

# ISSUE BRIEF

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## Ending Ex-Im Would Remove Wasteful Energy Subsidies

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The U.S. Export-Import Bank (Ex-Im) provides government-backed loans, loan guarantees, and capital and credit insurance to foreign firms to enable them to buy U.S. exports. Producers of energy technologies and equipment have been a significant beneficiary of the Ex-Im Bank, accounting for 30 percent of the loans and guarantees Ex-Im made last year.<sup>1</sup>

While Ex-Im was designed to promote exports, the reality is that it is corporate welfare benefiting politically connected companies and distorting markets while unnecessarily saddling taxpayers with risk. Congress and the Administration should do away with Ex-Im and remove regulatory impediments to exporting domestic energy supplies and technologies.

### Oil Subsidies to Eliminate

Throughout his time in office, President Obama pushed to eliminate oil and gas subsidies, saying, “The oil industry is doing just fine.”<sup>2</sup> While the rhetoric to eliminate subsidies is on point, in many cases, what the President and the Administration label oil subsidies are neither subsidies nor tax treatment specific to the oil and gas industry but broad tax policies that apply to many industries.<sup>3</sup> However, termi-

nating Ex-Im is a true opportunity to remove excessive accommodations for the oil and gas industry.

Since 2001, Ex-Im has provided \$14.8 billion in financial commitments for oil and gas exploration, field development, pipelines, distribution, and refining.<sup>4</sup> An Ex-Im fact sheet boasts that “United States equipment and services for the petroleum industry are sought after by the world’s leading companies because of their quality and reliability.”<sup>5</sup>

The U.S. is a technological leader in oil and gas exploration, distribution, and refining abilities, which is precisely why these companies do not take advantage of special financing to foreign firms backed by the taxpayer. With projections of capital expenditure in the petroleum industry at \$200 billion per year worldwide,<sup>6</sup> the opportunity clearly exists for companies to capture abundant opportunities.

### Carve-Out for Renewables

The Ex-Im Bank ramped up efforts in the past few years to export renewable energy technologies. A congressional mandate requires that Ex-Im direct 10 percent of its financial authorizations to “renewable energy and environmentally beneficial transactions.”<sup>7</sup> Ex-Im financed \$1.77 billion for renewable energy projects between fiscal year (FY) 2009 and FY 2013, not including the “environmentally beneficial” authorizations. Furthermore, many of the companies taking advantage of U.S. Ex-Im policy have also received Department of Energy (DOE) loans and loan guarantees.

Abundant opportunities exist for renewable energy companies to take advantage of an abundant and growing electricity market. In fact, Ex-Im cites market analysis that projects the clean tech industry to

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grow from \$144 billion to \$343 billion over the next decade.<sup>8</sup> There is no justification for the government to meddle in these markets by subsidizing exports.

Despite growing electricity demand and a growing clean tech sector, Ex-Im has had difficulty meeting the 10 percent mandate. The result is that by pushing for renewable energy subportfolios to meet politically defined levels rather than economically rational ones, Congress has increased the risk of default, putting the taxpayers' money at higher risk. A 2013 Ex-Im inspector general report underscored that

Ex-Im Bank included only limited analysis to support its conclusions that changes in its portfolio—including subportfolios of transactions supporting congressional mandates for small business, sub-Saharan Africa, and renewable energy—would not affect its risk of loss. In addition, Ex-Im Bank has not routinely analyzed or reported the risk rating and default rate of subportfolios that respond to these mandates, although their performance may differ from the overall portfolio.... By not routinely analyzing and reporting financial performance for mandated transactions, Ex-Im Bank decreases its ability to evaluate such performance at the subportfolio level and inform Congress of related risks.<sup>9</sup>

### **Corporate Welfare and Policy Hypocrisy**

As with Ex-Im financing broadly, Ex-Im's energy portfolio is fraught with corporate welfare. General Electric, ConocoPhillips, Bechtel, and Dow Chemical have all been beneficiaries of energy authorizations.<sup>10</sup> These companies either could have secured private financing and are merely using Ex-Im to lower their capital costs or are hedging their bets by using taxpayer-backed financing to invest in projects they would otherwise not invest in. Neither is justification for Ex-Im saddling taxpayers with the risk.

A common argument is that other countries have their respective versions of government-financing for projects, so Ex-Im is necessary to create a level playing field. But that is no reason for the U.S. to do the same. In fact, an industry or business could make that claim about almost any policy. But rather than playing tit-for-tat with bad policy relying on subsidies, Congress should focus on free-market, pro-growth policies such as reducing the corporate tax rate. That way American companies can export their services and products based on the quality and competitiveness of their products.

Another frustrating aspect of the government's subsidized financial investments in the energy field is the failure to promote free-market policy solutions that would encourage increased domestic energy production. For instance:

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1. Export-Import Bank, "FY 2013 Long-Term Loans and Guarantees Authorizations," <http://www.exim.gov/about/library/reports/annualreports/2013/FY%202013%20long%20term%20guar%20and%20loans.pdf> (accessed May 21, 2014).
  2. The White House, "Remarks by the President on Oil and Gas Subsidies," March 29, 2012, <http://www.whitehouse.gov/the-press-office/2012/03/29/remarks-president-oil-and-gas-subsidies> (accessed May 21, 2014).
  3. Nicolas D. Loris and Curtis S. Dubay, "What's an Oil Subsidy?" Heritage Foundation *WebMemo* No. 3251, May 12, 2011, <http://www.heritage.org/research/reports/2011/05/whats-an-oil-subsidy>.
  4. Export-Import Bank, "Key Industries," <http://www.exim.gov/about/whatwedo/keyindustries/> (accessed May 23, 2014).
  5. Export-Import Bank, "Facts About Ex-Im Bank Loans to Support Petrobras," <http://www.exim.gov/newsandevents/Facts-About-Ex-Im-Bank-Loans-To-Support-Petrobras.cfm> (accessed May 23, 2014).
  6. Export-Import Bank, "Key Industries."
  7. Ibid.
  8. Ibid.
  9. Export-Import Bank, Office of Inspector General, "Semiannual Report to Congress," [http://www.exim.gov/oig/upload/OIG\\_Report\\_FA13\\_508.pdf](http://www.exim.gov/oig/upload/OIG_Report_FA13_508.pdf) (accessed May 23, 2014).
  10. Export-Import Bank, "FY 2013 Long-Term Loans and Guarantees Authorizations."

- **Oil and gas.** Ex-Im provided financing to benefit Brazil's state-owned Petrobras and Mexico's PEMEX, but the Administration fails to open America's federal lands and waters to resource exploration and development.
- **Nuclear.** Ex-Im gives financial support to domestic nuclear energy suppliers, but Congress and the Administration have failed to create a more efficient regulatory framework for new nuclear power plants in the United States. Further, America needs reform on how to manage and dispose of spent nuclear fuel.
- **Energy exports.** In 2010, Ex-Im offered \$3 billion in financing for Papua New Guinea's liquid natural gas (LNG) project, yet Washington needlessly slows the process of exporting LNG here by requiring the DOE to approve the projects. President Obama has repeatedly said his goal is to double energy exports. As arbitrary as that policy goal is, removing government-imposed restrictions on energy exports is a way to achieve it without subsidies.

- **Coal and mining operations.** Ex-Im has been a major financial supplier for mining equipment and technologies and has also supported the building of coal-fired power plants, but the federal government has proposed and implemented a host of new rules that will dramatically increase the costs of mining coal, building new plants, and operating existing plants.

### **Implement Policy Reforms and Eliminate Ex-Im**

The failure to address onerous regulations and restrictions on energy production and export not only adversely affects energy companies, it also hurts American families and businesses by driving up energy costs and driving out competition. Implementing free-market reforms would create a robust, competitive energy sector that would drive innovation and enable companies to export U.S. technologies without the crutch of a taxpayer-backed, government-run financial institution. Congress should allow the authorization of Ex-Im to expire and focus on free-market solutions to drive energy production and exports.

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