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THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

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Chairman Moore, Chairman Meeks, Congresswoman Biggert, Congressman Miller and Members of the Committee, thank you for the opportunity to testify on the U.S. Export-Import Bank's (Ex-Im Bank) role in supporting the Administration's National Export Initiative. The Coalition for Employment through Exports (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. A core element of that effort is to promote the various trade agencies like TDA, OPIC and, particularly, Ex-Im Bank.

We strongly support the administration's mandate to double exports in the next five years through the President's National Export Initiative, and believe that the centerpiece of that effort has to be a strong, responsive, and flexible Ex-Im Bank that is able to compete with the export credit agencies (ECAs) of other countries.

EX-IM BANK AND FINANCIAL CRISIS

During the financial and economic crisis, Ex-Im Bank responded by taking critical steps to compensate for the collapse in private export financing. In 2009, the Bank dramatically increased its transaction volume, authorizing more than $21 billion in support of U.S. exports, up from $14 billion the previous year. It also set a record for financing $4.36 billion for small business exports. We understand that for the fiscal year concluding on September 30, the Bank expects to authorize in the range of $24-25 billion in overall support as well as set a new record for financing small business exports.

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

The liquidity crisis accelerated a trend which had already been developing around the world – continued growth in the program role, flexibility and size of ECAs around the world as governments injected additional funds into their national ECAs to support their own economies and businesses; and the Ex-Im Bank has had to contend with this increasingly intense competition. Many of our members have declared from the outset of the crisis that the financing terms offered by ECAs were often the decisive factor in determining whether a U.S. company would prevail over an international competitor. For a variety of reasons, these foreign ECAs – both within and outside the OECD Arrangement – are better able to offer flexible financing, too often to the detriment of American exporters. The Bank, in our view, must be given the tools it needs to increase its competitiveness if it is to accomplish the goals of the National Export Initiative.

A STRONG, COMPETITIVE EX-IM BANK MEANS A STRONG, COMPETITIVE ECONOMY

We believe a strong, flexible and fully competitive Ex-Im Bank is the financial backbone to the National Export Initiative. In order for the Administration to double exports and the high value jobs supporting those exports, it needs to ensure that the U.S. financing will be fully competitive with the financing provided by our competitors.

In comparison to other ECAs which are parties to the OECD Arrangement on Export Credit Financing and its rules regarding premia rates, financing terms, local cost, etc, Ex-Im Bank is quite competitive. The Bank is also a leader in areas such as project finance and support for small businesses. However, at present, many of the other OECD ECAs and their governments operate with a flexibility that the Bank is unable to replicate due to outside pressures as well as culture. The staff at Ex-Im Bank does a good job of exploring all the ways they are able to finance a complicated deal with the tools available, but they often run into policies put in place by Congress and the Administration that hamstring them from successfully competing. The end result is lost opportunities and fewer U.S. jobs and exports.

For the NEI to be truly effective, Ex-Im Bank, with support from the Administration and Congress, should work on addressing these policy issues. While these policies may have made sense when put into place, the current economic reality is such that they hinder our competitiveness and result in a Bank that at present is more rules than mission oriented.

The first is foreign content, which is a complex issue that has easily become the biggest hindrance to Ex-Im Bank financing. The policy of requiring 85% domestic content appears good in theory, but falls apart in the context of today's global supply chains which major exporters need to maintain their competitiveness internationally. A reason for this shift towards more flexible content rules is the shift in thinking at the ECAs to a "national interest or benefits" approach to financing. That is, if a transaction is to have a benefit to the overall economy of a nation, even if the actual content is lower, the ECA will move forward. This has been a long-developing trend chronicled in the Bank's Annual Competitiveness Report.

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%. Currently, if a potential export has 75% U.S. content, the Bank cannot finance the entire export, leaving the exporter to find a third party to cofinance the 10% gap. If cofinancing is not possible, the U.S. exporter is much less appealing to a buyer, who can invariably resort to a foreign competitor with financial support from a more flexible, national-interest focused ECA.

Understandably, content is a nuanced issue, but the Bank does not, or is unable, to take into consideration such things as value-added in the United States, R&D, project management, and overall benefit to the company and the U.S. economy. By contrast, other ECAs are using their flexible rules to solicit the shifting of manufacturing and service capacity to their countries. We encourage the Congress to support a more flexible Bank to ensure that U.S. companies are able to compete on such projects where the other ECA is substantially less hampered by content complexities.

A second issue is the MARAD cargo preference. The requirement that exporters using the Bank are required to ship on U.S. flagged vessels increases shipping costs and too often delays arrival of the export as there are not enough ships both major impediments for both the buyer and exporter. While we understand the Congressional support for the maritime industry, we urge Congress to consider a solution that will not significantly disadvantage the exporter in the process.

Another issue that should be looked at is Tied Aid. Tied aid refers to a combination of export credits and other financing or assistance used to gain a competitive advantage in a transaction. The supplemental financing or assistance is “tied” to the export transaction. It has been increasing over the past few years and is primarily utilized by other governments to establish footholds in regions for certain national industries such as renewable energy. Ex-Im Bank has the ability to match such financing via its Tied Aid War Chest, but access requires a stringent interagency process that results in deals not being processed. In the past five years, the Bank has only utilized the War Chest once in 1998 for a Sub-Saharan Africa deal. We understand that there is consideration to match a tied aid offer by the Chinese, but this should not be a one-off event. The hope is that if other governments know that the U.S. government is willing and able to step up to match such financing, the desire to utilize Tied Aid will drop.

The situation with non-OECD ECAs is even more problematic. China, India, Brazil and others have strongly funded and supported their own ECAs that are active in developing countries without the agreed upon limitations set out in the OECD Arrangement. These governments are using their ECAs to penetrate critical markets in areas such as oil & gas, renewable energy, and natural resources extraction, in which many OECD-compliant ECAs simply are unable to compete with the below market and concessionary financing options provided by China and other governments. CEE represents U.S. businesses at the OECD and has encouraged the organization to do as much as possible to bring these ECAs into the OECD arrangement, and we hope the U.S. government will continue to advocate for this as highly aggressive ECAs outside the OECD Arrangement are an ever increasing reality. CEE is also closely monitoring the OECD’s Aircraft Sector Understanding talks as the outcome will have a significant impact on America’s aerospace industry, a key contributor to the U.S. balance of trade.

ADDRESS SERVICE EXPORTS

The export of services, especially high-tech services, is one of the fastest growing sectors of the U.S. economy. While the Bank is mandated to provide financing for services, it is not doing all that it should. The reasons include the lack of a services policy for companies to refer to, the lack of a clear idea what the export actually comprises, and the current stringent content rules that are based upon the manufacture of goods. It is easier to pinpoint the content of something made and assembled, but it is much harder to define U.S. content for a service for which value is received comprising in part intellectual property, research and development, consulting, global supply chain management and even the corporate brand. U.S. technology firms have discussed export opportunities with Ex-Im Bank in the past, but found the Bank unable to help them under the current content definition. These transactions can range from $30-$100 million and would not only support high-paying jobs, but also the establishment of critical technological footholds by U.S. firms in rapidly developing countries.

To their credit, the staff at Ex-Im Bank is aware that this is an issue and has reached out to CEE to begin a project that we hope will result in concrete, workable solutions. We are in the early stages, but we believe there are some ideas that can be implemented sooner rather than later. One place to start is for the Bank to put its current service policy/programs on its website so exporters have a baseline knowledge of their options. We also encourage the Bank to explore a separate content definition for services, similar to their expanded definition used by small businesses. This could include R&D, dividends paid to American stockholders, and the holder of a contract.

Other ECAs are known to finance deals based on who holds the contract for a software installation, maintenance and repair contract, and other similar high-technology transactions. If Ex-Im Bank were to adopt the eligibility guidelines used by other ECAs, it would mean a significant increase in support for U.S. companies that are losing transactions because of financing packages offered by their competitors. As U.S. IT companies are so technologically dominant, this is fertile ground for the NEI and Ex-Im Bank to be supporting high value exports and high paying U.S. jobs against foreign competition.

SMALL BUSINESS

While most of CEE's members are large, global companies, we recognize the critical importance of Ex-Im Bank financing to small business exporters. The Bank is essential for small businesses wary of selling overseas for fear of not being paid; it helps greatly to mitigate these concerns. Ex-Im Bank 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 that will ensure payment to the subcontractor by the Bank at the time his work is completed rather than having to wait until the finished product is exported and the ultimate buyer is paid. This program is critical in supporting small businesses that are a party of the larger global supply chain for larger transactions.

CEE has twice undertaken "supplier studies" that identify the subcontractors or "hidden exporters" involved in large Ex-Im Bank transactions; we have another in process for 2011. In our last such study in 2006, we identified almost 30,000 mostly small businesses that were involved in providing goods and services to the named exporters whose transactions were supported by Ex-Im Bank.

Strongly supporting small business exports is labor intensive and consumes very substantial staff resources. Recognizing the importance of this effort for U.S. jobs, CEE fully supports an increase in administrative appropriations so that the Bank will have the resources to add much needed staff and technological resources to continue to reach small businesses throughout the country.

THE BANK IS SELF-SUSTAINING

We need to emphasize that an increase in administrative appropriations for the Bank is not a burden on the federal budget because it is repaid by Ex-Im Bank to the U.S. Treasury each year, since Ex-Im operates on a self-sustaining basis without costing the U.S. taxpayer any money. In FY 2008, Congress changed the way budget authority is provided to the Bank to acknowledge the funds Ex-Im Bank returns to the U.S. Treasury each year. Fee and interest income collected by the Bank is used to fund its loan-loss reserve and reimburse the U.S. Treasury for the amount appropriated to Ex-Im for program costs and administrative expenses, resulting in a net appropriation of zero and the Bank being self-financing for budgetary purposes. The Bank has also been empowered to keep in reserve a set level of funding as surplus for up to four years as a supplement to its program budget.

In FY 2009, Ex-Im Bank was able to return 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 $5.2 billion more than it received in appropriations for program and administrative costs.

2011 REAUTHORIZATION

The Charter of Ex-Im Bank is due to be reauthorized next year. This is fortuitous timing as the issues the Bank will face during the reauthorization are the same as the ones being addressed under the auspices of the NEI. CEE has begun taking steps in preparation for the reauthorization, including undertaking a new suppliers study, and engaging with the Bank and the Administration on a number of the issues discussed above: developing a meaningful services export program, flexible response to content, addressing access to Tied Aid War Chest, the MARAD cargo preference program and mechanisms for addressing non-OECD ECAs. There are other issues that the Congress should be cognizant of: economic impact procedures, processing time, and the Airline Sector Understanding. As the reauthorization process moves forward, CEE would be happy to address these issues further.

CONCLUSION

The National Export Initiative is the centerpiece of the Administration's commitment to grow U.S. exports and meet the President's goal of doubling exports in five years. We believe that a proactive Administration targeting small business and high value exports and freeing Ex-Im to match the flexibility shown by competing ECAs can dramatically improve its export promotion programs and generate critically needed high value jobs.

Again, I thank you for the opportunity to testify before you and I am happy to answer any questions.