

**Testimony of Thea Mei Lee  
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**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.


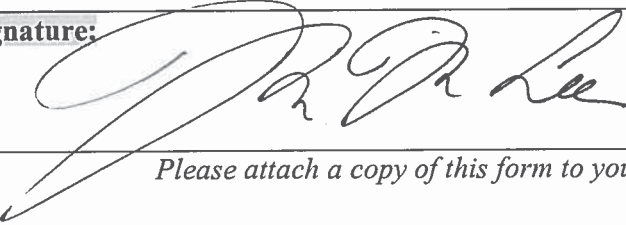
China's ECA is now one of the largest in the world, and it is blatantly flouting the basic rules export credit agencies agreed to decades ago, without any challenge. China's Ex-Im Bank is apparently granting loans with interest rates of 1 to 2 percent and repayment terms as long as 20 years, as well 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

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1. Name:	2. Organization or organizations you are representing:
Thea Mei LEE	AFL-CIO
3. Business Address and telephone number:	
	
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?	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?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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.	
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