



# The Export-Import Bank:

## Impact on Washington State Trade

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## Introduction

Washington's economy depends on exports and imports of goods and services by companies of all sizes, from small and medium sized enterprises (SMEs) to some of the largest companies in the world. Approximately 40% of all jobs in Washington are tied to trade, making us the most trade dependent state in the nation.<sup>1</sup> In 2018, Washington was the 4<sup>th</sup> largest exporting state by value for merchandise and commodities after Texas, California, and New York.<sup>2</sup>

For hundreds of Washington exporters operating in dozens of industries, a crucial element of their success is the support they receive each year from the Export-Import Bank of the United States, the official export credit agency of the federal government. The mission of the Ex-Im Bank is to fill gaps in private export finance in order to bolster U.S. job growth. Because it is backed by the full faith and credit of the United States, the Ex-Im Bank assumes credit and country risks that the private sector is unable or unwilling to accept. This briefing looks at the importance of the Ex-Im Bank to Washington state trade, particularly as the bank approaches an important deadline for reauthorization by September 30, 2019.

This briefing draws on data from the federal government, including the U.S. Census Bureau, Export-Import Bank, Bureau of Labor Statistics, Bureau of Economic Analysis, and Congressional Research Service, as well as news sources and previous research conducted by Community Attributes Inc.

## Background and Overview

The Export-Import Bank is an independent federal agency that helps finance exports of U.S. goods with the goal of increasing U.S. exports and jobs. Approximately 90% of firms supported by the Ex-Im bank are small businesses.<sup>3</sup>

The Ex-Im Bank was founded in 1934 and exists today under the Export-Import Bank Act of 1945, which Congress must periodically reauthorize for the Bank to operate. Congress also appropriates funds to the Bank to cover administrative and operational costs, although throughout its history the Bank has largely been able to sustain itself through offsetting collections.<sup>4</sup> Furthermore, over the last 10 years the Export-Import Bank has returned approximately \$5.2 billion to the U.S. Treasury.<sup>5</sup> The Bank is led by its five-person Board of Directors who are appointed by the President and must be approved by the Senate.

## Reauthorization

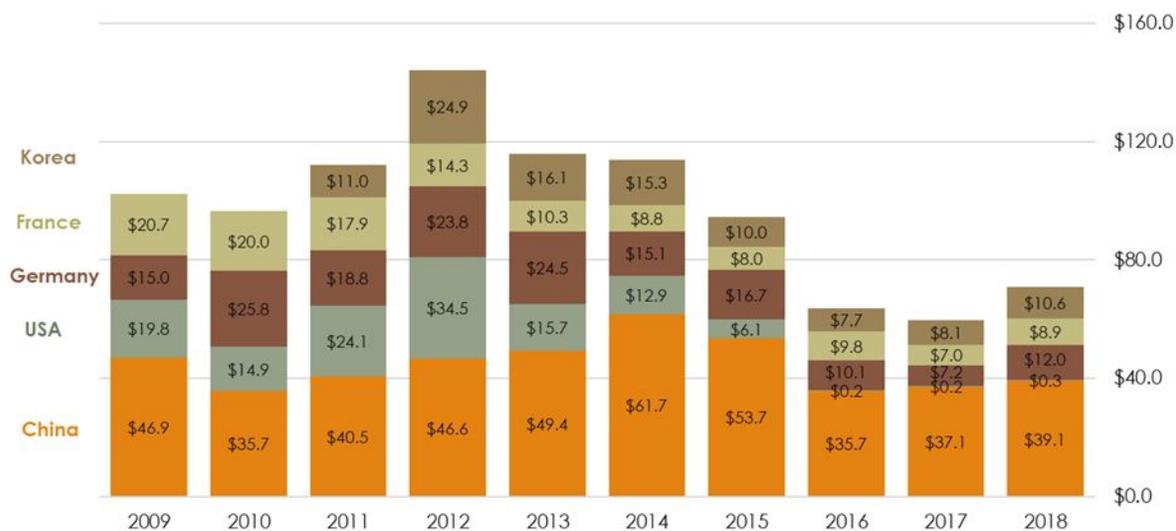
The Export-Import Bank is currently operating under the Export-Import Bank Reform and Reauthorization Act of 2015, which is valid through September 30, 2019. Despite being reauthorized in 2015, the Ex-Im Bank was not fully functional until May 2019 when the Senate confirmed three new appointments to its board, restoring its quorum and allowing the bank to approve transactions greater than \$10 million.<sup>6</sup>

A recent agreement crafted by the Democratic chairwoman of the House Financial Services Committee and the committee’s ranking Republican would have extended the Bank’s authorization for seven years. While an extended authorization period would give the Bank and its borrowers certainty, some legislators believed that new restrictions would hurt businesses’ ability to export. These disagreements led to the bill being put on hold in late June.<sup>7</sup> In July, a bipartisan bill was introduced in the Senate giving the Export-Import Bank a 10-year extension. The Senate proposal includes other reforms, such as creating a temporary board if the Bank loses its quorum, but it does not include the restrictions that were most strongly opposed in the House bill.<sup>8</sup>

## International Context

There are over 100 export credit agencies (ECAs) around the world that provide similar support to their nation’s businesses.<sup>9</sup> The ECAs in countries that are part of the Organization for Economic Cooperation and Development (OECD) must follow certain limitations on government-backed export financing, reporting requirements, and specific “sector understandings” that govern industries like ship building, nuclear power plants, civil aircraft, and rail infrastructure. In 2014, the 34 OECD countries combined provided approximately \$103 billion in government-backed new medium- and long-term export financing, with the U.S. accounting for \$12.9 billion of that total. In the same year, China alone was responsible for \$61.7 billion (2018 \$).<sup>10</sup> China has consistently been the largest user of ECA support over the past decade (**Exhibit 1**). Financing by the Export-Import Bank of the United States has declined significantly, with the most dramatic drop when the board lost its quorum in 2015 and could not approve transactions larger than \$10 million.

**Exhibit 1. New Medium- and Long-term Export Financing Support, 2009-2018, (Billions 2018 \$)**



Source: Export-Import Bank of the United States, Competitiveness Reports, 2010-2019.

## The Export-Import Bank’s Tools

The Ex-Im Bank has four main tools for increasing U.S. exports; direct loans, loan guarantees, export credit insurance, and working capital guarantees. A **Direct Loan** is a favorable rate loan from the Ex-Im Bank to a foreign buyer of U.S. products that covers up to 80% of the contract value. **Loan**

**Guarantees** are used when a commercial bank makes a loan to a foreign buyer of U.S. products. The Ex-Im bank will cover up to 85% of the loan's contract value in the case of default. Loan guarantees are the largest form of financing by value that the Bank offers. The **Working Capital Guarantee Program** provides repayment guarantees to banks making short-term working capital loans to exporters. These are useful for business, especially small and medium-sized enterprises (SMEs), with export potential but who need extra capital to produce or market their product for export. Finally, the Ex-Im Bank uses **Export Credit Insurance** to ensure that U.S. exporters are paid for their product if the buyer fails to pay for political or commercial reasons. This service is also commonly used by SMEs.<sup>11</sup>

The Export-Import Bank's default rate, equal to overdue payments as a share of total financing, is well below a that of a typical commercial bank. Through March 31, 2019, it was 0.518%.<sup>12</sup>

## EX-IM Bank Activities in Washington State

The Ex-Im Bank has an office in downtown Seattle that covers Washington, Alaska, and Idaho.<sup>13</sup> Similar to Ex-Im's lending nationwide, support to Washington state businesses was primarily in the form of Loan Guarantees until 2015. From FY 2015 until recently, the Ex-Im Bank's board of directors did not have a quorum and could not authorize transactions greater than \$10 million. As a result, the Bank has shifted from Loan Guarantees to Export Credit Insurance as the main form of support for Washington state businesses. Export Credit Insurance authorizations are used more often by small and medium-sized business and are usually smaller than Loan Guarantees. Now that the Bank has a full board of directors, it's lending may return to more typical proportions.

### Exports by Congressional District

The Export-Import Bank supports businesses in every part of the state. In addition to providing critical support to Washington's aerospace industry, the Ex-Im Bank also supports a significant amount of agricultural exports. Districts 4, 5, and 8, home to many of Washington's crop producers, exported a combined \$116.5 million of Ex-Im supported products from 2014 to 2018. Congressional Districts with lower total value of supported exports often have a higher share of small and medium-sized enterprise (SME) exporters (**Exhibit 2**). These shares represent the value of exports covered by Ex-Im support, such as the amount of an export transaction backed by an Ex-Im loan guarantee, which may be 80% or less of the total transaction value.

**Exhibit 2. Share of Ex-Im Support to Small and Medium-sized Enterprises (SME) by Congressional District, Cumulative 2014-2018**

<b>District</b>	<b>Share SME</b>
1 North Cascades	9.5%
2 North Puget Sound	0.3%
3 Southwest Washington	6.0%
4 Central Washington	99.7%
5 Eastern Washington	83.7%
6 Olympic Peninsula	81.5%
7 Seattle	100.0%
8 Central Cascades	95.2%
9 Tacoma-Kent-Bellevue	4.0%
10 South Puget Sound	15.9%

*Sources: Export-Import Bank of the United States, 2019; Community Attributes Inc., 2019.*

Ex-Im Bank lending supports more than exports, it also supports thousands of jobs among Washington exporters across the state. Based on Washington state industry output-to-worker ratios, exports supported by the Export-Import Bank were associated with 25,200 jobs between 2014 and 2018, based on an estimate produced by Community Attributes Inc. This total is despite a significant drop in Ex-Im lending from 2016 to 2018 when the board lacked a quorum and could not authorize transactions above \$10 million. In 2015, the value of Ex-Im insured shipments, guaranteed credit, and disbursed loans in Washington state was \$6.1 billion compared with \$46.2 million in 2018. It's possible many more jobs may have benefited from the Ex-Im Bank had these activities not been discontinued or reduced. The Ex-Im Bank estimates that nationwide, 6,199 jobs are supported per \$1 billion worth of exports.<sup>14</sup>

Boeing is well recognized as the biggest exporter in Washington state, due largely to the high cost of new aircraft. Beyond Boeing, the 25 firms with the largest cumulative Ex-Im-supported exports over the past five years encompass a variety of products and industries. **Exhibit 3** shows the value of total insured shipments, guaranteed credit, or disbursed loan amounts for each company. These do not equal company exports; rather, they are the cumulative dollar amount of contracts covered by Export-Import Bank support. The Ex-Im Bank portfolio in Washington covers a wide range of activities and industries, including crop production, wine, seafood, manufacturing, and tech and professional services.

**Exhibit 3. Washington Exporters by Value of Ex-Im Support, Excluding Aerospace, 2014-2018  
(Millions 2018 \$)**

<b>Rank</b>	<b>Company</b>	<b>Value</b>	<b>Industry</b>
1	Mills Bros International, Inc.	\$28.5	Crop Production
2	Renton Coil Spring Company	\$28.1	Fabricated Metal Product Manufacturing
3	Calaway Trading Inc	\$26.3	Crop Production
4	Bornstein Seafoods, Inc.	\$24.3	Food Manufacturing
5	Ste. Michelle Wine Estates Ltd.	\$21.9	Beverage and Tobacco Product Manufacturing
6	Univar Usa Inc.	\$17.7	Oil and Gas Extraction
7	Brubakken And Reinbold Inc	\$17.0	Chemical Manufacturing
8	Norwest Ingredients, Llc	\$14.5	Chemical Manufacturing
9	Korab Usa, Llc	\$14.0	Other Misc Manufacturing of Non Capital Equipment
10	Pexco LLC	\$10.4	Plastics and Rubber Products Manufacturing
11	Heatcon Composite Systems Inc	\$9.2	Electrical Equipment Manufacturing
12	Bnp Lentil Company	\$8.0	Crop Production
13	I.e.f. Corporation	\$7.9	Crop Production
14	Aerogo, Inc.	\$7.8	Machinery Manufacturing
15	Airbiquity Inc.	\$7.6	Internet Content & Service Providers
16	Sonico, Inc.	\$7.2	Transportation Services
17	Manhasset Specialty Co., Inc.	\$7.0	Other Misc Manufacturing of Non Capital Equipment
18	Valley Grain, Inc.	\$6.7	Crop Production
19	Audiencescience, Inc.	\$6.7	Administrative, Management and Support Services
20	Colorado Tire	\$6.1	Motor Vehicle and Parts Manufacturing
21	La Belle Associates, Inc.	\$5.8	Food Manufacturing
22	Hardwoods Specialty Products USL	\$5.7	Wood Product Manufacturing
23	Halosource, Inc.	\$5.6	Chemical Manufacturing
24	Luwu Distributing, Inc.	\$5.5	Electrical Equipment Manufacturing
25	Canflex Usa Inc	\$5.2	Plastics and Rubber Products Manufacturing

Sources: Export-Import Bank of the United States, 2019; Community Attributes Inc., 2019.

## Illustrative Example: Beverage Industry

Small and medium-sized enterprises (SMEs) engage the Ex-Im Bank to help them overcome barriers to begin exporting, increase export volume, or widen their reach to more countries. SMEs may be uncertain that their foreign buyer will pay (Export Credit Insurance) or need more working capital to make exporting viable, as there is an average three to five months between shipment and payment (Working Capital Loan).

Much of Washington’s beverage industry is made up of SMEs who face these challenges. The wine, beer, and distillery industries in Washington have all grown steadily over the past 10 years and exports are an important source of growth.<sup>15</sup> Washington state winery employment was 3,260 in 2013,<sup>16</sup> and the beer industry employed 6,300 people in 2017.<sup>17</sup> Distillery employment in Washington grew from zero in 2008 to 276 in 2018, not including owner-operators, who run many of the smallest breweries, wineries, and distilleries in the state.<sup>18</sup>

Wine is the major exporter within the alcoholic beverage industry. After Canada, which accounted for 40% of Washington wine exports in 2018, East Asia and Northern Europe are the next largest consumers by value. These figures are based on the Census’ Origin of Movement data, which may include the value of products from other states that are shipped out of Washington’s ports.

Ste. Michelle Wine Estates is the largest wine producer in Washington and plays a critical role in stabilizing the state wine industry. Ste. Michelle has invested heavily in Washington grape

production and viticulture research, which benefits all wineries. They exported nearly \$22 million worth of products supported by Ex-Im in 2014 and 2015.

Another major wine exporter is L'Ecole No. 41, a second-generation winery near Walla Walla. L'Ecole No. 41 were confident their product would sell in Asia, but knew they'd have no recourse to collect on a failed payment. To ensure they would receive payment for their exports, they applied for Ex-Im Bank Export Credit Insurance covering up to 95% of the expected payment. Today, L'Ecole wines are sold in 45 states and 20 countries.<sup>19</sup> The Ex-Im Bank has supported nearly \$250,000 worth of L'Ecole exports over the past four years. Cumulatively from 2014 to 2019, the Bank supported \$24.7 million of exports across Washington's wine industry, adjusted for inflation.

## Illustrative Example: Seafood

Seafood is another vital Washington state export. Washington exported \$1.2 billion worth of fresh and frozen seafood in 2018, the 10<sup>th</sup> largest state export by value, behind fruit and nuts (\$1.4 billion) and wood products (\$1.3 billion).<sup>20</sup> Frozen fish is the most exported seafood product and Canada, China, Japan, Hong Kong, and Germany are the largest consumers. Bornstein Seafoods, based in Bellingham in District 2, has utilized Ex-Im's services to increase exports of high-quality seafood.

Bornstein Seafoods catches Dungeness crab, salmon, and albacore tuna, among other species, and they operate processing facilities from Alaska to Northern California. Five of the species they process are certified sustainable by the Marine Stewardship Council. Bornstein Seafoods has taken short-term working capital loans every year from 2014 to 2018, exporting over \$24 million worth of seafood products supported by the Export-Import Bank.

## Illustrative Example: Technology and Advanced Materials

The Ex-Im Bank also supports Washington technology and advanced material exports. Two examples are Airbiquity Inc. and Heatcon Composite Systems, Inc. Airbiquity is a Seattle-based engineering and software development company specializing in automotive telematics and connected vehicle service delivery solutions. The company exports within the United States. In 2014, Airbiquity exported \$4.2 million worth of products, of which \$3.6 million was insured by the Ex-Im Bank. Cumulatively from 2014 to 2018, the Ex-Im Bank provided \$7.6 million of support to Airbiquity. This assistance included insured shipments, guaranteed credit, and dispersed loans. Tukwila-based Heatcon Composite Systems provides electrical heating and control products, as well as repair support. Their products are exported to the United Kingdom and China, among other countries. Between 2014 and 2018, Ex-Im supported \$9.2 million in Heatcon exports.

## Conclusion

For the past 85 years the Export-Import Bank has provided vital assistance to U.S. companies and their employees by enhancing their ability to engage in international trade. Because the Ex-Im Bank assumes credit and country risks that the private sector is unable or unwilling to accept, its assistance is especially critical for small and medium enterprises (SMEs) that otherwise might not be

able to compete in global markets. That is why 90% of companies assisted by the Ex-Im Bank are small businesses. The support of the Ex-Im Bank is especially important to SMEs in Washington state, where roughly 40% of all jobs are tied to international trade. In diverse sectors ranging from wine to metal fabrication, aerospace and seafood, Ex-Im Bank trade assistance – ranging from Direct Loans to Export Credit Insurance – helps close deals and strengthen Washington businesses.

# Endnotes

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