

# CRS Report for Congress

Received through the CRS Web

## Export-Import Bank: Background and Legislative Issues

James K. Jackson  
Specialist in International Trade and Finance  
Foreign Affairs, Defense, and Trade Division

### Summary

The Export-Import Bank is the chief U.S. government agency that helps finance American exports.<sup>1</sup> With a budget of nearly \$1 billion, the Bank finances around 2% of U.S. exports a year. Eximbank provides guarantees and insurance to commercial banks to make trade credits available to U.S. exporters. The Bank also offers direct financing to U.S. exporters on a limited basis, primarily to counter subsidized trade credits offered to foreign exporters by their governments. Such government-sponsored trade financing, however, has long been controversial, especially when Congress looks for ways to pare back federal spending. President Clinton's budget for FY2001 requested \$963 million in subsidy costs and \$63 million in administrative expenses for the Bank. President Bush's budget, however, proposes reducing the subsidy cost of the Bank's program to \$633 million, or 25% below the amount appropriated in FY2000. Eximbank's authority expires September 30, 2001, which will require Congressional reauthorization prior to that date. This report will be updated as events warrant. Additional information on this and other trade-related issues is available from the CRS Electronic Briefing Book on Trade at: [<http://www.congress.gov/brbk/html/ebtra1.html>].

### Background

The Export-Import Bank (Eximbank) is an independent U.S. government agency that is charged with financing and promoting exports of U.S. goods and services. To accomplish these goals, Eximbank uses its authority and resources to: assume commercial and political risks that exporters or private financial institutions are unwilling, or unable, to undertake alone; overcome maturity and other limitations in private sector export financing; assist U.S. exporters to meet foreign, officially sponsored, export credit competition; and provide guidance and advice to U.S. exporters and commercial banks and

---

<sup>1</sup> For additional information, see the Bank's Internet address: [<http://www.exim.gov>]

foreign borrowers. The Bank operates under a renewable charter, the Export-Import Bank Act of 1945, as amended, and has been authorized through September 30, 2001.

When it was initially established, the Bank was capitalized by an appropriation of \$1 billion from the U.S. Treasury. The Bank also is authorized to borrow up to \$6 billion directly from the Treasury, and it may draw upon a substantial line of credit with the Federal Financing Bank (FFB). (The Federal Financing Bank is a part of the Department of the Treasury and obtains its funds from regular Treasury issues.) Eximbank uses its Treasury borrowings to finance its short-term needs, and repays the Treasury quarterly from loan repayments and by borrowing from the FFB on a medium- and long-term basis. The Bank's authority to lend, guarantee, and insure is limited to a total of \$75 billion. Eximbank's direct loans are charged at their full value against the \$75 billion limitation, while only 25% of guarantees and insurance are charged against the limit.

Before the Budget Enforcement Act of 1990, Congress set annual authorization limits on the maximum amount of new loans, insurance, and guarantees the Bank could extend, and appropriated funds only for Eximbank direct credits. Under the terms of the new budget rules imposed by the 1990 Act, Congress appropriates the estimated amount of subsidy the Bank expects to expend throughout all of its credit programs, including direct loans, guarantees, and insurance, as indicated in **Table 1**. Congress no longer sets separate limits on the amount of loans, guarantees, and insurance the Bank can authorize, but the Bank continues to provide estimates of the amounts of activity it expects to undertake.

## Programs

Eximbank has three main programs it uses to finance U.S. exports: direct loans, export credit guarantees, and export credit insurance. Prior to 1980, the Bank's direct lending program was its chief financing vehicle, which it used to finance such capital-intensive exports as commercial aircraft and nuclear power plants. Both the budget authority requested by the Administration and the limitation approved by the Congress for the Bank's direct lending were sharply curtailed during the 1980s. Budget data indicate, however, that the Bank and the Administration expect the direct lending program to expand.

Eximbank's direct lending program is used primarily to aid U.S. exporters in instances where they face a foreign competitor that is receiving officially subsidized financing by a foreign government. These loans carry fixed interest rates and generally are made at terms that are the most attractive allowed under the provisions of international agreements. They are made primarily to counter attempts by foreign governments to sway purchases in favor of their exporters solely on the basis of subsidized financing, rather than on market conditions (price, quality, etc.), and to enforce internationally agreed upon terms and conditions for export financing. The Bank also has an Intermediary Credit Program it uses to offer medium- and long-term fixed-rate financing to buyers of U.S. exports, but U.S. exporters also must face officially subsidized foreign competition to qualify for this program.

**Table 1. Budget of the Export-Import Bank  
(in millions of dollars)**

	FY96	FY97	FY98	FY99	FY00	FY01	FY02
<i>Total Subsidy Requested</i>	737	737	632	808	839	963	633
<i>Total Subsidy Appropriated</i>	787	773	683	765	865	865	NA
	--	--	--	--	--	--	--
<b>Operating Expenses</b>	1,180	885	775	727	2,656	1,995	818
Direct Loan Subsidy	69	44	16	53	12	29	37
Guarantee Loan Subsidy	771	767	701	603	890	965	696
Loan Modifications	297	30	12	21	35	19	19
Administrative Expenses	43	43	46	50	55	62	65
Re-estimates of Subsidy Costs	--	--	--	--	1,663	919	--
<b>Budget Authority (gross)</b>	1,031	773	732	825	2,474	1,844	698
Appropriated	787	773	683	765	865	963	--
Other	244	--	49	60	1,609	881	--
<b>Budget Resources</b>	1,526	1,217	1,155	1,207	2,999	2,292	1,085
Budget Authority (gross)	1,031	773	732	825	2,474	1,844	698
Recoveries from previous years	78	103	124	48	45	90	90
Expired resources	-2	-3	-46	--	--	--	--
Unobligated resources start of year	415	344	299	334	480	358	297
Unobligated resources end of year	344	332	334	480	358	297	267
<b>Budget Authority (net)</b>	1,031	773	732	825	2,474	1,844	698
<b>Outlays (net)</b>	707	934	686	746	2,539	1,695	765

\* Indicates requested, or estimated amount

Source: Office of Management and Budget. *Budget of the United States Government*, various issues. Washington, U.S. Govt. Print. Off.

As part of its direct lending program, the Bank has a tied aid “war chest” it uses to counter specific projects that are receiving foreign officially subsidized export financing. Tied aid credits and mixed credits are two of the primary methods whereby governments provide their exporters with official assistance to promote exports. Tied aid credits include loans and grants which reduce financing costs below market rates for exporters and which are tied to the procurement of goods and services from the donor country. Mixed credits combine concessional government financing (funds at below market rates or terms) with commercial or near-commercial funds to produce an overall rate that is lower than market-based interest rates and carries more lenient loan terms. The United States does tie substantial amounts of its agricultural and military aid to U.S. goods, but it generally has avoided using such financing to promote American capital goods exports.

Funds for the tied aid war chest are available to the Bank from the Treasury Department and are subtracted from the Bank's direct credit resources. As part of its "Reinventing Ex-Im Bank" process, the Bank has become more aggressive in matching foreign tied aid credits in foreign markets and in offering greater choices of financing for exporters to counter foreign offers of tied aid. Under this initiative, the Bank intends to intervene at an earlier stage in the negotiating process to counter financing offers made by foreign competitors. The Bank has also extended its tied aid support to help small businesses that face foreign tied aid competition.

Guarantees and insurance are the main programs the Bank uses to assist American exporters. Both programs reduce some of the risks involved in exporting by insuring against commercial or political uncertainty. There is an important distinction, however, between the two programs. Insurance coverage carries with it various conditions that must be met by the insured before the Bank will pay off a claim. A guarantee is an ironclad commitment made to a commercial bank by the Export-Import Bank that promises full repayment with few, if any, conditions attached. In addition, Eximbank has a Working Capital Guarantee Program that it uses to aid small- and medium-sized businesses. Businesses that qualify have exporting potential but need working capital funds to produce or market their goods or services for export. Guarantees are offered to qualified lenders (primarily commercial banks) in order to facilitate loans to small businesses.

## **Recent Developments**

In May, 2000, Eximbank Chairman, James A. Harmon, announced that he had asked the Council on Foreign Relations and the Institute for International Economics to undertake independent studies of the Bank's programs and its competitive position relative to similar export credit agencies around the globe. The report is expected to be released in 2001 as President Bush and the 107<sup>th</sup> Congress begin deliberations on renewing the Bank's charter.

Chairman Harmon also announced that he asked for a review of U.S. sanctions policies and an assessment of the impact such policies have on U.S. exports as part of the overall review. The review will also examine the impact of the Chaffee Amendment (P.L. 95-630), which allows the President or the Secretary of State to stop an export transaction for non-economic reason. Harmon also expressed concern over the tenure of office of the Chairman of the Bank, who serves at the discretion of the President, with approval of the Senate. As a result, when Congress considers renewing the Bank's charter, it may also request that Congress consider fixing the length of the chairman's term of office.

## **International Agreements**

The United States generally opposes subsidies for exports of commercial products. (Nevertheless, like most countries, the United States has in place procurement policies that seek to assure that most foreign assistance funds are spent on U.S. goods and services.) Since the 1970s, the United States has led efforts within the Organization for Economic Cooperation and Development (OECD) to adopt international protocols which reduce the subsidy level in export credits by raising the interest rates on government-provided export credits to market levels.

Countries that signed the OECD Arrangement (all OECD countries except Turkey and Iceland) on export finance, concluded in November 1991, agreed to tighten further restrictions on the use of tied-aid. The participants agreed that projects that would be financially viable with commercial credits will be prohibited from using tied or partially untied aid credits, except for credits to the least developed countries where per capita income is below \$2,465. Moreover, the agreement sets up tests and consultation procedures to distinguish between projects that should be financed on market or official export credit terms, and those that legitimately require such aid funds. Conditions under which tied aid could be provided to these countries include the unavailability of commercial export-import bank financing, or a case where a project lacks the capacity to generate sufficient income to cover its costs at market prices.

U.S. exporters and others have expressed doubts about the effectiveness of the OECD agreement. The agreement has a number of limitations, including: the difficulty of defining commercially viable projects; and the presence of an “escape clause” that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. Moreover, the Agreement contains no explicit enforcement mechanism. The effectiveness of the Agreement also depends on the accuracy and openness of tied aid offers reported to the OECD, but the OECD does not confirm or verify the accuracy of the data provided by its members.<sup>2</sup>

## Legislative Issues

In the 107<sup>th</sup> Congress, some Members have expressed their desire to reexamine the Bank’s charter and its programs. While some Members have expressed their opposition to the Bank, in part because they argue that it is no longer necessary, others have indicated their willingness to support the Bank, but they believe Eximbank’s charter should be amended to focus the Bank’s activities more narrowly. Other Members have expressed their support for the Bank and argue that it fills an important gap in the export credit market. H.R. 375, sponsored by Representative Royce would assess the consolidation of OPIC and EXIM Bank. In H.R. 918, sponsored by Representative Tony Hall, EXIM would be prevented from guaranteeing, insuring, or extending credit in connection with the export of any good to a country for use in an enterprise involving mining, polishing or other processing, or sale of diamonds in a country that uses such diamond sales to “finance military activities, overthrow legitimate governments, subvert international efforts to promote peace and stability, and commit horrifying atrocities against unarmed civilians.” H.R. 1779, sponsored by Representative Lantos, would encourage EXIM to support projects in Tibet and S. 494, sponsored by Senator Frist, would establish EXIM offices in Zimbabwe. H.R. 1690, sponsored by Representative Waters, would prohibit EXIM from assisting in the export of any good or service to or by any country that is challenging an intellectual property law or government policy of a developing country, which regulates and promotes access to HIV/AIDS pharmaceutical or medical technology.

---

<sup>2</sup> *Competitor’s Tied Aid Practices Affect U.S. Exports*. General Accounting Office. Report No. GGD-94-81. May 1994. p. 19-21.

## Eximbank Debate

Eximbank's government-sponsored finance programs have long been controversial. One rationale for the Export-Import Bank is the acknowledged competition among nations' official export financing agencies. Most economists doubt, however, that a nation can improve its welfare over the long run by subsidizing exports. Economic policies within individual countries are the prime factors which determine interest rates, capital flows, and exchange rates, which, in turn, largely determine the overall level of a nation's exports. This means that, at the national level, subsidized export financing merely shifts production among sectors within the economy, rather than adding to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. This also means that promoting exports through subsidized financing or through government-backed insurance and guarantees will not permanently raise the level of employment in the economy, but it will alter the composition of employment among the various sectors of the economy.

Some Eximbank opponents argue that the Bank's programs serve only to aid the richest American firms. For example, some critics have derisively called the Bank, "Boeing's Bank." Eximbank data indicates that it has stepped up its efforts to aid aircraft exports because of estimates that there is a growing market among third world countries for aircraft. Nevertheless, the Bank also is attempting to make its programs more accessible to small businesses, which account for 12 to 15% of the Bank's total authorizations.

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

Some Eximbank supporters maintain that the Bank's programs are necessary for U.S. exporters to compete with foreign subsidized export financing and also to pressure foreign governments to eliminate concessionary financing. As a result, Eximbank is required in the Bank's Act to provide U.S. exporters with financing terms that are "competitive" with those offered by other official trade financing institutions. These, and other supporters of the Bank, also stress that deficiencies in financial markets bias those markets against exports of high value, long-term assets.

It is difficult to assess precisely the effect Eximbank programs have on deterring other nations from engaging in tied aid activities or other forms of subsidized financing to support their exports. Recent OECD data raise doubts about the effectiveness of international agreements to stem the use of subsidized trade financing to promote exports. Additionally, subsidized trade financing likely has a small overall effect on the U.S. economy, given the small size of total Eximbank activities relative to the magnitude of U.S. exports.