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Eximbank Assistance to Trade and Investment in Eastern Europe

MR. RENDELL: I think the very first question that comes to mind is: what is a representative of Eximbank doing at this Institute? This is really an Institute on investment, and as I think you all know, Eximbank is a financing agency for trade. We don't get directly involved in providing or guaranteeing equity investments. Our role in investments and joint ventures is really one of complementing the investment through provision of the financing for imported goods. That is what I am going to focus on.

What I intend to do here, is to very briefly describe our programs, then discuss the existing statutory limitations on our involvement in Eastern Europe, and then finally present a case study of a joint venture that we have financed in Yugoslavia.

Eximbank Programs

Eximbank essentially provides two types of assistance to United States exporters who would be interested in selling their goods to Eastern European purchasers: direct loans, on the one hand, and guarantees and insurance on the other. The direct loan and financial guarantee program that we have is generally intended to cover long-term financing for heavy capital equipment. We refer to it as "participation financing," by which we mean that we require commercial banks in the United States to join with us in providing the financing to support United States exports of this type of equipment.

At the present time, the financing pattern in a typical transaction in which Eximbank is involved, would be to require a 10 percent cash payment, Eximbank would extend a loan for 45 percent of the purchase price at, say, an 8 percent rate of interest, and one or more commercial banks would extend a loan for the remaining 45 percent of the purchase price of the United States equipment. The commercial banks are free to charge whatever interest rate they can obtain, even when we provide our guarantee to the commercial bank that it will be repaid by the foreign borrower.

Repayment terms that we offer in this type of financing are generally the customary terms offered in similar transactions in international trade, anywhere from 5 years up to 12 following a grace period.

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A very important point to keep in mind when discussing Eximbank programs is that our statute requires us to have a reasonable assurance of repayment before we participate in an export transaction. We require security if there is any question as to the creditworthiness of the borrower, in much the same manner as a commercial bank extending similar financing. We require a commercial bank guarantee, or a government guarantee if we are making a loan to a quasi-government agency, or an assignment of proceeds. We do not take mortgages on product financing.

Another program I should mention is the "discount loan program." This is a medium-term program under which we supply financing to commercial banks in the United States. Here we don't make the loan to the foreign borrower, but we do make a commitment to the commercial bank that if and when it needs liquidity, we will make a matching loan to it; that is, we will loan an amount of money to a commercial bank up to the amount that it has made available to a foreign purchaser to buy United States exports. In such case we look to the commercial bank—not the foreign borrower—for repayment.

We also have a cooperative financing facility, which is a program under which we extend lines of credit to foreign banks to allow them to make loans to purchasers in their country to acquire United States goods and services. Under this program we provide up to 50 percent of the amount of the sub-loan by the foreign bank, and we permit the foreign banks to charge a 2.5 percent spread over the 8 percent interest on our 50 percent. So the rate of interest on the amount of the financing provided by Eximbank will be 10.5 percent. The other 50 percent can be loaned out at whatever interest rate the cooperative financing institution can charge. We have such a cooperative institution in three of the four countries in Eastern Europe where Eximbank has been active in recent years. In Poland, the Bank Handlowy is a cooperative institution. They will make funds available to finance United States exports under a line of credit from Eximbank. In Romania it is the Bank for Foreign Trade. In Yugoslavia we have four cooperative institutions, the largest of which is the Jugobanka.

We also have several supplier credit programs, under which we provide insurance and guarantees to either the exporter or its commercial bank to enable the exporter to extend credit to the purchaser of United States goods. In other words, under our supplier credit programs, we do not make any direct loans available to the foreign borrower, but through our insurance and guarantee mechanisms, we enable the exporter to finance through a commercial bank. These supplier credit programs are not at the present time actively used in Eastern Europe. Let me give you a couple of figures to show you what I mean.

We are on a June 30 fiscal year, so the figures I am going to give you are for the fiscal year ending June 30, 1974, our last complete fiscal year. We have authorization under our statute to do business in four countries, of which I mentioned three, Yugoslavia, Poland and Romania. The fourth is the Soviet Union.

For FY '74, the figures read as follows: Eximbank loans to Yugoslav purchasers were $376 million, guarantees $220 million, insurance about $8 million, for a total of $605 million of commitments made by Eximbank during FY '74. In Poland we made loans of $65 million, guarantees of about $½ million, and some short-term insurance, for a total of $67 million. For Romania, these figures are: $10 million loans, $4.5 million guarantees and about $2.5 million insurance, for a total of $17.5 million. Finally, in the Soviet Union we had loans of $367 million for FY '74 and "guarantees" of $68 million. These "guarantees" are not financial guarantees to United States commercial banks, but rather they are something we refer to as a pre-shipment guarantee; that is, we will issue a guarantee to a United States exporter that the Department of Commerce will not cancel its export license prior to shipment.

One can draw two conclusions from these figures; first, in Eastern Europe we were most active during '74 in Yugoslavia and the Soviet Union. In fact, during FY '74, Yugoslavia was the leading country in the world in terms of loans and guarantees authorized by Eximbank. The Soviet Union was also a leading borrower from Eximbank and ranked fourth in terms of total authorizations and third in terms of loans. The other conclusion is that our supplier credit programs are not very active in this area of the world. The Soviet Union, for example, has not utilized the supplier credit programs offered by Eximbank. Yugoslavia has to a limited extent, Poland and Romania not very much.

Statutory Limitations on Eximbank

Now, with that background in mind, let me turn to the statutory limitations presently applicable to Eximbank's operations in Eastern Europe. Under our own legislation, the Export-Import Bank Act of 1945, we are prohibited from doing any business in a Communist country unless the President of the United States has made a determination that it is the national interest for Eximbank to participate. At the moment there are four such determinations in effect for Yugoslavia, Poland, Romania and the Soviet Union, respectively. In other words, in the absence of a national interest determination, we are precluded by our own statute, as well as by the Trade Act of 1974, from doing business in the other Communist countries such as Hungary, the Peoples' Republic of China, or Czechoslovakia. Last summer the GAO and Senator Schweiker raised the question as to what this national interest determination requirement really meant: should it be applied on a transaction by transaction basis or need only one determination be made on a country-wide basis? The new Eximbank legislation that was enacted last year reaffirms the position that Eximbank had been following, *i.e.*, that only a country determination need be made, but adds one exception, and that being where Eximbank makes a loan of over $50 million to a Communist country. Under our new legislation it is now necessary for the President to make a separate national interest determination on that type of transaction. So far we haven't had any new national interest determinations, because, although we are still in business with Yugoslavia and Poland and possibly soon with Romania, we haven't extended a loan of over $50 million to any of these countries since the beginning of the year.

Now, let me turn to the Trade Act of 1974, which has a separate set of limitations on Eximbank involvement in Eastern Europe. First of all, Yugoslavia and Poland are not covered by the Trade Act, at least as far as Eximbank is concerned, so the Trade Act has had no effect on our business in Yugoslavia and Poland.

With respect to Romania and the Soviet Union, the other two countries in Eastern Europe where Eximbank has done business in the past, we have been legally prohibited from participating in any new transactions there since January 3, 1975, the effective date of the Trade Act of 1974. Under section 402(b) of the Trade Act, there may be no participation by a Communist country (other than Yugoslavia and Poland) in any Eximbank programs until the President has reported to the Congress that such country is not denying its citizens the right or opportunity to emigrate. This is the so-called "Jackson-Vanik Amendment" which has effectively cut off further Eximbank credits to the Soviet Union for the time being. I should add that this same procedure would also have to be followed in the case of the Soviet Union should conditions change there so that a waiver may be made. The President is permitted by law to waive this provision if he has received assurances from a Communist country that it is taking steps toward achieving the objectives of the Trade Act, that is, permitting the citizens of that country to emigrate. Just last week [April 24, 1975] President Ford made such a determination with respect to Romania and sent the report, which is required by the Act, to the Congress, along with a new trade agreement with Romania. Eximbank is legally entitled to go back into business with Romania because the waiver has been reported to the Congress. However, we are taking the position now that we will entertain applications for loans in Romania, but we are not going to act on them finally until the Congress appears to be ready to act favorably on the trade agreement.

With respect to the other Communist countries, like Hungary or Czechoslovakia, or the Peoples Republic of China, the first prerequisite to the commencement of Eximbank operations there is that the Trade Act would have to be satisfied in the same manner as has been done in the case of Romania. That is, a waiver would have to be announced by the President and a report made to the Congress, and presumably, a trade agreement approved by the Congress. Once that is done, then a national interest determination would also have to be made by the President under our own legislation. It probably isn't going to be as complicated as it sounds, because the national interest determination would surely accompany any waiver and be part of a general trade agreement with that particular country.

Finally, there were some amendments to our own legislation which I haven't mentioned yet concerning the Soviet Union that do not apply to Romania, Poland or Yugoslavia; specifically, a $300 million ceiling on any credits we can extend to the Soviet Union. That is not a $75 million limit per year, but a $300 million dollar limitation which applies for all transactions in the future. If the prohibition contained in the Trade Act were not applicable, we could extend credits to the Soviet Union up to an aggregate of $300 million without regard to any time periods. There has been some misunderstanding on that. There are also restrictions on energy projects in the Soviet Union, which I won't mention, because they are rather technical, and they generally don't apply to the joint venture type of business operations there.

Yugoslav Joint Venture

Let me conclude with an illustration of a joint venture in Yugoslavia in which Eximbank was involved. One United States and two Yugoslav firms were involved. Our loan was to the joint venture, which we considered to be a separate entity for purposes of signing the loan agreements and incurring an obligation to repay us. There is nothing to prohibit us from having made the loan to the Yugoslav participants, but in this case we made it to the joint venture.

In this project, United States goods and services provided by the United States participant ran to about 65 percent of the plant costs and amounted to about $18.5 million. The United States plant costs are what we financed. There were local costs and there were significant additional costs such as working capital and fees and interest during construction. The total cost of this project was about $39 million.

The financing was as follows: first, 23.5 percent was equity financing. Each of the Yugoslav participants put up $3.2 million, which was about 8.2 percent of the total financing, and the United States firm put up about $2.7 million or 7 percent. That need not be in the form of cash. It could be in the form of know-how or training or other services.

The short-term debt of about 14.4 percent of the total project was put up by a Yugoslav bank. This short-term debt was subordinated to the long-term debt in the sense that the principal is to be rolled over until the long-term debt is paid off.

Long-term debt amounted to 62.1 percent of the total project costs. Yugoslav banks loaned $7.5 million. The balance, or $16.6 million, was comprised of the Eximbank package. We put up $8.3 million, which is 45 percent of the cost of the plant, at 8 percent interest, and a private bank put up the other $8.3 million at prime plus five-eighths percent. This happened over a year ago, and the spread over prime would probably be greater now. We guaranteed the private bank, and there was a 1 percent guarantee fee imposed by Eximbank, so that would be added to the financing costs paid by the joint venture. The total debt here amounted to about 76.5 percent of the cost of the plant.

Thus, it can be seen that Eximbank's role was to complement the $9.2 million of equity with additional financing of about $16.6 million. I believe OPIC insured the United States equity in this project.

Let me briefly mention the financing terms. There was a ten-year repayment of the export loan, with Eximbank being repaid last. We allowed the commercial bank to be repaid during the first five years, and we stayed in until the last five years, to reduce the interest cost to the borrower, and also to encourage the banks to participate. As Mr. Greene mentioned in his talk, the banks are having difficulty now lending for eight-year terms, and they are even having trouble with five years in some cases.

The security here was in the form of a Yugoslav bank guarantee, plus a guarantee of the guarantee by the National Bank of Yugoslavia. This super-guarantee is standard in Eximbank transactions in Yugoslavia. But unlike our practice in the Soviet Union and Poland, we will extend loans to entities other than the National Bank of Yugoslavia. We will extend loans to any number of industrial enterprises there when complemented by such a super-guarantee of the National Bank.