



GAO

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

August 31, 2001

Congressional Committees

Subject: Export-Import Bank: The U.S. Export-Import Bank's
Financing of Dual-Use Exports

Since October 1994, the Export-Import Bank of the United States has had statutory authority¹ to provide loans, guarantees, and insurance to help finance U.S. exports of dual-use defense articles and services, provided that it determines these items are nonlethal and meant primarily for civilian use.² These dual-use exports include such items as air traffic control systems that have military applications but that are nonlethal and mainly used for civilian purposes. This legislation also requires us to report annually, not later than September 1, on the end uses of the dual-use exports financed by the Bank during the second preceding fiscal year—which, for the purposes of this letter, corresponds to fiscal year 1999.

This letter provides information regarding the extent of financing and end uses of dual-use exports approved during fiscal year 1999. It also provides similar information on the dual-use exports financed in fiscal years 2000 and 2001 to date. The enclosure to this letter provides detailed information regarding the dual-use exports financed during fiscal years 1999, 2000, and 2001 to date.³

Results in Brief

During fiscal year 1999, the U.S. Export-Import Bank used \$153.2 million⁴ to finance three dual-use exports, including transport aircraft and aircraft parts to be used in the development and protection of the Amazon region in Brazil and radar systems to be used for vessel and air traffic control in Croatia. According to Bank officials, end-use monitoring procedures are in place, but no end-use reports have been filed for these

¹The Export-Import Bank Reauthorization Act of 1997 (P.L. 105-121, Nov. 26, 1997) extended through Sept. 30, 2001, provisions in 1994 legislation (P.L. 103-428, Oct. 31, 1994) authorizing the Bank to finance certain dual-use exports. Under this legislation, the Bank can use up to 10 percent of its total annual loan, guarantee, and insurance authority to support the sale of these dual-use exports.

² According to Bank officials, an export that has dual uses (both military and civilian applications) is eligible for financing if convincing evidence exists that the export is nonlethal in nature, the export will be used mainly for civilian activities, and the buyer or end-user provides certification to that effect.

³ In September 2000, we reported on the Bank's financing and end uses of dual-use exports approved in fiscal year 1998, as required. That letter also summarized dual-use exports approved in fiscal years 1999-2000. See *Export-Import Bank: The U.S. Export-Import Bank's Financing of Dual-Use Exports* (GAO/NSIAD-00-231R, Sept. 1, 2000).

⁴ In fiscal year 1999, the Eximbank's 10-percent cap on dual-use financing amounted to \$1.575 billion.

dual-use exports because none of the exports has yet been delivered. Deliveries are expected to begin in September 2001.

In fiscal year 2000, the Bank used \$31.2 million⁵ to finance five dual-use exports, including transport aircraft parts, vehicles, and construction equipment to be used in the protection and development of rural regions in Venezuela. In fiscal year 2001 to date, the Bank has used \$202.6 million⁶ to finance three dual-use exports, including transport aircraft and support systems to be used for pipeline monitoring in Algeria and construction equipment to be used for territorial protection and development in Venezuela. According to Bank officials, no end-use reports have been filed for these eight dual-use exports because none of the exports have yet been delivered. Deliveries are expected to begin in December 2001.

On August 28, 2001, the vice president of the Bank's Engineering and Environment Division, which is responsible for monitoring end-user compliance with dual-use requirements, told us that the Bank agreed with the information presented in this report.

Dual-Use Exports Financed in Fiscal Year 1999

During fiscal year 1999, the Export-Import Bank (Eximbank) financed three dual-use exports totaling \$153.2 million. The first export, totaling \$53 million, was for the refurbishment and the procurement of transport aircraft to be used by the Brazilian Air Force in the protection and development of the Amazon region. The second export, totaling \$14.6 million, was for the purchase of radar equipment to be used by Croatia's Navy for vessel traffic control and monitoring. The third export, totaling \$85.6 million, was for the procurement of equipment to be used by Croatia's Air Force for air traffic control. According to Eximbank officials, no end-use reports have been filed for these exports because none of these exports has yet been delivered. Deliveries of these exports are expected to begin in September 2001.

Dual-Use Exports Financed in Fiscal Years 2000-01

In fiscal year 2000, the Eximbank financed five dual-use exports totaling \$31.2 million. One export, totaling \$6.3 million, was for the refurbishment of an aircraft to be used by the Venezuelan Air Force in support of territorial protection and development. Two exports, totaling \$3.8 million, were for the procurement of trucks, vans, buses, ambulances, and automobiles to be used by the Venezuelan Navy in support of territorial development. Two exports, totaling \$21.1 million, were for the procurement of dump trucks, truck bodies, trucks, and construction equipment to be used by the Venezuelan Army in support of infrastructure development in the country's interior. According to Eximbank officials, no end-use reports have yet been filed for these dual-use exports because none of the exports has been delivered. Deliveries of these exports are scheduled to begin in December 2001.

⁵ For fiscal year 2000, the Eximbank's 10-percent cap on dual-use financing amounted to \$1.55 billion.

⁶ In fiscal year 2001, the Eximbank's 10-percent cap on dual-use financing amounts to \$1.325 billion.

So far in fiscal year 2001, the Eximbank has financed three dual-use exports totaling \$202.6 million. The first export, totaling \$195.5 million, is for the procurement of transport aircraft and related equipment to be used by the Algerian Air Force to monitor hydrocarbon pipelines, survey national borders, conduct search and rescue operations, respond to natural disasters, detect environmental hazards, and monitor agriculture. The other two exports, totaling \$7.1 million, are for the procurement of construction equipment to be used by the Venezuelan Army in support of territorial protection and development. According to Eximbank officials, no end-use reports have been filed for these dual-use exports because none of the exports has been delivered. Deliveries of these items are expected to begin in March 2002.

During September 2001, according to Eximbank officials, the Bank plans to approve another five dual-use exports, using an additional \$30.7 million of its fiscal year 2001 dual-use financing authority. One of these exports will procure vehicles and helicopters to be used by the military in the Dominican Republic for the provision of civil services and assistance, such as evacuation and medical services, during natural disasters. The other four exports will procure construction equipment and transport aircraft engines, instruments, and parts to be used by the Venezuelan military in support of territorial protection and development.

Agency Comments

We obtained oral comments on a draft of this letter from the Eximbank's vice president of the Engineering and Environment Division, which is responsible for monitoring end-user compliance with dual-use requirements. The vice president noted that the Bank agreed with the information in this report.

Scope and Methodology

To determine the extent of financing and end uses of the dual-use exports financed in fiscal years 1999, 2000, and 2001, we reviewed pertinent Eximbank documents, such as memorandums to the Board of Directors and engineering reports and evaluations dealing with the financing and end uses of dual-use exports. We also interviewed Eximbank officials who monitor end-user compliance with dual-use requirements, including the vice president of the Engineering and Environment Division. We did not independently verify the end use of these products.

We conducted our work during July and August 2001 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional committees. We will also send copies to the President and Chairman of the Eximbank, the Secretary of Defense, and the Secretary of State. We will also make copies available to others upon request.

Please contact me on (202) 512-4128 if you have any questions concerning this letter. The major contributors to this letter were Virginia C. Hughes and Juan F. Tapia-Videla.

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive style with a large, looping initial "J" and a distinct "T" and "F".

Jess T. Ford
Director,
International Affairs and Trade

Enclosure

List of Recipients

The Honorable Paul S. Sarbanes
Chairman

The Honorable Phil Gramm
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Robert C. Byrd
Chairman

The Honorable Ted Stevens
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Michael G. Oxley
Chairman

The Honorable John J. LaFalce
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable C.W. Bill Young
Chairman

The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

**Dual-Use Exports Financed by
U.S. Export-Import Bank, Fiscal Years 1999-2001**

Dollars in millions

Fiscal year	Recipient country	Export ID number/type of Eximbank financing/description of export item	Amount of Eximbank financing	End user	Intended end use/status
1999	Brazil	APO67303XX/ loan/ aircraft and aircraft components	\$53.0	Brazilian Air Force	Territorial development/ not delivered
	Croatia	APO74581XX/ loan/radars	14.6	Croatian Navy	Vessel traffic control/ not delivered
	Croatia	APO73528XX/ guarantee/ radars	85.6	Croatian Air Force	Air traffic control/ not delivered
2000	Venezuela	APO73839XX/ guarantee/ aircraft parts	6.3	Venezuelan Air Force	Territorial development/ not delivered
	Venezuela	APO74654XX/ guarantee/ vehicles	1.5	Venezuelan Navy	Territorial development/ not delivered
	Venezuela	APO74918XX/ guarantee/ vehicles	2.3	Venezuelan Navy	Territorial development/ not delivered
	Venezuela	APO76105XX/ guarantee/ trucks	3.5	Venezuelan Army	Territorial development/ not delivered
	Venezuela	APO75942XX/ guarantee/ trucks and construction equipment	17.6	Venezuelan Army	Territorial development/ not delivered
2001	Algeria	APO75744XX /loan/ aircraft	195.5	Algerian Air Force	Pipeline monitoring/ not delivered
	Venezuela	MSME220376 /insurance/ construction equipment	4.4	Venezuelan Army	Territorial development/ not delivered
	Venezuela	APO77248XX/ guarantee/ construction equipment	2.7	Venezuelan Army	Territorial development/ not delivered

Source: GAO analysis of Eximbank data.

(320075)

Orders by Internet

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to

info@www.gao.gov

or visit GAO's World Wide Web home page at

<http://www.gao.gov>

To Report Fraud, Waste, and Abuse in Federal Programs

Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: 1-800-424-5454