EX-IM BANK

How a Small Agency Delivers Big Benefits For America's Economy

LOREN THOMPSON

EX-IM BANK: RESULTS IN BRIEF

The Export-Import Bank is the official export credit agency of the U.S. government, established during the Great Depression to create jobs by facilitating the export of American-made goods. The bank provides loans, loan guarantees and insurance to exporters and their overseas customers when private-sector lenders are either unable or unwilling to provide financing. Most of the exports financed through Ex-Im programs go to developing countries in Africa, Asia and Latin America.

Congress has reauthorized Ex-Im operations two dozen times since the agency's inception, and gradually imposed a series of limits on how it functions. Among other things, the bank cannot compete with private-sector sources of financing, must levy fees on users of its services to cover the cost of operations, and must make at least 20% of its credit available to small businesses. As a result of these requirements, most of the bank's transactions are with small companies, and it typically generates a surplus of revenues that is turned over to the Treasury.

Exports play a major role in U.S. economic growth and job creation. Ex-Im credit programs reduce the unique risks of exporting and ease the challenge of securing financing when commercial credit is hard to obtain. Market sources of financing are especially difficult to find if potential buyers of U.S. goods are in developing nations, if the scale and duration of financing needs is great, or if economic downturns have led to a tightening of credit. Ex-Im activities surged during the recent global recession, when commercial banks became less willing to lend.

In addition to facilitating exports and job creation, Ex-Im also plays an important role in "leveling the playing field" for U.S. exporters when they face predatory trade practices by state-owned or state-influenced companies in other countries. Although many of the biggest industrialized nations are party to agreements that limit the kind of support export credit agencies can provide, some countries such as China routinely pursue unfair practices that put U.S. exporters at a disadvantage. Ex-Im Bank counters these practices to assure market forces are not subverted.

Most U.S. companies finance their exports from market sources. Ex-Im only finances about 2% of U.S. exports. However, Ex-Im efforts are heavily concentrated in key industries such as aerospace and energy where they have a disproportionate impact on U.S. competitiveness. Ex-Im estimates that its financing sustains over 200,000 jobs in the U.S., many at small and medium-size companies. Even when Ex-Im financing supports the exports of big companies like Boeing and Caterpillar, much of the money passes through to small suppliers and subcontractors.

Ex-Im does not have many critics, but among those who question its operations the arguments used are often uninformed or misleading. For instance, Ex-Im does not provide subsidies, does not use taxpayer funds, does not distort market forces, does not expose the government to major credit risk, and does not put U.S. companies at a disadvantage by making financing available to foreign competitors. A careful examination of Ex-Im programs reveals that the bank provides much the same services as export credit agencies in 60 other nations, utilizing no federal funds while maintaining a very low default rate on loans. By any reasonable standard, it is one of the government's most efficient, effective agencies.

INTRODUCTION: A LITTLE AGENCY WITH A BIG IMPACT

Eighty years ago, in the midst of the greatest economic depression the nation had ever known, the federal government established a new agency that could create jobs by helping U.S. companies to export their goods and services. That agency came to be known as the Export-Import Bank, and it has played a vital role in strengthening U.S. trade competitiveness despite remaining small by Washington standards. In fiscal 2013, its 400 employees provided financing for $37 billion in exports that sustained over 200,000 jobs in the U.S.

Ex-Im, as it is commonly known, delivers these benefits without using taxpayer money. Instead, it charges fees to foreign companies utilizing its credit services that cover all operating costs and generated a surplus of a billion dollars for the Treasury in fiscal 2013. Although 60 other nations have export credit agencies with features similar to the Export-Import Bank, it has repeatedly been recognized as one of the best in the world in terms of its efficiency, effectiveness and transparency.

However, in recent years Ex-Im has become the target of critics who either don't understand how the global trading system works or are trying to serve special interests at the expense of U.S. workers. If these critics succeed in limiting Ex-Im operations, thousands of U.S. companies -- particularly small businesses -- will lose access to the kind of credit programs that exporters in other nations routinely tap. U.S. competitiveness will suffer, markets will be lost, and jobs will disappear.

The purpose of this study is to set the record straight about what Ex-Im does, and why. It begins by describing the self-sustaining credit programs that the bank makes available to exporters big and small so that they can compete successfully with companies in other countries. It then explains the role of trade in the U.S. economy, and why selling U.S. goods and services overseas entails risks that do not arise in purely domestic transactions. The study goes on to detail recent trends in Ex-Im financing, and the benefits said financing provides to the U.S. economy -- particularly in the creation of jobs.

The study concludes by examining various complaints that have been made about Ex-Im programs, explaining why they are either inaccurate or unrealistic in the way they propose to change export credit practices. The study finds that rather than distorting market forces, the Export-Import Bank plays a pivotal role in "leveling the playing field" for U.S. exporters so that they do not compete at a disadvantage with the companies of other countries. It further finds that although Ex-Im is not permitted to compete with commercial lenders, it plays a crucial role in providing financing to foreign customers for U.S. goods when the private sector is unable or unwilling to extend credit.

If the Export-Import Bank did not already exist, Washington would have to create it because all of America's key trading partners operate their own export credit agencies. The United States cannot hope to maintain its current position of global economic power if it unilaterally disarms in the face of rising trade subsidies from countries such as China. By providing financing to U.S. exporters and customers who might otherwise have to look elsewhere for capital equipment and technical services, Ex-Im helps sustain America's role in the global trading system without resorting to the subsidies favored by unfair traders.

The Boeing 787 Dreamliner is a revolutionary commercial transport that is in high demand around the world. However, Boeing's main rival in the widebody market has received illegal launch subsidies from European governments to develop all of its planes, and can tap the resources of export credit agencies in four different countries. Ex-Im Bank helps Boeing customers finance purchases of the 787 and other jetliners, enabling the Chicago-based company to remain America's biggest exporter.

WHAT THE EXPORT-IMPORT BANK DOES, AND WHY

Ex-Im is the official export credit agency of the United States government. Like similar agencies in dozens of other countries, its role is to facilitate exports (and job creation) by providing various types of financing. According to the Peterson Institute for International Economics, 80-90% of companies engaged in exporting from the United States need financing -- credit -- of one sort or another to carry out transactions with customers in other countries. The vast preponderance of this financing is provided by private-sector lenders, or by tapping the financial resources of companies engaged in exporting. For instance, exporters may extend credit to suppliers or to customers to make a transaction feasible.

Because Ex-Im is prohibited by its charter from competing with private-sector lenders, it focuses on transactions where no market sources of credit are available. For instance, commercial banks are often reluctant to extend credit to customers in countries that have experienced political upheaval, that have weak economies, that have unstable currencies, or that have defaulted on credit arrangements in the past. Even when private lenders are willing to extend credit, they may impose terms that make financing unaffordable to companies or countries interested in acquiring U.S. goods and services. In such circumstances, Ex-Im often serves as the "lender of last resort" to assure a transaction involving U.S. exports can still occur.

Ex-Im also provides credit to small and medium-size U.S. exporters that face hurdles in obtaining private-sector financing for their overseas sales. These hurdles are typically highest during economic recessions, when banks tighten credit standards and in the process exclude many small businesses from access to financing. Although big exporters like Caterpillar and General Electric get a larger share of the dollar volume in Ex-Im credit arrangements, the vast majority of the bank's credit transactions -- thousands each year -- are with small and medium-size businesses. Whatever the character of the recipient, though, Ex-Im is allowed to extend credit only where there is a likelihood of timely repayment, and its default rate in recent years has run below 1%.

The financing products provided to U.S. companies and their overseas customers by Ex-Im generally come in three forms: direct loans, loan guarantees that assure creditors of repayment, and insurance against losses due to default. Thus Ex-Im's services are all designed to mitigate the risks that arise in selling across international borders, so that such risks do not become an obstacle to trade in U.S. goods and services. However, companies and countries seeking to utilize these services are required to pay interest or fees that can cover the cost of Ex-Im operations. In recent years, Ex-Im has generated operating surpluses from its fees that are returned to the U.S. Treasury; in fiscal 2013, the "profit" to the government from Ex-Im programs was a billion dollars.

Ex-Im operations are subject to numerous requirements specified in its charter and reauthorization legislation passed every few years. In addition to prohibiting competition with private lenders and mandating that users of services be reasonably creditworthy, these requirements set a limit of how much accumulated credit exposure the bank may have in any given year ($140 billion is the maximum in fiscal 2014), how much U.S. content exports must have to qualify for Ex-Im financing, and how much of the bank's credit must be extended to small businesses. Collectively, the various legal constraints on Ex-Im activities result in its financing only being used to facilitate 2% of U.S. exports.

However, most of those exports would not occur in the absence of Ex-Im programs, and they are concentrated in a handful of industries such as aerospace, telecommunications, energy and mining where the most expensive capital equipment is manufactured. Ex-Im efforts are also increasingly focused on the export of technical services in which America is a global leader. The companies that tap Ex-Im programs typically pay higher-than-average wages, and rely heavily on the inputs of small businesses for the manufacture of their exports. For instance, Boeing -- the biggest user of Ex-Im credit programs -- has 17,000 suppliers, many of them small businesses.

In 2013, Ex-Im Bank's board approved a $694 million direct loan for the export of equipment to be used in an Australian iron ore project. The loan, which will be repaid with interest, could sustain over 3,000 export-related jobs at U.S. companies such as Caterpillar. With companies in many other countries producing construction and mining equipment, the availability of Ex-Im financing is often crucial in determining whether foreign buyers purchase U.S. equipment or equipment made in places like Japan.

THE IMPORTANCE OF EXPORTS TO THE U.S. ECONOMY

Trade has played an important part in American economic progress since colonial days. For much of its history, the United States followed the example of major European trading nations in adopting protectionist measures such as tariffs, despite the contention of leading economists such as Adam Smith and David Ricardo that unfettered trade was better suited to promoting prosperity. After World War Two though, the United States became a leading proponent of free trade and actively encouraged the removal of artificial barriers to the flow of goods and services across international boundaries. The General Agreement on Tariffs and Trade embraced by most industrialized countries in 1948, and the World Trade Organization superseded it in 1995, have gradually liberalized the global trading system to a point where there are now fewer impediments to the free play of market forces than ever before.

Once the Cold War ended in the early 1990s, trade liberalization contributed to a worldwide process of economic integration called "globalization." The trading behavior of most nations now closely reflects the law of comparative advantage propounded by Ricardo in the 19th Century, which dictates that countries should specialize in the goods and services they can produce most efficiently, while obtaining goods for which they lack a competitive edge from abroad. As the removal of barriers to trade has made such behavior increasingly feasible, U.S. imports and exports have risen rapidly. For instance, U.S. exports have increased from $500 billion in 1990 to well over $2 trillion today, an increase of roughly 125% in after-inflation terms.

Economists view exports as an engine of growth for the U.S. economy, sustaining over 10 million domestic jobs while enabling innovation and efficiency. Many of the nation's biggest industrial companies such as General Electric and United Technologies generate a sizable share of their sales overseas, and to the extent these revenues reflect export activity, they are major contributors to domestic growth. Approximately a third of the growth seen in the recovery from the recent economic recession is traceable to exports of U.S. goods and services. Boeing, the nation's largest exporter, generates about 80% of its sales overseas while directing about 80% of its purchases to domestic companies -- mainly small and medium-size businesses. Without such sizable overseas sales, it would be difficult for the U.S. to continue its heavy purchase of foreign commodities and manufactured goods.

However, there is a downside to the explosion of U.S. trading activity since the Cold War ended. Although the United States remains a leading exporter of everything from corn to computers, it has not run an annual trade surplus since 1975. In other words, it typically buys far more that it sells overseas, resulting in negative trade balances that sometimes exceed half a trillion dollars in a single year. Such massive imbalances have undermined the nation's global financial position while slowing growth in the domestic economy. In many industries such as steel, chemicals and consumer electronics, unfavorable trade balances have resulted in huge job losses. It therefore is crucial to the nation's long-term prosperity that exports be increased and U.S. companies compete more successfully against foreign rivals.

Closing the trade gap will become easier as development of new domestic energy sources such as shale oil and wind power reduce the need for energy imports. Roughly half of the increase in the trade deficit to unprecedented levels in the last decade resulted from rising imports of foreign oil. Now that tide is receding. However, the other component of the trade deficit -- manufactured goods -- is not so easily fixed. The cost of manufacturing is higher in the U.S. than in many other nations, due mainly to taxes and regulations. In addition, several key trading partners such as China have embraced unfair trading practices such as discriminatory tariffs and currency manipulation that raise the hurdles U.S. manufacturers face in trying to sell overseas.

In 2010, President Obama launched an initiative to double U.S. exports and create two million new jobs by providing increased support to exporters and reducing barriers to trade. The administration has moved to streamline export regulations and punish the unfair trading practices of other nations, while increasing the assistance to exporters provided by the government. One facet of these efforts is raising the ceiling on credit that the Export-Import Bank may extend to U.S. exporters and their overseas customers. Unlike most of the other measures available to Washington for promoting exports, increased Ex-Im financing activity does not cost the Treasury money because it is self-sustaining. While Ex-Im is only part of the solution to fixing America's trade imbalance, it plays an oversized role in technology sectors with the most potential for growing foreign markets.

HOW EX-IM REDUCES THE RISKS OF EXPORTING

Exporting goods and services to other countries is not like conducting business within the United States. The U.S. is an exceptionally stable nation with well-established institutions, legal standards and business practices. The currency is sound and the financial system is transparent. There is little corruption and government at all levels is accountable for its actions. Thus, when companies encounter problems due to the behavior of customers, creditors or suppliers, they have many avenues for seeking redress. A handful of other nations offer similarly congenial settings for the conduct of business, but most countries can only aspire to the fairness and predictability of the U.S. system.

This presents a challenge for American companies as the world economy becomes increasingly integrated. With three-quarters of global purchasing power located outside U.S. borders, companies need to do business abroad if they are to keep growing and achieve economies of scale necessary to efficiency, but that often means operating in conditions where political developments, legal protections, currency values and even power supplies are unpredictable. Some of these problems can be mitigated by establishing offshore subsidiaries populated mainly by foreign nationals, but that solution is not available to U.S. exporters. Boeing, for instance, prefers to assemble all its planes in the U.S. even though 80% of them are sold abroad.

The Export-Import Bank was established to mitigate the special risks associated with selling overseas from the U.S. It does this mainly by assuming some of that risk through its loan, guarantee and insurance programs. Other major trading nations have established their own export credit agencies, recognizing that private-sector lenders often will be unable or unwilling to provide export financing on terms that make transactions feasible. Market sources of financing are especially difficult to find when prospective buyers are in developing nations, when the scale or duration of credit requirements is great, or when economic downturns have led to a tightening of credit.

That explains why Ex-Im financing is concentrated largely among the emerging nations of Africa, Asia and Latin America, and often involves exports of costly capital equipment such as locomotives and airliners. It also explains why Ex-Im activity surged during the recent global recession. Just as small and medium-size businesses have greater difficulty in securing credit during recessions, so do emerging nations. Private lenders assess emerging countries and companies to present high levels of risk, and therefore either decline to provide financing or impose terms that make transactions undesirable to the potential recipient. Within U.S. borders the government can address this problem by increasing liquidity through fiscal and monetary policy, but few developing nations have the financial resources or flexibility of the Federal Reserve.

Ex-Im thus exists to reduce the dangers associated with selling U.S. goods and services abroad so that jobs can be created in the U.S. In the words of the Government Accountability Office, "Ex-Im's role is to assume the credit and country risks that the private sector is unable or unwilling to accept." In the absence of Ex-Im programs, thousands of small businesses in the U.S. would be unable to export, and large companies like Boeing and Caterpillar would have to divert money from areas like research and investment to provide financing for overseas customers (they already devote extensive resources to financing sales). Many developing countries would be unable to buy U.S. capital goods, and would likely turn to state-owned or influenced entities in other nations as their source of supply.

The reason Ex-Im is able to level the playing field in such circumstances is that its financing arrangements are backed by the U.S. government. What this means in principle is that the federal government is assuming risks that the private sector will not. In practice, though, Ex-Im carefully assesses the dependability of potential credit recipients to assure they will repay their money (with interest) on time. The bank maintains a $4 billion reserve against losses, but its default rate is lower than that of most commercial banks and it has generated a surplus every year since 2008. Ex-Im officials balance their credit portfolio to guard against potential risks from political instability, currency fluctuations, market volatility, and over-concentration in particular regions or industries.

RECENT TRENDS IN EX-IM FINANCING

Ex-Im financial exposure has increased in after-inflation terms by 120% since the Cold War ended, which is roughly in line with the growth in exports. However, trends in bank activity have less to do with the growth of exports than with global economic conditions, the practices of other trading nations, and legislative mandates levied on the agency by Congress. With regard to economic conditions, Ex-Im stepped up the pace of its financing activity between 2008 and 2012 in response to tightening credit conditions brought on by a global economic recession. Ex-Im exists in part to counter the negative jobs impact that such recessions spawn when commercial banks pull back from lending, and as a result its financial exposure rose from $59 billion in 2008 to $107 billion in 2012. The pace of Ex-Im financing activity will likely moderate as the economic recovery progresses.

With regard to the behavior of other trading nations, U.S. exporters are confronted with a growing array of aggressive export-assistance initiatives mounted by countries pursuing mercantilist policies. For instance, the government of China has given more concessionary credit to its biggest exporter of telecommunications equipment than Ex-Im provides to all users of its programs combined in a typical year. Most of the world's major industrial nations -- including the United States -- are party to agreements limiting the activities of export credit agencies, but when countries like China that are not subject to such constraints adopt predatory financing schemes to win export competitions Ex-Im steps in to level the playing field. A growing portion of Ex-Im loans are aimed at combating unfair trade practices.

With regard to legislative mandates, Ex-Im is subject to an array of requirements aimed at assuring the value of its programs to specific types of exporters. In particular, Congress has directed that at least 20% of the credit the bank provides must go to small businesses seeking to export U.S. goods and services. In response to this mandate, Ex-Im has steadily expanded the range of services it offers to small exporters. In fiscal 2013, nearly 90% of Ex-Im's 3,842 transactions were in support of small businesses, the highest percentage in the bank's 80-year history. Although most of the dollar volume of Ex-Im financing supports big exporters like General Electric, the working capital loans and other assistance provided to small businesses are crucial to their survival in the export sector -- especially when private lenders pull back from the market.

Ex-Im is experiencing a significant shift in the composition of its credit portfolio as overseas demand changes and the offerings of U.S. exporters expand. First, long-term loans and loan guarantees comprise a growing share of the overall portfolio, reflecting increased demand for financing of large overseas infrastructure projects and commercial transports. The bank defines long-term financing arrangements as those requiring more than seven years to complete, and commitments of that duration now represent three-quarters of the bank's new credit authorizations. Second, financing for exports to Asia and the Americas is rising much faster than financing for other regions, reflecting burgeoning demand in those areas. Third, financing for the export of services has increased significantly, rising at a faster rate than aircraft and other manufactured goods.

Details of these trends are laid out in a Government Accountability Office study of Ex-Im risk management published in March of 2013. The study indicates that exports supported by Ex-Im programs are concentrated mainly in aircraft, other manufactured goods, technology for extraction of fossil fuels, utilities infrastructure and technical services. Although exports of commercial aircraft continue to be the biggest single product category supported by Ex-Im financing thanks to a recent surge in overseas demand for Boeing planes, fiscal 2013 was the first year since 1997 in which credit provided for non-aircraft manufactured items exceeded the value of credit provided for aircraft.

Although the legislation that reauthorized Ex-Im operations for three years in 2012 raised the statutory ceiling on the agency's overseas exposure from $100 billion to $140 billion, it is unlikely that financing activity will continue growing at the recent pace. With the economic recession over, credit is easier for exporters large and small to obtain from market sources. Declining commodity prices may weaken demand for overseas mining projects, and the cyclical character of demand for commercial transports will eventually assert itself. On the other hand, there will still be a need for Ex-Im to combat the unfair financing practices of some trading nations, and it is probably no coincidence that Ex-Im's board recently approved the biggest direct loan in the agency's history -- a $5 billion financing package for a Saudi energy project that will create 18,000 jobs in the U.S.

U.S. companies are global leaders in energy technology and infrastructure construction. Ex-Im Bank plays an important role in helping to finance the export of goods and services associated with overseas energy projects. Technology exports for such projects require very large, long-term loans that commercial lenders sometimes are reluctant to provide. For instance, in 2012 Ex-Im's board approved a $5 billion loan for exports used in a Saudi petrochemical complex that will create 18,400 U.S. jobs.

EX-IM BENEFITS TO THE U.S. ECONOMY

The Export-Import Bank has a long history of promoting economic growth and progress. During its early days, it provided financing for the Pan-American Highway, postwar reconstruction in Europe, and the new state of Israel. More recently, it has helped exporters and their customers to cope with the aftermath of the 9-11 attacks and the deepest economic downturn since the Great Depression. However, the real measure of Ex-Im's value -- the factor that has led Congress to reauthorize its operation two dozen times since it was established in 1934 -- is the bank's ongoing role in creating jobs within U.S. borders. Job creation is why Ex-Im was established in the first place, and remains its primary mission today.

Many federal agencies have a role in promoting job creation. What makes Ex-Im different is that it uses no taxpayer money while achieving impressive results. The bank has funded its operations through fees imposed on users since 2008, sending $3 billion in surpluses to the U.S. Treasury, yet has managed to sustain an average of well over 200,000 domestic jobs each year. These are jobs that probably would not exist otherwise since they involve exports for which private-sector financing was not available, and they typically pay better wages and benefits than jobs focused on domestic markets. For instance, Boeing -- a big user of Ex-Im financing that sells 70-80% of its U.S-built planes abroad -- leads the aerospace sector in worker compensation.

Although Ex-Im credit only supports a small share of U.S. exports, it has a disproportionate impact on job creation and GDP growth due to the leverage it gives exporters. Using Boeing again as an example, the nation's biggest exporter operates in a highly competitive global market where economies of scale are crucial to remaining price-competitive. Its overseas rivals such as Airbus enjoy access to subsidies that are not provided by the U.S. government. Thus, if Ex-Im financing was not available, the company would either have to give up market share in places like Sub-Saharan Africa and Southeast Asia -- where commercial-transport customers routinely utilize export credits in their plane purchases -- or divert money from product development and facility investment to match competitor financing. Either way, Boeing's ability to compete would be impaired and thousands of U.S. jobs would eventually be lost.

Ex-Im has a "multiplier effect" for job creation at businesses engaged in the global economy, because in the process of financing a company's exports, it makes the whole enterprise more competitive. The full impact of this effect is hard to measure because so many jobs are sustained indirectly, but its scale is suggested by the amount of credit the bank extends to companies and their customers throughout the year. For instance, in December of 2013, the bank's board approved a $695 million loan for the export of U.S.-made mining and rail equipment to Australia; a $641million loan guarantee for the export of U.S.-made oil refining equipment to Turkey; and a $45 million loan guarantee for the export of U.S.-made turbines to Israel. Over 6,000 jobs were directly tied to these transactions, but there were undoubtedly additional indirect jobs made possible by the resulting economies of scale and other efficiencies.

It should be noted that Ex-Im credit is not just available to U.S. companies and their overseas customers. Foreign-based companies with operations in the United States can also tap Ex-Im financing if they export goods or services produced by American workers containing extensive U.S. content. To take one example, the German company Siemens exports turbines all over the world from its plant in North Carolina, and it is free to utilize Ex-Im services so long as those turbines continue to comply with U.S. content requirements specified in Ex-Im legislative mandates. Thus, the main thrust of Ex-Im's financing activity is not so much to benefit U.S. companies as U.S. workers by facilitating whatever exports result in domestic job creation.

Ex-Im plays an especially potent role in creating jobs at small businesses. In addition to the 3,413 small-business transactions the bank approved in fiscal 2013, much of the export revenue generated by larger recipients of Ex-Im financing passes through to small subcontractors and suppliers. Boeing, for instance, sources about 80% of its business activity domestically, and has 17,000 suppliers -- most of them small or medium-size companies. Ex-Im also has steadily expanded the range of its products and activities targeting small businesses, opening regional offices, sponsoring conferences that highlight overseas selling opportunities, and disseminating information useful to prospective exporters. All of these efforts have the potential to create U.S. jobs.

General Electric is a world leader in the development of energy-efficient locomotives, but it is being challenged in global markets by Chinese manufacturers receiving government subsidies. When Beijing offered the government of Pakistan concessionary financing to purchase Chinese locomotives, the Export-Import Bank stepped in to level the playing field so GE would not be at a disadvantage. GE won the contract, preserving hundreds of jobs at its U.S. plant and the facilities of suppliers.

MISGUIDED CRITICISMS OF EX-IM BANK

Congress has reauthorized the operations of Ex-Im Bank two dozen times since it was first established eight decades ago, and until very recently there was little criticism of its operations. However, Ex-Im's most recent reauthorization in 2012 was attended by unusual controversy suggesting that the agency has become a pawn in the broader philosophical debate of government roles and missions. Much of the recent criticism is shallow and misleading as to the motives of those complaining. Among other things, critics assert that Ex-Im provides subsidies for favored companies in a manner that amounts to corporate welfare; that Ex-Im financing activities distort the functioning of market forces; that Ex-Im loans and loan guarantees expose the government to undue risk; and that Ex-Im helps foreign companies to the detriment of their U.S. competitors. All of these charges are false in varying degrees.

Concerning the allegation of subsidies, Ex-Im provides credit for export operations at market rates while imposing fees or interest charges on users that cover the cost of its operations. It only steps in to help exporters and their overseas customers when private lenders such as commercial banks are unable to provide financing. Thus no subsidies are involved. In fact, the bank routinely generates funding surpluses in its activities that some have referred to as "profits." Ex-Im is essentially prohibited from providing subsidies by the legislative mandates contained in its charter and the international agreements to which the U.S. is party concerning the operation of export credit agencies. Any company is free to utilize Ex-Im services so long as its exports comply with domestic content requirements and other restrictions governing who may receive assistance.

Concerning the notion that Ex-Im interferes with the functioning of market forces, the precise opposite is true. In recent years, the agency has increasingly focused its financing activities on assuring a level playing field for U.S. exporters who otherwise might be victimized by the unfair trading practices of countries like China. A number of big trading nations are not subject to the limitations on export credit activities that the European Union, the United States, Japan and South Korea have accepted; nations operating outside that agreement often offer their exporters subsidies and other advantages not available to U.S. companies. In such circumstances, Ex-Im assures that market forces can work by countering the unfair practices of other nations so buyer choices are made on the basis of merit (price, performance, etc.).

Concerning risks to the federal government, Ex-Im financing activities are structured to minimize exposure by applying many of the same risk-protection mechanisms utilized by private lenders. First, standard measures of credit-worthiness are applied to all potential users of Ex-Im services, including consideration of political and economic instability that might compromise a company's or country's ability to repay loans. Second, the bank's loan portfolio is carefully distributed to avoid over-concentration in particular regions or industries. Third, the bank maintains a loss reserve of $4 billion against potential defaults. Through these and other mechanisms, Ex-Im has managed to maintain a default rate in its financing activities of 1-2%, which compares favorably with the risk exposure of many commercial banks.

Considering detrimental effects on U.S. companies, Ex-Im's board always weighs the advantages and disadvantages of credit activities in order to assure there is a net positive impact on the U.S. economy. Some U.S. airlines have complained that by providing credit to foreign buyers of U.S. planes, Ex-Im makes it harder for American carriers to compete on international routes. However, the complainants should be able to access equivalent financing from market sources so long as they have reasonable credit ratings, since they are not burdened with the kind of political and currency problems that some foreign carriers face. Allegations that thousands of jobs have been lost by domestic carriers as a result of credit provided to foreign carriers have not been substantiated, and in any event are dwarfed by the number of domestic jobs created through foreign sales of U.S.-built planes.

Companies in other industries have leveled similar charges, for example in the 2013 complaint by a domestic iron ore producer that financing the export of U.S. earth-moving equipment to Australia would lead to a glut of ore in global markets. The key flaw in this case, as in the airline complaint, is the assumption that if Ex-Im financing were unavailable, prospective foreign buyers would not be able to acquire the items they are seeking. The reality is that they would simply utilize export credit from other countries to make their purchases -- airliners from Europe, earth-movers from Asia, and so on. Sixty nations have export credit agencies, including all the countries that compete with America in the export of capital goods and industrial items.

CONCLUSION:
EX-IM IS VITAL TO U.S. TRADE COMPETITIVENESS

When President Obama signed into law the three-year reauthorization of Ex-Im operations in May of 2012, he summarized the case for having such an agency in the federal government:

> We're helping thousands of businesses sell more of their products and services overseas, and in the process we're helping them create jobs here at home. And we're doing it at no extra cost to the taxpayer.

The President went on to say that, "as long as our global competitors are providing financing for their exports, we've got to do the same." It was no coincidence that he delivered those remarks to an audience consisting mainly of small business owners. Ex-Im Bank has made it possible for thousands of small and medium-size enterprises to participate in the global trading system by providing loans, loan guarantees and insurance when market sources either couldn't or wouldn't. Despite the numerous constraints imposed on Ex-Im programs to assure they don't compete with private lenders or interfere with the normal functioning of market forces, Ex-Im has made a real difference in the ability of U.S. companies to compete abroad.

Some critics believe that the United States should set an example for other trading nations by abolishing its export credit agency and forcing exporters to rely on private lenders for whatever financing they require. However, unilateral disarmament isn't likely to work any better in trade policy than it would in deterring nuclear war. With every other major trading nation operating its own export credit agency and some of them refusing to accept limits on predatory behavior, removing Ex-Im from the fray would be a severe blow to U.S. exporters. Hundreds of thousands of U.S. jobs would be at risk, as would America's global leadership in industries as diverse as commercial aircraft, telecommunications, construction equipment and refining technology.

The simple fact is that American companies are now dependent on overseas customers to remain competitive even in their home market. For instance, there is no way that Boeing could hope to match Airbus in price or performance when selling to U.S. airlines if it ceded overseas markets to its rival because domestic carriers only purchase about a fifth of its planes. Boeing must compete successfully in other markets, and that means beating a company with access to export credit from several different European countries. The World Trade Organization has ruled that every aircraft Airbus currently offers was developed with illegal subsides, and that practice is continuing with development of an alternative to Boeing's 787 Dreamliner. Boeing doesn't require subsidies to prevail in this battle, but expecting it to win without access to the kind of export credits that aircraft makers in every other country enjoy is unrealistic.

The same can probably also be said of General Electric, which exports locomotives, turbines, aircraft engines and medical equipment. Or Caterpillar, which exports earth-moving and mining equipment. Or Cisco, which exports routers and digital networking technology. Each of these companies has seen sales lost overseas due to the aggressive trade practices of other countries, including the use of concessionary financing that would never be allowed under U.S. law. For these big companies, just as for the thousands of small companies that rely on federal export financing, Ex-Im is vital to their success in an unforgiving international marketplace.

Winston Churchill once observed that no matter how committed he might be to his political beliefs, he would not sacrifice his generation to a principle. What he meant was that it is the task of politicians and policymakers to work with the world as they find it to make things better, rather than trying to impose ideals that might lead to dislocation and suffering. That practical attitude is very much in keeping with American political tradition, which often decries the evils of the world but nonetheless strives to get the best outcome for the largest number of people. The Export-Import Bank operates in much the same spirit. It exists to help U.S. exporters succeed without using taxpayer money and without undermining the private sector. It has done a good job of helping companies grow U.S. exports to record levels, and America needs it to keep doing that job.

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Lexington Institute

1600 Wilson Boulevard • Suite 900 • Arlington, VA 22209
Tel: 703.522.5828 • Fax: 703.522.5837
www.lexingtoninstitute.org • mail@lexingtoninstitute.org