Research

Reauthorizing the Export-Import Bank: A Policy Evaluation

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EXECUTIVE SUMMARY

The Export-Import Bank (Ex-Im Bank) is the official export credit agency (ECA) – a common international capacity – of the United States. It is tasked with facilitating the export of American goods and services by filling market voids with a range of financial products that a private financial institution is unable or unwilling to provide.

Ex-Im financing is a subsidy to export transactions; a subsidy that is not needed in undistorted markets. However, the activities of other ECAs represent a pre-existing market distortion and create a limited role for Ex-Im as part of a pragmatic trade policy (See Summary Table 1).

The economic benefits of Ex-Im financing do not automatically accrue to the U.S. corporations involved in export sales. In those instances where buyers have competitive options and are price-sensitive, the subsidy implicit in Ex-Im financing would largely accrue to the seller, its workers, its suppliers, and its equity investors. In contrast, when the sale involves little competition and price insensitive buyers, those buyers will capture the benefits of Ex-Im financing.

Reauthorization of the Ex-Im bank should require additional reforms beyond those in the reauthorization of 2012. Sensible principles for reforms include elimination of unneeded taxpayer backing and financing authority, elimination of preferential and quota approaches to industries and firms, increased transparency, and improved operational criteria for the selection of the projects afforded financing.

SUMMARY TABLE 1. NEW MEDIUM- & LONG-TERM OFFICIAL EXPORT CREDIT VOLUMES (BILLIONS OF $ USD)

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
CANADA	0.5	1.5	2.0	2.6	1.9	1.7
FRANCE	10.1	8.6	17.8	17.4	15.9	13.0
GERMANY	8.9	10.8	12.9	22.5	16.7	15.3
ITALY	3.5	7.6	8.2	5.8	8.0	5.2

	2007	2008	2009	2010	2011	2012
JAPAN	1.8	1.5	2.7	4.9	5.9	4.4
UNITED KINGDOM	1.6	2.7	3.4	4.1	4.2	2.9
UNITED STATES	8.2	11.0	17.0	13.0	21.4	31.3
G-7 TOTAL	34.6	43.7	64.0	70.2	74.0	73.9
BRAZIL	0.6	0.2	6.1	3.5	4.8	2.7
CHINA	33.0	52.0	51.1	43.0	35.0	45.0
INDIA	8.5	8.7	7.3	9.5	13.0	10.6
BRIC* TOTAL	42.1	60.9	64.5	56.0	52.8	58.3

*EXCLUDES RUSSIAN ECA EXIAR
SOURCE: EXPORT-IMPORT BANK 2012 COMPETITIVENESS REPORT

OVERVIEW

The Export-Import Bank (Ex-Im Bank) is an independent executive agency dating to 1934 and is the official export credit agency (ECA) – a common international capacity – of the United States. It is tasked with facilitating the export of American goods and services by filling market voids with a range of financial products that a private financial institution is unable or unwilling to provide. While of debatable value in the presence of a level international playing field, in practice it serves to counteract the financing provided by foreign governments and ECAs to their exporters, working to "level the playing field" for American companies. While the Export-Import Bank should be reformed to minimize distortionary influences and enhance its function as a countervailing force, it remains a sensible component of a pragmatic trade policy.

Overall, U.S. companies exported $2.2 trillion in goods and services in FY 2013[1], with Ex-Im only supporting approximately 2 percent of those exports. Nevertheless, the Ex-Im Bank has been traditionally seen as an important tool to help U.S. firms compete overseas. International trade presents a spectrum of risks and challenges, especially for small and medium-sized enterprises. While it would be most desirable for banking and capital markets to support all export financing, Ex-Im's continued role reflects the reality of export finance globally and the need for Ex-Im to assume credit and country risks that the private sector is unable or unwilling to receive.

BACKGROUND

The mission of the Export-Import Bank is to boost U.S. jobs through the financing of exports to foreign buyers.[2] President Franklin Roosevelt started the bank in 1934 by executive order and Congress turned it into an independent executive agency and government corporation in 1945. The bank operates under a renewable charter, the Export-Import Bank Act of 1945. It was most recently reauthorized in 2012 to operate through

September 30, 2014.[3] Accordingly, the key policy issue at this moment is the merits of reauthorizing the Ex-Im Bank for 2015 and beyond.

OPERATION

Financial Products

The Ex-Im Bank offers four financial products: direct loans, loan guarantees, working capital guarantees and export credit insurance. All obligations carry the full faith and credit of the U.S. government.

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Fixed-rate direct loans, which made up one-fourth of authorizations by dollar amount in FY 2013, are offered directly to foreign buyers of American exports and cover up to 85 percent of the contract value (See Figure 1). Guarantees are extended to loans made by commercial banks, insuring the repayment of principal and interest on 85 percent of the contract value. Loan guarantees made up 55 percent of total authorizations in FY 2013. Loans and guarantees have repayment terms of one to seven years in the medium-term program and in excess of seven years in the long-term program.

The Working Capital Guarantee Program, representing about 18 percent of all loan guarantees in FY 2013, provides a repayment guarantee on short-term working capital loans made to qualified exporters by commercial banks primarily. The guarantee, generally available for one year, can apply to either a single loan or a revolving line of credit and covers 90 percent of the outstanding balance, thereby decreasing the risk assumed by the lender. The fee charged is dependent on duration, amount, and risk characteristics of the transaction.

Short-term and medium-term export credit insurance, which make up the remaining 20 percent of FY 2013 authorizations, protect an exporter of goods or services against the risk of nonpayment by a foreign buyer, whether for commercial reasons (e.g. default, insolvency, or bankruptcy) or political reasons (e.g. war or nationalization). Export credit insurance reduces an exporter's payment risk associated with shipping products internationally.

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SOURCE: U.S. IMPORT-EXPORT BANK 2013 ANNUAL REPORT
Demand for Ex-Im financing increased following the financial crisis due to tightened credit, though private export financing appears to be recovering. Global ECA support has stepped in as banks strengthened their balance sheets and adjusted to new regulatory requirements such as the implementation of Basel III. As shown in Figure 2, Export-Import Bank authorizations averaged $12.1 billion between 2000 and 2008. Following the financial crisis, increased demand pushed authorizations to a peak of $35.8 billion in FY 2012. Total authorizations fell 24 percent in 2013 to $27.3 billion, representing 3,842 transactions, a level still well above the average before the financial crisis. Authorizations, apart from comprising various financial products, are also

calculated in terms of a number of criteria shown in Table 1 and detailed in Table 2, which are either mandated by Congress, internally, or through international agreements on export credit.

TABLE 1. EXPORT-IMPORT BANK AUTHORIZATIONS & MANDATE TARGETS (IN MILLIONS OF $)

	FY 2009	*FY 2010*	*FY 2011*	*FY 2012*	*FY 2013*
TOTAL AUTHORIZATIONS	$21,021	$24,468	$32,727	$35,784	$27,348
SMALL BUSINESS	$4,360	$5,053	$6,037	$6,122	$5,223
MINORITY & WOMEN OWNED	$517	$628	$720	$838	$816
RENEWABLE ENERGY	$101	$332	$721	$356	$257
SUB-SAHARAN AFRICA	$310	$812	$1,381	$1,522	$604
NINE PRIORITY MARKETS*	$5,030	$5,210	$12,336	$5,476	$10,559
TOTAL EXPOSURE	$67,988	$75,214	$89,152	$106,646	$113,825
TOTAL TRANSACTIONS	2,891	3,532	3,751	3,796	3,842
JOBS SUPPORTED**	195,000	227,000	290,000	255,000	205,000

* MEXICO, BRAZIL, COLOMBIA, TURKEY, INDIA, INDONESIA, VIETNAM, NIGERIA & SOUTH AFRICA
** DERIVED FROM EXPORT VALUE ASSOCIATED WITH AUTHORIZATIONS
SOURCE: EXPORT-IMPORT BANK 2013 ANNUAL REPORT

As demand for Ex-Im financing has grown in recent years, the total level of exposure has also risen quickly, increasing 67 percent from FY 2009 to FY 2013. The bank's exposure amount corresponds to the authorized outstanding and undisbursed principal balance of its programs, and includes the unrecovered balance of payments made on submitted claims.

Part of the reauthorization compromise in 2012 was to raise Ex-Im's exposure limit gradually, dependent on new reporting requirements and a default rate lower than 2 percent. Ex-Im cooperated with the U.S. Government Accountability Office (GAO) and its own Inspector General on program and management reevaluations and also reported a default rate of 0.24 percent in September 2013, which resulted in an exposure limit increase of $140 billion for FY 2014 per the guidelines of the reauthorization agreement. Following an evaluation of Ex-Im's exposure forecast by GAO, Ex-Im also agreed to implement an improved methodology and update of its forecasting models and analysis for future exposure projections.[4]

While total exposure growth slowed slightly from a 20 percent increase between FY 2011 and 2012 to a 7 percent increase from FY 2012 to 2013, concentration percentages of that exposure have not changed all that much. Geographically, exposure continues to be concentrated in Asia, representing 40.8 percent of total exposure. Exposure to Latin America and the Caribbean is next at 18.8 percent. In terms of industry, Ex-Im exposure remains largely concentrated in air transportation at 45.1 percent, followed by manufacturing and oil and gas, both under 20 percent.

Program Guidelines and Requirements

Table 2 highlights some of the criteria that the Export-Import Bank must take into account when providing financing, as required in its amended charter, internally, and as a result of international agreements.

TABLE 2. EXPORT-IMPORT BANK PROGRAM GUIDELINES

Reasonable Assurance of Repayment	As far as possible, authorizations should offer reasonable assurance of repayment.
Private Capital	In exercising its functions, the bank is required to supplement and encourage, and not compete with, private capital.
Support Jobs	In its authorizations, the bank's objective is to contribute to maintaining or increasing employment of U.S. workers.
Small Business	20 percent of authorizations, each fiscal year, should serve small businesses.
Renewable Energy	The bank is directed to promote the exports of goods and services related to renewable energy sources amount to 10 percent of authorizations per year.
Sub-Saharan Africa	The bank is directed to promote the expansion of commitments in Sub-Saharan Africa but lacks a target allocation.
Women- & Minority-Owned Businesses	The bank was required by charter amendment to increase outreach to women- and minority-owned businesses and encouraged to increase the number of loans to those firms.
Economic & Environmental Impact	The bank must take into account any serious adverse effects of loans and guarantees on the competitiveness of U.S. industries and of materials in short supply. Ex-Im compiles a list of sensitive sectors and products to which financing would result in adverse economic impact.
Content Policy	The bank provides financing dependent on the percentage of U.S. content, meaning labor, materials, and overhead included in the production of an exported good or service from the U.S.
Military Products	Military items are generally not eligible for Ex-Im Bank financing nor are sales to foreign military entities.
Nonfinancial Considerations	In consultation with committees of jurisdiction in Congress, the bank can deny applications for credit for nonfinancial or noncommercial reasons if it advances the national interest in areas of international terrorism, nuclear proliferation, environmental protection, and human rights, etc.

Country Restrictions	Ex-Im Bank financing may not be available in certain countries and certain terms for U.S. government policy reasons. A Country Limitation Schedule is maintained on the bank's website.
Shipping Policy	Depending on the product involved, many exports receiving support must be transported by U.S. shipping vessels.

SOURCE: EXPORT-IMPORT BANK; EXPORT-IMPORT BANK CHARTER AS AMENDED THROUGH P.L. 112-122 (MAY 2012)

BUDGET AND FINANCING

In principle, Ex-Im requires an annual appropriation to cover program costs and administrative expenses. However, the bank retains fees collected during the year in excess of expected losses, called the offsetting collection, and repays the U.S. Treasury for a zero net appropriation. Since FY 2008, Congress has allowed offsetting collections to count against any appropriation, effectively making the agency "self-sustaining" for appropriation purposes. In FY 2013, Ex-Im collected $1.3 billion in offsetting collections to cover $136.3 million in new obligations.[5] Bank revenue stems from interest, risk premiums, and other service fees. Congress continues to exercise oversight of Ex-Im's budget by setting annual limits on its use of funds for program and administrative expense obligations.

The Ex-Im Bank's status as "self-sustaining" puts the U.S. in compliance with the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures.

POLICY ISSUES

Economic Impact

Ex-Im's credit and guarantees are a *de facto* subsidy to transactions involving the sale of U.S. exporters' products. In normal circumstances, such subsidies are not needed. However, because other countries and myriad forces distort market competition, there is a case for the U.S. to offset these interventions.

As with any subsidy, however, the actual economic benefit depends on the fundamentals of the deal. The economic benefits of Ex-Im financing do not automatically accrue to the U.S. corporations involved in export sales. In those instances where buyers have competitive options and are price-sensitive, the subsidy implicit in Ex-Im financing would largely accrue to the seller, its workers, its suppliers, and its equity investors. In contrast, when the sale involves little competition and price insensitive buyers, those buyers will capture the benefits of Ex-Im financing. In short, the actual benefit of Ex-Im is not obvious and needs to be judged on a case-by-case basis.

Though it is difficult to fully measure the economic impact of the Export-Import Bank, the 2012 reauthorization did make a few notable changes to make the bank more transparent in the reporting its impacts. In particular, it required that loans and long-term guarantees be classified as necessary to (1) assume commercial or political risk private financial institutions are unwilling or unable to bear, (2) overcome limits in private finance, or (3) meet competition from foreign export credit agencies. In that way, the purpose of long-term deals can be evaluated. Additionally, when an economic impact analysis is conducted for a loan or guarantee, that study must now be published in the Federal Register to allow for comments by affected businesses.[6]

Greater transparency in the fundamentals of individual deals and the assumptions and methodologies used to identify economic impacts will allow for better oversight and scrutiny by the public.

Skewed Financing and Portfolio Concentration

One criticism of the Export-Impact Bank is that it may favor certain industries over others. Of particular interest, the Export-Import Bank continues to play a large financing role in the aerospace industry, matching competition with other ECAs.[7] Shown in Figure 3, exposure to the air transportation industry equaled 45 percent of its $113.8 billion total exposure.

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Ex-Im financing for the aerospace industry is emblematic of the challenge presented by ECAs around the globe. Three European ECAs provide similar levels of support for Airbus as the Export-Import Bank does for Boeing. Shown in Figure 4, ECAs supported 25 percent of Airbus' deliveries while Ex-Im financed 30 percent of Boeing deliveries in 2012. Additionally, EDC of Canada and BNDES and SBCE of Brazil have increased activity in the aircraft sector recently to support their own aircraft manufacturers Bombardier and Embraer.[8]

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Ultimately, support for Boeing transactions has become a political issue for the bank. While support for Boeing may be the best way to increase exports and related jobs, mandated by its mission, outsized support compared to other industries will always carry the risk of being labeled unfair or appear to be cronyism. One positive development in this regard is the increased willingness capital market investors have shown to become more involved in aircraft export financing. In total, Ex-Im aircraft-related authorizations fell from $11.9 billion to $8.3 billion in 2013. Manufacturing surpassed the aircraft sector in total authorizations for the first time since 1997.

While Boeing and large corporations have been criticized for receiving such high dollar value export financing, these types of authorizations do not comprise the bulk of Export-Import Bank financing when measured by the number of transactions. Though the Ex-Im Bank did not meet its congressionally mandated target of 20 percent of authorizations for small businesses by dollar value, it did hit a record high in the *number* of authorizations (See Figure 5); Ex-Im reported 3,413 small business authorizations in 2013 or 89 percent of total authorizations. Additionally, many U.S. small businesses supply larger exporters with parts assembled in the final exporter, expanding the possible economic impact of export financing beyond immediate exporting companies.

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SOURCE: U.S. EXPORT-IMPORT BANK ANNUAL REPORTS, FY 2000 – FY 2013

Ex-Im's 2012 reauthorization included a requirement to submit a business plan to Congress and the GAO. In its plan, Ex-Im acknowledged that it did not expect to meet congressionally mandated targets for small business or renewable energy authorizations.[9] While the 2012 reauthorization has led to greater transparency regarding the Ex-Im's inability to meet mandates for small business, Sub-Saharan Africa, renewable energy, and others (See Table 2); there are no prescriptions for helping Ex-Im achieve these goals in relation to its fundamental goal of increasing exports and U.S. jobs.

Taxpayer Exposure

Critics favoring elimination of the Ex-Im Bank often cite the potential for taxpayer exposure to bank losses. As mentioned previously, the Export-Import Bank, in cooperation with its Inspector General and the GAO, reviewed many aspects of internal policy and management, which has led to the ongoing development of a more comprehensive risk management framework that is still being implemented[10] and an agreement to improve the methodology and modeling of future exposure projections.[11] To better manage risk, the Export-Import Bank has agreed to implement changes to its loss estimation model, retain point-in-historical data on credit performance, report stress test scenario results to Congress, and develop workload benchmarks to manage operational risk from increased business volume.[12] Additional requirements from the 2012 Reauthorization apply when defaults equal or exceed 2 percent. However, the last reported default rate is below one-third of one percent.

Federal budgeting of credit programs is partly to blame for masking risks borne by taxpayers. A study from economists at the Manhattan Institute[13] in 2012, often cited by bank critics[14], showed that rules prescribed by the Federal Credit Reform Act of 1990 (FCRA) understate the cost of the Ex-Im Bank's programs by not factoring in market risk. When they produced a "fair-value" estimate of the bank's loan guarantee program (one that does factor in market risk), they found a $200 million cost for taxpayers on the $21 billion in loans that the bank would make in 2012. However, months later the Congressional Budget Office (CBO) produced its own fair value estimates of federal credit programs for 2013 and found that Ex-Im's programs, unlike nearly all of the other credit programs studied, had a negative subsidy under both FCRA and fair-value accounting methods.[15] A negative subsidy, as opposed to a positive subsidy, indicates profitability. CBO's fair-value estimate showed that Ex-Im's programs would result in a $100 million profit. However, applying fair value estimates generally to federal credit programs would provide a more realistic picture of their budgetary cost to taxpayers.

International Context of Export Finance

While Congressional mandates and internal bank policy have resulted in a number of program guidelines, the Export-Import Bank further adheres to the Arrangement on Official Supported Export Credits (the OECD Arrangement) set forth by the Organization for Economic Cooperation and Development (OECD), of which the United States is a member. The OECD Arrangement includes export credit terms and conditions for the ECAs of member nations with agreements ranging from minimum interest rates to guidelines on environmental procedures.

TABLE 3. NEW MEDIUM- & LONG-TERM OFFICIAL EXPORT CREDIT VOLUMES (BILLIONS OF $)

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
CANADA	0.5	1.5	2.0	2.6	1.9	1.7

	2007	2008	2009	2010	2011	2012
FRANCE	10.1	8.6	17.8	17.4	15.9	13.0
GERMANY	8.9	10.8	12.9	22.5	16.7	15.3
ITALY	3.5	7.6	8.2	5.8	8.0	5.2
JAPAN	1.8	1.5	2.7	4.9	5.9	4.4
UNITED KINGDOM	1.6	2.7	3.4	4.1	4.2	2.9
UNITED STATES	8.2	11.0	17.0	13.0	21.4	31.3
G-7 TOTAL	34.6	43.7	64.0	70.2	74.0	73.9
BRAZIL	0.6	0.2	6.1	3.5	4.8	2.7
CHINA	33.0	52.0	51.1	43.0	35.0	45.0
INDIA	8.5	8.7	7.3	9.5	13.0	10.6
BRIC* TOTAL	42.1	60.9	64.5	56.0	52.8	58.3

*EXCLUDES RUSSIAN ECA EXIAR, FOUNDED IN 2011, BECAUSE OF LIMITED ACTIVITY
SOURCE: EXPORT-IMPORT BANK 2012 COMPETITIVENESS REPORT[16]

The effectiveness of the OECD Arrangement has come into question with the rise and expansion of Non-OECD ECAs, such as those supported by China, Brazil, and other emerging nations not party to the OECD Arrangement (See Table 3). The use of financing tools not governed by the OECD Arrangement by emerging countries' ECAs has enhanced the role of the Export-Import Bank in helping U.S. companies competitively export.

U.S. officials continue to negotiate with Chinese leaders for a new comprehensive international agreement on export credits more aligned with the OECD Arrangement with the intention of completing those discussions in 2014.[17] However, even some OECD-member governments have significantly expanded export credit activity beyond OECD regulated programs that Ex-Im's does not similarly operate. Additionally, many countries have ramped up foreign direct investment programs that operate under the same roof as export credit operations, allowing for the easy coordination of financing strategies. Those functions in the U.S. are divided between the Export-Import Bank and the Overseas Private Investment Corporation (OPIC), which is responsible for foreign direct investment.

PRINCIPLES FOR REFORM

The case for elimination of the Export-Import Bank is relatively straightforward; subsidies interfere with an open, competitive market and export financing obviously falls into that category. Additionally, many have worried about unseen risks to taxpayers. While both justifications certainly have merit, the case for reauthorization of Ex-Im is based on market realities. The activities of the Ex-Im Bank address a longstanding problem, the uneven playing field for U.S. exports in the global economy.

What principles should guide reauthorizing the Export-Import Bank? First, Congress should scale back any unneeded capacity, thereby limiting taxpayer risks and unnecessary subsidies to commerce.

Second, it should distort the pattern of trade as little as possible by limiting quotas and other restrictions on the allocation of credit across regions, industries, and firm-sizes.

Third, it should continue the 2012 reforms to address weaknesses in the bank's governance and risk management. Reauthorization reforms worked to make Ex-Im's inability to meet congressionally mandated targets more transparent, now something must be done to address that inability. Addressing these mandates in the context of Ex-Im's competitiveness with foreign ECAs could provide a way to further improve the efficiency of Ex-Im's operations and further aid U.S. exporters.

There continues to be areas needing additional transparency. For instance, publicly available data on program authorizations can often be incomplete and inadequate. For Congress and outside stakeholders to truly keep Ex-Im accountable, transparency and accurate disclosure is paramount. Continued audits and reviews of these changes is integral to ensuring that Ex-Im financing is appropriately targeted and sufficiently competitive, and that taxpayers are protected.

Fourth, the U.S. should continue to shift its export strategy toward trade agreements and reducing burdens on U.S. companies and international negotiations to limit and eventually eliminate export-financing subsidies.

Moving forward, serious consideration should be given to ways that the Export-Import Bank can remain highly competitive with foreign ECAs, recognizing that the non-OECD regulated activities of China, Korea, and Japan alone are at least 50 percent greater than all OECD ECA credit volumes for 2012.[18]

[1] Calculated using data from the Bureau of Labor Statistics (BEA)