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STAKEHOLDER PERSPECTIVES ON REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON
SECURITY AND INTERNATIONAL TRADE AND FINANCE

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

EXAMINING STAKEHOLDER PERSPECTIVES ON REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

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C O N T E N T S

THURSDAY, JUNE 30, 2011

WITNESSES

Additional Material Supplied for the Record

STAKEHOLDER PERSPECTIVES ON REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

THURSDAY, JUNE 30, 2011

U.S. SENATE,
SUBCOMMITTEE ON SECURITY AND INTERNATIONAL TRADE AND FINANCE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 10:06 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Mark Warner, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN MARK R. WARNER

Chairman WARNER. Good morning, and I want to welcome everyone to this hearing of the Subcommittee on Security and International Trade and Finance, "Stakeholder Perspectives on Reauthorization of the Export-Import Bank of the United States." I want to mention, as I was going down and introducing myself to the witnesses, a number of them said, "Hello, Mr. Chairman," and I realized that while I have had the chance to sit temporarily in this chair before, I have never been addressed that way since it seems not that long ago—it was not that long ago that I was the last seat on the dais down to the right, so I am anxious to—I look forward to chairing this hearing with my good friend, the Ranking Member, Senator Johanns, and we look forward to a productive morning.

The hearing this morning adds to the oversight record of the full Banking Committee on the Export-Import Bank. Last month Chairman Johnson held a hearing in the full Committee with Chairman Hochberg of the Bank. The Senate also recently confirmed two of the Bank's Board members. Those hearings are important not just for the normal oversight of the Committee, but because of the Bank's authorization is set to expire on September 30th of this year. A new reauthorization must be signed into law before that date in order for the Bank to continue operating. That sounds strangely reminiscent of another issue which we have got a deadline fast approaching.

This reauthorization will take place during a period that may be as important as any in the Bank's history. A core objective of the Bank is to support American jobs, and the President has outlined a national export initiative that seeks to double American exports within 5 years. This initiative could not come at a more critical time for job creation in this country. Although the United States remains the largest exporter in the world, it trails a number of countries in terms of trade as an percentage of GDP, and obviously we face increasingly sophisticated competition, especially at the high end of the value-added global supply chain. And it is remarkable to see countries like Brazil and China and their enormous export gains in the last few years and how some of their export support organizations compete with us.

Obviously, this hearing and this reauthorization could not come at a more critical time as we talk about the Brazils and the Chinas and the emergence of the EU countries because other export credit assistance organizations around the world are, again, becoming more competitive.

The financial sector, as we all know, is still recovering from the crisis of 2008, again, making the Bank's actions even more important. And some of the deals that Ex-Im supports, such as infrastructure and development in poorer countries, have never been the high-yield, low-risk deals that the finance sector would prefer. So, again, with the gaps in traditional financing, again, making the role that Eximbank plays more important.

On top of that, as I mentioned earlier, Eximbank faces increasing competition from foreign export credit agencies. While the members of the G-7 and other countries submit to negotiated limits on credit assistance, developing economies such as China, Brazil, and India do not adhere to those limitations. In the face of this new form of competition, the Bank must have the resources and the flexibility to compete.

However, these resources and any flexibility cannot come without heightened transparency and accountability, and we cannot expect the Bank to be more competitive without being more efficient.

The Bank, like many agencies, has a reputation for being bureaucratic and slow. While current leadership has done work to address this issue, the reality at the Bank is we need to ask if more can be done. In order to become more competitive, Eximbank must become more efficient. We have to look at whether new metrics and accountability measures can make the Bank a more attractive and customer-friendly source of financing for America's exports and, as a result, help further the policy objective, including its core mission of supporting American jobs.

There are a number of topics that I look forward to hearing from the panel on, and we will get to our witnesses in a moment, but I would like to turn it over to Senator Johanns, my friend and Ranking Member, for his opening comments. And it is great to see my colleague Senator Bennet here. I know he will have some lucid comments as well at the opening, and then I will introduce the witnesses, and we will go forward.

Senator Johanns.

STATEMENT OF SENATOR MIKE JOHANNS

Senator JOHANNS. Well, let me start out and say thanks to the Chairman for holding the hearing today. As we can see from the deadline that is approaching, this is just an enormously important opportunity to look at what the Bank is doing.

As a former Secretary of Agriculture, I witnessed firsthand in a very real way the value of strong export policy. But I know I speak for the Chair and for myself when I say we also witnessed the importance of strong export policy when we were Governors, when we first had an opportunity to work together.

It is without question certainly that one element of a robust export system is a strong Export-Import Bank. When I traveled the globe working on various trade agreements, financing was always a key point. I always asked myself how our global trading partners were accessing capital. That is where the Export-Import Bank comes into play, and it is why the Bank's programs are so important.

It is without question that the Bank plays an important role in supporting the export of American-made goods and American-provided services. This goes for large companies, but I also want to underscore that it needs to also apply for small ones, too.

During the last reauthorization, many changes were made to improve the structure of the Bank, including economic impact procedures and enhanced small business efforts. It is my hope that we can build upon these previous changes and determine if there are additional reforms that the Committee should consider. Fundamentally, we are asking what is working and what is not.

Because there are billions of potential global customers in both the emerging and the established markets for goods and services, we must ensure that we get them into consumers' hands across the globe. We must do all we can to make sure we have a robust marketplace for our goods in other parts of the world.

Well, I look forward to hearing the testimony of the witnesses today and I look forward to working with my friend and colleague Senator Warner on a timely reauthorization.

Chairman WARNER. Thank you, Senator Johanns. And he does bring special expertise, a former Cabinet Secretary of Agriculture, and we had many opportunities to talk about export opportunities as Governors, and he is a great partner in this effort.

Senator Bennet, do you have an opening statement?

STATEMENT OF SENATOR MICHAEL F. BENNET

Senator BENNET. I would just say, Mr. Chairman, thank you for holding the hearing. Thank you for your leadership of the Committee. There is a lot of concern in my State about how we are going to get this economy back on track and what we are going to do about the jobs that have been permanently lost in this recession.

Every single month during the course of this recession, when we saw the job loss numbers, we also saw the productivity index rise. Firms were figuring out how to do what they were doing already with fewer people, and we have got to put folks back to work. And one of the critical ways of doing that is making sure that these export markets are as robust and as open as they can be for American goods and products.

So the hearing is important. The work that the Bank does is critical to that, and I look forward to hearing the testimony.

Thank you, Mr. Chairman.

Chairman WARNER. Thank you, Senator Bennet. Again, I think we have all used the term, and I think probably the witnesses will reaffirm this, that 95 percent of all the future customers for American businesses are abroad, and this is the opportunity we have.

Before I introduce our witnesses today, I would like to state that I have several statements from Bank constituencies who have asked that their comments be part of the record. If there is no objection, I will enter those into the record. Without objection. And, of course, the Committee will consider these statements in the work in the future, and the record will stay open after the hearing for other statements.

Chairman WARNER. I will now turn to our panel. We have four witnesses today, each with a different perspective on the Bank.

The Honorable Osvaldo Luis Gratacós, Inspector General, Export-Import Bank of the United States. Mr. Gratacós and I apologize.

Mr. GRATACÓS. You are more close than other people.

[Laughter.]

Chairman WARNER. Mas o menos?

Mr. GRATACÓS. Mas o menos.

Chairman WARNER. ——was sworn in as the second Inspector General of the Export-Import Bank of the United States on October 18, 2010. Mr. Gratacós had been serving as the Acting Inspector General since October 2009. Before his nomination, he served as Deputy Inspector General and Counsel to the Inspector General. Mr. Gratacós joined the Eximbank OIG from Motorola where he worked as a commercial counsel, and before joining Motorola he served as attorney adviser and as legal counsel to the Inspector General at USAID.

Our next witness after that will be Mr. Clay Thompson, director of Global Government Affairs, Caterpillar. Clay Thompson joined Caterpillar in 1997 and from 1997 to 2005 held positions of increasing responsibility in Caterpillar's legal department. He left the legal department in January 2005 to become Caterpillar's emerging markets strategy integration manager—that is a mouthful—for Caterpillar China and in August 2007 was named managing director of product for Caterpillar's joint venture operations in Japan. In April 2009, Mr. Thompson returned to the United States to become director of Caterpillar's Corporate Government Affairs Department here in Washington. He currently serves as treasurer of the U.S.–ASEAN Business Council and chairman of the Council of U.S.–Indonesia Business Committee. Mr. Thompson, thank you for being here as well.

Mr. Doug Norlen, policy director, Pacific Environment. Mr. Norlen is policy director for Pacific Environment, serving on staff since 1995. Mr. Norlen specializes in the reform of multilateral trade and finance institutions and bilateral export credit agencies, obviously ECAs. In 2000, Mr. Norlen was appointed by U.S. Secretary of Commerce Bill Daley and U.S. Trade Representative Charlene Barshefsky to be the first environmental representative to the USTR's Industry Sector Advisory Committee for Paper Products. Mr. Norlen, thank you for being here as well.

Mr. David Ickert, Air Tractor Inc. on behalf of the Small Business Exporters Association. Mr. Ickert, vice president-finance of Air Tractor Inc. of Olney, Texas. Air Tractor is a small business engaged in the manufacture of agriculture and forestry firefighting airplanes. The company has been in business since 1972 and is now 100 percent employee owned.

We look forward to the testimony of everyone, and let me acknowledge at the front end that Senator Johanns has got to step out about 10:35 or so, so if we could try to—I know we give everybody 4 to 5 minutes and try to adhere to that, I would like to let Senator Johanns get a first round of questioning in before he has to step out.

Mr. Gratacós, if you could start your testimony, and then we will go down the line. Thank you.

STATEMENT OF OSVALDO LUIS GRATACÓS, INSPECTOR GENERAL, EXPORT–IMPORT BANK

Mr. GRATACÓS. Thank you, Mr. Chairman, Ranking Member Johanns, and Senator Bennet. Thanks for the opportunity to testify in front of you today about Eximbank and the OIG and the challenges the Bank is facing. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the OIG staff.

In my remarks I will provide a brief history of the Office of Inspector General and some of its accomplishments. Then I will discuss some of the challenges and operational weaknesses that Eximbank is facing in performing its mission.

Eximbank OIG was created by law in 2002, but the IG did not officially take office until August 2007. Since reaching its current staffing levels, the OIG has achieved noticeable success. Specifically, my office has issued 20 audit and special reports containing over 85 findings, recommendations, and suggestions for improving Eximbank programs and operations.

On the law enforcement side, we have actions totaling 64 indictments and arrests, 9 convictions, 14 guilty pleas; and over 190 management referrals for enhanced due diligence efforts. And we currently have 37 matters under investigation covering over 500 transactions and $350 million in claims paid by Eximbank.

Since 2009 the total overall IG financial impact is approximately $250 million, all of this with 11 staff, including myself, and a budget of $2.5 million.

Eximbank is the official credit agency of the United States. It is experiencing an accelerated growth in the last few years. In order to provide a more effective and competitive environment, Eximbank needs to address some of its operational weaknesses. Some of these are—and we will talk in more detail later, but replacing an aging and ineffective IT infrastructure. The current IT infrastructure is old, fragmented, does not adequately support the Bank's mission or business needs, limits the Bank's ability to meet the market demands, and it requires manual inputs, leading to human errors.

Lack of centralized and comprehensive participant data base that would allow the Bank to capture and track all the participants and all the transactions at once also limits our ability to do forensic work when we are doing proactive actions. Currently my office is undertaking a comprehensive audit of the IT systems, and we hope to have a report by next month that we can share with the Bank.

Number two, reducing transaction approval times for short-term and medium-term programs. Eximbank recognizes this ineffectiveness in its process and is looking for ways to improve it. At the same time, my office is commencing an evaluation and review of the process to see where we can improve the business processes and improve the deficiencies of the Bank.

Number three, the Bank needs to develop annual performance plans to measure programs and product effectiveness. This is something that my office has shared with the Bank, and the Bank has acknowledged the need to do this. So after discussions with my office, the Bank has agreed to develop performance plans starting in fiscal year 2012.

Finally, we think that the Bank needs to continue its efforts to meet its small business goals. As you know, the Bank charter imposes a 20-percent small business participation requirement on all the authorizations per year. Eximbank has exceeded this mandate in the last 2 years and is expecting to exceed this mandate again in 2011. Some of the steps the Bank has taken to achieve this are the Global Access Forum, some educational forums that they do in different States, and also Webinars where small business can actually learn about the Bank products and steps.

Chairman Warner, Senator Johanns, Senator Bennet, and distinguished Members of the Subcommittee, thank you once again for the opportunity to testify before you today, and I would be pleased to respond to any questions you may have.

Chairman WARNER. Thank you for your comments. I look forward to the questioning opportunity.

Mr. Thompson.

STATEMENT OF CLAY THOMPSON, DIRECTOR, GLOBAL GOVERNMENT AFFAIRS, CATERPILLAR, INC.

Mr. THOMPSON. Good morning, Mr. Chairman, Ranking Member Johanns, and Senator Bennet. Thank you very much for the opportunity to be with you today.

In my written statement, I describe Caterpillar, Inc., and our global business model in some detail. I will not repeat all that for your this morning, but I do want to make sure you understand that Caterpillar is committed to its significant U.S. production base. We are investing $1.5 billion just this year toward expanding production capacity in the United States. Much of that additional capacity is intended to allow us to better serve our key export markets where our industry is growing rapidly and where our global leadership is being threatened by both our familiar competitors in Europe, Korea, and Japan, as well as new entrants emerging from China and India.

Caterpillar customers have utilized Eximbank financing at relatively moderate levels in the past decade. We anticipate, however, that Eximbank will play a more significant role going forward due to at least two developments we are currently seeing in the marketplace and also noted in the Chairman's opening remarks.

First is the limited appetite of commercial lenders for large infrastructure project financing, especially in key emerging markets. We believe going forward that export credit agencies like Eximbank will play an important role, enabling us to improve access in emerging markets where commercial banks need credit enhancements to support large project loans and augment commercial bank capacity.

Second, we are seeing other sovereign export credit agencies targeting these strategic markets and partnering with our competitors to aggressively pursue the types of large infrastructure and mining projects in which we historically compete very favorably.

In terms of the size and level of aggressiveness of global ECA activity, we fear the United States is being left behind.

Make no mistake. Eximbank is a valuable tool for U.S. exporters, including Caterpillar. However, it could be much more effective and more competitive with other global ECAs.

To enable this success, certain structural changes are necessary. My written statement focuses on three such issues that are most relevant to Caterpillar, and I will quickly summarize those this morning.

First, the Bank should be reauthorized with an expanded financing limit. With approximately 90 billion in commitments already outstanding, the Bank is nearing its current $100 billion cap. Increasing the cap to $160 billion should create sufficient flexibility to allow the Bank to compete with other ECAs.

Second, Eximbank should revise its local content policy. At 85 percent, Eximbank's local content requirement is simply out of whack with the rest of the world. The next lowest content percentage requirement belongs to Austria, at 50 percent.

Finally, the cargo preference barriers should be removed. The Bank's interpretation of a 1934 congressional resolution requires most transactions receiving direct loan or guarantee support from Eximbank to be shipped by a U.S.-flagged vessel. Due to the severe limitation in U.S.-flagged cargo capacity, this requirement drives cost increases and time delays that customers are simply unwilling to accept. In my written statement I describe a real-life example where the cargo preference requirement adds $6 million to a potential customer's costs. It is not surprising that this requirement is leading customers to request that we source equipment to serve their order from outside the U.S. so that they can utilize more competitive and flexible ECA financing from other countries. If Eximbank is to truly become a competitive ECA fully supporting U.S. exporters and their employees, the cargo restrictions must be lifted.

In conclusion, I would like to stress that Eximbank is a good institution staffed by dedicated and hard-working employees. The Bank, however, is being constrained by several structural inhibitors that keep it from being globally competitive. Removing constraints such as the ones I have described this morning will improve competitiveness and support U.S. job growth going forward.

Thank you for your time and attention.

Chairman WARNER. Thank you, Mr. Thompson. I might just add I had the opportunity growing up of living outside of Peoria, where Caterpillar obviously had a dominant position, and it really is one of the great American success stories, so I appreciate your comments.

Mr. Norlen.

STATEMENT OF DOUGLAS NORLEN, POLICY DIRECTOR, PACIFIC ENVIRONMENT

Mr. NORLEN. Good morning, Chairman Warner, Ranking Member Johanns, and Senator Bennet. Thank you for the opportunity to testify on the renewal or reauthorization of the charter of the Export-Import Bank.

I would like to speak today about three areas of public interest reforms that we believe are necessary to improve the effectiveness of Eximbank. These relate to agency accountability, climate change/renewable energy, and promotion of alternative export paths.

Regarding agency accountability, Congress should require Eximbank to establish an independent accountability mechanism. Accountability mechanisms assess complaints from people and communities who claim to be adversely affected by projects supported by public banks, including problems caused by breaches of bank environmental and social policies. Such mechanisms are increasingly the normal at public finance institutions, such as the World Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development, EBRD, and the U.S. Overseas Private Investment Corporation, OPIC, as well as many others. These mechanisms are different from the Offices of Inspector General, which focus more on financial problems such as fraud, waste, and abuse and agency efficiency.

In contrast, independent accountability mechanisms have problem-solving and conflict resolution features as well as policy compliance functions and advising services which provide recommendations to management on improving policies and procedures based on real-world experience.

In our 15 years of engagement of banks on projects in Africa, the Caucasus, Latin America, Asia, and Russia, we have seen many examples of these kinds of mechanisms addressing impacts to community while enhancing project outcomes and improving agency accountability, which ultimately decreases project risks to Eximbank and its clients. Unfortunately, we have seen too many cases in which public banks without accountability mechanisms finance projects that resulted in local opposition, and sometimes uprisings, which could have been avoided but ultimately resulted in higher risks to these banks and their clients. I would be happy to provide you with examples upon request.

Regarding climate change, as the world deals with the worsening effects of climate change, including severe weather patterns, melting polar ice, and increasing wildfires, it is incoherent public policy to provide Government financing for the rapid expansion of carbon-polluting energy projects. Despite Eximbank's new carbon policy and President Obama's pledge to phase out fossil fuel subsidies, Eximbank financing for fossil fuel projects has skyrocketed to a record $4.5 billion last year. Congress should curb Eximbank's fossil fuel financing.

Meanwhile, a more productive approach for Eximbank would be to support more renewable energy and energy efficiency exports which would have the simultaneous impact of helping to address climate change and promote significant U.S. job and manufacturing growth. According to a British Petroleum statistical review, renewable energy consumption grew 15.5 percent in 2010. The Pew Center for Global Climate Change predicts annual investment in global renewable energy markets of $106 to $230 billion by the year 2020.

While Eximbank has made a worthy effort and has increased renewable energy financing, the GAO has found that the agency has consistently failed to meet a legal directive set through congressional appropriators for the agency to allocate 10 percent of its annual financing for renewable energy and energy efficiency. Congress can, therefore, bolster and enforce the congressional appropriators' directives by integrating the annual 10-percent target in the Bank's charter while increasing the Bank's capital authority allocations that are specifically linked to renewable energy and improve Eximbank's ability to finance renewable energy upstream in the manufacturing process.

Thank you very much for the opportunity to testify today, and I look forward to your questions.

Chairman WARNER. Thank you, Mr. Norlen.

Mr. Ickert.

STATEMENT OF DAVID ICKERT, VICE PRESIDENT, AIR TRACTOR, INC., ON BEHALF OF THE SMALL BUSINESS EXPORTERS ASSOCIATION

Mr. ICKERT. Chairman Warner, Ranking Member Johanns, Senator Bennet, thank you for allowing me to have this opportunity to testify on the reauthorization of Eximbank. I am David Ickert, vice president of finance of Air Tractor.

It is my pleasure to submit testimony to the Committee on why Air Tractor and the Small Business Exporters Association strongly support the reauthorization of Eximbank.

Our support for the reauthorization of Eximbank is deeply rooted in the experiences of Air Tractor—experience with exports, Eximbank, and job creation. I will relate some of the experiences of Air Tractor, but this is a much broader and deeper story than Air Tractor. I believe this is story of many small business exporting companies and businesses across our Nation, and maybe even more compelling, it is the promise of the vast potential that exists in this country with many small business that could be exporting but are not. This potential, when it is properly nurtured and developed, will yield jobs.

Air Tractor is a small business engaged in the manufacture of agricultural airplanes and forestry firefighting airplanes. As stated earlier, we have been in business since 1972, and we are 100 percent employee owned. We have one location: Olney, Texas. Olney is a small rural town 100 miles west of Fort Worth and 200 miles east of Lubbock, Texas. The population of Olney: 3,000.

In 1994, we began exploring ways to find financing for our end-user customers outside the United States. At that time, 10 percent of our sales were export sales. With research and study, we ended up with two key partners: a commercial bank and Eximbank, both of those.

In 1995, we did our first medium-term transaction—and that is what most of ours are, medium-term transactions with the Bank—to send two planes to Spain. Since that time we have sent 50 planes to the Spanish market and not again have we had to use Eximbank, but Eximbank was key in getting us into that market.

Since that time we have completed over 80 medium-term transaction deals with Eximbank. For calendar year 2010, we completed 20 and we anticipate 30 in 2011. It is worth noting that in those 80-plus transactions that we completed with Eximbank, we have never filed a claim with Eximbank.

It is instructive maybe to look at the employment and the correlation of export sales of Air Tractor since 2007. At the end of 2007, we had 165 employees. That year 36 percent of our sales were export sales. In 2008, 197 employees; 45 percent of our sales were export sales. In 2009, 204 employees; 49 percent of our sales were export sales. The year ended 2010, we had 220 employees; 56 percent of our sales were export sales.

Thus, while the headlines throughout the country reflected a growing unemployment for this period, Air Tractor created jobs. For the period of 2007 through 2010, our employment grew 33 percent. Our percent of exports grew 55 percent. It is not coincidental that these two factors grew in lockstep. The growth of exports has been a significant contributor to the jobs at Air Tractor in recent years, and Eximbank has been a significant reason why we have been able to grow those jobs. As I said, we went from 10 percent in 1995 to 56 percent in 2010. So at the end of 2010, with 56 percent of our sales exports, there were 100 people in Olney, Texas, that owed their jobs to exporting.

During 2010 we did exports to 14 different countries. Now, that is significant for a small business like us, but it is not near what the world holds for us, and so we have a lot more promise to expand our international footprint.

International sales, export sales are the reason that we will be able to continue to grow and expand and maintain jobs in Olney, Texas.

Bank Chairman Hochberg has done a very good job in promoting small business commitment at the Bank. Other administrations have not been as committed, so we think it is very important in the reauthorization consideration that the small business language that now exists be highlighted and be continued in the current reauthorization.

During 2010, we paid $300,000 in fees to Eximbank, and we were glad to do it. We had no expenses—or no claims, so it was a good deal for everybody. As Chairman Hochberg made the comment in the January speech, "The Bank makes money. What a wonderful situation. Everybody wins—including the U.S. taxpayer."

Olney, Texas, is my hometown. It is a place that is great to live in and work in. I described it before when I was describing it. It is a town with three red lights and a Dairy Queen. I am proud of it. But it is not exactly what you think of when you think about an exporting town. But my point is if we can do it in Olney, Texas, small businesses can do it all over the United States. But we need the help of Eximbank.

Thank you.

Chairman WARNER. Well, thank you, Mr. Ickert. Very impressive story, and, you know, in an effort to reinforce the spirit, we want to show you that not everybody in the Senate always argues with each other, and as opposed to the Chairman going first, I am going to let my friend——

Senator JOHANNS. That is not true.

[Laughter.]

Chairman WARNER. ——I am going to let my friend, the Ranking Member, take the first round of questions, recognizing his time constraints.

Senator JOHANNS. I had better jump in here before Senator Bennet objects.

Mr. Ickert, you have a great story to tell and I know from experience that there are a lot of small businesses in my State of Nebraska and really across the country that would love to be in your chair telling the same story. So my question to you is, you have had success in accessing the international marketplace. Others have not, and maybe it is because it just looks too complex, too challenging. I do not know. There could be a whole host of reasons. But if you were to give us advice on what we would do in the reauthorization specifically to try to boost our efforts with small businesses accessing the export market, what would you tell us?

Mr. ICKERT. Delegated authority, I think, would be a continued step toward small business, where they could go to banks and places, groups, close to them to get not only advice, but underwriting and help. Another big thing, I think, and it is not the subject of the reauthorization, but it is appropriations for the Bank, where the Bank would have the proper administrative budget and also the proper IT infrastructure to be able to move deals along quickly. They have got to have those tools, and the quick turnaround time, I think, is essential, especially to small businesses, in embracing exporting. Seeing deals done, seeing success breeds more opportunities and more attempts for them to go into the market.

Senator JOHANNS. Great. Like I said, you have a great story and I would love to see that story repeated across our country, because, like I said, I have seen businesses that want to be in the export market. They would even spend the money to travel with me on trade missions. Some would be successful, like you have experienced. Others, they just could not quite figure out how they could do it. And so anything that we can do that would be helpful would be very positive.

Mr. Thompson, you are kind of on the other end of the spectrum. You are certainly a large enterprise, very familiar with the export market. I would like you to give me a practical example, if you would, about the content requirement, because as you know, that is a very, very sensitive issue. But give me just a practical description about how that can be a stumbling block to actually doing more business in the export arena.

Mr. THOMPSON. Well, the range of Caterpillar's local content for equipment manufactured in the U.S. is roughly from 70 percent to about 88 percent, so when you talk about our product that qualifies for full Eximbank financing support, it is a pretty narrow slice, so—and you have to remember, we are bidding competitively for truck deals in places like Indonesia, cited in my written statement, against competitors who are coming in with very aggressive bids.

So the fact that such a narrow slice of our product is even eligible for full financing is a problem, and if you cannot get full financing from your home Eximbank, it is almost guaranteed that other countries will come in with full financing for their locally produced product. So it sets us at a competitive disadvantage once we get to the financing discussion with customers, there is no doubt about it.

Senator JOHANNS. Mr. Gratacós, you talk a little bit about exposure limits. These days, one of the things uppermost in everybody's mind is concern about putting the taxpayers on the dotted line, if you know what I am saying. Describe for me your comfort level in us going from $100 billion to $160 billion, which I think is the House proposal, and witnesses here have supported that, because there is exposure here, as you know. I would like, just from your standpoint as somebody who kind of looks over this and is looking out for the taxpayers' interests, give me your comfort level on us taking that next step.

Mr. GRATACÓS. Well, I think raising the ceiling for the authorization levels is something that the market is asking for. So I think this Subcommittee should consider moving the ceiling up. Whether or not it is along the lines of the House proposal is something for this Subcommittee to debate.

We think that the real exposure on the Bank side will be enhancing the due diligence practices on the medium-term side and short-term side. If you look historically, the long-term side has low claims. On the medium-term side is a different story. So I think the real challenge will be to improve the due diligence practice on that side.

Having said that, I think the Bank historically has demonstrated it has been able to handle the increases on authorization levels since its inception. There will be some matters that we will be looking at down the road in terms of risk management practices because of the concentration, risk concentration on the portfolio, which is on the transportation side, but that is something that we will be talking to the Bank down the road.

Senator JOHANNS. OK. Great. Thank you, Mr. Chairman.

Chairman WARNER. Thank you, Senator Johanns.

I want to pick up on a couple lines of questioning that Senator Johanns started with. One is on the local content percentage—and this is directed to Mr. Thompson, but if anybody else on the panel wants to weigh in, please feel free—the challenge, particularly as we see other ECAs have more flexibility, it becomes difficult with the goal to kind of increase American jobs, as Senator Bennet mentioned, how you mention with the number here. What kind of thought has been given? Clearly, the kind of old definition of what is local content versus kind of the component part make-up at this point and the more global supply chain is really different. Are there ways to think about this issue other than on a percentage basis kind of in that definitional space around local content?

Mr. THOMPSON. Well, I think what we see other countries doing—Canada, for example, they do not even talk about a local content requirement. They talk about, more broadly, whether a transaction benefits the economy or the employment base of the local country, and other countries adopt a bit more of that type of test.

It is, as I said, a bit short-sighted in our view to have an 85 percent local content requirement that only considers actual physical piece parts, does not take into account R&D and other marketing services that may have taken place within the U.S. to facilitate the ultimate sale of a product. From a job creation standpoint, it is only going to benefit Caterpillar to lower that content requirement. That means more of our product will be financed. That means more of our product will be built. That means more of the people assembling that product in Decatur, Illinois, and other places will be employed and so on and so forth back through the supply chain that we robustly use here in the U.S.

Chairman WARNER. Has there been any thought from industry about an either/or, either 85 percent or if you can demonstrate more jobs and investment that would come from not having the strict percentage? Has anybody worked down to that detail? We have had a lot of kind of off-line discussions with folks about this issue and I know it is challenging, but have people looked at alternative definitions?

Mr. THOMPSON. Well, certainly the either/or example you throw out would be an improvement over what we face now, but we would probably prefer to see that percentage dropped even under the either/or scenario. And, you know, that is going to create administrative challenges for the banks to measure a less quantifiable standard, but when you look at the overall competitive situation we are in, we think that is preferable to the situation we are in now.

Chairman WARNER. Let me also ask—and this is for both Mr. Norlen and Mr. Thompson, I am going to come back to Mr. Ickert in a couple minutes—we talk about, and I think you raise a good point in your testimony, again, that for a long time, other than ECAs, there was not a lot of backstop for emerging markets, long-term financing, and now we have got the circumstances of, again, the Chinas of the world trying to make aggressive policy moves in those countries. Yet the credit risk analysis, the underwriting standards for some of these countries have got to be a little more challenging. Mr. Norlen also talked about the notion of how we make sure we move forward with our, I think, appropriate goals around climate change.

But there may be—do you have a different underwriting standard for those type of deals? And I just am curious, comment-wise, how we achieve these policy goals—and Mr. Gratacós, if you could also comment, as well—at the same time making sure that we maintain the high underwriting standards that the Bank has had to make sure that we get a return on taxpayer investment. We can just go down the list, and I am going to come back for a second round with Mr. Ickert.

Mr. GRATACÓS. Yes. I think that the way for the Bank, like any other bank, to actually conduct different due diligence standards based on the risk associated with the transaction. Either when you look at a market that you have no experience with, there is actually a set of due diligence steps that you can take to address the situation, and it depends on the products, too. If you look at the history of the product, the likelihood of having a default in the long term is much less, historically speaking, than if you look at the medium-term or short-term.

So in those transactions, given the new areas that the Bank is expanding in, the knowledge or limited knowledge of the market and the lack of current information on some of the borrowers, I think the Bank had no choice but to enhance the due diligence standards, looking at either financial statements or any other steps that they can take to minimize the risk that they are undertaking.

Chairman WARNER. All right. Mr. Thompson and Mr. Norlen, and then I will move to——

Mr. THOMPSON. I might comment just briefly, just to clarify a little bit on some of the assumptions behind the environmental policies the Bank encourages. It should be remembered that the leverage of a supplier in these types of transactions is limited. So if there is a coal mine bid, for example, and Caterpillar mining trucks are being considered for the bid, our mining trucks built in Decatur, Illinois, operate with the cleanest diesel engine emissions capable anywhere in the world.

If we do not get that deal because our financing package from Eximbank is not as competitive or Eximbank declines to support it, that deal is going to go to a company—someone is going to be mining that coal using equipment that probably is not as environmentally responsible as ours.

Chairman WARNER. Mr. Norlen.

Mr. NORLEN. Mr. Chairman, it is very important for the U.S. Government to do more internationally through the OECD and through the G-20 to press other governments for higher environmental standards. But as discussed by many panelists today, some of the projects that we are dealing with in some of these countries are extremely high-risk projects which pose risk to the U.S. Government, to Eximbank, and thus to the American public.

We need to take measures that reduce the risk of environmental and social harm and thus reduce the risk of potential opposition to projects, and that can take many forms. We have seen instances when local people have formed roadblocks. We have seen instances where governments have expropriated projects, sometimes on the basis of growing frustration because of a lack of concern for environmental and social risks.

It seems interesting to me that we would compete with other countries on the basis of who could increase the greatest amount of risks to themselves. It seems illogical to us. And so we need to do better. We need to incorporate independent accountability mechanisms and improve standards, and that ultimately will benefit the U.S. Government and the U.S. public and the clients, as well, in the end.

Chairman WARNER. Thank you. I will come back to another round.

Senator Bennet.

Senator BENNET. Thank you, Mr. Chairman, and with your indulgence, I am going to go off topic. I am going to come back to this, but I cannot resist because of Mr. Thompson's personal experience to ask him what, based on the experience of Caterpillar in China—I met with your counterpart over there in Beijing with the American Chamber of Commerce. If you could give us some thoughts about that market in particular, stepping away from the Eximbank conversation, and what you see as the real barriers and the real opportunities in China for our exporters. What is it that we can do?

There is a lot of discussion about the rising GDP there versus here. We still obviously have a huge GDP per capita compared to the Chinese that presents an enormous opportunity if we can figure out a trade arrangement that actually makes sense. And since you are here, I think it is important to take the opportunity to hear your wisdom on that.

Mr. THOMPSON. Thank you, Senator. I can only speak for our industry, at least knowledgeably, and China is one of the most, if not the most, rapidly growing market for our products and services in the world. So it is a place that we specifically see the competitive landscape for leadership in our industry playing out right now. We have to compete there. We have to compete effectively there.

There are challenges there and things like local procurement and indigenous innovation and currency issues have been discussed here in another context to a great extent. We are very encouraged by the commitments that President Hu made in his state visit earlier this year on the local procurement and the indigenous innovation side to make sure that that is a more even playing field than it has been historically, and we are seeing those commitments being followed through in China, so that is very encouraging.

You know, Caterpillar has a little bit different perspective on this in terms of the potential competitive landscape. In the 1980s, when currency levels were where they were, Komatsu from Japan was making huge headway against us in the global marketplace and the Japanese industry in general was seen as a big threat and there were companies that went to the Government and asked for certain levels of protection and there were companies that buckled down and said, this is a challenge and we need to improve our game and compete more effectively. Caterpillar chose that latter route, and in looking back on it, that made us a much, much stronger company and into the leader that we are today. That is sort of how we are viewing the Chinese landscape, as well. And we have seen waves of this from Korea and other places, as well.

As long as we have got a level playing field in which to compete, and we think the signs are heading that way, we are excited about the opportunity in China. It is a huge growth opportunity for us.

Senator BENNET. Thank you. I wanted to follow up on some of the questions from the Chairman with Mr. Norlen and Mr. Gratacós. My understanding is that according to GAO, from 2003 through the first half of 2010, renewable energy constituted 0.23 percent of total Eximbank financing exports, despite the Congressional goal that you talked about, Mr. Norlen, of 10 percent. And from Colorado's standpoint, our clean technology energy industry grew at a record 32.7 percent in the last 5 years, and we are not alone. This is happening all over the country. It is a huge part of America's business outlook.

I know a lot of exports question whether Eximbank's lending patterns are doing enough when it comes to clean technology goods and services, so I would like to hear you specifically delineate what you think the challenges have been to meeting that 10 percent goal and what we can do to advance that cause.

Mr. NORLEN. Thank you, Senator. One of the interesting things in the GAO report was a comparison between Eximbank's efforts to promote renewable energy and meet that mandate and its efforts to meet its small business support mandate, and it found that it had met its small business support mandate, largely by integrating this mission more deeply into all the different departments and programs, in other words, wiring it more deeply into the DNA of the agency.

Eximbank's renewable energy promotion program is a bit more stovepiped. We have identified several ways that we think can help. One, the 10 percent target that we have mentioned is an Appropriations Committee-set target which has to be returned to every year, and that is a bit, I think, frustrating for all concerned, and if that was in the charter, I think that would be taken a bit more seriously and would have a little bit more rigidity to it.

Second, we believe that, for example, if some of the increase in capital authority for Eximbank is linked to specific renewable energy targets and if there are disincentives to not meeting that through the capital authority extension, such as withholding capital authority when they do not meet that target, that that might help, as well.

Increased assignment of staff, of existing staff and management to the task could also potentially help. With small business, there is any number of staff and officials within Eximbank that are specifically tasked to this. Ex-Im Bank currently has a pretty small renewable energy, energy efficiency department, and these and many other somewhat practical and simple measures, we think, could greatly help.

Mr. GRATACÓS. I think I kind of agree with some points that Mr. Norlen made regarding the staffing and some of the other steps. But I think we have to take that report it into context, put into context. There was a report issued by the Department of Commerce talking about renewable energy exports for 2009 and it only mentioned—there were $2.4 or $2.5 billion in renewable energy exports. Well, Eximbank's authorization levels for that year were about $24 billion, right, and so 10 percent of that will mean that every exporter of renewable energy in the U.S. will have to be supported by Eximbank to be able to meet the 10 percent of this authorization. So it is good to put that into context when we look at the report, and that is something that the GAO report actually acknowledges in their report.

The second point is that there have been steps taken since that were actually coordinated by the new Administration that are part of the different marketing efforts that the Bank is taking. Before, the Bank was pushing all of its products mainly through lenders. It was a lender-driven situation. Now, they are doing some of the steps that we mentioned before, which is taking the product toward the exporter with all these events, and they have created some products for renewable energy, like Solar Express and some of these other products, and the hope is that at some point it will actually increase the levels of authorization to be able to get as close as possible to that 10 percent.

So there are some things the Bank could do better, like Mr. Norlen mentioned, but also, there was some limitation because of the market they were servicing.

Senator BENNET. That is helpful. Thank you. I would like to thank all the witnesses. Mr. Ickert, thank you for your testimony. It is a great story. And, Mr. Chairman, thanks again for having this hearing.

Chairman WARNER. Thank you, Senator Bennet. I do not know if you have got other questions. We could go back and forth, or are you—all right.

Let me go to Mr. Ickert and Mr. Gratacós at this point, although let me make one editorial comment about your question. I can see you turned it on to get a response. I think Mr. Thompson's comment, celebrate the Caterpillar success story, and I want us to do all we can to expand our trade opportunities with China. I am actually pleased that you think—the statement that the Chinese are starting to move forward. You know, I do get concerned at times that I think many American businesses have this eye of this wonderful opportunity of the Chinese markets and sometimes sacrifice standards, intellectual property, adhere to restrictions to get into the Chinese market that they would not do for any other country in the world and then complain to policymakers that we do not do enough to push. Again, Caterpillar has got a pretty good record of meeting the competition as long as there is that level playing field, but I do think we need that level playing field.

Senator BENNET. I agree completely, and that is some of what I heard when I was over there, is that people are so anxious to get into the market, which we need to do, you need to do, but the idea that the Chinese would be insisting that you give up your IP to do that, you give up your manufacturing processes to do that, that is a trade that we are going to regret someday if we make it.

So I think it is a combination of both, whatever business practice it is you are doing to out-compete and whatever policy we can actually—you mentioned currency manipulation, for example. This is an interesting topic, particularly in your industry, because as I understand it, what you are looking to do is manufacture in China and export within—not export, but sell within that domestic market, which means that maybe in that context, that issue is not really the real issue, the gating issue for you. But the other ones that the Chairman mentioned may be more important, and we have just got to find a path forward here so that we can build these exports.

Chairman WARNER. I agree, Senator Bennet.

Let me, Mr. Ickert, I want to come to some of your, again, tremendous success story and how we see more of these success stories, not just in—it is Olney, Texas?

Mr. ICKERT. Yes, sir.

Chairman WARNER. Not just in Olney, Texas. I need them in Martinsville, Virginia, as well. And you mentioned the kind of distributed authority, the ability from Eximbank to try to push some of this decision making down, and I believe, Mr. Gratacós, Mr. Ickert's company would probably be in that short- to medium-term financing as opposed to long-term infrastructure category. So—and you, I think, appropriately pointed out those are tougher deals to underwrite and go through.

How do we get that balance right and what can we do in the reauthorization legislation to get more success stories on the small to midsize? I would like you to follow up more on the distributed authority, and I would also like, Mr. Ickert and you, Mr. Gratacós, to comment, and again, Mr. Thompson, you may want to weigh in on this, as well, the fact that we have hard lots of criticisms of the Bank.

I think there is a recognition that, as you just mentioned, Chairman Hochberg is trying to move this forward in a better way, that there has been slow processing time, which is a particular burden to small- and medium-size industries, kind of waiting for how long to get through the bureaucracy. There was the 2010 competition report that noted that, and I was happy to hear, Mr. Gratacós, that you as the IG were looking at that, and I would be anxious to know, is there kind of a defined goal? People ought to get an answer by X-number of days when they have put their application in, put their review process in. Or are you just trying to shorten the process or actually get it down to a fixed number of days?

But, first of all, Mr. Ickert, if you want to comment on either of those, and then Mr. Gratacós.

Mr. ICKERT. Thank you, Mr. Chairman. As my testimony focused on, it is about jobs and the potential for jobs, especially that small business can create in this country, and I think that potential is tremendous. I think President Obama was right on the mark with the National Export Initiative and that we need to move forward and push that deeper.

Now, it goes back to small business. A lot of small businesses in this country are not exporting, but they could. One of the first places I think a lot of them go to when they ask and say, what do I do, where do I go, is probably their commercial bank. The more that we could have delegated authority, and I know the bank does have delegated authority now on the working capital, that it is in the charter to do medium-term. But the more we can push, say, the medium-term—that is what we use—medium-term delegated authority out there and get the banks to be able to be familiar with it, to use it, and so when that small business customer comes in and says, what do I do, they can get not only answers, but guidance and steps forward to success. Otherwise, I think there is probably a reluctance to—or maybe not even a reluctance as much as not knowing where to go in Washington from Olney, Texas, or wherever.

And the other thing is, along your questioning, is the fact of the turnaround time. The turnaround time from our standpoint has gotten much better under Chairman Hochberg's administration, but at times in other administrations, it has been very slow.

Chairman WARNER. Can I just ask one—interject one question there?

Mr. ICKERT. Sure.

Chairman WARNER. Do you think your turnaround time—I like Chairman Hochberg. I hope it was because of his administrative changes. But do you think the turnaround time improved because there was a change in Eximbank administration or do you think it was because you had had a good track record of doing business with Eximbank?

Mr. ICKERT. I think actually it was probably a little bit of both, but I think it had to start with the administration saying, we are going to do things faster.

But, going back to small business and getting more small business in the exporting, that time, that wait time, if it is 2, 3, 4 months, they are going to get frustrated and they are not going to come back. So I think the turnaround time is very important. So that goes back also to delegated authority. It goes back to having the budget and the IT infrastructure to move deals through. But it goes back from the administration at the Bank, saying we are going to do a better job. We recognize we are not doing it as fast and we are going to do better.

Chairman WARNER. But would you have as a goal—and we are going to get to you next, Mr. Gratacós but is there—the thing I wrestle with is some deals, having spent longer still on your side of the dais than this side of the dais and as a business guy for 20 years and having done financing, some deals are tougher to sort through than others. I guess the concern I have, if we had a set deal and any approval needs to get an answer within 60 days, which would be a great goal as business guys we might have, but that might knock out certain more complex deals that you cannot just get done in 60 days. Should it be more of a flexible rolling goal of we want to get 80 percent of the decisions by X-number of days, recognizing there are some deals that may be a little more complex? Have you or the kind of the association of small- and medium-sized businesses who are also wanting this time quicker, do you have some specific proposals in that area?

Mr. ICKERT. Well——

Chairman WARNER. Or if you would like to think about it beyond and get back into the record on some ideas——

Mr. ICKERT. I could do that, but also, I think it is—there is—it is incumbent on all parties. The exporter submitting the deal needs to know that they have a responsibility to have vetted it and to submit a complete package, and so, again, that goes back to the education process. That goes back to the delegated authority. It goes back to being hands-on in the field educating small business.

So, first of all, there is a responsibility there. I do think that you are exactly on point as far as the complexity and that there should be—there are some deals that are going to be outside of a time limit. We like to see our deals through in 30 to 45 days. Sixty actually is a little bit long. But I think the main thing is if there is communication back and forth, that people know the deals are moving, they know where the complexities are, they know where the issues are, that mitigates to a large extent the wait. It is when they go in, you lose them, and you hear three or 4 months back, which has been the case in the past, is not the case now. But that discourages small business. That discourages job creation in this country.

Chairman WARNER. Thank you, sir, and Mr. Gratacós, I would be anxious to hear, again, what some of your work—you mentioned your three points you were looking at. This kind of more agreed-upon time line of getting back to folks, I would be anxious to hear, and also the question of whether kind of a more standardized underwriting process would lead to that quicker response.

Mr. GRATACÓS. Well, I like what Mr. Ickert said. I wish some of the exporters were that responsible. He is saying that exporters should know what they have to do.

I am going to address some of the points based on your question and his question. First of all, delegated authority in the medium-term program. It is a product that is relatively new. I think it has been in place for about 3 years or so. It is not a product that has been received well by lenders, and I think that is where the problem lies. There is some back and forth with lenders as to how the delegated authority program should look like on the medium-term side.

The reason is you look at the numbers. Only three lenders have actually signed up for it insofar as information I have. Two of them—one of them has not even finalized all the paperwork. One of them finalized the paperwork with no deals. And then there is one that has about 30-plus million dollars.

Chairman WARNER. And the reason why most of the lenders have not signed up for this, do you have——

Mr. ICKERT. Well, it depends who you ask. I mean, some—if you talk to the Bankers Association of Finance and Trade, they are saying, well, asking the bank to have some exposure on the deal, which is a tradeoff for the delayed authority, has not been something that they would be looking at.

Mr. GRATACÓS. They also alluded to the fact that that was part of the honors requirements that the banks are imposing, but then when we look historically, I went back in my office, went back and looked to 2000 and 2011, we saw that the actual medium-term transactions were going down even before some of these requirements were asked or imposed.

So the question is, is the market by itself using—minimizing the use of medium-term in the ECA context? It is hard to tell. I think from the Bank's perspective, I believe there were 600-plus transactions in 2000 worth $1.8 billion or so. It went down to maybe 200 transactions in 2009 with $600 million, and the last few years, it actually had gone up, where this year the projection says that it is going to be in the 300 to 400 transactions, $1.3 billion, almost getting to that 2000 level.

So is it a matter of the product, that it was just created 3 years ago, or is it that the bankers or lenders do not feel that it is a product that they can benefit off? It is hard to tell at this moment. I agree that it will have a benefit for the exporters, like Mr. Ickert is saying, because it will expedite the process since some of the work will be done by the lenders on the processing side.

Going back to the other questions that you have, and I believe you said how is the IG review on the processing time, we are actually looking at the way to improve the entire process in terms of the cycle time, and there are different levels of approval based on the product or the program. If it is short-term, there should be a set of times, if it is medium-term, and if it is long-term. Because of the complexity of some of the deals that you alluded to, it is hard to put the line on all medium-term products.

But I think in the case—I have not looked at the case of Air Tractor specifically, but having someone who has no history of claims, having someone who understands the process of exporting products and the Bank is familiar with may help expedite the transaction, obviously, and that might be the case that he is experiencing. I think the Bank has realized that they have to do something about lowering the time, and I think there is a lot to be done internally, where you can create internal deadlines within the groups of individuals involved in a transaction and hold those divisions accountable to minimize the length of the transaction. So if we have some legal questions, if we impose performance measures where we say, legal, you only have 5 days to turn around your concerns, as opposed to spending 20 days looking at the legal arguments.

You know, that is something the bank can do with no alteration to the charter, no improvement in IT systems. I mean, this is something that goes in-house, and I think that is what we are looking at, you know, how can we develop a process where the Bank can actually lower the cycle time, can minimize the impact on the wait, and can actually hold people accountable within the Bank, and I think everybody will benefit from that.

And I think you may have—oh, and that shows, I think something we were talking about earlier, some of the issues that the Bank has in terms of performance matrix. I mean, this would be something that should be captured. It should be something measured. And that way, you know where your performance lags. And I think that it goes with the whole view that we have from the top of how we can improve the process of the Bank. But we are focusing on short-term and medium-term first. Long-term, some of these deals are more complex and so it is very hard to put the Bank in a bind by asking them to get it done in X-number of days.

Chairman WARNER. Well, thank you, and I do want to give Mr. Ickert one chance to respond on the delegated authority. It does seem to me this is not appropriate, or I do not believe, at least, the appropriate role of Congress to specifically instruct a date certain for each deal review, but I do think the policy goal of trying to shorten that process or at least make sure, as Mr. Ickert has pointed out, for first-time applicants that they hear from the bank so they do not just kind of go into this waiting period forever and policy goals that might not be X-number of days for every deal, but a goal that 90 percent of the deals in what category would be done at legal within 5 days. You have got to leave some out for those complex deals because this is not all cookie-cutter.

Mr. Ickert, do you have any comment about the fact that not so many institutions are taking on this delegated authority opportunity?

Mr. ICKERT. I think that, as he stated, there is some concern on the Bank about how much exposure they have, and I think that is where the discussion seems to have a shutdown. If we could have more emphasis from the Bank, the Ex-Im Bank, with the commercial banks to try and draw these people in, I think there is some room to negotiate and move forward. But I think it is on the matter of how much exposure the banks have.

But the ultimate thing that we get to, if Eximbank is at $35 billion in authorizations now and their staff is stretched, their budget is stretched, and we—I was at EBC last week. They did $88 billion last year. If we are going to go to those kind of numbers, we have got to look further than just 811 Vermont on how we move deals through the channel, and delegated authority seems to be, in my humble opinion—and understand, I am from Olney, Texas, that the banking system is there and it would——

Chairman WARNER. Your numbers have been pretty good the last three or 4 years, so keep going.

[Laughter.]

Mr. ICKERT. That the banking system is there and delegated authority would be a way to be able to get a system to move more deals through and create more jobs in this country.

Chairman WARNER. I have got one last question I just want to raise, and I think, Mr. Gratacós, you raised it, and I believe, Mr. Thompson, you raised it, as well. I find it interesting when we have areas like Eximbank where we have a, I think, a success story, but a success story that is under competition from abroad, that is making money, that my inclination is that we need to expand the authority if we are going to reach this goal and we need more Ickerts up here telling these small- and medium-sized success stories, that we still seem to have this kind of desire amongst some in Congress to micromanage the administrative half of the budget, and I may be a little biased having a telecom and IT background, but the notion that we would not put in place advanced IT systems to try to be able to speed up this processing time, to be able to assist the staff, seems a bit short-sighted to me, and I know that was one of the points you raised, Mr. Gratacós, but maybe we can let, if there is any of the other panel that wants to comment on that, and then, Mr. Gratacós, you get the last word on that issue. Does anyone want to raise a comment on that?

Mr. THOMPSON. Well, Senator, this may be more responsive to the last question than your most recent question, but I think Caterpillar does hear from customers frustration about the slowness of the Bank. To a certain extent, customers are always going to complain about the slowness of a bank. But I think it is important to remember there is the credit side and the policy side of the Bank, and I think the type of IT investments and the other process improvements that we are talking about here would definitely speed up the credit side.

I think, respectfully, it would be important, though, for Members of the Committee to remember as you are thinking about this issue, the policy side, as well. To the extent that we are trying to implement public policy through the Bank, and to the extent we are going sort of beyond OECD requirements in doing that, those steps all require a level of transactional due diligence at the transaction level that add to this slowness, certainly relatively to other global ECAs.

So I am maybe thinking too much in my neighbor's head here, but it seems a little bit unfair for Congress to say, Eximbank, you have to go faster, but on the other hand, here are a bunch more requirements we want to make sure that are implemented as a result of these financings.

Chairman WARNER. Mr. Thompson, I am shocked. You are saying that Congress might put out contradictory messages?

[Laughter.]

Mr. THOMPSON. Uh——

Chairman WARNER. Mr. Gratacós.

Mr. GRATACÓS. It is Government.

[Laughter.]

Mr. GRATACÓS. He has a point. I think to be more competitive, the Bank needs to upgrade its IT system. I think there is no question about it. It is one of those areas of the Bank where everybody understands is a problem, and I have raised this point before. We are a big advocate for the Bank to be able to get the resources, not only IT-wise but also staff-wise. I mean, look at the growth of the Bank the last six, 7 years. Keeping the same levels, staff levels, for the past 10 years, the portfolio has grown significantly.

Because of my position, my concern will always be how is that money going to be invested, and my concern always has been if we advocate, because we think it is something the Bank needs to be more competitive, but make sure that there is a comprehensive plan in place where all the business needs and processes are in place so that you can actually make the Bank competitive from the operational side and, therefore, provide better customer service in the long run and to be able to meet the demands that the U.S. market is presenting.

Chairman WARNER. Well, I would like to very much thank the panel, I think, for a very good discussion. It has helped me and my thinking on this issue. I think you have all brought a very interesting perspective.

As I said at the outset of the hearing, we will add additional testimony from folks who could not join us today. I know there was particular interest from Thea Lee from the AFL–CIO and Owen Herrnstadt from the Machinists. I think their testimonies are going to go at the issue that we spent some time on today in terms of the issue of content, which we all have that policy goal of advancing American jobs and business, and, Mr. Norlen, I believe as well as you, in a way that takes advantage of these new business opportunities as well as the valid environmental issues you raise, and that is the question of whether a fixed percentage is the only way to go at it when this is an issue that deals with not just domestic content, local content, global supply chain, margin allocation, company financing. It is more than just a fixed percentage, and I think there are examples of other ECAs around the world who have taken a different approach that have shown some success.

But we do at the end of the day need to recognize, as most Members have made—most of the testimony and I think all the Members, we have got a credit deal here and we have got a policy goal, and trying to get that balance right and trying to get it right in a way that we can get timely responses. The Caterpillars and the large companies understand this. There are a host of other small- and medium-sized businesses that need to duplicate your record and get advantage of the kind of success story you have got and we think Export-Import Bank can be a big piece of that. I think we have got to look at an expanded authority if we are going to stay competitive. So this Subcommittee will work and work with the full Committee and we hope to move forward on this reauthorization.

As I indicated at the outset for my colleagues who are not here, the record will remain open for the next 7 days and they may have some written questions for you all.

Again, I thank the witnesses, and with that, the hearing is adjourned. Thank you all very much.

[Whereupon, at 11:25 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR MARK KIRK

I would like to thank Chairman Warner and Ranking Member Johanns for holding this important hearing.

I support reauthorizing the Ex-Im Bank before its mandate expires on September 30, 2011. As a self-sustaining agency, it carries no cost to the taxpayer. In fact, it has earned $4.5 billion in revenues for the U.S. Treasury since 1992.

Support from Ex-Im remains important for multinational companies as well as small- and medium size enterprises across the U.S. Caterpillar, for example, employs 23,000 people in Illinois and has benefited from $300 million of the Bank's financing since 2006. Since 2007, Ex-Im also provided financing to 180 small businesses across our State.

As we work to reauthorize Ex-Im, I urge this Committee to adopt commonsense reforms to render Ex-Im a more competitive and effective global export credit agency. Foremost, I support increasing Ex-Im's lending cap to $160 billion by FY2014, consistent with the level that passed the House Committee on Financial Services on June 22, 2011, as part of the Securing American Jobs Through Exports Act of 2011 (H.R. 2072).

I believe the Committee should lower the domestic content requirement for Ex-Im supported exports. According to the Chamber of Commerce, current policy "fails to account for the present day reality of global supply chains which exporters need to maintain their international competitiveness."

Additionally, I support the recommendations made by Ex-Im's Office of Inspector General to streamline Ex-Im programs and operations and to stamp out fraud and abuse.

Without these reforms, Ex-Im stands to lose additional ground to its global competitors. Despite recent increases in export volumes, Ex-Im still finances less than 5 percent of U.S. exports. In 2010, China supported over three times the amount of medium- and long-term official export credit volume than the United States.

Ex-Im's mission remains critical to maintaining U.S. competitiveness, opening new markets for our employers and creating American jobs. However, it is no replacement for sound tax and trade policy that provides necessary incentives to keep jobs in the U.S. and gives American companies the tools to compete globally. In addition, we must curb the regulatory zeal of Washington's bureaucrats, which threatens to drive jobs abroad.

I look forward to working with my colleagues to reauthorize the Export-Import Bank of the United States.

Thank you.

PREPARED STATEMENT OF OSVALDO LUIS GRATACÓS

INSPECTOR GENERAL, EXPORT-IMPORT BANK

JUNE 30, 2011

Good afternoon, Chairman Warner, Ranking Member Johanns, and distinguished Members of this honorable Subcommittee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Export-Import Bank Reauthorization. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

The Ex-Im Bank is the official export credit agency (ECA) of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank is experiencing unprecedented growth—achieving 3 straight years of record authorization levels. Ex-Im Bank is projecting another record year in FY2011. For the first 6 months of FY2011, Ex-Im Bank reported $13.4 billion in new authorizations. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This not only demonstrates the commitment, knowledge, and expertise of the staff at Ex-Im Bank, but also the need in the market for Government-supported export financing in this very competitive and difficult credit market.

II. Ex-Im OIG

Ex-Im OIG was statutorily created in 2002 [1] but the Inspector General did not officially take office until August 2007. Since reaching current staffing levels, the OIG has achieved noticeable success in performing its statutory duties. Specifically, the OIG has issued twenty (20) audit and special reports containing eighty-five (85) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: sixty-four (64) indictments and arrests; nine (9) convictions, fourteen (14) guilty pleas; and over one hundred and ninety-one (191) management referrals for enhanced due diligence actions. Since 2009, the total overall OIG financial impact is approximately $250 million. Currently, the OIG is investigating thirty-seven (37) open matters representing approximately $348 million in claims paid by Ex-Im Bank (or around 15.3 percent of all Ex-Im Bank claims paid as of the end of FY2010). All of this has been accomplished with a very modest annual budget of $2.5 million and a staff of 11 professionals.

III. Competitiveness: Operational Areas

In order to better meet export credit needs of the American exporters and improve the customer service experience of its participants while balancing its responsibilities, it is our opinion that Ex-Im Bank needs to address some operational weaknesses and challenges it is facing. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient capability to create and maintain jobs in the United States. Besides increasing staffing levels to reflect the growth in authorizations, some of the challenges Ex-Im Bank needs to address are:

- Inefficient and Ineffective Information Technology (IT) Platform. Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several systems and databases. These systems and databases do not effectively and accurately interface with each other—compromising data integrity, duplicative information, and creating unreliable files. Further, these systems make data mining burdensome and time consuming.
  - Ex-Im Bank lacks an end-to-end IT system that allows for seamless management of applications/files and flow of information within the Bank and would allow different components within the Bank to work on the same files at the same time from the same platform.
  - Ex-Im Bank lacks a centralized and comprehensive participant database that would allow the Bank to capture and track all the participants (lenders, buyers, exporters, suppliers, brokers, agents, and others) involved at different transactions at any given moment in time. This weakness prevents Ex-Im Bank and our office from conducting effective forensic analysis to identify possible patterns in transactions.
  - Because the IT platforms do not fully meet business and operational needs, Ex-Im Bank divisions and components have created subsequent data subsystems to address the specific needs of that office or division. Some of these subsystems require manual input of data and do not interface with Ex-Im Bank's main IT infrastructure creating additional data repositories.
  - The above described IT system fragmentation creates a number of operational consequences for the Ex-Im Bank:
    - delays in approval of transactions
    - data integrity issues (due to manual input or updates of data)
    - multiple data storage locations
    - burdensome and somewhat ineffective management of applications and assets
- Develop Performance Standards and Metrics for Programs and Products. Ex-Im Bank has not developed annual performance plans or product performance metrics in order to properly quantify the effect and success of its products. Ex-Im Bank should develop these metrics in short and medium term products in order to determine whether

[1] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

- the product is achieving the intended results;
- the product is reaching the intended audience;
- the marketing strategy is effective;
- the product is similar or more competitive than programs offered by other ECAs;
- the product should be altered or eliminated;
- acceptable levels of defaults and claims have been established;
- levels of defaults and claims should be improved; and
- changes in original implementation strategies are needed.

- Continue Efforts to Expand Small Business Participation. Ex-Im Bank charter imposes a twenty (20) percent small business participation requirement of all of the authorizations every year. Ex-Im Bank has exceeded this mandate in the last 2 years and it is expecting to surpass it again in FY2011. Ex-Im Bank has been able to achieve its mandate by
  - conducting Export Forums throughout the United States;
  - developing partnerships with different lenders, local governments and industries;
  - creating products specifically for small businesses (Global Access, Express Insurance, and Reinsurance products); and
  - continuing collaboration and cooperation with other agencies, including the Small Business Administration and Department of Commerce, in order to reach out to small businesses. Enhancing export opportunities requires the participation, training, and collaboration of other Federal agencies. The National Export Initiative addresses and encourages collaboration between agencies.
- Continue Efforts to Expand Renewable Energy Products and to Create Clean Energy Export Opportunities. Ex-Im Bank charter contains a Renewable Energy mandate of ten (10) percent of all the authorizations every year. Ex-Im Bank has not met this mandate yet, mainly due to the fact that the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar Express, as well as reaching out to local companies such as wind and solar manufacturers.
- Improve Operational Efficiency by Reducing the Time it takes to Approve Short and Medium Term Transactions. Some Ex-Im Bank participants have complained in the past about the approval times and process. Reducing the time it takes to approve transactions would allow American exporters to develop better relationships with clients and customers, would encourage borrowers and sellers to use Ex-Im Bank, and would improve the services Ex-Im Bank provides to its users.
- Absence of systematic approach to measure customer satisfaction. Ex-Im Bank does not conduct customer satisfaction surveys on a regular basis. Customer surveys provide valuable insight into customer priorities, perceptions of Ex-Im Bank performance, areas for improvement, and other ECA best practices. On April 27, 2011, President Obama issued Executive Order 12862 instructing Federal agencies (including independent agencies) to develop a customer service plan to streamline service delivery and improve customer experience. To this end, we recommend that Ex-Im utilize customer surveys to validate the priorities of its customers and the Bank's performance.

IV. Other Observations From OIG Cases and Reports

Ex-Im Bank has the important responsibility of providing export financing in a very difficult credit environment while also protecting the taxpayers, the integrity of its programs, and the full faith and credit of the United States. In conducting our audits, evaluations, inspections, and investigations, the OIG has conveyed to Ex-Im Bank the following observations developed from transactions and programs under the OIG purview.

- Enhance Due Diligence and Credit Underwriting Practices (specifically for Short and Medium Term programs) and Improve Training Efforts to Address the Surge in Applications under a Decentralized Application Approval Process. Currently, Ex-Im Bank uses a decentralized underwriting process. Given the lessons learned from the Medium Term program, the surge in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhance due diligence practices in order to better identify fraudulent transactions. With Individual Delegated Authority (IDA) as high as $10 million, Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to assess effectiveness of the delegations. Some of these policies should address the following:

- Uniform credit and underwriting standards to be used by all Ex-Im Bank credit officers.
- At a minimum, Ex-Im Bank should make more frequent use of security interest and sporadic inspections in order to better mitigate risks in programs and regions where defaults and fraud experience has been high.
- Use of financial statements in programs where defaults and fraud experience is high. Further, Ex-Im Bank should require independently audited financial statements in regions where Ex-Im Bank has limited or unfavorable lending experience.

- Encourage Lender Partners and Participants to Conduct, at a Minimum, Industry Standard Due Diligence on Government Guarantees and Insurance Transactions. One of the patterns our office has observed in conducting our investigations is the lack of due diligence efforts conducted by lenders, specifically the ones who have a history of defaulted transactions. Even though there is an expectation that such efforts have been taken, Ex-Im Bank does not require participating lenders to conduct due diligence on their transactions. The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not devote resources on due diligence efforts when there is a Government guarantee and such efforts are not required by Ex-Im Bank. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this "moral hazard" issue has been prevalent in fraud cases involving multiple transactions. Effective implementation of "Know Your Customer" practices by lenders could help in minimizing or preventing the number of fraudulent cases Ex-Im Bank has experienced.
- Improve Corporate Governance, Business Processes, and Internal Control Policies and Practices. One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls, as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

V. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating exports through export finance products provided to American exporters. Three years of record export authorization levels only support that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its operational effectiveness and efficiencies in its quest of achieving the National Export Initiative's goal of doubling exports in the next 4 years.

I have highlighted some of those areas based on observations and relevant work performed by the OIG in order to illustrate the importance of proper management, oversight of strategies, and to incorporate lessons learned from Ex-Im Bank's prior activities. The OIG will continue to enhance its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Warner, Ranking Member Johanns, and Members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you!

PREPARED STATEMENT OF CLAY THOMPSON

DIRECTOR, GLOBAL GOVERNMENT AFFAIRS, CATERPILLAR, INC.

JUNE 30, 2011

Good morning, Mr. Chairman and Members of the Committee. Thank you very much for the opportunity to be with you today.

For more than 85 years, Caterpillar, Inc., has been a leader in making sustainable progress possible. With 2010 sales and revenue of $42.6 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, clean diesel and gas engines, industrial gas turbines and diesel-electric locomotives. The company is also a leading services provider through Caterpillar Financial Services, Caterpillar Remanufacturing Services, Caterpillar Logistics Services and Progress Rail Services. We are headquartered in Peoria, Illinois, and have manufacturing facilities, distribution facilities and offices across the United States. We directly employ 47,000 people in the United States, and our dealers and suppliers employ well over a hundred thousand more.

Our ability to competitively export from the U.S. has been the key to our success historically, and never more so than in the current environment. Slow economic growth in the U.S.—historically our largest market—has been offset in recent years by strong industry growth in other key markets. In 2010, 70 percent of our sales were outside the U.S. and we exported $13.4 billion in goods and services, supporting thousands of American jobs directly and through our supplier network, which includes over 5,000 companies in all 50 States. Our ability to successfully compete globally from a significant U.S. production base is vital to defending our global leadership position. We are fully committed to that U.S. production base, as evidenced by our $1.5 billion investment this year alone in constructing and expanding U.S. production facilities.

Ex-Im Bank has played a role in facilitating our exports and that role is growing. From 2006 to 2009, the Bank funded $200 million in Caterpillar equipment exports. In 2010, the Bank financed $100 million in Caterpillar exports, and we expect to exceed that level in 2011. We greatly appreciate the hard work and dedication of Ex-Im employees that has contributed to this support.

Ex-Im and other Export Credit Agencies played an important role in the recovery from the recent financial crisis. During this time, we've seen commercial lenders, especially in large project finance, become more risk reticent and capital-constrained. In that environment, ECA's such as Ex-Im have stepped forward and have helped facilitate international trade finance in a significant way.

We anticipate the role of Ex-Im will become even more critical going forward. Competition for global leadership in our industry is playing out right now in markets like Asia, Africa, and Latin America. Our global competitors, like us, recognize the strategic importance of these markets. Construction of infrastructure such as roads, ports, rail, and distributed power—as well as support of large mining projects—are key drivers of our product sales. Often, the countries in which this type of development is most needed are also the countries where un-enhanced commercial financing is least available. Ex-Im is a critical tool that can be used to gain market access in emerging high-growth markets where commercial banks need credit enhancements to support large project loans and augment commercial bank capacity. We're also concerned that new capital requirements and associated regulations will further inhibit commercial lenders' appetite to take on these projects.

Meanwhile, we're seeing other sovereign Export Credit Agencies aggressively targeting these markets on behalf of competitors, creating a potential competitive disadvantage for us and others exporting equipment from the United States. In terms of the size and level of aggressiveness of global ECA activity, the United States is being left behind.

According to the Coalition for Employment Through Exports, Ex-Im's 2010 commitments totaled approximately $25 billion. In contrast, the Japanese export credit agencies committed last year well over $100 billion in support of their exporters and the Chinese over $300 billion.

Make no mistake, Ex-Im is a valuable tool for U.S. exporters, including Caterpillar. However, you probably recognized from the numbers cited above, we have not utilized Ex-Im to a very great extent—especially considering the percentage of our exports financed through the Bank. Ex-Im could be much more effective and more competitive with other global ECA's.

To enable this success, certain structural changes are necessary. Implementing these changes would remove the self-imposed constraints that keep Ex-Im from being as effective as it can be. There are three such issues that are most relevant to Caterpillar.

First, the Bank should be reauthorized with an expanded lending limit. With approximately 90 billion in commitments already outstanding, the Bank is near its current $100 billion lending cap. Increasing the cap to $160 billion will put the Bank in a situation where it should not have to decline a qualifying financing opportunity due to capital authorization concerns. This level of authorization will also move the Bank closer to leading global ECA's. No addition to the Federal budget deficit should result from this authorization, as the Bank's profitability over the past several decades should continue in the current environment of global economic recovery.

Second, Ex-Im should revise its local content policy which currently constrains its level of support to the lesser of (a) 85 percent of the export value or (b) the value of the U.S. content. This level of local content requirement is completely out of line with the rest of the world. The next lowest supportable percentage, in Austria, is 50 percent. The Bank, itself, concludes in its 2010 Competitiveness Report:

> As Ex-Im Bank is the only G-7 ECA that does not allow for any direct support of foreign content and doesn't consider other factors (*e.g.,* national interest) when determining its level of support, Ex-Im Bank's foreign content policy is increasingly less competitive relative to other G-7 ECAs.

We agree.Our large mining trucks sole-sourced from Decatur, Illinois, for example, have local content between 75–88 percent. In many deals in the strategically important market of Indonesia, our off-highway mining trucks compete head-to-head with trucks built and shipped out of Komatsu City, Japan, or Chennai, India. Because their production facilities are closer to Indonesia, our Asian competitors already have an advantage in quoting these deals due to lower transportation costs. Ex-Im's inability to provide full financing support because our local content is 80 percent, rather than 85 percent, puts us at an even bigger competitive disadvantage against Japanese and Indian competitors partnering with their respective Export Credit Agencies. Lowering the local content requirement to a more competitive level will allow Caterpillar customers to use Ex-Im financing to a greater degree, thus supporting thousands of jobs in our U.S. assembly facilities and within our supplier base.

We disagree with those who argue that lowering the local content requirements will directly result in the loss of jobs in the U.S. At Caterpillar, we select and develop suppliers based on criteria that will allow us to be globally competitive. Thus, we evaluate a supplier's ability to deliver a quality product, quickly, at a competitive cost. On that basis, the local content in our U.S. assembled product typically ranges anywhere from 65 to 88 percent. The primary impact of lowering the local content requirement will be to make more U.S.-assembled product eligible for Ex-Im support—thus expanding export and job opportunities for our U.S. assembly facilities and supply base. In a recent report, the highly respected and nonpartisan Peterson Institute for International Economics notes, "an alignment of Ex-Im's domestic content requirements with other ECAs will encourage additional U.S. exports and expand the overall export base."

Finally, although we understand it may be outside the jurisdiction of this Subcommittee, no discussion of Ex-Im Bank competitiveness would be complete without at least mentioning the barrier created by cargo preference requirements. A congressional Resolution enacted for security purposes in 1934 requires U.S. Government-financed transactions to be shipped in U.S. flagged vessels. The Bank interprets the resolution to require that most transactions receiving direct loan or guarantee support from Ex-Im must be shipped by U.S. flagged vessels. The supply of U.S.-flagged vessels is heavily constrained, resulting in cost increases and time delays that customers are simply unwilling to accept.

Let's take an example from an actual transaction that is currently pending. In a $200 million dollar proposed sale of U.S.-sourced equipment in Indonesia, very similar to the one I cited above, the incremental freight cost driven by the U.S.-cargo restriction is $6 million, or roughly 3 percent of the total transaction cost. As you can imagine, in a competitive bidding situation, customers view this incremental cost as unacceptable. In fact, we are often asked by customers and dealers to source product from other locations so that customers can leverage less-restrictive ECA financing outside the United States.

For Ex-Im Bank to become a truly competitive ECA that fully supports U.S. exporters and their employees, the cargo restrictions must be lifted.

In conclusion, I would like to repeat that Caterpillar believes that Ex-Im is a good institution staffed by dedicated and hard-working employees. The Bank, however, is constrained by several structural inhibitors that keep it from being globally competitive. Raising the Bank's authorization level, relaxing the local content requirements, and doing away with the cargo preference requirements will improve competitiveness and support U.S. job growth going forward.

Thank you for your time and attention.

PREPARED STATEMENT OF DOUGLAS NORLEN

POLICY DIRECTOR, PACIFIC ENVIRONMENT

JUNE 30, 2011

Chairman Warner, Ranking Member Johanns, and Members of the Committee, thank you for the opportunity to testify on the reauthorization of the Charter of the United States Export-Import Bank. I am Douglas Norlen, Policy Director, Pacific Environment, a Pacific Rim-based nonprofit organization. In this capacity, for 15 years I have focused on the environmental and social impacts and reforms of public and private finance institutions, with a specialization in export credit agencies, including Ex-Im Bank. I am pleased today to speak about three areas of reforms we believe are necessary to improve the effectiveness of Ex-Im Bank: agency accountability, climate change, and promotion of renewable energy.

Agency Accountability: Congress should require Ex-Im Bank to establish an independent accountability mechanism. Such mechanisms are increasingly the norm at public finance institutions such as the World Bank, International Finance Corporation, Asian Development Bank, European Bank for Reconstruction and Development, Japan Bank for International Cooperation and the U.S. Overseas Private Investment on financial problems, such as fraud, waste and abuse, and internal economy, efficiency and effectiveness. In contrast, independent accountability mechanisms receive and assess complaints from people and communities who claim to be adversely affected by the projects or activities supported by a particular public finance institution because of a violation of the institution's own policies and procedures.

An accountability mechanism at Ex-Im Bank could have three functions. One is to address complaints by affected people seeking to resolve problems with Ex-Im-supported activities. The purpose of this so-called "problem-solving" or "conflict resolution" function is not only to address existing complaints about real or potential harm from Ex-Im Bank activities, but also to prevent such harm from escalating or occurring at all. An example of this might be an Ex-Im Bank-supported mining project that has failed to compensate local people for use of their land. In this example, the affected communities might seek compensation through a problem-solving initiative. Instead of the community members feeling frustrated when attempts to raise concerns at the local level go unanswered, which, in turn, can lead—and has led—to drastic actions such as a roadblocks to bring attention to their complaint, an Ex-Im Bank problem-solving mechanism would allow the complainant and the Ex-Im Bank client to enter into a structured dialogue with the help of a mediator to effectively address the issues.

The second function would be compliance review, where the complainant may seek an independent review of the Ex-Im Bank's operation to determine whether Ex-Im Bank has violated its own policies and procedures. The purpose of compliance review is to identify issues of noncompliance with Ex-Im Bank policy as early as possible so that Ex-Im Bank can make timely adjustments to address any issues of noncompliance, and to provide the Ex-Im Bank Board of Directors with findings so that case-specific and systemic issues of noncompliance may be effectively addressed.

The third function would be to provide advice to management on policies, procedures, guidelines, resources, and systems established to ensure adequate review and monitoring of projects.

As with other such accountability mechanisms, Ex-Im Bank's mechanism must have appropriate safeguards for independence. The mechanism should be independent from line operations and management and report only to the Board so that Ex-Im Bank management takes no part in the mechanism's operation or oversight. The mechanism should operate in an accessible manner such that affected people could choose to directly access either the problem-solving or compliance review functions through a simple and timely complaint process. The mechanism should also operate in a transparent manner with a public registry of complaints and clear rules of procedure. Further, the mechanism should be empowered to issue public follow-up monitoring reports after agreements are reached through problem solving and after issuance of findings of noncompliance. The mechanism should also be able to conduct among clients and affected communities.

An important purpose of these compliance and problem-solving mechanisms is to ensure greater likelihood of project support by local communities, which in turn creates a stable environment for business enterprise and more successful project outcomes. Independent accountability mechanisms are good governance tools that ultimately decrease project risk to Ex-Im Bank and its clients.

In our 15 years of experience engaging the Bank on specific projects of concern in Africa, the Caucuses, Latin America, Asia, and Russia, the agency's response to those that bring evidence of policy violations has been a so-called "open door" policy. This practice falls short, for while concerns can be voiced, a substantive agency response in writing is not required, nor is demonstrated evidence of compliance remedies. When the agency offers its own interpretation of compliance, it becomes its own judge and jury. By contrast, independent accountability mechanisms provide the agency, Congress, and the public an unencumbered independent review of agency compliance and recommendations for problem solving and corrective measures.

A good example of the need for an independent accountability mechanism is the Baku–T'blisi–Ceyhan (BTC) pipeline project transecting Azerbaijan, Georgia, and Turkey. In March, 2011, the British Government issued a report which found that the project sponsor, BP, failed to act on reports of human rights abuses by project security personnel including complaints of intimidation measures used against affected communities in Turkey. The report followed a complaint brought by non-government organizations that say public funders, including Ex-Im Bank, knew about the intimidation, but failed to check whether BP had procedures in place to address and remedy the violations. [1]

Years earlier, complaints were filed to the International Finance Corporation Office of Compliance Advisor/Ombudsman concerning environmental impacts on the BTC project, resulting in increased public consultation. [2] In 2006, a claim was brought to the OPIC Office of Accountability regarding BP's withholding of information on the failure of the BTC pipeline anticorrosion coating, resulting in improved project monitoring on BTC and other projects. [3] However, Ex-Im Bank, which also financed the BTC project, provides project-affected communities with no independent accountability mechanism.

Pacific Environment can provide the Committee with numerous other examples.

We strongly support the language on the creation of an Ex-Im Bank accountability mechanism that is included in the House Ex-Im Bank reauthorization bill that passed the House Financial Services Committee last week by voice vote. We would ask only for the inclusion of a requirement that Ex-Im Bank report to Congress in 6 months and 1 year after passage of the bill on its efforts to establish such a mechanism so that the House and Senate authorizing committees can more readily carry out its appropriate oversight responsibilities.

Meanwhile, Congress should improve Ex-Im Bank's accountability on fraud and corruption. Ex-Im Bank's Office of Inspector General (OIG) has expressed increasing concern about fraud and corruption, including such problems associated with Ex-Im Bank's growing number of delegated authority lenders (financial intermediaries). The OIG recently issued a report which found that Ex-Im Bank's Nigerian Banking Facility supported a private bank whose Managing Director was removed from office for financial malfeasance by the Central Bank of Nigeria (CBN) in 2009, and was eventually convicted of fraud and sent to prison. Ex-Im Bank Directors eventually revoked this bank's participation in the Nigerian Banking Facility on the basis of the CBN intervention. However, the report also found that:

> [A]t no moment did Ex-Im Bank management state or mention in its October 22, 2009, and October 21, 2010, memoranda to the Board of Directors that a local investigation for corruption charges and guilty plea of a former managing director had taken place nor cite these as reasons for removal.

While not all Ex-Im Bank financial intermediaries are associated with corruption, we do not believe this is an isolated incident. In testimony to the House Committee on Financial Services Subcommittee on International Monetary Policy and Trade, the Inspector General stated,

> [I]t is vital that Ex-Im Bank enhances due diligence practices in order to better identify fraudulent transactions . . . ,
>
> The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not spend resources on due diligence efforts when there is a Government guarantee. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this "moral hazard" issue has been prevalent in fraud cases involving multiple transactions.

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[1] "BP Response to Pipe Conflict Found Lacking", *Financial Times,* March 10, 2011.
[2] *See, http://www.cao-ombudsman.org/cases/case_detail.aspx?id=50.*
[3] *See, http://www.opic.gov/doing-business/accountability/registry/cr-1-2006.*

Congress should act on the Inspector General's recommendations and require more robust policies and procedures for reputational checks, including a requirement of certifications of compliance with foreign and domestic laws including anticorruption certifications from participating lender and guarantor decision makers.

Fossil fuel financing: As the United States and other countries grapple with the worsening effects of climate change, including severe weather patterns, melting polar ice and increasing wildfires, it is irresponsible and incoherent for a public agency to finance the expansion of carbon-polluting energy projects. Despite Ex-Im Bank's new carbon policy, and President Obama's pledge to phase out wasteful fossil fuel subsidies, the agency's financing for fossil fuel projects increased dramatically in recent years and skyrocketed to a record $4.5 billion last fiscal year. Ex-Im Bank's surging financing for fossil fuel projects exacerbates climate change, heaps scarce public funding on industries that need it least, and ultimately undercuts U.S. Government credibility and leadership towards a global clean energy economy. Congress should curb Ex-Im Bank's wasteful use of public financing on carbon polluting energy projects.

Renewable Energy: Ex-Im Bank can address both climate change and lead the transition to a clean energy economy by seizing the enormous opportunity to finance renewable energy and energy efficiency now. According to a BP statistical review, renewable energy consumption grew 15.5 percent in 2010, the fastest rate of expansion since 1990. Installed solar power capacity alone grew an amazing 73 percent in 2010, while wind grew 24.6 percent.[4] According to the Pew Center for Global Climate Change, this rapid pace is forecast to lead to annual investments in global renewable energy markets of $106–$230 billion a year by 2020 and as much as $424 billion a year in 2030. Over the next decade, cumulative global investment for renewable power generation technologies could reach nearly $1.7 trillion.[5] Most importantly, the bulk of this market (nearly 90 percent) exists outside of the United States.

Financing appropriate renewable energy and energy efficiency is a compelling opportunity for the United States Export Import Bank to make good on its institutional mandate to stimulate domestic manufacturing, create jobs, position the United States in a strategic global sector, and provide international leadership on climate change. While Ex-Im Bank has increased financing for renewable energy, this volume is still just over 1 percent of the agency's overall financing. The GAO has found that Ex-Im Bank has consistently failed to meet current appropriations law to allocate 10 percent of the agency's annual financing for renewable energy and energy efficiency end use technology. Congress can enforce these directives by revising the agency's Charter to integrate the annual 10 percent target, increase the bank's capital authority allocations specifically for renewable energy, and improve Ex-Im Bank's ability to finance appropriate renewable energy upstream in the manufacturing process.

Thank you again for inviting my testimony, and I look forward to answering any questions that you may have.

PREPARED STATEMENT OF DAVID ICKERT

VICE PRESIDENT, AIR TRACTOR, INC., ON BEHALF OF THE SMALL BUSINESS EXPORTERS ASSOCIATION

JUNE 30, 2011

Chairman Warner, Ranking Member Johanns, and Members of the Committee, thank you for the opportunity to testify on the reauthorization of the Export-Import Bank of the United States (Ex-Im). I am David Ickert, Vice President—Finance of Air Tractor, Inc. (Air Tractor), of Olney, Texas. It is my pleasure to submit testimony to the Subcommittee on Security and International Trade and Finance stating why we at Air Tractor strongly support the reauthorization of Ex-Im.

Our support for the reauthorization of Ex-Im is deeply rooted in Air Tractor's experiences—with exports, Ex-Im and job creation. I will relate the experiences of Air Tractor, but it is a much broader and deeper story than that of Air Tractor. I believe that it is story of many small businesses across our Nation, and maybe more compelling, it is the promise of the vast potential that exists in this country with many small business that could be exporting but are not. This potential, when properly

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[4] *See, http://www.bp.com/subsection.do?categoryId=9037155&contentId=7068627.*

[5] *See, http://www.pewclimate.org/docUploads/Clean__Energy__Update__Final.pdf.*

nurtured and developed, will yield its treasures of a reduced national trade deficit and most important of all—JOBS.

Air Tractor is a small business engaged in the manufacture of agricultural and forestry fire fighting airplanes. The company has been in business since 1972 and is now 100 percent employee owned. We have one location—Olney, Texas. Olney is a small rural town located 100 miles west of Fort Worth, Texas, and 200 miles east of Lubbock, Texas. The population of Olney is approximately three thousand (3,000).

In 1994, Air Tractor started exploring the possibility of finding sources of financing for our end-user customers located outside of the United States. At that time, approximately ten percent (10 percent) of our annual new airplane sales (units) were delivered outside of the U.S. These export sales were either cash-in-advance or acceptable Letter of Credit. Our needs for financing were of a medium-term tenor (usually 5 years), and in many cases the end-user customer was a small business. After much searching and research, we discovered two key partners that would help us in our pursuit of medium term trade finance. These partners were a commercial bank and Ex-Im. Our first medium-term transaction (Ex-Im Medium Term Credit Insurance) was in 1995 for two fire fighting aircraft sold to a customer in Spain. Since that first aircraft sale in Spain, we have sold approximately fifty (50) planes into the Spanish market—none requiring Ex-Im support. Since that time, we have completed over eighty (80) such medium-term deals through Ex-Im. For the calendar year 2010, we completely twenty (20) medium-term insured transactions with Ex-Im (and anticipate 30 such deals for 2011). It is also worth noting that of those eighty plus transactions we have completed with Ex-Im, Air Tractor has never made a medium-term claim on Ex-Im. In addition to the Medium Term Credit Insurance product, Air Tractor has also utilized Ex-Im's Working Capital Guarantee Program.

It is instructive to study the employment at Air Tractor since 2007 and to also study our percent of export sales (aircraft units) over that same period. There is a definite correlation of these two factors. To view these numbers against the backdrop of employment in the U.S. for the same period brightens the light on this correlation. These numbers for Air Tractor are:

Year	Air Tractor Employees (as of 12/31)	% of Air Tractor units Export
2007	165	36%
2008	197	45%
2009	204	49%
2010	220	56%

Thus, while the headlines throughout our country reflected a growing unemployment for this period, Air Tractor created jobs. For the period of 2007 through 2010 our employment grew 33 percent. During that same time period our percent of annual export sales increased 55 percent. It is not coincidental that these two factors grew in lockstep. The growth of exports has been a significant contributor to the job growth of Air Tractor in recent years.

The growth of exports at Air Tractor is a direct result of Ex-Im having programs such as the Medium Term Credit Insurance program that we could access to provide financing for our end-user customers outside of the United States. As noted previously, prior to using Ex-Im, Air Tractor's export percent was 10 percent. Exports have grown from the 10 percent level (with no export finance) to 56 percent in 2010 (when we had twenty medium-term deals closed at Ex-Im). With 56 percent export sales in 2010, there are over 100 employees at Air Tractor in Olney, Texas, that directly owe their jobs to exporting.

During 2010 our exports went to fourteen (14) different countries. That is a significant number of countries for a small business such as ours. However, in the scheme of worldwide sales, it reflects the many opportunities we have to continue expanding our international footprint. Our future growth is outside of the borders of the United States. Those opportunities are the driving force to sustain and create additional jobs in Olney, Texas. Air Tractor cannot fully take advantage of these opportunities without Ex-Im.

As stated previously, this is not a story of Air Tractor as much as it is a story of the job creating force that small businesses are and can be when they engage in exporting. Through such entities as the National Small Business Association (NSBA) and its affiliate, Small Business Exporters Association (SBEA), both of which I am a Board Member, stories such as these can be documented multiple times. It is well reported that 95 percent of the world consumers are domiciled outside of the United States. As the world economy has tightened, the global trade arena has become more competitive. This global market offers the opportunities for growth and job creation, but entities such as Ex-Im are necessary to help businesses, especially small businesses, meet the competitive challenges that exist in the global arena.

Bank Chairman Fred P. Hochberg and the current Ex-Im administration have done a very good job of maintaining a focus and long-term commitment to small business. That has not always been the case with other Ex-Im administrations as it relates to small business. A "start and stop" process on small business focus as Ex-Im administrations change is not the best way to engage more small businesses in exporting and job creation in our country. Thus, I recommend that the next Ex-Im congressional reauthorization should continue to institutionalize the Ex-Im small business commitment by retaining the current authorization language as to the minimum percent of small business approvals by Ex-Im, defining the key roles of small business officers at Ex-Im and other small business provisions in the current authorization.

There are several key provisions of the Ex-Im Charter that are very important and necessary to small business exporters. While the House bill, H.R. 2072, Securing American Jobs Through Exports Act of 2011, does not change the language, it also fails to even mention these critical provisions for small business exporters. While remaining unchanged, SBEA and I believe these provisions should at least be stated in the Findings section of any reauthorization bill. They include:

Sec. 2(b)(1)(E)(v)—The not less than 20 percent direct financing authority for small business is an absolute must for continuity of emphasis to small business in the long term. Leaving this clause unchanged is necessary and any new "formulas" that turn the 20 percent into a goal rather than a mandate, or allow Ex-Im to avoid the mandate in certain years, should not be an option. The main objective is to improve direct access to Ex-Im capital by small business, year in and year out.

Sec. 3(d)(1)A and 3(d)(2)(A)—Language that mandates the existence of the Advisory Committee and the section requiring at least three members of that committee be representatives of small business. Representation on input to Ex-Im is vital for small business.

Sec. 8(b)(3)(f)—The section requiring reports to Congress if the small business authority percent is not met and details of how this would be fixed if the 20 percent is not met.

These three sections should be retained without changes, and emphasized in any Ex-Im Bank reauthorization bill.

Other ways to deepen the commitment to small business should also be considered. One such consideration is making the Senior Vice President for Small Business a member of the credit committee, who reports directly to the President, and is a voting member of the credit committee or any successor entity. The Senior Vice President must have a sense of the "big picture" in terms of how the agency reasons as it decides which applicants are approved, and which are declined, for credit worthiness reasons, and therefore must have a say in these decisions.

Additionally, as Ex-Im continues to grow in both number of approvals and dollar volume of approvals as they have in the last couple of years, they will need adequate administrative budget to be staffed and have the electronic infrastructure to properly handle the growth that we should see as they continue to increase their volume of business.

Furthermore, I should mention an amendment adopted by the House Financial Services Committee during deliberation of H.R. 2072 barring Ex-Im from providing assistance to companies that conduct certain business with Iran. In a voice vote, the committee approved an amendment sponsored by Reps. John Campbell (R-Calif.) and Brad Sherman (D-Calif.), and now goes to the full House for its consideration. Denying Ex-Im Bank loans, credits, or credit guarantees for U.S. exports to the sanctioned entity would be burdensome for small exporters. These type of mandates that interfere with Ex-Im's business puts extra constraints on small business compared to big business with respect to exports as it further creates controversy, confusion, and costs for U.S. interests.

During 2010, Air Tractor paid over $300,000 in fees to Ex-Im for products we contracted with them through Ex-Im. As noted earlier we have never made a medium-term claim on an Ex-Im policy. This is a net plus for Ex-Im—revenue but no corresponding claim expense. This is not always the case, but as I heard Chairman Hochberg state in a speech in January of this year, “The Bank makes money!” What a wonderful situation—everyone wins, including the U.S. taxpayer.

President Obama recognized the importance and the powerful impact of exporting on job creation when he established the National Export Initiative (NEI) by Executive Order signed March 11, 2010. The NEI is an important step in our country becoming more competitive in the global arena. As we do so, more jobs will be created in the United States. The goal to double our country’s exports in 5 years may seem ambitious, but it can be done. Small business will play a vital part in meeting this goal. Ex-Im is a necessary and key entity needed for business—both small and large—to meet the goal of the NEI.

Olney, Texas, is my hometown. It is a great place to live and work. However, when one thinks of a town originating export transactions, a small, west Texas town does not immediately come to mind. As I have described it before, Olney has three red lights and a Dairy Queen—not an international hub. The significance of this is that if we can create jobs through exporting on Main Street, Olney, Texas—anyone can do it. We have a great potential for job creation in this country through small business exporting. A very key player in that job creation process is Ex-Im. Thus, we would urge for the congressional reauthorization of Ex-Im.

I would like to thank Chairman Warner for holding this hearing, bringing Ex-Im Bank to the forefront and for allowing me the opportunity to testify.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM OSVALDO LUIS GRATACÓS

Q.1. In 2008, GAO found that the lack of performance measures at the Bank, particularly the lack of targets to measure progress and the lack of time frames regarding small business strategies, prevent Ex-Im bank management from accurately monitoring and reporting progress in achieving its standards.

Where now, in 2011, is the Inspector General's Office on this important finding?

A.1. Ex-Im Bank management agreed to implement GAO's recommendations on the lack of performance measures and time frames regarding small business assistance. The GAO has informed Ex-Im Bank OIG that GAO has been in contact with Ex-Im Bank management in order to close out the recommendations in the GAO report. GAO reports that Ex-Im Bank has been making progress in implementing its recommendations.

Ex-Im Bank has made progress in revising its strategic plan and performance metrics for the Small Business program. In fiscal year 2010, the Bank was able to meet its 20 percent congressionally mandated target and increased its outreach to small businesses by attending 477 outreach events, including events sponsored by women-business centers, small business associations, and minority-focused chambers of commerce. In January 2011, it announced a Global Access for Small Business Initiative with specific goals of approving at least $30 billion in small business transactions, supporting a cumulative total of approximately $58 billion in export sales, and adding a total of 5,000 small businesses to the Ex-Im Bank portfolio. Given the priority of the Small Business program within the Administration's National Exports Initiative, we will continue to monitor management's implementation of GAO's recommendations.

We should note, however, that although the Small Business program has made progress in implementing performance metrics and response time targets for its products, the Bank has not set similar targets for the medium- and long-term structured products.

Q.2. Absent such performance plans, how does the Bank measure the costs and benefits of its initiatives?

A.2. Under 12 U.S.C. §635g and 39 U.S.C. §9106, Ex-Im Bank is required to issue an annual report on its operations and financial condition to Congress. In addition, the Bank has issued a strategic plan for 2010–2015 with six broad measures to determine whether it is making progress on its long-term goals. The annual report and the strategic plan, however, do not establish an effective and specific performance plan with targets and timelines to track Ex-Im Bank's program results. For example, in our recent audit report on the Working Capital Guarantee Delegated Authority Program (WCGDA) we found that Ex-Im Bank did not maintain information on this Program to effectively evaluate its performance.[1] The audit found that WCGDA data was not maintained separately from the non-WCGDA Program. Without the applicable data, it is difficult to

[1] Working Capital Guarantee Delegated Authority Program, OIG-AR-11-04, July 8, 2011, can be found at *http://exim.gov/oig/documents/WCGDA%20final%20report%20110708.pdf.*

evaluate the performance level of a Program to determine whether it is achieving its intended purpose at the lowest possible cost.

Further, under the Government Performance and Results Act of 1993, the Ex-Im Bank is required to submit an annual performance plan (APP) to the Office of Management and Budget as part of the budget process. On December 2, 2010, the Ex-Im Bank OIG issued a memorandum to Ex-Im Bank management requesting clarification on the application of Government Performance and Results Act of 1993 and the Report Consolidations Act of 2000 (RCA), which would allow Ex-Im Bank to consolidate any statutorily required reports into an annual Performance and Accountability Report.

On March 16, 2011, Ex-Im Bank's General Counsel replied that Ex-Im Bank had elected not to consolidate reporting requirements under the RCA. However, the General Counsel stated that, commencing in FY2012, Ex-Im Bank would begin filing an APP in accordance with the Government Performance and Results Act of 1993. An APP will enable Ex-Im Bank to have a framework in order to measure the costs, benefits, results, and outcomes of its programs and initiatives.

Q.3. Would waiting for emplacement of an effective performance plan, before authorization of a higher level of loan guarantees, reduce the likelihood of loan defaults?

A.3. Well run organizations have a clear strategic and performance plan and Government agencies are no exceptions. It is therefore good practice for the Ex-Im Bank to have a strategic and performance plan to function efficiently and effectively, to monitor its performance, and to identify successes and shortcomings. Moreover, such a plan will enable a continuous improvement environment at the Ex-Im Bank. Through such a plan, the Ex-Im Bank may establish a goal of reducing loan defaults and implementing metrics to gauge its performance. However, the OIG believes that decreasing loan defaults is accomplished by establishing better risk management procedures, as outlined in Question 2, that are not necessarily made part of a strategic and performance plan.

Q.4. The Ex-Im Bank has experienced a fair number of fraud cases in its transactions, due in part to the lack of adequate risk evaluation procedures. In its most recent Semi-Annual Report to Congress, the Office of Inspector General identified Ex-Im Bank's loan guarantee and export credit insurance programs as being "particularly susceptible to fraud schemes by foreign borrowers."

What variety of factors specifically make the occurrence of transactional fraud even more acute for Ex-Im Bank?

A.4. The loan guarantee and export credit insurance programs provide guarantee of payments and protection to lenders and exporters to promote the purchases of U.S. goods and services. In general, in the transactions we have investigated and inspected, we have uncovered that the most notable factor leading to the transactional fraud was that neither lenders nor Ex-Im Bank are conducting effective due diligence on borrowers and buyers. This is mainly due to the fact that the Ex-Im Bank's Master Guarantee Agreement does not require lenders to conduct a sufficient level of due diligence on the parties to the transaction as they would a non- Ex-Im Bank transaction. In addition, the 100 percent threshold guarantee creates a "moral hazard" for the lender as it insulates the lender from the risk of loss on the transaction (no skin in the game) and eliminates a financial incentive to perform adequate due diligence.

One of the observations from the cases investigated is that the lender does not truly "know its client" in many transactions. This allows exporters or agents to orchestrate the fraud by finding willing borrowers and submitting, for example, false identity papers, applications, and financial statements to approve the transaction. In short, there is a lack of verification of the existence of the borrower, the transaction sourcing agent, the exporter, and the U.S.-based supplier.

In addition, our investigations and inspections have found that in many cases there has been no effective verification of material documents to the transaction (Receipt of Downpayment, Invoices, Shipping Documents, Customs Documents, and Exporter's Certificate) by the lender and Ex-Im Bank until after the loan defaults. This presents an opportunity for exporters or agents to falsify these documents. Once these documents have been provided to the lender, the loan proceeds are disbursed. A significant amount of time may pass before the loan defaults which triggers Ex-Im Bank's responsibility to pay the claim and start recovery efforts.

Another factor that may contribute to this problem is the low number of underwriters or loan officers at Ex-Im Bank relative to the increasing size of the Bank's total asset exposure. Over the past 5 years, Ex-Im Bank has witnessed significant asset growth with total exposure growing by 30 percent to $75 billion as of FY2010 and is on target to break a record in FY2011. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This increase in workload undertaken by the same level of staffing may contribute to diminished oversight, due diligence, and resulting high default rates.

Q.5. What is the instance of fraud occurring in the Medium Term Loan Program, and what procedures need to be improved to mitigate the risk of fraud?

A.5. We currently have 311 Medium Term (MT) program claims worth $337,296,551 under investigation.

On March 30, 2009, Protiviti, an OIG contractor, made several, specific recommendations in an audit concerning credit and fraud risk management in the MT program.[2] Among them, Protiviti recommended that (1) Ex-Im Bank strengthen its credit underwriting due diligence by requiring lenders to do on-site inspections and appraisals of equipment being exported as well as obtain bank/brokerage statements of obligors and guarantors for MT transactions; (2) institute an effective early warning/delinquency and performance reporting system by requiring a standardized process for lenders to report borrower payment history; and (3) institute a independent, formal lender oversight function that can effectively oversee transaction due diligence guidelines or requirements, and a quality assurance function that can manage and monitor perform-

[2] Medium-Term Export Credit Program-Credit Risk and Fraud Management Business Process Improvement, OIG-AR-09-04, March 30, 2009, can be found at *http://exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf.*

ance of transaction participants, such as agents and appraisers. On July 7, 2010, Protiviti issued a follow-up of audit recommendations of this report and found that the Bank had taken necessary actions to establish appropriate controls in most of the areas that needed strengthening. [3]

In more general terms, as a result of our fraud investigations and inspections, we have determined that Ex-Im Bank may be able to mitigate fraud by implementing a comprehensive list of mandatory due diligence steps that must be performed by the lender and Ex-Im Bank. For example, such steps may include, but are not limited to: (1) the lender and Ex-Im Bank conducting minimal corporate registration and credit checks on the Borrower, the Sourcing Agent for the transaction, the Exporter, and the Supplier; (2) the lender and Ex-Im Bank contacting the borrower to review the terms of the credit; (3) the lender verifying the borrower's references and financial statements; and (4) the lender verifying all material documents to the transaction prior to the loan's disbursement.

Q.6. How much of the managerial challenges faced by Ex-Im Bank can be attributed to an inefficient and ineffective IT platform?

A.6. Ex-Im Bank has significant managerial challenges due to an inefficient and ineffective IT platform. For example, on June 12, 2009, Protiviti, an OIG contractor, issued an audit of the MT Program's IT Systems, Support and Governance. [4] The audit was initiated at the request of then Chairman James L. Lambright based on questions raised regarding the efficiency and effectiveness of IT support for the Bank's MT program in view of adverse economic results of the MT program and user complaints regarding slow response times. The audit found that the Bank had not provided adequate IT program support and governance of the MT program. Significant enhancements to the Bank's processes for identifying strategic priorities, setting goals, developing plans to achieve them, supporting business process and system development and allocating IT resources would be required in order to improve functional support for the MT program and create reasonable accountability for realizing management's objectives. On June 30, 2010, Protiviti issued an evaluation report as a follow up to this audit and found that the Bank had taken the necessary actions to establish appropriate controls in most of the areas that needed strengthening in the MT program. [5]

In addition, audits we have conducted found the Ex-Im Bank IT systems are not flexible, queries are not robust and accuracy of data is not always reliable. Because of the above deficiencies, the OIG and its contractors primarily rely on manually controlled data when conducting audits. We are currently conducting an audit to

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[3] Follow-Up of Audit Recommendations Reported in Medium Term Export Credit Program—Credit and Fraud Risk Management and Business Process Improvement, Evaluation Report OIG-EV-10-02, can be found at *http://exim.gov/oig/documents/Follow_Up_of_Audit_Recommendations_10_02.pdf.*

[4] Medium Term Export Credit Program-Information Technology (IT) Systems, Support and Governance, OIG-AR-09-05, June 12, 2009, can be found at *http://exim.gov/oig/documents/MTITauditreportfinal.pdf.*

[5] Follow-Up of Audit Recommendations Reported In Medium Term Export Credit Program—Information Technology (IT) Systems, Support and Governance, Evaluation Report OIG-EV-10-01, can be found at *http://exim.gov/oig/documents/OIG_EV_10_01.pdf.*

determine whether Ex-Im Bank is minimizing the cost and maximizing the usefulness of its key IT systems to meet Ex-Im Bank's mission. We will share the results of this audit with the Committee as soon as it is completed.

Q.7. The subsidy or loss rates in the Medium Term Loan Program are positive, whereas the rates for the Long Term Loan Program and the Short Term Working Capital program are net negative and near-zero, respectively. What accounts for the difference in performance in the Medium Term program?

A.7. The subsidy rates differ because the MT program presents enhanced risks not present in the Long-Term and Short-Term programs represented by the historical levels of defaults.

The difference in default rates between the Medium and Long-Term programs can also be attributed to the fact that most of the Long-Term deals are either aircraft or project financings that are highly structured with strong collateral while many of the MT deals have been done on an unsecured basis, with less due diligence up front.

In our 2009 audit of the credit and fraud risk management of the MT program referenced above, Protiviti found that the Ex-Im Bank encountered significant credit and fraud loss, process efficiency challenges and IT issues because the Bank had not developed customized policies, controls, systems, and tools to address the enhanced risks of the MT program. The MT program is a high-risk program that responds to the Bank's mission of making export financing available where the private sector is unable or unwilling to do so and only requires a reasonable assurance of repayment. However, actions that would typically be taken by a high-risk lender in the private sector to effectively manage credit and fraud risk, and which are recommended or required by the Office of Management and Budget's Circular A-129-Policies for Federal Credit Programs and Non-Tax Receivables, have not been consistently required elements of the MT program.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

STATEMENT SUBMITTED BY THEA MEI LEE, DEPUTY CHIEF OF STAFF, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

I appreciate the opportunity to submit testimony 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 percent 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 the House of Representatives has proposed, "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 3 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 could weaken content requirements and undermine U.S. jobs. We strongly oppose the inclusion of Section 5 in the legislation and urge the Senate to drop that provision from the bill.

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 3 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.

STATEMENT SUBMITTED BY OWEN E. HERRNSTADT, DIRECTOR, TRADE AND GLOBALIZATION, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

The International Association of Machinists and Aerospace Workers, (IAM) AFL–CIO, represents several hundred thousand active and retired members throughout North America. Our members work in a variety of manufacturing industries including aerospace, electronics, defense, shipbuilding, transportation, and woodworking. Given the nature of these industries and the IAM's membership, the IAM truly understands the importance of manufacturing to our Nation's economic and physical security. We also understand that strong U.S. exports, which are directly related to creating and sustaining jobs here at home, are a key to our success in restoring our economy and building a prosperous and sustainable future.

The United States Export-Import Bank (the Bank) exists to promote U.S. exports that create and sustain good manufacturing jobs here at home, not in other countries. It fulfills its mission by providing U.S. exporters with more favorable financing than they could obtain privately if they meet various public policies. One of those policies encourages exporters to manufacture products for export in the U.S. by providing support for the domestic content that is included in the product. Proposals to require the Bank to lend greater financial support for the foreign content of U.S. exports is contrary to the Bank's mission to support the creation and maintenance of jobs in the U.S. and should be rejected. If these proposals were adopted, Congress and the Bank would be providing U.S. exporters with a greater incentive to produce their products in other countries.

Instead of weakening the Bank's mission to support U.S. jobs by offering greater support to U.S. exporters who are increasingly transferring U.S. jobs to other countries, efforts should be undertaken to strengthen the Bank's ability to satisfy its policy objectives. Among other things, the Bank should be encouraged to adopt a method for precisely calculating the number of U.S. jobs it supports through its financing. The Bank currently extrapolates job estimates based on the value of exports it promotes.

One of the problems with the extrapolation method is that it presumes the entire export is produced by U.S. workers. Moreover, current job estimates do not reveal with any precision the kind of jobs that are created or supported nor do they indicate their duration or where they are geographically located. Additionally, since the Bank supports a limited percentage of foreign content and "local" costs (derived from work performed in the country that receives the export), it would be helpful to know how many foreign jobs are created or supported by the Bank's financial support.

This employment information should be reflected in the Bank's economic impact review, which should be applied more broadly to cover projects that are less than $10 million. Expanding the application of detailed economic impact reviews should not be too burdensome; currently the Bank only applies detailed analysis is to less than 10 projects a year. In 2008, zero projects underwent a detailed analysis.

We encourage the Bank to adopt domestic content standards that strictly reflect the direct costs of U.S. production, including manufacturing costs, parts, components, materials and supplies for all of its transactions We also urge the Bank to review standards that reflect the Federal Trade Commission's understanding of what domestically made products mean. According to the FTC: "For a product to be called *Made in USA*, or claimed to be of domestic origin without qualifications or limits on the claim, the product must be 'all or virtually all' made in the U.S . . . 'All or virtually all' means that all significant parts and processing that go into the product must be of U.S. origin. That is, the product should contain no—negligible—foreign content."

Suggestions that the Bank include indirect costs in calculating domestic content should be outright rejected. Including marketing, the value of intellectual property/ patent rights, property related to research and development, and CEO pay is simply inappropriate. Inclusion of these factors dilutes the real domestic content of a product. These factors could also be manipulated by some exporters by enabling them to produce a greater percentage of their product in other countries without decreasing the domestic content that they currently claim for their products.

Some exporters argue that obtaining a sale with greater foreign content is better for U.S. workers than losing the sale itself. We have yet to see solid empirical support for this statement. In contrast, industries that were once the bedrock of U.S. manufacturing like machine tool, electronics, shipbuilding and many others have been decimated, in part, because U.S. production has been shifted to other countries to secure the sale of those products. Even leading edge industries like aerospace have declined as U.S. aerospace industries transferred technology and production to other countries. The European aerospace industry, which has been a great recipient of transferred aerospace work, is a strong competitor of the U.S. aerospace industry. In addition, given all of the aerospace production that has been transferred to China, in large part to penetrate its market, it should be little surprise that China now seeks to enter the large commercial aircraft industry.

While some exporters also argue that the public policies that create the Bank's mission must be weakened so that the Bank can become more competitive, the fact remains that the Bank continues to fund a record amount of projects. The question over competitiveness seems to be misdirected as well. Shouldn't the real question be how other export credit agencies are competitive with meeting the Bank's overall mission to support exports that create and maintain domestic jobs? This would require an analysis of how other countries are pursuing domestic employment in manufacturing through their export credit banks and other national policies.

Now more than ever, we need to make certain that the Bank is as effective as possible in meeting its mission to support exports that create and maintain U.S. jobs. Strengthening the Bank's domestic content policies and bolstering its economic impact analysis is a critical component in this endeavor. Proposals that would permit the Bank to support greater levels of foreign content in a U.S. product, under cuts the Bank's mission. If adopted, they would give greater incentive for companies receiving the Bank's support to further outsource U.S. production to other countries. We urge you to strengthen the Bank's public policy goals to create jobs here at home, and reject any attempt to weaken them.

JOINT STATEMENT SUBMITTED BY AMERICAN APPAREL AND FOOTWEAR ASSOCIATION, NATIONAL COTTON COUNCIL, AND NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS

Thank you for providing the above organizations the opportunity to submit comments regarding stakeholder perspectives on the Export-Import Bank of the United States and the pending reauthorization of the Bank. Our organizations strongly believe that today's hearing will help the Committee better understand how the Export-Import Bank (Ex-Im Bank) can better address the needs of U.S. companies in a globally competitive environment while also creating U.S. jobs.

The Ex-Im Bank could and should play a critical role in supporting and expanding U.S. jobs in the U.S. textile industry and in turn anchoring a strong Western Hemisphere textile and apparel supply chain. Regrettably, the Ex-Im Bank has failed to fulfill this role because the structure of Ex-Im Bank loans and guarantees do not reflect either the realities of the apparel and textile supply chain, U.S. trade policy, or today's global supply chains in general.

At the direction of U.S. trade policy, the textile and apparel supply chain has developed across the Western Hemisphere and has evolved into a mutually beneficial relationship for both U.S. cotton growers and U.S. textile manufacturers as well as U.S. apparel importers.

The Free Trade Agreements and preference program areas in this Hemisphere for the most part grant duty-free access to the U.S. market for apparel assembled in the region as long as the apparel is made, either entirely or in part, from U.S.-grown cotton and U.S.-made yarn and fabric. As a result, all parties in the supply chain benefit—from U.S. cotton growers, U.S. yarn and fabric manufacturers, to apparel manufacturers in the region and ultimately the U.S. apparel brands and retailers. All parties are positioned to reap the benefits of U.S. trade policy. However, the supply chain is missing the necessary ingredient—reliable supply chain financing.

Prior to this reauthorization, the Ex-Im Bank did very little to support supply chain financing, which, in turn, has had the practical effect of suffocating domestic capital investment and job creation. Traditionally, the Bank has only considered the creditworthiness of the producer receiving U.S. textile industry exports and has failed to acknowledge that these components, once exported to Central and South America, return to the United States—to major U.S. brands and retailers—as finished goods. This policy has limited the financing opportunities at the Bank for the U.S. textile industry.

Ex-Im Bank financing would facilitate and grow the Western Hemisphere apparel and textile supply chain by increasing the incentives for U.S. apparel brands and retailers to increase their sourcing from the region because such financing would make access to the U.S. cotton and textiles necessary to obtain the benefits under the various free trade agreements and preference programs easier, faster and more reliable. As a result, Ex-Im Bank financing would lead to increased exports of U.S. cotton, yarn, and fabric to the region. Those increased exports would support and grow U.S. jobs.

U.S. Government—"You Should Export to the Region, but We Won't Help You"

The Ex-Im Bank bases much of its financing decisions on country risk. In the case of the Western Hemisphere apparel and textile supply chain, this "Country Limitation" policy outright eliminates the possibility of financing for some countries and severely restricts financing and/or significantly increases the interest rates for many others that are integral to this supply chain.

As a result, the U.S. Government strongly encourages U.S. textile manufacturers to export their products to Central America and the Dominican Republic through the incentives it negotiated through CAFTA–DR while at the same time saying that financing U.S. exports to half of the CAFTA–DR countries is too high of a risk to provide anything but the most limited loans and loan guarantees, at high interest rates to boot. For Haiti, a country that the U.S. Congress has deemed a priority through passage of the HOPE and HELP trade preference programs, the Ex-Im Bank basically says the country is off limits.

Improving Products to Better Provide "Supply Chain Financing"

While the amount of paperwork and the timeline for approval remain major barriers preventing any small business from utilizing Export-Import Bank programs, for the Western Hemisphere apparel and textile supply chain we believe that the Export-Import Bank must adapt to today's global supply chain. As in textiles and apparel, the United States doesn't just export final manufactured products anymore. Exports of U.S.-made goods today are just one part of a global supply chain. In our industry, U.S. exports of cotton, yarn, or fabric, return to the United States as finished apparel or home goods. The programs offered by the Export-Import Bank should reflect these realities.

House Bill Includes Textile Amendment To Help Address Industry Financing Concerns

The House Financial Services Committee recognized the evolution of the textile and apparel industry global supply chain. Essential legislative text was included in the version of H.R. 2072 approved by the Committee on June 22, 2011, that would address three important issues: Bank Advisory Committee representation, reviewing the industry's use of Bank products and why or why not they are being used, and promoting Bank financing of transactions for the textile and apparel industry.

The legislative text is explained in more detail below and our organizations urge the Senate Banking, Housing, and Urban Affairs Committee to adopt similar language.

1. *Representation on Bank Advisory Committee:* The textile industry will be included in the list of those to be represented by Advisory Committee members. The charter will read: "Sec. 3(d)(1)(B). Such members shall be broadly representative of environment, production, commerce, finance agriculture, labor, services, State government, and the textile industry."
2. *Textile Industry Use of Bank Products—Analysis:* The Bank will conduct an analysis of textile and apparel industry use of the Bank products, examining the impediments to the industry's use of the Bank as well as then number of U.S. jobs supported by the industry, and make proposals for how the Bank could provide financing to meet the needs of the industry, including proposals for new products. Within 180 days, the Bank will be required to submit a report to Congress that contains the results of the study.
3. *Promotion of Industry Financing by the Advisory Committee:* The Advisory Committee will be required to consider ways to promote Bank financing of transactions for the textile industry, consistent with the requirement that the Bank obtain a reasonable assurance of repayment, and determine ways to increase Bank support for exports of textile components or inputs; and increase Bank support for the maintenance, promotion and expansion of jobs in the United States that are critical to the manufacture of textile components and inputs.
4. *Annual Report:* The determinations made by the Advisory Committee would be included in the Bank's annual report. In addition, the Bank would be required to report on the success of the Bank in providing effective and reasonable priced financing to U.S. textile and apparel industry for exports of goods manufactured in the United States and steps the bank has taken to increase the use of Bank products.

It is our belief that the legislative text as included by the Financial Services Committee would be a great first step towards bringing much needed liquidity to the Western Hemisphere supply chain at a time when major brands and retailers are considering shifting sourcing back to this region of the world.

Conclusion

Thank you again for holding a hearing on this important issue. We believe that a combination of changes in both Export-Import Bank policies and programs will position the Export-Import Bank to truly assist U.S. companies, particularly small businesses, and the hundreds of thousands of U.S. workers they employ, that play a critical role in today's global supply chains. We would be happy to discuss any of the above points in more detail with the Subcommittee.

STATEMENT SUBMITTED BY AIR TRANSPORT ASSOCIATION OF AMERICA, INC.

The Air Transport Association of America (ATA) appreciates this opportunity to present the perspective of the leading U.S. airlines on the proposed reauthorization of the U.S. Export-Import Bank.[1] U.S. airlines are major contributors to U.S. service exports, and strongly support President Obama's National Export Initiative (NEI). The Administration correctly emphasizes that achieving the ambitious goals of the NEI will require contributions from U.S. service as well as manufacturing industries.

Export credit made available through the Export-Import Bank can play an important and appropriate role in supporting U.S. exports. ATA thus supports reauthorization of the Bank.

ATA members are not eligible for—and do not seek—export credit made available through the Export-Import Bank. Nevertheless, they have a vital stake in the Bank's activities. The facts are that nearly one-half of the value of all guarantees issued by the Bank subsidize acquisitions of large civil aircraft by foreign airlines, providing those airlines with a significant competitive advantage, which they have used to capture more than 50 percent of the international traffic serving the United States.

Almost all of these guarantees support sales by the Boeing Company, and that level of support is roughly matched by similarly guaranteed financing by European export credit agencies in support of sales by Airbus. The major beneficiaries of such credit support include the world's most profitable airlines outside of the United States and the Airbus home countries of France, Germany, and the United Kingdom.

Consequently, as Congress considers the Bank's reauthorization—particularly, proposals to vastly increase the ceiling on the Bank's authorized financing commitments—it is essential to examine closely the facts surrounding the Bank's financing activities. The Committee should carefully appraise the consequences of the Bank's work for U.S. companies and workers who compete with beneficiaries of U.S. Government-guaranteed loans and loan guarantees. The Congress must ensure that reauthorization of the Bank does not simply result in a trade-off between more jobs supported by Government subsidies and more jobs lost by U.S. companies that compete with the foreign beneficiaries of those subsidies.

Summary

With respect specifically to the air transport industry, ATA wishes to make the following points:

- Commercial aviation is a pillar of the U.S. economy. U.S. passenger and cargo airlines directly employ 572,000 workers, and the industry more broadly supports millions of jobs. Yet, export credits provided by the Bank have a real and adverse impact on U.S. airlines.
- Those credits support sales of large civil aircraft to foreign airlines that compete with U.S. airlines, and that do not need Government credit support.
- The recently renegotiated Aircraft Sector Understanding (ASU) made a good start toward lessening the market distortions caused by subsidies provided by Government-backed Export Credit Agencies (ECAs), such as the Export-Import Bank and its foreign counterparts. It is essential, however, for the United States to press forward on a multilateral basis to achieve even greater global discipline over these subsidies.
- To support ASU negotiations and to ensure that Congress and U.S. taxpayers understand the nature and level of the billions of dollars of Government support in this one sector, any reauthorization of the Export-Import Bank should require the Bank to make public increased and more consistent information, in a timely manner, about the terms and extent of export credits offered to support purchases of large civil aircraft.

Attachment 1 to this Statement is a letter sent by ATA to Secretary of the Treasury Geithner and other senior Administration officials on August 16, 2010. This letter explains the concerns of U.S. airlines about the explosive growth in support by

[1] ATA is the principal trade and service organization of the U.S. scheduled airline industry. The members of the association are: ABX Air, Inc.; AirTran Airways; Alaska Airlines, Inc.; American Airlines, Inc.; ASTAR Air Cargo, Inc.; Atlas Air, Inc.; Continental Airlines, Inc.; Delta Air Lines, Inc.; Evergreen International Airlines, Inc.; Federal Express Corporation; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Airlines, Inc.; UPS Airlines; and US Airways, Inc.

the Export-Import Bank and its European counterparts for sales of large civil aircraft. The following comments refer to the facts set forth in that letter while describing recent developments for the Subcommittee and a modest proposal to increase the transparency of the Bank's large civil-aircraft financing activities.

The Airline Industry Is a Crucial Sector of the U.S. Economy

As set forth in the August 16 letter, commercial aviation is one of the pillars of the U.S. economy. According to the Federal Aviation Administration (FAA), commercial aviation drives approximately $1.2 trillion in annual economic activity in the United States and is responsible for 10.9 million U.S. jobs. This is roughly 5.2 percent of our Gross Domestic Product (GDP). Every $1 million of commercial aviation activity generates 24.6 jobs.

The airline industry is an integral part of this picture. According to "The Economic Impact of Civil Aviation on the U.S. Economy", published by the FAA in December 2009, nearly half of the Americans employed directly in commercial aviation are employed by U.S. airlines. While operating more than 10 million flights in 2010, U.S. airlines enplaned an average of two million passengers and 50,000 tons of cargo per day. Exports by air in 2010 topped $392 billion in value. In short, the industry is a powerful creator of jobs throughout the U.S. economy. Every 100 airline jobs help support some 388 jobs outside of the airline industry.

Subsidy Support for Foreign Airline Competition

As a result of the "Open Skies" international aviation policy pursued by the United States over the past two decades, international passenger and cargo service involving the United States has largely been deregulated. Foreign airlines now operate more than 50 percent of the passenger capacity on routes to and from the United States.

U.S. airlines strongly support the Open Skies policy and welcome the foreign competition. It has become increasingly clear, however, that official export credits are significantly distorting the conditions of competition in the airline industry, resulting in a severe competitive disadvantage to U.S. airlines.

As shown in Attachment 2 to this Statement, over the past decade (FY2001–FY2010), the Export-Import Bank issued guarantees totaling more than $49 billion, supporting sales of 835 aircraft. The amount of financing accelerated through those years. In FY2009 and FY2010, the Bank provided guarantees of $8.6 billion and $7.2 billion, respectively. At the end of FY2010, the Bank's exposure to the airline transportation sector exceeded $35 billion—nearly half (47 percent) of the Bank's total exposure.

It is important to note that Export-Import Bank support for exports of U.S. large civil aircraft is matched by its European counterparts' support of Airbus sales. The United Kingdom's Export Credits Guarantee Department (ECGD) provided guaranteed financing of approximately £294 million for Airbus sales during its fiscal years 2001–2010. Although not publicly available, the amounts of official export credits extended by France and Germany in support of Airbus most likely matched or exceeded that of ECGD, as the three countries all are "home countries" for Airbus and support the same sales.

Another startling fact about ECA financing is that the major beneficiaries do not need it. Those beneficiaries include 9 of the 10 most profitable airlines based outside of the United States and the three European Airbus countries. Many of those airlines have credit ratings equal to or exceeding the ratings of U.S. airlines. They can access commercial credit markets on at least as favorable terms as the U.S. airlines. Yet, for comparable financings, Export-Import Bank credit support will yield significantly more favorable terms and loan proceeds for the foreign airlines.

As noted in the August 16 letter, the damage caused by subsidized financing is particularly acute during declines in the business cycle, because ECA credits and guarantees immunize borrowers from market conditions. During the recent economic downturn, U.S. airlines cut capacity by 8 percent and were forced to lay off thousands of employees; yet, large aircraft production remained at record highs and the large aircraft market grew by more than 10 percent. This happened because the ECAs stepped in to help many foreign airlines to expand and to modernize their fleets. ATA estimates that U.S. and European export credits have resulted in the subsidized foreign carriers acquiring at least 11 percent more capacity than if they had to pay market rates.

From a U.S. airline perspective, the export credit-supported competition among Boeing and Airbus amounts to a subsidy war that is comparable to the dispute over aircraft launch subsidies that the United States and the European Union have carried to the World Trade Organization. The subsidies simply occur further along the sales chain. The export credits make aircraft artificially cheap for the foreign beneficiaries, contributing to capacity unconstrained by market conditions.

The Aircraft Sector Understanding

The current market distortion caused by ECA credits may only worsen as Canada, Brazil, China, and possibly other countries ramp up support for civil-aircraft exports in competition with Boeing and Airbus. The future competitiveness of the U.S. airline industry and the jobs of hundreds of thousands of its employees, will be adversely impacted by massive increases in capacity acquired cheaply by foreign airlines, unless the United States succeeds in negotiating a mutual cease fire.

ATA applauds the progress achieved by the Administration toward this goal during the recent renegotiation of the OECD Aircraft Sector Understanding (ASU). The new ASU, which became effective earlier this year, will not eliminate the unjustified subsidization of foreign airline competitors of U.S. airlines. It will, however, close the gap by moving the ASU minimum terms closer to commercial market terms.

The ASU calls for periodic review and adjustment of its terms to reflect market conditions. ATA supports aggressive monitoring by the Treasury Department and other concerned agencies to ensure that ASU members adhere to the Agreement. While the new ASU has a minimum 3-year term, the Administration also should initiate early negotiations to bring China and other emerging exporters into the agreement and to tighten the minimum terms still further. Ultimately, the ASU should ensure that Government-provided export credits are only available as limited "backstop" financing, not as first-recourse loan sources and not as subsidies for financially sound foreign airlines, as is the case today.

Increasing Transparency

On April 14, 2011, Panamanian airline company Copa Holdings, S.A., made the following announcement:

> J.P. Morgan has been mandated by Copa Airlines to provide Export-Import Bank of the United States (Ex-Im Bank) guaranteed funding for five 737-800 aircraft scheduled to deliver in 2011. The Facility, totaling US$178.5 million, includes 12-year financing terms at very competitive rates and will finance all direct Boeing purchases scheduled for delivery to Copa Airlines in 2011. J.P. Morgan will act as the sole arranger and facility agent for the Term Loan Facility, which is available on delivery of the Aircraft on either a floating or fixed rate basis. COPA will also have the option to effect a conversion, subject to Ex-Im Bank's approval, of the floating rate term facility into a fixed rate term facility. "We are very pleased with J.P. Morgan's support in securing our 2011 aircraft financing needs under very competitive terms. These five 737-800s will play an important role in our future growth plans," commented Victor Vial, CFO of Copa Holdings.

Similarly, on October 8, 2009, Dubai-based Emirates Airline announced:

> the successful pricing of its inaugural U.S. bond offering guaranteed by the Export Import Bank of the United States . . . related to a loan facility secured for three new Boeing 777-300ER aircraft. The transaction is in the amount of US$413.7m with a fixed rate coupon of 3.465 percent per annum. The secured notes are due 21 August 2021 and are payable in installments of principal and interest on a quarterly basis.

Ironically, this type of information is not available from the Export-Import Bank itself. It is, in fact, extraordinarily difficult to find the most basic, nonproprietary information about the transactions for which the Bank issues billions of dollars of U.S. Government guarantees.

In April 2010, the Office of Management and Budget (OMB) issued a directive to Federal agencies explaining the Administration's requirements for financial disclosures. OMB stated:

> [T]ransparency is a cornerstone of an open Government. This Administration is committed to making Federal expenditures of taxpayer dollars transparent to the public by providing readily accessible, complete, accurate, and usable Federal spending data. [Office of Management and Budget, Executive Office of the President, Memorandum for Senior Accountable Officials Over the Quality of Federal Spending Information (2010).]

ATA fully supports that commitment, and believes that a reauthorization of the Export-Import Bank should require greater transparency concerning what remains by far its largest sector of activity.

Specifically, ATA urges that legislation require the Bank, for each guarantee, promptly to disclose the following information regarding every financing involving large civil aircraft:

- The number and model of aircraft
- The repayment term
- The authorization amount
- The export value
- The interest rate
- Export-Import Bank Fees

This basic information would permit taxpayers to understand better the Bank's commitments of public funds. In fact, much of this information is already disclosed to the public in some form, either by the Bank itself or elsewhere (as demonstrated in the press releases quoted above). The Bank's disclosures, however, are reported inconsistently, and in such disjointed fashion that they are difficult to understand.[2] In fact, the Bank reports less today in its annual reports than it did previously.

ATA believes that the Bank should provide greater advance notice of proposals to its Board to approve financing transactions involving large civil aircraft, and prompt notice of approvals following Board action. Currently, agendas of Board meetings are generally published 2 days in advance. Minutes containing little information about transactions are published afterwards.

Conclusion

Current proposals to reauthorize the Export-Import Bank would raise the cap on the Bank's outstanding loans, guarantees, and insurance to $160 billion, up from $100 billion currently. If the percentage of the Bank's exposure to the airline transportation sector continued to remain at 47 percent of its total exposure, then the proposed new cap on its exposure limit implies a potential doubling in outstanding guarantees for large-civil-aircraft sales, to as much as $75 billion. This level of exposure—or even something significantly less—represents sales of hundreds of new aircraft on subsidized terms to the competitors of U.S. airlines.

The adverse impact of the Bank's financing of U.S. airline competitors is not new to Congress. In connection with the Bank's reauthorization in 1986, this Committee, under the leadership of Senators Armstrong and Proxmire, sponsored an amendment designed to ensure that the Bank considered potential adverse economic impacts of proposed transactions, specifically including in the aircraft sector. In its report on the *Export-Import Bank Act Amendments of 1986,* the Committee wrote:

> The current provisions of section 1911 of the *Export-Import Bank Act Amendments of 1978* require that the Bank consider the potential adverse impact that any Eximbank loan or financial guarantee is likely to have on domestic industries or employment. As part of this consideration, the Bank has implemented procedures to gather information on potentially affected parties.
>
> However, the Committee has found that these procedures have not been employed regularly or rigorously. This has resulted in Board approval of a loan or guarantee without adequately considering the views of parties likely to be affected. A particularly visible example of this occurred in 1983, when the Bank offered a guarantee to support Singapore Airlines' purchase of Boeing 747 aircraft. A U.S. competitor of Singapore Airlines, Pan American Airways, felt that it was adversely impacted by this support, yet it was not consulted by Eximbank, and the Board gave only cursory attention to this statutory consideration.
>
> The bill strengthens the directive to the Bank to consider the views of domestic parties who may be substantially adversely affected by the Eximbank loan or guarantee. The Bank is further directed to address these views in writing so that the Board of Directors may formally review this material before making a decision on the transaction. The intent of this

[2] The Bank reports "Ex-Im Bank Authorizations" by fiscal year (*see, e.g.,* "Ex-Im Bank Authorizations for FY2008", available at *http://www.exim.gov/open/datasets/EXIM_AUTH_2008.csv*). This data set includes both the authorization amount and export value for particular loans. The data set, however, does not report the recipient, recipient's country or repayment term. The recipient information may be obtained through a different compilation of transaction details, accessible through USASpending.gov. (*See,* Export-Import Bank of the United States, Freedom of Information Act, *http://www.exim.gov/about/disclosure/foia.cfm#fr.*)

> amendment is to ensure that Eximbank more rigorously implements its existing procedures and the already existing requirements of the law.

S. Rep. No. 99-273, at 8-9 (1986). During the floor debate of the 1986 Amendments, Senator Armstrong raised the Singapore Air example:

> In 1983, the Bank sought to provide $254 million in direct credit and $426 million in financial guarantees to Singapore Airlines for the purchase of four new Boeing 757's and six new Boeing 747's, plus the spare parts.
>
> It should be noted by the way, that Singapore Airlines is owned 98.2 percent by the Government of Singapore, which gives it some advantage, as you might imagine, over its direct competitors, particularly American-based Pan Am.
>
> I bring this up because one element for reform contained in this bill, primarily at the leadership of the Senator from Wisconsin [Mr. Proxmire], is contained, I think, in section 112 of this bill, or it is one of the sections, which literally will now require the Eximbank to take into consideration not only the positive effect of its action but also potential damage to the U.S. economy.

132 Cong. Rec. S9361 (daily ed. July 21, 1986) (statement of Senator Armstrong). Twenty-five years later, so far as ATA is aware, the Bank has never once taken into consideration the potential damage to the U.S. airline industry of its support for aircraft sales. [3]

U.S. airlines face far more competition from foreign airlines for U.S. traffic than in 1986. It is thus ever more critical for the Congress and the Administration to understand the full prospective consequences of the proposed massive increases in Export-Import Bank funding, and not to take steps that will worsen what is, at best, already a zero-sum game of supporting one U.S. industry at the expense of another. Ultimately, continued vigorous U.S. leadership among the ASU participants and elsewhere will be essential to relieve exporters' calls on the U.S. Government's credit and to restore a level playing field for the U.S. airline industry.

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[3] In fact, as reported by the Bank's Inspector General, the Bank only rarely conducts economic impact analyses for transactions involving any industry. Evaluation Report Relating to Economic Impact Procedures, OIG-EV-10-03, September 17, 2010.

Attachment 1: ATA Letter to Secretary of the Treasury Geithner, August 16, 2010

Attachment 1

AIR TRANSPORT ASSOCIATION

JAMES C. MAY
PRESIDENT AND CEO

August 16, 2010

The Honorable Timothy F. Geithner
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

The Air Transport Association (ATA), representing the leading U.S. airlines, strongly supports President Obama's National Export Initiative.[1] We applaud the President's ambitious goals of doubling exports and creating millions of new jobs over the next five years. The administration correctly emphasizes that achieving these goals will require contributions from U.S. service, as well as manufacturing industries.

U.S. airlines already are major contributors to U.S. travel and tourism exports. The appointment of two of the chief executives of ATA member companies to the National Export Council, along with other aviation representatives, affirms the critical role that the U.S. air transport industry already plays in the U.S. economy, and the contribution our industry can make to creating good U.S. jobs through the continued growth of our international business. We welcome this challenge and responsibility, and we are well-positioned to play our part.

According to *The Economic Impact of Civil Aviation on the U.S. Economy*, published by the Federal Aviation Administration in December 2009, nearly half of the Americans employed directly in commercial aviation are employed by U.S. airlines. International aviation accounts for a large and growing share of U.S. carrier revenues. In 2009, international traffic constituted

[1] ATA is the principal trade and service organization of the U.S. scheduled airline industry. The members of the association are: ABX Air, Inc.; AirTran Airways, Inc.; Alaska Airlines, Inc.; American Airlines, Inc.; ASTAR Air Cargo, Inc.; Atlas Air, Inc.; Continental Airlines, Inc.; Delta Air Lines, Inc.; Evergreen International Airlines, Inc.; Federal Express Corporation.; Hawaiian Airlines, Inc.; JetBlue Airways Corp.; Southwest Airlines Co.; United Airlines, Inc.; UPS Airlines; and US Airways, Inc. Atlas Air, Inc. does not join in this letter.

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roughly one-third of total industry revenues and almost one-half of the output of the largest U.S. international carriers. Including air cargo operations, 24 percent of the 534,000 workers employed by U.S. airlines in 2009 were attributable to international operations. Hence, undermining the international competitiveness of U.S. airlines has substantial adverse consequences for U.S. jobs growth.

Our industry can do more, particularly with the administration's continued support of a market-oriented, "Open Skies" policy that opens foreign markets to U.S. passenger and cargo service. The recent Open Skies agreement with Japan is yet another important addition to the competitive framework created by the nearly 100 Open Skies agreements negotiated over the past two decades. These agreements have opened foreign markets to U.S. airlines, but they have also eliminated barriers to entry and largely deregulated access to the U.S. market, fostering wide competition among airlines globally for U.S. passenger traffic, with substantial benefits to consumers. U.S. airlines are the most efficient competitors in the airline world. We welcome competition with foreign carriers in an open market on a level playing field free from governmental subsidies.

We write to express our deep concern, however, that the ability of U.S. airlines to continue their contribution to the growth in U.S. exports and the economic recovery is being profoundly threatened by a flood of official export credits for large civil aircraft purchases by our foreign competitors. These credits, by significantly lowering the financing costs of foreign airlines, put U.S. carriers at a competitive disadvantage and create wholly artificial incentives for the acquisition of new aircraft, flooding the global market for passenger traffic with uneconomic capacity. We are particularly concerned that the damage to U.S. airlines caused by such export credits may be worsened by the outcome of the current negotiations to achieve a new "Aircraft Sector Understanding" (ASU) within the OECD Arrangement on Officially Supported Export Credits.

The magnitude and competitive impact of government subsidies in this sector is stunning:

- Over the past decade (FY2000-2009), the U.S. Export-Import Bank (Ex-Im Bank) provided guarantees backing $45.7 billion in financing for large civil aircraft. The total number of aircraft so financed exceeded 800 – more than the mainline fleets of every individual U.S. airline. In FY2009 alone, Ex-Im Bank announced $8.6 billion to support sales of 143 aircraft to 17 foreign airlines and five leasing companies. Ex-Im Bank has already approved a large number of new transactions in FY2010.

- The level of Ex-Im Bank support has been roughly matched by credit supplied by the export credit agencies (ECAs) of the United Kingdom (ECDG), France (Coface) and Germany (Euler Hermes). ECDG alone announced financing for Airbus aircraft amounting to £6.319 billion from FY2000-FY2008, over $9.6 billion at the current exchange rate.

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- The foreign airline beneficiaries of these Ex-Im Bank and ECGD subsidies compete directly with U.S. airlines. They include nine of the 10 most profitable airlines based outside of the United States and the three European countries noted above. Beneficiaries include such airlines or leasing companies as Korean Airlines, Qantas, Singapore Airlines, Turkish Airlines, LAN, Emirates Air, Air New Zealand, COPA, Air Canada, WestJet, Cathay Pacific and Japan Airlines, all of which compete with U.S. airlines for U.S. passenger traffic.

- With the growth of their fleets supported by U.S. government financing, our foreign competitors have been taking market share away from our airlines on routes to and from the United States, where foreign airlines now operate more than 50 percent of the capacity.

- ECA support ensures that beneficiaries receive below-market financing worth hundreds of millions of dollars in savings. For example, in 2009, both Delta Air Lines and Emirates Air obtained financing for three Boeing 777 aircraft. Ex-Im Bank support enabled Emirates to obtain its financing at an interest rate almost five percentage points better than Delta, which is one of the financially strongest U.S. airlines. Ex-Im Bank financing also supported a much higher loan-to-value ratio for Emirates, enabling Emirates to realize over $100 million more in loan proceeds than Delta.

As you know, about half of Ex-Im Bank guarantees are made for one purpose: to support sales of Boeing aircraft to foreign air carriers or leasing companies. The National Export Initiative emphasizes the need to focus support on medium and small businesses that are not yet major exporters. Today, however, the stark fact is that through the Ex-Im Bank, the U.S. government is providing vast amounts of subsidized financing to competitors of U.S. airlines, thereby undermining their ability to generate both exports and American jobs.

The undisciplined competition among ECAs to support aircraft sales by their home country manufacturers is causing direct and substantial competitive harm to U.S. airlines. It is widely reported by industry observers that this credit race has contributed to a glut in global capacity. We estimate that U.S. and European export credits have resulted in the subsidized carriers acquiring at least 11 percent more capacity than if they had to pay market rates.

Ex-Im Bank support has literally helped to create strong new foreign competitors for U.S. passenger traffic. For example, Canada's Westjet, which was founded only in 1996, has received nearly *$1.7 billion* in Ex-Im Bank guaranteed financing since FY2002. Since then, Westjet has gained significant market share in passenger seats serving the U.S. market, largely at the expense of U.S. airlines.

The damage caused by subsidized financing is exacerbated during declines in the business cycle because ECA credits and guarantees immunize borrowers from market conditions. During the recent economic downturn, U.S. airlines cut capacity by 8 percent and were forced to lay off thousands of employees; yet, large aircraft production remained at record highs and the large aircraft market grew by over 10 percent. This happened because the ECAs stepped in to help many foreign airlines to expand and to modernize their fleets. For example, in the 2009 transaction involving Emirates described above, when credit markets were effectively closed to almost all U.S. carriers, Ex-Im Bank created a novel bond financing structure that permitted Emirates to buy several additional Boeing jets worth over $400 million under exceedingly favorable credit terms. Emirates is based in the UAE, which last year had a per capita GDP of over $42,000 – 17th largest in the world. The average age of Emirates Air fleet is now about *five* years. By comparison, the average age of mainline aircraft of the five largest U.S. passenger airlines with international service, is nearly 14 years.

We appreciate that the ASU was conceived as a means to discipline ECA competition, to create "a level playing field" among Boeing and Airbus. And we applaud efforts to bring other countries, including Canada and Brazil, into broader, more uniform commitments. But the reality today is that the combination of an Open Skies policy and the ASU (with its informal "Home Market Rule") has produced a very *unlevel* playing field for U.S. airlines. It is critical to understand, moreover, that the distortion of airline competition lies not just in access to competitive financing on equal terms – *the fundamental problem is the unfettered and undisciplined supply by ECAs of credit to meet competition among themselves and the manufacturers they support, not to solve a lack of credit availability in the market. This unrelenting drive to prop up aircraft sales forces uneconomic capacity into the market, and the distortion it causes will only be made worse if the current ASU negotiations results in a further expansion of government-supported credits to domestic borrowers.*

Accordingly, as the administration determines the outcome that it seeks to achieve in the ASU negotiations, we urge you to take a comprehensive view of the interests of *all* stakeholders and work toward creating a truly level playing field that rolls back the heavy market distortions that ECAs now cause – not to expand them. Specifically, the ATA:

- Supports negotiation of rules to curb all ECA support for aircraft financing to the greatest extent possible. As recent experience has shown, government loan guarantees are potentially costly to taxpayers and the risks from current practices are doubly apparent when such guarantees are driving even more over-capacity into a major global economic downturn. Thus, ECA support should be available only to airlines in the poorest countries for which market financing is demonstrably foreclosed as a result of either political or credit risk and a careful assessment has been made regarding the expected deployment of those aircraft into the market. At a minimum, ASU terms must ensure that airlines in all developed countries and relatively advanced developing countries no longer are eligible for ECA-supported financing, either directly or through aircraft leasing companies. ASU terms should also closely align with – and be no more favorable than – financing terms available in the market to U.S. airlines.

- Strongly opposes the creation of new or expanded "domestic windows" through which government credit is offered to support purchases by airlines of aircraft from

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their "home country" manufacturers. In this regard, all of Europe should be treated as the Airbus "home country."

If the parties to the ASU are able to reach agreement on a revised ASU that substantially achieves the outcomes stated in point one, then the need for the Home Market Rule would be largely eliminated. If ECA financing is not substantially curbed, however, and such government support remains available to airlines that are otherwise able to access commercial markets for financing, then to maintain a level playing field within the United States among U.S. airlines, it would be necessary to keep the Home Market Rule in place, at least between the United States and the Airbus home countries. We hope that will not be necessary. To be clear, even in that circumstance we would oppose changing current law or practice regarding the provision of U.S. government loans or guarantees to domestic buyers of U.S.-made aircraft.

Finally, we want to emphasize that well-managed airlines worldwide are generally able to finance their aircraft purchases from commercial sources and that ECAs are simply displacing market-based financing, thereby permitting some aircraft buyers to obtain more favorable financing than others. This market distortion must be seen for what it is: At best, it is a trade-off between job gains at aircraft manufacturers and job losses at airlines (and related suppliers) based in the ECA home countries.

We do not underestimate either the challenge of restraining demand for official credits or the dynamic of the competition among the few aircraft manufacturing countries to supply that credit. But, the United States should not support either an international or a domestic framework that blesses an expansion of the current subsidy war. To do so will only ensure failure of the President's goals to create net new jobs through exports.

Respectfully,

James C May

cc: The Honorable Gary Locke
The Honorable Hillary Rodham Clinton
The Honorable Lawrence Summers
The Honorable Fred P. Hochberg

Attachment 2: Ex-Im Bank and ECGD Financing of Boeing and Airbus Exports

Attachment 2

EX-IM BANK AND ECGD FINANCING OF BOEING AND AIRBUS EXPORTS[1]

EX-IM AIR TRANSPORTATION FINANCING	FY 2010	Total: FY 2001-2010
Financing for Boeing Aircraft	$7.2 billion	$49.4 billion
# of Aircraft Financed	162	835
# of Airline Beneficiaries	16 Airlines; 5 Leasing Cos	~63 Airlines and Leasing Companies

Largest Airline Beneficiaries Include (in millions USD):

Virgin Blue Air (Australia):	$1217	Asiana Airlines (Korea):	$1094
Air Canada:	$1132	Korean Airlines:	$2614
*WestJet (Canada):	$1670	KLM Royal Dutch:	$1384
*Lan Airlines (Chile):	$1452	*Turkish Airlines:	$608
China Airlines (Taiwan):	$1100	*COPA (Panama):	$775
JetAirways (India):	$1434	*Singapore Airlines:	$409
Air India:	$3275	Thai International Air:	$1173
Ryanair (Ireland):	$5064	*Emirates Air:	$2871

ECGD AIR TRANSPORTATION FINANCING	FY 2010	Total: FY 2001 through 2010
Financing for Airbus Aircraft	~£1975 million	~£8294 million
# of Aircraft Financed	166	>750
# of Airline Beneficiaries	34	~70 Airlines and Leasing Companies

Largest Airline Beneficiaries Include (in millions £):

Qatar Air:	£442	*Turkish Air:	£263
*LAN Airlines (Chile):	£388	Tam Linhas Aereas (Brazil)	£214
Thai Airways:	£362	SAS (Sweden):	£208
*Emirates Air:	£290	China Airlines (Taiwan):	£167
*Qantas Air	£277	*Aeroflot (Russia):	£108

(*airline was among the ten most profitable airlines in 2008 outside of the United States and Airbus home countries)

[1] Compiled from information available in Annual Reports of the U.S. Export-Import Bank and the United Kingdom's Export Credits Guarantee Department (ECGD). ExIm's Fiscal Year is Oct. 1 - Sept. 31. Therefore, FY2010 is Oct. 1, 2009 through Sept. 31, 2010. ECGD Fiscal Year is April 1 through March 31, therefore FY2010 is April 1, 2009 through March 31, 2010.