

## CEE Pushes For Ex-Im Changes In Next Year's Charter Reauthorization

U.S. multinational companies represented by the Coalition for Employment through Exports (CEE) are preparing to fight for loosening Export-Import Bank restrictions that they say disadvantage them compared to foreign competitors financed by their national export credit agencies in the context of next year's renewal of the bank's charter.

CEE President John Hardy, Jr. said late last week it is a priority for his group to lower the Ex-Im requirement that exports it finances must contain 85 percent U.S. content. This is the "biggest constraint" facing U.S. exporters seeking Ex-Im financing, he said at a July 9 at press conference organized by the National Foreign Trade Council (NFTC).

In addition, requirements in Ex-Im's charter that bank-financed exports be shipped on U.S. ships increases the cost of shipping and is time-intensive if companies apply for a waiver from the Maritime Administration, Hardy said.

In a subsequent interview, Hardy said the U.S.-flag carrier requirement should be removed from the bank's charter, but that CEE is open to a compromise that would result in some improvements.

He also criticized the charter's requirement that potential loans be vetted both for environmental impact and potential negative effects on certain U.S. industries as putting the bank at a competitive disadvantage with other export credit agencies. But he said this is a "lesser priority" for CEE.

"If indeed the National Export Initiative is to achieve its objectives, the administration as well as its supporters up on the Hill need to really take a fresh look at these impediments and constraints," he said.

Hardy insisted that companies' globalized supply chains make it harder to meet Ex-Im's 85 percent U.S. content requirement, but he did not specify how much CEE wanted this threshold reduced. He noted that similar domestic content requirements are much smaller in other countries, with Austria setting a 50 percent threshold.

A business source said U.S. exporters would be "ecstatic" if they could get the Ex-Im U.S. content requirement lowered to 50 percent.

Owen E. Herrstadt, director of Trade and Globalization at the International Association of Machinists and Aerospace Workers, said the "last thing" the Ex-Im Bank should be doing is lowering U.S. content levels given that 8.5 million jobs had been lost since December 2007. He said the bank instead should be making sure it is applying its current content requirements "as aggressively as possible" in order to ensure the greatest positive impact on U.S. jobs.

Herrnstadt noted that Ex-Im's mission is to support U.S. jobs through exports, and that it is not supposed to be a substitute for private lenders. He added that exporters need to recognize that there are certain obligations that come with Ex-Im financing, and they are free to seeking private financing if they don't like those conditions.

Hardy called for Ex-Im to focus more in high-value goods, which he said would form the "backbone" of the U.S economy in the future. He said such exports, which include information technology, high-speed rail, clean coal, green energy, satellite and other high-tech products, often cut across industries. There is more competition for these kinds of exports than for more frequently purchased goods and services, he said.

When asked why these types of goods would require the relaxing the U.S. content requirement if they are largely produced in the U.S., Hardy said some of the "simpler elements or components may very well be handled overseas." He said that Ex-Im's goal should be to keep the more sophisticated research and development jobs in the U.S.

CEE's 22 members include Boeing, which the Pew Charitable Trust found received two-thirds of all Ex-Im loan guarantees by value in fiscal 2007/2008 combined. Other members are General Electric, Caterpillar, Halliburton and Lockheed Martin.

Hardy said CEE plans to include recommendations on reducing the content requirements when it submit comments to the Department of Commerce on the NEI by July 26. His group also plans to compile data to back up its recommendations and present them to Congress by mid-2011 when work on the charter reauthorization will be on-going.

When pressed whether these would be able to quantify the effect on U.S. jobs of removing Ex-Im's content or shipping restrictions, Hardy acknowledged that the data would be "substantially anecdotal."

At the July 9 event, NFTC President Bill Reinsch predicted a "big fight" over the U.S. content and shipping issues in Congress as part of the reauthorization of the Ex-Im charter.

Legislators from coastal states, for instance, would likely oppose any changes to the shipping requirements, while labor groups and some lawmakers are against changing U.S. content requirements, according to Nichole Westin, CEE's director of government relations. But she said Ex-Im's raised profile due to the National Export Initiative means next year's reauthorization is the best chance for changing the content requirements.

She added that the administration is cognizant that the content rules are problematic, but is not exactly sure how to handle the issue.

Ex-Im last month agreed to lower U.S. content requirements to 50 percent on two of its products that are mainly used by small business--export credit insurance and Working Capital Guarantee, according to Ex-Im Vice President for Public Affairs Phil Cogan. He said the bank made the change in order to increase the availability of financing to small business, which make up almost 90 percent of Ex-Im's transactions.

According to Westin, the House Financial Services Committee will likely begin work on the reauthorization of the Ex-Im charter by January, beginning with hearings and a bill by mid-2011. In the Senate, the Banking, Housing, and Urban Affairs committee would have jurisdiction over the legislation, Hardy said.

If lawmakers are unable to agree on a final bill before the bank's charter expires in September, Westin said Congress could pass a short-term extension for up to six months, noting that in the past generally reauthorization has been "kicked down the road" to the end of the calendar year.

Ex-Im now reviews all transactions for economic impact, first analyzing whether the export being financed will result in the production of an exportable good that could compete with a U.S. like product. Second, Ex-Im examines whether the exportable good produced is subject any trade measures such as antidumping (AD) or countervailing duty (CVD) orders, and, third, whether the transaction will "establish or expand" production capacity of that exportable good.

If the exportable good is subject to AD/CVD orders, Ex-Im will not fund the transaction unless the Board of Directors determines the transaction will have net economic benefits. For exportable goods not subject to AD/CVD orders or those subject to a preliminary AD/CVD determination, Ex-Im carries out a full economic impact analysis where it determines whether the transaction poses a risk of "substantial injury" to U.S. production, defined as establishing or expanding foreign production by an amount equal to or exceeding 1 percent of U.S. production.

Under its environmental policy, Ex-Im screens any transaction with a financial exposure greater than \$10 million that involves a physical project such as construction or extraction. In line with OECD guidelines, Ex-Im then carries out an environmental impact assessment if the project is a large, greenfield project in sensitive sectors such as hydroelectric, mining, forestry, commercial oil & gas development, determining whether the project meets World Bank environmental guidelines in areas including air quality, water use and quality, involuntary resettlement and climate change.

Ex-Im also has a new carbon policy that went into effect March 9, which requires projects with a carbon intensity greater than 700 grams CO<sub>2</sub>/kWh to meet additional guidelines including disclosure of carbon emissions and consideration of lower carbon-intensity technologies or ways to mitigate CO<sub>2</sub> emissions. Projects where carbon intensity exceeds 850 grams CO<sub>2</sub>/kWh would be required to find ways to reduce intensity to that level through carbon offsets. The Ex-Im board of directors is required to conduct an early review such "high carbon intensity projects" before moving forward with a complete environmental review of the transaction.

This carbon policy was responsible for a review of loan guarantee application for India's Reliance Power, which led the Board to block it. This decision was reversed this week (see related story).

Hardy said Ex-Im's environmental standards are "reasonable" but that not all OECD member countries set the bar as high, although he cited progress in getting those countries to adopt U.S. standards.

Hardy said the Ex-Im Bank should be the “centerpiece” of the NEI, but that the Administration could also expand the role of two lesser known entities, the Trade and Development Agency (TDA) and the Overseas Private Investment Corporation (OPIC).

TDA, which helps U.S. firms conduct feasibility studies for major foreign projects and funds reverse trade missions that bring foreign trade officials to the U.S., has a budget of \$55 million, which Hardy said could be expanded to at least \$120 million to \$150 million to help U.S. companies better compete in emerging markets.

He added that OPIC, which provides financing for large-scale infrastructure projects in developing countries, offers political risk insurance and supports private equity funds that invest in emerging economies, has largely sidelined itself since the 1990s when it was involved in supporting the privatization of electrical power in Latin America and other parts of the developing world.

Hardy said a recent agreement between the Ex-Im Bank and Brazilian development bank BNDES to support the financing of U.S. exports to Brazil could be broadened in scope to include TDA and OPIC.

According to Hardy, the Ex-Im bank has done a good job funding small businesses, but there is still a lot of opportunity to get new SMEs to start exporting, and encourage those that already export to expand their reach. Ex-Im is currently required to dedicate 20 percent of its financing to SMEs.

Hardy noted that it takes more resources to process multiple small transactions than one large one, so Ex-Im has partnered with the Small Business Administration for administrative support. He suggested that Ex-Im could expand its practice of “on lending” whereby it delegates some processing of smaller loans to private banks as long as certain general criteria are met.

On June 30, the House Appropriations State And Foreign Operations Subcommittee approved \$95.3 million for Ex-Im’s administrative budget and \$62 million for its program budget for the 2011 fiscal year, both significantly lower than what the Obama administration had requested but an increase from the current fiscal year budget. According to Westin, Ex-Im receives appropriations from Congress but uses its own profits to pay the money back at the end of the year. The bank is allowed to put any end-of-the-year surplus toward its loan-loss provisions but not toward administrative costs, she said.