



B-283474

September 1, 1999

Congressional Committees

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

Since October 1994, the Export-Import Bank of the United States (Eximbank) has had statutory authority¹ to provide loans and guarantees to help finance U.S. exports of defense articles and services, provided that it determines these items are nonlethal and for primarily civilian use. These exports, referred to by the Eximbank as "dual-use" exports, include such items as air traffic control systems that have military applications but will be primarily used for civilian purposes. The Eximbank is authorized to use up to 10 percent of its total annual export financing authority to support the sale of dual-use exports. This letter responds to our statutory mandate to report on the end uses of such dual-use exports supported by the Eximbank, in order to assure that they have been employed primarily for civilian purposes.

In September 1998, we reported on the Eximbank's financing and end uses of dual-use exports approved in fiscal year 1996,² as required. That report also summarized dual-use commitments for fiscal years 1997-98. This letter provides information regarding the extent of financing and end uses of dual-use exports approved during fiscal year 1997. It also summarizes the commitments to finance dual-use exports made in fiscal years 1998 and 1999 to date. Our enclosure lists the specific export items, recipients, and amounts of Eximbank dual-use financing for fiscal years 1997-99.

RESULTS IN BRIEF

In fiscal year 1997, the Eximbank financed one dual-use export to Brazil and six dual-use exports to Venezuela, using less than 7 percent of its financing authority to support dual-use exports. According to Eximbank officials and documents, items provided by five of the six exports have been delivered to Venezuela and are being used for primarily civilian purposes. The items supported by the export to Brazil and one of the exports to Venezuela have not yet been delivered.

During fiscal year 1998, the Eximbank financed one dual-use export to Venezuela and one such export to Indonesia. The items provided by these exports are currently in use, according to the Eximbank. In fiscal year 1999 to date, the Eximbank has financed one dual-use export to Brazil and two such exports to Croatia. According to the Eximbank, none of the items supported by these three dual-use exports is in use yet.

¹The Export-Import Bank Reauthorization Act of 1997 (P.L. 105-121, Nov. 26, 1997) extended through 2001 provisions in 1994 legislation (P.L. 103-428, Oct. 31, 1994) authorizing the Eximbank to finance certain dual-use exports. It also extended through 2001 a provision requiring us to report annually not later than September 1 on the dual-use exports financed by the Eximbank during the second preceding fiscal year—which, for this letter, corresponds to fiscal year 1997.

²See U.S. Export-Import Bank's Financing of Dual-Use Exports (GAO/NSIAD-98-244R, Sept. 1, 1998).

DUAL-USE EXPORTS FINANCED IN FISCAL YEAR 1997

In fiscal year 1997, the Eximbank financed seven dual-use exports totaling \$108.3 million. This amounted to less than 7 percent of the Eximbank's fiscal year 1997 financing authority to support the sale of dual-use exports.³

The seven dual-use exports approved for fiscal year 1997 were for Brazil and Venezuela. One export, totaling \$34 million, was for the refurbishment of cargo airplanes and the purchase of transport helicopters to be used by the Brazilian Air Force in supporting rural economic development. According to Eximbank officials and documents, these dual-use items are not in use yet. The other six exports, totaling \$74.3 million, were for the purchase of radio systems, trucks and other vehicles, and aircraft parts to be used by the Venezuelan military for supporting air traffic control modernization, civilian and humanitarian assistance, and development activities in rural areas. In July 1999, Eximbank officials undertook a trip to Venezuela to monitor the end use of these dual-use exports. Based on the information collected during this trip, the Eximbank reported that it had determined that five of the six dual-use exports had been delivered and were being used for primarily civilian purposes, including air traffic control modernization and territorial protection and development. The sixth dual-use export of aircraft parts had not been delivered yet.

DUAL-USE EXPORTS FINANCED IN FISCAL YEARS 1998-99

For fiscal year 1998, the Eximbank financed two dual-use exports totaling \$9.4 million. This amounted to less than 1 percent of the Eximbank's fiscal year 1998 financing authority to support the sale of dual-use exports.⁴ One of these exports, totaling \$7.7 million, was for the procurement of trucks to be used by Venezuela's Army in civilian construction activities in the country's frontier regions. The other export, totaling \$1.7 million, was for the purchase of aircraft parts to be used in aircraft belonging to the Indonesian Air Force. These aircraft are intended primarily for civilian activities, such as humanitarian aid and relief efforts. According to Eximbank officials and documents, the items provided by these two dual-use exports are in use.

So far in fiscal year 1999, the Eximbank has financed three dual-use exports totaling \$153.8 million. This amounts to less than 10 percent of the Eximbank's fiscal year 1999 financing authority to support the sale of dual-use exports.⁵ The first export, totaling \$86.2 million, is for the procurement of equipment to be used by Croatia's Air Force in civil air traffic control activities. The second export, totaling \$14.6 million, is for the purchase of radar equipment to be used by Croatia's Navy in coastal surveillance efforts. The third export, totaling \$53 million, is for the refurbishment and the procurement of aircraft to be used by the Brazilian Air Force in support of territorial protection and development. According to Eximbank officials and documents, none of the items provided by these three dual-use exports has been delivered.

³In fiscal year 1997, the Eximbank's 10-percent cap on dual-use financing amounted to \$1,652.2 million.

⁴In fiscal year 1998, the Eximbank's 10-percent cap on dual-use financing amounted to \$1,716.4 million.

⁵In fiscal year 1999, the Eximbank's 10-percent cap on dual-use financing will amount to \$1,575.4 million.

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. He generally agreed with the information presented in this report and suggested two technical changes. We have incorporated these changes.

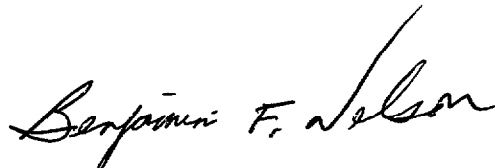
SCOPE AND METHODOLOGY

To determine the end uses of the items provided by the dual-use exports financed in fiscal year 1997 and to identify the extent of Eximbank financing of dual-use exports in fiscal years 1998 and 1999, we reviewed pertinent Eximbank documents, such as memorandums to the Board of Directors and engineering reports and evaluations regarding actual use of export items. 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 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this letter to interested congressional Committees; James A. Harmon, the Chairman and President of the Eximbank; the Honorable William S. Cohen, the Secretary of Defense; and the Honorable Madeleine K. Albright, 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.



Benjamin F. Nelson
Director, International Relations
and Trade Issues

Enclosure

List of Recipients

The Honorable Phil Gramm
Chairman

The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Ted Stevens
Chairman

The Honorable Robert C. Byrd
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United States Senate

The Honorable James A. Leach
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The Honorable John J. LaFalce
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Committee on Banking and
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
THE U.S. EXPORT-IMPORT BANK (Eximbank), FISCAL YEARS 1997-99

Dollars in millions

Fiscal year	Recipient country	Type of Eximbank financing/description of export items	Amount of Eximbank financing	End user	Intended end use/status
1997	Brazil	Loan/aircraft and aircraft components	\$34.0	Brazilian Air Force	Territorial development/not in use
	Venezuela	Guarantee/radio systems	08.8	Venezuelan Army	Territorial development/in use
	Venezuela	Guarantee/radio systems	03.4	Venezuelan Air Force	Civil air traffic control/in use
	Venezuela	Guarantee/trucks	25.5	Venezuelan Army	Territorial development/in use
	Venezuela	Guarantee/trucks	14.1	Venezuelan Army	Territorial development/in use
	Venezuela	Guarantee/aircraft parts	10.1	Venezuelan Army	Territorial development/not in use
	Venezuela	Guarantee/motor vehicles	12.4	Venezuelan Army	Territorial development/in use
1998	Venezuela	Guarantee/trucks	07.7	Venezuelan Army	Territorial development/in use
	Indonesia	Loan/Aircraft parts	01.7	Indonesian Air Force	Relief efforts/in use
1999	Brazil	Loan/aircraft and aircraft components	53.0	Brazilian Air Force	Territorial development/not in use
	Croatia	Loan/Radars	14.6	Croatian Navy	Coastal surveillance/not in use
	Croatia	Guarantee/Radars	86.2	Croatian Air Force	Civil air traffic control/not in use

Source: GAO analysis of Eximbank data.

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