REFORMING ADDITIONALITY AT THE EXPORT-IMPORT BANK

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Ex-Im Bank Advisory Committee  

October 30, 2019

Members of the advisory board, members of the board of directors, thank you for having me today. My name is Veronique de Rugy. I am a senior research fellow at the Mercatus Center at George Mason University, where I have been studying the Export-Import (Ex-Im) Bank for many years.

During her confirmation hearing to become the new president of the Ex-Im Bank, Kimberly Reed made commitments to Senator Patrick Toomey in six areas, including

- improving protection for domestic companies from economic harm that might arise from the Ex-Im Bank financing their foreign competitors and
- ensuring that the Ex-Im Bank is not crowding out private financing options that would otherwise be available but for the Ex-Im Bank's involvement.

The Ex-Im Bank posted notices last month in the Federal Register soliciting public comments on its economic impact procedures and on its additionality checklist. I submitted written comments regarding both.

Today, I intend to focus mainly on the additionality checklist, although I will touch first on the economic impact procedures. The Ex-Im Bank did not propose any changes to these procedures for the public to consider. However, the economic literature suggests that the current procedures overestimate the benefit of the Ex-Im Bank and underestimate the broader negative impact of the agency. If the Ex-Im Bank believes that its current procedures are adequate, at minimum it should make public the economic impact analyses showing that each Ex-Im Bank deal is not hurting domestic businesses. Doing so would open up the Ex-Im Bank's analyses to outside verification. It also would help to fulfill another of Chairman Reed's commitments—this one to transparency.

Turning to the additionality procedures, here the Ex-Im Bank did provide a document for public comment. I am afraid it demonstrates either a lack of understanding about how markets operate or else a puzzling focus on the actions of other export credit agencies (ECAs), specifically for the following reasons:

*Category I on the Ex-Im Bank checklist is to meet competition from foreign ECAs.* I have three points on this.
First, the Ex-Im Bank seems focused on what other ECAs are doing, as if economic growth and jobs are the result of the outcome of hand-to-hand combat between government banks. That is not the case.

Consider Italy, which the Ex-Im Bank’s competitiveness report highlights as having a hyperactive ECA. Italy is the top OECD country by volume of exports backed by ECA financing. Yet the Italian ECA’s high activity levels appear to have had little effect on the country’s economic growth or employment.

Germany is the second-highest-ranked OECD country on this list. Germany has good economic growth, but only 0.7 percent of Germany’s exports are actually backed by ECA financing. These data provide little support for the argument that Germany’s strong economic performance has much to do with the German ECA.

Now take the United States, which the report highlights for an unusually low level of exports backed by the Ex-Im Bank. The US economy is thriving, wages and employment are up, and it has still-flourishing trade.

This suggests that ECA financing is irrelevant to the overall health of the export market and economic growth, contrary to what Americans are told repeatedly.

Second, foreign ECA financing should not be assumed to make a foreign offer more competitive, since

1. the product itself usually drives the sale rather than the financing, which was made extremely clear during the past four years;
2. private financing may be as competitive as ECA financing, or even more so; and
3. again, there is no evidence that foreign ECA financing moves the needle on growth or jobs.

Finally, the intense focus of the Ex-Im bank on competing with ECAs has also led to a situation where a vast majority of the funding takes place in high-income nations. That’s problematic for additionality because it means that the Ex-Im Bank focuses on making deals with companies in markets with plenty of private capital.

This also seems to be counter to the goal of “fighting” China. If the administration and Congress are serious about using the Ex-Im Bank to compete with China, they won’t get closer to achieving that goal by having the Ex-Im Bank lend money in high-income countries or selling discounted planes to Air China. The key here would be to extend deals to where China is expanding: that’s lower income nations.

*Category II on the checklist is that Ex-Im Bank financing compensates for “commercial financing unavailable due to regulatory or other constraints.”* Massive amounts of private credit remain available notwithstanding regulatory requirements. In fact, as I have showed in detail in my recent policy brief with researcher Justin Leventhal on the issue, such financing expanded after the Ex-Im Bank curtailed its financing programs in 2015.2

*Category III on the checklist is set aside for “other reasons” and reasons “not identified.”* I won’t waste time today commenting on this category, but I would refer you to my written comments elsewhere.

In short, the proposed additionality checklist won’t change anything about the way the Ex-Im Bank selects among applicants.

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2 Veronique de Rugy and Justin Leventhal, “Ex-Im Bank: A Comparative Analysis of Pre- and Post-Quorum Lending” (Mercatus Policy Brief Mercatus Center at George Mason University, Arlington, VA, April 2019).
Nothing makes this clearer than concrete examples, so allow me to offer a few recent ones:

1. Just three weeks ago, the Ex-Im Bank approved a $2 billion guarantee to the Private Export Funding Corporation (PEFCO). In the nearly 50 years since the Ex-Im Bank created it, PEFCO has reduced the role of private lenders in the market, transferred risk from the private market to taxpayers, and focused on sectors and markets where commercial financing is readily available, all while paying dividends to well-connected shareholders that include major banks and large corporations, many of whom are beneficiaries of the Ex-Im Bank. That the Ex-Im Bank’s directors resuscitated PEFCO within months of their swearing in does not bode well for Chairman Reed’s commitment to “not crowding out private financing options that would otherwise be available but for EXIM Bank’s involvement.”

2. I also highlighted in my written comments a pending aircraft financing deal for El Al of Israel. As with PEFCO, I was surprised that the Ex-Im Bank’s board of directors was turning back to aircraft manufacturing, a sector that actually prospered during the Ex-Im Bank’s board lapse—so soon after Congress gave the board a new lease on life. I will quickly run El Al through the categories of the Ex-Im Bank’s additionality checklist:
   a. Does El Al does qualify under Category 1, “competition from foreign ECAs”? El Al’s website claims that the airline has an all-Boeing fleet, so no.
   b. Does El Al qualify under Category 2, commercial financing unavailable? During the lapse in the Ex-Im Bank board’s quorum, El Al successfully financed its Boeing acquisitions through the commercial market.
   c. Perhaps the Ex-Im Bank is tucking El Al under the opaque Category 3 for “other reasons,” or reasons “not identified.” Is that the case?

Good news, though! I noticed recently that the consideration of the El Al deal was gone. Has the Ex-Im Bank decided that its first aircraft project since the restoration of its board quorum actually does not qualify as additional? If so, this would be a breakthrough for the Ex-Im Bank on additionality, especially if reaching this conclusion applies to more aircraft deals. But kindly confirm.

Finally, I would like to raise an issue I am most concerned about. The more I study the Ex-Im Bank, the more I realize that there is a possibility that the bank may not think that it has the ability to turn down transactions that do not demonstrate additionality.

Under a provision of the Ex-Im Bank’s charter, § 2(b)(1)(B), only in cases where the president—after consulting with Congress—determines that denying a loan for nonfinancial or noncommercial considerations is in the national interest can the Ex-Im Bank turn down a loan. This is a major problem. Does this mean that any loan applicant who can repay an Ex-Im Bank loan is entitled to get one? If so, then how can Chairman Reed fulfill her commitment on additionality? And if my interpretation of this section is correct, how can Congress and the president use the Ex-Im Bank to “fight” China? The simple answer to these questions is that they can’t.

Until Congress reexamines the rule of the Charter, nothing will change, and additionality won’t be improved.

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