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The U.S. Export-Import Bank: Reauthorization Issues

Statement of
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Before the
Subcommittee on International Development,
Finance, Trade and Monetary Policy
Committee on Banking, Finance and Urban Affairs
House of Representatives

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on some issues affecting the U.S. Export-Import Bank (Eximbank) in its role of assisting U.S. exports. We believe this is an opportune time to examine the Eximbank's role, particularly since the Bank's charter comes up for renewal in 1992.

At your request, we have begun a review of the Eximbank. Although we are in the preliminary stages of the job, we have tentatively identified some of the issues we will be looking at. They include emerging markets and risk assessment, the use of "mixed credits," the Eximbank's interest equalization program, the financial condition of the Bank, the administration of Eximbank's export credit insurance program by the Foreign Credit Insurance Association, the Eximbank's coordination with other agencies, marketing the Bank's services, and the Eximbank's financing of military exports.

BACKGROUND

As an independent U.S. government agency, wholly owned by the U.S. Treasury, the Eximbank assists U.S. exporters by matching the terms of other governments' export financing and absorbing risks that the private sector will not accept. The Eximbank operates under a renewable charter. The charter currently extends through September

30, 1992. I have included a brief chronology of significant events in the Bank's history as an attachment to my statement. Offering a wide range of financing services including direct loans, loan guarantees, and export insurance against credit and political risks, the Eximbank has reported that it helps support approximately 3 to 4 percent of U.S. exports.

In fiscal year 1989, the Eximbank assisted in the export of $6.6 billion in U.S. goods and services to 125 foreign markets. Total Eximbank authorizations consisted of $6.4 billion, including $719 million in loans, $1.3 billion in guarantees, and $4.3 billion in export credit insurance. Eximbank programs, including insurance, are subject to the broad policy guidance in the Eximbank's legislation, including the goals of (1) delivering programs at rates, terms, and other conditions which are fully competitive with government-supported programs available to foreign exporters in principal competitor countries and (2) aiding small exporting businesses. Further, for most Eximbank programs, there should be reasonable assurance of repayment to justify the Bank's support.

Over the years, the private sector, Congress, and prior administrations have debated as to what the Eximbank's role should be. Some have questioned the need for the existence of an agency such as the Eximbank in a free market economy; they insist that export financing should be handled by the private sector. Previous administrations have even tried to limit the Eximbank's role. For example, in 1953, the President virtually liquidated the Bank in an effort to reduce government spending and to ease a turf battle with the World Bank, but Congress intervened to keep the Bank open. However, according to its supporters, the Eximbank has historically filled the gaps created when the private sector is reluctant to engage in some types of export financing.

There are certain parallels between the current world economic situation and the circumstances that led to the Eximbank's creation. The Bank was created in 1934 with the primary aim of fostering trade between the United States and the Soviet Union. Today, the United States is renewing U.S.-Soviet trade relations, and the Eximbank is providing financial support for this trade. The creation of the Eximbank was also spurred by the difficult economic conditions during the 1930s. Exports were seen as a source of stimulus to economic activity and employment. In today's economic environment, rising exports are helping to sustain gross national product (GNP) growth.

There are also significant differences between conditions now and those that existed when the Eximbank was created. The U.S. economy is much more internationalized and exports are a much larger share of the GNP than during the 1930s. Exports constituted about 4 percent of GNP in 1933 and 12 percent of GNP in 1990. And while the world trading system is far less protectionist, international competition is more intense.

Just as the U.S.-Soviet trade issue has reemerged for the Eximbank, many other issues relevant to the Bank's operations and reauthorization have a long history. However, each issue needs to be reexamined in light of current economic and political circumstances. The following are specific issues that we believe are important to consider when renewing the Eximbank's charter and which we will focus on in our work.

EMERGING MARKETS AND RISK ASSESSMENT

Recent changes in the world's economic and political situation and, consequently, in U.S. foreign and trade policy, have created new markets for exporters--specifically the Soviet Union and Eastern Europe. In keeping with these changes, the President in December 1990 waived the Jackson-Vanik[1] amendment restricting Eximbank financing support to the Soviet Union and previously restricted East European countries. The Eximbank has recently begun to provide guarantees and insurance for the export of U.S. goods and services to these countries. This support will allow U.S. exporters to compete with other countries' exporters who have long received support from their governments. As of January 1991,

[1]The Jackson-Vanik amendment to the Trade Act of 1974 prohibited (unless waived by the President) the granting of "most-favored-nation" treatment to a nonmarket economy country if the country was engaging in certain emigration-restricting practices. The amendment also prohibited such countries from participating in U.S. government credit or guarantee programs.

other countries' export credit agencies had a total of approximately $20 billion in loan and guarantee exposure in the Soviet Union, according to the Eximbank.

Current U.S. legislation limits to $300 million the amount of total new Eximbank authorizations for the Soviet Union,[2] and all U.S. transactions with the Soviet Union require the guarantee of the Soviet Union's Bank for Foreign Economic Affairs. The Eximbank expects opportunities to increase for U.S.-Soviet trade. However, because the Eximbank has stated that sufficient creditworthiness is a main criterion for authorizing support, the Bank will need to consider the creditworthiness of the Soviet Union. How the Eximbank assesses country risk and evaluates new markets is particularly important in today's economic environment.

MIXED CREDITS

Now let me turn to the issue of "mixed credits." Mixed credits combine export financing with foreign aid. All purchases financed with these funds are "tied," that is, purchases must be from the country providing the credit. A U.S. trade policy goal is to continue international negotiations to reduce the use of credit subsidies for exports. The U.S. negotiating strategy in the

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[2]In addition, there are further limitations aimed at the oil and gas industries.

Organization for Economic Cooperation and Development (OECD)[3] has been to negotiate for a higher grant component in mixed credits. The objective is to make the grant component so large that it would become prohibitively expensive to use mixed credits primarily as an export promotion tool. The U.S. believes that any such financing with a sufficiently high level of the grant component would truly be foreign aid rather than export promotion. The OECD negotiations over the past decade have produced stronger agreements to limit mixed credits. However, the problem has not been eliminated. Japan, Germany, and France use mixed credits as an integral part of their export trade policies.

In 1986, to strengthen the U.S. leverage in these negotiations, Congress authorized the Eximbank to create a "war chest" fund. The Eximbank has used the fund as a strategic weapon to overmatch or outbid other countries who have repeatedly used mixed credits to increase their exports. The strategy is to "fight fire with fire," thereby preventing a competitor from benefiting from the use of mixed credits. The war chest currently targets Asia and North Africa, as well as infrastructure projects (such as power generation and telecommunications). However, some members of Congress believe the size of the war chest is too small to have an

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[3]The OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the free-market democracies of North America, Western Europe, and the Pacific.

impact. The effectiveness of using the war chest to reduce the use of foreign mixed credits needs to be examined.

INTEREST EQUALIZATION

At different times, the Eximbank has considered or used "buy downs" to lower the effective interest rate on credits it guarantees as an alternative to direct lending by the Bank. The Eximbank now has the Interest Equalization Program that offers Eximbank-guaranteed bank loans at the same interest rate as Eximbank's direct loans. Since the interest rate arranged for such an export loan is below the market rate at which a commercial lender would normally make a loan, the Eximbank pays the commercial lender the difference between the market rate and the lower Eximbank direct lending rate. Currently, the Eximbank has $20 million authorized for its Interest Equalization Program. The cost of this program relative to the cost of direct lending should be weighed along with the program's respective benefits.

FINANCIAL CONDITION

The Eximbank has been experiencing a continuing deficit. As of September 30, 1989, the Eximbank's accumulated deficit was $5.3 billion. Although the Eximbank is required by law to gain reasonable assurance of repayment on loans, the Bank sometimes assumes levels of financing risk not generally borne by commercial banks in carrying out its mission. These higher risks, along with interest rate subsidies, have adversely affected the Bank's cash and equity position. Nevertheless, the Bank continues to operate despite its losses and continuing deficit because of its ability to borrow from the Federal Financing Bank.

GAO has recommended in previous testimony and reports[4] that the Bank (1) be recapitalized to restore its equity position and provide minimum capital to protect against future losses and (2) establish a loan loss allowance. The Eximbank first established an allowance for loan losses in January 1990; however, the Bank has not been recapitalized. The renewal of the Eximbank's charter is an appropriate time to consider the recapitalization issue.

THE FOREIGN CREDIT INSURANCE ASSOCIATION

Another area warranting attention is the role of the Foreign Credit Insurance Association (FCIA) and how the Eximbank administers its export credit insurance program which provides insurance against risks of nonpayment by foreign buyers. The objectives of the program are to assist in the expansion of exports and provide a facility comparable to those available to foreign exporters in

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[4]Financial Audit: Export-Import Bank's 1989 and 1988 Financial Statements (GAO/AFMD-90-80, July 19, 1990); Financial Audit: Export-Import Bank's 1988 and 1987 Financial Statements (GAO/AFMD-89-94, July 25, 1989); Recapitalizing the Export-Import Bank of the U.S.: Why It Is Necessary; How It Can Be Accomplished (GAO/T-AFMD-88-4, Feb. 25, 1988).

major competitor countries. In establishing the insurance program, Congress intended that the government would fill a gap in the availability of private insurance and that private insurers would be involved to a maximum extent in delivering this service. FCIA was formed to act as the Eximbank's agent. FCIA's business consists almost exclusively of administering export credit insurance for the Eximbank, with the Bank assuming virtually all of the risk. In fiscal year 1989, insurance comprised about 67 percent of the export value of the Eximbank's total authorizations.

EXIMBANK COORDINATION WITH OTHER AGENCIES

The Eximbank is one of several government agencies that facilitates and promotes U.S. exports. One of the Eximbank's stated objectives is to work more effectively with other government agencies to better serve U.S. exporters. The Eximbank coordinates with other agencies on issues such as export promotion and foreign risk analysis. For example, the Eximbank participates in the interagency National Advisory Council on International Monetary and Financial Policies. The Council advises U.S. government agencies engaged in foreign financing on U.S. policies and goals.

Interagency coordination is important in helping to avoid potential problems such as excessive credit exposure and overlap and duplication with other government programs that finance exports. The Eximbank, the Agriculture Department's Commodity Credit

Corporation, and the Agency for International Development all provide financing for agricultural products. Further, the Eximbank, the Small Business Administration, and the Overseas Private Investment Corporation all have financing programs that target support for small businesses. Other potential overlaps may exist in the financing of renewable energy and military sales programs. Potential problems in program coordination and overlap need to be examined.

MARKETING ISSUES

In fulfilling its goal of assisting U.S. exports, the Eximbank needs to market its services. Because the Bank is a small organization with only about 350 employees and located in Washington, D.C., with no overseas offices, marketing its services is a continuing challenge. Despite these limitations, the Bank tries to be more responsive to exporters' needs. For example, in 1988, the Bank initiated a pilot city/state program in which it works with city and state agencies to help small and medium-sized businesses understand and use the Eximbank's export financing programs. The program now includes 12 states and 4 cities. The Eximbank would like to expand this program to 20 or 25 locations. In addition, FCIA has some regional marketing offices.

Other marketing services the Eximbank offers to exporters and bankers include

- training seminars;
- an online computerized information service that contains program information, lists of Eximbank-certified banks and eligible countries, and other information;
- a foreign buyer credit information service; and
- a business advisory hotline.

How effectively the Eximbank markets its services and responds to exporters' unmet needs is important in successfully fulfilling its mission.

MILITARY EXPORTS

Allowing the Eximbank to finance military exports has been opposed in the past by Congress and some exporters of civilian products who fear being "crowded out" by military exporters for limited Eximbank financing. The Eximbank is generally prohibited by statute from extending loans, guarantees, or insurance in connection with the sale of defense articles or defense services to economically less developed countries. However, there are exceptions to this provision. In August 1990, the Eximbank authorized more than $1 billion in loan guarantees to Turkey for the purchase of U.S. S-70 Blackhawk helicopters. (The Foreign Operations, Export Financing, and Related Programs Appropriations Act for fiscal year 1990 removed prohibitions against financing commercial sales of defense articles and services destined for

Greece and Turkey.) Furthermore, the fiscal year 1992 President's budget submission includes an Eximbank "pilot program to support up to $1 billion in commercial exports of military equipment and services to certain countries." The administration has submitted authorizing legislation to permit the Bank to engage in such activities. These developments raise the question of what role the Bank should have, if any, in financing military exports.

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Madam Chairwoman and members of the Subcommittee, this concludes my statement. I will be happy to answer any questions the Subcommittee may have.

ATTACHMENT I

U.S. EXPORT-IMPORT BANK HISTORY

1934 The U.S. Export-Import Bank (Eximbank) was first created to facilitate trade between the United States and the Soviet Union.

1945 The Export-Import Bank Act of 1945 established the Eximbank as an independent U.S. agency.

1954 Congress blocked the President's attempt to close the Bank.

1961 The Foreign Credit Insurance Association was formed to administer the Bank's insurance programs.

1968 The Eximbank was restricted from financing military sales to any less developed countries.

1974-1976 The President reduced the Bank's loan authorizations, believing U.S. exports did not need the Bank's support.

1977-1980 The President restored large-scale lending by the Eximbank.

1977 The Bank was directed to consider a country's observance of and respect for human rights in authorizing support to that country.

1983 The Eximbank created the Working Capital Guarantee Program for small and new-to-export companies.

1986 The Eximbank created the Tied Aid Credit Fund to strengthen U.S. leverage to negotiate with the Organization for Economic Cooperation and Development countries to limit tied aid.

1988 The Eximbank was authorized to finance military sales for antinarcotics purposes.

1990 The Eximbank reported an allowance for loan losses for the first time in its annual financial statements.

August - The Eximbank authorized $1 billion in loan guarantees to Turkey for the purchase of U.S. S-70 Blackhawk helicopters.

December - The President waived the Jackson-Vanik amendment enabling the Bank to support exports to the Soviet Union.

1991 The President's budget included a $1-billion Eximbank pilot program to finance defense sales to certain countries. The administration also submitted authorizing legislation for this program.