EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

Additionality Report for Fiscal Year 2020

Contents

Introduction

The Export-Import Bank of the United States' (EXIM or Agency) Charter provides that "[i]t is … the policy of the United States that the Bank in the exercise of its functions should supplement and encourage and not compete with private capital." This concept, referred to as Additionality, is a fundamental underpinning of EXIM's operations. To provide further transparency in this area EXIM's Board of Directors adopted a resolution in May 2020 requiring EXIM to prepare an annual report on how Additionality factors into EXIM transactions in each calendar year. This is EXIM's first report pursuant to this resolution and covers fiscal year (FY) 2020.

Executive Summary

The report begins by providing background on the meaning of additionality. Section I discusses EXIM's "Gap" analysis, which provides information on the general availability of private sector capital for export finance (*e.g.*, risk appetite, cost, and terms). EXIM uses this data to broadly identify the nature and scope of the gaps the Agency finds in the availability of commercial financing for specific individual transactions. Section II describes EXIM's additionality approach for Short-term Transactions, including recent changes implemented. Section III focuses discussion on EXIM's long-term transactions, where the bulk of EXIM's dollar value of support has historically occurred. It also discusses potential EXIM transactions brought to EXIM that were not pursued due to lack of additionality, as well as a detailed, non-confidential summary of each long-term transaction approved with an authorized amount over $100 million. The report has four appendices: 1) the Board-approved Additionality Guidelines and Checklist; 2) a description of the competitive dynamics of major capital goods exporters; 3) a summary of certain portfolio information; and 4) FY 2020 authorizations by market.

Background

Additionality refers to the existence of reason(s) why a transaction would likely not go forward without EXIM's support. The concept is defined in Section 206 of the *Bank Export Services Act*, as amended (P.L. 97–290, Title II; 12 U.S.C. § 635a-4), which authorizes and directs establishment of EXIM's working capital program. Under the program, EXIM is directed to provide financing when it "would facilitate the expansion of exports *which would not otherwise occur*" (emphasis added). This principle – that EXIM should only support transactions when there is no other option – fits in with the broad consensus historically shared among U.S. policymakers that private markets are generally best suited to effectively and efficiently allocate capital. This provision aligns with the above-referenced

Section 2(b)(1)(B) of EXIM's Charter, which directs the agency to "supplement and encourage, and not compete with, private capital."

In 2012 Congress further underscored the importance of additionality when it amended Section 8(h) of the Charter to require that, in its annual report, the agency categorize all loans and long-term guarantees into one of four purposes:

> (1) 'To assume commercial or political risk that exporter or private financial institutions are unwilling or unable to undertake'.
> (2) 'To overcome maturity or other limitations in private sector export financing'.
> (3) 'To meet competition from a foreign, officially sponsored, export credit competition'.
> (4) 'Not identified', and the reason why the purpose is not identified.

EXIM's Board-approved Additionality Guidelines and Checklist (Appendix A) combines these four purposes into three categories:

I. Meeting Foreign Competition (Section 8(h)(3))
II. Lack of Private Market Financing (Section 8(h)(1-2))
III. Other, including diversification of financing and catalyzing additional private sector financing (Section 8(h)(4))

EXIM anticipates rarely approving transactions solely for Category III purposes.

In practice, users of EXIM's programs have identified two major justifications why its financing is needed: 1) to meet foreign export credit agency (ECA) backed competition, and 2) to fill financing gaps for creditworthy borrowers caused by regulatory, cyclical, or structural factors.

Section I: General Additionality Information

This section provides general information on additionality, including a section on gaps in commercial market financing, as well as a table indicating the aggregate additionality rating of all EXIM transactions, regardless of tenor.

Gap Analysis

EXIM analyzes annually the nature and scope of the risk appetites of commercial banks and private insurers (called the "gap analysis") to inform its additionality determinations. This analysis generates an estimate of the general rates, terms, and volumes available to individual borrowers. When compared to the terms normally required for effectively financing major capital equipment purchases, the difference provides an indication of

where there are gaps in the private sector that export credit agencies (including EXIM) would need to fill.

This gap analysis is typically based on data from the export finance market as well as anecdotal, aggregated information directly from multiple wide-ranging one-on-one interviews with senior market participants. While EXIM was able to access some data from the market for FY 2020, the interviews typically conducted to supplement the quantitative findings were not able to occur due to the COVID-19 pandemic. Therefore the breadth and depth of the analysis is more limited for this fiscal year.

In EXIM's 2019 gap analysis, the Bank found that the gap between transactions that commercial banks were willing to fund, both with and without an EXIM guarantee, was consistent with other years after the Global Financial Crisis. That is, without an EXIM guarantee, commercial banks were generally willing to fund transactions with investment grade risks for up to a five- to seven-year repayment period. Furthermore, commercial banks typically provided up to $100 million for transactions without EXIM cover, and $200 million to $400 million for deals with EXIM cover. With EXIM cover, the risk profiles of transactions could reach down to B- (vs. BBB- for without EXIM cover) and repayment terms could extend out to 12 to 14 years.

However, the limited gap analysis EXIM was able to do in 2020 indicated that, in the first year of the pandemic and related economic downturn, there was a shift toward conservatism in the risk appetite of commercial lenders. That is, due to the uncertainty introduced by the pandemic, commercial lenders became less willing to provide financing for credits that they typically would have before the COVID-19 pandemic (even in cases where there was no formal downgrade of the borrower). While the volatility in the market in 2020 precluded specific estimates by EXIM staff, the gap between the scope and scale of commercial bank activity and the needs of the export finance market appears to have expanded significantly.

The trend was similar in the trade-related structured credit insurance market. According to industry-wide reports issued by leading private insurance brokers, in 2020, the private sector insurance market (in aggregate) experienced an increase in costs of up to 40% (depending on the type of policy), and there was a sharp decline in the amount of insurance cover available for tenors exceeding seven years for trade credit risk. In effect, as with the banking market, the gap in the long-term end of the insurance market expanded significantly.

Figure 1: 2020 Fiscal Year EXIM Authorizations: Additionality Categorization

	Category I: ECA Competition[1]		Category II: Private Sector Gap				Category III: Other[2]		Total	
			(a): Limitations[3]		(b): Unwilling to Take Risk					
	Volume ($ million)	Count	Volume ($ million)	Count	Volume ($ million)	Count	Volume ($ million)	Count	Volume ($ million)	Count
Long-Term Loan	$ -	0	$ -	0	$ -	0	$ -	0	$ -	0
Medium-Term Loan	$ -	0	$ 9.5	1	$ -	0	$ -	0	$ 9.5	1
Long-Term Guarantee	$ 628.2	6	$ -	0	$ 542.4	3	$ -	0	$ 1,170.6	9
Medium-Term Guarantee	$ 54.7	28	$ 69.9	4	$ 96.4	21	$ -	0	$ 221.1	53
Medium-Term Insurance	$ 28.5	16	$ -	0	$ 27.2	14	$ -	0	$ 55.7	30
Short-Term Insurance	$ -	0	$ 2,198.7	1,450	$ 251.5	398	$ -	0	$ 2,450.2	1848
Working Capital Guarantee	$ -	0	$ -	0	$ 1,457.3	131	$ -	0	$ 1,457.3	131
Total	**$ 711.4**	**50**	**$ 2,278.1**	**1,455**	**$ 2,374.8**	**567**	**$ -**	**-**	**$ 5,364.4**	**2,072**

In the above table, only one additionality reason is reported for each transaction, though virtually all long-term transactions (and many medium-term transactions) usually have

[1] Category I Factors: (a) Existence of Foreign Technical Competition, (b) Commercial financing which makes the U.S. export competitive is not available, (c) Competition from OECD-compliant official ECA financing, (d) Government financing support that does not follow OECD Arrangement terms, (e) China Competition, (f) Attempting to influence supply chain, (g) ECA support if documented pre-requisite for bidding.

[2] Category III Factors: (a) EXIM support will attract private sector capital, (b) Foreign buyer seeks diversification of funding, including dedicated allocation of funding from ECAs.

[3] Private sector limitations include such factors as insufficient term or capacity. In the case of short-term insurance, the primary limitation is that the transactions are too small for the private sector to generate sufficient profit.

both ECA competition and lack of private financing as reasons EXIM support is needed—though not necessarily at the same time.

The nature of global capital goods means that in the early stage of a transaction there are a handful of global suppliers in each sector (Appendix B) who are in constant competition for sales with the potential for ECA support. While this competition may drive a buyer to consider EXIM financing initially, it is only after the supplier has been chosen that the financing is arranged.

At the time financing is resolved, the borrower frequently identifies that there is a gap in commercial financing, and that is the proximate reason they seek EXIM financing. Under the procedures in effect until August 2020, in such transactions EXIM attributed the immediate reason for additionality to be this gap in commercial financing even though in most, if not all, transactions, the absence of the possibility of EXIM financing at the procurement decision would cause the borrower to turn to non-U.S. procurement backed by foreign ECA competition.

The new additionality guidance that went into effect in August 2020 effectively directs staff to code the original/core factor driving the transaction to EXIM in the first place. Therefore, in future reports EXIM expects to report a much larger share of transactions done for competitive purposes, following the guidance of the new checklist.

In Fiscal Year 2020, no transaction was done solely for Category III reasons.[4]

Section II: Short-Term Transactions

EXIM has two types of short-term transactions. The first are working capital guarantees, which are guarantees of loans to U.S. exporters that are generally secured by export accounts receivable and inventory for export. The second are export credit insurance transactions, which typically involve insuring exporters against non-payment.

Working Capital

The majority of working capital transactions are processed under delegated authority, meaning EXIM does not directly assess the additionality prior to authorization. Rather, EXIM

[4] EXIM has committed itself to discussing in the annual additionality report on any transactions done solely for category III reasons.

requires lenders to document in their credit files the reason for the additionality of EXIM support, including addressing:

1. Describe why the Borrower does not have sufficient internally generated working capital to support the proposed export sale(s);
2. Describe why funds are not available from external sources; and
3. Describe why the EXIM guarantee is needed in order for your institution to provide the funding.

Furthermore, when lenders submit their loan authorization notice (LAN), they must include the additionality reason. EXIM staff checks the additionality reasons when LANs are submitted, and also reviews the additionality justification in the credit files during annual audits of delegated authority lenders. This process was unchanged by the 2020 additionality reforms.

Export Credit Insurance

Export Credit Insurance additionality processes were modestly changed in the May 2020 Board-recommended reforms, which reflected an OIG recommendation from 2018 that EXIM "[r]e-evaluate the current additionality policy and procedures for short-term transactions to identify an approach to improve how determinations are supported and verifiable at the transaction level."[5] ECI cases have historically been additional by supporting transactions that were too small for the private sector to be interested in, as well as EXIM pricing being somewhat above market prices (particularly for non-exporter held policies). For transactions that did not seem to immediately fit into that additionality strike zone, loan officers would typically do enhanced due diligence on why EXIM was needed. However, there was no formal assessment on the level at which transactions were too small for the private sector or specific procedures for loan officers to follow on how to document additionality.

Following the Board action, EXIM now formally reviews private sector export credit insurance appetite every two years to determine the minimum transaction size the private sector would be interested in covering. Transactions below that threshold (90+ percent of transactions) are presumed additional. Furthermore, staff established written guidance for documenting additionality for cases that are above that threshold, generally involving

[5] EXIM Office of the Inspector General, "Evaluation of EXIM's Additionality Policy and Procedures", November 2018.

written reasons from the broker involved in the transaction. Staff conducted the first review of the private sector in Fall 2020 and plans on conducting it again in Fall 2022.

As a note, all the aggregate data provided above was reviewed under the old processes and procedures.

Section III: Long-Term Authorizations

This section includes more detail on additionality in EXIM's long-term transactions, including a detailed discussion of the additionality determination for all transactions authorized for more than $100 million. For reference, medium-term transactions are subject to the same guidance and checklist as long-term transactions.

What follows are loans and long-term guarantees approved in 2020, as reported in the FY 2020 Annual Report.[6] These transactions are reported with the purpose as required in Section 8(h) of the Charter, not as the categories as defined in the Board-approved additionality checklist.

Figure 2: FY 2020 Loans and Long-Term Guarantee Authorizations ($ Millions)

Additionality Codes (aligned to Charter purposes):

1. To assume commercial or political risk that the exporter or private financial institutions are unwilling or unable to undertake;
2. To overcome maturity or other limitations in private-sector export financing;
3. To meet competition from a foreign, officially sponsored, export credit agency;
4. Not identified

Country/ Authorization Date	Obligor Principal Supplier Principal Guarantor	Additionality Code	Product	Loans	Guarantees
Argentina					
8/6/2020	YPF S.A. Various U.S. Companies	3	Equipment, Materials, and Services for Upstream and Downstream Activities		$83.0
Argentina Total					**$83.0**

[6] Excludes interest on PEFCO debt.

Country/ Authorization Date	Obligor Principal Supplier Principal Guarantor	Additionality Code	Product	Loans	Guarantees
Israel					
2/18/2020	El Al Israel Airlines The Boeing Company	3	Commercial Aircraft		$26.9
3/10/2020	El Al Israel Airlines The Boeing Company	3	Commercial Aircraft		$26.8
Israel Total					**$53.7**
Kenya					
3/16/2020	National Treasury of Kenya Bechtel Corporation	2[7]	Design and Engineering Services	$9.5	
Kenya Total				**$9.5**	
Mexico					
9/29/2020	Petróleos Mexicanos (PEMEX) CGG Veritas Services Inc. PEMEX Exploración y Producción	3[8]	Oil and Gas Field Machinery and Equipment		$335.0
9/29/2020	Petróleos Mexicanos (PEMEX) Various U.S. Companies PEMEX Exploración y Producción	3[8]	Oil and Gas Field Machinery and Equipment		$65.0
Mexico Total					**$400.0**
Nigeria					
2/3/2020	Azikel Air Ltd. Gulfstream Aerospace Corporation	1	Commercial Aircraft		$17.2
Nigeria Total					**$17.2**
Senegal					

[7] The FY 2020 Annual Report incorrectly coded this transaction as 4 (Not identified).

[8] These transactions required EXIM financing due to both a lack of private financing and ECA competition. In accordance with the Board's May 2020 Additionality Guidelines and Checklist, both transactions are reported as 3 (ECA competition). The FY 2020 Annual Report incorrectly coded them as 2 (lack of private financing).

Country/ Authorization Date	Obligor Principal Supplier Principal Guarantor	Additionality Code	Product	Loans	Guarantees
3/30/2020	Ministry of the Economy, Planning and International Cooperation Weldy-Lamont Associates Inc. Ministry of the Economy, Planning and International Cooperation	3	Design, Engineering, and Construction Services for Rural Electrification Project		$91.5
Senegal Total					**$91.5**
Turkey					
7/23/2020	Turk Hava Yollari A.O. The Boeing Company	1	Commercial Aircraft		$498.4
Turkey Total					**$498.4**
Vietnam					
1/31/2020	SCOM Global Ltd. Gulfstream Aerospace Corporation	1	Commercial Aircraft		$26.9
Vietnam Total					**$26.9**

In the above table, the three commercial aircraft transactions involving the Boeing Company demonstrate how the context of competition with foreign ECA financing and the availability of commercial financing may affect the buyer's need for EXIM financing over the course of the procurement process.

While the two El Al Israel Airlines transactions were attributed to ECA competition, the Turkish Airlines transaction was not. In all transactions, the U.S. exporter faced serious competition from Airbus, which is backed by ECAs from the governments of France, Germany, and the United Kingdom, and the availability of EXIM financing likely factored into the procurement decisions of both airlines. However, as they approached delivery of the aircraft, the key factor that drove Turkish Airlines to seek financing from EXIM was the conditions in commercial finance markets. This transaction is discussed in more detail later in this report.

Non-Additional Long-term Applications

To the extent possible, the section delineates transactions that were not pursued by EXIM due to additionality concerns. EXIM does not categorically track potential transactions that

are not pursued by applicants. EXIM's additionality standards discourage many potential applicants from seeking EXIM financing in the first place. In addition, EXIM staff frequently engage in preliminary discussions with interested borrowers about the agency's additionality standards, which appear to dissuade a number of potential applications. Overall, by the time EXIM receives an application there is a high likelihood that the additionality standard will be met. The following is an indicative example of an application that failed to demonstrate additionality.

Challenge of Determining Additionality: Latin American Manufacturer: In early FY 2020, EXIM received an inquiry from a manufacturer in Latin America. The manufacturer had previously utilized EXIM financing during and in the immediate aftermath of the Global Financial Crisis. Given the highly liquid market conditions at the beginning of FY 2020 (prior to COVID), and the particulars of the financing being requested, EXIM informed the applicant that significantly more information on why EXIM financing is needed would be necessary for EXIM to proceed with the application. The applicant subsequently elected to withdraw the application.

Detailed Discussion of Long-term Transactions Over $100 Million

In FY 2020, EXIM had two transaction over $100 million, for Petróleos Mexicanos (Pemex) and Turkish Airlines.

Pemex: EXIM financing was needed due to competition from officially supported export credit offered by China and other countries. Pemex reported in their 20-F filing with the U.S. Securities and Exchange Commission (SEC) for its fiscal year 2020 that it signed a Memorandum of Understanding with Sinosure, the Chinese officially supported insurer, and separately noted that an unidentified ECA is providing a $206 million line of credit; it is believed this is a transaction supported by Sinosure, as it matches publicly available data.[9] Pemex utilizes significant ECA financing as a complement to commercial financing, including financing from Atradius and the Italian ECA, Servizi Assicurativi del Commercio Estero (SACE), among others.[10]

In addition, EXIM was needed to fill in private sector financing gaps that had been exacerbated due to the global pandemic. While Pemex can borrow in the private market, commercial banks indicate the scale of its required borrowing is beyond the private sector's capacity and willingness to lend.

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[9] Tag My Deals, Petroleos Mexicanos (PEMEX) – Sinosure Covered Loan.

[10] Wienman, Aaron. "Mexico's Pemex targets bank, ECA-backed financing in 2019." Reuters. 12/18/2018.

Turkish Airlines: EXIM financing was needed to meet competition from foreign, officially sponsored export credit financing from Germany, France, and the United Kingdom. As discussed in Appendix B, a key facet of aviation transactions is the constant competition between Boeing and Airbus (and potentially Comac in the future). This situation is particularly acute for Turkish Airlines, as the airline operates a mixed fleet of Boeing and Airbus aircraft. Turkish is therefore quite familiar with alterative commercial aircraft opportunities and has utilized Airbus ECA financing in the past.

Furthermore, the financing was needed at the time of authorization due to the lack of capacity from commercial banks and in the capital market (which was exacerbated by the COVID-19 pandemic) for long-term Turkish Airlines debt.

Appendix A: Additionality Guidelines and Checklist

Guidance for Loan Officers

Guidance for loan officers in filling out additionality checklist

This document is intended to serve as a guide for when it is appropriate for loan officers to check certain boxes of the new additionality checklist (see Appendix A). The checklist is a guide to the factors used to determine if, and on what grounds, a transaction qualifies as additional. It provides both definitions of various categories, as well as potential supporting evidence. All supporting evidence should be described in the board/decision memo as well. The potential evidence listed in this guide should not be considered exhaustive. Loan officers should check ALL boxes that apply, regardless of whether one category already has been deemed to apply (e.g., even if Category I applies, Category II (and III) should be reviewed and completed as well).

Category I: To meet competition from foreign, officially-sponsored, export credit agency(ies). At a minimum, for each major product in the sale, needs to establish that qualified foreign technical competition (specifically identified) is readily available and known to buyer, **and** that the ECA of any competitor would likely be readily available, **and** that commercial financing would not be available at rates and terms that make the U.S. export competitive. ECA support being a documented (as described below) pre-requisite for bidding can offset the availability of commercial financing and/or a lack of evidence of foreign financing competition; however, some degree of confirmation of foreign technical competition must still exist.

(a) **Existence of Foreign Technical Competition:** To establish that there is a foreign alternative to the U.S. export that would reasonably be considered technically capable of replacing the U.S. export.

Potential Evidence: Written evidence, preferably directly from the exporter/applicant/buyer. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

Note: There does not need to be a formal bid process; the foreign alternative being readily available, technically qualified, and known to the buyer is enough.

(b) **Commercial financing which makes the U.S. export competitive is not available:** To establish that commercial financing is not available at rates or terms that make the U.S. export competitive.

Potential Evidence: Written evidence, preferably (*but not limited to*) directly from the exporter/applicant/buyer, that commercial financing was unavailable at rates or terms that make the U.S. export competitive. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context, and timing of oral confirmation.

(c) **Competition from OECD-compliant official ECA financing:** To establish that the U.S. export faces competition from a foreign competitor backed by an ECA subject to and following the OECD arrangement.

Potential Evidence: Written evidence, preferably directly from the exporter/applicant/buyer, or through specific, third-party confirmation. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

(d) **Government financing support that does not follow OECD arrangement terms**: To establish that the U.S. export faces competition from a foreign competitor backed by either an ECA not subject to arrangement, or by an ECA providing financing not covered by the arrangement.

Potential Evidence: Written evidence (e.g., bid), preferably directly from the exporter/applicant/buyer, or through specific, third-party confirmation. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

(e) **China Competition**: the U.S. exporter faces competition from China

Potential Evidence: Written evidence, (e.g., bid) preferably directly from the exporter/applicant/buyer. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

(f) **Attempting to Influence Supply Chain:** When the U.S. exporter is offered support by a foreign government financing entity on the basis of sourcing more of supply chain from the foreign country in future transactions. In this case the U.S. export would still go forward but supply chain products are put at risk.

Potential Evidence: Confirmation of credible foreign ECA to support (either available generally, or actual offer), or quid pro quo evidence (ideal evidence).

(g) **ECA Support if documented (as described below) pre-requisite for bidding:** To establish that the foreign sponsor/buyer requires availability of ECA financing to even bid on project.

Potential Evidence: Written evidence, (e.g., RFP) preferably directly from the exporter/applicant/buyer. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

Category II: Structural or Risk Constraints: Is commercial financing unavailable due to regulatory or other constraints

(a) **Bank regulatory requirements constrained one or more elements of commercial financing:** Post-financial crisis regulations generally preclude commercial financing on terms appropriate to financing need of transaction.

Potential evidence: Evidence is showing gap between terms exporter/buyer says is needed, and the terms (tenor/rate/amount) offered by commercial financing. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

The key is establishing that commercial financing is not available on terms needed and demonstrating impact of offered commercial terms on project viability.

(b) **Commercial Financing is unavailable due to one more "non-regulatory" risks, or a combination thereof:** While there is no specific regulatory driving factor, suitable commercial financing is

unavailable from the private sector. Such factors could be country/political risk, credit/repayment term risk, or the fundamental nature of the transaction.

Potential evidence: Identify non-regulatory factors, and explain why commercial financing is unavailable. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

The key to either is establishing why risk is beyond commercial financing, but not too risky for an ECA (best way is connecting constraint to non-commercial considerations).

Category III: Other/Not-identified

The category other reasons could justify the additionality of EXIM's support. Note that these reasons should normally only be used to supplement categories I & II.

(a) **EXIM support will attract private sector capital:** A small amount of EXIM support will attract other private capital that will allow a project/export to go forward, via EXIM's "halo" effect.

Potential Evidence: Applicant certifies that EXIM support is needed. Statements from private sector that they get comfort from EXIM participation. Evidence that the private capital would withdraw in the absence of EXIM's financing. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

(b) **Foreign Buyer Seeks Diversification of funding, including dedicated allocation of funding from ECAs:** the foreign buyer has typically high capital expenditure each year, and includes ECAs in the sourcing mix.

Potential evidence: Buyer has verified existing lines/relationships with other ECAs. Buyers use of ECA lines rises when credit conditions tighten. Oral evidence is acceptable only if documented in the form of a memorandum by the loan officer identifying the source, context and timing of oral confirmation.

(c) **Reason the purpose is not identified:** This language comes directly from the Charter. It is unlikely to ever be checked, as it will never be appropriate to do a transaction without an identified reason.

Additionality Checklist

Guidance for Establishing Additionality

The following are possible justifications for EXIM support being additional. More than one reason may apply to a transaction; **check all reasons that apply, regardless of whether one Category has already been checked.** This checklist is a guide to what factors are considered in establishing whether a transaction is additional, and on what grounds. A detailed explanation of the reason(s) for EXIM support for the transaction is contained in the body of the board/decision memo.

Main Purpose Guidance:

For the purposes of categorizing the transaction in APS, if any box in category I (competition) is checked, foreign competition is the main purpose. In category II, regulatory (meaning structural) reasons take precedence over non-regulatory reasons if multiple boxes are checked.

Category I: To meet competition from foreign, officially sponsored, export credit agency(ies).

☐ (a) The exporter faced, is facing, or expects to face competition from one or more foreign companies from an OECD country, **and**

☐ (b) Commercial financing is not available at rates and terms that make the U.S. exporter competitive (this must be documented, to the extent practicable as described in the Guidelines), **and**

☐ (c) The foreign competitor(s) was, is, or expects to be supported by OECD-compliant financing from their official export credit agency(ies).

Competing ECA(s):

_____

☐ (d) The exporter faced, is facing, or expects to face competition from one or more foreign companies with government financing support that does not follow OECD Arrangement terms.

Competing Government(s)/agency(ies):

_____

(e) The exporter faced, is facing, or expects to face competition from China.

Competing Chinese Company(ies)/agency(ies):

_____

☐ (f) One or more foreign ECAs is pursuing a similar transaction in an attempt to influence the current and future supply chain for components in the final exported item, and that such influence is credible (see Guidelines).

Competing ECA(s):

_____

☐ (g)* ECA support is a documented (as described in the Guidelines) pre-requisite for bidding on a project/contract.

Notes:

- Even if Category I applies, please proceed to Category II (and III) and check all that apply.
- ECA support being a documented pre-requisite for bidding, reason g marked with an *, can offset the availability of commercial financing (reason b) and/or lack of evidence of foreign financing competition (reasons c and d).

Category II: Structural or Risk Constraints: Is commercial financing unavailable due to regulatory or other constraints?

☐ (a) Bank regulatory requirements constrained one or more elements of commercial financing to the extent that the resulting financing was inadequate or insufficient to facilitate the export sale.

What was the term/rate/structure of commercial financing offered:

_____

☐ (b) Commercial financing is unavailable due to one or more "non-regulatory" risks, or a
combination thereof, and/or other considerations, as identified below.

☐ (1) Country / Political Risk

☐ (2) Credit / Repayment Term

☐ (3) Nature of transaction (e.g., nuclear)

☐ (4) Small business exporter

☐ (5) Other:

_____

If the private sector has expressed a willingness to match the same terms as those offered by EXIM (i.e., no Category II constraints apply), then go to Category III to document reason(s) why EXIM is proceeding.

Category III: Other/Not-Identified. Other reasons that could justify EXIM support. Note that these reasons should normally be used only to supplement the reasons in Categories I and II. In rare circumstances, with strong support, they may be acceptable on their own.

☐ (a) EXIM support for, and participation in, this transaction or project will attract private sector capital to finance the remainder of the same transaction or project.

☐ (b) The foreign buyer seeks diversification of funding, including dedicated allocation of funding from ECAs.

☐ (c) Reason the purpose is not identified: _____

Appendix B: Global Competition

Introduction

EXIM's primary purpose is to level the playing field for U.S. exporters when they compete for sales abroad in order to support U.S. jobs. This appendix provides a framework for understanding competition in a global market characterized by:

- limited global exporters in each sector
- sophisticated buyers
- a handful of internationally active financiers
- repeated interactions (e.g., recurring sales)

Competition is omnipresent and multi-dimensional, not simply a series of discrete, unrelated transactions with a linear process of tenders, bids, and decisions. An individual transaction cannot be analyzed in isolation of the broader competitive dynamic: every current decision, including financing, has implications for future opportunities.

Competition

Global competition amongst capital goods and service providers operates in a relatively narrow space, particularly on a sectoral level. In any given sector, there are generally a limited number of global exporters, buyers, and financial institutions (including ECAs) operating; all well known to each other. In this landscape, competition cannot be understood solely on a transactional level, or on an individual buyer level. Procurement decisions are not always (or even frequently) made via a simple process of tender, competitive bid, and financing arranged within in a short time-period.

Furthermore, when there is a formal bid process, awarding of a tender does not end competition. Exporters are constantly seeking competitive edges both inside and outside formal tender processes to help them win sales and set themselves up for future sales (e.g., for future projects with the same buyer or subsequent phases of the project, or repair and replacement or refurbishment equipment and services), and exporters have repeatedly reported that the availability of ECA financing is one of those competitive edges. Minor differences in an ECA's availability, terms, policies, and processes can either tilt current procurement decisions across the market or sour buyers on an ECA, thus negatively impacting the exporter for future purchases (even if that specific buyer does not return to the market in the near future).

One facet worth highlighting is the fact that procurement decisions can be made far in advance of actual financing decisions, but with the expectation that ECA financing will be available at terms consistent with the OECD Arrangement on Officially Supported Export Credits. Therefore, an ECA refusing to provide financing because private sector financing is deemed available at that exact moment and at prevailing terms can have significant negative ramifications on *future* procurement decisions.

Furthermore, these ramifications do not apply solely to buyers. A number of foreign ECAs are actively looking to provide support to shift major exporters' supply chains to their countries; exporters can therefore make decisions on their supply chains or future investment decisions at least partially on the basis of readily available ECA support. This shift does not mean exporters shift final assembly or manufacturing to a foreign nation. However, it may spur procurement of components or inputs to production to foreign locations. For example, at the time of this report, EXIM is reviewing an application for financing involving the production of renewable diesel in Paraguay. The exporter has plainly stated that if EXIM is unable to move forward with the transaction, the exporter will supply the project out of Europe with officially supported export credit from United Kingdom Export Finance (UKEF) and the Spanish ECA, Compañía Española de Seguros de Crédito a la Exportación (CESCE).

Examples of Competition in Practice

Commercial Passenger Aircraft is perhaps the best example of this dynamic. There are exactly two major manufacturers of large commercial aircraft, with repeat, sophisticated buyers. All buyers know exactly what their supplier options are, and which ECAs support each manufacturer. In addition, both manufacturers fiercely compete for each and every sale. Competition is inherent and constant – each successful or unsuccessful sales campaign sets the stage for the next campaign. After a sales campaign concludes and the buyer has made its procurement decision, it can be years before an ECA is approached to finance a specific delivery. While EXIM's refusal to finance a specific transaction will not necessarily derail a particular delivery, such refusal can shift the weight of procurement away from the U.S. exporter for future purchases or incentivize the U.S. exporter to increase procurement outside of the U.S. in order to access buyer financing from other ECAs.

While commercial aviation is the starkest example, this dynamic holds true in many sectors. Below is an illustrative list of examples of sectors that frequently receive support from ECAs and are characterized by the same competitive landscape:

- **Satellites/Satellite Launches** – Both satellites and satellite launches are concentrated industries. Launches of non-Chinese satellites are primarily provided by Arianespace (France) and SpaceX (US). Great Wall Industry Corporation (China) launches Chinese satellites. Non-Chinese geostationary satellites are primarily made by Boeing (US), Thales (Europe), Airbus (Europe), Lockheed Martin (US), Northrup (US), and Maxar (US). There are second tier satellites/launch providers in Russia and Japan as well.
- **Renewable Diesel** – All renewable diesel/sustainable aviation fuel facilities use one of three processes from Honeywell (US), Haldor (Denmark), or Neste (Finland). Buyers include major oil, gas, and petrochemical producers.
- **Wind Turbines** – The global (excluding China) wind turbine market is dominated by Vestas (Denmark), GE (US/France), and Siemens Gamesa (Germany/Spain/US). Chinese manufacturers dominate the internal Chinese market. Buyers consist of major utilities and power companies, sophisticated companies who make repeat purchases.
- **Semiconductor Manufacturing Equipment** – Manufacturers of the leading equipment are concentrated in the United States, the Netherlands and Japan. Given the capital intensity of manufacturing semiconductors, there are limited buyers, including Taiwan Semiconductor Manufacturing Company, Limited (TSMC), Samsung, and Intel at the leading edge of production. Buyer sub-sectors are also concentrated, with, for example, Micron, Samsung, and SK Hynix making up 95% of the DRAM manufacturing market.
- **Radio Access Networks (RAN)** – RAN (key for wireless communication networks) is dominated by Huawei (China), Ericsson (Sweden), Nokia (Finland) and ZTE (China). Collectively, these four companies account for more than 90% of the market. Similarly, in every country, there are no more than two to four potential major buyers. Such buyers often operate networks in multiple countries and make repeat purchases as they upgrade their networks. While none of the major manufacturers are U.S.-based, the European companies have major research and development operations in the United States and form a core part of the U.S.'s future ability to compete in 5G.

Competition, Complementing Capital, and Additionality

The temporal difference (sometimes years) between the decision to purchase from a specific supplier and the arrangement of financing has implications for EXIM's assessment of additionality. A buyer may decide to purchase a U.S. good or service on the basis of the presumed availability of EXIM financing offsetting foreign government financing. At a later

date when the financing is being arranged, it is possible there may be commercial financing available to the buyer, but the buyer prefers to use ECA financing for cost or other reasons (e.g., some sovereigns prefer working with a government agency).

In such a scenario, EXIM providing financing in such situations does not displace the private sector. The private sector "lost" the opportunity when the buyer made the decision to purchase on the basis of ECA financing availability. If EXIM financing had not been available when that decision was made, the buyer would have either not made a purchase or gone with a product backed by foreign ECA financing – the private sector would not have had the opportunity to support the deal.

While EXIM could, in theory, refuse to finance a transaction in such a case, EXIM would quickly lose credibility with buyers, resulting in buyers turning toward foreign ECAs who are more willing to reliably provide financing. The ultimate cost of each EXIM refusal to finance a transaction is less U.S. procurement and fewer U.S. jobs supported through exports over time.

Conclusion

Competition among exporters cannot be viewed simply on a transactional basis or happening at discrete points in time. Competition among major capital goods exporters is a constant facet of their existence. This dynamic is critical in shaping the role ECAs play in such competition.

In particular, it would be a categorical error to assess competition solely at the point when an ECA makes a financing decision. Buyers can make decisions on the belief that ECA financing will be available at a specific price in the future, which may be more or less than market pricing when the time comes to arrange financing. If a buyer then insists on utilizing ECA financing, an ECA refusing to move forward on the availability of other private sector financing can have a detrimental effect on the future sales of the exporter looking to be supported by such financing.

Appendix C – Portfolio Data

The following information, as published in EXIM's FY 2020 Annual Report, provides additional information on the regional and sector distribution of the agency's outstanding exposure, as of September 30, 2020.

As shown in the earlier discussion on gaps and general competitiveness, the likelihood of additionality is most affected by the risk of the specific individual buyer and the term of the specific transaction at the time of authorization. Hence, the following data provide an indication of where (regions and sectors) EXIM has found additionality in individual transactions that are still in its portfolio (generally, transactions authorized within the past 10 years).

Exposure by Region and Industry

Below are tables summarizing exposure by region, top five countries, and industry at the end of FY 2019 and 2020.

	As of 9/30/2020		As of 9/30/2019	
	Exposure (in millions)	Percent of Total	Exposure (in millions)	Percent of Total
Asia	$9,666.60	20.6%	$12,402.20	22.7%
Latin America and the Caribbean	$7,653.00	16.3%	$8,780.50	16.0%
Sub-Saharan Africa	$7,665.70	16.4%	$8,362.60	15.3%
Middle-East and North Africa	$6,377.20	13.6%	$8,320.10	15.2%
Europe	$5,666.00	12.1%	$7,011.60	12.8%
Oceania	$4,217.60	9.0%	$5,049.60	9.2%
North America	$3,310.40	7.1%	$2,858.00	5.2%
Other	$2,315.50	4.9%	$1,941.30	3.5%
Total Exposure	$46,872.00	100.00%	$54,725.90	100%

	As of 9/30/2020			As of 9/30/2019		
	Exposure (in millions)		Percent of Total		Exposure (in millions)	Percent of Total
Mozambique	$	4,700	10.0%	Saudi Arabia	$ 5,094	9.3%
Saudi Arabia	$	4,248	9.1%	Mozambique	$ 5,000	9.1%
Mexico	$	3,848	8.2%	Mexico	$ 4,450	8.1%
China	$	2,871	6.1%	China	$ 3,434	6.3%
Australia	$	2,339	5.0%	Australia	$ 2,975	5.4%
All Other	$	28,866	61.6%	All Other	$ 33,773	61.7%
Total Exposure	$46,872		100.0%	Total Exposure	$54,725.90	100%

	As of 9/30/2020		As of 9/30/2019	
	Exposure (in millions)	Percent of Total	Exposure (in millions)	Percent of Total
Aircraft	$17,621.90	37.6%	$22,428.20	41.0%
Oil and Gas	$11,991.70	25.6%	$13,084.00	23.9%
Manufacturing	$8,711.20	18.6%	$9,950.70	18.2%
Power Projects	$2,637.60	5.6%	$3,064.20	5.6%
All Other	$5,909.60	12.6%	$6,198.80	11.3%
Total Exposure	$46,872.00	100.0%	$54,725.90	100.0%

Finally, what follows is a breakdown of FY 2020 authorizations and outstanding exposure by country as of September 30, 2020.

Appendix D: FY 2020 Authorizations by Market

(in millions)

Country	Loan	Guarantee	Insurance	Authorization Amount	Exposure
Algeria	$-	$-	$-	$-	$0.7
Andorra	-	-	-	-	0.1
Angola	-	-	-	-	165.8
Anguilla	-	-	-	-	0.8
Antigua and Barbuda	-	-	-	-	18.8
Argentina	-	118.4	5.4	123.8	290.2
Armenia	-	-	-	-	0.0
Aruba	-	-	-	-	0.7
Australia	-	-	0.9	0.9	2,339.3
Austria	-	-	0.2	0.2	1.7
Azerbaijan	-	-	0.2	0.2	308.0
Bahamas (The)	-	-	-	-	4.4
Bahrain	-	-	-	-	3.2
Bangladesh	-	-	-	-	243.7
Barbados	-	-	0.2	0.2	2.1
Belarus	-	-	-	-	0.0
Belgium	-	-	0.3	0.3	12.7
Belize	-	-	-	-	1.2
Benin	-	-	0.1	0.1	0.1
Bermuda	-	-	-	-	8.1
Bolivia	-	-	-	-	0.0
Bosnia-Herzegovina	-	-	-	-	5.5
Brazil	-	65.9	60.0	126.0	369.5
Brunei	-	-	-	-	0.4
Bulgaria	-	-	-	-	152.4
Burma (Myanmar)	-	-	-	-	1.6
Cabo Verde	-	-	-	-	0.0
Cambodia	-	-	-	-	4.2
Cameroon	-	-	-	-	100.9
Canada	-	-	2.6	2.6	420.5
Cayman Islands	-	-	0.0	0.0	1.0
Chile	-	6.2	10.3	16.5	723.0
China	-	-	2.7	2.7	2,871.2
Colombia	-	9.0	2.0	11.0	1,612.4
Cook Islands	-	-	-	-	0.0
Costa Rica	-	3.4	1.1	4.5	76.7
Côte d'Ivoire	-	-	-	-	1.1
Croatia	-	-	-	-	4.4
Cuba	-	-	-	-	36.3

Country	Loan	Guarantee	Insurance	Authorization Amount	Exposure
Cyprus	-	3.7	-	3.7	8.0
Czech Republic	-	-	0.1	0.1	11.4
Denmark	-	-	0.5	0.5	3.5
Dominica	-	-	-	-	0.6
Dominican Republic	-	0.1	1.6	1.7	63.1
Ecuador	-	-	2.9	2.9	8.6
Egypt	-	-	9.1	9.1	55.0
El Salvador	-	0.8	1.8	2.6	9.7
Estonia	-	-	0.0	0.0	0.3
Ethiopia	-	-	-	-	812.0
Fiji	-	-	-	-	0.1
Finland	-	-	-	-	1.4
France	-	-	5.8	5.8	20.0
French Polynesia	-	-	0.3	0.3	0.6
Gabon	-	-	-	-	3.8
Gambia (The)	-	-	-	-	0.0
Georgia	-	-	0.0	0.0	0.0
Germany	-	-	2.4	2.4	30.9
Ghana	-	-	0.5	0.5	271.3
Greece	-	-	-	-	0.8
Grenada	-	-	-	-	2.7
Guatemala	-	1.6	3.5	5.0	14.6
Guyana	-	-	-	-	0.3
Honduras	-	0.6	1.0	1.6	134.0
Hong Kong	-	-	0.4	0.4	991.0
Hungary	-	-	-	-	1.1
Iceland	-	-	-	-	1.8
India	-	2.9	18.4	21.3	1,791.3
Indonesia	-	1.8	1.4	3.2	185.1
Ireland	-	-	0.4	0.4	671.0
Israel	-	53.7	0.2	53.9	226.7
Italy	-	-	0.6	0.6	11.5
Jamaica	-	-	0.0	0.0	5.9
Japan	-	-	5.0	5.0	24.3
Jordan	-	-	0.2	0.2	4.5
Kazakhstan	-	-	0.1	0.1	103.6
Kenya	9.5	-	0.3	9.7	505.3
Korea, South	-	-	0.7	0.7	1,731.0
Kuwait	-	-	1.2	1.2	211.6
Kyrgyzstan	-	-	-	-	0.0
Latvia	-	-	-	-	0.0
Lebanon	-	-	-	-	0.7
Liberia	-	-	-	-	2.4

Country	Loan	Guarantee	Insurance	Authorization Amount	Exposure
Liechtenstein	-	-	-	-	0.4
Lithuania	-	-	0.0	0.0	0.6
Luxembourg	-	-	0.0	0.0	553.5
Macau	-	-	-	-	0.0
Madagascar	-	-	-	-	0.1
Malawi	-	-	-	-	0.0
Malaysia	-	-	0.1	0.1	5.6
Maldives	-	-	-	-	0.4
Mali	-	-	-	-	2.7
Malta	-	-	0.0	0.0	0.1
Mauritius	-	-	-	-	1.4
Mexico	-	429.5	89.7	519.2	3,848.0
Micronesia	-	-	0.0	0.0	0.0
Mongolia	-	1.1	-	1.1	389.0
Montenegro	-	-	-	-	7.9
Montserrat	-	-	-	-	0.0
Morocco	-	-	4.2	4.2	199.7
Mozambique	-	-	-	-	4,700.3
Namibia	-	-	-	-	0.0
Nepal	-	-	-	-	0.7
Netherlands	-	-	0.3	0.3	193.7
New Caledonia	-	-	-	-	0.0
New Zealand	-	-	0.1	0.1	130.9
Nicaragua	-	-	-	-	1.0
Niger	-	-	-	-	0.0
Nigeria	-	17.2	0.4	17.6	30.4
Norway	-	-	0.1	0.1	350.0
Oman	-	-	-	-	3.7
Pakistan	-	-	-	-	118.3
Panama	-	1.6	1.0	2.6	192.9
Papua New Guinea	-	-	-	-	1,746.7
Paraguay	-	2.9	15.6	18.4	40.5
Peru	-	1.1	0.4	1.5	25.1
Philippines	-	-	-	-	288.0
Poland	-	-	2.2	2.2	195.6
Portugal	-	-	0.1	0.1	1.5
Qatar	-	-	0.1	0.1	126.4
Romania	-	-	3.3	3.3	4.1
Russia	-	-	-	-	588.6
Rwanda	-	-	-	-	0.4
Saudi Arabia	-	11.8	3.4	15.2	4,247.7
Senegal	-	91.5	-	91.5	91.6
Serbia	-	-	1.0	1.0	79.2

Country	Loan	Guarantee	Insurance	Authorization Amount	Exposure
Seychelles	-	-	-	-	0.0
Sierra Leone	-	-	-	-	0.0
Singapore	-	-	0.3	0.3	212.0
Slovak Republic	-	-	-	-	18.5
Slovenia	-	-	-	-	0.1
South Africa	-	2.0	0.5	2.5	893.5
Spain	-	-	0.3	0.3	57.6
Sri Lanka	-	-	0.3	0.3	51.4
St. Kitts and Nevis	-	-	-	-	0.5
St. Lucia	-	-	-	-	0.5
St. Vincent and Grenadines	-	-	-	-	0.1
Sudan	-	-	-	-	28.2
Suriname	-	-	-	-	0.3
Sweden	-	-	-	-	6.5
Switzerland	-	-	14.2	14.2	27.9
Taiwan	-	-	0.2	0.2	13.9
Tajikistan	-	-	-	-	9.0
Tanzania	-	-	-	-	6.4
Thailand	-	-	0.1	0.1	245.3
Trinidad and Tobago	-	-	0.0	0.0	29.1
Tunisia	-	-	-	-	0.4
Turkey	-	498.4	19.0	517.4	2,117.7
Turks and Caicos	-	-	-	-	0.7
Uganda	-	-	-	-	1.1
Ukraine	-	-	4.9	4.9	70.3
United Arab Emirates	-	-	1.2	1.2	1,296.8
United Kingdom	-	-	1.8	1.8	145.8
United States	-	1,497.1	-	1,497.1	2,639.7
Uruguay	-	-	11.7	11.7	121.2
Uzbekistan	-	-	-	-	0.0
Vanuatu	-	-	-	-	0.0
Venezuela	-	-	-	-	6.2
Vietnam	-	26.9	2.1	29.0	385.8
Virgin Islands (British)	-	-	-	-	2.1
West Indies (French)	-	-	-	-	0.2
Zambia	-	-	0.4	0.4	46.4
Zimbabwe	-	-	-	-	0.1
Multi-Buyer Insurance - Short Term	-	-	2,182.5	2,182.5	2,315.4
Private Export Funding Corp.	-	30.8	-	30.8	250.3
Grand Total	**$9.5**	**$2,879.8**	**$2,505.9**	**$5,395.2**	**$46,872.0**

*Countries with zero (or "-") total exposure have exposures of less than $0.1 million.