

STATEMENT FOR THE RECORD

From

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE COMMITTEE ON FINANCIAL SERVICES

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Chairman Miller, Ranking Member McCarthy and Members of the Subcommittee, the Coalition for Employment through Exports (CEE) thanks you for the opportunity to provide a statement for the record on the U.S. Export-Import Bank (Ex-Im Bank) and the competitive playing field for export finance and U.S. exporters. CEE, composed of exporters, banks and trade associations, was founded over 25 years ago for the purpose of promoting competitive U.S. exports and the jobs that make those exports possible. We believe in a strong, responsive, and flexible Ex-Im Bank that enables U.S. exporters to fully compete on a level playing field with the export credit agencies (ECAs) of other countries. Such an Ex-Im would best be able to support U.S. jobs, both manufacturing and otherwise, and accelerate the recovery of the U.S. economy.

**Ex-Im Bank, the Financial Crisis, and On-going Recovery**

During the financial crisis, Ex-Im Bank responded by taking critical steps to compensate for the collapse in private export financing. In both 2009 and 2010, the Bank dramatically increased its transaction volume, authorizing more than \$21 billion in support of U.S. exports in 2009 and \$25 Billion in 2010, up from \$14 billion in 2008. It also set a record for financing \$4.36 billion for small business exports for 2009 and \$5 billion in 2010.

Ex-Im Bank also developed new policies and programs to address the needs of exporters impacted by the credit squeeze, including a “take-out” option for banks, various financing facilities, streamlined environmental and small business application processing, and the recently announced supply chain financing. Chairman Hochberg and the entire staff at the Bank should be commended for their excellent work responding to the crisis to support so many exports and American jobs.

But with an economy whose growth is heavily dependent on increased exports, a fully competitive Ex-Im Bank must play a far greater role in supporting U.S. exports than it does. There is the potential for US goods and services companies, both large and small, to expand into more international markets and thus contribute more to the recovery of the U.S. economy. These companies will need the same export financing support that their foreign competitors receive.

## **The Current Competitive Playing Field**

The recent financial crisis accelerated a trend which had already been developing around the world: the rapid growth in the importance, flexibility and size of ECAs as foreign governments greatly expanded their mission and resources to enhance the competitiveness of their country's businesses to support the growth of their economies. Ex-Im Bank has not been able to keep up in terms of resources or programmatic flexibility and is also subject to restrictions - some statutory and some based on Bank policy - that severely limit use of the Bank by U.S. exporters.

International competition is now so hard fought that the financing terms offered by ECAs are often the decisive factor in determining whether a U.S. company prevails over an international competitor. Foreign ECAs – both within and outside the OECD Arrangement – too often are better able to offer flexible financing to the detriment of American exporters. The Bank must be given the tools and flexibility it needs to increase its competitiveness if it is to enable U.S. firms to compete on a level playing field.

Overall, ECAs support approximately 10% of all global trade yet Ex-Im Bank supports less than 1% of U.S. exports with commitments in 2010 of approximately \$25 billion. In contrast, the Canadian ECA, Export Development Canada (EDC), committed \$82 billion last year in the course of supporting 7-8% of Canadian exports and 5% of Canada's GDP. Likewise, the Japanese export credit agencies committed last year well over \$100 billion in support of their exporters; the Chinese over \$300 billion.

A critical reason for this larger support is that most other ECAs have moved over the past decade to a "national interest" standard in which their objective is to support exports, whatever their nature, which maximize the value added to their domestic economy. These ECAs are strategic in what they support, are proactive on behalf of their exporters and look at themselves as partners with their business community to support all aspects of their national economy. In this context, they not only look at the level of content manufactured domestically, but also take into account other value important to their economy, including services, and the high value jobs created by services exports.

For example, Canada's EDC was "established for the purposes of supporting and developing, directly or indirectly...Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities." The Finnish export credit agency, Finnvera, describes its mandate as supporting "Value Added to the Finnish economy" and recognizes that in determining the Finnish national interest in supporting the competitiveness of Finnish exporters "more and more important are services and 'high value added jobs': R&D, sales and marketing, services, project management, general management." These two ECAs presented their mandates at a recent CEE conference and discussed how they look at everything an export can bring to their national economy as critical to growth of their economies.

Other ECAs also operate with more flexible content rules leaving the Bank's content rules far and away the most stringent. Austria has the next highest content rules at 50%, Japan is at 30%, and the British are at 20%. Within the EU, the content rule for France (20% minimum), Germany and Italy (50% minimum) is subject to a willingness to negotiate on a case-by-case basis such that they are trending

towards a national interest standard that provides them with the flexibility but to drop their content requirement down to 30% to ensure the export goes forward. For a variety of reason, Ex-Im is unable to take this broad view.

### **Making Ex-Im Bank Competitive – Content Adjustment**

In contrast to all other ECAs, Ex-Im Bank's eligibility requirement of 85% U.S. manufactured content is unduly narrow and severely limits the exports it can support and thus the jobs it can generate. The eligibility requirement suffers from two significant flaws:

First, because the policy determines eligibility based only on a narrow part of manufacturing, it ignores all value to the U.S. economy generated by high-tech and other services. It also ignores the high value U.S. jobs in R&D, supply chain management, software design engineering, business development and marketing, IP support, branding, and profit. Yet, in an economy based increasingly on innovation, it makes no sense for exports based on those jobs and generating more of those jobs to not be recognized and supported by Ex-Im Bank. This is even clearer when one recognizes that the services sector is the fastest growing part of the economy and there is currently a trade surplus in services.

For example, the IT sector sees huge export opportunities in emerging market counties which seek to develop and upgrade their government IT systems. Yet our world class technology companies are at a competitive disadvantage as they are unable to bring ECA backed financing due to the Bank's stringent content rules. This represents a loss billions of exports dollars each year as well as the loss of future business. Ex-Im should be following the lead of other ECAs which routinely support 85% of a services export if the main services contract is signed with a domestic company.

The second flaw is that it fails to account for the present day reality of global supply chains which exporters need to maintain their international competitiveness. As a consequence, the U.S. content levels of the current product lines of major exporters are below the 85% threshold required for Ex-Im support. Many of these product lines, which are assembled in US factories, fall between 65% and 82-83% US content yet the Bank is still unable to provide support.

As a consequence, U.S. exporters have to resort to co-financing, where available, obtain partial support from the Bank with a resulting loss in competitiveness, rely on the flexibility of other ECAs together, or not pursue opportunities which would otherwise be available to them. Co-financing is possible if the non-U.S. content comes primarily from a single other country but if parts are sourced from multiple countries this is less likely. If only partial support from Ex-Im is available, companies must scramble to find coverage for the remaining amount which means a more expensive offer and the end result that the competitiveness of that financing may jeopardize the overall sale.

By reducing the required content level from the stringent current level to a more inclusive one, a majority of exporter product lines would immediately become eligible for full Ex-Im support. For one major U.S. exporter such a change would potentially increase the company's export volume by as much as 40%, an increase of approximately \$1 billion in exports on annual basis. Another would finally be able

to pursue larger, long term transactions they presently cannot pursue because they cannot access Ex-Im Bank support, with the result of hundreds of millions of dollars of additional exports.

CEE recognizes that a reduction in the required level of manufactured content has historically been controversial. However, we feel that the current level no longer reflects the reality of international competition and effectively discourages both export growth and job generation that will support the manufacturing sector and expansion of the US economy. While Ex-Im Bank's eligibility requirement undoubtedly made sense when put into effect in 1987, the current competitive reality is such that it hinders U.S. competitiveness.

### **Other Competitive Constraints**

While it is clear that the eligibility requirement represents the greatest impediment to Ex-Im Bank competitiveness, there are other requirements including several grounded in Congressional statutes that further constrain exporters.

One such issue is the MARAD cargo preference requirement embodied in Public Resolution 17, which provides that exporters using the medium and long term financing programs must use U.S. flagged vessels. This requirement is particularly burdensome for users of break bulk cargo ships since there are relatively few such ships registered in the U.S. For these exporters, the cargo preference results in substantial increased shipping costs which their buyers are increasingly unwilling to pay and major delivery uncertainties. In a transaction now at Ex-Im Bank, the cost of U.S. shipping was five times the cost of non-U.S. shipping. Because there are relatively few of these vessels, the exporter is also subject to major scheduling difficulties which can readily undermine its relationship with the client.

While we understand the Congressional support for the maritime industry, we urge Congress to consider a solution such as inclusion of the cargo preference under the Department of Transportation's existing Ocean Freight Differential (OFD) Program. For certain exporters which must ship large items, this requirement has had a devastating impact on exporter competitiveness and their relationship with their buyers.

A second major constraint for exporters is the "Economic Impact" test. The intent underlying the economic impact test is to ensure that Ex-Im Bank transactions do not create increased competition for U.S. companies that result in lost jobs within a particular sector. Most of the economic sectors subject to economic impact analysis are older, less competitive and vulnerable. The difficulty with the underlying concept is that it is fundamentally counterproductive. It erodes the competitiveness of healthy companies and exporters around the vulnerable group and prevents them from utilizing the competitive financing that only Ex-Im Bank can bring to a transaction that keeps them strong. Denying these companies access to ECA financing when such financing is integral to succeeding internationally is simply destructive for their competitiveness. CEE is aware of several situations where the result of the economic impact test was ultimately for the company which was denied access to move to offshore suppliers which could be supported by offshore financing.

### **New Competitive Challenges for Ex-Im Bank**

The appearance of strong, active ECAs that do not comply with the terms of the OECD Arrangement represents a growing challenge for Ex-Im Bank's overall competitiveness. China, India, and Brazil have amply funded their own ECAs that are active particularly in the development of South-South trade relations. These governments are using their ECAs to penetrate critical markets in areas such as oil & gas, renewable energy, and natural resources extraction. Many OECD-compliant ECAs, including the US, simply are unable to compete with the below market and concessionary financing options provided by China and other governments. CEE represents the U.S. business community at the OECD and has encouraged the organization to do as much as possible to bring these ECAs within the OECD arrangement. Until that occurs, Congress should reinvigorate the Tied Aid War chest to help Ex-Im Bank match these concessional financing transactions.

A second new competitive challenge for the Bank is the appearance of ECA support in projects or export transactions within the United States. Because Ex-Im bank has historically supported U.S. exporters only outside of the U.S., this situation raises the prospect of U.S. firms bidding on a project in the United States not being able to compete because of the presence of ECA support from outside of the U.S. We have already seen examples of this in green energy projects; the Japanese export credit agency, JBIC, recently announced it was prepared to support its firms on projects in the U.S. including the Florida high speed rail project.

#### **SMALL BUSINESS - CEE Supplier study**

While most of CEE's members are large, global companies, we recognize the critical importance of Ex-Im Bank financing for small business exporters and applaud the Bank's efforts at expanding outreach. The Bank is essential for small businesses wary of selling overseas for fear of not being paid and helps to mitigate these concerns. Ex-Im has been extremely focused on increasing outreach, reducing application processing and approval times, and developing new initiatives to support small businesses, such as the supply chain financing program. This program will ensure payment to the subcontractor by the Bank at the time his work is completed rather than having to wait until the finished product is exported and the ultimate buyer is paid. This program is critical in supporting small businesses that are a party of the larger global supply chain for larger transactions.

CEE has now completed its 2011 "supplier study" that identify the subcontractors or "hidden exporters" involved in large Ex-Im Bank transactions. In our study five major exporters have identified over 31,000 SME suppliers which are involved in providing goods and services to the named exporters. We will be providing copies of this study to the Members of the Financial Services Committee

#### **THE BANK IS SELF-SUSTAINING**

We would like to underscore the fact that Ex-Im Bank support of a greater number of transactions does not represent a burden on the federal budget because the agency is self-sustaining. The Bank generates a revenue stream from fees and interest that enables to repay its appropriations outlay, adding to its loan loss reserve, and the returning remaining funds to the U.S. Treasury. In FY 2009, Ex-Im Bank returned to the Treasury \$135.6 million after repaying its budgetary offsets, funding its loan-loss reserve and retaining \$75 million as a reserve. In fact, since the inception of FCRA, the Bank has returned to the

U.S. Treasury approximately \$5 billion. As the Bank is self-sustaining and contributes to reducing the debt, it is a win-win government program.

## **CONCLUSION**

CEE would be remiss if we did not mention the pressing manner of Board vacancies at the Bank. Ex-Im Bank is governed by a five person Board of Directors which consists of a Chair, Vice Chair and three Members, and is bi-partisan in nature.. To be able to conduct new business and approve transactions, the Bank must have a quorum of three Members present. There are presently two vacancies, the Vice Chair and one Board seat. As of January 20<sup>th</sup> 2011 the terms of the two current Board members expired. Because of an automatic six month extension provided in the Charter , they may continue in their positions until July 20, 2011 at which time they must leave, leaving the Bank without a quorum to operate unless new Board members are nominated by the Administration and confirmed by the Senate. If the Bank has no quorum present on the Board, the Bank will effectively shut down, with disastrous consequences for the business community. So we strongly urge the Committee to urge the Administration to nominate and the Senate to confirm the four open - two Republican and two Democratic – positions as quickly as possible so as to keep the Bank operating.

Ex-Im Bank is the most vital asset of the government to support the National Export Initiative and to ensure the Administration's goal of doubling exports over the next few years. It is critical that it be fully competitive with the export credit agencies of our competitors and enable U.S. exporters to compete on a level playing field. We pledge to work with Congress to assist in the process of addressing the competitive issues the Bank currently faces. To be clear, Ex-Im Bank is well managed and well led and we encourage Congress to provide the agency with the tools and flexibility to support and assist exporters from all sectors of the economy.