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

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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.