

Will Ex-Im Survive? Should It?

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The charter for the Export-Import Bank of the United States (Ex-Im) expires Sept. 30. Incoming House Majority Leader Kevin McCarthy (R-Calif.) put the future of Ex-Im in doubt when he [said](#) June 22 that he would allow the bank to expire because export financing is something "government does not have to be involved in. The private sector can do it."

Outgoing Majority Leader Eric Cantor (R-Va.) backed Ex-Im's renewal in 2012. The McCarthy-Cantor split on Ex-Im reflects a broader divide among Republicans, notably in the House. House Financial Services Committee Chairman Jeb Hensarling (R-Texas), a longtime opponent, [said](#) June 13 that it is "time to EXIT the EXIM."

President Barack Obama has proposed a five-year reauthorization of Ex-Im and an increase in the bank's lending cap, and Senate Democrats may seek to force House Republicans' hands on the issue. Senate Majority Leader Harry Reid (D-Nev.) is [considering](#) tying a short-term reauthorization to a continuing resolution that would keep the government open beyond Sept. 30, and Sen. Joe Manchin (D-W. Va.) is [reportedly](#) working on a five-year extension with an increased lending cap.

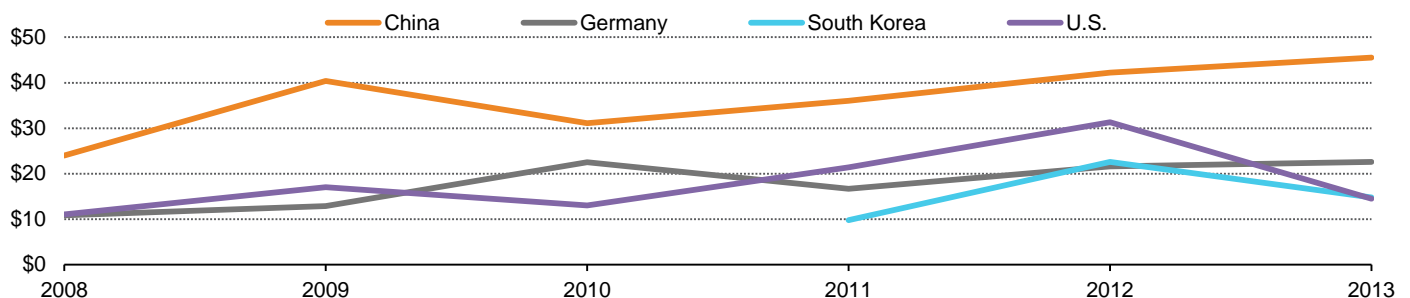
Given broad support for Ex-Im from businesses, Democrats and a still-sizeable segment of Republicans, the bank's charter is likely to be extended under a continuing resolution, and then reauthorized for a longer period during the lame-duck session at the end of this year, possibly with new conditions. However, reauthorization is by no means assured.

KEY FACTS: Ex-Im Background

- » Ex-Im is the official U.S. export financing agency, providing export-credit insurance, loan guarantees and direct loans to foreign buyers of U.S. products. The bank's loan terms vary from short-term insurance for as much as 180 days to long-term fixed-rate financing as long as 18 years for renewable energy projects.
- » Ex-Im was last reauthorized in May 2012 after overcoming [concerns](#) that Ex-Im subsidies benefit some companies at the expense of others, among other criticisms.
- » If it isn't reauthorized by the end of September, Ex-Im wouldn't be allowed to provide new export financing, though existing programs wouldn't be affected (that is, until their financing runs out).
- » Ex-Im [authorized](#) \$27.3 billion in loans, guarantees and insurance in fiscal 2013, 24 percent less than the previous year. Manufacturing, a broad category that includes power generation, construction and medical equipment, received the [most](#) Ex-Im financing authorizations in fiscal 2013 (\$8.5 billion), followed by commercial aircraft (\$8.3 billion), oil and gas (\$4.0 billion), space and telecommunications services (\$1.0 billion) and mining (\$700 million).
- » In 2013, the U.S. authorized \$14.5 billion in new medium- and long-term official export credit financing. According to Ex-Im [estimates](#), the U.S. ranked fourth behind China (\$45.5 billion), Germany (\$22.6 billion) and South Korea (\$14.8 billion) when comparing financing that abides by Organization for Economic Cooperation and Development (OECD) guidelines.

U.S. Medium- and Long-Term Export Financing Drops as China, Germany Ramp Up Support

New medium- and long-term government-supported export credit volumes; in billions of U.S. dollars



Notes: Data includes traditional export finance activity compliant with OECD rules; total export-related support can be much higher for some countries
Source: Export-Import Bank of the United States

IN THEIR WORDS: **Stakeholders Argue for and Against Ex-Im Renewal**

IN SUPPORT

John Murphy, Senior Vice President for International Affairs, U.S. Chamber of Commerce

"In 2013, Ex-Im provided financing or guarantees for \$37.4 billion in U.S. exports, supporting more than 200,000 American jobs. Nearly 90 percent of Ex-Im's transactions support exports by small and mid-sized businesses.

"Unilateral disarmament is rarely a good idea, but this is precisely what will happen if Ex-Im isn't reauthorized before Sept. 30. Sixty official export credit agencies (ECAs) worldwide have extended more than \$1 trillion in trade finance in recent years. Most of these ECAs dwarf Ex-Im in the support they provide to their national exporters. Without Ex-Im, American companies would be at a unique disadvantage in global markets, resulting immediately in lost American jobs.

"Far from being a subsidy for corporations, Ex-Im charges fees for its services that last year alone allowed the bank to return \$1.1 billion to the U.S. Treasury after covering all its expenses. Reauthorizing Ex-Im should be a no-brainer."

Linda Dempsey, Vice President of International Economic Affairs, National Association of Manufacturers

"Operating at zero cost to the taxpayer, Ex-Im provides financing, loan guarantees and other services that support thousands of small exporters and hundreds of thousands of U.S. jobs each year.

"In a highly competitive global economy, where foreign producers are supported by some 59 export credit agencies overseas, often with much more generous terms, Ex-Im is the only tool the U.S. has to combat this competition and level the playing field so that products made in America by American workers can compete and win sales overseas.

"Ex-Im services are open to all qualified U.S. exporters and it provides services that private-sector banks do not, especially in emerging markets and in sales made to foreign state-owned enterprises. Ex-Im has a very low default rate and has built up over \$4 billion in reserves in the case of a crisis. Ex-Im operates to promote exports and jobs."

IN OPPOSITION

Dan Ikenson, Director, Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute

"To those disciplined enough to look beyond the first-order effects to the broader consequences of policy, the arguments for reauthorizing Ex-Im's charter are unpersuasive.

"The bank does more harm than good. It assists some U.S. companies at the expense of others. When U.S. taxpayers provide foreign firms with low-rate financing to purchase U.S. exports, they are subsidizing the competition of downstream U.S. companies, whose capacities to compete, profit and hire are impeded by relatively higher cost structures. This is analogous to the tariff-rate quotas of the U.S. sugar program (to give one example), which benefit cane and beet producers and refiners, but put U.S. sugar-using firms at disadvantages vis-à-vis their foreign competitors.

"Ex-Im is an exercise in picking winners and losers with the winners concentrated on K Street and both ends of Pennsylvania Avenue."

Diane Katz, Research Fellow in Regulatory Policy, Heritage Foundation

"Ex-Im epitomizes the powerful bond between big business and big government. Boeing Co. alone has benefited from 197 Ex-Im deals totaling \$48 billion in the last five years. Corporate giants such as General Electric Co., Toshiba Corp.'s Westinghouse unit, Deere & Co. and Caterpillar Inc. are also major recipients.

"Ex-Im's financing puts small- and medium-sized American businesses at a competitive disadvantage. For example, the bank recently approved \$694 million to develop an open-pit iron ore mine in Australia, which the United Steel Workers says will jeopardize thousands of jobs. The bank's subsidies lower costs for foreign firms, which puts U.S. businesses at a pricing disadvantage.

"Current taxpayer exposure under the bank amounts to about \$134 billion. According to the Congressional Budget Office, under fair-value accounting methods, the bank will cost taxpayers \$2 billion over the next decade. There have been 74 cases of fraud and corruption at the bank since 2009."

BALANCE SHEET: **Other Points to Consider****IN SUPPORT**

- » U.S. export financing is a small fraction of global support: Ex-Im's \$14.5 billion in new medium- and long-term export support was just 5 percent of all global export credit agency activity in 2013, which [totaled](#) an estimated \$286 billion.
- » About two-thirds of government-supported export financing in 2013 was outside of OECD rules, with \$125 billion by non-OECD countries, led by China.
- » ECA financing is critical to emerging markets, given that the aftermath of the financial crisis has reduced net capital flows to those markets to an [estimated](#) \$28 billion in 2013, from \$57 billion in 2008.
- » Ex-Im supplements and encourages, but doesn't directly compete with, private capital. The bank offers volumes and lengths of repayment that go beyond the scope of private lenders, and takes risks private finance won't take.
- » Ex-Im export financing is a low [risk](#) to U.S. taxpayers: The bank's active default rate was 0.2 percent in the last quarter of fiscal 2013.

IN OPPOSITION

- » Ex-Im subsidizes companies by offering loans on terms more favorable than the private market can offer, due to lower government borrowing costs.
- » About 81 percent of Ex-Im authorizations in fiscal 2013 benefited medium-sized and large businesses that generate sizeable profits, including Boeing, Caterpillar, General Electric, JPMorgan Chase & Co., PNC Financial Services Group Inc. and Wells Fargo & Co.
- » Ex-Im's guarantees to Boeing have put Delta Air Lines Inc. at a cost disadvantage to its foreign competitors, such as Air India Ltd.
- » Ex-Im provides financing to countries in Asia, Europe and North America that don't need such assistance; these regions comprised 83 percent of fiscal 2013 authorizations.
- » Government export financing crowds out private lending.
- » Ex-Im financing shifts employment across the U.S. instead of actually creating new jobs, by subsidizing employment at export-focused companies at the expense of other jobs.

BGOV OUTLOOK: **Four Scenarios**

The House will be the epicenter of the Ex-Im fight in the months ahead. One question is whether Speaker John Boehner (R-Ohio) will be willing to push Ex-Im reauthorization, and thus overrule soon-to-be Majority Leader McCarthy, House Financial Services Committee Chairman Hensarling and other Republicans who want to eliminate the bank.

A second consideration is whether the House could even pass a reauthorization bill if it's allowed to come up for a vote. Forty-one Republicans sent a [letter](#) to leadership in June 23 in favor of reauthorization, and many House Democrats are likely to be supportive if it comes to a vote. However, passage of any bill would ultimately come down to vote [whip counts](#).

Senate Democrats may also seek to force Republicans' hands on the issue. Senate Majority Leader Reid is [considering](#) tying a short-term reauthorization to a continuing resolution that would keep the government open beyond the end of the fiscal year on Sept. 30. Sen. Charles Schumer (D-N.Y.) [said](#) July 1 the Senate plans to vote on an Ex-Im reauthorization this month. Manchin's five-year reauthorization proposal, which would increase the lending cap to \$160 billion from \$140 billion, is [reported](#) to have received backing from two Republicans, Sens. Roy Blunt (R-Mo.) and Mark Kirk (R-Ill.).

As the debate intensifies, at least four outcomes appear possible:

- » Ex-Im gets a clean renewal, possibly with increased lending caps. Like Manchin, President Obama has proposed a five-year reauthorization and a gradual lending cap increase to \$160 billion from the current \$140 billion.
- » Ex-Im is renewed, but for a shorter period (say, one to three years), and revamped to address some concerns of the bank's critics. These could include: adjustments to the way the bank's lending program costs are calculated (e.g., by adopting fair-value risk accounting); ending lending quotas for small businesses and some industries (such as renewable energy); a U.S. commitment to begin negotiations that would, at minimum, strengthen global rules against export subsidies, and, more ambitiously, end such subsidies altogether; and changes that would reduce the impact of Ex-Im financing on U.S. airlines, such as those [proposed](#) by Delta Chief Executive Officer Richard H. Anderson in June 25 testimony before the House Financial Services Committee (including a prohibition on financing sales of wide-body aircraft to airlines owned or supported by foreign states).

- » Ex-Im's charter is allowed to lapse on Sept. 30 and reauthorization isn't revisited until next year, at the earliest.
- » Ex-Im's authorization is extended under a continuing resolution until after the November midterm elections, and debate is renewed during the lame-duck session (with no guarantee that a bill is actually passed).

Given the broad support for Ex-Im among the business community, Democrats and many Republicans, the likeliest outcome may well be an extension of the charter under a continuing resolution, and then longer-term reauthorization during the lame-duck session along with new conditions, such as those outlined above. Even so, reauthorization is by no means assured, and will ultimately hinge on whether Speaker Boehner and House Financial Services Committee Chairman Hensarling are willing to bring it to a vote.

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