approach to domestic, foreign, and local content than is currently available from Ex-Im Bank.

Figure 52: Comparison of Content Policies of the G-7 ECAs, 2012

	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
When local cost support is maximized at 30%, is the amount of eligible foreign content decreased?	No	No	Yes	No

Ex-Im Bank Summary Foreign Content Data

In 2012, the data indicate that the incidence of foreign content in Ex-Im Bank transactions (as shown in **Figure 53**) is still increasing. The percentage of the total number of transactions containing foreign content has increased from 40% to 51%; and,

the average foreign content ratio has increased to 15% – the highest it has ever been. These trends are occurring in spite of the fact that the 2012 activity contained much higher levels of 100% content in support of services than any preceding year. (See Appendix F for foreign content transaction detail.[54])

Figure 53: Recent Trends in Ex-Im Bank Foreign Content Support, 2008-2012 (Millions USD)

	Authorizations	2008	2009	2010	2011	2012
Total activity	Export Value	$12,082	$17,449	$14,398	$20,695	$29,625
	Number of Transactions	333	275	320	308	258
Transactions Containing Foreign Content	Export value	$10,750	$15,946	$11,342	$18,997	$23,705
	Percentage of Total Value	89%	91%	79%	92%	80%
	Number of Transactions	141	115	122	124	125
	Percentage of Total Number	42%	42%	38%	40%	48%
Foreign content	Volume	$1,164	$2,106	$1,604	$2,373	$3,545
	Average per Transaction	11%	13%	14%	12%	15%

Source: U.S. Ex-Im Bank

Ex-Im Bank's Local Cost Policy and Practice in 2012

When Ex-Im Bank provided medium- or long-term guarantee, loan, or insurance support for exports in 2012, 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 increasingly undermine the U.S. exporter's chances of winning the sale, especially in light of buyer country local procurement requirements that render the 30% local cost restriction a competitive issue for OECD ECA backed exporters *vis-à-vis* non-OECD ECA backed competitors who do not have to limit their support for LC to 30%.

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

[54] Appendix F 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.

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 2012, 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 54 illustrates recent trends in Ex-Im Bank's support of local costs. In 2012, the dollar volume of transactions that received local cost support represented 23% of total medium- and long-term transactions. In 2012, though the distribution between medium- and long-term deals receiving local costs support was practically even (24 long-term and 21 medium-term), long-term transactions comprised close to 99% of the volume of all local cost authorizations, with project finance transactions accounting for almost 50% of the overall local cost volume. In 2012, about 70% of local cost financing supported installation costs, on-site construction, and labor costs. Almost 16% was generally comprised of import duties and value added taxes and the remaining approximately 14% 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 54**.

Figure 54: Recent Trends in Ex-Im Bank Local Cost Support, 2007-2012 (Millions USD)

	Authorizations	2008	2009	2010	2011	2012
Total Medium- and Long-Term Activity*	Authorized Amount	$4,292	$7,330	$7,152	$8,780	$15,118
	Number of Transactions	377	303	284	266	197
Medium- and Long-Term Activity Containing Local Costs	Number of Transactions	37	47	46	58	44
	Percentage of Total Number of Transactions	10%	16%	16%	22%	22%
Local costs	Volume ($MM)	$211	$1,299	$705	$955	$3,534
	Percentage of Total Medium- and Long-Term Activity	5%	18%	10%	11%	23%

*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 2012, 21 OECD Participants notified 178 transactions where local cost support exceeded 15%. Specifically, U.S. Ex-Im notified the most transactions (40), followed by Germany (Euler Hermes with 34 transactions), Czech Republic (EGAP with 16 transactions), Sweden (EKN with 14 transactions), and Finland (FINNVERA with 12 transactions). About 40% of local cost financing supported installation costs, on-site construction and labor costs, 20% of local cost financing supported capital equipment, roughly 20% supported a local costs delivered from local subsidiaries, and the remaining 20% supported value added tax/import duties.

Exporter and Lender Survey and Roundtable Results

Overwhelmingly, respondents and roundtable participants maintained that Ex-Im Bank's foreign content policy is "the most stringent" and "narrowest of any ECA." A recurring criticism includes that the Bank's content policy is "out of touch with the sophisticated global supply chains that have become critical to businesses." Exporters have urged Ex-Im Bank to consider reducing the content ratio to allow for maximum 85% support even when the foreign content exceeds 15%, like other G-7 ECAs.

In contrast, survey respondents indicated that Ex-Im's local cost policy is "excellent" and "is a strong and competitive cost financing element in Ex-Im's financing program." Ex-Im's policy was lauded and proclaimed "more competitive" than our G-7 counterparts given Ex-Im's expanded eligibility criterion that allows local cost cover in support of costs beyond the export contract provided there is a link to the overall project. Exporters have noted that the local cost policy has "significantly enhanced [their] competitive position."

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 considered by exporters to be less competitive relative to other G-7 ECAs.

Nevertheless, Ex-Im Bank is one of the few G-7 ECAs that does not explicitly require local costs to be included 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 connected to the U.S. source of supply, Ex-Im Bank's local cost policy is considered to have a very positive impact on the Bank's competitiveness.

Chapter 5: Public Policies – Stakeholder Considerations
Section D: U.S.-Flag Shipping Requirements

Introduction

In 1934, the 73rd Congress passed a joint public resolution (PR-17) expressing the "sense of Congress" that exports supported by loans from instrumentalities of the U.S. Government should be carried on U.S.-flag vessels, unless they are not available in sufficient numbers, or in sufficient tonnage capacity, or on the necessary sailing schedule, or at reasonable rates.[55,56] Although PR-17 was enacted when Ex-Im Bank only offered direct loans, Ex-Im Bank and MARAD subsequently agreed that it would also apply to guaranteed transactions that would be eligible for direct lending.[57] While one or more countries used to have a similar national shipping requirement for their exports, to the best of Ex-Im Bank's knowledge, only the United States continues to impose a cargo preference requirement.

When U.S.-flag vessels are used to ship exports, the ocean freight cost is a service export and eligible for Ex-Im Bank financing. Notwithstanding the benefit of qualifying for Ex-Im Bank financing, 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 because arranging U.S.-flag ocean transport typically results in higher costs and delays and poses a hurdle not shared by foreign competitors.

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

New Developments

In 2012, Ex-Im Bank and MARAD collaborated on ways to improve the implementation of U.S.-flag shipping requirements applicable to Ex-Im Bank's loan and guarantee programs.

---

[55] Public Resolution 17 (PR-17) was enacted on March 26, 1934 and most recently codified as 46 U.S.C. §55304 by Public Law 109-304 on October 6, 2006.

[56] The U.S. Marine Administration (MARAD) is the branch of the Department of Transportation that investigates whether circumstances exist to justify an exemption to the U.S.-flag shipping requirement.

[57] The most recent Memorandum of Understanding (MOU) was signed in 2006 and set the parameters for when a guaranteed transaction should be subject to PR-17 at $20 million (excluding the exposure fee) or a greater than seven year repayment term (unless the export qualifies for a longer repayment term under Ex-Im Bank's special medical and environmental initiatives).

As part of this collaboration, the Chairman of the Export-Import Bank and the Secretary of Transportation signed an action memorandum that focused on improving transparency in MARAD's decision-making process, establishing a process for reconsideration of MARAD's decisions regarding rates and vessel availability, and collecting data on the incidence of PR-17-impelled cargo for the purpose of evaluating the effects of the U.S.-flag shipping requirement on U.S. exporters. In conjunction with the transparency initiative, MARAD revised its desk reference guide, which is available on its website as "Maritime Administration U.S.-Flag Shipping Guidance for Shipments Financed by the Export-Import Bank of the United States" (Shipping Guidance).[58]

MARAD's Shipping Guidance explains the PR-17 shipping process and encourages parties to contact MARAD as early as possible when help is needed to facilitate shipments. It also revises some terminology, notably MARAD exemptions from PR-17 are now characterized as certifications or determinations rather than "waivers." More importantly, a new reach back determination was added, which – like the existing Compensatory determination – provides a basis for Ex-Im Bank to finance past shipments that occurred on a non-U.S.-flag vessel prior to an application for official financing support. To further increase transparency, MARAD publishes its certifications and determinations.[59] The four types of certifications or determinations that would allow transport on a foreign-flag vessel are described below in **Figure 55.**

Figure 55: Types of MARAD Certifications or Determinations

Statutory (Non-Availability)	An official certification by MARAD confirming the non- availability of U.S.-flag vessel transport for a particular shipment.
General	A determination by MARAD to allow up to 50% of a total export sale to ship on carriers of the foreign purchaser's nation, if there is a treaty establishing equitable treatment for U.S.-flag carriers from the recipient country.
Compensatory	A determination by MARAD to allow an exporter to ship an equivalent amount of future cargo on U.S. carriers when not required to do so by U.S. shipping policy as a substitute to fulfill the PR-17 requirement for a prior shipment that was transported on a foreign-flag vessel.
Reach back	A determination by MARAD that allows an exporter unable to commit to substitute future cargo shipments on a U.S. carrier for prior shipments on a foreign-flag carrier to receive Ex-Im Bank support at a reduced rate of coverage.

[58] http://www.MARAD.dot.gov/MARADShippingGuidanceEx-ImBank
[59] http://www.MARAD.dot.gov/documents/Ex-Im_Determinations.pdf

Activity Related to PR-17 in 2012

The number of transactions subject to the PR-17 shipping requirement increased in 2012 over 2011. This is consistent with the increase in Ex-Im Bank's overall activity, particularly for large projects where PR-17 is most relevant. Ex-Im Bank authorized over $30 billion in loans and long-term guarantees in CY 2012, a nearly 50% increase over similar authorizations in CY 2011. Not all these authorizations, however, will require ocean borne transport.[60]

According to MARAD, Ex-Im Bank activity supported approximately $95 million in revenue for U.S. carriers in 2012, up approximately 60% from 2011. Because exports for large project-related transactions often ship over several years, some of the 2012 shipments are related to transactions approved in prior years. Similarly, the transactions authorized in 2012 will also generate shipments over the coming years. The number of notifications (previously waivers, now called certifications and determinations) that MARAD issued in 2012 was consistent with the outcomes in prior years (**Figure 56**). MARAD reported that one request was denied because MARAD was able to identify a U.S.-flag vessel that could be used to transport the export.[61] Two of the Statutory certifications were granted because the cargo was placed on the wrong vessel (i.e. foreign-flag) due to an error by the ocean carrier operator, not the exporter.

Figure 56: PR-17 Notifications, 2008-2012

Notifications	2008	2009	2010	2011	2012
Statutory (Non-Availability)	12	6	6	9	8
General	0	0	0	1	2
Compensatory	9	7	4	6	4
Reach back	N/A	N/A	N/A	N/A	1
TOTAL	21	13	10	16	15

[60] Exports of large commercial aircraft, which accounted for over $11 billion of Ex-Im's 2012 authorizations, do not use ocean borne transport. Additionally, exports to Mexico and Canada are often transported by road or rail rather than ship, and some satellite transactions do not involve ocean-borne transport.

[61] When direct U.S.-flag service is not available, shipments on that leave on a U.S.-flag carrier may be transferred to foreign flag service based on a "P-2 concurrence." These are not included in the chart, but in 2012, MARAD gave one concurrence for U.S.-flag to foreign carrier transfer. MARAD approved P-2 concurrences for three shipments in 2011 and for five in 2010.

Exporter and Lender Survey and Roundtable Results

Twenty-six survey respondents reported that that PR-17 impacted their exports, up from 18 in 2011. Because PR-17 only affects relatively large, long-term transactions, the firms that are impacted may change, depending on activity in a given year. Only 10 of the 26 respondents that noted PR-17 as an issue in 2012 had also reported an impact in 2011. In addition, MARAD offers facilitation services to assist exporters with obtaining suitable shipping arrangements on U.S.-flag vessels. Slightly more than half (14) of the 26 respondents reported using MARAD to facilitate shipping in 2012.[62]

The survey also asked respondents to report the outcomes of transactions where the exporter or lender sought a determination or certification from MARAD. Seven exporters reported a total of 30 such transactions, and six lenders identified 54 transactions. Of the exporter cases, 33% required U.S. flag vessels, 63% did not, and the remaining were "to be determined." Lenders showed a similar pattern with 27% requiring U.S. flag ships, another 47% did not, and 26% were still outstanding.

The 2012 survey probed the ease of arranging for U.S. shipping and of seeking a certification or determination from MARAD. Because not all of the exporters and lenders that reported being subject to PR-17 requested certifications or determinations, only a subset of those impacted by PR-17 (14 of 26) responded to questions about that process. Of those respondents, none who had sought a certification or determination found the process to be "very easy," though one exporter rated the process "somewhat easy" and another indicated that it was neither easy nor difficult. Seventy-seven percent of the time, exporters rated the process as being somewhat difficult to very difficult while the exporters indicated the same degree of difficulty on a less frequent basis (58%). Moreover, compared with other ECAs, the respondents with certification or determination experience all indicated that Ex-Im was far below their counterparts, except for three who did not know.

An additional survey question related to the outcome of the transactions for which certification/determination and requested MARAD assistance (see **Figure 57**). Of those eight exporters that had been involved with requesting a certification or determination, seven responded, identifying 16 transactions. Of the exporter transactions, all went forward with most having Ex-Im support. For the lenders, nearly 60% went forward with Ex-Im support, and almost 40% went forward without Ex-Im. In the other two instances, lenders identified one case reported to have been lost to a foreign competitor with other ECA support and one transaction where the transaction went forward without ECA support but sourcing was moved from the United States to a different country.

[62] Five of the 26 responded "don't know."

Figure 57: Final Outcomes for Affected Cases Reported by Lenders and Exporters with MARAD Certification or Determination Experience

Survey Respondent Type	Respondents with MARAD experience	Respondents with Certification or Determination Experience	Total Number of Cases	Cases Won with Ex-Im	U.S. Export Went Forward Without Ex-Im support	Went forward without ECA support with sourcing from another country	Lost to Foreign ECA Competition
Exporters	14	8	16	14	2	0	0
Lenders	12	6	35	20	13	1	1
TOTAL	26	14	51	34	15	1	1

The views expressed in exporter and lender roundtable meetings were critical of the U.S. shipping requirement. One group re-affirmed the long-standing view that it is one of the most significant competitiveness problems for U.S. Ex-Im Bank. The other group offered that the process of working with MARAD has improved, but not substantially.

Conclusion

The global trade network has evolved since PR-17 was approved nearly 80 years ago. Often a private sector project sponsor or consortium, rather than a sovereign, is the buyer, which can add a dimension of difficulty in trying to arrange shipping exclusively on U.S.-flag vessels. As one survey respondent noted, logistics and finance departments may not talk to each other, which causes difficulties in trying to assess whether a sale could be financed through Ex-Im Bank given Ex-Im Bank's shipping requirements. Despite inter-agency efforts to improve the process, exporters and lenders continue to complain about processing time and outcomes. To date, however, none have used the new reconsideration process to challenge a decision. Overall, their message is that the U.S.-flag shipping requirement has a negative impact on Ex-Im Bank competitiveness.

Chapter 5: 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 governed 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 58** displays the directional influence of those public policies on the Bank's competitiveness in 2012.

Figure 58: Grading of Ex-Im Bank's Public Policy Competitiveness, 2012

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
Shipping - PR-17	No	Negative
Overall Assessment		**Negative**

Chapter 6: Overall Results

In 2012, Ex-Im Bank's overall competitiveness relative to that of its OECD ECA counterparts rose to an "A", improving on the 2011 rating of "A-/B+." As noted below in **Figure 59** and in the underlying chapters, Ex-Im Bank's scores reflect its unprecedented direct loan activity in project finance.

Figure 59: Grading of Ex-Im Bank's Overall Competitiveness, 2012

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

While Ex-Im Bank's overall competitiveness is graded an "A", the Bank's Economic Philosophy and Public Policies continue to be rated negatively, as shown in **Figure 60.**

Figure 60: Direction of Competitive Impact of U.S. Economic Philosophy & Public Policy, 2012

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
Major Program Structures:	**Negative**
Economic Impact	Negative
Foreign Content	Extremely Negative
Local Costs	Extremely Positive
Shipping - PR-17	Negative
OVERALLCOMPETITIVENESS GRADE	**Negative**

Trends

Figure 61 illustrates the six-year trend for assessments of both the structural elements and overall grade for the Bank. As seen below, Ex-Im Bank's overall competitiveness moved up to an "A" in 2012, which is an improvement when compared to its six-year average of "A-/B+." This upward shift can be attributed to the sustained A+ scores in two areas: First, with respect to Ex-Im Bank's Core Business Policies and Practices, Ex-Im Bank interest rate support was deemed an A+ again this year, drawing in huge volumes of project finance business. Second, with respect to Major Program Structures, both Aircraft and Project Finance continued their success in offering A+ support that is well above that of the major ECA counterparts. Although the individual grades did not improve from last year, taken together the consolidation of Ex-Im Bank A+ marks in these key high volume/high profile areas cannot but move Ex-Im Bank's overall assessment to an "A" for 2012.

Figure 61: Grade Trends of Ex-Im Bank's Overall Competitiveness, 2007-2012

Structural Elements	2007	2008	2009	2010	2011	2012
Core Business Policies and Practices	**A**	**A**	**A**	**A**	**A**	**A**
Cover Policy and Risk Taking	A	A-/B+	A-/B+	A-/B+	A-/B+	A-/B+
Interest Rates	A	A	A	A	A+	A+
Risk Premia	A	A	A	A	A	A
Major Program Structures:	**A-/B+**	**A-/B+**	**A**	**A-/B+**	**A-/B+**	**A-/B+**
Large Aircraft	A	A	A	A	A	A+
Small Aircraft	N/A	N/A	N/A	N/A	N/A	A
Project Finance	A	A	A	A	A+	A+
Co-Financing	B-/C+	B	A-/B+	A-/B+	A-/B+	A-/B+
Environment	NA	NA	A-/B+	B	B	A-/B+
Foreign Currency Guarantee	B-/C+	B	B	B	B	B
Services	N/A	N/A	A-/B+	A-/B+	B	A-/B+
OVERALL GRADE	**A-/B+**	**A-/B+**	**A**	**A-/B+**	**A-/B+**	**A**

On the other hand, with respect to the public policy considerations regarding economic impact, PR-17/MARAD requirements, and U.S. content, exporters, lenders and brokers have warned of the dampening effect these policies have had on Ex-Im bank competitiveness. These Ex-Im Bank policies, in particular U.S. content requirements, have represented negative influences on Ex-Im's overall competitiveness, which would otherwise be considered an "A+" for 2012. In addition, risk taking has again been identified as an area of exporter and lender concern, in particular with respect to the medium-term program. Accordingly, Ex-Im Bank will continue to monitor the negative impact that these policies have on U.S. exporter competitiveness, especially taking into account the number of cases impacted by the public policy restrictions relative to the

smaller number of mega-project finance cases benefitting from the voluminous direct loan program.

Figure 62: Directional Trends of U.S. Economic Philosophy & Public Policy on Official Export Credit Activity, Procedures and Practices (2008-2012)

	Potential Case-specific Impact on Competitiveness			
	2009	**2010**	**2011**	**2012**
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)	**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)	**N/A**
Public Policy:				
Economic Impact	**Negative**	**Negative**	**Negative**	**Negative**
Foreign Content	**Extremely Negative** (frequent; significant impact)	**Extremely Negative** (frequent; significant impact)	**Extremely Negative** (frequent; significant impact)	**Extremely Negative** (frequent; significant impact)
Local Costs	**Positive**	**Extremely Positive**	**Extremely Positive**	**Extremely Positive**
Shipping - PR-17	**Negative**	**Negative**	**Negative**	**Negative**

As illustrated in **Figure 62**, the views of the exporting community on the public policy aspects have not changed from the previous year in any measurable degree despite the shift in local costs continuing to be a positive competitive factor in 2012. This continuing trend can be attributed to extent and volume of exporter and lender commentary on the issue of content, garnering an extremely negatively competitive ranking in line with that of previous years.

Chapter 7: Evolving ECA Landscape
A Different Competitiveness Perspective

Background

Over the last two Competitiveness Reports this chapter has focused on identifying the existence of two "alternative" official financing universes to that of the Regulated OECD ECAs:

- an Unregulated OECD universe consisting of untied and programs, as well as overseas investment support provided by OECD ECAs. For example, EDC of Canada and KfW IPEX of Germany have been the traditional market window entities included in this report. In addition, the Japanese ECAs NEXI and JBIC are providing an increased amount of overseas investment support.

- the BRIC universe consisting of the major non-OECD ECAs not party to the OECD Arrangement – the ECAs of Brazil, Russia[63], India, and China.

This effort sought to quantify the size of these universes and lay out some possible competitive implications for Ex-Im. After two years the major conclusions are:

1) The Three Universes do exist in reality and are each of a significant size. In 2012, the OECD unregulated activity reached nearly $110 billion, and the BRIC universe totaled approximately $70 billion. Taken together, these two universes exceed the $120 billion of OECD regulated activity for 2012.

2) While the financing offered by each of the other two universes does not regularly compete with the OECD-regulated financing that Ex-Im provides, perhaps a quarter of the OECD Arrangement ECA cases overlap with one or both of the other universes. As all the universes had embedded national interests in their activity, these overlaps could well have caused some reduction of Arrangement activity.

3) Of the major players in the Three Universes, the United States is the only major global player that does not have a large role in two of the universes. Ex-Im is a major player in the OECD Regulated universe. Note that Overseas Private Investment Corporation (OPIC) is the official U.S. government agency that provides support for U.S. foreign direct investment and has a developmental focus. Its role in the OECD Unregulated universe is not prominent.

[63] Russian activity has not been included in this report because the new Russian ECA, EXIAR, was just created in 2011 and has had very limited activity.

The original intention for this year's Chapter 7 was to refine the estimates of activity within the other two universes by visiting many of the ECAs involved. While undertaking that exercise, the latest wave of the financial crisis (the European sovereign debt crisis) rolled over the ECA world and the new regulatory regime of Basel III began to take effect on the banks involved in medium- and long-term export finance. As mentioned in Chapter 2, these factors have had a significant impact on the nature and extent of export credit being made available from the commercial banking sector and, therefore, on the relative effectiveness and competitiveness of ECAs. As these factors have been the dominant influence on ECA activity in 2012, whichever the universe, this chapter has widened its focus to:

- Briefly trace the evolution of the banking influences on the ECA financing in 2012;
- Describe the resulting new "hierarchy" within OECD ECAs;
- Update/refine/re-estimate levels of activity in the Three Universes;
- Illustrate how the interplay of the three universes and commercial banking evolution has created a new "collage" of competitiveness for ECAs; and
- Introduce a new concept, "situational competitiveness," intended to depict the ECA playing field emerging in the post-crisis environment.

The Banking Evolution in 2012 and its Impact on the Role of OECD ECAs

The liquidity problems of the U.S. and European commercial banks emerging at the onset of the 2008 financial crisis were considered to be a short-term issue. Yet, in fact, these developments have turned out to be "the end of the beginning" of a long-run *evolution* in the business model of commercial banks worldwide relating to medium- and long-term international financing of trade. This evolution began with the global liquidity/banking crisis in late 2008, which led quickly to major regulatory changes (Basel III) that are just now beginning to take effect. Those new regulations, aimed at encouraging de-leveraging of bank balance sheets to avoid the financial difficulties that emerged in 2008, are fundamentally altering the approach of banks worldwide to medium- and long-term export finance. Now individual banks provide – on average – less funding per transaction, shorter terms than previously extended, and much higher spreads.

OECD export credit agencies (ECAs) have played a critical role in maintaining the flow of medium- and long-term (MLT) export finance in the face of this widely felt and deep contraction by commercial banks. While this backfill role for ECAs was originally considered by many to be a short-run phenomenon, five years on, OECD ECAs are still being asked for substantive functional (e.g., do more) and structural change (e.g., use new or different tools) in order to maintain adequate financing availability for the

world's capital goods exports. The developed world's ECAs have effectively been forced to take on a major role in financing the flow of capital goods exports, especially for large, long-term structured or project finance deals, filling the financing gap that commercial banks were unable to finance in this environment of constrained liquidity.

Thus, as Basel III splinters the standard ECA operating model (especially for European ECAs who depend on banks for a major part of their operations), the European sovereign debt crisis has created a very un-level playing field among OECD ECAs. These challenges are stimulating i) a broad and deep change in funding mechanisms across the OECD ECA universe; and ii) an increasing momentum to examine the funding rules within the Arrangement (e.g. CIRR construction). See Chapter 3B, for more details.

New Hierarchies within the OECD ECAs

Until all the new funding tools become operational and/or any negotiations are complete, the ability of individual ECAs to respond in a substantive and structurally sustainable way to the new demands they face depends on the country rating and the tools the ECA has available. In fact, two hierarchies of competitiveness among OECD ECAs have emerged.

The first hierarchy is associated with the presence or absence of a direct lending tool. Given the term and exposure constraints of commercial banks, ECAs with direct loan programs have generally seen their direct lending volumes grow over during the past four years. As commercial bank spreads rose over 100 bps on long-term non-aircraft transactions, CIRR lending became much more attractive. ECA direct lenders typically do not have term or capacity constraints, which provide a major advantage in large, long-term cases. As a result, significant volumes have shifted to direct loans, and mainly to U.S. Ex-Im and Korea's KEXIM.

The second hierarchy exists within the group of pure cover ECAs. Among these agencies, the sovereign risk differentiation generated from the European sovereign debt crisis has imposed significant cost and capacity constraints on the amount of business ECAs in "higher risk" European markets are able to do. The spectrum of sovereign risk adds spreads from 50 bps to 400 bps annually to the cost of a transaction. To mitigate this pricing impact, some ECAs have introduced capital markets funding programs (bonds, pension funds etc.) to increase pure cover support at more competitive pricing. However, the pervasive disparity of country risk[64], which is a new phenomenon in the OECD export finance world, can only be reduced modestly by changing the source of funding.

[64] The differences in sovereign debt ratings in Europe in particular result in varying degrees of ability to offer comparable ECA cover because ECAs in riskier markets have higher sovereign debt costs.

A snapshot of what all this change has wrought on the medium- and long-term OECD ECA world indicates:

- ECAs with direct loan capacity are more agile and can more readily adjust to the new financing environment. Those ECAs that can lend in dollars at CIRR flat without capacity constraints have a significant competitive advantage over all other ECAs, particularly on the large, long-term non-aircraft cases (e.g., project finance).
- ECAs with capacity to access non-bank funding sources (e.g., the capital markets with bonds or refinancing programs) have a much easier time handling pure cover cases (like aircraft), with capital markets having a noticeable rate advantage in 2012 for larger cases.
- ECAs in countries hit hard by the European sovereign debt crisis have both cost and capacity constraints that create a significant competitive disadvantage.

In sum, the wide differences among commercial bank business models and the significantly un-level playing field among OECD ECAs has created an ECA world with an unprecedented amount of institutional ECA change, facing a commercial bank community with a very diverse and enlarging set of “needs” and "wants" from ECAs, and probably heading toward some fundamental debates on the rules of the road.

The Three Universes in 2012

Statistical Update

As there is no central source for either Unregulated OECD or BRIC activity, calculating annual activity has always involved estimates generated largely from dated or secondary sources. Refining and improving the accuracy and accessibility of such estimates has been a focus of staff efforts over the past two years. In 2012, staff visited many of the ECAs and was able to get a much more precise statistical picture of the various kinds of activity (especially for the Unregulated OECD universe). Additionally, Ex-Im acquired more information and pieces of data available on China, thus improving the validity of the core Chinese ECA numbers. Hence, the data for the Unregulated universe and aggregate Chinese ECA activity should have a smaller error factor than in previous years.

On the other hand, the role of the China Development Bank (CDB) in its provision of "official export financing- like" funds creates a major degree of uncertainty of the scale of total Chinese official export financing support. Multiple public reports reference CDB activity that resembles official export financing. Various studies of Chinese banking institutions describe the international financing done by CDB as very similar to official

export financing of other countries. However, the CDB is not formally a part of the official Chinese export-financing team. Previously, articles on individual projects were used to estimate CDB activity at the $10 billion-per-year level. This year more data on CDB's outstanding international assets was made public in a series of press articles and reports made available by CDB. From such sources, staff created a hypothetical record of annual activity for recent years. This record puts CDB international financing at more than $50 billion in 2012, with a 36-time increase in foreign currency lending since 2002.[65] Allotting even half of that activity to "ECA-like" business creates a large increase in overall Chinese official export financing. Accordingly, the presentations on Chinese activity in this chapter show the CDB component and present aggregates in a range that has China Exim plus Sinosure as a base, then including half of CDB activity as the maximum range value.

The Three Universes in 2012

Figure 63 depicts the respective sizes of the Three Universes as they are estimated by Ex-Im staff at the end of 2012. In effect, the expanded, more precise and up-to-date calculation of the OECD universe (combined with the continuing surge of U.S. Ex-Im) puts this universe at approximately $115-120 billion in 2012. At this level, the OECD Regulated Universe still represents roughly two-thirds of the OECD Unregulated universe – which grew considerably last year, primarily due to a surge in investment support – and the non-OECD BRIC universe, whose modest growth is attributable in its entirety to China, given the decrease in Brazilian and Indian activity.

Irrespective of the statistical adjustments, the key point of talking about these hypothetical groupings is to illustrate that there continues to be a significant amount of financing in the world that could – in any individual purchase or project – be an alternative source of funds used to source goods. Whether technically tied or not, all of the support offered by foreign governments in each of these universes is done pursuant to the "national interest" of the provider. The 2012 Exporter and Lender survey results indicated that roughly one-third of both exporters and lenders participated in a transaction where there was an association with official financing from sources either unregulated by the OECD or not a party to the OECD Arrangement. A key implication of the country-specific data within the three universes is that the growth experienced by each country within a universe is uneven. In effect, almost all of the growth in the three universes is attributable to only four countries. That is, the United States is a significant contributor to the growth in the OECD regulated universe; Japan in the Unregulated universe; Korea in both the Regulated and Unregulated universes; and China in the BRIC universe.

[65] "A Financial Pioneer That Serves National Strategy; How CDB supports economic and social development." China Development Bank, published March 6, 2013 <http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=4341>

Figure 63: Size of Three Universes, 2011-2012 (Billions USD)

Three Universes	2011	2012
Regulated OECD Arrangement	**110.8**	**119.6**
G-6	52.5	42.6
Expanded Eight OECD ECAs[1]	32.4	40.7
United States	21.4	31.3
Other OECD ECAs	4.5	5.0
Unregulated OECD	**63.5**	**107.6**
Untied	8.6	14.8
Market-Oriented[1]	7.6	11
Investment	47.3	81.8
Non-OECD / BRIC	**52.8 - 77.8**	**58.3 - 83.3**
China	35-60	45-70
Brazil	4.8	2.7
India	13.0	10.6

[1] Includes the ECAs of Austria, Denmark, Finland, Korea, the Netherlands, Norway, Spain, and Sweden.
[2] Includes KfW and EDC Market Window activity from Chapter 2C, in addition to Korean market-oriented activity

The Compartmentalization of Official Export Financing Competitiveness

Just what is the consequence of the Basel III/European sovereign debt crisis across the three universes? In short – the compartmentalization of ECA competitiveness. That is, the basic assumption of the Competitiveness Report evaluation for roughly 40 years has been that the G-7/OECD ECAs were aligned in a fairly narrow spectrum on overall competitiveness. While there might be large differences in individual components (e.g. fees or tied aid), the aggregate competitiveness on a typical standard transaction has been assumed to be pretty close for all Participants to the OECD Arrangement on Export Credits. After all, such a narrow spectrum is the real world outcome of the long-standing OECD goal of a "level playing field" and allowing products and services to compete on the basis of market factors such as quality, price, and service and not on the basis of financing.

This core assumption is strained by the realization that there are alternative financing "universes" – Unregulated and BRIC - which, taken together, are 40-50% larger than the OECD Regulated universe. Moreover, as reported in Appendix C, exporter and lender survey respondents noted that they were aware of competitor Untied and Market Window offers in about one-third of the transactions they were considering in 2012. In addition, about 60 instances of competition from non-OECD ECAs, or BRIC financing,

were reported in 2012 where over 40 of those instances were represented as “non-compliant with OECD rules”[66].

Now, with the differentiation arising from cost and capacity handicaps associated with the 2008 financial collapse and the more recent European sovereign debt crisis, the assumption of a level playing field is shattered. The result is a world of disparate ECA "regimes" that form a web of variously overlapping Venn diagrams of competitiveness. As each overlap has a different competitiveness balance, the outcome is "situational competitiveness."

For example:

- When looking east and seeing competition with European ECAs (whether using Regulated OECD Arrangement financing or Unregulated financing), one could argue that Ex-Im would typically have a modest advantage (equal to or slightly better). This generally advantageous position reflects:
    - the relatively good U.S. sovereign credit rating;
    - the Bank's ability to regularly (and substantially) access low cost direct loan and capital markets financing; and
    - the Bank's consistent ability to absorb very large buyer/country exposures.

- When looking west and seeing competition with Asian ECAs (especially if on a project in Asia that involves considerable national interest for Japan, Korea, or China), one could argue that Ex-Im would typically be at a modest disadvantage (equal to or slightly worse). This generally disadvantageous position reflects:
    - the ability of the major Asian ECAs to offer all of the key elements Exim can on non-aircraft activity (i.e. good sovereign ratings, low-cost direct loans, and very large buyer/country exposure capacity); and
    - the access to vast amounts of alternative financing.

From what is gathered from exporters/bankers/buyers, this ability of Asian ECAs to bring major resources from two different universes to bear on individual transactions can provide an advantage no matter how well Ex-Im performs in the OECD Regulated universe. As illustrated in **Figure 64**, the three Asian ECA systems of Japan, Korea, and China have major activity in two different universes and, taken in aggregate, total a level of activity that is 50-100% greater than any of the three defined universes.

While these generalized positions would probably vary significantly case-by-case depending on the buyer, product, and relationship to national interest, the point of this

[66] Note that exporters and lenders may be reporting on experiences related to the same transactions.

discussion is that the ECA world no longer fits into the unilateral grading (e.g. Exim versus all other OECD ECAs) that is used throughout this report. Whether (and, if so, how) to migrate this "situational competitiveness" landscape to a grading format will be a challenge for next year.

The three Asian giants of Japan, Korea, and China – depicted in **Figure 64** – all share a range of the most competitive aspects in today's world: good sovereign ratings, direct loan options, major activity in two universes, and seemingly unlimited capacity. Taken as a whole, these countries have aggregated activity roughly 50-100% greater than any of the Three Universes.

Figure 64: The Big Three of Asia (USD Billion)

	2011	2012
Standard Export Cases	**51**	**83**
China (China Exim & Sinosure)	35	45
Korea (KEXIM & K-sure)	10	22.5
Japan (JBIC & NEXI)	6	5.5
Untied/Market-Oriented/Investment Support	**68**	**83**
China*	35	35
Korea	9	8
Japan	24	40
Total	**124**	**166**
China	75	80
Korea	19	30.5
Japan	30	45.5

*Basic presumption that at least 50% of investment-related support from China Exim & Sinosure is untied

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 roundtable 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. 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
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.
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.
A-/B+	Level of competitiveness is in between grades A and B.
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.
B-/C+	Level of competitiveness is in between grades B and C.
C	**Barely competitive compared to other ECAs.** Consistently offers terms on this element that are somewhat 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.
C-/D+	Level of competitiveness is in between grades C and D.
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.
F	**Does not provide program.**
N/A	Does not have experience with policy/program.

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 A2** shows the scale that was used by survey respondents to assess the competitive impact of these policies and philosophies.

Figure A2: 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).

Figure A3 below describes the survey choices in the new Competitiveness Report survey of exporters, lenders, and brokers and their equivalent letter grades. This grading scale was designed by the survey consultant with an even number of choices to discourage participants from simply selecting the middle option. Chapter authors used the following conversion scale to interpret the survey results and inform their final letter grade assessments based on the scale in **Figure A1**.

Figure A3: Survey Choices and Letter Grade Equivalents:
How does U.S. Ex-Im Competitiveness Compare to Competitor ECAs?

Survey Choices	Equivalent Letter grade
"Equal to most competitive"	A+
"Equal to the average"	A
"A notch below"	B-/C+
"Far below"	D
"Don't know"	–

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 purposes of 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 2012 by purpose and program type.

Figure B1: Ex-Im Bank Transactions by Purpose, 2012

	No Private Sector Finance Available		Meet Competition		Not Identified	
	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working capital guarantees	$3,249	584	$0	0	$0	0
Short-term insurance	$6,243	2,997	$0	0	$0	0
Medium-term insurance	$28	11	$138	85	$0	0
Medium- & Long-Term Guarantees	$4,675	41	$10,494	96	$0	0
Loans	$12,383	17	$3,362	7	$0	0
TOTAL	**$26,578**	**3,650**	**$13,993**	**188**	**$0**	**0**

Appendix C: Competitiveness Report Survey Methodology and Results

Introduction

For each Competitiveness Report, Ex-Im Bank conducts an annual survey of exporters and lenders who used the Bank's in the prior calendar year, assessing Ex-Im's competitiveness relative to other ECAs. This Congressionally mandated survey provides a valuable opportunity for Ex-Im program users to identify which policies and programs are the most effective and flag those areas that make U.S. Ex-Im less competitive in the global market. This feedback is especially valuable in that it informs the results of this report.

Survey Revision

At the suggestion of senior management and the Advisory Committee, Ex-Im expanded the survey scope and entirely revised the survey content under the guidance of a survey methodology expert. In previous years, Ex-Im limited the survey to exporters and lenders with experience in Ex-Im's medium- and long-term programs because few other ECAs have short-term financing programs. For the first time, the 2012 Competitiveness Report survey included new sections for short-term exporters, lenders, and brokers. Ex-Im also added denied and deterred deals sections where participants could flag any policies or programs that inhibited exports from going forward. (For details on the Short-Term survey results and Denied and Deterred section results, please see Appendix D.)

Ex-Im Bank's survey was broken into a number of sections based on program areas and policies. Survey participants were only required to complete sections with which they indicated they had experience. The first section of the MLT survey questions was broken into five program areas – MT non-aircraft, MT aircraft, LT project finance, LT aircraft, and LT other – in which cover policy and risk taking, interest rates, exposure fees, services support could be evaluated on a program area level. This increased scope and granularity resulted in more meaningful responses and an overall survey experience more tailored to a survey respondent's actual experience with Ex-Im. The survey was administered through an online survey package provider.

In line with the overall shift in scope for the 2012 Competitiveness Report, the survey's comparative reference point was expanded beyond the G-7 ECAs and to include other major OECD ECA competitors (e.g. Korea's KEXIM & K-SURE, Sweden's EKN) and emerging market ECAs, such as those in China, Brazil, and India. Further to this objective, Ex-Im also added new survey sections on non-standard financing (i.e. market

window programs and untied financing). See **Figures C12 and C13** for more information.

Participant Selection and Response Rates

The survey was sent to lenders, exporters, and brokers that directly used Ex-Im Bank's short-, medium-, and long-term programs during calendar year 2012. All lenders with MLT (medium- and long-term) Ex-Im experience received survey invitations. Lenders with short-term program total authorizations for 2012 of at least $3 million received a survey if contact information was available. Exporter survey recipients included exporters with a total authorization value of at least $2 million for whom contact information could be obtained. Ex-Im also surveyed brokers who handled three or more authorizations. These criteria were applied to target exporters that would most likely be aware of foreign ECA competition and Ex-Im Bank's programs.

Figure C1: Survey Response Rates, 2012 and 2011

	2012			2011	
	Invited	Completed	Response Rate	Completed	Response Rate
Exporters	146	55	38%	–	–
ST only	93	27	29%	–	–
- Small Business	73	21	29%	–	–
- Non-Small Business	20	6	30%	–	–
MLT (with or without ST)	**53**	**28**	**53%**	**24**	**41%**
- Small Business	9	2	22%	4	21%
- Non-Small Business	44	26	59%	20	51%
Lenders	73	45	62%	–	–
ST only	30	13	43%	–	–
MLT (with or without ST)	**43**	**32**	**74%**	**24**	**63%**
Brokers	51	28	55%	–	–
MLT Participant Total	**96**	**60**	**63%**	**48**	**50%**
TOTAL	270	128	47%	–	–

A total of 82 small business exporters were surveyed across ST and MLT Ex-Im programs, with 23 total responding. Small business exporters with MLT program experience had a 22% response rate, and small business exporters with only short-term Ex-Im experience had a 29% response rate (see **Figure C1**). Overall, this is an increase

from last year's small business survey participation, in which 19 small businesses received survey invitations and only four responded, yielding a 21% response rate. Small businesses are more likely to use Ex-Im short-term products than MLT ones. In fact, of the 93 exporters surveyed that had ST-only experience, nearly 80% were small businesses. Few other ECAs have short-term programs, so exporters with only short-term experience are less likely to have knowledge about foreign ECA competition.

Surveys were sent to 146 exporters, 73 lenders, and 53 brokers in 2012, which is a much broader scope than in the previous year in which only MLT lender and exporter participants were surveyed (**Figure C1**). In all, 128 surveys were completed, including 60 surveys completed by lenders and exporters with MLT program experience.

The MLT survey response rates and number of responses for the 2012 Competitiveness Report are remarkably higher than the comparable figures from the 2011 MLT lender and exporter survey. In 2012, 28 exporters with MLT experience completed the survey for a response rate of 53%; in 2011, only 24 MLT exporters responded for a 41% response rate. The 2012 MLT lender responses also improved with a 74% response rate, up from 63% in 2011.

The survey respondents represented a significant proportion of total MLT authorizations. **Figure C2** also shows that lender respondents account for about 80% of total authorization values in CY 2012.

Exporter survey respondents accounted for 71% of total MLT authorizations in CY 2012 (**Figure C3**). The direct loan figures are lower for exporters because of the high concentration of direct loans in project and structured finance. In those transactions, the international buyers work directly with Ex-Im Bank, so the exporters supplying the projects may not have ever directly worked with Ex-Im. Exporters supplying project finance transactions received survey invitations, but only the largest of those were able to comment on the competitiveness of Ex-Im MLT programs and policies relative to other ECAs. Insurance respondent value for exporters is lower because the majority of MLT insurance authorizations were very small (less than $2 million); only a few such exporters were aware of other ECA financing programs.

Figure C2: Lender Survey Respondent MLT Authorization Values, CY 2012

	Guarantees	Insurance	Total
Respondent authorization value	$11,967,170,695	$150,488,460	$12,117,659,155
CY 2011 Total authorization value	$15,359,775,110	$165,818,483	$15,525,593,593
Percentage of total value (%)	78%	91%	78%

Figure C3: Exporter Survey Respondent MLT Authorization Values, CY 2012

	Loans	Guarantees	Insurance	Total
Respondent authorization value	$8,195,744,423	$14,003,504,196	$17,092,486	$22,216,341,105
CY 2012 Total authorization value	$15,811,707,215	$15,359,775,110	$165,818,483	$31,337,300,808
Percentage of total value (%)	52%	91%	10%	71%

This year's survey also asked exporter survey participants with MLT participation about the sub-suppliers they used for their export contracts. **Figures C4 and C5** show the range of sub-suppliers and small business sub-suppliers that benefitted from survey respondents' MLT export contracts in 2012. These data indicate that of the responding MLT exporters, 20 out of 22, or 91%%, indicated that they worked with sub-suppliers. Of those 20, 17 exporters noted working with small business sub-suppliers. If this sample is representative of the U.S. exporter population using Ex-Im financing, the data would suggest that a sizeable number of direct exporters use the products and services of smaller sub-suppliers/indirect exporters. Clearly, Ex-Im support of exports benefits companies beyond the exporter directly working with Ex-Im.

Figure C4: How many sub-suppliers did your company use for performance of export contracts in CY 2012?

Number of Sub-Suppliers	# Exporters
None	2
1 to 25	4
25 to 50	2
51 to 75	1
76 to 100	0
101 or more	13
TOTAL # exporters reporting	**22**

Figure C5: Of these sub-suppliers, how many had 500 or fewer employees in CY 2012?

Number of Small Business Sub-Suppliers	# Exporters
None	0
1 to 25	5
25 to 50	4
51 to 75	3
76 to 100	1
101 or more	4
TOTAL # exporters reporting	**17**

Exporter Respondent Profiles

Figure C6 shows the range of years that exporter respondents have been involved in exporting. Almost three-quarters (74%) of the exporters responding had 10 or more years of experience with exporting and, of those, 67% had 25 years or more, showing that a clear majority of exporters who used Ex-Im were well versed in the process of exporting.

Figure C6: How many years has your company exported products as of December 2012?

	10 or fewer years	>10-25 years	>25 to 50 years	>50 years	Average (years)	Total # Exporters Reporting
# Exporters reporting	15	13	18	8	31.3 years	54

As **Figure C7** indicates, export sales are an important component of total sales for a large proportion of exporter respondents. Of the 49 exporters that answered the question, 31 reported that U.S. export sales account for more than a quarter of total sales.

Figure C7: Export Sales as a Percentage of Exporter Survey Respondents' Total Sales

	<10%	10%-25%	26%-50%	51%-75%	Over 75%	Average	Total # Exporters Reporting
Total U.S. Export Sales	7	11	13	11	7	28%	49

Lender Respondent profiles

Figure C8 indicates that the majority of lender participants have been providing export finance for 10 years or more (70%). A few lenders with well above 50 years of export finance experience bring the overall average up to 33.5 years.

Figure C8: How many years has your company provided export finance as of December 2012?

	10 or fewer years	>10-25 years	>25 to 50 years	>50 years	Average (years)	Total Number of Reporting Lenders
Number of Exporters	14	17	8	6	33.5	*45*

Figure C9 shows the volume of export credits extended during 2012. These data show that about half of the lender respondents extended less than $20 million for any tenor of credit. About a quarter of respondents had books of long-term or short-term export credit business of $300 million or more.

Overall, lender respondents tended to either have small books (<$20 million) of business for short-, medium-, or long-term credit, or they supported $300 million or more in 2012. Of the lenders operating in the long-term lending area (43), 13 noted having offered the largest amounts ($300 million or greater). Of these lenders, with the exception of two lenders, the rest were large, multinational banks. In the medium-term, the composition of lenders was more diverse with only six (out of 42) offering the highest amounts with the rest spread across the range of options. Ten (10) short-term lenders cited the highest levels of activity ($300 million or greater) with the same large multinational lenders as in the long-term represented as well as several super regional banks.

Figure C9: For each of the following types of credit, what was the amount of export credit your company extended in CY 2012?

	Less than $20 million	$20 million to less than $75 million	$75 million to less than $150 million	$150 million to less than $300 million	$300 million or more	Number of Reporting Lenders
Short-term credit	22	8	1	1	10	*42*
Medium-term credit	26	6	4	0	6	*42*
Long-term credit	20	6	3	1	13	*43*

Figure C10 illustrates the percentage of export credit supported by U.S. Ex-Im for the lender survey participants with Ex-Im program experience. Five lenders indicated that all of their MLT export finance in 2012 was Ex-Im supported, all of whom could be considered as regional or super regional lenders. For lender survey participants, there appears to be a dichotomy across all tenors where the lenders either have heavy reliance on Ex-Im support (>75%) or Ex-Im support tends to make up a relatively small portion of each export credit portfolio (<25%).

Figure C10: What Percentage of Your Company's Total Medium- and Long-Term CY 2012 Export Credit Was Supported by Ex-Im Bank?

	<25%	25%-50%	51%-75%	>75%	Average Percentage	Total Reporting Lenders
Short Term	12	1	1	10	46%	24
Medium Term	11	5	1	9	47%	26
Long Term	10	2	2	9	47%	23

Survey Structure and Response Distribution

Figure C11 below illustrates the survey outline and level of survey participation for each section and issue area. Some programs and policies applied to a larger proportion of MLT respondents, like foreign content, where 49 of the 60 respondents indicated they had experience. On the other end of the spectrum, fewer than ten out of the 60 MLT respondents indicated experience with the foreign currency guarantee, environmentally-beneficial exports program, and tied aid.

Figure C11: Survey Sections and Summary of Responses

	Number of Survey Respondents			
SURVEY SECTION	**Lenders**	**Exporters**	**Brokers**	**Total**
General Profile Questions	45	55	28	128
Short-Term sections	28	28	28	84
Major MLT Program Areas - TOTAL	**32**	**28**	**–**	**60**
Long-Term Aircraft	12	8	–	20
Long-Term Project Finance	11	10	–	21
Long-Term Other	17	9	–	26
Medium-Term Aircraft	7	4	–	11
Medium-Term Non-Aircraft	23	8	–	31
MLT Programs and Policies - TOTAL	**32**	**28**	**–**	**60**
Foreign Currency Guarantees	6	3	–	9
Co-Financing	4	6	–	10
Environmental Review	6	9	–	15
Environmentally-Beneficial Exports	5	1	–	6
Foreign Content	26	23	–	49
Local Costs	17	12	–	29
MARAD/PR-17	12	14	–	26
Economic Impact	8	7	–	15
Non-standard financing	7	7	–	14
Tied Aid	2	5	–	7
General comments	22	17	19	58
Denied deals section	12	5	12	29
Deterred deals section	18	13	10	41

Non-Standard Financing Section Results

For the first time ever, Ex-Im asked MLT survey respondents about their experience with Non-Standard financing. **Figure C12** shows that while a large proportion of exporters and lenders did not know if they had encountered competition supported by market window or untied financing, 16% of MLT survey participants observed market window competition and just over a fifth encountered untied financing competition.

Figure C12: Did your company encounter competition benefitting from Market Windows or untied financing programs in CY 2012?

	Number of Exporter and Lender Survey Responses		
	Yes	**No**	**Don't know**
Market Windows	8	20	29
Untied financing	10	21	26

Another question in this section asked all MLT respondents to indicate the kinds of non-OECD financing they competed against to their knowledge in CY 2012. Five lenders and 11 exporters answered the question, resulting in the following tallies in **Figure C13**. The Chinese and Brazilian ECAs were the most frequently cited competitors.

Figure C13: Non-OECD ECA Competition Reported by Survey Respondents
Did the following ECAs offer OECD-compliant financing, non-"OECD compliant" financing, or concessional tied aid in any transaction for which your company competed in CY 2012? (check all that apply)

	Number of Exporter and Lender Survey Responses		
ECA	**OECD compliant**	**Non-"OECD compliant"**	**Concessional tied aid**
BNDES (Brazil)	4	8	1
China Development Bank	1	10	1
China Exim Bank	3	9	1
ECGC (India)	2	2	0
EXIAR (Russia)	3	2	0
Exim Bank of India	2	2	1
SBCE (Brazil)	3	3	0
Sinosure (China)	1	6	0
Total	**19**	**42**	**4**

Rating Methodology

Figure C12 describes the survey choices in the new Competitiveness Report survey of exporters, lenders, and brokers and their equivalent letter grades. This rating scale was designed by the survey consultant with an even number of choices to discourage participants from simply selecting the middle option. Chapter authors used the following conversion scale to interpret the survey results and inform their final letter grade assessments based on the scale in **Appendix A: Figure A1.**

Figure C12: Survey Choices and Letter Grade Equivalents:
How does U.S. Ex-Im Competitiveness Compare to Competitor ECAs?

Survey Choices	Equivalent Letter grade
"Equal to most competitive"	A+
"Equal to the average"	A
"A notch below"	B-/C+
"Far below"	D
"Don't know"	–

Conclusion

The new Competitiveness Report survey covered a broader range of issues and solicited information from more participants at a more granular level than the previous survey, yielding greater insights at a more detailed level. Overall, the new survey was well received by survey participants. Most participants found the online platform easy to use and responded positively to the new organization and scope of the survey as an improved means to share their commentary. Survey participants also identified a few areas for improvement, and Ex-Im will work to incorporate these enhancements and corrections into next year's survey.

Appendix D: Short-term Insurance Program and Denied & Deterred Cases Survey Results

SHORT-TERM INSURANCE PROGRAM SURVEY

Background

With the new survey design, Ex-Im was able to incorporate questions about the Bank's short-term program regarding its value as a financing tool as well as compared to similar products offered by other ECAs and private sector insurers.

The survey was sent to customers familiar with the short-term insurance program and its multiple products; this group included exporters, lenders and export credit insurance brokers. Brokers are indigenous to the insurance industry and a number of insurers have an expertise in export credit products that are offered by other governments and private sector companies.

Unlike the medium- and long-term export credit field, short-term products are offered most broadly by private sector insurers with only a limited number of governments still in the segment of the market. In Europe where the largest private sector insurers are domiciled, the European Commission issued a directive to the governments that they should not be in the business of selling "marketable risks" in the short-term export credit space. Hence, for the most part the European ECAs privatized their short-term programs in the mid-1990s and, only up until the financial crisis, had stayed out of offering this particular export credit tool.

During the financial crisis, however, the private export credit insurance industry retreated and left exporters, many of which were small business exporters, without any way to finance their exports because lenders would not take the foreign credit risk on their own. In the meantime, in the United States, Ex-Im Bank had retained its short-term program largely to support the SME exporting community because the private insurers that did exist pre-crisis were not interested in this relatively low volume/low annual premium book of business.

Consequently, when the crisis hit, the majority of private insurers in the United States – which included a number of the European-based export credit insurers – pulled back. At that time, Ex-Im was there to fill the void which it did. As a result, the U.S. exporting community that used short-term insurance for their foreign receivables financing – not just SMEs but also larger companies many of which returned to Ex-Im – had the Ex-Im option available and used it. Exporters from other countries that no longer offered a

government-backed program had no real options until they appealed to the European Commission for a financial crisis exception. These were granted but reportedly inconsistently and slowly. Since then, the private insurers have returned to the market with more normal conditions prevalent.

Nevertheless, Ex-Im Bank took the opportunity to incorporate questions for users of Ex-Im's short-term export credit insurance program to gauge the utility of the products, and how they compared to other short-term providers, both public and private sector in 2012. The remainder of the Appendix reports the findings of the survey.

Short-Term Exporter, Lender, and Broker Survey Response Rates

As shown in **Figure D1**, the short-term survey was sent to a total of 174 program participants: 93 exporters, 30 lenders, and 51 brokers. Seventy-eight percent of the exporters invited to participate were small businesses, of which 29% responded. The dominance in Ex-Im's short-term program survey by small exporters mirrors the overall composition of the short-term program and was expected as the small business exporter is the focus of these products. The brokers showed the highest response rate among the short-term survey participants with 55% responding, a high level of participation by a first-time user group.

Figure D1: Short-Term Survey Participation

Survey Participants	Invited	Completed	Response Rate
Exporters	93	27	29%
Small Business	73	21	29%
Non-SB	20	6	30%
Lenders	30	13	43%
Brokers	51	28	55%
Total	**174**	**68**	**39%**

Short-Term Lender and Exporter Survey Results

The first part of the survey focused on the experience of the respondents in their usage of export credit insurance from Ex-Im and the private market vs. self-insurance and why they chose to use insurance for their foreign receivables financing.

Of the responses received, Ex-Im was clearly the product of overwhelming choice as the exporters' primary insurer in all but a few cases, with most of those having selected self-insurance over private insurance. In fact, the second choice was self -insurance with only five exporters noted having used private insurance. The key factors driving their

use of export credit insurance were, in the order of priority, risk, commercial bank requirement and corporate philosophy with marketing being an additional but less important reason.

With regard to the most important features of insurance coverage, the exporter and lender respondents were very consistent and identified percentage cover, dependability, and having individual credit limits as the most important features, followed closely by price, terms, and ease of use.

Compared with other government ECA short-term programs, Ex-Im's products were, by and large, considered by the exporters to be equal to or better than the programs from six other ECAs (ECGD, EDC, Euler Hermes, Finnvera, NEXI, Sinosure). There were however, several responses that noted that the Bank's short-term program was not as good as the other ECAs due to slower response time and cost. On the positive side, Ex-Im was more flexible than other ECAs and showed a higher risk tolerance.

When compared with the private insurers operating in the United States, Ex-Im fared somewhat less positively with roughly 50% indicating that Ex-Im was the same or better with the other half claiming less stellar performance. Criticisms of the Bank's programs included cost, content, speed of response and deductibles. Nevertheless, of those exporters responding (18), which was fewer than those who compared Ex-Im's program with private insurers (27), roughly 90% explained that Ex-Im's program was very useful (the highest rating available) with the remaining respondents claiming it to be moderately useful. There were no negative responses.

Finally, comments provided by the respondents were favorable, noting that for their companies, most of which are small businesses, Ex-Im's export credit insurance has been vital to their expansion into foreign markets by providing a dependable tool. In addition, these exporters also explained that having Ex-Im/U.S. Government cover gave them a competitive "halo effect" advantage stemming from the buyers' appreciation for having received the "seal of approval" from the U.S. Government.

Short-Term Broker Survey Results

A total of 28 brokers responded to the survey, all of whom had brokered Ex-Im insurance in 2012, and had been in the business an average of 11 years. In 2012, based on dollar value, the brokers sold more private insurance than Ex-Im short-term insurance (60%/40% respectively).

Of the various insurance products brokered for Ex-Im, the multi-buyer represented 72% of their Ex-Im business followed by single buyer exporter policy (23) with single buyer

lender policies at 16%. The features that the brokers viewed as most valuable included individual credit limits, risk appetite, response time and customer service followed closely by percentage cover.

With regard to experience with brokering short-term insurance on behalf of other governments in 2012, only three indicated they had. The comparison between Ex-Im and these other ECAs' programs resulted in a unanimous opinion that the programs were considered to be the same. When asked the same question in connection with private insurers operating in the U.S., over twice as many respondents evaluated Ex-Im to be either the same or better than the other U.S. insurers.

Features considered most attractive for Ex-Im's products included higher percentage cover, claims filing and shorter waiting periods, more flexible SBCL underwriting, no deductibles for small business policies, quicker claims payment, the pay-as-you-go premium option, Express Insurance, and automated on-line processing via Ex-Im On Line (EOL). Ex-Im is clearly the favorite of the smaller exporter who believes the Bank and its short-term products are well suited for companies of this size. Brokers like Ex-Im for their small business customers because, in addition to paying a higher commission for qualifying small business policies, the approach taken with no deductibles, pay-as-you-go premium feature, availability of the enhanced assignment, 95% cover, more flexible underwriting requirements, and the claims process. The larger companies prefer working with private insurers (and vice versa because they generate higher levels of premium and are administratively easier with whom to work). The Express Insurance product was clearly considered to be a favored product by brokers.

The downsides of working with Ex-Im were identified as documentation and reporting requirements, content, lack of a domestic option, less flexibility and in some cases, higher premium. However, several brokers explained that they did not view Ex-Im Bank and the private sector insurers as competitors, but rather complementary because each entity is serving a different segment of the market, and in that regard, both have done a good job.

Regarding foreign competition, only a few brokers (three out of 25 respondents) noted any experience over the past year. Those that encountered other official ECAs explained that the other ECAs did not have similar content considerations and had more flexibility regarding insured parties (e.g., additional named insured).

Conclusion – Short-Term Survey Results

With the exception of content, documentation requirements, and in some cases, higher premia, Ex-Im's short-term export credit insurance program appears to meet the needs of the exporting community, especially for small business. There do not appear to be any significant competitive factors with other official ECAs or the private insurers.

DENIED AND DETERRED TRANSACTIONS

Denied and Deterred Transactions Methodology

Over the years, the exporting community has explained that there are transactions that are deterred from applying for Ex-Im support for a variety of reasons and cases that were denied by Ex-Im that ultimately led to a lost sale. The new survey has attempted to create a mechanism that captures these data to better understand the scope of these transactions and the impact on U.S. exporter competitiveness.

Deterred transactions are cases that are not submitted to Ex-Im because of a perceived or real policy constraint, an aversion to risk generally or risk in a particular market, or would require financing terms that Ex-Im typically does not offer. Deterred transactions might also include applications submitted but later withdrawn because of Ex-Im discouragement for a variety of reasons (policy, risk, etc.). Denied transactions are cases that were formally denied by the Bank for policy, legal, credit, or other reasons.

Denied Transactions - Survey Results

As demonstrated in **Figure D2**, survey results indicated that approximately one-quarter (24%) of all lender and exporter respondents had experience with Ex-Im having denied an application in 2012. The lenders and exporters reported the outcomes of 23 of the 38 transactions. Of those 23 denied transactions, only one was lost to a foreign company with ECA support (Euler Hermes). In another case, a foreign subsidiary of a U.S. company won the sale with financing from another ECA. In two cases, the U.S. exporter won the deal anyway without Ex-Im support. The remainder of the transactions reported (14) had either been postponed, cancelled, or were still in process. In only three of the 23 reported cases was the outcome unknown.

Figure D2: Denied Transactions

	Survey Participants with Denied Deals		# Cases Denied	Denied Transaction Outcomes			
	Yes	No		Won without Ex-Im	Non-U.S. without ECA support	Exporter's Foreign Subsidiary won with ECA Support	Postponed, In Progress, Cancelled, or Unknown
Exporter	5	50	9	1	5	0	0
Lender	12	33	29	1	1	1	14
Total	26	83	38	2	6	1	14

Deterred Transactions – Survey Results

Figure D3 below shows that 31 out of the 69 lenders and exporters that answered the question identified themselves as having had transactions deterred from applying to or withdrawn by Ex-Im. As shown in **Figure D4**, the most frequently cited reasons shared by each group as deterrents to using Ex-Im programs were risk-taking requirements for risk mitigation and related costs, not meeting Ex-Im's foreign content requirements, Ex-Im's cover policy (e.g., being off cover in specific markets – Ecuador most frequently mentioned), and MARAD's requirement to ship on a U.S. flag vessel. One exporter reported that it was deterred because certain transactions were not likely to meet either Ex-Im's tied aid or market window requirements; three exporters did not apply because of the absence of an untied financing program.

Figure D3: Lender and Exporter Survey Participants with Deterred Deals Experience

	Exporters		Lenders		Total	
	Yes	No	Yes	No	Yes	No
Number of Survey Participants Deterred from Using Ex-Im Bank Programs	13	42	18	27	31	69

Figure D4: Reasons Lenders and Exporters Deterred from Using U.S. Ex-Im Financing

	Number of Survey Respondents		
Reasons for Deterred Transactions	**Total**	**Lenders**	**Exporters**
Cover policy—Off cover in requested market and/or specific tenor	8	2	6
Risk-taking—Requirement for risk mitigation and related costs (legal, financial, etc.)	11	5	6
Interest rates—Lender guarantee interest rate cost prohibitive	1	0	1
Interest rates—Limited to no access to Ex-Im Bank direct loan	0	0	0
Exposure fees—Better pricing from other ECA	6	4	2
Exposure fees—Lack of predictability	3	2	1
Services—Stand-alone services not covered	1	0	1
Services—Associated services not covered	1	0	1
Economic impact—Product(s) subject to specific trade measure	3	1	2
Economic impact—Subject to detailed economic analysis	1	0	1
Foreign currency guarantee—Lack of availability from Ex-Im Bank	0	0	0
Foreign currency guarantee—Ex-Im Bank crystallization requirement	1	0	1
Foreign content—Did not meet Ex-Im Bank content requirements	8	4	4
Environmental policies—Requirement to publish ex-ante overly transparent for competitive reasons	1	0	1
Environmental policies—Economic impact analysis process	1	0	1
MARAD PR-17—Requirement to ship on U.S. flagged vessel	6	4	2
MARAD PR-17—Determination not made	1	0	1
MARAD PR-17—Processing time for determination	1	0	1
Co-financing—Lack of availability and/or flexibility	1	0	1
Local costs—Requirement to demonstrate foreign competition and/or local financing not available from commercial market (MT only)	1	1	0
Tied aid—Transaction did not meet or not likely to meet Ex-Im Bank tied aid policy	1	0	1
Tied aid—Processing time	1	0	1
Market Windows—Request to match financing not granted/Did not meet Ex-Im Bank requirement(s) to match	1	0	1
Untied financing—Absence of untied financing program	3	0	3

Conclusion – Denied and Deterred Transactions Survey Results

Twenty-seven (27%) of the lenders and exporters surveyed taken together reported denied and deterred transactions (57/209). Risk taking, underwriting standards and requirements and cover policy issues were the most significant factors for both denied and deterred deals. Ex-Im's content policy and MARAD (for long-term transactions only) also deflected cases from Ex-Im support. On the other hand, survey participants highlighted positive features of Ex-Im's programs, including the backing of the U.S. government, faster claim processing time when compared with the private insurers, and the Express Insurance product. Finally, based on the responses from lenders, exporters and brokers, Ex-Im appears to be meeting two core Congressional mandates: 1) supplementing and not competing with the private insurers especially in the short-term area and 2) serving small business exporters very well.

Appendix E: Major Export Credit Institutions

Introduction

Until last year, Ex-Im Bank had reported on the export credit programs of the G-11 ECAs (consisting of the United States, United Kingdom, Germany, France, Japan, Italy, Canada, Russia, Brazil, China, and India). This edition of the Competitiveness Report includes a wider base of export credit institutions from OECD countries that play a major role in the global economy. Although not an all-inclusive list, the countries and programs listed below represent an initial representation of the major export credit programs used to facilitate trade. In addition, **Annex A** contains a description of the New and Growing Lending Programs established and expanded in response to the liquidity crisis. This initial representation will be expanded and clarified further in future editions of this report once more information and experience is available, in particular regarding the newly established programs.

Austria

Oesterreichische Kontrolbank Aktiengesellschaft (OeKB) is a joint stock company providing export-related services carrying out capital market activities. OeKB operates on the government's account as the Republic of Austria, covering non-marketable risks only for export credit and investment insurance. OeKB issues supplier and buyer credits covering commercial and political risks, as well as pre-shipment and credit risks.

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 as the export credit agency of Brazil. Plans to staff the new agency are being developed and EXIM Brazil is projected to begin operations in 2014.

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 direct loans, and investment financing products. . As Canada's export credit agency, EDC's mandate is to support and develop, both directly and indirectly, Canada's export trade, as well as Canadian capacity to engage in that trade and respond to international business opportunities. A financially self-sustaining agency, EDC operates on commercial principles.

China

The China Development Bank (CDB) China Development Bank (CDB), established in 1994 and wholly owned by the government, initially served as one of the mainland's three policy lenders whose main mandates were to support state-backed projects, such as airports, railways and bridges. CDB does not publish a breakdown of its domestic and overseas loans but industry sources familiar with the situation said that typically about a quarter to one-third of CDB's total loans were U.S. dollar-denominated offshore loans. In 2012, CDB became the world's largest financial institution for overseas loans, overtaking both the World Bank and Asian Development Bank.[67]

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 Exim)** 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 Exim is the conduit for the Government of China's official concessionary credits to developing countries. Conversely, it

[67] Chen, George, "China Development Bank grabs chance for aggressive global loan expansion." South China Morning Post, May, 2013.

may on-lend support that China receives from foreign governments or international financial institutions to government departments or enterprises.

Denmark **Eksport Kredit Fonden (EKF)** is the official Danish export credit agency. A 100% state-owned agency, EKF is an independent entity under the Danish Ministry of Business and Growth. EKF issues insurance cover for national and foreign companies that take risks on exports and investments containing a Danish economic interest. Goods, capital goods, turn-key projects, services and investments are covered by guarantees. EKF covers both political and commercial risks through supplier and buyer credit facilities, lines of credit and shopping lines. Introduced in 2011, as a temporary measure, EKF can also issue export loans. This program is set to expire in 2015.

Finland A specialized financing company, **Finnvera** has two roles in the Finnish economy. The first is to serve as the official Finnish export credit guarantee agency offering export credit guarantee and insurance products to promote exports and the internationalization of companies. The second is to operate as a domestic risk financier promoting the activities of small and medium-sized companies. The subsidiary of Finnvera, **Finnish Export Credit Ltd (FEC)**, established in 2012, offers interest rate equalization at CIRR rates and can fund export credits arranged by commercial banks.

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 has managed official medium- and long-term export credit insurance on behalf of and with the guarantee of the French government since 1946 with the goal of promoting and supporting French exports.

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 and guarantees on behalf of the German government. 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 IPEX-Bank (KfW IPEX-Bank) is a financial institution that is owned by the German government and the federal states (Länder). KfW IPEX-Bank exists to promote the growth of the German economy in a variety of ways. It is responsible for providing financing to support the German and European economy with the objective to preserve and enhance the competitiveness and internationalization of German and European export enterprises. KfW IPEX-Bank issues loans both at market rates and through a government-supported window to achieve CIRR financing. KfW offers 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.

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

Servizi Assicurativi del Commercio Estero (SACE) the Italian ECA provides official export credit insurance. In 2012, Cassa Depositi e Prestiti (CDP), the funding arm of the Italian postal service became the sole shareholder of SACE. SACE's main mission is to promote Italian exports and investments, as well as to contribute to the internationalization of the Italian economy and projects of strategic importance. To meet this goal, 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.

Cassa Depositi e Prestiti (CDP), the funding arm of the Italian postal service and sole shareholder of SACE was given the legal authority to fund SACE guaranteed in 2011. CDP can issue funding either by on-lending the financing to a commercial bank or directly providing funds to a foreign buyer.

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 was granted the statutory authority to work with Ex-Im Bank on a reinsurance/co-financing basis. Furthermore, JBIC now has statutory authority to provide cover into high income OECD countries for strategic sectors, e.g., high speed rail.

South Korea

Korea Trade Insurance Corporation (K-sure) was established in 1992 as the official export credit agency of Korea with the mission to support exports. 100% state-owned, K-sure protects Korean business in their export and overseas investment activities through its export insurance, overseas investment insurance, credit guarantees

and various other programs and services.

The **Export-Import Bank of Korea (Korea Eximbank, or KEXIM)** is an official export credit agency of Korea, established in 1976. KEXIM provides export loans, trade finance, and guarantee programs to support Korean enterprises in conducting overseas business. KEXIM has actively supported Korea's export-led economy and facilitated economic cooperation with foreign countries. KEXIM's services are structured to meet the needs of clients in a direct effort to both complement and strengthen the clients' competitiveness in global markets. KEXIM also provides overseas investment credit, natural resources development credit, import credit, and information services related to business opportunities abroad.

Netherlands **Atradius** is a privately held company that acts as the ECA for the Dutch government (Atradius Dutch State Business). Their export credit insurance and guarantee products are designed to protect companies against the risk of non-payment by domestic and foreign customers. In 2012, Atradius introduced a 100% unconditional guarantee product to cover the full payment risk of a bank's financier, such as an institutional investor.

Norway **Garanti-instituttet for Eksportkreditt (GIEK)** is an independent governmental enterprise that promotes the export of Norwegian goods and services, as well as Norwegian investments abroad. GIEK issues guarantees and insurance on behalf of the Norwegian government. Major facilities include cover for credit and pre-credit risks, investment insurance, counter-guarantees for bonds, and working capital for ships and devices at sea.

In 2012, the Norwegian government established **Export Credit Norway (ECN)** as a limited liability company wholly owned by the Norwegian government. ECN extends loans to large and small companies in Norway and abroad for the purchase of capital goods and services from Norwegian exporters.

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 as an agent of the government in various capacities. VEB plays two key roles. First, it offers export credits either with a guarantee of the Russian Federal State or without such a guarantee

based on its own cost of funding. When acting on its own book, VEB understands it would be operating similarly to a "market window." Second, VEB owns two public institutions: Roseximbank and EXIAR, which are involved in the provision of officially supported export credits.

Roseximbank in the official guarantor of the Russian government. It offers government guarantees on export loans, and carries out the loan documentation and due diligence. Roseximbank is owned by VEB.

Russian Agency For Export Credit and Investment Insurance (EXIAR) is the newly-founded export credit insurer of Russia. Registered in October 2011, EXIAR is a 100% subsidiary of the State Corporation VEB. EXIAR's Board of Directors includes representatives from the Russian Government and other independent members. EXIAR's charter included a 30 billion ruble (roughly USD 1 billion) capital base and its insurance capacity is limited to 300 billion ruble (approximately USD 10 billion). 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 and does carry the full faith and credit of the Russian government.

Spain

CESCE Credit Insurance is a limited company, owned 50.25% by the Spanish state and the remainder is owned by Spain's key banking and insurance groups. CESCE offers export credit insurance for commercial and political cover for export markets and commercial cover for domestic markets, in addition to pre and post-shipment risks for both short-term and medium- and long-term transactions. CESCE introduced a 100% unconditional guarantee in 2012.

Sweden

Exportkreditnämnden (EKN) is a 100% state-owned governmental agency which supports Swedish exports and the internationalization of Swedish business. This is offered by issuing export credit insurance to cover commercial and political risks, as well as medium- and long-term pre-shipment cover and supplier and buyer credit facilities

Svensk Exportkredit (SEK) main goal is to provide financing solutions to support Swedish industry. SEK offers direct loan products and end-customer financing that supports the promotion of the Swedish export community.

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. In 2012, UK Export Finance announced plans to introduce a direct lending scheme that is projected to be operational by mid-2013.

Annex A: New ECA Funding Products and Programs to Address Liquidity Issues

The following products and programs were established to address the liquidity issues of commercial banks stemming from the global financial crisis and introduction of Basel III. Since many of these products and programs were just introduced in 2012 and not yet fully operational, their structure and impact are relatively unknown. Hence, it is anticipated that more details will be provided in future reports as ECAs gain more experience with these products and programs.

Refinancing Programs

- Denmark – administered by EKF (2009)
- Germany – administered both by KfW IPEX-Bank (2009) and Euler Hermes (2011)
- Netherlands – administered by Atradius (2012)
- United Kingdom – administered by UK Export Finance[68]

Funding Programs

- Finland – through Finnish Export Credit Limited (2012)
- France – Banque publique d'investissment (2012)
- Italy – through Cassa Depositi e Prestiti (2011)
- Norway – through Export Credit Norway (2012)
- United Kingdom – through UK Export Finance (2012)

Product Enhancements

- Belgium – introduction of 100% unconditional guarantee (2012)
- Germany – introduction of 100% unconditional guarantee[69] (2009)
- Netherlands – introduction of 100% unconditional guarantee (2009)
- Spain – introduction of 100% unconditional guarantee (2012)

Capital Markets

- Denmark – Framework agreements with pension funds to access capital markets (2010)
- Germany – refinancing in capital markets through SPV or mortgage banks, as well as access to Pfandbrief[70] (2009)

[68] Program announced but not operational.
[69] Referenced as "securitization guarantee"
[70] Used with the securitization guarantee

Appendix F: Ex-Im Bank Foreign Content Support

Ex-Im Bank Foreign Content Support

Figure F1: All Transactions

	Medium-Term			Long-Term		
Product/Project	Number of Transactions	Export Value	FC%	Number of Transactions	Export Value	FC%
Agricultural Equipment	10	$42,871,308	18%	2	$69,004,645	8%
Aircraft	1	$926,670	10%	41	$7,640,901,704	15%
Construction Equipment	10	$18,738,930	16%	3	$227,018,613	20%
Environmentally Beneficial				4	$146,177,695	16%
Medical Equipment	10	$24,867,318	12%			
Mining	5	$35,094,665	17%	3	$110,482,286	17%
Miscellaneous Equipment	7	$13,836,881	9%	1	$112,587,500	15%
Oil and Gas	2	$12,231,602	7%	6	$2,078,305,686	7%
Other	2	$3,004,604	19%	4	$6,324,872,542	16%
Power Generation	5	$23,647,657	8%	5	$4,786,858,032	22%
Telecommunications				5	$2,033,758,598	12%
ALL	**51**	**$175,219,635**	**17%**	**74**	**$23,529,967,301**	**15%**

Figure F2: Medium-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
Argentina	Medical Equipment	$1,480,000	10%
Argentina	Medical Equipment	$2,957,576	16%
Argentina	Agricultural Equipment	$7,154,060	24%
Brazil	Medical Equipment	$671,045	6%
Brazil	Medical Equipment	$740,000	5%
Brazil	Agricultural Equipment	$877,640	29%
Brazil	Helicopter	$926,670	10%
Brazil	Medical Equipment	$1,020,000	10%
Brazil	Medical Equipment	$1,175,602	26%
Brazil	Power Plant	$2,940,700	5%
Brazil	Medical Equipment	$3,190,000	15%
Brazil	Agricultural Equipment	$4,721,473	7%
Brazil	Medical Equipment	$1,302,616	11%
Chile	Mining Equipment	$645,905	0%
Chile	Construction Equipment	$4,000,000	0%
Chile	Mining Equipment	$10,000,000	20%

Figure F2 (Continued): Medium-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
China	Medical Equipment	$1,987,065	18%
China	Medical Equipment	$10,343,414	3%
Costa Rica	Fast Food Restaurant	$2,509,604	7%
Dominican Republic	Construction Equipment	$716,385	16%
Guatemala	Construction Equipment	$876,220	10%
India	Printing Equipment	$882,300	6%
India	Printing Equipment	$900,000	4%
Mexico	Construction Equipment	$322,364	11%
Mexico	Electrical Appliance Motor Manufacturing	$358,962	2%
Mexico	Agricultural Equipment	$461,904	6%
Mexico	Construction Equipment	$535,000	17%
Mexico	Agricultural Equipment	$1,292,433	8%
Mexico	Agricultural Equipment	$1,292,433	8%
Mexico	Construction Equipment	$1,395,000	15%
Mexico	Agricultural Equipment	$1,541,925	15%
Mexico	Construction Equipment	$1,684,933	48%
Mexico	Oil and Gas	$4,616,000	10%
Nigeria	Oil and Gas	$7,615,602	5%
Nigeria	Hydrochloride Machinery	$7,960,106	14%
Panama	Construction Equipment	$1,030,861	11%
Paraguay	Water Purification Equipment	$495,000	30%
Paraguay	Pharmacy Equipment	$2,644,484	14%
Peru	Manufacturing Equipment	$431,654	5%
Peru	Construction Equipment	$5,000,000	15%
Peru	Mining	$5,918,909	25%
Saudi Arabia	Condiment Manufacturing	$640,572	15%
Saudi Arabia	Construction Equipment	$3,178,167	18%
South Africa	Construction Equipment	$6,031,751	18%
Turkey	Oil and Gas	$11,149,383	16%
Ukraine	Agricultural Equipment	$4,056,229	21%
Ukraine	Agricultural Equipment	$8,117,647	15%
Ukraine	Agricultural Equipment	$13,355,564	50%
United Arab Emirates	Refrigeration Manufacturing Equipment	$377,765	4%
Vietnam	Electrical Power Transmission Equipment	$9,198,612	8%
Virgin Islands	Mining Equipment	$12,498,100	20%
Total & Average		**$175,219,635**	**17%**

Figure F3: Long-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
Australia	Telecommunications	$327,000,000	14%
Australia	Natural Gas Power Plant	$1,533,953,450	10%
Bermuda	Satellite	$209,000,000	18%
Brazil	Aircraft	$27,194,897	12%
Brazil	Wind Turbine Blades	$37,095,000	8%
Brazil	Biogas Pipeline	$40,680,024	11%
Brazil	Aquarium Equipment	$112,587,500	15%
Brazil	Aircraft	$297,975,000	15%
Brazil	Aircraft	$110,248,245	24%
Brazil	Aircraft	$297,975,000	15%
Cameroon	Construction Equipment	$45,103,276	21%
Canada	Railroad Transportation	$95,348,229	5%
Cayman Islands	Aircraft	$84,000,000	15%
Cayman Islands	Semiconductor Plant	$1,601,129,000	43%
Chile	Aircraft	$235,499,999	8%
Chile	Aircraft	$286,230,000	13%
Chile	Aircraft	$470,999,999	8%
Chile	Aircraft	$80,000,000	25%
China	Aircraft	$297,029,546	15%
China	Aircraft	$334,560,000	15%
China	Aircraft	$586,150,313	11%
Hong Kong	Satellite	$337,700,000	14%
India	Petrochemical Operations	$2,031,100,000	30%
Indonesia	Aircraft	$24,397,115	31%
Ireland	Aircraft	$47,000,000	15%
Ireland	Aircraft	$91,000,000	15%
Ireland	Aircraft	$231,000,000	15%
Ireland	Aircraft	$167,367,897	15%
Korea	Aircraft	$81,600,000	12%
Korea	Aircraft	$86,700,000	13%
Korea	Aircraft	$170,850,000	12%
Mexico	Solar Panels	$704,471	14%
Mexico	Railroad Transportation	$52,889,493	22%
Mexico	Aircraft	$72,828,000	30%
Mexico	Gas Turbines	$79,539,200	34%
Mexico	Oil and Gas	$112,677,961	3%
Mexico	Aircraft	$156,000,000	15%
Mexico	Oil and Gas	$187,998,947	4%
Mexico	Oil and Gas	$225,355,922	3%
Mexico	Oil and Gas	$450,711,843	3%

Figure F3 (Continued): Long-Term Transactions

Country	Product/Project	Export Value	Foreign Content %
Mexico	Oil and Gas	$563,389,804	3%
Mexico	Telecommunications	$1,031,800,000	5%
Mongolia	Aircraft	$90,290,992	8%
Morocco	Aircraft	$104,800,000	15%
Netherlands	Helicopters	$75,744,520	26%
Netherlands	Aircraft	$92,809,529	15%
Philippines	Aircraft	$281,880,000	11%
Poland	Aircraft	$422,156,712	12%
Russia	Electric Shovel	$55,899,849	5%
Russia	Construction Equipment	$112,150,000	26%
Russia	Aircraft	$182,050,003	15%
Saudi Arabia	Oil and Gas	$538,171,209	21%
Saudi Arabia	Petrochemical Operations	$4,145,534,820	9%
Singapore	Air Transportation	$126,000,000	21%
Singapore	Aircraft	$134,850,000	11%
South Africa	Aircraft	$42,000,000	15%
Turkey	Aircraft	$31,500,000	15%
Turkey	Aircraft	$33,165,711	14%
Turkey	Generator Set	$52,323,382	13%
Turkey	Aircraft	$357,000,000	15%
Ukraine	Agricultural Equipment	$20,436,610	5%
Ukraine	Mining Equipment	$24,590,267	23%
Ukraine	Mining Equipment	$29,992,170	23%
Ukraine	Agricultural Equipment	$48,568,035	10%
United Arab Emirates	Aircraft	$132,000,000	15%
United Arab Emirates	Aircraft	$137,165,359	11%
United Arab Emirates	Aircraft	$137,843,498	11%
United Arab Emirates	Aircraft	$306,278,812	11%
United Arab Emirates	Aircraft	$313,200,000	11%
United Arab Emirates	Nuclear Power Plant	$1,519,913,000	11%
United Kingdom	Construction Equipment	$69,765,337	14%
United States	Aircraft	$403,560,557	10%
Uruguay	Wind Turbines	$67,698,200	32%
Vietnam	Telecommunications	$128,258,598	8%
Total & Average		**$23,529,967,301**	**15%**

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 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)). In addition, the revised OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, agreed in June 2012 defines social impacts to include project-related human rights impacts and directs Ex-Im Bank to give such impacts a more prominent role in the environmental and social review of projects being considered for its support.

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 2012, 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

Section 8A(a)(2) of Ex-Im Bank's charter requires the Bank to report on its role in preparing the strategic plan prepared by the Trade Promotion Coordinating Committee, or TPCC.[71] This plan, known as the "National Export Strategy" (NES), outlines the trade promotion agenda of the 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-specific issues addressed in the 2012 NES are: (1) greater access to export financing; (2) small business financing; and (3) competitiveness issues.

With respect to competitiveness issues, in an effort to level the playing field in the provision of officially supported export credit, and to ensure that U.S. workers and companies do not lose sales because of unfair government financing, the U.S. Government has been working closely with the Chinese government and 16 other countries to implement a joint commitment made in February 2012 during the U.S-China Strategic and Economic Dialogue (S&ED). Specifically, at the S&ED the United States and China agreed to establish an international working group of major providers of export financing to make concrete progress towards a set of international guidelines on the provision of official export financing, with the goal of concluding an agreement by 2014. Since then, the IWG has met and work is progressing toward the 2014 deadline.

[71] 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.

Ex-Im Bank Performance Metrics and Initiatives

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. A comparison of FY 2011 to FY 2012 key performance metrics **(see Figure I1)** indicates increases on multiple fronts:

- *Estimated exports supported* increased by a 21%, rising from $41.3 billion in 2011 to nearly $50 billion in 2012.
- *The value of authorizations* was up by 9%, increasing from $32.7 billion in 2011 to $35.8 billion in FY 2012.
- *The number of authorizations* increased by 1%, growing from 3,751 in FY 2011 to 3,796 in FY 2012.
- *The value of authorizations* for small businesses was up by 2%, increasing from $6.0 billion to $6.1 billion.
- *The number of authorizations* for small businesses was up by 2%, rising from 3,247 in FY 2011 to 3,313 in FY 2012.

Figure I1: Key Ex-Im Bank Performance Measures In Support of the National Export Strategy ($ Values in Billions USD)

General Performance Measures:	FY 2011	FY 2012	% Change
Estimated U.S. Export Value Supported	$ 41.3	$ 50.0	+ 21%
Authorized Value	$ 32.7	$ 35.8	+ 9%
Number of Authorizations Supported	3,751	3,796	+ 1%
Small Business Performance Measures:			
Authorized Value	$ 6.0	$ 6.1	+ 2%
Number of Small Businesses Authorizations	3,247	3,313	+ 2%

In addition to increasing overall activity levels in the past year, Ex-Im Bank sought to expand awareness of its services, improve the ease of doing business and create a high performance and innovative work environment. In support of these goals the Bank worked toward:

- Targeting small business with two recently developed products: (1) the Express Insurance product; and (2) the Global Credit Express loan program. The former makes it easier for small businesses to compete with global suppliers, enter new markets, add foreign buyers and improve cash flow while extending more

attractive payment terms. Global Credit Express is a pilot program in which Ex-Im Bank provides a direct loan of up to $500,000.00 to small businesses with the assistance of commercial lenders. The target turnaround time of this pilot program is five business days.

- Improving case processing time so that 98% of transactions are completed within 100 days.

- Updating the Bank's business processes through the Total Enterprise Modernization Project (TEM), an operational and technological focused initiative to expedite case processing time and improve effectiveness and efficiencies. TEM is a three-pronged plan focused on modernizing systems infrastructures, improving outdated business processes and engaging with customers in new and improved ways.

Appendix J: G-7 and Other Select ECAs' Foreign Currency Approaches

Figure J1: ECA Willingness to Accept Exchange Rate Risk and Activity, 2012

Country	ECA	Exchange Risk Accepted?		Currencies[1] of Approved Transactions (2006-2012)	
		Hard Currency	Soft Currency	Hard Currency	Soft Currency
Austria	**OeKB[2]**	Limited	Limited	USD, JPY	ZAR, RBL
Brazil	**SBCE[3]**	Yes	No	USD, EUR	none
Canada	**EDC[4]**	Yes	Yes	USD, AUD, CND, EUR, GBP, JPY, NZD	CZK, HKD, HUF, MXN, PLN, SGD, TZS
China	**Sinosure[5]**	Yes	No	USD, EUR	none
Denmark	**EKF[6]**	Yes	Per request	AUD, CAD,CNY, DKK, EUR, GBP, NZD, SEK, USD	BRL, DZD, HKD, INR, MUR, MXN RUB, THB, ZAR
Finland	**Finnvera[7]**	Yes	Case-by-case	AUD, CND, GBP, JPY, NOK, NZD, USD	AED, RUB, SAR, ZAR
France	**Coface[8]**	Yes	Yes	USD, AUD, JPY	ZAR, XAF, EGP, MXN, DZD, MYR, SGD, HKD
Germany	**Hermes[9]**	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
Italy	**SACE[10]**	Yes	Case-by-case	USD, GBP, CND, JPY, CNY	ZAR, BRL, TL
Japan	**NEXI[11]**	Yes	Yes	USD, EUR, NZD	none
Netherlands	**Atradius[12]**	Yes	Yes, with a surcharge	[unanswered]	[unanswered]
Norway	**GIEK[13]**	Yes	No	EUR, USD, GBP, SEK, CAD, DKK, CHF, JPY	KRW,CZK, ZAR
South Korea	**K-sure[14]**	Yes	Case-by-case	USD, EUR, JPY, AUD	INR, SAR
Spain	**CESCE[15]**	Yes	No	USD, SUD, CND	BRL
Sweden	**EKN[16]**	Yes	Case-by-case	USD, SEK, EUR, JPY, CHF, NOK, DKK, GBP, AUD, NZD, CND	CLP, MXN, ZAR, LKR, RUR
United Kingdom	**UK Export Finance[17]**	Yes	Prefers crystallization	AUD, USD, EUR, JPY, NZD	EGP, SGD, AED, HKD, QAR, SAR, OMR, PHP
United States	**U.S. Ex-Im Bank[18]**	No, convert obligation to dollars at time of payment	No, convert obligation to dollars at time of payment	EUR, JPY, AUD, CND, NZD, GBP	MXN, COP, ZAR

1 Currency Key - *Hard:* AUD – Australian dollars, CHF – Swiss francs, CND – Canadian dollar, DKK – Danish krone, EUR – Euro, GBP – British pounds, JPY – Japanese yen, NOK – Norwegian krone, NZD – New Zealand Dollar, SEK – Swedish krona, CHF – Swiss franc, USD – U.S. dollar
Soft: AED – United Arab Emirates dirham, BRL – Brazilian real, CLP – Chilean peso, CNY – Chinese Yuan, 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, KRW – South Korean Won, LKR – Sri Lankan rupee, MAD – Moroccan dirham, MXN – Mexican pesos, MYR – Malaysian ringgit, NIS - Israeli new shekel, OMR – Omani rials, PHP – Philippine Pesos, PLN – Polish zloty, QAR – Qatar rials, RUB – Russian ruble, SAR – Saudi Arabian Riyals, SGD – Singapore dollar, TZS – Tanzanian Shilling, TL – Turkish Lira, TWD – New Taiwan dollar, XAF – Central African Franc, ZAR – South African rand
2 OeKB does not cover a specified exchange rate risk, but it does provide cover in both hard and soft currencies on a limited basis—for hard currencies, OeKB covers CHF, GBP, JPY, and USD; for soft currencies, OeKB covers RUB and ZAR. Ex-Im understands that OeKB does not require crystallization. OeKB does not impose a surcharge on foreign currencies.
3 SBCE covers only USD and EUR, and does not impose a surcharge.
4 EDC tries to match its assets with its liabilities as closely as possible so as to not have any foreign exchange risk exposures. Although EDC does not typically crystallize, it does so on occasion under its Political Risk Insurance Program. In these cases (for both hard and soft currencies), the structure is negotiated at the time of signing the contract; if the loan is denominated in a soft currency, then EDC pays a claim in local currency and converts the value of that claim into an equivalent hard currency amount, which serves as the recovery amount.
5 Sinosure does not impose a surcharge on foreign currencies.
6 EKF does not impose a surcharge on foreign currencies.
7 Finnvera requires a surcharge for soft currencies set on a case-by-case basis. The currency list of approved transactions (2006-2012) includes both ST and MLT transactions.
8 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.
9 Hermes accepts hard currency exchange risk with a premium surcharge of 10% in any case, independent 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.
10 SACE does not impose a surcharge on foreign currencies.
11 NEXI provides cover in USD, EUR, GBP, CAD, AUD, NZD, SGD, CNY, KRW, HKD, TWD, THB, IDR, VND, PHP, MYR, INR, BHD, BRL, and RUB. NEXI accepts exchange risk up to 300% appreciation.
12 Atradius does not impose a surcharge on hard foreign currencies. Its policy is such that what it considers 'standard' transferrable currencies (traditional industrialized countries) are eligible for insurance. It will also insure soft currencies that it considers linked to the Euro or U.S. dollar, and will consider additional soft currencies of certain emerging markets with a relatively high level of development. On a case-by-case basis, Atradius will consider coverage for additional soft currencies; an important indication is the existence of a developed currency futures market where the forward rates are determined on the basis of interest rate differentials (covered interest parity). Coverage for a soft currency is more expensive than that for a hard currency.
13 GIEK does not impose a surcharge on foreign currencies, and reports that it does not have any fixed policy, but major currencies are granted without further considerations and it sees little demand for soft currencies.
14 K-sure does not impose a surcharge on foreign currencies.
15 CESCE does not impose a surcharge on foreign currencies.
16 EKN employs conversion clauses (in which the debt is converted into USD, EUR or SEK) as a standard procedure for local currencies. However, in recent years EKN has been prepared to waive this clause in LCFs that are deemed to be highly convertible e.g. RUR. Conversion can is normally foreseen to be made installment by installment, but can also (through usage of an acceleration clause) be for the whole outstanding amount.
17 UK Export Finance 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. While UK Export Finance's policy does not require that it crystallize for hard or soft currencies, it reports that it favors that the loan is crystallized into sterling in the event of default.
18 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.

Appendix K: Customer Experience and Competitiveness

Linking Customer Experience, Competiveness and Ex-Im's Strategic Plan

As outlined in *Ex-Im Bank Strategic Plan 2010-2015,* one of Ex-Im's strategic goals is to improve the ease of doing business for our agency's customers. We ascribe to a broad view of the term "customers," as exporters, lenders, brokers, outside advisors, and city/state partners, for example, all play key roles in the financing and facilitation of U.S. exports as outlined in the opening lines of our agency's charter.

In pursuit of the strategic goal to improve the ease of doing business, Ex-Im Bank set out to determine where gaps existed between customers' business expectations and their actual experiences working with Ex-Im. Between August 2012 and April 2013, Ex-Im's Vice President of Customer Experience, representatives from the agency's Total Enterprise Modernization (TEM)[72] group, and Small Business Group engaged in conversations with 75 representatives from 60 customer organizations.

Discussions occurred in person and via telephone, covering issues most important to the individual customers in their business dealings with Ex-Im, with an eye toward the agency's Total Enterprise Modernization initiative and various mandates, including small business and Sub-Sahara Africa. For example, one series of approximately 10 customer dialogues included, but was not limited to, sentiments on doing business in Sub-Sahara Africa. Fifteen (15) separate interactions focused on small business exporters' experiences working with Ex-Im's short-term products and information technology platform. None of the discussions were intentionally focused exclusively on Ex-Im's competitiveness with foreign ECAs.

Figure K1: Conversation Sources August 2012-April 2013

Sources	Percentage of Pool
Small business exporters	21%
Medium and large exporters	24%
Lenders (Small, medium and large)	20%
Outside Advisors (Financial, Legal, etc.)	17%
Others (Various intermediaries, partners, stakeholders)	18%
Total	100%

[72] TEM focuses on modernizing the bank's information systems infrastructures, improving outdated business processes and engaging with customers in new and improved ways. The TEM initiative is designed to transform Ex-Im Bank into a more modern, flexible and responsive institution, with the customer at the center of our efforts.

While the dialogue focus varied from customer to customer, and each customer's perspective was specific to his or her day-to-day commercial realities and unique interactions with Ex-Im, several common themes emerged in the context of working with Ex-Im. Sentiments concerned the complexity, opaqueness, time-consuming nature and sometimes costly impact these issues have on exporters, intermediaries, and outside advisors who facilitate deals—in essence, toward the ease of doing business with Ex-Im. It should be noted that not all of these issues applied to every customer's experience with Ex-Im, and not every customer expressed an opinion on every topic.

Figure K2: Top Areas of Customer Conversation

Discussion Points	Percentage with Experience
Turnaround time, process improvement	64%
Foreign ECA knowledge, involvement	37%
Content	33%
Fees	16%
MARAD	11%

Aside from policy issues such as content, economic impact and MARAD, customers often discussed and sometimes compared Ex-Im's business processes and practices with those of other ECAs. Turnaround time, opaque workflows, paper-intensive practices, market risk, flexibility concerns, costs, and unexpected surprises were cited as areas for improvement, especially from a competitiveness perspective. Example customer comments included:

- Large exporter: "For a recent medium-term deal, Ex-Im required piles of paperwork. EDC required two documents."
- Small business exporter: "We dropped Ex-Im's (short-term) credit insurance program for one provided by Euler-Hermes (private insurance). It provided better coverage and was much, much cheaper."
- Intermediary with activity in short, medium- and long-term programs: "Hermes is more open to doing things in a way that Ex-Im is not (in the medium-term space). Hermes is flexible on payments. They have no issue moving payment dates, unlike Ex-Im."

It should be noted that, while customers frequently cited turnaround time as an issue, many recognized that, with the number of parties represented in more complex deals, Ex-Im isn't necessarily the only organization that could improve upon workflow speed.

Still, in some instances, customers reported having turned to Ex-Im's ECA competitors to bypass lengthy turnaround times, policy and other business process issues. In two

instances, intermediary partners spoke of exporter inertia—where exporters chose not to pursue export deals at all, to avoid what they consider to be time-consuming, laborious and unclear processes. For example:

- Lender with primary activity in large, long-term deals: "Content, MARAD, economic impact has been a cause for exporters to say, 'This is too much trouble. Is another ECA available?' These forces make a borrower go to another ECA, even if they're more expensive."
- Intermediary on large, long-term deals: "Customers are willing to back away from doing a deal to the detriment of jobs, if it means they have to work with Ex-Im. Ex-Im is too complicated."

Conclusions

In 2012, in a step toward implementing innovations that focus on customers, Ex-Im Bank created a position for and hired its first Vice President of Customer Experience, located in the Office of the Chairman. Over the next three to five years through our TEM initiative, the Bank will continue to identify and understand customers' needs and implement appropriate innovations that focus on customers, improve outdated business processes and upgrade technology. Moving forward, Ex-Im anticipates encountering overlap of insights and data on customer experiences with issues regarding Ex-Im competitiveness and, to the extent this occurs, will provide this information as part of the annual Competitiveness Report.

Appendix L: ECA Activity Data Collection

Data Collection Template

Ex-Im circulated the following table to ollect data on ECA new commitment volumes for calendar year 2012 from major OECD and non-OECD ECAs. Chapters 2 and 7 prominently feature the results of this collection.

ECA New Commitments		
	2012 Total* (Millions USD)	**2011 Total*** (Millions USD)
I. MLT export credits (e.g. programs or activity covered by the OECD Arrangement Terms)		
a. Direct loans		
i. (of which is Project and Structured Finance)		
b. Guaranteed loans and insurance		
i. (of which is Project and Structured Finance)		
II. Other MLT support (e.g., programs or activity not covered by the OECD Arrangement)		
a. Direct Loans (export credits)		
i. (of which is Project and Structured Finance)		
b. Guaranteed Loans and Insurance (export credits)		
i. (of which is Project and Structured Finance)		
a. Untied Financing (please specify if loan, guarantee, and/or insurance support)		
i. (of which is Project and Structured Finance)		
III. Overseas Investment support		
i. (of which is Project and Structured Finance)		

*Please provide data for Calendar Year.