

EXCEPTIONS &  
EXCLUSIONS TO THE

# DEFENSE ARTICLES PROHIBITION

Tools & Opportunities  
for U.S. Exporters





# WHAT'S STOPPING YOU FROM EXPORTING?

Imagine this: your U.S. business has identified an international buyer for its product, you have agreed on pricing, and your buyer wants open account credit terms. How will your company manage the risk of nonpayment by your foreign buyer? Insuring your foreign receivables through EXIM's Export Credit Insurance is a great place to start.

Export Credit Insurance is an insurance policy that covers receivables generated by international sales.

Export Credit Insurance mitigates your nonpayment risk while empowering you to meet, or beat, your competitors by offering attractive credit terms (Net 90, Net 120). Your business can use open account credit terms to win bids and increase sales to existing customers.

Another benefit to insuring foreign receivables is that lenders will often accept them as collateral, expanding your borrowing base and improving cash flow.

#### *Export Credit Insurance:*

- ✓ Increases your ability to compete in international markets
- ✓ Protects your foreign receivables from nonpayment
- ✓ Expands your borrowing base for improved liquidity

“EXIM has been instrumental in TacMed’s international expansion. The ability to mitigate the risk associated with exporting at such a low cost is a powerful tool for a small business.”

Ross Johnson, CEO of Tactical Medical Solutions Inc. (TacMe-

# BENEFITS INCLUDE:

## Increased Sales

Every business wants to be more competitive. Providing open account credit terms is very appealing to international buyers and can be the difference between winning and losing a deal. When you give customers more time to pay, they have the financial flexibility to increase the size of their orders. Using open account credit terms can even speed up the delivery of goods because it avoids delays that can happen with a letter of credit or cash in advance.

## Risk Prevention

The challenge for exporters, particularly small businesses, is clear. Selling to international buyers on open account credit terms can be risky. If the buyers don't pay, there is very little recourse for the U.S.-based company and the financial hit can be significant. Export credit insurance mitigates the risk of nonpayment by insuring foreign receivables.

## Cash Management

When your business needs cash to fulfill orders or pay for operations you often look to your local lender. These lenders are more likely to include foreign receivables and inventory in your borrowing base when those receivables are insured, giving you access to additional financing and improving cash flow.

## What does Export Credit Insurance Cover?

### *Commercial Risks:*

- ✓ Insolvency
- ✓ Bankruptcy
- ✓ Protracted Default

### *Political Risks:*

- ✓ War, Revolution, Insurrection
- ✓ Currency Transfer Risk
- ✓ Cancellation of an Import or Export License



# HOW TO USE EXPORT CREDIT INSURANCE

EXIM has a general prohibition on supporting “defense articles” contained within its congressional charter. Considerations on whether an item is a defense article are based upon (1) the intended end use of the export items, and (2) the identity of the buyer and end user.

Items sold to militaries are generally considered *defense articles*, which are not supported by EXIM. However, there are some exceptions and exclusions to the defense articles prohibition that permit EXIM to provide support, even when the buyer and/or end user is a military entity.

## Subject to Review

**All sales of goods and services to foreign security forces, including both non-military police forces and military entities, are reviewed by the U.S. Department of State, at the end user level.** The State Department review must be performed before EXIM provides any support, and the review process generally takes 15–30 days if all appropriate information is provided in a timely manner.

EXIM’s support to foreign non-military security forces given this extra administrative review could then apply to sales made to security forces, including private security services (such as security guards), as well as non-military government security forces such as transportation police, local police, or federal police.

## What Can I Use ECI For?



### ***Humanitarian Aid***

Items such as lifesaving, search and rescue, and medical equipment (hospital supplies, ambulances, etc.) are not considered defense articles, even if sold to a military entity.



### ***Small Craft***

Small craft (marine vessels, small aircraft) used for routine border patrol, drug interdiction, and natural resource monitoring are not considered defense articles, even if sold to a military entity.



### ***Food for U.S. Troops***

Food exports that ultimately will be consumed by the U.S. military are not considered defense articles.



### ***Drug Interdiction***

EXIM may provide support for defense articles that are to be used for surveillance and/or reconnaissance missions related to search and rescue, border patrol, and drug interdiction. The exports of items on the munitions list require application of the Anti-narcotics exception and Presidential Determination of National Interest which is coordinated by the U.S. Department of State.



# HOW DOES EXPORT CREDIT INSURANCE WORK?

## Step 1:

You identify an international buyer and obtain an Export Credit Insurance policy.



## Step 2:

You offer credit terms to your foreign buyer.



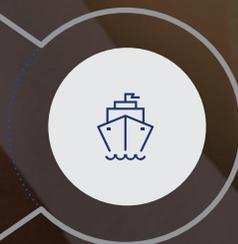
## Step 3:

The buyer accepts the deal's terms.



## Step 4:

You ship your product and invoice the buyer.



## Step 5:

You report shipments & pay premiums on the amount shipped.



## Step 6:

The buyer pays. If they fail to do so, EXIM pays.



# WHAT POLICY OPTIONS ARE OFFERED?

## Express Insurance

Most attractive to small businesses with limited or no prior export experience.

### Features Include:

- ✓ 95% coverage
- ✓ No deductible
- ✓ Pay-as-you-go premiums
- ✓ Streamlined application

## Multi-Buyer Insurance

Options to cover all or part of your export portfolio.

### Features Include:

- ✓ 95% coverage
- ✓ No deductible
- ✓ Pay-as-you-go premiums

## Single-Buyer Insurance

Covers one buyer for a predetermined period of time and dollar amount.

### Features Include:

- ✓ 90% coverage
- ✓ No deductible
- ✓ Individual policies for each deal
- ✓ Policies to cover all the deals from a single buyer

This is a descriptive summary to be used only as a general introductory reference tool. The complete terms and conditions of the policy are set forth in the policy text, applications, and endorsements.



# WHAT'S NEXT?

EXIM is here to support you on your exporting journey. We offer a wide range of financing tools for your company's unique needs, as well as free consultations, educational material, exporter resources, and more. You can:



## Get Started

Request a free consultation with an EXIM specialist in your area to determine your eligibility.

[grow.exim.gov/consultationrequest](https://grow.exim.gov/consultationrequest)



## Get Helpful Advice

Do you have questions about account terms and financing for exporters? Our experts are here to help:

[grow.exim.gov/export-financing-faqs](https://grow.exim.gov/export-financing-faqs)



## Learn Exporting Basics

Learn the basic fundamentals of trade finance and turn export opportunities into sales.

[grow.exim.gov/export-guide](https://grow.exim.gov/export-guide)



## Guide to Working Capital Loan Guarantee

Find out how EXIM can unlock your cash flow by working with your lender.

[grow.exim.gov/wclg-guide](https://grow.exim.gov/wclg-guide)



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