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Report to the U.S. Congress on

GLOBAL EXPORT CREDIT COMPETITION

EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

JUNE 2016

For the period January 1, 2015
through December 31, 2015

CONTENTS

Advisory Committee Statement 1

Executive Summary 7

Chapter 1: Introduction and Overview 11

SECTION 1: OVERVIEW OF EXPORT CREDIT AGENCIES AND EMERGING ISSUES 14

Chapter 2: Role of Export Credit Agencies 15

Chapter 3: Official Medium- and Long-Term Export Credit Activity 19

Chapter 4: Factors Affecting Export Finance 27

Chapter 5: Evolving Export Credit Agencies' Strategies 31

SECTION 2: KEY DETERMINANTS OF COMPETITIVENESS 34

Chapter 6: Risk-Taking Appetite 35

Chapter 7: Interest Rates 39

Chapter 8: Risk Premia 43

SECTION 3: MAJOR PROGRAM COMPETITIVENESS 46

Chapter 9: Aircraft Finance 47

Chapter 10: Project Finance 53

Chapter 11: Co-financing 59

Chapter 12: Environment 63

Chapter 13: Services 69

SECTION 4: PUBLIC POLICY MANDATES AND STAKEHOLDER VIEWS 72

Chapter 14: Economic Impact 73

Chapter 15: Foreign Content 77

Chapter 16: Local Costs 81

Chapter 17: U.S.-Flag Shipping Requirement 84

Chapter 18: U.S. Small Businesses and EXIM's Lapse in Authority 87

APPENDICES AND GLOSSARY 89

Appendix A: Purpose of EXIM Transactions 90

Appendix B: Equal Access for U.S. Insurance 91

Appendix C: Trade Promotion Coordinating Committee 92

Appendix D: Tied-Aid Credit Program and Fund 94

Appendix E: EXIM Co-financed Transactions 101

Appendix F: Transaction Processing Times 102

Appendix G: EXIM's Point of Experience Customer Survey 103

Appendix H: List of Active Export Credit Agencies 104

Glossary 106

ADVISORY COMMITTEE'S STATEMENT ON THE 2015 EXIM COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

EXIM BANK ADVISORY COMMITTEE

Front Row (from left):

- Wanda Felton, *Vice Chair and First Vice President, EXIM Bank*
- Mary Howe
- Gabriel Ojeda
- Christine Gregoire, *Chair*
- Celeste Drake
- Caroline Freund
- Fred P. Hochberg, *Chairman and President, EXIM Bank*
- Kusum Kavia

Back Row (from left):

- Steven Stephens
- John White
- Bob Perciasepe
- Sydney Thwaites
- Thomas Kiernan
- Donald Nelson
- Owen Herrnstadt

Not Pictured:

- Jenny Fulton
- Matthew Slaughter
- Luis Ubiñas

A detailed list of the EXIM Bank Board of Directors and Advisory Committee members (with companies/organizations) is found on page 108.

JUNE 2016

TO: MEMBERS OF THE UNITED STATES CONGRESS

FROM: EXIM BANK ADVISORY COMMITTEE

INTRODUCTION — 2015 WAS A DIFFICULT YEAR AT EXIM

The Competitiveness Report of EXIM shows that 2015 was an especially challenging year for the Bank. In an environment of slow global growth and trade stagnation, where many countries expanded export credit to promote national interests, the lapse in authority experienced from June 30, 2015, to December 4, 2015, reduced the competitiveness of EXIM and the exporters and workers who depend on its financial services. The starkest evidence is the 50% drop in authorizations, representing countless lost opportunities for U.S. businesses and their workers. Even after reauthorization, the Bank reopened without a board quorum, limiting MLT transactions in excess of $10 million, extending the profound impact of the lapse on larger exporters, the thousands of smaller companies that supply them, and the hundreds of thousands of workers whose jobs depend on exports.

Despite the lapse, we applaud EXIM for continuing to support American job growth to the best of its ability, equipping U.S. businesses to create or maintain 109,000 jobs while generating a surplus of more than $430 million for American taxpayers over the past year. Still, these successes compare unfavorably with 2014, when a fully functioning EXIM was able to support 164,000 jobs and transfer $675 million to the Treasury Department.[1]

1 These figures come from the 2015 Annual Report of the Export-Import Bank of the United States and the 2014 Annual Report of the Export-Import Bank of the United States, respectively. They are based on

THE GLOBAL EXPORT MARKETPLACE IS CHANGING RAPIDLY AND HIGHLY COMPETITIVE.

The effects on US businesses and workers from a lack of domestic political support for EXIM are exacerbated by the extraordinary steps other countries are taking to support their own exporters and national interests. Export credit agencies (ECAs) abroad expanded product offerings allowing exporters to compete more aggressively, and more countries opened new ECAs of their own. China, for example, increased its trade-related investment support by an estimated 13%. Many foreign export credit agencies expanded operations outside the Organization for Economic Cooperation and Development's Arrangement on Officially Supported Export Credits. In fact, less than a third of global trade-related support now falls within the OECD Arrangement — down from 50% in 2011. Such "national interest" financing from China, Japan and Korea is estimated to have doubled in the past 5 years. China, in particular, is continuing to expand its products and portfolio to extraordinary levels — the Export-Import Bank of China is expected to increase its activity in Africa alone to at least $1 trillion over the next decade.[2] The committee worries that US exporters will be left behind, as EXIM remains constrained in an environment where new export credit products are being developed at an alarming rate in other parts of the world.

EXIM is an essential resource for American exporters and workers in the face of an increasingly competitive global landscape.

US BUSINESSES OF ALL SIZES ARE BEING SQUEEZED.

The impact of decreased EXIM competitiveness on the small businesses that power communities and jobs across our country is especially worrisome. All businesses and their employees suffer when financial uncertainty is allowed to prevail. For small- and medium-sized enterprises, however, EXIM's uncertainty over the past year has been particularly damaging. Specifically, these smaller exporters are now fighting competitors backed by strong ECAs, and many had to reduce or eliminate their export business without EXIM financing. There are medium- and long-run scarring effects because it is not just a single transaction at stake, but the business relationship, as well as maintenance contracts, which are major employment generators. Larger investment banks simply do not offer the kinds of financing tools that small business exporters need to compete.

While EXIM has continued to demonstrate its longstanding commitment to small and medium-sized exporters, their workers, and business models, these businesses experienced some of the most severe impacts of the lapse due to the sudden expiration of the EXIM products they rely on. More than 800 multibuyer export credit insurance policies expired during the lapse — the vast majority of which were held by American small businesses. To associate a dollar value with this impact, in the prior fiscal year (2014), EXIM equipped these same businesses with more than $580 million of insurance.

EXIM financing is a requirement for large firms that want to compete on major infrastructure projects in emerging markets. Last year, for example, General Electric (GE) stated its intention to bid on $11 billion worth of international power projects that require export credit agency financing in countries like Indonesia. As a result of uncertainty around EXIM, GE has regrettably decided to expand operations abroad at the cost of US plants, costing 500 US jobs. Moreover, the hundreds of workers at large businesses are not the only ones affected from lost US export transactions. There are strong ripple effects to the many small- and medium-sized enterprises throughout their supply chains. The United States is home to some of the largest supply chains

the fiscal year of EXIM, which runs from October 1 through September 30. This Competitiveness Report, however, evaluates the competitiveness of EXIM based on the calendar year from January 1 until December 31.

2 According to Zhao Changhui, the chief country risk analyst at the Export-Import Bank of China (CEXIM), the entire Chinese central government—including CEXIM and other state-owned banks—"will provide US$1 trillion of financing to Africa in the years to 2025."

in the world — whose sales and employees depend on exports of larger clients, financed by EXIM. Uncertainty for large clients means diminished purchasing, which means fewer sales and directly impacts American jobs in cities and towns across the country.

REGULATIONS IMPACT THE COMPETITIVENESS OF EXIM FINANCING FOR SOME EXPORTERS.

As ECAs around the world ramp up services to compete in an environment of unprecedented competition, EXIM continues to be limited by government regulation. As a result, this year's report finds EXIM more generally uncompetitive. The report shows that EXIM ranks behind all of its peers — Germany, Japan, France, Italy, Canada, UK, Korea, and China — in two areas and behind the majority of its peers in another three areas. In particular, EXIM is not competitive in aid tied to procurement and financing not linked to procurement and some exporters believe that economic impact, U.S. content, and U.S. flag shipping requirements create an additional competitive toll on them. Importantly, EXIM is equally or more competitive than most of its peers on flexibility, interest rates, local cost, risk appetite, and risk premia.

A COMPETITIVE AND CONSISTENT EXIM HELPS TO SMOOTH THE BUSINESS CYCLE.

While the economic situation in the United States has improved since the 2008 credit crisis — when EXIM financing surged to support US exporters in the face of an historic withdrawal of credit — the global picture is not as rosy. Global growth rates continue to stagnate, commodities prices have declined, and uncertainty abounds beyond our borders. In this challenging environment, exporters and buyers that use EXIM are reporting that ECA support is increasingly required of companies looking to bid on transactions and projects. They worry that their credibility has become strained as competitors are able to use "unreliable" financing against them. As it has been since its formation 82 years ago, EXIM competitiveness relies on it serving as a countercyclical lender, providing confidence and security for exporters and their employees who might otherwise lose opportunities and jobs when commercial banks experience periods of tight lending.

OBSERVATIONS AND RECOMMENDATIONS

We commend EXIM on continuing to produce a clear, concise 2015 Competitiveness Report. Many of the recommendations made by last year's Advisory Committee were implemented, and while some remain outstanding, we understand that the Bank is in the process of implementing them. EXIM staff continued to gather an outstanding amount of data from a variety of sources in order to present a full, comprehensive view of how export credit functions around the world. Importantly, EXIM has also made that data publicly available, allowing researchers to explore the global terrain of export finance and how the world is changing with the potential for important policy insights. EXIM staff has also continued to gather valuable customer data, which is critical to monitoring, maintaining, and increasing competitiveness on behalf of stakeholders and their workers. We urge them to continue along this course.

We are concerned that EXIM supported only one of 54 renewable energy transactions in 2015, while recognizing that the Lapse and absence of a quorum might have impacted the sector. Other ECAs, notably China, Denmark and Germany, have had more success in renewable energy export support, and we recommend that the next competitiveness report explore whether there are particular constraints to EXIM in this industry or whether other broader US export competiveness issues are to blame. We hope that EXIM's role in financing clean energy and

power projects around the world increases in light of the 2015 Paris Climate Agreement and other efforts at addressing global climate change.

Looking to the future, we recommend that EXIM track the supply chains of exporters across the country in pursuit of a fuller picture of the impact of EXIM financing on small- and medium-sized suppliers. We acknowledge and applaud the work EXIM has done to expand its small business group and offerings, however, the role of EXIM in supporting small business extends beyond direct, known customers and this critical role in supply chain commerce continues to be undervalued. With the domestic and global supply chains ever-expanding and changing, it is critical to EXIM competitiveness and evaluation that the agency and its stakeholders understand the impact and role of its financing beyond its direct customers.

In addition, we applaud EXIM's work this year to increase transparency by developing an online platform to facilitate more efficient and complete communications with stakeholders. We further encourage EXIM to continue its effort to have regular meetings with environmental advocates in the interest of expanded dialogue, partnership, and action.

Finally, we further recommend that EXIM work to evaluate the role of technology in its competitiveness. We again applaud the Bank's work to implement electronic filing and broader embrace of technology toward better serving its customers. We encourage the Bank to evaluate its use of technology through a competitive lens to ensure that its usage is maximized for the benefit of the United States.

CONCLUSION

The members of the Advisory Committee submit this letter as a commentary on the contents of the report; while not every opinion included in this statement may be held equally by each member, the observations we make here are generally representative of our collective impressions. The membership of the Advisory Committee is comprised of professionals representing a range of export-related interests, including small business, manufacturing, labor, environment, finance, services, and textiles. We are united in our assessment of some of the overriding factors that diminish EXIM's competiveness, namely the lapse in authority, the failure to provide the Board of Directors with a quorum, and expanding product offerings and increasingly aggressive ECA activities of countries like China. These factors are significantly exacerbated by the ongoing uncertainty surrounding the Bank's very existence.

Finally, we are unanimous in our belief that the American workers whose jobs depend on exports also depend on the financing provided by EXIM. These jobs — the engines of families and communities across our country — are at the very center of everything we do, believe, and recommend.

Christine Gregoire

Chair
Export-Import Bank Advisory Committee
Former Governor, Washington State

EXIM Bank Chairman and President Fred P. Hochberg and EXIM Advisory Committee Chair Christine Gregoire, former governor of Washington State

India

Italy

Japan

Netherlands

Norway

Russia

South Korea

Spain

Sweden

EXIM Advisory Committee members: Caroline Freund, senior fellow, Peterson Institute for International Economics (on left); Owen Herrnstadt, chief of staff to the international president, International Association of Machinists and Aerospace Workers (on right)

Executive Summary

SUMMARY OF KEY FINDINGS

On July 1, 2015, the charter of the Export-Import Bank of the United States (EXIM) was allowed to lapse for the first time in 81 years of continuous operation. As such, the Report to the U.S. Congress on Global Export Credit Competition (the "Competitiveness Report") must be considered within this context. This report covers the six months before, as well as the months during, the 2015 lapse in authority.

With the 2015 lapse in authority as the backdrop, this year's Competitiveness Report finds that:

1. Although EXIM's programs and policies maintained their level of competitiveness relative to 2014 in theory, as a practical matter, EXIM was less competitive in 2015 due to the lapse in authority and the subsequent uncertainty stemming from a lack of a quorum on the Board of Directors and general political opacity.
2. In the wake of slowing global growth, foreign export credit agencies are becoming more aggressive.
3. The withdrawal of commercial banks from their historically significant role in financing long-term transactions has magnified the role of export credit agencies in support of large projects in fields such as power and infrastructure.

HISTORY OF THE COMPETITIVENESS REPORT

EXIM is the official export credit agency (ECA) of the United States of America. EXIM is an independent, self-sustaining executive agency with a single mission: to propel American job growth by equipping U.S. businesses with the financing tools they need to succeed on the global stage. EXIM does this in two ways: (1) when exporters in the United States or their customers are unable to access export financing from private sources EXIM equips them with the necessary tools (buyer financing, export credit insurance and access to working capital) to do so; and (2) when U.S. exporters face foreign competition backed by other governments, EXIM levels the playing field by matching or countering the financing offered by other ECAs.

The Competitiveness Report dates back to 1972 when Congress passed a law requiring the Bank to report on its competitiveness relative to the world's other major ECAs. This Competitiveness Report provides the Congress with an assessment of EXIM's ability to support U.S. exporters with competitive financing that empowers them to compete on a level playing field and sustain American jobs. In addition to assessing EXIM's performance over the previous year, the Competitiveness Report also examines trends and challenges of the export credit market generally.

THE STATE OF EXPORT CREDIT IN 2015

In 1978, members of the Organisation for Economic Cooperation and Development (OECD) agreed to a set of guidelines, commonly referred to as the "OECD Arrangement." The OECD Arrangement is designed to limit the use of government support for medium- and long-term (MLT) export credits in order to avoid a global race-to-the-bottom in government subsidies and to ensure that a country's exporters compete on the basis of quality and competitiveness of their goods and services rather than financing terms. The OECD Arrangement has been updated through the years and today governs the official export credit programs and activity of all OECD countries, as well as aircraft transactions for Brazil.

The OECD Arrangement is a "Gentlemen's Agreement" among OECD members that describes the most favorable generous terms and conditions members should offer when providing official export credit support. Although it is not a legally binding agreement, EXIM and its OECD counterparts treat the OECD Arrangement terms as "rules" and follow them for all MLT export credit transactions.

However, ECAs around the world are pursuing support for exports and exporters more aggressively. They are using new financing instruments that are not governed under the OECD Arrangement. This is a result of non-OECD ECAs entering the world stage but is also due to OECD member ECAs that have expanded their practices and activities in ways not covered by the OECD Arrangement. The 2014 Competitiveness Report covered two of these programs in detail: untied financing and investment financing. This year's report continues to track these trends and finds that they are an increasingly significant portion of overall trade-related financing.

The share of trade-related official support governed by the OECD Arrangement began to fall rapidly with the introduction

of these non-OECD Arrangement programs. According to data reported by the ECAs and research by EXIM, while much of trade-related official support fell under the aegis of the OECD Arrangement in 1999, today that share has been reduced to less than 33% because today's ECAs increasingly offer support beyond direct trade-related activity. That is, they offer an ever-expanding array of loans and insurance for working capital, loans and insurance to supporting scaling businesses for export, and financing to secure an exporter's supply-chain inputs.

EXIM'S LOSS WAS THE COMPETITION'S GAIN

Just as ECAs are competing more aggressively and making themselves more versatile, EXIM support in 2015 declined by more than 50% from 2014, primarily due to the 2015 lapse in authority. It is far too easy to lose sight of the people that hurts: American businesses and their employees. When foreign ECAs compete more aggressively — and particularly when they did so during the EXIM lapse — American companies and the jobs they support lose to foreign competition.

The 2015 lapse in authority was the primary reason that the majority of U.S. exporters and lenders (60%) in the EXIM's annual Exporter and Lender survey rated EXIM as uncompetitive in 2015 compared to other ECAs that they had encountered. The lapse came at a time when global demand and growth had slowed and many countries improved and expanded the scope and capacity of their official export financing to compensate for the decline in global trade. The lapse made EXIM less competitive against foreign ECAs, which meant that American exporters did not have the same opportunity for support from their government that foreign exporters enjoyed.

HERE TO STAY AND TRENDING UP

Looking to the future, the shrinking risk appetites of commercial banks means that ECAs will only continue to be more important and the export finance environment more competitive in light of the increasing number of export related programs that are not traditional MLT support. Lending conditions have improved since the 2008 Global Financial Crisis, but financial regulatory changes have guided commercial banks toward more risk-averse lending, with terms generally ranging from five to seven years.

Meanwhile, countries around the world are turning to major capital investments in order to create jobs, diversify their economies, and meet international standards on sustainability, emissions, and security. One exporter noted that while American exporters have a unique growth opportunity in the energy sector, their growth "will also depend on [EXIM's] performance." Fostering more sustainable economies will require emerging markets to make investments with ECA support — and EXIM will need to level the playing field in order for U.S. exporters to compete effectively.

Figure 1 shows how EXIM policies and programs were perceived in 2015. EXIM shines among the competition when it comes to capacity, interest rates, and willingness to finance costs incurred in the buyer's home country. Other competitors have an edge with respect to policies on domestic content, shipping, and financing not directly linked to procurement from the country of the ECA providing the support.

LOOKING TO THE FUTURE

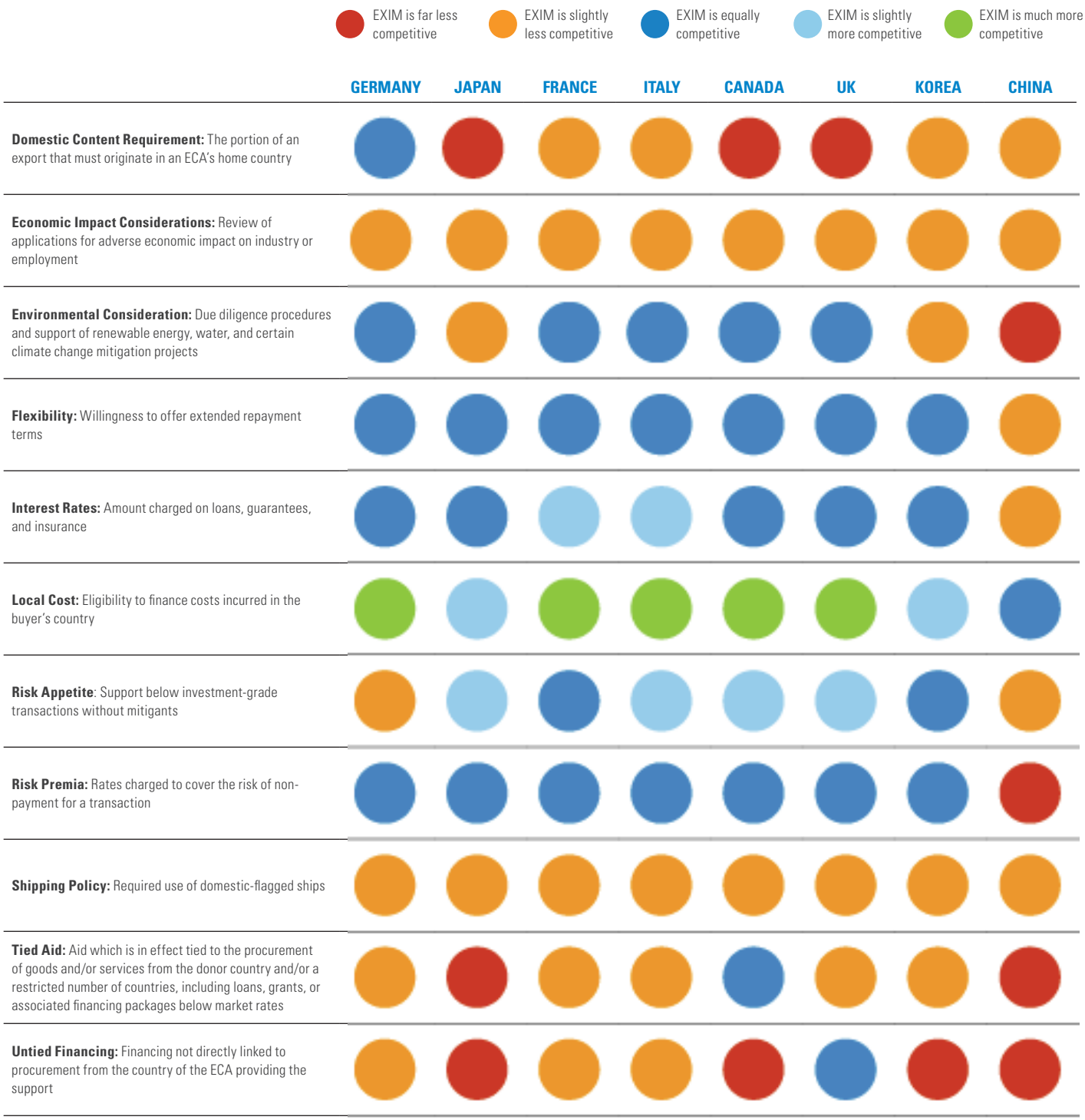
U.S. exporters compete with foreign companies whose host countries' ECAs have multiple flexible financing options available to support their respective national interests. This comes at a time when most major nations around the world have relied and continue to rely on exports to foster national growth and spur job creation. In addition, it comes in an age in which countries are looking for sustainable economic development and investment in new infrastructure and technologies that are safer, cleaner, and more efficient.

Consequently, many ECAs (particularly those in Europe) are restructuring in order to expand capacity to accommodate U.S. exporter demands and commercial bank needs. Simultaneously, new multilateral institutions such as the Asian Infrastructure Investment Bank (AIIB) are being created that will continue to change the landscape of official trade finance. If China and other leading emerging markets opt to reject principles similar to those put forth by the OECD, commitment to standards for global export finance will only erode further.

The 2014 Competitiveness Report noted that EXIM had managed to remain competitive relative to the broader community of ECAs. However, in the aftermath of the 2015 lapse in authority and the ongoing uncertainty surrounding the Board of Directors, EXIM continues to decline in competitiveness.

While establishing global rules for government-supported export credits requires complex international cooperation and buy-in, supporting a fully functional ECA is a unilateral decision for the United States to make.

FIGURE 1: EXIM Long-Term Policies Compared to Major Competing Export Credit Agencies



Source: EXIM Exporter and Lender Survey

Denmark
Finland
France
Germany
Italy
Japan
Korea
Netherlands
Norway

Goss International Corp. in Durham, New Hampshire, benefits from EXIM's medium-term loan guarantees supporting exports of its printing presses to Mexico and Brazil. The company utilizes parts from more than 25 suppliers throughout the United States. *(See map on page 57.)*

CHAPTER 1

Introduction and Overview

EXIM Bank's latest long-term reauthorization is the Export-Import Bank Reform and Reauthorization Act of 2015 (PL 114-94), which was signed into law by President Barack Obama on December 4, 2015. This legislation reauthorized the Bank through September 30, 2019.

2015 BACKGROUND

EXIM Bank's previous reauthorization period expired on September 30, 2014. Congress extended the Bank's authority for an additional nine months, through June 30, 2015.

On July 1, 2015, EXIM Bank's full authority lapsed. EXIM Bank's board of directors and employees were prohibited from approving any new authorizations, engaging in business development, and other prohibited activities. During the lapse period, EXIM Bank continued to monitor and manage its existing portfolio (e.g., processed payments and claims, etc.) and met its continuing legal obligations under the charter. For example, EXIM continued disbursing on existing obligations.

EXIM Bank's latest long-term reauthorization is the Export-Import Bank Reform and Reauthorization Act of 2015 (PL 114-94), which was signed into law by President Barack Obama on December 4, 2015. This legislation reauthorized the Bank through September 30, 2019.

As mandated by the charter, this Competitiveness Report compares EXIM programs and policies to those of the major ECAs around the world, including: G-7 ECAs (Canada, France, Germany, Italy, Japan, and the United Kingdom), other OECD ECAs (Denmark, Finland, South Korea, Netherlands, Norway, Spain, and Sweden), and BRIC ECAs (Brazil, Russia, India, and China). The 2015 edition of the report covers competition between 85 official ECAs. Of these 85 ECAs, 58 have MLT programs that compete with EXIM on transactions with tenors beyond two years.

In 2015, EXIM's ability to support U.S. jobs and provide new financing to customers was halted between July 1, 2015, and December 4, 2015 (see sidebar). For the first time in the Bank's history, Congress allowed EXIM Bank's authority to lapse for an extended period of time, meaning that EXIM could not meet its mandate of supporting U.S. jobs nor provide any new financing for U.S. exports. While not the sole source of competitiveness issues for EXIM in 2015, this lapse in authorization was the primary reason that the majority of U.S. exporters and lenders (60%) rated EXIM as uncompetitive in 2015 (compared to other ECAs that they had encountered). Some U.S. exporters commented that the lapse of authorization led to the loss of U.S. exports as the lapse allowed, in the words of one exporter, the "foreign customer to reconsider or find alternative suppliers."

The long-term effects of the lapse remain unknown. However, lenders and exporters affirm that the current status of EXIM's board (which does not have a quorum and cannot approve transactions over $10 million) combined with the lapse has led to the lack of customer confidence in EXIM as a stable financing partner. The competitive ground that EXIM and U.S. exporters lost in 2015 has not yet been re-established. This

uncertainty will likely continue to grow until EXIM Bank's ability to approve larger, long-term financing support is restored.

Section 1 of the Competitiveness Report provides an overview of export credit agencies and explains their different approaches to export credits. The section also explores the MLT activity of EXIM and its ECA counterparts. In most cases, EXIM gathered information for the report from the ECAs themselves. However, because of a lack of transparency, some data on China's export credit activity was pieced together from a comprehensive research effort that included the creation of a database comprised of cases of Chinese lending reported in press articles. Given the lack of transparency regarding the Chinese data, the total figures for Chinese financing should be considered broad but conservative estimates and subject to revision.

Each year, the Competitiveness Report also addresses emerging issues in the world of export credits. This year's report details the wider scope of programs in many countries as export finance authorities the world over respond to the steady withdrawal of banks from MLT financing. Chapter Five discusses new export credit agencies and new financing programs that could impact the competitiveness of U.S. exporters.

Section 2 evaluates the key determinants of EXIM's competitiveness, such as risk appetite, interest rates, and risk premia. Of these three issues, risk appetite was of particular competitive focus given the wide disparity between ECAs with respect to this issue.

Section 3 evaluates EXIM's competitiveness in five major programs: aircraft, project finance, co-financing, environmentally beneficial exports, and services. Of these, the contrast between aircraft and project finance stand out. Aircraft is a sector that has benefited from an effective international regime known as the Aircraft Sector Understanding (ASU) that has provided both a level playing field for aircraft exporters and incentives to maximize commercial financing sources. During 2015, commercial aircraft financing options expanded and evolved, and the need for ECA support declined as a result. Capital markets and commercial banks were open and willing to finance aircraft. Conversely, in 2015 project finance saw an increasingly skewered playing field, characterized by a range of regulated and unregulated forms of ECA support competing for a shrinking number of projects.

As a public institution, EXIM must comply with the public policy mandates in its charter as well as internal EXIM policies. Section 4 evaluates the effect of the four major EXIM mandated policies (economic impact, foreign content, local costs, and shipping policy) on EXIM's competitiveness. In almost all cases, EXIM's foreign ECA counterparts do not face similar mandates.

In addition, Section 4 reports on the views of key stakeholders. This year the focus is on the short-term effects of the lapse in authority. Throughout the Competitiveness Report, EXIM shares stakeholder perceptions gathered from its annual customer survey, focus group meetings, and ad hoc conversations with exporters and lenders. The annual survey, required by EXIM's charter, solicits the views of exporters and lenders regarding programs supported by foreign ECAs during the previous calendar year. To supplement the feedback collected in the survey, EXIM facilitated two roundtable discussions, with lenders and exporters that used EXIM financing in 2015.

The appendices include additional information required by the charter. Appendix A shows how many transactions EXIM financed in 2015 to either fill the financing gap when private sector financing proved to be unavailable or to counter foreign ECA competition. Appendix B reports on the access of U.S. private insurers to cover EXIM-supported transactions. Appendix C reports on EXIM's role in implementing the strategic plan prepared by the Trade Promotion Coordinating Committee, of which EXIM is a member. Appendix D includes an assessment of other ECAs' tied and untied aid policies relative to those of EXIM. Appendix E lists all of the transactions that EXIM co-financed with other ECAs in 2015. Appendix F details transaction processing times from FY2009 to FY2015. Finally, Appendix G gives initial results from EXIM's "Point of Experience" Customer Survey.

SHORT-TERM TRANSACTIONS

The Competitiveness Report generally does not include any analysis of short-term transactions due to wide disparities in countries' practices, which renders comparison to be of limited use. For example, some countries encourage short-term exports to be insured by the state while other countries are legally prohibited from insuring short-term "marketable risks." Figure 2 shows the variety and disparity in short-term cover provided by the major export credit agencies.

In addition to the variety of countries' short-term transaction practices, it is difficult to compare the competitiveness of short-term programs because short-term activity is generally comprised of working capital or trade insurance programs. These programs boost exports through ECA support provided directly to a domestic exporter. When a foreign buyer considers suppliers from two different countries, both of which use their respective ECA's short-term programs, it is difficult to determine how the impact of the short-term program ultimately influenced the buyer's decision. For many short-term programs, the buyer did not receive the direct benefit of the short-term program.

Finally, small businesses, which primarily use short-term programs, generally do not have enough experience with foreign ECAs to compare. In 2015 EXIM surveyed more than 2,200 U.S. exporters who utilize EXIM's export credit insurance products. These policies are held primarily by small businesses to insure against nonpayment by a foreign buyer and/or to offer payment terms to those foreign buyers. The survey polled EXIM policyholders about their experiences with other ECAs. Similar to findings from past surveys, less than 10 percent of respondents indicated they had worked with an ECA other than EXIM during the past five years. As a result the role of EXIM relative to U.S. small business is not addressed in the majority of the report, as it is outside the scope of this report. More information on short-term program users during the lapse may be found in Chapter 18 titled "U.S. Small Businesses and EXIM's Lapse in Authority."

Figure 2: New Short-Term Official Export Credit and Working Capital Volumes, 2015

Country (ECA)	New Commitments (in billions USD)
U.S. (EXIM)	4.8
China (Sinosure)	363.9
Korea (Korea Trade Insurance Corporation)	136.5
Canada (Export Development Canada)	58.1
Japan (Nippon Export and Investment Insurance)	52.9
India (Export Credit Guarantee Corporation of India)	47.6
Germany (Euler Hermes)	12.2
Italy (Servizi Assicurativi del Commercio Estero S.p.A)	1.9
United Kingdom (UK Export Finance)	0.1

Sources: EXIM, bilateral engagement

Austria
Brazil
Canada
China
United States
Denmark
Finland
France
Germany

SECTION 1

OVERVIEW OF EXPORT CREDIT AGENCIES AND EMERGING ISSUES

CHAPTER 2

Role of Export Credit Agencies

KEY FINDINGS

- **The role of export credit agencies (ECAs) has evolved beyond traditional MLT export credit as ECAs around the world more aggressively pursue support for exports and exporters.**
- **The more limited role of commercial banks in funding MLT exports means that the relative importance of ECAs in long-term financing in support of the world's capital goods exports remains important.**

THE WORLD OF EXPORT CREDIT AGENCIES

The first ECA was established in 1919 in the United Kingdom. Since then, every developed economy and nearly every developing economy in the world has established at least one, if not multiple, ECAs.

ECAs are typically government or quasi-government institutions that function to facilitate and support cross-border trade and/or investment. However, virtually every ECA is unique in its organization, objectives, governance, and operations. ECAs operate by utilizing government support to offer direct financing, investment, different forms of insurance, and/or structured financial products to achieve their respective political mandates.

In 1978, following years of growing competition among countries, members of the Organisation for Economic Cooperation and Development (OECD) agreed to a set of guidelines, commonly referred to as the "OECD Arrangement." The OECD Arrangement is designed to limit the use of government support for MLT export credit—the guiding principles being to avoid a global race-to-the-bottom of government subsidies and to ensure that a country's exporters compete on the basis of quality and competitiveness of their goods and services through the prudent use of official export credit support. The OECD Arrangement has been updated through the years and today still governs the official export credit programs and activity of all OECD countries (as well as aircraft transactions for Brazil). Figure 3 illustrates key aspects of EXIM's role under the OECD Arrangement.

FIGURE 3: The Export-Import Bank of the United States

UNREGULATED SUPPORT FOR EXPORTS AND TRADE

The OECD Arrangement sets rules for export credit that is tied — meaning the financial support is available to a customer *only if* that support would result in an export from a domestic producer. In recent years, however — and the past decade in particular — the size and scope of worldwide ECA activity has grown dramatically beyond the scope and rules of the OECD Arrangement, both because of non-OECD ECAs entering the world stage and because of OECD ECAs expanding their practices and activities not governed by the OECD Arrangement.

ECAs are increasingly offering alternative programs, some of which are *untied* — meaning the financial support does not directly result in an export from a domestic producer. Example of these alternative programs include untied export credit to secure resources vital to national interest, untied financing offered to foreign entities in order to influence future procurement decisions, and insurance to domestic companies investing abroad. Figure 4 illustrates a type of untied support, the "pull loan,"which some ECAs, such as Export Development Canada (EDC) (Canada) use to influence future procurement decisions.

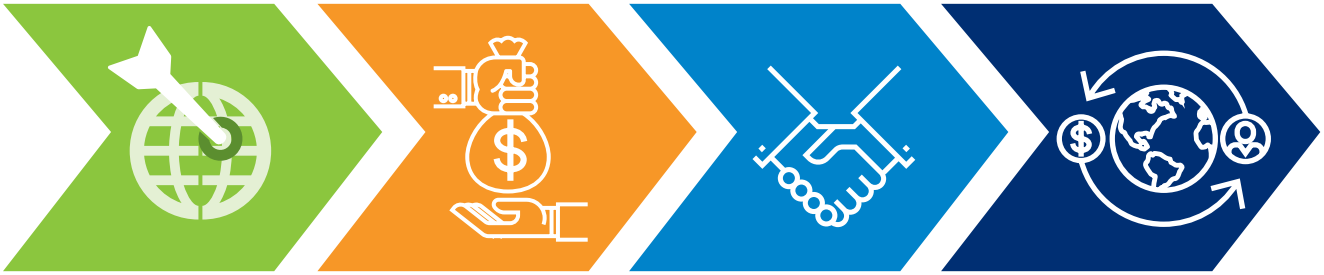
A primary obstacle to understanding the competitive impact of such financing is the lack of visibility into the programs. While the OECD is now attempting to track the aggregate outline of non-OECD Arrangement programs for OECD members, some of the larger untied programs exist in China, which is not an OECD member and thus not subject to export credit reporting requirements.

For non-OECD members or non-OECD Arrangement-covered programs within OECD ECAs, it is difficult to conclusively know if their ECA activity is being offered on terms that, to the buyer, are more favorable than the OECD Arrangement terms. When facing competition receiving non-OECD Arrangement compliant financing, one U.S. exporter stated, "We simply cannot compete where China and certain European competitors offer non-OECD compliant finance in tenor, rate, or technical/environmental review deficiencies."

ADDITIONAL ECA SUPPORT

Traditionally, ECAs have been organized with a mission to support the economy of their country by financing (or insuring financing for) domestic exports. Today, the scope of operations of ECAs has expanded to include an array of tools that support more than direct trade-related activity. ECAs offer products such as loans or insurance for working capital to finance an exporter or manufacturer's throughput, loans or insurance to finance production capacity expansion for an exporter, and financing to secure an exporter's supply-chain inputs. Although these programs are not directly tied to specific exports, they are all designed to support domestic exporters and the national economic interest resulting in significant competitive enhancements. In addition, exporters (particularly those that are smaller and newer) benefit from many forms of non-financial support from ECAs including consulting, political or diplomatic knowledge, market expertise, and business development in foreign markets.

FIGURE 4: Illustration of an ECA Pull Loan



STEP 1
TARGET COMPANY
An ECA identifies and targets a foreign company that has procurement need that align with domestic producers.

STEP 2
LOAN OFFER
The ECA offers the foreign company a loan that is not conditional on a particular export contract — but with a general commitment to working with the ECA to buy from exporters that the ECA is trying to support.

STEP 3
MATCH-MAKING
The ECA tries to match domestic producers that align with the needs of the foreign buyer.

STEP 4
SUCCESSFUL PULL
Foreign firm chooses to purchase from a producer in that ECA's country — often one with which they were matched.

NEW CHALLENGES FOR ECAS

ECAs provide a countercyclical force instrumental in stabilizing global markets by insuring and financing trade when banks and global capital markets panic, which was particularly true in the wake of the global financial crisis. Today, market liquidity has recovered. However, the post-financial crisis regulatory environment has yielded a number of challenges to the financing role historically played by private-sector banks in long-term export finance. Basel III includes provisions (e.g., the liquidity coverage ratio requirements which came into force in 2015) that increase the liquidity standards for banks. These higher liquidity requirements limit the types of projects banks and financial markets are willing and able to support. In 2016, one European ECA commented, "Banks don't want them [long-tenor projects] on their balance sheets . . . [Without ECA support] the banks would accept nothing more than five years." Many large projects that by their nature *require* extended tenors would be challenging without either ECA support to a commercial bank or direct support to an exporter.

Due to increased caution by private-sector banks, that liquidity is rarely available for terms greater than five years — particularly outside the context of investment-grade transactions. This "term gap" means that the portion of world MLT export finance supported by ECAs is increasing despite a decrease in overall ECA-backed transactions.

ALTERNATIVE EXPORT FINANCING

Traditional official export financing falls within the scope of the OECD Arrangement and, as such, is subject to its regulations such as minimum risk premium and interest rates, maximum loan tenor, and most significantly, transparency measures. However, ECAs may choose to offer support that is outside the scope of the OECD Arrangement.

Pursuant to Section 8A of the EXIM charter, the Competitiveness Report must review major export-financing programs "including through use of market windows." A market window effectively mimics the pricing of the commercial market and falls outside the scope of the OECD Arrangement. One such program is offered by Export Development Canada (EDC). One U.S. exporter noted, with respect to facing competition supported by Canadian market window financing, that "Canada has been generally very competitive on this front and is able to ignore content considerations."

Although market window programs price to the market (which may be higher than what is established by the OECD Arrangement), these programs are not regulated by the OECD Arrangement. As such, the terms and conditions offered under market window programs are not subject to the disciplines of the Arrangement such as restrictions on loan tenor, no cash payment requirement, and sculpted repayment structures. These flexibilities can make Canadian market window support more accommodating to a borrower seeking particular enhancements that are not permitted under the Arrangement.

Austria

Brazil

Canada

China

United States

Denmark

Finland

France

Germany

Photo depicts an offshore facility of Petróleos Mexicanos (Pemex). In 2015, as in prior years, EXIM's long-term structured financing supported exports to Pemex by many U.S. companies in the oil and gas industries in Texas, Louisiana, and other states.

CHAPTER 3

Official Medium- and Long-Term Export Credit Activity

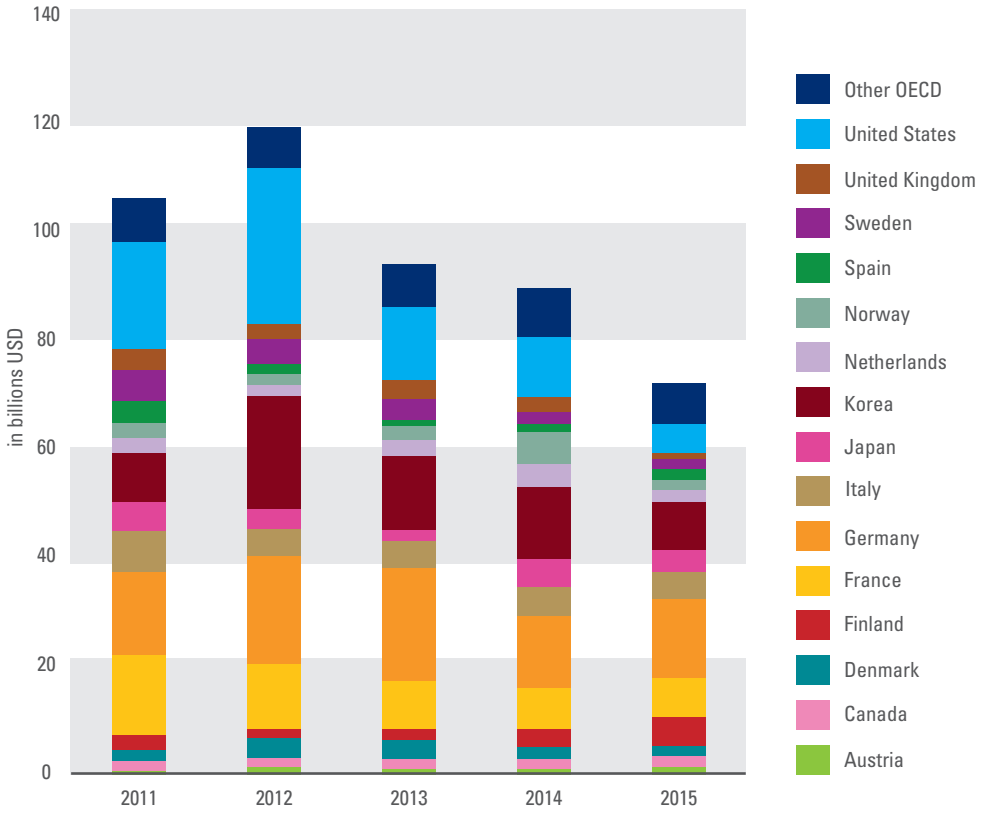
KEY FINDINGS

- **Over the past five years, the portion of global trade-related support that does not adhere to the OECD Arrangement has grown; the regulated share declined from more than 50% in 2011 to less than 33% in 2015.**
- **Support regulated by the OECD Arrangement is down primarily due to a commercial decline in financing of large infrastructure projects and reduced demand.**
- **EXIM support declined by more than 50%, primarily due to the lapse in authority and reduced demand.**

MLT EXPORT CREDIT SUPPORT UNDER THE OECD ARRANGEMENT

As shown in Figure 5, ECAs that offer traditional official MLT export credit support on terms regulated by the OECD Arrangement had a 20% drop in overall volume in from 2014 to 2015. This trend is a continuation of the decrease in activity from the high in 2012, now down more than a third from the 2012 peak. Countries such as Norway (-70%), the United Kingdom (-57%), the Netherlands (-44%), and Italy (-9%) all had declines in activity consistent with the overall trend. However, not all ECAs shared that experience in 2015. For example, compared to 2014, countries such as Finland (+64%), Germany (+12%), and Austria (+23%) increased activity.

FIGURE 5: New OECD MLT Official Export Credit Support Volumes

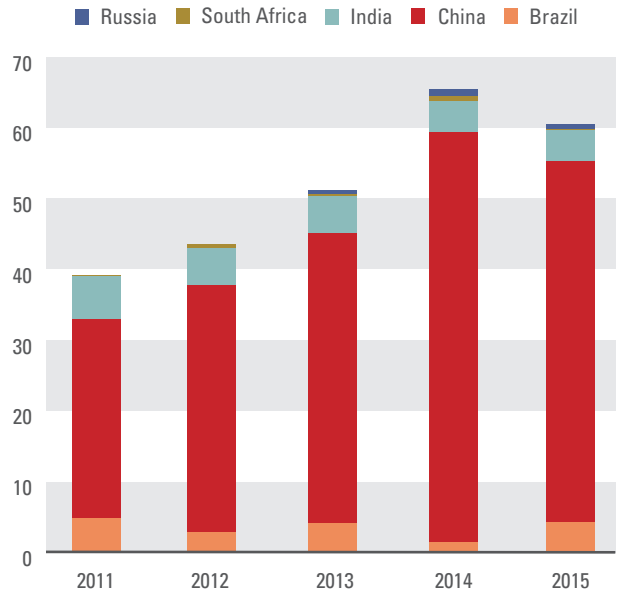


Sources: EXIM, bilateral engagement, Berne Union, annual reports

BRAZIL, RUSSIA, INDIA, CHINA, AND SOUTH AFRICA (BRICS) MLT FINANCING

As a group, the BRICS showed a moderate decline in MLT activity (-2%). As shown in Figure 6, Brazilian activity increased by about $3 billion (+$223%) while Chinese activity decreased by about $3 billion (-6%). After nearly a dozen years of increases, it appears that the dramatic slowing of capital-goods trade may have finally stalled the total MLT activity of the two official Chinese ECAs in 2015.

FIGURE 6: BRICS New MLT Export Credit Support Volumes

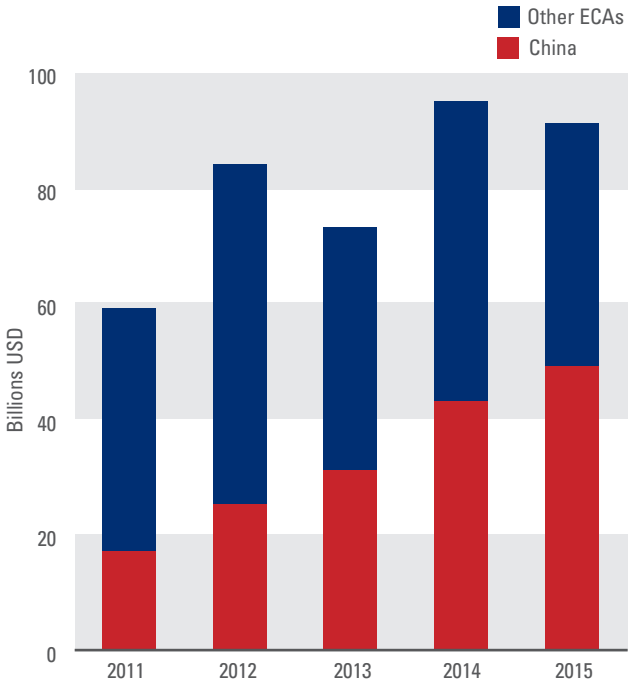


Sources: EXIM, bilateral engagement, Berne Union, annual reports

INVESTMENT SUPPORT

The year 2015 was particularly significant for trade-related investment support in that China's new activity may have grown to surpass the rest of the world's activity combined. As shown in Figure 7, estimated Chinese activity increased by about 13% from $43 billion in 2014 to $49 billion in 2015. In 2015, official investment support is calculated to total $91 billion and accounted for nearly 37% of global trade-related official support. By comparison, during the 2012 peak in standard MLT activity, global investment support accounted for only 31% of total trade-related activity.

FIGURE 7: New Investment Support



Sources: EXIM, bilateral engagement

UNTIED AND MARKET WINDOW FINANCING

In recent years, untied official credit financing and/or insurance has become an increasingly attractive option for some ECAs. Unlike tied export credits that are subject to the OECD Arrangement, untied financing is unregulated by the OECD Arrangement and can be offered on terms that are more attractive than can be offered under the rules of the OECD Arrangement. In addition to untied financing, other ECAs have begun to utilize other export credit schemes that are tied but are offered on terms so close to the commercial market that they are not regulated by the OECD Arrangement. This type of tied financing is called "market window financing." However, the reported and estimated levels of total untied and unregulated export credit activities totaled an estimated $23 billion among OECD ECAs. As seen in Figure 8, the overall level of financing was largely unchanged from 2014.

As extensively detailed in last year's Competitiveness Report, untied and market window programs support similar products to similar countries on broadly similar terms. In fact, these programs are frequently present alongside standard OECD Arrangement financing in specific transactions. Moreover, the

lack of required "tying" does not mean that national exports cannot be present in untied or market window financing in proportions not much different than required in standard OECD Arrangement-regulated financing. Consequently, while such programs are not intended to be used to gain competitive advantage in a transaction, their existence in space shared by standard OECD Arrangement financing could create a (current or follow-on) sourcing advantage for the untied or market-window provider.

Based on annual report and press statements, it appears that both Chinese and Japanese ECA systems have such "national interest" programs that conduct annual activity in the multi-billion dollar range. However, neither country reports the aggregates (or any details) on their respective untied programs. Korea is the only country to report its untied activity among these three highly competitive nations. EXIM has used it as a proxy to calculate the amount of such activity done in each of the Chinese and Japanese systems. This *highly estimated* data on total untied/market window activity shows that this type of support may have doubled in the past five years — rising from about 12-13% of standard export credit to over 30% — and may have become much more concentrated within the three major Asian ECA systems.

FIGURE 8: Untied and Market Window MLT (Billions USD)

	2011	2012	2013	2014	2015
China*	2	3	3	8	8
Korea	2	3	3	8	8
Japan*	2	3	3	8	8
Other OECD	9	13	14	7	7
TOTAL	**15**	**22**	**23**	**31**	**31**

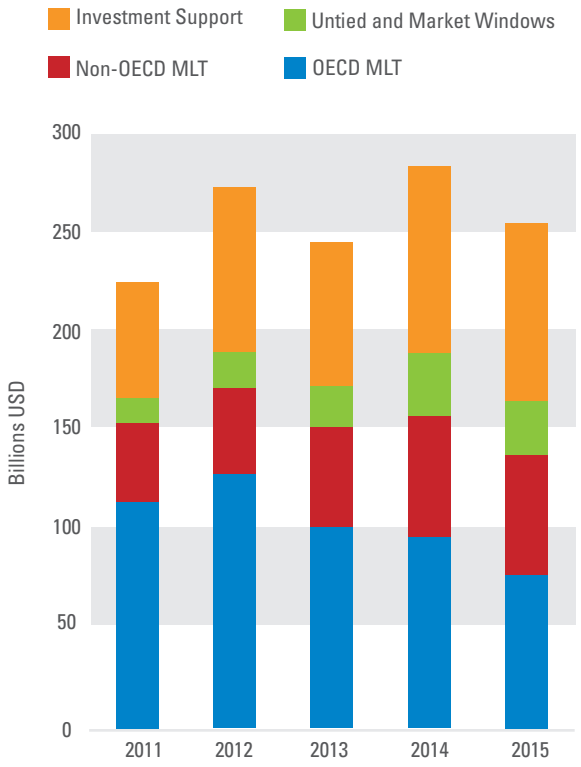
*Untied financing is not reported by China and Japan but is assumed to be comparable with the figures reported by Korea.

Sources: EXIM, bilateral engagement

TOTAL TRADE-RELATED SUPPORT

As shown in Figure 9, total official trade-related support has remained relatively stable over the past five years, although down in 2015 from 2014. However, over the same time period, the portion of official trade-related support that is regulated by the OECD Arrangement has declined from more than half in 2011 to less than a third in 2015. Even if all non-OECD MLT tied activity were assumed to be offered on OECD Arrangement terms, this regulated portion would have fallen from more than two-thirds in 2011 to little more than half in 2015.

FIGURE 9: Official Trade-Related Activity



Sources: EXIM, bilateral engagement, Berne Union annual reports

CONCLUSION

After the peak in official trade-related support in 2012 in response to the global financial crisis, total new official support has declined year-on-year as commercial financing has re-entered the market and overall trade has declined. The bulk of the decline in 2015 was found in standard MLT export credits. Although there were also declines in untied and investment support, these declines were less pronounced than that of traditional MLT support. Hence, despite the fact that tied MLT support continues to be the largest sector of official trade-related support, its share is eroding relative to other forms of official support (e.g., untied support and investment support). The regulated share dropped from over 50% in 2011 to under 33% in 2015.

CHINA

China maintains two institutions that explicitly provide export credits: the Export-Import Bank of China (CEXIM), a direct lender for MLT financing; and Sinosure, an insurer for short-term as well as MLT financing. These institutions provide standard export credit support in addition to various other forms of support.

"EXIM is essential to our business but unfortunately much less competitive than the support provided to our main competitor – the Chinese."

— respondent, EXIM Exporter and Lender Survey

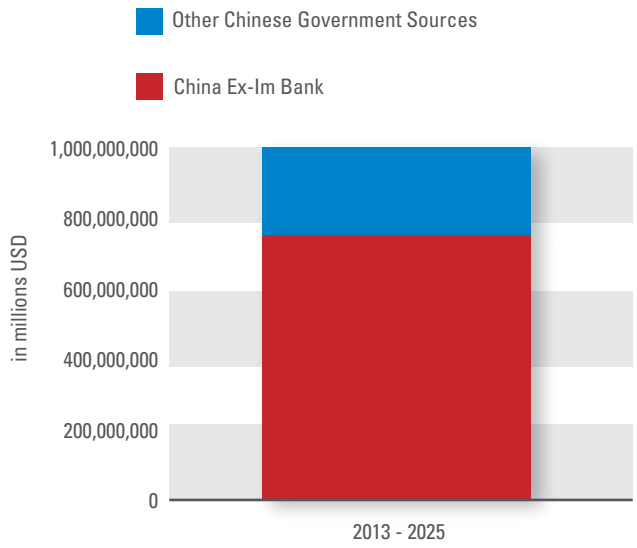
Chinese export credit support is difficult to estimate due to a general lack of transactional transparency. Therefore, U.S. EXIM annually conducts research to gather data on official Chinese activities in support of exports. Furthermore, because China provides support for exports that is not easily comparable with standard regulated export credits, EXIM must derive an estimate for the portion of Chinese financing that is comparable to that of the rest of the world. The result is a very conservative estimate of the true level of Chinese financing.

Chinese official ECA activity has a marginal yet growing impact on EXIM competitiveness, which is a change from past years when Chinese activity mainly occurred in countries and sectors in which U.S. exporters were less active (or too risky for EXIM to offer support). However, U.S. exporters and lenders are increasingly encountering Chinese competition. For example, one respondent to the annual Exporter and Lender Survey said, "EXIM is essential to our business but unfortunately much less competitive than the support provided to our main competitor – the Chinese."

This new Chinese export finance trend is due, in part, to a broad Chinese initiative introduced in 2013 termed "one belt, one road" (OBOR) – a demonstration of Chinese "openness" to international input and being introduced as an important stimulus for China's economy. The OBOR promotes economic engagement and investment along two main routes: a land route through Central Asia to Europe and a maritime route from Southeast Asia through South Asia and Africa to Europe. As part of this broader initiative, the $40 billion Silk Road Fund will focus on financing infrastructure such as railways, roads, ports, and airports. The Export-Import Bank of China as well as the China Development Bank and China Investment Corporation provide funding for the Silk Road Fund. The Asian Infrastructure and Investment Bank (AIIB), with $100 billion in proposed initial capital, will also support infrastructure projects along the OBOR routes.

Due to this and other national initiatives, forecasters expect Chinese financing to grow in Africa and other, more developed, markets. CEXIM estimates that the cumulative Chinese investment in Africa will amount to at least $1 trillion over the next decade. As shown in Figure 10, experts forecast that CEXIM will be the main source (at least 75%) of the billions of dollars that will be directed from Chinese organizations to infrastructure in Africa on an annual basis.

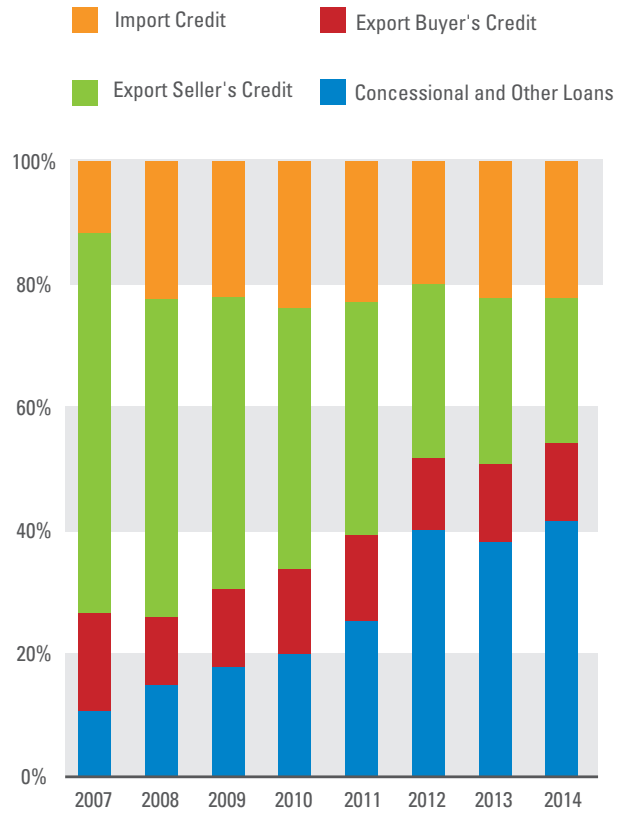
FIGURE 10: China-Africa Financing Mix, 2013-2025



Sources: Economist Corporate Network Interview, South China Morning Post, November 18, 2013

EXIM's research shows that the core financing terms, including interest rates and repayment terms, of the standard export credit programs of both CEXIM and Sinosure closely approximate the standard terms of the OECD Arrangement. However, CEXIM also operates programs which would be considered concessional — financing that is offered at non-market or below-market rates. As shown in Figure 11, concessional loans may have comprised as much as $118 billion at the end of 2014, or 40% of the bank's outstanding loans. Favorable to buyers, concessional-loan credit terms may have generous repayment and grace periods, and interest rates as low as 1-2%.

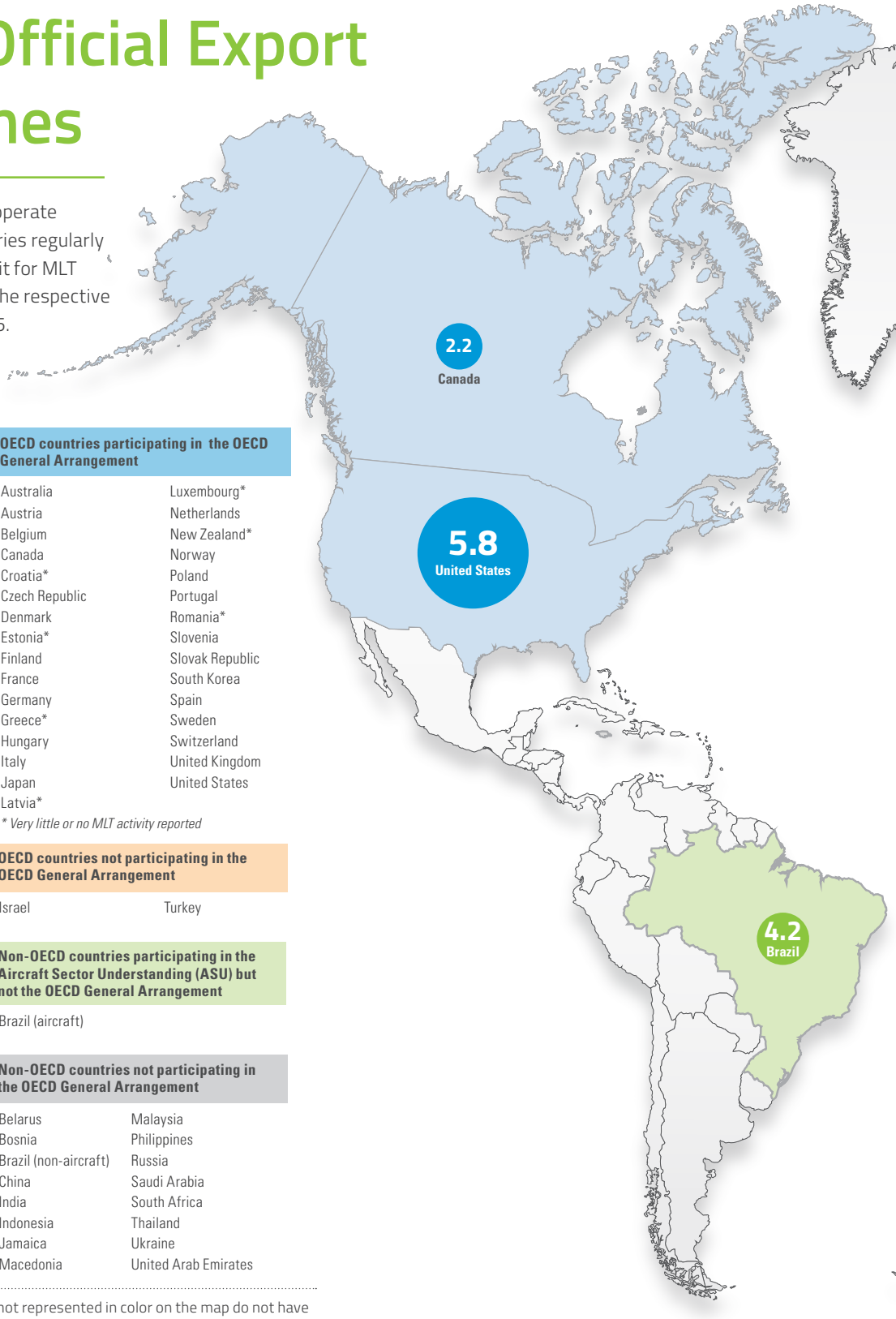
FIGURE 11: China EXIM's Portfolio, Percent of Loans Outstanding by Type



Source: Prospects and Challenges on China's 'One Belt, One Road': A Risk Assessment Report, The Economist, 2015

New Major Medium-and Long-Term Official Export Credit Volumes

Of the 67 countries that have ECAs and operate official export credit programs, 22 countries regularly provide noteworthy levels of export credit for MLT transactions. The table below indicates the respective MLT volume levels for calendar year 2015.



in billions USD

Austria	1.4
Brazil	4.2
Canada	2.2
China	51
Denmark	2
Finland	5.9
France	7.6
Germany	15.9
India	4.4
Israel	0.4
Italy	5.4
Japan	4.4
Korea	9.5
Netherlands	2.5
Norway	1.9
Russia	0.6
South Africa	0.2
Spain	2.2
Sweden	2
Turkey	0
United Kingdom	1.3
United States	5.8
Total	131

OECD countries participating in the OECD General Arrangement

Australia
Austria
Belgium
Canada
Croatia*
Czech Republic
Denmark
Estonia*
Finland
France
Germany
Greece*
Hungary
Italy
Japan
Latvia*
Luxembourg*
Netherlands
New Zealand*
Norway
Poland
Portugal
Romania*
Slovenia
Slovak Republic
South Korea
Spain
Sweden
Switzerland
United Kingdom
United States

** Very little or no MLT activity reported*

OECD countries not participating in the OECD General Arrangement

Israel
Turkey

Non-OECD countries participating in the Aircraft Sector Understanding (ASU) but not the OECD General Arrangement

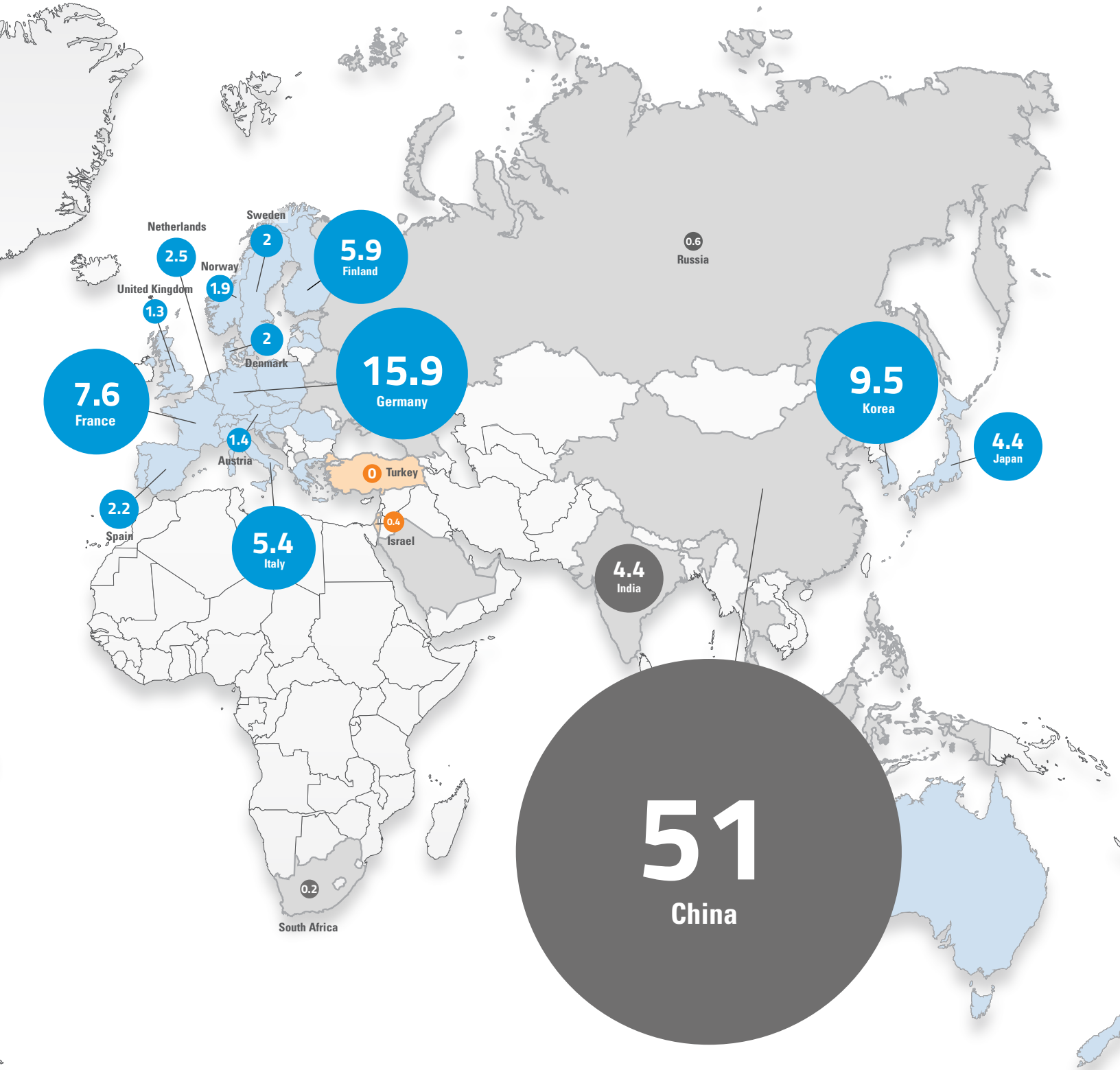
Brazil (aircraft)

Non-OECD countries not participating in the OECD General Arrangement

Belarus
Bosnia
Brazil (non-aircraft)
China
India
Indonesia
Jamaica
Macedonia
Malaysia
Philippines
Russia
Saudi Arabia
South Africa
Thailand
Ukraine
United Arab Emirates

Countries that are not listed in the table and are not represented in color on the map do not have significant levels of MLT official export credit.

Sources: EXIM, bilateral engagement, Berne Union, annual reports


Netherlands
2.5
Sweden
2
5.9
Finland
Norway
1.9
United Kingdom
1.3
2
Denmark
7.6
France
15.9
Germany
1.4
Austria
0
Turkey
2.2
Spain
5.4
Italy
0.4
Israel
0.6
Russia
9.5
Korea
4.4
Japan
4.4
India
51
China
0.2
South Africa

Denmark

Finland

France

Germany

Italy

Japan

Korea

Netherlands

Norway

Tokyo's Shibuya-Crossing shopping district

CHAPTER 4

Factors Affecting Export Finance

KEY FINDINGS

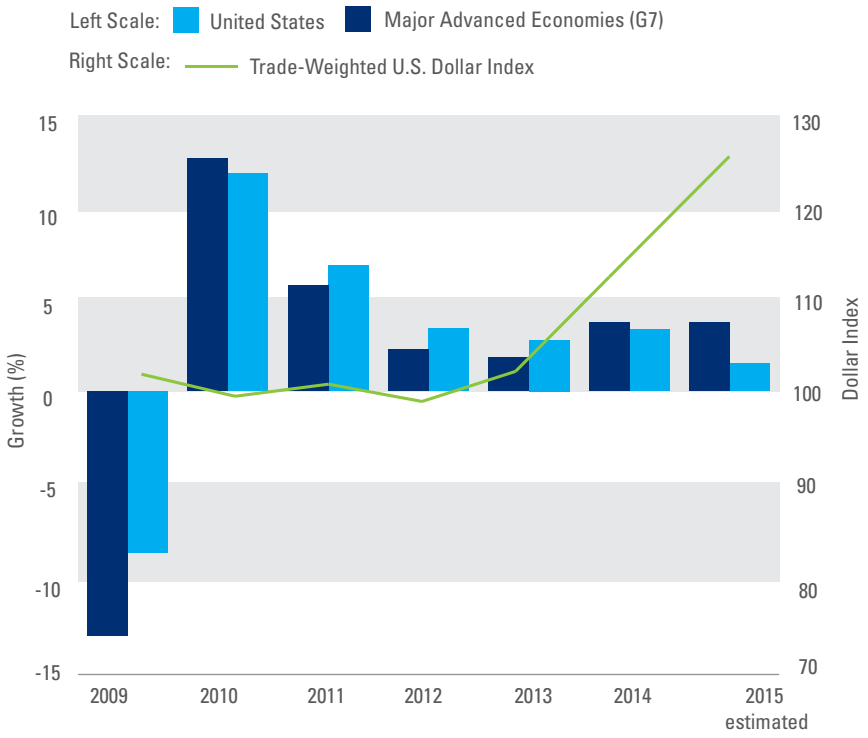
- **While the United States has been able to depend on consumption and investment to fuel growth over the past several years, most other G7 countries have had to depend on exports to achieve growth.**
- **A steadily appreciating dollar and reduced demand abroad have resulted in a negative trade-related effect on growth for the United States in recent years.**
- **Given the regulatory-driven constraints to commercial funding sources for MLT export financing to non-investment-grade foreign borrowers and for terms beyond five to seven years, capital goods exports have become more dependent on ECAs to enable these exports.**
- **In response to the importance of exports and slower demand for exports, many countries have taken steps to improve and expand the scope and capacity of their official export financing.**

MACROECONOMIC CONTEXT

In the aftermath of the global economic downturn following the 2007-2008 global financial crisis, exports became an important source of growth for the United States as domestic consumption and investment recovered slowly. As shown in Figure 12, the steady trend of export growth from G-7 countries continued in 2015.

In Europe and Asia, the prospect for continued low interest rates and weaker currencies means that exports will be viewed as one of the few engines of growth, in some cases at the expense of U.S. exporters. However, as the dollar strengthened more than 10% against other major currencies in 2015, growth of export volumes in the United States was estimated at only 1.5% in 2015, less than half of the overall export growth in the G-7 advanced economies. A strengthened dollar, while lowering import prices, has an overall adverse effect on domestic growth. Researchers at the Federal Reserve Bank of New York estimate that a 10% appreciation in the U.S. dollar during one quarter reduces GDP growth by 0.5% over a year through its effect on the balance of trade.

FIGURE 12: Growth Rate in Volumes of Exports of Goods and Services and Appreciation of the Dollar

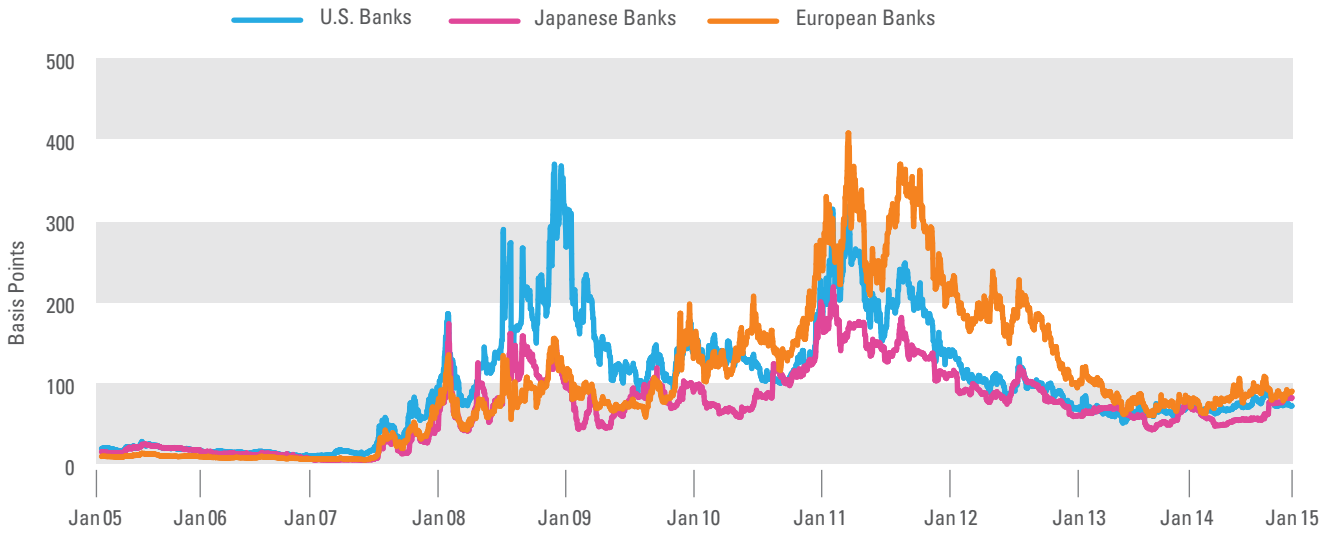


Sources: IMF World Economic Outlook, Federal Reserve Bank of St. Louis (Federal Reserve Economic Data)

COMMERCIAL SOURCES OF EXPORT FINANCE

The health of financial systems in the advanced economies has improved following the 2007-2008 global financial crisis and European debt crisis. Figure 13 uses credit default swap (CDS) spreads as a proxy for bank funding costs. Despite the improved lending conditions, commercial banks have steadily retreated from non-investment-grade risk and terms beyond five to seven years.

Figure 13: Proxy for Bank Borrowing Costs – Average of Select* Banks' Five-Year CDS Curves



Source: Bloomberg

* Averages made up of banks active in export finance. U.S. banks include Bank of America, Citigroup, Goldman Sachs, JP Morgan, and Wells Fargo. European banks include BNP Paribas, BBVA, Crédit Agricole, Commerzbank, Deutsche Bank, Société Générale, Santander, and UniCredit. Japanese banks include Bank of Tokyo-Mitsubishi, Mizuho, and SMBC.

Despite exports now exceeding pre-crisis levels and the strengthening of advanced economy financial systems, overall levels of cross-border bank lending has not been robust since the financial crisis. Figure 14 shows that, in the midst of sharp commodity price declines, net flows of commercial bank credit to emerging economies dropped sharply in 2015 after years of relative stability following the financial crisis. This is of particular relevance to ECAs given the predominance of emerging markets as the destination of many ECA-supported exports.

FIGURE 14: Net External Capital Flows into Emerging Markets (in billions USD)

Private Flows	2007	2008	2009	2010	2011	2012	2013	2014	2015 (ESTIMATED)	2016 (FORCASTED)
Commercial Banks*	447	68	-11	176	176	111	173	171	-200	-77

Source: Institute for International Finance

* Net disbursements from commercial banks (excluding credits guaranteed or insured under credit programs of creditor governments). This generally includes bond purchases by commercial banks.

In EXIM's regular conversations with lenders, internationally active banks confirm that, in the absence of ECA guarantees, they will not regularly extend credit to foreign borrowers rated below investment grade or beyond a five-to-seven year maturity.

MACROECONOMIC INFLUENCE ON ECAS

Numerous ECAs have reported that export credit is viewed as an important economic policy tool to facilitate growth through exports and that their countries are actively pursuing more competitive export credit initiatives. For example, France's export credit activities will now fall under Bpifrance, an investment bank, and will have the benefit of a direct guarantee from the French government. This development is a departure from the structure under Compagnie Française d'Assurance pour le Commerce Extérieur (Coface), France's current official export credit agency, which employed an indirect guarantee from the French government on its export credit activities. The new arrangement with Bpifrance will likely increase the competitiveness of France's export credit pricing. In a survey administered by the Berne Union, a leading international trade organization, 94% of ECAs surveyed indicated that they expect their export credit activity to increase over time, and more than half of the respondents indicated that it would increase by at least 10%.

The United States and other advanced economies are on different macroeconomic paths to growth and are likely to remain so for the foreseeable future. Exports are relatively more important for growth in Europe and Asia than in the United States.

CONCLUSION

The United States and other advanced economies are on different macroeconomic paths to growth and are likely to remain so for the foreseeable future. Exports are relatively more important for growth in Europe and Asia than in the United States.

While advanced economy banking systems are on firmer ground following the 2007-2009 financial crisis and European debt crisis, factors such as regulatory changes and weak profitability have dampened the ability to finance long-term capital goods exports.

Austria

Brazil

Canada

China

United States

Denmark

Finland

France

Germany

CHAPTER 5

Evolving Export Credit Agencies' Strategies

KEY FINDINGS

- **Large and small ECAs introduced new programs in 2015 in order to maximize the benefit to their respective countries.**
- **Nearly 90% of ECAs have created programs specifically to address the needs of small- and medium-sized enterprises.**
- **ECAs are also expanding physically with offices both in their home country and abroad.**

BACKGROUND

ECAs and their mandates constantly evolve to adapt to changing market conditions, new opportunities, and emerging competition. While EXIM could not do business for half of 2015 due to the lapse in authorization, U.S. exporters and lenders have repeatedly stressed the aggressiveness with which other countries have promoted their exports. One lender recently said that the lapse forced bankers to introduce their exporter clients to other ECAs which "opened their [clients'] eyes to the abilities of other ECAs."

This chapter focuses on how countries' export strategies have evolved in ways that could affect U.S. exporters. As one lender stated, "Other ECAs are improving their programs while EXIM Bank [in 2015] is standing still." As other countries act to support their domestic companies ever more deeply, U.S. exporters will experience greater competition on more sales. New and increased competition comes from companies supported by traditional ECAs that follow the OECD Arrangement and ECAs with programs outside the OECD Arrangement.

Countries are developing ECA models that are effective in maximizing the benefits to their respective countries, but ECAs differ in the exact terms that make each of them competitive. Given the variety of budgetary, legal, and institutional frameworks around the world, no ECA can possibly offer the most attractive version of every program or policy. Rather, the fact that some ECAs have new and highly competitive tools simply means that other ECAs need to ensure that their existing tools and policies (e.g., risk appetite, local cost support, etc.) are as effective as possible.

During 2015, there were significant changes in both large and small ECAs. The net impact of all of these changes combined could be a substantial increase in competition faced by U.S. exporters.

MAJOR COMPETITOR CHANGES

In 2016, France's ECA, Coface, will transfer the handling of state export credit guarantees to the French public investment bank, Bpifrance, which will issue direct guarantees rather than indirect guarantees. Reports have noted that new changes could lead to cheaper pricing on French ECA financing. This in turn, could have a positive effect for French exporters, such as Airbus, by bringing down the cost of funding for buyers issuing aviation bonds to purchase aircraft. France has also developed Société de Financement Local (SFIL), similar to the U.S.'s Private Export Funding Corporation (PEFCO), to facilitate funding from capital markets.

Finnvera (Finland) added programs and increased existing programs in 2015. For example, the ECA added guarantees for financing of domestic investments with a link to exports. In addition, Finnvera increased its ability to subscribe to bonds issued by small and medium-sized enterprises. With this new program, Finnvera can create a market for bonds issued by medium-sized companies, and hence widen their financing options. Finnvera's first mid-cap bond subscription was made in March 2015 when Finnvera subscribed a notable share of the bond issued by Kotkamills Group Oy.

The British Parliament passed legislation in March of 2015 that widened the powers available to U.K. Export Finance (UKEF). The legislation allows support for working capital facilities to companies that supply exporters and has enhanced UKEF's ability to meet the financing preferences of overseas buyers that might wish to use an integrated financing package from UKEF to support U.K. prime contractors as well as U.K. subcontracts through non-U.K. contractors. The legislation also explicitly spells out UKEF's ability to support the export of "intangibles" such as intellectual property rights, software licenses, and broadcasting rights.

The new Finnish and British programs will not fall under OECD Arrangement rules.

MINOR COMPETITOR CHANGES

Although large countries tend to get the most attention with respect to their export credit activities, small countries also look to exports to grow their economies. For example, Sri Lanka's Finance Minister proposed setting up an ECA with capital of 25 billion rupees (about $170 million) to promote exports. He stated that the Sri Lankan "government believes exports need to take center stage."

In addition, the Georgian government is planning to set up an ECA. The new ECA will focus their financial support on the country's high-priority projects in sectors such as energy, agribusiness, manufacturing, infrastructure, logistics, tourism, and real estate. The organization has awarded the Italian ECA, Servizi Assicurativi del Commercio Estero S.p.A (SACE), with an advisory contract to assist with launching the new endeavor.

COMMON OBSTACLES FACED BY SMALL- AND MEDIUM-SIZED ENTERPRISES

- **Information asymmetries between lenders and borrowers**
- **Greater requirement for collateral**
- **Higher interest rates**
- **Higher fixed costs of raising funds in capital markets**
- **Onerous non-monetary terms**
- **Fewer economies of scale.**

INCREASING FOCUS ON SUPPORTING SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

As mentioned in Chapter 1, small businesses typically use short-term support, and ECAs historically vary widely with the degree of official support offered. Increasingly, countries have encouraged their ECAs to grow support for their small businesses. Such expanded support may put more foreign small businesses in competition with U.S. small business. Hence, this section identifies some of the major steps foreign ECAs have taken in 2015.

From 2013 to 2015, the number of Berne Union organizations that have or are developing a SME program has increased from 69% to 89%. Those that have developed special SME products (with differences in process, coverage, or risk appetite from their traditional programs) have increased from 65% to 71% in two years. Finally, the percent of organizations that have a special SME team has increased from 44% to 57%.

The Australian government increased the ability of the Export Finance and Insurance Corporation (EFIC) to help SMEs by allowing direct lending for export transactions involving all goods, not just capital goods. This change will help smaller-scale contractors and suppliers to secure energy and resources projects.

Export-Import Bank of Korea (KEXIM) is also focusing on assisting SMEs in line with government policy and its mandate. It has

earmarked approximately $24.5 billion for such purposes in 2015, an increase of approximately $925 million compared to 2014.

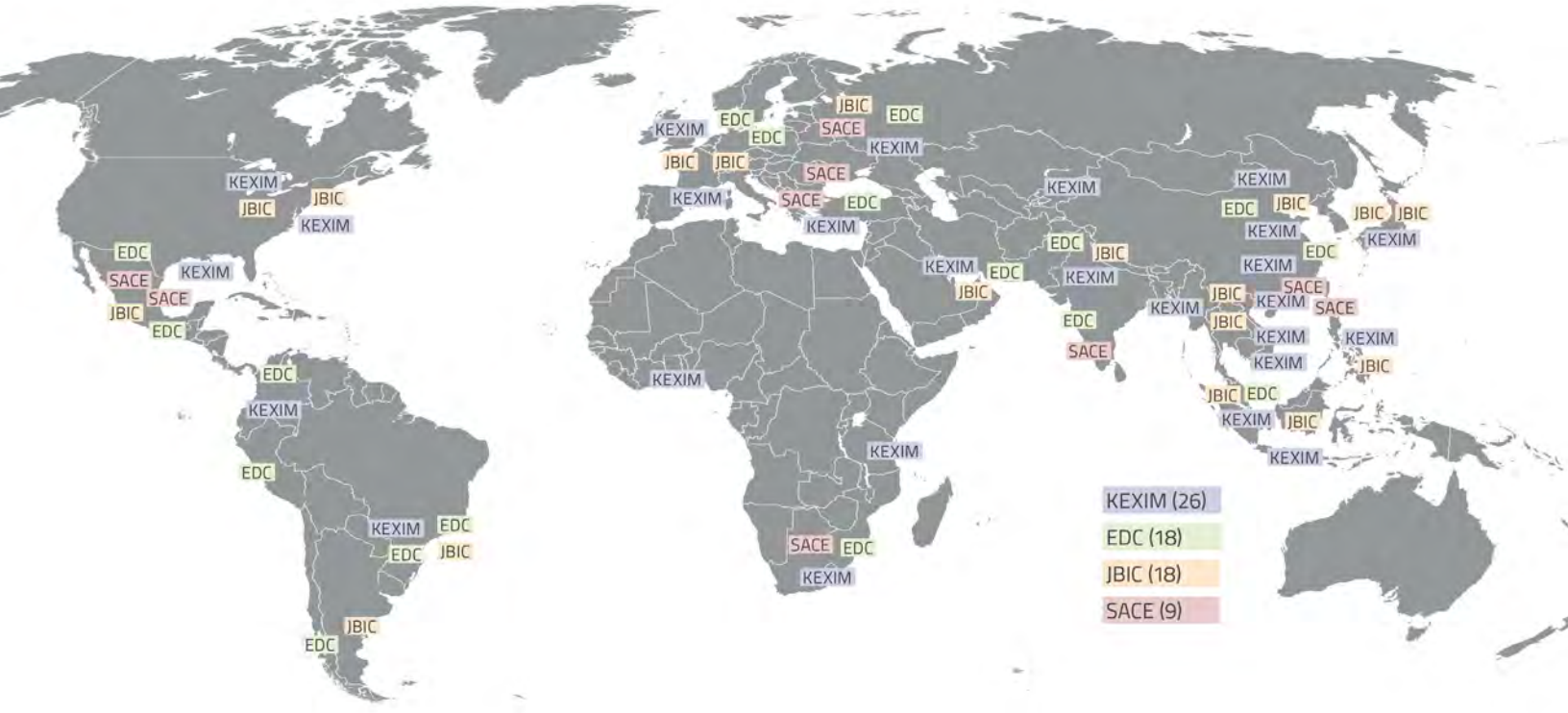
Since 2010, Eksport Kredit Fonden (EKF) (Denmark) has established a SME department to market new products matching the needs of SMEs. EKF's new SME program includes the "SMV Guarantee," a buyer-credit guarantee for small businesses. EKF also guarantees bank financing for SMEs, but unlike their equivalent large company program, EKF has lifted some of the documentation burden. In addition, EKF created a working capital guarantee to provide Danish exporters (or Danish sub-suppliers to export companies) access to financing. EKF still guarantees the exporter's bank, which provides the exporters with credit or a guarantee. Finally, EKF established a capital-expenditure guarantee, which Danish companies can use to establish production facilities. The product has become popular because it makes it attractive to move jobs to Denmark when financing of machinery and buildings is in place, although it can also be used for production facilities abroad.

OTHER APPROACHES TO EVOLVING ECA COMPETITION

In addition to developing new programs, ECAs are also expanding physically with offices in their home countries as well as abroad. For example as shown in Figure 15, Japan Bank for International Cooperation (JBIC) (Japan) has 18 representative offices outside of Japan; KEXIM (Korea) has 26 subsidiary and representative offices outside of Korea; EDC (Canada) has 18 representative offices outside of Canada; and SACE (Italy) has nine representative offices in emerging markets.

Competition against U.S. exporters continues to expand from foreign companies supported by government-sponsored entities. As exports become more important to a country's economy, foreign ECAs will continue to develop programs and policies in support of their national interest. U.S. exporters likely will experience increasing competition for export sales, large and small.

FIGURE 15: Offices Outside of Home Country (JBIC, EDC, KEXIM, and SACE)



Austria
Brazil
Canada
China
United States
Denmark
Finland
France
Germany

SECTION 2

KEY DETERMINANTS OF COMPETITIVENESS

ElectraTherm Inc., in Reno, Nevada, uses EXIM's small business environmental insurance and working capital guarantees to export its Power+Generator™ machines to buyers throughout Europe, North America, and Asia. ElectraTherm's innovative machines convert waste heat into a clean source of electricity.

CHAPTER 6

Risk-Taking Appetite

KEY FINDINGS

- **Exporters and lenders found EXIM generally competitive with respect to risk taking in its long-term activity but less competitive in its medium-term activity.**
- **In terms of volume of authorized dollar amount, the majority of EXIM's authorizations fell within relatively low-risk categories in 2015.**
- **In terms of the number of transactions, EXIM authorizations were split between low and high risk, meaning transactions that received smaller authorizations were in the higher-risk categories.**

BACKGROUND

The Export-Import Bank Act of 1945 established "reasonable assurance of repayment" as a criterion for the EXIM Board of Directors to use in deciding whether to approve requests for EXIM support. Today, this requirement remains the principal factor used to determine the risk of nonpayment and, as such, sets EXIM's risk appetite in the broadest sense, taking into account a range of qualitative and quantitative factors.

EXIM's approach to risk is central to its goal of being a self-sustaining institution and supporting U.S. jobs. However, EXIM must maintain a balance between its willingness to absorb the nature and level of risk necessary to be competitive with its ECA counterparts and its commitment to fiscal responsibility.

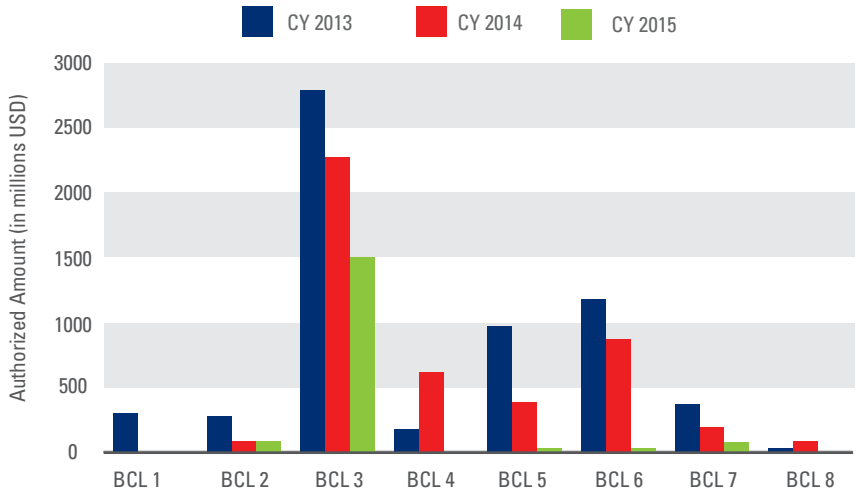
EXIM POLICY AND PRACTICE

EXIM uses its cover policy to determine which countries EXIM will do business in and assigns risk ratings to each country. When EXIM is "open for cover" in a country, Bank support is generally available for transactions in that country: When EXIM is "closed for cover" in a country, Bank support is generally not available for transactions in that country. Furthermore, to come up with a risk rating for countries where EXIM is open, EXIM subdivides the countries by tenor of deals and then assigns a budget cost level (BCL) from 1 (least risky) to 8 (most risky)[3] to each transaction. Figure 16 (page 36) shows the distribution of the BCLs of EXIM's transactions. In 2015, EXIM's authorizations and financing volume were heavily concentrated in the moderate-risk category (BCL 3).[4]

3 Given the highly prescribed risk rating and mitigants required in the Aircraft Sector Understanding (ASU), this chapter only includes non-aircraft cases for a competitive evaluation.

4 EXIM has higher BCL ratings (9-11) but did not have any medium- or long-term transactions in those categories in 2013 and 2014.

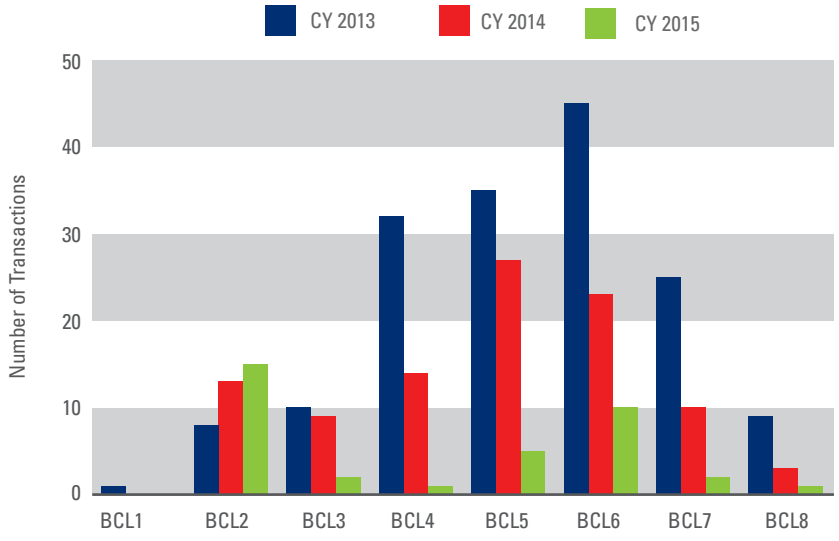
FIGURE 16: Authorized Amount by Transaction Budget Cost Level (Excluding Aircraft)



Source: EXIM

By number of transactions, EXIM authorized fewer cases in 2015 than in previous years due to the lapse in authority. Nevertheless, the Bank's financing spans all risk categories and is heavily concentrated within the medium-to-high risk categories. As illustrated in Figure 17, the average risk rating has changed to BCL 6 in 2015 (Standard & Poor's: BB/BB-) compared to BCL 5 in 2014 (Standard & Poor's: BB+/BB).

FIGURE 17: Transaction Count by Transaction Budget Cost Level (Excluding Aircraft)



Source: EXIM

FOREIGN ECAs' POLICIES AND PRACTICES

Figure 18 illustrates the Exporter and Lender Survey and Focus Group Results regarding the competitiveness rating of EXIM with foreign ECAs in the areas of cover policy and use of risk mitigants (e.g., enhancements, such as liens, personal guarantors, higher down payment, etc.) for MLT transactions. A plus sign (+) indicates that a majority of survey respondents believed EXIM is equal to or more competitive than other ECAs. A minus sign (-) indicates that a majority of survey respondents believed EXIM is less competitive than other ECAs. One survey participant maintained that "EXIM is one of the market leaders for its ability to move forward with multibillion-dollar commitments." However, in terms of the imposition of risk mitigants, several exporters opined that EXIM is "more restrictive," especially in the medium-term program.

FIGURE 18: EXIM Relative Competitiveness with Other ECAs on Cover Policy and Use of Risk Mitigants

	COVER POLICY		RISK MITIGANTS	
	2014	2015	2014	2015
Long-Term	+	+	+	+
Medium-Term	+	+	–	–

Source: EXIM Exporter and Lender Survey

Exporters and lenders alike noted that our ECA counterparts take "more risk compared to EXIM, particularly in the medium-term program." Moreover, several lenders noted that EXIM is far too conservative and much more risk-averse than in years past, which dissuades lenders from taking some transactions to the Bank for consideration.

CONCLUSION

EXIM's absence of explicit buyer and country limits (i.e., the Bank does not have a limit on the amount of financing that it can support per exporter or country) is seen as a competitive advantage over other ECAs for long-term programs. However, EXIM's extensive use of additional risk mitigants (e.g., liens on property and/or personal guarantees, both of which increase the possibility of recovery) in the medium-term program is clearly perceived to be significantly less competitive than its ECA counterparts.

Denmark

Finland

France

Germany

Italy

Japan

Korea

Netherlands

Norway

CHAPTER 7

Interest Rates

KEY FINDINGS

- **EXIM provides competitive interest-rate support through its direct-lending program; however, in 2015 there was no demand for EXIM direct loans.**
- **Commercial banks have reported that they have struggled to keep export finance among their product offerings — and some prominent banks also failed to do so.**
- **OECD countries continue to introduce new and expand existing lending programs.**

BACKGROUND

As a participant to the OECD Arrangement, the United States adheres to the minimum official interest rates known as the Commercial Interest Reference Rates (CIRR). The CIRR is a fixed rate calculated using a government's borrowing cost plus a spread of 100-130 basis points (bps), which ensures that no governments lend below their cost of funds. A CIRR is set for each currency on a monthly basis. If ECAs (OECD and non-OECD) offer support for financing at the CIRR for a particular currency, they are protected from being considered a prohibited subsidy by the World Trade Organization (WTO). In 2015, the U.S. dollar CIRR was one of the highest in nominal terms, especially when compared to the ECA-backed guarantee or bond rates (as evidenced by Figure 22 on page 41).

The competitiveness issues with the CIRR are a function of the different types of interest-rate support offered by ECAs and how the ECAs and, if applicable, the commercial banks fund those offers.

The types of support that ECAs offer are:

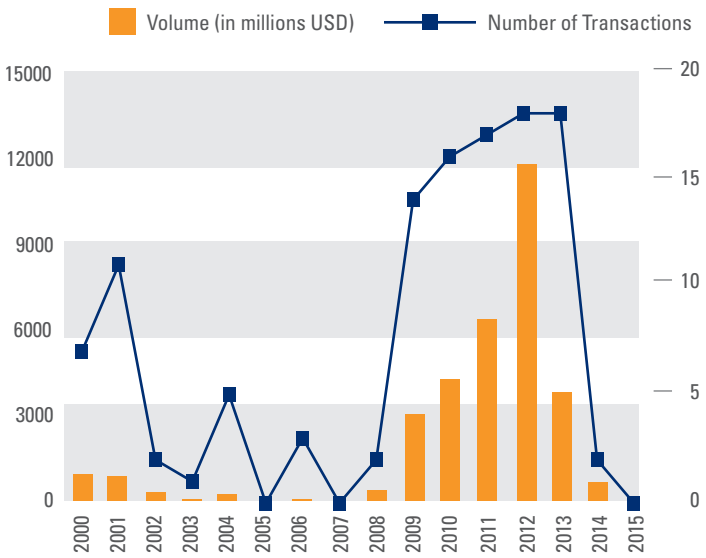
1. Direct Lending: The ECA can provide direct lending to a borrower and charge the CIRR for the currency of the loan.
2. Pure Cover Guarantee: ECAs that offer "pure cover" provide only a repayment guarantee or insurance on lenders' financings to a foreign borrower, including capital-market bond issuances that are ECA-backed.
3. Interest Make-Up: The ECA can offer interest make-up support to a financial institution that agrees to provide a loan to a borrower at the CIRR.

EXIM only offers direct lending and pure-cover guarantees and does not offer an interest make-up program. In 2015, all of the support offered by EXIM was through the guarantee program. However, in past years when the EXIM direct loan was utilized, it was primarily used for sovereign transactions and/or for transactions where commercial banks were not available (large projects with multiyear disbursement schedules). Similarly to EXIM, most Asian ECAs and EDC (Canada) only offer direct lending and pure-cover guarantees. Conversely, most European ECAs have historically offered interest make-up and pure-cover support (not direct lending). These different approaches can have competitive implications in times of financial crisis (as in 2008-2009 and 2011-2012) or when commercial banks find MLT export financing relatively unappealing (as with today's environment). The combination of recent historical troubles and the current regulatory trends is leading most European countries to set-up direct-lending programs or institutions.

EXIM POLICY AND PRACTICE

As a result of the 2007-2008 financial crisis, EXIM experienced four years of rapid growth in its direct-lending activity, which peaked in 2012 with $11.8 billion in direct-loan support distributed among 18 transactions. Since the 2012 high-water mark, EXIM's direct-loan support has exhibited a consistent downward trend, ending in 2015 with zero direct loans provided by EXIM for the first time since before the financial crisis, as Figure 19 illustrates.

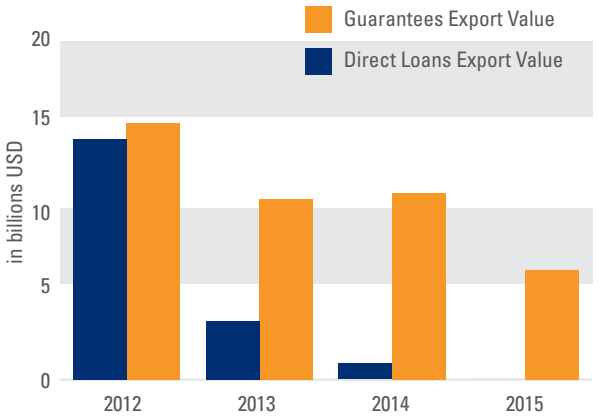
FIGURE 19: Number and Volume of Long-Term Direct-Loan Transactions



Source: EXIM

In 2015, EXIM offered pure-cover support exclusively for all of its MLT transactions valued at $5.8 billion. As shown in Figure 20, these authorizations comprised 27 long-term guarantees worth $5.7 billion and 44 medium-term guarantees and insurance worth approximately $120 million.

FIGURE 20: Volume of EXIM Direct Loans and Guarantees



Source: EXIM

In 2015, there were a total of nine EXIM-backed bond issuances in the capital markets: seven of which were for aircraft totaling $1.2 billion, and two of which were non-aircraft totaling $750 million. With regard to the high volume of EXIM-backed bond issuances for aircraft, such figures reflect that, due to the continued familiarity of investors with EXIM's capital-markets issuances, aircraft borrowers are regularly able to achieve better debt pricing in the capital markets than with traditional commercial banks or EXIM financing under the 2011 ASU, as Figure 21 illustrates.

FIGURE 21: Fixed-Rate EXIM Guaranteed Bond Issuances Compared to CIRR (bps)

	CAPITAL GOODS AND SERVICES	AIRCRAFT
2014	70	50
2015	58	53

Source: EXIM

Continuing the trend of previous years, the general trend of spreads for EXIM pure-cover deals during 2015 varied greatly depending on the program and term type. As shown in Figure 22, for long-term aircraft deals, the increasing attractiveness of the capital markets has continued to put downward pressure on the pricing on all other aircraft deals to remain narrow. Consistent with 2014, in 2015 again the difference between EXIM and its OECD counterparts for average long-term aircraft deals remained narrow, a significant departure from the recent financial crisis years in which European aircraft spreads were significantly higher than that of EXIM-supported aircraft transactions.

FIGURE 22: Average of EXIM Spreads over LIBOR, 2015 (bps)

	LONG-TERM AIRCRAFT	LONG-TERM CAPITAL GOODS AND SERVICES
2014	42	60
2015	40	150[5]

Source: EXIM

5 Based on one transaction

FOREIGN ECAs' POLICIES AND PRACTICES

Generally speaking, in the post-financial crisis years, foreign ECAs have been aggressive in their expansion of lending offerings, with a particular focus on increasing their capabilities in the debt capital markets. However, in 2015, ECAs did not see an expansion of new lending offerings among OECD ECAs.

With regards to other competitive issues concerning interest rates, in 2015, EXIM research indicated that divergent practices among ECAs in setting interest rates create an unlevel playing field. These practices arises as a result of divergent interpretation among ECAs with respect to the operational aspect of fixing interest rates, including the interpretation of contract date (export versus financial), final commitment, and reset practices that can create divergent timelines (length and period) for fixing an interest rate. This has the potential to create a competitive disadvantage for EXIM and U.S. exporters.

CONCLUSION

In terms of the cost of financing, EXIM remained generally competitive compared to other OECD ECAs again in 2015. Although EXIM still provides a competitive advantage over other ECAs in the aviation sector through the capital markets, most OECD ECAs have significantly narrowed the gap and now are able to offer largely comparable pricing to EXIM. Outside of the aviation sector, EXIM still retains the ability to offer more attractive rates than its OECD counterparts when the financing is in dollars due to EXIM's ease in accessing U.S. dollars, but this advantage is largely erased when the financing is completed in currencies other than U.S. dollars.

Denmark
Finland
France
Germany
Italy
Japan
Korea
Netherlands
Norway

Railserve Inc. in Atlanta, Georgia, a manufacturer of locomotives for rail yard switching, is benefiting from an EXIM long-term loan guarantee supporting its locomotives exports to a buyer in Gabon. Railserve's LEAF® (lower emission and fuel) GenSet locomotives were built at Railserve's facility in Longview, Texas.

CHAPTER 8

Risk Premia

KEY FINDINGS

- **ECA risk pricing in high-income OECD and euro-area countries, also referred to as market-benchmark countries, remains competitive.**
- **Pricing of risk fees in market-benchmark countries is a competitive factor among ECAs in sectors such as the satellite industry, where the U.S. market share is being threatened by foreign competitors, notably in France and Canada.**
- **Consistent with previous years, EXIM's reserve requirement has hurt its medium-term competitiveness relative to foreign ECAs.**

BACKGROUND

Risk premia, also known as exposure fees, are the rates charged by ECAs to cover the risk of nonpayment for a transaction. The OECD Arrangement premium guidelines provide a framework for pricing export financing to ensure a level playing field with regards to pricing among all export credit providers and to ensure that financing does not undercut the market. Within this pricing framework, ECAs maintain the ability to classify borrowers according to their internal underwriting standards and evaluation systems, which presents some opportunity for variation in pricing.

Historically, ECA activity has been mainly concentrated in low- and middle-income countries. However, structural changes in the global markets following the global financial crisis of 2008-2009 as well as changes in ECA lending strategies increased ECA activity in high-income OECD and euro-area countries, also known as market-benchmark countries. In 2011, participants to the OECD Arrangement negotiated revised premium guidelines based on transaction-specific risk not only to ensure more consistency and discipline in ECA pricing across all markets but also to improve the market orientation of pricing for buyers in high-income markets. As part of the premia guidelines, the OECD participants also negotiated transparency provisions via an ex-ante notification system that required ECAs to provide the rationale and basis for their pricing prior to extending final support in these markets.

EXIM POLICY AND PRACTICE

EXIM Bank charges premia consistent with the OECD Arrangement premium rules so long as the OECD minimum premium rate (MPR) does not result in a budget cost to EXIM. For buyers in low- and middle-markets, the Bank defines risk rating in accordance with internal U.S. government rating methodology, and consistent with the OECD risk-classification system. For buyers in the high-income markets, EXIM charges fees in accordance with the OECD Arrangement's market-benchmark rules.

As required by the U.S. government minimum budgetary requirements, EXIM must charge rates that meet its minimum reserve requirements. EXIM's reserve requirements are dictated by internally developed and annually updated credit-loss factors, which are based on EXIM's historical loss experience and relevant qualitative and environmental factors. In some cases, such as for some EXIM medium-term transactions, the reserve rates (holding coverage and terms constant) have at times been higher than the OECD MPRs.

In other cases, however, the OECD MPRs have met EXIM's reserve requirements. However, from a competitiveness standpoint, the flexibilities permitted under the premium guidelines including the use of discount and credit enhancements to improve the risk rating, and hence risk pricing has created some divergence in pricing for EXIM compared to its foreign counterparts.

The ex-ante notification requirements negotiated as part of the premia guidelines as described above have been an effective tool in providing some indication on how competitively ECAs are employing these flexibilities to price. In 2015, EXIM submitted only two ex-ante premia notifications, which was a significant decrease from the 13 premia notifications that EXIM submitted in 2014. The lapse in EXIM authority likely played a key role in the reduction of transactions overall and specifically those meeting the ex-ante notification requirements.

FOREIGN ECA POLICY AND ACTIVITIES

Contrary to EXIM's experience described above, foreign ECAs are more consistently exercising the flexibilities and discounts allowable under the premium guidelines as indicated by the over 900 premia-related notifications submitted since 2011 as part of the premium-notification requirements. In 2015, 213 notifications met the ex-ante premium-notification requirement compared to 204 in 2014. Notifications submitted under the high-income OECD and euro-area markets, on average, have accounted for a third of all premia notifications in the past five years. As shown in Figure 23, in 2015, 37% of the notifications were submitted under the high-income OECD or euro-area markets versus 29% in 2014.

FIGURE 23: Foreign ECAs Total Premia-Related OECD Notifications

	2015	2014	2013	2012	2011
Non-Concessional Matching of Participant or Non-Participant	0%	0%	0%	0%	0%
Buyer-Risk Credit Enhancements	11%	3%	5%	13%	2%
High-Income OECD or High-Income Euro-Area	**37%**	29%	26%	36%	42%
Country-Risk Mitigation	0%	0%	0%	0%	0%
Non-Sovereign Better than CC1	30%	39%	41%	42%	40%
Non-Sovereign Better than CRA	6%	8%	7%	6%	2%
Third-Country Guarantee	17%	21%	21%	3%	14%

Source: OECD Notifications

COMPETITIVENESS ISSUES

As we have seen through the implementation of new premium rules for low- and middle-markets, as premium rules are tightened, and new rules are adopted to ensure consistency and uniformity in pricing, risk premium becomes less of a competitiveness issue among ECAs. However, as the high-income market premia rules continue to be negotiated, pricing across ECAs remains divergent as a result of less stringent rules and increased diversity of application of them.

Looking at total ECA activity, the increasing number of high-income OECD and euro-area markets notifications is indicative of the competitive impact pricing has in these markets. One example is the satellite industry where ECAs are particularly active, and, as a result of the competitiveness of this industry, EXIM has seen a wide array of premium pricing methods employed, including a comparable buyer-risk rating to price their transactions.[6] Specifically, some ECAs, in their desire to win the export sale for their exporter, provide very aggressive premia pricing, which result in the pricing package from one ECA not always matching the pricing package from another ECA competing for the sale. In last 10 years (2005-2015), Coface (France) has led in the total number and share of satellite transactions notified — accounting for over 70% of foreign ECAs satellite-activities notifications — followed by EDC (Canada), and ONDD (Belgium).

CONCLUSION

ECA pricing in high-income OECD and euro-area markets remain an increasingly competitive area. As indicated in the number of notifications submitted under the premia notification requirements, foreign ECA activity in these markets has increased compared to the previous year. In contrast, EXIMs activities in these markets have decreased.

The data indicate that the level of premia charged in high-income markets could have competitiveness implications in competitive industries such as the satellite industry. Although the United States currently maintains a 43% market share of the industry, other foreign competitors such as France and Canada are seeking to close the gap. Additionally, ECAs' internal policies and practices have competition implications for pricing. Consistent with previous years, EXIM's reserve requirement has had a negative competitive impact on its medium-term programs due to the higher level of fees charged relative to its foreign ECA counterparts.

6 Under the OECD Arrangement premium guidelines, ECAs are permitted to use a comparable buyer rating when a buyer is not externally rated by an accredited rating agency. However, there are divergent interpretations of comparable buyer among ECAs, which results in variations in pricing.

Austria
Brazil
Canada
China
United States
Denmark
Finland
France
Germany

SECTION 3

MAJOR PROGRAM COMPETITIVENESS

WACO Aircraft Corp. in Battle Creek, Michigan, benefited from an EXIM medium-term loan guarantee supporting the export of its reproduction vintage aircraft to a buyer in Zambia.

CHAPTER 9

Aircraft Finance

KEY FINDINGS

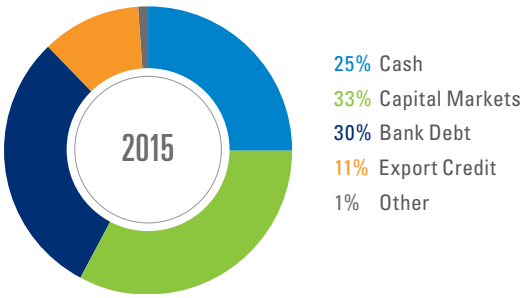
- **The lapse in EXIM's authority played a major role in the reduction of EXIM activity in support of large commercial aircraft and adversely affected its competitiveness vis-à-vis the other ECAs providing support for their aircraft manufacturers.**
- **EXIM total aircraft activity in 2015 amounted to $ 4.1 billion, a 47% drop from the 2014 authorized amount of $7.7 billion. Airbus ECAs authorized an estimated $2.7 billion in aircraft-related transactions — a nearly 40% drop from the 2014 estimated amount of $4.4 billion.**
- **The rebound in liquidity in the commercial aircraft finance markets would have resulted in lower EXIM activity even without the lapse.**

BACKGROUND

The rebound of liquidity in the commercial aircraft finance markets played a significant role in supporting aircraft deliveries for much of 2015. Financing sourced through the capital markets and commercial banks accounted for nearly two-thirds of the industry's funding for commercial aircraft deliveries. As shown in Figure 24, financing raised through the capital markets accounted for a record 33% of Boeing's aircraft deliveries in 2015 (compared with 27% in 2014). Debt raised by airlines through the capital markets[1] via unsecured bond issuances and enhanced equipment trust certificates (EETCs) grew rapidly in 2015. For example, financing raised by airlines accounted for a record 18% share of Boeing's deliveries financings compared to only 9% in 2014. Debt raised by leasing companies via the capital markets decreased slightly from 18% in 2014 to 15% in 2015.

Commercial banks continue to remain a steady source of financing for large aircraft accounting for nearly 30% of the industry's (and Boeing's) deliveries. Given the strength of commercial markets in supporting aircraft deliveries, the need for ECA financing continues to diminish compared to previous years. In 2015, ECA support accounted for only 13% of the industry's total deliveries (11% for Boeing deliveries), which is in stark contrast to the historical peak in 2012 when ECAs accounted for more than one-third of the industry's commercial aircraft deliveries.

FIGURE 24: Boeing's Sources of Commercial Aircraft Deliveries Financing, 2015

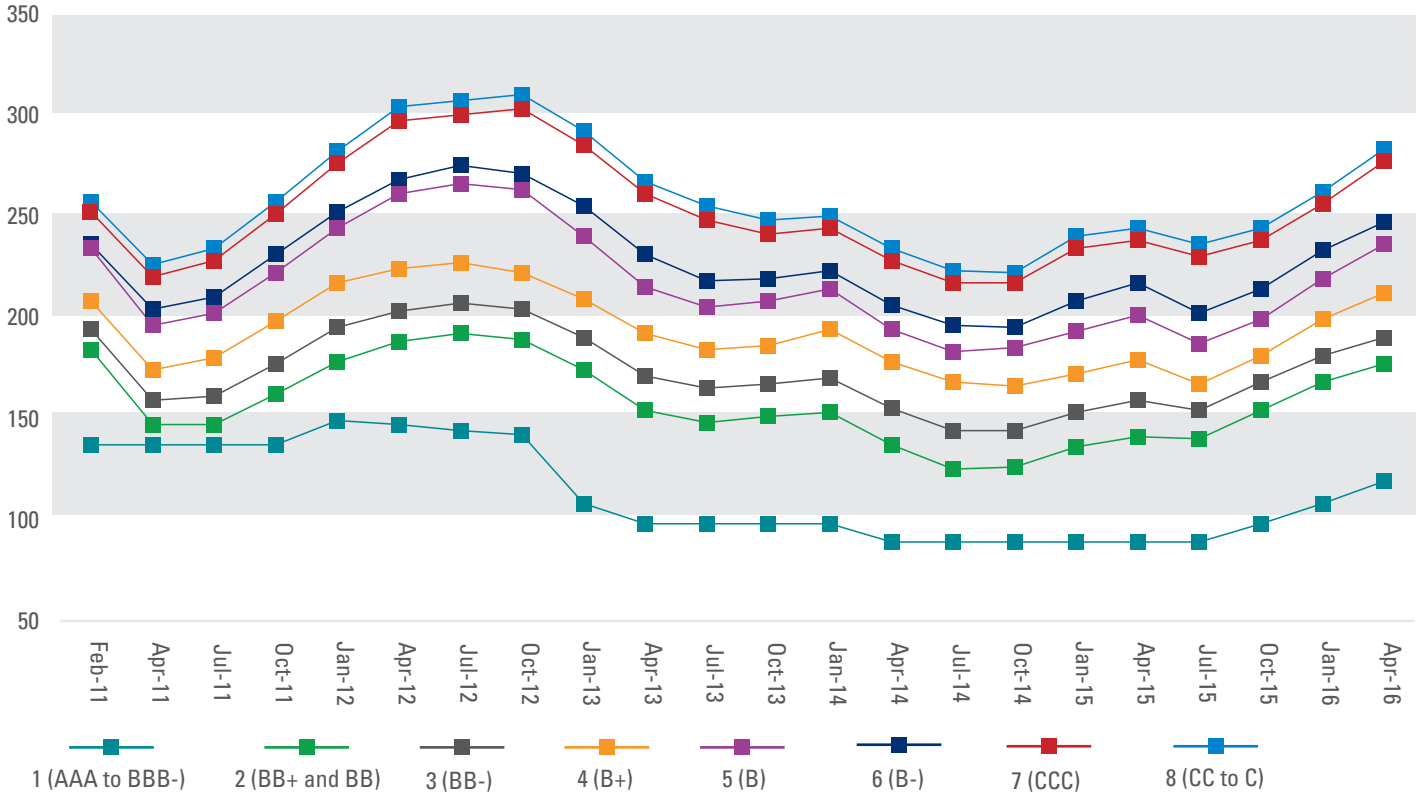


Source: Boeing

1 Refers to structured-debt transactions (EETCs and unsecured debt raised by an airline or lessor) used to directly or indirectly finance an aircraft delivery. This does not include transactions backed by an ECA, including both commercial loans or bond transactions funded in the capital markets, e.g., the EXIM Guaranteed Bond. (*Source:* Boeing)

The strength in the commercial markets in support of large aircraft deliveries can be attributed to the competitive cost and terms associated with financing through these markets relative to ECAs financing. ECA-backed financing of aircraft is governed by the 2011 Aircraft Sector Understanding (ASU), an annex to the OECD Arrangement that is a market-based pricing regime for export credit financing of aircrafts. The 2011 ASU establishes minimum premium rates (MPRs) or exposure fees and a margin benchmark for ECA covered lending. Since the 2011 ASU went into effect, premiums charged for aircraft transactions have generally increased across all risk categories compared to the rates charged under the ASU agreements preceding the 2011 ASU, including 1986 Large Aircraft Sector Understanding ("LASU") and the 2007 Aircraft Sector Understanding("2007 ASU"). As indicated in Figure 25, in Q4 2015, minimum premium rates increased an average 19 bps across all risk categories or 12% compared to Q4 2014 levels.

FIGURE 25: 2011 ASU Minimum Premium Rates (Spread Basis), 2011-2015



Source: EXIM

With regard to the growth of new orders in 2015, as Figure 26 indicates, the total number of large aircraft net orders dropped nearly 40% from 2,888 in 2014 to 1,804 in 2015. Boeing orders decreased by almost half (46%) from 1,432 orders to 768 orders. Airbus orders decreased by 29% from 1456 orders to 1,036 orders in 2015.

FIGURE 26: Number of Large Commercial Jet Aircraft Net Orders, 2007-2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Boeing	1,413	662	142	530	805	1,203	1,355	1,432	768
Airbus	1,341	777	281	574	1,419	833	1,503	1,456	1,036
TOTAL	**2,754**	**1,439**	**423**	**1,104**	**2,224**	**2,036**	**2,858**	**2,888**	**1,804**

Sources: Boeing, Airbus

EXIM POLICY AND PRACTICE

EXIM offers support for all aircraft-related financing in full accordance with the 2011 ASU for a range of products including small agricultural air tractors valued at less than $2 million, helicopters and business aircrafts valued between $1 and $50 million, and large commercial aircrafts valued above $40 million.

The lapse in authority had a significant impact on the Bank's aircraft portfolio. EXIM total aircraft activity in 2015 was only $4.1 billion, a 47% drop from the 2014 authorized amount of $7.7 billion. Despite the drop in EXIM's aircraft portfolio, it is important to note that the decreased reliance on ECAs for aircraft financing has been a consistent trend observed in the markets for the past few years following the 2008-2009 global financial crisis. EXIM projects that had the agency not been subjected to a lapse in authority, total aircraft activity would still likely have been several million dollars lower than 2014 levels, given the strength of the commercial markets.

In 2015, EXIM authorized 19 large commercial aircraft transactions (compared to 26 in 2014) in the amount of $ 4 billion and only eight small aircraft transactions. Although the bulk of EXIM-authorized transactions were denominated in U.S. dollars, the roughly 15% of transactions denominated in foreign currency (yen, South African rand, and euro) is indicative of an emerging trend among buyers for loans denominated in foreign currencies.

In addition to the standard bank and Private Export Funding Corporation (PEFCO)-funded aircraft loan guarantees, EXIM also offers a capital-markets funding option via its guaranteed bond product. The EXIM Guaranteed Bond was a product developed in response to the 2008-2009 global financial crisis. In 2015, there were seven EXIM aircraft-related capital market issuances totaling $1.2 billion, compared to 34 totaling $3.9 billion in 2014.

FOREIGN ECAs POLICIES AND PRACTICES

The ECAs of the United Kingdom (UKEF), France (Coface), and Germany (Euler Hermes) also provide competitive aircraft finance programs in support of Boeing's main competitor, Airbus, along with other manufacturers including ATR. Similar to EXIM, these ECAs offer support in accordance with the 2011 ASU. In 2015, the European ECAs authorized a total of 35 transactions amounting to roughly $2.7 billion — a nearly 40% drop from the 2014 estimated total amount of $ 4.4 billion. These transactions included 22 large commercial aircraft-related transactions estimated at roughly $2.2 billion[2] (compared to 53 transactions for $3.9 billion in 2014), and 15 smaller aircraft-related transactions.

2 Figure based on the average of the reported credit-value range for ASU-supported transactions.

Although EXIM and the European ECAs commercial aircraft finance programs have traditionally dominated the ECA aircraft-finance space, in 2015 Brazil supported a significant share of the total ECA supported aircraft-related transactions — ahead of the European ECAs. In 2015, Brazil's Brazilian Development Bank (BNDES) and Agência Brasileira Gestora de Fundos Garantidores e Garantias S.A. (ABGF) authorized 4 transactions (covering up to 126 aircrafts) in support of its manufacturer Embraer. These transactions amounted to $3.1 billion, which was a seven-fold increase from their authorized amount of $433 million in 2014. The spike in Brazil's activity is viewed as a unique occurrence. For the 2016-2017 period, demands for new commitments of Embracer aircraft are projected to be fewer than the 2015 levels. In 2015, EDC (Canada) supported 20 transactions estimated at roughly $1.3 billion, a 54% drop from the 2014 amount of $2.8 billion.

COMPETITIVENESS ISSUES

With the 2011 ASU providing a level playing field, competitiveness consideration of ECA aircraft financing programs arises as a result of product offering (capital-markets funding option versus standard bank financing), lending programs (direct lending versus pure cover), and internal policies and regulations. ECAs must constantly adapt and innovate in response to evolving market dynamics, trends, and structural changes in the global financial markets to remain competitive.

Key among the emerging trends observed in 2015 was the increased demand for foreign-denominated financing in response to a strengthening U.S. dollar. UKEF has been aggressive in this space having launched in 2015 a first-in-market renminbi (RMB)-denominated loan guarantee for the purchase of an Airbus aircraft. The demand for RMB-denominated financing is likely to continue to remain a competitive product offering in the near future as ECAs seek new and innovative ways to tap into the Chinese markets.

Furthermore, although the EXIM Guarantee Bond remains a competitive funding option, UKEF issued its first sukuk issuance in 2015, which raised close to $915 million in support of four Airbus aircraft — the largest aircraft-related transaction supported by any ECA.[3] While sukuk financing is perceived as niche market (and currently EXIM does not offer this financing), this transaction highlights the increasingly competitive role of capital-market funding in supporting aircraft transactions and the innovative approach that UKEF is bringing to ECA-supported aircraft financing.

3 Sukuk is generally understood as a Shari'ah -compliant "bond" that adhere to Islamic laws or Shari'ah principles. Unlike conventional bonds that represent contractual debt obligations whereby bondholders have a general claim on the cash flow of the security, including interest proceeds, sukuk holders claim an undivided beneficial ownership in the underlying assets including share in the revenues generated by the sukuk asset. The claim embodied in sukuk financing is thus not simply a claim to cash flow but an ownership claim. (Source: Islamic Development Bank and Islamic Finance Resources).

Notwithstanding the key trends noted above, the single biggest issue with regard to competitiveness in the ECA aircraft-financing space in 2015 was EXIM's lapse in authority, which significantly undermined the Bank's competitiveness vis-à-vis the other ECAs operating in this space. In a recent focus group, the Bank's aerospace lenders and exporters noted that the lapse in authorization hurt the Bank's credibility as a long-term stable source of funding. Some exporters noted that in anticipation of the EXIM lapse, they began to diversify their funding sources and shift procurement away from the United States in an effort to mitigate the risk of EXIM not being available for funding in the future. Others also began to consider options to move operations abroad. Although lenders' and exporters' expressed that EXIM's Transportation Division was the most competitive in the world as a result of the Bank's efficient processing and product offerings, the lapse nevertheless affected EXIM's competitiveness in 2015.

CONCLUSION

The lapse in authority significantly impacted the competitiveness of EXIM's aircraft finance program in 2015, as indicated by the reduced number of supported transactions (compared to 2014) but also by the negative perception of EXIM in the market as a credible source of funding for future transactions. However, the liquidity in the commercial aircraft finance market partially mitigated the effects of EXIM's lapse in authority. Highly rated borrowers are now able to directly tap the competitive terms and pricing available via the commercial markets for their aircraft finance needs. This liquidity has substantially reduced the role of ECA-covered financing in support of aircraft deliveries. In response to the market changes occurring in the global commercial aircraft-finance markets, the ability for ECAs to respond effectively to evolving market dynamics and innovate is critical in order to remain competitive. While the EXIM Guaranteed Bond option remains a competitive product for aircraft financing, other ECAs such as UKEF are quickly closing the gap. As a result, EXIM's aircraft finance program should be viewed as less competitive in 2015.

Denmark
Finland
France
Germany
Italy
Japan
Korea
Netherlands
Norway

Photo depicts the Cerro de Hula Wind Farm in Honduras. Gamesa Wind USA LLC in Trevose, Pennsylvania, benefited from two EXIM long-term direct loans that supported the export of Gamesa's U.S.-manufactured wind turbines to the project.

CHAPTER 10

Project Finance

KEY FINDINGS

- **The project finance arena seems to be the export finance area experiencing the most change, which is resulting from two driving forces: the withdrawal of commercial bank financing and the entrance of non-OECD Arrangement financing.**
- **Foreign ECAs participated in multiple projects in 2015 by utilizing standard tied OECD Arrangement financing, as well as untied official financing and investment financing. EXIM approved two structured finance transactions in 2015.**
- **EXIM exporters and lenders described EXIM project finance as less competitive in 2015.**

BACKGROUND

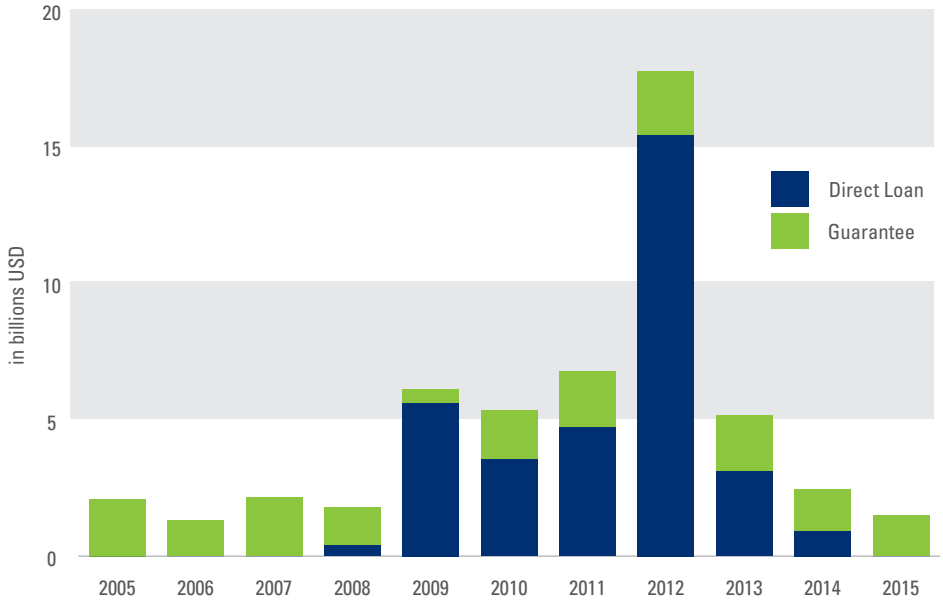
Similar to 2014, although overall global project financing increased slightly in 2015, there was a marked difference in project finance in developed economies versus emerging markets. As mentioned earlier, projects in emerging markets may need ECA support more than those in developed countries due to increased commercial or political risk. In 2015, global project lending outside the United States totaled about $221.2 billion, up 11% from $200.1 billion in 2014. Transactions in developed markets accounted for the rise in lending as transactions increased by about 13%. This increase in the developed countries stands in contrast to the drop (-2%) in project financing in emerging markets for the second year in a row. This decline in project finance for emerging markets was a major reason for the overall decline in ECA activity. However, despite the decline in ECA project finance activity, the global withdrawal of commercial financing for long-term assets means that ECAs are more central to project finance viability than ever before. Projects today in developing and non-investment grade markets that need new long-term financing beyond 10 years typically will require official support.

EXIM POLICY AND PRACTICE

Project[4] and structured[5] finance transactions, made up about 26% of EXIM's MLT transactions by volume in 2015 compared to 20% in 2014. However, by number of transactions, 2015 had significantly fewer transactions (two) compared to 2014 (fourteen).[6] Both of the 2015 authorizations were guarantees in the oil and gas industry in Mexico. For the first time since 2007, EXIM did not have any structured and project finance direct loans. As shown in Figure 27 (page 54), EXIM's project finance activity totaled $1.5 billion in 2015 – nearly a billion less than the $2.4 billion the previous year and the lowest amount since 2008.

4 Project Finance: The financing of an asset (or "project") whereby the lender relies purely on the cash flows being generated by the project as the sole source of repayment for the loan.
5 Structured Finance: When a borrower's financial condition cannot solely support the amortization of the proposed loan for a new project or project expansion, the lender may also consider the proposed new project's or project expansion's revenues as an additional source of repayment.
6 The EXIM Board approved two additional structured and finance projects transactions in 2015 that were subsequently canceled.

FIGURE 27: EXIM Project and Structured Finance Guarantees and Direct Loans



Source: EXIM

Although the drop in number of transactions was greatly influenced by the lapse of authorization, other market forces affected EXIM's level of activity in 2015. The annualized number of transactions would equal just four transactions — still 10 transactions below the 2014 total. Market factors that influenced the number of transactions included the appreciation of U.S. dollar versus the currencies of competing exporters, liquidity in the markets, the drop in oil prices, and U.S. sanctions against Russia.

As EXIM's project finance support is governed by the OECD Arrangement terms, those terms and conditions are well known in the market and transparent to all. The OECD Arrangement has specific provisions for project finance transactions such as a maximum repayment term of 14 years. EXIM has become a leader among ECAs in the area of project finance because of its experience in the field. According to survey data, exporters "like the heightened industry specialization" that EXIM has developed. In addition, lenders have commented positively on aspects of the project and structured finance program such as:

- **Direct Loans**: EXIM offers direct loans with an interest rate set at the OECD official minimum interest rate of CIRR.
- **Bond Program**: EXIM guarantees bonds in the capital markets to fund the purchases of exports associated with project finance transactions.

- **No Exposure Limits**: EXIM does not establish any pre-set limits on project size, sector, or country. All transactions over $10 million are reviewed and voted on by the Board of Directors.
- **Local-Cost Financing**: EXIM will finance local costs originated and incurred within a buyer's country. EXIM will finance an amount up to 30% of the total U.S. export contracts (the maximum allowed by the OECD). More information on local-cost financing may be found in Chapter 6.

FOREIGN ECAs' POLICIES AND PRACTICES

While EXIM only financed two project finance transactions in 2015, other ECAs supported multiple transactions. Within the specific parameters of the OECD Arrangement's project-finance transactions[7], EXIM did not cover any transactions while foreign ECAs did nine transactions supporting about $1.8 billion in contracts (down from 12 transactions supporting about $4.2 billion contracts in 2014).

While EXIM only offers project finance support in accordance with the OECD Arrangement, the Asian ECAs in particular, among others, offer a range of financing options such as untied loans or guarantees and investment support programs that fall outside the scope of the OECD Arrangement. For instance, KEXIM (Korea) had about $4 billion worth of project and structured finance transactions in 2015. Of these transactions, 51% were loans and guarantees under the OECD Arrangement and 49% were untied and investment financing outside of the OECD Arrangement. ECAs that are able to offer both regulated and unregulated financing options alongside each other can make needed adjustments to accommodate the case-specific financing needs that typically characterize project finance. These ECAs have a competitive advantage in offering tailored financing packages for mega-projects that require multiple funding sources.

Foreign ECA competitiveness increased in 2015 as a result of a lack of availability and uncertainty of the long-term availability of EXIM support. In fact, exporters opined that the uncertainty surrounding the lack of a quorum for the Board of Directors is doing similar damage as the lapse in authorization. Although stability and predictability are mainstay qualities of competitive ECA support across business lines, in the area of project finance, the competitive imbalance between predictable ECA support relative to EXIM's situation has shifted the competitive balance away from EXIM. This imbalance is particularly pronounced in the project finance sector, given the need for stable funding sources over a long horizon.

In 2015, foreign ECAs acted aggressively to move business away from the United States to their countries. The most notable examples involved General Electric setting up agreements with foreign ECAs. The company signed a $6 billion memorandum of understanding with SACE (Italy) to support oil and gas exports. The company also signed a £7.7 billion (about $11.1 billion) memorandum of understanding with UKEF (UK) to support projects. Finally, GE announced plans to close a gas-engine production plant in Wisconsin and open a new facility in Canada to access EDC (Canada) support. Jeffrey Immelt, chairman and CEO of GE, commented during

7 The OECD Arrangement on Export Finance does not cover structured finance transactions.

the signing of the UKEF agreement that "Export finance is a critical tool we use to support our customers. In today's competitive environment, countries that have a strong export credit agency (ECA) will attract investment."

COMPETITIVENESS ISSUES

Overall, U.S. exporters and lenders surveyed believed that the EXIM project finance program was "slightly less competitive" (33%) or "equally competitive" (33%) compared to other ECAs. Specifically, survey respondents stated that EXIM is "slightly less competitive"" than KSURE/ KEXIM (Korea) and UKEF (United Kingdom). Respondents cited a host of reasons for this position, including policy issues such as content. One respondent said "SACE, UKEF, Sinosure, EDC, etc., can support deals with ease given their low content requirements." In addition, they mentioned "untied programs" that can lead to repeat business with "the ECA for other business in the future after a relationship has been fostered."

One EXIM buyer recently compared EXIM financing of its $2 billion project finance transaction with the ECA programs of other OECD ECAs. The company reported that several EXIM requirements are stricter than other OECD ECAs. Specifically, EXIM's rules on foreign content (both from goods shipped from the United States and goods shipped from a third country), shipping, anti-lobbying certification from local suppliers,[8] and not financing the withholding tax payment[9] led to a reduction in facility utilization (e.g., the company did not use all of its authorized financing). In addition, EXIM's economic-impact requirement impacted the financial closure timeline. Finally, unlike other OECD ECAs, EXIM does not allow the refund of a premium in case of prepayment of the loan — which can increase the overall financing cost.

CONCLUSION

For the first time since the Competitiveness Report covered project finance separately in 2002, EXIM's project finance support is rated by exporters and lenders as less competitive than that of foreign ECAs. The rating reflects the fact that foreign ECAs are viewed as stable and predictable partners while EXIM has faced political issues that make it an uncertain financing partner. Moreover, for those projects where EXIM could have provided support in 2015, U.S. exporters were disadvantaged by foreign ECAs' ability to offer a menu of financing options that fell within and outside of the scope of the OECD Arrangement relative to EXIM support, which is always offered on Arrangement terms.

A project finance transaction can have a wide impact on U.S. jobs, including, especially, on

8 Anti-lobbying Certificate: Requirement that effects U.S. exporters, local-cost providers, and ancillary service providers under direct loans (if the contract is $100,000 or greater). Other ECAs do not have this condition.

9 Withholding Tax Payment (WHT): Taxes paid in the foreign country on behalf of the U.S. supplier for service contracts. Other ECAs allow financing for the WHT payment as it is associated with an export.

WIDE IMPACT OF A TRANSACTION

indirect jobs supported through a transaction's lifespan. This includes the supply chains of EXIM customers, the follow up sales from the exporters, and new relationships the transaction creates which can lead to more sales.

For example, in 2000 EXIM began to finance U.S.-manufactured gas turbines sold to Turkey. The transaction not only supported the U.S. exporter, but indirectly, all of its 100-plus sub-suppliers. The first gas-turbine plant led to the building of two additional plants in Turkey that were both financed by EXIM. Finally, the sale of the turbines led to large follow-up sales not financed by EXIM. Subsequently, the foreign plant signed a 16-year contractual service agreement with the U.S. exporter to cover long-term maintenance costs.

In addition, American exporters rely on suppliers to help create their products. Thus, for every one export EXIM supports, tens – and sometimes even thousands – of businesses and jobs benefit in the supply chain. Figure 28 indicates the cities of the suppliers for one U.S. exporter located in Durham, New Hampshire, which relies on more than 25 suppliers from across the country.

FIGURE 28: SUPPLIERS FOR EXIM-SUPPORTED U.S. EXPORTER IN DURHAM, NEW HAMPSHIRE

CITY	STATE
San Bernardino	CA
Marietta	GA
Cascade	IA
Chicago	IL
Cicero	IL
Oak Brook	IL
Erlanger	KY

CITY	STATE
Attleboro Falls	MA
Groton	MA
Biddeford	ME
Traverse City	MI
St. Louis	MO
Concord	NH
Manchester	NH

CITY	STATE
Dayton	OH
Sidney	OH
St. Paris	OH
Lansdale	PA
York	PA
Cranston	RI
Burleson	TX

CITY	STATE
Dallas	TX
Fort Worth	TX
Radford	VA
DePere	WI
Green Bay	WI
Sussex	WI

Austria

Italy

Japan

Netherlands

Norway

Russia

South Korea

Spain

Sweden

Thrush Aircraft Inc. in Albany, Georgia, has benefited from EXIM's co-financings with the Czech export credit agency, EGAP, to export its agricultural aircraft to Brazil. EGAP's export financing supported the engines General Electric in the Czech Republic.

CHAPTER 11

Co-financing

KEY FINDINGS

- **Co-financing allows EXIM to level the playing field and to provide a seamless and comprehensive financing package when there is sourcing from more than one country and the U.S. content is less than EXIM's required 85% of the U.S. export contract.**
- **Aircraft continues to dominate EXIM's co-financing program, with almost all 20 co-financed transactions in 2015 involving either agricultural or large commercial aircraft.**

BACKGROUND

In 2015, a hospital in Beijing procured medical equipment from the United States to improve the hospital's capacity to perform diagnostic testing that included procurement from Germany. EXIM's co-financing agreement with Euler Hermes (Germany) enabled both the exporter and the hospital to benefit from a seamless financing package that maximized support for the sale of the U.S. medical equipment.

EXIM's co-financing[1] policy was designed in response to the increasing use of global supply chains and addresses some of the financing challenges posed by multi-sourcing, or the procurement of capital goods and services from two or more countries. Without co-financing, foreign buyers would need to secure multiple financing packages and therefore incur additional expense and administrative burden to ensure ECA support for exports with inputs sourced from various countries.

With co-financing, the lead ECA provides the applicant (buyer, bank, or exporter) with export credit support in a single transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee) to the lead ECA for the follower ECA's share of the net contract price of the transaction. The country of the largest share of the sourcing and/or the location of the main contractor generally determines which ECA leads the transaction. The lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package. As the availability and ease of ECA co-financing becomes routine, the EXIM is considering new competitive factors, including co-financing requests involving emerging market ECAs.

1 Also referred to as "reinsurance" and "one-stop shop" financing

EXIM POLICY AND PRACTICE

EXIM introduced its co-financing program in 2001 with the signing of its first bilateral agreement with UKEF (United Kingdom). These agreements have allowed EXIM to provide U.S. exporters with the ability to offer a comprehensive financing package (a guarantee or insurance) to support transactions seeking to include content from two or more countries. Although the program has been very successful, it does have drawbacks. Although EXIM's policy allows the Bank to lead or follow foreign ECAs on co-financing transactions, there are few requests for EXIM to follow foreign ECAs. Certain legal, political, and business considerations make it challenging for the Bank to assume the role of follower ECA. For example, if EXIM were to follow in a co-financing structure, the lead ECA would need to implement the Bank's Iran Sanctions Certification, a legal process that most other ECAs are not prepared to do.

Despite the above challenges, since the signing of the first agreement in 2001, EXIM has signed 12 co-financing agreements,[2] authorized close to 200 co-financed transactions supporting approximately $25 billion in lending, and approved over a dozen co-financing arrangements on a transaction-specific basis with OECD ECAs with whom EXIM does not have an overall co-financing framework agreement.

In 2015, aircraft continued to dominate the co-financing program. All but one of the 20 co-financed transactions totaling approximately $3 billion, involved either agricultural or large commercial aircraft. Over the past three years, aircraft (both large and small) have constituted over 90% of the co-financing transactions. In the majority of the aircraft transactions, without co-financing, the exporter would not have been able to offer the maximum 85% support to its customers in one financing package. Thus, co-financing allowed EXIM to level the playing field by matching the seamless financing provided by other foreign ECAs, such as those that support Airbus ECAs. (See Appendix E below for a complete list of specific transactions.)

FOREIGN ECAs' POLICIES AND PRACTICES

ECAs have multiple framework agreements among themselves (see Figure 29) and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their country exposure limits, which had made it impossible for them to provide support for exports to riskier markets or to markets where the ECA was close to reaching its country limit. Though EXIM does not have explicit country limits, authority rests with the Board of Directors.

2 ASHRA (Israel), Atradius (The Netherlands), Coface (France), ECGD (UK), EDC (Canada), EFIC (Australia), EKF (Denmark), Hermes (Germany), KEXIM (Korea), NEXI (Japan), JBIC (Japan) and SACE (Italy).

FIGURE 29: G-7 Co-financing Agreements, 2014

	EXIM	UKEF (UNITED KINGDOM)	EDC (CANADA)	EULER HERMES (GERMANY)	COFACE (FRANCE)	SACE (ITALY)	NEXI/JBIC (JAPAN)
EXIM		■	■	■	■	■	■
UKEF (United Kingdom)	■		■	■	■	■	
EDC (Canada)	■	■		■	■	■	
Euler Hermes (Germany)	■	■	■		■	■	■
Coface (France)	■	■	■	■		■	■
SACE (Italy)	■	■	■	■	■		■
NEXI/JBIC (Japan)	■			■	■	■	

Source: EXIM

COMPETITIVENESS ISSUES

In a world of global supply chains, co-financing helps achieve operational efficiency and risk management while acknowledging increasingly liberalized foreign content rules. Survey participants overwhelmingly indicated that EXIM's co-financing program is as, and in many cases more, competitive when compared to other ECAs. In fact, one exporter referred to EXIM's partnership with ECAs as "seamless in providing support by having one point of contact for the customer." To date, no G-7 ECA (including EXIM) has entered into a true co-financing (reinsurance or "one-stop shop") framework agreement with non-OECD ECAs. However, unlike most other ECAs, EXIM does not require a formal bilateral framework agreement before considering co-financing transactions.

CONCLUSION

In 2015, EXIM's co-financing program continued to support a significant number and volume of aircraft transactions. Co-financed transactions constituted slightly more than 45% of the Bank's total volume of authorizations (primarily aircraft). The Bank's flexibility to engage in transaction-specific co-financing absent a framework agreement and the prospect of additional framework agreements to come, has made EXIM's co-financing policy more competitive than those of its foreign ECA counterparts.

Germany

Italy

Japan

Korea

Netherlands

Norway

Spain

Sweden

United Kingdom

First Solar Inc. in Perrysburg, Ohio, benefited from EXIM's long-term loan guarantees that supported the export of its thin-film solar panels to solar power projects in India.

CHAPTER 12

Environment

KEY FINDINGS

- **EXIM support for renewable energy reached an all-time low in 2015, with EXIM supporting only one of the 80 renewable energy transactions supported by OECD members.** [1]
- **Denmark and Germany dwarfed all other OECD ECAs in terms of renewable energy export support, both in terms of number and volume of offers.**
- **Chinese ECA support for eight renewable energy mega-projects is estimated to have been at least $6 billion in 2015, which was more than all OECD ECA support for renewable energy projects combined.**

1 This total number of transactions reflects the number of prior notifications ECAs made to the OECD for renewable energy projects financed under the standard terms of the OECD Arrangement on Officially Supported Export Credits or the extended terms of the Climate Change Sector Understanding.

BACKGROUND

EXIM carries out its environmental mandates in favor of the environment and U.S. exports in two ways:

1. Conducting environmental reviews of projects in a manner consistent with that of OECD ECAs; and
2. Promoting environmentally beneficial and renewable energy projects globally.

EXIM POLICY AND PRACTICE

EXIM's environmental policy framework is comprised of:

- EXIM's Environmental Review: Ensures that EXIM's commitment to environmental stewardship is met through a rigorous application of its Environmental and Social Due Diligence Procedures and Guidelines.
- EXIM's Environmental Exports Program and the Renewable Express Program: EXIM provides for qualifying exports enhanced EXIM support, including financing for interest payments during construction, extended repayment terms (to the maximum permitted under the OECD Arrangement) and automatic local cost support and streamlined post-completion project financing for loans between $3 million to $10 million, respectively.

In addition, EXIM may support renewable energy, water, and certain climate change mitigation projects for terms up to 18 years under the OECD Arrangement's Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects (CCSU). A large portion of renewable energy projects are financed under the terms of this agreement; however, some offers in this sector are made under the standard terms of the OECD Arrangement on Officially Supported Export Credits.

EXIM promotes its support for exports in this sector as mandated by the Bank's charter. Sec. 2(b)(1)(C) of the EXIM Bank charter states "... the Board of Directors shall name an officer of the Bank whose duties shall include advising the President of the Bank on ways of promoting the export of goods and services to be used in the development, production, and distribution of non-nuclear renewable energy resources, disseminating information concerning export opportunities and the availability of Bank support for such activities, and acting as a liaison between the Bank and the Department of Commerce and other appropriate departments and agencies."

Consistent with the charter, in 2015 EXIM continued to work to promote its support for environmentally beneficial exports through focused outreach to exporters and foreign buyers through industry conferences, trade shows, company visits, and meetings with key foreign buyers in international markets. EXIM promoted its support across the globe through presentations and panels at renewable energy events and conferences in Mexico, India, Panama, Germany, and across the United States, including hosting a renewables panel at the EXIM Annual Conference in the first half of 2015. While these activities were valuable to the promotion of EXIM support for renewable energy projects, action was limited to the start of 2015 due to the lapse in authorization.

The EXIM charter also includes a requirement to report on "Efforts of Bank to Promote Export of Goods and Services Related to Renewable Energy Sources," including "A description of the activities of the Bank with respect to financing renewable energy projects undertaken under section 2(b)(1)(K), and an analysis comparing the level of credit extended by the Bank for renewable energy projects with the level of credit so extended for the preceding fiscal year."

Despite promotional efforts in 2015, EXIM support for renewable energy exports declined 300% as EXIM supported one transaction, a geothermal project, in the amount of $6.7 million relative to the 2014 $208 million level.[2] As such, 2015 represented the largest decline in EXIM support for renewable energy registered in the past five years. The precipitous decline may be a function of the lapse, in particular given the rising foreign ECA support for renewable energy exports. Most of this support falls under the extended terms of the CCSU, and Figure 30 shows EXIM's renewable energy offers provided under this agreement, which represent a subset of EXIM environmentally beneficial exports.

FIGURE 30: EXIM Renewable Energy Authorizations Made Under the CCSU

Fiscal Year	Renewable Energy Authorizations (in millions USD)	Change from Prior Year (Percent)
2015	6.7	-97%
2014	208	-19%
2013	257	-28%
2012	356	-51%
2011	721	117%
2010	332	

Source: EXIM

FOREIGN ECAs' POLICIES AND PRACTICES

Figure 31 shows that the total number of renewable energy offers made under the CCSU by OECD ECAs increased from 38 in 2014 to 54 in 2015.[3] Although there was a noticeable increase in support, foreign ECAs led the way as EXIM only supported one offer in 2015, which was a stark contrast to its peak of 23 offers made in 2011. This reduced relative activity in supporting renewable energy exports despite EXIM's best efforts and proactive marketing of its long-term financing and support during the period when EXIM was open for business. When considering this result, it is important take into account a key factor: Foreign ECAs in part provided more support for renewable energy projects than EXIM because their countries' industrial policies focus efforts on exporting renewable energy goods and services. For example, Denmark and Germany pursued offshore wind exports and China pursued solar exports, all as part of their national industrial policies. However, the U.S. renewable energy companies principally focused on serving the domestic market rather than export promotion. This exacerbated the disparity between EXIM's and other ECAs' support for renewable energy projects.

2 The EXIM charter requires EXIM to report on its support for environmentally beneficial exports in fiscal-year terms.

3 The OECD notifications used to collect the data on foreign ECAs' activity are notifications made prior to final commitment of a project, and therefore represent preliminary data subject to change based on confirmation at a later date.

FIGURE 31: Number of OECD ECA Renewable Energy Offers Made Under the CCSU

	2010	2011	2012	2013	2014	2015
Rest of OECD	35	40	32	35	34	53
US EXIM	9	23	7	8	4	1
TOTAL	**44**	**63**	**39**	**43**	**38**	**54**

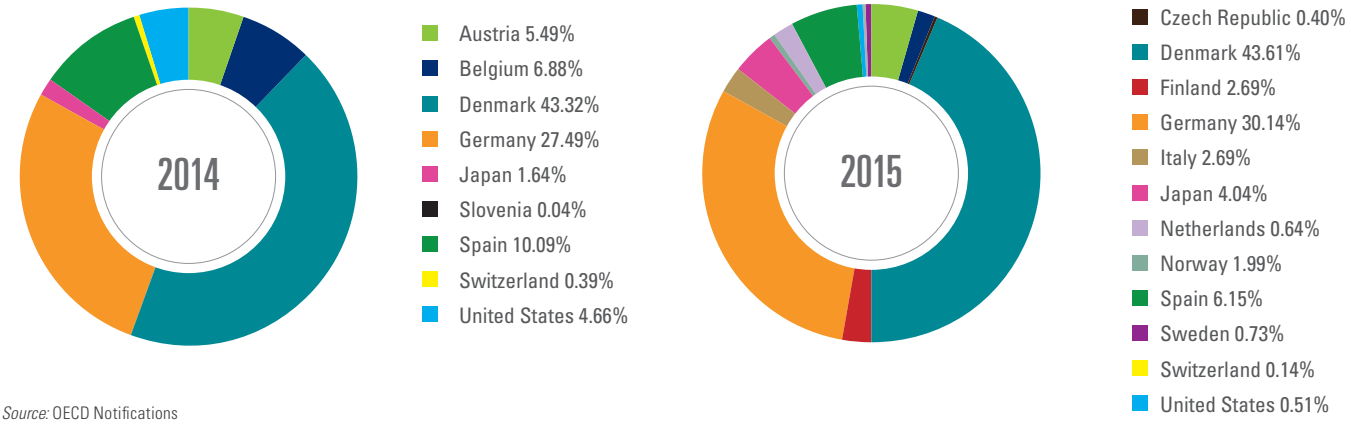
Source: OECD notifications

In 2015, OECD ECA support for renewable energy projects as a whole, sometimes offered under OECD terms other than those of the CCSU, also reached its highest level since 2011. The Europeans increasingly dominate the renewable energy export finance market relative to other OECD ECAs. For example, much of the increase in this sector came from one country, Denmark. Denmark has a stated policy to provide support for large wind power projects in support of its national champion, Vestas. As shown in Figure 32, Denmark maintained its first place position among ECAs providing renewable energy offers, on standard Arrangement terms or CCSU terms, with just over 43% share of all support in terms of volume in 2015, followed by Germany with 30%.

The gap between the two leaders is narrowing, however, Denmark's share of offers in terms of volume in 2015 remained unchanged from its share in 2014, and Germany's share increased from 27% in terms of volume in 2014 to 30% in 2015. Germany's most noticeable change was its increase in the number of offers for renewable energy projects, financed on standard Arrangement terms or CCSU terms, which more than doubled from 12 offers in 2014 to 30 offers in 2015. With this increase, Germany supported the largest number of renewable energy transactions in 2015. A breakdown of the types of renewable energy projects supported by Denmark and Germany is shown in Figures 33 and 34 (page 66).

The United States, however, has a shrinking market share over the past three years and, in 2015, notified a single renewable energy transaction that represented less than 1% of total OECD support in terms of both volume and number of supported renewable energy offers. The increase in support for renewable energy projects by EXIM's OECD counterparts in 2015 may have resulted from the lapse in EXIM authority that could have contributed to the precipitous reduction in EXIM's share of OECD ECA support for renewable energy exports.

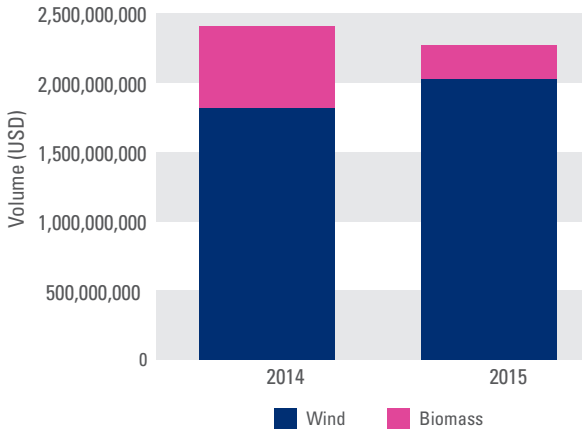
FIGURE 32: Country Share of OECD Notified Renewable Energy Volumes[4]



Source: OECD Notifications

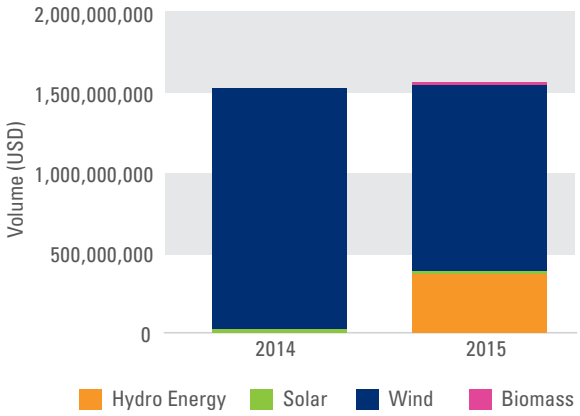
4 This data reflect the volume of ECA support indicated on prior notifications ECAs made to the OECD for renewable energy projects financed under the standard terms of the OECD Arrangement on Officially Supported Export Credits or the extended terms of the Climate Change Sector Understanding.

FIGURE 33: Denmark's Renewable Energy Offers by Type



Source: OECD Notifications

FIGURE 34: Germany's Renewable Energy Offers by Type



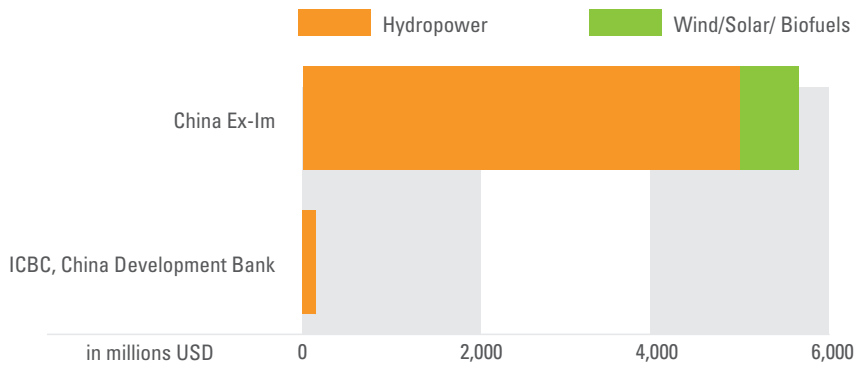
Source: OECD Notifications

There is anecdotal evidence that at least one non-OECD country has been active in providing export credit support for its renewable energy exporters. As Figure 35 shows, EXIM discovered 10 overseas renewable energy projects supported by CEXIM (China) totaling approximately $6 billion and one funded by the China Development Bank totaling approximately $150 million. These projects provided roughly $6 billion support for 10 large renewable energy projects, consisting largely of hydropower plants. Taken together, the $6 billion rivaled the combined OECD support for all renewable projects in 2015.

EXIM discovered Chinese-supported projects as part of its Chinese activity data capture that involved a review of hundreds of press articles reporting on CEXIM and the China Development Bank export credit support.

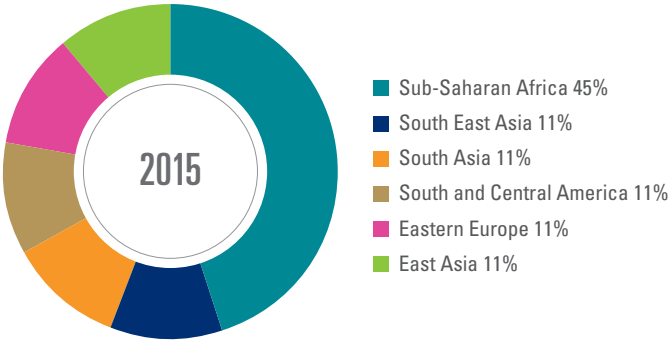
As shown in Figure 36, Chinese support for renewable projects was largely centered in developing markets, particularly in Sub-Saharan Africa. These projects were found through EXIM's article search for Chinese authorizations and may underrepresent total Chinese support for renewable energy.

FIGURE 35: Estimated Chinese Support for Renewable Energy Exports



Source: press articles

FIGURE 36: Chinese Support for Renewable Projects by Region



Source: press articles

COMPETITIVENESS ISSUES

U.S. lenders and exporters rated EXIM's overall environmental review policies to be equivalent to other ECAs in 2015. Survey participants were split in their assessment of EXIM environmental review. While half noted that EXIM's overall environmental review process was "slightly or far less" competitive with that of the average ECA in terms of detail of environmental review, the other half noted that "EXIM was equal to" the other ECAs. Respondent comments included references to EXIM's straightforward review as a positive element while stating that " US EXIM applied a rigorous approach to environmental issues" and that "China EXIM and many other European ECAs 'look the other way' on some of these issues or simply check the box where applicable. In other words, US EXIM is known to be extremely vigilant on these issues, which makes our clients believe it is simply easier to work with the Chinese or Europeans." Interestingly, EXIM's Supplemental Guidelines for High Carbon Intensity Projects was not identified specifically as having a potentially negative impact on exporters in the survey responses.

With respect to the environmentally beneficial exports, most respondents had not sought such support and were unable to opine. The few respondents that were able to comment noted that EXIM support for renewable energy was on par with or slightly less competitive than that of foreign ECAs.

CONCLUSION

In 2015, the data shows that EXIM's Environmental and Social Due Diligence Procedures and Guidelines were viewed as slightly more stringent those of foreign ECAs and that EXIM promotion of environmentally beneficial exports and specifically renewable energy exports fell short relative to the growing support of foreign ECAs for renewable energy projects. EXIM's Environmental and Social Due Diligence Procedures and Guidelines are compliant with the OECD Common Approaches, but non-OECD ECAs such as China are not subject to the same international agreements, and, as such, are perceived as less diligent than EXIM. With respect to EXIM's Environmental Export Program, EXIM continued to lose ground to OECD ECAs such as Denmark and Germany. Although transparency on Chinese data is lacking, Chinese support for renewable energy projects appears very large and may eclipse combined OECD support for renewables. In 2015, EXIM's relative support for renewable energy projects plummeted despite its efforts to actively promote renewable energy projects.

Austria

Italy

Japan

Netherlands

Norway

Russia

South Korea

Spain

Sweden

Environmental Chemical Corp. (ECC) in Canton, Ohio, is benefiting from an EXIM long-term loan guarantee supporting ECC's exports of engineering, procurement and construction services to the Akomnyada Water Treatment Plant in Yaoundé, Cameroon.

CHAPTER 13

Services

KEY FINDINGS

- **EXIM supported nearly $375 million in services exports in 2015, led by engineering and consulting services, information technology and telecommunications services, and services related to oil and gas, and mining.**
- **While EXIM Bank's ECA counterparts do provide support for services exports, they continue to support and record data regarding their support for services in a similar fashion to how they support and analyze their support for the export of goods, and, in many cases, do not disaggregate the two distinct categories.**
- **The only criticism of EXIM's support for services stems from the challenges associated with certifying the U.S. content of services exports, which appears to be a challenge for other ECAs as well.**

BACKGROUND

Services exports are a significant component of both U.S. exports and global exports. Services encompass a wide variety of sectors from tourism and food service to software and financial services. Not all of these service sectors have an easily identifiable export component and thus do not require export financing. However, this does not lessen the impact services have on U.S. and global trade. According to the U.S. Department of Commerce Bureau of the Census, U.S. services exports reached $710.2 billion in 2015 constituting 30% of all U.S. exports. The largest percentage increases in services exports from 2014 to 2015 occurred in maintenance and repair services ($1.7 billion, 7.7%), insurance services ($1.2 billion, 7.2%), and other business services (5.7 billion, 4.4% increase). Furthermore, data from the WTO's International Trade Statistics 2015 report show that world commercial services exports have grown an average of 8% per year from 2005-2014.

EXIM POLICY AND PRACTICE

EXIM offers support for services performed by a U.S. firm and paid for by a foreign entity. EXIM finances both stand-alone services and services associated with the export of goods. Associated services generally receive longer repayment terms (five to 12 years) due to the nature of the financing requirements of large projects with the services complement. EXIM subjects services exports to the same foreign content policies applied to goods; however, given the unique nature of service exports (e.g., intangible, not shipped, etc.), EXIM has established eligibility criteria to provide clarity on how the Bank can support services. For example, EXIM affirmed that tools used to provide a service do not have to qualify under the Bank's content policy unless the tools change ownership over the course of the transaction. Also, EXIM explicitly defined an eligible services contract as a signed contract with the U.S. operation of a firm. EXIM went further by allowing the contractual connection between the U.S. exporter and foreign buyer to be documented a variety of ways such as through back-to-back invoices or intercompany arrangements between the U.S. exporter and the foreign entity. Moreover, EXIM prescribed that services performed by U.S. employees, as evidenced by Form I-9, qualify as U.S. content. In 2015, EXIM also codified its short-term services content policy, which outlines how the Bank can support services on a short-term basis, as well as established an eligibility criterion whereby the Bank could support royalty payments for services exports (e.g., receivables based on usage of a specific application or software).

EXIM Bank also increased flexibility in the application of the Bank's content policy regarding how the Bank treats foreign-developed licenses. Foreign-developed licenses are considered U.S. content provided that the U.S. company that is exporting the license has owned the license for more than one year.

As shown in Figure 37, EXIM supported nearly $375 million in services exports in 2015, a decrease of 75% from 2013 and a 78% decrease from 2014. The top services sectors, in terms of export value, in 2015 were engineering and consulting, information technology and telecommunications, oil and gas, and mining.

FIGURE 37: EXIM SUPPORT OF SERVICES EXPORTS (in millions USD)

	2013			2014			2015		
Industry	**Stand-Alone**	**Associated**	**Total**	**Stand-Alone**	**Associated**	**Total**	**Stand-Alone**	**Associated**	**Total**
Rental and Leasing	$0.0	$579.8	$579.8	$0.0	$396.5	$396.5	$0.0	$15.4	$15.4
Engineering and Consulting	$156.9	$194.6	$351.5	$249.9	$5.8	$255.7	$162.7	$0.2	$162.9
Transportation	$66.7	$8.0	$74.7	$231.6	$22.0	$253.7	$0.7	$0.7	$1.4
IT and Telecommunications	$3.1	$11.9	$15.0	$216.5	$54.3	$270.8	$106.5	$0.0	$106.5
Oil and Gas, and Mining	$5.4	$131.4	$136.8	$0.1	$186.5	$186.6	$0.0	$62.5	$62.5
Legal and Banking	$0.0	$253.4	$253.4	$0.8	$109.0	$109.8	$0.0	$0.9	$0.9
Other Services	$5.4	$59.3	$64.7	$4.5	$89.0	$93.5	$9.7	$0.0	$9.7
Construction	$6.8	$16.6	$23.4	$0.6	$83.0	$83.6	$10.8	$1.5	$12.3
Admin. and Support Services	$15.5	$0.0	$15.5	$0.1	$12.1	$12.2	$0.0	$0.0	$0.0
Management Services	$0.0	$0.0	$0.0	$6.4	$4.6	$11.0	$2.3	$0.0	$2.3
Medical	$0.0	$0.0	$0.0	$0.0	$0.1	$0.1	$0.2	$0.0	$0.2
TOTAL	**$259.8**	**$1,255.1**	**$1,514.9**	**$710.4**	**$962.9**	**$1,673.4**	**$292.9**	**$81.2**	**$374.1**

Source: EXIM

Exporters indicated that EXIM Bank's lapse in authority that lasted from July through early December "affected the Bank and its ability to meet its clients financing" and "caused several mandated transactions to be lost." The data supports these statements as EXIM supported only 87 services exports in 2015 compared to 218 services exports in 2014 and 240 in 2013.

EXIM's services export financing was split between associated services ($81.2 million, 22%) and stand-alone services ($293 million, 78%). This is the first time in the past three years where EXIM Bank supported more stand-alone services than associated services. The decrease in the volume of associated services can be linked to the decrease in the number and value of project finance transactions supported by EXIM since 2012 (a 92% decrease in authorized value). Large projects such as oil exploration, power plants, and mining projects are comprised of multiple goods and service exports needed to accomplish the planning, design, construction, and operation of these large-scale endeavors. For example, in 2014 EXIM Bank supported one transaction that included financing for 13 different services exports. In 2015, EXIM only supported two such large-scale projects and only one required financing for U.S. services exports. Furthermore, only two transactions in 2015 included support for multiple associated service exports.

FOREIGN ECAs' POLICIES AND PRACTICES

EXIM surveyed ECAs that are members of the Berne Union to identify trends in their support for services exports in 2015. Nine ECAs provided responses to the survey. All nine ECAs indicated that they do provide cover for services exports; however, the majority of the survey respondents (five ECAs) indicated that they do not make a distinction between stand-alone services and services associated with a goods export. As a result, these ECAs do not record data that disaggregate between the two types of services. Also, the majority of ECAs provide cover for all terms, primarily determined by the useful life of an export but also by other factors such as the nature of the service, the amount of financing requested, and/or the buyer's requirements.

The foreign ECAs listed engineering, construction, and services related to information and communication technology (ICT) as the top three service sectors they supported in 2015. In addition, they identified Engineering and ICT services as the sectors experiencing the most growth since 2013.

Data provided by ECAs on services export activity are limited as many of EXIM's ECA counterparts do not report separately their services activity from their goods activity. Thus, many ECAs could only give estimates. When ECAs did provide data, the percentage of their portfolio comprised of pure services exports was negligible (e.g., less than 1%), which is comparable to EXIM Bank figures. The export value of services supported by EXIM Bank accounted for 2.5% of the Bank's total supported export value in 2015 and services transactions comprised 4% of the Bank's total authorizations in 2015.

None of the ECAs surveyed has specific programs designed to facilitate the export of services. In fact, one ECA stated, "ECA products may not be the best suited for services." The intangible nature of many services (e.g., ICT) can create challenges with regards to export financing. For example, it may be difficult to discern the origin of a service because services are not made of physical components. There are also complexities associated with accounting for the value of research and development on a transactional basis.

COMPETITIVENESS ISSUES

Support for services in 2015 remained a small portion of the business supported by ECAs (less than 5% in terms of authorizations and value) due to the relatively novel nature of financing services exports compared to goods exports. However, as technology continues to develop and the services trade continues to grow, ECAs will be challenged to develop specific ways to support their domestic services exporters. In fact, ECAs like Japan Bank for International Cooperation (JBIC) have already begun to understand that "rather than conducting transactions based on the sale of equipment only . . . it will be necessary to provide contracted services, including the post-delivery operation of facilities." [1]

CONCLUSION

EXIM Bank's support for services decreased in 2015 following a challenging year, yet EXIM appears to be "slightly more competitive" than export support for services provided by foreign ECAs. EXIM is actively collecting data and exploring mechanisms to improve the Bank's support for services, while other ECAs do not seem to be putting forth the same effort to support this growing sector. The Bank continues to collect comprehensive data on its support for services and is making strides to engage with industry to understand how the Bank can change its policies and programs to better support U.S. services exporters. Along with the policy codifications and flexibilities discussed above, EXIM recently conducted a study to explore the export finance requirements of ICT services and related goods. The only criticism expressed by exporters or lenders with regards to EXIM's financing of services exports is associated with the difficulties in certifying the U.S. content of services exports.

1 JBIC 2015. Japan Bank for International Cooperation Annual Report.

France
Germany
India
Italy
Japan
Netherlands
Norway
Russia
South Korea

SECTION 4

PUBLIC POLICY MANDATES AND STAKEHOLDER VIEWS

EXIM Advisory Committee member Steven Stephens, president and CEO, Amergy Bank N.A.

CHAPTER 14

Economic Impact

KEY FINDINGS

- **In 2015, 33% of EXIM's 100 MLT applications were directly affected by EXIM's economic impact policy, a decrease from 47% in 2014.**
- **No transactions were subjected to detailed economic impact analysis in 2015. However, respondents to EXIM's Exporter and Lender Survey still reported that the economic impact policy had a negative impact on EXIM's competitiveness.**

INTRODUCTION

In accordance with the EXIM charter, EXIM reviews all applications on a case-by-case basis for adverse economic impact on industry or employment in the United States. EXIM determines whether its support would cause substantial injury to U.S. industry or enable the production of a good that is subject to a trade measure.

EXIM POLICY AND PRACTICE

Pursuant to the EXIM charter, the Bank evaluates all transactions it receives for potential adverse economic impact. EXIM first subjects applications to a series of screens designed to identify those transactions associated with:

- Specific legislative prohibitions, such as cases in which countervailing duties are applicable, and
- The potential to cause substantial injury to the U.S. economy through the export of capital goods and services that allow the foreign buyer to establish or expand foreign production of goods or passenger airline services.
    - The EXIM Bank charter states that economic impact analysis should occur when a transaction may cause "substantial injury" to U.S. producers. In accordance with the charter, to meet this threshold the amount of foreign production enabled by the EXIM transaction must equal 1% or more of U.S. production.

This screening process enables the Bank to flag transactions that require more in-depth review and to subject those transactions to detailed economic impact analyses. A detailed analysis estimates the costs (i.e., value of displaced U.S. production) and benefits (i.e., value of U.S. exports) to determine the net impact of the transaction on the U.S. economy. Detailed economic impact analyses are presented to the EXIM Bank Board of Directors to aid in their deliberations on whether to support the transaction. As shown in Figure 38 (page 74), EXIM "acted on"[1] 100 MLT applications in 2015.

EXIM's economic impact procedures state that the Bank must review all applications. In some cases, applications involving the export of capital goods and services that would

1 "Acted on" refers to transactions EXIM authorized, denied, or withdrew. This number may differ from reported authorizations for the year as this measure includes cases that EXIM did not support.

enable the increased production of an exportable good are subject to additional screening. As shown in Figure 38, in 2015 there were 33 such applications. EXIM did not subject any medium- or long-term transactions to a detailed economic impact analysis in 2015 because none met the substantial injury thresholds required to perform a detailed analysis.

FIGURE 38: Acted On Applications Affected by Economic Impact [2]

MLT Applications	2011	2012	2013	2014	2015
Total MLT Applications [24]	344	278	256	217	100
(of which, Commercial Passenger Aircraft)			(32)	(23)	(18)
Cases Directly Affected by Economic Impact Mandate	135	98	103	99	33
(of which, Commercial Passenger Aircraft)			(17)	(23)	(18)
Percentage of Total Cases Directly Affected by Economic Impact Mandate	40%	35%	40%	47%	33%
(Percentage of Commercial Passenger Aircraft)			(53%)	(100%)	(100%)
Percentage of Total Cases that Received Detailed Economic Impact Analysis	<1%	4%	3.1%	2.8%	0%
(Percentage of Commercial Passenger Aircraft)			(0%)	(4.3%)	(0%)

Source: EXIM

In accordance with the economic impact procedures implemented in April 2013, EXIM reviewed all aircraft applications involving commercial passenger aircraft for economic impact implications. The aircraft economic impact procedures only apply to applications involving commercial passenger aircraft. Aircraft cases that do not involve passenger aircraft for commercial use (such as freight or agricultural aircraft) are reviewed under the non-passenger aircraft procedures.

In 2015, EXIM acted on 18 large commercial passenger aircraft applications, consisting of 16 long-term loan guarantees and two preliminary commitments. All 18 applications were analyzed according to the aircraft economic impact procedures. None of the applications triggered the required criteria for a detailed economic impact analysis. The EXIM Board of Directors approved all 18 applications.

2 Includes preliminary and final commitments

FOREIGN ECAs' POLICIES AND PRACTICES

No other ECA formally reviews transactions for potential adverse economic impact on their domestic economies. EXIM is unique in that it is required by law to assess each transaction for potential adverse impact on U.S. industry, which can lead to a denial of financing.

COMPETITIVENESS ISSUES

In line with previous years' Exporter and Lender Surveys, respondents had negative feedback regarding EXIM's economic impact policies. Of the nine respondents who considered economic impact relevant to any of their transactions in 2015, 44% indicated that the economic impact policy affected their company's sourcing decision and 67% reported that the policy made EXIM far less competitive than other ECAs. Respondents also reported that the economic impact requirement puts EXIM at a competitive disadvantage relative to other ECAs, none of which have a comparable economic impact mandate. Respondents commented that EXIM's economic impact procedures are "stringent and cumbersome," and that overseas customers have "expressed concerns and frustration" about economic impact because no other ECA has a similar policy. One respondent reported that the economic impact policy is "quite onerous and at times can kill the deal."

CONCLUSION

EXIM's economic impact policy directly affected approximately one third of EXIM's 100 MLT applications acted on in 2015, and none of the 100 applications required a detailed economic impact analysis. The policy also directly affected all 18 of EXIM's long-term and preliminary commitment applications involving commercial passenger aircraft. As in previous years, the U.S. export community gave the economic impact mandate negative ratings. EXIM has the distinction of being the only ECA that reviews its transactions for potential adverse economic impact on domestic industry, and this economic impact policy could be described as a factor that makes EXIM less competitive.

Turkey

Sweden

Spain

South

Africa

Russia

Norway

Netherlands

Korea

CHAPTER 15

Foreign Content

KEY FINDINGS

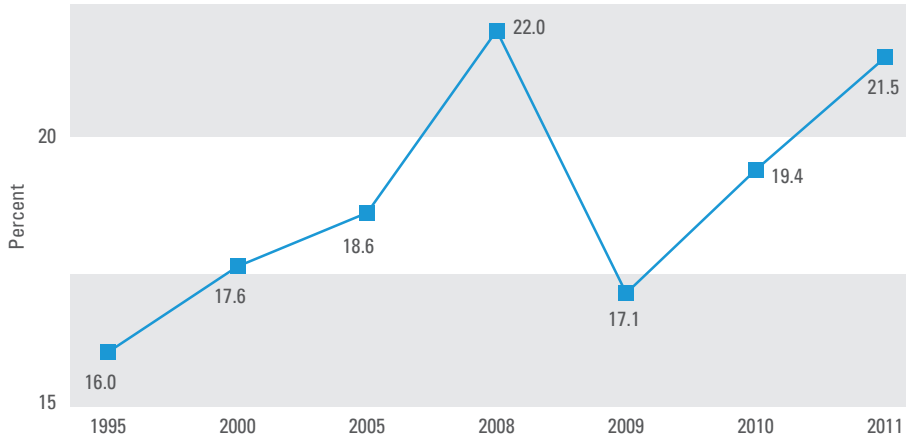
- **Exporters and lenders continue to rank content as the greatest competitive issue facing EXIM.**
- **The OECD-WTO joint initiative to track the content source of international trade flows has thus far indicated an increasing level of foreign value added within U.S. manufactured exports.**
- **Although EXIM's content policies are considered by exporters and lenders to be less competitive against its ECA counterparts, the additional flexibilities implemented by the Bank over the last two years appear to have improved the Bank's competitiveness.**

BACKGROUND

Foreign content consists of any portion of an export (goods or services) that originates outside of the United States and outside of the foreign buyer's country. The rise of global value chains has sparked a recent movement to better understand trade flows in terms of the sourcing of products. A joint initiative by the WTO and the OECD is examining "the value added by each country in the production of goods and services that are consumed worldwide."

Figure 39 shows the overall increasing trend in foreign value-added within U.S. manufacturing exports. From 1995 to 2011, the percentage of foreign value-added within U.S. manufacturing exports increased from 16.0% to 21.5%. Another variable that may currently be impacting the sourcing of inputs within U.S. exports is the appreciation of the U.S. dollar in relation to most major currencies. The U.S. dollar has been experiencing a period of prolonged appreciation since 2011 rising approximately 12%-14% in real effective terms compared to other major advanced economies. One U.S. exporter and EXIM Bank customer explained that it may have to reduce its exposure to the rising dollar by purchasing imported parts used to make its equipment, potentially hurting its U.S. suppliers.

FIGURE 39: Percent of Foreign Value-Added in U.S. Manufacturing Exports



Source: OECD Trade in Value-Added Database (TiVA)

EXIM POLICY AND PRACTICE

The OECD Arrangement does not specify any requirements or guidelines regarding foreign content. This flexibility has resulted in a wide variation in domestic and foreign content policies prescribed by ECAs. According to EXIM's content policy, all eligible foreign and domestic content must be shipped from the United States to the foreign buyer. While EXIM does not disburse directly against eligible foreign content, the minimum 15% OECD cash payment required for every transaction can include eligible foreign content without a reduction in EXIM support. That is, when eligible foreign content exceeds the minimum 15% cash payment, the eligible loan amount decreases commensurate with the level of U.S. content.

For MLT transactions, EXIM limits support to the lesser of:

1. 85% of the value of all goods and services within the U.S. export contract, or
2. 100% of the U.S. produced or originated content within the U.S. export contract.

Figure 40 shows the number and percentage volume of transactions containing foreign content supported by EXIM under its MLT transactions in 2015. Data for 2015 show 46 authorized MLT transactions that contained foreign content, which amounts to 65% of total MLT deals, up 3% from 2014.

FIGURE 40: EXIM-Supported Transactions That Contain Foreign Content

	Authorizations	2011	2012	2013	2014	2015
Total Activity	Export Value (in millions USD)	20,695	29,625	12,759	12,599	6,494
	Number of Transactions	308	258	198	165	71
Transactions Containing Foreign Content	Export Value (in millions USD)	18,997	23,705	11,363	11,502	6,305
	Percentage of Total Value	92%	80%	89%	92%	97%
	Number of Transactions	124	125	129	102	46
PERCENTAGE OF TOTAL NUMBER		**40%**	**48%**	**65%**	**62%**	**65%**

Source: EXIM

Figure 41 displays the volume and average percentage of foreign content within EXIM-supported transactions. The volume of foreign content has decreased primarily because of the reduced level of activity the Bank has engaged in, particularly in 2015. The average amount of foreign content per transaction for 2015 was 12%, representing a slight decrease compared to 2014. Although 97% of EXIM's MLT transactions had some foreign content, only 10 transactions were comprised of more than 15 % foreign content, and EXIM was therefore unable to support the full value of the transactions. Overall, the percentage of foreign content per transaction has remained relatively stable over the past five years.

FIGURE 41: Foreign Content Within EXIM-Supported Transactions

Foreign Content	2010	2011	2012	2013	2014	2015
Volume (in millions USD)	1,604	2,373	3,545	1,242	1,444	573
Average per Transaction	14%	12%	15%	11%	15%	12%

Source: EXIM

FOREIGN ECAs' POLICIES AND PRACTICES

The OECD Arrangement does not govern the scope of foreign content policies administered by individual ECAs. Rather, the OECD Arrangement allows each OECD Participant to design its own content policy in a manner that advances its unique domestic export agenda. Although EXIM's mission is to support U.S. jobs through facilitating the export of U.S.-produced goods, other ECAs use alternative metrics, such as the development of preeminent industries and technologies, indirect job support resulting from future sales, the potential for future follow-on sales, and future employment opportunities as a result of the procurement of parts and technology from a domestic parent company.

FIGURE 42: Comparison of Content Policies of the G-7 ECAs, 2015

	EXIM	EDC (Canada)	Coface (France)	Hermes (Germany)	UKEF (United Kingdom)	Sace (Italy)	JBIC & NEXI (Japan)
Is there a requirement to ship foreign content from ECA's country?	Yes	No	No	No	No	No	No
Will the cover automatically be reduced if foreign content exceeds 15%?	Yes	No	No	No	No	No	No
Is there a minimum amount of domestic content required to qualify for cover?	No	No	Yes (20%)	Yes (30%-70% based on a three-tiered policy)	Yes (20%)	No (Prefer a minimum 30% domestic content)	Yes (30%)
Are foreign inputs still considered foreign content despite being transformed through domestic assembly?	Yes	No	No	No	No	No	No
When local cost support is maximized at 30%, is the amount of eligible foreign content decreased?	No	No	Yes	Yes	Yes	Yes	No

Source: EXIM and OECD ECAs

Figure 42 compares the primary content policy components of the G-7 ECAs for 2015. The data show that EXIM's content requirements are more prohibitive than its G-7 counterparts in terms of transformation,[3] shipping requirements, and level of coverage.[4] However, EXIM remains competitive regarding minimum domestic content requirements and through the disparate treatment of local costs and foreign content.

COMPETITIVENESS ISSUES

Furthermore, exporters and lenders view the Bank's content policy as a competitive disadvantage because other ECAs "can support deals with ease given their low content requirements [which] is attractive to borrowers." Even exporters of products that the Bank is actively seeking to promote, such as environmentally beneficial exports have commented that the "foreign content is very high in many of these items making it a dead deal from the onset."

EXIM's content policy, while more restrictive than other ECAs, does seem to have some positive impact on sourcing decisions. Of those that responded to the question, "Did EXIM's foreign content policy affect your company's sourcing decisions?", 42% of exporters and lenders answered "yes." One exporter explained that they "try to source from the U.S. to the extent possible. This is particularly the case if our client has applied for EXIM Bank support." Sourcing decisions are by no means solely predicated upon EXIM Bank financing, but the data show that for some exporters, the ability to maximize financing may lead to increased U.S. content within EXIM-supported products.

EXIM has added additional flexibly to its foreign content policy through various mechanisms, such as allowing average annual content certification, allowing aggregation of content as opposed to calculating support on an item-by-item basis, and considering foreign-developed licenses owned by a U.S. company for one year or more to be considered U.S. content. Of those that responded to the question "Has EXIM's efforts to add additional flexibility to its foreign content policy helped increase EXIM's competitiveness vis-a-vis other ECA's foreign content policies?", more than 60% of exporters and lenders answered that these flexibilities either "slightly increased competiveness" or "greatly increased competitiveness."

CONCLUSION

Based on the objective and subjective data, EXIM Bank's content policies appear to exert a negative competitive influence on those cases where there can be more than 15% foreign content; however, EXIM continues to take tangible steps to increase competiveness while adhering to its mission of supporting U.S. jobs through exports.

3 Transformation allows for the final product resulting from domestic assembly of foreign inputs to be counted as domestic content.
4 More information on EXIM's shipping policies may be found in Chapter 17.

Sweden
Spain
South
Africa
Russia
Norway
Netherlands
Korea
Japan

Acrow Bridge in Parsippany, New Jersey, is benefiting from EXIM's long-term loan guarantees supporting the export of its modular steel bridges to Cameroon and Zambia. The financing includes local cost coverage for site evaluation, engineering and installation services.

CHAPTER 16

Local Costs

KEY FINDINGS

- **EXIM's support of local costs has decreased in tandem with the Bank's long-term financing support.**
- **Exporters and lenders find the flexibility available through EXIM's local cost policy to compensate for the Bank's restrictive treatment of foreign content.**
- **Local cost support provided by OECD ECAs in 2015, including EXIM, primarily financed local installation, labor, and construction services.**

EXIM POLICY AND PRACTICE

Local costs are costs incurred in the buyer's country. These are in-country costs that are deemed beneficial to the project and cannot be reasonably sourced from the United States. The availability of local cost support reflects the fact that some amount of local labor and materials may be necessary to assemble, install, or establish components of a project related to a U.S. export. These costs can include construction, labor, and installation costs that may be necessary to complete an export sale. For example, in 2015 the Bank financed the export of U.S.-manufactured modular steel bridges to help improve the road infrastructures in Cameron and Zambia. These transactions included financing for a local engineering firm to provide site assessments, environmental evaluations, and installation of the bridges. Figure 43 shows that, in 2015, 20% of the 49 MLT transactions that EXIM authorized received local cost support. The dollar volume of local cost support, however, represented only 1% of total MLT authorizations, the lowest percentage of the last five years.

FIGURE 43: Recent Trends in EXIM Local Cost Support

In millions USD	Authorizations [27]	2011	2012	2013	2014	2015
Total MLT Activity	Authorized Amount	$8,780	$15,118	$5,824	$4,383	$1,727
	Number of Transactions	266	197	152	139	49
MLT Activity Containing Local Costs	Number of Transactions	58	44	35	20	10
	Percentage of Total Number of Transactions	22%	22%	23%	14%	20%
Local Cost	Volume	$955	$3,534	$808	$275	$25
	Percentage of Total MLT Activity	11%	23%	14%	6%	1%

Source: EXIM

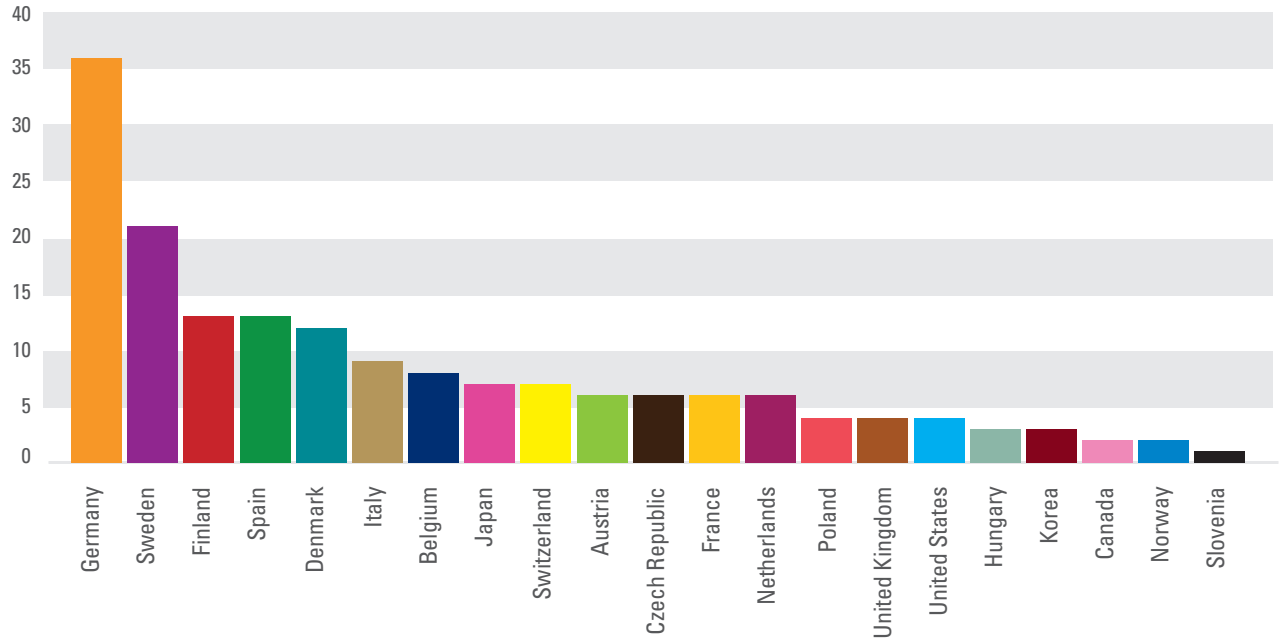
EXIM can provide financing for up to 30% of the value of the U.S. exports for locally originated or manufactured goods and services. EXIM support for eligible local costs is not restricted by foreign costs (or third country costs) exceeding a certain threshold. That is, local costs and foreign content are treated separately and have no bearing on one another. Currently, other ECAs consider the level of non-domestic support on an aggregate basis, which can restrict the level of non-domestic content supported in a transaction when local costs are maximized. Local cost support for long-term transactions must be beneficial to the project or export. For medium-term transactions only, a U.S. exporter seeking local cost support must demonstrate either: 1) the availability of local cost support from a competitor ECA, or 2) private market financing of local cost was difficult to obtain. However, EXIM offers "automatic" local cost financing for strategic sectors such as environmental exports, medical exports, project finance transactions, and transportation security exports.

1 Data reflect authorized amount instead of export value, because the authorized amount includes local cost. Data exclude large aircraft transactions because they do not finance local costs.

FOREIGN ECAs' POLICIES AND PRACTICES

All OECD participants adhere to the local cost rules set forth in the OECD Arrangement. Figure 44 shows that in 2015 21 OECD Arrangement Participants reported 173 transactions where local cost support exceeded 15%. Germany reported the most number of transactions (36), followed by Sweden (21), Spain (13) and Finland (13). The United States notified four transactions in 2015 where local costs exceeded 15%.

FIGURE 44: Number of Transactions Notified for Local Costs by Country ECA in 2015



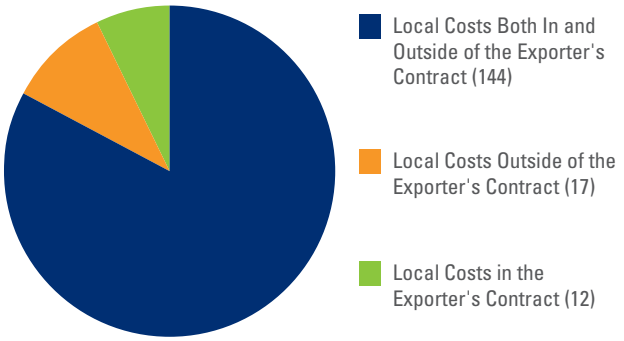
Source: OECD

For long-term transactions, local costs can be categorized as "inside," "outside," or "both inside and outside" of the export contract. Local costs can be explicitly connected to the costs an exporter must incur to complete their contractual obligation (inside the export contract) or local costs can be beneficial to a project as a whole and not directly linked to the exporter's scope of work (outside the export contract). Some export contracts can also include local costs that are both directly associated with the costs the exporter must incur to fulfill the export contract and connected to a larger project (both inside and outside the export contract). EXIM's local cost policy gives exporter's increased flexibility in the way local costs are documented in that they can be outside of the export contract while foreign ECAs, in particular insurer ECAs, typically limit their support to costs included in the exporter's scope of work. Figure 45 shows that the vast majority of notified local costs are documented inside the export contract. One exporter commented that "The EXIM policy of not

requiring local costs to be included in the export contract has been competitively beneficial to our company as all European ECAs and most other ECAs require local cost to be included in the exporter's contract."

Overall, the majority of local cost financing provided by all OECD ECAs was used to support local construction, labor, and installation costs followed by deliveries from local subsidiaries, and locally procured capital equipment. Local costs were also used to cover taxes, inland freight, and other miscellaneous local expenses incurred by the exporter, albeit to a lesser frequency. EXIM Bank primarily disbursed local costs to cover construction, labor, and installation costs. EXIM Bank also supported local costs in the form of taxes, local capital equipment, and technical and environmental site assessments.

FIGURE 45: Documentation of Officially Supported Local Costs

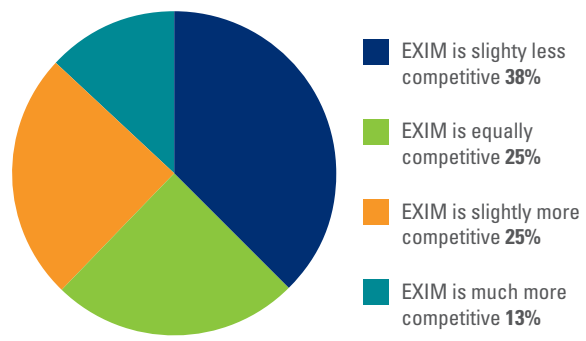


Source: OECD

CONCLUSION

The implementation of EXIM's local cost policy provides exporters with increased flexibility vis-a-vis the Bank's ECA counterparts. For example, EXIM Bank provides financing for local costs that are beneficial to the project as a whole (outside the export contract) in contrast with other foreign ECAs that require local costs to be explicitly part of an exporter's contractual obligation (inside the export contract). Also, EXIM treats foreign content and local costs separately. EXIM allows for a maximum of 15% foreign content before it begins to reduce the maximum amount of support offered. In addition, EXIM can finance up to 30% of the U.S. export contract for locally procured goods and services. Currently, other ECAs consider the level of non-domestic support on an aggregate basis. This means that if local costs are maximized at 30%, as prescribed by the OECD Arrangement, the ECA will consider what level of foreign content they will support based on their established non-domestic content policy. EXIM does not restrict the amount of eligible foreign content within a financing package when local costs are maximized at 30%.

FIGURE 46: Competitiveness of EXIM Local Cost Policy



Source: EXIM Exporter and Lender Survey

EXIM's local cost policy is considered "equally competitive" relative to that of other ECAs. Figure 46 shows that 75% of exporters and lenders surveyed in 2015 that had experience with EXIM's local cost policy stated that EXIM was at least "equally competitive" compared to other ECAs. As one respondent said, "local cost policy is very solid" and "certainly a competitive advantage for EXIM."

CHAPTER 17

U.S.-Flag Shipping Requirement

KEY FINDINGS

- **U.S. exporters and financial institutions with transactions subject to the U.S.-flag shipping requirement contend this policy renders EXIM less competitive than its foreign counterparts.**

BACKGROUND

Public Resolution 17 (PR-17), enacted March 26, 1934, and reaffirmed in Public Law 109-304 on October 6, 2006, expresses the sense of Congress that ocean-borne exports financed by the U.S. government should be transported on U.S.-flagged vessels. This U.S.-flag shipping requirement is meant to ensure a well-trained merchant marine able to maintain the flow of waterborne domestic and foreign commerce during wartime or national emergency. U.S.-flagged vessels must be U.S. government or citizen-owned and manned by U.S. citizens. The freight charges are service exports and eligible for EXIM financing.

This U.S.-flagged shipping requirement applies to U.S. exports supported by either EXIM loans (of any size) or guarantees over $20 million.[2] EXIM financing is not available if foreign-flag carriers are used to transport U.S. exports that are subject to PR-17. Exceptions are permitted when U.S.-flagged vessels are not available in sufficient numbers or tonnage capacity, on the necessary sailing schedule, or at reasonable rates. [3,4] Exceptions may also be granted when a shipment was transported on a foreign vessel, if the exporter enters into a compensatory commitment to ship future (non-EXIM financed) cargo on U.S.-flagged ships.[5] Since 2012, for exporters unable to compensate for a shipment made in error by promising future shipments, the U.S. Department of Transportation's Maritime Administration (MARAD) has considered applications for "Reachback" determinations ,[6] which allow EXIM to provide a significantly reduced rate of coverage on the initial shipment transported on a foreign flagged-vessel, if future cargo shipments associated with the authorization comply with PR-17.[7] In addition, MARAD may allow up to 50%, on a revenue ton basis, of a total export sale to ship on carriers of the cargo purchaser's nation, if the nation has a merchant navy and does not engage in discriminatory treatment of U.S.-flagged vessels in foreign trade.[8]

EXIM POLICY AND PRACTICE

In 2015, EXIM approved 27 long-term guarantees and no direct loans. In any year, not all long-term guaranteed and direct loans transactions are subject to PR-17, especially aircraft, since the export is generally flown to its destination. Similarly, satellites are sometimes launched, exports to Mexico and Canada are generally trucked, services

2 When PR-17 was enacted, EXIM only offered direct loans. Subsequently, EXIM and MARAD agreed that PR-17 would apply to EXIM-guaranteed transactions that were equivalent to direct loans. A 2004 Memorandum of Understanding signed by EXIM and MARAD revised the parameters for applying PR-17 to guaranteed transactions from $10 million to $20 million (excluding the exposure fee) or a greater than seven-year repayment term (unless the export qualifies for a longer repayment term under EXIM's special medical, transportation security, and environmental initiatives).

3 The Secretary of Transportation delegates the authority to determine non-availability of a U.S.-flagged vessel to MARAD.

4 In these circumstances, MARAD may issue a "Statutory" certification of vessel non-availability. EXIM may support the goods but not the non-U.S. freight charges.

5 In this circumstance, EXIM may support the goods but not the non-U.S. freight charges.

6 A determination by MARAD that allows an exporter that has already shipped part of its cargo on a foreign-flagged vessel and is unable to commit to substitute future cargo shipments on a U.S. carrier for it to receive EXIM support at a reduced rate of coverage provided the rest of the cargo shipments associated with the export transaction comply with PR-17.

7 In this circumstance, EXIM may provide 80% of the normally available coverage to 10% of the initial shipment made on a foreign vessel.

8 In this circumstance, MARAD may issue a "general" determination, and freight costs are eligible for EXIM's support.

may transport electronically, and on occasion some goods may require special handling only available by air transport. Notwithstanding this caveat, the number of authorizations approved in 2015 subject to PR-17 is extraordinarily low. Only two (aggregating approximately $96 million) of the 27 long-term guaranteed transactions were subject to the U.S.-flagged shipping requirement. By contrast, during 2014, there were some 14 transactions with combined authorized value exceeding $1.7 billion subject to PR-17. The lapse in EXIM's authorization may have contributed to the unusual outcome for 2015, as the board was unable to authorize new transactions for over half of the year. Additionally, concerns about China's slowing growth, low international commodity prices, and global financial market instability may have deterred investors from undertaking major new projects, which could also have contributed to the drop in authorizations subject to PR-17.

As previously noted, under certain circumstances, MARAD will consider requests for certifications or determinations to transport a PR-17 shipment on a non-U.S.-flagged vessel. Figure 47 compares the outcomes for 2015 to those in the two prior years and shows a significant reduction in the number of notifications.[9] The number of notifications for 2013, however, would have been closer to the 2014 result, if two statutory certifications granted after the fact because cargo intended for a U.S.-flagged carrier was placed on the wrong vessel in error by the ocean carrier operator were not included in the 2013 total. It is also noteworthy that no compensatory determinations were approved in 2015, but these arrangements are usually only necessary at the beginning of projects when EXIM's customers request funding for the first (few) shipments that were shipped in error on foreign flagged vessels. The absence of compensatory determinations may be the result of the fact that EXIM's authorizations of long-term guaranteed transactions precipitously declined in 2015.

All of the certifications and determinations approved in 2015 related to prior years' authorizations. This is not surprising. Shipments under large transactions may be sourced from different locations within the United States and occur over a number of years. Additionally, decisions regarding certifications and determinations are made on individual shipments and do not apply to all shipments associated with an authorization. For these reasons, there can be numerous determinations for a given project spanning a number of years.

FIGURE 47: PR-17 Notifications

Notifications	2013	2014	2015
Statutory (Non-Availability)	15	9	5
General	1	1	0
Compensatory	9	9	0
Reachback	0	2	1
TOTAL	**25**	**21**	**6**

Source: MARAD

COMPETITIVE ISSUES

EXIM conducted round-table discussions with exporters and financial institutions and an online survey to obtain feedback regarding U.S. government shipping policy and procedures. In the round-table discussion with exporters, EXIM was criticized for not being proactive in working with other agencies to find solutions to the vessel requirement. The view was also expressed that containerized shipping was generally competitive, as opposed to break bulk shipping, which because of high cost has a negative impact on EXIM's competitiveness.

All online survey respondents reporting authorizations subject to the U.S.-flagged shipping requirement affirmed that the requirement makes EXIM less competitive than other ECAs. Exporters also complained about MARAD's processing time, difficulty in obtaining "waivers" when U.S.-flagged vessels are not available or the cost is substantially more, and the practical necessity of requiring the services of expensive shipping experts to help with arrangements.[10] Thus exporters and lenders continued to affirm that the shipping policy places them at a competitive disadvantage relative to non-U.S. producers supported by foreign ECAs.

CONCLUSION

The current views expressed by exporters and lenders remain generally consistent with those voiced in previous years. The finding remains that EXIM's shipping requirement makes the Bank less competitive than foreign export credit agencies.

9 When direct U.S.-flagged service is not available, shipments that leave on a U.S.-flagged carrier may be transferred to foreign-flagged service based on a "P-2 concurrence". These are not included in the chart, since exports leave on a U.S.-flagged vessel. The number of P-2 notifications surged in 2015 to 12 from an average of approximately three over the prior three years. According to MARAD, this increase is due to the fact that there have been more shipments subject to PR-17 to a final destination that required trans-shipment.

10 Please see the online compendium to the Competitiveness Report for more details on survey responses.

Italy

Japan

Netherlands

Norway

Russia

South Korea

Spain

Sweden

United Kingdom

Gulf South Forest Products Inc. a small business in Fort Lauderdale, Florida, uses EXIM products to support its lumber exports to the Dominican Republic, Barbados, and Spain.

CHAPTER 18

U.S. Small Businesses and EXIM's Lapse in Authority

KEY FINDINGS

- **During the 2015 lapse in authority, more than 800 EXIM export credit insurance policies expired and were unable to be considered for renewal.** [1]
- **The impact of the lapse was highly varied from exporter to exporter.**
- **U.S. small business exporters whose policies expired faced multiple unfavorable conditions in fulfilling existing export orders, responding to prospective new business deals, maintaining business relationships with their existing customers, maintaining profit margins, and sustaining or creating jobs.**

1 The vast majority of export credit insurance policies are held by U.S. small business exporters to insure against nonpayment by a foreign buyer and/or to offer payment terms of 30-90 days to their foreign buyers. Policies are typically purchased through an EXIM Bank designated insurance broker.

THE IMPACT OF EXIM BANK'S LAPSE IN AUTHORITY THROUGH CUSTOMERS' EYES

Export credit insurance is a high-volume product line for EXIM Bank. Approximately 800 single- and multibuyer export credit insurance policies expired and were unable to be considered for renewal during EXIM's lapse in authority.

As policies were due to expire during the lapse, EXIM's vice president of Customer Experience, deputy chief of staff, and director of Trade Credit Insurance reached out to policyholders and their insurance brokers to make sure policyholders received notification and enough time to pursue alternative coverage. During that notification effort, approximately 175 U.S. small businesses that had been EXIM policyholders shared anecdotes of how the expiration and nonrenewal of their EXIM export credit insurance policies would ripple through their businesses. While some exporters obtained private sector policies, the vast majority encountered nuanced, complex business challenges such as the following:

"Do I stop exporting?" The consequences of losing the EXIM policy were minimal for small businesses with a thriving domestic business or relatively few exports, and far more serious for export-oriented small businesses.

For example, a small business in Alabama could not afford to take the risk of shipping its goods without some form of insurance to guard against the risk of nonpayment by overseas buyers. When the company's EXIM insurance policy expired, the company sought out alternative options; however, due to the company's size, the location of its buyers in places like North Africa, and the cost of private insurance, the company had to forgo some export opportunities altogether.

"Do I change terms to cash up front?" With EXIM's export credit insurance policy, U.S. exporters can offer terms of 30-90 days to foreign buyers to pay for orders of U.S. made goods. Without insurance, a small business can change terms to cash up front; however, there can be long-term consequences.

For example, a small business in Iowa whose EXIM export credit insurance policy expired and could not be considered for renewal sought out private sector insurance options but found that pricing "was not within the company's means," leaving the company "highly limited" in fulfilling upcoming export orders to Chile and South Africa. Without export credit insurance, the company walked away from two orders in Chile and one in South Africa, because the buyers would not accept terms of cash in advance.

PRIVATE-SECTOR RESPONSE

Throughout the lapse, some U.S. exporters and brokers found that private sector coverage simply was not available for small businesses with less than $2 million in export sales annually — typically the smallest of U.S. small business exporters. For these small businesses, the problem wasn't that the premiums were prohibitively expensive. It was that no applicable private-sector policy existed.

For example, a small business with 120 employees in remote Idaho with aggressive competitors in China looked for private sector options when their EXIM export credit insurance policy expired. In two instances, the company was rejected by private sector insurers because their overseas buyers were too small.

CONCLUSION

During the lapse, no two experiences were exactly the same. Overall, however, small businesses that used but then lost EXIM's export credit insurance policy, faced a wave of challenges to their export deals, business operations, relationships with foreign buyers, and general attitudes toward exporting.

Germany France Finland Denmark United States China Canada Brazil Austria

APPENDICES AND GLOSSARY

CONTENTS

Appendix A: Purpose of EXIM Transactions 90

Appendix B: Equal Access for U.S. Insurance 91

Appendix C: Trade Promotion Coordinating Committee 92

Appendix D: Tied-Aid Credit Program and Fund 94

Appendix E: EXIM Co-financed Transactions 101

Appendix F: Transaction Processing Times 102

Appendix G: EXIM's Point of Experience Customer Survey 103

Appendix H: List of Active Export Credit Agencies 104

Glossary 106

APPENDIX A

Purpose of EXIM Transactions

The charter requires EXIM to include in the annual Competitiveness Report a breakdown of the purposes for EXIM support for transactions. The purposes of EXIM support for transactions are to fill the financing gap when private sector financing is limited or unwilling to take risks and to counter potential foreign ECA competition. Each transaction may satisfy one or all of the purposes.

Figure 48 breaks down the number and amount of EXIM transactions authorized in 2015 by purpose and program type. In 2015, EXIM transactions totaled $10.1 billion, an approximately 50% decrease from $19 billion in 2014.

FIGURE 48: EXIM Transactions by Purpose, 2015

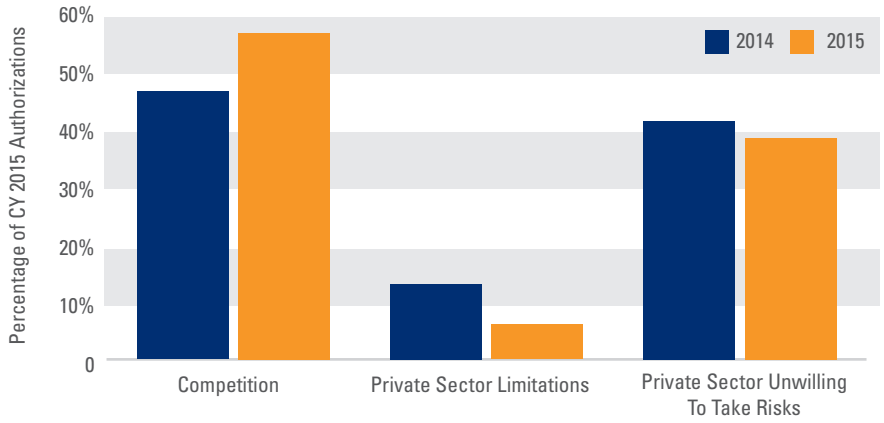
	PRIVATE SECTOR LIMITATIONS		PRIVATE SECTOR UNWILLING TO TAKE RISKS		POTENTIAL COMPETITION		TOTAL	
	($MM)	(#)	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working Capital Guarantees	$3	1	$631	156			$634	157
Short-Term Insurance	$539	808	$3,166	1,155			$3,706	1,963
Medium-Term Insurance			$1.3	2	$27.6	12	$29	14
MLT Guarantees	$113	3	$36	13	$5,607	41	$5,756	57
Loans*			$9	22			$9	22
TOTAL	**$655**	**812**	**$3,844**	**1,348**	**$5,634**	**53**	**$10,133**	**2,213**

*Small loans for working capital

Source: EXIM

As Figure 49 shows below, this year's breakdown of justification for support is similar to last year, although potential competition from foreign ECAs has increased slightly as a percent of the Bank's portfolio.

FIGURE 49: PRIMARY JUSTIFICATION FOR SUPPORT: CY 2014 AND 2015



Source: EXIM

APPENDIX B

Equal Access for U.S. Insurance

Pursuant to Sections 2(d) and 2(d)(2) of the EXIM charter, the Bank is mandated to ensure, for long-term transactions valued $10 million[2] or more, that United States insurance companies are afforded an equal and nondiscriminatory opportunity to bid for insurance in connection with transactions assisted by the Bank. During calendar year 2015 (the reporting period covered by this report) the Bank is not aware of any applicable competitive opportunity where U.S. insurance companies were not afforded equal and nondiscriminatory access.

2 The Export-Import Bank Reform and Reauthorization Act of 2015 increased the dollar threshold for this provision from $10 million to $25 million.

APPENDIX C

Trade Promotion Coordinating Committee

KEY FINDINGS

- **The lapse in EXIM's authorization impacted the outreach efforts and new business.**
- **Despite challenges, EXIM enjoyed some notable successes in advancing the Trade Promotion Coordinating Committee's strategy in 2015, including adding a new city/state partner and hosting an annual conference booked to capacity.**

BACKGROUND

Section 8A(a)(2) of EXIM's charter requires EXIM to report on its role in the interagency Trade Promotion Coordinating Committee (TPCC), which is responsible for assisting in the development and implementation of the Administration's National Export Strategy (NEI).[3] The current strategy, NEI/NEXT, builds on the National Export Initiative (NEI) launched by the Obama Administration in 2010 to expand U.S. exports. The NEXT phase is a customer-driven strategy designed to make it easier for more U.S. businesses to begin exporting or expand international sales. To fuel U.S. competitiveness and job growth the NEI/NEXT strategy is advancing program and policy improvements to:

1. Provide exporters more tailored assistance and information, helping them to reach their next global customer.
2. Streamline export reporting requirements to ease and facilitate international U.S. business shipments, including through interagency cooperation on the President's Executive Order creating a single online window for customs transactions.[4]
3. Expand American businesses' access to export finance by educating more financial institutions and corporations about U.S. government-provided financing options and streamlining service.
4. Engage communities and states in promoting exports and attracting foreign direct investment, sharing economic development best practices and helping to foster supportive ecosystems for local businesses to successfully capitalize on global opportunities.
5. Unlock global opportunities for U.S. businesses by opening new markets through agreements such as the Trans-Pacific Partnership and ensure a level playing field by enforcing U.S. trade agreements and international trade rules.

3 Members of the TPCC are: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor, the Overseas Private Investment Corporation, EXIM, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Security Council, National Economic Council, the Department of Homeland Security, and the Office of Management and Budget.

4 On February 19, 2014, President Obama signed Executive Order (E.O.) 13659 Streamlining the Export/Import Process for America's Businesses, encouraging completion of the International Trade Data System to facilitate all relevant U.S. government agencies involved in trade moving from paper to efficient online processing of certain trade data.

ANALYSIS

During the first six months of 2015, EXIM was very actively engaged in outreach to increase awareness of the Bank's programs and expand U.S. companies' access to export financing. For the second year in a row, EXIM's annual conference in April drew a record crowd with some 1,200 attendees. This annual event remains an excellent platform to educate U.S. and foreign business and banking representatives about export financing options. Attendees not only learned about EXIM's programs but also had the opportunity to connect with various public and private sector entities that provide financing, insurance, logistical support, and other services to U.S. exporters.

In addition to the annual conference prior to the lapse in authorization EXIM co-hosted five Global Access Forums across the United States.[5] These forums are held in collaboration with members of Congress, other elected officials, local chambers of commerce, federal and local agencies, and others. EXIM Bank also held two quarterly training events in Washington, D.C., each with approximately 60 participants.

In 2015, EXIM added six new banks as lenders under the Working Capital Program. This increase in eligible lenders will help to expand the reach of this program, which is a valuable source of liquidity for small business exporters. Additionally, the Bank expanded its City/State program. Norfolk, Virginia, became the 79th participant in this program that brings state, county and local non-profit economic development organizations into a marketing partnership with EXIM. Finally, EXIM participated in over 20 roundtables and business visits.

EXIM's efforts to reach more potential foreign buyers, especially in target markets, such as Africa, had to be held in abeyance during the period that the Bank lacked authority to extend new coverage. Authorizations for sub-Saharan Africa declined from the 2014 level. Nevertheless, EXIM was able to make an appreciable contribution to the Administration's efforts to increase commercial engagement in sub-Saharan Africa, with over $220 million in authorizations in 2015.

Finally, to support the Administration's initiative to create a single online window for customs transactions, EXIM submitted a formal request for membership to the International Trade Data System (ITDS), which was granted. EXIM is currently awaiting final execution of a memorandum of understanding with Customs and Border Protection within Homeland Security, the entity which controls the electronic data system, to finalize the multi-step process for gaining access. In the meantime, EXIM has been developing safeguards to ensure exporters' compliance can be validated and to prevent fraud once data access is fully operational. These safeguards will enable EXIM to streamline its disbursement system and transition away from reliance on physical bills of lading and other shipping documents to electronic data access through the ITDS portal.

5 Events were held in Virginia, Alabama, New York, Illinois, and Texas.

APPENDIX D

Tied-Aid Credit Program and Fund

KEY FINDINGS

- **In 2015, tied aid increased from $4 to $5 billion, while untied aid increased from $10 to $12.8 billion.**
- **The top three countries that provided tied-aid support in 2015 were Japan, Korea and, remarkably, Belgium.**
- **Japan doubled the amount of tied aid it provided, up from $2 billion in 2014 to $4 billion in 2015. Korea, the second largest provider of tied aid in 2015, slightly decreased its support from $573 million in 2014 to $531 million in 2015. Belgium tripled its support from $74 million in 2014 to $248 million in 2015.**
- **With respect to tied aid offered by non-OECD countries, the lack of transparency regarding the terms and conditions of these offers coupled with an appreciable scope and scale of aid activity that appears to be far outpacing aid from OECD ECAs. As such, although the competitive consequences of this trend are unclear, non-OECD aid activity should continue to be monitored.**

BACKGROUND

Recognizing that tied and partially tied aid has represented a competitive threat to U.S. exporters for decades, Congress has included ample provisions surrounding tied and partially untied-aid credits offered by other countries in the EXIM charter. For many years such support was considered a predatory method of financing exports among OECD countries because of its market-distorting effects. Such distortions caused the United States to lose export sales, with resulting losses in economic growth and employment. In addition, these practices undermine market mechanisms that would otherwise result in export purchase decisions made on the basis of price, quality, delivery, and other factors directly related to the export where official financing is not subsidized and would be a neutral factor in the transaction.

As such, Congress has mandated that EXIM:

- Match foreign ECA and aid agencies when they offer tied aid that falls outside of the scope of the OECD rules and when they exploit loopholes, such as untied aid. Such matching should provide the United States with leverage to reduce the overall level of export subsidies;
- Support U.S. exporters facing foreign competition that is consistent with the OECD Arrangement but "which places U.S. exporters at a competitive disadvantage"; and
- Mantain a tied aid program to target the export markets of those countries that use tied or untied aid for commercial advantage and it should be used aggressively to:
    - promote compliance with the OECD Arrangement rules (including non-OECD members);
    - enforce compliance with the existing Arrangement; and
    - facilitate efforts to negotiate and enforce new or revised international arrangements that restrict the use of tied and untied aid for commercial gain.

For over 20 years, tied aid has been a competitiveness issue for U.S. exporters. "Tied aid" is defined as concessional, trade-related aid credit provided by a donor government that is tied to the procurement of equipment and/or services from the donor country. As official aid, these are loans extended on terms substantially more generous than standard export credits. While the degree and scope of competitive concerns were greatly diminished since 1991 by the introduction of the OECD tied aid rules, known as the Helsinki Package, U.S. exporters have faced competitive challenges in certain circumstances that result from foreign tied-aid offers. Although the OECD rules successfully redirected tied aid away from commercially viable projects in the higher-income markets, non-OECD countries are not bound

by the OECD tied and untied rules and can, therefore, issue concessional and low concessionality tied aid to foreign buyers that fall outside the purview of the OECD disciplines.

The U.S. government seeks to deter trade-distorting tied aid offered by foreign ECAs and promote transparency in the use of both tied and untied aid. This appendix details competitive issues pertaining to the use of tied and untied aid and contains information that addresses the tied aid reporting requirements of EXIM's charter.

TIED AID AND EXIM TIED AID PRACTICES

Tied aid (when initiated) is typically offered as a component of development assistance to the recipient country, such as when a donor country offers a loan to a recipient country at favorable terms, below market rates, in exchange for the purchase of goods and/or services from the donor country. Tied aid can distort trade flows when the recipient country makes its purchasing decision based on the country from which it is receiving aid rather than the best price, quality or service of the product. Under these circumstances, a donor government's tied aid offer may be used as an attempt to "buy" a sale for its national exporter through the provision of low cost financing to a recipient country. As such, the OECD rules allow governments that typically do not initiate tied aid, like the United States, to match foreign tied-aid offers that are either not compliant with OECD rules or competing with standard export credit support.

Tied aid can take the form of a grant, a mixed credit (a grant plus a standard export credit) or a "soft" loan that can be offered as a long-term loan bearing a low interest rate and/or extended grace period.

The OECD participants have agreed to a set of rules known as the Helsinki Package. These rules govern "Helsinki-type" tied aid, the form of tied aid that has the greatest potential for trade distortion. The Helsinki Disciplines can be summarized as follows:

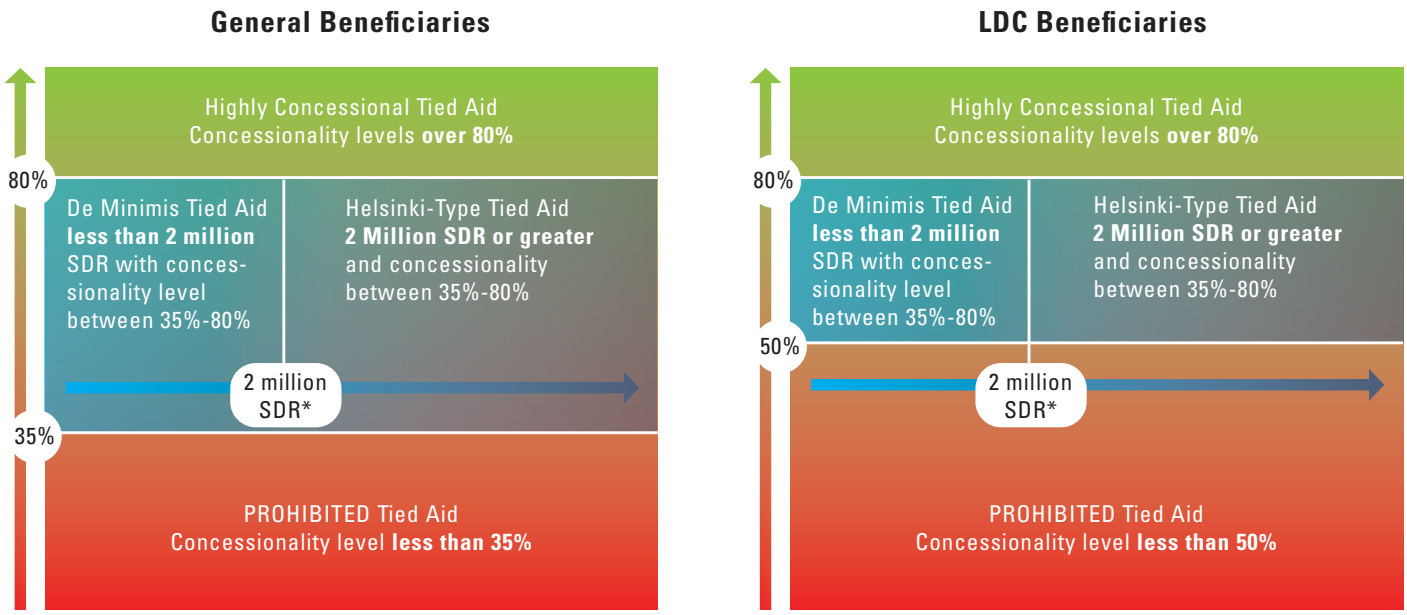
1. No tied aid offered for commercially viable projects;
2. Tied aid must be notified to OECD members at least 30 business days before the country makes a financing commitment;
3. No tied aid offered for upper-middle income and high-income countries, which are defined as those countries with a gross national income (GNI) per capita at or above $4,126 and $12,735, respectively, with this figure updated yearly based on annually adjusted World Bank income classification criteria; and
4. Tied-aid offers must have a minimum concessionality level between 35%-80% and greater than 2 million SDR* (approximately $3 million USD).

"Non-Helsinki-type" tied aid includes all other tied aid offers. These are: (i) de minimis projects, which are valued at less than approximately $3 million, (ii) grants or

*Special Drawing Rights (see Glossary on page 107.)

near-grants, valued at least 80% concessionality, and (iii) partial grants, valued at least 50% concessionality, which are offered to UN-declared Least Developed Countries (LDCs). Figure 50 illustrates these types of tied aid.

FIGURE 50: Scope of OECD Tied Aid Rules



*Special Drawing Right (SDR). See Glossary, page 107.

Source: OECD Notifications

"Untied aid" differs from tied aid in that it is not formally conditioned on the purchase of equipment from suppliers in the donor country. Hence, recipients of untied aid funds can use the funds to purchase goods from suppliers outside of the donor's country.

EXIM strictly applies the Helsinki Disciplines and is more stringent than most other OECD members in that it does not initiate tied aid for commercial purposes. Instead, EXIM seeks to match foreign offers through its Tied Aid Capital Projects Fund (TACPF). The TACPF can be used in consultation with the Department of the Treasury as soon as information about competing offers has been collected and certain criteria have been fulfilled, including the prospect of future sales on non-concessional terms.

Historically, exporters and lenders have had difficulty meeting the requirements necessary to match foreign tied aid. Verifying the terms and conditions of a foreign tied-aid offer may take longer than the timeframe associated with the bid tender. Moreover, establishing that future transactions would be financed on commercial terms can be equally difficult as many tied-aid recipient countries rely on concessional and standard export credits. Finally, exporters' lack of awareness of EXIM's tied aid matching procedures can further impact EXIM's effectiveness as matching cases must be brought to the Bank by concerned exporters.

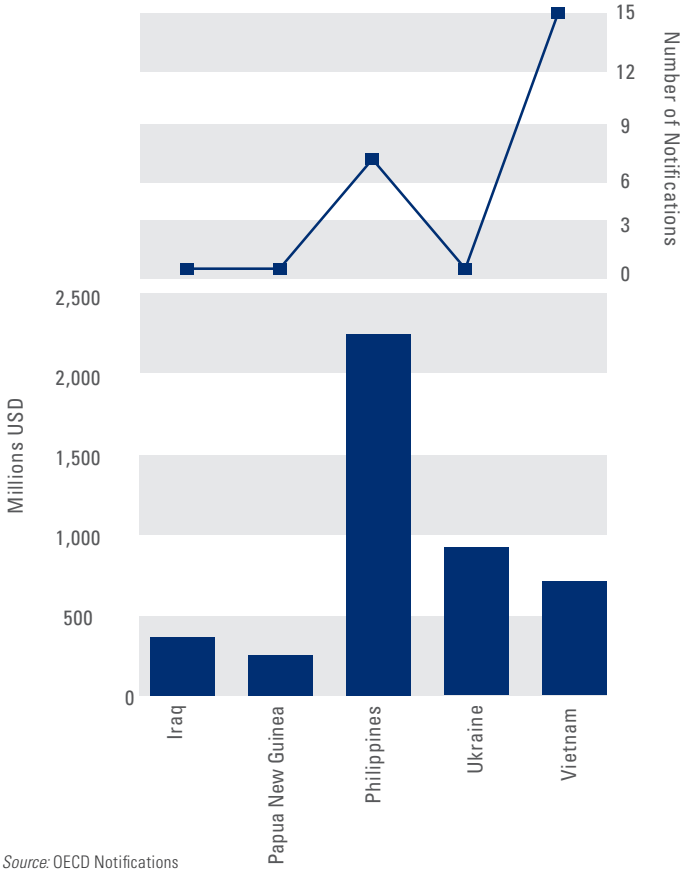
These factors coupled with a successful OECD rules regime have significantly reduced, and, in some years eliminated requests from U.S. exporters to match foreign tied-aid offers. EXIM does not have an untied-aid program and no matching authorizations have been issued since 2011, with only three issued since 2002.

IMPLEMENTATION OF THE OECD ARRANGEMENT AND THE OECD TIED AND UNTIED ACTIVITY

The Helsinki Disciplines was agreed to by the participants to the OECD Arrangement in 1991 and went into effect in February 1992. Since that time, the use of tied aid for commercially viable projects has significantly declined.

The OECD tied-aid rules have helped reduce tied aid from OECD countries and almost all remaining tied-aid volumes have been redirected away from commercially viable sectors and toward commercially non viable sectors, and from high-and middle-income countries to lower-income countries.

FIGURE 51: Helsinki-Type Aid: Top Recipient Countries

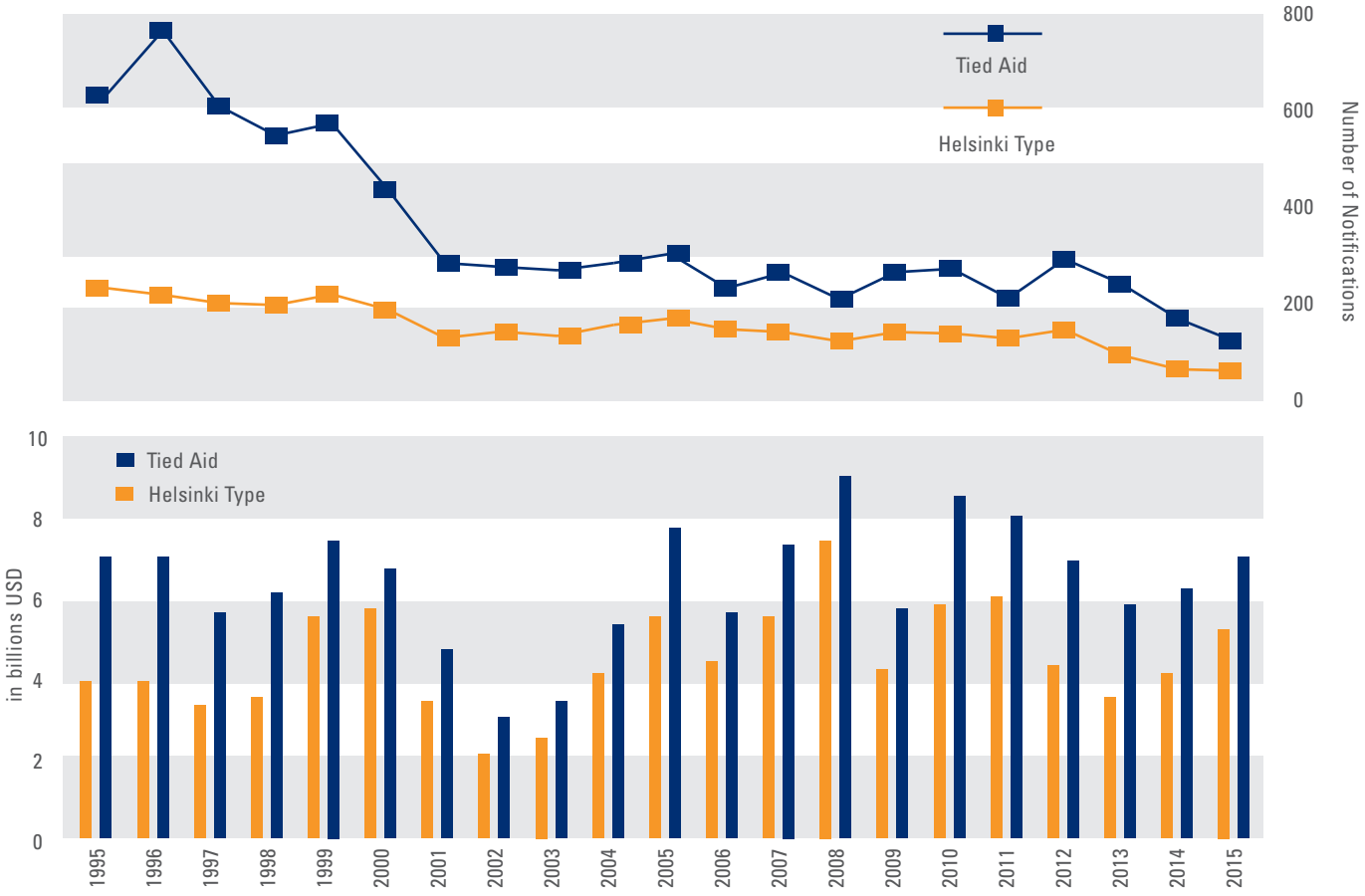


Source: OECD Notifications

In 2015, there was $7 billion in tied-aid offers. Of these, $5.8 billion was for Helsinki-type aid, $670 million was highly concessional tied aid, $2 million was de minimis tied aid and $1.2 billion was tied aid for least developed countries (LDC's). OECD Helsinki tied aid increased by 37% to roughly $5.8 billion in supported contracts. As shown in Figure 52, overall, 2015 Helsinki tied-aid volumes stayed largely within the historical ranges of tied-aid activity that followed the 1991 agreement. Figure 53 displays a cumulative volume of Helsinki-Type tied aid by notifying country, displaying an overwhelming majority coming from Japan. Figure 54 shows an overwhelming majority of Helsinki-type tied aid going to the transportation, water and sanitation sectors.

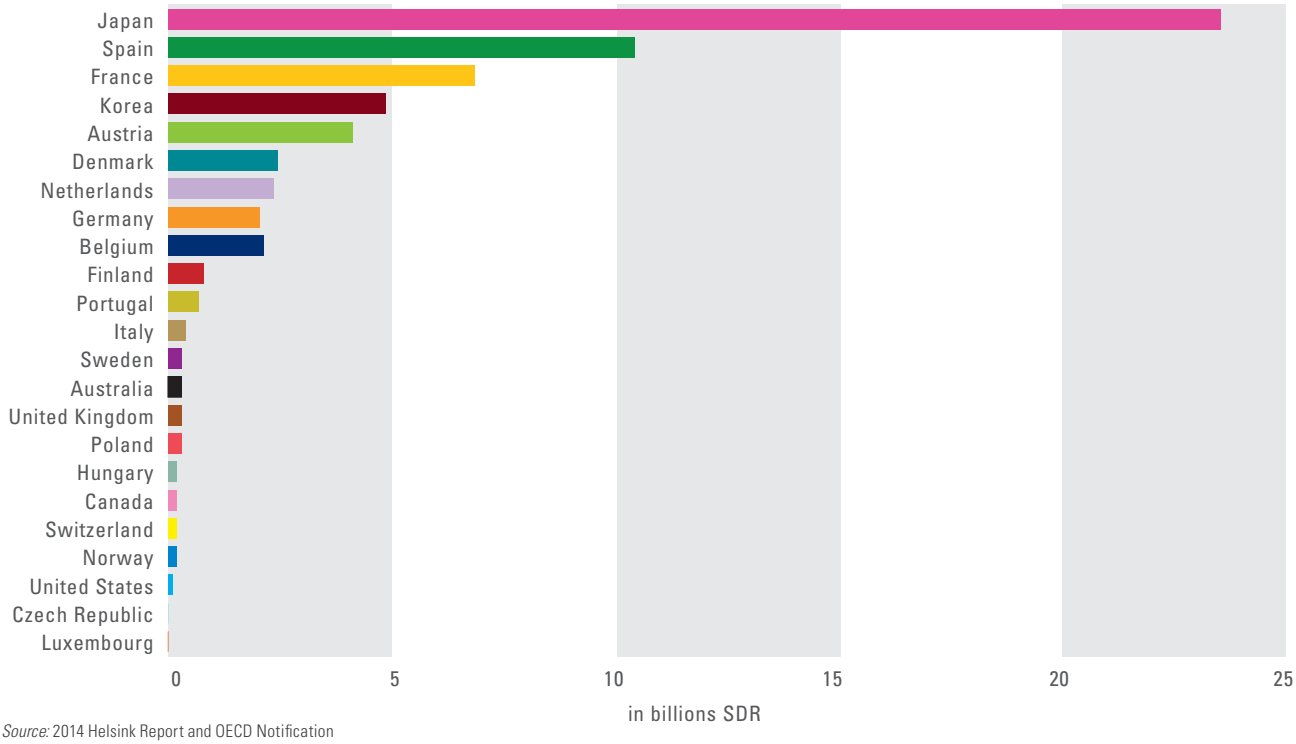
In 2015, the 116 tied-aid notifications summed a total volume of $7.0 billion USD, over a 21.9% increase in volume compared to 2014 and a similar decrease in number relative to 2014. There were 92 untied-aid offers, with 12.9 billion USD provided in 2015, representing +29.6% in number and +36.6% in volume compared to 2014

FIGURE 52: Overview of Offers To Provide Tied Aid and Helsinki-Type Tied Aid, 1995-2015



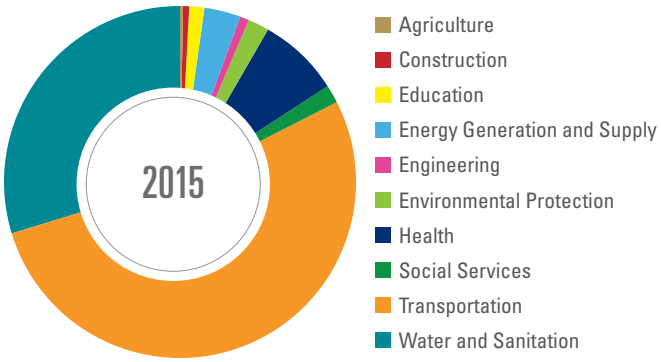
Source: Helsinki Report and OECD Notifications

FIGURE 53: Cumulative Volume of Helsinki-Type Aid by Notifying Country, 1994-2015



Source: 2014 Helsink Report and OECD Notification

Figure 54: Helsinki-Type Aid in 2015 by Sector



Source: Helsinki Report and OECD Notifications
Note: Data only available from 1995-present

With respect to untied aid, historical concerns regarding the implicit tying of untied aid prompted the United States to seek the same disciplines for untied aid that were agreed for tied aid. Donor and recipient countries resisted U.S. efforts to discipline untied aid, claiming that untied aid did not pose a serious threat to free trade and that disciplines for untied aid would only reduce much needed aid to developing countries. However, in 2005, the OECD agreed to an Untied Aid Transparency Agreement that requires OECD members to:

1. Notify project loan commitments at least 30 days prior to the opening of the bidding period to allow for international competitive bidding; and

2. Report the nationalities of the bid winners on an annual ex-post basis.

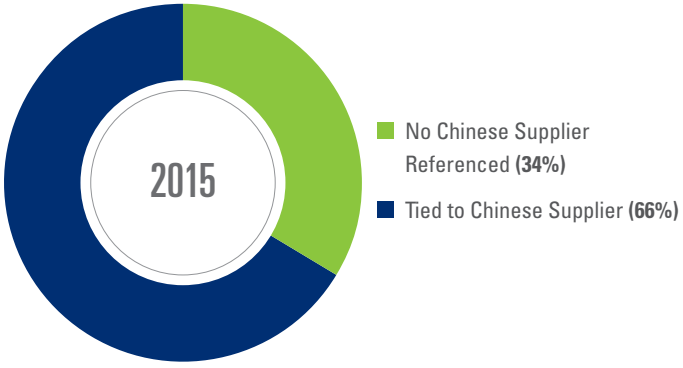
Untied aid increased in 2015 to $12.9 billion, after hitting an all-time high of $22.4 billion in 2013. Nevertheless, untied-aid volumes were double the total tied-aid financing. Untied aid can have a concessionality level that falls below the 35% minimum concessionality level required for Helsinki tied aid and thus has the potential to be more trade-distorting than tied aid if it is *defacto* tied. In 2013, almost half of the untied aid provided (by volume) was below the 35% floor for required tied aid.

Because the Helsinki concessionality requirements do not apply to untied aid, it is important to monitor its use. The transparency provisions for untied aid agreed in 2005 seek to confirm whether untied aid can be accessed globally to benefit suppliers from all countries, donor and non-donor alike.

NON-OECD ACTIVITY

OECD tied aid rules and transparency requirements do not apply to non-OECD ECA tied-aid offers. Additionally, U.S. exporters have expressed competitive concerns regarding non-OECD concessional aid offers, in particular with respect to Chinese offers. Given the unregulated nature of this aid, and the difficulty in obtaining information on its volume or terms, EXIM conducted a survey of press articles to find instances of Chinese concessional export credits. Bearing in mind that articles yielded by this search have not been verified by the Chinese government, and the information reported may be inaccurate or misreported. In 2015, EXIM found almost 18 articles that mention aid from the Chinese government. Roughly $17 million is for humanitarian aid and $260 million in construction and infrastructure projects. Another 26 articles were found that reference projects with concessional terms or funded as part of CEXIM's (China) preferential buyer program. From these articles, 66%, or $24 billion, of the projects were tied to Chinese suppliers. As shown in Figure 55, another $12 billion were tied to CEXIM and mentioned specific concessional terms but did not specifically mention Chinese suppliers. Although term information is difficult to obtain, in many cases the concessional loans offered what appeared to be trade-distorting, low-concessional finance. The sheer volume of this lending combined with the difficulty in matching it presents a new challenge to EXIM in countering distorting concessional finance.

FIGURE 55: Concessional Loans Tied to Chinese Suppliers



Source: press articles

SURVEY RESULTS

Only seven out of 39 survey respondents (about 20%) indicated that they had encountered foreign competition benefiting from tied-aid financing. This figure is fairly comparable with 2014 survey results. Again this year, most respondents indicated that they were not aware of tied-aid matching policies. One respondent mentioned that, although there was no written evidence, they believe their competitors received soft loans in the Asia region. Another respondent noted that "China provides blank checks all over the developing world, particularly in Africa. We have been unable to succeed in markets where China uses these tactics. It requires extensive USG economic diplomacy to open doors for us in these markets where the Chinese and Europeans are extremely clubby with local officials." Although few responses were given regarding tied and untied-aid questions on this survey, they do show some concern with difficulties that U.S. exporters encounter when confronted by foreign-supported aid offers.

CONCLUSION

In 2015, the tied-aid disciplines binding OECD members continued to operate effectively. Although a handful of U.S. exporters indicated that they encountered foreign tied-aid offers, no request for an EXIM tied-aid matching offer was submitted in 2015, perhaps due to the lapse. With respect to tied aid offered by non-OECD countries, the lack of transparency regarding the terms and conditions of these offers coupled with an appreciable scope and scale of aid activity that appears to be far outpacing aid from OECD ECAs. As such, although the competitive consequences of this trend are unclear, they should be monitored.

APPENDIX E

EXIM Co-financed Transactions

Figure 56 lists all of the transactions that EXIM co-financed with other ECAs in 2015.

FIGURE 56: EXIM Co-financed Transactions, 2015

CO-FINANCING ECA	MARKET	SECTOR	FINANCED AMOUNT (in millions USD)
EDC (Canada)	Brazil	Agricultural Aircraft	$0.70
EDC (Canada)	Brazil	Agricultural Aircraft	$0.80
EDC (Canada)	Brazil	Agricultural Aircraft	$0.70
EDC (Canada)	Brazil	Agricultural Aircraft	$0.80
EGAP (Czech Republic)	Brazil	Agricultural Aircraft	$0.90
EDC (Canada)	Canada	Helicopter	$60.00
SACE (Italy)	Panama	Helicopter	$32.00
NEXI (Japan)	Azerbaijan	Large Aircraft	$215.00
NEXI (Japan)	China	Large Aircraft	$120.00
NEXI (Japan)	China	Large Aircraft	$305.00
NEXI (Japan)	Norway	Large Aircraft	$300.00
KEXIM (Korea)	South Korea	Large Aircraft	$340.00
KEXIM (Korea)	South Korea	Large Aircraft	$330.00
KEXIM (Korea)	South Korea	Large Aircraft	$140.00
KEXIM (Korea)	South Korea	Large Aircraft	$160.00
NEXI (Japan)	Turkey	Large Aircraft	$140.00
NEXI (Japan)	United Arab Emirates	Large Aircraft	$260.00
NEXI (Japan)	Vietnam	Large Aircraft	$145.00
NEXI (Japan)	Vietnam	Large Aircraft	$440.00
EULER Hermes (Germany)	China	Medical Equipment	$4.50
		TOTAL	**$2,995.00**

Source: EXIM

APPENDIX F

Transaction Processing Times

Customers continually note to EXIM that transaction cycle time is a factor when they choose to utilize EXIM over a competitor ECA. Therefore, in FY2015, EXIM continued to measure, monitor and report cycle times as key customer experience performance metrics. Monitoring and accountability practices put into place over the past three years have helped to heighten internal visibility of the importance of cycle times. EXIM's cycle-time monitoring practices include:

- Real-time availability of cycle-time information via EXIM's internal website for all staff.
- Weekly Operations Review Committee (ORC) meetings, where representatives from multiple divisions across EXIM gather to triage a list of transactions in process that are taking longer than the predetermined service standard times.
- Weekly review by senior staff, including the chairman, of average processing time for completed transactions, by product line, for high-volume product lines.
- Annual publication of cycle times by major product line, published in the Bank's annual Government Performance and Results Act report.
- Regular updating of cycle-time averages on the "Current Customers" section of exim.gov.

Figure 57 outlines high-level cycle-time averages over time at the Bank.

Figure 57: Overall Cycle Times

FISCAL YEAR	PERCENTAGE OF TRANSACTIONS COMPLETED IN < 30 DAYS	PERCENTAGE OF TRANSACTIONS COMPLETED IN ≤ 100 DAYS
FY 2009	57%	90%
FY 2010	65%	93%
FY 2011	80%	99%
FY 2012	90%	98%
FY 2013	89%	98%
FY 2014	90%	98%
FY 2015	91%	98%

Source: EXIM

In some instances, cycle-time monitoring has helped to push transactions through in a timely manner or has flagged for management certain transactions that need additional team communication and support due to the complexity of the transaction, incomplete customer applications, or the changing landscape as a U.S. government agency.

In January 2016, EXIM Bank was noted by NextGov media as having one of the most advanced customer service efforts in the U.S. federal government, and pointed to the Bank's cycle-time monitoring and public accountability practices as proof.[1] EXIM refreshed its cycle-time standards in early 2016 and will continue to measure, monitor and report cycle time as part of the Bank's customer experience endeavors in FY2016.

1 "What Will OMB's New Requirements Do for Federal Customer Service?" by Frank Konkel, January 28, 2016.

APPENDIX G

EXIM's Point of Experience Customer Survey

KEY FINDINGS

- **In 2015, EXIM Bank began gathering customer feedback through a "point of experience" survey.**
- **EXIM received 42 responses from January 2015 to January 2016. EXIM did not generate surveys during the lapse in authority because EXIM did not process new policies or renewals.**
- **Customers gave EXIM favorable scores. EXIM will continue to administer the survey, monitor and share results throughout the Bank in 2016.**

POINT OF EXPERIENCE SURVEY BACKGROUND

In January 2015, EXIM Bank's vice president of Customer Experience, director of Trade Credit Insurance, and EXIM Online team lead, developed and launched a "point of experience" survey [2] for users of the Bank's Express multibuyer and single-buyer insurance policies.[3] This five-question survey automatically generates via e-mail directly to the exporter when he or she accepts a quote for an Express or single-buyer export credit insurance policy via EXIM Online. [4] EXIM designed the survey to gather "real-time" feedback from customers as they progress through EXIM's new application processes. EXIM has heard through past feedback that new customers can find the online portal confusing.

POINT OF EXPERIENCE SURVEY SELECTED RESULTS

From January 2015 to January 2016, EXIM received 42 responses to this point of experience survey. EXIM did not administer surveys during the lapse because EXIM did not accept new applications at all. As shown in Figure 58, scores from January 2015 to January 2016 show that customers found their EXIM experience satisfactory, with 97.62% of respondents accomplishing what he or she set out to do in conducting the transaction.

FIGURE 58: Selected Results from the Point of Experience Survey

SURVEY QUESTION OR MEASUREMENT	AVERAGE SCORE
Overall Customer Effort Score [46]	2.57/5 [47]
Explanations of the application process matched my actual experiences.	4.54/5
Written instructions provided within the policy application were clear and understandable.	4.37/5
EXIM's processing time met with my expectations.	4.48/5
I accomplished what I set out to do in conducting this transaction.	97.62% answered yes

Source: EXIM

2 **A point of experience survey is a short survey** that is designed to discover whether or not the customer achieved what he or she set out to do in a specific transaction. The survey is intended to help spot problems during the customer's transaction and fix the problem before it becomes an issue that leads to customer dissatisfaction.

3 **Express and ESS export credit insurance policies** are higher-volume product lines for EXIM and are generally held by U.S. small businesses to insure against nonpayment by a foreign buyer and/or to extend payment terms to those buyers. More than 2,000 such policies and renewals were processed in 2014-2015.

4 **EXIM Online** is EXIM's online customer portal, where customers and their insurance brokers log in and can arrange and apply for new insurance, report shipments, and pay premiums, among other functions.

5 The **customer effort score** is an industry-standard customer-satisfaction measurement that asks customers: On a scale of 1-5, how much effort do you personally have to put forth to complete transactions with EXIM? Customers rate their level of effort on a five-point scale from very low effort (1) to very high effort (5). A score of 3 indicates "about as much effort as expected."The customer effort score serves as a key external metric for EXIM because of its distinct linkage to the Bank's strategic goal to improve the ease of doing business for customers.

6 Low customer-effort scores equals low perceived effort by the customer. Lower scores are positive.

APPENDIX H

List of Active Export Credit Agencies

COUNTRY	NAME	NICKNAME
Argentina	Banco de Inversión y Comercio Exterior	BICE
Australia	Export Finance and Insurance Corporation	EFIC
Austria	Oesterreichische Kontrollbank AG	OeKB
Bangladesh	Sadharan Bima Corporation	SBC
Belgium	Credendo Group (formerly ONDD)	Credendo Group
Bosnia and Herzegovina	Export Credit Agency of Bosnia and Herzegovina	IGA
Brazil	Agência Brasileira Gestora de Fundos Garantidores e Garantias S.A.	ABGF
Brazil	Seguradora Brasileria de Crédito À Exportação S.A.	SBCE
Brazil	Brazilian Development Bank	BNDES
Bulgaria	Bulgarian Export Insurance Agency	BAEZ
Canada	Export Development Canada	EDC
China	China Export and Credit Insurance Corporation	Sinosure
China	The Export-Import Bank of China	CEXIM
China - Hong Kong	Hong Kong Export Credit Corporation	HKEC/ECIC
Colombia	Banco de Comercio Exterior de Colombia	Bancoldex
Colombia	Fondo Nacional de Garantias S.A.	FNG
Croatia	Hrvatska banka za obnovu i razvitak	HBOR
Czech Republic	Export Guarantee and Insurance Corporation	EGAP
Czech Republic	Česká exportní banka, A.S.	CEB
Denmark	Eksport Kredit Fonden	EKF
Egypt	Export Credit Guarantee Company of Egypt	ECGE
Estonia	Kredex Krediidikindlustus	KredEx
Finland	Finnvera	Finnvera
Finland	Finnish Fund for Industrial Cooperation Ltd.	FinnFund
France	Compagnie Française d'Assurance pour le Commerce Extérieur	Coface
France	Societe de Financement Local	SFIL
Germany	Export Credit Guarantee Scheme of the Federal Republic of Germany (Hermes Cover)	Euler Hermes
Germany	KfW IPEX-Bank	KFW/IPEX
Greece	Export Credit Insurance Organisation	ECIO
Hungary	Hungarian Export-Import Bank Plc.	EXIM Hungary
Hungary	Hungarian Export Credit Insurance Ltd.	MEHIB
India	Export Credit Guarantee Corporation of India	ECGC
India	Export-Import Bank of India	I-Eximbank
Indonesia	PT. Asuransi Ekspor Indonesia	PT ASEI
Indonesia	Indonesian Eximbank	LPEI
Iran	Export Guarantee Fund of Iran	EGFI
Israel	Israel Export Insurance Corp. Ltd.	ASHRA
Italy	Servizi Assicurativi del Commercio Estero S.p.A.	SACE
Jamaica	EXIM Bank Jamaica	EXIM Bank J

COUNTRY	NAME	NICKNAME
Japan	Nippon Export and Investment Insurance	NEXI
Japan	Japan Bank for International Cooperation	JBIC
Jordan	Jordan Loan Guarantee Cooperation	JLGC
Kazakhstan	KazExportGarant	KazExportGarant
Kazakhstan	Eximbank Kazakhstan	Eximbank Kazakhstan
Latvia	SIA Latvijas Garantiju Aģentūra (Latvian Guarantee Agency Ltd.)	LGA
Lebanon	Lebanese Credit Insurer	LCI
Luxembourg	Office du Ducrorie	ODL
Macedonia	Macedonian Bank for Development Promotion AD Skopje	MBDP
Malaysia	Export-Import Bank of Malaysia Berhad	MEXIM
Mexico	Banco Nacional de Comercio Exterior, SNC	Bancomext
Netherlands	Atradius Dutch State Business	Atradius
New Zealand	New Zealand Export Credit Office	NZECO
Nigeria	Nigerean Export-Import Bank	NEXIM
Norway	Export Credit Norway	ECN
Norway	Garanti-instituttet for eksportkreditt	GIEK
Oman	Export Credit Guarantee Agency of Oman (S.A.O.C.)	ECGA Oman
Poland	Korporacja Ubezpieczén Kredytów Eksportowych	KUKE
Portugal	Companhia de Seguro de Créditos	COSEC
Qatar	TASDEER (managed by the Qatar Development Bank)	TASDEER/QDB
Romania	Eximbank of Romania	EXIM R
Russia	Export Insurance Agency of Russia	EXIAR
Russia	Vnesheconombank	VEB
Saudi Arabia	Saudi Export Program	SEP
Serbia	Serbian Export Credit and Insurance Agency	AOFI
Singapore	ECICS Ltd.	ECICS
Slovakia	Export-Import Bank of the Slovak Republic	EXIMBANKA SR
Slovenia	Slovenska izvozna in razvojna banka	SID
South Africa	Export-Import Credit Insurance Corporation of South Africa	ECIC
South Korea	Korea Trade Insurance Corporation	KSURE
South Korea	Export-Import Bank of Korea	KEXIM
Spain	Compañía Española de Seguros de Crédito a la Exportación	CESCE
Sri Lanka	Sri Lanka Export Credit Insurance Corporation	SLECIC
Sudan	National Agency for Insurance and Finance of Export	NAIFE
Sweden	Svensk Exportkredit	SEK
Sweden	Exportkreditnämnden	EKN
Switzerland	Swiss Export Risk Insurance	SERV
Taiwan	Export-Import Bank of the Republic of China	TEBC
Thailand	Export-Import Bank of Thailand	Thai EXIMBANK
Trinidad & Tobago	Export-Import Bank of Trinidad & Tobago	Eximbank TT
Turkey	Export Credit Bank of Turkey	Türk Exim
UAE	Export Credit Insurance Company of the Emirates	ECIE
Ukraine	Joint Stock Company The State Export-Import Bank of Ukraine (JSC Ukreximbank)	Ukreximbank
United Kingdom	Export Credits Guarantee Department (ECGD) a/k/a UK Export Finance	UKEF
United States	The Export-Import Bank of the United States	EXIM
Uzbekistan	Uzbekinvest National Export-Import Insurance Company	Uzbekinvest

Glossary

"Automatic" Local Cost Support: Applicant is eligible for local cost support without having to prove official ECA competition providing local costs or a lack of private financing for local costs.

Additionality: The Bank's justification for supporting a transaction. Generally, a transaction must face one or more of the following: (1) foreign competition; (2) private-sector limitations; or (3) private sector unwilling to take the risk.

Associated Service: A service export that is associated or related to the export of a good (e.g., transportation/logistical services related to the export of construction equipment).

Authorization: The approval of a transaction.

Average Annual Content Certification: When certifying to the U.S. content within an export, U.S. exporters may choose to calculate the average foreign content for each export (from a specifc location), which is based on projected level of foreign costs. This calculation would then be applied to EXIM financing for that specifc export for the following year.

Capital markets: Financial markets for buying and selling long-term equity (stocks) and debt (bonds) instruments.

CIRR: Commercial Interest Reference Rates. Commercially-indexed official lending rates for export credit agencies established under the OECD Arrangement as a base for setting interest rates for export finance.

Concessional Aid: These are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these approaches.

Coverage: The percentage of the total cost of a project that is funded through export finance.

Cover Policy: A risk-rating policy used by EXIM to determine to which markets the Bank will extend credit and what premia rates to charge to cover risk in those markets.

Credit: An amount for which there is an obligation of repayment over time.

Direct Lending: The ECA can provide direct lending to a borrower and charge the CIRR for the currency of the loan.

Domestic Content: The portion of the export that originates in the United States.

Domestic Value-Added: The value-added generated by the exporting industry during its production processes as well as any value-added coming from upstream domestic suppliers that is embodied in the exports.

Eligible Foreign Content: Third-country content in a U.S. supply contract that is shipped from the United States.

Enhanced Equipment Trust Certificate (EETC): A debt instrument commonly used by airlines to finance the purchase of aircrafts. In a typical structure, a bankruptcy remote issuer of the EETC mortgages an aircraft to airlines on behalf of investors. Certificate holders in turn receive lease payments until maturity, at which point ownership of the aircraft is transferred to the airline.

EXIM Guaranteed Bond: A debt instrument issued in the capital markets by the borrower that includes a guarantee from EXIM Bank.

Export Credit: Credit extended to finance the cross-border purchase of goods or services.

Export Credit Agency: An agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services.

Foreign Content: Any portion of an export, both for goods or services, which originates outside of the United States and outside of the foreign buyer's country.

Foreign Value-Added: The value of imported intermediate goods and services that are embodied in a domestic industry's exports.

German Pfandbrief Market: The European market for mostly triple-A rated bank debt collateralized by long-term assets.

Inside the Export Contract (Local Costs): Local costs that are explicitly connected to the costs an exporter must incur to complete its contractual obligation.

Interest Make-Up: Official financing support in which the ECA can offer interest make-up support to a financial institution that agrees to provide a loan to a borrower at the CIRR.

Investment Support: Official loans, guarantees, insurance, or other finances typically given to support domestic companies in overseas projects where they have equity participation.

Local Costs: Project or export-related costs for goods and services incurred in the buyer's country.

Line of Credit: A financing framework, in whatever form, for exports that covers a series of transactions which may or may not be linked to a specific project.

Long-term finance: EXIM treats export financing with repayment terms greater than five years and for amounts greater than $10 million as long-term finance.

Low Concessional Aid: Export financing offered at below market rates but generally not reaching the 35% concessionality required for OECD tied aid. This financing is often considered to be "soft," with expanded tenors and low interest rates, but not as generous in terms as tied-development aid provided by OECD countries.

Market Window and Market-Oriented Finance: Official export financing that is commercially priced by setting all financing terms on market conditions. This finance falls outside the OECD Arrangement.

Medium-Term Finance: EXIM treats export financing with repayment terms between two and five years and for amounts up to $10 million as medium-term.

Non-OECD Export Credit Agencies: ECAs that are not a party to the OECD Arrangement on Export Credits or its rules. Notable ECAs include India Export Import Bank, Sinosure, and Export Import Bank of China.

OECD Arrangement: A set of rules setting financing terms and conditions for participating ECAs. The OECD arrangement is a "gentleman's agreement" with no enforceable punishments for misbehavior.

OECD Notification: The required means of informing the OECD Secretariat of an offer under the OECD Arrangement.

Offer: ECA support extended in relation to a project prior to commitment, which may not materialize in a transaction.

Outside the Export Contract (Local Cost): Local costs that are beneficial to a project as a whole but not directly linked to the exporter's scope of work.

Project Finance: The financing of an asset (or "project") whereby the lender relies purely on the underlying cash flows being generated by the asset as the sole source of repayment for the loan.

Pure Cover: Official support provided by or on behalf of a government by way of export credit guarantee or insurance only.

Risk Premium (AKA Exposure Rate): The fee charged to cover the risk of nonpayment. It is a form of compensation to investors for taking risk above other risk-free investments such as government bonds.

Securitization guarantee: An ECA guarantee to a bank already benefitting from government insurance to obtain refinancing in the capital markets.

Short-term finance: Export financing with repayment terms less than two years. The OECD Arrangement rules do not apply to these transactions.

Special Drawing Right (SDR): International reserve asset created by the IMF. The value of an SDR is based on a basket of four (in 2015) currencies: the U.S. dollar, Japanese yen, euro, and pound sterling.

Stand-Alone Service: A service export that is an export in and of itself (e.g. architectural or design services).

Structured Finance: The financing of a project that relies on the underlying project's revenues to ensure against the risk of non-payment but is not the sole source of repayment.

Tenor: The amount of time left on a loan before it must be repaid in full.

Tied-Export Support: Support that is conditionally offered based on procurement restrictions.

Tied Aid: Aid which is in effect (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or a restricted number of countries, including loans, grants, or associated financing packages with a concessionality level greater than zero percent.

Transaction: Confirmed ECA support for a project signified by issuing a final commitment.

Transformation: Allows for the final product resulting from domestic assembly of foreign inputs to be counted as domestic content.

Untied Aid: Aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country.

Untied Export Support: Official export financing on non-concessional terms not directly linked or tied to procurement from the donor country. This finance falls outside of the OECD Arrangement.

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June 2016
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