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As Boeing Hits Turbulence, Uncle Sam Flies to Its Aid

By DANIEL MICHAELS

Airlines are struggling amid the global recession. [Boeing Co.](#), meanwhile, is churning out jetliners at its fastest clip in years.

Executives at the aerospace giant say their factories are so busy due in large part to one man: Bob Morin, a federal employee who stumps the globe to rally sales for America's biggest exporter. More than one in four airliners Boeing delivers this year will be funded thanks to Mr. Morin's efforts.

Mr. Morin is vice president of transportation at the U.S. Export-Import Bank, created in 1934 to help fight the Great Depression. The bank's long history and recent experience suggest how government programs thrown together to battle the current economic crisis may alter the fabric of commerce for years to come. Ex-Im Bank is developing new funding tools and signing deals at a dizzying pace to fulfill its mandate of supporting American employment.

"This is Ex-Im Bank's time to step up to bat," says Mr. Morin, a 52-year-old New Yorker.

Ex-Im is an unusual bank: It mainly provides U.S. Treasury guarantees to banks to make them comfortable lending to buyers of American exports. If the buyer defaults, Ex-Im repays the bank loan and then goes after the defaulter.

No company has deeper relations with Ex-Im Bank than Chicago-based Boeing. Without Ex-Im, aviation officials say, Boeing this year could have been forced to slash production, endangering hundreds of U.S. suppliers, thousands of skilled American jobs and billions of dollars in export contracts.

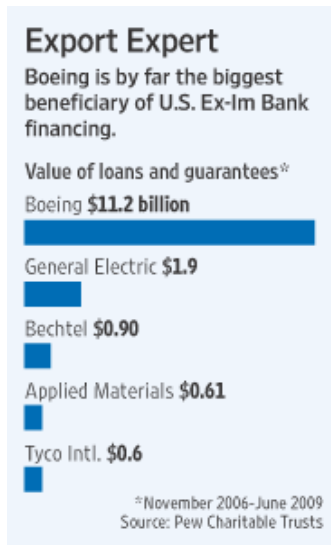
At the same time, the relationship may be warping a market that some say is oversupplied with planes. A major beneficiary of the program is the state-owned airline of Dubai, the Arabian city-state engulfed in a financial crunch after a long borrowing binge.

Some economists say that Ex-Im Bank channels financial resources to specific companies, such as Boeing, which means that money isn't being directed by the market. "All Ex-Im has been able to do is steer some money to Boeing and away from small exporters -- it's a zero-sum game," says Dan Griswold, director of the Center for Trade Policy at the libertarian Cato Institute in Washington.

Mr. Morin is Ex-Im Bank's rainmaker. His Boeing deals accounted for almost 40% of the bank's \$21 billion in business last year. To help Boeing through the credit crunch, his team has spent the past year developing government-backed bonds that promise to raise billions.

To boosters, Ex-Im is a paradigm of efficient government help to industry. Ex-Im covers all its costs through fees charged to foreign borrowers and has handed billions of dollars to taxpayers. It has helped Boeing compete with rival Airbus, which was created in 1970 by European governments. Ex-Im works against economic cycles, expanding in tough

times and receding when private lenders are flush.



"Of course it's government intervention, but it's government intervention that works extremely well," says Klaus Heinemann, chief executive of Dutch airplane lessor AerCap Holdings NV, which has used Ex-Im Bank and also financed Airbus orders using Ex-Im Bank's European counterparts.

To critics, Ex-Im shows how subsidy programs entrench themselves and distort markets. Executives at German carrier Deutsche Lufthansa AG say export financing pumps more than 10% excess jetliner capacity into the market. Some aviation financiers say Ex-Im Bank's current efforts to maintain Boeing's production are simply pushing plane makers' and airlines' problems into the future. And some economists say Ex-Im's assumption of risk on sales of Boeing planes amounts to a subsidy for the aerospace giant.

"Boeing's been getting a sort of pre-emptive bailout for years, largely under the radar," says Donald Boudreaux, a professor of economics at George Mason University in Fairfax, Va. He notes that while Ex-Im doesn't draw money from the federal budget, U.S. taxpayers are ultimately liable for almost \$70 billion in loans on

its books.

Boeing officials reject the idea that the Ex-Im Bank's support constitutes a bailout or subsidies. Chairman and Chief Executive Jim McNerney says Ex-Im "is critical to this country's competitiveness right now," supports thousands of jobs and is "very important to the recovery." Since other countries support exports, he says, eliminating Ex-Im "would leave you very uncompetitive today."

Boeing's jetliner sales through September were \$24.9 billion, up 5% on the year.

Ex-Im officials say the bank is more rigorous and demands more collateral than do other agencies that back loans with government guarantees -- particularly mortgage titans Fannie and Freddie, which nearly collapsed when the housing market crashed.

Mr. Morin says he's simply bridging a gap between demand for planes and paralyzed financial markets. The bank's volume of guarantees, loans and other commitments for jetliners has doubled since 2007. European export agencies are offering Airbus similar support.

"Nothing would make us happier than if our level of business went down," says Mr. Morin. "It's just not healthy for so much of the financing to come from export-credit agencies."

Still, when credit markets froze last fall, Mr. Morin led the search for new funding. To push Ex-Im Bank into the global bond market, his eight-person team sweated over details ranging from debt-payment technicalities to whether offering documents could carry Ex-Im Bank's official seal. The project illustrates how the bank -- like much of the federal government -- is simultaneously spurring private business and expanding the state's role in the economy.

While industry has applauded the effort, some analysts say it has a downside: "Any time you find a new way to increase exposure, you increase the risk to taxpayers," says Marcus Peacock, director of Subsidyscope, a project of the Pew Charitable Trusts in Washington, D.C.

Britain created the world's first export-financing office in 1919. Ex-Im was the second. The agencies proved so successful that most countries started one. International trade rules now limit how aggressively export-credit agencies can support exports.

Backing Boeing

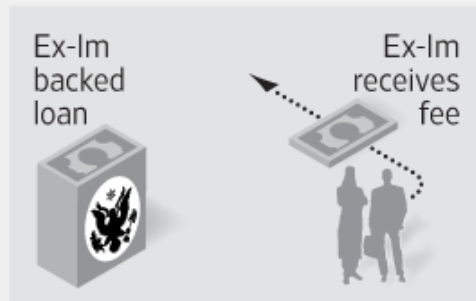
The government's Ex-Im Bank guarantees loans made to buyers of U.S. goods.



Foreign airline strikes tentative deal with Boeing to buy planes.



Airline applies to Ex-Im Bank for loan guarantee.



With Ex-Im guarantee, airline gets bank loan.



Airline closes deal with Boeing.

Today, Ex-Im Bank's blessing means that investors deem a loan to Ghana for buying rural electrification equipment to be almost as secure as U.S. Treasury bonds, generally considered the world's safest investment. Ex-Im says it carefully vets borrowers before backing them, and its default rate is less than 1.5% over its 76 years.

For its backstop, Ex-Im charges a borrower an up-front fee. The rate for jetliners is at least 4% of the value of the loan. The fees add up. Between 1992 and 2007, Ex-Im paid \$5 billion more to the Treasury than it received.

"We don't cost the taxpayer anything," says Chairman Fred Hochberg.

That financial cushion prompted Congress in 2007 to make Ex-Im Bank a self-funding federal agency. In its fiscal year ended Sept. 30, Ex-Im Bank deposited \$135 million in the public coffers.

While most exporters can use Ex-Im Bank, critics say it focuses excessively on corporate giants. Entrepreneurs are often unaware of Ex-Im Bank or daunted by exporting. Congress in 2006 required Ex-Im Bank to devote at least 20% of its funding to small businesses, and the Government Accountability Office has pressed it to work harder in the sector.

Mr. Morin faces an easier task finding deals because Boeing refers customers to him.

Before he joined Ex-Im Bank in 1998 as a lawyer, Mr. Morin was a senior associate at Milbank, Tweed, Hadley & McCloy LLP, in New York, and had financed many more Airbus planes than Boeing deals. He promised his wife that the government job, and its accompanying pay cut, would only last two years, he recalls.

For much of the decade, low interest rates meant most airlines could easily borrow on their own. So Mr. Morin and his team hopped the globe, traveling in economy class, to meet carriers and introduce Ex-Im Bank.

European aviation financiers say Mr. Morin's support for Boeing pushed export-credit agencies in Britain, France and Germany to work more efficiently in backing Airbus.

"Ex-Im Bank is much more aggressive in the market in terms of selling its services," says Airbus Chief Operating Officer John Leahy, the company's top airplane salesman. "To a very large degree, it's Bob Morin and the team he built who put a commercial perspective on what otherwise would be a staid government agency."

That reputation was tested last fall when credit markets seized up. Suddenly, banks that had previously financed loans backed by Ex-Im guarantees at the lowest prevailing rates stopped lending or were tacking on several percentage points in interest.

Higher interest costs would burden borrowers, increasing the chance of default. That would endanger taxpayers' money, Mr. Morin worried. He started to seek alternatives to expensive bank funding.

Industry officials, meanwhile, warned of a \$20 billion "funding gap." Boeing and Airbus, a unit of European [Aeronautic Defense & Space Co.](#), faced the threat of building planes for customers that wanted them but couldn't get purchase financing.

Last fall, Walt Skowronski, president of Boeing's jetliner-finance arm, summoned investment bankers to his office. He says he wanted to bypass commercial lenders and go straight to investors such as pension managers and sovereign wealth funds.

Bankers at [Goldman Sachs Group Inc.](#) -- who had just helped the Federal Deposit Insurance Corp. issue bonds to bail out banks -- proposed issuing bonds backed by Ex-Im Bank, recalls Gregory Lee, a Goldman managing director.

Mr. Skowronski liked the idea but flagged some worries. Ex-Im had never guaranteed bonds, which are much more complex than bank loans.

On Feb. 20, with global financial markets seemingly in free fall, Goldman and Boeing officials flew to Ex-Im Bank's Washington headquarters to sell their plan. Mr. Morin told them any bond they devised would have to be identical to bonds that competing banks were racing to develop for Boeing and Ex-Im. He wanted investors to think of them all as a single class of assets, so they would trade easily.

"By keeping it simple, we were able to get to market quickly," Mr. Morin says.

These would be the first bonds backed by Ex-Im. The debt would be sold to investors who had never financed airplanes or even heard of Ex-Im Bank, so nobody knew what they would pay for the bonds. Success could open a vast new source of funding in the huge bond market, everyone involved believed. A slip-up could derail the whole effort to keep Boeing sales aloft.

The next question: What would be the test case? Boeing executives and the bankers wanted a plane buyer willing to take risks on the new investment vehicle, but one established enough to comfort Mr. Morin and potential investors. On March 7, Mr. Lee pitched the idea to officials from a large carrier due to take several Boeing planes -- Dubai's state-owned [Emirates Airline](#).

"We were a bit skeptical" about how much people would pay for the bonds, recalls Brian Jeffery, senior vice president of corporate treasury at Emirates. The approach was so new that Mr. Jeffery had to check with Mr. Morin that he had approved it.

Then, the Saturday before the bonds were to be sold, Mr. Lee, the banker, got an urgent call. Newly appointed Ex-Im managers were asking why Ex-Im's official seal should adorn offering documents for a private financing.

The bankers were startled. They jumped on the phone to explain that investors would question the government's commitment if its seal wasn't alongside Boeing's.

Ex-Im officials relented; the agency's seal appeared on the documents. "Those little things were huge," says Mr. Lee.

On Oct. 8, Emirates' 12-year issue raised \$414 million for three Boeing 777s, at an interest rate significantly below what banks were charging.

Because of Ex-Im's guarantee, the bonds have been largely unaffected by the Dubai crisis, bankers say. Mr. Morin says he isn't worried about repayment because the deal and Emirates' business are fundamentally sound.

Two similar bond deals followed. The new source of money is pressing bankers to trim rates on loans, airplane financiers say.

The deal has forced Airbus and European export-credit agencies to react, says Gordon Welsh, head of Aviation Finance at Britain's Export Credits Guarantee Department. Seated next to Mr. Morin at an industry conference days after the Emirates' issue, Mr. Welsh said his agency is scrambling to replicate the new American model.

"We're following Bob," Mr. Welsh said.

—Peter Sanders in Chicago contributed to this article.

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