

# ISSUE BRIEF

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## Export–Import Bank: Cronyism Threatens American Jobs

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The Export–Import Bank (Ex–Im) funnels billions of taxpayer dollars each year to overseas businesses for the purchase of American products. This subsidized financing is supposedly a win-win proposition for exporters and their customers abroad. But rare is a subsidy that does not produce disparity elsewhere. In the case of Ex–Im, the losers include domestic companies that are left to compete against foreign firms bankrolled by the U.S. government.

This and other drawbacks of Ex–Im are important to acknowledge as Congress considers whether to reauthorize the bank before its charter expires on September 30. The decision should be an easy one. Ex–Im effectively ignores the impact of its actions on American workers, as well as the risks to taxpayers, while exaggerating the benefits of those actions.

Government authorities have documented a variety of problems with bank operations,<sup>1</sup> but the fact that Ex–Im financing handicaps at least some American businesses is sufficient reason to end it. Recently, for example, the bank approved \$694 million in financing for U.S. equipment to develop an open-pit iron ore mine in Australia (owned by the country’s richest woman).<sup>2</sup> The deal was consummated despite warnings from the United Steel Workers, the

Iron Mining Association, and all four Senators from Minnesota and Michigan that the subsidies would jeopardize thousands of U.S. mining jobs.<sup>3</sup>

Global trade benefits the U.S. economy, but Ex–Im subsidies confer a competitive advantage to a select group of favored firms. Rather than perpetuate this cronyism, Congress should allow the bank’s charter to expire and undertake tax and regulatory reforms that would strengthen the competitive position of *all* U.S. businesses.

### **Economic Impacts Ignored**

Foreign firms receive Ex–Im financing to purchase U.S. equipment for manufacturing and resource extraction or to provide commercial services. However, the bank’s charter<sup>4</sup> prohibits financing under three conditions:

1. The recipient’s production is likely to create a surplus in world markets;
2. The recipient competes with U.S. production of the same, similar, or competing commodity; or
3. The financing would cause “substantial injury” to American producers of the same, similar, or competing commodity.

These statutory prohibitions are intended to balance the interests of U.S. exporters and the domestic firms that would compete against subsidized businesses overseas. But there is a major loophole: The charter allows the bank’s board of directors to override the constraints if they decide that a transaction would produce a “net benefit” to the U.S. economy.

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In order to determine the potential effects of an export subsidy, the bank is supposed to perform an economic impact analysis, but a review by Ex-Im's inspector general (IG) of the analyses conducted between 2002 and 2009 found that the bank

did not address directly several elements of economic impact contemplated by the Charter, omitted relevant data and analysis beyond that considered necessary to support the staff's recommendation, did not state the limitations and qualifications of the data, assumptions, estimates, methods and analysis, did not fully address the sensitivity of the staff's conclusions to possible changes in assumptions and estimates that could be reasonably anticipated.<sup>5</sup>

Indeed, none of the Ex-Im personnel interviewed by the IG's office possessed professional training or expertise related to economic impact analysis. Moreover, the bank does not consider the impact of any finance deal involving less than \$10 million, which excludes some 80 percent of Ex-Im transactions.

All of this means that bank officials dole out billions of taxpayer dollars to foreign firms without a meaningful consideration of the impacts on American workers and the businesses that employ them.

## Distorting Competition

Every type of industry undergoes booms and busts. Neither one typically results from a single cause but instead is a product of myriad factors, including changes in demand, currency fluctuations, and innovation. But government policy can dampen gains and exacerbate losses, which is the case with export subsidies. Ex-Im financing of coal mining in Colombia, copper excavation in Mexico, and air-planes for India has been identified as contributing to losses among domestic firms.<sup>6</sup>

The following Ex-Im deals have been cited by lawmakers and industry experts as examples of just some of the billions of dollars in taxpayer subsidies that put domestic firms at a competitive disadvantage:

- **Australia's Roy Hill mine (\$694 million).** The mine's expected output (over the life of the financing) is expected to displace nearly \$600 million worth of U.S. iron ore exports and cause a reduction of some \$1.2 billion in U.S. domestic sales.<sup>7</sup>
- **South Africa's Kusile Coal power plant (\$805 million); India's Sasan coal power plant and mine (\$917 million).** Notwithstanding the Obama Administration's war on coal,<sup>8</sup> Ex-Im has been a generous source of public financing

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1. For details on other drawbacks of Ex-Im (e.g., mismanagement and risk), see Diane Katz, "U.S. Export-Import Bank: Corporate Welfare on the Backs of Taxpayers," Heritage Foundation *Issue Brief* No. 4198, April 11, 2014, <http://www.heritage.org/research/reports/2014/04/us-exportimport-bank-corporate-welfare-on-the-backs-of-taxpayers>, and Diane Katz, "The Export-Import Bank: A Government Outfit Mired in Mismanagement," Heritage Foundation *Issue Brief* No. 4208, April 29, 2014, <http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement>.

2. Simon Casey and Elisabeth Behrmann, "U.S. Ex-Im Bank Votes to Support \$694 Million Loan for Roy Hill," Bloomberg.com, November 14, 2013, <http://www.bloomberg.com/news/2013-11-14/u-s-ex-im-bank-votes-to-support-694-million-loan-for-roy-hill.html> (accessed May 29, 2014).

3. Comments to ExIm Bank on Roy Hill Mine, EIB-2013-0054-0004, December 13, 2013, <http://www.regulations.gov/#!documentDetail;D=EIB-2013-0054-0004> (accessed May 29, 2014).

4. The Charter of the Export-Import Bank of the United States, updated August 30, 2012, [www.exim.gov/about/whoweare/charterbylaws/upload/Updated\\_2012\\_EXIM\\_Charter\\_August\\_2012\\_Final.pdf](http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf) (accessed May 29, 2014).

5. Export-Import Bank of the United States, Office of Inspector General, *Evaluation Report Relating to Economic Impact Procedures*, September 17, 2010, [http://www.exim.gov/oig/upload/EIB\\_Report\\_Final\\_Complete\\_Web.pdf](http://www.exim.gov/oig/upload/EIB_Report_Final_Complete_Web.pdf) (accessed May 29, 2014).

6. Ibid.

7. Senators Amy Klobuchar (D-MN), Al Franken (D-MN), Carl Levin (D-MI), and Debbie Stabenow (D-MI), letter to Export-Import Bank chairman Fred Hochberg, July 12, 2013, [https://www.franken.senate.gov/?p=press\\_release&id=2505](https://www.franken.senate.gov/?p=press_release&id=2505) (accessed May 29, 2014).

8. Nicholas D. Loris, "War on Coal: A House Bill to Stop the Regulatory Assault," Heritage Foundation *Issue Brief* No. 3733, September 19, 2012, <http://www.heritage.org/Research/Reports/2012/09/War-on-Coal-A-House-Bill-to-Stop-the-Regulatory-Assault>.

for coal projects abroad.<sup>9</sup> These and other projects have exacerbated a 70 percent decline in coal prices since 2008.<sup>10</sup>

- **Mongolia's Oyu Tolgoi copper mine (\$500 million).** The copper from this open-pit and underground mine competes with excavations in Arizona, Utah, New Mexico, Nevada, and Montana just as global refined copper production is expected to exceed demand by more than 390,000 metric tons this year.<sup>11</sup>
- **Papua New Guinea's Liquid Natural Gas Project (\$3 billion).** Despite regulatory challenges faced by U.S. producers of liquid natural gas, Ex-Im approved \$3 billion in financing for development of gas fields, on-shore and off-shore pipelines extending 400 miles, a gas liquefaction plant, and marine export facilities.
- **Air India (\$3.4 billion).** The financing will guarantee the purchase of 27 Boeing aircraft intended for international service, including U.S. destinations. According to the Air Line Pilots Association, Air India will enjoy rates and terms that are not available to U.S. airlines, giving it a cost

advantage of about \$2 million per airplane. Surplus seat capacity resulting from Ex-Im airline subsidies—totaling about \$50 billion between 2005 and 2011—has resulted in the loss of approximately 7,500 U.S. jobs.<sup>12</sup>

### A No-Brainer

Ex-Im beneficiaries argue that export financing preserves American jobs, but the vast majority of bank subsidies benefit very large corporations that could self-finance or obtain private investment—as is the case for 98 percent of all U.S. exports. Rather than perpetuate these subsidies, Congress should help all American businesses by reducing corporate tax rates and regulatory burdens.

Allowing the bank's charter to expire should be a no-brainer for lawmakers. (Even Barack Obama, as a presidential candidate, endorsed its end.<sup>13</sup>) With strong growth in privately financed exports, there is no justification for maintaining this Depression-era relic.

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9. In 2013, the bank authorized \$633.6 million in financing related to four new fossil-fuel power plants.

10. Thomson Reuters, "Thermal Coal Prices to Drop Further on Oversupply, Weak Demand," March 20, 2014, <http://uk.reuters.com/article/2014/03/20/energy-coal-prices-idUKL6N0MH30Y20140320> (accessed May 29, 2014).

11. Press release, "Copper Market Forecast 2013–2014," International Copper Study Group, October 2013, <http://www.icsg.org/index.php/press-releases/finish/113-forecast-press-release/1605-2013-10-icsg-forecast-press-release> (accessed May 29, 2014).

12. Air Line Pilots Association, "Leveling the Playing Field for U.S. Airlines and Their Employees," [http://www.alpa.org/publications/ALPA\\_White\\_Paper\\_Leveling\\_the\\_Playing\\_Field\\_June\\_2012/ALPA\\_White\\_Paper\\_Leveling\\_the\\_Playing\\_Field\\_June\\_2012.html](http://www.alpa.org/publications/ALPA_White_Paper_Leveling_the_Playing_Field_June_2012/ALPA_White_Paper_Leveling_the_Playing_Field_June_2012.html) (accessed May 29, 2014).

13. Ashe Schow, "Pres. Obama Was Against ExIm, Before He Was for It," Heritage Action for America, *The Forge*, March 28, 2012, <http://heritageaction.com/2012/03/pres-obama-was-against-exim-before-he-was-for-it/>.