

Export Finance Letter

A Research Report on Government & Private Resources
In U.S. Export and Import Finance, Payments and Risk Management

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ExIm Budget Looks Adequate

The Export-Import Bank budget for Fiscal 2006, which begins on October 1, 2005, is forecast to cover the same amount of exports as the current year (2005) estimate, namely \$18.4 billion.

In Fiscal 2004, the Bank supported \$17.8 billion in export transactions, a considerable leap from the prior year.

The White House budget request, sent to Congress, proposes a "program" budget of \$186.5 million for Fiscal 2006.

In addition, the Bank has a carryover of unused financing authority of \$169 million, and can use \$45 million in cancellations that free up budget.

These numbers compare with the Fiscal 2005 budget, which comprises a \$59.3 million program allocation, plus a \$445.12 million carryover, and \$50 million in available cancellations money.

Actual financing activity is a multiple of these figures. And the amount of exports that can actually be supported with a given amount of financing depends on the risks involved, so more deals in risky countries would use up more capacity.

The proposed "administrative" budget, which covers staff salaries, technology, travel, and other operating expenses, is \$73.2 million for 2006, up slightly from \$72.6 million in 2005.

ExIm Does Biggest PC Ever

ExImBank has OK'd its largest preliminary commitment ever, \$5 billion to cover exports of nuclear power plant equipment and services to China.

The exporter, Westinghouse Electric Company, in Monroeville, Pennsylvania, is owned by Nuclear Utilities Group, part of British Nuclear Fuels.

Bechtel Power Corporation, in San Francisco, is also a supplier, along with many others.

The PC is a response to a request for proposals by the Chinese Government. ExIm says aggressive financing from exporters in third countries, with support from their governments, is expected.

The projects involved are the Sanmen Nuclear Power Stations (Zhejiang Province, SW of Shanghai) and the Yangjian Nuclear Power Stations (Guangdong Province, SW of Hong Kong).

Export-Import Bank

ExIm Sees Three Roles In Insurance
As Private Sector Takes Over

ExImBank identifies three insurance roles for itself over the longer haul, as the private credit underwriters take over the bulk of the business, or at least the short-term side of it.

Bank officials expect these clearly defined roles to be an enduring profile of its place in the export credit insurance arena as it adjusts to the growing role of the private sector.

First, it sees itself as supporting capacity in key countries, such as China, where individual private insurers have their limits, and there is plenty of cover to be placed.

Second, it has a serious role in crisis places, such as South Korea in the late 1990s, and Iraq over the past year. That will always be an appropriate role for an export credit agency.

And, third, it has a crucial small business role, which is now a major, and growing, focus. The Bank's automation program, once again making some progress, is considered an important tool in servicing small business exporters.

Multi-Buyer Niche

The days of \$4-5 billion a year in multi-buyer business are over, say ExIm officials. That reflected an earlier period, as, for example, when the Bank had to support Korea transactions.

The multi-buyer program has settled down to a \$2 billion a year maximum niche. That's all the Bank expects to see.

But, the number of transactions has grown rapidly. In 2004 there was some spike in business with Iraq, China.

And the short-term single buyer transaction side of the insurance operation is a big challenge, since this type of transaction is very risky, say ExIm officials. The cover here is used by large and small companies alike.

The Bank does \$300 million a year in short-term single buyer business, but may see \$800 million in applications. It considers it a tough market.

Medium-term is where the lion's share of the single-buyer transactions is being done. ExIm is doing about \$1.2 billion a year in medium-term deals, including guarantees and insurance.

The two kinds of coverage divide up into two-thirds insurance and one-third guarantees.

And the medium-term business has two key

parameters. One is a focus on Mexico, which gets over 54 percent of the deals.

The other is transactions of under \$1 million, which account for over 51 percent of the deals. And, ExIm also views this as a risky business, sees twice as many transactions as it actually approves.

More denials take place in the Credit Committee these days, since some banks want to push them there for a response, consider it evidence of their intent to do this business.

Other export credit agencies are not doing many deals of less than \$1 million, say ExIm officials.

Business Automation

The Bank is trying to get its automation going before the end of 2005. This has been an on-again, off-again project for several years.

Serving small business is a crucial reason for the effort. Bank officials think they can't reach out to the small business sector without an online strategy.

But they expect many smaller firms to graduate, move to private credit insurance as well, after a few years of getting their feet wet with ExIm.

ExIm hopes to deliver automatic scoring on policies and buyer credit limits, and factor in insured shipments as they occur.

And handling medium-term applications online is also a major target.

ExIm has eyed the work of other countries' export credit agencies in automating in recent years, especially Export Development Canada, which does a lot of scoring, makes many decisions in this fashion.

But, apparently, it doesn't want to clone the EDC model, has some different parameters in mind for its own operations.

Meanwhile, it has automated disbursements under the guarantee program, and can transfer some PDF files.

Views On Lenders

ExImBank follows the strategy changes closely at the banks and finance companies it works with.

One conclusion: banks with overseas offices in key countries now have an important advantage, since they know their customers in these places. With much of ExImBank financing moving to private buyers, this is a helpful position for these lenders.

Thus, regional banks face a real disadvantage.

And ExIm see the larger equipment deals, in the \$7-25 million range, offering strong margins, and meeting exporter needs. A profitable bank activity.

ExImBank In Brief

NEW ADVISORY COMMITTEE

The ExImBank Advisory Committee for 2005 has been named, and held its first session of the year. The group, required by law, comprises people in finance, exporting, services, government, and labor.

Sometimes it has an influence on ExIm policies, sometimes it plays a marginal role. But it often can be a useful conduit for communication with the Bank, if exporters, bankers get in touch with its members to raise their own issues.

It responds to the Competitiveness Report that ExImBank produces each year, comparing itself to the six other major export credit agencies.

The 2005 panel is chaired by Stephen Canton, CEO of iCore Advisory Services in Washington, DC. The firm is a management consultant and financial adviser, mostly to the information technology and telecom sectors.

It has helped clients raise capital, arrange credit lines.

The panel has financial industry members including Valentino Gallo, managing director of Citigroup's structured trade finance group; Harry Hayman, senior VP of global services at PNC Bank in Philadelphia;

And Michael Stoddard, president of Trade Source International, in Pasadena, California, which arranges trade deals in emerging markets for exporters and banks. He's a former top Bank of America trade finance executive.

Plus, this year's panel has three exporters with financial expertise. One is Daniel Walters, manager of the Global Accounts Division at Caterpillar Financial Services Corp. (Nashville, Tenn.), the financing arm of Caterpillar (very active in export finance).

Another is Margarita Morales-Perez, chief financial officer at Miami-based MD International Inc., which exports medical equipment. The firm has received an ExImBank small exporter award.

A third is James Wilfong, president of TradeNex, an export management company in Fryeburg, Maine. He's former Assistant Administrator for International Trade at the Small Business Administration, and an entrepreneur in several businesses.

Then, there are the consultants. This year's contingent includes Lino Piedra, executive VP at Washington, DC-based Griesinger Associates, a government relations firm whose clientele includes exporters.

One of them, Trigeant Ltd., in Boca Raton, Florida, an asphalt producer, received a \$45 million ExImBank guarantee in 2003 for a shipment to the Dominican Republic for road construction.

Another consultant is Linus Losh, of Westerville, Ohio, who is identified as having a conservation and environmental planning focus.

Plus, there are business associations and labor union members.

This year that includes Susan Au Allen, CEO of U.S. Pan Asian American Chamber of Commerce in Washington, DC, and Daniel Christman, senior VP-International Affairs Division, at the U.S. Chamber of Commerce.

And Owen Herrnstadt, director-international affairs at the International Association of Machinists and Aerospace Workers, and Thea Lee, assistant director for international economic at the AFL-CIO.

The labor unions' main interest in ExImBank has been advocating a maximum of U.S. content in the goods the Bank finances.

Finally, there's Karen Gibbs, co-anchor of Wall Street Week with Fortune on Maryland Public TV, and Maryland Lt. Governor Michael Steele.

AFRICA ADVISORY PANEL

ExIm has also named its Sub-Saharan Africa advisory panel.

Chairman Howard Jeter is EVP of Goodworks International, a former U.S. ambassador to Nigeria.

Goodworks, in Atlanta and Washington, was formed by Andrew Young, former Congressman, UN Ambassador, offers business consulting on Africa.

Other members include Africa banks: Bruce Fields, Standard Americas, U.S. unit of Standard Bank in South Africa; Franklin Kennedy, retired CEO of HSBC Equator Bank, Africa unit of HSBC Group.

Exporter members include Harris Corporation (Patrick Bauman, treasury manager) and Nationwide Equipment Co. in Jacksonville, Florida (CEO Edward Kostenski), construction equipment.

Government and association members include: Federal Reserve Board (Willene Johnson), U.S. Energy Assn. (Barry Worthington, exec director), Corporate Council on Africa (Timothy McCoy).

Plus, an engineering consultant, G.M. Selby & Associates (Gerald Sadikoff, CEO), and a consultant on overseas business, Global Trading International (Patricia Desvergers, CEO), that has done housing work in Algeria.

Countries

CUBA

New Treasury rules hit farm exports to Cuba, triggering strong opposition in Congress, unleashing a policy battle.

The rules tighten cash payment up front, which must now be received by the seller or its agent prior to shipment from a U.S. port.

The Office of Foreign Assets Control issued the rules, which are described as a clarification, on February 22, 2005.

Farm exporters had complained in November 2004 to Congress about Treasury comments that were understood to indicate a tightening in the payments regulations were being considered.

An exception is provided until March 24, 2005, which authorizes processing payments on goods that are shipped by that date, and requires that payment must be received by a U.S. banking institution by that date, but prior to title transfer to the Cuban buyer.

Sales Had Been Growing

The policy battle covers food exports, which were permitted in 2000, and amounted to about \$392 million in 2004. Even more, about \$800 million in farm exports have been shipped to Cuba since 2000 under the relaxed policy adopted.

What angers Senate Republicans, Democrats: (1) the 2000 law prohibited adoption of any further agricultural sanctions on Cuba, (2) it set a standard for payment, cash in advance, that permitted exporters to ship, but not pass title, before receiving payment.

Now, the Treasury unit wants to tighten further, require payments be made before shipment. And the impression in the Senate (where the policy action is presently centered) is that a payment transfer before shipment would create a Cuban asset (to be seized).

Senate Legislation

The Senate is responding in two ways: (1) it has warned Treasury it would not confirm new officials, thus leaving a few top jobs open in the department, and (2) legislation has been introduced to over-rule the Treasury, ease trade conditions.

The bill, the Agricultural Export Facilitation Act, S.328, was introduced on February 9, 2005, and has broad bipartisan backing.

Backers include the chairmen of the Finance and Agriculture Committees. Charles Grassley (R-Iowa) and Max Baucus (D-Montana), chairman and ranking minority member on the Finance Committee, are leaders in the effort.

Their panel confirms Treasury officials before the names go to the Senate floor.

The new bill eases U.S. policy on Cuba sales in a few ways.

First, it reduces red tape, eases travel curbs, creates a “general license” that permits trips there without obtaining permission each time.

Second, it lifts U.S. bank restrictions, permits them to conduct direct correspondent bank relations with Cuban institutions, but just for food exports. Until now European banks have had the business.

Third, it eases visa processing, so that Cubans can visit the U.S. to inspect U.S. cattle.

MEXICO

Overseas Private Investment Corp. continues to expand its activity in Mexico.

It just approved another Citigroup guarantee framework, this one for \$200 million, that will enable OPIC to share the risk in loans made by Banamex, Citigroup’s Mexican banking subsidiary.

The facility is targeting middle market lending as well as corporate lending and the microfinance sector. This is the first OPIC credit risk-sharing program in the country.

The agency has also OK’d an infrastructure strategy, providing up to \$250 million in financing for a Mexican affiliate of Fluor, the large engineering and construction company.

This is a response to a shift by PEMEX in its procurement rules. Petroleos Mexicanos, government owned oil company, now requires its contractors to finance their own working capital needs on capital construction projects.

The OPIC arrangement provides a guarantee on a U.S. trust, which will, in turn, guarantee a credit facility structured by a group of commercial banks to ICA-Fluor, the Fluor Mexican joint venture.

The Fluor joint venture provides engineering, procurement, and construction services for power plants, industrial facilities, drilling platforms, and oil refineries.

OPIC has approved two investment funds for Mexico. One, \$60 million, creates the Baring Mexico Private Equity Fund II, with a capitalization of \$150-200 million. Will invest in mid-size firms in consumer goods, finance, health, housing, and entertainment.

Also approved: \$60 million for Conduit Capital Partner LLC’s third Latin American fund. Focus is on independent power projects, with an emphasis on Mexico.

Private Resources

Insurance

Radian, Bob Svensk Have Exited Exporters Insurance Company

A dramatic change at Exporters Insurance Co. has brought new ownership and a new president.

The Bermuda-based group captive specializes in trade credit and political risk insurance, and is one of a kind in the industry.

The new majority owner is a small group of individuals who have been the principals at Ecoban Finance, a New York-based trade finance specialty institution with an international office network.

The group purchased the 36 percent interest of Radian Group in EIC Corporation, the parent of Exporters Insurance Company. The group is Island Partners LLC, in Summit, New Jersey.

Another Ecoban affiliate, ELF LLC, was one of the two leading common shareholders active in the formation of Exporters in 1990. Thus, the two Ecoban affiliates jointly now own 72 percent of the business.

A.M. Best, the rating agency, said the change does not affect the financial strength rating of A- (Excellent) of Exporters. The rating outlook is stable.

Radian Wanted To Exit

Radian Group, a financial guaranty company, had been both an important shareholder and a reinsurer for Exporters. And Tino Kamarck, who had run Radian's trade insurance activities for several years, was a former ExImBank chairman.

But Radian decided in 2004 to exit the trade credit business.

Robert Svensk, who had been president of Exporters since its inception (and one of its principal creators), tried to put together a group to buy the Radian shares.

It is reported that he made some progress in the effort, but Radian chose to sell out to the Ecoban affiliated group.

Ecoban has brought in a new president, Frank Buziak, to replace Svensk. He reportedly is a former president of Swiss Re unit Facility Insurance Corp.

The Buyer Group

The shares buyer, Island Partners, identifies itself as a Delaware limited liability company formed in December 2004 for the sole purpose of acquiring Radian's EIC common shares.

The beneficial owners of Island are Jean-Yves Baudoin, Stephen de Got, and Barry Westfall, who are all shareholders of EFL LLC as well. Other EFL shareholders include the Charles H. Baudoin Family

Trust, and Erik Siao, a former Ecoban Finance employee who now resides in Beijing.

A letter sent to Exporters' policy holders stresses that Ecoban Finance has no economic interest itself in EFL, Island, or EIC Corporation.

The current shareholders of common stock in EIC are EFL (359,000), Island Partners (360,000), Chase et al (100,000), Wells Fargo (40,000), Nortel (40,000), Nokia/Pohjola (40,000),

Plus, Robert Svensk (40,000), Mark Reynolds (20,000), and Meyercord Advisers (1,000).

Ecoban Has Evolved

Ecoban Finance Ltd., with headquarters in New York, has had a varied ownership over the years. It was restructured in 2001 with ownership passing to its senior management.

Before that, for several years, it was owned by the Korean conglomerate now called SK Global and SK Networks. This is a large trading company and wholesaler in steel, chemicals, oil.

Earlier, Ecoban was affiliated with, or part of, Continental Grain Company.

COFACE OPENS CANADA OFFICE

COFACE has opened a Canadian office in Montreal, headed by Bernard Labadie.

The Paris-based credit insurer is already active in Canada with several hundred customers, working through independent agents in Toronto and Montreal.

But the new office will be able to issue policies directly to companies there.

Labadie, Senior VP for Canada, earlier ran the U.S. office of Unistrat Insurance, the political risk underwriter, which COFACE acquired entirely in 2004 (it had a 50% interest for several years).

In the U.S., the unit is just part of COFACE, without a separate identity, but in France it is still identified as Unistrat-COFACE.

ALLIANCE WITH NATEXIS PRAMEX

COFACE has created an alliance with Natexis Pramex International to market in the U.S.

Natexis Pramex North America Corp. is a consulting firm specializing in international business development. Services include market analysis, help in establishing partnerships, and advice on competitor practices. The group has offices in nine countries.

Both COFACE and Natexis Pramex are owned by the Banques Populaires Group in France. Both were also formerly French government units.

Finance Companies

Capstone Business Credit LLC
Supports U.S.-Asia Supply Chain

Capstone Business Credit LLC, in New York, is focused on making transactions happen in the Asia-U.S. supply chain.

It works actively with importers that sell to sizable retailers and some wholesalers, and many of these clients are former manufacturers who shifted production overseas.

Capstone targets growth companies with sales below \$50 million, in consumer and some industrial items, such as bath products, digital electronics, print cartridges, flooring materials.

Its focus is on clients with strong profit margins and established products, but who need capital to expand, especially to meet the demands of retailers that may move from small orders to much larger ones, creating fresh opportunities.

Typically, Capstone arranges a letter of credit for the importer with one of three banks (two U.S., one foreign), providing its own financial resources as collateral for the LC. All of the goods involved are pre-sold in what is a purchase order finance strategy.

And, in traditional fashion, the Asian supplier uses the LC to arrange working capital from its own bank.

Joseph Ingrassia, managing member, says the firm has performed as an incubator to companies that move on after 24-36 months to bank financing. By then, they have profits, assets, financial statements to support access to more traditional bank credit.

Strategic Elements

Capstone's strategy includes several other key elements:

It takes title to the goods when the ocean bill of lading is issued, giving it both physical control and satisfying the bank LC requirements.

It uses inspection services extensively in Asia, to assure quality control. In some cases it employs the global inspection agencies, but Capstone has built a network of local firms to work with.

It does extensive due diligence up front, spends time checking out the overseas suppliers, doing the credit analysis.

Some Exports Too

Capstone finances some export transactions as well, and a few third country deals. But imports are its main focus.

In some recent export deals, it has financed sales of grain to Africa, using ExImBank credit insurance, offering 90-day terms. Here the client arranged the insurance with Capstone taking assignment.

In export transactions, 90-120 day payments are typical, but if longer term, it sells the paper.

It has done transactions in Mexico, working with a Mexican retailer that buys from Asia suppliers. And it finances some trade flows with Europe, South and Central America.

Key People

Capstone was established in 1993 to finance both domestic and trade transactions.

Import finance began early, supporting Nintendo games from Japan sold to large U.S. retailers. And it supported hardwood imports from Brazil.

The key people: Joseph Ingrassia and John R. Rice III, managing members.

Ingrassia was formerly a management consultant with Coopers & Lybrand, then set up a finance company, later sold it. Rice was active in leasing.

Contact: Ingrassia, New York, on 212-755-3636.

ORIX EXITS TRADE FINANCE

Orix USA Corporation, a subsidiary of the large Japanese finance company Orix Corporation, has decided to close its Orix Trade Capital unit, which had been around since mid-2002.

The unit funded trade transactions with emerging markets, reported several sizable credits with firms in Brazil.

The principal managers were veterans of the trade finance business.

James Klatsky had been with Continental Grain Company, handling trade finance, and the New York office of London Forfeiting Company, a specialist in emerging market transactions.

Hernan Narea had been with Chase Manhattan Bank's capital markets group, focused on Latin America business. He also founded Loan Quorum, an Internet-based loan marketing platform.

PEFCO

PEFCO plans to hold a session for lenders in its small business export program at the ExImBank Washington conference in April.

The Private Export Funding Corp. (New York) program continues to add finance companies to its roster of lending institutions.

In early February the program hit two milestones. Total loans outstanding passed \$600 million (vs. \$447 million on October 1, 2004). And new medium-term commitments for the first four months of Fiscal 2005 were \$236 million, 80% of the total for all of FY04.