

**Statement of
Deere & Company and John Deere Credit
Before the
Subcommittee on Domestic and International Monetary Policy,
Trade and Technology
Committee on Financial Services
U.S. House of Representatives**

November 10, 2005

Madam Chairman and members of the Subcommittee.

Introduction

My name is John Sabroske. I am Director of Global Trade Finance for John Deere Credit, the wholly-owned financial services arm of Deere & Company. I appreciate the opportunity to appear before you today to present our views on reauthorization of the charter of the Export Import Bank of the United States.

Since its founding in 1837, Deere & Company has grown to become the world's leading manufacturer of agricultural equipment, and among the leading global manufacturers of construction, forestry, commercial and consumer grounds care equipment. In addition, John Deere provides a range of financial services, technology, and healthcare solutions to businesses and consumers, typically to those who work the land.

Deere has manufacturing operations in the U.S. as well as in 15 other countries, and our products are sold to customers in more than 160 countries – virtually across the globe. Our financial services group, John Deere Credit, provides credit and other financial services to support John Deere equipment sales to customers both here in the U.S. and in global markets.

Our business structure gives us a unique perspective, both as an exporter and lender, from which to comment with regard to the operations and value of the EXIM Bank.

John Deere and EXIM Bank

EXIM Bank's support for John Deere exports has grown from about \$7.5 million in 2003 to \$43.5 million in 2004, to \$64 million in 2005. So far for fiscal year 2006, EXIM's support for John Deere equipment sales have totaled \$11.5 million. Over the past three years, then, EXIM loan guarantees of \$127 million

have supported about \$143 million in export sales of John Deere equipment. Virtually all of these export sales were in the commercially and politically challenging former Soviet states of Russia, Kazakhstan and Ukraine. EXIM's loan guarantees supported exports of John Deere combine harvesters manufactured in East Moline, Illinois; tractors produced in Waterloo, Iowa; and seeders made in Valley City, North Dakota. Without EXIM support, it is fair to say that much of this business would have gone to non-U.S. competitors.

The emerging global markets in which John Deere sells equipment are extremely competitive. These markets have changed dramatically in the past decade. There is today a strong and growing demand in many parts of the world for more efficient, productive technology and machinery made in the West. And there is strong and growing competition for this business from agricultural equipment manufacturers in Belgium, Canada, Finland, France, Germany, Italy, and other countries. Each of these manufacturers is aggressively backed by its own export credit agency, or ECA. And because the demand for Western equipment is so strong, it is often the terms of credit and its timely approval that determine which manufacturer gets the sale.

We often find a customer preference for John Deere's U.S.-made equipment, but the customer's demands for credit can override that preference. The financial risks of doing business in these markets means that, without government-supported credit enhancement, the cost of credit to the customer are prohibitive.

So it is vitally important for us to have an aggressive and innovative EXIM Bank that enables us to compete against non-U.S. manufacturers. We view EXIM as a strategic partner in helping John Deere compete for this business. In doing so, EXIM Bank makes an important contribution to promoting Deere's U.S. exports, the U.S. manufacturing jobs these exports represent, and the communities in which we operate.

EXIM Bank Reauthorization

Not only is ours an extremely competitive business, but in emerging markets especially this business is in a constant state of change. In particular, new agricultural producers in the CIS are constantly emerging to meet growing domestic demand for agricultural commodities, and to participate in global markets.

These agricultural producers operate in seasonal, relatively high-risk commercial environments. They are increasingly demanding of suppliers to provide quality farm inputs at low cost, and in an efficient and timely manner. As these markets continue to evolve, so, too, do our overseas competitors -- with the active support of their export credit agencies.

This changing business environment means that EXIM products, policies, and procedures must continue to evolve to keep U.S. exporters ahead of customer demands and foreign competitors.

In this regard, we encourage the Congress and the EXIM Bank to work together through the charter reauthorization to streamline Bank review and approval processes; to minimize undue restrictions on Bank lending activities; and to develop more innovative and flexible policies for supporting U.S. manufacturers and U.S. workers through enhanced credit in emerging markets.

In our experience, the Bank's procedures for documentation, review and approval of applications have historically taken far longer than other ECAs. This created obvious competitive pressures in our seasonal business -- an approval that comes two weeks too late is in reality twelve months too early. We have recently seen a shift of attention and resources toward expediting application reviews, and we appreciate that the Bank has taken our specific concerns to light. Your reauthorization effort should encourage the expedited consideration of cases before the Bank and more streamlined procedures for transaction approval.

We also appreciate that the Bank has moved forward with some new and innovative programs, such as its new dealer financing program. This product addresses a real marketplace need, and we encourage the Bank to consider and approve transactions through in which this concept can be implemented.

To stay competitive, we believe that the Bank must also be willing to assume greater risk through its lending practices. As stated before, emerging markets for U.S. exports are evolving, and competitor ECAs have become more aggressive in supporting transactions for foreign exporters. We recognize that these markets are inherently more risky -- if they were not, the Bank's loan guarantees, insurance, and other products wouldn't be necessary. And we fully recognize the necessity of the Bank's "reasonable assurance of repayment" obligation. However, the inflexible application of this standard in the face of changing market conditions, where additional risk-taking is both reasonable and prudent, can work against U.S. exporters. We believe that Congress, through the reauthorization process, should work with the Bank to consider more aggressive standards for underwriting risk and extending the credit enhancements needed to develop these evolving markets for U.S. exports.

Nor should policies that govern the Bank's lending practices become an undue barrier to U.S. exports. We certainly respect Congress' role in directing the Bank's lending practices with regard to the achievement of certain public policies that benefit our country. What must also be considered, however, is whether such policies tilt the playing field in favor of non-U.S. manufacturers, with ECAs that operate under less restrictive rules. In working with EXIM, our

objective is to reach a level playing field on financing, so that we can compete and win on product performance and quality. More flexibility in EXIM rules ranging from loan tenor to MARAD requirements can have a positive impact on achieving the Bank's overriding mission.

In short, we encourage Congress and the Bank to work together to develop a more agile and flexible institution, that helps U.S. exporters compete better in the face of changing market conditions and customer expectations.

As you might expect, we have shared these views directly with the EXIM Bank and are working together to address several operational and policy issues, and to improve the Bank's overall level of service. We think these improvements will enhance our competitive position in emerging markets and lead to increased John Deere exports. And we appreciate the Bank's attentiveness and responsiveness to these concerns.

Likewise, John Deere appreciates the opportunity to share its views with this Subcommittee, and we would be pleased to work with you to help build on the contributions the EXIM Bank makes to promote U.S. exports and U.S. jobs.

I will be glad to answer your questions.