

February 2012

U.S. EXPORT-IMPORT BANK

Actions Needed to Promote Competitiveness and International Cooperation



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Why GAO Did This Study

The U.S. Export-Import Bank (Ex-Im), the United States' official export credit agency (ECA), helps U.S. firms export goods and services by providing a range of financial products. Ex-Im, whose primary mission is to support jobs through exports, has a range of policy requirements, including support of small business. The Organisation for Economic Cooperation and Development (OECD) Arrangement governs aspects of U.S. and some foreign countries' ECAs. GAO examined (1) Ex-Im's mission and organization compared with ECAs from other Group of Seven (G-7) countries (major industrialized countries that consult on economic issues), (2) Ex-Im's policy requirements compared with other G-7 ECAs, (3) Ex-Im's domestic content policy compared with other G-7 ECAs, and (4) the OECD Arrangement's role in governing ECA activities.

What GAO Recommends

GAO recommends (1) that Ex-Im conduct a systematic review to assess how well its domestic content policy continues to support Ex-Im's mission, and (2) that the Department of the Treasury, with Ex-Im and international counterparts, develop strategies for further engagement on export credit issues with emerging economy countries. Ex-Im stated it considers content policy in its annual competitiveness assessments, but did not comment directly on the recommendation. Treasury stated it supports encouraging emerging market economies' participation concerning export credit issues and is engaged in that activity, but did not state whether it agreed with the recommendation.

View [GAO-12-294](#). For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

What GAO Found

The United States and other G-7 countries have ECAs that support domestic exports, but Ex-Im differs from other ECAs in several important ways, including its explicit mission to promote domestic employment. The G-7 ECAs range from government agencies to private companies contracted by governments. Most of these ECAs, including Ex-Im, are expected to supplement, not compete with, the private market. Ex-Im offers direct loans, which were increasingly utilized during the recent financial crisis, while European ECAs do not.

Ex-Im has specific mandates in areas where other G-7 ECAs have broad directives. Ex-Im has specific mandates to support small business and environmentally beneficial exports, while other ECAs are broadly directed to support such exports. In addition, Ex-Im has other mandates and legal requirements, such as shipping certain exports on U.S.-flagged carriers and conducting economic impact assessments for large transactions, which other G-7 ECAs do not.

Ex-Im's requirements for the level of domestic content in the exports it fully finances are higher and generally less flexible than those of other G-7 ECAs. Ex-Im requires 85 percent domestic content for medium- and long-term transactions to receive full financing, while other ECAs' domestic content requirements generally range between zero and 51 percent. Ex-Im's policy on supporting local costs can result in more foreign content support in some transactions. While Ex-Im has modified its method for calculating domestic content, its threshold for receiving full financing for medium- and long-term transactions has not changed since 1987, and the policy and its overall impact on jobs has not been studied systematically. Other ECAs have modified their policies in recent years, citing increasing global content of industrial production. In its charter, Ex-Im is directed to provide financing competitive with that of other ECAs, as well as to support U.S. jobs.

The OECD Arrangement has expanded to regulate additional aspects of officially supported export credits, but increasing activity of nonmembers threatens its ability to provide a level playing field for exporters. Several agreements have been made that decrease subsidies and increase transparency among ECAs. However, these agreements apply only to participant ECAs, and important emerging countries, including China, are not part of the Arrangement. Officials from several G-7 ECAs and other institutions identified effective engagement with these countries on export credit issues as being increasingly important and presenting challenges for the OECD Arrangement and its participants.

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Abbreviations

CEO	chief executive officer
CIRR	Commercial Interest Reference Rate
Coface	Compagnie Française d'Assurance pour le Commerce Extérieur
CRS	Congressional Research Service
ECA	export credit agency
ECGD	Export Credits Guarantee Department
EDC	Export Development Canada
EU	European Union
G-7	Group of Seven
GDP	gross domestic product
JBIC	Japanese Bank for International Cooperation
KfW	KfW Bankengruppe
NEXI	Nippon Export and Investment Insurance
OECD	Organisation for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
SACE	Servizi Assicurativi del Commercio Estero
SBA	Small Business Administration
SIMEST	Societa Italiana per le Imprese all'Estero
UK	United Kingdom

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United States Government Accountability Office
Washington, DC 20548

February 7, 2012

The Honorable Gary Miller
Chairman
International Monetary Policy and Trade Subcommittee
The Honorable Judy Biggert
Chairman
Insurance, Housing and Community Opportunity Subcommittee
Committee on Financial Services
House of Representatives

The Honorable Gregory Meeks
House of Representatives

As the nation's official export credit agency (ECA), the U.S. Export-Import Bank (Ex-Im) supports U.S. exporters by providing loans, guarantees, and insurance, particularly during times of economic crisis when private financing is not available. Ex-Im's primary mission is to create U.S. jobs through exports. In addition, Ex-Im has a variety of other policy requirements, including congressional mandates to support small businesses and promote environmentally beneficial exports, as well as policies regarding the amount of U.S. content in the exports it finances. In its charter, Ex-Im is directed to provide financing competitive with the rates, terms, and other conditions available from other ECAs.

An international agreement, the Organisation for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits (the Arrangement), governs various aspects of U.S. and other member countries' ECAs.¹ The Arrangement aims to promote a level playing field where exporters compete on the basis of price and quality rather than export credit support, including any subsidies. The Group of Seven (G-7) major industrialized countries are all participants in the Arrangement. However, some countries with substantial export credit activity—including China, India, and Brazil—are not participants in this agreement.

¹The OECD is an organization of 34 industrialized countries, operating by consensus, that fosters dialogue among members to discuss, develop, and refine economic and social policies and provides an arena for establishing multilateral agreements.

In the context of Ex-Im's latest reauthorization, Congress asked GAO to examine how Ex-Im's export credit support and policy requirements compare with those of other export credit agencies in developed countries. This review examines (1) Ex-Im's mission, organization, market orientation, and product offerings compared with those of the other G-7 ECAs; (2) Ex-Im's policy requirements compared with those of the other G-7 ECAs; (3) Ex-Im's domestic content policy compared with those of the other G-7 ECAs; and (4) the role of the OECD Arrangement in governing ECA activities.

To address these objectives, we reviewed relevant documentation related to Ex-Im and the other G-7 ECAs, including legislation, annual reports, OECD and academic reports, and Ex-Im's annual Competitiveness Reports. We met with officials from the following ECAs: Export Development Canada (EDC) in Canada, Coface in France, Export Credits Guarantee Department (ECGD) in the United Kingdom, Servizi Assicurativi del Commercio Estero (SACE) in Italy, and Hermes in Germany. We also met with officials from oversight organizations in G-7 countries, as well as the OECD and the Berne Union, an association of export credit and investment insurance providers. We spoke via telephone with officials from the Japanese ECAs, the Japanese Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI). We interviewed Ex-Im officials from various divisions of the organization. We also spoke with officials from other U.S. government agencies, including the Departments of the Treasury and State, as well as the Small Business Administration. We interviewed a variety of experts on China's export credit activities, including experts at American University and the Brookings Institution. Appendix I provides more information on our scope and methodology.

We conducted this performance audit from February 2011 to February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Export credits are financing arrangements designed to mitigate risks to buyers and sellers associated with international transactions.² Export credits generally take the form of direct loans, loan guarantees, and export credit insurance, and may be short-term (0-1 year), medium-term (1-7 years), and long-term (7 plus years).³ (See textbox below.) Buyers and sellers in international transactions face unique risks, such as foreign exchange risk, difficulties in settling disputes when damages to shipments occur, or instability in the buyer's country. For these reasons, lenders may be reluctant to finance a buyer's purchase of foreign goods. Export credit products are meant to facilitate international transactions by mitigating these risks. Official ECAs are organizations that provide export credits with explicit government backing, where either the government, or the government-owned ECA, assumes the risk and is financially liable for reimbursing the exporter or the lending institution if the buyer fails to pay.

ECA Export Credit Products Defined

- Export credit insurance: An insurance policy that protects the exporter from the risk of nonpayment by foreign buyers for commercial and political reasons.
- Loan guarantee: An ECA guarantees a lender's financing to an international buyer of goods or services, promising to pay the lender if the buyer defaults.
- Direct loan: The ECA makes a fixed-rate loan directly to an international buyer of goods and services.
- Interest make-up: In lieu of making direct loans, an ECA pays a lender the difference between the OECD minimum interest rate and commercial interest rates.

Ex-Im, the official export credit agency of the United States, is an independent government agency operating under the Export-Import Bank Act of 1945, as amended. Ex-Im currently has about 400 employees. Its mission is to support U.S. exports and jobs by providing export financing on terms that are competitive with those of official export credit support offered by other governments. Since fiscal year 2008, Ex-Im has been "self-sustaining" for appropriations purposes, financing its operations from

²They can take the form of "supplier credits," extended by the exporter, or "buyer credits," where the exporter's bank or financial institution lends to the buyer or to the buyer's bank.

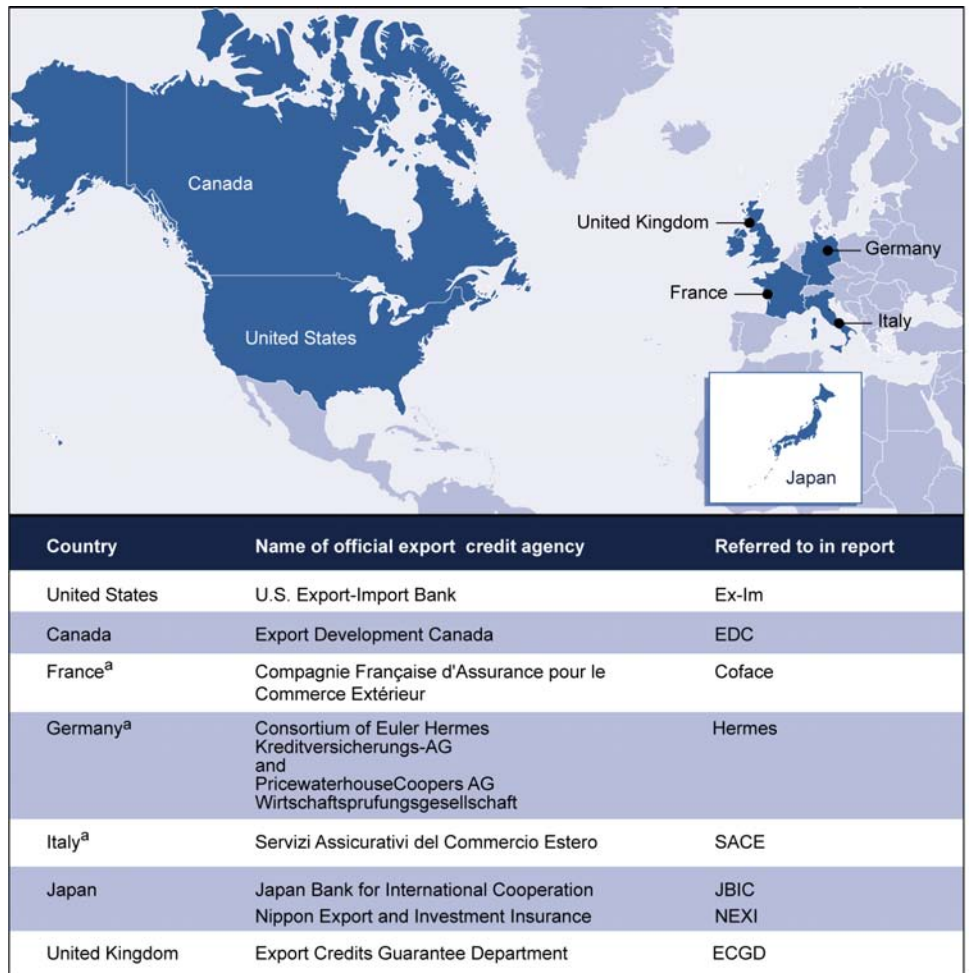
³These are Ex-Im's definitions. Ex-Im and OECD officials noted that there are not consistent definitions for "short-term," "medium-term," and "long-term."

receipts collected from its borrowers.⁴ Ex-Im provides export credit insurance, direct loans, and loan guarantees in support of U.S. exports. In fiscal year 2011, Ex-Im authorized \$32.7 billion: \$7.0 billion in export credit insurance, \$6.3 billion in direct loans, and \$19.4 billion in loan guarantees. Ex-Im has a risk exposure limit of \$100 billion, meaning that the total outstanding value of all loans, guarantees, and insurance contracts cannot exceed this number; at the end of fiscal year 2011, Ex-Im had a total exposure of \$89.2 billion.

The other G-7 countries, which include some of the largest exporters, all have at least one ECA. See figure 1.

⁴Ex-Im's budget includes its program subsidy and its administrative expenses. Program subsidy refers to budgetary resources that must be allocated annually to reserve against any estimated costs to the government of Ex-Im's activities (such as due to defaults) not covered by fees and other payments, on a net present value basis. The fees charged by Ex-Im have covered its annual subsidy and administrative costs in recent years. Congress retains oversight of Ex-Im's budget by setting annual limits on Ex-Im's use of its funds for program subsidy and administrative expenses.

Figure 1: Official Export Credit Agencies of the G-7 Countries



Sources: GAO analysis of documents from OECD and Hermes.

^aFrance, Italy, and Germany each have an additional government or government-directed institution that offers products that could be characterized as officially supported export credits. Societa Italiana per le Imprese all'Estero (SIMEST) in Italy and Natixis in France have interest make-up programs. KfW IPEX-Bank in Germany offers loans at the OECD minimum interest rate in support of export-related transactions.

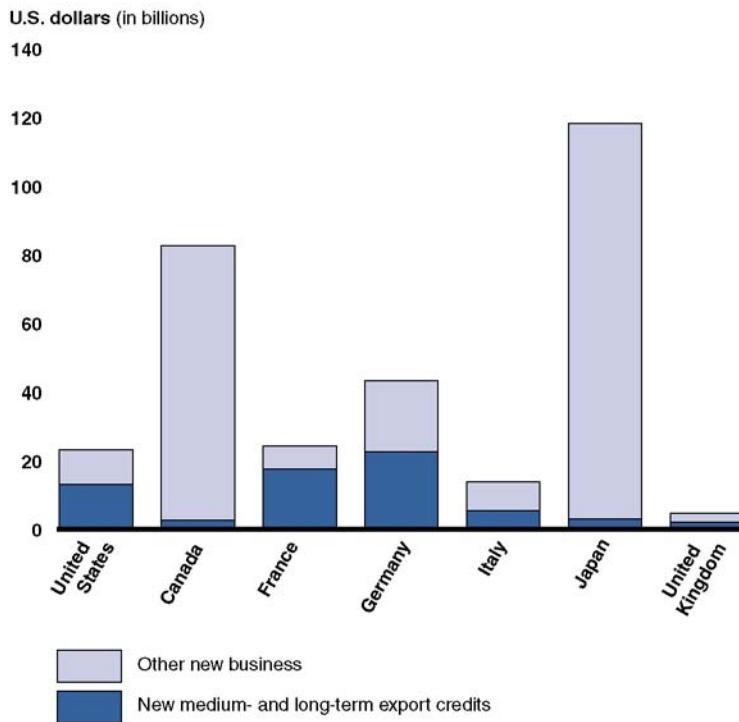
G-7 ECAs differ in the magnitude and types of their activities. All offer medium- and long-term officially supported export credits. According to Ex-Im, this financing is subject to the most intense international competition, where the support of an ECA can influence who wins overseas deals. Ex-Im's annual competitiveness reports compare ECAs on the basis of their medium- and long-term export credit support

programs. ECAs also can provide other products and services in addition to these medium- and long-term officially supported export credits; some of the G-7 ECAs offer short-term export credits, market-based export credits (called “market windows”), and other non-export credit products such as investment insurance. This can complicate comparisons among institutions, as some ECAs offer products that are also offered by other types of institutions, such as development or finance institutions, in other countries. ECAs do not typically compete with one another in the area of short-term credits.

Figure 2 shows each ECA’s total new business in 2010, providing a comparison between medium- and long-term officially supported export credits and other new business in that same year. Germany was the largest provider of medium- and long-term export credits, followed by France and the United States. Japan’s two ECAs, combined, had the largest amount of total new business in 2010, but only a very small portion was for officially supported medium- and long-term export credits; the remainder included other products such as overseas investment loans, untied loans, and overseas untied loan insurance.⁵ This was also true of Canada’s ECA, EDC, which had the second highest volume of total new business. A large proportion of the new business was attributable to short-term credit insurance.

⁵Overseas investment loans (loans to help domestic firms invest abroad) and untied loans (loans extended to foreign governments or companies for the purpose of providing credit for strategic reasons) are offered by JBIC. Overseas untied loan insurance, which protects Japanese companies and banks from losses associated with providing untied loans, is provided by NEXI.

Figure 2: New Business by G-7 Export Credit Agency, 2010



Sources: Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, period January 2010–December 2010, and GAO analysis of ECA annual reports.

Notes: “Other new business” is calculated as the difference between “total new business” and new medium- and long-term export credits. “Total new business” is reported differently depending on the ECA. For the United States, data are for total authorizations. For Canada, it represents financial arrangements facilitated. For France, Germany, Italy, and the United Kingdom, it means new guarantees. For Japan, it is loan, guarantee, and investment commitments from JBIC, as well as the total underwritten amount from NEXI.

The “total new business” number for Japan is for fiscal year 2010 (April 2010–March 2011), while the number for medium- and long-term official export credits is an Ex-Im estimate for calendar year 2010. For the United Kingdom, the “total new business” number is for fiscal year 2010 (April 2010–March 2011), while the number for medium- and long-term official export credits is for calendar year 2010.

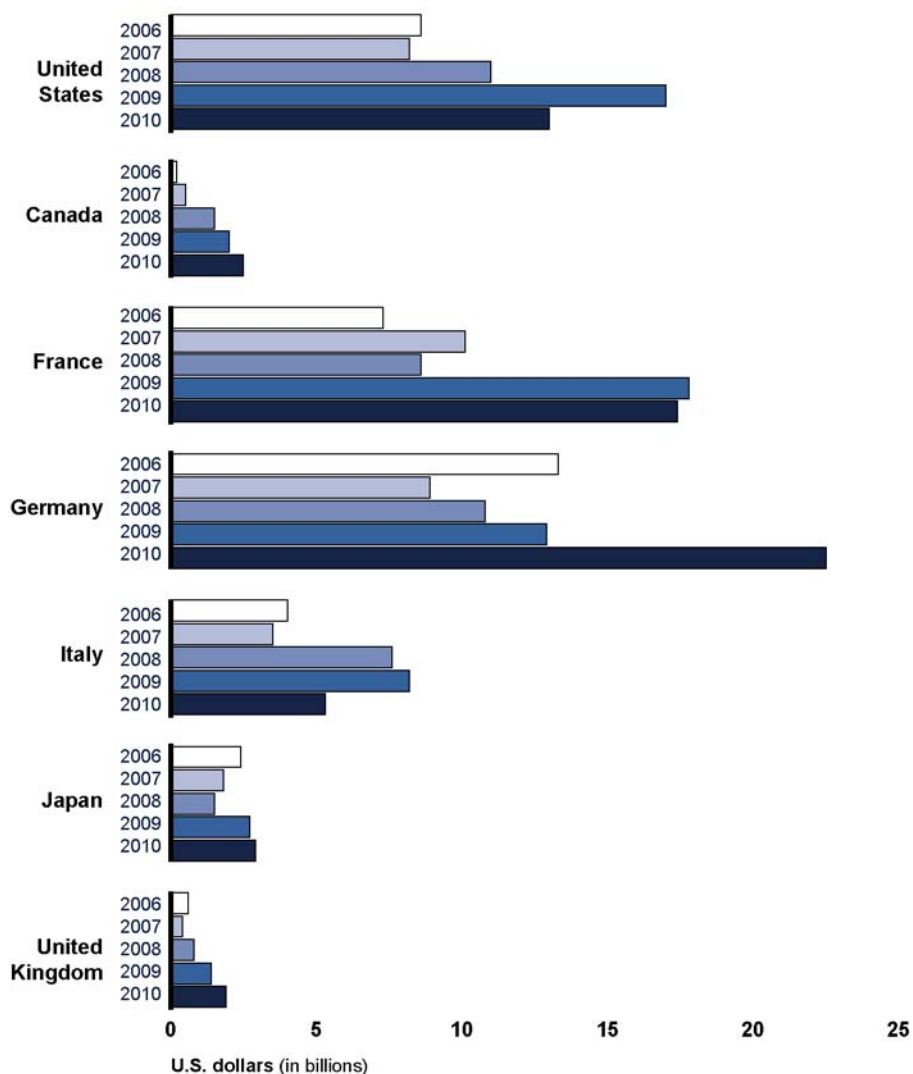
The G-7 ECAs have historically accounted for the majority of medium- and long-term officially supported export credits, according to Ex-Im. The share of national exports financed by official export credit agencies is not large; on average, medium- and long-term ECA financing as a share of total exports for each of the G-7 countries in 2008 was 0.6 percent. The United Kingdom’s (UK) share was lowest at 0.1 percent, and Italy’s was

the highest at 1.2 percent; the remaining G-7 countries ranged between those values.⁶ However, ECAs do play a large role in certain sectors, such as aircraft. According to Ex-Im, at its peak in 2009, ECA financing represented about 40 percent of the total worldwide market for aircraft financing. In addition, the recent financial crisis has increased the amount of ECA support for exports; most G-7 ECAs saw notable increases in the volume of their medium- and long-term officially supported export credits starting in 2008 or 2009 because private sector lenders and insurers were either unwilling or unable to support transactions on their own. See figure 3 for estimates of the volume of medium- and long-term officially supported export credits provided by each G-7 country over the past 5 years.⁷

⁶Specifically, the remaining G-7 countries had the following shares: United States: 0.6 percent, Canada: 0.3 percent, France: 1.1 percent, Germany: 0.6 percent, Japan: 0.2 percent.

⁷We found that the data presented in Ex-Im's *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, period January 2010 through December 2010* (Ex-Im 2010 Competitiveness Report) provide the best available estimate of the G-7 ECAs' medium- and long-term officially supported export credits. The amounts are estimated because some ECAs do not specifically report this information. Rather, they report on their total business, only a subset of which can be considered "officially supported" export credits. This makes it very difficult to obtain the information shown in figure 3 from ECA annual reports.

Figure 3: Medium- and Long-Term Official Export Credits, 2006-2010



Source: Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, period January 2010–December 2010.

Note: Data represent the medium- and long-term officially supported export credits issued each year by country. U.S. data are presented on a calendar-year basis. Data for Canada exclude market window and domestic financing. For France, figures have been adjusted to exclude defense. Data for Italy exclude untied or domestic activity. Figures for Japan reflect an aggregation of JBIC export loans and an estimate of NEXI medium- and long-term official export cover; the 2010 figure for Japan is an Ex-Im estimate (data were not available).

The OECD Arrangement on Officially Supported Export Credits is a set of nonbinding rules among some OECD countries concluded in 1978 amid

increases in ECAs' provision of officially supported export credits. The purpose of the Arrangement is to provide a framework for the use of officially supported export credits; to promote a level playing field, where competition is based on the price and quality of the exported goods and not the financial terms provided; and to provide transparency over programs and transactions. Participants to the Arrangement are Australia, Canada, the European Union (EU),⁸ Japan, South Korea, New Zealand, Norway, Switzerland, and the United States. Other countries may join following invitation and OECD membership is not required. In addition, countries may belong to one or more of the Arrangement's sector agreements—for example, Brazil is a member of the Aircraft Sector Understanding—without being a full-fledged participant.

The Arrangement applies to officially supported export credits with repayment terms of 2 years or more. It places limitations on the terms and conditions, such as interest rates, length of repayment terms, and risk fees, of export credits that benefit from official support, and it also contains a variety of reporting requirements to ensure transparency. Another requirement is a down payment of 15 percent of an export contract's value.⁹ The Arrangement and its various sector agreements are negotiated among participants and updated on an as-needed basis.¹⁰

In addition to the OECD Arrangement, another export credit committee at the OECD, the Working Party on Export Credits and Credit Guarantees (Export Credit Group), was set up in 1963. Its general objectives are to evaluate export credit policies, identify and resolve problems by multilateral discussion, work out common guiding principles, and improve cooperation between countries. To date, the Export Credit Group has been the venue for important export credit agreements on antibribery,

⁸The European Union is an economic and political partnership among 27 European countries. Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom are members.

⁹The Arrangement also governs the use of "tied aid"—aid conditioned on the purchase of goods and services from the donor country.

¹⁰The latest version of the Arrangement dates from September 2011. An important change was the introduction of new buyer risk (commercial) premium rates, which came into effect on September 1, 2011.

environmental screening, and sustainable lending. All OECD countries except Chile and Iceland are members.

The U.S. Department of the Treasury’s Office of Trade Finance has lead responsibility within the U.S. government for the development, implementation, and enforcement of international trade and aid finance policy, and its primary goal is to create and maintain a market-based, competitive environment in which governments’ financing of national exports contains minimal subsidies. The Office of Trade Finance leads the U.S. delegation to the OECD Arrangement. Other members of the delegation include Ex-Im, the Departments of Commerce and State, the Office of the U.S. Trade Representative, the U.S. Agency for International Development, the U.S. Trade and Development Agency, and other agencies whose programs or roles might be affected by the negotiations.

Ex-Im Differs from the Other G-7 ECAs in Several Important Ways, Including Its Explicit Mission to Promote Domestic Employment

Ex-Im is different from other G-7 ECAs in several significant ways, including its mission, which is explicitly focused on creating domestic jobs through exports. It is similar in its role as a lender/insurer of last resort to four other ECAs, while Canada and Italy have commercial market orientations and are not restricted from competing with the private market. As an independent government agency, Ex-Im’s governance and organization type differ from those of other ECAs, which range from government departments to private companies contracted by governments. Ex-Im and other G-7 ECAs offer a different mix of export credit and other financing products, which provides them with different tools to help exporters. Ex-Im has an advantage over some of the other ECAs because it offers direct loans, which were useful during the financial crisis.

ECAs Differ in Their Missions and Organization Types

Ex-Im’s mission strongly emphasizes supporting domestic jobs through exports, which is unique among the G-7 ECAs (see table 1). This aim underlies certain Ex-Im policies, such as its economic impact analysis requirement and its domestic content policy. Other ECA missions range from promoting and supporting domestic exports to securing natural resources.

Along with its mission is the ECA’s “market orientation”—whether an export credit agency supplements or competes with private markets for export credit support. Most G-7 ECAs are directed to supplement the private market; that is, they play a role as a “lender or insurer of last resort,” providing financing, guarantees, or insurance for transactions that

are too risky or are undesirable for commercial support. In addition, according to G-7 ECA officials, European ECAs must abide by EU law prohibiting them from supporting short-term export credits to other EU member states and most OECD countries—transactions that the private market is willing to support. Ex-Im’s role as a lender of last resort is emphasized in its charter. It must report the purpose for each transaction it supports, either to provide financing where private sector financing is unavailable or to meet foreign competition. Canada’s ECA, in contrast, has a commercial market orientation and is not restricted from competing with the private sector. Italy’s ECA, while having to abide by EU law, also has a commercial market orientation, according to Italian officials.

G-7 export credit agencies range from government agencies to private companies contracted by governments, with different organization types, governing structures, and processes for approving transactions (see table 1). The ECAs that are managed by private companies, such as those in France and Germany, experience more direct political oversight, as their governments take a more direct role in approving transactions and can take policy considerations into account on an individual transaction basis.

Table 1: Missions and Related Characteristics of the G-7 ECAs

Country: ECA	Stated mission	General market orientation	ECA organization type	ECA governance and decision-making authority
United States: Ex-Im	Supports U.S. domestic jobs through exports by providing export financing that is competitive with support offered by other governments	Lender /insurer of last resort	Independent government agency	Ex-Im has a board of directors appointed by the President and confirmed by the Senate. The board approves transactions above \$10 million. ^a
Canada: EDC	Supports and develops Canada’s domestic and export trade and Canadian capacity to respond to domestic and international business opportunities ^b	Commercial market orientation	Company wholly owned by the government (Canadian Crown Corporation)	A board of directors, appointed by the Minister for International Trade and composed of representatives primarily from the private sector, governs EDC and approves transactions. ^c
France: Coface	Promotes and supports French exports and foreign investments in the medium and long terms	Insurer of last resort	Private company contracted by the government	In addition to its private sector activities, Coface manages a separate account for state export credits and reports to the Ministry of Finance, which takes decisions on the largest and most important transactions.

Country: ECA	Stated mission	General market orientation	ECA organization type	ECA governance and decision-making authority
Germany: Hermes	Promotes German exports; insures against the risk of nonpayment for commercial and political reasons; opens new markets, especially in emerging countries; and supports foreign countries, particularly those in difficult phases of development and restructuring	Insurer of last resort	Consortium of two private companies contracted by the government	The consortium manages export credits on behalf of the government, but an Interministerial Committee made up of the Ministries of Economics and Technology, Finance, Economic Cooperation and Development, and the Federal Foreign Office, make the approval decisions on transactions over 5 million euros.
Italy: SACE	Supports Italian exporters and the internationalization of Italian companies and banks	Commercial market orientation	Joint stock company with shares owned by the Ministry of Economy and Finance	A board of directors is appointed by the Ministry of Economy and Finance in agreement with the Ministry for Economic Development. Decisions on SACE's activity are made by the Board of Directors, which also provides the Chairman and the Chief Executive Officer (CEO) with specific powers of attorney.
Japan: JBIC and NEXI	JBIC: Secures natural resources, ensures competitiveness of Japanese companies, responds to disruptions in the international economy, and improves the environment; NEXI: Contributes to Japan's economy by anticipating changes in the market, responding to customer needs, and conducting insurance business in covering risks that arise in international transactions but are not covered by regular commercial insurance	JBIC: lender of last resort/ NEXI: somewhere between an insurer of last resort and commercial market orientation ^d	Companies whose shares are owned by the Ministry of Finance (JBIC) and the Ministry of Economy, Trade and Industry (NEXI)	JBIC: JBIC's parent institution, Japan Finance Corporation, has a governor who approves transactions over a certain threshold. JBIC's CEO or other executives approve all other transactions. NEXI: The Ministry of Economy, Trade and Industry approves transactions over a certain threshold. NEXI's Chairman or a Director approves all other transactions. The Board of Directors is an advisory body rather than a decision-making body.
United Kingdom: ECGD	Complements the private market by providing assistance to exporters and investors, principally in the form of insurance and guarantees to banks	Insurer of last resort	Department of the government	An Executive Committee composed of ECGD Directors advises the Chief Executive on the management of ECGD's business. A subcommittee—Risk Committee—approves transactions.

Source: GAO analysis of ECA documents and interviews with ECA officials.

^aAccording to Ex-Im, the threshold for board approval for medium- and long-term transactions is generally \$10 million. However, there are exceptions to this general rule. For example, all nuclear-related transactions, irrespective of transaction value, must go to the board for approval after an intra-agency clearance and congressional review process. For other products, such as short-term insurance and working capital guarantees, the approval threshold varies depending on the specific product.

^bEDC's mandate was temporarily expanded to include a domestic component in 2009.

^cThe Chairperson of the board is appointed by the Governor in Council.

^dNEXI officials said that while NEXI has a complementary relationship with the private sector, NEXI does not have a clear role as an insurer of last resort. Rather, NEXI sees itself as somewhere between an insurer of last resort and competing with the private market.

Ex-Im and Other G-7 ECAs Offer Different Combinations of Export Credit Support Products

G-7 ECAs each offer a different mix of export credit and other financial products. In general, a greater mix of products allows an ECA more flexibility in responding to its customers' needs, particularly during an economic crisis. Most ECAs offer standard export credit products such as export credit insurance and loan guarantees. However, ECAs may offer additional export credit products, such as direct loans (United States, Japan, and Canada) and interest make-up programs, where the ECA pays the difference between commercial lending rates and fixed OECD minimum rates (Italy, France). ECAs also may offer products that are not technically "export-related," but that, according to Ex-Im, could possibly be used in lieu of or in addition to standard export credits, such as investment insurance and untied lending. Figure 4 shows a comparison of selected export credit and other financial products offered by G-7 ECAs.

Figure 4: Comparison of Selected Products Offered by G-7 ECAs

	Medium- and long-term official export credits				Other selected financial products		
	Official financing support		Official cover (insurance and guarantees)				
	Direct loans	Interest makeup	Export credit insurance	Loan guarantees	Working capital guarantees	Foreign investment insurance	Untied loans
United States: Ex-Im	○		○	○	○		
Canada: EDC	○			○	○	○	
France: Coface		○ ^a	○	○ ^b	○	○	○
Germany: Hermes PwC		○ ^c	○	○ ^b		○ ^a	○ ^a
Italy: Sace		○ ^a	○	○	○	○	○
Japan: JBIC and NEXI	○		○	○		○	○
United Kingdom: ECGD			○	○	○	○	

Sources: GAO analysis of ECA annual reports and discussions with ECA officials.

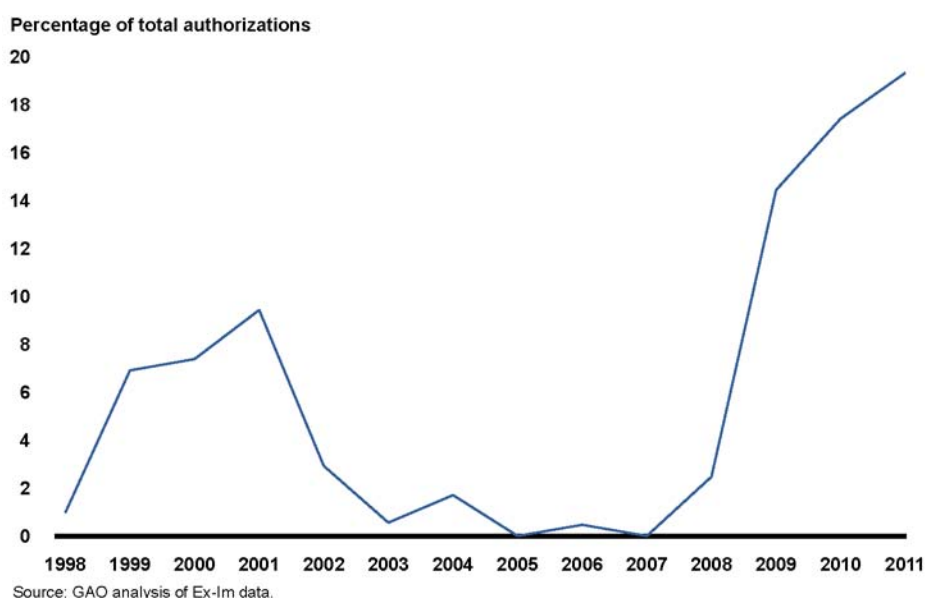
^aProvided by other institutions working in concert with these ECAs.

^bFrance and Germany only offer loan guarantees for exports of Airbus aircraft.

^cGermany only offers interest make-up with regard to ECA-covered ships that have been ordered from a German shipyard.

Ex-Im's provision of direct loans proved to be useful during the financial crisis, when commercial financing was expensive or unavailable. While its direct lending program was little used in the early 2000s, Ex-Im experienced a surge in demand for direct loans over recent years, from \$350 million in fiscal year 2008 (3 percent of its total authorizations) to \$6.3 billion in fiscal year 2011 (19 percent of its total authorizations). See figure 5.

Figure 5: Ex-Im Direct Lending, 1998-2011



Note: The percentage of total authorizations is calculated in terms of the dollar value of authorizations.

The Japanese and Canadian direct loan programs also experienced increases.¹¹ The G-7 European ECAs, which do not have direct loan programs, sought alternative solutions to mitigate the lack of such financing.¹² Several U.S. officials and a G-7 official stated that Ex-Im's direct loan program gave it an advantage in responding to the needs of exporters and their customers during the crisis.

¹¹Canada experienced a large increase in 2009, which is largely related to restructuring of the automotive sectors in Canada and the United States.

¹²As shown in figure 4, some of the European ECAs have interest make-up programs, which are designed to facilitate fixed-rate lending and provide an alternative to direct loans. However, according to Ex-Im and Treasury officials, because of the reliance of such programs on commercial banks as intermediaries and a lack of liquidity during the financial crisis, Ex-Im's direct loan product was more competitive.

Ex-Im Has Specific Mandates and Operates under More Policy Requirements than Other ECAs

Ex-Im receives specific mandates from Congress and generally operates under more policy requirements than other G-7 ECAs. Ex-Im’s mandates include specific targets from Congress for small business and environmentally beneficial exports. Other G-7 ECAs may have broad directives from their governments or ministries to focus on these areas. Ex-Im also faces additional mandates and legal requirements that other ECAs generally do not. For example, Ex-Im is statutorily required to perform an economic impact analysis to assess whether a project will negatively affect U.S. industries.

Ex-Im Has Specific Mandates on Small Business and Environmentally Beneficial Exports where Other G-7 ECAs Have Broad Directives

Ex-Im receives mandates from Congress that include specific targets in the areas of small business and environmentally beneficial exports, whereas some other G-7 ECAs have been given broad directives to focus on these areas by their governments or ministries. Specifically, four G-7 ECAs have received external directives to encourage small business exporters, and two ECAs have received external directives to support environmentally beneficial exports (fig. 6). According to OECD officials, Ex-Im is unique in that Congress gives it explicit policy goals to pursue in addition to its general mandate to support domestic exports. By contrast, other ECAs generally receive limited specific policy guidance from their respective legislatures and oversight ministries.

Figure 6: G-7 ECAs with External Directives to Support Small Business Exporters and Environmentally Beneficial Exports

Country	Small business	Environmentally beneficial
United States	○	○
Canada		
France	○	
Germany		
Italy		○
Japan	○	
United Kingdom	○	

Sources: GAO analysis of ECA documents and interviews with ECA and government officials.

Since the 1980s, Congress has required that Ex-Im make available a certain percentage of its export financing for small business.¹³ In 2002, Congress established several new requirements for Ex-Im relating to small business, including increasing the small business financing requirement from 10 to 20 percent. Related congressional directives have included requirements to create a small business division and to define standards to measure the bank's success in financing small businesses.

From fiscal years 2006 to 2010, Ex-Im met the 20 percent small business financing target, but did not in 2011. Ex-Im's small business financing percent ranged from about 27 percent in fiscal year 2007 to 18.4 percent in fiscal year 2011.¹⁴ Because of the sharp increase in overall Ex-Im financing in 2009 and 2010, meeting the 20 percent target has meant large annual increases in small business financing. For example, Ex-Im small business financing increased by about 58 percent between 2008 and 2010.¹⁵ According to Ex-Im officials, the bank allocates significant resources to meeting its small business mandate. About 27 staff work exclusively on small business marketing, primarily in regional offices, according to Ex-Im officials.¹⁶

In 2010, Ex-Im developed and improved products to increase financing options for small business, and to simplify application processes and shorten turnaround time. For example, Ex-Im designed an express insurance product to streamline the application process for short-term export credit insurance. Other new products include ones aimed at providing competitively priced working capital finance to U.S. suppliers of U.S. exporters, and reinsurance to increase the capacity of insurance

¹³Ex-Im interprets the term "make available" as a target that the bank is expected to meet.

¹⁴In fiscal years 2002-2005, Ex-Im did not reach the goal, with its small business financing share ranging from 16.9 percent to 19.7 percent.

¹⁵In terms of total number of transactions, transactions involving small business directly account for the bulk of Ex-Im financing because they are on average much smaller in value than transactions that directly involve larger businesses. In 2010, about 88 percent of the total number of Ex-Im's transactions directly benefited small business and about 25 percent were made available to non-small business. (The percentages do not sum to 100 because some individual transactions could be used to directly benefit multiple parties, including both small and non-small businesses.)

¹⁶Ex-Im officials said they requested funding in fiscal year 2011 for expanding small business outreach efforts, but that funding was not included in their final budget.

companies to offer insurance to small business exporters that have had difficulty obtaining short-term export credit since the financial crisis.

Congress also mandates Ex-Im to support environmentally beneficial exports and provides specific targets for such exports. However, specific targets in this area have greatly exceeded Ex-Im financing. In fiscal year 2008, Congress directed Ex-Im to allocate 10 percent of its annual financing to renewable energy and environmentally beneficial products and services. For fiscal years 2009 and 2010, Congress directed Ex-Im to allocate 10 percent to a subset of those exports—renewable energy and energy efficient end-use technologies. We previously reported that Ex-Im had not come close to meeting this 10 percent target when it is applied to all of its environmentally beneficial financing.¹⁷ Ex-Im has reported significant increases in its renewable energy financing, from \$101 million in 2009 to \$332 million in 2010. In 2011, Ex-Im authorized about \$889 million in environmentally beneficial exports, of which about \$721 million was for renewable energy.

In contrast to Ex-Im's mandates, some ECAs are broadly directed by their governments or ministries to support small business exports and environmentally beneficial exports with, generally, no specific targets to meet, according to G-7 officials. Specifically:

- The British government asks the Export Credits Guarantee Department to promote small and medium-sized exporters, but the guidance ECGD receives is suggestive, rather than a specific directive, according to officials at the ECA.
- The French Ministry of Finance provided a target for its export credit agency, Coface, to support 10,000 small and medium-sized exporters by 2012, according to Coface officials. However, officials stated that this target only applies to one product—market survey insurance—and there are many other products that Coface uses to promote

¹⁷Ex-Im's financing of exports it identified as environmentally beneficial was 1.3 percent of its total financing from fiscal year 2003 through the first half of fiscal year 2010. Its financing of the more narrowly defined category of renewable energy and energy-efficient technologies would be much smaller than 1.3 percent of its total financing. We found that Ex-Im could improve its planning and use of resources in this area, although the difficulty of meeting these targets with existing resources remained to be seen. GAO, *Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank*, GAO-10-682 (Washington, D.C.: July 14, 2010).

exports of small businesses that are not associated with specific external targets.

- Japan's Parliament also asks JBIC to support small and medium-sized businesses, but provided a general directive to support such exporters and did not include specific targets, according to JBIC officials.
- Italy's ECA, SACE, is directed by an interministerial decree to designate renewable energy exports as a strategic sector, but no specific targets are provided, according to SACE officials.

Some ECAs that do not have external directives from their governments to support small businesses and environmentally beneficial exports have developed internal initiatives to support such exports. For example, in January 2011, Germany's ECA introduced a new product that provides a fast-tracked application process allowing exporters to receive export credit coverage for transactions of up to 5 million euros in 4 days. Additionally, Canada's ECA has developed internal initiatives to support environmentally beneficial exports. For example, a team within Export Development Canada has been tasked by EDC executives to come up with a clean technology strategy, and the team is in the early stages of putting a strategy in place, according to EDC officials.

Ex-Im Has Additional Mandates and Legal Requirements that Other ECAs Generally Do Not Have

Ex-Im has additional mandates and legal requirements that other ECAs generally do not. These include (1) promotion of exports to sub-Saharan Africa, (2) requirements to ship certain exports on U.S. flag carriers, (3) carbon policy, (4) economic impact analysis, and (5) congressional notification.¹⁸ All of these requirements, except for the carbon policy, are the result of congressional mandates. Although most ECAs do not have similar requirements (see fig. 7), as noted above, ECAs have different organizational and governance structures. These differences can affect how a government exercises policy considerations through its ECA. For example, Germany has an interministerial board that approves individual transactions and takes into account policy considerations on a case-by-

¹⁸Ex-Im has additional requirements. They include, for example, annual reporting requirements on its small business activities and the requirement to develop a program for providing support with respect to the export of high technology items to countries making the transition to market-based economies.

case basis; in contrast, Ex-Im is an independent agency and Congress exercises policy considerations through programmatic mandates, according to a Treasury official.

Figure 7: G-7 ECAs with Select External Requirements

	Promotion of exports to specific regions of the world	Shipping requirement	Carbon policy	Economic impact analysis	Congressional notification
United States	○	○	○	○	○
Canada					
France					
Germany					○
Italy					
Japan					
United Kingdom					

Sources: GAO analysis of ECA documents and interviews with ECA and government officials.

Note: France’s ECA, Coface, stated that while it does not have a specific shipping requirement, it treats shipping costs associated with shipment on non-EU vessels as foreign content.

Specifically, Ex-Im must consider the following mandates and legal requirements when financing transactions:

- *Promoting exports to sub-Saharan Africa.* Congress mandates that Ex-Im promote the expansion of its financial commitments in sub-Saharan Africa under Ex-Im’s loan, guarantee, and insurance programs. No other G-7 ECAs have specific external requirements to support exports to sub-Saharan Africa. In 2010, Ex-Im financed 132 transactions totaling \$812 million in 20 sub-Saharan African countries. Ex-Im dedicates two full-time employees to promoting exports to sub-Saharan Africa; others work part-time on the issue.

-
- *Requirement to ship certain exports on U.S.-flagged carriers.* Congress mandates that certain oceanborne cargo supported by U.S. government credit entities must be transported on U.S. flag vessels unless the requirement is waived by the U.S. Maritime Administration. Ex-Im interprets this legislation to mean that exports financed through its direct loan and long-term guarantee programs are subject to the U.S. flag vessel requirement.¹⁹ In calendar year 2010, Ex-Im authorized 14 transactions valued at \$2.9 billion that were subject to this requirement.
 - *Carbon policy.* Ex-Im is the only G-7 ECA legally required to adopt an official carbon policy.²⁰ Other ECAs have adopted certain common environmental guidelines through the OECD. However, specific conditions on carbon emissions are unique to Ex-Im. Ex-Im's carbon policy, implemented in 2010, was developed in response to a lawsuit challenging Ex-Im's compliance with provisions of the National Environmental Policy Act. The carbon policy (1) promotes renewable energy exports where carbon dioxide emission levels are very low to zero, (2) establishes a \$250 million facility to promote renewable energy, and (3) calls for increased transparency in the tracking and reporting of carbon dioxide emissions. In 2010, Ex-Im authorized 1

¹⁹To be eligible for Ex-Im support, Ex-Im requires that certain transactions be shipped exclusively on U.S.-flagged vessels if the cargo is oceanborne. These transactions include (1) direct loans, regardless of the amount, and (2) guarantee transactions with either (a) a financed amount greater than \$20 million or (b) a repayment period greater than 7 years.

²⁰In 2002, Ex-Im's energy financing, specifically its financing for fossil fuel projects, was the subject of a lawsuit brought against the bank and the Overseas Private Investment Corporation by environmental nongovernmental organizations and four U.S. cities. *Friends of the Earth, Inc., et al. v. Spinelli, et al.* (Civ. No. 02-4106, N.D. Cal.) The lawsuit asserted that Ex-Im and the Overseas Private Investment Corporation (OPIC) provided assistance for fossil fuel projects that caused greenhouse gas emissions without complying with provisions of the National Environmental Policy Act requiring assessments of their projects' impacts on the U.S. environment resulting from their emissions. The lawsuit was settled in 2009 with Ex-Im agreeing to develop and implement a carbon policy for Ex-Im's financing; provide the Board of Directors with additional information about carbon dioxide emissions associated with potential fossil fuel transactions; and take a leadership role in consideration of climate change issues, promoting emissions mitigation measures within the Organisation for Economic Cooperation and Development and among export credit agencies.

transaction valued at \$887 million that was subject to the enhanced due diligence review.²¹

- *Economic impact analysis.* Congress requires Ex-Im to perform an economic impact analysis to assess whether a project will negatively affect U.S. industries either by reducing demand for goods produced in the United States or by increasing imports to the United States. Other G-7 ECAs do not have similar requirements, according to G-7 ECA officials. As we have previously reported, Ex-Im uses a screening process to identify projects with the most potential to have an adverse economic impact, and then subjects the identified projects to a detailed analysis. Of medium- and long-term transactions Ex-Im authorized in 2010, 82 transactions, valued at \$2.8 billion, were subject to Ex-Im's economic impact analysis, with a small percentage of those subject to detailed analysis.²²
- *Congressional notification.* Congress requires Ex-Im to submit a detailed statement describing and explaining a transaction to Congress prior to the Board of Directors' final approval if the transaction is (1) in an amount equal to or greater than \$100,000,000 or (2) related to nuclear power or heavy water production facilities.²³ According to Hermes officials, Germany also sends a notification to the German parliament's Committee on Budgets for transactions exceeding 1 billion euros. According to Ex-Im, 38 transactions valued at about \$16 billion in 2010 were sent to Congress before the Board of Directors' final approval of the transactions.

²¹The enhanced due diligence process is an early review by Ex-Im's Board of high-carbon-intensity projects, such as coal-fired power plants, which includes a requirement for verifiable offsets to reduce the carbon dioxide intensity of projects in the highest category.

²²For information on Ex-Im's economic impact assessment process, see GAO, *Export-Import Bank: Improvements Needed in Assessment of Economic Impact*, GAO-07-1071 (Washington, D.C.: Sept. 12, 2007).

²³Specifically, congressional notification is required if the transaction is for the export of technology, fuel, equipment, materials, or goods or services to be used in the construction, alteration, operation, or maintenance of nuclear power, enrichment, reprocessing, research, or heavy water production facilities.

Ex-Im's Domestic Content Requirements Are Generally Higher and Less Flexible than Those of Other ECAs

Ex-Im's domestic content requirements are generally higher and less flexible than those of other ECAs. To fully finance a medium- or long-term transaction, Ex-Im requires that 85 percent of the value of the transaction be supplied domestically. Other G-7 ECAs generally require between zero to 51 percent domestic content. Additionally, key elements of Ex-Im's domestic content policy have remained relatively unchanged over two decades; at the same time, manufacturing patterns have evolved toward greater integration in production and data show that the domestic content of exports has decreased. Several ECAs have modified their policies in recent years, often citing the increasingly global content of industrial production as a primary reason for the change.

Ex-Im's Current Policy Limits the Amount of Foreign Content in the Exports It Finances

Ex-Im's domestic content policy places limits on the amount of foreign goods and services making up the exports it finances. Domestic content refers to the portion of an exported good or service that is sourced domestically. Ex-Im's policy is not the result of a statutory requirement; according to Ex-Im, the policy reflects an attempt to balance the interests of multiple stakeholders and Ex-Im's mission to support U.S. jobs through export financing. Ex-Im's domestic content policy for medium- and long-term transactions limits its level of support to the lesser of (1) 85 percent of the total value of all eligible goods and services in the U.S. export transaction,²⁴ or (2) 100 percent of the U.S. content in all eligible goods and services in the U.S. export transaction.²⁵ In effect, Ex-Im requires 85 percent domestic content to receive full financing for medium- and long-term transactions but does not require a minimum amount of domestic content to receive a *portion* of financing. See the sidebar for two examples of how the domestic content policy affects the level of support Ex-Im can provide.

²⁴Financing 85 percent of the total value of a transaction is considered full financing because of the provision under the OECD Arrangement that ECAs can finance only 85 percent of a transaction's value.

²⁵Thus, the domestic content percentage of a transaction is calculated as a fraction of the total value of the transaction, including direct costs, indirect costs, and profit.

Examples Illustrating Ex-Im's Medium- and Long-Term Domestic Content Policy

Ex-Im's domestic content policy determines the total level of support it can provide for medium- and long-term transactions by providing the lesser of

- (1) 85 percent of the value of all eligible goods and services in the contract. For example,

A U.S. exporter is selling manufacturing equipment to Mexico in a contract worth \$10 million. Of the \$10 million contract, \$9 million is U.S. content and the remaining \$1 million is foreign content. Thus,

$\$9/\$10 \times 100 = 90$ percent, which is equal to or greater than 85 percent

Therefore, the contract is eligible for 85 percent financing.

- (2) 100 percent of the U.S. content of all eligible goods and services in the contract. For example,

A U.S. exporter is selling manufacturing equipment to Mexico in a contract worth \$10 million. Of the \$10 million contract, \$7.5 million is U.S. content and the remaining \$2.5 million is foreign content. Thus,

$\$7.5/\$10 \times 100 = 75$ percent, which is less than 85 percent.

Therefore, only the U.S. content is eligible for financing, so the exporter would receive 75 percent financing.

Ex-Im has separate domestic content requirements for short-term transactions—the percentage required to receive maximum coverage is lower than for medium- and long-term transactions and the calculation method differs. The short-term policy is generally more lenient for small businesses than for other exporters. For example, small businesses can satisfy the short-term domestic content requirement based on aggregating all of the products in an export contract, while non-small businesses must meet the minimum domestic content threshold on a product-by-product basis. In addition, small businesses include indirect costs in the calculation of domestic content.²⁶ According to Ex-Im, the difference reflects Ex-Im's directive to consider the unique business requirements of small businesses.

²⁶For small businesses' short-term transactions, Ex-Im requires that the aggregate U.S. content of all products in an export transaction must be more than 50 percent. The amount of foreign content is calculated from the exporter's total direct and indirect costs, excluding profit. For non-small businesses, Ex-Im requires that each product in an export transaction have at least 50 percent U.S. content. In addition, the amount of foreign content is calculated from the exporter's direct cost only.

Other ECAs Generally Have Lower and More Flexible Domestic Content Requirements than Ex-Im

Other G-7 ECAs have lower domestic content requirements than Ex-Im, generally requiring between zero and 51 percent domestic content (see table 2). Some ECAs with domestic content policies have more flexibility in implementing their policies by allowing for exceptions to their minimum domestic content requirements on a transaction-by-transaction basis. For example, according to Japanese officials, Japan’s ECAs require a minimum of 30 percent domestic content, but the institutions can make exceptions for projects deemed to be of strategic importance. Ex-Im makes no exceptions to its content policy for specific transactions, except for those involving tied aid or raw materials.²⁷ According to Canadian and Italian officials, Canada and Italy do not require a certain level of domestic content; rather, both consider domestic content in the context of a broad range of factors to determine whether supporting a transaction benefits national interest.

Table 2: Domestic Content Policies of the G-7 ECAs, Including Minimum Domestic Content to Receive Full Medium- and Long-Term Support

Country	Domestic content policies of the G-7 ECAs, for medium- and long-term support
United States	Eighty-five percent domestic content requirement to receive full financing. If less than 85 percent, Ex-Im will finance the domestic content portion.
Canada	No minimum domestic content requirement. National Benefits policy first considers the gross domestic product and employment impacts of the transaction and then takes into account other factors, such as increased access to global markets.
France	Twenty percent domestic content requirement for a transaction to be considered. ^a
Germany	Three-tier policy: 70 percent and 51 percent minimum domestic content for the first two tiers, respectively. For the third tier, transactions with less than 51 percent domestic content can be supported if there is a justification from the exporter and Interministerial Committee approval. ^b

²⁷ Ex-Im makes exceptions to its domestic content requirement for tied aid, which has been used by Ex-Im four times in the last 10 years. According to Ex-Im officials, in addition to tied aid, Ex-Im allows raw materials that originated outside the United States to be considered 100 percent U.S. content when the raw material is significantly transformed (i.e., loses its identity) and constitutes a minimal (small) portion of the value of the end product.

Country	Domestic content policies of the G-7 ECAs, for medium- and long-term support
Italy	No minimum domestic content requirement. The ECA supports exports that benefit the Italian economy and has internal considerations, such as a maximum exposure amount for a country. If the ECA is close to reaching this amount, it will try to maximize Italian content in the export.
Japan	Thirty percent domestic content requirement. The ECA can make exceptions to support projects with less than 30 percent domestic content if the project has strategic interests.
United Kingdom	Twenty percent domestic content requirement to receive full support. If less than 20 percent, the ECA will support the domestic content portion of the transaction.

Source: GAO analysis of ECA documents and interviews with officials.

Notes: ECAs from six of the seven G-7 countries, including the United States, stated that they calculate domestic content as a percentage of the total value of the export contract. They also stated that the domestic content amount is self-reported, or generally self-reported, by applicants. This table does not reflect differences in ECA policies for supporting local costs, which can affect the amount of foreign content supported in some transactions. Local costs are for goods and services manufactured or originated in the buyer's country.

^aFrench officials stated that going below 50 percent involves some restrictions.

^bThe second-tier level requires between 70 to 51 percent domestic content in certain situations, such as when the foreign content comes from EU countries, Switzerland, Japan, or Norway and at the same time from a third country; when it comes from German subsidiaries not located in the buyer's country; or certain other situations. With respect to the third tier, according to German officials, support of such transactions is done on a limited basis.

EDC's Canadian Benefits policy considers the research and development spending by the company and the potential for increased access to global markets, among other factors, when deciding to finance a transaction (see textbox). According to Canadian officials, the Canadian Benefits model is designed to capture all benefits that accrue from Canadian companies' involvement in international trade.

In the early 2000s, Export Development Canada implemented a national benefits policy rather than a domestic content requirement, referred to as the Canadian Benefits model. With this model, EDC measures its contribution to Canada's economy through the economic benefits generated by the exports and investments it supports. EDC takes the following steps under the Canadian Benefits model:

1. *Calculate economic benefits.* The economic benefits are based on the amount of gross domestic product (GDP) in the exports it finances by determining the amount of Canadian content in the export. The Canadian content is provided by Statistics Canada's Input/Output Model, which tracks the production chain of Canadian industries, and identifies and measures inputs and outputs.
2. *Calculate base grade.* EDC then calculates a base grade by dividing the level of GDP generated by the transaction by the amount of EDC support that was requested. EDC assigns letter grades A-F according to these support percentages.
3. *Identify upgrades.* Where a transaction generates a base grade of less than B, additional benefits are considered in order to upgrade the transaction. Each applicable secondary benefit boosts the base grade by one letter grade. (An F rating cannot receive upgrades.) Reasons for upgrades include the following:
 - Above average research and development spending by the Canadian company.
 - The transaction allows increased access to global markets.
 - The transaction has an above average employment impact.
 - The Canadian exporter is a small or medium-sized business.
 - The transaction supports an environmentally beneficial product.

Although transactions rarely receive low final grades, low grades do not prevent EDC from financing the transaction, according to EDC officials.

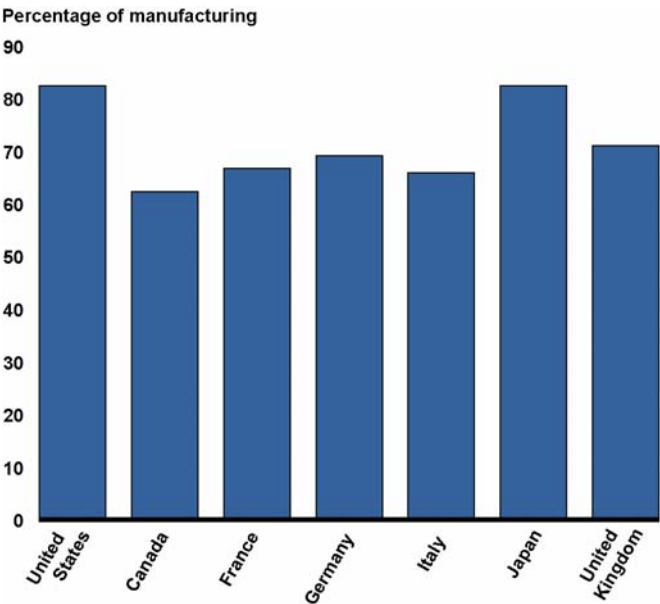
In addition to the domestic content policies presented in table 2, ECAs' policies for supporting local costs can also affect the level of support they can provide related to goods and services that are not sourced domestically. Local costs are for goods and services manufactured or originated in the buyer's country, such as on-site construction costs. Ex-Im's policy allows it to support up to 30 percent of the value of the export contract in local costs, in addition to 15 percent foreign content.²⁸ In contrast, according to Ex-Im, the other G-7 ECAs generally include local costs in their calculation of foreign content, and this can reduce the gap between the level of foreign content that Ex-Im can support and that of its foreign counterparts. Ex-Im reported that, in 2010, 21 percent of its non-

²⁸In 2007, the OECD Arrangement participants agreed to raise the proportion of local costs that may be officially supported in an export contract from 15 percent to 30 percent of the export contract value on a trial basis through the end of 2010. In 2008, Ex-Im increased its maximum local cost support to 30 percent. In January 2011, the local cost provision was made permanent in the Arrangement text.

aircraft medium- and long-term transactions contained some local cost support.

The degree to which countries rely on domestic components in producing its exports differs. U.S. exports generally have higher domestic content than those of other G-7 countries. OECD data show that domestic content accounts for less than 75 percent of manufacturing exports for five of the seven G-7 countries, but accounts for over 80 percent of manufacturing exports for the United States, as well as in Japan.

Figure 8: Domestic Content Share of Manufacturing Exports among G-7 Countries, 2005



Source: GAO analysis of OECD data.

Note: OECD uses input-output tables from each country to estimate the domestic content of exports. An input-output table is a means of presenting a detailed analysis of the process of production and the use of goods and services (products) and the income generated in that production. An input-output table shows the inputs that are used by each industry, including imports, to produce its output, the output of each industry, and the use of outputs of various industries by final consumers. Input-output analysis can be used to study changes in the structure of an economy.

While Ex-Im Has Modified Its Method for Calculating Domestic Content, Its Threshold for Receiving Full Financing Has Not Changed since 1987

While Ex-Im has modified its method for calculating the amount of domestic content in a transaction, its minimum threshold for receiving full financing for medium- and long-term transactions has not changed since 1987. Before 1987, Ex-Im financed only the domestic portion of medium- and long-term transactions. If less than 100 percent of an export's content was domestic, the foreign part would be carved out and Ex-Im would finance 85 percent of the domestic portion.²⁹ In 1987, Ex-Im adopted its current policy to allow transactions with up to 15 percent foreign content to receive 85 percent of the total contract value. Ex-Im's rationale for allowing up to 15 percent foreign content was that the 15 percent down payment required by the OECD Arrangement would cover the portion of foreign content, according to Ex-Im officials.

In 2001, Ex-Im modified its method of calculating the domestic content of exports in medium- and long-term transactions. Previously, Ex-Im required exporters to report the domestic content of individual items in a contract, line by line. In 2001, Ex-Im moved to a whole contract value calculation where exporters report the domestic content of the contract's entire value, rather than item by item. This allowed Ex-Im to finance contracts that may have individual items that contain less than 85 percent domestic content as long as the total amount in the contract has 85 percent or more domestic content. There have not been subsequent changes to the policy for medium- and long-term transactions.

Domestic Content of U.S. Exports Has Generally Declined and Varies across Sectors

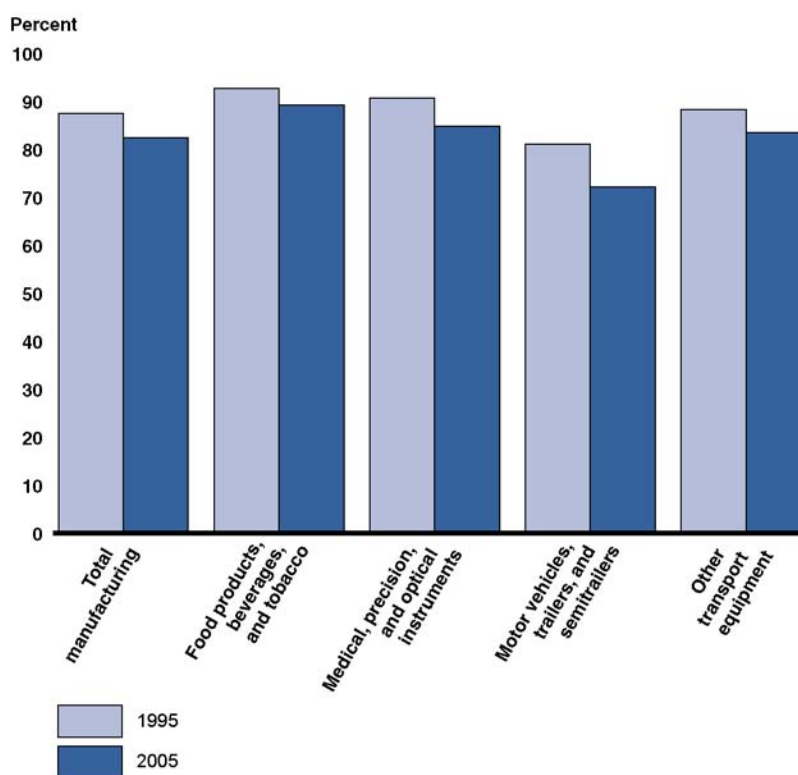
Production patterns have changed in the past few decades as global manufacturing has become more integrated. Companies increasingly rely on parts sourced from other countries, and as a result, the domestic content in exported goods has declined. OECD data show that from 1995 to 2005 the percentage of domestic content of manufactured U.S. exports declined from 87.4 percent to 82.4 percent, a 5 percentage point decline in 10 years (see fig. 9).

Ex-Im does not differentiate among sectors in its domestic content policy, although domestic content in U.S. exports varies by sector. Among manufactured exports, medical, precision and optical instruments showed a greater decline in domestic content, almost 6 percentage points, than

²⁹Thus, for a transaction with an export value of \$100, of which \$10 was foreign content, Ex-Im would have financed \$76.50 before 1987 ($\90×0.85) and would finance \$85 under its current policy.

food products, beverages, and tobacco, which experienced a 3.6 percentage point decrease. As figure 9 shows, as of 2005, the domestic content of U.S. exports of motor vehicles, trailers, and semitrailers was around 72 percent, and other transportation equipment, which includes aircraft, was 83.5 percent.

Figure 9: Domestic Content of Select U.S. Exports, 1995 to 2005



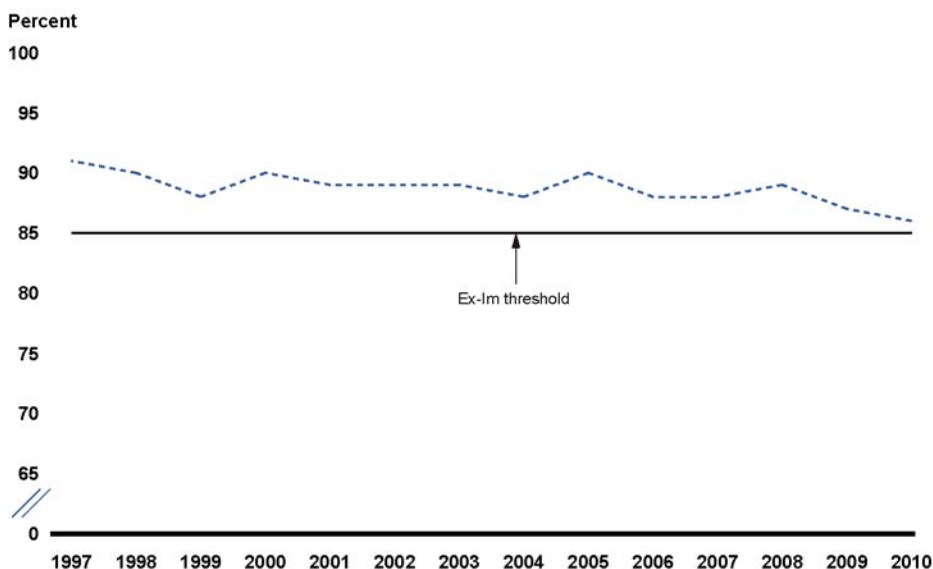
Source: GAO analysis of OECD data.

Note: The data are reported in 5-year intervals because of the availability of input-output tables for most countries. The most recent year for which OECD did this analysis is 2005. U.S. input-output tables use data collected every 5 years in an Economic Census done by the U.S. Census Bureau. "Other transport equipment" covers aircraft, a major product supported by Ex-Im financing.

Given varying levels of domestic content by product and industry, Ex-Im may be unable to provide full financing for exports in certain industries if trends continue. Domestic content in Ex-Im transactions fluctuated from 1997 to 2010, showing an overall downward trend. The average domestic content for medium- and long-term transactions containing foreign content was 91 percent in 1997 and 86 percent in 2010 (see figure 10).

This value is near the 85 percent minimum domestic content required for a transaction to receive full Ex-Im financing.

Figure 10: Average Domestic Content for Ex-Im's Medium- and Long-term Transactions Containing Foreign Content, 1997 through 2010



Source: GAO analysis of Ex-Im data.

Concerns about Ex-Im's Content Policy Exist among Exporters and Lenders

Exporters and lenders have expressed concerns about Ex-Im's policy, although obtaining clear evidence about the policy's impact is difficult. In cases where domestic content falls below 85 percent, Ex-Im's policy could potentially have a negative impact on U.S. competitiveness by deterring exporters from using Ex-Im's products. According to respondents of Ex-Im's most recent survey concerning its competitiveness, Ex-Im's content policy is the bank's most significant impediment to competitiveness.³⁰ Exporters have urged Ex-Im to expand its criteria for support beyond domestic content and to consider support based on national interests. Exporters and lenders have also suggested

³⁰Congress requires Ex-Im to conduct an annual survey of exporters and lenders who have used Ex-Im's medium- and long-term programs in the prior calendar year to determine their experience using the bank's programs and to compare these programs with those of other ECAs. Ex-Im's most recent report, published in June 2011, covers the period January 1, 2010, through December 31, 2010.

that Ex-Im should explore extending exceptions to its content policy to support priority sectors, such as environmentally beneficial projects. According to Ex-Im officials, information on exporters that have not applied for Ex-Im financing because of its domestic content policy or deals that have been lost as a result of incomplete financing is not tracked.

Co-financing is a tool that some exporters can use to address financing challenges posed by domestic content requirements, but it is not available for all transactions. Co-financing arrangements allow an exporter to offer a single ECA support package to a buyer interested in procuring products from two or more countries. The G-7 ECAs have multiple framework agreements that govern co-financing among themselves. Ex-Im officials stated that co-financing is increasingly used in situations where foreign content exceeds 15 percent and there is a gap in Ex-Im's financing coverage. In 2010, Ex-Im co-financed more than \$6.5 billion in transactions, with the vast majority of transactions involving aircraft. However, co-financing is not an option for all U.S. transactions, because it requires meeting the financing requirement of another country's ECA, particularly the production of a product or service that would qualify as an export from that country.

Other ECAs Have Modified Their Domestic Content Policies to Reflect Changing Global Production Patterns

Some ECAs have revised their domestic content policies to reflect changes in global production patterns. For example, following an evaluation 10 years ago, EDC and the Canadian government determined that EDC's 50 percent domestic content rule had become onerous, and that the global marketplace had changed, with more production involving foreign content, according to Canadian officials. EDC adopted an "integrative trade model" to reflect multiple benefits brought to Canada from international transactions. As a result, EDC moved to the National Benefits policy discussed above, where exporters using little or no domestic content are eligible for support, as long as their export is determined to benefit Canada. According to UK officials, ECGD also substantially changed its policy in 2007, determining that its domestic content requirement of 60 percent was an artificial barrier and unnecessary restriction, in light of declines in the size of the UK manufacturing base, increased globalization, and multisourcing of goods under UK export contracts. It lowered the requirement to 20 percent. In 2008, Germany moved from a 90 percent domestic content requirement to its current three-tier policy that attaches various limits to differing levels of domestic content. Germany's federal government made these changes in response to the repeated appeals of German exporters, who

increasingly viewed the previous system as overly restrictive in light of international competition, according to Hermes documents and officials.

There are differing views on the ultimate impact of different domestic content requirements, and limited analytical evidence on which to base decisions is available. While lowering a domestic content requirement can increase the number and type of transactions that an ECA can support, it could lessen the incentive for some companies seeking ECA support to source goods and services domestically. The potential impact on U.S. employment of any changes in the policy would depend on the balance of job gains that might accrue from supporting additional transactions against any job losses from reduced domestic content.

As other ECAs have loosened their domestic content policies, Ex-Im's policy remains relatively unchanged. Congress directs Ex-Im to provide financing that is fully competitive with the financing of its competitors.³¹ According to Ex-Im officials, Ex-Im reviews its domestic content policy on a regular basis to identify ways to increase flexibilities for exporters. However, Ex-Im has not conducted a systematic review of its policy in recent years to assess to what extent the overall impact of the policy is consistent with Ex-Im's mission of supporting U.S. jobs.

³¹According to Ex-Im's charter, Congress directs Ex-Im to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions that are fully competitive with the government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with U.S. exporters.

The OECD Arrangement Has Decreased Export Credit Subsidies, but the Increasing Importance of Nonmembers Threatens Its Future Effectiveness

While the scope of the OECD Arrangement has expanded to cover additional aspects of officially supported export credit terms among member ECAs, the increasing activities of nonmembers, particularly China, threaten the future ability of the agreement to provide a level playing field for exporters. Several agreements establish guidelines for pricing and reporting on export credit support. However, these agreements apply only to officially supported activities of participant ECAs. Several countries, including Brazil, China, and India, have growing ECA financing activity but are not part of the Arrangement. Officials from several G-7 ECAs and other institutions identify engagement with these countries to increase transparency and promote broader discussion of export credit issues as a major challenge that must be addressed if the Arrangement is to remain effective.

The OECD Arrangement Has Expanded over Time to Regulate Additional Aspects of Official ECA Support

The scope of the OECD Arrangement has expanded over time to regulate additional aspects of participating countries' use of officially supported export credits, decreasing export subsidies in the process. Since the Arrangement was formed, in 1978, there have been several important agreements among member countries that have regulated pricing or other aspects of export credit support. These agreements include the following:

- *Minimum interest rates.* Arrangement members adopted a system of minimum interest rates, which has reduced the interest rate subsidy component in ECA support. These rates, called Commercial Interest Reference Rates (CIRR), are adjusted on a monthly basis to reflect commercial lending rates for borrowers in the domestic market of the relevant currency.
- *Minimum premium rates (risk fees).* Agreements on minimum premium rates, or risk fees, are designed to encourage convergence in pricing, further decreasing opportunities for subsidies among ECAs. The first agreement on risk-based premium rates, in 1997, established a set of minimum premium rates to reflect country credit risk. Countries were free to charge higher rates than these minimums. A new agreement, effective as of September 2011, expanded on this earlier agreement by including buyer credit (commercial), as well as country-based, aspects of risk. This agreement reduces ECAs' flexibility in pricing commercial transactions, thus further narrowing differences in ECA financing terms.
- *Tied aid.* Two agreements have restricted the use of tied aid, that is, aid conditioned on the purchase of goods and services from the donor

country. In 1987, Arrangement members agreed to raise the minimum concessionality level for tied aid permitted under the Arrangement to 35 percent.³² In 1991, a further agreement prohibited tied and partially untied aid to richer developing countries, as well as for projects that were considered commercially viable.

- *Sector agreements.* Sector agreements have been reached for civil aircraft, nuclear power plants, renewable energies and water projects, and ships. Some of these agreements have different rules for minimum interest and premium rates and maximum repayments terms than those that apply to standard transactions through the Arrangement. The Aircraft Sector Understanding is especially significant because it regulates aircraft support terms for ECAs of major aircraft-exporting countries, including the United States, Brazil, Canada, France, Germany, and the United Kingdom. A large share of some countries' ECA support is in the aircraft sector.

The Arrangement also has a variety of reporting requirements in conjunction with its overall and sector agreements that provide transparency about ECA activities to Arrangement members. ECAs must report all of their long-term officially supported export credit transactions to the OECD as they occur and, twice a year, report the amount of outstanding officially supported export credits. Further, separate reporting requirements apply with respect to minimum premium rates as well as the aircraft sector agreement. OECD officials said they are hoping to streamline these reporting requirements and are in the process of approving a new data-reporting directive.³³

However, certain export credit transactions of member ECAs fall outside the Arrangement and its reporting requirements, which lessens the transparency of ECA activities. These include "market windows," or support that an ECA provides on market terms. Canada's ECA currently

³²Concessionality refers to the percentage of financing that is a grant or grant equivalent.

³³In the past, the OECD released an annual report containing aggregations of the data that ECAs reported on their export credit transactions. However, according to OECD officials, the last report issued was for 2005, and in recent years, their data collection mechanism has not allowed for sufficiently reliable reporting. The officials said they plan to begin releasing these data again in early 2012. They hoped this would coincide with the implementation of the new data reporting directive.

provides this type of support.³⁴ The use of market windows has historically been an issue of concern for the United States, because of limited transparency and the potential for unfair advantage stemming from an ECA's government connection.³⁵

A second type of transaction outside the scope of the Arrangement is non-export credit financing activities, such as untied lending and investment finance. A majority of G-7 ECAs offer untied lending, which takes the form of loans extended to other countries for strategic reasons. While these loans are not directly linked to the purchase of exports from the lending country, the terms can take whatever form the two countries agree upon. For instance, Japan provided an untied loan to a commercial bank in Malaysia in order to provide long-term financing to Japanese companies located there, as well as local companies within their supply chain. Ex-Im officials have expressed concern about the growing use of this financing tool because of its potential linkage to exports and uncertainty about how its utilization could affect Ex-Im.

Export Credits from Countries Outside the OECD Arrangement Are Increasing

Official export credits from emerging economies such as China, India, and Brazil have experienced rapid growth. As nonparticipants in the OECD Arrangement, these countries can offer terms more favorable than terms under the Arrangement.³⁶ More favorable terms to buyers do not necessarily constitute subsidies—the terms may be market-based and compliant with World Trade Organization requirements—but can be more

³⁴Italy's ECA, SACE, operates a market window for some non-export credit activities. SACE officials emphasized that all of its export credit transactions fall under Arrangement terms. Germany's KfW IPEX-Bank, owned by KfW Bankengruppe (KfW), also operates a market window. KfW was criticized as having an unfair advantage because it had access to cheaper funding for export lending and project finance activities because of its state backing. In 2002, as part of a settlement with the European Commission, Germany agreed to separate KfW's commercial business from the rest of its activities, and in 2004, it began conducting much of its export credit and project finance activities through KfW IPEX-Bank. In 2008, KfW-IPEX-Bank became an independent legal entity.

³⁵Although the financing is market-based, the ECAs delivering it have a government connection and can enjoy benefits associated with that status, such as tax exemptions. In addition, one concern has been that ECAs with market windows might use profits from the market transactions to subsidize their transactions under the Arrangement.

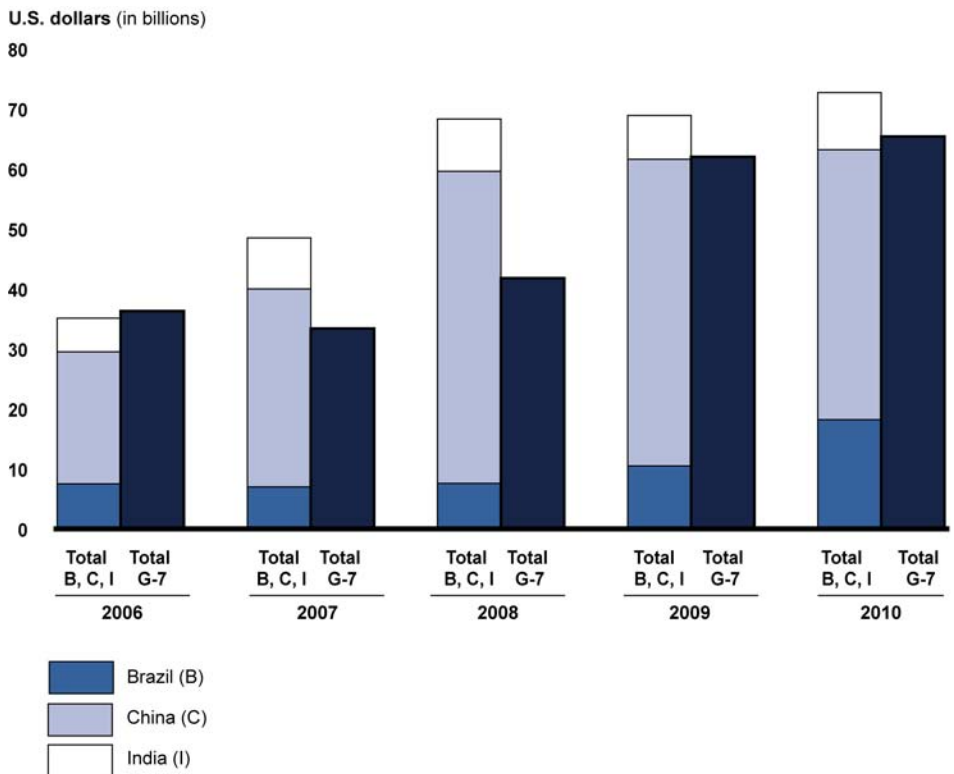
³⁶Arrangement members are permitted, consistent with international obligations and the purpose of the Arrangement, to match financial terms and conditions offered by nonmembers.

generous than those allowed by the Arrangement, according to Ex-Im. However, since these countries are exempt from the Arrangement's requirement to report each transaction, there is uncertainty regarding the terms that they offer.

As total exports from emerging economies have increased, so have their officially supported export credits. From 2006 to 2010, total exports from China, India, and Brazil increased over 60 percent, while medium- and long-term official export credits for China and Brazil are estimated to have more than doubled—and for India nearly doubled—during the same time period (see fig. 11). China is now estimated to be the largest supplier of medium- and long-term export credits.³⁷ Ex-Im estimated that China offered \$45 billion in official medium- and long-term export credits in 2010, twice as much as Germany, the largest provider among G-7 ECAs.

³⁷ China has two official ECAs—China Ex-Im Bank and Sinosure. China Ex-Im Bank offers loans and loan guarantees; it also offers concessional loans that are comparable to what the OECD refers to as “official development assistance.” Sinosure is an export credit insurer and offers programs covering short-, medium- and long-term export credit insurance as well as foreign investment insurance. China Development Bank, a Chinese policy bank, does not consider itself to be an official ECA, but has offered export credit financing. In some projects it finances, it stipulates that a certain amount of materials and equipment have to be sourced from China.

Figure 11: Estimated Medium- and Long-Term Official Export Credits, 2006-2010

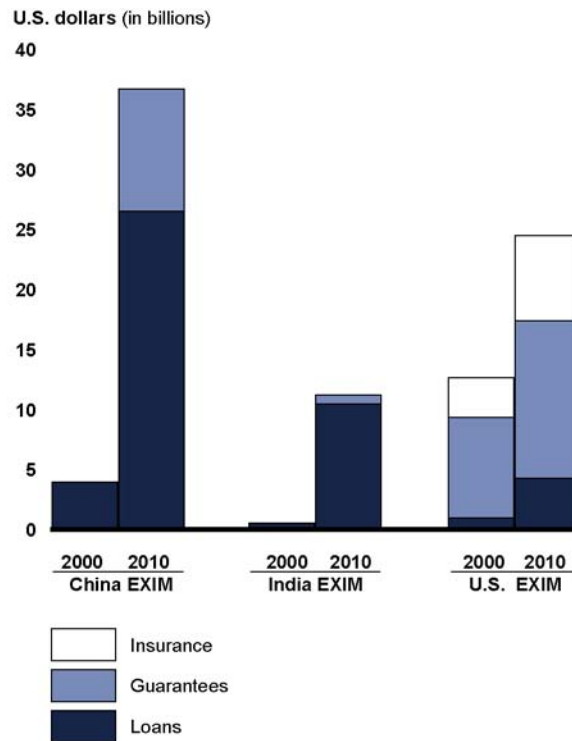


Source: GAO analysis of data from *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, period January 2010–December 2010.

Note: Data represent the medium- and long-term officially supported export credits issued each year by country. Ex-Im notes the difficulties in obtaining comparable data from non-OECD ECAs because of the lack of information. Ex-Im used a variety of methods to collect and estimate the export credit volumes. Ex-Im notes that the figures for China, Brazil, and India likely overstate these countries' activities.

According to China Ex-Im Bank annual reports, it provided more than \$36 billion in total export credit support in 2010, more than five times the \$4 billion provided in 2000. India's Ex-Im Bank experienced similar growth, increasing its activities from about \$500 million in 2000 to \$11 billion in 2010. Over the same time period, U.S. Ex-Im's financing increased from about \$13 billion to \$24.5 billion. Figure 12 compares the activities and relative growth of the Export-Import Banks of China, India, and the United States.

Figure 12: Estimated Activity Levels for Export-Import Banks of China, India, and the United States, 2000 and 2010



Sources: GAO estimates based on annual reports from China, India, and U.S. Export-Import Banks.

Notes: The loans from China Ex-Im Bank include seller and buyer credits. Seller credit is broadly defined as a line of credit and can be extended either in China's currency, the renminbi, or foreign currencies. China Ex-Im Bank provides these credits to Chinese enterprises for financing their construction projects implemented in foreign countries, which may support the export of Chinese equipment, machinery, building materials, technology, and labor services. According to U.S. Ex-Im, the buyer credit offered by China Ex-Im Bank is the most similar to the type of transaction-specific long-term support made available by the G-7 ECAs.

China Ex-Im Bank reports the amount disbursed while U.S. Ex-Im and India Ex-Im report the amount committed.

Dollar amounts shown are in nominal terms.

SINOSURE, China's other ECA, also has experienced sharp growth. SINOSURE stated in its 2010 annual report that it underwrote an aggregate amount of \$196.4 billion for that year, an increase of 68.5 percent over 2009. This follows a growth of 85.8 percent from 2008 to 2009.

Given the increase in China's officially supported export credits, officials from some G-7 countries have expressed interest in additional

information about the terms and volume of China's activities, but officials reported that obtaining such information is difficult. Some information on total volume of export credits is provided through annual reports, but in limited detail. As discussed above, China's position outside the OECD Arrangement limits its reporting requirements relative to G-7 ECAs. Thus, determining the nature of its activities and the extent to which financing terms (in contrast to other factors, such as production cost) are the key reason for Chinese companies' securing deals is difficult. An expert on China reported having obtained information on China's export financing activities from recipient countries rather than from China. In addition, officials from several G-7 countries told us that they obtain anecdotal information on China's activities from their exporters, who may be facing Chinese competition. One OECD official expressed the view that China will become more competitive with the G-7 ECAs over the next 10 years as the technology differential between Chinese and G-7 exports decreases.

Engagement with China and Other Emerging Economies Presents Challenges for the OECD Arrangement

According to officials from the OECD and several G-7 ECAs, engagement with emerging economies, especially China, on practices related to export credit financing is increasingly important and presents challenges for the OECD Arrangement and its participants. A senior OECD official stated that the rise of this export financing competition threatens the Arrangement's ability to maintain a level playing field among exporting nations.

Various ECAs, governments, and the OECD have made efforts to engage China on export credit issues, including encouraging participation in various forums, but have generally reported limited success. For example, Canadian officials reported encouraging their Chinese counterparts to join multilateral forums. Japanese officials said they reach out to Chinese officials on a regular basis, including at meetings among Asian ECAs. U.S. Treasury officials noted that export credits were mentioned at the U.S.-China Strategic and Economic Dialogue, a high-level forum between U.S. and Chinese government officials. They also reported that OECD and country officials have made attempts to invite China to export credit-related meetings. However, several ECA, government and OECD officials reported that China is often unwilling to attend or sends lower-level representatives to these meetings, such as a recent G-20 meeting in Paris.

In some cases, an ECA in an emerging economy will see an incentive to joining international agreements or institutions. In 2004, Brazil

participated in the negotiations on the Aircraft Sector Understanding and in 2007 joined the actual agreement. One U.S. official points to Brazil's interest in obtaining information on Canada, its primary competitor, and a desire to help shape the rules, as strong incentives that brought it to the negotiating table. Another institution, the Berne Union, which is an association of export credit and investment insurance providers, has a broad base of membership, including some of the ECAs from China, India, and Brazil. Through membership, they have agreed to follow certain principles, including a pledge not to subsidize exports. This institution may provide an additional venue by which these emerging economies can be engaged in discussions concerning export support and related issues. However, some ECA and other officials point to China's current lack of incentive to engage. OECD and other officials have stressed to China one benefit of joining the Arrangement now: the opportunity to shape the rules by which their competitors must abide.

Conclusions

Established with a mission to support U.S. jobs and an explicit charge to provide export financing competitive with that of other governments, Ex-Im is expected to play a key role in increasing U.S. exports, be self-sustaining in terms of its budget, and fulfill a number of policy directives beyond those of other G-7 ECAs. In terms of its volume of export credit support, Ex-Im's performance in recent years has been quite strong; the bank's total authorizations have increased steadily as demand for its services has been high during a period of global financial turmoil. Whether Ex-Im will see an increasing tension across its mission and requirements remains to be seen, but there is some evidence of that now, as the bank's small business financing share for fiscal year 2011 was below its 20 percent target for the first time in 5 years. Although small business financing grew in 2011, it grew less than Ex-Im's overall financing.

Ex-Im's domestic content requirement for receiving full medium- and long-term financing, which Ex-Im determines, is generally higher than that of other ECAs and less flexible. While other ECAs have loosened their domestic content policies in recent years, key elements of Ex-Im's policy remain relatively unchanged. Ex-Im officials state that Ex-Im's policy reflects its attempt to balance the interests of multiple stakeholders and its mission to support U.S. jobs. However, to what extent Ex-Im's current policy affects its support of U.S. jobs is not clear-cut. It may provide an incentive for certain exporters to buy from U.S. suppliers. On the other hand, to the degree that the requirement limits the ability of a larger number of exporters to obtain full Ex-Im financing, it may deter foreign

buyers from sourcing from U.S. firms. Given these factors, and trends toward increasing global economic production, a better understanding of how Ex-Im's policy may affect U.S. exporters and jobs is needed.

Strong increases in export financing by several emerging countries present competitive challenges that Ex-Im alone cannot readily address. The OECD Arrangement has made important strides toward decreasing subsidies in export credits and leveling the playing field for exporters. However, emerging economies with rapidly growing export credit support levels that are outside the Arrangement are exempt from its reporting requirements and rules and can offer terms that are more generous than parties to the Arrangement can. Member countries have taken some steps within the OECD and beyond it to engage countries including Brazil, China, and India on export credit issues. However, some acknowledge that China is not currently motivated to join any type of agreement. There is concern that, in particular, the rise of China's export financing threatens the Arrangement's ability to support a level playing field among exporting nations.

Recommendations for Executive Action

To maintain Ex-Im's competitiveness and enhance its ability to support U.S. exports, we recommend that the Ex-Im Bank conduct a systematic review of its domestic content policy in the context of changing production patterns to ensure this policy effectively serves the objective of creating U.S. jobs while also providing financing that is competitive with that of other ECAs.

To preserve and enhance the competitiveness of U.S. exports and to promote transparency, we recommend that the Secretary of the Treasury, in conjunction with Ex-Im and working with international counterparts, develop strategies to further encourage and increase engagement of emerging economy countries in discussions and agreements on export credit support.

Agency Comments and Our Evaluation

Ex-Im and Treasury provided comments on a draft of this report. In its written comments, which are reproduced in appendix II, Ex-Im stated that GAO's findings are generally consistent with Ex-Im's findings in its 2010 Competitiveness Report and that the lack of transparency from non-OECD ECAs is the major challenge to a level playing field globally. Ex-Im did not directly address GAO's recommendation that it conduct a systematic review of its domestic content policy and its impacts but stated that it disagreed with GAO's characterization of how Ex-Im has addressed

the issue of domestic content. Treasury provided a statement concerning its full support of engaging market economy countries on export credit issues, but did not state whether it agreed or disagreed with our recommendation.

With respect to its domestic content policy, Ex-Im stated that the policy should be considered in light of Ex-Im's specific mandate to focus on jobs. Our report emphasizes that Ex-Im's explicit mandate to support U.S. jobs is unique among G-7 ECAs. In addition, the report states that Ex-Im's policy is the result of an attempt to balance the interests of multiple stakeholders with its mission to support U.S. jobs through export financing.

Ex-Im also stated that its co-financing and local cost policies are important in evaluating the competitiveness of its domestic content policies. In discussing foreign content policy, our report acknowledges the role of co-financing as a tool for some exporters, and explicitly notes that Ex-Im provided more than \$6.5 billion for co-financing in 2010. With respect to local cost, we agree that the treatment of local cost financing is relevant to the discussion of foreign content, and we have added related information to the report.

Ex-Im stated it disagrees with the report's characterization of how Ex-Im has addressed the issue of content, stating that it has regularly reviewed the policy as part of its annual competitiveness report, and has made changes. We do not believe that Ex-Im's competitiveness reports constitute the systematic review of the content policy recommended in our report, and we maintain that a more comprehensive review, including its impact on U.S. jobs, is needed. Ex-Im's competitiveness reports have consistently identified its content policy as a major competitive barrier, with Ex-Im stating in its latest report, published in June 2011, that "Ex-Im Bank's content requirements and implementation of those requirements are significantly more restrictive than those of its G-7 counterparts" and that "in cases where foreign content exceeds 15 percent Ex-Im Bank's policy and practice can have a negative impact on U.S. competitiveness because it may deter exporters from using Ex-Im's products." Ex-Im reported that its exporters and lenders identified foreign content as their "most significant impediment to competitiveness." In terms of changes made to Ex-Im's policy over time, our report states that Ex-Im last changed its level of minimum domestic content required for receiving full financing for medium- and long-term transactions (85 percent) in 1987 and in 2001 changed its method for calculating the percentage of domestic content in a transaction. The report also clearly lays out Ex-Im's

content policy for short-term financing, including specific provisions for small businesses. We have clarified summary language regarding what aspects of the policy have not changed since 1987. Ex-Im also provided technical comments, which we incorporated as appropriate.

Treasury provided the following response: "Treasury fully supports and encourages emerging market economy countries with major medium/long-term export credit programs to join in discussions and agreements on export credit support, and is actively engaged in that endeavor." We describe in the report that member countries, including the United States, have taken some steps within the OECD and beyond it to engage emerging market economy countries on export credit issues, and that the issue of export credits was raised at the U.S.-China Strategic and Economic Dialogue, a high-level forum between U.S. and Chinese government officials, including the Treasury Secretary. However, we believe it is important that Treasury take further steps to encourage and increase engagement of these countries on export credit issues. We slightly modified the wording of the recommendation to reflect this.

We will send copies of this report to the appropriate congressional committees as well as the Chairman of the Export-Import Bank and the Secretaries of State and Treasury. If you or your staff have any questions about this report or need additional information, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Loren Yager
Managing Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to examine (1) Ex-Im's mission, organization, market orientation, and product offerings compared with those of other Group of Seven (G-7) export credit agencies (ECAs), (2) Ex-Im's policy requirements compared with those of other G-7 ECAs, (3) Ex-Im's domestic content policy compared with those of the other G-7 ECAs, and (4) the role of the Organisation for Economic Cooperation and Development (OECD) Arrangement in governing ECA activities.

To assess how Ex-Im's mission, organization, market orientation, and product offerings compared with those of other G-7 ECAs, we reviewed relevant documents, including ECA annual reports and other publications, such as Ex-Im's annual Competitiveness Reports, OECD reports, and legislation authorizing various ECAs. We also reviewed ECAs' websites for additional information regarding product offerings. We interviewed officials from each of the G-7 ECAs and government organizations that have oversight over the ECAs. These organizations included Ex-Im in the United States; Export Development Canada (EDC), Department of Foreign Affairs and International Trade and Department of Finance in Canada; Coface and the Ministry of Economy, Finance and Industry in France; Euler Hermes, PricewaterhouseCoopers and the Interministerial Council, represented by the Federal Ministry of Economics and Technology, in Germany; Servizi Assicurativi del Commercio Estero (SACE) and the Ministry of Economic Development in Italy; Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI) (via telephone) in Japan; and the Export Credits Guarantee Department (ECGD) in the United Kingdom. We also interviewed officials from the U.S. Departments of Treasury and State, as well as the OECD and the Berne Union. In addition, we spoke with several institutions that work in conjunction with official ECAs: Societa Italiana per le Imprese all'Estero (SIMEST) in Italy and KfW IPEX-Bank in Germany.

To assess how Ex-Im's policy requirements compared with those of the other G-7 ECAs, we first examined Ex-Im's policy requirements by reviewing Ex-Im annual reports; Ex-Im Competitiveness Reports; Ex-Im's 2010-2015 Strategic Plan; GAO reports on Ex-Im's small business mandate, environmentally beneficial mandate, and economic impact

analysis requirement;¹ Congressional Research Service (CRS) reports; testimony from congressional hearings; and academic articles. We also interviewed Ex-Im officials to talk about the various policy requirements, and we interviewed officials from the Small Business Administration (SBA) to discuss Ex-Im's small business mandate. To examine the other G-7 ECAs' policy requirements and how they compared with those of Ex-Im, we interviewed officials from the G-7 ECAs, as well as any government organizations that play an oversight role for these ECAs. We asked them directly whether they shared any of Ex-Im's policy requirements, and more generally, whether they had other policy requirements, such as requirements to focus on promoting certain types of exports, export destinations, or exporters, and whether this resulted from external directives or internal decisions. We also asked about the nature of their relationships with oversight organizations and the extent to which they received external policy guidance from these organizations or their legislatures. In cases where ECA officials told us that there was legislation that authorized or otherwise governed their activities, and there were English versions available, we reviewed this legislation. We also reviewed ECA annual reports. We sent follow-up questions to all of the ECAs to confirm the information they had given us during interviews regarding their policy requirements. We also provided ECAs the opportunity to provide technical comments on portions of the report that contain information pertaining to the ECA.

To examine how Ex-Im's domestic content policy compares with those of other G-7 ECAs, we first collected information on Ex-Im's policy from its competitiveness reports and website. We reviewed testimony transcripts from congressional hearings and literature on domestic content of exports and global manufacturing production patterns. We also interviewed Ex-Im officials responsible for administering the policy, as well as officials at the Treasury Department and the Coalition for Employment through Exports, an advocacy organization on matters affecting U.S. government export finance. To obtain information on other G-7 ECAs' domestic content policies, we reviewed their annual reports. We interviewed G-7 ECA

¹See GAO, *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring Their Effectiveness*, GAO-08-915 (Washington, D.C.: July 2008); *Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank*, GAO-10-682 (Washington, D.C.: July 2010); and *Export-Import Bank: Improvements Needed in Assessment of Economic Impact*, GAO-07-1071 (Washington, D.C.: September 2007).

officials, who explained their policies and provided additional documentation. We analyzed global manufacturing production trends using OECD data on the foreign content of the United States' and other countries' exports by sector, from the mid-1990s to the mid-2000s. To assess the reliability of the OECD data, we reviewed the data documentation, tested for internal consistency of the data, and compared the trends with other sources. We found that the data were sufficiently reliable for the purposes of presenting global manufacturing trends, demonstrating country and sector variances. We collected data from Ex-Im on the percentage of foreign content in the exports it finances. Ex-Im reports this data annually in its Competitiveness Report. We found that the data were sufficiently reliable for the purposes of presenting the amount of foreign versus domestic content in exports it finances.

To analyze the role of the OECD Arrangement in governing ECA activities, we reviewed the text of the OECD Arrangement as well as a variety of OECD and other reports on the Arrangement, Export Credit Group, and export credit activities. We interviewed OECD officials, as well as G-7 ECA officials, to discuss the history and evolving role of the Arrangement as well as current challenges. We conducted a literature search and reviewed academic literature on the Arrangement and ECAs. To obtain information on China's export credit activities, we met with U.S. Treasury and State Department officials in Washington and Beijing and interviewed experts, including academic experts at American University and the Brookings Institution. We also discussed China's activities with G-7 ECA and other officials. To obtain data on China's, India's, and Brazil's ECA activities, we reviewed information from the International Monetary Fund, ECA annual reports, and Ex-Im's 2010 Competitiveness Report. We also used data published in the annual reports from China's and India's Ex-Im Banks to compare the growth of export financing from China and India to that of the U.S. Ex-Im Bank. We found the data were sufficiently reliable for the purpose of comparing levels of growth.

We conducted this performance audit from February 2011 to February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the U.S. Export-Import Bank



EXPORT-IMPORT BANK OF THE UNITED STATES

FRED P. HOCHBERG

January 19, 2012

CHAIRMAN & PRESIDENT

Mr. Loren Yager
Managing Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, D.C. 20548

Re: Export-Import Bank - Actions Needed to Promote Competitiveness and
International Cooperation

Dear Mr. Yager:

Ex-Im Bank appreciates the opportunity to offer our perspective on GAO's findings and recommendations contained in your recently completed report regarding Ex-Im Bank and its competitiveness compared to other ECAs. The amount of work and level of effort GAO dedicated to this study is impressive and fits the importance of the issue.

Overall, Ex-Im would note that the GAO findings are generally consistent with Ex-Im's findings contained in our own Congressionally mandated report to Congress published June 2011. (See Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States that can be found at http://www.exim.gov/about/reports/compet/documents/2010_Competitiveness_Report.pdf)

Moreover, Ex-Im would also consider content a key competitiveness element and the lack of transparency from non-OECD ECAs such as China as the major challenge to a level playing field globally. However, Ex-Im sees the competitiveness of content to be a more nuanced and complex measurement than simply a comparison of maximum foreign content regularly included in a standard transaction with 15% down and 85% ECA cover. For example, factors to which Ex-Im would give great weight in evaluating content competitiveness would include:

- That only Ex-Im has a specific mandate to focus on jobs (for which content is the proxy);
- That content includes an evaluation of policies regarding local content;
- That content competitiveness must be put into the context of the breadth of co-financing policies.

Looking at the matter of competitiveness mandates more closely, it seems that the appropriateness of any particular level of foreign content allowed in a standard financing must be viewed in the context of how critical jobs are to the mission of the ECA. Ex-Im's content policy is directly connected to its defined mission to maintain or increase U.S. employment through the financing of U.S. exports. No other ECA has such a mandate; in fact, some ECA's explicitly put aspects like corporate headquarters as much more important to jobs in a

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571
Phone (202) 565-3500 Email: fred.hochberg@exim.gov

transaction. For Ex-Im, the content policy is a tool the Bank uses to evidence support for U.S. jobs. In other words, U.S. content is a proxy for U.S. jobs and is what the Bank relies upon to ensure that its export financing targets the U.S. content directly associated with goods and services exported from the U.S. For example, a competitive aspect of the Bank's current content policy structure is that the Bank's content policy has resulted in incentivizing sourcing from the U.S. supplier when a company seeks to maximize Ex-Im support (often benefitting a small business).

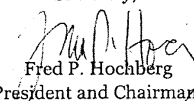
We also point out that Ex-Im Bank separates its content policies for foreign content and local content while most ECAs combine all content into one limit. Specifically, Ex-Im Bank's foreign content policy allows 15% foreign content in a typical financing while Germany (for example) allows 50% non-German content. However, Ex-Im may support up to 30% of the export contract in local costs. Hence, in many larger cases, Ex-Im Bank can extend support for up to 45% non-U.S. content. In contrast, the Germans support for up to 50% non-German content includes foreign and local, thus reducing the gap between Ex-Im Bank's content policy and its foreign counterparts to only 5%. Moreover, Ex-Im Bank's local content policy is more flexible than our ECA counterparts because Ex-Im does not require local costs be explicitly included in the export contract but simply connected to the project, while other ECAs impose an explicit limitation.

Lastly, Ex-Im Bank's "One Stop Shop" cofinancing policy provides considerable content flexibility particularly in today's world where several European ECAs have been downgraded with the sovereign. Ex-Im Bank can support foreign exports under its guarantee and insurance policy where the value of such exports was reinsured by that country's ECA. Since 2001, Ex-Im has signed eleven (11) agreements¹ and has approved numerous case-specific cofinancing arrangements on transactions with OECD ECAs with whom Ex-Im does not have a cofinancing framework agreement.

Finally, the Bank disagrees with GAO's characterization of how Ex-Im has addressed the issue of content. Specifically, the Bank has regularly reviewed the content policy annually as part of the Bank's Competitiveness Report, a process that has yielded substantive changes over the last 20 years. Ex-Im Bank shared with your staff a detailed chronology of its efforts, with the most recent changes having occurred in 2008 and 2010, with a particular emphasis on small business.

In closing, it is important to note that Ex-Im's book of business is comprised of aircraft transactions representing roughly 33% for which content poses no competitive issues. Project Finance represents another 33% of which co-financing is often used to cover the foreign content. Most of the remaining 33% is represented by short term, most of which is small business, and represents the area with the most liberal and flexible of Ex-Im's content policies. Accordingly, the number and frequency of cases challenged by Ex-Im's content policies that could be at a competitive disadvantage is now fairly small.

Sincerely,


Fred P. Hochberg
President and Chairman

¹ Ashr'a (Israel), Atradius (Netherlands), Coface(France), ECGD (UK), EDC (Canada), EPMC (Australia), EKF (Denmark), Hermes (Germany), KEXIM (Korea), NEXI (Japan), and SACE (Italy).

Appendix III: GAO Contact and Staff Acknowledgments

Contact

Loren Yager, (202) 512-4347 or YagerL@gao.gov

Staff Acknowledgments

In addition to the person named above, José Alfredo Gómez (Acting Director), Celia Thomas (Assistant Director), Jennifer Young, Vaughn Baltzly, Ming Chen, Laura Erion, and Arthur Lord made key contributions to this report. Also contributing to this report were Lynn Cothorn, David Dornisch, and Ernie Jackson.

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