

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 countries 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.

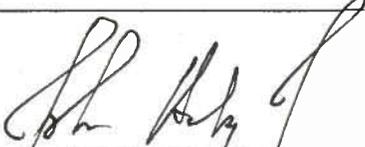
## **Conclusion**

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.

United States House of Representatives  
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

<b>1. Name:</b>	<b>2. Organization or organizations you are representing:</b>
<i>John Handy Jr</i>	<i>Coalition for Employment Through Exports</i>
<b>3. Business Address and telephone number:</b>	
	
<b>4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>	<b>5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.</b>	
<b>7. Signature:</b> 	

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