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PERSPECTIVES ON THE EXPORT–IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

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

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING AND EVALUATING EX-IM BANK FINANCING AND THE BANK'S ROLE IN CREATING OR SUPPORTING U.S. JOBS

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C O N T E N T S

TUESDAY, JUNE 2, 2015

WITNESSES

Additional Material Supplied for the Record

PERSPECTIVES ON THE EXPORT–IMPORT BANK OF THE UNITED STATES

TUESDAY, JUNE 2, 2015

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., in room SD–538, Dirksen Senate Office Building, Chairman Richard C. Shelby, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The Committee will come to order.

This is the first of our oversight hearings on the Export-Import Bank of the United States, which is currently authorized through June the 30th of this year.

During the May 2012 reauthorization process, we built in several reforms for the Bank related to risk management and accountability.

I have long been concerned with the Bank's financial risk to the American taxpayers, who ultimately stand behind the Bank. I made it clear in 2012 that Congress should not merely give Eximbank another blank check.

That is why I called for a comprehensive Government Accountability Office study on Eximbank's risk management practices. I also sought to put in place measures that would reduce the operational risk and hold accountable the Bank's management from the top-down.

Three years later, I remain disappointed with the Bank's lack of progress toward these goals.

During the past few years, the GAO has identified significant weaknesses in areas such as the Bank's analysis of the default risk, portfolio stress testing, the underwriting process, and the forecasting of exposure. Such weaknesses have shown to be part of an overall pattern of failure.

In addition, the Inspector General has recently reported that about 40 percent of its recommendations to the Eximbank remain open or unresolved.

After years of efforts to reform the Bank, I am not convinced that it has made enough progress to warrant a long-term reauthorization. Taxpayers, I believe, should not be compelled to once again stand behind the Bank if the problems are impossible to fix.

Congress cannot leave unaddressed Eximbank's failures to properly manage its risk. It is especially important to get this right, considering Eximbank's disproportionate exposure in certain industries, geographic areas, and large single foreign customers.

In addition, I continue to be concerned about the eventual effects of the rapid 40 percent increase in the Bank's lending cap, which was enacted in 2012 over my objections.

In determining whether reauthorization is justified, I believe Congress must take another hard look at Eximbank. It must assess the true cost of the Bank on American labor, industries, and taxpayers, not only the benefits to a select few companies.

There are strong voices in favor of letting the Bank sunset and equally strong opinions in favor of trying one more time to address serious concerns with the Bank. Those who say Eximbank should be allowed to expire argue that the Bank can never be reformed and that the subsidies do little, if anything, to advance the Nation's overall economic prospects. Those who say that the Bank should live to see another day argue that it is a necessary evil of export financing that seeks to level the playing field among aggressive foreign export policies.

As the Banking Committee begins to examine these issues, we welcome the distinguished panel of witnesses today. Each brings a valuable perspective and has been asked to present evidence to support his or her assessment of the Bank.

On Thursday of this week, we will hear from Fred Hochberg, the Chairman and President of the Export-Import Bank of the U.S. The Committee will then consider next steps as the Bank's current reauthorization nears expiration.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman. Thank you for holding today's hearings.

To all our witnesses, for being here, thank you for sharing your views on the Export-Import Bank.

In today's global economy, we should support businesses when they sell their products around the globe. Exports are as important to the aerospace industry in the Chairman's home State of Alabama as they are to my State of Ohio.

That is why reauthorizing Eximbank by June 30th is essential. It should be easy. It should be bipartisan.

In 2006, when George Bush was in the White House, the Bank was reauthorized by a voice vote in the House and by unanimous consent in the Senate. As those votes show, Eximbank used to be a bipartisan issue until some made its existence an ideological litmus test.

The Bank fills gaps in private export financing to help foreign buyers purchase U.S. goods and services.

During their recent debate on trade promotion authority in the Senate, we heard from supporters of the legislation that fast-track was needed to boost our U.S. exports, that it was needed to increase our role in the globalized economy, that it was needed because it was geopolitically important. All that is debatable with respect to TPA and with TPP but absolutely true, undoubtedly, when applied to the Export-Import Bank.

With Eximbank, these benefits come without the cost of off-shoring jobs and without the cost of exposing U.S. markets to a flood of foreign goods. Senators who supported fast-track because it would promote U.S. exports and grow our economy should support Eximbank for the same reasons.

We know that competitors around the world have their own ex-im banks. There are about 60 export credit agencies worldwide.

One analyst said, quote, “Killing a Bank is like telling an athlete he has to spot a competitor 10 yards in a race.”

Why would we put our manufacturers and exports at a disadvantage to China, to India, to most European countries?

Last year, Eximbank reported it supported $27 billion in exports and 164,000 American jobs, includes more than $250 million in deals, in my State alone, 60 percent—60 percent—of which went to small businesses. In total, Eximbank has provided some $3 billion in financing and guarantees to more 300 Ohio businesses, more than two-thirds of which were small businesses. This means more manufacturing, more middle-class jobs, more experts, more jobs overall, particularly in the high-paying manufacturing area.

Finally, for the many conservative organizations that have been so concerned about Federal budget deficits, Eximbank is self-sustaining. Last year, it returned more than $600 million to the U.S. Treasury.

For all those reasons, we cannot afford to allow the Bank’s authorization to expire at the end of the month nor can we do just a few months at a time. As we talk about predictability, we inject more on predictability into the system and into financing decisions that companies in our country make.

I commend Senator Kirk; I commend Senator Heitkamp, for their bipartisan efforts to ensure that Eximbank is reauthorized with some reforms.

I look forward to working with Chairman Shelby in addition to the two Members of this Committee who are here today, Senators Kirk and Heitkamp, to ensure that authority for the Eximbank does not lapse for the first time in its 7–0, 70-year history.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you. Thank you, Senator Brown.

First, we will hear from Dr. Veronique de Rugy of the Mercatus Center at George Mason University.

Senator DONNELLY. Mr. Chairman? Mr. Chairman?

Chairman SHELBY. Oh, Senator Donnelly.

Senator DONNELLY. Are any of the other Members going to be allowed to make opening statements?

Chairman SHELBY. I thought we would limit this because we have got a vote and get started. We will give you time, though, to make an opening statement later.

Senator DONNELLY. Thank you.

Chairman SHELBY. First, we will hear from Dr. Veronique de Rugy of the Mercatus Center at George Mason University, who has spent a considerable amount of time studying the Bank and official export credit financing.

Next, we will turn to Ms. Linda Dempsey, the Vice President of International Economic Affairs at the National Association of Manufacturers. Her role at the National Association of Manufacturers is to lead efforts to improve global competitiveness of U.S. manufacturers.

Third, we will hear from Dr. Michael Strain, a resident scholar and Deputy Director of Economic Policy Studies at the American Enterprise Institute.

Next, Mr. John Murphy, Senior Vice President for International Policy at the U.S. Chamber of Commerce, will give his remarks.

And finally, Dr. Daniel Ikenson, Director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, where he serves as an expert on trade and investment policy, will offer his perspective on the Export-Import Bank before we turn to questions.

We will start with you, ma'am.

All of your written testimonies will be made part of the record. If you could sum up your basic points in 5 minutes because we do have a vote schedule and we are going to have to take a break and then come back.

STATEMENT OF VERONIQUE DE RUGY, SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Ms. DE RUGY. Good morning, Chairman Shelby, Ranking Member Brown, and Members of this Committee. It is an honor to appear before you today to testify about the Export-Import Bank.

We do not agree on much in Washington, but everyone should agree that the Federal Government should not direct our limited public resources primarily to wealthy, politically connected companies, and yet, that is what the Export-Import Bank does. On the domestic side, 64 percent of Eximbank finances benefits 10 large corporations, 40 percent benefits Boeing.

Think about it this way; there is an agency whose entire reason for being appears to be promote the specific welfare of a handful of corporations.

On the foreign buyers' side, the top beneficiaries include a majority of State-owned companies such as Pemex, the Mexican oil and gas giant, and Air Emirates, the airline of wealthly United Arab Emirates.

In spite of this, some say that there are good reasons to reauthorize Eximbank—because it promotes exports, it fills a critical financing gap, and without it, jobs will instantly disappear. But none of these arguments withstand scrutiny, as my testimony will show.

However, I also want to focus on the groups who are affected by Eximbank activities that have gone ignored. These people do not have connections in Washington. They do not have press offices and lobbyists. But they matter, too.

It is difficult, but extremely important, that we consider the unseen cost of political privileges whether they take the form of market distortions, resource misallocation, or higher prices.

So let's start.

First, contrary to what you hear from a supporter, the Eximbank plays a marginal role in export financing, backing less than 2 percent of exports each year. It means that 98 percent of U.S. exports are financed using a wide variety of private banks and other financial institutions without Government interference or assistance. So allowing Eximbank to expire would not result in a collapse of the U.S. export market.

Second, the Bank claims that it fills a critical financing gap, but according to the Bank's own data 16.6 percent of its activities are justified by filling this financing gap. What it means is that 83 percent of what the Bank does has nothing to do with filling a financing gap. So, basically, Eximbank is in the business of extending cheap loans to large foreign corporations so they can buy goods and services through massive domestic firms.

Third, the Bank claims that if its charter expires jobs will disappear. It takes credit for supporting 164,000 jobs in 2014, but GAO has criticized the Bank's methodology, among other reasons, for omitting to take under consideration the jobs that actually would exist without the Bank.

But even if we accept the Bank's questionable job claims, failing to reauthorize Eximbank will not disturb existing loans and, hence, the jobs they support. It will simply prevent the Bank from asking taxpayers to make new loans.

Also, top Eximbank beneficiaries have billions of dollars of backlogs which will keep their workers and small business suppliers busy for years to come. Boeing, for instance, has $441 billion in backlogs, meaning that it will have years to arrange alternative private financing like many small and large exporters do every year.

Now the 10 large corporations who capture the majority of Eximbank benefits have various incentives to make sure their voices are heard, but it is critical that we consider the unseen victims of political privilege.

These victims are, first, taxpayers who bear the risk of $140 billion in liability.

Second, they are consumers who pay higher prices for purchase of subsidized goods.

And, third, these victims are unsubsidized firms competing with subsidized ones. They not only pay a higher financing cost but lose out when private capital flows to politically privileged firms regardless of the merit of their projects.

Indeed, some of these victims are victimized multiple times, first as taxpayers, then as consumers, then as competitors, and finally as borrowers.

Unfortunately, we will never see the businesses that could have been. We will never hear from the workers whose wages were not raised or whose jobs disappeared because of the unfair competition from Eximbank-backed firms.

It took courage and leadership to stand up and represent the forgotten firms, workers, taxpayers, and consumers whose voices are so easily drowned out by the corporate beneficiaries of Government privilege. So thank you very much for organizing this hearing, and I am looking forward to your questions.

Chairman SHELBY. Ms. Dempsey.

STATEMENT OF LINDA MENGHETTI DEMPSEY, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Ms. DEMPSEY. Thank you, Chairman Shelby, Ranking Member Brown, and Members of the Committee. I appreciate the opportunity to testify today on behalf of the National Association of Manufacturers, the NAM, which is the largest industrial trade association in the United States and the voice for the 12 million men and women who make things in America.

With 95 percent of the consumers outside the United States and global demand for manufactured goods that far exceeds domestic consumption of those goods, the United States has to win more sales overseas if we are going to sustain and grow manufacturing and jobs in this country. While the recent growth in exports is impressive, U.S. manufacturers are facing an increasingly challenging global economy where growth has slowed and America lags behind most major Nations in terms of our export success.

The NAM and its members view the Eximbank as one of the most important tools the U.S. Government has to boost U.S. exports and support American jobs. In fiscal year 2014, Eximbank enabled more than $27 billion in exports, supporting over 160,000 American jobs, by providing services that are not available commercially for which fees and interest are collected and for which there was only a zero—less than 0.2 default rate.

It has undergone significant reform in recent years and is increasingly supporting small businesses. Indeed, nearly 90 percent of the 2014 transactions directly supported small businesses.

And every U.S. exporter that wants to apply for an Ex-Im service can do so, and if it meets the eligibility criteria it will be provided that service; no special access required.

While Eximbank does not need to finance the great majority of U.S. exports, it is critical in a few key areas. Let me explain.

For small businesses, there are already 3,300 small business transactions in 2014; 545 companies were first-time Eximbank users and probably first-time exporters, too. They are the direct Eximbank users, but they also supply to some of the big companies out there that export. If Eximbank is closed, small businesses would feel it first.

Current Treasury Department rules put export-intensive companies in a bind when it comes to asset-based lending. The Eximbank is sometimes the only option to enable crucial working capital flow. Without Eximbank, small businesses will be faced almost immediately with a loss of that working capital, and they will have to face the dilemma about whether they are going to pay their workers or pay the mortgage on their facility.

For infrastructure, a worldwide growth sector, Eximbank plays an especially crucial role because this is where long-term lending is required. Post-financial crisis, there are a whole bunch of new restraints that have been put on this long-term commercial ending. And, without Eximbank U.S. exports in a wide range of infrastructure, energy, and aerospace sectors will be lost to foreign competition.

For emerging markets, many U.S.-based lenders need to rely on Eximbank for expertise and to mitigate geopolitical and collateral risk. Without Eximbank, U.S. businesses will lose sales in these markets that are showing substantial promise.

Finally, U.S. exporters from a broad range of sectors are increasingly selling to foreign Governments and State-owned enterprises. Whether it is a medical equipment company that is selling to a State-owned hospital overseas or companies in nuclear and power generation that are selling major equipment, these Governments and State-owned enterprises expect a Government at the other side of that table, at least to begin the bidding process. In many cases, Eximbank actually does not play a role in the final transaction. If Eximbank is not reauthorized, U.S. manufacturers will be out of all of these areas that affect both small and large companies.

As the U.S. Congress debates the future of Eximbank, our trading partners are moving forward aggressively. Last year, the NAM put out a report, "The Global Export Credit Dimension," that documented the over 60 ECAs worldwide and the foreign—and their massive foreign export credit.

The ECAs of our top nine trading partners provided nearly half a trillion dollars just in official funding, and countries like China, South Korea, and Canada and Brazil are growing massively. Without Eximbank, the U.S. will ceding sales to our competitors overseas at the cost of manufacturing and jobs domestically.

While the United States is a relatively small player, it is actually the U.S. that has led global efforts to eliminate subsidies, to eliminate market distortions through export credit, and has succeeded with our OECD partners, including through sector-specific arrangements such as in nuclear power, ships, aircraft, and renewable energy and water.

The United States has also initiated negotiations with developing countries to put disciplines on foreign export credit agency funding, but that has been particularly difficult, particularly as the U.S. is debating Eximbank's future.

If Eximbank is eliminated, the continued arms race and the global ECA activity will expand unchecked, and U.S. manufacturers, other businesses, and workers will be the victims. Time is of the essence.

Thank you. I urge this Committee and the Senate to move forward now on an Eximbank reauthorization.

Chairman SHELBY. Dr. Strain.

STATEMENT OF MICHAEL R. STRAIN, DEPUTY DIRECTOR OF ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. STRAIN. Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the Eximbank. It is an honor.

I do not believe that the Eximbank should be reauthorized. I will outline why, with a special focus on the Eximbank's impact on jobs.

In a healthy economy, one characterized by full employment, the Eximbank does not create jobs. This stands in stark contrast to the rhetoric of some of the Ex-Im Bank's supporters, but it is the correct conclusion, at least to a first approximation, for informing the Committee as it debates the appropriate course of action for the Eximbank.

Imagine an economy like ours, with some firms that export goods abroad and many more firms that sell only within the United States. All labor resources are utilized.

The Government enters and subsidizes the exporting firms. This will surely help those firms, and it may even increase the number of jobs those firms can support. But as labor resources are fully employed, these new jobs must come from somewhere.

What the export subsidy is doing, in effect, is shifting jobs from firms that do not export to firms that do. This does not increase employment on the whole.

Now it must be said that there is considerable debate among economists as to whether the U.S. economy is currently characterized by full employment. Many economists believe we are quite close to full employment, but I am not among them.

In such an environment, it can be argued that export credit may help support jobs. To this argument, I have three replies.

The first is that the Congress should not reauthorize a permanent export credit agency in order to achieve the temporary goal of tightening a slack labor market. Monetary and policy fiscal policy are much better tools to tighten the labor market.

The second is that even if the Congress chooses to authorize finance to selected sectors to support employment, exports would not be high on the list of firms or industries to target.

Finally, failing to reauthorize the Eximbank would not immediately terminate its existing financing arrangements, and the lives of those arrangements will likely run longer than our current labor market conditions.

I will now turn from the employment impacts of the Ex-Im Bank to considerations of the broader economy.

Textbook models of international trade for a large economy predict that export subsidies will lower national welfare, will make the United States worse off relative to a situation without the subsidies.

In contrast, some, though far from all, more complicated models set in an oligopolistic market environment, featuring particular forms of strategic competition, do find situations in which export subsidies can make the Nation better off.

A unifying feature of these models, however, is that the Government's policy toward exports requires an incredible amount of knowledge that the Government almost surely does not possess in reality. To illustrate this, consider some general equilibrium effects of a simple subsidy.

Much discussion of the Eximbank focuses on partial equilibrium effects, on the effects of the Eximbank on a single market, or on a single set of firms. But economic policy, including the decisions of the Eximbank, can effect many firms and many markets. And so general equilibrium considerations must be taken into account by the Congress when deciding whether to allow the Eximbank to continue providing export credit.

And export subsidy will give subsidized firms an advantage over their foreign competitors, increasing the demand for those firms' output. But this, in turn, will increase the demand for inputs to production among the subsidized firms, increasing the price of those resources faced by other sectors, and putting firms in those sectors—sectors that do not receive export credit—at a disadvantage relative to a situation without the export subsidy.

Even if the subsidy helps firms that receive it then, the subsidy may hurt the overall economy.

It is hard to imagine how the Government could understand all the interlocking parts of the economy well enough to know whether the subsidy is a net positive for the United States.

The existence of capital market deficiencies and imperfections, and the export credit behavior of foreign Nations, do not nullify general equilibrium concerns about information and uncertainty.

Political economy presents other concerns as well. The default assumption of the Congress should be that well-connected, influential corporations will be in a better position to exercise influence over whether they receive Ex-Im Bank financing than other less-connected corporations. This creates important issues that the Congress cannot ignore.

To conclude, let me offer final thoughts.

First, it is reasonable to describe the Eximbank as dispensing so-called corporate welfare, but the Eximbank is hardly the chief offender. After the Eximbank's fate is resolved, the Congress should oppose crony capitalism in other sectors of the economy, where its magnitude is often larger, just as vigorously.

Second, in the realm of trade policy, future negotiations and arrangements should stress the need for foreign Nations to limit their provision of export credit.

Finally, supporters of the Eximbank have a reasonable argument that there may be times when limited, temporary, strategic trade policy may be appropriate. But such policy should address specific, identifiable actions of foreign Governments or other strategic goals in a very targeted way. It should not be left to an open-ended export credit agency such as the Eximbank.

But regardless of progress on these three fronts, the Eximbank should not be reauthorized.

Chairman SHELBY. Mr. Murphy.

STATEMENT OF JOHN G. MURPHY, SENIOR VICE PRESIDENT FOR INTERNATIONAL POLICY, U.S. CHAMBER OF COMMERCE

Mr. MURPHY. Mr. Chairman, Ranking Member Brown, Members of the Committee, I am very pleased to be here today to testify on the importance of reauthorizing the Eximbank.

I represent the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than three million businesses of every size, sector, and State.

You have heard the fundamentals from my colleague, Linda Dempsey: Eximbank, last year, supported more than $27 billion in American exports, more than the merchandise exports of the State of Alabama, more than the merchandise exports of Arkansas, Idaho, Nebraska, and South Dakota combined. Eximbank is especially important to the small- and mid-sized companies, which account for nearly 90 percent of its transactions.

The idea that Congress would even consider making the United States the one major trading Nation in the world without an official export credit agency has left many in the U.S. business community baffled. Consider how this would put specific sectors and industries at a comparative disadvantage in global markets.

First, shutting down Eximbank would mean many small businesses could not even export because commercial banks often refuse to accept foreign receivables as collateral for a loan without an Eximbank guarantee. For these small firms, Eximbank is often indispensable.

In fact, buyers overseas nowadays expect vendors to offer financing. Without Eximbank's account receivables insurance and lines of credit, many U.S. small businesses would be unable to extend terms to foreign buyers and would have to ask for cash in advance. In such a case, the business will most likely go to a firm from another country that is able to offer financing.

For these small businesses, Eximbank is not just nice to have—it is indispensable—nor is there any assurance that eliminating Eximbank would cause commercial banks to step into the breach.

In addition to these direct small business beneficiaries, tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Eximbank.

Second, it is par for the course for expensive capital goods, such as Canadian planes, Chinese trains, and Russian nuclear reactors, to be sold worldwide with unashamed backing from these firms' national export credit agencies.

In the past few years, we have seen major tenders for locomotives in African countries and elsewhere hang in the balance. These tenders, worth hundreds of millions of dollars, required that the supplier finance a significant portion of the transaction. Chinese competition in these cases has been fierce, and they come well-prepared with generous financing from one of China's several export credit agencies.

Again, in these circumstances, the calculus is clear; no Eximbank, no sale.

Third, foreign infrastructure opportunities are another area where export credit agency support is often required. Closing Eximbank would shut American exporters out of huge business opportunities overseas because ECA support is required for a company even to bid on overseas infrastructure projects.

Fourth, nuclear power is another sector where the fate of Eximbank will have a major impact. According to the Nuclear Energy Institute, just 5 nuclear power plants are under construction in the United States, but 61 new plants are under construction overseas. So for the U.S. nuclear industry, which directly employs more than 100,000 Americans in high-skill, high-wage jobs, it is export or die.

But here is the rub. Export credit agency support is always a bidding requirement for international nuclear power plant tenders. Without Eximbank, U.S. nuclear power companies will not even be able to bid for business overseas.

Make no mistake; executives in a number of these industries will face hard questions of whether to shift production abroad where export credit agency support is available.

Eximbank's critics would like to have it both ways. On the one hand the Bank is a colossus with the power to distort free markets, but on the other it is such a small agency that its abolition would do no harm to the U.S. companies that depend on it. It cannot be both.

In fact, Eximbank is modestly and appropriately scaled, acting mostly in the circumstances I have described, where it is necessary to U.S. competitiveness.

In closing, Eximbank does not skew the playing field. It levels it for U.S. exporters facing head-to-head competition with foreign firms backed by their own export credit agencies. Often, it acts even as a deterrent in cases where it is not even used but its availability can make a determination.

Eximbank does not pick winners and losers, but refusing to reauthorize Eximbank is picking foreign companies as winners and U.S. exporters as losers.

The Bank's opponents have attempted to tie it to unsavory customers overseas. This is only an attempt to divert attention from the true beneficiaries of Eximbank, the tens of thousands of American workers whose jobs depend on the Bank's support for their exports. Their voice must be heard in this debate.

Thank you.

Chairman SHELBY. Mr. Ikenson.

STATEMENT OF DANIEL IKENSON, DIRECTOR, HERBERT A. STIEFEL CENTER FOR TRADE POLICY STUDIES, CATO INSTITUTE

Mr. IKENSON. Good morning, Chairman Shelby, Ranking Member Brown, Members of the Committee.

I am Dan Ikenson, Director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, and I appreciate the invitation to share my perspectives on the Export-Import Bank of the United States with you today. The views I express are my own and should not be construed as representing any official positions of the Cato Institute.

To the extent that today's hearing will help illuminate the full impact of Eximbank on the economy and on the market process, I am pleased to participate and offer some assistance.

Americans tend to view the global economy as an us-versus-them proposition where exports are "Team U.S.A.'s" points, imports are the foreign team's points, the trade account is the scoreboard, and the deficit on that scoreboard means the home team is losing at trade.

But trade is not a competition between us and them. It is not a national sport played by countries but a cooperative exercise between billions of people seeking to obtain value through exchange.

The purpose of trade policy is not to secure a trade surplus but to increase potential for economic growth.

Why should U.S. taxpayers underwrite, and U.S. policymakers even promote, the interests of exports anyway when the benefits of those exports accrue primarily to the shareholders of the companies enjoying the subsidies?

There is no national ownership of private export revenues. As Milton Friedman used to say, exports are the things we produce but do not get to consume while imports are the things we consume but do not have to produce.

But given the exalted status of exports in Washington's economic policy narrative, Eximbank's self-portrayal as indispensable to U.S. export success makes for a good survival strategy. Never mind that on that metric Eximbank is scarcely relevant and Eximbank supported $27.4 billion in exports last year, which is less than 2 percent of the total U.S. export value.

But policymakers should stop conflating the interests of exporters with the national interest and commit to policies that reduce frictions throughout the supply chain, from product conception to consumption.

For example, over 55 percent of the value of U.S. imports last year consisted of intermediate goods, capital goods, and other raw materials—the purchases of U.S. businesses. Yet, many of those imports are subject to customs duties which raise the cost of production for the U.S.-based companies that need them, making those firms less competitive at home and abroad.

U.S. duties on products like sugar, steel, magnesium, polyvinyl chloride, and other crucial manufacturing inputs have made it more difficult for U.S. companies to compete at home and abroad, and it has chased companies to foreign shores where those inputs are less expensive, and it has deterred foreign companies from setting up shop stateside.

And just as import duties on intermediate goods adversely impact downstream consuming industries, subsidies for exporting intermediate goods have the same adverse impact.

Just as U.S. steel tariffs hurt U.S. manufacturers of appliances and auto parts by raising their cost of production and lowering the cost of production of foreign competitors, subsidies to export steel have the same kind of adverse effect on steel-using industries—diverted supply leading to higher domestic input prices and lower input costs for competitors abroad.

What is seen and celebrated as the tariff or export subsidy that benefits the steel industry, what goes unseen but is every bit as real, are the costs imposed on downstream industries.

Eximbank financing helps two sets of companies—U.S. firms whose exports are subsidized through direct loans or loan guarantees and the foreign firms who purchase those subsidized exports. So high fives all around for the beneficence of Eximbank.

But those same transactions impose costs on two different sets of companies—competing U.S. firms in the same industry who do not get Eximbank backing and U.S. firms in downstream industries whose foreign competition is now benefiting from reduced capital costs courtesy of the U.S. Government.

Eximbank is an exercise in picking winners and losers, nothing more.

Eximbank financing reduces the cost of doing business for the lucky U.S. exporter and reduces the cost of capital for his foreign customer, but it hurts U.S. competitors of the U.S. exporter. It is what I call industry costs.

It also hurts U.S. competitors of its foreign customer—that is what I call the downstream industry costs—by putting both groups at relative cost disadvantages.

According to the findings of a recent Cato Institute study, the downstream costs alone amount to a tax of approximately $2.8 billion every year.

And the victims include companies in each of the 21 broad U.S. manufacturing sectors and 189 of 237 specific manufacturing sectors as defined at the 6-digit level of the North American Industry Classification System, and the victims are in every State.

In other words, the average firm in four of every five manufacturing industries is made worse off by the Export-Import Bank.

Market interventions like these, no matter how well-intentioned, have secondary effects that have to be taken into account when rendering judgment about the benefits and costs of the policy.

The auto bailout, to give another example, may have helped the workers and shareholders at GM and Chrysler, but it denied the spoils of competition to Ford, Honda, Toyota, Nissan, Hyundai, Kia, and BMW. A market process that rewards worthy firms and punishes less capable ones was subverted.

So Congress should allow Eximbank to expire at the end of the month and refrain from subsequent reauthorization.

Thank you.

Chairman SHELBY. Mr. Ikenson, you mentioned in your testimony that Eximbank may reward some companies but penalize others whom you described as collateral damage of the Bank.

Dr. de Rugy, you also alluded to numerous Eximbank losers in your testimony.

Could you explain in more detail, both of you, why most of the cost of Eximbank subsidies are unseen, and how do you identify the so-called victims of Eximbank in the U.S. economy?

I will start with you.

Mr. IKENSON. OK. Well, the costs to downstream industries, I think, are manifest through two channels: Diversion of domestic supply, which tends to raise the prices of the input, and that raises the cost of production for downstream firms. Two, the subsidized export of that input reduces the cost of production for the U.S. downstream firms' foreign competitors.

Often, these costs are small. For example, if a U.S. Steel export is subsidized and the cost of steel accounts for only 1 or 2 percent of the total cost of production for that firm, that firm—it may be imperceptible to that firm than to a firm for whom steel accounts for 40 or 50 percent of the cost of production.

So this is perpetrated in an insidious way. It is like being pickpocketed or getting an extra item on your telephone bill for some small tax.

There are costs that result from the diversion of supply, from the underwriting of foreign competition. Sometimes companies do not realize it.

In Delta's case, Delta realized it, but airplanes—Boeing aircraft—are a major cost component for Delta. So they were able to call Boeing out and complain about the subsidies to Air India and other foreign carriers.

But a lot of other companies do not see that. They might detect that their costs are rising or that their revenues are being impeded, but they might not know that they can attribute that to Eximbank subsidies for their suppliers.

Chairman SHELBY. Doctor.

Ms. DE RUGY. I would add to what Mr. Ikenson said by saying that we know who the beneficiaries of Eximbank are, and there is no denying that they are liking it. I mean, they like it enough, and they would like to keep the benefit enough that they have an incentive to organize and to spend considerable amount of resources coming and lobbying Members of Congress all the time.

But, in fact, for the victims who, as Mr. Ikenson said, do not necessarily realize it and are spread out throughout the country, this incentive does not exist.

And, actually, the cost of doing such a thing is way too high.

Think about in your State, Mr. Chairman, Eximbank backs only 34 percent last year of exports. So it means that over 99 percent of exports without export subsidies.

These exporters, I mean, they are not marching to your office all of the time. They may not even realize; some of them do, but they may not realize. And yet, some of these exporters, they lose in different ways.

Maybe some exporters are actually using Boeing planes to export their goods, and so they are getting, you know, the financing at a higher rate but also—than their competitors, but also they pay more for the export of their goods by using Boeing planes than they would otherwise.

But they may know, and certainly, they certainly do not have the incentive to come fly to Washington and lobby you.

Chairman SHELBY. I will direct this next question to—I will start with Dr. Strain.

According to the Bank, nearly 90 percent of its customers last year were small businesses as a percentage of transactions.

Congress set a 20 percent mandate on the dollar value of direct small business export assistance, which the Bank has not consistently met.

The lion's share of the dollar amount of transactions last year remained with a handful, as you pointed out, of very large companies.

Dr. Strain, how would you grade the Bank's assistance to small business?

Mr. STRAIN. Well, I think it has to be acknowledged that if you are going to have an export credit agency that a lot of the resources are going to flow to large exporters. So when you look at the amount of credit provided in dollar figures, a large, large share of that goes to big firms. If you look at the number of authorizations, a much smaller share goes to big firms.

But I think it is the dollar figure that actually matters, certainly to the macroeconomy and to the way that we think about economic policy. And so I think it is very accurate to characterize the Eximbank as being a bank that primarily assists very large corporations that have access to credit unlike small competitors.

And as a consequence, to answer your question directly, I would grade the Bank fairly poorly on its congressional mandate to help small businesses to a large degree.

Chairman SHELBY. Do you agree with that, Doctor.

Ms. DE RUGY. Yes, I do.

Chairman SHELBY. Thank you.

Senator Brown.

Senator BROWN. Thank you.

I found Mr. Ikenson's—one of the last comments he made about the auto rescue interesting, and I know that Senator Donnelly cares a lot about this, too—that you spoke of that it may assisted or helped GM and Chrysler but not the others even though we were all lobbied pretty heavily by Honda, big in my State because of the supply chain, and Ford, big in my State and around the country.

Senator DONNELLY. Mr. Chairman, if I could just say one thing, Toyota manufacturing came to my office and sat down with me in my office and said it is critical for Chrysler and General Motors to survive in order for the supply chain and all the suppliers downstream to survive as well, and they asked us specifically to make sure we would stand up for Chrysler and General Motors as well.

Senator BROWN. And the supply—thank you, Senator Donnelly. Let me—and he is right.

Mr. Ikenson, I understand, too, that in your study you cite Nucor as an example of collateral damage in an agreement for foreign manufacturers to purchase steel from U.S. Steel. Well, the fact is Nucor is supportive of the reauthorization of the Eximbank.

But I want to get to questions with Mr. Murphy and Ms. Dempsey.

The June 30th expiration is, what, 4 weeks away? Your testimony touched on some of the consequences of that expiration, Ms. Dempsey.

If Mr. Murphy and Ms. Dempsey would give me thoughts on what the economic impact would be if it does expire at the end of the month, especially for your members.

And, Mr. Murphy, it is nice to hear the Chamber of Commerce talk so much about its workers, something I do not know that it is always focused on, but I appreciated those comments today.

If you would both give me your thoughts on what exactly it means to your companies, especially your smaller businesses and to your workers.

Ms. DEMPSEY. Well, thank you, Senator Brown. Thank you, Senator Brown.

You know, I think it is important to hear what actually is happening on the ground, not just economic theory, because the failure to reauthorize the Eximbank on a long-term basis is going to put at risk tens of billions of dollars of exports.

We are not at full employment in this country, and we are certainly not at full manufacturing output. In fact, we have a lot of industries that have had to shutter or slow down facilities.

We can produce a lot more if we have those export markets and if we have the Eximbank continue. But given the amount of exports that Eximbank finances on an annual basis, we will be putting tens of billions of dollars at risk and tens of thousands of U.S. jobs across America because we are going to lose those sales to foreign competitors.

And when I think about a small business company like Special Products and Manufacturing, whose CEO said the future of American manufacturing is in jeopardy of being seriously hurt if the Eximbank is not reauthorized, other companies are going to lose sales—small business, large businesses, and this is going to have a direct impact on manufacturing in our country.

Senator BROWN. Mr. Murphy, your thoughts.

Mr. MURPHY. Out in the global marketplace, amid the tough competition we see from new firms and old, from different countries around the world, the theoretical concerns that we have heard here ring hollow.

Out in the marketplace, the choice is not one between Eximbank on the one hand and the perfection of free markets on the other. It is a choice between U.S.-made aircraft, nuclear reactors, turbines, locomotives, a host of products and their competing products from other countries. And, often tipping the balance is official export credit agency support.

So if Eximbank's critics have their way, the U.S.-made products will no longer have that support, and it really could tip the balance.

Stan Veuger, who is an AEI scholar and an expert in applied microeconomics and who has participated in what I understand is a vigorous debate at AEI on this topic, was asked the question: Well, why should we have an Eximbank? His answer: Because the world is not one frictionless credit market.

Faced with foreign ECAs, we have an Eximbank, a Federal Government program of, at most, negligible cost that helps U.S. exporters compete with foreign firms on a level playing field.

He warns against the utopian views of some Libertarians who believe that a fallen world can make due with the Garden of Eden's governing institutions.

For American companies, they want customers. They do not care if they have pointy ears and green blood. They want customers who can pay.

And those customers have alternatives from many other countries around the world. And, without Eximbank, those other companies are going to have an advantage.

And I would like to quote, finally, former CBO head, Douglas Holtz-Eakin, who has echoed this view. He says, "I would love to live in a world where we do not need the Eximbank, but this is not that world."

Chairman SHELBY. We have a vote on the floor. So we are going to recess for about 20 minutes to give us a chance to vote.

So we are in recess.

[Recess.]

Chairman SHELBY. The Committee will come back to order.

Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

There is a constant debate over whether or not Eximbank helps small businesses. I do not expect to settle the argument today.

But, can you tell me what types of small businesses benefit the most from Eximbank and why? And that would be to the panel.

Ms. DEMPSEY. I am happy to start, Senator.

I will say that there are a wide variety of manufacturers in all different sectors of the economy. We have food product manufacturers. We have companies in Pennsylvania that make wall coverings. We have small agricultural airplanes down in Texas. And it crosscuts all of the different sectors.

In every single State represented on this panel and every single State in this country, there are small businesses that are using the Eximbank.

Mr. STRAIN. If I could add, Senator, it certainly benefits the small businesses that receive the credit.

And so if you imagine a small business—small businesses which operate in much more competitive environments than a duopolostic market like for large wide-body aircraft—and one firm gets the subsidy, gets an Eximbank financing deal, and another firm competing in exactly the same industry, trying to attract exactly the same customers, does not.

It is true that this firm is helped; it is also true that this firm is placed at a disadvantage.

And I think that what makes this complicated is that it is very easy to say if we let the Bank go these specific businesses will be hurt and they will be in a worse position than they are in today.

But we have to take into account this other guy who is competing against the small business that receives the export financing, whose playing field will be more level, who will be better able to compete, and the overall effects in that market very well may likely be positive.

Ms. DEMPSEY. Could I add something there?

So the Export-Import Bank is open to any exporter that meets very objective qualifications. If there are two exporters in the same industry that both want to get Export-Import Bank services, they can do so. And, they do do so.

And in cases where you have foreign bidding overseas for an infrastructure project or some other Government activity where Governments are looking for bids from around the world, Eximbank will actually go in with two or three or any U.S. company, any U.S. exporter, that seeks its services and back them up and give them that same offer.

It is not picking winners or losers. This is available to everyone.

You do not need special access to get a loan or a loan guarantee or working capital out of the Eximbank. You can go onto their Web site and apply. This is something that is widely available and does not have that sort of negative impact.

Mr. STRAIN. And just 10 seconds, I am sorry.

If that is true in theory, which it is, it does remain the case that some businesses get it and some businesses do not. So there must be some reason why these businesses that do not get it and are not going through this extremely easy process of doing it. And I think the fact that not all businesses are subsidized means that the simple story is not actually as simple in reality.

Mr. MURPHY. It has been fascinating over the past couple of years to prepare a library of interviews with 80 small business users of the Bank and their real-world experiences.

So, for instance, Bridge to Life Solutions in South Carolina, they provide cold-storage organ transplant solutions. One of their executives says: Without Eximbank, I would have to tell my customers, prepay everything up front or we cannot do business.

It is only when they were able to purchase credit insurance from Eximbank, which they could not get from a commercial bank, that they were able to extend terms to foreign customers. And without being able to extend terms, they could not make these foreign sales.

Similarly, Eagle Labs in Rancho Cucamonga, California, they use credit insurance to sell their surgical equipment for cataract surgery around the world. They explained that despite receiving regular payment from foreign customers their local commercial banks would not extend them credit based on their foreign receivables, but once they were able to get that guarantee from Eximbank they were able to double their sales and double their workforce.

Senator ROUNDS. Mr. Ikenson.

Mr. IKENSON. Yes. Thank you.

Just to respond to Ms. Dempsey's point, yes, Eximbank is available to whomever qualifies.

However, some firms have better recourse to exporting. They have infrastructure in place. They are more inclined to do so.

So if two companies are in one firm—in one industry. One may be ready to expand abroad where another is not, and the availability of the subsidy to that exporter might hasten the gap in performance between the two companies.

Yes, there are small businesses that win—the beneficiaries. But there are costs, and I could go through a list of companies in many States, as John just did, pointing out that these are likely victims and that they should have a seat at the table as well.

Senator ROUNDS. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman.

First and foremost, I would like to say this is about jobs. This is about Indiana jobs. This is about American jobs and whether we stand up and fight for them.

And I feel—as a kid, as I know probably some of you were, I was a big fan of Superman comics. And there was a character in there, and he was known as Bizarro Superman. And in Bizarro Superman's world, up was down and down was up.

And, Mr. Chairman, I feel like I am in the Bizarro testimony here sometimes, where sending money back to the Treasury is a bad thing and seeing jobs go overseas is a good thing. Well, I would disagree with that.

And I will say that this Senator will fight, and fight nonstop, to try to make sure that the Eximbank survives because it is critical to jobs, to families in my State, that when they go home want to put food on the table, take care of their family, and have a decent life for their children. That is what the Eximbank helps do.

And with that note, Doctor, I would like to ask you: Do you know who ABRO Industries is?

Ms. DE RUGY. Are you talking to me?

Senator DONNELLY. Yes.

Ms. DE RUGY. No.

Senator DONNELLY. Do you know who Vertellus is?

Ms. DE RUGY. No.

Senator DONNELLY. Do you know who Polymer Technology Systems is?

Ms. DE RUGY. No.

Senator DONNELLY. Do you know who Advanced Machine and Tool is?

Ms. DE RUGY. No.

Senator DONNELLY. Those are all companies that have benefited from Eximbank. They are not huge multinationals. They are companies in South Bend, in Indianapolis, in Ft. Wayne.

And for them this is not about a theoretical exercise. This is about whether or not they have work to do and whether or not they have products to export.

And so I would say that this is the real world. These are the people who the Eximbank is helping.

And then I would like to ask you: You had mentioned that part of the people who are victimized are taxpayers.

Well, here is the taxpayer victimization that has occurred in the last years: 2012, $803 million returned to the Treasury in profits; 2013, $1.056 billion returned to the Treasury in profits; 2014, $675 million returned to the Treasury in profits.

Here in Washington and in our Government, it drives you crazy sometimes to see programs that we run deficits time after time after time. And here we are with a program that is returning money to the Treasury to help reduce the deficit, and we are attacking the program. It does not seem to make any sense to me.

And, Dr. Strain, those companies I mentioned, they are not politically well-connected. They are just businesses back home, who are trying to make ends meet and who are trying to sell products.

So I think that these are the kind of things that are the real world that we deal with on a constant basis.

And, Ms. Dempsey, I would like to ask you a question, that as we look at this there was talk about businesses being penalized by the Eximbank.

One of the companies that I mentioned sells motor oil to Nigeria, sells automotive aftercare products to Saudi Arabia.

Do you think that those products, if the Eximbank went away, that products like that and products sold around the world—do you think it would be a company from Ohio who lost the opportunity, or do you think it would be from somewhere else?

Ms. DEMPSEY. Thank you, Senator.

I think it would be from somewhere else. As I noted in my testimony, you know, we have over 60 export credit agencies operating worldwide and much more aggressive than the U.S.

The U.S. has been much less export-intensive. But when our companies export it does support jobs; it supports manufacturing. And the companies you cited in Indiana—I would mention Draper as well, a window shade manufacturer—they have all been able to grow their operations by exports.

We have not heard of the type of theoretical subsidy or problem that Mr. Ikenson is talking about or those types of losers.

The only question is, when there is a foreign deal is that deal going to go forward? And that is something the Eximbank takes a look at because the Eximbank is not going to operate to provide services if that deal were not going forward.

But if you have a deal going forward overseas and the question that the Eximbank answers is not whether someone in some other industry or any industry in the U.S. is going to be hurt, that deal is going to go forward.

The question is whether a U.S. manufacturer or other business is going to participate, whether U.S. workers will be able to work on the products and services that Eximbank would support.

And so this is really just about, from our perspective, being able to boost U.S. exports which is all—there is a huge amount of gain there. And we are growing exports, but we are not growing them fast enough.

Senator DONNELLY. Thank you.

And, Mr. Chairman, I would just like to say one more thing in the matter of setting the historical record straight, and that would be this—that last week General Motors held a $1.2 billion expansion in the Silverado and Sierra Truck plant in Ft. Wayne, that in Kokomo, Indiana, in 2009 we went from over 5,000 transmission workers to almost zero, and that today there are over 7,000 people building Chrysler transmissions, and on top of that that we had to build an extra plant to contain all the work. So that is a little bit of a historical correction as to what happened.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman and Ranking Member for having this hearing.

I am in the category of just trying to understand and to try to make a good decision on behalf of the people that I represent. You know, the context within which I look at this is, you know, with others on this Committee.

On one hand, I have led the charge to wind down Fannie and Freddie, you know, which have $5 trillion in mortgages, and to create a more dynamic system where you do not have two behemoths that basically dominate the housing industry. So that is one end of the spectrum.

On the other end, we have this entity that it is hard for me to determine, you know, exactly why there have not been greater reforms, and yet, I understand some of the things that Senator Donnelly is pointing out.

So let me just—Ms. Dempsey, if you would, on Boeing, since everybody wants to talk about Boeing—and I have nothing against Boeing. I like flying in the airplanes that they build.

But give me an example of a transaction where Boeing, which is a very sophisticated company, would be doing business with an entity. We mentioned that many of the entities are State-owned enterprises; in many cases, very wealthy countries that own these State-owned enterprises.

Give me an example of a transaction where Boeing really would be concerned about the credit on the other side of the deal and, therefore, would need to operate through the Bank in this way.

Ms. DEMPSEY. Thank you, Senator. I think that that is a great point to bring up here.

One of the things that I think gets misunderstood in this debate is it is not Boeing that is necessarily going out and saying, well, I need Eximbank. Our companies, whether it is a large company or a small company, they are getting demands from their customers about how that customer wants to purchase.

In the case of Boeing, you have two major wide-body aircraft producers in the world. One is here in the United States, supporting tens of thousands of small businesses——

Senator CORKER. Now, if you could—I have got 5 minutes—I want you to give me an example. I understand all that.

Ms. DEMPSEY. So you have a foreign airline that says: I want this type of financing. I know that the French and the Germans are going to finance the Airbus. Boeing, can you meet that? Can the Eximbank meet that?

Senator CORKER. So it is not that they are worried about the credit. It is that the Eximbank is able to give these companies—these countries, companies, State-owned enterprises—terms that are comparable to what Boeing's competition is using. Is that what you are saying?

Ms. DEMPSEY. Yes.

Senator CORKER. OK. You want to say something? Yes, ma'am.

Ms. DE RUGY. Yeah. I mean, this assumption is that the only—the driving factor for choosing a Boeing plane as opposed to an Airbus plane is the existence of credit subsidies.

I mean, it is worth noting that last year 90 percent of Boeing planes were sold without any export subsidies. In fact, it is a general rule.

According to GAO, 85 percent of all airplanes are sold without these types of export subsidies. We have ample examples.

I mean, there is no denying that the companies abroad, like Air Emirates or Ryanair, who are just like the top beneficiaries, foreign beneficiaries of Eximbank, they like getting cheap subsidies no matter how wealthy they are.

That being said, we have ample examples of these companies. In the same month for instance, Air Emirates in June 2012, bought Boeing planes with export subsidies, 2 of them at the same time they bought 4 Airbus planes without any subsidy, which says a lot about the banks' willingness to lend without export subsidy, the willingness of Air Emirates, and the ability for it to actually lend, and also the fact that it is not the primary and only deciding factor in buying a plane.

Senator CORKER. So, if I could—you all have been very fulsome in your answers, and we may want to follow up.

But so in that case—and I understand some of the smaller enterprises that Donnelly was talking about, that it would be difficult for them maybe to go to a sophisticated lender and deal with the $50,000 transaction; I got it.

But in this case it is really about they are dealing with other countries, and the other countries want, obviously, the best arrangement they can get. And so it gives Boeing, in those cases, a competitive, level playing field.

Ms. DEMPSEY. Level playing field.

Senator CORKER. All right. So let me ask you this: One of the things we have looked at in our office is Eximbank being truly the lender of last resort, which would do away with this whole scenario you are talking about because Boeing could get credit. It is just that they would not be as competitive without this type of credit.

But we have looked at the form that people fill out, and you know, you do not really have to be—Eximbank does not really have to be the lender of last resort. I mean, you are not like violating an oath when you fill this thing out. It is pretty loose.

Is there a way to truly make Eximbank for entities like Donnelly was talking about, an entity that deals with folks where they are the lender of last resort, and we did not have to worry about the level playing field issue?

Ms. DEMPSEY. I would say I hear from a lot of the small businesses that there is already a lot of paperwork; there is a lot of delay.

One of the things that we constantly have in the U.S. as a problem is our paperwork and delay, and because of that we sometimes lose the sale. So I think anything that one might consider on that you have to be careful.

But, lender of last resort? Does that mean that when, you know, Air Emirates wants to buy a plane, we are—you know. Perhaps there is credit available on the commercial market, but they are going to get a better deal out of Europe from Airbus, from their export credit agencies over there.

And I think, you know, people keep throwing around the word subsidy constantly. Where is this subsidy?

This is a Government entity that pays fully for itself with the fees and the interest it takes in. It raises those fees. It raises those interests.

And in the area of aircraft, the U.S. has led the industrialized world at the OECD to have a new aircraft sector understanding that has raised the interest rates on this to get rid of the market distortions.

Just saying it is a subsidy does not make it so.

Senator CORKER. Well, if I could, in closing, I think what some people may say is a subsidy is the true cost of Eximbank's capital is not calculated, and therefore, other private entities that might want to do that business are knocked out of that business. That might be the subsidy they are talking about.

But, thank you, sir.

Chairman SHELBY. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman.

The first thing I just want to point is it is always easy to talk about Boeing, but behind Boeing is a supply chain where very small manufacturers, very small businesses are also benefited kind of long-term, and those folks are deeply concerned about what is happening right now with the Eximbank.

In fact, most of the push that I get in North Dakota is coming from our very small businesses, whether it is a wheelchair manufacturer who said: Look, I have maximized my effect in the market today. I need to have access to the international market. I do not know about to do it.

And you say, we have got this great tool.

I think there is no question that small business is a huge beneficiary. Now in proportion to their position in terms of their contribution to gross domestic product, they might even be in excess of what you might see compared to multinational corporations.

So let's take a couple things off the table, and one of those is that there are somehow companies that have been disadvantaged, who are pounding the table. In fact, the testimony of one of the panelists raises the issue of a couple companies, both of which who are outrageous supporters of the Eximbank.

And so what we really have here is a philosophical difference. And we are hearing from people who represent an ideology that is free enterprise above all else, no interference at all of Government, and we are hearing from people who actually create jobs.

And the question is, are we going to listen to the ideology of, you know, get rid of all subsidies, which in a perfect world might make sense, when we are not operating in a global economy where we have institutions exactly like this pouring money into their export credit agencies?

And so we are not in a perfect world.

And so to me, today, what we need to do is we need to have a conversation with the people who are actually on the ground with American manufacturing.

And, Ms. Dempsey, I want to ask you about our current state of affairs, which is we are looking like we are going to, for the first time in 70 years, let the charter of the Bank expire. Expire this year. That is outrageous to me.

And I want you to tell me what the injury is to American manufacturers if we do that.

Ms. DEMPSEY. Thank you, Senator, and I could not agree more. You know.

Today starts the NAM manufacturing summit, and we have over 500 people who have flown in, and they are going to be talking to your offices and others about the Export-Import Bank and how critical it is.

This is an issue where my phone rings off, you know, the system because this——

Senator HEITKAMP. Not just calls from Boeing?

Ms. DEMPSEY. No. This is from small businesses. These are emails from small businesses about whether they are going to be able to continue to get, you know, assurances that they are going to get paid when they send their product overseas, that they are going to have the working capital so that they can pay their employees and export at the same time—something that commercial banks do not provide.

Senator HEITKAMP. Are they recounting to you the disruption that is happening as a result of this uncertainty, as a result of us not doing our job in a timely fashion?

Ms. DEMPSEY. There is a lot of harsh words, and there is a lot of uncertainty and fear.

One of the things we see is foreign competitors to our companies here in the United States using the fact that Export-Import Bank may shut down at the end of this month to tell foreign customers, hey, you cannot trust the Americans; you cannot necessarily be guaranteed that they are going to come through on this sale.

And there has been a lot of uncertainty for big sales but small sales. This will cost U.S. exports, make no mistake, and the jobs that they support.

Senator HEITKAMP. Currently, the last time I checked, there is $18 billion in the pipeline that will be stalled out if we do not do this. And so while we are arguing philosophically, the people you represent are trying to keep people working. They are trying to keep their product moving into a market where 95 percent of all consumers live outside this country.

I want to ask Mr. Murphy: When you try and explain the resistance to an entity that returns money to the Treasury, that actually supports American jobs, what argument do you provide for why we are stalling out?

Mr. MURPHY. Well, it is difficult to be able to explain that, I think, particularly with the small business users of the Bank. They are baffled by it.

I think that they are a very handful of three of four companies that have been identified across the country that do not support the Export-Import Bank, that have spoken out against it, including Delta, for instance.

But I work for the broadest business organization in the country, an underlying membership of three million companies of every size, sector and region. I cannot tell you how broad the support is for this and how difficult it is to explain what is going on.

Senator HEITKAMP. I think that is a point that we need to make, which is that this is not a 51–49 in your membership. This is hugely supported compared to everything else.

Mr. MURPHY. It is completely uncontroversial.

Senator HEITKAMP. Yes. And I guess I just want to make one final pitch, which is we have got to reauthorize the Eximbank before the end of the year, or before the end of this month, or else we have crated a huge disruption. We have done something again in this body and in this Congress that is so disruptive to the marketplace that it is unfathomable that we would risk these jobs.

And so I want to thank you for your testimony.

Mr. MURPHY. Senator, if I could just say briefly, thank you to you, Senator Donnelly, Senator Kirk, for your leadership on a bill to reauthorize the Bank.

Chairman SHELBY. Senator Kirk.

Senator KIRK. Thank you, Mr. Chairman.

I just want to show the Committee the sign that you see when you arrive at Beijing Airport. It says, "Welcome From the Export-Import Bank of China." It shows exactly what happens when we leave the battlefield to the other team.

I want to show you another picture of the C919. It is the competitor to the Boeing 737. This aircraft has now been booked 400 times over, representing billions in sales lost by the United States.

I would say if you represent the State of Illinois, as I do, you think about all the families that depend on Boeing and Caterpillar, Caterpillar being based in Peoria.

Mr. Chairman, I would definitely say that Eximbank plays in Peoria.

So let me ask Dempsey. I just want to go through the panel here.

For Mr. Ikenson, for your think tank, about how many people work there?

Mr. IKENSON. How many people are employed at Cato?

Senator KIRK. At Cato, yes. About 200?

Mr. IKENSON. Fewer. About 100 to 150.

Senator KIRK. And for Ms. Dempsey, you represent about 12 million Americans, right?

Ms. DEMPSEY. Manufacturers do throughout the—there are 12 million manufacturing workers throughout the American economy.

Senator KIRK. Well, let's just ask the panel. If you represent more than 10 million workers, raise your hand.

[Ms. Dempsey and Mr. Murphy indicating.]

Senator KIRK. So, Mr. Murphy, I do not know if you have got 10 million people at your firm there.

Mr. MURPHY. Well, the underlying membership of the Chamber, we estimate is——

Senator KIRK. It certainly would be.

Mr. MURPHY. ——more than 20 million workers at companies that are members of the Chamber.

Mr. STRAIN. I would like to think that I represent millions of Americans who love the free enterprise system, Senator.

Senator KIRK. I would say now when we look at the makeup of this panel it seems to be a lot of insider, Beltway folks who represent very tiny employer bases.

When you look at the entire employment base of the United States, for Eximbank, it supports about 46,000 jobs in the State of Illinois. For our State, which could ill afford to lose any more, this is the impact on the country.

We are under the logo of "ship goods, not jobs." For the United States, about 164,000 annual jobs supported by Eximbank, exports of $27.5 million.

In the case of Illinois, I have already talked about Peoria. Supporting jobs in Chicago and Burr Ridge and Lincolnshire and Moline and Decatur and Mount Prospect, I would say the impact is pretty huge in my State, right in the middle of the Heartland.

With that, I will yield back, Mr. Chairman.

Chairman SHELBY. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

You know, there has been a lot of talk about who is supported by the Export-Import Bank. And as you all know, under the terms of the congressional charter, Eximbank is supposed to focus on helping America's small businesses grow and export goods. In fact, by law, at least 20 percent of the Bank's spending each year must go directly to supporting small businesses.

Now in fiscal year 2014, the Eximbank met that target, but in the 3 previous fiscal years it did not. That means that small businesses in Massachusetts and across the country were not receiving the level of support that Congress explicitly requires the Bank to provide.

I am concerned about the Bank's performance in this area.

Mr. Murphy, I imagine that the Chamber of Commerce must be as well. After all, the Chamber often notes in its literature that it represents more than 3 million American businesses of which more than 96 percent are small businesses with fewer than 100 employees.

So I want to ask, Mr. Murphy: I know the Chamber supports the reauthorization of Eximbank; you have made that clear today. But given the Chamber's overwhelming small business membership, does the Chamber also support substantially raising the Bank's small business spending requirement from 20 percent to some higher number?

Mr. MURPHY. Well, thank you for the question, Senator.

Our small business members are very active in advocating for reauthorization of the Bank, and we have worked closely with the Bank to try and forge connections between its staff and the small business community so that companies that want to export can get their services.

It is—we kind of scratch our heads about the decline in support for small business. However, it does——

Senator WARREN. Well, Mr. Murphy.

Mr. MURPHY. Yes.

Senator WARREN. Let me just—since our time is limited here.

The question I am asking is whether or not you would support, you the Chamber of Commerce would support, increasing the statutory requirement for what——

Mr. MURPHY. No, we do not. We are——

Senator WARREN. The percentage goes to small businesses.

I am a little surprised by your answer. I would think that the Chamber would strongly support a change that would help more than 95 percent of your membership.

Mr. MURPHY. Our close interaction with the Bank has left me with the conviction that the Eximbank is doing everything it can to track down and find and identify small businesses that need its service.

Senator WARREN. So you are——

Mr. MURPHY. In many cases, they can find commercial banking services.

Senator WARREN. Well, then let me ask the question a slightly different way, Mr. Murphy. Would the Chamber support including a stronger enforcement mechanism so that the Bank would face some serious consequences if it did not reach the 20 percent target for small businesses?

Mr. MURPHY. I do not believe it is the sort of objective that should have some sort of a punishment as a result for failure to comply with it.

Senator WARREN. Well, I am talking about enforcement. You know, we ask them to do something. We direct them here in Congress to do something.

And we have talked about the history from the past 4 years. In three out of 4 years they have not met the objectives, and there evidently has been no consequence that comes from that.

You are supposed to be here, I thought you always say, representing small businesses, and I have just offered you two alternatives: Increase the percentage. Add some enforcement to it.

And you are telling me the Chamber is not interested in any of that?

Mr. MURPHY. And if I had a folder of examples of companies that were seeking Eximbank support so that they could grow their exports that were somehow unmet, then I would express it.

Senator WARREN. So you are telling me the Eximbank is not responsible for its inability to reach these small businesses?

Let me just ask you, Ms. Dempsey: How about you? I have the same question. Given the overwhelming number of small businesses that NAM claims to represent, would you support increasing their percentage, the percentage that Ex-Im is required to do for small businesses, above 20 percent?

Ms. DEMPSEY. Senator, we do not support increasing a mandate.

What we support is the types of tools and getting out the information. And like the Chamber, we work to connect Eximbank with small businesses.

But what we——

Senator WARREN. So I am sorry. Let me just make sure I am understanding. Are you supporting any change then in the authorization, an authorization that has been in place when Eximbank has failed to meet even the 20 percent standard?

Ms. DEMPSEY. In terms of the mandate, we are not seeking a change in that because what we want is for Eximbank to be more effective in that and just mandating a higher level is not going to succeed in that.

The U.S., as a Nation——

Senator WARREN. Well, then would you support greater enforcement mechanisms?

Ms. DEMPSEY. I just agree with focusing on this as enforcement.

The U.S., as a Nation, is much less export-intensive. People—our small businesses are very used to selling domestic——

Senator WARREN. Ms. Dempsey, if I could stop you there——

Ms. DEMPSEY. Sorry.

Senator WARREN. ——because my question is how—who it is that Eximbank is supposed to support, and you come in here and tell me it is supposed to support small businesses.

I believe that Eximbank helps create jobs in Massachusetts and across America, the kinds of good manufacturing jobs that we are losing to other countries far too often, and the Bank does that while consistently making money for taxpayers. I understand this point.

But I also believe there is significant room for improvement in the Bank's operations, including a commitment to make these loans more easily available for small businesses. More often than not, big businesses can find private funding options for their export deals, but that is not usually the case for small businesses.

I believe that we should push the Bank to do more for small businesses, and I would think the people who represent small businesses would be strong supporters of that.

And I believe we should hold the Eximbank accountable if it fails to reach those goals, and I would expect the Chamber and NAM to support that.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Cotton.

Senator COTTON. I just want to say for the record to the panel that I have been on the receiving end of Senator Warren's challenging questions before. She was my professor in law school. And you did a much better job handling her questions than I ever did when I was in law school.

We live in a globalized world. America is competing with—American companies are competing with companies around the world.

One argument you hear in favor of the Eximbank commonly is a reference to arms control language, that we cannot unilaterally disarm. Between the Europeans and the Chinese and the dozens of other export credit agencies around the world, it would be unwise for the United States to let the Eximbank unwind its operations and wind down.

Ms. de Rugy, could you respond to that argument with the strongest counterargument you have?

Ms. DE RUGY. So this argument assumption is that it would hurt the United States overall to disarm, to drop these export subsidies, and I think there is a pretty strong case to be made that it is not very clear-cut.

I mean, I think, as Dr. Strain has shown—I mean, there are ways in which actually this type of export subsidies are damaging to the economy as a whole.

Moreover, I think that what we should aspire to do if we want to promote export is to do it in a more general basis. And there are a lot of actually sound policies that we should be implementing rather than actually just targeting on special winners without considering the cost, such as, for instance, the reform of the corporate income tax, which is extremely punishing, especially for companies that are competing abroad.

Why don't we stop this type of targeted subsidies to a few and expand and implement policy that would benefit everyone, even the nonexporters?

Senator COTTON. Mr. Strain, do you have anything to add?

Mr. STRAIN. I do, Senator. I agree with that.

I think that the argument about unilateral disarmament is a strong argument that supporters of the Eximbank have. I think that the argument presupposes that the policies of the Eximbank are a net positive and are engaging in this battle, you know, in an effective way.

And I think that that really is not well-supported by the evidence. It very well could be the case that so-called unilateral disarmament actually is better for the United States as a whole even if it is worse for the, you know, particular companies that we have heard from, from the Chamber and from NAM.

And so I think we have to maintain some level of humility about what it is exactly that the Government is able to know will happen when an economic policy is put in place. We are talking about, essentially, a situation of concentrated benefits and diffuse costs, and we have heard quite a bit from the Chamber and from NAM about who benefits in a concentrated way.

And the question simply is, are the diffuse costs greater than the concentrated benefits? They are much harder to measure. It is much harder to know.

And I think that the weight of the evidence suggests that with export subsidies they probably are greater than the concentrated benefits. And so unilateral disarmament may be bad for these specific companies, but it may be good for the United States as a whole.

Senator COTTON. Ms. de Rugy.

Ms. DE RUGY. I am sorry; I forgot to add that it is worth pointing that it is not a majority of what Eximbank does. I mean, according to its own justification data, only 30—roughly a little over 30 percent of what Eximbank does is justified as countervailing export subsidies. So almost 70 percent of what Eximbank does has nothing to do with competing with export subsidies abroad.

Mr. STRAIN. And, Senator, if I could just add very quickly——

Senator COTTON. Actually, I would like to hear the other side.

Mr. Murphy.

Mr. MURPHY. So over the weekend I was reading Chairman Hochberg's testimony for the House Financial Services Committee, and he recounted how he was recently at a meeting of the 79 export credit agencies from around the world. Dozens of them explained how they plan to be expanding the export finance that they make available. Precisely, two said they intended in the years ahead to be cutting it; that was Austria and Norway. The Chinese were silent.

China has three, what they call, policy banks. One is China Eximbank. Two other banks provide similar levels of support.

There is a gusher of export credit agency support coming out around the world.

And in our experience, what we hear from our member companies time and again is that it can make a determination even in cases where it is not used, as a kind of deterrent effect. The fact that it could be used in some cases, it can turn the sale away from the American exporter to a competitor from abroad, and that is why we think we should not be the only country in the world not to have one of these agencies.

Senator COTTON. Ms. Dempsey, you look as if you wanted to add something.

Ms. DEMPSEY. You know, thank you. I totally agree.

I wanted to point out that when Dr. de Rugy was talking about that a certain percentage of Eximbank's transactions are not dealing with subsidies or dealing with market failures, in fact, yes, they are.

The pie chart that she put in her testimony—and I am happy to provide one as a follow-up—ignores the small business side, ignores the types of loans where the OECD says that Eximbank can only finance up to 85 percent, and so that other 15 percent is what is unaccounted for. Those loans, of course, would not happen but for Eximbank, and they are areas where there is market failure.

The U.S. has led the world in trying to eliminate market distortions in export credit. We have been pretty successful at the OECD in all—overall and then in sectors like aircraft and renewables and lots of other sectors.

We are having a hard time with the developing world. They are trying to increase, as Mr. Murphy explained. And, if the U.S. takes itself out, if we do not have an Export-Import Bank, what do we think is going to happen?

You do not know the theory of what is going to happen there?

What we are seeing on the ground is exactly what Mr. Murphy was saying. They are expanding. They want to grow their economies, and they want to grow it through exports. And they are going to go forward regardless. But it is probably going to get worse, and it is going to make it harder for manufacturers to be able to win these sales overseas.

Senator COTTON. If in a more perfect world the United States could actually persuade all of the countries around the world with the ECAs to eliminate theirs, would you then believe that we should eliminate the Eximbank?

Ms. DEMPSEY. As long as the market can deal with the issues that exporters in our country need.

Small businesses cannot use their exports as collateral when they are trying to get a loan from a commercial bank, and that means they are not—you know. We have got companies who mortgage their personal house.

We need to deal with that type of failure. We need to deal with commercial banks that are not able to do long-term loans or loans into emerging countries. So we have got those issues to deal with.

But, yes, if we can move to a system where we have—we discipline out these export credit agencies, let's go forward.

Senator COTTON. Thank you all.

Chairman SHELBY. A couple of observations.

In Senator Warren's question about reforming the Bank, both Mr. Murphy's and Ms. Dempsey's answers were troubling because you obviously like the status quo.

And in your answers, she gathered and I gathered that you are not representing small business; you are representing one or two big companies that are getting most of the business, using the Bank the most. That is troubling.

So if somebody wanted to reform the Bank, you all would be against it, basically, unless you could write the reform. That is one of the problems that the Bank has today.

That was not a question. That was a comment.

Some of our witnesses have referred to the arguments against the reauthorization of the Bank as economic theory whereas arguments in favor of the Bank are based on reality—quote.

Certainly, arguments in favor of the Bank benefit from real-world examples—we know that—whereas arguments against the Bank are more attenuated because the potential economic damage done by Government-backed lending is not easily measured, as one would expect, but that does not mean it does not exist.

Ms. Dempsey, does the National Association of Manufacturers reject all economic theory?

Ms. DEMPSEY. Of course not, Senator.

Chairman SHELBY. OK. In other words, you do not reject the theory that says Government-backed loan guarantees have negative as well as positive effects on American markets and manufacturers?

Ms. DEMPSEY. Well, Mr. Chairman, you know, we have not actually heard that complaint, as Mr. Ikenson and other panelists were detailing. That is not the complaint that we have actually heard from our businesses.

We like to ground our views and our policy, which are decided by our members, based on our members' experiences. And so something like the small business issue, I think we need to figure out why Eximbank is not getting more loans and services to small businesses before we, you know, dramatically increase mandates.

I will say as well, though, that the NAM supports the reform bills that have been introduced by Senators Heitkamp and Donnelly, by Senator Kirk, that includes some reform on small business as well.

Chairman SHELBY. Dr. Strain.

Mr. STRAIN. Well, I agree, Mr. Chairman, that if the point of the Eximbank is to help small businesses then presumably those who support the Eximbank should be in favor of increasing its assistance to small businesses. I think that is a fairly common-sensical view, and I think Senator Warren articulated it very well.

I think that with respect to defending economic theory, which I am happy to do, you know, sometimes it is very hard to measure things. We have a very big economy, a lot of moving parts.

It is very easy for politically connected organizations to come to Washington and to find organizations that will say, hey, you know, these policies help me; do not get rid of them.

And it is much harder for organizations and individuals that do not have those kinds of resources or who are injured in slightly—in slighter ways, in smaller ways, but when you aggregate all that up, you end up doing some damage to come and organize.

I think that the fact that the overwhelming majority of exports occur in this country without access to special export financing——

Chairman SHELBY. About 98 percent.

Mr. STRAIN. Something about 98 percent without access to export financing does cast doubt on predictions of horrible destruction and gloom and doom that will take place if that 2 percent of deals have to operate under the same circumstances as the other 98.

Chairman SHELBY. Senator Brown.

Senator BROWN. Two questions, Mr. Chairman. Thank you.

And thanks again for the patience of all of you.

And, again, thanks to Senator Heitkamp for her leadership on this, with Senator Kirk.

Ms. Dempsey, I want to ask you about the supply chain.

GE Aviation in Evendale, Ohio, provides engines for commercial and military aircraft. Some 7,500 employees in the Cincinnati area. They are also in Nela Park in Cleveland—electric lighting and many other—several other sites around.

We hear the Export-Import Bank largely benefits, we hear, eight or so large corporations.

Understanding GE has told me they have 19,000 suppliers in my State alone, and we are one of the GE States. But 19,000 suppliers in one State.

Talk about what—sort of dispel—take 90 seconds and dispel this myth that it is all about these 8 large companies.

Ms. DEMPSEY. Well, that is exactly right, Senator, and it is true. It is true with our biggest exporters. It is true with our medium-size exporters. But a company like Boeing or a company like GE that has tens of thousands of suppliers around the country, some of those are companies with 20 employees, with 50 employees.

One of our companies, Click Bond, is here this week as part of our NAM summit. They do not export directly. They provide to large capital equipment exporters. Their business grows when our exports, and that company's exports, are able to grow overseas.

This benefits all of those companies. It does not, as we have seen, you know, impact negatively others.

It creates more opportunity for manufacturers across all of the supply chains, whether you are primary metal or equipment, or you are tool and die. If you are talking capital equipment, power train, all of those items that go into a large piece of capital equipment overseas, they all benefit, and those benefits are around the country.

I will say one of the things that has been difficult is identifying those suppliers. We have a lot of companies. Until the last year and this debate really heated up and we really started spending a lot of time looking for them—they do not even know that their product is being exported overseas because they are sending on.

They might not even be a first-tier supplier to a Boeing or Eximbank, but they are benefiting; their employees are benefiting.

And we have seen, you know, real good growth in manufacturing in the United States, and we want to keep that going because those are really good, high-paying jobs in our country, and we want to continue growing them.

Senator BROWN. Thank you, Ms. Dempsey.

Before my last question, I would ask unanimous consent of the Chair that a statement from the Bankers Association for Finance and Trade and the Financial Services Roundtable be included in the Committee document.

Chairman SHELBY. Without objection, so ordered.

Senator BROWN. Thank you.

Mr. Murphy, some of the other witnesses argue that Ex-Im—crowds out was the term I think being used—crowds out private financing, but BAFT and FSR member banks offer financing through the working capital and credit insurance programs at Eximbank.

Would these banks use these programs if they could finance these transactions through other means?

Mr. MURPHY. I believe there is a real consensus in the commercial bank community that Eximbank does not crowd them out.

There was a recent letter that the Business Association for Finance and Trade and the Financial Services Roundtable sent to Congress that explained that Eximbank cannot be replaced solely by the private sector, and they explained balance sheets constraints arising from prudential capital and liquidity requirements, among other factors, along with institutional credit, country and counterparty limitations are among the factors that limit the ability of commercial banks to provide export finance.

So there is a niche for Eximbank.

And the fact that it finances, in fact, a small portion of American exports is not a problem; it is a virtue. It is a virtue that in the vast majority of cases commercial banks are able to provide this.

However, as I think we have outlined in great detail, there are particular circumstances for small business and specific industries, where in head-to-head competition or because of foreign buyers' requirements Eximbank is necessary.

Senator BROWN. Thank you. Thank you all.

Chairman SHELBY. Senator Rounds, do you have another question?

Senator ROUNDS. I do, Mr. Chairman.

It would appear to me in the discussion here that we all agree, or we appear to agree, that the Eximbank is a tool which is utilized.

It seems to be a question as to who utilizes the tool, but nonetheless, it is a tool which is utilized to compete with other similar types of entities throughout the world.

If that tool simply goes away, it would appear that we find our own people who are in the business of exporting to be a competitive disadvantage. I understand that the economics would suggest then that there are tradeoffs to that.

But I am just curious because it seems to me that if it is such a serious issue that it hurts our economy and, yet, it only accounts for 2 percent of the total amount of imports out there, it does not appear to have had a major impact on the rest of the economy. Nonetheless, for the organizations who are exporting, it is of critical importance, or at least that is what we are led to believe.

I am just curious. There were some items brought up here that I think kind of stick out.

Number one, we have heard that there is a subsidy in sort for, in particular, Boeing and other organizations, that in terms of competitive financing as provided by this particular bank that other banks cannot compete with.

I just—but I am also hearing that there has been an agreement internationally that there is not a competitive disadvantage provided by this particular bank and that it is a fair competition right now.

So there is not—from what I am hearing, there is not a competitive advantage for the interest rates being provided, but rather, because this is the way the other people who are accepting our exports, they are expecting as a part of business to have this tool available in some situations.

So what—when we get right down to it, what damage is this particular entity doing to our economy, and what is the cost that we are trying to avoid?

Sir?

Mr. MURPHY. In 2011 at the OECD, an agreement was reached on how export credit agencies, such as Eximbank, would provide support for wide-body aircraft. So, basically, Boeing and Airbus. That agreement obligated Eximbank to significantly raise the fees that it charges Boeing for its—to use its services.

That is—as a result of that, the interest rate implied there that Boeing is receiving is actually quite comparable to what is available on the public market.

However, there are many circumstances around the world that we continue to see where foreign airlines insist that official export credit agency support be part of any deal. They are in a position to demand it, and the competition is certainly prepared to show up with that support.

So, in a sense, this is a criticism in the past that was addressed.

Senator ROUNDS. OK. Let me just move on to just two other thoughts here.

We have just heard—and I want to just verify this one more time—that there are, right now, areas in which commercial banks are simply not able to utilize these exported products as collateral for loans. Could you get into that just a little bit for me, please?

Anyone of you is welcome to, I think.

Ms. DEMPSEY. So, you know, private lenders, private commercial lenders are prohibited from accepting export receivables as collateral.

Senator ROUNDS. Under existing U.S.——

Ms. DEMPSEY. Commercial. Financial. You know, the rules and regulations set by this Committee and beyond.

This restriction limits credit options, creates a market failure, especially for small businesses that do not have other collateral that they can use to guarantee that loan, and this is where Eximbank steps in with what is called its working capital loan.

Senator ROUNDS. OK. So then the last item is the discussion here about Eximbank and its operational capabilities and whether or not there ought to be additional items put on it.

I am of the opinion, starting out looking at this, that if you simply tell them they have got to increase the percentage, what you end up doing is either decreasing the total amount that they can lend in order to comply with a particular arbitrary number or there is a way around it by simply have more of the final product broken out into smaller businesses coming through. There are ways around it when they want to.

Are there issues within Eximbank that have to be looked at in terms of reforms that should be made to make it work better than it does today?

Ms. DEMPSEY. So I will say there are two bills that have been introduced in the Senate by Members of this Committee that have a number of reform provisions as part of that. Our organization supports moving forward on both or either of these bills. We want to see a long-term Eximbank.

There are certainly areas where Eximbank's services and operations can be improved, and there is a lot of——

Senator ROUNDS. What you are telling me is that none of you can look at it and say right now that there is a specific issue——

Ms. DEMPSEY. No.

Senator ROUNDS. ——which stands out that needs to be fixed at this time.

Ms. DEMPSEY. Not on that level. Not on the small business level.

I think the small business level is more a function of our economy and how companies operate. And they do not look abroad as much as they should. There are ways we can work on that, but I agree with you that just mandating a new cap for small business is not necessarily going to achieve that.

Chairman SHELBY. I think the doctor wants to comment on that.

Ms. DE RUGY. I think it is important to point out that the underlying assumption of this conversation is that without the export subsidies the sale would not happen.

Well, let's look at Boeing. Again, Boeing is a primary beneficiary, domestic beneficiary. There is a subsidy for the foreign companies abroad buying Boeing airplanes because they get really a preferential treatment with lower rates and better terms. That is where we call it a subsidy.

I mean, there is an advantage.

And I like Senator Donnelly's Bizarro superhero because, I mean, there was a time where the Democrats were actually very concerned about the Export-Import Bank not too long ago, in 2002, because of U.S. workers and because we were giving such an advantage to foreign companies who then compete.

But if this assumption that without Eximbank, right, planes would not be sold, then you would not actually see that 98 percent of Boeing planes are sold without a subsidy; you would not see that Air Emirates actually makes a decision to buy Airbus planes without any export subsidies.

I mean, the fact that companies demand it and like it, I mean, it is totally understandable. Wouldn't you want a cheap loan that reduced your financing costs? Of course, you would. Right?

But making it sound as if you take it away the business would disappear and everyone would be hurt—there is no doubt that it is possible that Boeing would sell fewer planes, but that the world would collapse or the sky would fall is just a wrong assumption.

Senator ROUNDS. Thank you.

Chairman SHELBY. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman.

Just a couple points because I think it is important that we kind of understand the reforms that are in the provisions that are in the Kirk-Heitkamp bill, but I do want to make the point following up on Senator Rounds' point.

It is always a little difficult for me when somebody comes with the argument, look how insignificant it is in the real world, 2 percent, and then says, but it is catastrophic to the free enterprise system. You know, those are just two really inconsistent notions and not particularly persuasive.

I want to run through some of the concerns that Senator Warren expressed.

The Kirk-Heitkamp bill actually does raise the target for small business from 20 percent to 25 percent and requires reporting. And we say target, and we understand that the more we can tell potential manufacturers and potential exporters about the resource so that they can, in fact, increase their exports.

And there are thousands of stories about the pickle lady who doubled her order of pickles because she all of a sudden found out that she could finance it through the Eximbank. And so we have got some great small business stories. I think we can build on those if we really make a concerted effort.

And, I look forward to hearing from Mr. Hochberg.

But as we look at kind of taxpayer protection and making sure, as Senator Corker talked about, eliminating or at least reducing the amount of exposure, there are a number of provisions in the Kirk-Heitkamp bill that basically allow for some restrictions, some backstops, and the one I am particularly interested in, which is a pilot program for reinsurance so that in fact the taxpayers are not backstopping at all, that we are actually looking in the private market for reinsurance.

So I guess my question is to Ms. Dempsey and Mr. Murphy. At this point, you have been fairly supportive of the Kirk-Heitkamp bill. Can you reinforce that today, that we are looking at a reform package?

It may not be things that you agree with, but you understand everything is a compromise and that you are in fact supporting these compromises.

Ms. DEMPSEY. The NAM strongly supports moving forward with the long-term Export-Import reauthorization, and the bill that you and Senator Kirk have introduced is going to do that, is going to keep the Eximbank functioning at an important level that is going to grow manufacturing in the United States.

Senator HEITKAMP. Mr. Murphy.

Mr. MURPHY. Similarly here, we have been pleased to express our support for the bill. There are a number of common-sense reforms included in it, relating to closer audit scrutiny and stronger supervision, a stronger board, that we think make a lot of sense going forward.

My comment earlier to Senator Warren, which was perhaps not captured fully, was I simply do not have on behalf of the Chamber's membership a compilation of pleas for support from small business to the Eximbank that have gone unanswered. My point is simply that the Eximbank has actually done a pretty good job in terms of outreach there and receiving those.

But, by all means, we appreciate the bill's contribution to moving forward, including in its outreach to small business.

Senator HEITKAMP. And we can continue and build on that outreach, and I think we will meet these targets if we make a concerted effort, whether it is the manufacturers or the chambers, if we are able to get reauthorization.

I just want to reiterate a point. You know, nothing like repetition in terms of communication. We are on track right now to allowing the charter of the Eximbank to expire and the disruption that we have, whether that is a short-term or long-term.

There are obviously people here in the Congress who want to put a stake through the heart of the Eximbank.

And I understand the other panelists. You know, the sky is not—you know, that the sky will not fall tomorrow if that happens.

But there is $18 billion of potential export investment that will go unanswered if we allow this to continue.

And so I just want to put in a plug for getting something done in June, getting something done long-term. We will live to fight this. Let's go with these reforms. See if they address some of the concerns.

And I just want to reiterate my support for my bill. Surprise, surprise.

Chairman SHELBY. Thank you, Senator.

Because a lot of people do not believe, Senator, with all due respect, that the Kirk-Heitkamp is a real reform bill. And it does not even have a sunset in it either, among other things, but that is neither here nor there.

We have a hearing on this on Thursday. We will have the head of the Bank to testify, and I am sure there will be a lot of interest in this.

I ask unanimous consent at this point to put four articles in the record. One is a *Washington Post* article that is called "A Bank with Congress in Its Pocket;" two, the *Wall Street Journal*, "The Bank to Nowhere;" three, the *Wall Street Journal* article, "The Peculiar Uses of a Taxpayer Bank;" and four, *Roll Call*, "What Happens if the Export-Import Bank Expires?"

Without objection, so ordered.

I thank all of you for your testimony here today and your patience in the interruption because of votes.

This Committee is adjourned.

[Whereupon, at 12:11 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF VERONIQUE DE RUGY

SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY

JUNE 2, 2015

Good morning Chairman Shelby, Ranking Member Brown, and Members of the Committee. Thank you for the opportunity to testify today on the important topic of the Export-Import Bank of the United States.

My name is Veronique de Rugy, and I am a senior research fellow at the Mercatus Center at George Mason University, where I study the U.S. economy, the Federal budget, homeland security, taxation, tax competition, and financial privacy.

We don't agree on much in Washington. In view of the all of the economic and social problems facing our Nation, we should agree that the Federal Government ought not direct our limited public resources to subsidies that benefit successful politically connected corporations at the expense of thousands of companies and millions of American workers who compete in the global marketplace without Government favors. This is why Congress should not reauthorize the Ex-Im Bank.

The policy debate surrounding the Ex-Im Bank has focused on maintaining the privileges long enjoyed by Boeing and a few other similar large corporations. It is vitally important, however, to recognize the many unseen costs of political privilege, whether it takes the form of market distortions, resource misallocation, destroyed potential, higher prices, or the competitive disadvantages imposed upon Main Street businesses that lack connections in Washington or access to press offices and lobbyists. These Main Street businesses matter, too.

Contrary to what you will hear from its supporters and beneficiaries, the Ex-Im Bank plays a marginal role in export financing—backing a mere 2 percent of U.S. exports each year. The vast majority of exporters secure financing from a wide variety of private banks and other financial institutions without Government interference or assistance. With U.S. exports hitting record high levels, it is obvious that such financing is abundant and Government assistance is superfluous.

Furthermore, letting the Ex-Im Bank's charter expire won't disturb existing deals. Failure to reauthorize will prevent the Ex-Im Bank from extending new loans, which would be a win for taxpayers who are ultimately on the hook for a total of $140 billion if bank reserves fail to cover defaults.

In this testimony, I would like to address the following points:

1. The Ex-Im Bank distorts the market by creating privilege, undermining the legitimacy of both Government and the market.
2. The Ex-Im Bank fails on its own grounds.
3. The Ex-Im Bank suffers from massive transparency issues.

1. The Ex-Im Bank: The Poster Child of Government-Created Privilege

There is abundant research about the negative effects of cronyism. For example, in a book called *The Pathology of Privilege: The Economic Consequences of Government Favoritism*, my colleague Matt Mitchell explained that "Whatever its guise, Government-granted privilege [to private businesses] is an extraordinarily destructive force. It misdirects resources, impedes genuine economic progress, breeds corruption, and undermines the legitimacy of both the Government and the private sector." [1]

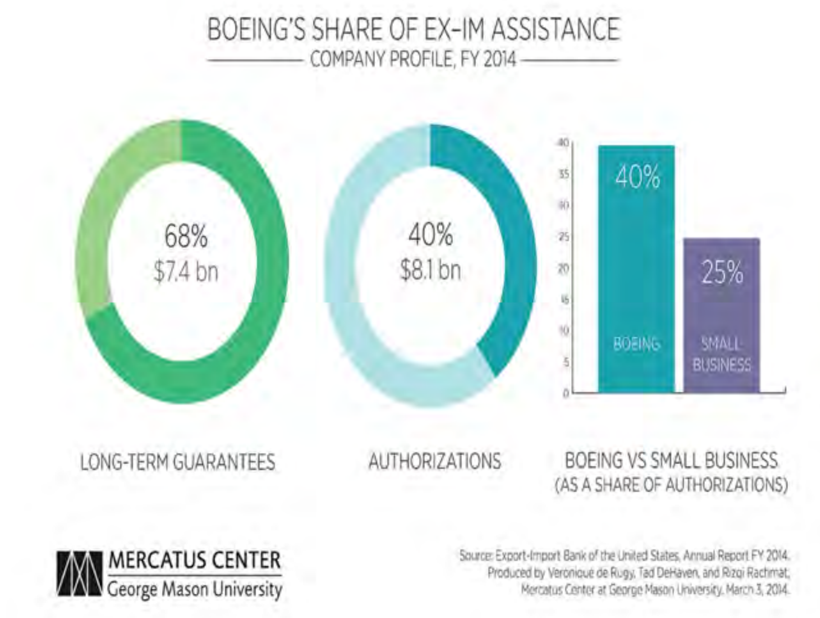
The Ex-Im Bank is one of those destructive Government-granted privileges. This shows up in two forms, one strikingly visible, and the other invisible. Among the top 10 domestic beneficiaries of the Ex-Im Bank is Boeing. At a 40 percent share of total Ex-Im Bank loan authorizations in 2014, Boeing dwarfs the 25 percent combined share of all small businesses. What we do not see are the higher costs borne by American exporters, due to the Ex-Im Bank being one of those destructive Government-granted privileges.

A. Government Privilege and "Boeing's Bank"

A look at the top 10 domestic beneficiaries for all Ex-Im Bank transactions between 2007 and 2014 shows that the Ex-Im Bank lives up to its nickname of "Boeing's Bank". The aviation giant, which has a market capitalization of $100 billion, is by far the biggest beneficiary of the Ex-Im Bank's largesse, which provides $66.7 billion in subsidized financing to foreign purchasers of Boeing planes. General Electric, a company with a market cap of $279 billion, also ranks among the biggest beneficiaries, with $8.3 billion in export assistance. The $2.2 billion in Ex-Im Bank

[1] Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism", Arlington, VA: Mercatus Center at George Mason University, 2014, 1–2, *http://mercatus.org/publication/pathology-privilege-economic-consequences-government-favoritism.*

financing that benefits Caterpillar, a company with a market cap of $54 billion, is boosted by the $2.7 billion loan guarantee to its subsidiary, Solar Turbine Inc. (also on the Top 10 list).



B. Big Buyers Go With Big Exporters

On the foreign side, things aren't much different—the subsidized financing largely benefits very large companies that either collect massive subsidies as State-controlled entities or could easily access private financing. The following table shows the top 10 foreign buyers, based on the total amount of financing authorized from FY2007 through FY2013.

Top Ten Primary Buyers of US Exports Subsidized by the Ex-Im Bank, 2007–2013

1	Pemex-Exploracion y Produccion	$7,206,653,106	Mexico	Oil & Gas
2	Ryanair Ltd.	$4,142,677,182	Ireland	Aviation
3	Emirates Airline	$3,392,703,744	United Arab Emirates	Aviation
4	Refineria de Cartagena S.A.	$3,215,335,836	Colombia	Oil & Gas
5	Esso Highlands Limited-Png Lng Project	$3,000,000,000	Papua New Guinea	Oil & Gas
6	Cathay Pacific Airways Ltd.	$2,952,460,537	Hong Kong	Aviation
7	Australia Pacific Lng Csg Processing Pty Ltd.	$2,865,507,940	Australia	Gas & Electric Utilities
8	Turk Hava Yollari A O (Turkish Airlines)	$2,538,244,371	Turkey	Aviation
9	Reliance Industries Ltd.	$2,400,000,000	India	Oil & Gas
10	National Aviation Company of India	$2,375,441,278	India	Aviation

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George Mason University

Source: US Export-Import Bank, https://eximuncensored.com, accessed March 11, 2015. Produced by Veronique de Rugy, Mercatus Center at George Mason University.

The number one buyer was the Mexican State-owned petroleum company, Pemex, which has a market cap of $416 billion but has somehow needed more than $7 billion in U.S. taxpayer-backed financing to facilitate deals with American exporters in recent years. Pemex, in fact, received some 30 percent of the more than $23 billion of Ex-Im Bank financing that flowed to foreign buyers in the oil and gas sector between 2007 and 2013. Overall, 21 percent of Ex-Im Bank financing went to this sector, a policy that seems at odds with the current Administration's less than favorable view of fossil fuels. In fact, the financing to foreign oil and gas firms exacerbates the regulatory burdens imposed by the Obama administration, which favors Ex-Im Bank reauthorization, on the domestic oil and gas industry.[2]

Other top buyers include foreign companies such as Emirates airline, which has benefited from $3.4 billion in U.S.-backed financing and proudly boasts on its Web site that it has "recorded an annual profit in every year since its third in operation."[3] Other foreign airlines also get cheap loans from the Ex-Im Bank, prompting charges of unfair competition. According to the lawsuit filed by Delta Airlines, along with the Airline Pilots Association, the unfair competition granted to Air India alone has resulted in the loss of some 7,500 U.S. airline jobs.[4]

These subsidies have prompted several American carriers and their employee unions to demand a rescission of the open-skies agreements[5] with several airlines charging that the subsidies constitute unfair competition, including interest-free

[2] Veronique de Rugy and Diane Katz, "The Export-Import Bank's Top Foreign Buyers", Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, April 2015, *http://mercatus.org/publication/export-import-bank-s-top-foreign-buyers.*

[3] "The Emirates Story", Emirates, *http://www.emirates.com/english/about/the__emirates__story.aspx.*

[4] "Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?" Hearing before the House Financial Services Committee (June 25, 2014) (testimony of Richard H. Anderson, Chief Executive Officer, Delta Air Lines), *http://financial-services.house.gov/calendar/eventsingle.aspx?EventID=385048.*

[5] The open-skies agreements promote "increased travel and trade" and enhanced productivity by "eliminating Government interference in the commercial decisions of air carriers about routes, capacity, and pricing, freeing carriers to provide more affordable, convenient, and efficient air service for consumers." See U.S. Department of State, Open Skies Agreements, *http://www.state.gov/e/eb/tra/ata/.*

loans, discounted airport charges, Government protection on fuel losses, and below-market labor costs.[6]

The subsidies are largely captured by large producers, domestic and foreign, and the subsidies result in a policy mix that is contradictory in the goals it seeks to achieve. But there is more to the story.

C. The Unseen and the Unconnected Victims

It is difficult, but extremely important, that we consider the unseen costs of political privilege. Ex-Im Bank supporters tout subsidized firms' successes, but they do not consider the unseen costs imposed on the other 98 percent of unsubsidized exports.

In these cases, it is firms' own Government—not a foreign Government—that puts them at a competitive disadvantage. That is, foreign firms are receiving subsidized financing, which lowers their cost of business. But their American counterparts are paying market rates for financing, which means their cost of business is higher. The Ex-Im Bank also gives lenders an incentive to shift resources away from unsubsidized projects and towards subsidized ones—regardless of the merits of each project.

These capital market distortions have ripple effects. Subsidized projects attract more private capital while other worthy projects are overlooked. The subsidized get richer while the unsubsidized get poorer—or go out of business.

Unfortunately, we will never see the businesses that could have been. Perhaps they would have been better, more efficient, or more responsible than politically connected firms. But we will never know as long as the Ex-Im Bank exists and continues to distort the market through privilege.

Visible and invisible, this is how the Ex-Im Bank has come to exemplify "the extraordinarily destructive force" of Government-granted privilege, in the words of my colleague Matt Mitchell.

2. The Ex-Im Bank: Not What It Is Made Out To Be

Some say that there are good reasons to continue the Ex-Im Bank's subsidies and Government privilege. They say that the Ex-Im Bank promotes U.S. exports and supports small businesses while leveling the playing field and filling an important "financing gap." They also claim that jobs would instantly disappear absent the Ex-Im Bank. But none of these arguments withstand scrutiny.

A. The Ex-Im Bank Can't Affect the Trade Balance Overall

Economists tend to be extremely suspicious of export-subsidy schemes like those provided by the Ex-Im Bank and their ability to meaningfully boost exports. Sallie James, trade policy analyst at the Cato Institute, notes, "Export promotion programs for certain goods—marketing programs for certain commodities, say—may have beneficial effects for that industry but cannot affect the trade balance overall."[7] The Government Accountability Office (GAO) stated, "Export promotion programs cannot produce a substantial change in the U.S. trade balance, because a country's trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners."[8]

The data confirms this point: the Ex-Im Bank backs less than 2 percent of U.S. exports each year. Considering who a vast majority of the buyers and sellers are, it is unreasonable to assume that these exports will disappear if the Ex-Im Bank vanishes.

Also, while there is no doubt that the selected exporters benefiting from the subsidies enjoy them, the impact on the overall economy should not be overlooked. A review of the academic literature on the topic suggests that in most cases export subsidies reduce the total income of the country paying the subsidies. In other words, the GDP of the country issuing the subsidies is very likely to be negatively affected. In all cases, export subsidies reduce worldwide income by increasing the

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[6] "Emirates, Qatar Airlines and Etihad Airways in Violation of U.S. Agreement?" *ETurbo News*, March 7, 2015, *http://www.eturbonews.com/56263/emirates-qatar-airlines-and-etihad-airways-violation-us-agreement.*

[7] Sallie James, "Time to X Out the Ex-Im Bank", Trade Policy Analysis No. 47, Cato Institute, Washington, DC, July 6, 2011, *http://www.cato.org/publications/trade-policy-analysis/time-x-out-exim-bank.*

[8] Allan I. Mendelowitz, "Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness", GAO/NSIAD-92-49, Washington, DC: Government Accountability Office, January 1992, *http://www.gao.gov/assets/220/215530.pdf.*

wealth of those, and only those, who are subsidized—at the expense of other exporters and taxpayers.[9]

Reforming the broader macroeconomic policies that are more likely to harm the U.S. trade position, such as the corporate income tax system, will help U.S. exports far more than anything the Ex-Im Bank could do.[10]

B. Jobs Will Not Vanish If the Ex-Im Bank Charter Expires

The Ex-Im Bank takes credit for supporting 164,000 jobs in 2014, but this number should be viewed with skepticism. In addition, economists have shown[11] that in most cases schemes like the Ex-Im Bank redistribute jobs from nonsubsidized industries to subsidized ones.[12]

Many in Congress, however, are still worried that letting the Ex-Im Bank charter expire will have an immediate impact on existing jobs supported by the Ex-Im Bank. They shouldn't worry because even if the Ex-Im Bank is not reauthorized, it will have to honor the loans it already extended to companies. An orderly wind down means that the Ex-Im Bank won't be able to extend new loans.

The biggest beneficiaries of the Ex-Im Bank know that their employees and their suppliers are perfectly safe in the event the charter is not reauthorized. That's because Boeing, Caterpillar, General Electric, and the like all have billions of dollars of backorders that will keep their workers busy for years to come.

Diane Katz and I have released new research that shows the companies' backlogs as reported in their latest annual reports.[13] Boeing Co. posted a "record" backlog of $441 billion (in 2013); General Electric Co. recorded a backlog of $261 billion (in 2014); Caterpillar Inc.'s backlog is $16.5 million (in the first quarter of 2015); and Bechtel Corp. posted a "strong" backlog of $70.5 billion (in 2014).

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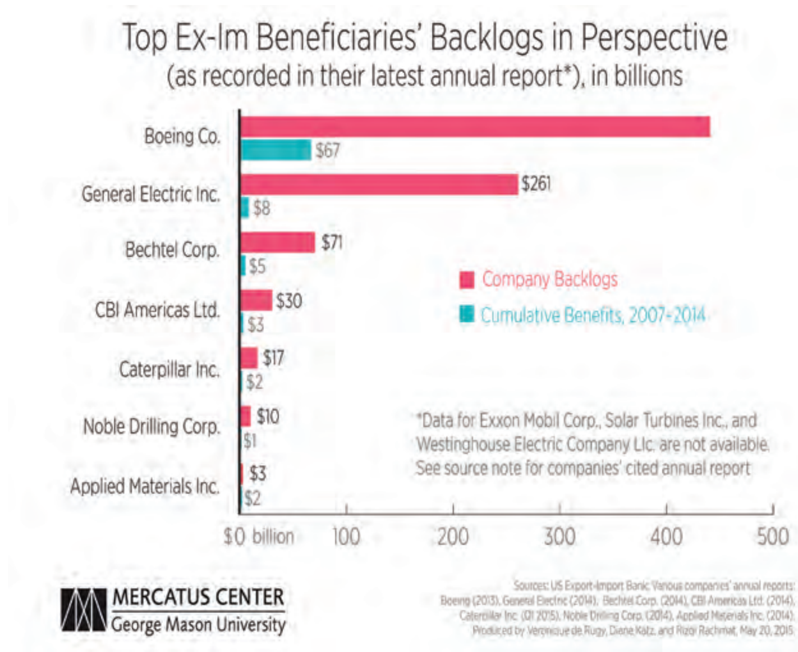
[9] Salim Furth, "The Export Import Bank: What the Scholarship Says", Backgrounder No. 2934, Heritage Foundation, Washington, DC, August 7, 2014, *http://www.heritage.org/research/reports/2014/08/the-export-import-bank-what-the-scholarship-says.*

[10] Veronique de Rugy, "The Right Way To Help Exporters: Kill Ex-Im, Reform the Corporate Income Tax", *The Corner, National Review Online*, April 30, 2014, *http://www.nationalreview.com/corner/376826/right-way-help-exporters-kill-ex-im-reform-corporate-income-tax-veronique-de-rugy.*

[11] Ike Brannon and Elizabeth Lowell, "Export-Import Bank: Obstacles and Options for Reform", Research, American Action Forum, Washington, DC, May 16, 2011, *http://americanactionforum.org/research/export-import-bank-obstacles-and-options-for-reform.*

[12] These increased costs and decreased profits manifest themselves through different channels: First, nonprivileged exporters lose when their competitors get help, and so do nonexporters. Second, anyone who competes with the privileged foreign buyers loses market share. Third, consumers trying to buy the good whose demand is artificially high must pay a higher price. Finally, anyone trying to obtain capital loses since the Ex-Im Bank subsidy raises the cost of capital for nonsubsidized firms, and lenders are likely to prioritize demand for capital from borrowers with a Government guarantee, independently of the merits of their projects. When the higher interest rates paid by the nonsubsidized firms are factored in, the net impact of the Ex-Im Bank is probably a net loss in terms of jobs and growth.

[13] Veronique de Rugy and Diane Katz, "Export Jobs Won't Disappear Absent Ex-Im Bank", Mercatus Center at George Mason University, May 21, 2015, *http://mercatus.org/publication/export-jobs-won-t-disappear-absent-ex-im-bank.*



This means that absent subsidies from the Ex-Im Bank, these corporations have production backlogs that will take years to fulfill—some with Ex-Im Bank financing in place and others without. Shutting down the Ex-Im Bank will not result in job losses—except, perhaps, among the ranks of lobbyists who are trying to scare members of Congress into maintaining this fount of corporate welfare.

C. The Ex-Im Bank Does Not Mostly Support Small Businesses

In recent years, the Ex-Im Bank has tried to recast its role away from export subsidies towards other priorities. For instance, Ex-Im Bank defenders argue that 90 percent of its deals benefit small firms. Of course, this shouldn't be a reason for renewing the Ex-Im Bank's charter, since its main function (export subsidies) is harmful to the U.S. economy.

In addition, the Ex-Im Bank's small business claim is dubious. By dollar value, in 2014, some 25 percent of the Ex-Im Bank's activities benefited small businesses (defined as a company with 1,500 employees or less than $21 million in annual revenues).

Also, even using the Ex-Im Bank's definition, the vast majority of U.S. small businesses—over 99.9 percent—receive no benefits from the Ex-Im Bank and are placed at a competitive disadvantage against large, subsidized competitors.

Finally, it is worth noting that the Ex-Im Bank has been caught mislabeling its data to make it look as if more lending has gone to benefit small businesses,[14] and it has been touting small business successes of companies that were large[15] or already successful before any involvement with the Ex-Im Bank.[16]

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[14] Howard Schneider and Krista Hughes, "U.S. Ex-Im Acknowledges Errors in Politically Sensitive Small Biz Data", *Reuters*, November 14, 2014, *http://www.reuters.com/article/2014/11/14/us-usa-trade-exim-idUSKCN0IY11Y20141114.*

[15] Diane Katz, "Ex-Im Misrepresents Subsidies to Prominent Billionaire", *Daily Signal*, May 1, 2015, *http://dailysignal.com/2015/05/01/ex-im-misrepresents-subsidies-to-prominent-billionaire/.*

[16] Diane Katz, "The Real Story Behind the Small Business the Export-Import Bank Claims It Built", *Daily Signal*, June 4, 2014, *http://dailysignal.com/2014/06/04/real-story-behind-small-business-ex-im-claims-built/.*

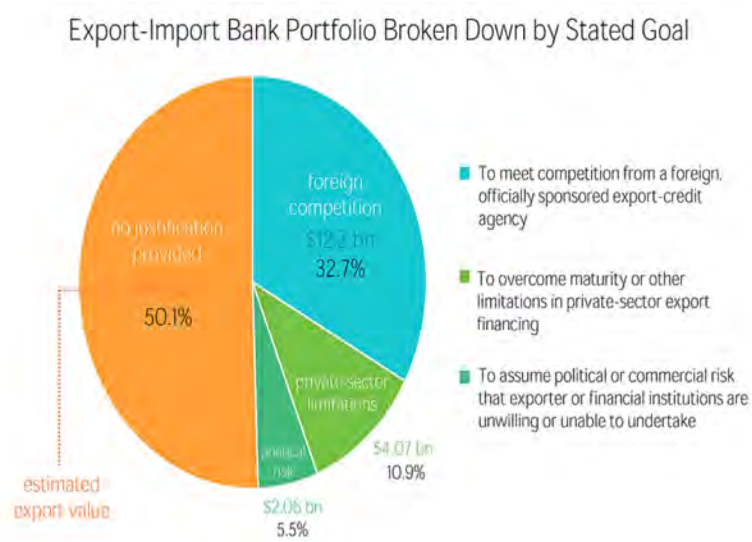
D. The Ex-Im Bank Is Not Really Leveling the Playing Field for U.S. Exporters or Filling a Financing Gap

A common argument about the Ex-Im Bank is that without the export subsidies, foreign companies would not purchase U.S. goods and would instead buy goods from companies whose countries offer such subsidies. For instance, without Ex-Im Bank, Emirates airline wouldn't buy any Boeing planes but would instead buy Airbus planes to benefit from European subsidies. Defenders of the Ex-Im Bank also claim that private lenders are unwilling to risk lending to foreign companies. In our example, it implies that lenders would only extend loans to Emirates to buy a plane if the U.S. Government or one of the three EU Governments offering export credits backs the deal.

This fear is reflected in the Ex-Im Bank charter. It spells out three criteria for Ex-Im Bank financing: (1) "to assume political or commercial risk that exporter and/or financial institutions are unwilling or unable to undertake"; (2) "to overcome maturity or other limitations in private-sector export financing"; or (3) "to meet competition from a foreign, officially sponsored export-credit agency."

However, the data demonstrate that there is a gap between what the Ex-Im Bank claims it should be doing and what it actually does. As a condition of its most recent reauthorization in 2012, Congress required the Ex-Im Bank to designate the purpose served for certain financing deals. While the bank still does not provide justifications for all transactions in its portfolio, its current charter compels it to provide at least some explanation by category for all loans and long-term loan guarantees in its annual report. [17]

The data show that less than one-third of the estimated export value of the Ex-Im Bank's portfolio is intended to counteract competitive disadvantages created by foreign Governments' own export subsidies. Moreover, more than 98 percent of U.S. exports occur without Government financing through the Ex-Im Bank, demonstrating that the Ex-Im Bank is not critical for helping U.S. exports thrive globally.



Source: *Annual Report 2013*, Export-Import Bank of the United States, accessed May 30, 2014.
Produced by Veronique de Rugy and Rizqi Rachmat, Mercatus Center at George Mason University.

As for the claim that the Ex-Im Bank fills an important "financing gap" by supporting U.S. exports, it is not supported by data. The Ex-Im Bank designates only

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[17] Export-Import Bank Reauthorization Act of 2012, Pub. L. No. 112–122, 108 Stat. 4376.

16.4 percent of its financing as necessary to address a lack of private capital.[18] That means that most of what the Ex-Im Bank does has nothing to do with "filling a financing gap."

What about the claim that foreign carriers will not purchase Boeing planes without subsidized financing from the United States and would instead buy Airbus planes with export credits from foreign Governments?

The reality is that there is no shortage of private capital to finance aircraft purchases, and airlines would continue to purchase Boeing products in the absence of Ex-Im Bank subsidies. In my recent paper with Diane Katz, we look at the example of Emirates airline. The UAE State-owned company is the second biggest recipient of Ex-Im Bank financing. We write:[19]

> In June 2012, Emirates bought two Boeing 777s using Ex-Im Bank financing, and four Airbus A380s using private financing.[20] Obviously, the State-controlled airline could afford to buy planes without subsidies, and subsidies are not the only factor in the carrier's choice of aircraft.

This is consistent with the results of a study by the GAO that found 85 percent of Boeing and Airbus large-aircraft deliveries were not subsidized by export-credit agencies.[21]

3. The Ex-Im Bank Is Suffering From Massive Transparency Issues

Scholars have been critiquing the poor quality of the Ex-Im Bank data for years. A 2014 report by the American Action Forum notes: "There continues to be areas needing additional transparency. For instance, publicly available data on program authorizations can often be incomplete and inadequate."[22]

My own research has documented in detail that the dataset stored at Data.gov, a Federal Web site launched in 2009, was spotty and incomplete—the GAO and the Ex-Im Bank's own inspector general have repeatedly found that the agency's recordkeeping is subpar and needs improvement. The dataset available at Data.gov is missing a great deal of information, and it is common to find beneficiaries marked as "unknown" or "various U.S. companies". It is also common to find the names of companies misspelled or identified differently on different forms, which makes working with the numbers even harder.

Let me illustrate how that should present a major problem for Congress. The Ex-Im Bank isn't allowed to lend money to customers in certain countries, such as North Korea, Libya, and Iran. Russia was added to the list last year. But in order to know whether the Ex-Im Bank is actually complying with these restrictions and limitations, we need to be able to check its data. Unfortunately, as I have mentioned before, the Ex-Im Bank's data, when available, are a mess. So much of the data are labeled "unknown" and "various countries" that it is hard for Congress to utilize the Ex-Im Bank's data for proper oversight.

The following chart displays the top foreign buyers of exports financed by the Ex-Im Bank from 2007 to 2013. (We had to use the old dataset that used to be on Data.gov but was one day mysteriously removed and later replaced with an abridged dataset that did not list critical fields such as "Primary Buyer.") This chart shows the total dollar amount of deals financed by the Ex-Im Bank in which the Primary Buyer is marked as "unknown" or "various" in data made available to the public—33 percent of buyers by dollar value are not named.

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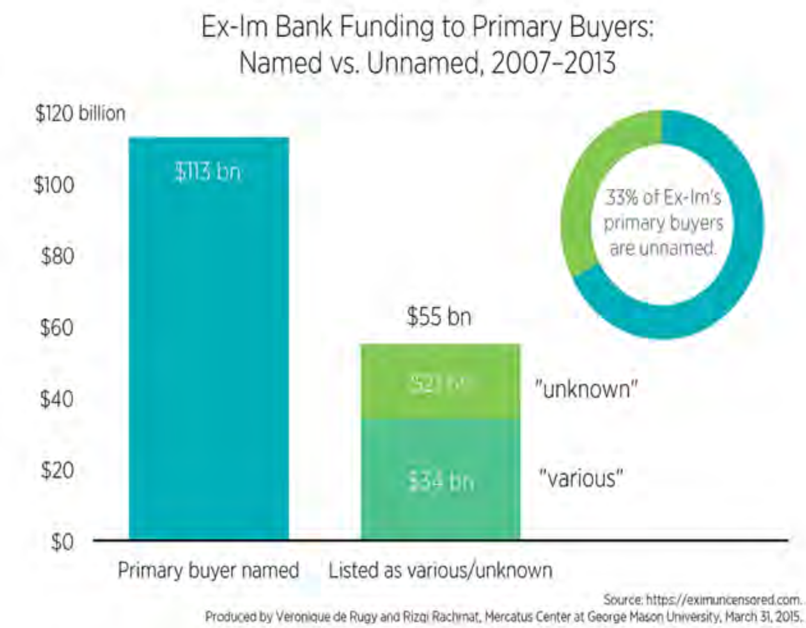
[18] Veronique de Rugy and Rizqi Razmat, "Export-Import Bank Portfolio Broken Down by Stated Goal", Mercatus Center at George Mason University, *http://mercatus.org/sites/default/files/C1-Prop-Export-Value-large.jpeg.*

[19] De Rugy and Katz, "The Export-Import Bank's Top Foreign Buyers".

[20] "Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?" Hearing before the House Financial Services Committee (June 25, 2014) (testimony of Richard H. Anderson, Chief Executive Officer, Delta Air Lines) *http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=385048.*

[21] Government Accountability Office, "Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets", July 8, 2014, *http://www.gao.gov/assets/670/664679.pdf.*

[22] Andy Winkler, Douglas Holtz-Eakin, "Reauthorizing the Export-Import Bank: A Policy Evaluation", Research, American Action Forum, Washington, DC, May 20, 2014, *http://americanactionforum.org/research/reauthorizing-the-export-import-bank-a-policy-evaluation.*



How do we know that some Ex-Im Bank loans didn't go to companies in restricted countries if we don't know which companies are getting loans? In some cases, the dataset shows the name of a country associated with the unknown deal. But how can we be sure that it is actually accurate without the name of the company?

I would like to trust the Ex-Im Bank, but it is hard to in light of how it has intentionally mislabeled its data to make it look as if more lending was going to benefit small businesses than actually was; how it has employees being investigated for taking bribes in exchange for loans; and how it indulged in collusion with top corporate executives at Boeing by asking for input on bank policies that could benefit their firm.[23] Even without the Ex-Im Bank's past missteps, it's hard to see why we should trust it when it does not even release accurate data.

Conclusion

Beyond its operational lapses and its economic inefficiency, the problem with the Ex-Im Bank is that the many groups who its activities affect are people who don't have connections, lobbyists, and press offices in Washington. These unseen victims matter, too.

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[23] Brody Mullins, "Boeing Helped Craft Own Loan Rule", *Wall Street Journal,* March 12, 2015, *http://www.wsj.com/articles/boeing-helped-craft-own-loan-rule-1426203934.*

The Export-Import Bank's Top Foreign Buyers

Veronique de Rugy and Diane Katz

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Veronique de Rugy and Diane Katz. "The Export-Import Bank's Top Foreign Buyers." Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, April 2015.

ABSTRACT

Ex-Im Bank advocates emphasize its importance to small businesses and economic growth. A new analysis of government data reveals that Ex-Im Bank's top 10 overseas buyers are large corporations that primarily purchase exports from multinational conglomerates. Ex-Im Bank's small business narrative is challenged by the fact that the buyers receiving the most subsidies are—like the exporters—major corporations. If lawmakers truly want to nurture small businesses and economic growth, they should end the Ex-Im Bank favoritism that undermines domestic companies and focus instead on reducing the tax and regulatory barriers that choke investment, innovation, and job creation.

JEL codes: F1, F13, F3, F340

Keywords: Export-Import Bank, export credit subsidies, international trade, exports, protectionism, mercantilism, policy, corporatism

Release: April 2015

In lobbying for reauthorization of the Export-Import Bank of the United States (Ex-Im Bank), advocates emphasize its importance to small businesses and economic growth. As they tell it, taxpayer subsidies to foreign firms for the purchase of American exports grow Main Street businesses and create jobs. But the reality is quite different. A new analysis of government data reveals that Ex-Im Bank's top 10 overseas buyers[1] are large corporations that primarily purchase exports from multinational conglomerates. Furthermore, the subsidies lavished on these foreign firms actually undercut American companies and workers that must compete without such government assistance.

The numerous problems with Ex-Im Bank have been analyzed in a significant body of research.[2] For instance, previous research has documented that Ex-Im Bank financing principally benefits very large exporters.[3] This new analysis reveals that the primary beneficiaries on the buyer side of the transactions are also very large firms. Among the top 10 buyers, 5 are state-controlled and rake in millions of dollars from their own governments in addition to Ex-Im Bank subsidies. These multiple-subsidy streams offset operating costs, and provide a significant competitive advantage over unsubsidized US firms engaged in similar ventures.

1. Defined as firms that received the largest amount of Ex-Im financing between 2007 and 2013.
2. Diane Katz, "U.S. Export–Import Bank: Corporate Welfare on the Backs of Taxpayers" (Issue Brief No. 4198, Heritage Foundation, Washington, DC, April 11, 2014), http://thf_media.s3.amazonaws.com/2014/pdf/IB4198.pdf; Veronique de Rugy and Andrea Castillo, "The US Export-Import Bank: A Review of The Debate Over Reauthorization" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, July 16, 2014), http://mercatus.org/publication/us-export-import-bank-review-debate-over-reauthorization; Sallie James, "Time to X Out The Ex-Im Bank" (Trade Policy Analysis No. 47, Cato Institute, Washington, DC, July 6, 2011), http://www.cato.org/publications/trade-policy-analysis/time-x-out-exim-bank.
3. Katz, "U.S. Export–Import Bank: Corporate Welfare," and Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, April 29, 2014), http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.

Five of the top 10 buyers are involved in the exploration, development, and production of oil or natural gas. These foreign concerns are collecting subsidies from American taxpayers at the same time that the Obama administration is restricting domestic oil and gas operations.[4] Consequently, the federal government doubly disadvantages US energy firms—through Washington's excessive regulation and Ex-Im Bank subsidies granted to US firms' foreign competitors.

"Ex-Im Bank subsidies are a form of corporate welfare that is neither necessary nor appropriate."

The other five top buyers are airlines that collectively have received more than $15 billion in Ex-Im Bank subsidies in the past seven years solely to purchase products from Boeing—the single largest US beneficiary of Ex-Im Bank financing.[5] The bank's subsidization of foreign airlines has tripled since 2008, significantly increasing competitive pressure on domestic carriers.[6] In reality, Ex-Im Bank subsidies are a form of corporate welfare that is neither necessary nor appropriate.[7] If lawmakers truly want to nurture small businesses and economic growth, they should end the Ex-Im Bank favoritism that undermines domestic companies and focus instead on reducing the tax and regulatory barriers that choke investment, innovation, and job creation.[8]

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4. Nicolas D. Loris, "Ending Ex–Im Would Remove Wasteful Energy Subsidies" (Issue Brief No. 4229, Heritage Foundation, Washington, DC, May 28, 2014), http://thf_media.s3.amazonaws.com/2014/pdf/IB4229.pdf.
5. Veronique de Rugy, "Export-Import Is Still Boeing's Bank" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, March 3, 2015), http://mercatus.org/publication/export-import-still-boeing-s-bank.
6. Richard B. Hirst, "Delta Air Lines Responds to Import-Export Bank Post," *Forbes*, May 7, 2013, http://www.forbes.com/sites/danbigman/2013/05/07/delta-air-lines-responds-to-import-export-bank-post/.
7. Weeks before he was elected president, then-Senator Obama characterized Ex-Im Bank as "little more than a fund for corporate welfare." Zachary Goldfarb, "Candidate Obama, echoing tea party, called Ex-Im 'little more than a fund for corporate welfare,'" *Wonkblog*, *Washington Post*, June 26, 2014, http://www.washingtonpost.com/blogs/wonkblog/wp/2014/06/26/candidate-obama-echoing-tea-party-called-ex-im-bank-little-more-than-a-fund-for-corporate-welfare/.
8. For instance, the US has the highest corporate income tax in the world, Veronique de Rugy, "Corporate Income Tax Rates in the OECD," Mercatus Center at George Mason University, April 1, 2014, http://mercatus.org/pub-

A DEPRESSION-ERA RELIC

The Export-Import Bank was incorporated in 1934 by President Franklin D. Roosevelt to finance trade with the Soviet Union. Congress later constituted the bank as an independent agency under the Export-Import Bank Act of 1945. The most recent authorization of the Ex-Im Bank was set to expire on September 30, 2014, but lawmakers extended the charter until June 30, 2015.[9]

The bank provides loans and loan guarantees as well as capital and credit insurance to "facilitate" US exports. The financing is backed by the "full faith and credit" of the US government, which means taxpayers are on the hook for losses that bank reserves fail to cover. Ex-Im Bank's current exposure exceeds $140 billion.

President Roosevelt's executive order authorizing the bank called for "remov[ing] obstacles to the free flow of interstate and foreign commerce" and "promoting the fullest possible utilization of the present productive capacities of industries."[10] In decades past, political and economic turmoil around the world did present barriers to international trade. But successive rounds of global trade negotiations, starting with the first General Agreement on Tariffs and Trade in 1947, and culminating in the establishment of the World Trade Organization in 1995, have secured massive lowering of such barriers. When Ex-Im Bank was created in 1934, the average tariff on dutiable imports was 46.7 percent. Now, it is below 5 percent.[11]

Not surprisingly, international trade has boomed as global trade barriers have shrunk. American businesses have benefitted from this, exporting $2.35 trillion worth of goods and services in 2014, hitting a record high for the fifth consecutive year.[12] Ex-Im Bank plays a marginal role, assisting in only 2 percent of total US exports. The export picture would look almost the same without Ex-Im Bank because export credit subsidies only rearrange the distribution of exports, rather than raising the net level of exports overall.[13]

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lication/corporate-income-tax-rates-oecd.

9. This nine-month extension was granted in lieu of a five-year reauthorization sought by bank advocates and the Obama administration.

10. Export-Import Bank, 80th Anniversary News Release, February 12, 2014, http://www.exim.gov/about/whoweare/anniversary/index.cfm.

11. US Tariff Rates: Ratio of Import Duties to Values: 1821-1996, http://www.econdataus.com/tariffs.html.

12. US Department of Commerce, "US Exports Hit Record High for the Fifth Straight Year," February 5, 2015, http://www.commerce.gov/news/blog/2015/02/us-exports-hit-record-high-fifth-straight-year.

13. Donald Boudreaux, "The Seen and the Unseen 101," *Café Hayek*, August 22, 2009, http://cafehayek.com/2009/08/seen-and-unseen-101.html.

THE SMALL BUSINESS NARRATIVE

It would be difficult to convince Congress or the public that Ex-Im Bank is needed based on the argument that titans of industry cannot manage to access private export financing, especially when 98 percent of all US exports have access to such funding. Consequently, Ex-Im Bank proponents are marketing the bank as the salvation of small business. In venues both public and private, Ex-Im Bank President Fred Hochberg and his allies repeatedly claim that small businesses are "the core" of Ex-Im Bank's mission.[14]

In reality, Ex-Im Bank dedicates 80 percent of its financing to large firms, and the 20 percent of small businesses that do benefit represent just one-half of 1 percent of all American small businesses.[15] Even that fraction is artificially inflated by the bank's expansive definition of small, which includes firms with as many as 1,500 workers, as well as companies with revenues of up to $21.5 million annually.[16] Most federal agencies, such as the Federal Reserve and the US Census Bureau, define small businesses as firms with up to 500 employees and $7.5 million in revenues. However, the Obama administration grants a small business exemption under Affordable Care Act requirements only for firms with no more than 50 employees.

In contrast, just 10 corporations were the beneficiaries of 64 percent of bank subsidies in 2013, including Boeing (30 percent), General Electric (9.5 percent), Bechtel (6.6 percent), and Caterpillar (4.9 percent). This lopsided largesse is an example of cronyism at its worst.[17]

A recent investigation by the Reuters news agency further undercuts bank advocates' claims. According to Reuters, potentially hundreds of subsidy beneficiaries categorized as "small business" are actually large enterprises or units of multinational conglomerates.[18] The news agency determined

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14. *Examining Allegations of Corruption at the Export-Import Bank, Hearing before the House Committee on Oversight and Government Reform, Subcommittee on Economic Growth, Job Creation, and Regulatory Affairs* (July 29, 2014) (written testimony of Fred P. Hochberg, President and Chairman, Export-Import Bank of the United States), http://oversight.house.gov/hearing/examining-allegations-corruption-export-import-bank/.
15. Veronique de Rugy, "The Export-Import Bank Assists a Tiny Portion of All US Small Business Jobs and Firms," Mercatus Center at George Mason University, July 21, 2014, http://mercatus.org/publication/export-import-bank-assists-tiny-portion-all-us-small-business-jobs-and-firms.
16. Export-Import Bank of the United States, Small Business Defined, http://www.exim.gov/small-business/policies/Small-Business-Defined.cfm.
17. Veronique de Rugy, "Public Data Suggest Ex-Im Bank Is Not for Everyone," Mercatus Center at George Mason University, September 30, 2014, http://mercatus.org/publication/public-data-suggest-ex-im-bank-not-everyone.
18. Howard Schneider and Krista Hughes, "US Ex-Im acknowledges errors in politically sensitive small biz data," *Reuters*, November 14, 2014, http://www.reuters.com/article/2014/11/14/us-usa-trade-exim-idUSKCN0IY1IY20141114.

that companies owned by billionaires such as Warren Buffett and Mexico's Carlos Slim, as well as by Japanese and European conglomerates, were listed by Ex-Im Bank as small businesses. So, too, were Austria's Swarovski jewelers, North Carolina's Global Nuclear Fuel (owned by General Electric) and Japan's Toshiba and Hitachi. The bank's list of small businesses in Texas includes engineering giant Bechtel, which has 53,000 employees.

BIG BUYERS GO WITH BIG EXPORTERS

Ex-Im Bank's small business narrative is further challenged by the fact that the buyers receiving the most subsidies are—like the exporters—major corporations, as the table below documents.

Top Ten Primary Buyers of US Exports
Subsidized by the Ex-Im Bank, 2007–2013

1	Pemex-Exploracion y Produccion	$7,206,653,106	Mexico	Oil & Gas
2	Ryanair Ltd.	$4,142,677,182	Ireland	Aviation
3	Emirates Airline	$3,392,703,744	United Arab Emirates	Aviation
4	Refineria de Cartagena S.A.	$3,215,335,836	Colombia	Oil & Gas
5	Esso Highlands Limited-Png Lng Project	$3,000,000,000	Papua New Guinea	Oil & Gas
6	Cathay Pacific Airways Ltd.	$2,952,460,537	Hong Kong	Aviation
7	Australia Pacific Lng Csg Processing Pty Ltd.	$2,865,507,940	Australia	Gas & Electric Utilities
8	Turk Hava Yollari A O (Turkish Airlines)	$2,538,244,371	Turkey	Aviation
9	Reliance Industries Ltd.	$2,400,000,000	India	Oil & Gas
10	National Aviation Company of India	$2,375,441,278	India	Aviation

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Source: US Export-Import Bank, https://eximuncensored.com, accessed March 11, 2015.
Produced by Veronique de Rugy, Mercatus Center at George Mason University.

Ranking highest is Pemex Exploración y Producción (Pemex), which garnered more than $7.2 billion in bank financing from 2007 through 2013.[19] Pemex is a Mexican state-owned producer of crude oil and natural gas with a market capitalization (total dollar market value of the shares outstanding of a publicly traded company) of $416 billion. Ex-Im Bank financing has included $1.9 billion for Pemex to purchase oil and gas field machinery from Solar Turbines Inc., a subsidiary of Caterpillar (market cap. $47.7 billion); $1.4 billion for Pemex to purchase drilling services from Noble Drilling Corp. (market cap. $3.3 billion); and $800 million for Pemex to buy machinery from Halliburton Energy Services, Inc., a division of Halliburton Company (market cap. $34 billion).

Four of the other top 10 buyers are also engaged in upstream fossil fuel activities:

- Esso Highlands Ltd. has received $3 billion in Ex-Im Bank financing to develop the natural gas resources of Papua New Guinea. Esso used the subsidies to purchase "facilities support management" from its own parent firm, Exxon Mobil Corp. (market cap. $355 billion).
- Reliance Industries Ltd., a Fortune Global 500 company, is the largest private sector company in India. It received $2 billion in Ex-Im Bank financing to purchase machinery from General Electric Energy Management, a division of General Electric (market cap. $254 billion), and $400 million to purchase engineering services from Bechtel Power Corp. Forbes ranks parent company Bechtel Corp. as America's fourth-largest private company, with 53,000 employees and more than $39 billion in annual revenue.
- Australia Pacific LNG is a joint venture involving Origin Energy Ltd., the largest integrated energy company in Australia and New Zealand; ConocoPhillips Co., a multinational energy company with assets and operations in nearly 40 countries; and Sinopec Group, one of China's largest petroleum products suppliers. The project has received more than $2.8 billion in Ex-Im Bank financing to purchase engineering services from Bechtel Power Corp. (See above.)
- Refineria de Cartagena S.A. is a Columbian refinery that produces propylene, gasoline and naphtha, diesel, turbo fuel, fuel oil, aromatic tar, sulfur,

19. Data for 2014 was stripped from the Internet by the bank without a credible explanation. See Veronique de Rugy, "Ex-Im Says They Took Down All Their Public Data Just to Reformat It, But the Reformatted Data Is Still Missing Crucial Info," *National Review Online*, February 25, 2015, http://www.nationalreview.com/corner/414317/ex-im-says-they-took-down-all-their-public-data-just-reformat-it-reformatted-data-still.

and liquefied petroleum gas. The company is a subsidiary of Ecopetrol S.A., a state-owned enterprise and Columbia's largest corporation. It has received more than $3.2 billion in Ex-Im Bank financing to purchase engineering services from CBI Americas Ltd. (market cap. $5 billion).

Overall, 21 percent of Ex-Im Bank financing from 2007 to 2013 went to 90 foreign buyers in the oil and gas sector—for a total of $23.2 billion. Pemex collected 30 percent of those authorizations.

Ex-Im Bank's lavish funding for foreign fossil-fuel projects contrasts sharply with the barriers to domestic operations erected by the Obama administration. For example, the president vetoed last month a bill to approve construction of the Keystone XL Pipeline. He also has banned resource development on vast tracts of public land, including 12.2 million acres in the Arctic

Top Ten Primary Buyers of US Exports in Aviation
Subsidized by the Ex-Im Bank, 2007-2013

1	Ryanair Ltd.	$4,142,677,182	Ireland
2	Emirates Airline	$3,392,703,744	United Arab Emirates
3	Cathay Pacific Airways Ltd.	$2,952,460,537	Hong Kong
4	Turk Hava Yollari A O (Turkish Airline)	$2,538,244,371	Turkey
5	National Aviation Company of India	$2,375,441,278	India
6	Korean Air Lines	$2,282,102,191	South Korea
7	Lan Airlines S.A.	$2,131,925,809	Chile
8	Ethiopian Airlines Enterprise Sc	$1,934,729,340	Ethiopia
9	Air China	$1,808,791,718	China
10	Boc Aviation Pte. Ltd.	$1,545,078,561	Singapore

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Source: US Export-Import Bank, https://eximuncensored.com, accessed Mar. 11, 2015
Produced by Veronique de Rugy, Mercatus Center at George Mason University

National Wildlife Refuge and half of Alaska's 23.5-million-acre National Petroleum Reserve. The Environmental Protection Agency, for its part, unveiled in January regulations to further restrict emissions of methane—a primary component of natural gas—by 40–45 percent by 2025.

"Ex-Im Bank's lavish funding for foreign fossil-fuel projects contrasts sharply with the barriers to domestic operations erected by the Obama administration."

The single largest share of Ex-Im Bank subsidies—51 percent—goes to aviation. Between 2007 and 2013, a total of $57.4 billion went to 191 airlines. It is no surprise, then, that 5 of the top 10 buyers subsidized by the bank are airlines. As the table below indicates, the five received more than $15.6 billion—all of which subsidized the purchase of Boeing products. This flood of discount financing, in addition to other subsidies flowing to the state-owned carriers, has undercut US airlines.

Ex-Im Bank advocates claim that foreign carriers will not purchase Boeing planes without subsidized financing from the United States and would instead buy Airbus planes with export credits from foreign governments. They also claim that private lenders are unwilling to risk lending to foreign airlines. The evidence, however, does not support this position. Ex-Im Bank designates only 16.4 percent of its financing as necessary to address a lack of private capital.[20] Only 32.7 percent is categorized as offsetting foreign subsidies.[21]

In fact, there is no shortage of private capital to finance aircraft purchases, and airlines would continue to purchase Boeing products in the absence of Ex-Im Bank subsidies. Consider the case of Air Emirates, for instance. In June 2012, Emirates bought two Boeing 777s using Ex-Im Bank financing, and four Airbus A380s using private financing.[22] Obviously, the state-controlled airline could

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20. Veronique de Rugy and Rizqi Razmat, "Export-Import Bank Portfolio Broken Down By Stated Goal," Mercatus Center at George Mason University, http://mercatus.org/sites/default/files/C1-Prop-Export-Value-large.jpeg.

21. Ibid.

22. *Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare? Hearing before the House Financial Services Committee* (June 25, 2014) (testimony of Richard H. Anderson, Chief Executive Officer, Delta Air Lines) http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=385048.

afford to buy planes without subsidies, and subsidies are not the only factor in the carrier's choice of aircraft. This is consistent with the results of a study by the Government Accountability Office that found 85 percent of Boeing and Airbus large-aircraft deliveries were not subsidized by export-credit agencies.[23]

The subsidies enjoyed by Emirates impose a very real cost on US airlines. With Ex-Im Bank assistance, Emirates financed its purchase of planes at interest rates that were almost half the cost paid by their unsubsidized competitors. That saved Emirates about $20.3 million per plane—savings that translated into far lower operating costs.

In turn, that savings can be reinvested in new routes or other operating efficiencies. For example, Emirates previously concentrated on flights from the Middle East to Europe, where passengers would transfer to American carriers to reach the United States. But with some $4 billion in discount financing for new planes, the state-controlled airline has grown from five small planes traveling regional routes to a fleet with more total seats than any other carrier and flying direct from Dubai to Chicago, New York, Boston, Miami, and Dallas, among other US cities. Support from the UAE government further enhances Emirates' competitive advantage in plane acquisition.

These subsidies have prompted several American carriers and their employee unions to demand a rescission of the open-skies agreements[24] with Emirates, Etihad, and Qatar airlines, charging that the subsidies constitute unfair competition, including interest-free loans, discounted airport charges, government protection on fuel losses, and below-market labor costs. A 55-page report issued by the coalition states, "The multi-billion dollar subsidies . . . have allowed Qatar Airways, Etihad Airways and Emirates to rapidly expand their fleets and international routes, distorting the commercial marketplace to the severe detriment of US employment, the US economy and the US airline industry."[25]

23. Government Accountability Office, Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets, July 8, 2014, http://www.gao.gov/assets/670/664679.pdf.
24. The open-skies agreements promote "increased travel and trade" and enhanced productivity by "eliminating government interference in the commercial decisions of air carriers about routes, capacity, and pricing, freeing carriers to provide more affordable, convenient, and efficient air service for consumers." See US Department of State, Open Skies Agreements, http://www.state.gov/e/eb/tra/ata/.
25. "Emirates, Qatar Airlines and Etihad Airways in violation of US agreement?," ETurbo News, March 7, 2015, http://www.eturbonews.com/56263/emirates-qatar-airlines-and-etihad-airways-violation-us-agreement.

Similarly, Air India has received some $4 billion in Ex-Im Bank subsidies to purchase Boeing products—despite staggering airline losses that prompted a $5.8 billion bailout from the government of India in 2012. The subsidies provide the airline a cost advantage of about $2 million per plane. Delta Airlines, along with the Airline Pilots Association, filed a legal challenge last year against Ex-Im Bank for providing the subsidies without analyzing the impact on domestic firms, as required by its charter.[26] According to the lawsuit, the competitive advantages to Air India resulted in the loss of some 7,500 US jobs.[27]

END IT

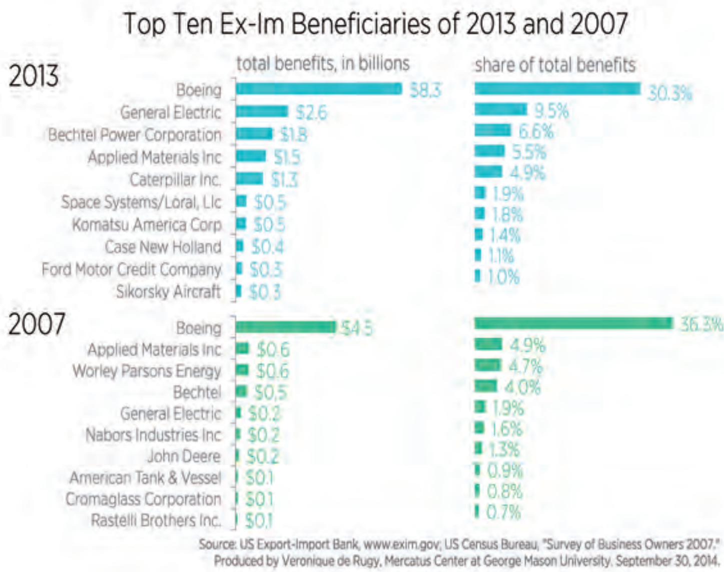
Despite overwhelming evidence to the contrary, some members of Congress believe that a few legislative tweaks will remedy all that is wrong with Ex-Im Bank. Requiring a handful of new reports from the bank or instituting new administrative procedures cannot solve the bank's most fundamental problem, which is functional: Ex-Im Bank showers subsidies on major corporations that consequently enjoy a competitive advantage against all the domestic businesses—big and small—that stand on their own.

Lawmakers who worry that the loss of Ex-Im Bank would hurt Main Street businesses in their district would do well to consider all the companies that are competing without government privilege. It is time to follow economist Milton Friedman's advice and recognize the substantial difference between support for big business and support for free enterprise.[28]

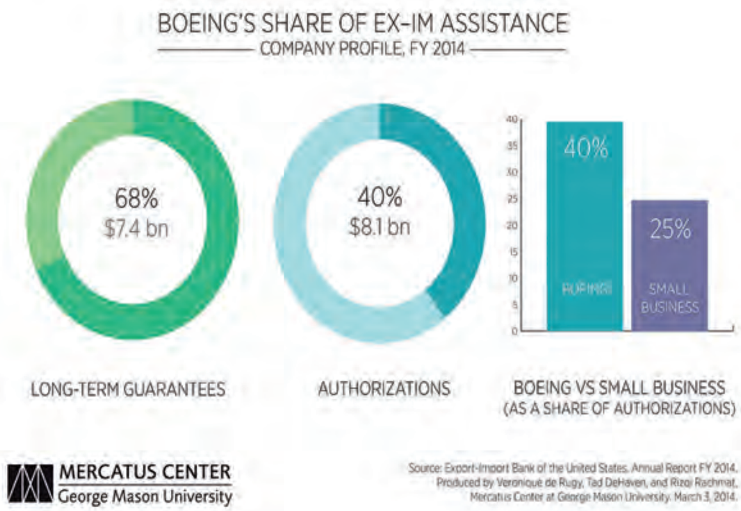
26. Delta Air Lines Inc, et al, v. Export-Import Bank of the United States, et al, US District Court for the District of Columbia, No. 1:13-cv-192.
27. *Examining Reauthorization of the Export-Import Bank*, Anderson.
28. Mark Perry, "Video: Milton Friedman explains the difference between being 'pro free enterprise' and 'pro business,'" *Carpe Diem*, *American Enterprise Institute*, December 25, 2012. http://www.aei.org/publication/video-milton-friedman-explains-the-difference-between-being-pro-free-enterprise-and-pro-business/.

APPENDIX: SUPPLEMENTARY CHARTS

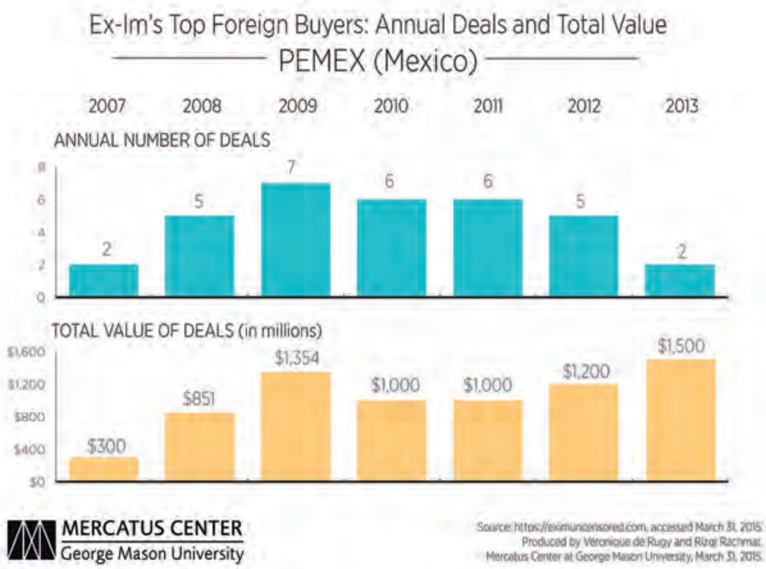
Listed below are the top ten domestic beneficiaries of Ex-Im Bank in 2007 and 2013.



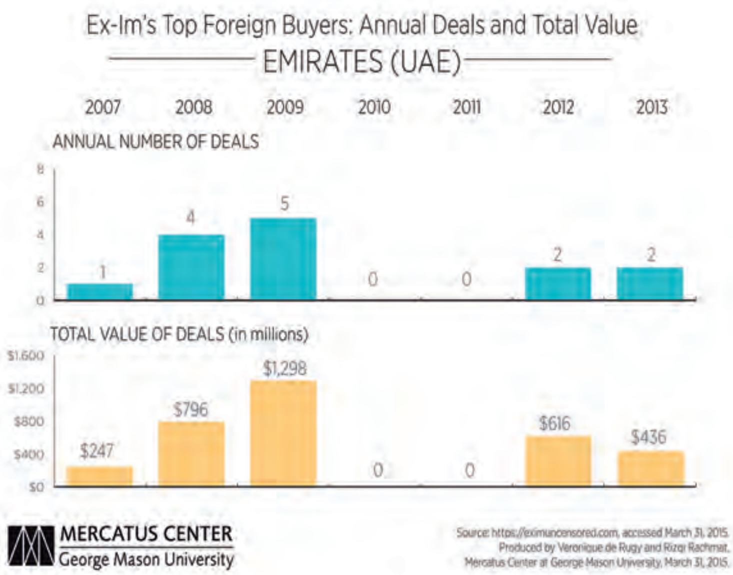
Ex-Im Bank has been called "Boeing's Bank" because of the overwhelming share of financing Boeing has received. Below is a snapshot from the 2014 Ex-Im Bank Annual Report that shows the amount of long-term guarantees and authorizations Boeing received in 2014.



Pemex Exploración y Producción is the single largest foreign beneficiary of Ex-Im financing and the number and amount of deals it received is broken out by year below.



Similarly, Dubai-based Emirates Airlines ranks in the top three foreign beneficiaries with more than $3.3 billion in financing from 2007 to 2013.



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MERCATUS RESEARCH

THE US EXPORT-IMPORT BANK
A Review of the Debate over Reauthorization

by Veronique de Rugy and Andrea Castillo

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ABSTRACT

THE EXPORT-IMPORT BANK of the United States is a government-owned bank that provides taxpayer-backed financing to private exporting corporations. Supporters of the bank argue that it is a critical tool to promote exports, create jobs, support small businesses, improve competitiveness, and protect taxpayers. We review the data and conclude that none of these arguments holds true. Rather, the Export-Import Bank is a protectionist agency that provides political privileges to well-connected firms at the expense of all other citizens. The federal government should not be trying to pick winners and losers through credit markets at taxpayers' risk. The charter of the bank should be allowed to expire.

JEL codes: F1, F13, F3, F340

Keywords: Export-Import Bank, export credit subsidies, international trade, exports, protectionism, mercantilism, policy, corporatism

THE EXPORT-IMPORT BANK of the United States (Ex-Im Bank)—the federal government's export-credit agency—faces an uncertain future. With the bank's charter soon to expire, Washington has become the scene of a fierce battle over whether to continue funding this obscure, Depression-era government bank.

This paper provides a brief overview of the history and operations of the Ex-Im Bank, followed by an examination of the key justifications for the bank's continued authorization. Specifically, the paper considers the veracity of claims that the bank (1) plays a critical role in promoting US exports, (2) maintains or creates US jobs, (3) substantially benefits small businesses, (4) levels the playing field for US companies competing against foreign companies that receive benefits from their countries' export-credit agencies, and (5) is a good deal for taxpayers. The paper concludes that the Ex-Im Bank's activities and outcomes do not meet its own supporters' standards and recommends that the bank's charter be allowed to expire.

A BRIEF HISTORY AND OVERVIEW OF THE EXPORT-IMPORT BANK

LIKE MANY OTHER federal programs, the Ex-Im Bank has evolved considerably since the days of its formation. Created by President Franklin Delano Roosevelt in 1934, the bank's original mission was to "aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other Nations or the agencies or nationals thereof."[1] Conceived to provide immediate financing of trade with the Soviet Union, the bank was housed in various federal departments before the Export-Import Bank Act of 1945 officially established it as the independent agency it is today.[2]

The act invested the bank with the power to "make loans, to discount, rediscount or guarantee notes, drafts, bills of exchange, and other evidence of debt, or participate in the same" to facilitate international trades for US businesses, and

1. Exec. Order No. 6581, 12 C.F.R. 401 (1934), available at http://www.presidency.ucsb.edu/ws/?pid=14772.
2. 12 U.S.C. § 635 (2012), http://www.law.cornell.edu/uscode/text/12/635.

with the authority to "issue notes, debentures, bonds, or other obligations" for the Department of the Treasury to purchase. So long as the bank took care to "supplement and encourage, and not compete with, private capital"[3] and provided an annual report to Congress on its operations, the federal government provided the bank with a capital stock of $1 billion and gave it the green light to pursue its mission.

Today, the Ex-Im Bank's mission is to "aid in financing and to facilitate exports of goods and services, imports, and the exchange of commodities and services" between the United States and foreign countries and "in so doing, to contribute to the employment of United States workers," as described in the current charter that was last amended in 2012.[4] The 116-page document now contains guidelines and prescriptions for the many pet programs that have developed in its 80-year history, including instructions regarding small business lending, green-energy projects, and engagement with sub-Saharan Africa and prohibitions against aiding "Marxist-Leninist countries" or financing "defense articles."[5]

The main tools provided to the bank to achieve these ends are (1) loan guarantees, (2) working capital guarantees, (3) direct loans, and (4) export-credit insurance.[6]

Loan guarantees presently constitute the largest portion of Ex-Im Bank financing. Ex-Im Bank loan guarantees allow foreign and domestic lenders to finance foreign buyers of US exports at a reduced risk. The bank charges the foreign buyer of US exports a fee based on the length, size, and risk level of the loan. Lenders, then, are guaranteed that the bank will cover up to 85 percent of the contract value of the outstanding principal and interest on the loan in the event that the foreign buyer of US exports defaults on the loan. In other words, the Ex-Im Bank assumes the majority of the repayment risk of the foreign buyer's debt obligations.

The Working Capital Guarantee program guarantees short-term working capital loans made to qualified US exporters, many of which are small businesses seeking to export their goods. The working capital guarantees can be made on a one-time basis or as a revolving line of credit. Borrowers are charged a fee based on the duration, size, and riskiness of the loan. The Ex-Im Bank guarantees that it will pay up to 90 percent of the outstanding balance of the working capital loan to the lender (usually a commercial bank) in the event that the borrower defaults.

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3. Export-Import Bank of the United States, "The Charter of the Export-Import Bank of the United States," updated August 30, 2012, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
4. Ibid.
5. Ibid.
6. For a detailed overview of Ex-Im Bank products, see Shayerah Ilias, "Export-Import Bank: Background and Legislative Issues" (Congressional Research Service Report No. R42472, Congressional Research Service, Washington, DC, April 2, 2012). The bank also engages in a number of special financing programs dedicated to boosting exports in a particular industry, such as its aircraft finance program, or providing an unusual financial technique, such as "project finance" plans for long-term infrastructure projects.

The Ex-Im Bank's direct loan program provides loans directly to foreign buyers of US exports, covering up to 80 percent of the US contract value. If the foreign borrower defaults, the Ex-Im Bank will be responsible for the total value of the outstanding principal and interest on the loan. If US exporters face competition from foreign export-credit agency subsidies, their buyers may qualify for special fixed-rate financing through the bank's Intermediary Credit Program. Direct loans come with favorable fixed interest rates established by the Organisation for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Credit Exports.[7] There is no maximum or minimum loan amount, but loans rarely exceed $10 million. While direct loans were the bank's chief financing vehicle before 1980, legislative changes have shifted financial focus to other vehicles, and in recent years low interest rates have depressed demand for these loans.

Additionally, the Tied Aid Capital Projects Fund provides direct loans to projects that face direct competition from foreign export-credit agencies. Informally known as the "war chest," the fund attempts to sway foreign governments to approve US projects rather than another country's subsidized projects by offering below-market financing rates. This program is more often used to tie agricultural and military aid to US exports than to promote US exports.

Finally, there is the Ex-Im Bank's export-credit insurance program. Under this program, the bank issues insurance policies to US exporters, often small businesses, which provide credit to the exporter's foreign buyer. The exporter must pay a fee that serves as an insurance premium to the Ex-Im Bank. The amount charged is determined by the duration, size, and riskiness of the policy. Should the foreign buyer default, the Ex-Im Bank will pay the outstanding balance owed to the exporter if certain predetermined conditions are met. Unlike loan guarantees, in which the Ex-Im Bank agrees to unconditionally cover outstanding balances in the event of a default, credit insurance policies will only pay outstanding balances if the default meets requirements laid out in the terms of the policy agreement.

The Export-Import Bank's gradually expanding mission and authority produced a large, but little-known, federal corporation whose current activities have, to a great extent, diverged from its original purpose.

7. As part of its role as an international economic coordination organization, the OECD has overseen export-credit agreements since the 1970s that establish common rules for lending interest rates and terms among participating member countries. While these agreements tended to be informal in the beginning, terms were officially established with the adoption of the 1992 Arrangement on Officially Supported Export Credits. The most recent version states that its purpose is to "provide a framework for the orderly use of officially supported export credits" and "foster a level playing field for official support . . . to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions." See "Arrangement on Officially Supported Export Credits," OECD Trade and Agriculture Directorate TAD/PG(2014)1 (Organisation for Economic Co-operation and Development, Paris, January 15, 2014), http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2014)1.

Today, the Ex-Im Bank's main focus is US exports. Total Ex-Im Bank authorizations, or the total amount of funding that the bank commits to finance a higher total value of exports, increased from $12.37 billion in fiscal year (FY) 2007 to $35.73 billion in FY 2012, before dropping slightly to $27.2 billion in FY 2013. The bank claims that this $27 billion in authorizations supported $37.4 billion worth of US exports worldwide during the same year.[8] However, this picture is incomplete without considering the outstanding financial risk that the bank undertakes in order to produce these results.

The total amount of exposure—defined by the bank as "authorized outstanding and undisbursed principal balance of loans, guarantees, and insurance" plus "unrecovered balances of payments made on claims . . . under the export guarantee and insurance programs"[9]—has likewise grown consistently over time. In layman's terms, this is the amount of risk for which taxpayers are on the hook. Total Ex-Im Bank exposure grew from $57.42 billion in 2007 to $113.83 billion in 2013—never dropping once during this period, even when the corresponding level of authorizations dropped.

Defenders of the bank repeat a number of arguments to justify these interventions in US trade policy. Five popular purported benefits are that the Ex-Im Bank (1) promotes exports, (2) creates or supports jobs, (3) helps small businesses, (4) levels the playing field for US exporters competing with foreign competitors subsidized by their own governments, and (5) is a good deal for taxpayers. We will now review each of these claims.

CLAIM 1: THE EXPORT-IMPORT BANK PROMOTES EXPORTS

THE CLAIM THAT the Ex-Im Bank promotes US exports rests on two contentions: first, that it improves the trade balance by filling an important "financing gap" in supporting US exports, and second, that it supports a significant share of exports. Neither contention has merit.

Filling the "Financing Gap"

Supporters claim that the Ex-Im Bank fills an important "financing gap" by supporting US exports. Some high-value projects go unfunded, they argue, because the riskiness of the investments scares off private financiers—but that is no excuse to leave value on the table. These Ex-Im Bank advocates want the federal government to step in and fund the projects that the private market rejects.

8. Export-Import Bank of the United States, *Annual Report 2013* (Washington, DC: Export-Import Bank of the United States, April 2014), http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
9. Ibid.

Without this federally provided export finance, they conclude, US exports would be significantly dampened.

The logic in this argument is inherently flawed because private investors are not likely to leave value on the table. High-risk projects should not always find financing. Prohibitively high risk rates serve as a signal that investment funds could be more effectively spent elsewhere. As the 1981 Congressional Budget Office (CBO) report on the Ex-Im Bank notes,

> The mere absence of a loan offer from the private market at terms desired by the borrower does not prove that capital markets are imperfect. Many borrowers are too risky or too small to finance their credit needs in bond markets and must instead go to banks; some borrowers are so risky that even banks will not lend them the amounts they desire.[10]

That high-risk projects with low chances of repayment often cannot find finance is a feature, not a bug, of capital markets—it is a signal that these are projects that are simply too risky to finance, when other projects are available.

Instead of making the case that the bank should subsidize losing projects, Ex-Im Bank supporters rely on arguments concerning issues such as "financing gaps" and "leveling the playing field." However, credit market imperfections of the kind the Ex-Im Bank claims it is necessary to counteract are quite rare, and the bank generally does not attempt to show that the projects it funds fall into this category. Trade economists who study the Ex-Im Bank note that "without solving a market imperfection, such practices can only redistribute income away from nonsubsidized citizens and toward domestic exporters or citizens of a borrowing country."[11] Rather, the real financing gap is the difference between the profits exporters would obtain without assistance and the profits they are able to obtain through government-granted privileges. The federal government should not be in the business of providing cheap financing for politically connected corporations.

10. *The Benefits and Costs of the Export-Import Bank Loan Subsidy Program* (Washington, DC: Congressional Budget Office, March 1981), p. viii, https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/115xx/doc11311/1981_03_export.pdf.
11. Heywood Fleisig and Catharine Hill, "The Benefits and Costs of Official Export Credit Programs," chap. 9 in *The Structure and Evolution of Recent U.S. Trade Policy*, ed. Robert E. Baldwin and Anne O. Krueger (Chicago: University of Chicago Press, 1984), 321–58, available at http://www.nber.org/chapters/c5839.pdf.

The Ex-Im Bank Supports about 2 Percent of US Exports

Claims that the Ex-Im Bank supports a substantial portion of US exports are not supported by the data, which reveal that 98 percent of US exports take place without the assistance or facilitation of the bank.[12]

Export data from the US Census Bureau and the Ex-Im Bank between 2000 and 2010 show that Ex-Im Bank–backed activity accounts for approximately 2 percent of all US exports during that time.[13] The same is true when looking at any individual year. Take 2012, for instance: total US exports were $2.2 trillion, while the estimated export value of Ex-Im Bank activity was about $50 billion, or around 2.2 percent of activity. The data reveal that the Ex-Im Bank influences a negligible portion of total US exports. What is more, it is possible that the private market could better employ these funds to support the same or even a higher level of exports. The bank cannot credibly claim that it is critical to maintaining the level of US exports.

It has long been known that export-credit corporations alone cannot substantially influence broader national trade outcomes.[14] Sallie James, trade policy analyst at the Cato Institute, notes, "Export promotion programs for certain goods—marketing programs for certain commodities, say—may have beneficial effects for that industry but cannot affect the trade balance overall."[15] The Government Accountability Office (GAO) stated back in 1992, "Export promotion programs cannot produce a substantial change in the U.S. trade balance, because a country's trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners."[16]

Reforming the broader macroeconomic policies that are more likely to harm the US trade position will help US exports far more than anything the Ex-Im Bank could do.[17] The United States maintains the highest national statutory corporate tax rates

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12. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im–Backed Projects Constitute Tiny Portion of Total US Exports," Mercatus chart series, Mercatus Center at George Mason University, June 24, 2014, http://mercatus.org/publication/jobs-and-export-value-perspective-ex-im-backed-projects-constitute-tiny-portion-total-us.
13. Ibid.
14. For a detailed exposition of the flawed economic arguments in favor of export subsidy schemes, see Arvind Panagariya, "Evaluating the Case for Export Subsidies" (World Bank Policy Research Working Paper, World Bank, Washington, DC, 2000), http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-2276.
15. Sallie James, "Time to X-Out the Ex-Im Bank" (Cato Institute Trade Policy Analysis No. 47, Cato Institute, Washington, DC, July 6, 2011), http://www.cato.org/publications/trade-policy-analysis/time-x-out-exim-bank.
16. Allan I. Mendelowitz, "Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness," GAO/NSIAD-92-49 (Washington, DC: Government Accountability Office, January 1992), http://www.gao.gov/assets/220/215530.pdf.
17. Veronique de Rugy, "The Right Way to Help Exporters: Kill Ex-Im, Reform the Corporate Income Tax," *The Corner* (blog), *National Review Online*, April 30, 2014, http://www.nationalreview.com/corner/376826/right-way-help-exporters-kill-ex-im-reform-corporate-income-tax-veronique-de-rugy.

among all OECD nations, with an average rate of 35 percent.[18] Once state rates are added to this federal average, the number rises to 39.2 percent.[19] The rate remains relatively high even after corporations lower their effective tax burdens with tax credits for the share of the taxes paid to foreign governments or by keeping their foreign revenue abroad. Reforming the punishing corporate tax rate would be one easy and feasible policy change that would help all American producers[20] without exposing taxpayers to risk as the Ex-Im Bank does.

CLAIM 2: THE EXPORT-IMPORT BANK MAINTAINS AND CREATES JOBS

SUPPORTERS ARGUE THAT the Ex-Im Bank plays a crucial role in job promotion by pointing to the number of jobs the bank's annual reports claim it has assisted. These claims are weak because they fail to consider how many jobs would have existed in the absence of Ex-Im Bank intervention and because they understate the competitive disadvantage that Ex-Im Bank subsidies impose on employees of unsubsidized firms and industries.

Considering Seen and Unseen Effects

Supporters of federal programs often point to tangible outcomes, such as the number of jobs created through federal spending, to justify the programs' existence. Immediate employment effects are easily seen and therefore provide a potent shield against claims of ineffectiveness or waste. However, as economist Frédéric Bastiat astutely pointed out more than 160 years ago, good economists and students of public policy must also consider the *unseen* effects of government interventions to accurately perform a benefit-cost analysis.[21] The Ex-Im Bank is keen to trumpet the seen effects of its interventions. A February 2014 press release is typical, claiming that in the last year, the "Bank approved more than $27 billion in total authorizations to support an estimated $37.4 billion in U.S. export sales and approximately 205,000

18. Veronique de Rugy, "Updated: Corporate Income Tax Rates in the OECD," Mercatus chart series, Mercatus Center at George Mason University, April 1, 2014, http://mercatus.org/publication/updated-corporate-income-tax-rates-oecd.

19. The effective rate for individual firms, however, can be lower due to tax loopholes. See Government Accountability Office, GAO-13-520, *Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate* (May 2013), http://www.gao.gov/assets/660/654957.pdf.

20. Jason Fichtner, "Increasing America's Competitiveness by Lowering the Corporate Tax Rate and Simplifying the Tax Code," Testimony Before the Senate Committee on Finance, January 21, 2014, http://mercatus.org/publication/increasing-america-s-competitiveness-lowering-corporate-tax-rate-and-simplifying-tax.

21. Frédéric Bastiat, "What Is Seen and What Is Not Seen," in *Selected Essays on Political Economy*, trans. Seymour Cain (Irvington-on-Hudson, NY: The Foundation for Economic Education, 1995 [1850]), available at http://www.econlib.org/library/Bastiat/basEss1.html.

American jobs in communities across the country."[22] But just as important, or even more important, are the unseen effects of this expenditure—for example, in in the form of displacement of employment in unsubsidized industries.

This claim of job creation is accurate according to the Ex-Im Bank's reporting standards, but it is not very meaningful. Indeed, it is hard to imagine how a government program could spend billions of dollars without yielding *some* kind of immediate gross employment effect. In the case of the Ex-Im Bank, lending money to a foreign company to buy US products that it otherwise would not have purchased will necessarily increase the US firm's revenue above what it would have earned without government assistance. This will, in turn, expand the company and create new jobs in the short term. This statement amounts to little more than an admission that taxpayers' funds were indeed spent.

However, this claim only concerns the "seen" side of the story. To get an accurate picture of the true economic effects of the Ex-Im Bank's interventions, it is necessary to consider the unseen effects of government action. It is not enough merely to know that the government spent money somewhere. Observers must also determine whether what economists call the "opportunity costs"[23] of these actions outweigh the purported job benefits that the bank claims.

The Ex-Im Bank Can Damage Job Creation in Unsubsidized Firms

What would have happened if the Export-Import Bank had not provided assistance as it had? Would firms that do not currently benefit from Ex-Im Bank export credits have been able to compete more effectively and provide better products at lower prices? Might those decisions have created even more jobs than the ones for which the Ex-Im Bank claims credit? There are a few reasons to think this could be the case.

Foreign companies that receive Ex-Im Bank financing are not necessarily purchasing *more* goods from US firms, but simply buying different *kinds* of goods. Ex-Im Bank interventions shift resources away from unsubsidized projects and toward artificially inexpensive projects that the bank subsidizes. Many of the jobs the bank claims to create are in reality redirected from unsubsidized firms. The Ex-Im Bank disadvantages employees of unsubsidized companies for the benefit of employees of subsidized companies.

But these shifts produce a cascading effect. For instance, once the government subsidizes a company, that company becomes a relatively safe asset that then

22. Export-Import Bank of the United States, "U.S. Exports Support a Record 11.3 Million Jobs in 2013," news release, February 24, 2014, http://www.exim.gov/newsandevents/releases/2014/US-Exports-Support-Support-a-Record-11-Million-Jobs-in-2013.cfm.
23. An opportunity cost is the value of the next-best alternative forgone in making a certain decision. In the case of the Ex-Im Bank, the opportunity cost of providing a certain loan would be the highest value alternative use that those funds could have gone to instead. In other words, is there some alternative use of these funds that might have generated even more jobs than the one that the Ex-Im Bank chose?

attracts private capital independently of the merits of its projects. This capital is then unavailable for unsubsidized projects, even if they have much higher probabilities of success and more promising business plans.

The incentives facing the private lenders reinforce this effect, since these lenders also receive a subsidy through the loan guarantee. Under the loan guarantee system, the lender gets to extend a large loan with an extremely low risk, since 85 percent of the value of the loan is risk free. However, it gets to collect large fees from the borrowers and interest on the entire value of the loan.

This unfortunate consequence has long been known in Washington. A CBO report from 1981 explains that under normal economic conditions "subsidized loans to exporters will increase employment in export industries, but this increase will occur at the expense of non-subsidized industries: the subsidy to one industry appears on other industries' books as increased costs and decreased profits."[24]

These increased costs and decreased profits manifest themselves through different channels: First, nonprivileged exporters lose when their competitors get help, and so do nonexporters. Second, anyone who competes with the privileged foreign buyers loses market share. Third, consumers trying to buy the good whose demand is artificially high must pay a higher price. Finally, as mentioned above, anyone trying to obtain capital loses since lenders are likely to prioritize demand for capital from borrowers with a government guarantee, independently of the merits of their projects.

This is the underlying argument in a pending legal action by Delta Air Lines and its employees against the Ex-Im Bank.[25] Delta and the Air Line Pilots Association, a pilots' union, allege that the bank's failure to perform proper economic analyses results in a portfolio that disproportionately favors Boeing and puts other US corporations and employees at a competitive disadvantage.

Indeed, the Ex-Im Bank earned its nickname, "Boeing's Bank," fairly: an astounding 66 percent of the bank's portfolio of loan guarantees was awarded to Boeing during FY 2013.[26] A spokesperson for Delta Air Lines argues that the Ex-Im Bank "does not consider or address the harm Ex-Im financings for widebody aircraft do to U.S. airlines and their employees."[27] The bank's newly published guidelines exempt at least 85 percent of aircraft-related deals from thorough economic analysis.

In that sense, the "205,000 jobs" claimed by the bank are not net jobs, as they do not incorporate the negative secondary effects that intervention often creates. From the perspective of Delta Air Lines employees, these "205,000 jobs" come at

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24. *Benefits and Costs of the Export-Import Bank Loan Subsidy Program.*

25. Delta Air Lines, "Delta Issues Statement on Export-Import Bank," press release, April 8, 2014, http://www.marketwatch.com/story/delta-issues-statement-on-export-import-bank-2014-04-08.

26. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus chart series, Mercatus Center at George Mason University, April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.

27. Delta Air Lines, "Delta Issues Statement on Export-Import Bank."

the expense of their own livelihoods. In fact, the real question is, Does the bank create more jobs than it destroys or redirects? Given the Ex-Im Bank's lax commitment to detailed economic analyses of all transactions,[28] which is examined closely in the next section, the bank itself is in a poor position to answer this question.

Moreover, the Ex-Im Bank presumes that these 205,000 jobs could not have existed without its interventions,[29] as explained below. There is little reason to believe that this is true. As we will show later, despite a lot of talk about financing gaps, most of the loan value backed by the bank benefits large and well-established companies[30] that do not lack alternative financing options.[31] Even small businesses that receive support were often profitable well before Ex-Im Bank operatives came knocking.[32]

Federal Reports Dispute the Ex-Im Bank's Job Calculation Methodology

Finally, the Ex-Im Bank's numbers must be taken with a healthy dose of skepticism. GAO finds that the bank's job calculation method leaves much to be desired. A May 2013 report criticized the bank for concealing the many methodological weaknesses that underlie its attractive "205,000 jobs" number.[33] GAO reports that the bank extrapolates its numbers from the Bureau of Labor Statistics data product that measures how much of the output (revenue) of an industry goes into the input (production) of another industry, and its effect on employment. There are many limitations to this methodology, such as the fact that it does not distinguish between full-time, part-time, and seasonal employment, thus painting a rosier, but inaccurate, picture.

Additionally, the Ex-Im Bank does not control for selection effects wherein Ex-Im Bank–supported firms or industries may differ from the "average" firms or industries that the bank purports to similarly benefit. Finally, and most critically, the GAO report criticizes the bank for not considering how many jobs would have

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28. Government Accountability Office, GAO-13-446, *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency* (May 2013), http://www.gao.gov/products/GAO-13-446.
29. Ibid.
30. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus chart series, Mercatus Center at George Mason University, April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.
31. A managing director of Boeing's finance arm, for instance, told the *Wall Street Journal* that he was "confident the company could find alternative funding sources for customers that wouldn't require it to boost its support of aircraft sales." See Doug Cameron, "Boeing Cites Jitters over Airplane Financing from Ex-Im Bank," *Wall Street Journal*, August 7, 2013, http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.
32. Katherine Rosario, "Export-Import Bank: A Microcosm of Washington's Cronyism, *The Forge* (Heritage Foundation), April 1, 2014, http://heritageaction.com/2014/04/export-import-bank-microcosm-of-washingtons-cronyism/.
33. Government Accountability Office, GAO-13-446, *Export-Import Bank*.

existed without any intervention at all.[34] Considering all these weaknesses, the bank's "205,000 jobs" number is far from being a true reflection of sound economic analysis and transparent data methods. The GAO report concludes, "Because of a lack of reporting on the assumptions and limitations of its methodology and data, Congressional and public stakeholders may not fully understand what the jobs number that Ex-Im reports represents and the extent to which Ex-Im's financing may have affected U.S. employment."

If the Ex-Im Bank truly believes that it provides substantial benefits to US employment, it should not fear GAO's suggested improvements. After all, the bank should be glad to prove its claims beyond a reasonable doubt. In its response to the report, the bank has committed to more explicitly discussing the assumptions and shortcomings of jobs calculation methodology in its FY 2013 report. However, the bank continues to use the old jobs calculation methodology that GAO criticizes, with all its attendant shortcomings.[35]

CLAIM 3: THE EXPORT-IMPORT BANK SUPPORTS SMALL BUSINESSES

THE EX-IM BANK frequently boasts of its outreach and support to small businesses, but these claims are misleading due to the bank's extraordinarily expansive definition of the term "small business" and the fact that much of its funding going to large firms.

In May 2014, the Ex-Im Bank released the results of its small business customer survey to great fanfare.[36] The bank reports that, of the 2,100 small business customers that responded, 95 percent would recommend the Ex-Im Bank to another exporter, 64 percent reported that their companies' revenues increased over the past five years, and another 64 percent believed that the bank had helped to expand their exports over the past five years.[37] The bank does not separate responses for "strongly agreed" and "agreed," so there is no way to determine the respective magnitude of these responses. Additionally, nearly half of respondents—45 percent—thought they would be just fine without assistance from the Ex-Im Bank. Given the strong incentives that pressure firms to protect received government privileges, these small business owners' lukewarm endorsement of the program is remarkable.

The bank's FY 2013 annual report states that "the Bank approved a record 3,413 transactions, or 89 percent, for small businesses."[38] This statement is incomplete.

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34. Ibid.
35. Export-Import Bank of the United States, *Annual Report 2013*.
36. Export-Import Bank of the United States, "Ex-Im Bank Releases Results of Small Business Customer Survey," news release, May 19, 2014, http://www.exim.gov/newsandevents/releases/2014/Ex-Im-Bank-Releases-Results-of-Small-Business-Customer-Survey.cfm.
37. Export-Import Bank of the United States, "The Export-Import Bank of the United States Small Business Exporter Customer Survey: Summary Results," May 15, 2014, http://www.exim.gov/about/library/reports/otherreports/upload/2014-Small-Business-Survey-Results-For-Publishing.pdf.
38. Export-Import Bank of the United States, *Annual Report 2013*.

It is true that 89 percent of the total number of *deals* involved firms that fit the bank's definition of a small business. However, looking at the total *amounts* that the bank distributes, the picture is decidedly different. During FY 2013, for instance, only $5.2 billion of the $27.3 billion in total authorization amounts, or 19 percent, was designated as "small business" activity on the Ex-Im Bank's annual report.[39] This is concerning because it is in violation of the bank's own charter, which mandates that no less than 20 percent of the total amount authorized to finance exports directly for each fiscal year be made available to small business concerns.[40]

Additionally, the bank employs a rather unconventional definition of "small business." While the term invokes images of mom-and-pop stores and enterprising startups, the Ex-Im Bank's definition is considerably more expansive than that of the Small Business Administration (SBA). With few exceptions, the SBA sets its "small business" threshold at firms with fewer than 500 employees and no more than $7 million in average annual receipts—criteria much stricter than the bank's.[41] The bank's small business size standards include manufacturing and wholesale firms that employ anywhere from 500 to 1,500 workers, general construction firms that earn anywhere between $13.5 million and $17 million a year, and in other sectors, firms with annual revenues of up to $21.5 million.[42]

Other government institutions, like the Federal Reserve, adhere to the SBA's definitions, which raises the question of why the Ex-Im Bank found it necessary to create its own standards. According to the bank's data for FY 2013,[43] much of its direct and indirect subsidies benefit giant manufacturers and well-connected exporters. For instance, America's number-one exporter, Boeing, received roughly 66 percent of the value of all loan guarantees last year. The bank reports that Boeing was designated primary exporter for 55 deals valued at roughly $8.3 billion in total assistance. This means that upwards of 30 percent of the value of all Ex-Im Bank assistance in 2013 directly benefited Boeing. Additionally, the top 10 exporter beneficiaries of Ex-Im Bank assistance—among which were General Electric, Dow Chemical, Bechtel, Caterpillar, and John Deere—received a combined total of roughly 75 percent of the value of total assistance last year.[44]

The Export-Import Bank may publicize the small business deals that it brokers, but the bank's own financial statements clearly show that big business is its main business.

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39. Ibid.
40. Export-Import Bank of the United States, "Charter of the Export-Import Bank of the United States."
41. "Summary of Size Standards by Industry Sector," Small Business Administration, accessed June 20, 2014, http://www.sba.gov/content/summary-size-standards-industry-sector.
42. "Small Business Defined," Export-Import Bank of the United States, accessed June 20, 2014, http://www.exim.gov/smallbusiness/policies/Small-Business-Defined.cfm.
43. Export-Import Bank of the United States, *Annual Report 2013*.
44. De Rugy, "Biggest Beneficiaries of the Ex-Im Bank."

CLAIM 4: THE EXPORT-IMPORT BANK LEVELS THE PLAYING FIELD FOR US EXPORTERS

ANOTHER POPULAR ARGUMENT is that the Ex-Im Bank is necessary to counteract the competitive disadvantages posed by the export-credit agencies of foreign nations.[45] Since foreign firms enjoy the benefits of their own national export subsidy organizations, the argument goes, US firms would struggle to compete internationally if the US government did not provide similar aid. Regardless of whether the Ex-Im Bank makes economic sense in a perfect world, the reality is that foreign competitors are engaging in these practices. Therefore, supporters conclude, the US Export-Import Bank is a necessary, although perhaps unfortunate, weapon in this international export subsidy arms race.

Few would disagree that it would be much preferable if US exporters only had to compete on price and quality against unsubsidized foreign companies. However, the fact that other countries choose to engage in bad economic policy does not immediately justify the United States following suit. This argument might be valid if (1) a substantial portion of the Ex-Im Bank's portfolio is indeed dedicated to counteracting the effect of foreign export-credit agencies, (2) a substantial portion of total US exports depend on Ex-Im Bank assistance to successfully compete on a global scale, and most important, (3) engaging in suboptimal policies because other countries do so makes economic sense.

Most of the Ex-Im Bank Portfolio Is Dedicated to Purposes Other Than Counteracting Competition Subsidized by Foreign Governments

If the Ex-Im Bank were truly a critical tool in counteracting the activities of foreign export-credit agencies, one would expect the vast majority of the bank's portfolio

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45. A new webpage on the Ex-Im Bank's website states,

> All major exporting countries, including America's fiercest competitors in the global marketplace, have their own export credit agencies (ECAs), which support their respective countries' exports. In fact, nearly 60 countries operate an ECA. Many of the world's ECAs provide larger levels of financing than Ex-Im Bank, without being subject to the rules and restrictions that Ex-Im Bank follows. For example, China financed more than $100 billion of Chinese exports in 2013, compared to Ex-Im Bank's support of $37.4 billion worth of U.S. exports last year. Likewise, it is estimated that South Korea, which has an economy that is less than one-tenth the size of the U.S. economy, also finances more than $100 billion per year to support exports from South Korea. In contrast, Ex-Im Bank steps in, only when needed, to help level the playing field against aggressive financing by foreign governments so U.S. companies and workers can compete on the basis of the price and quality of their goods and services.

See "The Facts about Ex-Im Bank," Export-Import Bank of the United States, last updated June 24, 2014, http://www.exim.gov/newsandevents/the-facts-about-ex-im-bank.cfm.

to be dedicated to this purpose. However, the bank's records show that this is not the case.

For a long time, the Ex-Im Bank did not specify the exact purpose of each transaction in its reports, so it was hard to determine how much of its portfolio was dedicated to which goals. As recently as 2012, Sallie James of the Cato Institute speculated, "Given the fall in export credit subsidies in the OECD, the need for countervailing activities likely has not increased since the late 1990s, when less than 20 percent of Ex-Im Bank guarantees and insurance were for the purpose of countering officially supported foreign competition."[46]

However, Congress obliged the bank to provide more explanations for certain portfolio transactions as a condition of its most recent reauthorization in 2012.[47] While the bank does not provide justifications for all transactions in its portfolio, the bank's current charter now compels it to at least provide categorical explanations for all loans and long-term loan guarantees in its annual report.

According to the Ex-Im Bank's FY 2013 annual report, roughly $7.9 billion in estimated export-valued loans and $10.7 billion in estimated export-valued long-term loan guarantees, or a combined estimated export value of $18.7 billion, must be categorized as Congress legislated. Transactions must be classified in one of three categories: (1) "to assume political or commercial risk that exporter and/or financial institutions are unwilling or unable to undertake," (2) "to overcome maturity or other limitations in private-sector export financing," or (3) "to meet competition from a foreign, officially-sponsored export-credit agency." The bank's records show that $4.1 billion in estimated export value fits into the first category, $2.1 billion in estimated export value fits into the second category, and $12.2 billion in estimated export value fits into the final category. The proper categories for the remaining $18.8 billion in estimated export value, or 50.2 percent of the bank's portfolio, is simply unknown.

Since the estimated export value of the bank's entire portfolio for FY 2013 was roughly $37.4 billion, this means that less than one-third of the estimated export value of the bank's portfolio is intended to actually counteract competitive disadvantages wrought by foreign export-credit agencies.

The Vast Majority of US Exports Occur without Ex-Im Bank Assistance

As noted above, the Ex-Im Bank only extends financial assistance to a tiny proportion of total US exports. If export subsidies were truly critical to competing abroad, then one would expect far more than 2 percent of total US exports to receive Ex-Im

46. Sallie James, "Ending the Export-Import Bank" (Downsizing the Federal Government report, Cato Institute, Washington, DC, October 2012), http://www.downsizinggovernment.org/export-import-bank.
47. Export-Import Bank Reauthorization Act of 2012, 12 C.F.R. 401 (2012), http://www.gpo.gov/fdsys/pkg/BILLS-112hr2072enr/pdf/BILLS-112hr2072enr.pdf.

Bank assistance. Yet, somehow, the other 98 percent of unassisted US exports continue to thrive. Given this data, the argument that the bank's activities are critical to maintaining competitive export outcomes is quite weak.

Protectionism Never Makes Economic Sense

The biggest problem with this argument is simple economics. Subsidies are a bad deal for domestic consumers, taxpayers, unsubsidized producers, and their employees. Companies, industries, and countries that engage in export subsidies are ultimately losers as well. The Ex-Im Bank does not counteract unfortunate policies abroad; on the contrary, it merely doubles down on a bad thing.

The unseen costs of export subsidies negatively impact normal Americans, unsubsidized businesses, and even subsidized businesses in a number of ways. As noted above, subsidies can trigger waves of malinvestment[48] by encouraging companies to make marginal investments in a subsidized activity without regard to its true opportunity costs or by encouraging consumers to buy a subsidized good without accounting for its true cost. Tax revenues are siphoned from productive businesses and their employees and directed to others with political clout.

In the case of the Ex-Im Bank, this means that normal US consumers must help to finance large corporations like Boeing only to receive the honor of paying higher prices for airline tickets.

Subsidies also trigger wasteful spending for political favors.[49] Not only do subsidized industries use domestic tax dollars to make a profit, they use this leverage to push other businesses that do not enjoy these privileges out of the market. Or, alternatively, otherwise honest companies are driven to lobby for their own privileges before they get pushed out first. Economist William Baumol described how this "unproductive entrepreneurship" saps an economy of its engines of growth.[50] Entrepreneurs and businesspeople have an incentive to procure government subsidies to stay afloat, which wastes more time and resources through the deadweight loss of unproductive lobbying spending.

Ironically, subsidies also damage recipients in the long run by dulling their competitive edge.[51] Subsidized businesses often grow complacent and lazy because they

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48. For an explanation of the economic effects, see Tyler Cowen, *Risk and Business Cycles: New and Old Austrian Perspectives* (London: Routledge, 2010).
49. See Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5 (1967): 224–32; Richard Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy* 83 (1975): 807–27; Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974): 291–303.
50. William J. Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98 (1990): 893–921.
51. Harvey Leibenstein, "Allocative Efficiency vs. 'X-Efficiency,'" *American Economic Review* 56, no. 3 (June 1966): 392–415.

know they can rely on government assistance. When markets change and pressures mount, subsidized industries find that they simply cannot keep up—so they come knocking to Congress for a bailout.

Most importantly, subsidizing exports actually harms US consumers and helps foreign consumers. When foreign export agencies subsidize their exporters, they actually help US consumers at the expense of their own citizens. In subsidizing US exports in response to foreign subsidies, the Ex-Im Bank actually hurts US consumers more.

Little has changed since Adam Smith astutely observed more than two centuries ago in the *Wealth of Nations* that "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."[52] This logic holds whether foreign countries are producing goods more cheaply because of competition or because of subsidies: American consumers win either way. When governments use national wealth to subsidize the artificially cheap consumption of foreign nations, on the other hand, domestic consumers lose and foreign consumers win.

The fact that others engage in an activity is never *prima facie* evidence that one should do the same. Despite the apparent fashion of export subsidies, the economics is clear that these policies harm national consumption in exchange for short-term benefits enjoyed by a concentrated number of companies.

CLAIM 5: THE EXPORT-IMPORT BANK IS A GOOD DEAL FOR TAXPAYERS

Defenders of the Ex-Im Bank often point out that the agency does not cost anything to taxpayers; in fact, they argue, the bank actually generates *revenues* for the US Treasury.[53] Regardless of whether the federal government should or must operate an export-credit agency, the fact that the Ex-Im Bank reports profits to the government is sufficient reason for many to support it. In light of the federal government's fiscal troubles, the bank's defenders believe the United States is simply in no position to dismantle a rare profit-generating federal program.

This argument relies on the financial statements provided by the Ex-Im Bank. While the bank was once known for consistently poor financial management—it requested a $3 billion federal bailout in 1987[54]—in recent years it proudly reported

52. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (London: Methuen, 1904 [1776]), available at http://www.econlib.org/library/Smith/smWN13.html.
53. Christopher Matthews, "The Federal Agency That Makes $1 Billion for Taxpayers and the Fight to Abolish It," *Time*, October 24, 2013, http://business.time.com/2013/10/24/the-federal-agency-that-makes-1-billion-for-taxpayers-and-the-fight-to-abolish-it/.
54. Clyde H. Farnsworth, "U.S. Export Bank Seeks $3 Billion," *New York Times*, December 21, 1987, http://www.nytimes.com/1987/12/21/us/us-export-bank-seeks-3-billion.html.

profits. In FY 2013, for example, the bank claimed to generate more than $1 billion in revenues for the Treasury.[55] Supporters point to these returns as evidence that the bank will earn profits for American taxpayers for years to come.

Of course, financial projections are only as sound as the methodologies employed to produce them. Many have been skeptical of the bank's risk analyses, default assumptions, and accounting methods for years, as Heritage Regulatory Fellow Diane Katz notes.[56] Some of the most vociferous criticisms have come from within the Export-Import Bank itself, as well as from GAO and CBO. The errors that these criticisms reveal undercut Ex-Im Bank supporters' claims of profitability and sustainability and in fact reveal that the bank exposes taxpayers to the risk of "severe portfolio losses," in the words of the bank's own inspector general.[57]

An alarming 2012 report from the inspector general of the Ex-Im Bank reveals that the bank does not employ adequate risk analyses.[58] The bank's unique position as a governmental export-credit insurer and underwriter means that it exposes itself to a number of unusual risks. In addition to balancing normal market considerations and operational boundaries imposed through legislation, the bank must also adequately calculate and mitigate taxpayer exposure to credit risks, political risks, currency risks, and various concentration risks riddling its vast portfolio. The inspector general warns that "Ex-Im lacks a systemic approach to identify, measure, price, and reward" these many portfolio risks. This improper loss reserve methodology may have "resulted in the systematic under-reserving and underpricing of the portfolio risk,"[59] which significantly limits the predictive veracity of the bank's projections.

The methods that the Ex-Im Bank does have in place are likewise inadequate to reflect the bank's underlying portfolio. The inspector general also warns that the bank "does not reserve or price for the incremental risk deriving from its portfolio concentrations."[60] In other words, the bank's expected-loss credit methodology does not account for the potential covariance of risks among asset classes. Aircraft transactions represent more than 51 percent of the total value of the Ex-Im Bank portfolio, but new airline transactions are priced and structured according to the same guidelines as any other transaction. If the notoriously volatile aircraft industry

55. Export-Import Bank of the United States, "Ex-Im Bank Announces More Than $1 Billion in Revenues Generated for Taxpayers in FY 2013," news release, October 23, 2013, http://www.exim.gov/newsand events/releases/2013/Numbers-Release.cfm.
56. Diane Katz, "The Export-Import Bank: A Government Outfit Mired in Mismanagement" (Heritage Issue Brief No. 4208, Heritage Foundation, Washington, DC, April 29, 2014), http://www.heritage.org /research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement.
57. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies" (OIG-INS-12-02, Export-Import Bank of the United States, Washington, DC, September 28, 2012), http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.
58. Ibid.
59. Ibid.
60. Ibid.

were to slide into a downturn, the bank's portfolio would be far more exposed than its numbers currently predict. The inspector general also reports that the bank does not perform portfolio stress tests, thus leaving administrators in the dark as they attempt to manage this concentration risk effectively.[61]

Even when more appropriate processes are in place, the inspector general reports that "loan officers and bank personnel did not always document sufficient evidence for borrower statements regarding the need for financing."[62] In many cases, employees did not even perform background checks to determine borrower eligibility before dispersing funds. Federal regulators would not tolerate this kind of carelessness from private institutions. It is all the more unacceptable coming from a steward of taxpayer money like the Ex-Im Bank.

Additionally, the bank's default assumptions vastly obscure its true financial position. A May 2013 report from GAO describes the Ex-Im Bank's unusual internal performance measures in detail.[63] To begin with, the bank employs an unjustifiably narrow definition of "default," which only includes unpaid, past-due loans and claims paid to privately insured transactions.[64] The inspector general points out that the bank does not even have access to the proper empirical data on the impaired assets in its portfolio, much less employ the proper modeling techniques on these assets.[65] What's more, GAO finds that the bank did not even use its own default data to calculate program costs and exposure. This oversight is troubling, and calls the bank's estimates of its risk exposure into question. The bank exposed taxpayers to a massive $130 billion risk limit during 2013 based on its misleading financial statements.[66] GAO warns that this inadequate accounting will fail to accurately predict risk exposure, default rates, and program costs in the future. Accordingly, the Ex-Im Bank's previous projections that employed this subpar methodology should also be viewed with a critical eye.

Improper accounting, regardless of the illusions it yields immediately, does not shield an institution from financial disaster in the event of an unexpected downturn. For many years, Ex-Im Bank skeptics could only point to the dire pleadings of GAO and the inspector general to bolster their case that the bank's "profits" may be a misleading accounting fiction. The collapse of the US housing market, prompted partially by the risky underwriting of federal mortgage corporations Freddie Mac and Fannie Mae, provides another cautionary tale.

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61. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies."
62. Office of the Inspector General, "Export-Import Bank's Management of Direct Loans and Related Challenges" (OIG-AR-13-05, Export-Import Bank of the United States, Washington, DC, September 26, 2013), www.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf.
63. Government Accountability Office, GAO-13-620, *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*, 2013, http://www.gao.gov/products/GAO-13-620.
64. Katz, "Export-Import Bank."
65. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies."
66. Pub. L. No. 112-122, § 3, 126 Stat. 350, 351 (2012).

It was once also common to support Fannie Mae and Freddie Mac on the grounds that they generated profits for US taxpayers. While it is now clear that these profits were illusory, many industry and government analysts raised alarms about brewing fiscal mischief years before the housing collapse overwhelmed the government-sponsored enterprises' mismanaged portfolios. Paralleling the Ex-Im Bank's current position, a 2006 audit performed by the Office of Federal Housing Enterprise Oversight of Fannie Mae's portfolio and practices from 1998 to mid-2004 revealed that the "smooth profit growth" and precisely met targets for earnings per share each quarter reported by the federal corporation were "illusions deliberately and systematically created by . . . senior management with the aid of inappropriate accounting and improper earnings management."[67] Policymakers did not heed this warning in time, but there may still be time to attend to the improper accounting of the Ex-Im Bank.

It is not necessary to wait for an industry bubble to burst for the financial fallout of the Ex-Im Bank's improper accounting to be revealed. A new CBO report from May 2014 confirms GAO's suspicions. The analysis compares the cost projections for FY 2015 through FY 2024 yielded by the Ex-Im Bank's unusual accounting practices[68] to those calculated by CBO's own "fair value" method. CBO finds that the Ex-Im Bank's promised budget savings of more than $14 billion over the next decade are illusory. CBO's more accurate accounting method shows that that these Ex-Im Bank programs will actually *cost* taxpayers $2 billion over the next decade. The authors report,

> If Ex-Im Bank's activity in 2015 matches the President's budget request for that fiscal year, CBO estimates that $37.6 billion in new loans would be made or guaranteed in the bank's six largest credit programs, with savings totaling $1.4 billion [using the Ex-Im Bank's own method] and costs totaling $0.2 billion using the fair-value approach. Thus, the 10-year effects would be savings of $14 billion using [the Ex-Im Bank's] methodology and costs of $2 billion using the fair-value approach, a difference of $16 billion. The average subsidy rate under the [bank's] approach is estimated to be negative 3.8 percent for all of the bank's programs combined, whereas the average fair-value subsidy rate is estimated to be positive 0.4 percent.[69]

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67. "Report of the Special Examination of Fannie Mae," Office of Federal Housing Enterprise Oversight, May 2006, available at http://www.concernedshareholders.com/CCS_OfheoReport.pdf.
68. "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," Congressional Budget Office, May 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf.
69. Ibid.

CBO notes that administrative and servicing costs were not included in its analysis because it did not have access to those figures. Once factored in, the fiscal picture of Export-Import Bank financing programs could look even worse.

The bottom line is that supporters of the Ex-Im Bank can no longer claim that these programs provide profits to the federal coffers. Numerous audits from its internal inspector general and external federal research offices agree that the bank's risk analyses, default assumptions, internal reporting procedures, portfolio concentration, and general financial reporting are woefully inadequate to safely steward taxpayer funds and responsibly manage its vast portfolio. These methodological errors mislead supporters into thinking that the bank is in a much more robust fiscal situation than it really is. Contrary to the picture presented by its strongly criticized reporting, the bank will certainly *not* return surpluses to the Treasury in the coming decade; even under generous assumptions, the bank will cost taxpayers billions of dollars over that time. What's more, the bank's dangerous negligence in underestimating risk and exposure leaves taxpayers vulnerable to tremendous liabilities should economic conditions decline. Reports from federal research agencies and the bank itself are clear: far from being a cash cow for taxpayers, the Ex-Im Bank is likely to be a burden on them.

CONCLUSION

AFTER REVIEWING THEM in turn, the most popular arguments that support the Ex-Im Bank are far from definitive. In fact, the data show that the exact opposite is the case for each claim.

The bank cannot claim to play a critical role in promoting US exports, since the total export value of its annual portfolio only accounts for roughly 2 percent of the total value of US exports each year. The bank cannot claim to be filling the purported financing gap, either, as most of its portfolio assists large, connected firms that would have no trouble procuring alternative financing. Finally, export-credit agencies have, at best, a tiny effect on national exports compared to potent broader economic trends.

The bank cannot be shown to maintain or create any number of US jobs because the bank's job calculation methodology is so weak that GAO had to provide an in-depth audit to encourage reforms in the bank's approach. While the bank includes a brief exposition of these weaknesses deep in its annual reports, the reports continue to use the old, flawed methodology. What's more, for every job that the bank can claim to have created, there are numerous employees of unsubsidized competing firms that can claim to have been hurt. The ongoing lawsuit between Delta Air Lines employees and the Ex-Im Bank is only one manifestation of this economic reality.

The bank does not substantially benefit small businesses, but disproportionately benefits large corporations such as Boeing and General Electric. Supporters like to point to the number of deals given out to small businesses, but in terms of dollar amounts, huge multinational corporations are the clear winners. Even the "small businesses" that the Ex-Im Bank claims to support are not exactly small: the bank's definition of "small business" is far more expansive than the one employed by most federal offices and can include businesses that earn up to $7 million in revenues each year.

The bank cannot claim to level the playing field for US companies that compete against foreign-subsidized firms, either. The bank's own records report that only 30 percent of the estimated export value in its total portfolio goes toward this kind of activity. Even if the bank's entire portfolio were turned to this purpose, this position is economically untenable. By subsidizing exports, the Ex-Im Bank helps foreign consumers and hurts American consumers, taxpayers, and borrowers.

The bank cannot point to profits for taxpayers because its internal reporting is significantly flawed, and CBO analyses show that the bank will actually cost taxpayers billions of dollars over the next decade. What's more, numerous audits by CBO, GAO, and the bank's own inspector general show that the Ex-Im Bank's internal risk management and accounting practices are woefully inadequate and leave taxpayers exposed to massive liabilities.

The arguments for the Ex-Im Bank fail on each count. An entity that neglects to meet even its supporters' own stated standards simply has no justification and no claim to reauthorization. The bank has long outlived its original purpose and cannot meet the standards of the new missions that have been added to validate its existence. The charter of the Export-Import Bank of the United States should be allowed to expire.

PREPARED STATEMENT OF LINDA MENGHETTI DEMPSEY

VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

JUNE 2, 2015

Chairmen Shelby, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify today. I appreciate the chance to highlight on behalf of the National Association of Manufacturers (NAM) the importance of reauthorizing the U.S. Export-Import Bank to help manufacturers compete in the global marketplace that will enable them to support and sustain good-paying manufacturing jobs throughout every State.

The NAM is the Nation's largest industrial association and voice for more than 12 million women and men who make things in America. Manufacturing in the U.S. supports more than 17 million jobs, and in 2014, U.S. manufacturing output reached a record of nearly $2.1 trillion. It is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity. The NAM is committed to achieving a policy agenda that helps manufacturers grow and create jobs. Manufacturing has the biggest multiplier effect of any industry and manufacturers in the United States perform more than three-quarters of all private-sector R&D in the Nation—driving more innovation than any other sector.

Importance of Exports to U.S. Manufacturing and Jobs

Since its origin, the United States has recognized the importance of exports to promoting industrial and economic growth and supporting jobs. The ability of U.S. companies to export has also been a critical issue for the NAM since its founding. With 95 percent of consumers outside the United States and global demand for manufactured goods that far exceeds domestic demand, manufacturers in the United States need to win more sales overseas if they are going to sustain and grow operations and employment.

World trade in manufactured goods reached $11.8 trillion in 2013 [1] and greatly exceeds U.S. consumption of manufactured goods (domestic shipments and imports), which totaled $4.1 trillion in 2014. U.S. manufactured goods exports have more than doubled in the past decade, reaching a record $1.6 trillion in 2014. While that growth is impressive, U.S. manufacturers and exporters are facing an increasingly challenging global economy where growth has slowed. America lags behind many of its largest trading partners when it comes to exporting. U.S. exports comprised only 9.5 percent of global trade in manufactured goods in 2013. We can and must do more to expand U.S. exports if we are going to grow manufacturing and the jobs it supports in the United States.

The importance of exports to the bottom line for manufacturers across the United States is not a theoretical issue. More than 40 percent of respondents in a recent National Association of Manufacturers (NAM) survey cited exports as a primary driver of growth for their company. [2] Those survey respondents who were more positive about their export potential over the next 12 months were also more optimistic in their company's economic outlook, sales and capital spending plans.

Nor are exports a theoretical issue for the workers employed in every State by our Nation's manufacturers. As new export opportunities emerge overseas, manufacturers in the United States are able to both sustain and create American jobs. According to the latest figures from the U.S. Department of Commerce, every $1 billion in exports creates or supports 5,796 jobs.

Recently, exports have played a significant role in the ongoing manufacturing recovery. Since the end of 2009, export-intensive sectors with substantial export growth have seen the largest job gains. U.S. manufactured goods exports support higher-paying jobs throughout the United States. Moreover, jobs supported by exports pay, on average, 18 percent more than other jobs. [3] Employees in the "most trade-intensive industries" earn an average compensation of nearly $94,000, or more

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[1] Data from the World Trade Organization Statistical Database, accessed on Jan. 29, 2015. Most recent data available.

[2] Moutray, Chad, "NAM/*lndustryWeek* Survey: Manufacturers Bullish, But Frustrated With Washington", *lndustryWeek*, June 9, 2014. See *http://www.industryweek.com/global-economy/namindustryweek-survey-manufacturers-bullish-frustrated-washington?page=1.*

[3] David Riker, "Do Jobs in Export Industries Still Pay More? And Why?" International Trade Administration, U.S. Department of Commerce, July 2010, accessed at *www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003208.pdf*.

than 56 percent more than those in manufacturing companies that were less engaged in trade. [4]

Importance of Ex-Im Bank to Growing U.S. Exports

One vital tool that thousands of manufacturers use to compete successfully in global markets is the Ex-Im Bank. The NAM strongly supports Ex-Im Bank's mission to support U.S. jobs through exports and views the Bank as one of the most important tools the U.S. Government has to help grow U.S. exports and jobs.

The Export-Import Bank is essential to boosting exports of U.S. products. In FY2014, Ex-Im Bank enabled more than $27 billion in exports—leveraging about $20.5 billion in authorizations. Nearly 90 percent of those transactions directly supported small businesses, with an estimated $5 billion in support for small business exporters. Furthermore, the Bank has maintained its incredibly low default rate of through the recession and through several years of record growth. At the end of FY2014, the Bank's default rate was less 0.2 percent. Notably, Ex-Im's activities are already targeted and, by law, must not compete with private sector lending activity.

Ex-Im Bank helped promote just under two percent of total U.S. exports in FY2014. While it does not need to finance the great majority of U.S. exports, it is considered vital in certain areas of significant growth, particularly for small- and medium-sized business exporters, long-term financing for large projects, sales to emerging markets, and sales to foreign State-owned entities.

- *Small- and Medium-Sized Business Exports.* Ex-Im is vital to many and medium-sized businesses to enable them to start to export overseas. Small businesses, both those that are direct exporters and those that supply domestically to larger U.S. exporters, will feel the blow if Congress fails to reauthorize Ex-Im Bank. Those companies that utilize Ex-Im Bank insurance programs to enable their working capital will be faced almost immediately with a dilemma about how to pay their workers and make the mortgage payments on their facilities, let alone consider growing and hiring. Suppliers whose U.S. customers lose out on large infrastructure, aerospace and energy projects overseas because they cannot bid without access to Ex-Im Bank will also see their orders shrink. Of the Bank's 3,300 small business transactions in FY2014, 545 companies were first-time Ex-Im users. Ex-Im's role in jump-starting new small- and medium-sized exporters is particularly important.

  •Many small- and medium-sized manufacturers across the country have turned to Ex-Im Bank to take advantage of new international trade opportunities and grow their workforce. Special Products & Mfg., Inc. (SPM) in Rockwall, Texas, is a second generation, family owned business that has grown—with the help of exports—from a small garage shop in the 1960s into a firm with more than 200 machine operators, welders, assemblers, engineers and other associates in a 140,000 square foot state-of-the-art factory. Over the past several years, SPM has seized opportunities to expand their business into the world marketplace. From Europe to South America, SPM is exporting products ranging from new and improved gas station pumps to large steel enclosures for drill rig drives. SPM also supplies many companies like General Electric and Caterpillar, and SPM's Chief Operator Officer Ed Grand-Lienard made the trip to Washington earlier this year to let Congress know that the future of American manufacturing is in jeopardy of being seriously hurt if the Ex-Im Bank is not reauthorized. This company is just one of the many small businesses that have reaped the benefits of expanded market access and tools like Ex-Im Bank, and the NAM would be happy to provide others to the Committee.

- *Long-Term Project Finance.* Ex-Im Bank, like foreign export credit agencies (ECAs), has taken on an increasingly important facilitation role for export financing as the role of commercial banks in financing long-term projects continues to shrink in the wake of the financial crisis. U.S. regulatory guidelines that favor domestic receivables over foreign sales, [5] implementation of Basel III

[4] Calculations From the Manufacturers Alliance for Productivity and Innovation (MAPI) Foundation, using 2013 input output data from the Bureau of Economic Analysis, accessed at *www.themanufacturinginstitute.org/Research/Facts/About-Manufacturing/Foreign-Trade-and-Investment/Impact-on-Compensation/Impact-on-Compensation.aspx.*

[5] Office of the Comptroller of the Currency, Treasury Department, Comptroller's Handbook, at 17–18, accessed at *http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-asset-based-lending.pdf.*

rules[6] and the European sovereign debt crisis[7] have all impacted the ability and appetite of banks to participate in long-term export financing projects at competitive rates. While some banks have been able to restore effectively their balance sheets, commercial bank participation in long-term, high-volume funding (tenors longer than 10 years and over a few hundred million dollars) remains highly selective. Many experts—including top executives from U.K. Export Finance (UKEF), Korea Trade Insurance Corporation (K-Sure) and Deutsche Bank—suggest that Basel III will continue to constrain commercial banks from playing a significant role as long-term funders of large-scale projects and other sales.[8] As a result, ECAs are increasingly a driving force for large-scale, long-term projects—particularly projects in the infrastructure, energy and aerospace sectors.[9] *Infrastructure Journal* data show that ECA lending activity in commercial project finance transactions increased threefold from less than $10 billion in 2009 to more than $30 billion projected for 2013, and ECAs are providing the only project finance available in some markets. In particular, Japan Bank for International Cooperation (JBIC) is a global leader for energy and infrastructure project finance[10] and Korea EximBank is rising in prominence, particularly in its priority energy sector.[11]

- *Emerging Markets.* Many U.S.-based lenders also turn to Ex-Im to mitigate geopolitical and collateral risk in an effort to provide viable trade financing solutions for exporters. Without Ex-Im, many private lenders have limited options: opt not to finance otherwise viable export activity in emerging markets, charge rates that are uncompetitive globally or place limits on the overall amount of financing to particular emerging markets. Ex-Im Bank, for example, offers medium- and long-term guarantees that provide flexible lender financing options for buyers of U.S. capital goods and services. Ex-Im also supports commercial banks through letter of credit (LC) confirmations that reduce a bank's risks, offering private sector lenders greater flexibility in working with their client base.
- *Government and State-Owned Enterprise (SOE) Transactions.* U.S. exporters from a broad number of sectors increasingly are selling to foreign Governments and State-owned entities. Be it medical equipment sales to foreign State-owned hospitals, power generation equipment to foreign State-owned utilities or communications satellites to foreign Governments for national mobile satellite systems, such sales support greater exports and jobs in the United States, but are difficult to win. In some cases, the foreign purchaser favors suppliers with a Government entity on the other side of the table. In other cases, like a nuclear power plant project overseas, an ECA lending option is a requirement to participate in the initial bidding phase—even if the customer ultimately opts for another financing option. While the Governments of most of the United States' major trading partners are willing to oblige, Ex-Im is the only Government entity able to play such a role for U.S. exporters. Without Ex-Im's presence, U.S. exporters simply would not be eligible to compete for many of these substantial foreign sales.

In short, while Ex-Im's role is relatively small compared to the overall size of U.S. exports, it plays an outsized and highly important role in opening the door to U.S. exports for certain types of transactions where U.S. exporters continue to see substantial growth opportunities.

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[6] Basel Committee on Banking Supervision, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems". December 2010, accessed at *http://www.bis.org/publ/bcbs189.pdf.*

[7] Berne Union Yearbook 2012 at 55, accessed at *http://www.berneunion.org/wp-contenl/uploads/2013/10/BerneUnion-Yearbook-2012.pdf*—Quoting Steve Tvardek, Head of the OECD Export Credits Division, OECD.

[8] Berne Union Yearbook 2014 at 66, accessed at *http://www.berneunion.org/wp-content/uploads/2012/10/BerneUnion-80-Yearbook-2014.pdf.*

[9] See, e.g., "Power Shift: The Rise of Export Credit and Development Finance in Major Projects". November 2013; Baker and McKenzie with *Infrastructure Journal*, accessed at *http://www.bakermckenzie.com/files/Publication/7dc07b54-651f-4168-9c81-0abdfdc432ca/Presentation/PublicationAttachment/6943f6ae-5718-42f8-a587-9a06c65902d7/fc__global__powershift__nov13.pdf.*

[10] "Power Shift: The Rise of Export Credit and Development Finance in Major Projects" [2013].

[11] "Filling the Funding Gap—Korea Eximbank", *Project Finance International* (March 2013), accessed at *http://www.pfie.com/filling-the-funding-gap-%E2%80%93-korea-eximbank/21071929.article.*

The Global Export Credit Dimension

One of the significant roles that the Ex-Im Bank plays is aiding U.S. exporters and their workers to compete in a global economy that is characterized by dramatically increasing export credit assistance provided by Governments in Europe, Asia, and Latin America. As detailed in a study released by the NAM in 2014, *The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States* (2014),[12] there are more than 60 ECAs worldwide and the ECAs of our top nine trading partners—Brazil, Canada, China, France, Germany, Japan, Mexico, South Korea, and the United Kingdom—provided nearly half a trillion dollars in annual export support. Other key findings of that report include:

- The ECAs of China, Japan, South Korea, and Germany are already individually larger than the Ex-Im Bank, and all of the nine major foreign ECAs are larger as a share of their countries' GDP than the Ex-Im Bank is compared to U.S. GDP;
- China's primary ECA provides more than five times the assistance than the U.S. Ex-Im Bank does;
- Major foreign ECAs, including those in Germany, China, and Canada, are expanding exports more successfully than the Ex-Im Bank. The Ex-Im Bank supported 2.42 percent of total U.S. exports in 2013, while Germany (3.63 percent), China (12.50 percent), and Canada (20.29 percent) helped to support even more international sales;
- Foreign ECA activity grew sharply in several major countries, including China, South Korea, and Canada, between 2005 and 2013; and
- Official ECA activity is particularly critical to key and growing manufacturing sectors of the global economy, including infrastructure and transportation where manufacturers in the United States are well positioned to grow in related exports if competitive financing is available.

While the United States is a relatively small player in ECA activity, it has worked intensively to negotiate strong rules to eliminate market distortions and subsidies that oftentimes characterize foreign ECAs. In particular, the United States has led efforts to bring developed country members of the Organization for Economic Cooperation and Development (OECD)[13] and non-OECD countries to the negotiating table. Largely as a result of U.S. leadership over several decades, most of the OECD's industrialized countries have agreed to uniform standards for fair and commercially based ECA lending.[14] Sector-specific arrangements have also been negotiated to provide even stricter discipline on ECA financing related to ships, nuclear power, aircraft, renewable energy, climate change mitigation, and water projects.[15]

Work with non-OECD countries has been more difficult and that is where the greatest concern about subsidized ECA financing lies. The United States has worked intensively to undertake negotiations with key developing countries to agree to operate their ECAs based only on commercial considerations. As a result of U.S. efforts, 18 major providers of export credits[16] have been invited to participate in the Inter-

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[12] NAM, "The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States" (2014), accessed at *http://www.nam.org/uploadedFiles/NAM/Site__Content/Issues/Global%20Export%20Credit%20Dimension%20Web.pdf*; see also NAM, "Forfeiting Opportunity: Ex-Im Bank Reauthorization Is Essential for Manufacturers To Compete Globally in the Face of Massive Foreign Export Credit Financing" (2014), accessed at *http://www.nam.org/uploadedFiles/NAM/Site__Content/Issues/Forfeiting%20Opportunity%20Web.pdf.*

[13] Members include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States. OECD, "Members and Partners", accessed at *http://www.oecd.org/about/membersandpartners.*

[14] Most prominently, OECD members developed the "Arrangement on Officially Supported Export Credits" (ECA Arrangement) that sets out financial disciplines for standard export credits and for export credits for certain sectors that reduce and eliminate potential market distortions. In particular, the EGA Arrangement—which has been agreed to by Australia, Canada, the European Union, Japan, New Zealand, Norway, South Korea, Switzerland, and the United States, emphasizes that OECD ECAs should be competing "on quality and price of goods and services exported rather than on the most favorable officially supported terms". OECD, "Official Export Credit Agencies", accessed at *http://www.oecd.org/tad/xcred/eca.htm*; see also, OECD, "Official Export Credit Agencies", accessed at *http://www.oecd.orq/tad/xcred/eca.htm.*

[15] OECD, "Official Export Credit Agencies", accessed at *http://www.oecd.org/tad/xcred/eca.htm.*

[16] The 18 participants are 9 participants in the OECD arrangement (Australia, Canada, the European Union, Japan, New Zealand, South Korea, Switzerland, and the United States) and

national Working Group on Export Credits (IWG), which held its first meeting in November 2012 and has met several times. Work is slow as many non-OECD participants have been "cautious" and not clearly committed to the process. [17]

The U.S. Ex-Im Bank's role, while small in the global economy, is critical to many thousands of exporters. Failing to reauthorize Ex-Im is tantamount to unilateral disarmament and will also negate U.S. leadership in seeking to eliminate foreign ECA market distortions and subsidies.

Time Is of the Essence

Last fall, Congress extended Ex-Im Bank's authorization through June 30, 2015. Manufacturers need Congress to act quickly on legislation to provide a long-term reauthorization of Ex-Im Bank. Reliable access to export financing is a vital part of being globally competitive, and the Ex-Im Bank has taken on even greater significance in today's turbulent financial environment. Manufacturers in the United States—and their customers overseas—operate based on long-term plans that often involve multiyear projects in which the Ex-Im Bank is a critical partner. Without the certainty of a long-term Ex-Im reauthorization, U.S. exporters have already been put at a significant disadvantage, which will hamper growth here at home and result in lost opportunities for American workers and businesses.

If Congress fails to enact quickly a long-term reauthorization of Ex-Im Bank, manufacturers will be forfeiting opportunities to competitors overseas and, thereby, risk the loss of not just of exports, but of manufacturing growth and good-paying jobs in every State.

- If the Ex-Im Bank is not reauthorized, tens of billions of dollars in U.S. exports will be put at risk annually. Manufacturers overseas will increasingly win foreign sales that could have been won by manufacturers in the United States. The loss of U.S.-manufactured exports will be at the expense of thousands of manufacturers in the United States and hundreds of thousands of American workers who rely on Ex-Im services to boost their export sales.
- Weakening America's export competitiveness will be particularly damaging in the face of intense and growing global competition that has already resulted in a substantial decline in America's share of the global manufacturing market.
- Even greater manufacturing export opportunities will be lost on an annual basis as trade expands and U.S. exporters effectively cede foreign sales. The loss of new export opportunities will be particularly severe for small- and medium-sized businesses and for exports to emerging markets and infrastructure sectors where growth is expected to be strongest.

Time is of the essence. The uncertain future of the Ex-Im Bank is already putting U.S. export sales as risk.

Conclusion

There is broad support for Ex-Im Bank's reauthorization from job-creators across the country. Over the past year, more than 83,000 letters from manufacturers, exporters, and constituents have been sent to you and your colleagues. In February, more than 700 people from 41 States—representing a broad spectrum of manufacturing sectors and along the breadth of the supply chain—came to Washington, DC, to ask their Members of Congress to support a long-term reauthorization of Ex-Im Bank. This week, the NAM is hosting its annual Manufacturing Summit in Washington and hundreds of NAM members are here to advocate for policies—including the long-term reauthorization of Ex-Im Bank—that benefit manufacturers in the United States.

The Ex-Im Bank is a targeted tool and a last resort that enables U.S. businesses to find a foothold in an increasingly competitive marketplace. Failure to reauthorize the Ex-Im Bank is already creating uncertainty that is putting U.S. exports at risk. The failure to reauthorize the Ex-Im Bank will have even greater, more lasting and more damaging effects on manufacturers of every size throughout out the United States, threatening tens of billions of dollars in export sales as well as the security

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9 non-OE CD members (Brazil, China, India, Indonesia, Israel, Malaysia, Russian Federation, South Africa, and Turkey).

[17] "Report on Export Credit Negotiations", U.S. Department of the Treasury, December 2013. The IWG held two full meetings (hosted by China in May 2013 and the European Union in September 2013) and one technical meeting (hosted by Germany in March 2013); European Commission, Report from the Commission to the European Parliament and the Council—Annual Report on negotiations undertaken by the Commission in the field of export credits, in the sense of Regulation (EU) No. 1233/2011 (May 28, 2014), accessed at *http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:299:FIN*.

of hundreds of thousands of American jobs that depend directly or indirectly on the Ex-Im Bank's export financing. I urge you to move forward quickly on a long-term reauthorization for Ex-Im Bank to enable it to effectively fulfill its principal mission of supporting U.S. jobs through exports.

Thank you, Chairmen Shelby and Ranking Member Brown for holding this hearing and for providing me the opportunity to testify on the importance of a long-term reauthorization of the Export-Import Bank to our Nation's manufacturers.

PREPARED STATEMENT OF MICHAEL R. STRAIN

DEPUTY DIRECTOR OF ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

JUNE 2, 2015

Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the Export-Import Bank of the United States. It is an honor.

I do not believe that the Export-Import Bank should be reauthorized. I will spend the next few minutes outlining why, with a special focus on the Ex-Im Bank's impact on jobs.

Jobs in a General Economy

In a healthy economy—one characterized by full employment—the Ex-Im Bank, an open-ended export credit agency that is properly described as offering export subsidies to selected firms, does not create jobs. This stands in stark contrast to the rhetoric of some of the Ex-Im Bank's supporters. But it is the correct conclusion, at least to a first approximation, for informing the Committee as it debates the appropriate course of action for the Ex-Im Bank. [1]

Imagine an economy like ours, with some firms that export goods abroad and many more firms that sell only within the United States. All labor resources are utilized. The Government enters and subsidies the exporting firms. This will surely help those firms, and may even increase the number of jobs those firms can support. But as labor resources were already fully employed, these new jobs must come from somewhere. What the export subsidy is doing, in effect, is shifting jobs from firms that do not export to those that do. [2] This does not increase employment on the whole.

Jobs in an Economy Without Full Employment

Now, it must be said that there is considerable debate among economists as to whether the U.S. economy is currently characterized by full employment. Many economists believe we are quite close to full employment, but I am not among them. Despite a rate of unemployment that is rapidly approaching one at which the Federal Reserve may be properly concerned about inflation, it is still the case that employment rates among prime-age workers have not fully recovered from the Great Recession, the level of involuntary part-time work remains elevated, and wage growth is unsatisfactory.

In such an environment, it can be argued that export credit may help support jobs. To this argument l have three replies. The first is that the Congress should not reauthorize a permanent export credit agency in order to achieve the temporary goal of tightening a slack labor market. Monetary and fiscal policy are much better tools to tighten the labor market. The second is that even if the Congress chooses to offer financing to selected sectors to support employment, exports would not be high on the list of firms or industries to target. Finally, failing to reauthorize the Ex-Im Bank would not immediately terminate its existing financing arrangements, and the lives of those arrangements will likely run longer than our current labor market conditions.

The Economy as a Whole: General Equilibrium Concerns

I will now turn from the employment impacts of the Ex-Im Bank to considerations of the broader economy. Textbook models of international trade for a large economy

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The views expressed in this statement are those of the author. The American Enterprise Institute for Public Policy Research does not hold institutional positions on any issues.

[1] Economist David P. Baron puts it succinctly in his book *The Export-Import Bank: An Economic Analysis* (Academic Press, 1983): Employment objectives "do not provide a sufficient justification for Eximbank [Ex-Im Bank] programs".

[2] Congressional Budget Office, "The Benefits and Costs of the Export-Import Bank Loan Subsidy Program", March 1981.

such as the United States predict that export subsidies will lower national welfare—will make the United States worse off-relative to a situation without the subsidies. In contrast, some (though far from all) more complicated models set in an oligopolistic market environment featuring particular forms of strategic competition do find situations in which export subsidies can make the Nation better off.[3]

A unifying feature of these models, however, is that the Government's policy towards exports requires an incredible amount of knowledge that the Government almost surely does not possess in reality.

To illustrate this, consider some general equilibrium effects of a simple subsidy.[4] Much discussion of the Ex-Im Bank focuses on partial equilibrium effects—on the effects of the Ex-Im Bank on a single market, or on a single set of firms. But economic policy, including the decisions of the Ex-Im Bank, can affect many firms and many markets, and so general equilibrium considerations must be taken into account by the Congress when deciding whether to allow the Ex-Im Bank to continue providing export credit.

An export subsidy will give subsidized firms an advantage over their foreign competitors, increasing the demand for those firms' output. But this, in turn, will increase the demand for inputs to production among the subsidized firms, increasing the price of those resources faced by other sectors, and putting firms in those sectors—sectors that do not receive export credit—at a disadvantage relative to a situation without the export subsidy.

Even if the subsidy helps firms that receive it, then, the subsidy may hurt the overall economy. It is hard to imagine how the Government could understand all the interlocking parts of the economy well enough to know whether the subsidy is a net positive for the United States. The existence of capital market deficiencies and imperfections and the export-credit behavior of foreign Nations do not nullify general-equilibrium concerns about information and uncertainty.

Political Economy Concerns

Political economy presents other concerns as well. The default assumption should be that well-connected, influential corporations will be in a better position to exercise influence over whether they receive Ex-Im Bank financing than other, less-connected corporations. The default assumption should not be that political connections will not play a role in which firms receive export credit.[5] This creates important issues that the Congress cannot ignore.

Conclusion: "Corporate Welfare" and Trade Policy

To conclude, let me offer three final thoughts. First, it is reasonable to describe the Ex-Im Bank as dispensing so-called "corporate welfare". But the Ex-Im Bank is hardly the chief offender. After the Ex-Im Bank's fate is resolved, the Congress should oppose "crony capitalism" in other sectors of the economy (where its magnitude is often larger) as vigorously.

Second, in the realm of trade policy, future negotiations and arrangements should stress the need for foreign Nations to limit export credit.

Finally, supporters of the Ex-Im Bank have a reasonable argument that there may be times when limited, temporary, strategic trade policy may be appropriate. But such policy should address specific, identifiable actions of foreign Governments or other strategic goals in a targeted way. It should not be left to an open-ended export credit agency such as the Ex-Im Bank.

But regardless of progress on these three fronts, the Ex-Im Bank should not be reauthorized.

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[3] See, for example: James A. Brander and Barbara J. Spencer, "Export Subsidies and International Market Share Rivalry", *Journal of International Economics*, vol. 18, 1985. Avinash Dixit, "International Trade Policy for Oligopolistic Industries", *Economic Journal*, vol. 94, supplement: conference papers, 1984. Jonathan Eaton and Gene M. Grossman, "Optimal Trade and Industrial Policy Under Oligopoly," *Quarterly Journal of Economics*, vol. 101, no. 2, May 1986. For an excellent overview of this literature, see Robert C. Feenstra, "Advanced International Trade: Theory and Evidence", Princeton University Press, 2004.

[4] Of course, the Government also requires other knowledge in addition to that of general equilibrium effects to ensure that export subsidies are welfare improving. The type of competition in the industry, the appropriate design of the subsidy, and the reaction of other Nations, to name a few, can be very difficult things for the Government to know.

[5] For example, Kishore Gawande and Usree Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection", *Review of Economics and Statistics*, vol. 82, no. 1, February 2000.

PREPARED STATEMENT OF JOHN G. MURPHY

SENIOR VICE PRESIDENT FOR INTERNATIONAL POLICY, U.S. CHAMBER OF COMMERCE

JUNE 2, 2015

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as State and local chambers and industry associations.

More than 96 percent of Chamber member companies have fewer than 100 employees, and many of the Nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 States.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

Chairman Shelby, Ranking Member Brown, and distinguished Members of the Committee, my name is John Murphy, and I am Senior Vice President for International Policy at the U.S. Chamber of Commerce (Chamber). I am pleased to testify today on the importance of reauthorizing the Export-Import Bank of the United States (Ex-Im), the charter for which will lapse on June 30. The Chamber is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as State and local chambers and industry associations.

Ex-Im is one of the most important tools at the disposal of U.S. companies to level the playing field for trade finance as they seek to increase exports and create jobs at home. The benefits of its programs to the U.S. economy are plain: In fiscal year 2014, Ex-Im provided financing or guarantees for $27.5 billion in U.S. exports, thereby supporting more than 164,000 American jobs.

Last year alone, the volume of exports supported by Ex-Im was more than all U.S. merchandise exports to Italy, India, or Australia. It was also more than the total merchandise exports of Alabama and more than the merchandise exports of Arkansas, Idaho, Nebraska, and South Dakota combined.

Ex-Im is especially important to U.S. small- and medium-sized businesses, which account for nearly 90 percent of Ex-Im's transactions. In addition to these direct beneficiaries, tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Competitiveness at Stake

Unilateral disarmament is rarely a good idea, but this is precisely what refusing to reauthorize Ex-Im would accomplish. The Organization for Economic Cooperation and Development (OECD) reports that the 79 official export credit agencies (ECAs) worldwide have extended more than $1 trillion in trade finance in recent years.

Every major trading Nation has at least one official ECA. The ECAs of the world's other top trading Nations provided 18 times more export credit assistance to their exporters than Ex-Im did to U.S. exporters last year, according to a recent report prepared by the National Association of Manufacturers with data and analysis from the Economist Intelligence Unit.

However, the competitive challenge is even more daunting in the developing world. ECAs in developing countries, which in most cases do not abide by the rules of the OECD Arrangement on Officially Supported Export Credits, provide far more export financing on much more generous terms than Ex-Im does.

This was especially pronounced during and immediately after the 2008–2009 financial crisis: In 2008, China's ECAs provided Chinese exporters 17 times more export credit as a share of GDP than Ex-Im did for U.S. exporters. As late as 2010, Chinese and Brazilian ECAs provided 10 times more financing to domestic exporters as a share of GDP than Ex-Im did. Even today, ECAs based in China, India, and Brazil far outpace Ex-Im in lending volumes.

Some critics contend that closing Ex-Im would set an example for others, or that negotiations could then induce other countries to close their ECAs. This is pure fantasy. In discussions at the OECD and in other fora, Governments from Germany to China have shown zero interest in shuttering their ECAs.

Even the conservative Government of Canada, which is widely recognized for its free-market, free-trade approach to economic policy, has shown no interest in placing new limits on its ECA. In fact, Canada's equivalent of Ex-Im (Export Development Canada) provided 30 times more export finance to its exporters than Ex-Im does to U.S. firms, relative to the size of its economy.

The fact that the Treasury has not been able to negotiate an agreement to wind down other countries' ECAs is not a valid reason to penalize U.S. exporters and the workers they employ. U.S. companies produce many of the world's best goods and services, but without Ex-Im they would often find themselves at an unfair disadvantage when competing with foreign enterprises backed by official export credit agencies. For the United States not to have an operating ECA would put U.S. exporters at an absolutely unique disadvantage.

A Key Tool for Small Businesses

These realities play out differently for various sectors and industries. The challenge is especially poignant for small businesses as commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex-Im guarantee.

For example, Bridge to Life Solutions in Columbia, South Carolina, provides state-of-the-art cold storage organ transplant solutions. As John Bruens, Chief Commercial and Business Development Officer for Bridge to Life, explains: "Without Ex-Im, I would have to tell my customers, 'prepay everything up front, or we can't do business.'" By purchasing credit insurance from Ex-Im for the firm's foreign receivables, Bridge to Life has been able to extend credit terms to its international customers.

Indeed, buyers overseas increasingly expect vendors to offer financing. Without Ex-Im's accounts receivables insurance and lines of credit, many U.S. small businesses would be unable to extend terms to foreign buyers and would have to ask for cash-in-advance. In such a case, the business will most likely go to a firm from another country that benefits from ECA support.

Similarly, Eagle Labs in Rancho Cucamonga, California, uses Ex-Im's credit insurance to insure orders for surgical equipment for cataract surgery. Michael De Camp, Vice President of International Sales for Eagle Labs, explains that despite receiving consistent payment from foreign customers, local banks would not extend credit to Eagle Labs based on uninsured accounts. Once Eagle Labs secured Ex-Im credit insurance, the firm was able to secure a line of credit from a private bank, bought the capital equipment it needed, doubled its sales, and doubled its workforce.

Head to Head: Exports of Capital Goods

Looking beyond small- and medium-sized businesses, it is par for the course for expensive capital goods such as Canadian planes, Chinese trains, and Russian nuclear reactors to be sold worldwide with unashamed backing from these firms' national ECAs. For example, South African railway Transnet last year put out a bid for 466 diesel electric locomotives at a total contract price of $750 million. As is common in such bids, one requirement was that the supplier must finance a significant portion of the transaction.

Backed by aggressive export financing provided by China's export credit agency, Chinese locomotive manufacturers won half the order. In March 2014, General Electric won the order for the other 233 locomotives—but only because Ex-Im support was available to level the financial playing field. Without Ex-Im, GE would have lost the entire order—with real world consequences for workers at its Erie, Pennsylvania plant.

This kind of story plays out time again with capital goods. Last month, *Reuters* reported on another $350 million deal to build locomotives for sale in Angola that would be lost if Ex-Im's charter is allowed to lapse, endangering 1,800 jobs.

Foreign infrastructure opportunities are another area where ECA support is included in bidding requirements. Closing Ex-Im would shut major American exporters out of huge business opportunities overseas because ECA support is often required for a company even to bid on overseas infrastructure projects. The *New York Times* reported last month that a $668 million drinking water project in Cameroon will go not to U.S. vendors but to their Chinese competitors if Ex-Im is not reauthorized.

The Nuclear Power Sector: A Case in Point

Nuclear power is another sector where the fate of Ex-Im will have a major impact. According to the Nuclear Energy Institute, five nuclear power plants are under construction in the United States, but 61 new plants are under construction overseas. An additional 165 plants are in the licensing and advanced planning stages—nearly all abroad. NEI explains:

> Over the next decade, exports of up to 15 new nuclear plants could hinge on the availability of Ex-Im Bank products. At roughly $3 billion to $5 billion per plant, the projects represent a potential $45 billion to $75 billion in U.S. exports in need of Ex-Im Bank support. Four nuclear power projects—including up to seven plants—are already in Ex-Im Bank's project pipeline. These projects represent $21 billion to $35 billion in potential business that could become committed orders within the next 2–3 years . . .
>
> *Export credit agency support is almost always a bidding requirement for international nuclear power plant tenders* [emphasis added]. Ex-Im Bank is therefore vital to the success of U.S. exports even in cases where the customer ultimately elects not to use Ex-Im financing. Without Ex-Im Bank, U.S. commercial nuclear suppliers would suffer a major competitive disadvantage or be excluded for failure to meet tender requirements . . .
>
> U.S. suppliers of nuclear technology, equipment and services compete against a growing number of foreign firms—many of which are State-owned and benefit from various forms of State support. All foreign nuclear energy competitors are backed by national export credit agencies or other State financing.

Refusing to reauthorize Ex-Im would put U.S. companies selling expensive capital goods such as aircraft, locomotives, turbines, and nuclear power plants at a unique competitive disadvantage because their foreign competitors all enjoy ample financing from their home-country export credit agencies—enough to easily knock U.S. companies out of the competition. For some industries, executives will face the question of whether to shift production to locations where ECA support is available.

Nor does Ex-Im force commercial banks out of the trade finance business. In a recent joint letter to congressional leaders expressing strong support for Ex-Im, the Bankers Association for Finance and Trade (BAFT) and the Financial Services Roundtable (FSR) explained that Ex-Im "cannot be replaced solely by the private sector." "Balance sheet constraints (arising from prudential capital and liquidity requirements, among other factors) along with institutional credit, country and counterparty limitations" are among the factors that limit the ability of commercial banks to provide export finance.

The associations added: "An Ex-Im Guarantee does not make a bad deal 'bankable' . . . commercial banks share the risk on transactions with Ex-Im and so would not enter into arrangements where the risk trumps the viability of the deal."

No Cost to the Taxpayer

Ex-Im operates at no cost to the American taxpayer and has amassed a $4 billion loan-loss reserve that provides more than adequate protection against losses. The fact that Ex-Im loans are backed by the collateral of the goods being exported is the principal bulwark against losses. Ex-Im's overall active default rate in recent years has hovered below one-quarter of 1 percent and stood at 0.167 percent as of March 31, 2015.

Ex-Im charges fees for its services that have generated billions of dollars in revenue for the U.S. Treasury. In fact, Ex-Im has sent to the Treasury $7 billion more than it has received in appropriations since 1990. This figure comes from Ex-Im's annual report, which uses the accounting method required by law. Contrary to rumor, the Congressional Budget Office (CBO) has never denied that Ex-Im continues to generate a "negative subsidy," i.e., it is a net contributor of revenue to the Treasury.

Using an alternative "fair-value" accounting method, CBO last year produced an estimate that Ex-Im might impose costs on the Treasury over the next decade. However, this alternative accounting rests on questionable assumptions. For instance, this scenario assumed Ex-Im would extend loans at a level nearly 40 percent higher than it did last year, even though the Bank's lending has been declining steadily as the financial crisis of 2008–2009 recedes. Moreover, in 2012, CBO released a similar report in which it estimated that Ex-Im would generate a "negative subsidy" for taxpayers even under the fair-value methodology. It is unclear what changed in CBO's approach.

According to the Merriam-Webster Dictionary, a subsidy is "money that is paid usually by a Government to keep the price of a product or service low." As noted, Ex-Im provides no such subsidy; on the contrary, the fees it charges have risen in recent years. In the aircraft sector, a new 2011 multilateral agreement doubled the fees for export credit financing, thereby addressing the concern that some export credit financing was below market rates.

Some critics charge that Ex-Im picks winners and losers, skewing the marketplace. On the contrary, Ex-Im extends loans and guarantees to all applicants that meet its strict lending requirements but does so only when commercial credit is unavailable or when it is necessary to counteract below-market credit from foreign ECAs. Ex-Im also acted to fill the void when the availability of private-sector trade finance fell by 40 percent during the 2008–2009 financial crisis.

At times Ex-Im's opponents have attempted to tie it to unsavory customers overseas. In the Chamber's view, this is an attempt to divert attention from the true beneficiaries of Ex-Im—the tens of thousands of American workers whose jobs depend on the Bank's support for their exports. Their voice must be heard in this debate.

Conclusion

The breadth and depth of support for Ex-Im's reauthorization across the business community is impressive. With Americans overwhelmingly focused on the need to generate economic growth and good jobs, business owners are perplexed by the campaign against Ex-Im. In particular, the thousands of small businesses that depend on Ex-Im to be able to access foreign markets are stunned at the threat that Washington could let its charter lapse.

Ex-Im does not skew the playing field—it levels it for U.S. exporters facing head-to-head competition with foreign firms backed by their own ECAs. Ex-Im doesn't pick winners and losers—but refusing to reauthorize Ex-Im is picking foreign companies as winners and U.S. exporters as losers.

Ex-Im's critics need to take a broader look at the global economy and the serious threats to U.S. industrial competitiveness—including in many national security-sensitive sectors. America's modestly scaled, properly limited Ex-Im Bank plays a vital role in this context.

The Chamber appreciates the opportunity to provide these comments to the Committee. We are committed to working with Congress to secure Ex-Im's reauthorization before June 30.

PREPARED STATEMENT OF DANIEL IKENSON

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JUNE 2, 2015

Introduction

Chairman Shelby, Ranking Member Brown, Members of the Committee, it is a great pleasure to have been invited to share my "Perspectives on the Export-Import Bank of the United States" with you today. My intention is to focus primarily on the domestic victims of the Export-Import Bank (Ex-Im) by describing some of the hidden costs—the collateral damage—that are often overlooked or swept under the rug.

To the extent that today's hearing will help illuminate the holistic impact of Ex-Im on the U.S. economy and the market process—in contrast to the cherry-picked examples of how Ex-Im has helped particular companies meet their particular goals—I am pleased to participate and offer some assistance.

Before turning to that task, however, I would like to applaud the Committee for taking up this important subject in a public hearing. Committed oversight of the executive branch by the legislative branch is crucial to our system of checks and balances, which must remain functionally robust to ensure the health of our constitutional republic, and protect it from even the most subtle encroachments.

Insulated in Export Rhetoric

Everyone loves exports. In fact, many Americans think of trade as a competition between "Us" and "Them," where exports are "Team USA's" points, imports are the foreign team's points, the trade account is the scoreboard, and the deficit on that scoreboard means our team is losing at trade. That narrative is wrong, but certainly ripe for exploitation by agencies that portray themselves as serving some national goal of boosting exports.

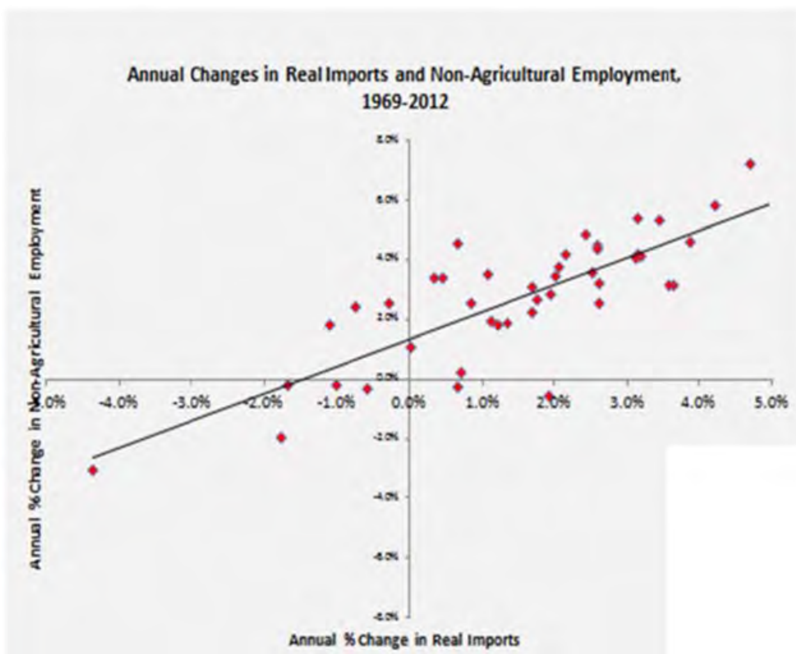
The economic fact of the matter is that the real benefits of trade are transmitted through imports, not through exports. As Milton Friedman used to say: imports are the goods and services we get to consume without having to produce; exports are the goods and services we produce, but don't get to consume.

The purpose of exchange is to enable each of us to focus on what we do best. By specializing in an occupation—instead of allocating small portions of our time to producing each of the necessities and luxuries we wish to consume—and exchanging the monetized output we produce most efficiently for the goods and services we produce less efficiently, we are able to produce and, thus, consume more output than would be the case if we didn't specialize and trade. By extension, the larger the size of the market, the greater is the scope for specialization, exchange, and economic growth.

When we transact at the local supermarket or hardware store, we seek to maximize the value we obtain by getting the most for our dollars. In other words, we want to import more value from the local merchant than we wish to export. In our daily transactions, we seek to run personal trade deficits. But when it comes to trading across borders or when our individual transactions are aggregated at the national level, we forget these basics principles and assume the goal of exchange is to achieve a trade surplus. But, as Adam Smith famously observed: "What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."

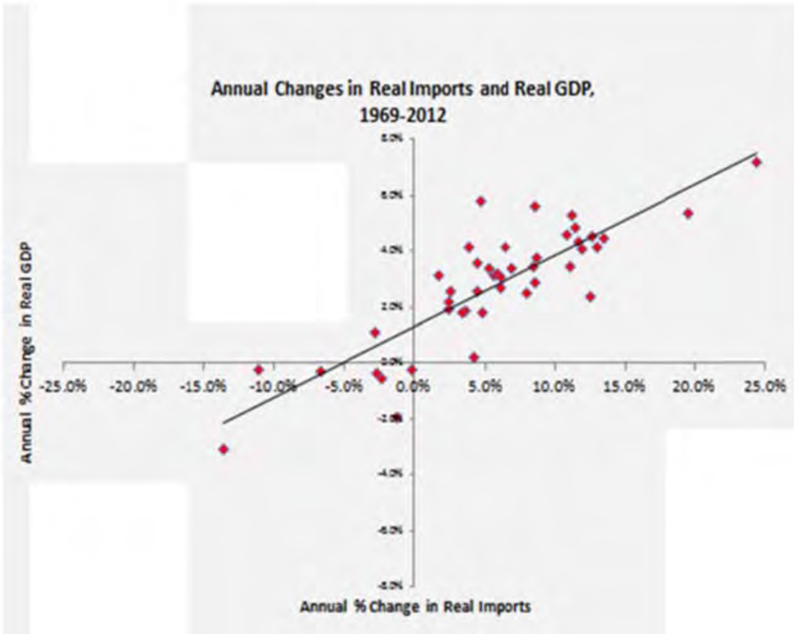
The benefits of trade come from imports, which deliver more competition, greater variety, lower prices, better quality, and innovation. Arguably, opening foreign markets should be an aim of trade policy because larger markets allow for greater specialization and economies of scale, but real free trade requires liberalization at home. The real benefits of trade are measured by the value of imports that can be purchased with a unit of exports—the so-called terms of trade. Trade barriers at home raise the costs and reduce the amount of imports that can be purchased with a unit of exports.

Yet, in Washington, exports are associated with increased economic output and job creation, while imports are presumed to cause economic contraction and job loss. But that is demonstrably false. The first [1] of the two charts below plots annual changes in imports and annual changes in GDP for 44 years. If imports caused economic contraction, we would expect to see most of the observations in the upper left and lower right quadrants—depicting an inverse relationship. Instead, we see a strong positive relationship. In 43 of 44 years, imports and GDP moved in the same direction.



The second [2] chart plots annual changes in imports and U.S. employment. Similarly, there is a fairly strong positive relationship between these variables, as well.

[1] Data from the U.S. Bureau of Economic Analysis.
[2] Data from the U.S. Bureau of Economic Analysis and the U.S. Bureau of Labor Statistics.



In keeping with the conventional Washington wisdom that exports are Team America's points and imports are the foreign team's points, in his January 2010 State of the Union address President Obama set a national goal of doubling U.S. exports in 5 years. That goal was subsequently enshrined as the "National Export Initiative", which decreed establishment of an Export Promotion Cabinet "to develop and coordinate the implementation of the NEI." Six months later, the new cabinet produced its recommendations in a 68-page report titled "The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years", which became the centerpiece of the Administration's trade policy agenda.

Most prominent in the plan was a larger role for Government in promoting exports, including expanded nonmarket lending programs to finance export activity, an increase in the number of the Commerce Department's foreign outposts to promote U.S. business, an increase in Federal agency-chaperoned marketing trips, and other sundry subsidies for export-oriented business activities. Ex-Im suddenly had a more prominent role to play.

Shortsightedly, the NEI systemically neglected a broad swath of opportunities to facilitate exports by contemplating only the export-focused activities of exporters. The NEI presumed that the only barriers impeding U.S. exporters were foreign made. But before companies become exporters, they are producers. And as producers, they are subject to a host of domestic laws, regulations, taxes, and other policies that handicap them in their competition for sales in the U.S. market and abroad.

For example, nearly 60 percent of the value of U.S. imports in 2014 comprised of intermediate goods, capital goods, and other raw materials—the purchases of U.S. businesses, not consumers.[3] Yet, many of those imported inputs are subject to customs duties, which raise the cost of production for the U.S.-based companies that need them, making them less competitive at home and abroad. Indeed, U.S. duties on products like sugar, steel, magnesium, polyvinyl chloride, and other crucial manufacturing inputs have chased companies to foreign shores—where those crucial in-

[3] Bureau of Economic Analysis, "U.S. International Trade in Goods and Services, Exhibit 6". U.S. Exports and Imports of Goods by Principal End-Use Category, February 2015, *http://www.bea.gov/newsreleases/international/trade/tradnewsrelease.htm.*

gredients are less expensive—and deterred foreign companies from setting up shop stateside.[4]

To nurture the promise of our highly integrated global economy, policymakers should stop conflating the interests of exporters with the national interest and commit to policies that reduce frictions throughout the supply chain—from product conception to consumption. Why should U.S. taxpayers underwrite—and U.S. policymakers promote—the interests of exporters, anyway, when the benefits of those efforts accrue, primarily, to the shareholders of the companies enjoying the subsidized marketing or matchmaking? There is no national ownership of private export revenues. And the relationship between revenues (domestic or export) and jobs is today more tenuous than in years past.

Globalization means that companies have growing options with respect to where and how they produce. So Governments must compete for investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided; where there is greater certainty to the business and political climate; where the specter of asset expropriation is negligible; where physical and administrative infrastructure is in good shape; where the local work force is productive; where there are limited physical, political, and administrative frictions; and so on. The crucial question for U.S. policymakers is: why not focus on reforms that make the U.S. economy a more attractive location for both domestic and foreign investment?

According to the Congressional Research Service, there are approximately 20 Federal Government agencies involved in supporting U.S. exports, either directly or indirectly. Among the nine key agencies with programs or activities directly related to export promotion are the Department of Agriculture, the Department of Commerce, the Department of State, the Department of the Treasury, the Office of the U.S. Trade Representative, the Small Business Administration, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, and the Export-Import Bank.

Relative to attracting domestic investment, export promotion is a circuitous and uncertain path to economic growth and job creation. If policymakers seek a more appropriate target for economic policy, it should be attracting and retaining investment, which is the seed of all economic activity, including exporting.

Problems With Ex-Im's Rationalizations

The mission of the Ex-Im is "to support American jobs by facilitating the export of U.S. goods and services." Given the exalted status of exports in Washington's economic policy narrative, it is understandable why Ex-Im would portray itself as indispensable to U.S. export success. It's a reasonable survival strategy. But on the metric of contribution to export success, Ex-Im is scarcely relevant. It supported $27.4 billion in exports in 2014, which is less than 2 percent of all U.S. exports last year.[5]

Of course, $27 billion is nothing to sneeze at, but the implication that most, if not all, of those sales would never have happened in the absence of Ex-Im is pure nonsense. But the more important question is not whether Ex-Im supports U.S. exports. That's the political question. The relevant economic question concerns the costs and benefits of Ex-Im to the U.S. economy.

Proponents limit their analyses to the impact of Ex-Im on taxpayers. In recent years, it has generated positive returns to the Treasury, but that myopic focus doesn't come close to approximating the appropriate cost-benefit analysis.

While the benefits of Ex-Im's activities are real to the recipients and visible to the public (the value of exports supported, projects financed, insurance policies underwritten are all highly touted), the costs imposed on nonbeneficiaries usually go unseen by its victims—and unacknowledged by Ex-Im and its supporters. Identifying and quantifying those costs are necessary to measuring the net benefits.

Ex-Im supporters claim that the bank fills a void left by private sector lenders unwilling to finance certain riskier transactions and, by doing so, contributes importantly to U.S. export and job growth. Moreover, rather than burden taxpayers, the Bank generates profits for the Treasury, helps small businesses succeed abroad, encourages exports of "green" goods, contributes to development in sub-Saharan Africa, and helps "level the playing field" for U.S. companies competing in export markets with foreign companies supported by their own Governments' generous export financing programs. So what's not to like about Ex-Im?

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[4] Daniel Ikenson, "Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative", Cato Trade Policy Analysis No. 46, May 31, 2011, *http://www.cato.org/publications/trade-policy-analysis/economic-selfflagellation-how-us-antidumping-policy-subverts-national-export-initiative.*

[5] *http://www.exim.gov/about/facts-about-ex-im-bank*

First, by dismissing the risk assessments of private-sector, profit-maximizing financial firms and making lending decisions based on nonmarket criteria to pursue often opaque, political objectives, Ex-Im misallocates resources and puts taxpayer dollars at risk. That Ex-Im is currently self-financing and generating revenues is entirely beside the point. Ex-Im's revenue stream depends on whether foreign borrowers are willing and able to service their loans, which is a function of global economic conditions beyond the control of Ex-Im. Given the large concentration of aircraft loans in its portfolio, for example, Ex-Im is heavily exposed to the consequences of a decline in demand for air travel. Recall that Fannie Mae and Freddie Mac also showed book profits for years until the housing market suddenly crashed and taxpayers were left holding the bag.

Second, even if taxpayers had tolerance for such risk taking, the claim that Ex-Im exists to help small businesses is belied by the fact that most of Ex-Im's loan portfolio value is concentrated among a handful of large U.S. companies. In 2013 roughly 75 percent of the value of Ex-Im loans, guarantees, and insurance were granted on behalf of 10 large companies, including Boeing, General Electric, Dow Chemical, Bechtel, and Caterpillar.

Third, the claim that U.S. exporters need assistance with financing to "level the playing field" with China and others doesn't square with the fact that the United States is a major export credit subsidizer that has been engaged in doling out such largesse since well before the founding of the People's Republic of China. It implies the United States is helpless at the task of reining in these subsidies. And it implies the United States lacks enormous advantages among the multitude of factors that inform the purchasing decision. But, somehow, 98 percent of U.S. export value is sold without the assistance of trade promotion agencies.

Fourth, and perhaps most importantly, by trying to "level the playing field" with foreign companies backed by their own Governments, Ex-Im "unlevels" the playing field for many more U.S. companies competing at home and abroad. This adverse effect has been ignored, downplayed, or mischaracterized, but the collateral damage is substantial and should be a central part of the story.

The Collateral Damage to Ex-Im's Victims

A proper accounting reveals that Ex-Im's practices impose significant costs on manufacturing firms across every industry and in every U.S. State. When Ex-Im provides financing to a U.S. company's foreign customer on terms more favorable than he can secure elsewhere, it may be facilitating a transaction that would not otherwise occur. That is the basis for Ex-Im's claim that it helps the U.S. economy by increasing exports and "supporting" jobs. But the claim is questionable because those resources might have created more value or more jobs if deployed in the private sector instead. If that is the case, Ex-Im's transaction imposes a net loss on the economy. But suppose it could be demonstrated that Ex-Im transactions grow the economy larger or create more jobs than if those resources had been deployed in the private sector instead. Would Ex-Im then be correct in its claim? No. Further analysis is required.

Ex-Im financing helps two sets of companies (in the short-run): U.S. firms whose export prices are subsidized by below market rate financing and the foreign firms who purchase those subsidized exports. It stands to reason, then, that those same transactions might impose costs on two different sets of companies: competing U.S. firms in the same industry who do not get Ex-Im backing, and U.S. firms in downstream industries, whose foreign competition is now benefiting from reduced capital costs courtesy of U.S. Government subsidies. While Ex-Im financing reduces the cost of doing business for the lucky U.S. exporter and reduces the cost of capital for his foreign customer, it hurts U.S. competitors of the U.S. exporter, as well as U.S. competitors of his foreign customer by putting them at relative cost disadvantages.

These effects are neither theoretical nor difficult to comprehend. Yet proponents of Ex-Im reauthorization rarely acknowledge, let alone concede, that these are real costs pertinent to any legitimate net benefits calculation. Instead, they speak only of the gross benefits of export subsidies, which they consider to be the value of exports supported by their authorizations.

But there are at least three sets of costs that are essential to determining the net benefits of Ex-Im: (1) the "Opportunity Cost," represented by the export growth that would have obtained had Ex-Im's resources been deployed in the private sector; (2) the "Intra-Industry Cost," represented by the relative cost disadvantage imposed on the other U.S. firms in the same industry (the domestic competitors) as a result of Ex-Im's subsidies to a particular firm in the industry, and; (3) the "Downstream Industry Cost," represented by the relative cost disadvantage imposed on the U.S. competitors of the subsidized foreign customer.

Opportunity Cost is difficult to estimate, but suffice it to recognize that opportunity costs exist. Indeed, opportunity costs exist whenever there are foregone alternatives to the path chosen.

The Intra-Industry Cost is somewhat easier to calculate, in theory. If Ex-Im provides a $50 million loan to a foreign farm equipment manufacturer to purchase steel from U.S. Steel Corporation, the transaction may benefit U.S. Steel, but it hurts competitors like Nucor, Steel Dynamics, AK Steel, and dozens of other steel firms operating in the United States and competing for the same customers at home and abroad. The $50 million subsidy to U.S. Steel is a cost to the other firms in the industry, who can attribute a $50 million revenue gap between them (aggregated) and U.S. Steel to a Government intervention that picked a winner and made them, relatively speaking, losers. The $50 million "benefit" for U.S. Steel is a $50 million cost to the other steel firms.

But then that distortion is compounded when taking into consideration the dynamics that would have played out had the best firm—the one offering the most value for the best price—secured that export deal instead. Reaching revenue targets, raising capital, and moving down the production cost curve to generate lower unit costs all become more difficult to achieve on account of the original intervention, amplifying the adverse impact on other firms in the industry. When Government intervenes with subsidies that tilt the playing field in favor of a particular firm, it simultaneously penalizes the other firms in the industry and changes the competitive industry dynamics going forward. Every Ex-Im transaction touted as boosting U.S. exports creates victims within the same U.S. industry. Without Ex-Im's intervention, Nucor might have been able to win that foreign farm equipment producer's business, which is a prospect that undermines the premise that Ex-Im boosts exports at all and reinforces the point that it merely shifts resources around without creating value, possibly destroys value instead. What is given to U.S. steel is taken from Nucor and the other firms, among whom may be the more efficient producers.

The Downstream Industry costs are those imposed by the transaction on the U.S. companies that compete with the foreign customer. When a foreign farm machinery producer purchases steel on credit at subsidized interest rates, it obtains an advantage over its competitors—including its U.S. competitors. So, when that subsidized rate comes courtesy of a U.S. Government program committed to increasing U.S. exports, it only seems reasonable to consider the effects on firms in downstream U.S. industries before claiming the program a success: Has the subsidy to the foreign farm machinery producer made John Deere, Caterpillar, New Holland, or other U.S. farm machinery producers less competitive? Has it hurt their bottom lines?

Delta Airlines has been vocal in its objection to Ex-Im-facilitated sales of Boeing jetliners to foreign carriers, such as Air India. Delta rightly complains that the U.S. Government, as a matter of policy, is subsidizing Delta's foreign competition by reducing Air India's cost of capital. That cost reduction enables Air India to offer lower prices in its bid to compete for passengers, which has a direct impact on Delta's bottom line. This is a legitimate concern and it is not limited to this example.

Consider the generic case. A U.S. supplier sells to both U.S. and foreign customers. Those customers compete in the same downstream industry in the U.S. and foreign markets. Ex-Im is happy to provide financing to facilitate the sale, as its mission is to increase exports and create jobs. The U.S. supplier is thrilled that Ex-Im is providing his foreign customer with cheap credit because it spares him from having to offer a lower price or from sweetening the deal in some other way to win the business. The foreign customer is happy to accept the advantageous financing for a variety of reasons, among which is the fact that his capital costs are now lower relative to what they would have been and relative to the costs of his competitors—including his U.S. competitors, who are now on the outside looking in. Ex-Im helps some U.S. companies increase their exports sales. But it hinders other U.S. companies' efforts to compete at home and abroad.

Moreover, by subsidizing export sales, Ex-Im artificially diverts domestic supply, possibly causing U.S. prices to rise and rendering U.S. customers less important to their U.S. suppliers. Especially in industries where there are few producers, numerous customers, and limited substitute products, Ex-Im disrupts the relationships between U.S. buyers and U.S. sellers by infusing the latter with greater market power and leverage. Delta was able to connect the dots. Other companies have, too. But most of the time, the downstream U.S. companies are unwitting victims of this silent cost-shifting.

According to the findings in a recent Cato Institute study that I authored, the downstream costs alone amount to a tax of approximately $2.8 billion every year.[6] The victims of this shell game include companies in each of the 21 broad U.S. manufacturing industry classifications used by the Government to compile statistics. And they are scattered across the country in every State.

Among the stealthily taxed were companies such as Western Digital and Seagate Technologies—two California-based computer storage device producers that employ 125,000 workers; Chicago-based Schneider Electric Holdings, which employs 23,000 workers in the manufacture of environmental control products, and; ViaSystems, a St. Louis-based printed circuit board producer with 12,000 employees. These companies haven't received Ex-Im subsidies, but companies in their supplier industries have, which effectively lowers the costs of their foreign competitors.

While it is relatively easy for a big company like Delta to connect the dots and see that Boeing is being favored at its expense (airplane purchases constitute a large share of Delta's total costs), most manufacturing companies are unaware that they are shouldering the costs of Government subsidies to their own competitors. But the victims include big and small producers—of electrical equipment, appliances, furniture, food, chemicals, computers, electronics, plastics and rubber products, paper, metal, textiles—from across the country. Companies producing telecommunications equipment incur an estimated collective tax of $125 million per year.

The industries in which companies bear the greatest burdens—where the costs of Ex-Im's subsidies to foreign competitors are the highest—are of vital importance to the manufacturing economies of most States. In Oregon, Delaware, Idaho, New Jersey, Nevada, and Maryland, the 10 industries shouldering the greatest costs account for at least 80 percent of the State's manufacturing output. The most important industry is among the 10 most burdened by these costs in 33 of 50 States. The chemical industry, which bears a cost of $107 million per year, is the largest manufacturing industry in 12 States.

For all the praise Ex-Im heaps upon itself for its role as a costless pillar of the economy, it is difficult to make sense of the collateral damage left in its wake. Thousands of U.S. companies would be better off if Ex-Im's charter were allowed to expire, as scheduled, on June 30.

What To Do About Foreign Export Credit Agencies?

Of all of the arguments put forward by Ex-Im supporters, the "leveling the playing field" rationale seems to carry the most sway. It is appealing intuitively. But the implication that the United States is an innocent party that has no choice but to follow suit is laughable. The United States invented this stuff.

The notion that because Beijing, Brasilia, and Brussels subsidize their exporters Washington must, too, is a rationalization that sweeps under the rug the fact that there are dozens of criteria that feed into the ultimate purchasing decision, including product quality, price, producer's reputation, local investment, and employment opportunities created by the sale, warranties, aftermarket servicing, and the extent to which the transaction contributes toward building a long-term relationship between buyer and seller. To say that U.S. exporters need assistance with financing to "level the playing field" suggests that they lack advantages among the multitude of factors that inform the purchasing decision. Moreover, the fact that less than 2 percent of U.S. export value goes through export promotion agencies suggests this rationale for Ex-Im is bogus.

There is a way to bring foreign subsidies under control, however. The United States should allow Ex-Im to expire at the end of this month and then announce plans to bring cases to the World Trade Organization against Governments operating their export credit agencies in violation of agreed upon limits under the Agreement on Subsidies and Countervailing Measures. The combination of the carrot of U.S. withdrawal from the business of export credit financing and the stick of WTO litigation would likely incent other Governments to reduce, and possibly eliminate, their own subsidy programs.

Conclusion

Most of the rationales for keeping the Export-Import Bank are merely rationalizations that don't stand up to close scrutiny. Perhaps most problematic are the costs imposed, often on unwitting victims. Ex-Im subsidies to particular exporters may help those companies succeed, but they impose significant costs on other firms in

[6] Daniel Ikenson, "The Export-Import Bank and Its Victims: Which Industries and States Bear the Brunt?" Policy Analysis No. 756, September 10, 2014, *http://www.cato.org/publications/policy-analysis/export-import-bank-its-victims-which-industries-states-bear-brunt.*

the same industry and firms in downstream industries. Accordingly, Ex-Im penalizes many smaller, dynamic, up-and-coming businesses that are often the well springs of new ideas, better mousetraps, and smarter business practices and which the economy needs to spawn subsequent generations of businesses in perpetuity.

That evolutionary process underlies the strength of the U.S. economy, and is essential to U.S. success going forward. On the other hand, U.S. economic strength is undermined when subsidies are deployed in a spiraling race with other Nations to the detriment of the next crop of leading U.S. businesses. Let the Export-Import Bank expire.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE FROM LINDA MENGHETTI DEMPSEY

Q.1. The Export-Import Bank offers a number of different products, including loan guarantees, working capital guarantees, and direct loans. Should Congress consider eliminating a particular line of products, because the product is not particularly useful to companies?

A.1. Manufacturers and exporters turn to the Ex-Im Bank when they identify gaps in private-sector trade finance and need each of the current Ex-Im Bank services to enable lending from private-sector institutions—whether that is a loan guarantee to extend competitive financing terms to foreign customers that purchase U.S. goods, a multibuyer export credit insurance policy that enables access to working capital, or structured financing to help U.S. exporters compete globally in natural resource and infrastructure sectors. While direct loans are rarely used, they can help U.S. exporters secure competitive financing for international buyers by providing fixed-rate financing to creditworthy international buyers in both the private and public sector.

Ex-Im Bank is demand-driven, and a variety of customers and exporters rely on different programs for different needs. Ex-Im Bank has adjusted existing programs and introduced new initiatives in the wake of the global financial crisis, including a streamlined "Express Insurance" for small-business exporters. While Ex-Im Bank should continue to evaluate its financing tools to ensure they are both efficient and effective, the NAM has no recommendations for eliminating any line of services.

Q.2. The Export-Import Bank purports to create a "surplus" for taxpayers, including in 2014.

Setting aside the debate over the Bank's accounting and profits, do all of the Bank's main products have approximately the same fiscal record? Or does one program that generates a weaker "surplus" make up for a program with a weaker track record?

Does each program generate a surplus, under the Bank's accounting assumptions?

A.2. It is my understanding that Ex-Im Bank sets its fees and interest rates for programs in order to fulfill its primary mission to support U.S. jobs by filling gaps in private export financing. Starting in FY2008, Ex-Im Bank has operated on a self-sustaining basis using program revenue to fund current year administrative expenses and program costs. The surplus generated by the Ex-Im Bank in recent years—transferred annually to the U.S. Treasury—reflects a rate and fee structure that is meeting its purpose of ensuring that Ex-Im is self-sustaining. Ex-Im Bank includes substantial information about its transactions in its Annual Reports. The Bank, therefore, would be the best source of information about the profile of its programs and about individual transactions.

Q.3. The Bank has a number of lending "mandates," including that it must make 10 percent of its authority available to renewable energy, 20 percent available to small business lending and that it must also promote activity in sub-Saharan Africa.

Should we expect, or do we have evidence to suggest, that these transactions have a higher default rate than the nonmandated transactions?

How should this inform Congress' treatment of the mandates in the Bank's reauthorization?

A.3. I have no reason to believe those transactions that fulfill the congressional mandates to support small business exports, renewable energy exports and exports to sub-Saharan Africa would be exempt from the Bank's overarching standards—including a standard for reasonable reassurance of repayment. Although the Ex-Im Bank is a demand-drive institution, Ex-Im Bank works to identify transactions that would meet its standards and also fulfill the mandates set by Congress.

Ex-Im Bank is required by P.L. 112–122 to report to Congress on a quarterly basis its default rate for short-, medium-, and long-term financing. Additionally, Ex-Im Bank is required to report quarterly to Congress about default rates for short-term loans, medium-term loans, long-term loans, insurance, medium-term guarantees, or long-term guarantees; each key market involved; and each industry sector involved. The Bank would be the best source of information about the default rates associated with specific transactions.

Q.4. We've heard how the Export-Import Bank "supports" job and exports. For example, according to the Bank's analysis, in 2014 the Bank "supported" 164,000 jobs and $27.4 billion in exports. Notably, there's a difference between "supporting" jobs and "creating" jobs.

Do we have evidence about what percentage of those jobs and exports would disappear without the Bank and why?

What percentage of this economic activity would exist, but in a different sector?

A.4. We hear from manufacturers that their lenders have balance sheet constraints that arise from prudential capital and liquidity requirements as well as institutional credit, country, and counterparty limitations—creating real challenges for lenders who work with exporters. Further, Ex-Im Bank complements rather than competes with private-sector lenders and each transaction undergoes analysis by Ex-Im to determine whether its support is necessary to facilitate the financing of the company's export sales, including an evaluation of why funds are not available from commercial sources. Standalone private-sector funding of trade transactions is not always available or affordable. The Asian Development Bank released its most recent annual report on the trade finance gap in December 2014, highlighting results from a 2013 survey. That report found trade finance gaps are a persistent feature of the global trade landscape—even as the global economy has recovered. Their earlier 2012 survey provided evidence that trade finance gaps, which had only expanded after the global financial crisis, were continuing to negatively impact growth and job creation. In 2013, the global trade finance gap was estimated at $1.9 trillion. [1]

[1] "ADB Trade Finance Gap, Growth, and Jobs Survey", December 2014. Found at *http://www.adb.org/sites/default/files/publication/150811/adb-trade-finance-gap-growth.pdf.*

Given the competitive nature of foreign export credit agencies (ECAs), the tens of thousands of exports that Ex-Im supports annually would be put at risk if the Ex-Im Bank is not reauthorized. As explained in my testimony and above, Ex-Im's services are used when there are gaps in private sector financing. Without Ex-Im, many—if not most—of these sales would be lost to foreign competitors that have easy access to the more than 60 ECAs worldwide that oftentimes provide very generous support for their country's exports. As a result, there is a strong possibility that these exports would be lost to foreign competitors. In turn, the tens of thousands of American workers that produce those goods would no longer have secure jobs filling those orders.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE FROM JOHN G. MURPHY

Q.1. The Export-Import Bank offers a number of different products, including loan guarantees, working capital guarantees, and direct loans. Should Congress consider eliminating a particular line of products, because the product is not particularly useful to companies?

A.1. Based on conversations with our members, particularly small- and medium-sized companies that use the services of the Export-Import Bank of the United States (Ex-Im), we believe the full range of these products offers value and should be retained.

For example, its working capital guarantees allow an exporter to tap otherwise excluded collateral in its borrowing base to pay for inputs and thus fulfill export orders. Resin Technology, located in Groton, Massachusetts, uses this program. Carly Seidewand, Direct of Sales and Marketing/Global Markets says: "We're a small business, and we don't have hard assets to lend against other than accounts receivable and inventory."

In the case of many small businesses, commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex-Im guarantee. Ex-Im working capital guarantees back 90 percent of a private bank's loans to an American exporter. With this tool, Resin Technology can generate the cash flow it needs to compete with large, international trading companies.

Kim Crooks, Finance Director at Zeigler Bros.—based in Gardners, Pennsylvania—observes that when the firm exports, particularly to developing countries, payment cycles can take 60 to 90 days. Zeigler needs to be able to finance those sales, but private banks generally will not lend against foreign receivables for small businesses. "We wouldn't be able to get bank support without Ex-Im," explains Crooks. Once Zeigler bought Ex-Im credit insurance for its foreign invoices, it was able to secure the working capital it needed to grow.

Based on our interactions with many American small businesses that have used Ex-Im's services, we believe there are substantial benefits for the fully array these products.

Q.2. The Export-Import Bank purports to create a "surplus" for taxpayers, including in 2014.

Setting aside the debate over the Bank's accounting and profits, do all of the Bank's main products have approximately the same fiscal record? Or does one program that generates a weaker “surplus” make up for a program with a weaker track record?

Does each program generate a surplus, under the Bank’s accounting assumptions?

A.2. Using the accounting method established by the United States Congress and required by law, there is wide acknowledgment that Ex-Im does not cost the American taxpayer a dime. Ex-Im charges fees for its services that have allowed it to send to the U.S. Treasury $7 billion more than it has received in appropriations since 1990. Regarding the performance of different financial products, Ex-Im Bank staff are in best situated to answer these questions.

Q.3. The Bank has a number of lending “mandates,” including that it must make 10 percent of its authority available to renewable energy, 20 percent available to small business lending and that it must also promote activity in sub-Saharan Africa.

Should we expect, or do we have evidence to suggest, that these transactions have a higher default rate than the nonmandated transactions?

How should this inform Congress’ treatment of the mandates in the Bank’s reauthorization?

A.3. Ex-Im Bank staff are in best situated to answer these questions regarding default rates. As for past or future mandates, the Chamber has argued that Ex-Im should provide financing in a nondiscriminatory manner for exporters that can meet its rigorous standards.

Q.4. We’ve heard how the Export-Import Bank “supports” job and exports. For example, according to the Bank’s analysis, in 2014 the Bank “supported” 164,000 jobs and $27.4 billion in exports. Notably, there’s a difference between “supporting” jobs and “creating” jobs.

Do we have evidence about what percentage of those jobs and exports would disappear without the Bank and why?

A.4. Ex-Im’s methodology to calculate the number of U.S. jobs associated with exports for which it provides a loan or guarantee relies on a number of elements used widely across the U.S. Government, including, for instance, the ratio of jobs needed to support $1 million in exports (which varies by industry). These ratios are provided by the Bureau of Labor Statistics (BLS). Ex-Im Bank staff are best situated to address this methodology in detail.

The U.S. Chamber of Commerce is hearing from a growing number of companies that the lapse in Ex-Im’s authorization is causing or will soon cause them to lose sales and may lead directly to layoffs in the near term. It is clear that some companies were able to take measures before the June 30 lapse in Ex-Im’s authorization that have blunted the immediate impact. For example, one company was able to extend its Ex-Im working capital loan before June 30; another requested that a foreign Government grant a 30-day extension (to early September) for a bid due date. However, these measures will hold off the cost of closing Ex-Im only for a short time.

Press accounts have presented the possibility that some of the largest U.S. exporters will consider moving some operations overseas to countries where official export credit agency (ECA) support is available in the event Ex-Im is not reauthorized. In our view, executives are contemplating these moves because ECA support is often required even to bid on a wide variety of foreign business opportunities. This includes requests for tender from both public and private sources, including opportunities as diverse as infrastructure projects, nuclear power plants, and contracts to provide medical equipment to hospitals. U.S. lawmakers and regulators are powerless to alter these requirements, which are imposed by foreign Governments.

Further, it is commonplace for long-lived capital goods such as aircraft, turbines, and locomotives to be sold worldwide with ECA backing, the availability of which can make or break a deal.

The ripple effects in the U.S. economy could be substantial. It is well known that the largest U.S. exporters rely on supply chains made up of thousands of small- and medium-sized businesses, some of which are only remotely aware that the components they manufacture are intended for export and reliant on Ex-Im support. In some cases, tens of thousands of small firms are involved.

To take one sector as an example, the U.S. aerospace sector employs approximately 1.5 million Americans directly and indirectly. Within this ecosystem, smaller companies rely on large firms which are in turn highly export dependent. Further, it is characteristic of the aerospace sector that the presence of ECA support often determines which firm from which county wins a sale. The availability of ECA support can be determinative even in cases where private finance is ultimately used.

In sum, the costs of closing Ex-Im will be substantial and are likely to mount over time as industrial networks are rearranged to shift production of costly capital goods and other products that tend to rely on ECA support to countries where it is available.

Q.5. What percentage of this economic activity would exist, but in a different sector?

A.5. Permanently closing Ex-Im will result not in a shift of resources from one U.S. industrial sector to another but rather a shift in production and employment from a U.S. company to a competing company in another country where ECA support is available.

To this point, the D.C. District Court in March ruled against Delta Airlines in its suit against Ex-Im, rejecting every argument that Delta made. The Court concluded that Ex-Im financing for foreign airlines does not affect airlines' decision to purchase new airplanes. As the prevalence of air travel around the world expands, foreign airlines will assuredly purchase aircraft. However, once an airline has made the decision to purchase new airplanes, Ex-Im financing does affect whether those airlines purchase American- or foreign-made airplanes, the Court reasoned.

The Court found that, without Ex-Im support, "airlines simply will purchase from Airbus instead of Boeing due to the presence of foreign ECA financing." This is certainly the real world experience of many Chamber members.

Delta's complaint is similar to that of Cliffs Natural Resources, a U.S. mining enterprise that protested the sale of U.S.-made Caterpillar equipment to Australia's new Roy Hill mine with Ex-Im support. Crucially, the owners of the Roy Hill mine made it abundantly clear to Caterpillar that they would buy their heavy equipment from manufacturers in Japan or Korea—with support from those countries' ECAs—if Ex-Im support for Caterpillar were not made available. The Roy Hill mine was clearly going forward; the only choice was whether its owners would buy U.S.-made or foreign-made equipment.

This is the choice before Congress: Will Ex-Im be reauthorized, or is Congress content to hand a significant competitive advantage to our trade competitors? The repercussions for high-skill, high-wage jobs in a number of U.S. industries will be significant.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

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The Wall Street Journal:

http://www.wsj.com/articles/the-bank-to-nowhere-1430436444

The Bank to Nowhere

A campaign against the crony Export-Import bank is picking up steam.

By
Kimberley A. Strassel
April 30, 2015 7:27 p.m. ET

In October 2005, earmarks were a Washington fact of life. Then former Oklahoma Sen. Tom Coburn took to the floor to decry pork spending for Alaska's "Bridge to Nowhere." The phrase became a national rallying cry against government waste. It required another five years, but in late 2010, Republicans forswore earmarks.

Conservative reformers are rolling out that strategy again, this time to deep-six one of Washington's oldest dispensers of corporate welfare: the Export-Import Bank. The campaign is already in full swing, with a coalition of free-market Republicans and grass-roots groups dropping a daily barrage about the bank's corruption, mismanagement and cronyism. Their hope is that by June 30 they will have redefined Ex-Im as the Bank to Nowhere.

That date marks the expiration of Ex-Im's charter, and it's why this campaign (in comparison with earmarks) is turbocharged. About half the Republican caucus remains committed to the Ex-Im favor factory and wants Speaker John Boehner to push through a reauthorization. The reformers have but two months to instead embarrass their colleagues into doing what Congress does best: nothing.

Inside the House, Financial Services Chairman Jeb Hensarling and Ohio's Jim Jordan are leading the charge, with recent assists from Oversight Chairman Jason Chaffetz and Michigan's Bill Huizenga. The quartet jumped on the Justice Department's April 13 charges against Johnny Gutierrez, a former Ex-Im loan officer accused of accepting bribes on 19 separate occasions to do bank favors.

In a hearing two days later, the group outlined evidence that fraud and mismanagement is widespread. The bank's acting inspector general, Michael McCarthy, testified that further indictments were possible in no fewer than 31 open fraud investigations.

In a second joint Financial Services-Oversight hearing Thursday, the focus turned to the bank's cronyism—particularly its failed green cronyism. Ex-Im guaranteed a $10.3 million loan to finance the overseas sale of products made by the infamous Solyndra. It gave $9.2 million to finance the export of solar panels from Abound Solar, which also went bankrupt. It seems no coincidence that both Solyndra and Abound were politically connected firms that also got huge loan guarantees from the Energy Department.

Australia's billionaire mining heiress Gina Rinehart snagged a $694 million Ex-Im loan for an iron ore project in Western Australia. Ex-Im has provided near record-breaking loans to subsidize a firm co-owned by Saudi Aramco—the world's largest oil company. It provided millions to one-time Washington energy darling Enron. There is a reason for these deals, and for why more than 60% of Ex-Im's money in 2013 benefited just 10 rich companies—it's called politics.

Outside Congress, the grass roots are rallying constituents. Some 50 conservative groups, organized by Americans for Prosperity, sent a letter to Congress last week demanding the bank die. Their leaders have been calling up pro-Ex-Im Republicans, re-educating them on bank myths, including the whoppers that it helps small businesses and doesn't cost taxpayers a dime. And they've been pointing out the extraordinary political benefit of Republicans' finally getting on the right side of capitalism, in contrast to such supposed populist crusaders as Elizabeth Warren, who supports the bank.

Heritage Action's growing list of influential members who oppose reauthorization is proof reformers are making progress. It now includes eight House committee chairman (the likes of Paul Ryan, Tom Price and Fred Upton), as well as Majority Leader Kevin McCarthy and Whip Steve Scalise. The Club for Growth is running ads in GOP districts noting that reauthorization is now opposed by pretty much the entire GOP presidential field: Jeb Bush, Scott Walker, Marco Rubio, Ted Cruz, Rand Paul.

Yet the Chamber of Commerce and other Ex-Im supporters are lobbying hard, particularly Mr. Boehner—and with some apparent success. In a press conference Thursday the speaker said he'd support any plan Mr. Hensarling crafted to "reform" or "wind down" the bank; he worried that there are "thousands of jobs on the line."

But letting the charter expire by necessity involves an orderly wind down, since it would take years for the bank to close out loans. (Which also means jobs don't go poof.) The real question is whether Mr. Boehner will take the extraordinary step of undercutting his own committee chairman to put a reauthorization on the floor.

Reformers also need to spread this campaign to the Senate. It's no good if the House kills Ex-Im, only for crony GOP senators to attach reauthorization to a "must-pass" bill (highway funds?). Utah Sen. Mike Lee had Mr. Hensarling address 35 senators Wednesday at the Senate Republican Steering Committee. That's a start.

Not so long ago, Republican porksters had all manner of (bogus) arguments for why they could not, should not and would not ever relinquish earmarks. Yet they did, and the world not only didn't end, it's a better place. They might remember that, and just say goodbye to the Bank to Nowhere.

The Wall Street Journal:

http://www.wsj.com/articles/the-peculiar-uses-of-a-taxpayer-bank-1430085289

The Peculiar Uses of a Taxpayer Bank

A look at the Export-Import Bank's beneficiaries suggests that sometimes it works against U.S. interests abroad.

By
Mark Pfeifle
April 26, 2015 5:54 p.m. ET

Only in Washington can a prominent example of corporate welfare be described as a "critical element" of America's national security. That's exactly what former Secretary of State Madeleine Albright, former Secretary of Defense William Cohen and 10 other former federal officials claimed in a recent letter to Congress, in which they pleaded with lawmakers to renew the Export-Import Bank's charter before it expires in June. National Security Adviser Susan Rice, speaking at last week's Ex-Im annual conference, similarly declared that the bank "is a very important part of our diplomacy."

Most Americans would be hard-pressed to name the Ex-Im Bank, much less identify it as crucial to U.S. national security. The bank is a New Deal-era federal agency that provides taxpayer-backed financial assistance to foreign businesses that purchase American products.

In recent years, the bank has come under fire from politicians as diverse as Barack Obama and Paul Ryan, who have rightly noted that Ex-Im's support mainly benefits a few multinational companies. Those same companies are now working to convince Congress to keep the taxpayer cash flowing.

How does this fit into America's national security framework? According to the letter, the bank's economic activity drives "political stability abroad." Put aside, if you can, the fact that Ex-Im supports less than 2% of U.S. exports, rendering it a negligible portion of America's international economic activity. A look at Ex-Im's beneficiary list suggests that the bank sometimes works *against* American interests abroad.

For decades, Ex-Im has sent American taxpayer money to companies and countries that either have no place doing business with America or actively undermine U.S. national security interests.

The most egregious example: Ex-Im has given hundreds of millions of dollars in taxpayer-backed guarantees to the state-owned Russian bank Vnesheconombank (VEB). Ex-Im only recently suspended new deals after the bank was targeted by American sanctions in the past year.

VEB has a long and sordid history. Known until 2007 as the Bank for Foreign Economic Affairs of the U.S.S.R., VEB maintains an operating agreement with Russian arms exporter Rosoboronexport "to promote exports of Russian military products and boost their competitive edge in the world market." Rosoboronexport also handles more than 80% of Russia's weapon exports. In this capacity, it has become a chief weapons supplier to Bashar Assad's regime in Syria and has supplied advanced missile systems to Iran, according to reporting last year in this newspaper. VEB has said that its practices fully comply with European Union and United Nations sanctions.

Americans probably assume that Washington wouldn't use taxpayer money to help a company that supports these regimes. Yet the bank's records indicate that VEB received a $497 million loan guarantee in 2012 and a further $703 million in 2014. American taxpayers still haven't received thank-you cards from President Assad and the mullahs.

Ex-Im has nearly $1.5 billion of taxpayer exposure in Russia by the bank's own report. And its indiscriminate use of taxpayer money extends far beyond Vladimir Putin's autocracy. Between 1997 and 2014, companies in countries such as China, Venezuela, Pakistan and others received billions of dollars in Ex-Im's taxpayer-backed assistance.

Many of the bank's foreign beneficiaries are also state-owned. American taxpayers are unwittingly propping up the bank accounts of foreign states, from China to Russia to a host of other countries. Thus it should also come as no surprise that the bank has a long history of assisting international firms that raise serious red flags.

Consider Pemex, Mexico's state-owned oil company, which conceded in 2013 that it deals with "serious" levels of corruption and that it has been plagued by "interference from organized crime"—including roughly $1 billion in stolen oil over a two-year span. That hasn't stopped it from becoming the Ex-Im Bank's single largest debtor, owing American taxpayers some $5.6 billion at the end of the fiscal year 2014.

Corruption and graft are recurring problems for the bank. According to April 15 congressional testimony by Ex-Im's inspector general, 47 people have been convicted of defrauding the bank in the past five years. The IG also indicated that 31 corruption and fraud investigations are ongoing. That doesn't include the four Ex-Im employees who, according to reporting in The Wall Street Journal, were being investigated last year for allegedly accepting kickbacks and steering contracts to specific companies. One Ex-Im official last week pleaded guilty to accepting bribes.

This points to a simple conclusion. Despite the fanciful claims by Secretary Albright, Secretary Cohen and the officials who signed the recent letter, the Export-Import Bank is anything but a "critical element" of America's national security. Congress should refuse to reauthorize the bank when its charter expires. Washington shouldn't be spending taxpayer money on corporate welfare—especially when it goes to companies and countries that are either corrupt or are actively working to undermine America.

Mr. Pfeifle is president of Off the Record Strategies. He served as deputy national security adviser for strategic communications and global outreach at the White House, 2007-09.

The Washington Post:

http://www.washingtonpost.com/opinions/a-bank-with-congress-in-its-pocket/2015/03/11/805ca29c-c74f-11e4-a199-6cb5e63819d2_story.html

A bank with Congress in its pocket

By George F. Will Opinion writer March 11

Conservatives' next disappointment will at least be a validation. The coming reauthorization of the Export-Import Bank will confirm their warnings about the difficulty of prying the government's tentacles off what should be society's private sphere.

The bank, which exists to allocate credit by criteria other than the market's preference for efficiency, mirrors the market-distorting policies of foreign governments. These policies favor those countries' exports that compete with America's. Much of what the bank does is supposedly to "level the playing field."

When Fred P. Hochberg, the bank's chairman and president, defends it, an old joke comes to mind: A pastor officiating at a man's funeral asks if anyone in the congregation would like to say something about the deceased. After a long, awkward silence, a voice shouts: "His brother was even worse." South Korea, Hochberg says, provides "more than three times more export support than we do." Thus does sound policy get defined down: Others are even worse, supposedly forcing us to emulate them.

The bank has been reauthorized 16 times since it was created in 1934 as a filigree on the New Deal program of politicizing the allocation of resources. The bank and its current authorization would expire in June, if Congress would just do, as it should learn to do, nothing. But the bank will be reauthorized because it has bought longevity.

Congress is controlled by Republicans rhetorically committed to clarifying the increasingly blurry boundary between the public and private sectors. But many Republicans have in their districts or states some businesses that benefit from the bank's loans, loan guarantees and insurance. Rep. Stephen Fincher (R-Tenn.) opposed the bank until it helped Tennessee firms such as the one that exports chemicals that make golf courses lush; then he became a supporter.

The bank makes nearly 90 percent of its transactions with such small U.S. firms in order to spread its largess across the country, like butter on bread. Many Democrats, too, have dependent constituents. Besides, progressives consider government permeation of the economy inherently good: Progressivism postulates what realism about government refutes — the congruence of the government's interests and the public's needs. Sen. Elizabeth Warren (D-Mass.) — rhetorical scourge of Wall Street, big banks, the 1 percent, etc. — supports Ex-Im, even though it helps to fatten seven- and eight-figure compensation packages for the leaders of some large U.S. firms, which get the lion's share of the bank's resources.

Ex-Im is called "Boeing's Bank"; America's largest airplane manufacturer last year was the beneficiary of nearly 70 percent of the bank's long-term loan guarantees, which lowers the cost of credit for foreign purchasers of Boeing aircraft. This, however, makes foreign airlines more competitive with U.S. international carriers such as Delta, which vigorously objects. Hochberg counters that Delta benefits from Ex-Im financing: The bank helps finance foreign airline engine overhaul services that Delta performs near Atlanta.

Hochberg notes that whereas Americans average more than two flights per year, air travel has barely begun for India's 1.2 billion people, and his bank can help Boeing compete for sales against Airbus there. But if, as he says, the bank makes low-risk loans, surely private banks would make them.

Rep. Jeb Hensarling (R-Tex.), chairman of the House Financial Services Committee, would like to terminate the bank but recognizes the law that governs government, what economists call the law of concentrated benefits and diffuse costs. The United States has 320 million sugar consumers and sugar import quotas: These mean unnoticed higher prices for everyone and a windfall for a few thousand grateful sugar producers. Similarly, Ex-Im's financial costs, seen (the cost of government borrowing) and unseen (opportunity costs — the benefits to the economy if the borrowed money instead were allocated by market criteria of productivity), are diffused. The benefits to the bank's client companies are concentrated.

Hensarling, who of necessity practices the politics of long-term incremental gains, suggests lowering the monetary cap on the bank's activities. And if, say, only one-third of Ex-Im's resources are used to directly counter other nations' export subsidies, the bank's other two-thirds should be eliminated.

The bank's costs are, however, more than financial. The bank takes a toll on the quality and equity of American life and politics by helping to make legitimate and routine the practice, which extends far beyond the bank, of allocating wealth to the politically well-connected. The inability of Republicans to end the bank by inaction illustrates the inertia of big government when buttressed by the clients it creates.

Roll Call:

http://www.rollcall.com/news/what_happens_if_the_export_import_bank_expires_commentary-242067-1.html?pg=1&dczone=opinion

What Happens if the Export-Import Bank Expires? | Commentary

By Andy Koenig

May 29, 2015, 11:25 a.m.

All lawmakers make campaign promises to fight Washington's culture of corruption. Here's some good news for them: They can show their constituents they fulfilled that pledge by allowing the U.S. Export-Import Bank to expire.

A relic of Franklin Delano Roosevelt's New Deal, Ex-Im is a blatant example of the corrupt political system that plagues Washington today. It operates by giving below-market financing — in the form of direct loans, insurance, and guarantees — to foreign companies that pledge to buy American products. While this pads the bottom line of companies making those products, it harms the U.S. businesses that must compete with those foreign purchasers in global markets.

The good news for taxpayers is the bank's charter is set to expire on June 30. True to form, however, Ex-Im and its supporters have begun making exaggerated and discredited claims about the potential for thousands of lost jobs, business closures and economic calamities that could cripple America's international competitiveness.

What will actually happen if the Export-Import Bank expires? The short answer: essentially nothing.

Start with concerns over jobs. The only way Ex-Im can label itself a "job creator" in the first place is by ignoring the jobs it destroys by giving foreign companies an advantage over their U.S. competitors. The Government Accountability Office concluded the bank's ultimate effect is to "shift production among sectors within the economy rather than raise the overall level of employment in the economy" — read: It simply picks winners and losers.

Several examples illustrate this reality. When the bank touted job gains at Boeing after financing aircraft purchases for foreign airliners, it neglected to count the resulting loss of 7,500 U.S. airline industry jobs. Another example is a recent deal with an Australian iron ore producer owned by the country's richest citizen. Four Democratic senators explained Ex-Im's subsidy would "injure American iron ore and steel producers and their employees that are competing in the same global marketplace."

Claims of economic Armageddon are similarly overblown. Overall, Ex-Im supports less than 2 percent of all U.S. exports. Of that amount, the overwhelming majority benefits just a handful of companies. In 2013, nearly two-thirds of Ex-Im's total financing supported just 10 large corporations, while more than 90 percent of its loan guarantees benefited just five.

Far from eliminating thousands of jobs and killing the economy, allowing Ex-Im to expire will simply level the playing field for the other 98 percent of U.S. exports that have to compete without help from Ex-Im.

As for the technical details of expiration, there's not much drama here, either. According to the Congressional Research Service, expiration wouldn't jerk the rug out from under current beneficiaries. Instead, Ex-Im may continue "administering its assets and collecting any obligations it holds." All current Ex-Im commitments will be fulfilled, giving beneficiaries plenty of time to find alternative financing when their agreements expire.

Ex-Im claims it deserves special treatment because it provides financing that private banks won't. Yet at the same time, it claims the bank turns a profit for taxpayers. Both claims can't be true. If Ex-Im is truly profitable, there will be private-sector banks champing at the bit to get a piece of its $112 billion book of business.

The more likely scenario is that neither claim is true. Applying fair-value accounting to the bank's operations — the same standard used by the private sector — the Congressional Budget Office estimates Ex-Im will cost taxpayers roughly $200 million per year, or $2 billion over the next decade.

And there already are a number of private-sector banks willing and able to take Ex-Im's place. Speaking to reporters at Ex-Im's annual conference last month, an American International Group banker called Ex-Im a "competitor," while another called it "outlandish" to argue otherwise. The message from this is clear: Current Ex-Im beneficiaries will be just fine if Ex-Im expires.

But it's more than just corporate welfare with Ex-Im — it's also the bank's track record of bribery, federal criminal investigations and sweetheart deals that have more to do with favors than merit. In the past five years alone, 47 people have been convicted of defrauding Ex-Im, while there remain 31 ongoing investigations of fraud and corruption.

There's simply no defense for reauthorizing the Export-Import Bank. Despite the claims of the corporations and lobbyists who benefit from it, expiration will trigger a smooth and orderly wind down that doesn't threaten the economy or American jobs. Allowing Ex-Im to expire will prove this Congress is serious about honoring its commitment to ending Washington's culture of corporate welfare and corruption.

Andy Koenig is a senior policy adviser at Freedom Partners Chamber of Commerce.

STATEMENT FROM THE BANKERS ASSOCIATION FOR FINANCE AND TRADE AND THE FINANCIAL SERVICES ROUNDTABLE SUBMITTED BY SENATOR BROWN

Statement for the Record

of

BAFT (Bankers Association for Finance and Trade) and the Financial Services Roundtable (FSR)

before the

Committee on Banking, Housing, and Urban Affairs

of the

United States Senate

June 2, 2015

Chairman Shelby, Ranking Member Brown, and Members of the Committee, BAFT (Bankers Association for Finance and Trade) and the Financial Services Roundtable (FSR) are grateful for the opportunity to provide a statement for the record on behalf of our members for the Committee hearing on June 2, 2015, regarding perspectives on the Export-Import Bank of the United States ("Ex-Im" or "the Bank").

As background, BAFT is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system.

FSR represents the largest integrated financial services companies providing banking, insurance, payment and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. FSR member companies provide fuel for America's economic engine, accounting for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

Jointly, our members are active in trade finance and many work with Ex-Im on a daily basis. Similar to other Export Credit Agencies (ECA) around the world, Ex-Im plays a crucial role in global finance by providing financing products that help fill gaps in trade financing otherwise provided by private sector lenders. Indeed, Ex-Im contributed to the recovery of trade finance markets during the economic crisis and is considered an essential partner by the commercial banking community. Our industry values a continued working relationship with Ex-Im to ensure the availability and affordability of trade finance to U.S. businesses. For these, and the reasons outlined below, we strongly support reauthorization of Ex-Im Bank.

We would like to focus on three major points for this hearing:

- Trade and export finance are crucial drivers for economic growth, however, private sector gaps exist in the availability of this financing.

- Ex-Im Bank should be swiftly reauthorized to ensure the continued availability of valuable financing for U.S. exports and to maintain U.S. competiveness in the global marketplace.

- The private sector cannot fill the void in export financing for American companies if Ex-Im is not reauthorized.

I. Trade and Export Finance Drive Economic Growth

Trade and export finance instruments, such as those offered and supported by Ex-Im, are crucial to international commerce and the growth of the U.S. economy. Throughout the reauthorization process, it is important to remember that support for a competitive and efficient Ex-Im is also support for the vital financing of international trade. If trade finance is not accessible through Ex-Im, BAFT and FSR believe sustained growth and jobs at U.S. companies would be lost.

In this vein, and as important background, international trade is reliant upon both public and private sector financing for trade transactions. Trade financing assists customers with their import and export requirements by providing import/export finance products as well as country and counterparty risk mitigation. Trade finance, as a transaction banking business, is a core banking service supporting the real economy.

Trade finance has historically maintained a low-risk profile in comparison with other financial instruments. Trade and export finance transactions are generally fixed, short term instruments that are not automatically renewed or extended upon maturity and are self-liquidating by nature (*i.e.*, exposures are liquidated by payment at maturity). In stress situations, countries and banks have traditionally continued to prioritize the repayment of trade finance obligations as they fall due. Furthermore, banks active in trade finance are generally able to react swiftly on deteriorations in bank and country risk as a result of the short-term, self-liquidating nature of the transaction.

According to an ongoing registry project conducted by the International Chamber of Commerce (ICC), banks have experienced relatively minimal losses on trade lending. The ICC has created this Trade Finance Register to track default and loss rates for trade and export finance, creating a living database of the trade finance market which has helped to demonstrate the resilience of this important business. Based on that data, accumulated over 8,133,031 transactions, only 1,746 defaults were recorded, which accounts for a default rate of 0.021 percent.[1] In particular for medium and long term transactions, the ICC found from 2007 to 2012 in a data set of 21,391 transactions, the overall default rate was 0.076 percent, representing just 162 transactions.[2]

However, according to a 2014 Asian Development Bank (ADB) survey, commercial banks reported that they rejected 29 percent of requests to finance imports and exports. This meant that roughly $1.9 trillion of demand for global trade finance was unmet, causing potential harm to growth in trade in the U.S. and around the world.[3] Banks surveyed by the ADB cited the more stringent Basel III regulatory requirements and increased compliance costs as significant factors inhibiting banks' financial support for trade.

The ADB also found that respondent companies (*i.e.* the users of trade financing) indicated that additional trade finance would enable them to increase production. A 15 percent increase in access to trade finance would increase production by 22 percent. In addition, responses also suggest that greater access to trade finance would have a positive impact on employment levels. Respondents noted that a 15 percent increase in trade finance support would enable firms to hire 17 percent more staff.[4]

The gap in trade finance availability is particularly acute for small and medium sized enterprises (SME). SMEs make up 80-90 percent of businesses in most regions and trade lending to SMEs is limited by their lack of collateral, credit history, and technical expertise in trade finance. SMEs also typically do not have the expertise or capacity to directly assume credit risk on behalf of their foreign trading counterpart. As a result, in many areas the trade finance gap is very large for SMEs and according to the ICC, this shortage remains a major challenge for economic recovery and development. To finance exports and imports, traders continue to rely on public/private sector partnerships, like those offered by Ex-Im, to facilitate the sale of products abroad when the private sector cannot meet the demand for such financing on its own.

Countries around the world recognize this critical partnership to fill these gaps and are enhancing their own ECA support to domestic companies. For example, China's Policy Banks, (the three state-owned non-commercial lenders — China Development Bank, Export-Import Bank of

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[1] International Chamber of Commerce, *Global Risks Trade Finance Report*, 2013

[2] International Chamber of Commerce, *Trade Register Report*, 2014

[3] Asian Development Bank Trade Finance Survey: Major Findings, ADB Briefs No. 25, December 2014

[4] IBID

China, and Agricultural Development Bank of China) announced in April 2015 a $62 billion capital injection to support projects that benefit Chinese companies, with a $30 billion increase allocated for China Ex-Im alone. In addition, the G-20 has throughout the economic recovery emphasized the need for ECAs and Multilateral Development Banks (MDB) to work collaboratively with the private sector to support cross-border commerce. The difference with the support provided by ECAs and MDBs outside the U.S. is that, unlike Ex-Im, they do not have a mandate to support U.S. companies. Without a U.S. ECA, American exporters will be disadvantaged in a marketplace where material trade finance gaps exist and their overseas competitors are filling those gaps with the support of their own country's government export financing institutions.

II. Ex-Im Bank Reauthorization is Important to the U.S. Economy and U.S. Competitiveness

Ex-Im provides credit support to help make the sale of U.S. products more feasible in international markets by making financing available to complete the sale. Transactions supported by Ex-Im represent incremental export sales by U.S. companies that support the jobs of American workers and help to reduce the national trade deficit. A core component of the work undertaken by Ex-Im is accomplished with the support of the private sector trade finance lending community. Ex-Im provides risk mitigation tools that help facilitate liquidity and the Bank acts as the "Lender of Last Resort" when commercial financing is unavailable or ECA support is needed to ensure the advantage of the U.S. exporter is not lost to foreign ECA supported competition.

In fiscal year 2014, Ex-Im supported the purchase of $27.5 billion worth of exports that created or sustained approximately 164,000 U.S. jobs. Ex-Im is especially important to small American companies, which account for the bulk of its transactions. Out of over 3,700 authorizations in 2014, more than 3,300 (or nearly 90 percent) directly served U.S. small businesses, which accounted for one quarter of authorizations by dollar volume. These small business transaction figures do not include the tens of thousands of small and medium-sized businesses that supply goods and services to large exporters through the supply chain.[5]

In addition, through the fees and interest charged on transactions, Ex-Im also contributes money back to the American taxpayer. In fiscal year 2014, Ex-Im returned $674.7 million to the U.S.

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[5] The relative role that Ex-Im support plays in expanding jobs through export sales is indeed more important than the absolute value of the financing. For instance, one can consider an example of a 200-employee aircraft company that produces agricultural planes selling for roughly $1 million each that are sold to buyers in 80 countries, representing 75 percent of their sales. Ex-Im financing is critical to filling the capacity that company cannot obtain from their primary lenders, and Ex-Im expertise is critical to helping manage the foreign risk. By comparison, a large commercial aircraft manufacturer sells a plane for over $300 million. The production uses over 3 million parts from over 500 suppliers; hence, each sale affects not only that company's employees, but their suppliers as well. As such, a comparison of the dollar value of the financing is irrelevant when considering the importance that Ex-Im financing provides to each of these companies.

Treasury after covering all its expenses. Since 1990, Ex-Im has returned to the Treasury $7 billion more than it has received in appropriations for program and administrative costs.

Ex-Im does this by offering a variety of programs critical to U.S. companies - small, medium and large. For example, the Medium Term program supports transactions under $10 million for tenors of up to five years for the sale of products to overseas buyers. The Medium Term Delegated Authority program is designed to reduce transaction turnaround time, leverage Ex-Im medium-term program resources and increase lender utilization of Ex-Im medium-term transactions, while maintaining the highest credit quality and program integrity.

The Working Capital Guarantee Program encourages commercial lenders to make working capital loans to domestic U.S. companies by providing them with loan backing assurance. Working capital financing enables small business exporters to facilitate the export of goods or services and provides much needed liquidity to conduct new overseas sales by supporting a company's export related inventory and providing an advance rate on foreign account receivables. Additionally, the Ex-Im Bank Supply Chain Finance Guarantee offered to lenders benefits U.S. exporters by injecting liquidity in the marketplace and providing suppliers - particularly small firms - with access to capital faster and at a lower cost in order to help them fulfill new orders and grow their business.

Throughout all the programs offered by the Bank, it is crucial to remember that Ex-Im support is an enhancement to a client relationship and not a primary reason for conducting a transaction. Commercial lenders will not book facilities or transactions solely due to the availability of Ex-Im support. In fact, since Ex-Im transactions typically result in more administration costs and less retained fees, commercial lenders would prefer to finance transactions on their own if possible. However, due to the tenor, balance sheet capacity constraints against the borrower or the country, or other constraints, they look to Ex-Im as a source of additional capacity to fulfill the client need.

An Ex-Im Guarantee also does not make a bad deal "bankable". The loans must be commercially viable and meet not only private lender risk criteria but also Ex-Im's high support requirements. As such, Ex-Im loans and guarantees present very low risks because they are backed by the underlying commercial trade transaction, with a historically low active-default rate of 0.174 percent as of December 2014. This default risk is currently more than 5 times lower than default risk on primary mortgage loans. As referenced earlier, the resiliency of trade finance during the recent financial crisis demonstrates that even in downturns, the default risk remains relatively low.[6]

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[6] In this regard, it is important to highlight that commercial banks share the risk on transactions with Ex-Im and so would not enter into arrangements where the risk trumps the viability of the deal. In the medium and long term transaction space, 85 percent of the deal is covered under an Ex-Im Guarantee. The remaining 15 percent is a down payment from the buyer or is in many cases financed by the commercial lender handling the transaction. As such, the commercial lender and/or exporter already fully share in at least 15 percent of the risk overall. Banks also often finance more than the 15 percent down payment by taking on an additional portion of local costs or ineligible foreign content (the portion of a deal that Ex-Im can't support due to their U.S. content policy requirements) in a

Lastly and as previously stated, Ex-Im Bank is also critical to the ability of many U.S. exporters to compete on a level playing field in a commercial market where current and future competitors abroad continue to benefit from the support of their countries' ECAs. According to the Organization for Economic Cooperation and Development (OECD), 60 official ECAs have extended more than $1 trillion in trade finance support in recent years. Unilateral disarmament in ECA financing by the U.S. will severely inhibit U.S. job creation and presents a clear risk to the ability of the U.S. to support its public policy goals abroad and enhance multilateral rules based trading arrangements.

As outlined herein, Ex-Im Bank supports jobs, helps American companies to compete globally and represents a low risk proposition to the U.S. taxpayer, with high overall returns. A long-term reauthorization of the Bank that ensures the effective and efficient use of Ex-Im programs is critical to make certain U.S. job creation, U.S. competitiveness in the global marketplace, and U.S. economic advancement through trade are not inhibited.

III. The Private Sector Cannot Fill the Void in Export Financing without Ex-Im

As noted, material gaps in trade and export finance by the private sector exist in today's economy for a variety of reasons including balance sheet capacity, foreign receivables risk management capability, and appetite for certain types of financing. Due to increased balance sheet constraints arising from enhanced prudential capital and liquidity requirements, alongside institutional credit, country and counterparty limitations, commercial lending teams at small, regional and global banks are faced with real challenges in financing their exporting clients. As evidenced by the efforts of several large global banks to reduce the assets on their books, banks are more sensitive than ever to lending capacity. Credit committees determine how to allocate limited balance sheet capacity across multiple lending products based on returns and appetite for the various types of business. Trade finance competes with a variety of other types of financing demands from clients.

Many of these U.S. based lenders turn to Ex-Im to add capacity, mitigate geopolitical and collateral risk in an effort to retain and grow client relationships and to provide viable trade financing solutions for their corporate customers. Smaller financial institutions are often even more limited in their appetite and capacity for foreign risk than are larger institutions. Without Ex-Im Bank programs, private-sector lenders often could not provide the required financing or acceptable financing terms, resulting in lost sales for their clients.

Ex-Im helps alleviate these internal and external limitations on commercial loan portfolios by filling gaps in bank credit capacity and capability. Private lender financing facilities may often be fully utilized, leaving no room for additional commercial financing. Additionally, internal

parallel commercial loan facility. Under the working capital program, Ex-Im guarantees 90 percent of the loan principal and interest and the lenders are mandated to take 10 percent of the risk.

bank credit criteria does not always address certain types of export finance related intangibles which can reduce the ability of an institution to provide support for trade transactions relative to other types of bank loans. Without Ex-Im support to mitigate these constraints, financing of some export deals would not be possible.

For example, the Ex-Im Working Capital Guarantee Program helps commercial lenders overcome limitations in institutional credit policies which may not allow for the inclusion of export-related inventory, such as work-in-progress products, or export-related accounts receivable as collateral. In addition, Ex-Im support mitigates transaction tenor limitations. Foreign buyers often request repayment terms greater than lenders are able to underwrite. As contracts are often awarded to exporters offering the most favorable terms, Ex-Im provides lenders a guarantee or insurance support which enables them to extend the financing needed for the U.S. exporter to win against global competition, thus filling a gap the private markets are unable to fully support.

Lastly, Ex-Im guaranteed loans expand bank capacity for more export sales. Under the Basel framework for bank capital standards, financial institutions face higher capital ratios that act as a multiplier to the amount of Risk Weighted Assets ("RWA") allocated for specific transactions. This increase will have a significant impact on financial products with high amounts of RWA and will lead to a decrease in availability. However, Ex-Im Bank guaranteed loans have historically attracted lower amounts of RWA, making these types of loans more attractive from a capital allocation perspective. Without an Ex-Im guarantee, increased capital allocation puts pressure on the ability of banks to conduct certain export financing transactions in favor of deals with a higher overall return on investment. This will ultimately result in lower lender capacity to work with clients and would contribute to lost business for U.S. companies.

For these reasons, if Ex-Im Bank were to close its doors, BAFT and FSR stress that the private sector will not be able to fill the void left in financing U.S. companies wishing to sell their goods abroad. This will result in lost business and lost jobs for the U.S. economy and will unnecessarily make the U.S. less competitive globally.

IV. Conclusion

BAFT and FSR members believe the U.S. Export-Import Bank has a crucial role in boosting U.S. exports and supporting the economy. The Bank's reauthorization will ensure it continues to provide adequate, affordable trade finance and supporting programs through its private/public sector partnerships.

We stress that Ex-Im complements private-sector lenders by adding needed capacity and capability. As standalone private sector funding of trade transactions is not always available or affordable, Ex-Im financing helps commercial lenders, who in turn support their clients to create jobs and maintain growth.

We represent banks of all sizes and emphasize that there will be a significant unfilled void in export financing for U.S. companies if Ex-Im Bank were to cease operations. We strongly encourage Congress to reauthorize Ex-Im Bank in advance of the June 30 deadline in order to ensure the continuation of American competitiveness globally, economic growth of U.S. businesses and the creation of U.S. jobs.

Thank you again for the privilege of providing the Committee with our views.