LEGISLATIVE PROPOSALS ON SECURING AMERICAN JOBS THROUGH EXPORTS: EXPORT-IMPORT BANK REAUTHORIZATION

HEARING

BEFORE THE

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OF THE

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LEGISLATIVE PROPOSALS ON SECURING AMERICAN JOBS THROUGH EXPORTS: EXPORT-IMPORT BANK REAUTHORIZATION

Tuesday, May 24, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:55 p.m., in room 2128, Rayburn House Office Building, Hon. Gary Miller [chairman of the subcommittee] presiding.

Members present: Representatives Miller of California, Dold, Manzullo, Huizenga; Moore, and Scott.

Chairman MILLER OF CALIFORNIA. This hearing is called to order.

Today, we are having a discussion hearing on a discussion draft on the Export-Import Bank.

Ranking Member McCarthy's sister has passed away, so she is not able to be here today. We are praying for her family. It is a difficult time for them. Mr. Scott will be sitting in in her place. Vice Chairman Dold will be here today, too, and other members of the subcommittee.

I would like to welcome you to this hearing on legislative proposals to reauthorize the Export-Import Bank. The hearing today will focus on a discussion draft—and I quote "discussion draft"—I put forward which seeks to ensure that the Export-Import Bank has the tools it needs to help U.S. companies to maintain and create jobs in the United States and contribute to a stronger national economy through exports of their goods and services.

For this reauthorization of the Export-Import Bank, we are focusing on domestic job creation. Job creation is the key to our Nation's economic recovery. At a time when the national debt is surpassing $14 trillion, and the Federal Government is borrowing 40 cents on every dollar spent, it is imperative that we stop spending taxpayer dollars and really start focusing on ways to grow the economy. Federal Chairman Ben Bernanke has said that we need to have a sustained period of strong growth creation to establish a true economic recovery, and that is the focus of this committee.

The discussion draft is intended to ensure that Ex-Im Bank can help create U.S. jobs by supporting American companies seeking to export their goods. When American companies export, American workers work. During the reauthorization process, we are looking for ways to better the Bank's ability to serve U.S. companies, large and small, so they can prevail against foreign competitors and, as a result, create U.S. jobs.

We have watched China grow incredibly large in recent years. It is hard to detail exactly how they are doing it, but their export programs are highly competitive with other countries and their financing exceeds ours in many ways. We are trying to make sure U.S. companies have an opportunity to compete in that marketplace.

The Ex-Im Bank's products make it possible for American companies to compete in developing world markets, helping them secure footholds to expand sales. Half of the global economic growth is in developing world countries; 9 of the largest emerging market countries are expected to invest $3 trillion in infrastructure development over the next 5 years, presenting a tremendous export opportunity for U.S. companies. Ex-Im ensures American companies can ensure sales in these markets by making sure financing terms are not undercut by aggressive foreign creditor agencies.

To get our economy back on track and create jobs, we must ensure American companies are competitive with foreign companies and have access to affordable export credit. We want to ensure the Bank is well-positioned to continue to contribute to the employment of U.S. workers who finance exports of U.S. goods and services.

We have a great witness today, Mr. Hochberg.

We have to look at the future of this country. This is not the same world we were in 20 years ago; it is not the same world we were in 30 years ago. We need to look at the reauthorization period for the first time that helps us really compete globally.

Content guidelines is an issue we need to look at; export financing for services; information technology upgrades; and accountability. And accountability is, above all, paramount in reauthorization. We want to make sure that the American people understand that is, first of all, a priority and something we are really going to look at.

At this time, I would like to yield to the ranking member, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Miller.

And this is, indeed, a very timely hearing and one that comes at a time when our Nation is at a crossroads, quite honestly, in terms of what we are going to do and what we need to do to accomplish two important things that certainly reflect the future of our country and the greatness of our country: one, to get more Americans working at American jobs in America; and two, to make sure that we are coming back to recapture our legacy and our position, which we lost, as the world's leader in manufacturing. We cannot really look toward improving our unemployment situation as long as we continually lose out on making things in America.

So we look forward to this hearing to explore that and to make sure that we move forward with a clear understanding, to point out what are the merits of domestic content versus the merits or demerits of foreign content.

This is serious for the future of this country. We have lost our leadership in the world of making things. And we want to certainly recapture that and to stop the outsourcing and to keep jobs in America for Americans and making things in America.

So I want to thank you, Chairman Miller, for holding this important legislative hearing on the reauthorization of the Export-Import Bank. And I look forward to the opportunity to discuss proposals for securing American jobs through exports with each of the witnesses who are here today.

Today's hearing is the second Ex-Im hearing this year. And I am pleased that our subcommittee is giving appropriate consideration to the reauthorization of Ex-Im's charter, which expires this September.

The Export-Import Bank is a self-sustaining agency that plays a valuable role in promoting jobs for U.S. workers in America through the exports it helps finance. And to meet its objectives, to create and sustain U.S. jobs, the Bank uses its resources to finance U.S. exports in circumstances when private-sector financing is not available or to provide financing to support the competitiveness of U.S. exporters in circumstances when foreign governments extend export financing to their firms.

Reauthorizing the Bank's charter will allow the Bank to continue helping the United States reach the goal outlined in the President's national export initiative, to double U.S. exports by 2015, and create and sustain millions of American jobs in America.

The Bank's most recent annual report shows the demand for the Bank's support remains high, with 2010 being a record-breaking year of $24.5 billion in export financing, which is up 70 percent from Fiscal Year 2008. And I believe reauthorization of the Export-Import Bank is a critical component of the strategy to support jobs for U.S. workers in America.

But I am concerned that the approach taken in the Republican discussion draft before us with respect to the Bank's content policy is likely to undermine the Bank's primary purpose: to contribute to the employment of United States workers in the United States. Ex-Im Bank's content policies—

Chairman MILLER OF CALIFORNIA. Is the gentleman ready to conclude?

Mr. SCOTT. Yes, I am ready to conclude, if I could ask for 1 minute—for medium- and long-range programs, which account for the majority of the Bank's financing, allows the Bank to finance only the U.S.-made portion of an export up to the OECD agreement to a maximum of 85 percent. This policy ensures that content serves as a proxy to evidence support for U.S. jobs, which is, again, the mission of the Bank.

Limiting the Bank's support to domestic content for medium- and long-term programs also provides valuable incentives for companies seeking Ex-Im financing to seek and support domestic supply chains as opposed to using foreign components from foreign workers.

And while I support a transparent and open process for how the Bank determines its domestic content requirement, in my view, each of the required considerations in the Republican draft focus solely on Ex-Im Bank's competitiveness with other countries' export credit agencies and ignore the possible negative—

Chairman MILLER OF CALIFORNIA. The gentleman's time has expired by 2½ minutes. I am going to have to—

Mr. SCOTT. I am wrapping up now—that could have on the Bank's primary objective to maintain increasing employment of U.S. workers.

So I look forward to everyone's comments.

And, Chairman Miller, I appreciate your courtesy in letting me getting my full statement out.

Chairman MILLER OF CALIFORNIA. Mr. Dold, you are recognized for an opening statement.

Mr. DOLD. Thank you, Mr. Chairman.

I want to thank Chairman Miller for his great work and leadership on this committee in general and on Export-Import Bank reauthorization in particular.

And, Mr. Hochberg, I certainly appreciate you taking your time to be with us here today. We certainly look forward to your testimony and answering questions.

I am a small business owner, and I can personally appreciate the importance of ensuring that responsible credit is available to all businesses, especially small businesses and exporting businesses. Without an adequate credit supply, small businesses and other businesses are frequently unable to invest in research and development, growth, sales, innovation, and ultimately, and most importantly, in job creation.

Since coming to Congress, my focus has been and remains on job creation and growing our economy. One of the most important and, I would argue, most effective actions that we can take to support job creation and the economy, without increasing our paralyzing national debt, is to reauthorize the Export-Import Bank.

The Export-Import Bank serves a critical function: providing credit to directly and indirectly support exports by small, medium, and large exporting businesses. These activities directly facilitate job creation right here in the United States. More American exports translates directly into more American jobs. In Fiscal Year 2010 alone, the Bank supported approximately 227,000 American jobs at over 3,300 different companies, helping to finance exports to over 175 different countries around the world.

The Export-Import Bank supports both large businesses and small businesses. Small companies benefit from the Bank's credit support in two, I would argue, distinct ways: first, small businesses directly receive support from 80 percent of the Bank's transactions; and second, and less obviously but possibly even more importantly, small businesses indirectly benefit from large-company export credit support as subcontractors to the large-company exporters. When a large American company is effectively exporting millions of assembled individual parts when they export a locomotive, a commercial jetliner, or a wind turbine, many of these parts come from thousands of small- to medium-sized businesses. As a small business owner, I deeply appreciate these two very distinct ways in which the Bank supports small businesses, which are the main engine of job creation in our country.

One of the most important reasons for reauthorizing the Export-Import Bank is that every major foreign exporting company receives very generous government-supported export credit facilities, most of which are on far more favorable terms to those foreign companies than those that the Export-Import Bank provides to American companies. Without the Export-Import Bank, the global competitive playing field would be more uneven and more unfair to American exporting companies, to the clear detriment of American jobs.

To support American jobs without increasing our national debt, I hope that my colleagues on both sides of the aisle will join Chairman Miller and me in promptly reauthorizing the Export-Import Bank.

Mr. Chairman, I ask unanimous consent to submit a longer statement for the record, if I may.

Chairman MILLER OF CALIFORNIA. It is now my honor to introduce Mr. Fred P. Hochberg, chairman and president of the Export-Import Bank of the United States.

Mr. Hochberg is chairman of this bank in the United States and one of the highest-ranking business leaders in the Obama Administration. Under his leadership, in Fiscal Year 2010, Ex-Im Bank approved more authorization to support U.S. exporters than in any year in its history. This included $24.5 billion in export financing, a 70 percent increase over the past 2 years, which supports $34.4 billion worth of exports and 227,000 American jobs at more than 3,300 U.S. companies. Of these authorizations, more than $5 billion was for small businesses, a record for the Bank.

Mr. Hochberg, I look forward to your testimony.

STATEMENT OF FRED P. HOCHBERG, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HOCHBERG. Chairman Miller and distinguished members of the subcommittee, thank you for the opportunity to testify today about the Export-Import Bank and our reauthorization.

Like you, Chairman Miller, I was a small business owner, and I have just completed my second year at the Bank. I have tried to focus the Bank to be ahead of our global competition and make sure that we think and run more like the businesses we serve. We are more customer-focused, with faster turnaround, creating new programs to meet the challenges of today. We are growing our small business portfolio, and we are moving government at the speed of business. And we continue to do this at no cost to the taxpayer.

The Export-Import Bank is the official export credit agency of the United States, and we exist but with one purpose: to enable American companies, large and small, to compete for sales that help maintain and create U.S. jobs. And, as was noted, the competition has never been more fierce, be it China, Brazil, France, or other nations. American companies are competing for every sale, and Ex-Im is there when the private sector is unable or unwilling to provide support so we don't lose export sales to foreign competitors due to a lack of financing.

The Bank provides export financing through its loan, guarantee, and insurance programs. We level the playing field so that U.S. businesses compete based on the quality and price of their products and services and are not undercut by overly aggressive use of export financing. The "Made in America" brand is a strong selling point for U.S. companies competing overseas, and America makes what the world wants to buy.

Chairman Miller, as you noted, in our results for Fiscal Year 2010, we did authorize $24.5 billion, a record, and created or sustained 227,000 jobs at 3,300 companies. We are now more than halfway through Fiscal Year 2011, and I am confident we will have another record-breaking year.

As I mentioned earlier, we do this work at no cost to the American taxpayer. And, given the importance of lowering our Nation's deficit, I am pleased to report that over the past 5 years, our agency has generated $3.4 billion for the U.S. Treasury. On top of that, Congress also rescinded $275 million for cuts in the Fiscal Year 2011 continuing resolution.

We have three congressional mandates. Let me talk briefly about them. They are: small business; renewable energy; and sub-Saharan Africa.

More than 85 percent of all our transactions finance small companies who export their goods and services. Our totals for small business transactions have increased to $5.1 billion in 2010, a record. And that $5.1 billion authorization exceeds our 20 percent small business congressional mandate. In fact, in 43 of the 50 States, we were well above the 20 percent small business mandate.

Let me comment on one particular small business, a company that you are familiar with, Mr. Chairman, PacMin, which is just a few miles outside of your district. The formal name is Pacific Miniatures, and we have been working with this company since 2005. They make model aircraft that they sell to airlines, airports, and other aviation customers around the world. They have 75 employees, and 35 percent of their business is now exports. Companies like PacMin need access to capital if they are to compete for global sales and continue to grow.

In renewable energy exports, our authorizations have grown more than tenfold in the past 2 years to $332 million in Fiscal Year 2010. We are on track to double that number this year. Two particular examples: Congressman Scott, in Georgia, we helped a company called Suniva that makes solar panels, and we also helped a company called Gamesa that makes wind turbines just outside of Philadelphia in Pennsylvania.

In sub-Saharan Africa, Ex-Im Bank expects for the first time to top $1 billion in authorizations in Fiscal Year 2011. An example of that is we have financed $41 million for 121 firefighting trucks and equipment that are being shipped to Ghana. These trucks are being manufactured and creating jobs in Wisconsin, Pennsylvania, Iowa, Illinois, Virginia, and Nebraska.

Let me talk briefly about our legislative proposal. Our proposal extends Ex-Im Bank's authorization to September 30, 2015, and it gradually increases our exposure cap from $100 billion to $140 billion over 4 years. This will help us meet the President's National Export Initiative of doubling exports by 2015 and enable us to continue to support U.S. jobs and grow small business.

In conclusion, the "Made in America" brand is as strong as ever, and we are committed to making sure that we do government at the speed of business and to continue to do that at no cost to the taxpayers.

Thank you, and I await your questions.

[The prepared statement of Mr. Hochberg can be found on page 74 of the appendix.]

Chairman MILLER OF CALIFORNIA. We seem to be having a problem with the microphones. Let's try this.

I was trying to tell you, if you needed more time for your opening statement, you could have as much as you wanted. We seem to have ample time at today's hearing.

We were talking about increasing exposure limits, and, as we could figure out, you are going to be capped at $100 billion probably by 2012. Do the Bank activity levels warrant an increase in exposure caps, from your perspective?

Mr. HOCHBERG. Mr. Chairman, yes, they do. We are seeing an increase in exports. Exports are up 16.7 percent in 2010. We are seeing a strong growth in exports. You commented on the amount of infrastructure that is being built globally. So between that and the continued reluctance of some financial institutions to be lending, particularly to emerging economies, we do see a need for an increase.

Chairman MILLER OF CALIFORNIA. If you raise the caps, it doesn't mandate that you do anything; it just gives you the ability and the authority to do that. Without those increases, what position do you think you would be in, in 2 or 3 years?

Mr. HOCHBERG. Without an increase, we would be very hampered. We are approaching $80 billion right now, and we are going to exceed $80 billion before the end of this year. It would clearly hamper our ability to create jobs and to help support U.S. exports.

Chairman MILLER OF CALIFORNIA. I put some language in there to require you to report on content. It wasn't a mandate. The priority in the language was to take into consideration, above all, American jobs.

Can you detail the current process you have in place that arrives at content standards?

We are in a different situation than Europe, for example. The way Europe does it is, if Germany is bidding a product, the products can be made in France and Belgium, Austria, around there, and yet it looks like the contents are made in Germany because they use a different—it is like the "United States of Europe" compared to what we do here in this country.

What position does that put American companies in, where, for an example, you could have a German company bidding electric generation facilities and they are lending 85 percent, yet only 50 percent of the actual content was made in Germany but they are acting as if they can meet the 85 percent standard? How does that impact American companies, if we are not creative?

Mr. HOCHBERG. We exist to help U.S. companies compete for both sales and jobs. As you noted, our volume is up 70 percent in the last 2 years, so we have clearly stepped up to the plate.

In the case of small business, which is 85 percent of the transactions, maybe 20 percent of the dollars but 85 percent of the transactions, we expanded the eligibility for content. We left it at 51 percent, 50 percent for small business, but we expanded what is included in that number.

So we have been looking at finding ways to make sure that American companies can compete, get a competitive edge, and make sure that they don't lose sales due to financing.

Chairman MILLER OF CALIFORNIA. But in that process, we have created two standards, one for small businesses and one for large businesses. Many of your large business sectors, if they don't hit 85 percent, the guarantee decreases according to content. Small businesses can have 51 percent, yet qualify for the 100 percent guarantee instead of 85 percent, is that not the current—

Mr. HOCHBERG. The small business actually refers to—

Chairman MILLER OF CALIFORNIA. And I applaud you for that. That is not a criticism.

Mr. HOCHBERG. It is particularly for small businesses and it applies to short-term transactions, less than a year.

The company I mentioned that is just outside of your district, PacMin, they use our insurance and our short-term policy. So they have an advantage now, that they can include more of their costs to meet that more than 50 percent criteria.

Chairman MILLER OF CALIFORNIA. And some of the comments by some of my good friends from the other side have made it appear that I put a requirement in here that decreases the standard, or encourages decreasing of the standard, and more of an inclusion of products made in other countries. But if you read the language, it is quite the opposite. I repeatedly stated in there that, first of all, you must take into consideration the impact on American jobs and the creation of American jobs.

But knowing that the world changes, my language in there told you to come back with what you perceived to be the proper approach we should take and to report to Congress on that so we have something in writing and a clarification for what you are doing. Currently, Ex-Im Bank has the authority to go down to 25 percent if you so choose. There is no mandate by Congress that says you must be 85 percent.

I want my colleagues to clearly understand that my language did not say, drop it below a standard that we have mandated, because we have never mandated a standard. It said that when you do develop a standard, please report back to Congress what that is. But I clearly stated in the language that a company could not modify their content to compete globally to qualify for Ex-Im financing if they dropped their standards below what they are currently, using the American product.

A good example, let's use Boeing for an example. A Boeing 37, I don't believe they can get above 82 percent content in any way. They are stuck at 82 percent. So another country could finance them at 85 percent. Or, in the case of China, they could be financed at 100 percent; we don't know.

But my goal in that language was to say, we need to be creative. If an American company creates a product and their content happens to be 65 percent, and because of the nature of the economy and it is a global economy and free-trade agreements, they cannot increase their American portion above 65 percent, should they necessarily be penalized to the point where American workers are not working?

And that is what I think we need to report back to Congress on. I would like to hear your side of that.

Mr. HOCHBERG. Mr. Chairman, when you mentioned the exposure cap at $100 billion, that presumes that we are financing just the American portion of those sales.

Chairman MILLER OF CALIFORNIA. Correct.

Mr. HOCHBERG. So if we were to adjust content, it would also have an effect on the amount of exposure we might have to do because we might be financing more foreign goods and foreign services in that number.

That has not been our policy up to now. With 9 percent unemployment, we are focused on doing whatever we can to create more encouragement to onshore manufacturing versus offshore manufacturing.

Chairman MILLER OF CALIFORNIA. And I totally agree with the approach you are taking. My concern is, we are trying to put people back to work. And let's say there is a company out there that produces a good or they have a service and the maximum content of American product they can arrive at is 65 percent and there is no way of getting around that. But in that is 65 percent of American jobs.

If that company cannot compete globally because other countries are financing their product at a better rate, I think that is something that Ex-Im should look at and say, the company has made the best-faith effort they could, their product percentage cannot get above 65 percent. So should we be punishing American workers by excluding them from the process? That is something I think we need to look at.

I am not looking at an opportunity for American companies to decrease their percentage. I am saying, let's look and say if we are going to bring this economy back, we have to put American workers back in the workplace. And if by doing that, we have to look at some companies who might only meet 65 percent compared to competing with a German company who might only have a 50 percent content yet is receiving full funding from Germany, that is something I would like to have looked at in a report.

I recognize Mr. Scott for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

The unfortunate problem here is that the proposed legislation alters the Bank's procedures for establishing domestic content guidelines in a way that definitely weakens content requirements and undermines the mission of the Bank, which is getting U.S. jobs, manufacturing jobs in this country.

So let me ask you about Section 5, if you could work with me on that for a moment, and especially with the language in there that says "required considerations." Do you feel that, with Section 5 in there, with that language, "required considerations," do you feel it allows you to continue carrying on the Bank's mission of supporting export financing while creating or sustaining U.S. jobs?

Mr. HOCHBERG. Congressman Scott, I have been at the Bank for 2 years; I was in business for 20 years. I have had more time in business than at the Bank. I have not found that we have been hampered or held back by the current way the charter operates.

And it is why we proposed a clean charter, with the exception of raising the exposure cap.

So the existing guidelines we have, content rules have been left out of the charter, out of legislation, to give the Bank's chairmen, from time to time, the ability to make their adjustments as they see fit. So I am comfortable with the existing language and the language that we proposed to the committee.

Mr. SCOTT. "Required consideration," you concur with that?

Mr. HOCHBERG. I concur with the language that we have sent up to Congress, which is essentially a clean authorization.

Mr. SCOTT. Not Section 5?

Mr. HOCHBERG. Not Section 5.

Mr. SCOTT. Okay. Very good. That is very important to get clear.

Currently, what percentage of the Bank's transactions involve foreign content? And what percentage of those transactions were below the 85 percent content requirement, meaning that they didn't qualify in full funding?

Mr. HOCHBERG. As you rightly noted, about 40 percent of the transactions that go through the Bank have some degree of foreign content. And we allow 15 percent foreign content in a transaction that is medium or long term and in the case of small businesses, for less than a year up to 49 percent.

But 40 percent has some foreign content. However, when it comes to actually funding, only about between 13 and 15 percent of transactions were not able to get their full 85 percent role in medium and long term. They got proportionately less than what was commensurate with the amount of U.S. content.

Usually, Congressman, to solve that, we have worked on co-financing. Air Tractor was a company that testified in March. They purchased their engines from Canada. We worked with the Canadians so there is one loan, one package. We financed the American portion; the Canadian export credit agency financed the Canadian portion.

Mr. SCOTT. And let me ask you about the whole meaning of the words, "Made in the USA." In terms of your standards, do they reflect what the FTC's understanding is of "Made in America?"

For example, for a product to be called "Made in the USA" or claim to be of domestic origin, without qualifications or limits on the claim, the product must be all or virtually all made in the United States. And "all or virtually all" means that all significant parts and processing that go into the product must be of U.S. origin. That is, the product should contain no negligible foreign content—manufacturing costs, parts, components, materials, supplies for all its transaction.

Is that solid, is that concurrent with your understanding of "Made in the USA?"

Mr. HOCHBERG. Yes, that is. And, as you also know, we can finance the U.S. content. So if an export has 15 percent foreign content, which is paid by the buyer as a downpayment, then we finance the full American portion.

Mr. SCOTT. So you believe that any suggestion—those were direct costs that I mentioned. Do you believe that any suggestions to you and the Bank to include indirect costs in calculating the domestic content, do you believe that they should be outright rejected?

Mr. HOCHBERG. In most companies, there are both direct and indirect costs. We do include as eligible the full cost of producing a product. That could be costs associated with marketing, design, legal fees, copyright, patents. All of those contribute to the manufacturing of a good and service. And particularly, as we build an innovative and competitive economy, we need to make sure our products have the highest product attributes. So it includes the full cost.

Mr. SCOTT. But you are careful to know that they won't dilute—

Chairman MILLER OF CALIFORNIA. The gentleman's time has expired.

Mr. SCOTT. I beg your pardon, sir?

Chairman MILLER OF CALIFORNIA. Mr. Huizenga, you are recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate the opportunity.

And Mr. Hochberg, I am glad you could be here.

I just want to sort of preface this. Having served in the Michigan legislature, I experienced a number of these types of programs where we, as a State, were trying to be competitive. And I am wondering—first, I wanted to take a little broader view and have a conversation about some of the criticism and I wanted you to address that, whether it is Heritage or Cato, a number of those organizations have called for the ending of the Export-Import Bank. And those are the same types of discussions that we had back in Michigan at the time, as well. What is the most effective way of supporting our manufacturers, supporting our businesses?

And I first kind of wanted to start there, and then see if you could address a little bit of some of the charges that what we are doing somehow violates international agreements for unfair practices on our end. And then I have a couple of other things, but I thought I would just start there with you. So, thanks.

Mr. HOCHBERG. In fact, there is a great Michigan company that sells firefighting equipment to Istanbul. And what makes their firefighting equipment unique is that it is tolerant of earthquake zones and so forth. So these are some of the kind of manufacturing jobs we are helping to sustain and helping make those exports to foreign markets.

We also provided a working capital loan for Ford Motor Company to enhance their exports of American-made cars to Canada and Mexico. So those are two examples.

In terms of unfair competition, a portion of that is from non-OECD countries, countries that are not in compliance with the rules and regulations, the arrangements that look to make sure that products compete fairly on their attributes and services and price, not on financing.

China has been one violator of that. In one case, we have two American companies bidding against a Chinese manufacturer. We have been working with the Administration, and the OECD in one specific transaction are now matching those Chinese financing terms to make sure that we don't lose American jobs due to financing.

Mr. HUIZENGA. And, pretty clearly, I think everybody has seen the aggressive stance that China, especially, has taken, whether it is in Africa or in Asia or the Middle East or wherever else.

But I guess, again, trying to—I will go at it a little differently. How do you respond to the charge that if these companies, which are great Michigan companies or great companies in California and—since we are the only 2 up here, I will exclude all the other 48 States—there are just great companies in Michigan and California, right, Mr. Chairman?

But how do you respond to the charge that, if these companies' projects aren't bankable, why should the American Government be coming and trying to make them bankable? In other words, if they couldn't go get that loan for that deal in Istanbul, why should we be doing that?

Mr. HOCHBERG. I think that, Congressman, much of global trade has moved to emerging markets be that Turkey, India, or South Africa. And, candidly, after the financial crisis in particular, banks are more reluctant to lend to those parts of the world. And sometimes if they are lending, they may have reached their exposure cap prematurely in those markets because they are growing so much faster than the developed world.

So we really act as a lender of last resort. We act when commercial banks are unwilling or unable to provide financial support, we will look at it. We make sure there is a reasonable assurance of repayment. And in those cases, we have been able to step in where the private sector is not able to provide financing.

Mr. HUIZENGA. And your default rates are what?

Mr. HOCHBERG. Our default rates are in the 1½ percent range.

Mr. HUIZENGA. Which is far lower than conventional banks even.

Mr. HOCHBERG. Yes, it is.

Mr. HUIZENGA. And then, how do you view the appropriate role for Congress, as we are going through this as well? Are there other things that we need to be doing in addition to just reauthorizing the Ex-Im Bank? Especially whether it is content issues that have been brought up and other things. But what are some of those other things that we can be doing to help?

Mr. HOCHBERG. This isn't an authorization committee issue. But our appropriation is one way that the Congress can help. The President asked for an increase in our budget in 2011, and again in 2012. We are trying to reach more small businesses, in particular, and improve our information technology. So those are two areas that would make us more competitive, enable us to help more American companies to export and compete.

Mr. HUIZENGA. And in my remaining closing seconds here, are there specific—you were talking about technology. Are there specific programs or types of things that you need to put in? Whether it is equipment or computer programs that are going to allow—

Mr. HOCHBERG. It is mostly in the area of programs, software. Most of our IT equipment dates from the 1990s. It is somewhat antiquated. It is not customer-friendly. I would like to be able to—so that a customer could place an application for a loan, track their loan with us the way they track it with UPS or FedEx. There are a number of areas where we could be far more customer-focused and really help our customers get information and get them answers fast.

The other thing I am working to do with our limited resources is just to speed turnaround time. We need to get our exporters answers and get them fast answers so that they can compete and complete their orders.

Mr. HUIZENGA. I know my time is up. Thank you, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. For point of clarification, I would like to read "Content Guidelines for the Provision of Financing" so everybody clearly understands the intent I had in the language:

"(1) In General.–The Bank shall, after notice and comment, establish clear and comprehensive guidelines with respect to the content of the goods and services involved in a transaction for which the Bank will provide financing, which shall be aimed at ensuring that the Bank enables United States companies to maintain and create jobs in the United States and contribute to a stronger national economy through the export of their goods and services.

"(2) Required Considerations.–

"(A) In General.–In establishing the guidelines, the Bank shall take into account such considerations as the Bank deems relevant to meet the purposes described in Paragraph (1), including the following:"

Everything I have in "the following" says you have to go back to (1) to figure out it has to be to produce jobs.

I yield 5 minutes to Ms. Moore.

Ms. MOORE. Thank you, Mr. Chairman.

I yield 2 minutes to Mr. Scott.

Mr. SCOTT. Thank you very much. I didn't get to the other part of my question. I wanted to come back to that.

This area between indirect and direct costs, I want to—and in terms of the definition of what is domestic content. It just seems to me that the language in the legislation could be interpreted—I want your opinion—as encouraging you and the Bank to include indirect costs explicitly in the calculation of domestic content, when, in fact, that should not be the case.

Domestic content should be calculated based solely on the production costs, not the marketing, not the CEO's pay and bonuses, because I think these factors could be manipulated by some of the exporters, enabling them to produce a greater percentage of their product in other countries without decreasing the domestic content that they currently claim for their products.

So I do think we need to get a little clarity on direct and indirect so we can make sure that we don't go down the road of including these indirect costs in the definition of the domestic product.

Mr. HOCHBERG. I think that, if I understand Congressman Scott and Chairman Miller, I think we all have the same objective, and that is to increase U.S. employment and to create jobs in the United States.

I would be happy to work with you and your staff to understand some of those definitions, to make sure there is clarity on them, and make sure that they actually benefit American workers. So I would be happy to do that.

Chairman MILLER OF CALIFORNIA. Would the gentleman yield if I grant you an additional opportunity to—

Mr. SCOTT. Yes.

Chairman MILLER OF CALIFORNIA. I believe indirect costs are already there. A CEO's costs are already part of the company's costs that—part of the American jobs. So that is nothing new being added that is not already being included in the process. Those indirect costs, those overheads, the CEO pays, the salaries are all part of their costs in the American content side.

So it is not being added; it is already there. So even if they include it, they are already including it today. So we are not asking that they include anything that is not already part of the calculation today.

And I will give you an extra 30 seconds. I didn't take that much, but—

Mr. SCOTT. I appreciate that, Mr. Chairman. And I am not belaboring the point here, but I think that these are some very serious concerns that people in the community have, to make sure that we are doing everything we can.

Chairman MILLER OF CALIFORNIA. If the gentleman will yield, I agree with you 100 percent. What I would like to have, and I am asking him to give us, is guidelines we don't have today.

Mr. SCOTT. Right.

Chairman MILLER OF CALIFORNIA. I am asking him to put those in writing, taking everything in the global economy into consideration and coming back to Congress and say, this is what it is and why. And that is what I am asking. I am not asking him to drop it to 25 percent or 40 percent.

I am saying that—and I repeatedly emphasize "jobs" in here. And I want to work with you on that. We are saying that we want to maintain and create American jobs. We want to know how they go about the process of determining the type of loans they make, what percentages they are, the content. And I would like to have that brought back to us. Currently, they can do anything they want to. We would like to know what that is.

Mr. SCOTT. Right.

Chairman MILLER OF CALIFORNIA. I yield back.

Mr. SCOTT. All I am saying is that—we are all certainly on the same page. I just want to make sure—we are at a very critical point in American history, quite honestly. And if we don't do everything we can to use every tool we can to re-establish the position of the United States of America as the leader of the world in manufacturing, in making things here—I see this as an opportunity to move us closer to that, if we are careful and keep our eye on the ball and make sure that people cannot wiggle in and use this effort to channel any more money to—any of our funds into the foreign content but to keep the emphasis on—

Chairman MILLER OF CALIFORNIA. Would you yield a second?

My language says that. It says they cannot decrease content in order to qualify for the financing. It is very specific. And if they determine that they have, they are disqualified.

So I am agreeing with you 100 percent. I have accountability in here, saying we need to look and say what situation are they in, how do we make sure we ensure competitiveness on the part of

American companies, which creates American jobs. And anybody who wants to modify the content to get an advantage is disqualified. So I put that language in there.

Mr. SCOTT. That is fine.

Chairman MILLER OF CALIFORNIA. Ms. Moore, you have another minute and a half, even though it says 30 seconds. I will grant you a little extra time there.

Ms. MOORE. Okay. Thank you, Mr. Chairman.

And thank you. So nice to see you, Mr. Hochberg. We have had a good chance to talk on the phone several times.

You say that the Ex-Im Bank now reviews all transactions for economic impact, first analyzing whether the export being financed will result in the production of an exportable good that could compete with a U.S.-like product.

I am wondering if your assessment goes further to try to—what evidence do you have that changing the content standards, raising them or lowering them, would have an impact on competitiveness with U.S. products?

Mr. HOCHBERG. I think, if I understand your question correctly, in terms of—

Ms. MOORE. I am sorry. It was not very well put. I guess I should say more simply, we have a current content standard that, even though the OECD recommends that it is an internally designed standard, on what basis was the 85 percent—give us a little history of how that standard was developed and why you thought that that would be appropriate to make sure that U.S. content was protected.

Mr. HOCHBERG. The 85 percent level was established in 1987, and it was established in part to be consistent with the OECD. Since the OECD requires 15 percent of the purchase price to be paid for by the buyer and up to the balance can be financed by an export credit agency such as the Export-Import Bank, we complied with that standard and said we would accept up to 15 percent foreign content, which is paid for by the buyer as a downpayment, and thereby we only finance the U.S. portion.

Ms. MOORE. Okay. And I know I have a little extra time, so could you just go on to explain why you think that, 24 years later, that is still an appropriate standard? What evidence or what indicators do you have that is still an appropriate standard?

Mr. HOCHBERG. I believe it is a good standard partly. As you all know, we are all wrestling with high unemployment; we are dealing with 9 percent unemployment. You and I spoke about a transaction from Bucyrus. For them to get U.S. Ex-Im Bank financing required a high level of content. I believe that was some incentive, not the only incentive, but some incentive to make sure those jobs were created in your district in the State of Wisconsin. So that the content policy is an incentive for companies to onshore more manufacturing and doesn't provide an opportunity to offshore.

To the extent that there are some components, some larger companies that need to source both in the United States and outside, we do a lot of co-financing. And a portion of our work we co-finance. I mentioned Air Tractor, which testified at the March 10th hearing. The Canadian export credit agency financed the engines; we financed the balance of the plane, about 65 percent. Canada has

35 percent. And we worked to make that seamless for the exporter, as best we could.

Ms. MOORE. Thank you so much.

I yield back.

Chairman MILLER OF CALIFORNIA. I yield 5 minutes to the vice chairman, Mr. Dold. Good timing, Mr. Dold. We waited for you.

Mr. DOLD. I appreciate that, Mr. Chairman.

Chairman Hochberg, in your recent Senate testimony, you made the following statement when asked about adjusting domestic content for the United States to remain competitive. You said, "The content rules, as we currently enforce them, are the best way to increase employment." And I appreciate that.

Are you speaking from data, a feeling, a gut reaction? Do you have any studies to support that statement?

Mr. HOCHBERG. Congressman, we use content as a proxy for American labor. It is very difficult to precisely calculate what the actual exporter company is buying a lot of components from other suppliers in the supply chain. So it is very hard to get precise labor content data if you only go to the direct exporter.

By using a content policy of 85 percent—and our engineering department can verify that the money we spend at the Export-Import Bank goes to finance overseas purchases, buyer financing, is going directly to American workers.

Mr. DOLD. Domestic content, in your competitiveness report, is identified as the number-one competitive policy issue of the Bank by bankers and exporters. And yet, from recent testimony before this committee, both large and small businesses have cited this as a major concern.

And in just talking to businesses—and this is where you can help me out on this—they say that the higher the rate, they are going to go to other places in order to source, as opposed to if that high content is strictly enforced, it may actually have the opposite effect of creating American jobs, it actually may hurt American jobs.

What do you say to them?

Mr. HOCHBERG. I think there are two questions. One, the other export credit agencies, up until very recently, frankly, were frequently not about job creation as the United States Export-Import Bank is. Our purpose is solely about job creation, not national interest.

To give you an example, the Canadian export credit agency finances BlackBerrys, which all of us reluctantly carry. And they aren't made in Canada. The research is done in Canada, but all the manufacturing is done globally. They have a different approach to job creation than we do at the Export-Import Bank.

The 85 percent content rule, in a number of cases, and particularly with large companies, encourages them to purchase goods and services from American companies so that they do qualify for our financing. I have heard from a chorus of small businesses saying, if you lower the content, it will be harder for me to maintain those supply-chain jobs, as they have in the past.

Mr. DOLD. Okay. I appreciate that. And we appreciate the cellular phones and all that sort of stuff that you mentioned before.

Mr. Huizenga was talking before about jobs from Michigan and California. We were watching. We want Illinois jobs, as well.

If I can, just—if a product cannot be entirely made in the United States because of development partnerships as we become far more of a global economy—so, development partnerships or patents, supply-chain constraints—would the Bank ever consider waivers with regard to the content requirement at such a high level?

Mr. HOCHBERG. Congressman, what we do now is we provide co-financing. So, we had a transaction, I believe it was with General Electric, selling turbines to Turkey. Some were sourced in the United States, some in France, some in Denmark. And we put together a seamless co-financing agreement so that the three export credit agencies supported that export. So no jobs were lost and no Export-Import Bank resources went to finance foreign sales.

Mr. DOLD. I appreciate that. And I again want to thank you for taking the time.

People have been knocking on our door and asking, why does Germany, for instance, have a threshold of 50 percent? Aren't we, in essence, putting American businesses at somewhat of a disadvantage? What would you tell them, in terms of, why are we not marking it closer to what other nations are doing right now?

Mr. HOCHBERG. The analogy with Germany is not a perfect analogy. I will tell you why. Because a lot of German cars are made in Italy. The brakes, for example, on a Porsche are made in Germany. Tires come from France or other countries. So, looking at Germany and its content rules is like looking at the State of Illinois and saying, if you purchase supplies or goods from Wisconsin, that is an import.

In part, Europe, the EU has been merging its manufacturing for a number of years. So it is not a perfect analogy, what happens in the EU, as happens in the United States.

Mr. DOLD. Mr. Hochberg, I appreciate your time and your testimony. And thank you so much for being here.

Mr. HOCHBERG. Thank you.

Chairman MILLER OF CALIFORNIA. Mr. Hochberg, thank you. I want to congratulate you on the great job you are doing.

I think if American companies have an opportunity to compete, they will and they will succeed. And if they succeed, Americans are put back to work, and that is our goal.

I look forward to having the next hearing, when we actually mark this bill up. And thank you. If you have any closing statements, you are welcome to make them.

Mr. HOCHBERG. No. Chairman Miller, I just want to thank you for your leadership. Working with you and your staff has been enormously helpful. As a former businessman, or perhaps a current businessman, your ability and flexibility and creativity in working with us, I genuinely appreciate. And I want to thank you for taking the time, not just at this hearing but in the last several months.

Chairman MILLER OF CALIFORNIA. I want to thank you, and I look forward to a continued, long relationship. Thank you, sir.

Mr. HOCHBERG. Thank you so much.

Chairman MILLER OF CALIFORNIA. I would like to call the next panel forward. As they are getting seated, I would like to take time to introduce each one of them.

Ms. Donna K. Alexander is chief executive officer of the Bankers' Association for Finance and Trade-International Financial Services

Association, BAFT-IFSA. Ms. Alexander formerly served on the U.S. Export-Import Bank Sub-Saharan African Advisory Committee, representing the financial services industry.

Ms. Thea Lee has served as a deputy chief of staff for the American Federation of Labor and Congress of Industrial Organizations, AFL-CIO, since 2009. She is also a member of the State Department Advisory Committee for International Economic Policy and the Export-Import Bank Advisory Committee.

Mr. Osvaldo Luis Gratacos—did I pronounce that properly, or was I close?

Mr. GRATACOS. Close enough.

Chairman MILLER OF CALIFORNIA. Close enough, that will work. Osvaldo—is that right?

Mr. GRATACOS. Yes.

Chairman MILLER OF CALIFORNIA. Okay—is the inspector general for the Export-Import Bank, serving as acting inspector general since October 2009. Before his nomination, Mr. Gratacos served as the deputy inspector general and counsel to the inspector general, where he served as OIG's principal administrative and legal officer.

Mr. John Hardy—that is an easier one to pronounce—is president of the Coalition for Employment Through Exports, CEE. Mr. Hardy has spent his career, both in the government and the private sector, on export promotion and project of trade finance sector.

Dr. Matthew Slaughter is the associate dean for the MBA program and the Signals Company professor of management at the Tuck School of Business at Dartmouth College. Professor Slaughter is a keynote speaker to many audiences and business and policy communities and has testified before both chambers of the U.S. Congress.

I believe, in fact, just last month, you were invited by the Minority to testify before the Domestic Monetary Policy Committee. Is that correct?

Mr. SLAUGHTER. That is correct.

Chairman MILLER OF CALIFORNIA. Ms. Alexander, you are recognized for 5 minutes.

Thank you all for coming.

STATEMENT OF DONNA K. ALEXANDER, CHIEF EXECUTIVE OFFICER, BAFT-IFSA

Ms. ALEXANDER. Thank you, Mr. Chairman. Thank you for the opportunity to appear here today. And thank you, Mr. Scott. And our condolences to Mrs. McCarthy. Thank you to the rest of the subcommittee, as well.

As the chairman indicated, I represent BAFT-IFSA, which is a newly merged trade association. Prior to the merger, BAFT, the Bankers' Association for Finance and Trade, has had a long-term relationship with this particular body and this particular committee. So we are happy to be back here today testifying about some of these issues that are very important to us.

We represent the financial services community globally, and our primary emphasis is shaping market practices, influencing regulation and legislation around the globe, and trying to find good business solutions to regulatory and legislative challenges. So we really appreciate the opportunity to be here today.

Our members around the globe are active in trade finance, and many deal with export credit agencies in a number of countries on a daily basis. Like other export credit agencies, or ECAs, Ex-Im plays a crucial role by providing export financing products that help fill gaps in trade financing.

You will hear me say often whenever I do public speaking that "trade finance is the oil to the wheels of commerce." And I think that bears repeating: "Trade finance is the oil to the wheels of commerce." That is why we are here today. And that is why the Ex-Im programs have a multiplier effect that are very important, particularly in this recovering era for not only the United States but other economies around the globe.

Ex-Im contributed greatly to the recovery of global trade finance markets during the crisis, and we really value a continued working relationship with them. We worked closely with Chairman Hochberg, the COO, Alice Albright, and her staff, as well. So we are very grateful for that relationship.

We would like to emphasize three major points today. First, trade finance should continue to be supported as a driver for economic growth. And we are still recovering from the crisis, as I said, and these public/private-sector partnerships that Ex-Im Bank plays a critical role in are really vital to this continued recovery. So we strongly support reauthorization, and we support the increase of its lending ceiling.

Second, we ask for expedited reauthorization because that helps ensure the availability of affordable finance for U.S. exports, and, of course, it is very important for the national export initiative.

And third, we believe that Ex-Im needs to focus on streamlining their processes so it can compete more effectively with other ECAs. And I can get into that a little bit more. Regrettably, some of what we heard is that Ex-Im ranks amongst some of the least competitive ECAs in some of their programs around the world. And we would like to see that change and be part of helping that change.

We did review the discussion draft and have a number of issues to discuss. We look forward to working with you and your staff on improving this. And we look forward to working with both sides of the aisle on this. There are some recommendations we would like to make to you.

I would like to highlight that we think that Ex-Im Bank should continue to enhance its programs even more. You talked about content, earlier, as a large part of the competitiveness argument around Ex-Im Bank. We also think that enhancing their programs that really respond to global economic conditions is a good way to go. I am sure you have heard about their supply-chain program, which is a new one, and we think that is going to be very effective.

We think that sharpening the competitive edge is important. And that does require looking at the content and having an open discussion with all the stakeholders on content. But we also think it is important that there be processes inside of Ex-Im Bank that are streamlined, and we have some suggestions on that.

We are proud to say that we have quarterly calls with Ex-Im Bank because, as part of a larger constituency of the trade finance community, BAFT-IFSA works very closely with Ex-Im. Our banks are not necessarily Ex-Im Bank customers, but they facilitate the customers and clients, if you will, of Ex-Im Bank. And so we are right there focusing constantly on what needs to be expedited, how things could run more smoothly to get that trade finance and the deals out there, to get the credit approved in a more streamlined manner.

We are focusing—and I am sure you will have some questions on some of their programs—on helping advise Ex-Im Bank on how they might improve some of their medium-term programs, and I can go into that later. The bottom line is that we believe Ex-Im Bank has a crucial role, and you have all said it here: They boost U.S. jobs and exports and support the economy. But it is important to the global recovery, as well. I think that you should really pull back and look at this from a 60,000-foot level, not just at the United States. Ex-Im Bank is a very important player and I recognize your jurisdiction is the United States, but you also have a global view because of the nature of the country you represent.

The reauthorization will give us an adequate, affordable trade finance, and these public-private partnerships are absolutely critical going forward. We are not out of the woods yet economically, but we are interested in coming out of the woods. We are at your disposal to help in modifying legislation, advancing it, whatever you would like.

Thank you.

[The prepared statement of Ms. Alexander can be found on page 45 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you very much.

Mrs. Lee?

STATEMENT OF THEA MEI LEE, DEPUTY CHIEF OF STAFF, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL-CIO)

Ms. LEE. Thank you, Chairman Miller, Vice Chairman Dold, and Mr. Scott. It is a great pleasure to be here and to testify on behalf of the 12½ million working men and women who belong to the AFL-CIO on the important issue of the reauthorization of Ex-Im Bank and how best to maximize the positive impact of the Ex-Im Bank's actions on American jobs and exports.

I have had the privilege of serving on the Ex-Im Bank's Advisory Committee for more than a decade now, so I have had a lot of experience working both with the Ex-Im Bank staff and the leadership as well as with a lot of the companies that use Ex-Im Bank services.

I do want to take a moment to commend Chairman Fred Hochberg for his leadership of Ex-Im Bank and for his unwavering dedication to supporting a strong U.S. export sector and American jobs.

The AFL-CIO supports President Obama's goal of doubling U.S. exports by 2015. And we very much appreciate the support that Ex-Im Bank has provided to help reach that goal, especially in the wake of the financial crisis. Chairman Hochberg talked about, and I think you mentioned as well, Chairman Miller, the great success that Ex-Im Bank has had over the last couple of years in greatly increasing export financing, and we would like to see that growth continue.

It is important to keep in mind that the ultimate goal of Ex-Im Bank is not just to make more loans, but to support U.S. jobs through increased exports, as I know everyone here has mentioned. As Section 2 of the Bank's reauthorization makes clear, the Bank's objective in authorizing loans, guarantees, insurance, and credit shall be to contribute to maintaining or increasing employment of United States workers.

It is important to recognize the role of the U.S. Congress in making sure that the policy backbone of the Ex-Im Bank, so to speak, stays strong. The Ex-Im Bank comes under tremendous pressure from the companies that use its service, the clients of Ex-Im Bank. You can imagine, from the point of view of an individual company, of course it is more convenient not to have any constraints, not to have limitations, not to have any strings attached to the loans it receives. And so the companies are very forceful advocates for weakening domestic content requirements, for weakening the U.S. flagship requirements, and for getting rid of or weakening the economic impact statement. Yet, all three of these things are vitally important to the work of the Ex-Im Bank. They are what distinguishes the Ex-Im Bank from private loans. There is private financing out there for companies that don't wish to accede to those kinds of strings attached. But I just want to reiterate how important they are.

The proposed legislation that we are discussing today, the Securing American Jobs Through Exports Act of 2011, reauthorizes Ex-Im Bank through 2015 and increases its exposure cap to $160 billion over the next 3 years. The AFL-CIO supports the reauthorization of Ex-Im Bank and the expansion of available financing.

We are concerned, however, that the draft legislation that is under discussion today would have the impact of providing contradictory guidance to Ex-Im Bank, particularly with respect to domestic content. And, for that reason, we oppose the inclusion of Section 5 in any reauthorization of Ex-Im Bank, and we would oppose the final legislation if that provision were included.

I understand from the discussion that happened earlier that it is certainly not the intention of Chairman Miller to undermine the domestic content requirements, but we are concerned when we see the language which is contradictory about competing effectively for export opportunities and the impact on U.S. manufacturing companies that it could be interpreted by a future leadership of the Ex-Im Bank to weaken or dilute the domestic content requirements. And we think this would be tremendously problematic.

The Ex-Im Bank has a lot of discretion today in how it administers domestic content guidelines. I think the Ex-Im Bank leadership recognizes how important the domestic content requirement is to the legitimacy of Ex-Im Bank and to the support that Ex-Im Bank has received over the years from the Congress and from the American people.

We are also concerned in terms of the question of direct and indirect costs. Congressman Scott raised this issue with Chairman Hochberg earlier. As you said, Chairman Miller, current Ex-Im Bank policy does allow indirect costs to be included in the calculation of domestic content. We have disagreed with this for a long time. We have raised this issue with the Ex-Im Bank. We would like to see domestic content calculated on the basis of production costs.

I think, for most ordinary people, when they hear that a product is 85 percent made in the United States, they imagine that means that the content of the product, the inputs of that product are 85 percent made in the United States. And we are concerned, as Congressman Scott said, that with indirect costs being included, particularly advertising, marketing, CEO pay, overhead, bonuses, and so on, that it is very easy for accounting to manipulate those costs in a way which is detrimental and which would reduce the number of U.S. jobs.

So we would like to see the content provisions remain strong and at their current level. We would like to see the economic impact provisions actually strengthened in any legislation, to the extent that there is going to be a change.

I thank you very much for your attention. I look forward to your questions, and I look forward to my fellow panelists' presentations.

[The prepared statement of Ms. Lee can be found on page 84 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. "Gratacos?" Is that close?

Mr. GRATACOS. "Gratacos."

Chairman MILLER OF CALIFORNIA. Okay. You are recognized for 5 minutes, sir. And I apologize for butchering your name.

STATEMENT OF OSVALDO LUIS GRATACOS, INSPECTOR GENERAL, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. GRATACOS. No, it is fine.

Good afternoon, Chairman Miller, and distinguished members of this subcommittee. Thanks for the opportunity to testify about the activities of the Office of Inspector General and the programs and operations at Ex-Im Bank.

Before I continue, I would like to thank you for this opportunity, my family and members of the Ex-Im OIG staff.

In my remarks, I will provide a brief history of the OIG and some of its accomplishments. Then, I will discuss some of the challenges and inefficiencies Ex-Im Bank is facing in performing its mission, based on our reports and observations. Finally, I will provide some observations on some of the charter language proposed of this subcommittee.

Ex-Im OIG was created by law in 2002, but the inspector general, the IG, did not take office until August 2007. Since reaching current staff levels, about 11 folks, the OIG has achieved noticeable success in performing its duties. Especially, the OIG has issued 19 audits and special reports containing over 82 findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Law enforcement actions total 59 indictments and arrests, 6 convictions, 14 guilty pleas, and over 178 management referrals for enhanced due diligence actions.

Currently, we have 37 matters under investigation involving 534 transactions, totaling $350 million in claims paid by Ex-Im Bank. Since 2009, the total overall IG financial impact is approximately

$209 million, while our budget has remained at $2.5 million per year.

Ex-Im Bank, as the official credit agency of the United States, has experienced incredible growth in the last few years. In order to provide a more effective and competitive environment, Ex-Im needs to address some of its operational weaknesses and inefficiencies.

Number one, replacing an aging and ineffective infrastructure. The current infrastructure is old, fragmented, does not adequately support Ex-Im Bank's business needs, limits the Bank's ability to meet the market demands, and requires manual inputs, leading to human errors. Currently, my office has undertaken a comprehensive audit of IT systems, subsystems, and other infrastructures at the Bank, with the objective of looking for ways to improve the systems and to look at expenditures throughout the years.

Number two, Ex-Im Bank needs to reduce transactional approval times for its short- and medium-term programs. Ex-Im recognizes this inefficiency and is working toward a way to fix it. We are commencing work on an evaluation and review of the process, with the objective of improving this.

Number three, develop annual performance plans to measure program and product effectiveness. This would allow Ex-Im to allocate the resources objectively, based on success or failure of its product. After discussion with my office, Ex-Im has agreed to develop this plan starting in Fiscal Year 2012.

Regarding the current language proposed by the subcommittee, we have some observations. In Section 5, the report to Congress, asking the IG to issue a report on some areas regarding domestic content rules, we respectfully petition this subcommittee to reconsider the proposed language here, because we strongly believe that some of the topics covered by the report will fall outside the statutory duties of fraud, waste, and abuse of the IG. Further, it contains potential negative budget implications for our office, given the limited budget that we have.

Finally, Section 6, talking about IT improvements, recognizes Ex-Im IT weaknesses; however, a positive outcome is only achievable if Ex-Im Bank develops comprehensive IT strategic and implementation plans focused on the business needs of the Bank and the markets.

Chairman Miller and members of this subcommittee, thank you once again for the opportunity to testify before you. And I will be pleased to respond to any questions you might have.

[The prepared statement of Mr. Gratacos can be found on page 60 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you very much.

Mr. Hardy? You are recognized for 5 minutes.

STATEMENT OF JOHN HARDY, PRESIDENT, THE COALITION FOR EMPLOYMENT THROUGH EXPORTS (CEE)

Mr. HARDY. Chairman Miller, Vice Chairman Dold, and Congressman Scott, the Coalition for Employment Through Exports thanks you for the opportunity to testify on the reauthorization of the U.S. Ex-Im Bank and about the competitive playing field for export finance.

The Coalition believes in a strong, responsive, and flexible Ex-Im Bank that enables all U.S. exporters to fully compete on a level playing field with the export credit agencies of other countries. We believe it is critical that Ex-Im be reauthorized before the charter expires. Any delay in reauthorization beyond that point will have a crippling effect on outstanding and future export transactions.

CEE supports the increase in the Bank's lending authority proposed in the subcommittee discussion draft. Ex-Im must have the lending capacity to support more transactions in order to increase exports and create more jobs.

CEE also fully supports the direction being considered by the subcommittee for a mandated policy review to ensure that Ex-Im eligibility requirements are reviewed in light of the current competitive climate. This ensures that all American exporters have the opportunity to make their case for access to Ex-Im Bank financing. By providing an opportunity to lay out the facts on the table without predicting an outcome, this proposal will begin a critical discussion as to how Ex-Im can support increased exports and U.S. jobs.

I would like to spend the few minutes left discussing Ex-Im competitiveness and the content eligibility requirement, which the vast majority of our members consider the number one priority for reform. We have one member whose overarching priority is the timely reauthorization of the Bank.

In the last 10 years, there has been rapid growth in the importance, flexibility, and size of foreign export credit agencies as their governments have greatly expanded their mission and resources to enhance the competitiveness of their countries' exporters. As a consequence, foreign ECAs too often are better able to offer comprehensive financing, to the detriment of American exporters.

Ex-Im supports about 1 percent of U.S. exports, with commitments in 2010 of approximately $25 billion. The volume is nowhere close to what—for example, EDC committed last year at $82 billion; the Japanese export credit agency has committed well over $100 billion in support of their exporters; the Chinese, over $300 billion through several different banks.

A critical reason for this larger support is that most other ECAs have moved to a national interest standard in which their objective is to support exports, whatever their nature, to maximize the value added to the domestic economy. These ECAs are strategic in what they support, are proactive on behalf of their exporters, and look at themselves as partnering with their business community to support all aspects of their national economy. These ECAs also operate with far more flexible content rules than Ex-Im.

Moreover, Ex-Im Bank's content policy limits U.S. competitiveness for two reasons: first, as the policy determines eligibility based on manufacturing, it ignores all value to the U.S. economy generated by high-tech and other services; and second, it fails to account for the present-day reality of global supply chains.

CEE believes that the eligibility requirements at Ex-Im Bank must always take into account and promote vital manufacturing jobs, but the policy needs to be modernized to take into account other high-value, high-paying jobs that reflect the evolution of the U.S. economy to one based on innovation.

Ex-Im Bank also needs to recognize the present-day reality of global supply chains, which exporters need to maintain their international competitiveness. An informal survey of a number of CEE exporters found, for these multinational corporations, that an overwhelming number of their product lines had content levels below the 85 percent necessary for full Ex-Im financing support. Even by the Bank's own competitiveness reports, each year a substantial number of Ex-Im transactions do not qualify for full financing support.

With only partial support from Ex-Im, exports are constrained, a reality that is clearly at odds with the approach of other ECAs like Germany, that emphasize aggressive support for their exports in order to maximize export volume and job growth for their significantly unionized workforce.

In conclusion, Ex-Im Bank is one of the most vital assets of the U.S. Government to support exports and job growth. It is critical that it be reauthorized. The current draft bill will take the Bank forward in broadening its outreach. We pledge to work with Congress to assist in this process and to answer any questions Members might have.

Thank you very much.

[The prepared statement of Mr. Hardy can be found on page 69 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Hardy.

Dr. Slaughter?

STATEMENT OF MATTHEW J. SLAUGHTER, ASSOCIATE DEAN AND SIGNALS COMPANIES' PROFESSOR OF MANAGEMENT, TUCK SCHOOL OF BUSINESS, DARTMOUTH COLLEGE

Mr. SLAUGHTER. Chairman Miller and members of the subcommittee, thank you very much for inviting me to testify on these important issues regarding America's Export-Import Bank and the broader economy.

In my remarks, I will first offer some broad economic context. After this, I will discuss two issues regarding the global competitiveness of U.S. companies. Linked to each of these three points, I will offer a recommendation about how the Ex-Im Bank can better foster job creation to benefit American workers and families.

First, let me emphasize how damaged the U.S. labor market remains today. Unemployment still sits at 9 percent, with about 25 million Americans unemployed or underemployed. America needs to find a way to grow millions of jobs as soon as possible. But to rebalance the U.S. economy away from excessive consumption and, thus, trade deficits that helped create the world financial crisis, America needs to grow millions of jobs linked to the global economy via exporting and related capital investment. The President's goal of doubling U.S. exports is admirable, but achieving this without substantial policy support will be difficult.

In light of today's still-fragile recovery and the pressing need to create millions of jobs linked to exports and related investment, I recommend that the Export-Import Bank's funding cap be expanded by 200 percent—that is, expand its total liability cap from $100 billion to $300 billion. Given Ex-Im Bank's long-running record of prudent lending and net transfers to the U.S. Treasury, this increase should present little risk to America's overall fiscal condition, dire though it is.

Let me now address one of the most discussed features of current Ex-Im operations: its domestic content requirements, which exporters and lenders have characterized as the Bank's greatest weakness. These domestic content requirements are increasingly at odds with the global production networks that U.S. exporters are part of and, as such, constitute a major constraint on the ability of American companies and workers to benefit from Ex-Im support.

There is no single global strategy that works best for all companies at all times. Production arrangements that make one company globally competitive can be very different from what works for other firms.

In addition, the common presumption that globally engaged U.S. companies tend to rely on a vanishingly small amount of domestic U.S. content is simply incorrect. U.S. Government data for multinational companies shows this quite clearly. In 2008, the U.S. parent operations of U.S.-based multinationals purchased over $6.3 trillion in intermediate inputs, of which almost 89 percent, $5.6 trillion, was bought from other companies in the United States. And this heavy reliance on domestic suppliers has been virtually unchanged for decades.

It is also the case that many of these U.S.-parent input purchases are from small- and medium-sized enterprises in America. A similar pattern of input purchases applies for the U.S. affiliate operations of foreign-based multinationals. In 2008, these companies purchased almost $2.8 trillion in intermediate input, of which almost 80 percent was bought from other companies in the United States. And it is important to stress that these U.S. subsidiaries of global companies are a major source of U.S. exports—in 2008, over 18 percent of total U.S. exports of goods.

The rich variety of global supply configurations of U.S. exporters means that domestic content requirements are, increasingly, a competitive barrier for these firms that will tend to harm, not expand, their U.S. job creation. I recommend elimination of the Export-Import Bank's domestic content requirements. This should spur more companies to seek Ex-Im support for more transactions, the result of which would be more export deals, leading to more U.S. employment and other U.S. activities.

Finally, let me address the increasing importance of the U.S. services trade. The Ex-Im Bank has historically focused on export of goods, yet many of America's strongest export industries today are in services, not goods. In recent years, the United States has been the world's single largest exporter of services. Moreover, the United States has long run a trade surplus in services—in 2010, of almost $156 billion—that reflects American strengths, including highly skilled labor and information technology.

For America to create millions of jobs linked to exports, many of these jobs will have to be linked to services exports. Manufacturing trade alone will not be sufficient. I recommend that the Ex-Im Bank endeavor to expand its lending for all types of services trade: both standalone services and also the services related to merchandise exports, such as technical support and maintenance. The current Ex-Im Bank charter mandates full consideration of services, but this activity is only a small portion of overall Bank operations.

America's economic challenges today remain large. To meet these challenges, America needs leaders with the vision and courage to craft innovative policies. Reauthorizing the Ex-Im Bank to be both larger and nimbler can be one such policy.

Thank you again for your time and interest in my testimony. And I look forward to answering any questions that you may have.

[The prepared statement of Dr. Slaughter can be found on page 88 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you. I have enjoyed all the testimony.

My focus in this draft was to do everything we can to create American jobs. And, Ms. Lee, I know you are speaking from your heart, and I note in your testimony you state that "nowhere in the required consideration of Section 5 do American jobs come into play."

I appreciate that sometimes legislation can be difficult to read and understand, but, from the bill, it says, "The Bank shall take into account such considerations to meet the purpose described in Paragraph 1, which says the Bank shall establish guidelines which shall be aimed at ensuring that the Bank enables U.S. companies to maintain and create U.S. jobs." I specifically put that.

Does that in any way change your opinion of what you thought my intent was?

Ms. LEE. Of course, I see the language about jobs in the overall, the general piece, but it worried me that it was absent from the required considerations. And it seemed to me that the Bank, in going about to try to meet the purposes of the legislation, would be looking at the very specific pieces that were laid out here and that there were, as I said, contradictory messages embodied in this.

Chairman MILLER OF CALIFORNIA. Yes, but it referred that every one of the subsections had to refer back to Section 1. And I know what problem that was stated; I know you had a problem with domestic content, should it be calculated, CEO pay, overhead, indirect costs. You oppose that. But you support the current program, but that is what the current program does. They include all that in there.

So it seemed you are saying one thing and supporting another, when they both are identical.

Ms. LEE. Well—

Chairman MILLER OF CALIFORNIA. And then you go on, you said you think it should be based purely on production costs. Could you tell me what that meant?

Ms. LEE. What I worry about is, in the legislation, if you explicitly ask the Bank to incorporate indirect costs, which is now an informal policy, that could cause the Bank to make that a formal, explicit policy that is hard to change in the future.

Chairman MILLER OF CALIFORNIA. Okay.

Ms. LEE. So I am concerned that the legislation would send the Bank further in a direction that we think is not—

Chairman MILLER OF CALIFORNIA. I know you are trying to create jobs. I am a business guy by profession. I still have some investments going out there. And I found out the most difficult thing businesses have is getting somebody to know they make a product and getting the product out there. And if they can't advertise the product and market the product, generally their product does not grow and the company does not start major production because there is no market capability.

But if you can't include marketing as your cost and advertising as your cost, especially a CEO who runs the company—and if we are talking about production costs, are you talking about the manhours or what? I am trying to understand what you are saying in production costs. What is production costs? What would you define that to be?

Ms. LEE. That would be, certainly, the labor involved and the inputs and the origin of the inputs and so on. So, if you have a car, the actual pieces of machinery that go into the car—the wheels, the tires—and the labor—

Chairman MILLER OF CALIFORNIA. Okay. How about the equipment that helps manufacture it and the building it is manufactured in and the name brand that goes along with that and the cost of developing that name brand, is that all not part of production costs?

Ms. LEE. When you get into the name brand and you get into the advertising—

Chairman MILLER OF CALIFORNIA. Is that not part of production costs?

Ms. LEE. It is not part of production costs.

Chairman MILLER OF CALIFORNIA. Okay, so—

Ms. LEE. It is part of the overall costs. It is indirect costs.

Chairman MILLER OF CALIFORNIA. Then, you are saying, if you are producing a car, we should not include all the mechanized systems that are computerized that actually do the welding and help the assembly; we should be talking about just the manhours that are over there operating that equipment. That is all we should be dealing with?

Ms. LEE. When you are trying to determine what portion of a product is made in the United States of America, it is much clearer, certainly for the average person, to look at the actual product itself. When you take advertising costs—

Chairman MILLER OF CALIFORNIA. But that is what I am trying to do.

Ms. LEE. —how do you apportion it across all the products that a company makes?

Chairman MILLER OF CALIFORNIA. Are we are talking about just the man-labor that is out there that is on payroll? That is all we should be looking at?

Ms. LEE. No, and inputs, as well—raw materials, inputs, the—

Chairman MILLER OF CALIFORNIA. Okay, the wheels, the—but what about all the infrastructure that enables them to do that?

Ms. LEE. Of course—

Chairman MILLER OF CALIFORNIA. Is that part of a cost or not? So—

Ms. LEE. It is not part of the production cost. It is not part of the direct costs.

Chairman MILLER OF CALIFORNIA. Okay, that is the problem. Let's say, then, if we are looking at a product that could meet 85 percent content, if we are dealing with just the labor side, that might only be 20 percent, that might only be 15 percent, because of all the associated costs that labor needs to build that product.

And that is why I think we need to be longsighted rather than shortsighted. The technology has occurred. Like it or not, technology has occurred. And many countries that we are trying to compete with stole our technologies that we spent billions of dollars and years to develop. They took it. And they are using it right now, and they are competing against us at a lesser cost because they did not spend all the money to develop that technology. They just stole ours, because we have the best business sector in the world. And they have parroted it very well, in many cases.

My concern is, I think we need to figure the manhours that are out there, but all the things that are associated with that manhour. If you look at just going to an automobile plant and say—I see men out there, but what about all that cost associated with producing that car that is not the tires and the seats and the engines? It is all the other things that man needs to be able to produce that. If that is not taken into consideration and if the marketing and advertising that is necessary to generate the revenues to do all that is not taken into consideration, I think we are really putting American businesses at a disadvantage. And my goal is to not do that.

Mr. Hardy, have you provided the Bank any suggestions regarding the issue of content eligibility for Ex-Im financing? And I am out of time, so I am going to take this one question. Have you provided them with any suggestions regarding the issue of content eligibility for Ex-Im financing?

Mr. HARDY. Yes, we worked with staff extensively in terms of those elements. We are also prepared to work with the ranking members, in terms of trying to arrive at a full spectrum of guidelines that will make everybody comfortable. CEE—

Chairman MILLER OF CALIFORNIA. And you think they need to be more creative in this area?

Mr. HARDY. I think everybody needs to feel that there is going to be a level playing field, in terms of the guidelines. And if there is a need to adjust those guidelines for everybody to feel comfortable, then we are perfectly happy to work with them to try and accomplish that objective.

We believe that the structure that you have proposed represents a tremendous opportunity to re-evaluate a standard that is now 20-some years old. It is, in effect, a pre-globalization standard. And we need to understand the consequences of having a standard that is that old and that out of date, in light of the reality of the way particularly the multinational corporations have found that they, in order to be competitive, have had to adjust their manufacturing, their assembly operations in order to be competitive.

The striking thing that we found with regard to the informal survey that we did was how high the percentage was of product lines that were below the 85 percent content. So that something extraordinary or something special had to take place in order to make almost all of these product lines fully competitive. And it just reflects the fact that the current content level simply bears no relationship to the reality these companies have to deal with to be competitive.

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Scott, I think I have equalized your opening statement, so we are even at this point.

And I hope we have time for a second round, but I would love to—I have many more questions, and I am sure my colleagues do, also.

Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you.

I think we have to look at this whole proposition in light of where we are right now as a country. Our unemployment rate, while we may be encouraged with it slightly coming down—it is right about 8.8 percent now. In my home State of Georgia, it is still right at about 10 percent, 9.9-something. So we are getting some movement there. But there are, clearly, 13 million Americans without work. There are 15 million other Americans who are underemployed and/or basically others giving up on employment.

So we are at a very, very difficult state, as far as employment is concerned. And so when you make policy and you are looking at this, you have to be very sensitive within the environment in which we are moving.

And this Bank's mission, keep in mind, is to create and sustain good manufacturing jobs here in America, not in other countries. So when we keep all this in front of us, we have to be careful to make sure what we institute in policy makes sure we keep that mission in mind. And it is clear that any proposals that will enable the Bank to lend greater financial support for foreign content of U.S. exports is definitely contrary to the Bank's mission of creating and sustaining good manufacturing jobs here.

So, with that, the higher the domestic content, the more jobs will be created and sustained here in the USA. That is what I am concerned about. That is what the American people are concerned about. It is their tax dollars we are concerned with here. So we have to keep that in mind.

But if we change this domestic content, if we lessen the requirement, it would make it easier to outsource these jobs and dilute the definition of domestic content.

With that, let me ask you, Mr. Hardy, I read in an article in Inside U.S. Trade from last July, and you stated that one of the top priorities of your group was to lower the Ex-Im Bank's domestic content standards. And when asked whether you would be able to quantify the effect on U.S. jobs of removing Ex-Im's content of shipping restrictions, you acknowledged that the data would be substantially anecdotal.

So my question to you is, do you have any substantive data that supports the claim that lowering the domestic content standards would create more U.S. jobs in manufacturing in this country?

Mr. HARDY. Thank you, Congressman Scott.

There is a lot of anecdotal information. As I said, going back to the point that I was just making regarding the content levels for the product lines of many of the exporters that are in CEE, that they are below the 85 percent content level. The factor that has actually not been addressed in any of the dialogue to date is whether, if you reduce the content level so that more products can become fully supported by Ex-Im, whether there will not be a significant increase in exports as a consequence of that action.

That is, the dialogue that has continued up to this point has been basically on the assumption that it is a zero-sum game; that the requirement is that jobs can only be created by focusing entirely on U.S. content and U.S. manufacturing, as opposed to a modest reduction in the manufacturing in the United States as a consequence of the need of the exporters to be competitive, which generates, because these products are fully competitive now and are fully supported by Ex-Im, that you can dramatically increase the volume.

When you talk to the business community, it is all about growing the volume of exports. And yet, in so much of the discussion about the content level, it is really not underscored. We have one exporter, specifically to your point, who said that if the content level was dropped from 85 to 70, it would result in an increase of a billion dollars in exports for that one exporter.

Mr. SCOTT. Thank you. I appreciate that, and I think your information you are sharing is more opinionated, less substantive. But, again, I value what you are saying. But my time is short.

Let me ask you—

Chairman MILLER OF CALIFORNIA. I think it is up, or close.

Mr. SCOTT. All right, it is close.

Mr. Slaughter, I read in the Wall Street Journal an article from April 19th of this year discussing the economic impact of globalization, in which you said, "For every one job that the U.S. multinationals create abroad, they created nearly two U.S. jobs in their U.S.-based parents."

But recent data released by the Department of Commerce shows that, during the 2000s, multinational companies cut their workforce in the United States by 2.9 million and increased their employment overseas by 2.4 million. This is a reversal from the 1990s, when they added jobs everywhere. They added 4.4 million in the United States and 2.7 million abroad.

So, in light of this new data, how can you still maintain that eliminating content standards could still create U.S. jobs?

Mr. SLAUGHTER. That is a great question.

I think of it in a couple of ways, Congressman. One is, we don't know what is happening in the 2000s with the operation of U.S.-based multinationals around the world. In response to the good question you asked Mr. Hardy, there have been some academic studies that I and others have done looking at earlier periods, the 1980s and 1990s. And contrary to what I think a lot of the presumption is, there has been some good work done in manufacturing firms, in particular, where you can look at the company-level data and look at what they are doing outside the United States and what they are doing back inside the United States. These are based on legally mandated surveys that the Commerce Department does with these companies every year.

And there is some good research that has been done that shows, historically, when these companies expanded abroad, when they did more capital investment abroad, more hiring abroad, they tended to hire more people and do more capital investment back in the United States.

So when I think about a company that might try to get financing from the Ex-ImBank, I think it is really important to think about eliminating those domestic content requirements, because, historically, when firms have been able to reconfigure what they do around the world, that has tended to support their operations in the United States, not reduce it.

The 2000s in the aggregate, the numbers you cite are correct, in terms of expansion abroad in employment, reduction in employment in America. These firms weren't contracting all their activities in the United States in the 2000s. Their capital investment, their research and development, a lot of other activities went up. Their average compensation paid to their American workers went up during that time, which is quite different from the rest of the economy.

I think the other thing that is important to keep in mind is, you can also get job creation in other firms, in other industries at the same time. And my written testimony talks about the example of information technology.

Chairman MILLER OF CALIFORNIA. The gentleman's time has expired.

Mr. Dold, you are recognized for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

Dr. Slaughter, just while the microphone is hot over there, what percentage of U.S. exports are in the service sector?

Mr. SLAUGHTER. I am going to do the numbers in my head. I think about a third of U.S. exports today, total, are services as opposed to shipments of goods.

Mr. DOLD. And, traditionally, the Bank, can you just give me your take on why you think the Ex-Im Bank does not support more service-sector businesses?

Mr. SLAUGHTER. That is a good question. I think part of it is, the expansion in services trade has been pretty dramatic in recent years. It is partly because I think what impedes flow of services across borders hasn't been the traditional border barriers of governments, of tariffs and quotas and things like that. It has been natural barriers, communication and technology barriers. But with the IT revolution, the ability to transact a lot of services around the world has gone up a lot. So one of the big educational industries that we run a trade surplus in is my line of work, which is educational services.

So the positive trade balance in services the United States has had has grown a lot in recent years. And I think that is probably part of the reason that there hasn't been as much of an awareness, both of the Bank itself and of a lot of services businesses, of that possible connection.

Mr. DOLD. Any idea in terms of how they are going to calculate content with service-type businesses or how would you try to do that?

Mr. SLAUGHTER. No. And I don't say that to be coy. I think that is part of the reason—I think the effort to measure content, domestic versus non-U.S, for any industry is hard; it is even harder for services. And so, to come back to some of these conversations, when you think about cost of goods sold, you are thinking of SG&A expenses, it is very hard even for manufacturing companies to know how to allocate those things.

Mr. DOLD. Ms. Lee, if I can come back to you for just a second, the Ex-Im Bank's mission is to support American jobs, not just manufacturing jobs. Is that your understanding as well? And services certainly would be, I would imagine, a big part of jobs in the United States.

The chairman had some questions before when we were looking at what goes into it. And we look at if there is not somebody out there, if they don't know about the product, obviously they are not going to be selling a whole lot of them.

Would you agree or disagree that if I am using marketing firms and aspects of that for a particular product that is just going to be coming off the line, would that be considered, in your view, something that we could add into content?

Ms. LEE. That wouldn't be a direct cost of production, no.

Mr. DOLD. I understand it is not a direct cost of production. Would you be able to, in terms of Ex-Im Bank, would you say we should be including that in production as part of content?

Ms. LEE. No. Our preference is for the calculation of content would be that it include only the direct costs of production.

One of the concerns we have is the apportionment of indirect costs, whether it is advertising or brand name or CEO pay or overhead, across many different products, that there is a potential for manipulation of those numbers and that it is less straightforward for the average American, the average person. The commonsense interpretation of where a product is made, I think they are looking at the production costs.

Mr. DOLD. Sure.

And my colleague, Mr. Scott, had talked before about unemployment and the staggeringly high number of Americans who are out of work right now and even more of those who are underemployed right now. And I certainly agree. I can honestly tell you that I don't care what side of the aisle you are on, probably the number one thing that we are trying to address here in the Congress is, how do we jump-start our economy, how do we create more jobs and put more Americans back to work?

And, certainly, Mr. Hardy, your comments earlier about the content, a specific company, if they lowered that content, that they actually might be able to increase exports simply because they are going to be able to put more of those people back to work, and that individual business would be able to hire more people in Main Street, USA, or whatever it may be.

What do you think, if you had to pick a number out there for content, what would be the ideal number? We have Germany at 50 percent. We are looking at something a lot higher than that. What would you determine would be best in order to create more jobs?

Mr. HARDY. In a statement for the record that we submitted earlier to the subcommittee with regard to the reauthorization, we had proposed moving from 85 to 70 percent. And the reason for that was that, again, when we held discussions with our own companies, which are larger exporters in the United States, we found that the overwhelming number of product lines were between those two numbers. It was quite startling, in that sense, that the content levels are at that level because of competitiveness. And for these companies, obviously, as they pursue the global market, competitiveness is absolutely essential. It is at the core of what they are doing.

So once they have accomplished that—and this is an additional element that is striking—they were all below the 85 percent, which clearly meant that they were not adjusting their content in order to ensure financing. So the content levels are a reflection of what it takes to be competitive, which meant that if you drop that content level from 85 to 70, suddenly all of those product lines would become fully competitive.

The chairman actually referenced the Air Tractor example. Air Tractor testified in an earlier hearing. Air Tractor, as its CFO who testified said, there was a co-financing arrangement with the Canadians. Air Tractor purchased their aircraft engines from Canada. If Canada had the same content requirements that U.S. Ex-Im had, they would not be able to undertake the co-financing. Because the Canadians have reached out and said, we will deem any non-U.S. content to be Canadian content, even though there are components from other countries that are part of those Canadian engines.

That is the sort of dilemma that exists, that other EACs are bending over backwards, actually, to make these deals happen because of the restrictiveness of U.S. content levels.

Mr. DOLD. Thank you so much. I appreciate it.

My time has expired.

Chairman MILLER OF CALIFORNIA. Mr. Manzullo, you are recognized for 5 minutes.

Mr. MANZULLO. Thank you.

I was in a hearing at our Subcommittee on Asia and the Pacific, and I can't roller skate one with skate here and one in the other room, but I had the opportunity to look at some of the testimony.

Ms. Alexander, on page 13 of your testimony, you talk about the medium-term program. Are you there?

Ms. ALEXANDER. Yes, sir.

Mr. MANZULLO. Okay. I know you are there. Are you there on the paper, is what I meant.

Ms. ALEXANDER. I am on the paper.

Mr. MANZULLO. Okay, thank you, thank you.

Ms. ALEXANDER. Thank you for that.

Mr. MANZULLO. That came out wrong, didn't it?

Chairman MILLER OF CALIFORNIA. She won't take that as an affront.

Mr. MANZULLO. No, it just came out wrong—

Chairman MILLER OF CALIFORNIA. She did very well in her testimony, as a matter of fact.

Mr. MANZULLO. These things happen, okay.

Anyway, you talk about how the medium-term program supports transactions under $10 million for—I guess that word should be 10 years? Is that—

Ms. ALEXANDER. The tenor of up to 5 years.

Mr. MANZULLO. Okay. I wrote that medium-term delegated authority program in 2006 when I chaired the Small Business Committee. And we had that whole small business section incorporated into the Export-Import reauthorization bill. And I am really distressed to see that a product of my own hands, that the use has dropped significantly.

Then you state, specifically, Ex-Im has added a number of onerous requirements to the medium-term program which we feel hamper its effectiveness without adding value to the portfolio management process.

Can you tell us what those requirements are so that I can perhaps file an amendment to this bill to get rid of them?

Ms. ALEXANDER. Thank you, sir. And, first of all, since you authored that, thank you. We do support the medium-term program. We think it is a good program to have, and it is important in the whole scheme of the global economy that I discussed in my oral statement.

We have been in conversations with Ex-Im about this. We have found that the banks who were involved in the medium-term program are pulling back because of administrative requirements. They don't really, in the view of the banks, add value.

In all fairness to Ex-Im Bank, we have had several meetings with them and discussions with them about this, on how to improve their processes. We have some ideas, which we have spelled out here. And we are really, quite frankly, in the middle of discussions with them on how we—I don't want to beat up on them—I want to let you know that they are working very closely with us on this.

I think the main issue is, they were very concerned about what came out in the inspector general's report, which stands to reason. And so they are trying to respond, to be sure they don't land back there again. And I appreciate that.

But in looking at some of the things that are required—these thresholds for the banks, for example in delegated authority—making sure engagement is worth their while, and is worth their resources and their efforts, they are finding that it is not. So you have your banks making a business calculation as to whether it is worth their while because of exposure that they would have under the medium-term program.

The banks have said, look at what you have going on with working capital. You have some great models there. Let's look at how that particular process—anything that you can translate from working capital into the medium-term program would be helpful. I am not sure everything translates because you have short-term and different tenors, of course.

But we think it is a good program, and we would be happy to work with you on preserving what you started.

Mr. MANZULLO. What about withdrawing delegated authority from problem banks, rather than punishing all the banks?

Ms. ALEXANDER. That is, don't throw the baby out with the bathwater. But if you look at the inspector general's report, which I don't need to get into the weeds on, you will have an idea of what some of the problems were. They named a couple of incidents in particular.

Most of the banks involved are members, and they are members in good standing. And they can't be our members unless they are in good standing. That is very important to recognize, when you are looking at the universe of banks that participate in the delegated authority program.

So we think that the banks are in a position to advise the Ex-Im Bank on ideas that they could use going forward. And we are happy to share those with you. We would be happy to—

Mr. MANZULLO. Perhaps we can meet afterwards. The director is a good friend of mine, and I will just have him stop by the office and say, let's change this. Because it took a lot of time to set up this program.

Ms. ALEXANDER. Yes.

Mr. MANZULLO. We worked literally for years to be able to expand the vision, or at least continue the original vision, of Ex-Im, which is to help exporters of all sizes.

In all fairness, I was talking to a constituent who said that she could not have exported her product from my hometown of Rockford, Illinois, without Ex-Im Bank. And I said, how much did you get? She said, $11,000. Some people may not think that is a lot of money, but, it is a good thing for the Ex-Im Bank to continue that mission that we saw firsthand, that somebody took the time to do all the paperwork for $11,000, which enabled her to export.

But we would be glad to meet with you as soon as possible and formulate a strategy to see if we can get this corrected.

Ms. ALEXANDER. Thank you, sir. It is a very vital piece of the whole financing puzzle for trade finance.

Mr. MANZULLO. I appreciate that.

Ms. ALEXANDER. And it is important to our banks because it is important to their customers, and you just gave a perfect example of how it is. It is part of how the Bank helps service those customers, and that goes to keeping the customers viable and active in the economy and keeping the jobs going.

Thank you, sir.

Mr. MANZULLO. Thank you.

Thank you, Mr. Chairman, for having the hearing.

Chairman MILLER OF CALIFORNIA. Mr. Manzullo, I know that you had the manufacturing base decimated in your district in recent years. And I appreciate your testimony. I know it comes from your heart. Thank you very much.

We are going to try to do a second round of testimony if we have time. They are not voting on the Floor.

And I just want to state again, the bill has no content requirement in it at all. So my bill does not state that. It just basically says we need to support U.S. jobs.

And I would work my way down. Dr. Slaughter, I had not quite gotten to you. But when asked about Ex-Im domestic content, labor leaders said, "It is just common sense that the higher domestic content there is, the more jobs that will be created and maintained in the U.S."

Is that true? And where do you stand with that comment?

Mr. SLAUGHTER. I think that misses a couple of important points. One is, when I think about the pie getting bigger, I can perhaps grow jobs in America even if the content for any given product is less than 85 percent domestic because I will be able to sell a lot more of those parts abroad. So the Congressman's example of the constituent with an $11,000 loan—

Chairman MILLER OF CALIFORNIA. That was a great example.

Mr. SLAUGHTER. There are a lot of entrepreneurs who, because of globalization and all the advances in the world over the past generation, they are now able to connect with other small entrepreneurs around the world. And a lot of content for a lot of those products gets made abroad. But those are tangible jobs that are getting created in Rockford, Illinois, and other places like that because there is more stuff being created and sold to foreign markets, and that is creating jobs in America.

So that is one—I think one important perspective is, for any given company, they can have more sales and, therefore, more employment, even if the content is something less than 85 or whatever percent you might choose.

And, again, my written testimony talks about the links to other industries. I think information technology is a great example. We were talking about BlackBerrys earlier. IT is one of the most globally integrated industries there is. But, boy, the job creation that went on in America over the past generation thanks to the gains in information technology created literally millions and millions of jobs throughout the U.S. economy.

Chairman MILLER OF CALIFORNIA. GE gave me a good example. They currently were competing with the German company Siemens on a half-billion-dollar deal in India supplying turbines, wind turbines. And GE was able to meet a 78 percent content requirement. And the German company bought their casings and such and many other parts from the same companies that GE did, but the German company didn't exceed 50 percent. Yet, the German company provided full financing, where the American company wasn't able.

I think it hurts American jobs if we don't make sure that this company sells a turbine that has 78 percent content. What is your position on something like that?

Mr. SLAUGHTER. The big answer I would give is, we have 11.7 million manufacturing jobs in America today. And if you look at Bureau of Labor Statistics data, the last time America had that few manufacturing jobs was in April of 1941.

So, when I think about how to grow as many American manufacturing jobs as I can, I don't have a strong belief or, frankly, knowledge to know whether 85 percent, 78 percent, or 50 percent is the right number. I am looking to try to find ways government policy can support job creation, whether those jobs in manufacturing and in services are linked to a high or low domestic content value. Because all those things, potentially, can help fill in the job holes we have in America today.

Chairman MILLER OF CALIFORNIA. And, obviously, the supply chain, the global supply chain, has changed in the last 5 or 10 years. What do you think is going to happen in the next 5 or 10 years, based on the information you have generated today?

Mr. SLAUGHTER. There will be a lot more information for both large and small businesses to tap into those global production chains—the small entrepreneurs, the General Electrics, all size of companies in between.

And, given the growth that a lot of U.S.-based companies see abroad for having new supplier relationships and to make greater sales abroad, I want to empower all those American companies to try to tap into those foreign markets and opportunities and grow jobs as much as possible, which is, again, why I see efforts to impose ex-ante rules on domestic content as problematic.

Chairman MILLER OF CALIFORNIA. Do you see the next few years as a critical juncture in the global export market?

Mr. SLAUGHTER. Yes. Again, especially for the United States. Part of the reason I think it is not enough to think about having Ex-Im Bank in the United States meet other peer financing agencies around the world is, we in the United States face a pretty special problem, which is, again, as I mentioned, not just growing jobs but growing jobs linked to exports and capital investment.

Chairman MILLER OF CALIFORNIA. I am going to cut my questions to 4 minutes. I will give you 4 minutes. We will try to get through Mr. Dold in 4 minutes, too. Maybe we can do this before the votes.

Mr. Scott, I yield you time for 4 minutes.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Ms. Lee, I would like to talk with you for a moment. I spent most of my previous questioning chatting with Mr. Slaughter and Mr. Hardy. And I think you remember the questions that I put to them and their quotes. I would like to get your take on this and your reaction, if you will, to what they said in their proposals, in their efforts to, in fact, move to dilute the domestic content.

Ms. LEE. Thank you, Congressman Scott.

I would oppose any proposal that would weaken or dilute the domestic content requirements, and for a very simple reason: that one of the great missions of the Ex-Im Bank is to incentivize and to reward U.S. companies that are creating U.S. jobs on U.S. soil. And one of the ways they can do that is by making attractive financing available to companies that are doing the right thing, that are creating jobs on American soil.

Companies, left to their own devices, would like to maximize profits by outsourcing more and more and more pieces of the production. I think the statistics that you cited earlier and that Dr. Slaughter has discussed at great length confirm that companies, without these kinds of incentives, are likely to outsource greater parts of production.

I don't think there is any empirical evidence that if we reduce the domestic content provisions, that there will be an automatic increase in exports that comes from that.

The Ex-Im Bank financing is attractive, but I think the key drivers of exports are other things. It is demand, it is currency, it is trade policies. But it is largely effective demand. It is also companies having the information. That is one of the things that Ex-Im Bank has done really well, trying to get information about its products out to small- and medium-sized businesses, out to companies, to encourage them to export and to provide that financing.

The point that Chairman Hochberg made I think is really important, that there is co-financing available for the non-U.S. portion. All that Ex-Im Bank is saying is that it wants to use the full faith and credit of the U.S. Government, the taxpayer-supported part of Ex-Im financing, to support American-made products.

And the rest of it—nobody is asking these companies not to produce, not to be part of a global supply chain. What they are saying is that the portion of that which is produced in the United

States is a portion that U.S. taxpayers and the U.S. Government should be supporting. I think that is just a really important distinction.

Ex-Im Bank is fully aware of the existence of global supply chains and the fact that much production is mixed. But the examples that Chairman Hochberg gave are very clear, that there is financing available for the non-U.S. portions; it just doesn't have to come from the U.S. Government. That is the key piece.

It is also important to know that there is a distinction between companies earning more profits and finding it more convenient to get the Ex-Im Bank financing and the companies that are doing the right thing and creating jobs on American soil.

Thank you.

Mr. SCOTT. And I think—if I have 1 minute left, Mr. Chairman?

Chairman MILLER OF CALIFORNIA. Yes.

Mr. SCOTT. All right, thank you.

The chairman spoke very clearly of his intent, and I certainly respect that and respect his movement in this area, because this is very, very critical that we get it right, and I look forward to working with him. And he mentioned that what we want to do is clarify and bring some transparency to this.

I would certainly commend you for that, Mr. Chairman.

So it would be very important, Ms. Lee, if we got your thoughts and your views on how the legislation could, in fact, clarify the content policy and make it more transparent with respect to domestic content, how it is defined and calculated.

Chairman MILLER OF CALIFORNIA. In 15 seconds.

Ms. LEE. I would be very happy to do that. I think I will submit it in writing, given the time constraints.

Chairman MILLER OF CALIFORNIA. That would be great.

Mr. SCOTT. Thank you.

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Scott.

Mr. Dold?

Mr. DOLD. Thank you, Mr. Chairman.

Mr. Gratacos, we haven't heard from you in a little while, so I thought we would at least try to mix it up a little bit.

Chairman MILLER OF CALIFORNIA. Go to the middle.

Mr. DOLD. Go right to the middle. We will get right in the middle of the table.

Ex-Im Bank has, from what I have been told, a pretty antiquated IT system. Would you agree?

Mr. GRATACOS. Absolutely, yes.

Mr. DOLD. Can you tell me, do you believe that this represents a risk to the Bank?

Mr. GRATACOS. Not only a risk, we have complaints about how some of the human errors have actually affected some of the transactions. When you look into the systems, transaction information has disappeared or the buyer's name has disappeared, so when the claim is going to be submitted, it is inconsistent with the paperwork. And so we have included that as part of our audit that we are conducting on the systems.

We have been very outspoken on the changes needed to improve the efficiency of the Bank. If the Bank wants to meet the growth, this is one of the functions—one of the areas they need to improve significantly.

Mr. DOLD. And you talk about growth. Do you believe that raising the Ex-Im Bank's exposure cap from $100 billion dollar to $160 billion is going to be a risk to the taxpayers?

Mr. GRATACOS. That is a good question. I think the risk to the taxpayers is how Ex-Im will handle the internal management of the assets and how it conducts the underwriting practices. I think that is a focus of the Bank regardless of the level of authorization. And I think part of the report that we have issued goes along these lines, trying to highlight some of the inefficiencies or areas of improvement in the underwriting practices across programs.

Mr. DOLD. Okay.

Dr. Slaughter, in your testimony, you recommend a significant increase in Ex-Im's total financing cap. Can you tell me and just elaborate on the importance of that? And is this a big enough increase? Would you like to see it be higher? Can you just elaborate?

Mr. SLAUGHTER. Sure, Congressman.

Again, for the United States to have a sustainable recovery, we can't just build back the kinds of jobs we had before the crisis. Part of the reason we had the crisis was low savings, excess consumption in the United States. So, again, I think the President's initiative, the thing about doubling American exports. But, boy, we can't just kind of hope that happens.

One of the policy mechanisms we could have would be to substantially increase the lending cap for Ex-Im Bank to really help America, different firms, big and little, have the opportunity to grow export sales. And I think Mr. Hardy's data that he cited are pretty telling, when you look at how aggressive other countries are in their support for exports sales by their companies.

Mr. DOLD. One of the things that—we have a number of small businesses. We always focus on some of the larger businesses; they seem to get a little bit more of the headlines. You get the big airplanes that are going over with Boeing or GE or something along those lines. In the 10th District in Illinois,my hometown, actually, we have a great record because over 80 percent of the loans made by Ex-Im are made to small businesses, which I think are important.

What should we be doing to encourage or at least get that promotion out for small businesses? When we talk about that cap, when we talk about trying to increase exports, I view it has to be across all sectors, not just some of the larger ones.

Mr. SLAUGHTER. So, I think two things. One is the focus on services. I think a lot of smaller businesses, some of them are manufacturing but others are in a range of activities, and they can find these niche markets abroad that they can sell into.

And I think the observations earlier about the information systems, I think a lot of smaller businesses, they need those technology-mediated connections to be able to make things work for them.

Mr. DOLD. Great.

Thank you, Mr. Chairman. I yield back.

Chairman MILLER OF CALIFORNIA. Thank you.

I would like to thank you for your testimony on the discussion draft. It was very informative.

The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

This hearing is now adjourned. Thank you.

[Whereupon, at 5:00 p.m., the hearing was adjourned.]

A P P E N D I X

May 24, 2011

International Monetary Policy and Trade Subcommittee Hearing:

"Legislative Proposals on Scrutinizing American Jobs through Exports: Export-Import Bank Reauthorization"
Opening Statement of Ranking Member Carolyn McCarthy (NY-04)
May 24, 2011

Throughout the financial crisis, The Export-Import Bank has played a crucial role in ensuring that export companies were able to continue operating at a time when private trade financing options were not available. The Bank's role has allowed the U.S to remain competitive in the global economy by fulfilling its mission of creating or sustaining U.S. jobs through exports. It is important to remember that the work of the Bank is done at no cost to the American taxpayer, as the Bank is self-sustaining, funding its finance programs and administrative costs from the fees paid by the returns on its investments. The Bank is also a key contributor towards the implementation of the President's National Export Initiative- to double U.S. exports by 2015.

The legislative draft we are discussing today incorporates important provisions that enhance the Bank's ability to meet the increased demand from U.S. export companies, such as a 4-year reauthorization of the Bank's charter and an overall increase in the Bank's exposure limit, which will be divided up in increments over a 3-year period. In addition, the draft includes provisions to enhance the Bank's accountability by allocating funds for much-needed technology upgrades and to require the Bank to monitor the default rate on financing programs and report to Congress if the default rate rises above 2%.

Unfortunately, by positioning content as a competitive disadvantage for U.S exporters, as opposed to a measure of the jobs supported or created in the United States, the legislation opens the door to lowering domestic content provisions set forth by the Bank. While I wholeheartedly agree the process by which content is measured should be transparent and clearly formulated, the current draft goes beyond that intent, requiring the Bank to produce a policy related to domestic content based on a series of considerations, all of which pressure the Bank to reduce their current content standards. Before a discussion on the adequacy of the current content standards can begin, we should identify and measure if content serves as an effective proxy for jobs created or sustained in the U.S. As well, we should consider the effectiveness of the formula used to quantify the number of jobs created or sustained through the Bank's activities. Such valuable information allows for an honest discussion on how content should be defined and how content and other factors affect U.S. companies' ability to remain competitive and the Bank to fulfill its mission of supporting trade finance, while creating or sustaining jobs in the U.S.

I look forward to hearing feedback from the witnesses here today. I will continue discussions with my Republican colleagues, in an effort to produce a legislative proposal that ensures the Bank is successful in fulfilling its mission to support export financing while creating and sustaining jobs in the United States.

May 24, 2011

Statement

of

Donna K. Alexander

Chief Executive Officer

on behalf of

BAFT-IFSA

before the

Subcommittee on International Monetary Policy and Trade

of the

Committee on Financial Services

United States House of Representatives

BAFT-IFSA

Statement
of
Donna K. Alexander
Chief Executive Officer
on behalf of
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Subcommittee on International Monetary Policy and Trade

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May 24, 2011

Chairman Miller, Ranking Member McCarthy, and Members of the Subcommittee, my name is Donna K. Alexander, and I serve as the Chief Executive Officer of BAFT-IFSA, an international financial services trade association whose membership includes a broad range of financial institutions throughout the global financial services community. Thank you for the opportunity to testify on the subject of congressional reauthorization of the Export-Import Bank of the United States ("Ex-Im" or "Bank"). We were pleased to provide a statement for the Subcommittee hearing on September 29, 2010, regarding Ex-Im Bank and the role of trade finance in doubling exports, and we appreciate the opportunity to present our views again for this hearing.

As background, this committee has a long history with the Bankers' Association for Finance and Trade (BAFT) which was this organization's name prior to a merger with the

International Financial Services Association (IFSA) sixteen months ago. BAFT-IFSA is the association for organizations actively engaged in international transaction banking. It serves as the leading forum for bringing the financial community and its suppliers together to collaborate on shaping market practice, influencing regulation and legislation through global advocacy, developing and adapting new and existing instruments that facilitate the settlement of products and service offerings for clients, providing education and training, and contributing to the safety and soundness of the global financial system.

BAFT-IFSA members around the world are active in trade finance and many deal with export credit agencies (ECAs) like Ex-Im on a daily basis. Similar to other ECAs, Ex-Im plays a crucial role in global finance by providing export financing products that help fill gaps in trade financing otherwise provided by private sector lenders. Since "trade finance is the oil to the wheels of commerce," effective Ex-Im programs have a multiplier effect when the private sector cannot fully shoulder certain levels of risk in trade transactions. Indeed, Ex-Im contributed to the recovery of trade finance markets during the economic crisis. Our industry values a continued working relationship with Ex-Im and other ECAs around the world to ensure the continued availability and affordability of trade finance. For these and the reasons outlined below, we strongly support reauthorization of Ex-Im Bank.

We would like to focus on three major points for this hearing:

- Trade finance should continue to be supported as a driver for economic growth.
- Ex-Im Bank should be swiftly reauthorized to ensure the continued availability of valuable financing for U.S. exports, as trade finance is critical for economic recovery and has an important role in the National Export Initiative (NEI).
- Ex-Im Bank should continue to enhance its programs and competitiveness around the globe.

First, we appreciate the opportunity to review the Discussion Draft of legislation reauthorizing Ex-Im Bank, *Securing American Jobs through Exports Act of 2011* ("Discussion Draft"). We support the direction this proposal is taking, and welcome the opportunity to engage with Members regarding suggestions we believe will enhance the measure.

I. Support Trade Finance as an Economic Driver

Trade finance instruments, such as those offered and supported by Ex-Im, are crucial to sustaining international commerce and the growth of the world economy. Throughout the reauthorization process, it is important to remember that support for a competitive and efficient Ex-Im is also support for the vital financing of international trade. BAFT-IFSA strongly supports the NEI focus on improving conditions that directly affect the private sector's ability to export, and believes that the role of Ex-Im in this initiative is pivotal. BAFT-IFSA remains concerned, however, about implementation of the NEI, particularly with reference to trade finance support. If affordable trade finance is not accessible through Ex-Im and other public-/private-sector partnership programs, BAFT-IFSA believes sustained global economic recovery could be put at risk. Better coordination amongst federal agencies driving the NEI is needed to leverage Ex-Im programs. BAFT-IFSA also supports the core Trade Promotion Coordinating Committee (TPCC), of which Ex-Im is a member, organizing a unified network of support for lenders and exporters to guarantee a user-friendly, fast, and efficient system for trade assistance. Ex-Im needs to be reauthorized to help execute the NEI and the mandate of key public- / private-sector partnerships.

a. Pre- and Post-Crisis Trade Finance Markets

A brief review of the international trade markets and trade finance during the economic crisis provides important context for this hearing. During the economic crisis, world trade fell by more than twelve percent in 2009, in part due to some global banks stopping the flow of credit to reduce losses.[1] While some banks raised their lines of available trade credit during the crisis, the fall in overall demand for trade in goods and services mitigated that rise and largely caused the fall in trade volume. During the London G-20 meeting in April 2009, world leaders recognized that trade finance provides significant support for the $14-16 trillion USD in annual global commerce and helps drive growth and development, particularly in emerging markets.[2] An environment that limits or does not support credit flows for trade finance puts at risk trading of essential goods and poses a threat to importers and exporters in emerging markets--with smaller banks and small- and medium-size enterprises (SMEs) disproportionately affected.

Over the past two years, the BAFT-IFSA working relationship with Ex-Im expanded significantly to respond to the trade finance crisis. BAFT-IFSA convened its first Global Trade Finance Summit in London in January 2009 and brought together for the first time the leading stakeholders in global trade finance markets, including banks, ECAs, credit insurers, multilateral agencies, government ministries of finance and trade, and other government entities. Ex-Im participated in three of our summits and, as part of the global public-/private-sector partnerships, many ECAs, including Ex-Im, launched new programs or made existing programs more robust to provide credit and liquidity for the import/export markets.

b. Trade Finance Trends

From a broader context, the function of trade finance--and the integral role of Ex-Im and other ECAs in those markets--is key. As we noted in our April 2010 comment letter to the Basel

[1] World Trade Organization; http://www.wto.org/english/news_e/sppl_e/sppl148_e.htm

[2] G-20; http://www.g20.org/Documents/final-communique.pdf

Committee on Banking Supervision regarding its recommendation on capital requirements,[3] trade finance transactions are generally fixed, short-term instruments that are not automatically renewed or extended upon maturity, and are self-liquidating by nature (*i.e.*, exposures are liquidated by payment at maturity). Trade finance liabilities arise from trade-related obligations underpinned by the movement of goods or services and evidenced by commercial contracts that document the arrangements between buyer and seller.

Trade finance has also historically maintained a low risk profile in comparison with other financial instruments. According to a survey conducted by the International Chamber of Commerce (ICC) and the Asian Development Bank in September 2010, banks have experienced relatively minimal losses on trade lending--1,140 defaults have been reported within a full data set of 5,223,357 trade finance transactions over five years.[4] In stress situations, countries and banks have traditionally continued to prioritize the repayment of short-term trade finance obligations as they fall due. Additionally, banks active in trade finance are generally able to react swiftly on deteriorations in bank and country risk, as a result of the short-term, self-liquidating nature of the transaction.

The World Trade Organization (WTO) noted that international trade increased by over fourteen percent in 2010.[5] The most recent BAFT-IFSA/International Monetary Fund (IMF) Global Trade Finance Survey, which tracks trends in trade finance markets, found a fourteen

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[3] For more information, please see the BAFT-IFSA Comment Letter to the Basel Committee on Banking Supervision in response to the Basel Consultative Document on Capital, *Strengthening the Resilience of the Banking Sector;* www.baft-ifsa.com

International Chamber of Commerce; http://www.iccwbo.org/uploadedFiles/ICC/policy/banking_technique/Statements/1147%20Register%20Report%20ICC%20Final%20Draft%2021%20September%202010.pdf

[5] World Trade Organization; http://www.wto.org/english/news_e/pres11_e/pr628_e.htm

percent increase in the value of trade finance between Q2 2009 and Q2 2010, a five percent increase from the previous year. Ninety-one percent of respondents cited an increase in demand as the driver for the increase. [6] The U.S. government needs to ensure that a reauthorized Ex-Im Bank operates at maximum efficiency to support trade finance transactions for American exporters and lenders as the recovery for the international sale of goods and services continues.

II. U.S. Export-Import Bank Reauthorization is Important to the U.S. Economy

Ex-Im provides credit support to help make U.S. products more competitive in international markets. Transactions supported by Ex-Im represent incremental export sales by U.S. companies that support the jobs of American workers and help to reduce the national trade deficit. A core component of the work undertaken by Ex-Im is accomplished with the support of the private sector trade finance lending community. The banks are part of a broad constituency of actors in the trade finance space. Ex-Im provides risk mitigation tools that help facilitate liquidity, which is particularly important during this time of continuing recovery.

Ex-Im financing rose considerably in response to the economic crisis, with over $24 billion in financing recorded for 2010. Ex-Im supported $34.4 billion worth of American exports and 227,000 American jobs at more than 3,300 U.S. companies.[7] More than $5 billion of that total was for small businesses, representing eighty-five percent of the entire Bank's activity[8].

BAFT-IFSA strongly supports continued cooperation between Ex-Im and the private sector to revitalize trade lending. Ex-Im leadership in public-/private-sector partnerships was crucial to facilitating recovery programs to address trade finance market dislocations. This

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[7] US Ex-Im Bank: http://www.exim.gov/pressrelease.cfm/0851BE06-9F90-1A8A-C3DD8916849C4303/

[7] US Ex-Im Bank: http://www.exim.gov/pressrelease.cfm/0851BE06-9F90-1A8A-C3DD8916849C4303/

[8] *Ibid*

public-/private-sector collaboration is still needed to sustain economic recovery around the globe.

We support increasing the Bank's lending ceiling to ensure continuation and effectiveness of its programs.

III. Ex-Im Bank Should Continue to Enhance its Programs

BAFT-IFSA supports new Ex-Im programs created to respond to global economic conditions. The Ex-Im supply chain financing guarantee program, designed to increase liquidity in the market, is one example of how Ex-Im programs can have a multiplier effect. The supply chain financing product is intended to support U.S. suppliers – who export to foreign buyers or supply U.S. exporters – by extending financing through the purchase of receivables owed to such suppliers.

Another example is the Take-Out Option, launched in 2009 to reduce bank liquidity risks. If a guaranteed lender exercises the take-out option, Ex-Im Bank will buy, and the guaranteed lender will transfer to Ex-Im Bank, any loans covered by a take-out option and all related transaction documents in exchange for payment of the loan purchase price. Ex-Im Bank will charge an annual fee to the lender for this option, and an additional fee if the option is exercised. The option is available for all new dollar-denominated, floating-rate, medium- and long-term Ex-Im Bank guaranteed loans. BAFT-IFSA provided input on behalf of its banks during development of this program. As evidence of its value, several BAFT-IFSA members completed deals involving the option. The industry looks forward to receiving regular updates on the level of this program's utilization and effect on pricing.

Although Ex-Im remains a valuable resource to lenders and exporters, increasing competition from Organization for Economic Cooperation and Development (OECD) ECAs and non-OECD ECAs highlights the need for maximum efficiency and competitive programs. Ex-

Im competes with other ECAs for business and, unfortunately, ranks among the world's least competitive ECAs. Ex-Im lags behind other ECAs in total funds authorized, operates under restrictions and processes that limit its appeal for users and discourage many U.S. companies from accessing it. Without competitive enhancements to Ex-Im programs, the risk of fewer export sales and loss of jobs is a concern.

Although Ex-Im has enhanced its product offerings in useful ways, the Bank must operate at maximum efficiency for its customers and the economy. An organizational structure and culture at Ex-Im that does not always work effectively and efficiently with private sector partners puts risks its competitive position at risk. In the spirit of constructive feedback, BAFT-IFSA offers the following comments on a number of Ex-Im processes and policies that affect BAFT-IFSA members and the industry as a whole. These comments refer also to provisions in the Discussion Draft. We request your consideration of each of our recommendations.

➢ ***Change Domestic Content Requirement to Support Trade Growth***

In the interest of supporting U.S. jobs, Ex-Im has a restrictive policy of only providing credit support for the value of the U.S. content in an export. Ex-Im limits its involvement in a transaction to the lesser of: (i) 85 percent of the value of eligible goods and services, and (ii) 100 percent of the U.S. content in those goods and services. Thus, if a U.S. export consists of 50 percent U.S.-made components, Ex-Im limits its support to 50 percent of the contract value. This presents a number of challenges for lenders and their clients. First, as complexity increases in manufacturing processes and the sourcing of components, it is increasingly difficult to track levels and sources of non-U.S. content. This is particularly true for small businesses that do not have the resources to devote to tracking such data. Second, such a stringent ratio can result in fewer U.S. exports than might otherwise be achieved. This policy puts Ex-Im at a competitive disadvantage to other ECAs which do not impose such onerous restrictions. Given this restriction, it is more difficult for Ex-Im and private sector lenders to support complex, multinational deals that will ultimately benefit the U.S. market.

The Discussion Draft includes content guidelines for the provision of financing and mandates that Ex-Im establish, by rule, clear and comprehensive guidelines on content of goods and services eligible for financing. This proposal takes incremental steps to address the content issue; however, BAFT-IFSA believes the draft language does not go far enough to alleviate competitiveness concerns. Specifically, the timeframe and method of implementation proposed in the draft legislation, along with the limited considerations under which Ex-Im must operate in forming guidelines regarding content pose concerns. To truly serve the lending and exporting community in an effective manner, the content provisions should be expanded to develop a policy which allows Ex-Im to effectively support U.S. exports and compete globally with other ECAs.

Also, BAFT-IFSA believes that Ex-Im should be mandated to take into account the most flexible form of content available in a transaction. Congress and Ex-Im should look to other global ECAs for examples in how flexible content levels can drive innovation and growth in domestic exports. Export Development Canada (EDC), for example, relies upon a "national benefit" system that evaluates the level of content based on the benefit transferred to the Canadian economy by the transaction. Such a flexible content requirement could enhance the competitiveness of the Bank and U.S. exporters.

We support the most flexible content policy practicable, and view the proposed legislation as a step towards addressing the content issue--we extend our thanks for recognition of this important issue. Although we prefer a substantial liberalization of content requirements, we highlight a few practical changes to the language that may improve the effectiveness of the final guidelines. We look forward to working with Ex-Im and other stakeholders on developing those guidelines. Specifically, considering the weighted average of domestic content levels of goods and services involved in transactions supported by the ECAs of each OECD member country is a step in the right direction, but we respectfully submit that expanding that to non-OECD ECAs such as China and Brazil would be beneficial. This would help ensure that content analysis takes into account financing provided by key players outside the OECD. Additionally, in order to streamline the guideline implementation, the requirement for a procedural rulemaking could be amended to require a Bank evaluation and Ex-Im Board review of content, in consultation with the industry throughout the process.

➢ ***Reexamine MARAD Policy to Support U.S. Jobs***

Transactions supported by Ex-Im guarantees in excess of $20 million or that have a repayment period of more than seven years are subject to a requirement that the goods being financed must be shipped on a U.S.-flag carrier if they are transported by sea. This is administered by the U.S. Maritime Administration—MARAD. The exporter is required to use a U.S.-flag carrier even though other carriers might be available at lower cost, have vessels that are more suitable for the particular cargo being shipped, and provide logistical advantages with respect to their availability and routing. Although waivers are available in certain limited circumstances, the waiver process itself acts as a disincentive for potential purchasers of U.S. goods. The MARAD requirements often increase processing times and costs associated with Ex-Im transactions. This can diminish the competitiveness of Ex-Im programs in relation to other ECAs and the benefits for lenders and exporters doing business with the Bank.

➢ ***Address Economic Impact***

Ex-Im is required by law to consider the extent to which proposed transactions may have an adverse effect on industries and employment in the United States. Ironically, this requirement can have an adverse impact on U.S. exports.

Whenever the Bank turns down a transaction on the basis of economic impact, it means the financing support that a purchaser expected will not be made available and the transaction likely will not occur. Many exports are sold as a package—the goods, plus bank financing (with an Ex-Im guarantee) to cover the purchase price. If a non-U.S. purchaser has doubts about whether Ex-Im support for the financing of its purchase actually will be made available, the likelihood of the U.S. exporter getting the sale is diminished. Conversely, the likelihood of a producer in another country getting the sale is increased. As such, the types of economic impact assessments undertaken now should only be required in the most compelling cases. In addition we would strongly oppose any steps to expand the application of current economic impact assessments to a broader range of transactions or to make those assessments more rigorous.

- ***Increase Efficiency in Processing Times and Resources***

Ex-Im staff has fewer than 400 staff to support a wide variety of programs and handle a growing amount of financing requests every year. There is a general sense amongst various stakeholders and interests that work closely with Ex-Im, including our members, that staffing resources have not grown apace with the workload. We acknowledge that increasing staff is not in and of itself a solution to customer service problems, but believe there is room for improvement.

General program processing inefficiencies are generally manifested by inordinately long processing times for transactions and ultimately can compromise some deals. This is particularly true of some small business transactions, where the costs related to lengthy processing periods can cause difficulties in completing transactions. In order to fully support the goals of the NEI and offer incentives for small businesses to use Ex-Im programs, increasing staff resources and tightening transaction processing at all levels of the Bank would benefit the programs.

➢ ***Support Ex-Im Short and Medium Term Programs***

The Medium Term (MT) program supports transactions under $10 million for tenors of up to five years. The Medium Term (MT) Delegated Authority program is designed to reduce transaction turnaround time, leverage Ex-Im medium-term program resources and increase lender utilization of Ex-Im medium-term programs, while maintaining credit quality and program integrity. Lenders share in credit risk and receive a portion of the Ex-Im exposure fee. BAFT-IFSA supports this program and believes it is crucial in supporting small- and medium-size U.S. businesses. Of concern, however, is that use of the program has dropped significantly. Section 2 (a) (3) of the Ex-Im Bank charter requires that the Bank establish measures to improve the competitiveness of the Bank's medium-term financing and ensure that its medium-term financing is fully competitive with that of other major official ECAs. It also requires it to ease the administrative burdens and procedural requirements imposed on users, and attract the widest possible participation of banks and other sources of private capital in the medium-term financing for exports. BAFT-IFSA believes Ex-Im should invest additional time and resources to support this program.

Specifically, Ex-Im has added a number of onerous requirements to the MT program, which we feel hamper its effectiveness without adding value to portfolio management processes. We look forward to a continued exchange with Ex-Im to ensure that unnecessary burdens on lenders and exporters are addressed in a manner that does not constrain doing business in a recovering economy.

The importance of working capital programs should not be overlooked. Under the Ex-Im Fast-Track Delegated Authority programs, approved lenders will have delegated authority to underwrite and authorize Ex-Im Bank-guaranteed transactions. Given economic conditions in the U.S., some banks are seeing increased requests for Ex-Im Working Capital Guarantees above the current limit of $25 million for Fast-Track Delegated Authority transactions. Both lender and borrower have agreed to remain at the $25 million cap as the economics of the transaction change above that level. We would support increasing the level of delegated authority by proven Fast Track lenders, as the increase could result in increased working capital support for qualified exporters and help create U.S. jobs.

The Discussion Draft includes provisions on monitoring the default rates of Bank financing. It requires calculation of the rate at which entities to which the Bank has provided financing are in default on a payment obligation. The Discussion Draft states that if the aggregate rate of default of all Bank programs exceeds two percent, Ex-Im must submit a report to Congress outlining the reasons for the default rate and include a plan to reduce that rate.

BAFT-IFSA supports the maintenance of secure and efficient lending practices across all Bank programs. Repayment of Ex-Im Bank loans is essential to the Bank's charter. We are concerned, however, that leveling such requirements on Ex-Im Bank programs may hamper their use by lenders and exporters. While high default rates require action, we believe that policies governing the Bank's response to increased default rates should be developed in consultation with the lending and exporting community. This will ensure effective, market-sensitive solutions and encourage more activity in Ex-Im Bank programs.

More specifically, adjusting the default reporting cycle to 180 days will relieve undue strain on the Bank whose resources are already stretched, and also allow for consideration of market trends in a recovering economic environment.

Finally, BAFT-IFSA believes that a two percent default rate threshold for reporting does not allow for flexibility as economic conditions are still in flux. As Ex-Im Bank is not a commercial lender and is, by its very nature, expected to take on additional risk, providing for a more flexible threshold may achieve the desired purpose.

➢ ***Enhance Consultation and Outreach to Industry***

Feedback from some interests in the industry indicates that participation in Ex-Im programs would benefit if Ex-Im engaged regularly with key stakeholders and partners before implementing new procedures or policies. A more collaborative, iterative approach would ensure that Ex-Im policies are more sensitive to customer needs and market dynamics. Open dialogue on key initiatives can help avoid confusion and preempt unintended consequences in new programs or policies.

Ex-Im has responded to some of our concerns by taking preliminary steps to rectify a sporadic consultative process with the industry. BAFT-IFSA and Ex-Im now have quarterly calls between senior Bank leadership and BAFT-IFSA members. This helps drive open communication in the earlier stages of policy or process changes. Regular communication throughout the process, however, is required for meaningful improvements. We look forward to the Bank engaging accordingly.

IV. Conclusion

BAFT-IFSA members believe the U.S. Export-Import Bank has a crucial role in boosting U.S. exports and supporting the economy. The Bank's reauthorization will ensure it continues to provide adequate, affordable trade finance and supporting programs through its private-/public-sector partnerships. In executing its mission, operating with maximum efficiency and streamlining its processes will make it more competitive with other ECAs and ensure that it can fully leverage the benefits it provides to U.S. exporters.

We value our continued working relationship with Ex-Im and look forward to a productive and fruitful dialogue with Ex-Im and the U.S. Congress throughout the reauthorization process and beyond. Thank you again for the privilege of providing the Subcommittee with our views.

Statement of
Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States

before the

United States House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade

May 24, 2011 at 2:00 pm

Good afternoon, Chairman Miller, Ranking Member McCarthy, and distinguished members of this honorable Subcommittee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Securing American Jobs Through Exports: Export-Import Bank Reauthorization. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

The Ex-Im Bank is the official export credit agency ("ECA") of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank is experiencing unprecedented growth - achieving three straight years of record authorization levels. Ex-Im Bank is projecting another record year in FY 2011. For the first six months of FY 2011, Ex-Im Bank reported $13.4 billion in new authorizations. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This not only demonstrates the commitment, knowledge, and expertise of the staff at Ex-Im Bank, but also the need in the market for government supported export financing in this very competitive and difficult credit market.

II. Ex-Im OIG

Ex-Im OIG was statutorily created in 2002[1] but the Inspector General (IG) did not officially take office until August 2007. Since reaching current staffing levels, the OIG has achieved noticeable success in performing its statutory duties. Specifically, the OIG has issued nineteen (19) audit and special reports containing over eighty-two (82) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: fifty-nine (59) indictments and arrests; six convictions, fourteen (14) guilty pleas; and over one hundred and seventy eight (178) management referrals for enhanced due diligence actions. Since 2009, the total overall OIG financial impact is approximately $209 million. Currently, the OIG is investigating thirty-seven (37) open matters representing approximately $348 million in claims paid by Ex-Im Bank (or around 15.3% of all Ex-Im Bank claims paid as of the end of FY 2010). All of this has been accomplished with a very modest annual budget of $2.5 million and a staff of eleven professionals.

[1] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

III. Securing American Jobs Through Export Act of 2011

Through this hearing and the reauthorization process, this honorable Subcommittee is carefully and thoughtfully considering amendments to the existing Ex-Im Bank charter. The OIG believes that some of the proposed language being considered by the Subcommittee directly impacts Ex-Im Bank challenges and weaknesses described in section IV below. Specifically, recognizing the need to improve Ex-Im Bank's IT infrastructure is an important step towards providing Ex-Im Bank with the appropriate tools to handle its mission. In order to effectively improve its IT capabilities, Ex-Im Bank should establish comprehensive IT development and implementation plans focused on available technology and benchmarked with systems used by other ECAs and private sector counterparts. The system should focus on the business needs of the different Ex-Im Bank components and be geared towards achieving Ex-Im Bank strategic goals.

Further, requiring Ex-Im Bank to develop comprehensive and clear guidance stating domestic content requirements provides Ex-Im Bank users with a clear understanding of what goods and services qualify for guarantees and insurance coverage and the level of financing. This would allow for more transparency and openness in conducting business with Ex-Im Bank. This guidance should be developed by determining the level of domestic content coverage provided by other ECAs, input from Ex-Im Bank participants (through Federal Register notices for public comments), and include clear internal policies and procedures for proper implementation by Ex-Im Bank staff (to prevent weaknesses listed in section IV below).

Proper implementation of these amendments could have a noticeable impact on Ex-Im Bank operations and future customers and clients by making Ex-Im Bank more efficient and competitive.

On a final note, the OIG respectfully petitions this honorable Subcommittee to reconsider the scope of Section 5(a)(i)(9), Report to Congress, requiring the Inspector General to provide a report on the impact of the domestic content rules on exporters. We believe that this requirement would be better served as part of Ex-Im Bank's implementation of its new guidance. The OIG would work closely with Ex-Im Bank and Congress to assess the effectiveness of data and methodologies used in the reporting to ensure that Ex-Im Bank and Congress can fully and appropriately evaluate the effectiveness of these new guidelines.

IV. Competitiveness: Operational Areas

In order to better meet export credit needs of the American exporters and improve the customer service experience of its participants while balancing its responsibilities, it is our opinion that Ex-Im Bank needs to address some operational weaknesses and challenges it is facing. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient capability to create and maintain jobs in the United States. Besides increasing staffing levels to reflect the growth in authorizations, some of the challenges Ex-Im Bank needs to address are:

- *Inefficient and Ineffective Information Technology (IT) platform.* Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several systems and databases. These systems and databases do not effectively and accurately interface with each other - compromising data integrity, creating duplicative information, and unreliable files. Further, these systems makes data mining burdensome and time consuming.
  - Ex-Im Bank lacks an end-to-end IT system that allows for seamless management of applications/files, flow of information within the Bank, and would allow different components within the Bank to work on the same files at the same time from the same platform.
  - Ex-Im Bank lacks a centralized and comprehensive participant database that would allow the Bank to capture and track all the participants (lenders,

buyers, exporters, suppliers, brokers, agents, and others) involved at different transactions at any given moment in time. This weakness prevents Ex-Im Bank and our office from conducting effective forensic analysis to identify possible patterns in transactions.

- Because the IT platforms do not fully meet business and operational needs, Ex-Im Bank divisions and components have created subsequent data sub-systems to address the specific needs of that office or division. Some of these sub-systems require manual input of data and do not interface with Ex-Im Bank's main IT infrastructure creating additional data repositories.
- The above described IT system fragmentation creates a number of operational consequences for the Ex-Im Bank, such as:
  - Delays in approval of transactions
  - Data integrity issues (due to manual input or updates of data)
  - Multiple data storage locations
  - Burdensome and somewhat ineffective management of applications and assets

➢ *Develop Performance Standards and Metrics for Programs and Products.* Ex-Im Bank has not developed annual performance plans or product performance metrics in order to properly quantify the effect and success of its products. Ex-Im Bank should develop these metrics in short and medium term products in order to determine whether:

- The product is achieving the intended results
- The product is reaching the intended audience
- The marketing strategy is effective
- The product is similar or more competitive than programs offered by other ECAs

- o The product should be altered or eliminated
- o Acceptable levels of defaults and claims have been established
- o Levels of defaults and claims should be improved
- o Changes in original implementation strategies are needed

- *Continue Efforts to Expand Small Business Participation.* Ex-Im Bank charter imposes a twenty (20) percent small business participation requirement of all of the authorizations every year. Ex-Im Bank has exceeded this mandate in the last two years and it is expecting to surpass it again in FY 2011. Ex-Im Bank has been able to achieve its mandate by: .
  - o Conducting Export Forums throughout the United States
  - o Developing partnerships with different lenders, local governments, and industries
  - o Creating products specifically for small businesses (Global Access, Express Insurance and Reinsurance products)
  - o Continue collaboration and cooperation with other agencies, including the Small Business Administration and Department of Commerce, in order to reach out to small businesses. Enhancing export opportunities requires the participation, training, and collaboration of other federal agencies. The National Export Initiative addresses and encourages collaboration between agencies

- *Continue Efforts to Expand Renewable Energy Products and to Create Clean Energy Export Opportunities.* Ex-Im Bank charter contains a Renewable Energy mandate of ten (10) percent of all the authorizations every year. Ex-Im Bank has not met this mandate yet, mainly because the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar

Express, as well as reaching out to local companies such as wind and solar manufacturers.

- *Reduce the Time it takes to Approve Short and Medium Term Transactions.* Some Ex-Im Bank participants have complained in the past about the approval times and process. Reducing the time it takes to approve transactions would allow American exporters to develop better relationships with clients and customers, would encourage borrowers and sellers to use Ex-Im Bank, and would improve the services Ex-Im Bank provides to its users.

V. Other Observations from OIG Cases and Reports

Ex-Im Bank has the important responsibility of providing export financing in a very difficult credit environment while also protecting the taxpayers, the integrity of its programs, and the full faith and credit of the United States. In conducting our audits, evaluations, inspections, and investigations, the OIG has conveyed to Ex-Im Bank observations presented in transactions and programs under the OIG purview. These are:

- *Enhance Due Diligence and Credit Underwriting Practices (specifically for Short and Medium Term programs) and Training Efforts to Address Surge in Application and Decentralized Application Approval Process.* Currently, Ex-Im Bank uses a decentralized underwriting process. Given the lessons learned from the Medium Term program, the surge in the number of transactions and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhances due diligence practices in order to better identify fraudulent transactions. With individual Delegated Authority as high as $10 million, Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to assess effectiveness of the delegations. Some of these policies should address the following:

- Uniform credit and underwriting standards to be used by all Ex-Im Bank credit officers
- In regions where defaults and fraud experience is high, more frequent use of security interest in order to better mitigate risks associated with some of these transactions
- In regions where defaults and fraud experience is high, and Ex-Im Bank does not have previous transactional experience with borrowers, the Bank should require independently audited financial statements

➢ *Require Lender Partners and Participants to Conduct, at a Minimum, Industry Standard Due Diligence on Government Guarantees and Insurance Transactions.* One of the patterns our office has observed in conducting our investigations is the lack of due diligence efforts conducted by lenders with a history of defaulted or fraudulent transactions. Even though there is an expectation that such efforts have been taken, Ex-Im Bank does not require participating lenders to conduct due diligence on their transactions. The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not spend resources on due diligence efforts when there is a government guarantee. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this "moral hazard" issue has been prevalent in fraud cases involving multiple transactions. Effective implementation of Knowing Your Customers practices by lenders could help in minimizing or preventing the number of fraudulent cases Ex-Im Bank has experienced.

➢ *Improve Corporate Governance and Internal Control Policies and Practices.* One of the constant observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls, as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

VI. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating exports through export finance products provided to American exporters. Three years of record exports authorization levels only support that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its operational effectiveness and efficiencies in its quest of achieving the National Export Initiative's goal of doubling exports in the next four years.

I have highlighted some of those areas based on observations and relevant work performed by the OIG in order to illustrate the importance of proper management, oversight of strategies, and to incorporate lessons learned from prior Ex-Im Bank's activities. The OIG will continue to enhance its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Miller, Ranking Member McCarthy and members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you!

TESTIMONY

Of

JOHN HARDY, PRESIDENT

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE COMMITTEE ON FINANCIAL SERVICES HEARING:

"Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization"

May 24, 2011

Chairman Miller, Ranking Member McCarthy and Members of the Subcommittee, the Coalition for Employment through Exports (CEE) thanks you for the opportunity to testify on the reauthorization of 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 all 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.

We believe that it is absolutely critical that Ex-Im Bank be reauthorized before the Charter expires at the end of this fiscal year. Any delay in reauthorization beyond that point will have a crippling effect on outstanding and future export transactions requiring Ex-Im Bank support that are vital to solidify the shaky economic recovery. CEE supports the work of the Subcommittee to advance the reauthorization of the Bank and recognizes the effort to produce a bipartisan bill. CEE appreciates the opportunity to engage on this important issue and will continue to work constructively with all parties as the Administration and Congress work to reauthorize the Bank.

CEE has spent the past decade telling the story of the changing competitive landscape facing US exporters. As the Bank's own Annual Competitiveness Reports show, the export financing world has dramatically shifted due to a wide range of issues including concessionary financing, emergence of non-OECD ECAs such as China, changes in approaches to domestic content, and a fundamental shift in how ECAs are utilized by their respective governments. Throughout these changes, Ex-Im Bank has done an admirable job of supporting US exporters and jobs as much as they are able. In certain areas, the Bank stands above its competitors, namely the ability to offer direct loans and support for small businesses. However, in other areas, the Bank has not kept up with the competitive changes undertaken by other ECAs, which has resulted in lost opportunities and sales for US exporters.

CEE strongly supports the increase to the Bank's lending authority proposed in the discussion draft. I want to emphasize that raising the Bank's lending authority does not mean that the Bank will suddenly see a dramatic increase in authorizations, just that it will be able to process those that come into the Bank over the next few years. We want Ex-Im Bank to have the capacity to support more transactions in order that business can sustain and create more US jobs, and increasing the lending authority does just that.

We are also supportive of increasing accountability and transparency at the Bank. The Bank does an outstanding job managing its business at extremely low levels of risk and should be commended, but there is never any harm ensuring due diligence. However, we ask that the proposed time frame for review be extended to 180 days as it is more in line with the Bank's current auditing procedures.

CEE fully supports the direction being considered by the Subcommittee for reauthorization of Ex-Im and supports the policy review proposed to ensure that Ex-Im eligibility requirements are periodically reviewed in light of the then current competitive climate. This ensures that all American exporters – large and small, factories and high tech companies, renewable and stand alone services – have the opportunity to make their case for access to Ex-Im Bank financing. The legislation not only provides guidance on how the review process should be taken to reassess the eligibility requirements to include stand-alone services, it also takes steps to protect a strong manufacturing base. By providing an opportunity to lay all the facts on the table without predicting an outcome, this proposal will begin the key discussion that all American businesses should have the same access to financing which current users of the Bank do in a time when such financing is critical for winning businesses international sales.

The Current Competitive Playing Field

As mentioned above, CEE has been telling the story of the competitive landscape, and in light of the proposed language, allow me to once again lay out the environment our exporters face. As you know, there has been rapid growth in the importance, flexibility and size of foreign ECAs as their governments greatly expanded their mission and resources to enhance the competitiveness of their country's businesses. International competition is now so hard fought that the financing terms offered by ECAs are often the deciding 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 needs to have the flexibility to increase its competitiveness and to support a broader cross- section of American businesses that are currently unable to access this critical financing.

Overall, ECAs supports approximately 10% of all global trade yet Ex-Im Bank supports about 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. In the same year, the Japanese export credit agencies committed well over $100 billion in support of their exporters; the Chinese over $300 billion through several different banks.

A critical reason for this larger support is that most other ECAs have moved to a "national interest" standard in which their objective is to support exports, whatever their nature, to 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 values important to their economy, including services, and the high value jobs created by services exports.

Canada's EDC and Finland's Finnvera presented at our February conference on their approaches to content. Both expressed how it is their mandate to add value to their respective economies and grow trade. Finnvera has recognized 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 and other ECAs also operate with more flexible content rules, leaving the Bank's content policy far and away the most stringent. If you looked at the numbers only, the Bank is well and above the highest as Austria is next with only 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. But the numbers do not tell the whole story as these countries also have varying definitions all geared towards a national interest standard as their governments are unwilling to lose export sales.

The current Ex-Im Bank content policy limits U.S. competitiveness for two reasons: as the policy determines eligibility based on manufacturing, it ignores all value to the U.S. economy generated by high-tech and other services and it fails to account for the present day reality of global supply chains which exporters need to maintain their international competitiveness. CEE believes that the eligibility requirements at Ex-Im Bank must always take into account and promote vital manufacturing jobs that are a backbone of the US economy, but we also feel the policy needs to be modernized to take into account other high value, high paying jobs that are outside of manufacturing but reflect the evolution of the US economy to one based on innovation. These include jobs in R&D, supply chain management, software design engineering, business development and marketing, IP support, and branding. The lack of support for these jobs makes little sense when one recognizes that the services sector is the fastest growing part of the economy and currently maintains a trade surplus.

For example, the IT sector sees huge export opportunities in emerging market counties which seek to develop and upgrade their government computer 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 policy. This represents a loss billions of exports dollars each year as well as the loss of future business. The Bank does state that 10% of its support exports are services, but those are all mainly connected with a larger transaction such as engineering support for power plants. Because of the current policy, it is unable to provide support for stand-alone services such as cellular phone systems. Ex-Im should be following the lead of other ECAs which routinely support services export through a variety of ways including if the main services contract is signed with a domestic company.

As stated above, there is also a need to address the present day reality of global supply chains which exporters need to maintain their international competitiveness. An informal survey of a number of CEE exporters found, for these multinational corporations, that an overwhelming number of the product lines produced by these companies had content levels below the 85% necessary for full Ex-Im financing support. The content levels for these exports were between 85% and 60%-70%.

The Peterson Institute just released a report on Ex-Im Bank in which it comments on the problems for exporters posed by this situation, stating:

"Export sales that exceed the 15 percent threshold come under a cloud so far as Ex-Im support is concerned. This is troublesome because multinational corporations often produce a specialty component in one location: e.g., GE produces wind turbines blades in Brazil; light locomotives in Brazil; heavy locomotives in Pennsylvania. Sometimes development partners pay a good share of the R&D as an "entry price" to join the project from start to finish. These international supply chain realities should be reflected in Ex-Im funding rules. Given current Ex-Im rules, some deals are sourced in countries with "friendly" ECA systems rather than the United States. To source from the United States, a US firm may, for example, require a unique Japanese component to complete a bleach factory in West Africa. But since this component drives the project's foreign content above 15 percent, the deal instead goes to Spain. In this case, US manufacturers lose eighty percent of the sale because the Ex-Im Bank refuses to finance the additional five percent of value that comes from a foreign country. To prevent similar outcomes in the future, the Ex-Im Bank needs to adjust its procedures to reflect the reality that the United States cannot manufacture every component of every good."

As Air Tractor testified in the prior hearing, this is an issue that affects both large and small exporters and we hope that the process set forth in the discussion draft will encourage the Bank to reexamine its eligibility requirements in the context of the current competitive realities that exporters face.

Small Business

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 the 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 also recently 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 have provided copies of this study to Members of this Committee and we hope it helps highlight the SMEs in your districts that have benefitted from Ex-Im Bank.

Self-Sustaining

This is also a good time 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 $3.5 billion. As the Bank is self-sustaining and contributes to reducing the debt, it is a win-win government program.

Conclusion

Ex-Im Bank is one of the most vital assets of the government to support exports and job growth. It is critical that it be reauthorized and be fully competitive with the export credit agencies of our competitors thus enabling U.S. exporters to compete on a level playing field. The current draft bill will take the Bank forward in broadening its outreach while supporting its mandate. We pledge to work with Congress to assist in the process and to answer any questions Members might have.

TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
May 24, 2011

The Export-Import Bank of the United States ("Ex-Im Bank" or "Bank") is the official export credit agency of the United States. The mission of Ex-Im Bank is to enable U.S. companies – large and small – to turn export opportunities into real sales that help maintain and create U.S. jobs which contribute to a stronger national economy. The Bank achieves this mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. Ex-Im Bank also provides support when export financing is necessary to level the playing field due to financing provided by foreign governments to their exporters that are in competition for export sales with U.S. exporters.

All Ex-Im Bank products carry the full faith and credit of the U.S. government and are only provided if the Bank is convinced that there is reasonable assurance of repayment. As a result of our diligent review and management of credit, the Bank has a loan loss rate of roughly 1.5 percent – well below most commercial banks. Since FY 2008, Ex-Im Bank has operated in self-sustaining financial status at no cost to the taxpayer, while achieving its mission.

Over the past two years, Ex-Im Bank addressed the market contractions caused by the financial crisis by stepping in where private banks and other lending institutions were unwilling or unable to meet the trade finance needs. In recent years, the Bank has supported a level of authorizations that is far higher than historical averages.

In FY 2008, Ex-Im authorized $14.4 billion to support transactions that resulted in roughly $19.6 billion in U.S. exports. Just 2 years later, in FY 2010, Ex-Im authorized a record $24.5 billion in export financing which supported roughly $34.3 billion worth of U.S. exports and 227,000 U.S. jobs at more than 3,300 U.S. companies.

I am proud to say that we have accomplished all of this work at no cost to the U.S. taxpayer. Ex-Im Bank more than covers our administrative and program expenses through the fees that we charge to borrowers of the U.S. exports Ex-Im Bank helps to support. In the past five years, we have sent $3.4 billion to the US Treasury.

Ex-Im Bank offers three financial programs to keep the U.S. competitive in the world markets: direct loans, guarantees, and insurance. There are various products within these programs, such as Working Capital Guarantees and Export Credit Insurance, which primarily benefit small businesses.

Direct loans provide financing directly to foreign buyers of U.S. goods and service and cover up to 85 percent of the U.S. contract value or 100% of the U.S. content, whichever is less.

Loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. We provide support up to 85 percent of the U.S. contract value or 100% of the U.S. content, whichever is less.

Working Capital Guarantees provide repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. Ex-Im Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan.

Export credit insurance helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign buyer or other foreign debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and support short-term or medium-term sales.

By utilizing these various products, Ex-Im Bank levels the playing field for U.S. exporters and workers so U.S. jobs are not lost to foreign competitors.

To ensure that the needs of small businesses are met, Congress mandates that 20 percent of our authorizations directly benefit small businesses. I am happy to report that we are meeting this mandate. Our totals for small business transactions have increased from $ 3.2 billion in FY 2008, to $5.1 billion in FY 2010, which reflects a 58 percent increase over the two-year period. We have been able to maintain the 20 percent small business mandate over the last two years, in a time that has seen our total business grow from $14.4 billion in FY 2008 to $24.5 billion in FY 2010, a 70 percent increase.

We recently submitted our 2011 Small Business Report to Congress on March 31st which details our small business activity for fiscal year 2010 and the plans that we have already initiated for 2011 to continue growing our small business portfolio.

While we have met our 20 percent Congressional mandate and we continue to implement new programs and strategies to grow that percentage, it is increasingly difficult to do given our limited administrative budget and our inability to deliver the highest level of quality customer service as a result of our aging Information Technology (IT) infrastructure. The Bank utilizes its various products to respond to the needs of the market and as such, we provide financing based on what business is coming in at any given time. We continue to aggressively pursue small business transactions, but ultimately our percentage of the total portfolio is a function of the sectors that need Ex-Im financing at any given time. Small business transactions account for more than 85 percent of our total transactions at the Ex-Im Bank but are just over 20 percent of the authorization dollars. Meeting our 20 percent small business mandate is something that is highly labor intensive and requires significant resources. To maintain and grow our small business percentage, we will need an increase in our administrative budget.

In order to further expand the small business activity, Ex-Im has initiated the following initiatives:

- **Global Access for Small Business Initiative:** Earlier this year, I was joined by Tom Donohue from the Chamber of Commerce and Jay Timmons from the National Association of Manufacturers in announcing Ex-Im Bank's Global Access for Small Business Initiative. Ex-Im Bank is sponsoring a series of 20 forums across the country to assist small business exporters in understanding how the Bank's programs and programs at the Small Business Administration (SBA) and Department of Commerce can help them begin exporting or increase their international sales. In addition to presentations by successful small business exporters, the Global Access forums include panels of Ex-Im, SBA and Department of Commerce staff based in local United States Export Assistance Centers (USEACs) as well as one-one-one counseling by Ex-Im Bank Export Finance Managers and other federal agency representatives. These half-day events are free for attendees and held in collaboration with elected officials, representatives from federal and local government agencies, lenders and insurance brokers involved with supporting exporters. We also provide small business owners as panelists who highlight their success in using Ex-Im Bank products to start or grow their exporting and we provide one-on-one counseling for businessmen and women at the event.

- **Expanded Bank and Broker Training:** Ex-Im Bank has expanded its lender and broker training options to include monthly trainings around the country. Webinars have also been added to the training curriculum to help exporters, lenders and insurance brokers learn how to use Ex-Im products and services.

- **Supply Chain Finance Guarantee.** The Supply Chain Finance Guarantee provides competitively-priced working capital financings to businesses that supply products or services to larger U.S. exporters. These businesses are considered indirect exporters. The product works through approved lenders with an existing supply-chain finance program. It enables the lender to purchase accounts receivable from small business suppliers whose goods will be part of an export. The suppliers are paid for their goods in approximately five days which improves their cash flow and liquidity. Ex-Im Bank provides the lenders with a 90 percent guarantee of repayment by the manufacturers. In turn, the Bank requires that at least 50 percent of the credit be to small-business suppliers.

- **Reinsurance.** Reinsurance assists private-sector insurers that provide short-term export-credit insurance covering foreign receivables to predominantly U.S. small business exporters. This new product will increase the capacity of insurance companies to offer insurance to small business exporters that have had difficulty obtaining short-term export credit since the financial crisis. The Bank's reinsurance product will mitigate risks for private insurers and enable them to expand their underwriting capacity for short-term small business credits. It will also help Ex-Im Bank achieve economies of scale in originating, underwriting and servicing these credits – accomplishing substantially more for small businesses with fewer resources by expanding the reach of private-sector insurers.

- **Express Insurance.** In response to the requests of exporters and Ex-Im Bank broker-partners, Ex-Im is adding a new program to its flagship Trade Credit Insurance product – Express Insurance. Express Insurance specifically targets small businesses. Ex-Im Bank has designed an express insurance product that streamlines the application process for the Bank's short-term export credit insurance. The target turnaround time for a quote is 5 days, down from the current average of 15. Cutting the processing time by 2/3 and cutting the length of the actual application from 4 pages down to 2 pages and using credit scoring in the processing of new applications and renewals reduces the time frame and the complexity of insurance that small businesses need to protect their export receivables from foreign buyer and country risk.

Authorizations – Small business authorizations in FY 2010 increased 15.9 percent to just over $5 billion as compared with new small business authorizations for FY 2009 of roughly $4.4 billion and FY 2008 of roughly $3.2 billion. In FY 2010, small-business authorizations represented 20.7 percent of total authorizations. During FY 2010, the number of transactions that were made available for the direct benefit of small-business exporters increased by 21.7 percent to 3,091 transactions compared to 2,540 in 2009.

As referred to earlier, Ex-Im Bank offers two products that primarily benefit small businesses: Working Capital Guarantees and Export Credit Insurance. In fiscal year 2010, Ex-Im Bank authorized roughly $1.5 billion in Working Capital Guarantees to small businesses compared to $1.2 billion in 2009. In fiscal year 2010, Ex-Im Bank authorized more than $2.6 billion in Export Credit Insurance to small businesses.

Increased Lender and Broker Participation - Ex-Im Bank leverages its resources on behalf of small businesses by working with private-sector lenders, insurance brokers and other financial and trade institutions. In fiscal year 2010, 18 new lenders received Delegated Authority to provide working capital guarantees. Delegated Authority provides lenders a pre-approved credit line which allows them to approve loans and receive Ex-Im Bank's guarantee without having to submit individual applications for approval. An additional 14 brokers serving small businesses trade insurance needs were added to the roster. At the fiscal year's end, Ex-Im Bank had a total of 100 delegated authority lenders and 194 registered brokers helping deliver the Bank's small-business products. While these numbers are significant, we continue to seek additional brokers and lenders to partner with Ex-Im Bank.

Export Initiative with State and Local Constituencies - One effective approach to developing strong partnerships is our initiatives with our City/State Partners. More than 60 Ex-Im City/State Partners in 40 states work with Ex-Im Bank and report their activity annually. Their mission is the promotion, creation and expansion of businesses in a given region by making available financing assistance and entrepreneurial services. Examples of eligible partners include: State, County, City Governments—either directly or indirectly funded; local non-profit economic development entities funded through universities and colleges; and Small Business Development Centers.

Many of the small business owners are veterans, women and minorities. Ex-Im Bank wants to do more to reach these key groups which historically are less likely to approach the Bank for financing. In an effort to increase our interaction with these groups, Ex-Im Bank has worked with the Department of Commerce and other sources to increase our outreach. I would also ask members of this committee and your colleagues to provide suggestions of organizations, constituencies, and events that you think we should be participating in so we can grow participation among veterans, women and minorities.

Ex-Im Bank recently created a new position of Director of Veterans' Relations to better reach out to all veterans groups and to connect export finance opportunities with their knowledge of foreign cultures, people and businesses. Ex-Im Bank hosted the Vet-Force meeting for Veteran

Owned Business (VOB'S), Veteran Community Organizations (VCO'S) and various government agencies to introduce veterans to export financing. In coordination with SBA'S Georgia District Office Ex-Im's Director of Veterans' Relations was the keynote speaker at the first ever Veteran's Export Symposium.

In fiscal year 2010, Ex-Im Bank authorized $481 million to support exports by U.S. small businesses known to be minority-owned and woman-owned (this information can be volunteered on applications, but we cannot require it). In fiscal 2009, Ex-Im Bank authorized $492.7 million to support exports by U.S. small businesses known to be minority-owned and woman-owned. Although support for minority and woman-owned small business declined slightly, the total support increased by $65.2 million when taking into account medium and large exporters in this group.

(Millions)	**2008**	**2009**	**2010**
Minority and Woman Owned			
Medium/Large Business	$80	70.3	$147.2
Small Business	$386	$492.7	$481.0
Total	$466	$563.0	$628.2

Significant emphasis is placed on events attended by small business exporters, as well as minority, rural, and woman-owned entrepreneurs. During 2010, staff from within the Small Business Group at the Bank attended 85 outreach events reaching approximately 5,500 Minority and Woman-Owned Business exporters and intermediaries. Ex-Im Bank made presentations at 75 percent of the events attended in 2010.

Significant steps are being taken to boost this segment of the Ex-Im Bank business. First and foremost, during 2010, Ex-Im Bank hired as our new Senior Vice President of the Small Business Group a former banker with 20 years in community development and minority lending and investment experience. In addition, we hired a Vice President of Marketing and Sales, a Community Reinvestment Act professional from a major bank. In addition to their managerial responsibilities, these two officers will further expand Minority and Woman-Owned Business Outreach activities. We have also reallocated resources to achieve our 20 percent small business mandate.

In order to expand the reach and service to small businesses, Ex-Im is doing the following:

- **Global Access Events**. Developing at least 4 Global Access media and training events specifically for Minority and Woman-Owned Businesses.

- **Community Development Financial Institutions.** The Small Business Group attends the conferences for the National Federation of Community Development Credit Unions, Opportunity Finance Network, National Community Reinvestment Coalition and events sponsored by federal regulators concerning Community Reinvestment Act initiatives. The chief objective is to expand the number of local and community development banks and other intermediaries using the Ex-Im Bank trade credit and working capital products and services.

- **Direct Calling on Minority and Woman-Owned Exporters.** In order to expedite the communication with the exporter, Ex-Im has established a "smart data-base" program. The program, which includes exporter names from the Trade Promotion Coordinating Committee (TPCC), is designed to support direct outreach to minority and woman-owned exporters through systematic cold calling by experienced Ex-Im Bank export finance officers. While targeting the use of Ex-Im Bank's trade credit insurance, the officers are also trained and encouraged to refer exporters to the appropriate Department of Commerce and SBA functions as reflected by the exporter's needs.

The global marketplace is brutally competitive for businesses small and large. At Ex-Im we have seen a decrease in sovereign loans and an increase from the private sector in emerging markets. And commercial lenders routinely limit the amount of exposure a company can have in particular regions and consequently those businesses are coming to Ex-Im Bank for financing. Businesses in the United States are second to none when it comes to manufacturing. The U.S. is the number one manufacturer in the world. We make more goods than China, Germany, and Japan.

However, when it comes to selling overseas, we fall to number three behind China and Germany, which is unacceptable. There is nothing third-rate about American products and American business and there should be nothing stopping us from selling more of the products and services we make into the global marketplace.

By ensuring that more American companies—big and small—go after our share of this global business, Ex-Im Bank is helping build the type of export powerhouse that is at the heart of President Obama's plan to win the future and double exports by 2015. At Ex-Im, our goal is to provide the financing to make this a reality.

We have targeted nine emerging markets in Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey and Vietnam. Let me provide examples of the work Ex-Im Bank is doing to support exports to a couple of these countries.

India plans to spend $1 trillion on infrastructure between 2012 and 2017, which is double what they spent in the previous five years.

As part of these investments, India needs to build one million square miles of new paved roads and roughly 4,600 miles of new metros and subways. That rail system and those roads mean billions of dollars worth of capital goods and services---from trains to rails to engineering services to paving equipment.

In addition to infrastructure demands, India also has growing power needs. Today, nearly 400 million people in India have never seen a light bulb. India is powering up and they are working to do it responsibly. India recently announced its National Solar Mission, a far-reaching plan to add 20,000 megawatts of solar power by 2020. That is enough to power nearly 10 million homes with renewable energy.

At Ex-Im, we are working with U.S. solar companies to make sure they have the competitive financing they need to be part of these projects. One of these companies is Infinia, which is based in Washington State. Ex-Im recently authorized a $30 million direct loan to finance a solar project in Rajasthan, India. The project is using Infinia's PowerDish technology. This was Infinia's first major sale for foreign delivery and their largest sale to date.

Brazil is another market that we are targeting due to its forecasted growth in the coming years. With the World Cup in 2014 and the Olympics just two years later, boosting power production and building out infrastructure are two of the country's critical priorities. Brazil will invest more than $200 billion on everything from roads and public transportation, to airports and sports stadiums.

Ex-Im will support American companies—and American workers— exporting to these projects. That's why just a few weeks ago, President Obama announced a $1 billion credit facility in Ex-Im financing for the State of Rio de Janeiro. Its purpose is to finance the purchase of more American-made goods and services. All around the world we are seeing similar opportunities for American companies.

In many cases, Ex-Im Bank's financing levels the playing field when it comes to international competition. Let me give you an example. General Electric (GE) was recently bidding on a $500 million rail project to supply 150 diesel-electric locomotives to Pakistan. These locomotives are critical to building the infrastructure of Pakistan's economy, so products and commodities can get to market.

GE was told by Pakistani officials that they preferred GE locomotives and they were willing to pay a premium for their high-quality and dependability. However, there was only one sticking point and it was financing. The Chinese government offered financing that did not conform to international standards and practices. The intended was to provide Chinese manufacturers an advantage that GE could not make up in quality, price or service. This put the entire sale and more than 700 jobs in Erie, Pennsylvania at risk.

To remedy this, the Administration put together a matching financing package. And for the first time, we went to the OECD, the organization that governs global export financing, to inform them of our decision to match China. While the final deal is not yet completed, this significant policy change signals to foreign competitors that Ex-Im will compete on financing, allowing American companies to compete solely on the quality and value of its products--and the service it provides.

Let me share with you exciting results we have accomplished in financing renewable energy. The Ex-Im Bank has made significant strides when it comes to increasing financing of renewable energy products. In FY 2008 the Bank authorized $30.4 million in renewable energy exports. That grew to $101 million in FY 2009. We tripled our previous year's totals by authorizing $332 million for renewable energy exports in FY 2010. To put this number in perspective, according to data gathered by the Department of Commerce, the U.S. exported a total of $2.1 billion in renewable energy products in 2009. Ex-Im Bank is playing a major role in supporting U.S. renewable energy exports. In FY 2011 we are projecting to more than double our authorizations from FY 2010.

We are also breaking records with our work in sub-Saharan Africa. For FY 2009, Ex-Im Bank supported 109 transactions totaling $412 million across 20 sub-Sahara African countries. In FY 2010 those totals grew to 132 transactions totaling $812 million in 20 sub-Saharan African countries, which represents nearly 5 percent of all U.S. exports for the region. In FY 2011, Ex-Im Bank expects to top $1 billion in sub-Saharan African authorizations.

We are supporting U.S. exports and transactions across various economic sectors including: power, aviation, transportation, construction, agriculture, and mining.

Ex-Im Bank is providing a key service to businesses large and small in the United States. In order for us to continue helping to grow and sustain jobs through exports, the Bank needs to be reauthorized.

Our legislation provides for a gradual increase in our exposure limit over four years from the existing $100 billion to $140 billion in FY 2015, removes outdated references from our Charter - such as removing references to the former Yugoslavia which disbanded in the 1990's, and provides for a four year reauthorization which allows the Ex-Im Bank to continue operations through September 30, 2015.

The President's FY 2012 Budget continues the Bank's self-sustaining status, which was achieved for the first time in FY 2008. I want to emphasize this point: self-sustaining status allows for funding of the Bank's operations, including program budget and administrative expenses, entirely from fees collected from the Bank's borrowers. As a result, the Bank does not rely on taxpayer resources to fund operations, which is critical in a tight budgetary environment. Congress will continue its oversight of Ex-Im Bank's budget, setting annual limits on its use of funds for program subsidy and administrative expense obligations.

Ex-Im Bank and our employees are making a significant contribution to the U.S. economy. Our employees at the Bank have helped increase business by 70 percent since 2008 while implementing new technologies and programs like Express Insurance and Supply Chain Finance which are detailed in my written testimony. At the same time, we have received only a 7.6 percent increase in our administrative expense appropriation since 2008 and have only increased staffing by 13 FTEs or full time equivalent staff. Simply put, we have become leaner and more productive. This is something that every business strives to achieve. While Ex-Im's staffing and budget have remained relatively flat, we have generated billions in funds for the U.S. Treasury. But, in order to meet our goal of doubling exports by 2015, we must be able to increase our administrative budget.

I ran a business for 20 years and I know that we need to continue to invest in capital and human resources in order to grow business. The President has proposed an increase in our budget for Fiscal Year 2012. This increase includes $124.6 million for our administrative budget which would allow Ex-Im Bank to increase staffing for outreach to small businesses. Additionally, it will provide resources to improve our IT systems to help expedite applications and provide better customer service. While I realize this is our authorizing committee and not our appropriating committee, I would encourage you all strongly to consider the President's request for increased funding levels for the Bank. Let me be clear - this increase in our administrative budget is simply allowing Ex-Im Bank to use more of the money it generates for administrative expenses, which in turn will help sustain and create more jobs and generate more funds for the taxpayers of our country. The President's Budget still estimates – even with the increase in administrative budget – that the Export-Import Bank will generate excess funds in the amount of $212.9 million in FY 2012.

Thank you very much and we look forward to working with you on the re-authorization process.

Testimony of Thea Mei Lee
Deputy Chief of Staff
American Federation of Labor and Congress of Industrial Organizations

Before the House of Representatives Committee on Financial Services
Subcommittee on International Monetary Policy and Trade

"Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization"

May 24, 2011

Chairman Miller, Mr. Frank, Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the twelve and a half million working men and women of the AFL-CIO on the reauthorization of the Export-Import Bank, and how best to maximize the positive impact of the Ex-Im Bank's actions on American jobs and exports.

I have had the privilege to serve on the Ex-Im Bank's Advisory Committee as a representative of labor for more than a decade, so I have seen at close range the breadth of support provided by the Ex-Im Bank to American exporters, as well as the growth and development of the organization over that period of time. I would like to take a moment to commend Chairman Fred Hochberg for his leadership of Ex-Im Bank and for his unwavering dedication to supporting a strong U.S. export sector and American jobs.

The AFL-CIO supports President Obama's goal of doubling U.S. exports by 2015, and we appreciate the financial support that Ex-Im Bank has provided to help reach that goal, especially in the wake of the financial crisis. Ex-Im Bank's record of increasing its export financing by 70% since 2008 is commendable and reflects hard work by the leadership and staff, increased outreach to potential exporters, and some streamlining of procedures, among other things. The success of Ex-Im Bank in substantially increasing its export financing in recent years certainly appears to indicate that exporters find Ex-Im Bank financing attractive and competitive relative to other available options.

But it is important to keep in mind that the ultimate goal of Ex-Im Bank is not just to make more loans, but to support U.S. jobs through increased exports. As Section 2 of the Bank's 2002 Reauthorization makes clear: "The Bank's objective in authorizing loans, guarantees, insurance, and credits shall be to contribute to maintaining or increasing employment of United States workers."

Ex-Im financing provides exporters support that is in general more accessible or more attractive than that available through private channels. While Ex-Im Bank is self-financing, the full faith and credit of the U.S. government supports Ex-Im loans and makes possible the favorable terms that make Ex-Im Bank loans attractive to exporters.

The U.S. Congress, in its periodic reauthorization of the Ex-Im Bank, has an opportunity to ensure that Ex-Im financing is meeting its ultimate policy goal of supporting American jobs. The role of the Congress is essential in maintaining the integrity and the public-policy mission of the Ex-Im Bank. The Bank is under constant pressure from its clients, the companies that use Ex-Im Bank services, to weaken the policy constraints that are in place, in order to facilitate more loans on easier terms with fewer strings attached. Congress can and should represent broader American interests than just the profit motive of exporting corporations.

The three "policy provisions" of Ex-Im Bank that often come under sharp criticism from exporting companies are the domestic content guidelines (limiting Ex-Im Bank financing mainly to U.S.-produced goods and services), the economic impact requirement (ensuring that Ex-Im Bank loans do not undermine U.S. jobs or circumvent U.S. trade laws), and the U.S. shipping requirements. All of these create some inconveniences for exporting companies, but serve important public policy purposes for the United States.

The proposed legislation that is under consideration today, "Securing American Jobs Through Exports Act of 2011," reauthorizes the Ex-Im Bank through 2015 and increases its exposure cap to $160 billion over the next three years. The AFL-CIO supports the reauthorization of Ex-Im Bank and the expansion of available financing.

Unfortunately, the proposed legislation also alters the Bank's procedures for establishing domestic content guidelines in a way that is likely to weaken content requirements and undermine U.S. jobs. We strongly oppose this provision and will oppose the final legislation if this provision is included. Section 5 should be deleted from the legislation.

Section 5 lays out "required considerations" that the Bank "shall take into account" in establishing domestic content guidelines. The "required considerations" include the ability of U.S. companies to "compete effectively for export opportunities," as well as the effects of the guidelines on U.S. manufacturing and service *companies* – but nowhere in the required considerations section do American *jobs* come into play. This could encourage the Bank to set lower content guidelines so that American companies can obtain favorable financing for exports that contain little U.S. content and generate few American jobs.

Furthermore, the mention of direct *and indirect* costs, "including research, planning, development, production, and other business operations" seems to indicate that the legislation is encouraging the Bank to include indirect costs explicitly in the calculation of domestic content. In our view, domestic content should be calculated based on production costs – not a vague set of "indirect" costs that could include everything from advertising to CEO pay and bonuses.

Another "required consideration" included in Section 5 is the weighted average of domestic content levels in other OECD export credit agencies. This could easily be misused to rationalize lowering domestic content guidelines, but this would be ill-advised. The other OECD countries' ECAs often use a non-comparable set of guidelines and requirements for export support, but it is not straightforward to compare their overall policies to those of the Ex-Im Bank. For one thing, Ex-Im provides support up to 30% of the value of U.S. exports to be provided through "local costs" – the locally originated or manufactured goods and services connected to the U.S. export contract. Other ECAs count local costs as part of foreign content, so many cross-national comparisons of Ex-Im Bank's content policies to those of other countries' ECAs are misleading.

Section 5 also explicitly authorizes the Bank, "on a case-by-case basis, to reduce the content requirement that would otherwise apply under the guidelines, if a company can show that a particular part for a good involved in the proposed transaction is not available in the United States." This provision is unnecessary and will be difficult to administer. It is important to note that Ex-Im Bank does not have a minimum U.S. content requirement, so it is not necessary to waive the requirement to allow the use of imported parts. Ex-Im's policy simply provides that Ex-Im financing is only available for the U.S. content of the export contract, up to 85%. So, Ex-Im does not dictate to companies where they may source their inputs. Its policy simply allows for Ex-Im to finance the U.S. content of exports, thus providing an incentive for companies to maximize their U.S. content in order to obtain the favorable financing terms supported by the U.S. government and taxpayer.

Rather than attempting to weaken Ex-Im Bank's domestic content policies, any reauthorization legislation should instead clarify the content policies and make them more transparent, particularly with respect to how domestic content is calculated and what it includes.

In addition, we would like to see the economic impact provisions strengthened and clarified. There is no evidence that the current economic impact requirements are undermining the competitiveness of Ex-Im Bank or posing an undue burden on exporters, contrary to some recent testimony in this subcommittee.

In 2008, 2009, and 2010, very few transactions were required to undergo detailed economic impact analysis – 10, 7, and 8 respectively, according to the draft 2010 Ex-Im Bank Competitiveness Report. Of those, the majority were withdrawn for reasons having nothing to do with the economic impact requirement. Of the remaining handful of transactions, none in the last three years were denied because of the economic impact requirement. It should not be asking too much of companies that receive Ex-Im financing to report the likely impact of their transaction on U.S. jobs and production, especially where a global excess supply exists (as in steel) or a trade case is pending.

Another area where Ex-Im Bank policies could be improved relates to foreign export credits. The current charter lays out two situations in which the Bank can match foreign export credits. Under Section 10(b)(1)(A), Ex-Im can match credits if there is a reasonable expectation that a competitor will provide aid in violation of the arrangement or aid that, while technically in compliance with the arrangement, may require matching because it is grandfathered. Section 10(b)(1)(B) allows matching for exports to countries which are actual or potential export markets for countries that: i) engage in predatory financing and either impede negotiations or violate the arrangement; or ii) engage in predatory financing that seeks to circumvent agreements on tied aid. The section could be amended to add another category to this provision for any financing provided by a country that is not a member of the arrangement. This could simplify matters by eliminating the need to show that the country is violating the terms of the arrangement, impeding negotiations, or seeking to circumvent the arrangement.

Finally, an important challenge to Ex-Im Bank and the other OECD ECAs comes from the rise of China's Ex-Im Bank, which is rapidly increasing its export finance and is in egregious violation of WTO rules. The AFL-CIO would like to see our government take more forceful action through the WTO to confront these violations, which are undermining American exporters and workers.

Export credits are prohibited export subsidies under WTO rules, but there is a safe harbor in WTO rules that permits countries to provide export credits that comply with the interest rate and maturity terms of the OECD Arrangement on Export Credits. An export credit agency does not need to be a member of the OECD arrangement to benefit from this safe harbor, it just needs to bring its export credits into compliance with the OECD terms in practice. China has been invited to accede to the OECD arrangement but has refused to do so.

China's ECA is now one of the largest in the world, and it is blatantly flouting the basic rules export credit agencies agreed to decades ago, without any challenge. China's Ex-Im Bank is apparently granting loans with interest rates of 1 to 2 percent and repayment terms as long as 20 years, as well as special discounted credits that go directly to exporters in priority sectors such as high technology (including green technology). China's Ex-Im Bank explicitly advertises these credits as being available at below-market rates. Since China's export credits are not in compliance with OECD rules, they are prohibited export subsidies under WTO rules. We urge our government to bring a WTO challenge, as the United Steelworkers union has documented in its Section 301 case, to ensure that China come into compliance with international rules in this important area.

I thank you for your attention and look forward to your questions.

United States House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade

Testimony of Matthew J. Slaughter
"Legislative Proposals on Securing American Jobs through Exports:
Export-Import Bank Reauthorization"

Tuesday, May 24, 2011 2128 Rayburn House Office Building

Introduction

Committee Chairman Bachus, Committee Ranking Member Frank, Subcommittee Chairman Miller, Subcommittee Ranking Member McCarthy, and fellow members, thank you very much for inviting me to testify on these important and timely issues regarding America's Export-Import Bank and the broader national economy.

My name is Matt Slaughter, and I am currently Associate Dean and Signal Companies' Professor of Management at the Tuck School of Business at Dartmouth, Research Associate at the National Bureau of Economic Research, and Senior Fellow at the Council on Foreign Relations. From 2005 to 2007, I also served as a Member on the Council of Economic Advisers, where my international portfolio spanned topics on the competitiveness of the American economy.[1]

For today's hearing, you requested that I comment on possible actions "to optimize the performance of the Bank and its ability to serve U.S. businesses, small and large, to increase U.S. exports and promote domestic job growth." Specific topics you cited here included "the evolving and global nature of supply chains and how businesses evolve to compete in this environment" and also "the impact U.S. exports have on the creation of U.S. jobs."

In my remarks, I will first offer some broader economic context for your re-authorization deliberations. After this, I will discuss two additional issues regarding the competitiveness of U.S. companies in today's global economy. Linked to each of these three points, I will offer a recommendation about how the Export-Import Bank can better foster job creation to benefit American workers and their families.

[1] Currently and in the past two years, I have not received any Federal research grants. Currently, in addition to the affiliations listed above I serve as a member of the academic advisory board of the International Tax Policy Forum; an academic advisor to the Deloitte Center on Cross-Border Investment; an academic advisor to the Organization for International Investment, and a member of the U.S. State Department's Advisory Committee on International Economic Policy. For many years I have consulted both to individual firms and also to industry organizations that support dialogue on issues of international trade, investment, and taxation. For a listing of such activities, please consult my curriculum vitae posted on my web page maintained by the Tuck School of Business at Dartmouth.

Broad Economic Context: Exports Are Needed to Help Heal the Damaged U.S. Labor Market

First, it is important to emphasize how damaged the U.S. labor market remains today. Unemployment still sits at 9.0%, with about 25 million Americans still unemployed or under-employed. The 108.9 million private-sector jobs today is the same number we had nearly 12 years ago. The last time we had just 11.7 million manufacturing jobs, like we do today? April of 1941. America needs to find a way to grow millions of jobs as soon as possible. But to re-balance the U.S. economy away from excessive consumption (and thus trade deficits) that helped create the World Financial Crisis, America needs to grow millions of jobs linked to the global economy via exporting and related capital investment.

Academic research has documented the many ways in which exporting companies are stronger than non-exporters—even in the same detailed industry. Exporters tend to have about twice as many employees and sales. On a per worker basis, they tend to be about 10% more capital- and skill-intensive; their productivity and wages are also about 10% higher. It is typically high-innovation, high-productivity firms that expand beyond home into global export markets. That kind of dynamism America needs to dramatically expand today by supporting growth in U.S. exports. The President's goal of doubling U.S. exports from 2010 to 2015 is admirable. But achieving this goal will be difficult without substantial policy support for exports—especially given the reality that unprecedented monetary easing and fiscal deficits will, sooner rather than later, need to be withdrawn and reduced.

In light of today's still-fragile economic recovery and the pressing need to create millions of jobs linked to exports and related investment, I recommend that you expand the Export-Import Bank's funding cap by 200%--i.e., that its total liability cap be increased from $100 billion to $300 billion. This magnitude of increase can help support the twin goals of general economic recovery and the structural shift in aggregate demand that America's economy needs. Given Ex-Im Bank's long-running record of prudent lending and net transfers to the U.S. Treasury, this tripling should present little risk to America's overall fiscal condition, dire as that condition is.

The Rich Complexity of the Global Supply Chains of U.S. Exporters

Let me now address one of the most discussed features of current Ex-Im operations: its domestic-content requirement, which exporters and lenders have characterized as the Bank's greatest weakness. Current practice is to limit the amount of support for any export transaction to only the domestic portion of a good when its foreign content exceeds 15% of its export value. This domestic-content requirement is increasingly at odds with the global production networks that U.S. exporters are part of, and as such constitute a major constraint on the ability of American companies to benefit from Ex-Im support.

This rich diversity of production capacities around the world enables U.S. companies to locate different operations in different countries and thereby to better compete globally. There is no single strategy that works best for all companies at all times. The optimal global production configuration varies widely both across companies and over time. Production arrangements that make one company globally competitive can be very different from what works for other firms.

U.S. companies must make strategic investment and employment decisions from a truly global perspective. Moreover, globally competitive business models are not "one size fits all"—neither at a point in time across companies nor even over time within each company itself. Each company has a uniquely rich history that informs its current structure and strategies. As such, to best grow—including grow jobs in America—each firm needs the freedom to respond differently to the evolving opportunities and pressures of globalization. Indeed, this dynamic process of discovery—where and how to hire, invest, research, and sell—is critical for U.S. companies achieving and sustaining global competitiveness.[2]

An excellent historical example of this dynamic process of discovery is the global production networks of information technology. IT companies have been at the forefront of establishing and expanding production networks linked by trade and investment around the globe. Up until 1980, America was good relative to the rest of the world at making computers and related machinery. But then IT firms, thanks to rising domestic competition and opening borders, began to establish and expand global production networks.

Both falling natural and political barriers to trade and investment have driven the global engagement of the IT industry. Indeed, since the creation of the WTO the only industry to enact a free-trade agreement has been IT. Signed in 1996 by dozens of countries accounting for nearly 95% of world IT trade, the Information Technology Agreement eliminated over four years all world tariffs in hundreds of IT capital goods, intermediate inputs, and final products. This trade agreement facilitated the reconfiguration of global production, with U.S. IT firms moving to higher value-added activities such as core R&D, initial manufacturing, design, and marketing. Integral to the productivity success of IT has also been cross-border flows of ideas and people. IT demonstrates the important general point that immigrant inflows have long been a major force spurring U.S. growth by creating new ideas, new companies, and new links to global markets.

What impact did all this have on the United States? The best way to answer is in terms of productivity, which is the single most important metric to gauge the standard of living for any country. From 1973 to 1995, output per worker hour in the U.S. non-farm business sector grew

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[2] Data on U.S. multinational companies shows this heterogeneity quite clearly. Consider 2004, a year in which there were a total of 2,237 U.S. multinationals. That year, in 24% of these companies employment at foreign affiliates accounted for less than 10% of total worldwide employment. At the other end of the spectrum, in 3% of these companies employment at foreign affiliates accounted for over 90% of total worldwide employment. And for every company, successful arrangements today are very likely to differ both from what worked well yesterday and also from what will work well tomorrow. This rich variation can also be seen looking across broad industry groups. In 2006, 71.6% of the total global output of U.S. multinationals was accounted for by U.S. parents—with just 28.4% total accounted for by foreign affiliates. This total masks substantial variation in the production strategy of different industries. Multinationals in the broad industry groups of information and finance displayed an even greater U.S. concentration, with 87.6% and 85.9% of their global output, respectively, accounted for by U.S. parents. The very-strong U.S. orientation of these companies likely reflects the underlying U.S. strengths of strong intellectual-property protection and deep capital markets. In contrast, multinationals in the broad industry groups of wholesale trade and mining produced more in their affiliates than in the parents, with U.S.-parent shares of output of just 48.2% and 33.4%, respectively. The data and discussion in this footnote are taken from Matthew J. Slaughter, *How U.S. Multinational Companies Strengthen the U.S. Economy,* Business Roundtable and United States Council Foundation research report, Washington, D.C., March 2009/updated March 2010.

at just 1.35% per year. Then in 1995, U.S. productivity growth began to accelerate. From 1996 through 2007 it doubled, to an average annual rate of 2.70%. Thanks to the magical math of compound interest, the importance of this productivity acceleration is difficult to overstate. At the previous generation's growth rate, average living standards required 52 years to double. At the current growth rate, average living standards need just 26 years to double. This difference of 26 years spans an entire generation, and so carries profound implications for the well-being of all Americans.

For the decade after 1995, America's productivity acceleration was driven by one industry: computers and office products. Between half to two-thirds of the economy-wide productivity acceleration was driven by IT hardware, through two channels: a productivity acceleration in America's IT firms themselves, and also a boom in IT capital investment by firms throughout the economy in response to the accelerated price declines in IT.

The globalization of IT hardware—trade deficits and all—has helped boost average U.S. living standards. Cause and effect run in many directions between global engagement and productivity, and the ITA offers a textbook example of the benefits trade liberalization can deliver: a competitive spur to price declines and productivity gains in firms, to the benefit of not just the firms themselves but also of firms and consumers economy-wide via lower prices and new varieties. An excellent summary of all this dynamism is how today the back of every iPhone reads, "Designed by Apple in California, Assembled in China." But would Apple today qualify for Ex-Im Bank support to finance iPhone sales abroad?

The heterogeneity of optimal global strategies acknowledged, the presumption that globally engaged U.S. companies tend to rely on a vanishingly small amount of domestic U.S. content is simply incorrect. Data for multinational companies operating in the United States show this quite clearly.

In 2008, the U.S. parent operations of U.S.-based multinationals purchased $6.33 trillion in intermediate inputs, which was 72.5% of their total sales that year of $8.73 trillion. Of this $6.33 trillion in total input purchases, 88.8%—$5.62 trillion—was bought from other companies in the United States. Contrary to the common assumption that the global engagement of U.S. multinationals has eliminated their ties to domestic suppliers, nearly 89 cents out of every dollar spent by U.S. parents on intermediate inputs is paid to other companies in the United States, not companies abroad. And this heavy reliance on domestic suppliers has been virtually unchanged for decades: in 1977, U.S. parents purchased 91.3% of their inputs from other U.S. companies.

It is also the case that many of these U.S.-parent input purchases are from small and medium-sized enterprises in America. The U.S.-parent operations of the typical U.S. multinational buys goods and services from over 6,000 American small businesses; buys a total of over $3 billion in inputs from these small-business suppliers; and relies on these small-business suppliers for over 24% of its total input purchases. Collectively, U.S. parents purchase an estimated $1.5 trillion in intermediate inputs from U.S. small businesses, which is about 12.3% of their total sales.[3]

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[3] These big-little supplier linkages are reported in Matthew J. Slaughter, *Small and Big Business: Working Together for America's Prosperity*, Business Roundtable research report, Washington, D.C., September 2010.

A similar pattern of input purchases applies for the U.S. affiliate operations of foreign-based multinationals. In 2008, these companies purchased $2.78 trillion in intermediate inputs, of which 79.6%—$2.21 trillion—was bought from other companies in the United States. Contrary to the common assumption that the U.S. subsidiaries of global companies have very little tie to U.S. suppliers, nearly 80 cents out of every dollar spent by these subsidiaries on intermediate inputs is paid to suppliers located in America, not companies abroad.

And it is important to stress that these U.S. subsidiaries of global companies are a major source of U.S. exports. In 2008, these companies accounted for 18.1% of total U.S. exports of goods--$232.4 billion. These companies also accounted that year for 11.3% of U.S. private-sector capital investment and 14.3% of U.S. private research and development—all while employing 5.6 million Americans at an average annual compensation of $73,023, nearly one-third above the U.S. private-sector total.

The rich variety of global supply configurations of U.S. exporters means that domestic-content requirements are increasingly a competitive barrier for these firms that will tend to harm, not expand, U.S. job creation. I recommend elimination of the Export-Import Bank's domestic-content requirements. This should spur more companies to seek Ex-Im support for more transactions, the result of which would be more export deals leading to more U.S. employment and other U.S. activities. Others have recommended reducing these domestic-content requirements to something like 50%, which would be more in line with the practice of all our major trading partners. But given the magnitude of the economic challenges facing America today, I recommend a much bolder policy change to better support the export—and thus employment—opportunities of companies in America, both U.S.-based and foreign-based alike.

The Increasing Importance of U.S. Services Trade

The Ex-Im Bank has historically focused on supporting the U.S. export of goods. Yet some of America's strongest export industries are in services, not in goods. It is widely estimated that in recent years the United States is the world's single largest exporter of services—in 2010, $510.1 billion. Moreover, the United States has long run a multilateral surplus in services trade—in 2010, of $155.5 billion. This surplus in services trade reflects America's comparative advantage in services that rely on American strengths including highly skilled labor, information technology, and organizational capital.

For America to create millions of jobs linked to exports, many of these jobs will have to be linked to services exports. Merchandise trade alone almost surely will not be sufficient, given the data I cited earlier that today only 11.7 million U.S. payroll jobs are in manufacturing—just 8.9% of America's total. There are many policy changes the United States will have to undertake to help expand our services trade. But one of these changes can be greater Ex-Im Bank support for services trade. *I recommend that the Ex-Im Bank endeavor to expand its lending for all types of services trade—both stand-alone services and also the services related to merchandise exports, such as after-sales technical support and maintenance.* The current Ex-Im Bank charter mandates full consideration of services exports, but this activity is only a small portion of overall Bank operations.

Conclusions

America's economic challenges today remain large. To fully recover from the Great Recession, we need to create millions of good jobs at good wages. To achieve this goal, America needs leaders with the vision and courage to craft innovative policies. Reauthorizing the Ex-Im Bank to be both larger and nimbler can be one such policy, and I have offered three tangible recommendations for how to do this.

Let me close by thanking you again for your time and interest in my testimony. I look forward to answering any questions that you may have.

Joint Statement by
American Apparel & Footwear Association (AAFA)
National Cotton Council (NCC)
National Council of Textile Organizations (NCTO)

Before the
House Financial Services Committee
Subcommittee on International Monetary Policy and Trade

On

The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation

May 11, 2011

We are providing this written statement in lieu of written testimony that would have been submitted as part of the indefinitely postponed April 13, 2011 follow-up hearing on "The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation."

Thank you for your interest in exploring how the Export-Import Bank (Ex-Im Bank) can better address the needs of U.S. companies so that they can be globally competitive while creating U.S. jobs.

Our organizations represent the entire textile and apparel supply chain – from bale to retail.

The Ex-Im Bank could and should play a critical role in supporting and expanding U.S. jobs in the U.S. textile industry and anchoring a strong Western Hemisphere textile and apparel supply chain. Regrettably, the Ex-Im Bank has failed to fulfill this role because of: 1) legacy constraints regarding apparel and textiles that no longer exist and 2) the structure of Ex-Im Bank loans and guarantees do not reflect either the realities of the apparel and textile supply chain, U.S. trade policy, or today's global supply chains in general.

Background on U.S. Textile & Apparel Western Hemisphere Supply Chain

The textile and apparel supply chain in the Western Hemisphere, at the direction of U.S. trade policy, has developed into a mutually beneficial relationship.

The rules in the North American Free Trade Agreement (NAFTA), the U.S./Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), the U.S./Peru Trade Promotion Agreement (USPTPA), the Andean Trade Promotion & Drug Eradication Act (ATPDEA), and the Haiti HELP and HOPE programs provide, for the most part, duty-free access to the U.S. market for apparel assembled in the region as long as they are made from, either entirely or in part, U.S.-grown cotton and U.S.-made yarn and fabric. As a result, everyone in the supply chain benefits – from U.S. cotton growers and U.S. yarn and fabric manufacturers to apparel manufacturers in the region and U.S. apparel brands and retailers.

The Ex-Im Bank should be in an ideal position to support this mutually beneficial supply chain and the hundreds of U.S. companies, and thousands of U.S. jobs, supported by this supply chain. In short, however, the Ex-Im Bank does nothing to support this supply chain, a supply chain created and promoted by U.S. trade policy.

Export-Import Bank's De Facto Ban on Textile & Apparel Financing

To start, based on a legacy policy developed in the 1950s, one that no longer exists, the Ex-Im Bank avoids providing any credit or financing for the apparel or textile industries because they are so-called "import-sensitive" industries.

This policy simply does not reflect the realities of today's Western Hemisphere textile and apparel supply chain. Yes, Ex-Im Bank financing would support an increase in U.S. imports of apparel from the region. However, those apparel imports would contain U.S.-grown cotton and U.S.-made yarn and fabric.

Ex-Im Bank financing would facilitate and grow the Western Hemisphere apparel and textile supply chain by increasing the incentives for U.S. apparel brands and retailers to increase their sourcing from the region because such financing would make access to the U.S. cotton and textiles necessary to obtain the benefits under the various free trade agreements and preference programs easier, faster and more reliable. As a result, Ex-Im Bank financing would lead to increase exports of U.S. cotton, yarn, and fabric to the region. Those increased exports would support and grow U.S. jobs.

U.S. Government – "You Should Export to the Region, but We Won't Help You"

In addition to this a priori exclusion for textiles and apparel, the Ex-Im Bank also bases much of its financing decisions on country risk. In the case of the Western Hemisphere apparel and textile supply chain, this "Country Limitation" policy outright eliminates even the possibility of financing for some countries and severely restricts financing and/or significantly increases the interest rates for many other countries that are integral to this supply chain.

As a result, the U.S. government strongly encourages U.S. textile manufacturers to export their products to Central America and the Dominican Republic through the incentives it negotiated through CAFTA-DR while at the same time saying that financing U.S. exports to half of the CAFTA-DR countries is too high of a risk for the U.S. government, or U.S. banks, to provide anything but the most limited loans and loan guarantees, at high interest rates to boot. For Haiti, a country that the U.S. Congress has deemed a priority through passage of the HOPE and HELP trade preference programs, the Ex-Im Bank basically says the country is off limits.

Improving Products to Better Provide "Supply Chain Financing"

While the amount of paperwork and the timeline for approval remain major barriers preventing any small business from utilizing Export-Import Bank programs, for the Western Hemisphere apparel and textile supply chain we believe that the Export-Import Bank must adapt to today's global supply chain. As in textiles and apparel, the United States doesn't just export final manufactured products anymore. Exports of U.S.-made goods today are just one part of a global supply chain. In our industry, U.S. exports of cotton, yarn, or fabric, return to the United States as finished apparel or home goods. The programs offered by the Export-Import Bank should reflect these realities.

Therefore, we propose that the Export-Import Bank consider the development of so-called "Supply Chain Financing" programs.

Some possible options the Export-Import Bank should consider as part of its "Supply Chain Financing" are:

a. bank to bank financing – "earmarked" for a specific producer
b. direct financing to company/U.S. customer "in-country"
c. financing of the P.O. (Purchase Order)

Conclusion

Thank you again for exploring this important issue. We believe that a combination of changes in both Export-Import Bank policies and programs will position the Export-Import Bank to truly assist U.S. companies, particularly small businesses, and the hundreds of thousands of U.S. workers they employ, that play a critical role in today's global apparel and textile supply chains. We would be happy to discuss any of the above points in more detail with the Subcommittee.

Statement
of the
U.S. Chamber
of Commerce

ON: Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization

TO: House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade

BY: U.S. Chamber of Commerce

DATE: May 24, 2011

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

The U.S. Chamber of Commerce is pleased to submit this statement to the House of Representatives Committee on Financial Services Subcommittee on International Monetary Policy and Trade hearing on the reauthorization of the Export-Import Bank of the United States. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

No priority facing our nation is more important than putting Americans back to work. Nearly 9% of the U.S. workforce is unemployed — a figure that soars beyond 17% when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the current recession and to meet the needs of America's growing workforce.

Most importantly, outside our borders are markets that represent 73% of the world's purchasing power,[1] 87% of its economic growth,[2] and 95% of its consumers. The resulting opportunities are immense.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury.[3] President Obama has noted that one in three manufacturing jobs depends on exports,[4] and one in three acres on American farms is planted for hungry consumers overseas.[5]

If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, providing access to markets abroad to the products of American workers, farmers, and companies is a higher priority than ever before.

Hence the importance of the Export-Import Bank of the United States (Ex-Im) — the official export credit agency of the United States. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy

Trade Finance Matters

The Chamber strongly supports the goal set by President Obama to double U.S. exports within five years. Boosting exports is one of the most promising avenues to creating the 20 million jobs Americans will need over the next decade.

At the same time, the WTO reports that 90% of global merchandise trade relies on some form of trade finance. This includes letters of credit or related forms of financing and guarantees such as trade credit insurance.

In this context, the financing and guarantees provided by the Ex-Im Bank will play a vital role in the success of this undertaking. Ex-Im provides critically needed financing guarantees and insurance to help American businesses export products to overseas markets. In Ex-Im's more than 70 years experience, the organization has supported over $400 billion in U.S. exports.

Ex-Im helps to cover critical trade finance gaps for U.S. exports in developing markets where commercial-bank financing is unavailable or insufficient. Further, there are many U.S. export transactions that would not move forward without the assistance of Ex-Im. For Fiscal Year 2010, Ex-Im supported an estimated $33 billion in export sales, and 227,000 U.S. jobs at over 3,300 companies.

Ex-Im is critical to small business exporters. At the beginning of this year, Ex-Im announced its Global Access for Small Business (Global Access) initiative, which will help more than 5,000 small companies export goods and services produced by U.S. workers. The U.S. Chamber of Commerce is one of several organizations partnering with Ex-Im to promote small business exports through Global Access. The Chamber is collaborating with Ex-Im to organize outreach forums across the country, directly inform small businesses about export opportunities, and highlight companies that have increased sales, profits, and jobs through exports.

Ex-Im Bank responded to the recent financial crisis 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. 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.

Ex-Im's Liability Loan Cap

Ex-Im Bank was chartered in 1934 with a mandate for Congress to reauthorize. The Ex-Im bank's authorization will expire on September 30, 2011. Absent reauthorization, Ex-Im will cease to operate. The Chamber urges Congress to reauthorize the Bank for a period of six years.

In today's era of tight budgets, it is worth remembering that Ex-Im is a self sustaining, independent agency which operates at no cost to the taxpayer. In fact, Ex-Im has actually earned (above all cost and loss reserves) $4.5 billion for taxpayers since 1992.

In this context, if the United States is to double exports within five years, it should double Ex-Im's liability loan cap from $100 billion to $200 billion. Because Ex-Im has a strong and diverse portfolio, there is little or no risk to the Treasury and the U.S. taxpayers. In fact, trade finance — most of which is backed by merchandise being traded — has long been viewed as one of the least risky kinds of lending.

Domestic Content Requirements

In addition, Ex-Im Bank is currently saddled with onerous conditions relating to the U.S. content of exports it supports. Mechanistic and simplistic calculations of U.S. content limit the ability of the bank to make more trade finance available. A more flexible approach would allow

Ex-Im Bank to broaden its support for exporters and the jobs they create. In addition, it fails to account for the present day reality of global supply chains which exporters need to maintain their international competitiveness.

It is notable that the vast majority of ECAs, including Export Development Canada (EDC) and the Export-Import Bank of Japan, are allowed greater flexibility with regard to national content rules. In the latter case, Japanese companies are eligible for financing no matter where goods are made as long as the company pays taxes in Japan.

The content policy of requiring 85% domestic content appears good in theory, but falls apart in the context of today's global supply chains on which major exporters rely to maintain their competitiveness internationally. Compared to other ECAs, the Bank's content rules are far and away the most stringent; Austria has the next highest content rules at 50%.

Moreover, Ex-Im defines U.S. content very narrowly — generally excluding, for example, the value of intangible inputs and services, and disqualifying the content of U.S. free trade agreement (FTA) partners. Content requirements should be revised for full financing so that they are set at the greater of (i) the average among Organisation for Economic Co-operation and Development countries or (ii) 50% U.S. content.

As with the EU export credit agencies, Ex-Im should automatically cover non-U.S. content from our FTA partners who offer reciprocity for U.S. content under their export credit agencies. For countries which do not have ECAs, the United States should cover their content outright. This should be built into future FTA negotiations.

Ex-Im's content rules should also be revised to permit participation by service companies. It is easier to pinpoint the origin of the components of manufactured goods than it is to define U.S. content in intellectual property, research and development, consulting, global supply chain management, and even the corporate brand. As U.S. service companies continue to grow, this is fertile ground for the National Export Imitative and Ex-Im Bank to be supporting high value exports and high paying U.S. jobs.

In addition, attention should also be given to the needs of small and medium enterprises (SMEs). To facilitate access by SMEs and speed processing times, Ex-Im should deputize more commercial banks, community and state banks, credit unions, and non-regulated lenders to act on its behalf, while setting appropriate transaction costs and fee sharing arrangements to facilitate cooperation. In addition, we encourage Ex-Im to undertake modest-size, "risk-sharing" stakes in large commercial lending facilities (e.g., taking 10% of a deal, where the remainder can be provided by private sector sources).

Multilateral Disciplines on Trade Finance

As Congress considers legislation to reauthorize Ex-Im, it is worth taking a step back to consider the degree to which foreign-headquartered corporations are often armed with substantial, attractive government-backed export finance packages. The result is that American companies are increasingly at a competitive disadvantage. A growing number of those competitors are from large emerging markets whose governments have not committed to uphold multilateral (OECD) disciplines on export finance.

For example, China has not committed to follow OECD rules for export credit agencies, and as a result Beijing has provided much more generous financing to its exporters than Ex-Im typically does. According to a June 2010 Ex-Im Bank report, China's export financing in 2008 was more than five times that of the United States. Export finance provided by Chinese policy banks (including Sinosure, China Exim Bank, and Chinese Development Bank) was significantly higher than the combined financing provided by the U.S., German, Japanese, and Canadian ECAs in 2009.

Only in rare situations has Ex-Im matched foreign export credit agency (ECA) financing offers that are outside OECD framework, and the Bank has refrained from financing projects in the U.S. market altogether. It has also made very sparse use of its "Tied Aid War Chest" — a program to supplement the financing of a U.S. export when there is a reasonable expectation that predatory financing will be provided by another country for a sale by a competitor of the U.S. exporter.

Moreover, Ex-Im has traditionally had relatively little activity (and, indeed, is subject to policies that limit its activity) in regions of the world that may pose commercial risk, but also present both significant commercial and strategic opportunity, including portions of the Middle East and Africa. However, it is in these regions that other governments have become far more aggressive and winning market share.

The Chamber is working to gather new information about existing export credit arrangement programs in several countries, including China (such as the programs administered by the China Development Bank and the China Export-Import Bank). Our goal is to determine whether existing obligations are sufficient to discipline export credit programs.

It may be possible to strengthen current OECD obligations to minimize the negative impacts of such programs. It is also possible that new obligations may be required to ensure that American companies are able to compete on a level playing field with their foreign competitors.

The Chamber strongly upholds multilateral trade agreements governing trade finance — including those advanced under the World Trade Organization and the OECD conventions — and we believe that the solution to these challenges is to work towards strengthening the multilateral disciplines and bring other countries into those regimes.

However, to ensure that strategic global markets are not lost in the interim and to encourage non-OECD countries to sign up to multilateral regimes, we believe that Ex-Im should be encouraged to use the tools at its disposal to defend key strategic markets. In the long term, the U.S. Chamber recommends a review of how other countries organize and support their ECAs and benchmark against international best practices.

Economic Impact Test

Ex-Im applies an "economic impact test" to all proposed transactions and often declines to finance any transaction that could aid the production of goods that could compete with a like product in the United States. This results in an expensive and cumbersome process that has been highly politicized. Moreover, to the best of our knowledge, no other major ECA imposes a similar requirement.

The Economic Impact Test should be revamped to disallow only those transactions that will facilitate exports of products from companies that have been determined to be illegally dumping in the U.S. market or benefitting from an illegal countervailable subsidy, and raise the threshold of transactions that are subject to an economic impact analysis.

In addition, the Ex-Im Bank needs resources to update its antiquated technology and make its processes faster, more efficient, and user-friendly. At a time when inquiries and demand for its services have doubled and tripled (by some measures), the bank also needs to be able to expand its staff.

Finally, we are aware that the White House has sent two Ex-Im Bank Board of Director nominations to the Senate for confirmation. The Board consists of five positions: a Chair, Vice Chair, and three Board Members. Two of the Board seats are currently vacant, while the term for the other two expires on July 20, 2011, and a quorum of three is required. Without Senate confirmation of two seats before July 20, the Bank will not be able to make decisions on the deals that require Bank approval. The Chamber strongly encourages the Senate to approve these nominations as swiftly as possible.

Conclusion

For the Chamber, the agenda is clear. The United States cannot afford to sit on the sidelines while others outcompete us in the world economy. Other governments have become far more aggressive and creative in using government-supported financing to win market share.

The United States needs a laser-like focus on opening foreign markets and supporting our job creating exporters. World trade is again expanding rapidly, and it is generating new opportunities around the globe. However, this is too often a story of missed potential. The business community could be doing much more to create jobs, lift people out of poverty, foster greater understanding and stability among nations, and solve vexing social problems if we weren't missing so many of the opportunities that global commerce can create.

If the United States stands still on trade, we fall behind. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for escaping high unemployment, massive deficits, and exploding entitlements.

As the United States moves forward, Ex-Im Bank will play a leading role as the U.S. works to double exports in five years and create new jobs at home. The U.S. Chamber of Commerce urges this committee and Congress to take into consideration the reforms proposed here and to secure swift reauthorization of the Export-Import Bank of the United States.

[1] David Wessel, "Asia's Latest Export: Recovery," *The Wall Street Journal*, February 24, 2010, http://online.wsj.com/article/SB10001424052748703510204575085280515242598.html.

[2] Office of the U.S. Trade Representative, Executive Office of the President, *The President's 2010 Trade Policy Agenda*, March 2010, http://www.ustr.gov/webfm_send/1673. "IMF forecasts indicate that nearly 87% of world growth over the next 5 years will take place outside of the United States."

[3] U.S. Department of the Treasury: https://ustreas.gov/press/releases/hp285.htm.

[4] The White House: http://www.whitehouse.gov/the-press-office/remarks-president-announcing-presidents-export-council.

[5] American Farm Bureau Federation: http://www.fb.org/index.php?fuseaction=newsroom.fastfacts.

BAFT-IFSA

June 19, 2011

The Honorable Carolyn McCarthy
US House of Representatives
Washington, D.C. 20515

Dear Representative McCarthy:

Thank you for your follow-up question to our May 24th testimony at the House Financial Services Subcommittee on International Monetary Policy and Trade hearing entitled "Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization." You asked how we would justify the increased risk of exposure to the US taxpayers if the bank relaxed content and financing standards.

BAFT-IFSA believes that the most flexible content policy practicable is important to support Export-Import Bank ("Ex-Im" or "Bank") financing and increase competitiveness for US exports. By allowing Ex-Im to compete effectively in the international marketplace, the US taxpayer will ultimately benefit and job growth will be enhanced by access to critical export financing. A system whereby a transaction is approved based on the benefit that accrues to the US economy (similar to the Export Development Canada (EDC) model) would help drive growth in the US exporting sector.

BAFT-IFSA does not believe that Ex-Im Bank should reduce its financing standards. Assurance of repayment of Ex-Im loans is essential to the Bank's charter. BAFT-IFSA believes that key changes in program protocols, thresholds, and other requirements put in place to respond to various challenges should be undertaken in consultation with industry stakeholders like financial institutions with whom it does business. A more collaborative, iterative approach will ensure that Ex-Im policies are more sensitive to customer needs and market dynamics. Open dialogue on key initiatives can help avoid confusion and preempt unintended consequences in new programs or policies that may limit use of the Bank's programs and ultimately adversely affect the financing of US exports.

We thank you and Chairman Miller again for the opportunity to provide our views at the May 24th hearing. I look forward to working with you and your staff on a number of matters of common interest in the future. Please do not hesitate to contact me with any further questions.

Very truly yours,

Donna K. Alexander

Donna K. Alexander
Chief Executive Officer

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Response to Question from the
Statement of
Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States
before the
United States House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
on
May 24, 2011

Question: Your testimony touches on the required action of the IG to report to Congrss (sic) evaluating the content guideline that the Bank must adopt: please explain the impact such a function could have on your resources, and if that would impact your ability to carry out the other duties your office is required to perform?

Response: Thank you for the opportunity to testify before the Subcommittee on International Monetary Policy and Trade and to respond to this question. H.R. 2072, *Securing American Jobs Through Exports Act of 2011*, Section 5(i)(7), Report to Congress, directs the Inspector General (IG) of the Export-Import Bank (Ex-Im) to conduct an evaluation of the impact on exporters and jobs of new or modified domestic content guidelines enacted by Ex-Im. This section states the reporting period for the IG report and broadly dictates the factors, elements, and areas that should be included in this report. We strongly believe that the scope of this evaluation falls outside the statutory role of the IG to detect and prevent fraud, waste, and abuse and could have U.S. Government-wide policy implications. Further, if H.R. 2072 is passed as written, the OIG is not structured or sufficiently financed to successfully produce such a report.

Impact upon the Statutory Role and Structure of the OIG: The Office of Inspector General (OIG) was been established by the Inspector General Act of 1978 to provide an independent office within federal agencies to detect and prevent fraud, waste, and abuse while improving the efficiency and effectiveness of the agencies' operations. The statutory role of the OIG, as it relates to domestic content guidelines issued by Ex-Im, is not to determine what approach (more domestic content mandate or less domestic content mandate) may create or sustain more jobs, but the OIG role is to determine how effective and efficient Ex-Im develops and implements the guidelines and monitors the content levels represented by participants of supported exports. The language of section 5 requires the OIG to step out of its statutory role to develop an evaluation of the economic impacts of the domestic content guidelines on exporters and the job market and to recommend how to improve the guidelines to foster greater job creation. Providing guidance on an executive policy route Ex-Im should embark on and using the IG to determine the effectiveness of such guidance can be construed as an extension of the political process, something traditionally considered outside the statutory duties of the OIGs and that may affect the operational independence of its functions.

Impact upon the Financing of the OIG: In order to effectively evaluate the economic impact of the domestic content guidelines on domestic jobs, the industries and kind of jobs affected, and how these guidelines can be modified to have a better impact on maintaining jobs and job creation, this office would be required to contract for the services of consultants, economists, and other professionals who can accurately collect, analyze, and interpret the data collected from Ex-Im, exporters, manufacturers, trade organizations, labor unions, U.S. Department of Labor, U.S. Department of Commerce, U.S. Small Business Administration and other economic indicators. These are capabilities that the OIG office, with a staff of eleven (11) career professionals and a current budget of $2.5 million per year, does not have in-house. In order to effectively monitor such a contract and prepare the appropriate report, the OIG office would have to devote 2 – 3 staff to work with these consultants. Currently, our office produces 6 – 7 audits/evaluations a year (with three auditors) and is investigating over 500 transactions/claims (consisting of 37 investigations conducted by five agents). In the years when the report is required, the OIG would have to shift resources away from areas of Ex-Im operations already identified by our office to address the reporting requirements imposed by Section 5(i)(7).

As a new office, we have struggled to receive appropriate funding to address the areas of oversight this office has identified and to address the significant growth Ex-Im has experienced in the past several years. Although budget increases have been requested by the OIG, submitted by OMB, and recognized by the U.S. Senate, this office has yet to receive a budget increase in three fiscal years. Increasing reporting requirements while limiting funding would inevitably reduce our ability to positively influence Ex-Im operations.

Summary and Alternative Approach: The OIG respectfully petitions this honorable Subcommittee and Committee to reconsider the language of Section 5(i)(7), Report to Congress, requiring the Inspector General to provide a report on the impact of the domestic content guidelines on exporters. We believe that this evaluation would be better served as part of Ex-Im Bank's implementation of its new guidelines. The OIG would work closely with Ex-Im Bank and Congress to assess the effectiveness of data and methodologies used in the reporting (similar to our current role reviewing Economic Impact guidelines used by Ex-Im)[1] to ensure that Ex-Im Bank and Congress can fully and appropriately evaluate the effectiveness of these new guidelines.

Using OIG funds to conduct an exhaustive and broad evaluation of the impact of the domestic content guidelines will negatively impair our ability to focus on the true statutory mission of the Inspector General Act of 1978, which is to protect and detected fraud, waste, and abuse.

Thank you again for this opportunity to further explain the impact this provision will have on the OIG.

[1] The OIG Economic Impact Report can be found at http://www.exim.gov/oig/documents/EIB_Report_Final_Complete_Web.pdf

QUESTIONS SUBMITTED FOR THE RECORD FROM CONGRESSWOMAN CAROLYN MCCARTHY

Question: How is 'default' measured within the Bank? For example, at what point within the various financial programs offered by the Bank, would the borrower enter into default status?

Answer: Default occurs when a debtor has not met his or her legal obligations according to the debt contract. Default can be of two types: debt services default and technical default. Debt service default occurs when the borrower has not made a scheduled payment of interest or principal. Technical default occurs when an affirmative or negative covenant is violated. Both types of default occur on Ex-Im Bank transactions. In general, technical defaults are relatively minor that have no bearing on the underlining credit. This can happen at any point during the life of the credit. However, debt service defaults are significant events that do usually lead to claim payments, under Ex-Im Bank's guarantee and/or insurance programs. There are a few cases where a debtor has missed a payment but ends up paying at a later date and the guarantor or insured party sees no need to file a claim. Under the Bank's long-term program, claim payments occur, on average, in the fourth year of the credit. For the Bank short term and medium-term insurance programs, claim payments occur, on average, in the second year of the credit. Finally, under the Bank's medium-term guarantee program, claim payments occur, on average, in the third year of the credit.

For the purpose of calculating loan loss reserves, subsidy costs (both positive and negative), and evaluating programs, the Bank uses claim payments as the underlining measure of default. These claim payments are generally tied to debt service defaults.

Question: Given the Bank's mission to provide export financing while creating or sustaining U.S. jobs, please discuss the metrics used to measure jobs, and the level of accuracy in quantifying the jobs calculation.

- Have you explored ways that the Bank could measure the jobs sustained or created in a more"targeted" manner, for example by industry?

Answer: Ex-Im Bank currently estimates the number of jobs it supports by using a national jobs requirement estimation tool developed by the U.S. government. This tool relies on a detailed mapping of the inter-industry relationships within the economy (called "input-output tables") generated by the Bureau of Economic Analysis and employment figures generated by the Bureau of Labor Statistics to estimate the average number of U.S. jobs required to produce a given dollar of output by industry. Ex-Im Bank takes this tool and overlays its exports supported by industry to derive the number of jobs associated with Ex-Im Bank financing. The Department of Commerce also uses this tool to derive the total number of U.S. jobs supported economy-wide by U.S. exports.

This process generates an estimate that Ex-Im Bank financing supports approximately 7.4 jobs per million dollars of exports. [1] This estimate is higher than the U.S. economy-wide average of 6.0 jobs per million dollars of exports because of differences in the portfolio of exports Ex-Im finances compared to the composition of national exports. For example, Ex-Im Bank's portfolio has a larger share of aerospace manufacturing exports, which require approximately 6.8 jobs per million. Ex-Im Bank's export portfolio also has a larger share of construction services and architectural and engineering services exports, which require approximately 11.3 and 8.9 jobs per million respectively.

Ex-Im believes these jobs estimates are the best available using the best data available. First, these jobs estimates include direct and indirect (supply chain) jobs associated with the production of a good or service. Second, as a U.S. government derived jobs estimation tool, this methodology was designated as the standard for all U.S. government agencies to use by the Trade Policy Coordination Committee. Third, these jobs estimates are derived from employment data generated by the Bureau of Labor Statistics, the gold standard of employment information. Finally, this methodology has been vetted and approved by the Council of Economic Advisors.

To provide more detailed information by transaction would require a large cost commitment by the Bank without large gains. Ex-Im would have to request information of each exporter supported, a labor-intensive exercise for the Bank since Ex-Im supports roughly 3,000 transactions each year. Further, these numbers would not include the supply chain jobs involved in the production of the exported goods and services, which the current metric does capture. Finally, as companies may have differing methodologies to determine the number of jobs supported through their export sales Ex-Im would not be able to aggregate these non-uniform estimates, minimizing their value.

- Besides content, which seems to be the driving competitive measurement within the draft legislation, what other significant factors do you feel should be used to measure the Bank's competitiveness?

Answer: In measuring Ex-Im Bank's competitiveness, there are many factors to take into consideration, especially with regard to the basic financing terms and conditions such as interest rates, premia, repayment terms, and basic availability of risk cover. In addition, the availability and terms offered in "special programs" such as aircraft, project finance and foreign currency financing are also critical, especially in the current environment where private lenders are very reluctant to provide extended repayment terms for large dollar transactions, and where all of Ex-Im's official ECA counterparts offer attractive and much needed financing. Overall, the Bank is considered to be competitive with the official OECD ECAs.

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[1] The 7.4 jobs per million estimate is based on Ex-Im Bank's FY08 portfolio. When recalculating the jobs estimate using Ex-Im's FY10 figures, the new estimate was 7.25 jobs per million. This difference can be attributed to differences in Ex-Im's portfolio and better data quality.

The new dimension to Ex-Im's competitiveness which is described in some detail in the Bank's 2011 Annual Competitiveness Report to Congress due to be delivered to you by June 30, is the emergence of different forms of financing from both OECD and non-OECD ECAs – financing that, by definition, falls outside of the purview of the OECD Arrangement guidelines. However, it is not clear at this point whether these programs effectively constitute export credit financing that is competitive with Ex-Im Bank and US exports. In this regard, Ex-Im has undertaken the initiative to better understand , quantify, and evaluate these other forms of financing to determine what, if any, the competitive implications might be.