

GAO

## Testimony

Before the Subcommittee on Domestic and International  
Monetary Policy, Committee on Banking and Financial  
Services, House of Representatives

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# EXPORT-IMPORT BANK

## Reauthorization Issues

Statement of Benjamin F. Nelson, Director, International  
Relations and Trade Issues, National Security and  
International Affairs Division



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss issues concerning the reauthorization of the U.S. Export-Import Bank (Eximbank). My statement today will focus on three key factors that the Congress should weigh in the reauthorization debate:

- the rationale for and against the Eximbank's programs,
- the ways in which its assistance is distributed, and
- foreign competitors' export finance programs.

My comments are based on the results from our current and past reviews of the Eximbank and governmentwide export promotion issues. (A listing of related GAO products is at the end of this statement.)

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## Summary

In reviewing the Eximbank's export finance programs, the Congress needs to weigh the benefits to the U.S. economy of the Eximbank's programs against their costs. While there are numerous arguments for and against government export financing programs, the most compelling case for these programs appears to be in helping to "level the international playing field" for U.S. exporters and providing leverage in trade policy negotiations to induce foreign governments to reduce and ultimately eliminate such subsidies.

During fiscal years 1994 to 1996, the top 15 users (lead U.S. exporters or contractors) of Eximbank financing accounted for about 38 percent of the value of Eximbank's financing commitments. During the same period, the Eximbank also reported that 20 percent of its assistance went to support small business. The Eximbank believes that these small business transactions would not otherwise have been financed by private lenders. In geographical terms, China, Indonesia, Mexico, Trinidad and Tobago, and Brazil were Eximbank's top markets in fiscal year 1996.

The six major industrialized countries we reviewed all maintain various types of export finance assistance programs. Although considerable differences exist among these programs, they all help exporters in competing for market share in developing markets by providing varying types of financial assistance (loans, guarantees, and insurance). The Eximbank provides similar types of assistance. The Eximbank also administers a tied aid capital projects fund (also known as the "war chest") as part of its programs. Tied aid is concessionary (low interest

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rate) financing that is linked to the procurement of goods and services from the donor country. The war chest is designed to counter other countries' trade-distorting tied aid practices. Eximbank's assistance programs have cost the U.S. taxpayers about \$4 billion over the last 5 years.

The Eximbank's programs require substantial levels of taxpayer support and the U.S. government's ultimate objectives continue to be aimed at reducing and eliminating such export financing subsidies—allowing exporters to compete on the basis of price, quality, and service—not subsidized financing. The U.S. government needs to make renewed efforts to use international forums such as the Organization for Economic Cooperation and Development (OECD)<sup>1</sup> to reduce and eventually eliminate such subsidized export finance programs. However, given the growing importance of exports to national economic performance, achieving the objective of eliminating all financial subsidies may prove difficult.

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## Background

Created in 1934, the Eximbank is an independent U.S. government agency that operates under a renewable congressional charter that expires on September 30, 1997. In conducting its operations, the Eximbank must comply with several statutory requirements. The Eximbank is required to

- supplement and encourage, but not compete, with private sources of capital;
- seek to reach international agreements to reduce government-subsidized export financing; and
- provide financing at rates and on terms that are “fully competitive” with those of other foreign government-supported export credit agencies (ECA) (12 U.S.C. sec. 635 (b)(1)(A)(B)).

Eximbank financing programs include

- loans to foreign buyers of U.S. exports,
- loan guarantees to commercial lenders,
- export credit insurance to U.S. exporters and lenders, and
- working capital guarantees for pre-export production.

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<sup>1</sup>The OECD, created in 1960, is a forum for monitoring economic trends and coordinating economic policy among 29 countries, including the United States, and serves as the forum for negotiating limitations on government export credit subsidies and developing guidelines for export-financing assistance programs. The OECD's “Arrangement on Guidelines for Officially Supported Export Credits,” which was established in 1978, establishes the terms and conditions for official export credits. Although OECD lacks authority to enforce compliance with its agreements, member states generally take upon themselves responsibility for monitoring compliance.

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Reflecting the growing move toward privatization in the developing world, the Eximbank has recently expanded its activities to include project finance. Project finance involves financing where repayment is provided through the project's anticipated future revenues rather than through sovereign (government) or other forms of guarantee. In fiscal year 1997, the Eximbank estimates project-financing deals will account for about 30 percent of its total financing commitments (these deals accounted for about 14 percent of its assistance in 1996).

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## Rationales Regarding Eximbank Programs

I would first like to discuss the various rationales that have been advanced for and against government involvement in export finance and GAO's position on this matter. The arguments for and against the programs focus on three issues: (1) trade policy leverage, (2) industry effects, and (3) employment and trade effects. Supporters of the Eximbank export finance programs say that this assistance provides leverage in trade policy negotiations, helps to "level the international playing field" for U.S. business, corrects "market failures," and helps to increase exports and employment.<sup>2</sup> According to Eximbank officials, the direct and indirect benefits include follow-on sales and support contracts, high-paying jobs, and federal tax revenues. Opponents say that the Eximbank's programs result in no net increase in national employment and output, misallocate resources, and are a form of corporate welfare.

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## Trade Policy Leverage

Supporters believe that the Eximbank's programs (1) help assist U.S. companies to compete against foreign companies that receive similar types of government support and (2) provide leverage in trade policy negotiations. Supporters hold that the Eximbank helps to neutralize the foreign exporter's advantage in such situations by providing similar financing for U.S. exports. However, critics have questioned the usefulness of these programs in getting countries to reduce subsidies. As discussed below, the foreign competitor countries we studied offer a variety of government-supported export finance programs.

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<sup>2</sup>In the last 15 years, some trade economists have argued that a targeted industrial trade policy of promotion (or protection) could increase national income. The cases are quite specific, however, and apply to industries with "external" economies that involve the spillover of knowledge between firms or economies of scale. These rationales have been associated with infant industries in the developing world and with high-tech industries such as aircraft and semiconductors in the developed world. While these interventions have been recognized in principle, economists are generally cautious about their policy usefulness and application.

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As already noted, the Eximbank is required to seek international agreements to reduce government-subsidized export financing. OECD nations, including the United States, have made progress since the late 1970s in negotiating reductions in officially supported export subsidies. U.S. Treasury officials who participate in these negotiations told us that the Eximbank's programs have provided them with leverage in negotiating subsidy reductions.

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## Industry Effects

Another rationale that proponents make is that markets do not always lead to an optimal allocation of resources and that so-called "market failures" provide an additional justification for government export finance programs.

Eximbank claims that the following are examples of market failures:

- Private financial institutions may be unwilling to support exports to emerging markets even when the risk is correctly priced.
- Foreign buyers in certain markets may be unable to secure long-term financing for capital equipment.
- Finally, and probably the most often-cited example is that small business exporters may have difficulty in obtaining export financing.

Supporters of government export finance programs believe that correcting such "market failures" can improve economic efficiencies and overall economic well-being. Opponents hold that there is no credible evidence that private capital markets do not function efficiently and that government intervention can potentially distort markets.

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## Employment and Trade Effects

According to the Eximbank, the exports it financed in fiscal year 1996 "supported or maintained" nearly 300,000 jobs.<sup>3</sup> We do not dispute that some jobs are directly supported through the Eximbank's programs. However, economists and policy makers recognize that employment levels are substantially influenced by macroeconomic policies, including actions of the Federal Reserve. At the national level, under conditions of full employment, government export finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy. Hence, the jobs figure that the Eximbank reports may not represent net job gains.

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<sup>3</sup>See Keeping America Competitive: 1996 Annual Report (Washington, D.C.: Eximbank), p. 5.

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Others have supported export promotion programs as a way to substantially reduce the U.S. trade deficit. These programs, however, cannot produce a substantial change in the overall U.S. trade balance.<sup>4</sup> The trade balance is largely determined by macroeconomic conditions, such as savings and investment and the government budget deficit. According to the President's Council of Economic Advisers, significantly reducing the trade deficit will require macroeconomic policy measures, such as eliminating the federal budget deficit.

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## Distribution of Eximbank Financing

During fiscal years 1994 to 1996, the Eximbank provided an annual average of \$12.8 billion in export financing commitments (loans, guarantees, and insurance) at an annual average program cost of \$877 million. The Eximbank projects that it will provide about \$16.5 billion of export finance support in fiscal year 1997, an all-time high. Program costs are projected to fall from \$934 million in fiscal year 1996 to \$773 million in fiscal year 1997 and to \$681 million in fiscal year 1998 because of a projected increase in lower-risk financing (such as project finance and aircraft transactions, which consume relatively lower amounts of its program budget). (See table I.1.) Another reason for the decrease is that no additional money for tied aid was included in the Eximbank's fiscal year 1998 budget request.

In fiscal year 1996, China was the Eximbank's top export market (\$1.2 billion), followed by Indonesia (\$825 million), Mexico (\$753 million), Trinidad and Tobago (\$632 million), and Brazil (\$488 million). (See fig. I.1 for a list of the Eximbank's top 10 markets and their associated program costs for fiscal year 1996.) Relative to total U.S. goods<sup>5</sup> exported to these markets, the Eximbank supported about 11 percent of U.S. exports to China, about 22 percent of U.S. exports to Indonesia, about 1 percent of U.S. exports to Mexico, about 93 percent of U.S. exports to Trinidad and Tobago, and about 4 percent of U.S. exports to Brazil.

During fiscal years 1994 through 1996, the 15 largest users (lead U.S. exporters or contractors) of Eximbank financing accounted for about \$14.4 billion, or about 38 percent, of the Eximbank's total export-financing commitments made during that period. (see fig. I.2). The export finance transactions involving these companies absorbed about 27 percent of the Eximbank's total program budget, or about \$682 million over the same

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<sup>4</sup>See *Export Promotion: Rationales for and Against Government Programs and Expenditures* (GAO/T-GGD-95-169, May 23, 1995).

<sup>5</sup>Department of Commerce data on service exports to these markets were unavailable.

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period. However, these data do not capture the full range of U.S. companies associated with Eximbank-financed deals such as subcontractors and other suppliers.

About 20 percent (\$7.5 billion) of the Eximbank's financing commitments—about 79 percent of its total transactions—went to small business, primarily through its insurance programs.<sup>6</sup> (See table I.2.) The Eximbank also supports the export of several dual-use (military and civilian) items. (See app. V).

The Eximbank has participated in international (OECD) negotiations to limit the use of tied aid and has used its tied aid capital projects fund to counter foreign countries' use of tied aid. The OECD efforts have resulted in a decrease in reported international levels of tied aid—the annual average level of tied aid decreased from about \$10 billion in 1992 to approximately \$4 billion in 1995.<sup>7</sup> During 1994-96, the Eximbank board of directors approved the use of war chest funds in 40 instances. (See app. II for a list of firms and countries that actually received war chest assistance in 1994-96.) The balance in the tied aid war chest was \$337.7 million as of September 30, 1996.

Since fiscal year 1993, the Eximbank has issued guarantees related to 23 project finance deals totaling \$5.6 billion (the estimated value of these projects was \$21.5 billion). (See table III.1.) Because these projects tend to be large, the Eximbank often shares project risk with other export credit agencies, the Overseas Private Investment Corporation (OPIC), or with multilateral institutions such as the International Finance Corporation. With regard to project finance, the Eximbank's activity in this rapidly expanding area has increased from one deal in fiscal year 1993 to seven in fiscal year 1996. According to the Eximbank, this growth is a reflection of the rising demand for capital projects in emerging market economies.

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## Foreign Competitors' Export Finance Programs

The six G-7 countries we studied—Canada, France, Germany, Italy, Japan, and the United Kingdom (U.K.)—all have ECAs, each with different roles and structures. (According to Euromoney, a total of 73 ECAs now exist worldwide). The support the G-7 ECAs provide for their exporters can be measured in various ways. In terms of the percentage of national exports

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<sup>6</sup>Since 1986, the Eximbank has been legislatively required to allot at least 10 percent of its financing authorizations to small business concerns as defined by the Small Business Administration (SBA) regulations.

<sup>7</sup>Tied aid notifications occur through the OECD's reporting mechanism.



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these ECAs have financed, the Eximbank is tied for last. In 1995, the Eximbank supported 2 percent of total U.S. exports (the latest year for which comparative data are available). This figure is at the bottom of the range of support provided by the other G-7 nations. In contrast, Japan's ECAs supported 32 percent of its country's exports in that year. France was second, with 18 percent. The support provided by Canada, Germany, the United Kingdom, and Italy ranged from 7 to 2 percent.

In terms of the share of financing commitments extended by ECAs in 1995, the Eximbank ranks fourth: Japan, France, and Germany accounted for the largest shares. Japan extended over half (56 percent), followed by France (20 percent), and Germany (9 percent). The United States and Canada extended smaller shares—5 percent each—followed by the United Kingdom (3 percent) and Italy (2 percent).<sup>8</sup>

Comparing ECA programs is difficult for a number of reasons:

- Each nation has structured its export financing differently — there is no single export finance model. ECAs in the six nations we studied function as independent government agencies, sections of ministries, or private institutions operating under an agreement with the government. Most of the countries we studied offered overseas investment insurance through their ECA. However, in the United States, overseas investment insurance is offered through a separate agency, OPIC. (Table IV.1 provides a summary of the principal differences between the Eximbank and the six ECAs we studied.)
- Unlike the Eximbank, other ECAs appear to compete to varying degrees with private sources of export financing. They do not aim to function exclusively as “lenders of last resort,” as the Eximbank strives to do. For example, the Japanese government's export insurance provider is Japan's only export insurer and reported that it insured about 28 percent (\$124 billion) of all Japanese trade transactions in 1995—the highest level of trade and investment insurance underwriting in the world (private or public). Similarly, Canada's Export Development Corporation (EDC) does not function as a lender of last resort. The Eximbank aims to complement and not compete with private sources of capital.
- ECAs also have different fee structures. As stated earlier, the Eximbank must set fees that are “fully competitive” with the pricing and coverage

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<sup>8</sup>The United States and the six major industrialized countries we studied provided \$258 billion of the total \$553 billion in total export financing.

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offered by other major ECAs.<sup>9</sup> The Eximbank has interpreted “fully competitive” by setting its fees at levels below most of the foreign competition (as low or lower than about 75 percent of those offered by other major export credit agencies). U.K.’s ECA aims to set fees at levels high enough to cover operating costs.

- Other ECAs we studied offer different amounts of political and commercial risks. Currently, the Eximbank provides 100-percent, unconditional political and commercial risk protection on most of the medium- and long-term coverage (coverage over 5 years) it issues. Other ECAs generally require exporters and banks to assume a portion of the risks (usually 5 to 10 percent) associated with such support. This concept of risk-sharing is a fundamental difference between the Eximbank and these ECAs.
- Finally, ECAs use different budgetary and reporting standards thus making it difficult to directly compare the Eximbank’s program costs. The 1990 Federal Credit Reform Act (P.L. 101-508, Nov. 5, 1990) requires the Eximbank to estimate and budget annually for the total long-term costs of its credit programs on a net present value basis. Other nations operate on a cash basis<sup>10</sup> and are not subject to similar budget constraints. Under this approach, a government reimburses an ECA for total cash losses sustained on its operations during the year. Moreover, costs reported may not always represent total expenses to the government. For example, Canada’s EDC uses a separate national interest account (“Canada Account”) to support some export finance activity. The costs of this support are accounted for separately in its year-end reports. (Table IV.2 provides information on the costs of the G-7 nations’ export-financing programs.)

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## ECAs Costs Are Difficult to Compare

Although direct cost comparisons between Eximbank and other national programs are difficult to make, the available cost data we reviewed suggests that several ECAs in the six countries we studied have reported improved financial results. France, Germany, and the United Kingdom all reported positive financial results for their ECAs in 1995, the most recent year for which complete information was available. The Berne Union reported that among its member countries there was an aggregate loss of \$501 million in 1995 compared with \$6.5 billion in 1994.<sup>11</sup> According to the

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<sup>9</sup>See *Export-Import Bank: Options for Achieving Possible Budget Reductions* (GAO/NSIAD-97-7, Dec. 20, 1996). This report discusses how the Eximbank sets its fees in relationship to other ECAs.

<sup>10</sup>Under cash-based budgeting, receipts are recorded when received and expenditures are recorded when paid regardless of the accounting period in which the receipts are earned or the costs incurred.

<sup>11</sup>The Berne Union is an association of 43 export credit insurance agencies that includes the G-7 nations’ ECAs.

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Berne Union, this change was attributed to an improved global debt scenario and tighter ECA underwriting standards.

In sum, the Congress may wish to assess Eximbank's reauthorization within the context of the international competition. While these ECAs operate under different mandates and are subject to different budgeting and reporting standards than the Eximbank, they all help their exporters compete for contracts in the world market. The costs of these programs need to be weighed against their benefits to exporters and the leverage they provide in international negotiations to reduce government support for these types of programs.

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Mr. Chairman and Members of the Subcommittee that concludes my prepared statement. I will be happy to answer any questions you may have.

# Distribution of Eximbank Financing

**Table I.1: The U.S. Export-Import Bank's Financing Commitments and Program Costs, 1994-98**

Dollars in millions

	Fiscal year				
	1994	1995	1996	1997	1998 <sup>a</sup>
Value of export financing commitments	\$14,886.4	\$11,864.9	\$11,516.9	\$16,521.7	N/A
Administrative costs	42.6	41.4	40.8	46.6	48.6
Estimated program costs	936.7	\$674.8	893.6	726.0	632.0
<b>Total costs<sup>b</sup></b>	<b>\$979.3</b>	<b>\$716.2</b>	<b>\$934.4</b>	<b>\$772.6</b>	<b>\$680.6</b>

Legend

N/A = Not available.

Note: The cost figures for 1994-96 are based on amounts obligated, while the 1997 figures represent the amount appropriated. Under the Federal Credit Reform Act of 1990 (P.L. 101-508, Nov. 5, 1990), the Eximbank is required to estimate and budget for the total long-term costs of their credit programs on a net present value basis. Present value analysis calculates the value today of a future stream of income or expenses. Congress funds the Eximbank's estimated credit subsidy costs through the annual appropriations process. Subsidy costs arise when the estimated program disbursements by the government exceed the estimated payments to the government on a net present value basis. Administrative expenses receive a separate appropriation and are reported separately in the budget.

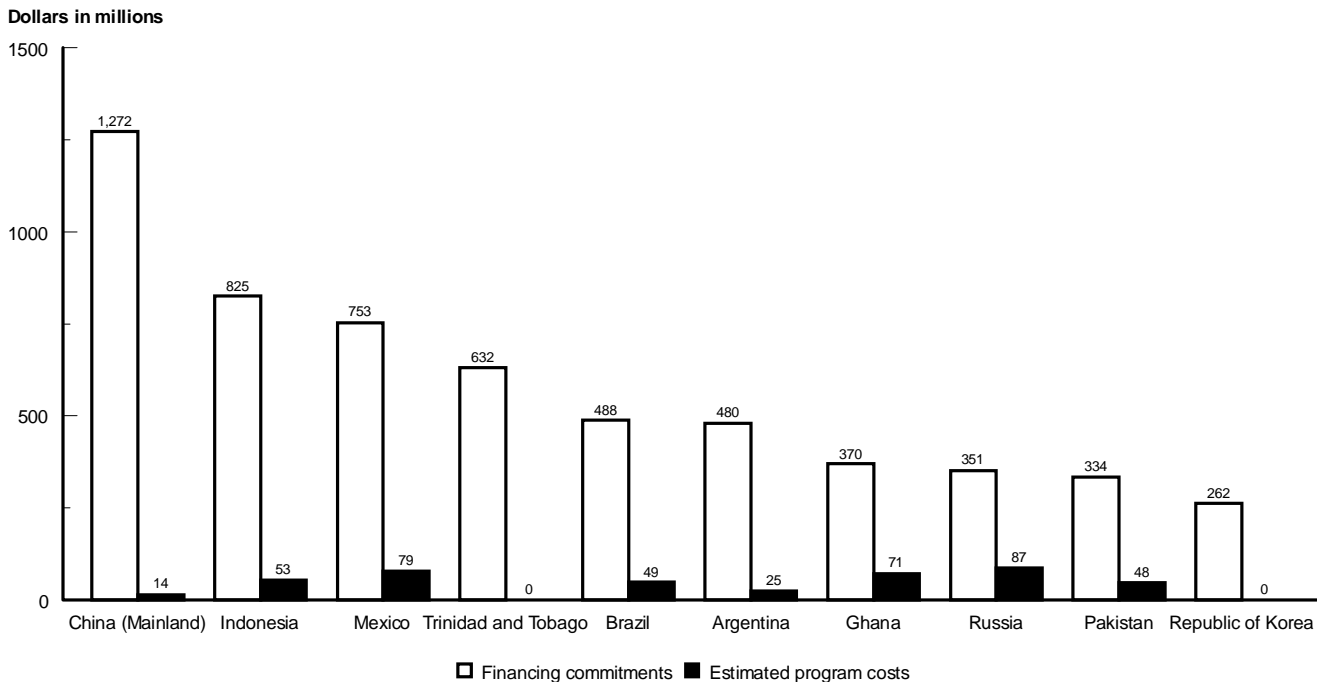
<sup>a</sup>President's fiscal year 1998 budget request.

<sup>b</sup>Total costs are defined as the Eximbank's program costs and administrative costs.

Source: Eximbank.

**Appendix I**  
**Distribution of Eximbank Financing**

**Figure I.1: Top 10 Country Recipients of Eximbank Financing Authorizations and Associated Estimated Program Costs, Fiscal Year 1996**

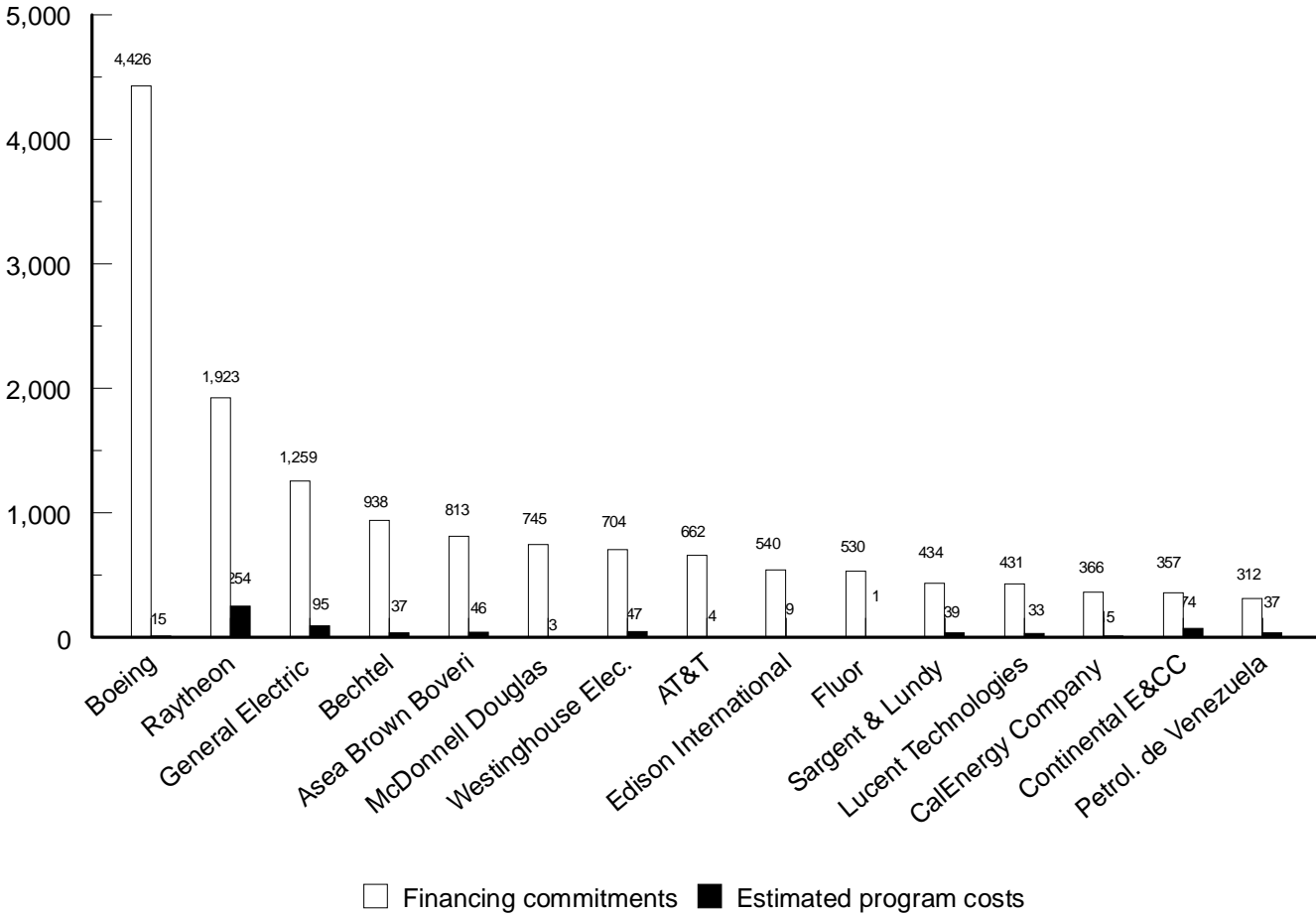


Source: Eximbank.

**Appendix I**  
**Distribution of Eximbank Financing**

**Figure I.2: Top 15 Recipients of Eximbank Financing, Fiscal Years 1994-96**

Dollars in millions



Source: Eximbank.

**Appendix I**  
**Distribution of Eximbank Financing**

**Table I.2: Eximbank Small Business Financing Commitments, Fiscal Years 1994-96**

Dollars in millions

<b>Fiscal year</b>	<b>Total Eximbank transactions</b>	<b>Number of financing commitments supporting small business<sup>a</sup></b>	<b>Percentage of total transactions</b>	<b>Value of financing made to small business</b>	<b>Percentage of Eximbank financing commitments to small business</b>
1994	1,984	1,576	79	2,690	18
1995	2,415	1,910	79	2,461	21
1996	2,422	1,934	80	2,405	21
<b>Total</b>	<b>6,821</b>	<b>5,420</b>	<b>Average for Period: 79%</b>	<b>\$7,556</b>	<b>Average for period: 20%</b>

Source: Eximbank.

<sup>a</sup>See table I.1 for Eximbank budget figures for fiscal years 1994-96.

# U.S. Firms That Received Tied Aid War Chest Assistance, 1994-96

<b>Firm</b>	<b>Total Eximbank financing</b>	<b>Contributing country/recipient country</b>	<b>Sector</b>
Ellicott Machine Corp., International	\$21,994,295	Norway/Indonesia	Transport
U.S. China Industrial Exchange	2,921,520	Austria/China	Medical
U.S. China Industrial Exchange	2,921,520	Austria/China	Medical
U.S. China Industrial Exchange	2,921,520	Austria/China	Medical
Motorola, Inc.	43,870,988	U.K. and European Community/Indonesia	Telecommunication
Cubic Automatic Revenue Collection Group	35,948,268	Germany/China	Transport
Zond Systems, Inc.	3,700,073	Denmark/China	Power
Zond Systems, Inc.	3,675,075	Denmark/China	Power
Zond Systems, Inc.	3,695,400	Denmark/China	Power
Interdigital Communications	35,928,415	France and Australia/Indonesia	Telecommunication

Source: Eximbank.



# Project Finance

**Table III.1: Eximbank Project Finance Transactions, Fiscal Years 1993-97**

Dollars in millions

Fiscal year	Project	Country	Sector	Eximbank support	Total project size
<b>1993</b>	Pagbilao	Philippines	Power	\$185	\$933
<b>1994</b>	Upper Mahiao	Philippines	Power	166	229
	Mahanagdong	Philippines	Power	200	320
<b>1995</b>	Paiton	Indonesia	Power	540	2,600
	Samalayuca	Mexico	Power	477	644
	Cilicap	Indonesia	Petrochemical	296	633
	Sual	Philippines	Power	164	1,200
	El Abra	Chile	Mining	151	1,400
	Termobarranquilla	Colombia	Power	161	756
	Marmara	Turkey	Power	228	544
	Comsigua	Venezuela	Manufacturing	67	270
<b>1996</b>	Jawa	Indonesia	Power	390	1,600
	Saba	Pakistan	Power	84	141
	Leyte	Philippines	Power	50	69
	Uch	Pakistan	Power	255	612
	Farmland	Trinidad	Petrochemical	235	335
	Alumbrera <sup>a</sup>	Argentina	Mining	228	1,000
	Atlantic LNG <sup>a</sup>	Trinidad	Petrochemical	391	1,100 <sup>b</sup>
<b>1997</b>	Avantel	Mexico	Telecom.	306	1,100 <sup>b</sup>
	Halliburton	Angola	Petrochemical	82	200 <sup>b</sup>
	Qatargas	Qatar	Petrochemical	45	1000
	Quezon	Philippines	Power	456	800
	Ras Laffan	Qatar	Petrochemical	465	4,000
<b>Grand Total</b>				<b>\$5,622</b>	<b>\$21,486</b>

Source: Eximbank.

<sup>a</sup>Political risk coverage only.<sup>b</sup>Project has been authorized, but deal has not closed.

**Appendix III  
Project Finance**

**Table III.2: Infrastructure Projects in Emerging Markets Utilizing ECA Financing**

Export credit agency	Emerging market							
	Turkey	Thailand	China	Indonesia	India	Argentina	Brazil	Mexico
Japan	•	□	•	•	•	□	•	N/A
<b>United States</b>	•	N/A	□	•	•	•	•	□
Germany	•	•	•	•	•	□	N/A	N/A
United Kingdom	•	N/A	□	□	•	N/A	□	N/A
France	•	□	•	N/A	□	N/A	N/A	N/A
Austria	•	•	N/A	N/A	N/A	N/A	N/A	N/A
Italy	□	□	N/A	□	N/A	□	N/A	N/A
Belgium	•	□	N/A	N/A	N/A	N/A	N/A	N/A
Spain	N/A	□	•	N/A	N/A	N/A	N/A	N/A
Netherlands	□	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Switzerland	N/A	N/A	N/A	□	N/A	N/A	N/A	N/A
Sweden	N/A	□	N/A	N/A	N/A	N/A	N/A	N/A
Norway	N/A	□	N/A	N/A	N/A	N/A	N/A	N/A
Canada	□	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brazil	N/A	N/A	N/A	N/A	N/A	□		N/A
Korea	N/A	N/A	□	N/A	N/A	N/A	N/A	N/A

Legend

N/A = Not applicable because no projects reported.

• At least one completed project with ECA financing.

□ Proposed project(s) with ECA financing.

Source: Compiled from U.S. government information and foreign data.

# Comparison of G-7 Nations' Export Credit Agency Structures and Roles

**Table IV.1: G-7 Nations' Export Credit Agency Organization and Roles**

Country	Export credit agency	Public or private	Role
United States	Eximbank	Public, independent government agency.	—Statutory mandate to supplement and encourage, but not compete with, private sources of capital. —Receives a credit subsidy appropriation each year from the U.S. Congress.
Canada	Export Development Corporation (EDC)	Public, independent government agency.	—Some competition with private sector. —Aims to be financially self-sustaining.
France	COFACE provides export finance insurance and guarantees BFCE provides interest-rate support on commercial bank loans	Private. Both COFACE and BFCE have recently been privatized. Government covers deficits incurred on state account activities.	—COFACE exercises a dual role by administering export-financing support on behalf of the French government and offering export finance assistance through its own programs.
Germany	Hermes, C&L Deutsche Revision, and KfW	Private consortium. Hermes and C&L Deutsche Revision jointly administer German export finance program on behalf of the state. KfW offers export loans to German exporters. Government covers deficits on state account activities.	—Hermes and C&L exercise a dual role by operating the government's export finance programs and offering export finance assistance privately.
Italy	Special Section for Export Credit Insurance (SACE) and Central Institute for Medium Term Credits (Mediocredito Centrale)	Public agencies.	—Some competition with private sector as Mediocredito Centrale also functions as commercial bank.
Japan	Export-Import Bank of Japan (JEXIM) provides financing. Export Insurance Division-Ministry of International Trade and Industry (EID-MITI) provides insurance	Public. JEXIM is a independent government agency. EID-MITI is housed in Japan's Ministry of International Trade and Industry.	— JEXIM aims to supplement and encourage commercial bank financing but not compete with it. —EID-MITI competes with private sector providers.
U.K.	Export Credits Guarantee Department (ECGD)	Public, independent government department.	—Short-term business was privatized. —Has a specific mandate to break even financially.

Legend

COFACE = Compagnie Francaise d'Assurance Pour Le Commerce Exterieur.

BFCE = Banque Francaise du Commerce Exterieur.

**Appendix IV  
Comparison of G-7 Nations' Export Credit  
Agency Structures and Roles**

**Table IV.2: Reported Financial Results of Government-Supported Export-Financing Programs in the United States and Six Competitor Countries, 1994-96**

U.S. dollars in millions

<b>Country</b>	<b>Export credit agency</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>United States<sup>a</sup></b>	Eximbank	(\$979)	(\$716)	(\$934)
Canada <sup>b</sup>	EDC	N/A	N/A	N/A
France	COFACE and BFCE	(\$503)	\$7	\$1,151
Germany <sup>c</sup>	Hermes/C&L and Deutsche Revision	(\$1,985)	\$38	\$605
Italy	SACE and Mediocredito Centrale	(\$1,501)	(\$1,821)	(\$822)
Japan <sup>d</sup>	JEXIM and EID-MITI	(\$80)	(\$113)	N/A
United Kingdom <sup>e</sup>	ECGD	\$29	\$362	N/A

N/A = Not available.

Note 1: There are several caveats with regard to how the numbers in this table should be interpreted. The type and nature of each nation's export credit agency (ECA) business varies in ways that ultimately influence its costs. In the case of Japan's Export-Import Bank, 44 percent of its fiscal year 1995 commitments were for loans not "tied" to Japanese exports, 37 percent were for overseas investment loans, and 8 percent for import loans. Only 11 percent of JEXIM's total financing in that year was reported to have been used for export loans. Where there are two ECAs, we have combined financial results.

Note 2: Negative amounts indicate a deficit. Positive amounts indicate a surplus.

<sup>a</sup>The figures for the Eximbank represent the credit subsidy obligation and administrative costs obligated for the fiscal year.

<sup>b</sup>Canada's EDC reported net income of \$171 million, \$44 million, and \$112 million in 1994, 1995, and 1996, respectively. However, these amounts do not include the support separately provided through the Canadian national interest account (\$200 million in 1996 but not available for 1994 and 1995). EDC conducts a significant (42 percent) level of business with Organization for Economic Cooperation and Development (OECD) nations, which influences its profitability.

<sup>c</sup>The totals for Germany include interest revenues from debt reschedulings.

<sup>d</sup>The Japanese fiscal year ends March 31. The figures for Japan's EID-MITI include direct transfers from the Ministry of Finance for Paris Club debt writeoff of \$272 million in fiscal year 1994 and \$233 million in 1995.

<sup>e</sup>The United Kingdom's fiscal year ends March 31. ECGD figures include amounts spent on foreign exchange insurance and interest rate subsidies.

# Eximbank's Financing of Dual-Use Exports

For the last 3 fiscal years, the Eximbank has had the authority to finance exports of nonlethal defense items whose primary end use is for civilian purposes. The Eximbank is authorized to use up to 10 percent of its annual commitments to finance the exports of these dual-use (military and civilian) items. As depicted in tables VI.1 and VI.2 the Bank has financed several items but well below the 10-percent annual cap. The Eximbank's authority to finance these items expires on September 30, 1997. We are required to report to the Congress no later than September 1, 1997, on the end use of these items. We plan to issue a report to the Congress on this matter by late July 1997.

**Table V.1: Summary of Eximbank's Cap on Dual-Use Financing Commitments, 1995-97**

Dollars in millions

<b>Fiscal year</b>	<b>Value of export financing commitments</b>	<b>Cap on dual-use commitments (10% limit of total projected commitments)</b>	<b>Actual dual-use commitments</b>
1995	\$11,864.9	\$1,186	\$15.5
1996	11,516.9	1,151	102.5
1997 <sup>a</sup>	16,521.7	1,652	108.3

<sup>a</sup>Projected commitment.

Source: Eximbank.

**Appendix V**  
**Eximbank's Financing of Dual-Use Exports**

**Table V.2: Summary of Eximbank's Dual-Use Commitments, 1995-97**

Dollars in millions				
Fiscal year	Country	End user	Dual-Use Commitments	
			Type/description	Amount
1995	Indonesia	Indonesian Air Force	Loan/aircraft parts	\$15.428
1996	Romania	Romantsa (Romanian Air Traffic Administration Services)	Guarantee/air traffic control system	79.549
	Indonesia	Indonesian Army	Loan/helicopters	22.907
1997	Venezuela	Venezuelan Army	Guarantee/radio systems	8.841
	Venezuela	Venezuelan Air Force	Guarantee/radio systems	3.400
	Brazil	Brazilian Air Force	Loan/aircraft components	34.000
	Venezuela	Venezuelan Army	Guarantee/trucks	25.500
	Venezuela	Venezuelan Army	Guarantee/trucks	14.057
	Venezuela	Venezuelan Army	Guarantee/aircraft parts	10.085
	Venezuela	Venezuelan Army	Guarantee/motor vehicles	12.421

Source: Eximbank.

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