



# Export-Import Bank: Background and Legislative Issues

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## Summary

The Export-Import Bank of the United States (Ex-Im Bank), an independent federal government agency, is the official export credit agency (ECA) of the United States. It helps finance American exports of manufactured goods and services, with the objective of contributing to the employment of U.S. workers, primarily in circumstances when alternative financing is not available. Ex-Im Bank also may assist U.S. exporters to meet foreign, officially sponsored, export credit competition. Ex-Im Bank's main programs are direct loans, loan guarantees, working capital guarantees, and export credit insurance. Ex-Im Bank transactions are backed by the full faith and credit of the U.S. government. The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended, and has been reauthorized through September 30, 2011 (P.L. 109-438). The charter requires that all of the Bank's financing have a reasonable assurance of repayment and directs the Bank to supplement, and to not compete with, private capital.

The 112<sup>th</sup> Congress may introduce legislation to renew Ex-Im Bank's authority. In considering such legislation, Members of Congress may examine issues related to Ex-Im Bank that center on the economic rationale for the Bank; the impact of the Bank on the federal budget and U.S. taxpayers; the Bank's support for specific types of business or industries; the current balance between the Bank's advancement of U.S. commercial interests and other U.S. policy goals; the competitive position of Bank compared to foreign ECAs; and the Bank's role in federal export promotion efforts.

Ex-Im Bank finances less than 5% of U.S. exports a year. In light of the international financial crisis, demand for Ex-Im Bank services has grown in recent years. In FY2010, the Bank approved more than 3,500 transactions of credit and insurance support, totaling about \$24 billion—the highest level of authorizations in the history of the Bank.

Ex-Im Bank has been “self-sustaining” for appropriations purposes since FY2008. It uses offsetting collections to cover its operations. Congress sets an upper limit on the level of the Bank's financial activities as part of the annual appropriations process. For FY2010, the Consolidated Appropriations Act of 2010 (P.L. 111-17) authorized a limit of \$58 million on the total amount that Ex-Im Bank can spend on its credit and insurance programs and a limit of \$83.88 million for the Bank's administrative expenses. For FY2011, the President requested a limit of \$92.7 million on the total amount the Bank can spend on its credit and insurance programs and a limit of \$105.6 million for the Bank's administrative expenses. Congress has not enacted appropriations for FY2011 government funding measures, but passed a series of continuing resolutions to fund most government programs, including Ex-Im Bank, at the FY2010-enacted level. P.L. 111-322 extends funding at this level to March 4, 2011.

Ex-Im Bank is one of approximately 20 federal government agencies involved in promoting U.S. exports and is a participant in President Obama's National Export Initiative (NEI), a plan to double exports by 2015 to support two million U.S. jobs.

The Organization for Economic Cooperation and Development (OECD) “Arrangement on Export Credits” sets forth export credit terms and conditions, including restrictions on tied aid, for the activities of Ex-Im Bank and the ECAs of foreign countries that are OECD members. Other OECD agreements set forth sector-specific rules, guidelines on environmental procedures, and other terms and conditions.

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## Background

The Export-Import Bank of the United States (Ex-Im Bank or the Bank) is an independent U.S. government agency that is charged with financing and promoting exports of U.S. manufactured goods and services, with the objective of contributing to the employment of U.S. workers. It is the official export credit agency (ECA) of the United States. Ex-Im Bank uses its authority and resources to provide export credit and insurance support to U.S. exporters primarily in circumstances when alternative financing is not available. The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended.<sup>1</sup> The Charter requires that all of the Bank's financing have a reasonable assurance of repayment and directs the Bank to supplement—and to not compete with—private capital. The Organization for Economic Cooperation and Development (OECD) Arrangement on Official Supported Export Credits (the “OECD Arrangement”) guides the activities of Ex-Im Bank and other foreign ECAs whose governments are members of the OECD.

The recent international financial crisis and global economic downturn have renewed congressional interest in Ex-Im Bank—and federal export promotion activities more broadly—as a means of generating U.S. jobs, contributing to U.S. economic recovery, and contributing to U.S. industrial competitiveness in the global market. Congressional interest in Ex-Im Bank intensified last year when President Obama introduced the National Export Initiative (NEI), a plan to double U.S. exports over the next five years to support two million jobs in the United States.

The 112<sup>th</sup> Congress may examine a number of issues related to Ex-Im Bank, chief of which may be its reauthorization. The Bank's authority has been extended most recently through September 30, 2011, by the Export-Import Bank Reauthorization Act of 2006 (P.L. 109-438). Congress may consider legislation to renew the authority of Ex-Im Bank.

## Ex-Im Bank Budget

When it was initially established, Ex-Im Bank was capitalized by an appropriation of \$1 billion from the U.S. Treasury. The Bank also is authorized to borrow up to \$6 billion directly from the Treasury, and it may draw upon a substantial line of credit with the Federal Financing Bank (FFB).<sup>2</sup> Ex-Im Bank uses its Treasury borrowings to finance its short-term needs, and repays the Treasury quarterly from loan repayments and by borrowing from the FFB on a medium- and long-term basis. Ex-Im Bank has not borrowed from the FFB since FY1997.<sup>3</sup>

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) included two sections with implications for Ex-Im Bank's budget. Under the terms of the Budget Enforcement Act of 1990 (Title XIII), Congress appropriates the estimated amount of subsidy the Bank expects to expend throughout all of its credit programs, including direct loans, guarantees, and insurance. Congress no longer sets separate limits on the amount of loans, guarantees, and insurance the Bank can authorize, but the Bank continues to provide estimates of the amounts of activity it expects to

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<sup>1</sup> Certain provisions of Ex-Im Bank's Charter are codified at 12 U.S. Code section 635 et. seq.

<sup>2</sup> The Federal Financing Bank (FFB) is a part of the Department of the Treasury and obtains its funds from regular Treasury issues.

<sup>3</sup> FFB, *Financial Statements*, multiple years, <http://www.ustreas.gov/ffb/financial-statements/>.

undertake. Under the Federal Credit Reform Act of 1990 (Title V), for a given fiscal year, the cost of federal credit activities, including those of Ex-Im Bank, is reported on an accrual basis equivalent with other federal spending, rather than on a cash flow basis, as used previously.<sup>4</sup> The Bank's estimates now allocate budgetary resources to reserve against the estimated risk of loss to the Bank.

Ex-Im Bank has been "self-sustaining" for appropriations purposes as of FY2008.<sup>5</sup> Since then, in the President's annual budget request, the President has requested, and Congress has approved, that offsetting collections would count against the appropriation of subsidy and administrative expenses from the General Fund and that the net appropriation is expected to be \$0. In essence, the President requests approval for the level of expenses that Ex-Im Bank would cover on its own.

For FY2010, the Consolidated Appropriations Act of 2010 (P.L. 111-17) approved a limit of \$58 million on the total amount that Ex-Im Bank can spend on its loan, guarantees, and insurance programs and a limit of \$83.88 million for the Bank's administrative expenses to conduct its credit and insurance programs (see **Table 1**). In addition, offsetting collections in excess of obligations are to be available for use in the following three fiscal years.<sup>6</sup>

For FY2011, the President requested a limit of \$92.7 million on the total amount that the Bank can spend on its loan, guarantees, and insurance programs (a 60% increase over the FY2010 amount) and a limit of \$105.6 million for the Bank's administrative expenses to conduct its credit and insurance programs (a more than 25% increase over the FY2010 amount). In addition, under the request, offsetting collections in excess of obligations are to be available for use in the following three fiscal years.

S. 3676, the Senate Appropriations Committee bill for State-Foreign Operations appropriations for FY2011, would authorize a limit of \$90.1 million on the total amount that the Bank can spend on its loans, guarantees, and insurance programs, and a limit of \$100.0 million on the Bank's administrative expenses. S. 3676 would allow for offsetting collections in excess of obligations to be available for use in the following three fiscal years. In S.Rept. 111-237, the Senate Appropriations Committee states that its recommendation includes \$7.9 million to support the Bank's efforts to expand U.S. small business usage of the Bank's financial export assistance.

Congress has not enacted appropriations for FY2011 government funding measures, but passed a series of continuing resolutions to fund most government programs, including Ex-Im Bank, at the FY2010-enacted level. The most recent continuing resolution, P.L. 111-322, extends funding at the FY2010-enacted rate to March 4, 2011.

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<sup>4</sup> CRS Report RL30346, *Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees*, by James M. Bickley.

<sup>5</sup> Export-Import Bank of the United States (Ex-Im Bank), *Annual Report 2008*, p. 3.

<sup>6</sup> In previous years, appropriations legislation set a limit on the amount of offsetting collections in excess of obligations that could remain available for use in subsequent fiscal years.

**Table I. Budget of the Export-Import Bank, FY2005-2011**

(in millions of dollars)

	FY05	FY06	FY07	FY08	FY09	FY10	FY11
<i>Total Subsidy Requested</i>	126	187	26	68	41	58	93
<i>Total Subsidy Appropriated</i>	60	100	NA	68	41	58	—
<i>Total Administrative Budget Requested</i>	73	73	75	78	82	84	106
<i>Total Administrative Budget Appropriated</i>	73	73	NA	78	82	84	—
<b>Operating Expenses</b>	661	353	366	590	690	1,261	207
Direct Loan Subsidy	—	1	—	—	8	17	8
Guarantee Loan Subsidy	227	185	51	25	30	58	93
Loan Modifications	14	5	8	2	—	—	—
Administrative Expenses	73	73	73	78	82	84	106
Re-estimates of Subsidy Costs	347	189	241	487	570	1,102	—
<b>Budget Authority (gross)</b>	477	198	341	585	685	1,316	263
Appropriated	132	109	99	487	571	1,121	—
Other	345	89	242	123	158	195	263
<b>Budget Resources</b>	1,252	812	712	934	1,031	1,641	643
Budget Authority (gross)	477	188	341	585	685	1,316	263
Recoveries from previous years	70	22	—	-3	-4	—	—
Unobligated resources start of year	705	592	371	123	342	325	380
Unobligated resources end of year	591	371	346	89	325	380	436
<b>Budget Authority (net)</b>	476	198	340	462	527	1,121	—
<b>Outlays (net)</b>	681	318	450	468	511	1,104	-74

**Source:** Office of Management and Budget. *Budget of the United States Government*, various issues; Washington, U.S. Government Printing Office.

**Note:** Data for FY2010 and FY2011 are requested or estimated amounts.

## Ex-Im Bank Activity

Ex-Im Bank uses its authority and resources to: (1) assume commercial and political risks that exporters or private financial institutions are unwilling, or unable, to undertake alone; (2) overcome maturity and other limitations in private sector export financing; and (3) assist U.S. exporters to meet foreign, officially sponsored, export credit competition.

## Financial Products

Ex-Im Bank has four main financial products it uses to support U.S. exports: (1) direct loans; (2) loan guarantees; (3) working capital guarantees; and (4) export credit insurance. It also has a number of special financing programs.

## **Direct Loans**

Prior to 1980, the Bank's direct lending program was its chief financing vehicle, which it used to finance such capital-intensive exports as commercial aircraft and nuclear power plants. Both the budget authority requested by the Administration and the level approved by the Congress for the Bank's direct lending were sharply reduced during the 1980s. The direct loans carry fixed interest rates and generally are made at terms that are the most attractive allowed under the provisions of international arrangement (discussed in later section). The Bank also has an Intermediary Credit Program it uses to offer medium- and long-term fixed-rate financing to buyers of U.S. exports, but U.S. exporters also must face officially subsidized foreign competition to qualify for this program.

In light of the international financial crisis, Ex-Im Bank has worked to increase access to direct loans by engaging with borrowers on a case-by-case basis to structure transactions to adapt to current financial conditions. In FY2010, the Bank authorized 15 direct loans, totaling \$4.3 billion, including an authorization of \$2.2 billion financing to support U.S. exports for a liquefied natural gas plant in Papua New Guinea.<sup>7</sup> In comparison, in FY2008, Ex-Im Bank made a total of two direct loans totaling \$356 million.<sup>8</sup>

## ***Tied Aid Capital Projects Fund***

As part of its direct lending program, the Bank has a Tied Aid Capital Projects Fund (TACPF), often referred to as the tied aid "war chest," that it uses to counter specific projects that are receiving foreign officially subsidized export financing. Tied aid may be used to counter attempts by foreign governments to sway purchases in favor of their exporters solely on the basis of subsidized financing, rather than on market conditions (price, quality, etc.). Tied aid credits and mixed credits are two methods whereby governments provide their exporters with official assistance to promote exports. Tied aid credits include loans and grants which reduce financing costs below market rates for exporters and which are tied to the procurement of goods and services from the donor country. Mixed credits combine concessional government financing (funds at below market rates or terms) with commercial or near-commercial funds to produce an overall rate that is lower than market-based interest rates and carries more lenient loan terms. The United States does tie substantial amounts of its agricultural and military aid to U.S. goods, but it generally has avoided using such financing to promote American capital goods exports. The TACPF was \$171 million FY2009. Funds for the tied aid war chest are available to the Bank from the Treasury Department and are subtracted from the Bank's direct credit resources. Applications for the tied aid fund are subject to review by the Treasury Department.

## **Loan Guarantees**

Loan guarantees are one of the main types of products used by Ex-Im Bank to assist U.S. exporters by protecting against the commercial and political uncertainty of exporting. Ex-Im Bank offers long-term and medium-term loan guarantees "to cover the repayment risk on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the

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<sup>7</sup> Ex-Im Bank, *Annual Report 2010*, pp. 22-28.

<sup>8</sup> Ex-Im Bank, *Annual Report 2008*, pp. 22-23.

outstanding principal and interest on the loan.” Guarantees extended under the long-term program generally have repayment terms of over seven years, while guarantees extended under the medium-term program generally have repayment terms of one to seven years. Ex-Im Bank’s loan guarantee to a foreign buyer is typically used for financing purchases of U.S. capital equipment and services.

### **Working Capital Guarantee Program**

Ex-Im Bank’s Working Capital Guarantee Program provides repayment guarantees to lenders (primarily commercial banks) on secured, short-term working capital loans made to qualified exporters. The program is intended to facilitate finance for businesses that have exporting potential but need working capital funds to produce or market their goods or services for export. Small businesses are the primary users of the Working Capital Guarantee Program.

### **Export Credit Insurance**

Export credit insurance is another major product offered by Ex-Im Bank. Ex-Im Bank’s export credit insurance includes both short-term and medium-term insurance. It is used by U.S. exporters to develop and expand their overseas sales by protecting them against losses should a foreign buyer or other foreign debtor default for commercial or political reasons. Insurance coverage carries various conditions that must be met by the insured before the Bank will pay off a claim.

Like loan guarantees, export credit insurances reduces some of the risks involved in exporting by protecting against commercial or political uncertainty. There is an important distinction, however, between the two programs. Insurance coverage is more conditional than a guarantee. In contrast, a guarantee is a commitment made to a commercial bank by the Ex-Im Bank that promises full repayment with few, if any, conditions attached.

### **Special Financing Programs**

Ex-Im Bank’s support for U.S. export sales also includes special financing programs that focus on a particular industry or financing technique, including:

- **Aircraft Finance:** Ex-Im Bank offers financing for new or used U.S. manufactured commercial and general aviation aircraft under its direct loan, guarantee, and insurance programs. The Organization for Economic Cooperation and Development (OECD) Aircraft Sector Understanding (“OECD Aircraft Sector Understanding”) generally sets the terms and conditions of Ex-Im Bank’s financing support for aircraft.
- **Project Finance:** Ex-Im Bank offers limited recourse project finance to newly-created companies. Project finance is an arrangement in which the creditworthiness of projects depends on their future cash flows, and these future cash flow are the source of repayment. Project finance typically covers large, long-term infrastructure and industrial projects.
- **Supply-Chain Finance:** In FY2010, Ex-Im Bank launched a Supply-Chain Finance Guarantee Program, which provides competitively priced working capital finance to U.S. suppliers of U.S. exporters. This program may benefit



“hidden exporters” such as U.S. small businesses that supply products or services to larger U.S. exporters.

## **Statutory and Policy Requirements**

A number of factors affect Ex-Im Bank’s participation in a particular credit or insurance transaction. Many of these factors or conditions are determined by Congress. The statutory and policy criteria that Ex-Im Bank financing support must meet include:

- **Reasonable Assurance of Repayment:** The Ex-Im Bank Charter requires that all of the Bank’s financing have a reasonable assurance of repayment.
- **Private Capital:** The Charter directs Ex-Im Bank to supplement, and to not compete with, private capital.
- **Economic Impact:** Congress requires that Ex-Im Bank projects have no adverse effect on U.S. industry. Chiefly, Ex-Im Bank may not support projects that enable foreign production of an exportable good that would compete with U.S. production of a same, or similar, good and that would cause “substantial injury” to U.S. producers. Ex-Im Bank also may not support projects that result in the foreign production of a good that is substantially the same as a good subject to specified U.S. trade measures, such as anti-dumping or countervailing duty investigations.
- **Environmental Impact:** The Bank considers the potential beneficial or adverse effects of proposed transactions. Ex-Im Bank’s Charter authorizes the Bank to grant or withhold financing support after taking into account the environmental impact of the proposed transaction.
- **Foreign Content:** The Bank places certain limits on the maximum amount of foreign content that can be included in the transactions it supports.
- **Military:** Ex-Im Bank is prohibited by law from financing military items.
- **Shipping:** Certain products supported by Ex-Im Bank must be transported exclusively on U.S. vessels. Under limited conditions, a waiver on this condition may be granted.
- **Non-Financial or Non-Commercial Considerations:** The Bank is allowed to deny applications for credit on the basis of non-financial and non-commercial considerations in cases where the President, in consultation with the House Financial Services Committee and Senate Banking, Housing and Urban Affairs Committee, determines that the denial of such applications would advance U.S. national interests in areas such as international terrorism, nuclear proliferation, environmental protection, and human rights.<sup>9</sup> The power to make such a determination has been delegated to the Secretary of State.<sup>10</sup>
- **Co-Financing:** Ex-Im Bank enables financing with export credit agencies (ECAs) in other countries through “one-stop-shop” co-financing facilities

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<sup>9</sup> Ex-Im Bank, *The Charter of the Export-Import Bank of the United States*, as amended through P.L. 109-438, December 20, 2006, pp. 10-11.

<sup>10</sup> U.S. Code Title 12, Chapter 6a, Section 635(b)(1)(B)(ii).

(arrangements that allow products and services from two or more countries to benefit from a single ECA financing package).

- **Country Restrictions:** The Charter prohibits the Bank from extending credit and insurance to certain countries, including those that are in armed conflict with the United States or with balance of payment problems.
- **Small Business:** The Bank's Charter requires it to make available not less than 20% of its aggregate loan, guarantee, and insurance authority to finance exports directly by small business.<sup>11</sup>
- **Renewable Energy:** The Charter requires the Bank to promote the export of goods and services related to renewable energy sources.<sup>12</sup> In recent years, appropriations language further has specified the Bank should make available not less than 10% of its aggregate credit and insurance authority for the financing of exports of renewable energy technologies or energy efficient end-use technologies.

### **Ex-Im Bank Environmental Policy and Lawsuit Settlement**

In February 2009, a settlement was reached in an environmental lawsuit brought by Friends of the Earth, Greenpeace, and four cities (Boulder, Colorado, and the cities of Arcata, Santa Monica, and Oakland in California) against the Export-Import Bank and another U.S. government agency, the Overseas Private Investment Corporation (OPIC), in 2002.<sup>13</sup> In the lawsuit, the environmental groups and cities alleged that Ex-Im Bank and OPIC provided more than \$32 billion in financing and insurance from 1990 to 2003 without assessing the extent to which the projects contributed to climate change in the United States as required by the National Environmental Policy Act (P.L. 91-190). Under the settlement, Ex-Im Bank is able to continue funding fossil fuel projects, but it must on its website disclose the estimated carbon dioxide emissions from potential transactions for such projects; make public its determinations as to whether the National Environmental Policy Act applies to specific transactions involving fossil fuel projects and provide opportunity for comment; develop and implement a carbon policy in cooperation with plaintiff representatives that will include a \$250 million renewable energy loan facility; and promote consideration of climate change issues among export credit agencies with the Organization for Economic Cooperation and Development (OECD).<sup>14</sup> Observers point out that Ex-Im Bank has had a track record of promoting environmentally-friendly exports and assessing the environmental impact of its projects since the early 1990s. In November 2009, the Bank adopted a carbon policy to support U.S. exports of environmentally friendly exports and to enhance transparency in the tracking and reporting of carbon dioxide emissions of projects supported by the Bank.<sup>15</sup>

<sup>11</sup> Ex-Im Bank, *The Charter of the Export-Import Bank of the United States*, as amended through P.L. 109-438, updated December 27, 2006, Sec. 2(b)(1)(E)(v).

<sup>12</sup> *Ibid.*, Sec. 2(b)(1)(K).

<sup>13</sup> *Friends of the Earth v. Mosbacher*, 488 F. Supp. 2d 889 (N.D. Cal. 2007).

<sup>14</sup> "Lawsuit Forces U.S. Financing Agencies to Account for Climate," *Environment News Service*, February 7, 2009. Gerald Karey, "ExIm Bank, OPIC agree to provide \$500 mil for renewable energy," *Platts Commodity News*, February 6, 2009. Meeting with Export-Import Bank officials, March 9, 2009.

<sup>15</sup> Ex-Im Bank, "Export-Import Bank Adopts Carbon Policy . . .," press release, November 3, 2009, [http://www.exim.gov/pressrelease\\_print.cfm/BC0AA512-EF10-91BF-A6F1508E016C9E5E/](http://www.exim.gov/pressrelease_print.cfm/BC0AA512-EF10-91BF-A6F1508E016C9E5E/)

## Focus Areas

Ex-Im Bank has identified several program-related, country-specific, and sector-specific areas in which to focus its credit and insurance activities.

### Program-Related Focus

Ex-Im Bank has identified four key program-related goals to increase the volume of U.S. exports:

- increasing the number of small- and medium-sized enterprises (SMEs) utilizing Ex-Im Bank products;
- supporting environmentally beneficial exports, with a particular emphasis on renewable energy;
- targeting business development to *countries* with high potential for U.S. export growth; and
- building expertise and targeting *services* in industries with high potential for U.S. export growth.

### Country-Specific Focus

While Ex-Im Bank operates in more than 160 countries around the world, it has identified nine emerging markets as primary focus areas: Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey, and Vietnam. Ex-Im Bank has chosen these markets on the basis of several factors, including the size of their export markets for U.S. companies, their projected economic growth, their expected infrastructure needs, and Ex-Im Bank's current level of activity in these markets.<sup>16</sup>

### Sector-Specific Focus

Ex-Im Bank has identified industries with high potential for U.S. export growth in these nine emerging markets, as they may support the needs of the growing ranks of middle-class consumers in these markets. These industries are medical technology, construction, agricultural and mining equipment, and power generation (including renewable energy). In addition, transportation—particularly large commercial aircraft—continues to be an important focal point for the Bank.<sup>17</sup>

## Activity Level

Ex-Im Bank finances less than 5% of U.S. exports annually. It has witnessed an increase in demand for its services in recent years, in light of the international financial crisis. The Bank has noted that small businesses especially have faced difficulty accessing credit during the crisis. In FY2009, a surge in insurance coverage authorizations for small business increased the level of authorizations conducted by the Bank. In that year, total authorizations by the Bank reached a record high of 2,891 transactions of credit and insurance support totaling \$21 billion. In FY2010,

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<sup>16</sup> Ex-Im Bank 2010 Annual Report, p. 6.

<sup>17</sup> Ex-Im Bank 2010 Annual Report, p. 6.

Ex-Im Bank approved 3,532 transactions of credit and insurance support, which amounted to \$24 billion—the second consecutive year of record high levels of authorizations for the Bank (see **Table 2**). Ex-Im Bank estimated that credit and insurance activities supported about \$34 billion in U.S. exports of goods and services in FY2010, up from \$24 billion worth of exports estimated to have been supported in FY2009.

**Table 2. Ex-Im Bank’s Credit and Insurance Authorizations, FY2008-FY2010**  
(in millions of dollars)

Program	Number of Authorizations			Amount Authorized		
	2008	2009	2010	2008	2009	2010
<b>Total Financing</b>						
Loans	2	16	15	\$14,399	\$21,021	\$24,468
Loan Guarantees	673	619	719	\$10,179	\$11,475	\$13,106
Medium- and Long-Term	214	146	162	\$8,799	\$9,943	\$10,927
Working Capital	459	473	719	\$1,381	\$1,531	\$2,179
Insurance	2,029	2,256	2,798	\$3,864	\$11,474	\$7,101
<b>Total Authorizations</b>	<b>2,704</b>	<b>2,891</b>	<b>3,532</b>	<b>\$14,399</b>	<b>\$21,021</b>	<b>\$24,468</b>
<b>Selected Types of Financing</b>						
Small Business	2,238	2,540	3,091	\$3,1980	\$4,360	\$5,053
Percent of Total	86.1%	87.9%	87.5%	22.2%	20.7%	20.7%
Environmentally Beneficial	87	88	108	\$227	\$394	\$536
Percent of Total	3.2%	3.0%	3.1%	1.5%	1.9%	2.2%
Renewable Energy	7	13	27	\$30	\$93	\$332
Percent of Total	0.3%	0.4%	0.8%	0.2%	0.4%	1.4%

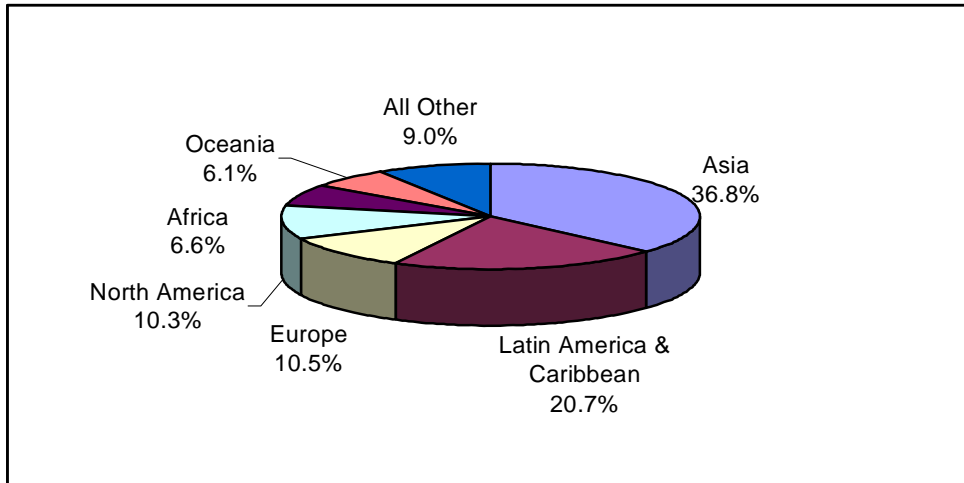
**Source:** Ex-Im Bank Annual Reports data adapted by CRS.

**Note:** Ex-Im Bank distinguishes between financing for “environmentally beneficial” and “renewable energy” exports.

The Bank’s authority to lend, guarantee, and insure is limited to a total of \$100 billion. The outstanding principal amount of all loans made, guaranteed, or insured by Ex-Im Bank is charged at the full value against the \$100 billion limitation. In FY2010, the Bank’s total exposure stood at about \$75 billion, up from about \$68 billion FY2009. The Bank’s exposure averaged about \$64 billion between FY2006 and FY2010.<sup>18</sup> **Figures 1 and 2** show the Bank’s total exposure by geographical area and industrial sector, respectively.

<sup>18</sup> Ex-Im Bank, *2010 Annual Report*, pp. 37-38.

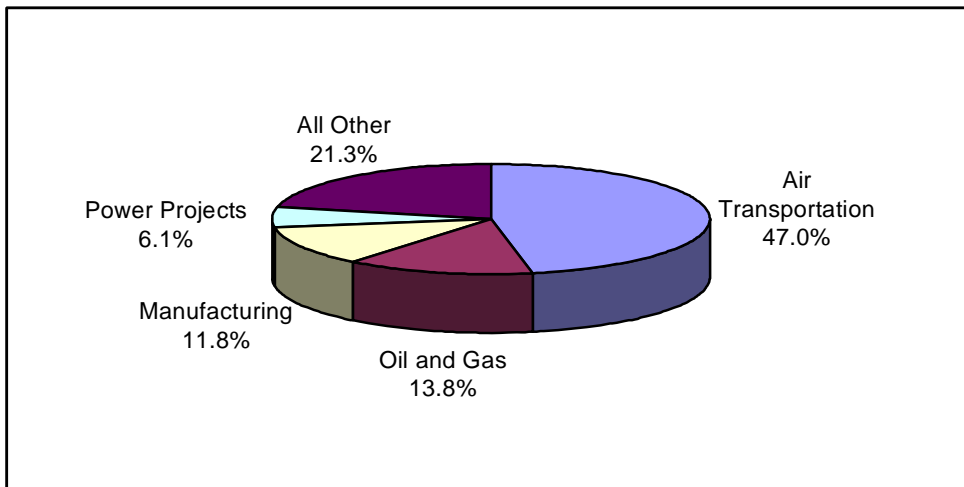
**Figure 1. Exposure by Geographical Area, FY2010**



**Source:** Ex-Im Bank, 2010 Annual Report.

**Note:** Total exposure for Ex-Im Bank was \$75.2 billion in FY2010.

**Figure 2. Exposure by Industrial Sector, FY2010**



**Source:** Ex-Im Bank, 2010 Annual Report.

**Note:** Total exposure for Ex-Im Bank was \$75.2 billion in FY2010.

## Ex-Im Bank Response to the International Financial Crisis

In order to counter the commercial and liquidity shortages associated with the global financial crisis, Ex-Im Bank has taken several actions to enhance its financing products. In October 2008, the Bank started offering U.S. small businesses a 15% premium-rate reduction for certain insurance policies. The Bank also took measures to expand coverage under and to provide flexible financing terms for its Working Capital Guarantee Program. In addition, the Bank has

worked to increase access to direct loans by engaging with borrowers on a case-by-case basis to structure transactions to adapt to the current financial conditions.<sup>19</sup>

## **Ex-Im Bank's Role in Federal Government Efforts to Promote Exports**

Ex-Im Bank is one of approximately 20 federal agencies involved in U.S. government export promotion efforts.<sup>20</sup> Ex-Im Bank is a part of the U.S. Trade Promotion Coordinating Committee (TPCC), an interagency committee created by the Export Enhancement Act of 1992 (P.L. 102-429). The TPCC, chaired by the Department of Commerce, is to coordinate with and to set priorities for the federal agencies involved in export promotion.

Ex-Im Bank also plays a key role in the National Export Initiative (NEI), a plan launched by President Obama to double U.S. exports in five years to support two million jobs in the United States. Formalized in March 2010 by Executive Order 13534, the NEI is designed to improve coordination and funding of federal export promotion activities; provide greater U.S. export financing; enhance government advocacy on behalf of U.S. exporters; and negotiate new trade agreements and enforce existing trade agreements more robustly. In addition, the NEI focuses on facilitating exports by U.S. small businesses and promoting “green” exports.<sup>21</sup>

In September 2010, the Export Promotion Cabinet, a high-level cabinet created by Executive Order 13534, released a report containing recommendations for implementing the NEI.<sup>22</sup> The Ex-Im Bank figures prominently in the recommendation focused on increasing U.S. export credit. The Export Promotion Cabinet report recommended the following actions in this priority area: (1) making more credit available such as existing credit lines and new products; (2) expanding the eligibility criteria for providing credit and insurance to SMEs; (3) focusing lending activities and outreach on priority international markets; (4) expanding and focusing outreach efforts on U.S. industries that are globally competitive and those that constitute underserved sectors of the economy; (5) increasing the number and scope of public-private partnerships that build awareness of export finance assistance and help to originate and underwrite transactions on behalf of the federal government; and (6) streamlining the application and review process of U.S. exporters applying for federal export credit and insurance.

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<sup>19</sup> Ex-Im Bank, *Annual Report 2009*, pp. 28.

<sup>20</sup> See CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias

<sup>21</sup> “National Export Initiative,” Executive Order 13534 of March 11, 2010, *75 Federal Register* 12433, March 16, 2010.

<sup>22</sup> The Export Promotion Cabinet, established by E.O. 13534, is a high-level cabinet intended to ensure that export promotion is a high priority for all relevant agencies. Members of the Export Promotion Cabinet include the nine key Secretaries or Directors of the export promotion agencies of the TPCC and senior White House advisors.

## **International Agreements Governing Official Export Financing**

The United States generally opposes subsidies for exports of commercial products. Since the 1970s, the United States has led efforts within the Organization for Economic Cooperation and Development (OECD) to adopt international protocols which reduce the subsidy level in export credits by raising the interest rates on government-provided export credits to more closely reflect market levels.

The primary agreement governing export credits is the OECD “Arrangement on Officially Supported Export Credits” (the “OECD Arrangement”), which came into effect in April 1978. The agreement has been revised a number of times over the years. For example, participants have agreed over time to tighten restrictions on the use of tied aid. The participants agreed that projects would be financially viable, and commercial credits would be prohibited from using tied or partially untied aid credits, except for credits to the least developed countries where per capita income is below \$2,465. Moreover, the agreement set up tests and consultation procedures to distinguish between projects that should be financed on market or official export credit terms, and those that legitimately require such aid funds. In addition, sector understandings govern the terms and conditions of exports in certain sectors, such as civilian aircraft.

OECD member countries also have agreed to other guidelines for official export credit. In 2007, members agreed to revise guidelines on environmental procedures, referred to as “Common Approaches on Environment and Officially Supported Export Credits” (the “Common Approaches”). These environmental guidelines call for member governments to review projects for potential environmental impacts; to assess them against international standards, such as those of the World Bank; and to provide more public disclosure for environmentally-sensitive projects. The OECD also adopted new guidelines on sustainable lending principles that aim to help developing countries avoid a renewed build-up of debt after receiving debt relief.

### **Matching Financing With China for Locomotives Export to Pakistan**

Ex-Im Bank recently agreed to a \$477 million financing deal to match China’s financing terms in order to entice the Pakistani government to buy 150 General Electric Company locomotives. China, which is not a member of the OECD, offered financing terms for the export of Chinese railcars to Pakistan that were cheaper than those allowed by the OECD Arrangement on Export Credits. The matching deal required Ex-Im Bank to work with the OECD.<sup>23</sup>

## **Selected Issues for Congress**

The recent international financial crisis and global economic downturn have renewed congressional interest in Ex-Im Bank’s role in promoting U.S. exports and supporting U.S. jobs. The introduction of the National Export Initiative, and its emphasis on export credit financing as a means to promote U.S. exports, has intensified congressional interest in Ex-Im Bank. In light of the growing interest in Ex-Im Bank, the 112<sup>th</sup> Congress may choose to examine a number of issues related to the Bank.

<sup>23</sup> Sudeep Reddy, “U.S. Export Financing Challenges China,” *The Wall Street Journal*, January 12, 2011.

## **Economic Debate**

One rationale for Ex-Im Bank is the acknowledged competition among nations' official export credit agencies. Some Ex-Im Bank supporters maintain that the Bank's programs are necessary for U.S. exporters to compete with foreign subsidized export financing and also to pressure foreign governments to eliminate concessionary financing. Another rationale cited by proponents of Ex-Im Bank is the Bank's role in addressing market failures, such as imperfect information and barriers to entry.

However, among some critics of the Bank, there is doubt that a nation can improve its welfare or level of employment over the long run by subsidizing exports. Economists generally maintain that economic policies within individual countries are the prime factors which determine interest rates, capital flows, and exchange rates, and the overall level of a nation's exports. As a result, they hold that subsidizing export financing merely shifts production among sectors within the economy, but does not add to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. From this point of view, promoting exports through subsidized financing or through government-backed insurance and guarantees will not permanently raise the level of employment in the economy, but alters the composition of employment among the various sectors of the economy and, therefore performs poorly as a jobs creation mechanism.

In response, some supporters highlight that the Bank is required by its Charter to provide U.S. exporters with financing terms that are "fully competitive" with those offered by other trade financing institutions. These and other supporters of the Bank, also stress that deficiencies in financial markets bias those markets against exports of high value, long-term assets.

Some opponents also argue that, by providing financing or insurance for exporters that the market seems unwilling, or unable, to provide, Ex-Im Bank's activities draw from the financial resources within the economy that would be available for other uses. Such "opportunity costs," while impossible to estimate, could be potentially significant. Another opposition argument is that subsidized export financing raises financing costs for all borrowers by drawing on financial resources that otherwise would be available for other uses, thereby possibly crowding out some borrowers from the financial markets. Critics assert that this crowding-out effect might nullify any positive impact subsidized export financing may have on the economy.

## **"Corporate Welfare" Debate**

A longstanding concern about Ex-Im Bank centers on "corporate welfare" issues, with some observers critical that the bulk of Ex-Im Bank financing, by dollar value, historically has been directed to a few large U.S. corporations that they believe are capable of shouldering the risks of exporting to developing countries. Some critics of Ex-Im Bank have called it "Boeing's Bank," in reference to the fact that Boeing Corporation, a U.S. aerospace company, historically has been the single largest beneficiary of Ex-Im Bank support. In FY2010, more than 60% of Ex-Im Bank's loan guarantees, by dollar value, supported the sale of Boeing airplanes in foreign countries.<sup>24</sup>

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<sup>24</sup> CRS analysis of data in Ex-Im Bank *FY2010 Annual Report*.



Supporters point out that Ex-Im Bank's mission is to support U.S. businesses of all sizes and, that the Bank places special emphasis on supporting small business. They note that, although small businesses account have accounted for about 20% of Ex-Im Bank support by dollar *value*, they have accounted for more than 80% of the total *number* of transactions conducted by Ex-Im Bank in recent years.<sup>25</sup> Some supporters may argue that focusing on the dollar value of Ex-Im Bank support to small businesses may be misleading, because larger size of corporations naturally results in a scale of business that requires larger volumes of support. In addition, some supporters may point out that Ex-Im Bank data may not reflect all of the small businesses who benefit from Ex-Im Bank services, such as "invisible" exporters who provide goods and services that used by other companies that directly export.

Some critics do not make a distinction between large and small business support, remaining opposed to the notion of taxpayer funds being directed toward private benefits. Some critics of government export promotion programs suggest that the private sector may be more well-suited and efficient than the federal government for leading such activities. In response, some contend that the federal government plays a unique role in its capacity to address market failures, such as imperfect information, which dampen the level of U.S. exports. They also contend that federal financing of exports is critical in times of financial crisis, which can lead to a shortfall in the private sector financing.

## **Impact on U.S. Taxpayers**

While Ex-Im Bank is a self-sustaining agency that receives a net appropriation of zero from Congress, a point of contention is the risk to taxpayers imposed by the Bank's activities. Opponents argue that because Ex-Im Bank's loans are backed by the full faith and credit of the U.S. government, taxpayers are potentially burdened if the Bank's projects fail. Supporters point out that a reasonable assurance of repayment is required by the Bank's charter for all credit authorizations and that the Bank monitors credit and other risks in its portfolio.

## **Congressional Directives to Support Specific Sectors**

Another set of ongoing issues regarding Ex-Im Bank centers on congressional directives that require Ex-Im Bank to support exports in specific sectors, namely exports of small businesses and exports of "green technologies." These also are areas that have been identified as sectors of focus under the NEI.

One issue is the extent to which Ex-Im Bank has been able to fulfill these mandates. For example, the Senate committee report for FY2011 State-Foreign Operations appropriations (S.Rept. 111-237) expresses concern that, according to the Government Accountability Office, Ex-Im Bank "has fallen far short of the congressional directive to allocate 10 percent of its annual financing to renewable energy or energy efficiency technologies, and that financing for fossil fuel projects continues to far exceed that for clean energy." However, supporters point out that Ex-Im Bank is largely a demand-driven agency. While Ex-Im Bank can make financing available for certain purposes, such as small business or "green" technology financing as it already has, if U.S. firms do not have sufficient interests or commercial incentives for exporting in particular markets, then they may not seek out Ex-Im Bank support.

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<sup>25</sup> Ex-Im Bank annual reports.

More fundamentally is a question about whether or not Congress should direct Ex-Im Bank to target its support to specific sectors. Some observers support targeting federal export assistance to certain U.S. exporters and industries and for certain geographic markets that have high export potential and value. These exporting sectors and markets also may be the ones in which federal support makes the most difference. For example, environmentally friendly and energy-efficient goods and services often rely on newer forms of technology and entail perhaps greater risks than other types of exports, which may result in reluctance in the private sector to support such exports. Consequently, federal financing and support for “green” exports may boost their levels. However, some critics of targeted forms of export assistance contend that such policies essentially are a mechanism whereby the federal government determines “winners and losers” in the market. They contend that such action can lead to economic distortions and harm other productive U.S. firms. Some also may be concerned that such mandates may constrain the activities of the Bank.

## **International Competitiveness of Ex-Im Bank**

Concerns about the international competitiveness of Ex-Im Bank generally have been two-fold. One set of issues centers on the impact of Ex-Im Bank’s statutory and policy requirements on the competitive position of Ex-Im Bank financing for U.S. businesses. Ex-Im Bank may face a challenge of advancing U.S. commercial interests overseas while supporting other U.S. public policy goals.<sup>26</sup>

According to the Ex-Im Bank’s 2009 competitiveness report, while Ex-Im Bank generally maintained its overall standing relative to the export credit agencies of the G-7 countries, the Bank’s economic impact policy can lower its competitiveness. Among the G-7 ECAs, Ex-Im Bank is the only one that is required to use an economic impact analysis to weigh the costs and benefits of supporting an export. The report also stated that Ex-Im Bank is not viewed as competitive by the exporting and lending community on the environmental front. Foreign ECAs do not tend to take into consideration environmental standards to the extent that the United States does when determining whether or not to support a transaction. Currently, Ex-Im Bank is the only ECA in the G-7 to commit systematically to publishing environmental monitoring reports, which includes carbon accounting of projects. In addition, Ex-Im Bank faces competition from ECAs outside of the OECD, such as China, which tend to be less rigorous in their environmental requirements for financing than OECD countries.

Some business groups consider requirements for Ex-Im Bank support to be excessively burdensome and to detract from Ex-Im Bank’s core mission of boosting exports and supporting jobs. For example, one industry has identified Ex-Im Bank’s requirements on foreign content, shipping, and economic impact analysis to be major constraints that limit Ex-Im Bank’s ability to compete with the ECAs of foreign countries.<sup>27</sup> Some business groups also might argue that situations in which Ex-Im Bank denies financing for projects that do not meet environmental requirements are contrary to Ex-Im Bank’s mission, because denial of such financing may result in lost export and employment opportunities.<sup>28</sup> While in principle, many exporters are not

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<sup>26</sup> Jordan Jay Hillman, *The Export-Import Bank at Work: Promotional Financing in the Public Sector* (Westport, CT: Quorum Books, 1982), pp. 69 and 75.

<sup>27</sup> Matthew Schewel, “CEE Pushes for Ex-Im Changes in Next Year’s Charter Reauthorization,” *Inside U.S. Trade*, July 16, 2010.

<sup>28</sup> Hillman (1982), p. 58.

opposed to these public policy goals, they express concern that this imbalance may place U.S. exporters at a disadvantage.<sup>29</sup>

Another set of competitiveness issues focuses on the international rules governing official export credit activity. An increasingly important concern for U.S. policymakers is that some countries outside of the OECD, such as China, are becoming major providers of official export credit finance and may not be “playing by the rules.” For example, it was estimated that China supported \$59.6 billion in new medium- and long-term official export credits in FY2008, greater than that of the G-7 countries combined, which totaled \$51 billion in that year.<sup>30</sup> To the extent that the ECAs of China and other non-OECD countries provide financing on terms that are more advantageous than those allowed within the OECD Arrangement, Ex-Im Bank and other OECD export credit agencies may find it difficult to compete with such export credit programs.

U.S. exporters and others have expressed doubts about the effectiveness of international efforts to stem officially subsidized trade financing. While the OECD Arrangement appears to be reducing most direct government subsidies for trade financing, a number of countries have found a way around the agreement through market windows, or subsidized trade financing through ostensibly private financial institutions that are not subject to the agreement. The agreement also has a number of limitations, including the difficulty of defining commercially viable projects, and the presence of an “escape clause” that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. Moreover, the agreement contains no explicit enforcement mechanism. The effectiveness of the agreement also depends on the accuracy and openness of tied aid offers reported to the OECD, but the OECD does not confirm or verify the accuracy of the data provided by its members.<sup>31</sup>

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<sup>29</sup> William H. Becker and William M. McClenahan, *The Market, the State, and the Export-Import Bank of the United States, 1934-2000* (Cambridge: 2003), p. 294.

<sup>30</sup> Export-Import Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, For the Period January 1, 2009 Through December 31, 2009, June 2010.

<sup>31</sup> U.S. General Accounting Office, *Competitors' Tied Aid Practices Affect U.S. Exports*, GGD-94-81, May 1994, pp. 19-21.

### **Ex-Im Bank Loan Guarantee to India's Reliance for Power Plant**

In July 2010, Ex-Im Bank conducted a review of an export financing application for a power plant in India. The proposed transaction is a \$600 million Ex-Im Bank loan guarantee to India's Reliance Power that would support the sale and export of mining equipment by Bucyrus International Inc., a Wisconsin-based firm, to a 4,000 megawatt Sasan coal-fired plant in India. The transaction would support hundreds of jobs at Bucyrus and sub-suppliers. On June 24<sup>th</sup>, Ex-Im Bank's Board of Directors voted not to proceed with the application for the project on the basis of environmental concerns. Several U.S. policymakers protested the decision, arguing that denial of Ex-Im Bank financing would result in the loss of hundreds of U.S. jobs.<sup>32</sup>

Following this decision, Reliance entered into a memorandum of understanding with Ex-Im Bank indicating its intent to develop a new 250 megawatt renewable energy facility, which would be among India's largest renewable energy projects, and to cap the Sasan project's carbon dioxide emissions. These developments enabled the Board to reconsider its decision and to approve proceeding to a full financial, technical, and environmental review of the proposed project. The application is subject to final review and approval. According to Ex-Im Bank Chairman and President Fred P. Hochberg, "We are pleased that Reliance is making this commitment to renewable energy, which allows us to sustain U.S. jobs and promote both conventional and renewable energy exports."<sup>33</sup> However, environmental groups have criticized Ex-Im Bank's decision to reverse its position and to support the project, contending that it is contrary to the Obama Administration's overall policy to reduce greenhouse gas emissions.<sup>34</sup>

## **Congressional Oversight and Legislative Activity**

Congress does not directly approve individual Ex-Im Bank transactions, but has a number of authorizing and oversight responsibilities concerning the Bank and its activities. Congress authorizes the Bank's legal charter for a period of time chosen by Congress. At times, Congress has required an annual reauthorization of the Bank's legal charter, and at other times has authorized the Bank for varying periods that have varied from two to five years. Congress also approves an annual appropriation for the Bank that sets an upper limit on the level of the Bank's financial activities. Congress can always amend or alter the Bank's governing legislation as it deems appropriate. Members of Congress and Congressional Committees can request that the Bank's President consult with them or testify before committees, with some qualifications. In addition, the Senate confirms Presidential appointments to the Bank's Board of Directors.

### **Reauthorization of Ex-Im Bank**

President Bush signed P.L. 109-438, the Export-Import Bank Reauthorization Act of 2006, on December 20, 2006. This act reauthorized the Bank through September 30, 2011. Among its provisions, the act created a Small Business Division within the Bank that is responsible for conducting research, tailoring products to small business needs, and increasing loans to small business concerns. The measure also extends the authority of the Advisory Committee on Sub-Saharan Africa through FY2011. In addition, the measure directed the Bank to submit annually to Congress a list of U.S. commercial sectors and products that could suffer "adverse economic impact" due to Ex-Im Bank support of projects abroad. The measure encouraged the Bank to

<sup>32</sup> James R. Hagerty, "U.S. Ex-Im Bank Reconsiders India Coal Project," *The Wall Street Journal*, June 30, 2010.

<sup>33</sup> Ex-Im Bank, "Ex-Im Bank Approves Preliminary Review of Export Financing Application for India's Sasan Power Plant," press release, July 14, 2010.

<sup>34</sup> Lesley Wroughton, "U.S. Exim Bank to Review India Coal Plant Request," *Reuters*, July 15, 2010.

make greater use of its “tied aid” facility, but also provided a mechanism for the Secretary of the Treasury to oppose decisions made by the Bank’s board of Directors to match an offer of tied aid by a foreign entity. The measure also required that the Bank determine whether an entity receiving Ex-Im Bank support could produce goods other than those specified on its application in order to circumvent prohibitions on supporting projects abroad that could compete with U.S. firms.

The 112<sup>th</sup> Congress may introduce legislation to renew Ex-Im Bank’s authority. In considering such legislation, Members of Congress may examine issues related to Ex-Im Bank that center on the economic rationale for the Bank; the impact of the Bank on the federal budget and U.S. taxpayers; the role of the Bank in promoting exports broadly and through the National Export Initiative; the Bank’s support for specific types of business or industries; the current balance between the Bank’s advancement of U.S. commercial interests and other U.S. policy goals; and the competitive position of Bank compared to foreign export credit agencies, both those that are a part of the OECD Arrangement and those that are not members of the OECD.

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