EXAMINING THE EXPORT-IMPORT BANK'S REAUTHORIZATION REQUEST AND THE GOVERNMENT'S ROLE IN EXPORT FINANCING

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

JUNE 3, 2015

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CONTENTS

EXAMINING THE EXPORT-IMPORT BANK'S REAUTHORIZATION REQUEST AND THE GOVERNMENT'S ROLE IN EXPORT FINANCING

Wednesday, June 3, 2015

U.S. House of Representatives,
Committee on Financial Services,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, King, Royce, Lucas, Garrett, Neugebauer, McHenry, Pearce, Posey, Fitzpatrick, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Wagner, Barr, Rothfus, Messer, Schweikert, Guinta, Tipton, Williams, Poliquin, Love, Hill, Emmer; Waters, Maloney, Velazquez, Sherman, Meeks, Capuano, Hinojosa, Clay, Lynch, Green, Cleaver, Moore, Ellison, Himes, Carney, Sewell, Foster, Kildee, Murphy, Delaney, Sinema, Beatty, Heck, and Vargas.

Chairman Hensarling. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing." This is our third hearing on Ex-Im this Congress, and our fifth in the last 24 months. So, for better or for worse, rarely has such a small agency received so much attention by our committee.

I now recognize myself for 3 minutes to give an opening statement. I begin my comments by admitting that Republicans on my side of the aisle are split on the issue of Ex-Im reauthorization. I certainly respect the arguments of those who support H.R. 597, and I look forward to continuing our debate. I do understand that one person's corporate welfare and politically driven capital allocation is another person's vital export support program and level playing field.

However, understanding my Democrat colleagues' arguments is proving to be more challenging. They claim that Ex-Im is essential to supporting jobs, but I would ask most of my Democratic friends, where was your concern for jobs when you voted for ObamaCare, which according to the Congressional Budget Office is going to lead to 2.5 million fewer jobs in our economy? Where was your concern for jobs when your party voted against the Keystone Pipeline and the 42,000 jobs the State Department says are connected to it? Where was your concern for 45,000 jobs when most of your caucus voted against legislation to advance construction of LNG export products?

Democrats claim Ex-Im is essential to U.S. trade, but almost 99 percent of all U.S. exports are financed without Ex-Im. If my Democrat friends are so concerned about trade, why are so many of them opposing trade promotion authority (TPA)? No less a Democrat than President Obama himself says that TPA will create more jobs and expand economic opportunities for middle-income Americans.

The National Association of Manufacturers reports that over half of the structural cost disadvantage suffered by American exporters comes from our corporate tax system. Yet few, if any, Democrats support a fairer, flatter tax system, much less reducing our corporate tax rate, the highest in the industrialized world. Now, how many times have we heard Democrats vilify Wall Street banks, yet the big banks profit off Ex-Im like few others. The latest data I have seen shows JPMorgan Chase received $5.1 billion in assistance; Citigroup, $1.5 billion; Wells Fargo, $.5 billion; and HSBC, almost $1 billion. They all profit from Ex-Im, and as far as I can see, they all vigorously support its reauthorization. After all, they have hard-working taxpayers to bail out any Wall Street losses.

As one Citigroup managing director recently said, “There is nothing that a commercial bank loves more than guaranteed financing.” Another Wall Street banker was quoted in the press saying that Ex-Im guarantees are “free money” for the big banks. By reauthorizing Ex-Im, my Democratic colleagues are simply throwing Wall Street a big wet kiss.

Just 6 weeks ago, the ranking member asked the question, “Why is it that the richest of the folks in the businesses in this country who have so many paid lobbyists are able to direct the public policy in ways the average citizen cannot do?”

Boeing, which receives fully one-third of Ex-Im support, spent $35 million in lobbying expenses in the last Congress to help keep Ex-Im afloat. Their top 5 executives made $48.6 million in 2013 alone. The public reports from other top beneficiaries like GE, Caterpillar, and Exxon Mobil all look pretty similar. So I would say to my friend the ranking member, perhaps their paid lobbying is so successful and their executives are getting so rich because you are doing everything you can to help them.

To support more robust economic growth and economic justice, not to mention economic equal opportunity for all, it is time to wind down Ex-Im. I now recognize the ranking member for 3 minutes.

Ms. WATERS. Thank you, Mr. Chairman.

It is the eleventh hour for the Export-Import Bank, only 14 legislative days remain until this engine of economic growth shuts down.

For 2 years, Democrats on this committee and many Republicans have asked the chairman to listen to reason with respect to the Export-Import Bank’s reauthorization. We have pushed for action in this committee because for the thousands of American jobs and businesses across every one of our States and districts that count on Ex-Im support, the stakes are high. With 190 Democrats on record in support of a multiyear extension of the Bank's charter, and 59 Republicans on a separate reauthorization measure, including 5 on this very committee, the facts are unequivocal: A majority of the Members of the Financial Services Committee and of the House of Representatives support keeping the Export-Import Bank up and running for the long term.

In light of the staunch opposition from this chairman, I would like to take a minute to thank Representative Stephen Fincher for having the courage to stand up for what he believes is right by offering legislation that commits to a long-term reauthorization of the Bank. Unfortunately, despite the fact that the Bank faces closure in just 14 legislative days, these two bills to reauthorize its charter are gathering dust in the chairman's office.

Mr. Chairman, while you continue playing games with the Export-Import Bank, today we will do our best to remind you of the real people who will be impacted by shutting it down. Later in this hearing, you will hear from Michael Boyle, chief executive officer of Boyle Energy Services and Technology. Mr. Boyle is a Republican, and his energy firm is located in Manchester, New Hampshire, right from the district of Representative Guinta. He is going to tell this committee about how the Export-Import Bank took his business of 8 employees and helped it expand to 60 presently. For some reason, that engine of economic growth which allowed Mr. Boyle to grow and expand his business is the latest ideological target of this committee.

Mr. Chairman, we are not legislating in a vacuum. Closing the Export-Import Bank will have real consequences for businesses trying to survive in an increasingly competitive marketplace. I am disappointed that this game continues, and I yield back my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, the chairman of our Monetary Policy and Trade Subcommittee, for 2 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate you holding this hearing to further examine the Export-Import Bank's reauthorization request. As I have stated before, I am dismayed that some of the best American companies believe that they need special programs and carve-outs like Ex-Im to remain competitive on the global stage as opposed to dealing with what I believe are the true hurdles, tax reform as well as regulatory reform.

If we allow a select few companies to determine the outcome of the Ex-Im Bank, what happens when we do try to work out reform of our Tax Code? What happens when we actually try to close loopholes? How can we address social entitlement programs if Congress is unwilling to address corporate entitlement programs as well?

In 2012, although I voted "no," Congress reauthorized Ex-Im while mandating several modest reform provisions that shared broad bipartisan support. These reforms were viewed as vital. I voted "no" because I was concerned that the bill was actually nothing more than window dressing. Although these reforms were intended to better protect taxpayers and make the Export-Import Bank more accountable, the Bank and Treasury continued to ignore congressional intent and instead operated with too little accountability with regard to the interests of hard-working American taxpayers. It looks like, unfortunately, I was right in 2012. American taxpayers have been unwittingly propping up foreign state-owned programs in Saudi Arabia, Russia, Colombia, Ethiopia, South Africa, et cetera, while others have done nothing but work against the best interests of American taxpayers.

Additionally, the Export-Import Bank has an unsavory track record involving corruption, bribery, and fraud. The acting inspector general of the Export-Import Bank testified in our joint hearings with the Oversight and Government Reform Committee that 47 people have been convicted of defrauding the Bank in the past 5 years, and that there are at least 31 open investigations with a potential for even more indictments. The more that is unearthed about the Export-Import Bank, the more concerned I become. While the goals and objectives of the Bank may be admirable, the current state of the Bank is abhorrent at best. Why should Congress spend taxpayer dollars on an organization that has reestablished a track record of corruption? Why should American tax dollars be used to finance foreign government-owned or operated companies that compete against American workers? Why should the hard-working taxpayers take on unnecessary risk when private companies refuse to do so? Unfortunately for the folks at Ex-Im, I have come to the conclusion that the Export-Import Bank is beyond broken, and that it is time for the Bank's charter to expire.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, ranking member of our Monetary Policy and Trade Subcommittee, for 1 minute.

Ms. MOORE. Thank you so much, Mr. Chairman.

This is an important hearing, as the Export-Import Bank's charter expires at the end of this month. After several of these hearings, what do we know? In 2012, a number of substantive reforms were made by Congress, and the Bank has implemented an overwhelming number of them. We know that private finance supports the Bank, cannot fill the void, and that the Bank is not crowding out private capital. And it is a straw man fallacious argument about it being corporate welfare designed to undermine the social safety net for people.

We know that the Bank operates with a low default rate with meaningful and vigorous oversight by the inspector general (IG). We know the Bank supports good jobs and small businesses in the United States of America. The counterpoint we will hear today from some libertarian academics is the claim that the Bank somehow creates hidden costs for some companies. But I think the best evidence against this case they are trying to make is that several firms mentioned in the research as being hurt by the Bank, such as Nucor and AK, still support the Bank. I yield back.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck, for 1 minute.

Mr. HECK. Thank you, Mr. Chairman.

We should be skeptical of government lending programs because private markets are generally better at allocating credit and it is easy, maybe even reasonable, to become cynical about our political process.

If a company comes to me and says they are hurt by Ex-Im, I worry for their employees, but we owe this topic more than a gut-level skepticism and easy cynicism. Our job as Members of Congress is to get information on how the world actually works and base our policy on that.

Stephen Fincher has set the example. He came to Congress as a skeptic of Ex-Im, asked questions, voted "no" initially, replaced that skepticism with facts, and came to see the critical need for the Bank. Today is an opportunity for all of us to do that.

Afraid that the Ex-Im is undercutting private banks? Ask Mr. Murphy whether the banks see it that way.

Cynical that Ex-Im only helps big companies like Boeing? Go to Ex-Im and see who gets support in your district.

Skeptical that there is really a need for government to be making these loans? Ask Mr. Boyle about the alternatives for small business. Frankly, there are none.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. We will now turn to our witnesses.

For our first panel, we welcome the testimony of the Honorable Fred Hochberg, the president and chairman of the Export-Import Bank; and Mr. Michael McCarthy, the deputy inspector general of the Export-Import Bank. Each of you will be recognized for 5 minutes to give an oral summary of your testimony.

And without objection, each of your written statements will be made a part of the record.

Chairman Hochberg, you are now recognized for your testimony.

STATEMENT OF THE HONORABLE FRED P. HOCHBERG, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HOCHBERG. Thank you.

Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee, thank you for inviting me today to testify before you about how Ex-Im equips small businesses, U.S. businesses, to compete in the global economy and add jobs here at home. Ex-Im complements and works with the private sector. We provide private sector backstop financing so American entrepreneurs can seize global opportunities, create jobs, and not get left behind by their foreign rivals. And we have been successful, supporting 164,000 jobs last year alone. Ex-Im does not pick winners and losers, rather it serves any eligible American business seeking competitive financing to export. We are, by definition, demand-driven.

Of course, our customers pay fees and interest for this service, and as a result, Ex-Im is completely self-sustaining. Last year alone, Ex-Im generated $675 million for the taxpayers for deficit reduction. If Ex-Im Bank is not reauthorized, we will no longer generate $.5 billion for the taxpayer. On top of this, we have truly focused on risk management, demonstrated by our low default rate of 0.167 percent as of March 2015. And as you know, in 2012 Ex-Im was reauthorized by overwhelming bipartisan support. And today, 250 House Members have cosponsored legislation aimed at giving Ex-Im a long-term reauthorization.

I take seriously my duty to implement the will of Congress. That is why I have provided each of you with all of the documentation outlining Ex-Im's implementation of every single requirement from the 2012 reauthorization, and why I will work diligently to implement any future requirements that Congress chooses to impose. In addition, Ex-Im continuously acts to proactively implement risk-management improvements to further ensure that we remain faithful stewards of taxpayer dollars. To name just two, we increased our staffing in asset monitoring by 33 percent, and we went beyond all Federal requirements and required mandatory ethics training of every single employee.

Of course, any organization can experience a bad apple, and let me underscore, Ex-Im has zero tolerance for fraud, waste, and abuse, and works closely with the IG to take thorough and immediate action when any hint of misconduct is detected.

In the last 6 years, there has been exactly one indictment involving an Ex-Im employee, a situation that was uncovered thanks to a tip from a fellow employee. This infraction goes back to 2006 during the Bush Administration, before Ex-Im had an inspector general.

Unfortunately, there are always those outside of the agency who will try and defraud the government. Ex-Im has 31 such cases. The Social Security Administration had over 16,000 in the last 2 years, and DOD had more than 6,000 last year alone. The point is, there will always be outsiders who attempt to defraud the government. But, frankly, thanks to our focus on fraud detection and risk management, Ex-Im has a track record of successfully protecting the public trust.

Meanwhile, global competition has ramped up, and since our last reauthorization, it will continue to. American businesses and workers aren't simply competing against their Chinese, Russian, and French counterparts. Often, they are competing against countries. However, Congress has made it clear; they have asked the Treasury Secretary to ratchet down export credits. And while it is the Secretary's responsibility, as I said, I take the will of Congress seriously.

As a result, I recently met with many of my foreign counterparts to discuss exactly that topic. And here is what I heard: To the contrary, our counterparts intend to accelerate financial backing for exports. Their role is clear: When commercial banks constrict financing, export credit agencies fill the gap so their domestic exporters don't lose sales or jobs.

Ex-Im Bank is like a firetruck in that sense. You don't sell off the firetruck just because there is a fire currently burning.

In closing, as this committee is aware, businesses need certainty to make long-term plans to grow, hire, and innovate. There are now about 80 other export credit agencies around the world fighting for jobs. And unlike Ex-Im Bank, one of China's export credit agencies recently noted that they doubled their activity in 2014 and expect to double it again in the next year or two. We look forward to working with you to continue empowering your constituents to export more and to hire more American workers.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Hochberg can be found on page 144 of the appendix.]

Chairman HENSARLING. Thank you, Chairman Hochberg.

Mr. McCarthy, you are now recognized for your testimony.

STATEMENT OF MICHAEL T. MCCARTHY, DEPUTY INSPECTOR GENERAL, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. MCCARTHY. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee. I am pleased to be here to present the work of the Export-Import Bank Office of Inspector General (OIG). The committee has my written testimony which highlights the work that our professional auditors, inspectors, and special agents have done to promote efficiency and detect and deter fraud at Ex-Im Bank. The committee has asked me to discuss investigations into fraud at the Bank, recent court activity, and recommendations to improve risk management and prevent misconduct. Let me briefly cover a few highlights.

Since 2009, OIG investigations into fraud schemes that target Ex-Im Bank have yielded 84 criminal indictments and informations, 50 convictions, and $255 million in judgments and repayments. The most common fraud schemes we have encountered involve outside parties obtaining loans or guarantees through false representations and submission of false documents. We work closely with the Bank's Asset Management Division, which makes referrals of transactions or claims with indicators of fraud. We currently have 30 open investigations, and nearly all of them address outside persons committing fraud against the Bank and have no indications of Ex-Im employee involvement. However, one of those fraud cases involves former Ex-Im loan officer Johnny Gutierrez, who recently pleaded guilt to one count of bribery of a public official. Mr. Gutierrez admitted accepting more than $78,000 in bribes in return for recommending the approval of unqualified loan applications, among other misconduct. This case remains an active fraud investigation against other parties.

We have closed other employee integrity cases in the past year that led to findings of misconduct and personnel being separated from employment at the Bank but not criminal charges. As I have previously testified, our open investigations are at various stages, and working with the Department of Justice, some cases may result in prosecutions for bank fraud and money laundering. At this time, I would not expect charges against any other Ex-Im Bank employees from our current caseload.

As to our recommendations, we have 48 open and unresolved recommendations: 24 from the current fiscal year; and 24 from prior fiscal years. My written testimony summarizes our most recent audit and inspection work. Our independent audit of the Bank's financial statements found that they were fairly presented in all material respects and had no material weaknesses. Our audits also found substantial compliance with the cybersecurity requirements of the Federal Information Security Management Act (FISMA) and found that internal controls for the short-term multibuyer insurance program provided reasonable assurance of compliance. Our inspection of transactions in Ghana found that one project was appropriately structured and was performing, while we identified engineers issues with another transaction and made recommendations for improvement going forward.

Finally, a recent annual audit found noncompliance with the Improper Payments Act, and we recommended changes to the risk-assessment process, which the Bank is implementing.

Every year, we review our work and identify the top management challenges facing the Bank. Last fall, the OIG reported that the top challenge was managing risk, specifically, managing the Bank's core business activities to reduce the risk of loss to the Treasury and, by extension, the taxpayer. To manage that risk, we have recommended the Bank design an agency-wide risk-management framework so that in addition to rating the risk of any individual transaction, the Bank is also evaluating and mitigating the risks generated by the overall composition of the portfolio and any outside exposures the Bank has in certain regions, industry sectors, or single companies.

To accomplish this, we have recommended a chief risk officer, which the Bank has established. The Bank has also conducted stress testing and monitoring of exposure levels. We hope the Bank will build on these steps by developing and implementing key risk policies covering both credit and noncredit risks. We have also recommended improvements to due diligence, and know-your-customer policies, and the Bank has deployed improvements in those areas.

Finally, we previously found that internal policies providing clear guidance to staff had not been prevalent at Ex-Im Bank. So we recommended that the Bank rely more on clear policies, controls, and documentation, and less on institutional knowledge.

Many of our recommendations have been for specific internal control policies which the Bank is working on implementing.

Mr. Chairman, this concludes my statement. I am happy to answer questions.

[The prepared statement of Mr. McCarthy can be found on page 180 of the appendix.]

Chairman HENSARLING. Thank you.

The Chair now recognizes himself for 5 minutes of questions.

Chairman Hochberg, last month the Richmond Federal Reserve updated a report called the "Bailout Barometer." Is there any chance that this might have come across your desk?

Mr. HOCHBERG. No, it did not.

Chairman HENSARLING. In this report, the Richmond Fed states that roughly 60 percent of all financial transactions in our economy are now either explicitly or implicitly backed by the Federal Government, up about a third since the financial crisis. In your testimony, you have a chart showing that taxpayer exposure has roughly doubled from $58 billion to $112 billion over this same time period, is that correct?

Mr. HOCHBERG. Yes, that sounds right.

Chairman HENSARLING. In the "Bailout Barometer" report, the Richmond Fed says, "This protection could make financial crises and bailouts more likely."

I would commend it to your reading at some time.

Chairman Hochberg, in our last hearing we spoke about Ex-Im financing different foreign state-owned enterprises. In fact, do you have a statistic of the financial assistance, how much of it goes to state-owned enterprises?

Mr. HOCHBERG. I couldn't give you a precise number. I think the difference, Mr. Chairman, is that we have a capitalist society. We have far more private sector enterprises—

Chairman HENSARLING. But you admit that it includes a number of state-owned enterprises like Pemex in Mexico, which I believe is one of the largest recipients; Air India in India; and ICBC Leasing in China. We had a rather robust discussion about Ex-Im's support of China. I think there is currently, at the end of the last fiscal year, $4.5 billion in exposure to China. And I think the vast majority of that, according to your records, is to state-owned enterprises. Several Members, including myself, essentially asked you the question, "How are we supposed to compete with China by subsidizing China?" And your reply was, "It is a complicated world out there."

Let me try to ask simple questions, then. In your opinion, do state-owned Ex-Im-supported foreign airlines like Air China compete with American carriers and their employees?

Mr. HOCHBERG. We deploy an economic impact review any time we do a loan to any—

Chairman HENSARLING. I understand that. I am just asking your opinion. Do you believe they compete or not?

Mr. HOCHBERG. Everybody is competing for airline passengers, yes.

Chairman HENSARLING. So you believe that China Air is competing with American carriers. How about the Ex-Im-supported foreign refineries like STAR Refinery in Turkey. Do they compete with American refineries?

Mr. HOCHBERG. Yes. It is a global world, sir.

Chairman HENSARLING. Okay. In your written testimony, you state more than once, and you also say in your oral testimony that Ex-Im doesn't pick winners and losers. I don't know what is on your schedule for this afternoon. I would commend that you stick around for the second panel. Maybe you would change your mind because when you finance a state-owned airline, you are making Boeing a winner, and Delta a loser. You can hear Delta's testimony later on today. When you finance a Turkish refinery, you make Fluor a winner, and you make Valero a loser. When you finance an Australian mining project, you make Caterpillar a winner, and you make Cliffs Natural Resources a loser. You can hear their testimony later on today. And according to the Congressional Budget Office, if you were forced to use fair value accounting like the rest of America, you would be making the taxpayer a loser as well. So if you have the time, I would commend the second panel to your attention.

You also brought up in your testimony, and you have it here as well, a report as an appendix to your testimony entitled, "Every Reform Completed," but when you look at the reforms, so-called reforms of the 2012 reauthorization, what I see in your report are the words "plan," "study," "monitor," "report," "notice," "comment," "categorize," "examine," and "review." I know this was something that was authorized by Congress, but Chairman Hochberg, I think there are only two real reforms for most people in the 2012 reauthorization. One is Section 11, which mandated that Treasury initiate negotiations to substantially reduce, with the ultimate goal of eliminating, subsidized export financing. You stated that this is completed annually by the U.S. Department of the Treasury. Not only is it not completed, there is scant evidence it has ever been started.

Section 12 requires the Bank to develop and make publicly available methodological guidelines to be used for conducting economic analysis. I think, according to The Wall Street Journal, in conducting this analysis, you allegedly allowed your largest customer, Boeing, the ultimate beneficiary, to write the rules—as The Wall Street Journal said itself, "an extraordinary level of cooperation." Also, according to The Wall Street Journal, "The collaboration appears to have worked. In the nearly 2 years since the rule went into effect, no Boeing sales have been nixed as a result.

My point is, Chairman Hochberg, you might report, you might plan, you might study, but I am not sure you actually manage to enforce the only reforms that counted in the reauthorization. I see I am over my time.

I now yield to the ranking member for 5 minutes.

Ms. WATERS. Mr. Hochberg, I thank you for coming over one more time to explain to my chairman and the members on the opposite side of the aisle what harm they are doing to the American economy and how they are disrespectful of and not recognizing the trade deficit that we have and how the work that the Bank is doing with 2 percent of our exports and dealing with our competitiveness issue.

I thank you for all of that. But what I would like you to do is to take China and two or three other countries that give such support to the export industry and talk about how they hope we will not reauthorize this Bank and what this means for their economy and what it means for our economy.

Mr. HOCHBERG. Thank you, Ranking Member Waters. China alone is not a part of any OECD, any part of global framework. So one of the difficulties we have is that they don't follow the rules. They are not transparent. They don't follow any guidelines. And they have said point blank that they will do whatever it takes to further their exports and further their trade increase.

China has up to four different export credit agencies that actually finance their exports, all government-sponsored, all government-backed, with not a lot of transparency and not a lot of accountability.

One of them alone, Sinosure, which does insurance long term and short term, did about $670 billion in the last 2 years. It took Ex-Im Bank 80 years to get to $590 billion, and they have done that in 2 years. They have also indicated they doubled, and they plan to double again in the next 1 to 2 years. And Korea is also exceedingly aggressive, as are Japan and a number of others, particularly in Asia.

Ms. WATERS. Also, I would like for you to give us some idea of what has been happening in this space where we have been debating whether or not we are going to do reauthorization, and how some have lost faith in our ability to help with our own exports, and how we are losing out already to other countries.

Mr. HOCHBERG. Mike Boyle, who is going to be on the second panel, can speak directly to that. Additionally, a number of the banks that we work with to get working capital loans, overwhelmingly for small businesses, have simply pulled back while they are waiting to see what happens. They don't want to go out there and issue a working capital guarantee and then find the rug pulled out from under them in 14 legislative days from now. So we are finding a reduction in working capital applications.

And on insurance, which is the bulk of what our small businesses use, there has also been a reluctance and a wait-and-see to make sure that we are really going to be there to execute those policies.

Ms. WATERS. On this business about the private sector, who is stopping the private sector from investing or supporting exports? Who is stopping them? What barriers do they have for not exercising their right to finance and support any business that they want to support? What is this business about we are somehow interfering with the private sector's ability to finance and support exports?

Mr. HOCHBERG. Oh, you are absolutely right. The private sector does a spectacular job, a better job in our country than any other country. And it is the private sector that brings us in when they hit a barrier or a roadblock that they can't surmount. So if the private sector tries to do it on their own, and they can't, is when they call us in for a guarantee to make sure a loan gets done.

Ms. WATERS. When you referred to "call us in" or when you have businesses who come to you and say, "I can't get private sector funding, can you take a look at my business and see what you can do to help me," et cetera, et cetera, who is it you are helping, aside from those that my chairman would have you believe all of the support is going to one company? Are you supporting small businesses, and why do they come to you?

Mr. HOCHBERG. Ranking Member Waters, I was a small-business owner of a family business for 20 years. Small businesses always have difficulty getting access to credit. Ninety percent of our clients are actually small businesses, direct small businesses, and 39 percent of the exports we finance are shipped directly from a small company. Then, there are many, many small businesses in the supply chain of some of the larger companies we work with that are carried along in the process. But they come to us, their banks come to us saying, this is a risk we cannot take on. Maybe it is a country. Maybe it is the size of the transaction. Maybe it is the product category.

Ms. WATERS. And so, does Mr. Hensarling have any of these small businesses in Texas?

Mr. HOCHBERG. We have a lot in Texas. We actually have a couple right in his district as well.

Ms. WATERS. Okay, so it is not that some in his district are not benefiting from it. All over the United States, we have these small businesses that are benefiting from Ex-Im, not just in California or some of the other States of these Representatives. Is that right?

Mr. HOCHBERG. That is correct.

Ms. WATERS. Thank you. I yield back the balance of my time.

Chairman HENSARLING. The time of the gentlelady has expired. The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, chairman of our Monetary Policy and Trade Subcommittee, for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman, and I am astounded that once again, the shifting sands of political expediency is rearing its ugly head here today. I wasn't necessarily going to go in this direction, but I feel it needs to be addressed. There was a call towards our trade deficits. I am curious as to then why many of my colleagues who are in support of the Export-Import Bank oppose tax reform, oppose regulatory reform, and even oppose something called the Trans-Pacific Partnership (TPP); and TTIP, an agreement with the Europeans; and the vehicle to get there, TPA.

I am curious what kind of reaction they have when we are able to read quotes such as this: "I am not a Democrat who believes that we can or should defend every government program just because it is there. The Export-Import Bank has become little more than a fund for corporate welfare, but if we hope to meet the challenges of our time, we must make difficult choices," said President, then-candidate, Barack Obama.

You probably would be hard-pressed to guess who actually said this quote as well: "Most Americans do not understand that we put $1 billion into this Export-Import Bank; many would see this as simply corporate welfare."

Now, this was in 2002, so closely on the heels of when they actually did have to put money into the Export-Import Bank. By the way, it is interesting to note that the corruption and the fraud cases that are talked about here in the last 6 years conveniently leave out the fact that we had one of our Democrat colleagues, William Jefferson, go down and spend, I believe it is 13 to 15 years, in Federal prison for bribery surrounding his actions in this Bank.

Another quote: "Unfortunately, the Bank has a history of providing assistance to companies that have been exporting American jobs and hiring cheap foreign labor."

And then, this is just a good kicker: "I urge my colleagues to oppose Senate Bill 1372, the Export-Import Bank Reauthorization Act of 2002." That was none other than our ranking member, Ms. Waters from California.

So it seems to me the only thing that has really shifted and changed is that there is a different person in the White House at this point. I would argue that seeing what happened in 2009, and now most recently with the Gutierrez case, things have gotten worse, not better, in the Bank itself.

It does lead me to then go to something that I want to touch on, which is, I think, more evidence that we are beyond broken here with the Export-Import Bank. In 2012, there were some requirements for some of these checks and balances to be put in, something that I am sure is very familiar. The due diligence standards and the know-your-customer requirements were finalized on May 20, 2014, after the NewSat deal was approved. And for those of you who haven't been following this, NewSat was—I believe it was an Australian company. Is that correct, Mr. Hochberg?

Mr. HOCHBERG. Yes, it is.

Mr. HUIZENGA. An Australian company that at this point appears to be handing you a $100 million loss. And there was a report given to Ex-Im by an outside consultant, Brendan Rudd, who found that NewSat's management showed "a complete lack of control on reigning in costs. They included a $1.5 million raise for the CEO; $400,000 in undisclosed payments to a yacht business owned by the CEO's son; $10,000 dinners; and various irregularities in trading and tax reporting."

And Mr. Rudd in his report concluded, "I have never seen nor heard of more appalling corporate behavior than at NewSat."

So, Mr. Hochberg, if the Bank had successfully implemented the 2012 bill and the "reforms" that have been put in place, then we wouldn't even be confronting NewSat, is that correct?

Mr. HOCHBERG. I think we did a thorough due diligence and underwriting of that transaction. It was voted on by the board unanimously in 2012, and there was a revote in 2013 where there was a change in the transaction.

Mr. HUIZENGA. So you are saying that this was a good loan?

Mr. HOCHBERG. Congressman, we are in the business of making loans and supporting exports, about 250 direct exports from Lockheed Martin and 650 indirect. Every loan we make is not going to perform perfectly and flawlessly, and this is one that is, frankly, right now troubled. We are working through a solution. We are nowhere near a solution at this point.

Mr. HUIZENGA. It seems to me that either you knew about it and had some suspicions and went ahead with it, which would obviously be a bad decision, or you didn't have the systems in place to actually root it out. Either one of those is a bad scenario from my perspective, and again, I come to the conclusion that it is beyond broken. And we simply are not going to be able to save the Export-Import Bank from itself.

With that, Mr. Chairman, my time has run out.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, ranking member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you, Mr. Chairman.

And welcome, Mr. Hochberg. I feel that if there is a challenge such as my Republican colleague put forward, then correct it.

But with 15 more working days for the House before the Ex-Im charter expires, I think it is important to look at an index of numbers which shows the good that it has done for the American economy: 60, that is the approximate number of export credit agencies operated by our competitors in an increasingly competitive global market, and they are just waiting for a chance to grab new businesses away from American exporters if our Bank folds; 3,340, that is the number of small businesses directly supported by the services of the Bank; 164,000, that is the number of American jobs that will be lost without congressional action; $1.3 million, that is the number of private sector jobs the Bank has supported since 2009, at no cost to the American taxpayer; and finally, zero, that is the good that will accrue if we allow our Export-Import Bank to die. And if you look at recent numbers in the last year alone, they supported $27.4 billion of exports, U.S. exports, at no cost to the taxpayer, absolutely no cost to the taxpayer.

I ask unanimous consent to place in the record the export data analysis, and in this, China provided 17 times more support for their exports than the United States with approximately half the GDP.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. MALONEY. And Canada alone provided more than 3 times more support for their exports than the United States, and the United States had a GDP over 9 times larger than Canada. There are 60 different countries that are providing support for their exports. So I strongly believe that we should not unilaterally disarm if there is a challenge. If there is a problem, correct it. That is the American way. And go forward in supporting good jobs and our exports. What I find so troubling is that in this committee, we have hearing after hearing on access to capital, how difficult it is for startups and small businesses to find access to capital. Well, this is our access to capital. This is a way to help small businesses and large businesses export and create more American jobs.

So I would like to ask you, Mr. Hochberg, have you seen the private sector trade lenders stepping up during this period where you said there is uncertainty, and people are looking for the financing—they don't know if they can get it—but are these private sector lenders coming in and providing the support? Or have these businesses simply been moving their production abroad to take advantage of other countries' export agencies?

Mr. HOCHBERG. Thank you, Congresswoman Maloney. What we have seen in the last 2 years, frankly, is the private sector, generally speaking, has stepped up a lot more. There is a lot more liquidity. There is a lot more bank lending, and there has been less of a requirement for our work, which is a good thing. It shows that the private sector is working better. However, in the small business space, they always have a difficulty. We have not really seen the private sector stepping up that strongly in small business. And to your last point, I think that there are—you will see a number of companies, but most of the larger companies that actually have the ability to move production may well move production offshore.

You also may see that companies that were looking to locate here in the United States because we have a great workforce, rule of law, cheap energy, or inexpensive energy, one of the things they also come here for is so they can export from here, and we are an important part of that factor.

Mrs. MALONEY. Great. Have you seen with our competitors, are they increasing their support for their export credit agencies or decreasing their support?

Mr. HOCHBERG. By and large, they are overwhelmingly increasing, and more and more, they are also getting into short-term lending, which actually benefits their small businesses. So I think we are going to see more competitive pressure on small business exporters as a result of more and more entities getting into the game.

Mrs. MALONEY. Thank you.

My time has expired.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. I thank the chairman for holding this very important hearing and when I was listening, Mr. Chairman, to your questions, I was reminded of the essay, "What Is Seen and What Is Not Seen" by Frederic Bastiat, who wrote that essay to analyze our economies. Some things you can see, and some things you can't.

With Ex-Im, as the chairman was going down the list, you often report on what you can see. I understand you use a ratio or an analysis to come up with your figure of how many jobs are either saved or created by looking at the billions of dollars of sales that multinational corporations make and then multiplying that by some job ratio to come up with, this is what all of the good is that you are doing. Is that not an appropriate analysis of how you come up with your job creation, in short?

Mr. HOCHBERG. The jobs that we support are based on the actual authorizations we have made to support U.S. exports, large companies and small.

Mr. GARRETT. Right, and so you do that by a job ratio by the sales?

Mr. HOCHBERG. Right. The Bureau of Labor Statistics. Not ours, we use the Department of Labor.

Mr. GARRETT. Do you do a similar study of what the chairman was running down as far as the jobs that are lost or not created?

Mr. HOCHBERG. We do it in a form which we update. We do an economic impact study. We do it on every transaction to make sure that any benefits to our economy outweigh any possible harm.

Mr. GARRETT. Right, and so what it comes down to is that you really don't go through a list of all of the winners and losers that the chairman was listing. Basically, you sit there and make that decision unilaterally; we are going to help these people, and we are going to hurt those people. We are going to help these sovereign countries. We are going to hurt American workers. We are going to help foreign institutions. We are going to hurt local businesses. You basically make that decision.

And so, listening to the chairman's question as you ran down the list of U.S. companies, small and large, that are hurt in this manner, I think, how do you actually do that? How do you think about—or do you think about that man, that worker here in the United States who has just lost his job because of your decision; the woman who now no longer can make her mortgage payment because her U.S. job has been outsourced to another country because of your actions; the child who no longer is able to go to college because they have lost their American job because of your action; about the harm that you are doing to American families on a daily basis because you are sitting there picking winners and losers? It is a trauma to people when they lose their jobs. It is a trauma to people when they are looking at having worked a lifetime with a small company and seeing that job is now going to be exported overseas because of your decisions at the Ex-Im Bank. And I wonder just how does anybody sit there on a daily basis and make those decisions, support multi-international companies, support foreign countries, and do that knowing that you are hurting the litany of companies that the chairman just listed here?

And it is not the companies; it is the people that you are hurting. How do you make those decisions on a daily basis knowing that you are hurting families, hurting people, hurting children with those decisions? I just find that unimaginable. And you do it at the same time that you are saying you have an entity that is self-sustaining.

Really? You are self-sustaining? If that is true, then I guess you don't need to be here at all. We can separate the Export-Import Bank as a self-sustaining—your words, not mine—entity without any U.S. Government backstop, without any U.S. Government support and allow them, allow it, allow you to be in that position without the Government backstop. So was your word a flippant word when you were saying "self-sustaining," or is there more to it than that?

Mr. HOCHBERG. Ex-Im is self-sustaining because of the fact that we collect fees for our work that fully pay for all of our costs, including loan loss reserves, and the excess—

Mr. GARRETT. Of course, that is not actually true over the history of Ex-Im Bank because Ex-Im Bank has been bailed out in the past. So it is not truly self-sustaining in that sense, and also in the sense that when you say, you take on the loans that banks won't. You take on the bank loans when banks won't step up to the plate and do it. And I have to think, why is it that the banks aren't making those loans? Is it because they are looking at it and saying, "As a president and CEO or CFO of a bank, I have a fiduciary duty to my stockholders, my investors, and the mom-and-pops who invest in my banks not to do something that is too risky, so I am not going to make this loan to a risky venture?"

But you are all too willing to do so, aren't you? You are willing to do so not with your personal money, not with any of the people who are sitting in front of us right now with your money. You are willing to do it with my money and everybody else's money, that person that maybe that you just put out of a job, his money.

So when you are saying that banks aren't willing to do it, you are willing to do it and put the American taxpayer, the worker, that very same worker that you put out of business, you are using his dollars and putting them at risk.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Hochberg, small businesses are central to U.S. international trade, comprising the overwhelming majority of all exporting firms. Small or medium-sized companies with fewer than 500 employees comprise 97 percent of all export firms and were responsible for 33 percent of goods exported by value. So I would like to discuss with you the bank lending levels for small businesses.

Since 2002, Ex-Im's reauthorization, the Bank must provide at least 20 percent of total assistance directly to small businesses. Since 2007, the percentage has steadily declined and fell below the 20-percent mandates each year between 2010 and 2013. It recently grew to 25 percent in 2014 as a result of a sharp decrease in the Bank's large business lending activity. So it is not, I believe, that because the Bank did more to increase lending to small businesses, but because of the sharp decrease in lending to large businesses.

My question to you is, given the fact that—and we are all using the argument here about the important role that the Bank plays in lending for small businesses—we assisted 3,200 out of 25,000 small businesses in this country. I would like to see, first, that there is a commitment to increase the 25 percent, and what type of outreach will you do to make sure that we go beyond the 3,000 when we know that 97 percent of all exporters are small businesses, but yet they get less than 25 percent on small business lending?

Mr. HOCHBERG. Congresswoman, I thank you.

Ms. VELAZQUEZ. You know that I have been very critical of the Bank regarding lending to small businesses for ages now.

Mr. HOCHBERG. We are, right now, above 20 percent. Our lending to small businesses directly is north of $5 billion. It was in the 3s when I joined the Bank. We have also, although we don't count it, a lot of indirect small business exporters. We now have an 800 number that is answered 8 to 8, Monday to Friday.

Ms. VELAZQUEZ. But we are not here to discuss the indirect lending.

Mr. HOCHBERG. You asked about outreach.

Ms. VELAZQUEZ. We are talking about direct lending to small businesses.

Mr. HOCHBERG. You asked about outreach. I said, we have telephone operators, 8 to 8, Monday to Friday. If you are on our website and you can't figure something out, we have online assistance there. We now have representation in about 12 different cities. We work very closely with the Small Business Administration (SBA) and the Commerce Department. And on top of that, many members of this committee have invited me to their districts and we have done half-day workshops. I just did one with Congressman Reed in upstate western New York last week.

Ms. VELAZQUEZ. Okay, given the fact that the Bank plays such an important role in providing financing, that the private market, private financial institutions do not make, would you support an amendment to increase the mandate to 25 percent?

Mr. HOCHBERG. I think the 20 percent is a good level to have. I don't want to, as was discussed at this meeting, pick winners and losers. I don't want to not do a certain transaction to simply meet a target, making sure that we hit a certain target that has been established by Congress.

Ms. VELAZQUEZ. Since the reauthorization in 2002, the mandate has been 20 percent, and you never reached that mandate.

Mr. HOCHBERG. We did that the last 2 years. We exceeded it last year. We are exceeding it this year.

Ms. VELAZQUEZ. Until last year. I just want to see that there is a strong commitment, given the fact that 97 percent of all exporters are small businesses, that should be reflected into the kind of financing that the Bank is providing to small businesses.

Mr. HOCHBERG. Mr. Boyle will be on the second panel as a small-business owner. You might be able to ask him what his experience has been.

Ms. VELAZQUEZ. I understand, sir. I just want to make sure that the lending to small businesses is reflected in terms of the 25,000 small businesses that we have, only 3,200 were served.

And I yield back, Mr. Chairman.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman, and thank you for holding today's hearing. For my good friend, the ranking member, I have to give a couple of her quotes from earlier today. I think she said the Ex-Im Bank was an engine of economic growth. And she also said that letting the Ex-Im Bank expire would be harmful to the American economy.

And, as Mr. Huizenga pointed out, that hasn't always been the case with my friends across the aisle or the Democrat Party because when Barack Obama was running for office, he called the Ex-Im Bank corporate welfare. And my good friend, the ranking member, she too called the Ex-Im Bank corporate welfare. She also told us that it would ship American jobs overseas because of cheap foreign labor.

In the dissenting opinion from the ranking members and one Bernie Sanders from the House report from 2002, they said there are many examples of the Export-Import Bank subsidizing corporations that lay off American workers and move their production facilities overseas. But today, they are telling us that it is the engine of economic growth. So the question is, what has changed? What is different today than what they were saying in 2012?

Mr. Hochberg, have you ever stayed at the White House?

Mr. HOCHBERG. In the 1990s.

Mr. DUFFY. With Mr. Clinton?

Mr. HOCHBERG. Yes, sir.

Mr. DUFFY. In the Lincoln bedroom?

Mr. HOCHBERG. No, it was actually a different bedroom.

Mr. DUFFY. And you were an Obama bundler, correct? You were an Obama bundler?

Mr. HOCHBERG. I raised money for Mr. Obama.

Mr. DUFFY. Okay. Is it fair to say we could probably deduce from those answers what your political affiliation is?

Boeing, the largest beneficiary of Ex-Im financing, their top lobbyist since 2008 is a former aide to Bill Clinton. In 2009, Secretary Clinton—President Clinton's wife, if you don't know—made a shameless pitch in Russia that Russian airlines should buy Boeing airplanes, and while I would like all airlines to buy great American jets, she was making a pitch as Secretary of State. And then, in 2010, a short while later, actually, Boeing got a contract for $3.7 billion. And after that, it is amazing, Boeing made a $900 million contribution to the Clinton Foundation—$900,000, I'm sorry. Thank you, Bill.

Boeing Director William Daley was named President Obama's chief of staff in 2011. In June of 2011, Boeing Director John Bryson was named Obama's Commerce Secretary. Boeing's top lobbyist in 2014 hosted a fundraiser for Ready for Hillary, the PAC that is supporting her campaign for President.

And so I think what has changed is, when you have Democrats who think they can get support from corporate welfare, they will support it. If, through corporate welfare, they can get campaign contributions, they will support it. And then, it is about the American workers, the American economy.

But if they are not getting contributions and they don't have their bundlers in the CEO/president position, all of a sudden it is bad for the American worker, and it is bad for the American economy.

Mr. Hochberg, did you say that you, the Ex-Im Bank, supports any eligible American business that seeks exports? Was that your quote?

Mr. HOCHBERG. That can't find financing in the private sector.

Mr. DUFFY. Right. And you don't pick winners and losers?

Mr. HOCHBERG. That is correct.

Mr. DUFFY. I was reading an article from Reuters from a couple of years ago that says, "The U.S. Export-Import Bank Board of Directors voted on Thursday not to proceed with the financing of U.S. exports to help build a coal-fired powerplant in Vietnam, following a plea from U.S. environmental groups to stop the project." So isn't it fair to say that you support American jobs as long as it meets your ideological standards, but you don't support all American jobs, because you would admit that the American jobs that would have come from building a coal-fired powerplant are still American jobs?

Mr. HOCHBERG. Congressman, in 1992 Congress put into our charter that we must take into account the environmental impact as well as the reasonable assurance of repayment. That has been on our charter for 23 years. The Bank was sued under President Bush for not following that mandate that is in our charter, and we lost.

Mr. DUFFY. So it is fair to say you support some American jobs, but not all American jobs, correct?

Mr. HOCHBERG. We support jobs that fall within the mandates set forth by Congress in our charter.

Mr. DUFFY. So if you are making mining equipment in Wisconsin, or you work for a company that is trying to build powerplants overseas, those jobs are the ones that won't fall into the financing of the Ex-Im Bank. Other clean energy jobs will, but not, in your view, dirty jobs?

Mr. HOCHBERG. Actually, we support a lot of mining equipment from Wisconsin. We support coal exports.

Mr. DUFFY. After much pressure from the Wisconsin delegation, I might add.

Mr. HOCHBERG. No, we supported fully and freely mining equipment, coal exports as well.

Mr. DUFFY. We will talk about that later.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Chairman Hensarling and Ranking Member Waters, for holding this hearing today.

And thank you to our panelists for your testimony.

I would like to take a moment to state my unwavering support for the Export-Import Bank, and I call on our honorable chairman to let the majority of the House work its will and allow a vote on the reauthorization of the Bank.

The Export-Import Bank is a vital free market, economic engine for our manufactures, producers, and exporters, as has been pointed out before me. This March alone, the Bank financed over $1 million in exports in my south Texas congressional district. Additionally, the Bank has supported thousands of jobs in my district over the past 5 years. These are good jobs in a very high-need area that would not have been possible without the Bank.

Chairman Hochberg, many claim the Bank is not needed and that it only supplements would-be private capital. Part of the Bank's mandate is that the Bank is not to compete with private capital. Can you tell us how the Bank ensures that its loans go to support U.S. exports that would not otherwise be able to secure other financing?

Mr. HOCHBERG. Certainly, Congressman. Thank you. On every application, the applicant must state why they are seeking Ex-Im financing. And they have to state whether it is because they can't secure financing in the private sector, or they have to meet foreign competition. So that is part of the application, just like their financial statements on everything else. They certify that, and in most cases, we also can verify it independently.

Mr. HINOJOSA. Considering that the Bank is a lender of last resort that began when private financing alone is not available, do you believe the Bank distorts the U.S. market negatively?

Mr. HOCHBERG. I believe we support—we supplement the private sector because the private sector is the one that brings us in. If you go to a bank and you are looking for export finance, if the bank can't make the loan happen, they will come. They will say, well, with an Ex-Im guarantee, we can. I was in Detroit, and a small engineering business wanted to export to the Mideast, and their bank was at the same roundtable. The banker said that the Bank of America, without an Ex-Im guarantee, told their client that they would not take on that risk. So, in that case, it was the bank that brought us in and said if we can get some guarantee, we can make that. And that small engineering firm is now providing services to the airport authority in Doha.

Mr. HINOJOSA. Thank you for that explanation.

Chairman Hochberg, as you well know, the Bank supports about 2 percent of U.S. exports. Last year, 2014, that amounted to $27.5 billion worth, and 164,000 jobs. I find it funny that the Bank's detractors love to point to that 2-percent figure as evidence that the Bank's role is minuscule and unnecessary but then, without a hint of irony, turn around and argue that the Bank has huge negative market-distorting effects. What do you think?

Mr. HOCHBERG. I very much value the 164,000 jobs. Those are family-sustaining jobs. Those are jobs in every State of this country. And those are jobs—exporter after exporter has said that without our support, those jobs just go away. Don Nelson has a company out in Bakersfield, California, and he said, "We would probably have to lay off 50 or 60 people without Ex-Im Bank support."

Dave Ickert in the State of Texas, in Olney, Texas, has said, "We would have to lay off as many as 68 employees if the Ex-Im Bank is not reauthorized." So there is a very direct impact on jobs whether or not we are reauthorized.

Mr. HINOJOSA. I thank you.

Mr. Chairman, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney, for 5 minutes.

Mr. MULVANEY. I thank the chairman.

Mr. Hochberg, I promised you before the hearing that I wouldn't badger you today. I am actually going to ask you some questions. I am looking forward to the change of pace.

I do want to come back and talk about the NewSat bankruptcy, however, very briefly for folks who aren't familiar with it. I think you all made a direct loan, a rare direct loan of roughly $100 million or a little bit more than that to aid an Australian startup that was going to buy a satellite made by an American company. So you lent the money to the Australian company so they could buy an American satellite. The Australian company has since gone bankrupt. And it looks like you might be on the hook for $100 million.

That is not my specific question. My questions deal with some of the comments made by the bankruptcy court, that apparently the bankruptcy court gave you the opportunity to protect your investments or your loan by finishing the project. You chose not to do so. And then, more troubling, and let's start with this, apparently you had no security interest in the collateral. How is that possible?

Mr. HOCHBERG. We had security in the company itself, but the company is in bankruptcy.

Mr. MULVANEY. No, the satellite.

Mr. HOCHBERG. But the satellite is right now being manufactured by Lockheed Martin.

Mr. MULVANEY. And who owns the satellite?

Mr. HOCHBERG. At the current time, Lockheed Martin has possession.

Mr. MULVANEY. Free and clear of any security interest of the Export-Import Bank of the United States of America, right?

Mr. HOCHBERG. Which is typical because they are making the products. They actually have possession of it.

Mr. MULVANEY. You lent $100 million to Australian startup and kept no security interest, no collateral at all?

Mr. HOCHBERG. We would have had collateral at the completion of the satellite, not while it is being built.

Mr. MULVANEY. And you had the ability to fund to the completion of the satellite, and you chose not to do so?

Mr. HOCHBERG. We chose not to complete the satellite until we knew there was going to be an actual buyer who was going to take it.

Mr. MULVANEY. And, ultimately, that has not happened.

Mr. HOCHBERG. Right now, that is in negotiations.

Mr. MULVANEY. I am reading from an article in Space News, from just 2 days ago: "The Export-Import Bank, for reasons that were not clearly explained, the U.S. Justice Department lawyer representing the Bank referred vaguely to 'policy/business decisions,' refused to put up any funds to preserve its sunk cost in the project. The bankruptcy court judge in the May 21st hearing expressed surprise that the Ex-Im Bank with so much at stake, was unable to present a credible go-forward scenario by the May 18th deadline."

It then goes on to say the status of the satellite—you are out $100 million, and I think it is Lockheed Martin has a satellite free and clear that they can sell. You lost $100 million. And you have given a several hundred million dollar windfall to Lockheed Martin at the expense of the taxpayer. How do you defend that type of lending?

Mr. HOCHBERG. First of all, sir, this transaction is still in negotiations. We are still negotiating for an ultimate buyer of the satellite.

Mr. MULVANEY. Did the bankruptcy court give you a May 18th deadline?

Mr. HOCHBERG. We had a May 18th deadline.

Mr. MULVANEY. How did that go?

Mr. HOCHBERG. And we could not find a secure buyer. We could not identify a clear buyer by May 18th. We asked for a few extra days, and Lockheed Martin refused.

Mr. MULVANEY. So it is a correct statement in the article where it says that $193 million was mainly Ex-Im money lent to NewSat in addition to equity NewSat had raised on its own. It is now in the form of a nearly completed spacecraft that Lockheed Martin owns and is free to sell without having to pay anything to Ex-Im.

That is an accurate statement, isn't it?

Mr. HOCHBERG. No. We are fully backed by NewSat. So NewSat still has control over that satellite.

Mr. MULVANEY. NewSat is bankrupt.

Mr. HOCHBERG. NewSat may be bankrupt, but we are secured by NewSat. And frankly Congressman, when we had an opportunity to simply "throw good money after bad" without a clear exit plan, we chose not to do that.

Mr. MULVANEY. I will come back. I guess, Mr. McCarthy, I will ask you this: Was one of your recommended reforms at the Bank that they actually start looking at their lending practices with an eye towards getting security interest and collateral? I don't know of any bank that would lend money like that with no collateral at all.

Mr. MCCARTHY. In the 2012 reauthorization, one of the requirements is that the Bank not be a subordinate lender. And so, it would be first in line. As far as the due diligence process—

Mr. MULVANEY. Let me cut you off right there. Hold on a second. That was part of the 2012 reauthorization. Earlier today, Mr. Hochberg, you said that this loan was reviewed twice. It was originally reviewed by your Board and approved, I can't remember when, but it was reviewed and approved, reapproved by the Board in 2013, after the 2012 reauthorization. Did you—

Mr. HOCHBERG. We were not subordinate in any of those cases, sir.

Mr. MULVANEY. Okay. Mr. McCarthy, help me here, so they are not subordinate, but why don't they have collateral? I guess the point is, the reason you would not have to be subordinate is that would put them in a second position where the collateral, if any, would be impaired, correct?

Mr. MCCARTHY. That is correct.

Mr. MULVANEY. And essentially, what you have is a position where your collateral is impaired because you don't have any to begin with. So I guess, Mr. Hochberg, again, I promised I wouldn't badger you. I have 14 seconds. I am sure that is what people think that I am doing. Do you think you followed good process when you made the NewSat loan?

Mr. HOCHBERG. At the time, yes.

Mr. MULVANEY. How about now?

Mr. HOCHBERG. And I believe now we are working towards a solution. This is not over yet, sir.

Mr. MULVANEY. If you make a new loan today, will you get collateral in whatever it is you are financing?

Mr. HOCHBERG. We have the collateral in NewSat. We have the collateral in the actual entity.

Mr. MULVANEY. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Mr. Chairman, I don't have any questions for the witnesses because the truth is, I don't know how I am going to vote on Ex-Im. I am leaning towards voting for it, mostly because of competitive reasons. As I have said many times, every other country we compete with has one; therefore, we should have one. That doesn't mean everything you have done is wonderful. It doesn't mean I have agree with every loan. It doesn't mean there shouldn't be reform. I came over because as I was watching this, I probably shouldn't have done that. I probably should have had something else on, but as I am watching this hearing, I have to be honest. The people who are arguing against this most vociferously, not all of them, but many of them are losing the argument because they turned it into a personal attack on a political basis. This is an important, substantive issue, one that I am open to discussing, and one that I am certainly open to amending. And yet, all I hear is, well, 100 years ago somebody did this, and somebody said that, and somebody voted this way and somebody changed their mind.

God forbid an elected official ever changes their mind on an important and complicated issue like the Ex-Im Bank. God forbid any of you ever change your mind—and by the way, if you really want to win the issue, you really need to change some minds, because you lost the Republican Conference in 2012 when we voted for it: 147 Republicans voted to reauthorize the Ex-Im; only 93 voted against it. If you want to change our minds, you really have to do a little bit better than attacking the President and attacking the people who did change their minds. You really have to stick to the subject matter.

And I respect people who disagree with me. But I have to tell you, I completely lose respect, I lose interest, on the fact, oh, you changed your mind. I really am—I have the whole list of names of the Republican side who voted for it in 2012, many of whom are here right this very minute.

Now, you may change your mind. If you do, God bless you. But if you ever change your mind on anything else and you keep this nonsense up, I guarantee you, I will be keeping score. And we will all get down in the gutter. We will all get down in the street and call each other names and accomplish nothing. This is an important, difficult issue that reasonable people can disagree on.

And, honestly, that is, I appreciate some of the things, even some of the things I don't agree with. Okay. But I came to ask my colleagues to stop the nonsense. If you really don't like the Ex-Im Bank because you really think it is corporate welfare and bad for America, fine. Argue to win the hearts and minds of the American people and your colleagues, whom you lost in 2012. You want some people to change their minds. How are you going to get people to change their minds when you constantly say anyone who changes their mind is somehow inherently wrong and evil? Then you are going to lose again based on your own Republican Conference. Almost all of the people who voted on this in 2012 are still here.

So that is what I came to say. I was actually thinking about reading out names, but I don't want to denigrate down to that nonsense. I will, and I think you all know I can if I want to. But on this issue, I really would rather hear substantive facts, and important questions. I think the last series of questions was pretty good. They raised some serious issues. I have to be honest, just because there have been some problems in the past, I am not interested in shutting something down because if that is the case, we have to shut down the DOD. They have had people steal money. We should shut down the entire Defense Department because somebody stole money; the entire Agriculture Department because someone once took a loan that they shouldn't have gotten. I am not saying you shouldn't raise the issue, but that doesn't go to the basis of whether we need to open or close the Bank. That might open up some discussion about reforms. And I am more than interested in hearing it. I have actually told—who was it?—Delta, that is so opposed to this, I have also told them, "Look, you raise some good issues. Let's talk about how we deal with the issues you raise."

But I don't get that. All I get is personal attacks, political attacks, which I am pretty good at, but on this one, if you really think you are going to win elections, you are going to change people's minds, you are going to win the issue, you are going to have to explain to me how the very people you need to change their minds, you are calling them names.

With that, Mr. Chairman, I apologize for not asking any questions of the witnesses, but I look forward to going back to my office, turning the TV back on, and learning something, I hope. And if not, I will just change the channel like the rest of America.

With that, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Oklahoma, Mr. Lucas, for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman, I appreciate the opportunity to question our good friends.

And I don't know that I have a particular series of questions I wanted to ask. I just would like to observe that in my time on this committee, now 20-plus years, I have observed lots of discourse and lots of discussion. We have always been a very philosophical group. We have argued the joys of Karl Marx and Adam Smith, and we have ground on each other day in and day out on a variety of things.

But the issue that we have now had hearings on into almost ad nauseam is not just a philosophical issue. It is a real economic issue. It is a real bread-and-butter issue back home amongst the good folks.

Everyone knows that my perspective is that in a competitive world economically, you have to be able to go punch for punch, blow for blow. You have to do what is necessary to give our fellow citizens a chance to prosper economically, to have good jobs, to grow our economy. I view the Export-Import Bank as one of those tools in the battle with 60 other countries around the world.

I sincerely believe that, whether it is 14 days, or 14 weeks, or 14 months, this institution will be reauthorized. It may take a number—if it is allowed to officially expire—of occasions where U.S. companies lose business, substantial business, around the world to help us focus. I prefer not to have that happen, but that is what it may take.

I would ask all of my colleagues, the course we are on here leads us in the direction of either allegedly ending the Bank completely or, I fear, reauthorizing it in the exact form it was or is this moment. That is missing out on an opportunity to build on the reforms of the previous reauthorization. That is missing out on an opportunity to address legitimate problems that have been brought up. It is missing out on an opportunity, I think, ultimately, to give the participants in our economy more effective tools to compete around the world.

Right now, this moment, the Agriculture Committee, another committee I serve on, is having a hearing about foreign subsidies and how it affects food sales around the world and production and all of those kinds of things. You might be surprised to know that it is a pretty tough place out there competing economically. It is really kind of vicious. Do whatever you have to do, my friends, from your philosophical perspectives, but don't—don't—in a competitive world say that we are going to establish a principle so perfect, so idealistic, so philosophically straightforward that everyone else will flock to it. That is not the way it works, just not the way it works.

You don't negotiate from a position of surrender. You negotiate from a position of strength. Again, I have enjoyed these philosophical hearings. It is reminiscent of many different periods in the last 20 years on this committee. But in 14 days, 14 weeks, or 14 months, we will reauthorize Export-Import, and we will, I fear, reauthorize exactly what we have. That would be a horrible opportunity missed.

With that, Mr. Chairman, I am going to do something out of character in Congress. I am going to yield back some time.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Green, ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the ranking member as well.

Mr. Chairman, it has been my experience that there is a process that can extricate us from differences. We have policy that we differ on, and the process is the thing that can give us an opportunity to resolve these differences in policy positions. I recall very vividly the process that allowed us to make a policy decision with reference to life and death in the Schiavo case. I recall coming back after having just landed in Houston, Texas, and on short notice, to take a vote. It was very late at night when we ultimately took that vote. But the process allowed us to resolve a question involving life and death.

The process is the means by which we resolve questions of war and peace. We can have our differences about where we should station our military, what the military should be doing, but ultimately, when these differences are to be resolved, we have a process that allows us to do so. We vote. And we have voted in this Congress, not this particular Congress, but in the Congress of the United States of America on questions of war and peace, the budget. We have our differences about whether or not we should cut or expand certain programs, whether sequestration is a proper process, and when we confronted the question of sequestration, we allowed the process itself to dictate a resolution to a policy question. That process was to vote.

I am calling on all of our leadership to allow the process to work, not just on the committee level. But let's take this to the Floor of the Congress of the United States of America. And let's do what we were sent here to do, debate the great issues of our time. And let us, after having a robust debate, have a process function as intended. Let us vote. I may not like the results. But I will respect the process. I believe the American people are expecting us to take a vote as to whether or not the Ex-Im Bank will continue or whether it will become a part of the ash heap of history.

Personally, I will vote to extend the Ex-Im Bank. It has done meaningful things. It has made a difference in the lives of the people that I represent. I and Mr. Hochberg had an opportunity to visit with a business in Houston, Texas, and there is an interesting thing about these businesses. Many of the small businesses that benefit don't benefit directly. They benefit indirectly from larger businesses that they associate themselves with. Many of them are off the radar in the sense that we can identify them immediately as beneficiaries. But because of their connectivity and their association with larger businesses, there is an emolument that inures to the benefit of the people that I represent.

I want the process that has worked with this country, that has time-honored positive benefits, to continue. I call on all of our leadership to, please, give the process a chance. The policy can be resolved if the process is allowed to function. And I will yield back the balance of my time.

Chairman HENSARLING. I thank the gentleman.

Now the gentleman from Georgia, Mr. Westmoreland, is recognized for 5 minutes.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

Mr. Hochberg, in November of 2012 the board approved the economic impact analysis guidelines that were required in Section 12 of the 2012 Ex-Im Bank reauthorization. Would it surprise you if the analysis was engineered to favor one company or another?

Mr. HOCHBERG. Congressman, we actually revised our entire economic impact procedures. Congress asked us to review that in

2012, and we made some adjustments throughout the entire process of economic impact.

Mr. WESTMORELAND. You made adjustments. Did you make those adjustments in consultation with any of your customers?

Mr. HOCHBERG. Without question. We, of course, consulted many of our customers because we wanted to have a policy that works for our customers, that works for our exporters. So we, of course, did that.

Mr. WESTMORELAND. I am just a slow, country boy from Georgia, but reading some of the emails, some of the correspondence between your staff and Boeing's staff, something just doesn't smell right to me. I don't know if you have ever heard the word "collusion," but have you read those emails?

Mr. HOCHBERG. I have read the reports in the paper, sir.

Mr. WESTMORELAND. Have you read the emails?

Mr. HOCHBERG. I have seen some of them, yes.

Mr. WESTMORELAND. And do they seem funny to you?

Mr. HOCHBERG. Out of context, they look rather funny, but they are out of context. What we are trying to do, sir, is, if we were writing regulations, guidelines for farm equipment, we would talk to the five companies that make farm equipment.

Mr. WESTMORELAND. Okay.

Mr. HOCHBERG. So in this case, we only have one aircraft manufacturer.

Mr. WESTMORELAND. Okay. I want to read one or part of one from Mr. Moran, and he was advising the Boeing capital that subjecting and applying transactions through detailed analysis under economic impact procedures has had the effect of killing most of those aircraft deals.

Mr. McCarthy, have you read these emails?

Mr. MCCARTHY. We are familiar with those emails. We are familiar with them.

Mr. WESTMORELAND. You are. And you didn't find anything funny with them?

Mr. MCCARTHY. Right now, we are working on a report on the economic impact guidelines. We had a report in 2010 that made certain recommendations. We are doing a follow-up report that is looking at not only implementation of our 2010 recommendations, but also implementation of the requirements in the 2012 reauthorization. And we are including this matter that you are raising as part of that—

Mr. WESTMORELAND. Okay. Well, 2012. It has taken you a while to get to that. But there is another email where Mr. Cruz told the board, "Given the historical distribution in nature of aircraft cases, it is anticipated only 10 to 15 percent of the cases would go through the new procedure." This comes after a series of emails that he had had. And besides that, and the fact that Mr. Moran didn't want the complete transparency, I just wonder if it was brought to the board's attention of these specific requests for analysis that would influence their acceptance of these new procedures?

Mr. HOCHBERG. We have had—just to go back, we have had economic impact procedures back to 1968. And we have adjusted them periodically over time. We actually voluntarily added aircraft seats as part of that category on our own because of concerns from the public, so these are things we have done voluntarily. And we are constantly updating them. We updated them in 2012. We voted on them. And we actually conduct a review of every transaction, and if we find there are enough findings, then we do an in-depth review. But every transaction is reviewed for its economic impact procedure.

Ours is at the threshold of 1 percent. If it adds 1 percent or more to foreign production capacity of a good of comparable U.S. production, it would trigger a more detailed analysis.

Mr. WESTMORELAND. I know it all depends on what—if you use the twin aisle, the single aisle, the number of seats. All of that is discussed in the emails between the Boeing staff and your staff, as far as what numbers to use.

And as Mr. Green, my friend from Texas stated, the process needs to work. When you are trying to get this information, do you think it is proper that your staff would be conversing with Boeing staff in to how to make these numbers look right to justify your ability to make them the loans?

Mr. HOCHBERG. It is a public process. We had a low number of public meetings. We actually invited committee staff to join us. We post every transaction in the Federal Register. This is standard procedure and process at the Bank for economic impact.

Mr. WESTMORELAND. I don't think that is a standard procedure process, but my time has expired. I thank the gentleman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, ranking member of our Housing and Insurance Subcommittee.

Mr. CLEAVER. Thank you, Mr. Chairman.

Thank you, Mr. Hochberg, for visiting some of the subcontractors who are involved with Ex-Im Bank in the Fifth District of Missouri.

Mr. McCarthy, I would like to ask you a couple of questions. Do you have any information that would lead you to believe that Ex-Im Bank is competing with private sector banks or lending institutions?

Mr. MCCARTHY. We haven't done that particular analysis. We did do a report on the direct loan program a few years back looking at how the Bank tracked that information and made recommendations that needed to do a better job of requesting documentation from applicants as to why they were unable to obtain private sector financing, and they have implemented changes there.

Mr. CLEAVER. But the Bank is self-funding and self-sufficient?

Mr. MCCARTHY. Yes. Our audited financial statements have found that they are fairly presented.

Mr. CLEAVER. I am not sure, but prior to Ronald Reagan being sworn in as President, there was very little controversy as it relates to the Ex-Im Bank. Since that time, there have been times when Democrats and Republicans have challenged the existence of the Ex-Im Bank. I am not sure why or so forth.

But about a year ago, I think, I attended a meeting on the second floor, I believe, and the amazing thing at that meeting was that as I sat there with other Members of Congress, all of the business leaders sitting in front of us, asking that we support the Ex-Im

Bank were people who had given money to my opponents and to the opponents of most of us sitting up listening to these folks.

It was one of the amazing moments in Congress. I talk about this when I am out speaking. Business leaders from all over are asking me to support something that they felt strongly about, even though they had given money to my opponents. It is just amazing. And so I have come to the conclusion that, I guess, both sides switch and swap and do silly stuff, and sometimes it is at the detriment of the agency.

Mr. Hochberg, a couple of things. I think there are 60 or 70 other nations with similar banks. Are most of them in the industrialized world?

Mr. HOCHBERG. Most of them are, and actually we did a survey this year, and the number is now above 80, 80 different export credit agencies that are doing long-, short-, and medium-term financing.

Mr. CLEAVER. And so if we discontinue the Ex-Im Bank, we are actually withdrawing from what most of the western world is doing, trying to support the exploitation of goods to foreign countries?

Mr. HOCHBERG. Exactly. It would be unilaterally disarming. We would have no seat at the table if we want to ratchet down export credits. We would have no say in the matter because we wouldn't be a participant.

Mr. CLEAVER. The way the Export-Import Bank debate is going, do you think that it is having any impact right now, for example—because of the uncertainty—are you able to do any long-term planning, long-term considerations of the requests?

Mr. HOCHBERG. We have authority until June 30th. Larger transactions over $100 million come to Congress for a 35-day review. That period has passed. So we have a number of transactions that are up here during that 35-day review period. We hope to consider those before the end of June. But any large transactions are considered from now on. If we are not reauthorized, we are not getting a final approval by the Bank.

Mr. CLEAVER. Okay. Thank you.

Mr. McCarthy, a one-word answer might be okay since my time is running out, have you found that there is waste and fraud and abuse in the Ex-Im Bank?

Mr. MCCARTHY. We are the inspector general; we always find waste, fraud, and abuse. We have had some cases, as I reported, we have had some serious cases of employee misconduct.

Mr. CLEAVER. Yes, I am familiar with those.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Hochberg, there was a review which found that many businesses had been categorized improperly that were big corporations, foreign conglomerates who were categorized as small businesses, those owned by Warren Buffett and others. One business had 53,000 employees. How do you account for that categorization?

Mr. HOCHBERG. Congressman, we obviously take data accuracy very seriously. It is one of the key principles we have applied this year. The Reuters report went back over 6, 7, 8 years. It found a 3 percent error rate. We strive for a 0 percent error rate. I will tell you one other thing, as a business owner, this is the dynamics. You may be a small business one year and then sold to a large business the next.

Mr. PITTENGER. 53,000 is quite a number.

Let me ask you this: Is it accurate that 40 percent of the Export-Import's authorizations in 2014 went to one company, Boeing?

Mr. HOCHBERG. I think it is a little less than that, but it is around a third.

Mr. PITTENGER. That is a very significant amount.

Mr. HOCHBERG. It didn't go to Boeing. It went to customers of Boeing. Boeing does not get one penny from the Export-Import Bank. Boeing does not derive a single dime from the Export-Import Bank.

Mr. PITTENGER. According to your own data, 60 percent of the Ex-Im Bank's financing has benefited just 10 large corporations in 2013, is that correct?

Mr. HOCHBERG. And about 39 percent of the total value of exports financed went to small businesses directly.

Mr. PITTENGER. But to just the 10 companies, 10 companies, 60 percent. How big is your loan portfolio?

Mr. HOCHBERG. Our portfolio is about $112 billion.

Mr. PITTENGER. At the end of 2014, less than 45 percent of Ex-Im import's exposure is concentrated to just air transportation, correct?

Mr. HOCHBERG. Air transportation and aircraft is our largest single export in the country.

Mr. PITTENGER. Exactly, and you had 45 percent. And I say that in light of just folks in small business. There is a lady who runs a machine business in South Carolina, Rachael Cox. It has 30 employees. They have a machine business. Here is her comment. She said, "When I researched the Ex-Im Bank and especially the sign-up process, it became clear that it is designed for large businesses. The amount of information that was required was overwhelming at best and invasive at least. After some consideration, I decided against it."

Now, by the direction or design or how the Ex-Im Bank executes its plans, it appears very strongly that your efforts are sizably favoring very large businesses. Ten businesses, 60 percent of your financing. Here is a small business who says it is too cumbersome for me. It is too overwhelming. So we multiply that times many times.

How do you justify that in a way of performing an institution that is really supposed to be favoring small business, and yet here is someone who can't get access?

Mr. HOCHBERG. I would actually like to meet that customer and speak with her. But I will tell you directly, we are trying to balance ease of doing business with risk management. This committee has made it very clear that it wants to see our default reports every 90 days, so we are trying to balance risk—

Mr. PITTENGER. She couldn't even get to your reports to get access.

Mr. HOCHBERG. We are trying to balance the information so we can do good underwriting, but at the same time don't make it too cumbersome for customers. And we are constantly working to find the better balance. I would be happy to talk to your constituent to find out what was it, because I would like to learn more about our customers.

Mr. PITTENGER. Just one other thing, the CBO accounting reflected that the methods that she used, if you use fair value accounting, that you would have—significantly higher subsidy rates would be revealed. You have stated, of course, that you are profitable. How do you justify not using fair value accounting, and do you believe that you should?

Mr. HOCHBERG. The law of the land is the Federal Credit Reform Act of 1990. So we follow the law of the land and we used that accounting method. I was in business for 20-plus years. You have one set of books and you follow the law of the land.

Mr. PITTENGER. The CBO says if you use fair value accounting, you would cost taxpayers $2 billion. Do you believe, on your own account, that you should be using fair value accounting?

Mr. HOCHBERG. I follow the law of the land, and I also dispute that number from CBO.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, ranking member of our Monetary Policy and Trade Subcommittee.

Ms. MOORE. Mr. Chairman, I would like to raise a point of personal privilege, and not be charged time for it.

Chairman HENSARLING. Do you have a point of order?

Ms. MOORE. Point of personal privilege, yes, sir.

Chairman HENSARLING. You can make a parliamentary inquiry. I am uncertain as to what the point of personal privilege is.

Ms. MOORE. My point, I would like to make a point of personal privilege.

Chairman HENSARLING. We will certainly hold the clock and allow the gentlelady to make her point.

Ms. MOORE. Thank you, Mr. Chairman.

I would just like to thank this committee on both sides of the aisle for really supporting me during a very painful couple of weeks, due to the death of my sister. I have gotten flowers and cards and calls. And you just don't know how important that has been to me, and I am just overwhelmed with gratitude, and I wanted to thank you, Mr. Chairman, and you, Madam Ranking Member, for caring about me as a person and not just as a committee member.

Chairman HENSARLING. I know I speak for the entire committee on both sides of the aisle to let you know what a valued friend and colleague you are and how our hearts were heavy with your loss.

Ms. MOORE. Thank you so much.

Chairman HENSARLING. And now the clock can start anew, and we will yield the gentlelady her 5 minutes.

Ms. MOORE. Thank you so much. I want to thank the panel for appearing again here. And I can tell you that I am sort of unhappy that Mr. Huizenga, my very good friend from the midwest, is not here, because I really want to clear something up. I think the not-so-surreptitiously-veiled strategy to pluck the low-hanging fruit of the Ex-Im Bank from the vine as a raison d'etre to get into Social Security, Medicare, Medicaid, SNAP, the so-called entitlement programs.

Mr. Huizenga said it very straightforwardly. We heard it time and again that, how can you pluck into these social programs if you can't even bring down the Ex-Im Bank? So I think it is a straw man argument. I guess my for first question—and I had intended to engage in a colloquy with him and if the chairman or someone else would like to do that, I will yield time—is for Mr. Hochberg. How is the structure of the Ex-Im Bank similar to Social Security, Medicare, Medicaid, and SNAP, such that it is persistently called corporate welfare? How is it similar or dissimilar from the gas and oil business who, through our tax expenditures every year, get about $4.8 billion from the government? Can you share with us the structure of the Ex-Im Bank as compared to SNAP?

Mr. HOCHBERG. I am a little confused as well by some of these comparisons. Customers, clients, exporters pay a fee for their service. It is a fee-for-service. They pay a fee. The fee fully covers all of our operating costs, all of our loan lost reserves, and then generates a surplus that goes to the taxpayers for deficit reduction. So we are not transferring money from one group of taxpayers to another. We are actually transferring money from customers to the taxpayers, from outside entities to the taxpayers, and many times, those are foreign buyers. So I don't understand the comparison.

Ms. MOORE. I don't either. I thought maybe you would understand it better than I do.

Let me ask you, one of the things that seems to get under the call of some of our members of our committee is the mandate that you all have to do clean energy stuff, and that you are picking winners and losers. I am reflecting on the $4.8 billion that is transferred to the oil and gas industry through tax expenditures. And I want to compare that $4.8 billion a year to whatever subsidy that the government perceives that you get from them, even using their accounting system. How does $4.8 billion a year compare to what the government does for the Ex-Im Bank?

Mr. HOCHBERG. We transfer money to the government from the Ex-Im Bank. We don't receive money from the government. So there is no subsidy that goes to Ex-Im. And by World Trade Organization, WTO, we need to be self-sustaining, meaning the fees we collect have to, at a minimum, cover all of our costs, and in this case, they cover more than our costs.

Ms. MOORE. We usually have a debt clock running, and I am wondering to what extent would our trade deficit increase were we not to reauthorize the Bank, in your opinion?

Mr. HOCHBERG. I can only tell you that in the last 20 years, we have transferred just under $7 billion for deficit reduction to reduce the debt. Just under $7 billion over that 20-year period. $675 million as recently as October.

Ms. MOORE. Okay. So this notion that you pick winners and losers, I am wondering, Mr. McCarthy, have you seen anything in your examination of the Ex-Im Bank which suggests that they pick winners and losers?

Mr. McCARTHY. We haven't received any allegations along the lines of the process being skewed in favor in particular transactions. The Bank has controls and processes in place. They have to do due diligence. The applicants have to meet certain credit standards. We haven't seen any evidence of cases where they seem to be favoring one particular party or another and not following their own guidelines on that. The structure of the guidelines are set by Congress and set by bank policy.

Ms. MOORE. Thank you. My time has expired.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Mr. Hochberg, you and I have talked extensively about the Ex-Im Bank's announcement following President Obama's climate action plan in June of 2013, and the Bank's guidelines for high-carbon projects in December. I know you have answered this question before, but in light of that policy adopted by the Bank's board of directors, do you believe that the Export-Import Bank chooses winners and losers in U.S. industries?

Mr. HOCHBERG. No, we don't, but we have a standard that Congress has put in our charter since 1992 that we must take the environment into account.

Mr. BARR. So you have the charter, which is a policy of picking winners and losers, a policy that favors renewables over fossil energy projects, and then you have this additional codification of the policy of picking winners and losers, which was the December 13th guidelines.

Mr. HOCHBERG. What you referred to, much of this is actually in our charter.

Mr. BARR. Right. So the charter is inherently part of the policy of the Bank, which interjects political judgments about what energy projects are worthy of financing versus others. What is wrong with that analysis?

Mr. HOCHBERG. It is Congress' judgment that makes the decision on what guides our behavior. So these have all been passed by Congress.

Mr. BARR. Right. So, okay, fine, you can blame it on Congress.

Mr. HOCHBERG. We are not blaming them.

Mr. BARR. But you, sir, in response to President Obama's climate action plan, and in announcing your board's discriminatory policy against coal-fired power said, "Without guidelines or limits, ever increasing numbers of new coal plants worldwide will just continue to emit more carbon pollution into the air we breathe. I strongly support the Administration's efforts to build international consensus such that other nations follow our lead in restricting financing of new coal-fired power plants."

How is that not a policy of picking winners, renewables or nuclear or non-coal fossil energy over coal, a loser? How is that not picking winners and losers?

Mr. HOCHBERG. Sir, we finance a lot of coal exports. We finance coal-mining equipment. But we have a restriction about financing coal-fired powered plants except in very poor countries.

Mr. BARR. Right. You are not letting the marketplace dictate this. So what has the marketplace said? Here is what the marketplace is saying right now. The marketplace is saying that the demand for coal-fired power, particularly in lesser-developed countries, is skyrocketing. The International Energy Agency (IEA) concludes that 1,000 gigawatts of coal capacity will be built by 2040 at a cost of $2.5 trillion, irrespective of American policy.

Here is what the IEA says, "In the world energy outlook, the use of coal for power generation will continue to increase until at least 2035 to 2040 and will remain an integral part of the energy mix long after that." Here is the sad conclusion that I draw: The United States has the best, most environmentally-friendly, energy technology on the planet with respect to coal-fired power.

Your Bank's decision to not finance coal-fired power projects overseas with American clean coal technology is resulting in China financing these projects and using inferior electric generation technology. The Bank's policy, ironically, is contributing to a worse environmental result. Is there any response to that in China's export credit agencies doing the job that you won't do?

Mr. HOCHBERG. First of all, we will finance coal-fired power plants in poorer countries. In those developing countries, we will certainly do so. We haven't had an opportunity—

Mr. BARR. Okay. You are citing an exception with poor countries. So my question is this: Since you announced the guidelines, has your board agreed to finance a coal-fired power plant in a lesser-developed country?

Mr. HOCHBERG. We have not received an application.

Mr. BARR. Have you invoked that inception? Because China is not. China is financing coal-fired power. India is financing coal-fired power projects. Do you think they have better technology in generating coal power than we do?

Mr. HOCHBERG. The U.S. Government is in negotiations with China and others to restrict it globally.

Mr. BARR. Okay, so in 2030, and if you trust China, that is a great assumption, but doesn't allowing an exception for lesser-developed countries actually imply in the policy itself that coal-fired power plants have benefits as cheap and reliable sources of energy for poor countries?

Chairman HENSARLING. Short answer from the witness, please.

Mr. HOCHBERG. There is a benefit for poor countries, exactly. That is why the exception is there.

Mr. BARR. Okay. My time has expired, but I think we have proven the point that the Bank will always pick winners and losers—

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you, Mr. Chairman, for holding this hearing.

I have a graphic that I would like displayed, and without objection, entered into the record. It is simply a plot of the number of manufacturing jobs in the United States over the last several Administrations. It is interesting to look at the trend here that you see, for example, in the Kennedy Administration, we had the strongest period of job growth in our country's history, in the Kennedy and Johnson Administrations.

Then in the Nixon and Ford Administrations, the number of manufacturing jobs dropped. It went up the during the Carter years, down during the Reagan years, down further during the first Bush Administration, roughly level during the Clinton Administration, and then we suffered a catastrophic drop due to the policies of the second Bush Administration. We now are continuing to grow manufacturing jobs again, largely by returning to the policies that had historically supported strong growth of U.S. manufacturing.

I am best known as being, I guess, the last Ph.D. scientist in Congress, but I am also a manufacturer. The company that my younger brother and I started with 500 bucks from my parents now manufacturers the majority of theater lighting equipment in the United States. We do hardware, software, sheet metal painting, customer support, and we have kept all those jobs in the midwest, which is something I am extremely proud of.

And so as much as anything, it is this collapse that got me to lead my career in science and in business, to go into one to try and make a difference here. Because you can see, it makes a difference what the policies are. Both parties talk as though their policies are pro-job, pro-growth, pro-manufacturing, but you can see there is a real difference in the actual result. And the statistics on the number of Administrations, the number of times we have gone back and forth between what we support. And, as a scientist, I think the conclusions here are pretty clear. I leave it up to the audience or the students here to deduce what the color coding on the arrows means.

And so actually, with that out of the way, it is interesting to talk about what was responsible for this tremendous drop, that we lost over a third of our manufacturing jobs in the last decade. The three biggest causes of that, in my mind, are, first and foremost, currency manipulation. We led China and the World Trade Organization without any agreement that they not manipulate their currency. And the U.S. manufacturers, as a result, have a significant artificial cost disadvantage for most of a decade or longer than a decade now.

We also had a wave of subsidized or guaranteed credit for exporters in other countries that frankly we did not match. That is the subject of this hearing, whether guaranteed export credit is actually an important countervailing thing that we have to do. In a perfect world, we would not need the Export-Import Bank, but I think it provides in the presence of subsidized credit from around the world, for their exports, I think it is essential. My attitude is very much that we should put down our weapon when they put down theirs and not before.

The third factor, of course, is the enormous tax breaks for those already wealthy that happened during the Bush Administration, where those already wealthy, instead of reinvesting their productive assets back into the United States simply turned the money over to their money managers, who more and more invested that money offshore. Very different than what happened during the Kennedy Administration, for example, when we had very different tax rates.

But since we are concentrating on the second item there, the credit, the guaranteed credit for exports. I have a couple of questions for Chairman Hochberg. First, you received some criticism early in this hearing about your dealings with foreign state-owned enterprises. Do you run a profit or a loss in your dealings with foreign state-owned enterprises?

Mr. HOCHBERG. We run an overall profit at the agency, and we turn it over to the taxpayers every October.

Mr. FOSTER. Okay. And does that include your dealings with foreign-owned enterprises?

Mr. HOCHBERG. Yes, it certainly does.

Mr. FOSTER. So the taxpayer is better off because of your dealings with foreign state-owned enterprises.

And the second thing is, I am increasingly concerned with these eleventh hour reauthorizations that you are suffering through. It seems to me that creates exactly the kind of uncertainty that ruins deals, and drives equipment purchasers to foreign competitors. What kind of impact along those lines might you have seen already because of the brinksmanship going on here?

Mr. HOCHBERG. We have already seen—there was testimony last year from Steve Wilburn who lost a deal to the Philippines that was taken over by South Korea, and we have also seen banks and insurance brokers pull back and deny credit to small businesses.

Mr. FOSTER. Okay. Thank you. It looks like I am out of time, and I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Chairman Hochberg, Michael Grunwald, in a Politico Magazine article from earlier this year, the article titled, "The Real Bank of America" described the more than $3 trillion in loans that the Federal Government—that is the hardworking American taxpayers—are on the hook for in case of defaults. And that $3 trillion does not count the more than $15 trillion in other guarantees for which the Federal Government is on the hook.

At a time when our national debt exceeds $18 trillion, and in the wake of the massive bailouts at Fannie Mae and Freddie Mac, it is imperative that any efforts, I believe, to reauthorize Ex-Im must take steps to ensure that taxpayers are fully protected from the possibility of potential losses. And here, Mr. McCarthy identified one of Ex-Im's biggest challenges is risk management.

One way that we could potentially create additional protections for American taxpayers is by requiring full collateralization, or sovereign guarantees for all direct loans or loan guarantees issued by the Bank. As noted in the Bank's Fiscal Year 2016 congressional budget justification, only 77 percent of the Bank's portfolio is currently backed by a form of asset or collateral security.

The percentage increases to 80 percent when including sovereign guarantees. A reasonable person might think this should be 100 percent collateralization. Would you be supportive of making that sort of requirement for Ex-Im loans or loan guarantees?

Mr. HOCHBERG. I would not.

Mr. ROTHFUS. Another way that we can protect the American taxpayer from potential Ex-Im losses is by requiring additional guarantees from U.S. exporters who directly benefit from the banks providing of loans or loan guarantees to the foreign purchasers of their products.

Specifically, we could require that as a prerequisite for any loan or loan guarantee, the U.S. exporter must both guarantee full repayment for any money extended to a foreign purchaser and take the necessary steps to ensure that this guarantee is senior to other obligations.

This would create an additional barrier and source of repayment before any losses would be placed on the backs of the taxpayer. Would you support this reform?

Mr. HOCHBERG. No, I would not.

Mr. ROTHFUS. It is interesting to read—I am just learning about the NewSat bankruptcy. And in this article in Space News, it says that $193 million was mainly Ex-Im money lent to NewSat in addition to equity NewSat had raised on its own. It is now in the form of a nearly complete spacecraft that Lockheed Martin owns and is free to sell without having to repay anything to Ex-Im.

Now, if Lockheed sells the satellite, you have no agreement right now with Lockheed that they would have to go back and pay Ex-Im for that loss; is that right?

Mr. HOCHBERG. We are still working on a solution to this transaction. It is simply in an early stage, sir, and so we are trying to find an actual buyer together.

Mr. ROTHFUS. But you have no legal document that you can go back to if Lockheed goes and sells? Because it owns the satellite, and it is certainly free to go and sell it, correct?

Mr. HOCHBERG. Lockheed has possession of it, but we are working with Lockheed and other creditors to find a solution so that we do not suffer a loss in this particular case.

Mr. ROTHFUS. The 2012 reauthorization directed Treasury to pursue negotiations to substantially reduce, with the ultimate goal of eliminating, subsidized export financing programs and other forms of export subsidies. There has been essentially no progress on this front at all, as most recently confirmed by Treasury's Under Secretary for International Affairs, Nathan Sheets, in testimony before the committee on April 15, 2015. Whom do you blame for that failure?

Mr. HOCHBERG. First, this is the Secretary of the Treasury's responsibility. He has issued three reports about their efforts to reign in export finance globally. I understand this is the Treasury Secretary's responsibility, but it is to reign it in. We have to get outside parties like China, Brazil, India, and Russia that aren't even a party to it before we ratchet down everybody else. Let's make sure we get everybody following the rules then we can ratchet everybody down.

Mr. ROTHFUS. Have you done anything personally to make sure that this requirement is fulfilled?

Mr. HOCHBERG. As I mentioned in my own testimony, although this is the Treasury Secretary's responsibility, I have gone out of the way to speak to all of my colleagues and ask them how we would do this.

Mr. ROTHFUS. Ex-Im is currently open to support foreign purchases for U.S. exports. In almost 200 countries around the world, the Bank is prohibited from extending credit and insurance to certain countries, for example, those that are in armed conflict with the United States. But it can still provide services in many countries that have horrific records on issues pertaining to human trafficking and the protection of internationally-recognized human rights, including the freedom of religion.

Would you support simple commonsense reforms that would further limit the Bank's country limitation schedule to prohibit countries that are refusing to take the necessary steps to prevent human trafficking within their borders and those who are engaged in or tolerate particularly severe violations of religious freedom?

Mr. HOCHBERG. We actually subject all transactions to review by the State Department and follow their guidance in terms of whether it is an allowable country or not. So that policy decision is made by the State Department, not by us.

Mr. ROTHFUS. So you would take no position on any of the reforms that we propose.

I thank the chairman, and I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Chairman, in a second I will yield to you for the answer to a question.

But I think there are some things we all agree on. This is a very important issue. We have debated it at length. Reasonable and good-spirited people can reach different conclusions, and democracy ought to determine what our policy should be.

So, Mr. Chairman, will you be doing everything possible so that this committee or the House is voting on whether to reauthorize the Ex-Im Bank in the next couple of weeks?

Chairman HENSARLING. Is the gentleman yielding to the chairman?

Mr. SHERMAN. Yes.

Chairman HENSARLING. The Chair will not make a decision until after this hearing. I will listen to all colleagues. I am not aware of any bill that is supported by a majority of the House, much less a majority of this committee. If I am made aware of such, I assure you, it will influence my thinking.

I thank the gentleman for yielding.

Mr. SHERMAN. We may have a chance to look at bills supported by a majority, or perhaps a 60 percent majority of the United States Senate. And there are many, many bills that come to this committee that we mark up that are not cosponsored by a majority of the House or a majority of the members of this committee.

I think if this committee has a markup, we will devise a bill that has majority support, perhaps taking into consideration the comments of the gentleman from Pennsylvania, that we have restrictions on not allowing Ex-Im Bank to operate in those countries which have horrific records on human trafficking.

Also, the gentleman from Pennsylvania focuses on the need to try to get other countries to ratchet down their export promotion authorities. That is a responsibility of the Department of the Treasury. Without objection, I would like to put in the record the last three annual reports of the Department of the Treasury.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. SHERMAN. And I will point out that I don't think they are doing as much as they should. But the next Administration hopefully will, and the next Administration will have nothing—like going to a gunfight without even a knife—in its arsenal if we don't have an export promotion authority. If you go into arms talks working for disarmament and you have already unilaterally disarmed, there is no reason for anybody to listen to you.

Accounting. My favorite subject. Mr. Hochberg, with generally accepted accounting principles (GAAP), you have a profit of $750 million, is that correct?

Mr. HOCHBERG. Last year was $675 million, to be precise.

Mr. SHERMAN. Okay. And up on the board, whenever a Republican is speaking we have the debt clock, so that debt would be $675 million higher if we had abolished your Bank a year ago?

Mr. HOCHBERG. Yes. And furthermore, CBO has actually scored the Ex-Im budget initially at $1 billion. Deficit reduction has cut that about in half to, again, uncertainty of the reauthorization.

Mr. SHERMAN. And that is with reserves for the risk that you are taking of default. Just like any insurance company, any lender can calculate its profit only after determining what is an actuarially sound reserve for bad debts; is that correct?

Mr. HOCHBERG. That is correct.

Mr. SHERMAN. Now, I have heard that there is this thing called fair value accounting—I think it is better called fantasy value accounting—which would say that you should determine your profit or loss not based on whether you have a profit or loss, but whether you would have a profit or loss in some artificially constructed fair world.

And as you have heard me say before, in a fair world, Jack's Pizzeria would have the same cost of funds as Pizza Hut. Now, if you really know Jack, you would not lend him money. But in a fair world, he might have the same cost of funds and then he would have a profitable—or Pizza Hut would have a higher cost of funds. But if Pizza Hut had to pay when it borrowed money, the risk premium that is appropriate for Jack, they would be out of business.

So in the real world, generally accepted accounting principles are the same principles used by all the other lenders in the country, is that correct, and do you show a profit?

Mr. HOCHBERG. The U.S. Government uses the Federal Credit Reform Act (FCRA). And by that, we put aside reserves, as you have mentioned, Congressman, about $5 million worth of reserves, and the rest goes to the taxpayers. Any change in accounting would actually just increase reserves and then they would be released to the taxpayer.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Mr. McCarthy, I would love for your help in just trying to make sure I have my head around some of the mechanics I see here. I am looking at a report, an audit from September 2012, if you are willing to track with me to page 6. But I am going to do this—I think it is the second paragraph—a little bit backwards.

Apparently, in 2011 it was determined that because of the way the law is structured, the Ex-Im Bank did not need to report impairment of assets. So I guess, 2011, they just stopped the impairment. And it is really important for this conversation. There is a difference between impaired assets and write-offs. Can we at least agree to that? Because last time, we had some fussing back and forth where we were sort of mixing the two, I think quite disingenuously.

Mr. McCarthy, have there been any attempts since 2011 to start to say, here is actually what the impairments are on this book?

Mr. MCCARTHY. The Bank has some separate reports that it prepares. One of the reports that it prepares is the default rate report, and that is—

Mr. SCHWEIKERT. I am not asking the default. Impairment.

Mr. MCCARTHY. There is a different report that is prepared about impaired assets and a watch list.

Mr. SCHWEIKERT. Okay. So it does exist. But in the last discussion, the Honorable Mr. Hochberg looked at me as if I were deaf, that no such thing existed. I am not overstating it. You can go back and see the video.

So right now, if, as Mr. Mulvaney was talking about with NewSat, would I see that on the impairment report, and was it a half million dollars? Would I see that as now the impairment set-aside on that report?

Mr. MCCARTHY. I don't know the timing of it, but I would expect that would be something that would appear on that report, given the recent developments.

Mr. SCHWEIKERT. So in some of the opening discussion here and opening testimony, I am hearing these repeated statements about how low our default rate is. According to that report, if you know off the top of your head, what is the actual default? And remember, default is defined as, "I am late on a payment. I am out of compliance in my reps and warrants."

I am trying to—like for like, my ceteris paribus of here is the rest of the world that ensures, or does guarantees and this institution, so we have at least an honest discussion going on here.

Mr. MCCARTHY. Right. So as you recognize, default can mean different things. It can mean a payment default; it can mean impairment.

Mr. SCHWEIKERT. Impairment. Impairment. Default is—they are different things.

Mr. MCCARTHY. Let me try to explain. I understand what you are getting at, and let me try to explain it from our point of view as the IG. The Bank reports their—what they report as the default rate was called the default rate by the 2012 reauthorization, and Congress provided the formula to how the Bank calculates that. They have reported that. They have been transparent about that formula.

That formula, as you say, is more of a net loss rate than a default rate. Looking at a default rate as more broadly used, as you say, of things that are potentially impaired but haven't yet generated a loss but could potentially do so in a future would have a different calculation.

Mr. SCHWEIKERT. But any other institution out there, when someone's out of compliance in arrests and warrants, there is often a scaling of, we need to set aside for this. We heard a little while ago there is—what was it, $5 billion that is ultimately set aside for losses. Does that scale in accordance with the percentage of the book that is an impairment, like every other institution would be required to? And if so, how come a couple of weeks ago when we had this very discussion, I couldn't get near an answer of such a thing as actually scored and kept.

Mr. MCCARTHY. On the impairment list, and I can go in and try to look and answer your question more specifically, some of the impairments are more qualitative in nature than quantitative. So in some ways, it is difficult to calculate an actual—

Mr. SCHWEIKERT. No, it is not. No, the industry has been doing this for about a couple of centuries. And there are industry standards in how you do this. So what you are telling me is our institution here doesn't at least just do what is common practice in the rest of the banking and investment world?

Mr. MCCARTHY. The institution has an impaired asset list and a watch list.

Mr. SCHWEIKERT. Okay. Impaired asset and then the reserve calculation for it.

Mr. MCCARTHY. The reserve calculation is based on the loss experience historically under FCRA.

Mr. SCHWEIKERT. Mr. Chairman, one more time, I yield back. One day, I might get an answer.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

I keep hearing this thing about winners and losers, winners and losers. It seems to me that what we are talking about is making the American workers the winners here. Clearly, from my experience, I understand—and I don't understand why, especially my friends and colleagues who are supporters of trade, this seems like a no-brainer. Americans are selling more goods and services abroad than ever before, and every $1 million in U.S. exports supports an average of more than 5,000 jobs here at home.

American exports supported more than 11.3 million U.S. jobs in 2013. Ninety-five percent of the world's customers live outside of the United States, and we need to continue to help American businesses to export more, so we should all be talking about how we can export more overseas. I just give you the benefit of my experience from my small, little State of New York, something like—in Maine.

Ex-Im has committed over $11 billion in total export value. That includes $7 billion in insured shipments, guarantees of disbursed loans, and an additional $4 billion in approved authorizations. There are 350 New York-based exporters that benefited from Ex-Im Bank trade facilities last year, of which, and this is very significant to me, 201 were small businesses. And 26, I know Chairman Hochberg, and Vice Chair Felton have been working very hard are minority businesses. They were minority-owned businesses, giving them the opportunity to export.

And these businesses operate in various sectors that are creating jobs here in America. We have exports in food manufacturing, machinery manufacturing, transportation services, computer and electronics, insurance, banking, finance, and the list goes on and on and on. And so we need to be exporting more, not less, and that is what the Ex-Im Bank does.

So let me just ask Chairman Hochberg, first, I believe, isn't it true that Ex-Im operates more like, in this case, a lender of last resort, in one second correcting the market failures when private trade finances are unable or unwilling to invest in U.S. exports at competitive rates? So when that happens, the bank of last resort, Ex-Im, if you no are longer there to help these companies move, what happens to them?

Mr. HOCHBERG. Thank you, Congressman. I have often said that we are plan B. Plan A is the private sector. Plan C would be China. They would be more than happy to fill in the gap that is the vacuum that we would create if we are not there.

I was talking yesterday with an exporter in Chattanooga, Tennessee. A company that we are working with is going to finance an export to China. He has hired up for this thing. And he said that if it wasn't for Ex-Im, he probably would not have hired those 20 people, and he would lay off another 20 people, so 40 to 50 people's jobs are at stake on this single order to China.

Mr. MEEKS. And so, it just seems, that is why I am just baffled that some of my colleagues don't believe we need Ex-Im Bank, and they say that the private sector can do it all. But when we look at between 2008 and 2009, the private sector trade financing fell by 40 percent. And as of today, isn't it true, Mr. Hochberg, that many of these private banks are still not willing to extend export financing without additional guarantees from Ex-Im Bank?

And can you also talk about the gaps our financial crisis—you know, we had one in 2008—left in trade financing, and how the Ex-Im Bank filled that void then and continues to fill that void now.

Mr. HOCHBERG. Our authorizations hit an all-time high in 2012. We financed over $36 billion of financing, financing over $50 billion worth of goods. We are operating at about half of that level now, which is a good sign that the financial markets are recovering. The banks are more liquid. They are not liquid in every market. They certainly make it tougher for small businesses.

But the good news is that when there was a crisis, we stepped in. We were like the fire truck, my analogy. And now that the fires of the recession are more behind us, we have been less active, which is a good sign that the capital markets, banking markets are recovering.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Throughout this process, I have heard from many of the stakeholders involved. I have heard from the Bank, from businesses, and my constituents, who are the taxpayers. And some of the biggest complaints I hear are what about taxpayer liability, and does the Bank pick winners and losers? And as we have heard today, Ex-Im Bank financed $27.5 billion in exports in 2014. Now, I personally believe that the Bank needs reform. We don't seem to talk about reforms. We just defend positions. But I have yet to see a set of reforms that fixes the two chief complaints I mentioned before.

Mr. Chairman, you know my background is in retail. I have been a small business owner for 44 years, a family business founded in 1939. I am Main Street America. I am a car dealer. And in my industry, when a car needs to be financed, I often will guarantee the note for the person to whom I am selling the car. In other words, I let the bank know that if for some reason the buyer defaults on his loan, I, as the seller, will be responsible for the balance of the loan. In my business, we call that recourse paper.

Now, I am a deal maker. So I want to help you make a deal today. Chairman Hochberg, why couldn't we do something similar with the Bank? Why couldn't we say that any money being loaned out by the Bank be subject to similar requirements and guarantees? In other words, the seller guarantees the note to Ex-Im, which gets the taxpayers out of their liability. The taxpayers are gone then, and that reduces that question. Why can't we do that?

Mr. HOCHBERG. Congressman, we work in a very competitive world, and that is simply not a competitive practice. There are 80-plus export credit agencies. Without Ex-Im's financing, we put U.S. companies at a severe disadvantage to their global competitors. And besides which, our default rate which we report to Congress every 90 days is less than one fifth of 1 percent, it doesn't indicate there is a problem here that needs to be fixed.

Mr. WILLIAMS. Okay. I hear what you are saying. The taxpayers, though, the taxpayers are guaranteeing this. We need to get the taxpayers out of this. And I understand competition as good as anybody, okay. So I know you have mentioned there are points and fees that you charge. But that doesn't come anywhere near covering the entire liability of the loan, correct?

Mr. HOCHBERG. We have about $5 billion in reserves to back up any possible default—

Mr. WILLIAMS. But it doesn't cover all the loans.

Mr. HOCHBERG. You never have reserves to cover 100 percent.

Mr. WILLIAMS. Yes, you would if you go resource paper.

Okay, now, my next question is this: You said the default rate for Ex-Im Bank is actually very small, something less than 1 percent, correct?

Mr. HOCHBERG. It is running less than one fifth of 1 percent.

Mr. WILLIAMS. Okay. That is another reason to go recourse paper.

So in my head, if the businesses are benefiting from Ex-Im Bank, have skin in the game, like a lot of us do in the private sector, have skin in the game on the loan, and the default rate is so low, which you talked about, basically zero, all the more reason for them to guarantee the note. And, in fact, as you know, if they guarantee the note, you can give them a better rate and make them more competitive across the world, which you just talked about.

So the point I am trying to make, Mr. Chairman, is if the average taxpayer sees the Bank as doing exactly what I said before, and just as with other Federal agencies who have been bailed out, the taxpayer wants to know what happens if all the loans go bad. I know the possibility of that might be small, which is good, but, again, we have said that for agencies like Fannie and Freddie, and guess what, they are bailed out and the taxpayer pays the money.

I don't know if something like this could actually save the Bank during this conversation, but by removing the taxpayer from the equation, again, removing the taxpayer from the equation, I think it would go a long way to solving a lot of the problems. So, again, why can't you do this? Think about it. It is a solution that nobody seems to be talking about. It fixes. It fixes the questions that I have, and it fixes the questions that Americans have on the way they have to support this.

So I would also say in closing, I have heard my colleagues talk about why the private sector has left. How about Dodd-Frank? Maybe start thinking about that.

Mr. Chairman, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. And thanks to the ranking member.

Thank you, gentlemen, for your willingness to come here to help the committee with its work. I tend to look at things from the worker perspective. I was a welder and an ironworker down at the Quincy Shipyard in the Boston area, down in Quincy, Massachusetts, for a while, until that shipyard closed down because of the foreign competition. Some foreign ex-im banks supported shipbuilding in their countries and put us out of business.

And I worked at the General Motors plant in Framingham, Massachusetts, and they closed that plant down and a couple of others and moved them over to Mexico. So I tend to see the effects of what other countries are doing.

I just had an opportunity to travel to South Korea, and also to Japan. And I make it a point of, during my travels, and I was in both those countries for several days, to try to look for American products to see how we are doing in Korea and South Korea and in Japan.

We were in South Korea for several days. It is a major industrialized country, big highways, millions of cars. I was there for 3 days, and was stuck in plenty of traffic. I saw two U.S. cars out of hundreds of thousands of cars in South Korea. The only two cars I saw were the one I was driving in from the U.S. Embassy, and the one behind me that had the U.S. Embassy security team for my detail. That was it. I was in Japan, the same thing. It looked like nobody's business trying to find a U.S. car. Nothing. So it just bothers me to no end that the Korean ex-im banks and the Japanese ex-im banks are picking winners and losers. And they are picking Korean winners, South Korean winners, and Japanese winners. And we are criticizing our Ex-Im Bank because you are picking American winners.

And I have a real problem with what is going to happen here once America gets off the field, once we surrender, once we surrender and say: Okay, China, you can push Chinese manufacturing, and we are going to tie our hands behind our back.

And what will this do? What will this do to creating U.S. jobs? I have to say that I hope and understand that your job is to create

American jobs. And there has been some criticism here today of the way you are going about it, but I do think it is in the best interest of the American worker to be in the game, to be trying to push American companies. And I have said before, your support for Boeing doesn't support necessarily Massachusetts jobs in my district. But it is okay if you are putting Americans to work in Washington State, God bless you for doing that, and any other American company that you help. I don't think we can be parochial at that level. And can you just tell me what your ideas are about what is going to happen if we walk off the playing field and leave it to these foreign export-import banks to drive the creation of manufacturing jobs and other jobs around the world?

Mr. Hochberg?

Mr. HOCHBERG. Thank you for that. We take very seriously our jobs mandate. We are about U.S. jobs and not really about U.S. companies. When a U.S. company or a company makes goods in America, we support it. As I have said before, 164,000 jobs last year alone. And even when you make the comment about Boeing, I suspect there are many, many Boeing suppliers in the State of Massachusetts. So every time a Boeing plane is delivered to a foreign customer, many small businesses benefit.

I was just in Erie, Pennsylvania, a town that without the exports from GE locomotive would be a very quiet town with not very many good jobs. And I met with a number of small businesses that actually supply machine parts, tools, and die parts that actually go into the locomotives.

One company I met with, ISM, with 175 employees, a full 15 percent of their work is tied to GE exports. So they are very much tied to the state of those larger companies making those exports. But I think what we are putting in jeopardy is 164,000 jobs. That is a lot of jobs. That is a lot of families in their homes. That is a lot of families who are relying on these export jobs and the financing we do to make sure that export happens. And, again, 90 percent of those companies are small businesses, some in the chairman's district itself.

Mr. LYNCH. All right, thank you.

I yield back.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Mr. Chairman.

Gentlemen, thank you very much for being here. I appreciate it.

Mr. Hochberg, since 2009 you have run this independent Ex-Im Bank. It is an entity that was created by the Federal Government here in the 1930s. You have about 440, 450 employees. And you folks provide low-interest-rate loans to foreign entities that turn around and buy U.S. products from U.S. companies, of course. Now, if these foreign companies cannot repay their loans and the taxpayers are on the hook, in fact, the reason why you are able to provide foreign companies with cheaper credit than nongovernment banks is because of the taxpayers' backstop.

So where I want to go down this path, sir, if I may, is I have heard today from you and from other folks here in this hearing room that there is no cost to the taxpayer.

There is no free lunch, Mr. Hochberg, everybody knows that. Of course, there is a cost to the taxpayer. For example, if you have a worker at a company and across the street is a competitor that has the same, roughly the same product, and that company is financed in part by you folks, so that product is purchased but not the product from the company that the other gentleman works for, then you have picked that winner, and he loses. There is a cost to that individual.

Second of all, is that the only reason why, again, that a non-government bank isn't able to provide credit to some of these foreign companies is because you folks step in, and you are backstopped by the U.S. taxpayer who is at risk if something goes wrong. And so those U.S. banks who might be able to extend those loans aren't able to do so. So there is a cost to those banks, sir, in the nongovernment sector and also the people they employ.

Now, there is one other cost I would like to talk about today that hasn't been discussed, and that is reputational risk for the U.S. Government. Now, I understand that you are appointed by the President and you also serve as the chairman of the board of your own directors. And you have stated here today in testimony that you raise money for the President. I don't see any way, sir, that Congress is able to hold you accountable. We don't appropriate any money to you.

Now, what does it say to investors around the world who run companies who are thinking about investing in our economy, whether in Maine's Second District or throughout the country, that we have an Export-Import Bank where, if my notes are right—and I know, Mr. McCarthy, you are the inspector general for Ex-Im, so correct me if I am wrong—over the last 5 years, you have had 48 people associated with the Bank who have been convicted of fraud. You have 37 ongoing investigations for fraud and corruption right now. There has been about 66 years of prison time that has been dished out to these folks over the last 5 years and about $224 million of fines. Now, there was a Bank employee not long ago who accepted $78,000 in cash as a bribe to help folks out, foreign companies out to receive your credit, your cheap credit, and I guess he is going to be sentenced in July. There is a former Member of Congress who is in jail in Louisiana right now, and they found $90,000 of cash in his freezer that was associated with lending practices at the Bank.

So I am asking myself, Mr. Hochberg—I represent 650,000 of the hardest working, most honest people that you could ever find in this country in Maine's Second District. And now you come before us. And the only way we have accountability, we can hold you accountable, is to determine whether or not we reauthorize your charter. I would like to find out how I can go back to the people that I represent with this trail of mismanagement, ongoing mismanagement and vote to reauthorize your Bank.

Now, I would like to turn it over to your inspector general who is internally working at your Bank. Sir, you are also appointed by the President, is that correct?

Mr. MCCARTHY. The position is appointed by the President. I am currently—

Mr. POLIQUIN. Do you have subpoena authority?

Mr. MCCARTHY. Yes, we do.

Mr. POLIQUIN. You do. Do you have the ability to make criminal referrals?

Mr. MCCARTHY. We do.

Mr. POLIQUIN. Good. And do you have the ability to investigate employees who are no longer at the Bank but have left the Bank?

Mr. MCCARTHY. We do.

Mr. POLIQUIN. Do you have enough independence from the gentleman sitting right beside that you work with under the same roof that you think you can do your work effectively?

Mr. MCCARTHY. Yes, we do. Under the Inspector General Act, we have organizational independence. We also have our own separate appropriation and manage our own budget.

Mr. POLIQUIN. Good. Mr. McCarthy, you keep doing your work and keep digging. If you need help, you call our office.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman.

I am reminded of a presentation I was a party to while in college. One of the faculty members of my school did some of the seminal field research on the correlation between the presence of DDT and eggshell damage among peregrine falcons. In his presentation to us, he had a scatter graph on the correlations between the presence and mortality rates among peregrine falcon eggs. And almost all of the dots were concentrated on, they died. And there was one or two way up there where they didn't. And when he made that presentation to the manufacturer of DDT, their response was, what about those two? I feel a little bit like I am living through that again almost 50 years later.

There is a lot of semantics going on here as it relates, for example, to default rates. But the fact is that the Export-Import Bank has a default rate and a loss ratio that is the envy of commercial banks. That is the fact.

Mr. McCarthy, you are an incredibly patient human being. Thank you so much for being here. I want to make sure I understood you correctly. Is it accurate and fair for me to infer from your remarks, both in your opening statement and in answers to questions, that your opinion is that the Export-Import Bank has made a good-faith and reasonable effort to embrace and implement the recommendations you have made?

Mr. MCCARTHY. We have made our recommendations. The Bank has to implement them. We have closed a number of those recommendations, and we continue to make progress on them.

Mr. HECK. Thank you.

Mr. Hochberg, I want to get at the issue of harm. At its essence, some of this has to do with those who advocate that there will be no harm done if the Export-Import Bank's charter expires. I happen to share the concerns and worries of Speaker Boehner, who said he believes there will be lots of job loss if that happens.

I am beginning to believe that the opponents are beginning to worry about that as well insofar as their wish casting, my new favorite word, that the private sector will step in. Let's break it down. First, for small businesses, I think often overlooked is the fact that a preponderance of the transactions aren't direct loans, but loan guarantees, revolving lines of credit, and what I call accounts receivable insurance. I think of Pexco in my district, which manufactures traffic cones, with little tiny quantities sold to Belgium; or Manhasset music stands, one of the largest music stands in America in Yakima, Washington.

Is there any evidence to suggest that there is anyplace within the commercial sector where a bank would step in and guarantee such small amounts of exports even though those exports, for example, in Manhasset's case, would constitute over 30 percent of its business? Is there any evidence to that effect, Mr. Hochberg?

Mr. HOCHBERG. Congressman, the reason we are brought in, and a bank brings us in, as I said, generally, or brokers is because they can't do it on their own, or they refuse to because it goes beyond their credit standards, beyond their risk profile.

Mr. HECK. So let's scale up and deal with the large business part. Obviously, the name of the manufacturer of the finest airplane on the face of the planet has been invoked many times here. I just want to remind everybody that they assemble planes. They don't manufacture them. Their supply chain is 15,000 businesses, 6,000 to 8,000 of which are small businesses. They make the parts. I have always thought that the way the Boeing Company would deal with this is that they would provision for it if the Ex-Im goes away on their balance sheet. Now, I come from the private sector, and I think anybody who does understands what that means. That means there will be a lot less money available to invest in attracting and retaining a quality workforce, research and development, remembering that the manufacturing of commercial airplanes is an exceedingly competitive business now between Boeing and Airbus, but soon to be China, and that they would therefore be harmed by it. But here is my question, Mr. Hochberg. That is how I thought this would play out. And that it would cause the loss of jobs. But I have recently read that I think the chairman and the CEO of the company had indicated that if we unilaterally disarm, the company would be compelled to consider moving certain parts of their manufacturing production offshore.

Do you find that to be a plausible response to our shutting of your bank? And if so, what would the damage be to the manufacturing sector in America?

Mr. HOCHBERG. Without question, that is a very real possibility, and certainly with the company you mentioned, but there are many others, such as GE, that have facilities all over the world, and can very easily begin to offshore their work permanently.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. McHenry, vice chairman of the committee.

Mr. MCHENRY. Thanks so much, Mr. Chairman, and thank you all for being here. It has been a long day. But Mr. Hochberg, I think what Members, policymakers, want to know here with reauthorization coming at the end of the month, it is some sort of basic admission that there are some challenges in running an organization, right? There have been discussions of indictments. The IG is sitting next to you. There are ongoing investigations there. So, what would you say?

Mr. HOCHBERG. I should probably let the IG answer himself, but we have had one indictment.

Mr. MCHENRY. No, I am asking you.

Mr. HOCHBERG. We have had one indictment, sir. One indictment. And the person pled guilty and that came to light because another employee saw something that didn't look proper. In the other investigation, the inspector general said at this point in the investigation, none of them involve employees, but you can ask him directly.

Mr. MCHENRY. Okay. So are there any management challenges?

Mr. HOCHBERG. Sir, I have run a company for 20 years. Every organization has management challenges.

Mr. MCHENRY. So this is no different?

Mr. HOCHBERG. Every organization is different. But of course, there are management challenges. We are trying to move forward. We are trying to be responsive to Congress, responsive to exporters, work with the private sector, not compete with the private sector, make sure we are competitive globally and get more small businesses to export. There are a number of those challenges.

Mr. MCHENRY. A government survey of your employees at Ex-Im—government employees, not your employees, you had the organization, but they don't work for you, they work for the American taxpayer. Only 42 percent of Export-Import Bank employees agree with the statement, "My organization's leaders maintain high standards of honesty and integrity." Is that sufficient?

Mr. HOCHBERG. Pardon me? Forty-two percent said that, and about 30 percent had no opinion.

Mr. MCHENRY. So that is fantastic, is what you are telling me?

Mr. HOCHBERG. No—

Mr. MCHENRY. As a policymaker, am I supposed to look at this and say, "Keep going man, you are doing fantastic?"

Mr. HOCHBERG. Without question, sir, I take this very seriously. We all take this seriously at the Bank and we put a much higher priority on improving the workplace environment than we have at Ex-Im Bank. Of course, I am disappointed in those results.

Mr. MCHENRY. Okay, some sort of admission is sort of helpful. I am not trying to inject humility to a grown man here, but I am simply saying that should not be in any way acceptable. And there should be a firm desire to improve the standards you have within the organization that you head.

Mr. HOCHBERG. One of the—

Mr. MCHENRY. I am giving you an opportunity to say that, is what I am telling you.

Mr. HOCHBERG. Yes. One of the key objectives we have established.

Mr. MCHENRY. Just because you say, "We have only had one indictment," how is that a sales pitch for reauthorization of the organization that you head up that you explain in great detail the importance of what you do, and your defense is one indictment? We have only had one indictment. Would the American people look at Congress and say, "Gosh, they have only had one indictment. Wow, that is good. We are happy?" Walk me through this.

Mr. HOCHBERG. I would be happy to, sir. Some have asserted on this committee that the organization is full of corruption. What I tried to indicate is that there is one indictment, one employee. The other investigations involved outside entities, companies and individuals trying to defraud the government. That is what I was referring to.

In terms of improving the workplace environment, last fall we established four objectives for the Bank, and amongst the top four was making this a first-tier place to work, improving management development, improving opportunities, and making this a better place to work. So, we are working hard at that.

Mr. MCHENRY. Sir, in the same survey, you have half of your employees agree, or half of the employees at the organization you had, agree that if they disclosed suspected violations of any law, rule, or regulation, they will not fear—actually, only half say that they would not fear reprisal for that.

Mr. HOCHBERG. If you look at the data, sir, only 20 percent actually disagreed with that statement. Not—20 percent of the employees said they actually did not feel—

Mr. MCHENRY. That is like bragging, "I am firmly middle management." Or, "I am a solid C student." Like this sort of—you should be making a better effort on this to acknowledge that, yes, there are failures. That would be a helpful thing, I would think. I am not trying to change your sales pitch, but I am just telling you that it is just not working. We are not buying it when you say that the management practices are sufficient and good, and just because you have raised this as a higher priority, that is sufficient, and we should be happy as policymakers when we look at your charter. All right, something has to change.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty.

Mrs. BEATTY. Thank you, Mr. Chairman.

Thank you, Ranking Member Waters, and thank you to our witnesses today.

First, let me say to you, Mr. Hochberg, welcome back to our committee. And I certainly want to take this opportunity to thank you for coming to my district. And not just coming to give a speech or be there for an hour, but to stay there and walk through the district, and hear concerns from a panel of some 50 people. It was also my pleasure to have you visit with a small company, Davenport Aviation, which utilizes Ex-Im resources to finance exports of its aircraft products internationally.

Today has been interesting, and disappointing. It has been about a whole lot of issues for me, from where you slept, what room you slept in, how much money you took, to this whole concept of winners and losers. I believe this Congress should work to lift up America, and we should work day and night to support small businesses, to help our veterans, to invest in innovation, but clearly, some of my colleagues on the other side of the aisle want to pick winners and let the rest of America suffer as losers. If we are going to have that discussion, since all morning we have been hearing about winners and losers, and Democrats are being accused of flipping our opposition on the Ex-Im Bank, I am going to follow Mr.

Capuano's example and not read off the list of people who have switched their votes on both sides.

But I would like to draw this committee's attention to some of the losers under the current Republican Leadership. Last Congress, if the Majority had its way, the Supplemental Nutrition Assistance Program (SNAP), the Food Stamp program, would have suffered over $20.5 billion in cuts. These cuts would have cost millions of our most at-risk Americans, seniors, children, and veterans to go hungry. And later today, the House will vote on another appropriations bill, subject to the drastic spending caps created under the sequester, the Commerce-Justice-Science Appropriation bill, where funding for the Legal Services Corporation is cut by $75 million, reducing it to just $300 million, and thousands of people who qualify for legal representation from LSC will be turned away. Well, that is just another example of losers.

So I get confused when sometimes we are accused of supporting the big folks, well, in this case, we supported a lot of folks. And we made the losers the small people.

So I went to my district, and I started asking the small companies what they thought. And here is a statement: "The Ex-Im is 100 percent necessary for my company," the president of Davenport Aviation said. "My company without Ex-Im Bank would not be able to exist."

One of my central Ohio Republican colleagues said that he had heard from employers in central Ohio and how they directly benefitted from the Ex-Im Bank and the consequences of not reauthorizing it. So my point is this, you have been criticized; you have been asked a lot of questions about the small businesses. Critics of the Ex-Im claim that the Bank promotes production in one sector of the economy to the detriment of the other. And we have heard all of those critics and that the Ex-Im picks winners and losers.

So can you dispel this notion of Ex-Im picking winners and losers, and speak to how the Bank actually extends loans and guarantees to all applicants that meet its strict lending requirements?

Mr. HOCHBERG. Thank you, Congresswoman.

It was very good to be out in your district with you. As I said in my testimony, I will be brief, because we do not pick winners and losers. Companies come to us when they can't secure the financing they need to make their exports sales and support jobs. And there was a comment in Maine, if there are two companies, if one doesn't need our support and the other one does, one can find it in the private sector, we are delighted with that, but we want to make sure it is a level playing field and that financing is not the thing that gets in the way, we don't want that to stop creating jobs in America versus jobs overseas.

Mrs. BEATTY. Thank you, and I yield back.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

It is interesting—I had a meeting the other day with the CEO of a large company that buys a lot of large items like airplanes, train cars, heavy equipment, and I asked him the question, if Ex-

Im went away, what would you do? And his first response was, the first thing I would do is I would quit buying Boeing planes and go buy Airbuses, and all of the jobs would go away. Boeing isn't a manufacturing company. They are a design and assembly company. They have 1,800 small manufacturers, small businesses that produce their parts. So those 1,800 small manufacturers which are relying on this Bank to be able to exist, to be able to make a profit, to hire people. I think your numbers, Mr. Hochberg, indicated a minute ago 160,000-plus was created recently, the last year or so.

It is interesting, also—I sit on the Small Business Committee as well. I am vice chairman of the committee, and we have had a couple of hearings. And in those hearings we have, obviously, small-business people all the time talk about their concerns, whether it is taxes, regulation, whatever, and the discussion eventually gets around to Ex-Im Bank. If it doesn't, I get there with it. And I ask them, what is your opinion of it? And every single one, not one time in the committee hearings that we have had has there been one person who said, we don't need it. Every single one says, we need it. It is important. We have to compete.

So I guess my first question to you, sir, would be, do you have any idea of all of the other suppliers that are affected by—I think the number of small businesses that you loan to directly is like 3,400, but I am interested if you have Boeing with 1,800, how many other small businesses do you have calculated that are affected by your Bank?

Mr. HOCHBERG. It is hard to get a precise number of the small businesses in the supply chain, but as you mentioned, I visited a company called LMI that is a Boeing supplier in Missouri. There is a company called Tomco that supplies GE with fire suppression equipment that is used in their power plants that they export overseas. So, over and over again, the company that Congresswoman Beatty referred to sells replacement parts for Boeing aircraft overseas to airlines in sub-Saharan Africa. And so, there are many small businesses, both direct and indirect. The indirect are like in a campaign who provides the catering and the yard signs and the printing; those are indirect beneficiaries. In the same way, we have Boeing has 15,000 suppliers and I want to say that about 6,000 small businesses.

Mr. LUETKEMEYER. What is the percentage of small businesses that access your Bank as it is now versus the big guys? In other words—

Mr. HOCHBERG. Well, 90 percent of our customers, direct customers, direct beneficiaries are small businesses. In 2014, we financed about $27 billion, of which about 39 percent or about $10 billion of Ex-Im's supported export value of the goods and services financed were from those small companies, and that doesn't count all of the indirects, as you referenced.

Mr. LUETKEMEYER. I also have a lady in my district who builds log homes out of oak logs. I come from central Missouri. Oak logs are very plentiful, and that is what she does. She also takes those oak logs, packages them up into a kit, and sells them to China, and your bank helps finance that. I thank you for that. If you go away, she goes away.

And I think that those jobs are going to go away with it. One of the arguments that seems to be out there is that these jobs would all find someplace else to go. I think my first example was, no, they are not. They are going to go to France to buy Airbuses. They will not be created at all because that lady will be no longer to be able to finance the kits that she sells to China.

And it is interesting that my side is interested in dynamic scoring. So if you have a job and you do something that—an exponential economic increase off of that is something, I would think, that we would be very interested in, and would really score—this bill would really score well from the standpoint of the job creation that is out there.

So I think it is a point that needs to be made, and I think that I understand that sometimes there is—I know our vice chairman was making some reference to some of the internal problems that you have in the Bank, and we can't deny that. But I think that if we are going to throw the baby out with the bath water, you never go out, and you don't throw away the whole police department if there is problems in the police department. You clean it up. You make it better. And I think that is the responsibility of Congress. For us to disregard that responsibility and just say no, we don't need the Bank, is disregarding our responsibility.

It is also interesting to me that I have heard the words, "level playing field for our companies," "creating jobs," "must be able to compete with China," "if we don't, they are going to fill the void," which sounds like some of the rhetoric that I use when I am trying to defend Ex-Im Bank. Yet, that is the same rhetoric that my colleagues use to support the TPA, in going with the trade agreement or the Trans-Pacific—trade agreement. And yet they are going to vote against versus for, and I really fail to see the situation here.

But I see I am over my time, and I appreciate the opportunity to voice a few concerns, and I yield back to the chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Colorado, Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman. Mr. Hochberg and Mr. McCarthy, thank you for taking the time to be here.

Mr. Hochberg, I think I would like to follow up a little bit along the lines of Mr. Williams' questioning in regards to the need for Ex-Im Bank given that we have the private sector. Can you name for me a bank in the country with, if we have a default rate of 0.167 percent, a bank that would not take a loan?

Mr. HOCHBERG. The reasons we have a low default rate of 0.167 percent are twofold. One is our underwriting, but most importantly, it is backed by the full faith of the U.S. Government. People don't default on the U.S. Government. That is a very strong incentive for people to pay and to make sure we have a good credit rating.

Mr. TIPTON. So no private sector banks can sell this?

Mr. HOCHBERG. Private sector banks are those who bring us to the transaction. That is the only reason we are there. We don't muscle them out. They actually bring us in because of the example I gave earlier of a company in Detroit where the fact is, their bank would not provide financing unless Ex-Im guaranteed the loan.

Mr. TIPTON. And that is because regulatorily they can't make the loan, is that correct?

Mr. HOCHBERG. Either it is outside of their strike zone, it is outside of their risk profile—

Mr. TIPTON. But the risk profile is going to be driven by the regulations that come out of the Federal Government.

Mr. HOCHBERG. Part of it is also coming through Basel III, sir, where banks have severe penalties for lending more than 5—

Mr. TIPTON. So we are getting the FSB, the FSOC that is going to be involved. The bottom line is we are getting back to regulations which are coming out of FSB or FSOC that are coming in telling banks what those profiles can actually be. So there is—we are squeezing out the private sector, leaving you as the sole source of capital.

Mr. HOCHBERG. Sir, we did, as I mentioned, last year about $20 billion worth of loans. The private sector did a spectacular job. We only came into those few situations—

Mr. TIPTON. I understand that, sir, but I guess the point I am trying to be able to get at is that we have to be able to have the government backstop on this. Can it be filled by the private sector, and what I am asking you is, is this really regulatory in nature coming out of policies, be it the FSB, the FSOC, out of Dodd-Frank, and the implications that are coming in that are going to be inhibiting the private sector from being able to participate in this?

Mr. HOCHBERG. You would have to ask a commercial banker that question. I can only tell you that we are brought in when the banks said we cannot—

Mr. TIPTON. Ironically, I have asked banks that, and it may not be in Ex-Im's particular portfolio, loans that they would like to be able to make, but because of regulations, they cannot make, and this is an opportunity, actually, for the private sector to be able to step in and to be able to service that need, and maybe to be able to create actually more jobs.

Do you think this is actually maybe—your very existence is an indictment of—and we all know there need to be some regulations, but overregulation that is literally coming out of expansive government policy that is being now collaborative with our European counterparts?

Mr. HOCHBERG. Ex-Im Bank today—and I look at our foreign counterparts—we exist when there are crises in the financial markets globally. That is why we did so much in loans 2 years ago because of the severe contraction of credit globally in the aftermath of the worst recession since the 1930s Depression.

Mr. TIPTON. Exactly, and we could have probably a great, great argument on who helped precipitate that crisis in terms of government policy that was being put forward. But if we look at really the regulations and if we are talking about being able to be competitive, right now we are seeing businesses in this country paying $2 trillion in regulatory costs. We see the lowest labor participation rate. We have a broken Tax Code. I just visited with a company that has a 32-percent effective tax rate. What if we were to shift that policy to be able to make the United States a place where people want to be able to come and do business, to where it is easier to be able to get a loan, where we put risk not on the Federal Government, not ultimately on the American taxpayer, but back into the private sector, where it actually should belong? Would you dispute that is a bad idea?

Mr. HOCHBERG. We have the best private sector in the world. We have the best private banking system in the world, and it is the most expansive. It is just not 100 percent. We try and fill in a gap when there are certain gaps based on economic conditions or certain countries or industries at a certain time. The nuclear industry is a good example of that since it is very hard to get private sector financing no matter what you do with the regulations, so we fill in that market.

Mr. TIPTON. Again, I think we could probably have a discussion over whether or not the private sector wouldn't do it as long as there is going to be the government backstop, there is no incentive for the private sector to be able to step in. The risks can actually be taken through that private sector.

And Mr. Chairman, my time should be up. I yield back.

Chairman HENSARLING. The time of the gentleman is yielded back. For what purpose does the ranking member seek recognition?

Mrs. WATERS. I ask unanimous consent to enter documents into the record from: the Bankers Association for Finance and Trade, and the Financial Services Roundtable; and 1,053 organizations from across the country that are urging support for long-term reauthorization.

Chairman HENSARLING. Without objection, it is so ordered.

The Chair now recognizes the gentleman from Minnesota, Mr. Emmer.

Mr. EMMER. Thank you, Chairman Hensarling and Ranking Member Waters, and thank you, Mr. Hochberg, and Mr. McCarthy for being here. I am relatively new to this committee, and I am working to get up to speed quickly. Again, I appreciate your being here today and answering these questions. It has been very informative for me.

Now, Mr. Hochberg, in your opening statement, you reminded us that Ex-Im was created to support American jobs. And I believe the mission statement, for example, provides specifically that it is to contribute to maintaining or increasing employment of U.S. workers by subsidizing the export of U.S. goods and services to foreign markets. Further, it is my understanding that the Ex-Im Bank is primarily a bank that is—it works for a few large multinational corporations. In fact, according to some of the information that I have recently been going through, I think it was 2013, 75 percent of the loans guarantees and insurance issued through Ex-Im were to 10 large companies.

That number remained pretty much the same last year in 2014. I hear all the time that it is important for small businesses to have the Ex-Im Bank. And I actually have some constituents who have used the Ex-Im Bank. The mandate is 20 percent. I am interested to know, if you can do it briefly, how do you define a small business?

Mr. HOCHBERG. Small businesses are actually defined by the Small Business Administration. We don't make our own definition. We use the SBA's definition.

Mr. EMMER. What is your understanding of the definition?

Mr. HOCHBERG. It basically depends on the industry. If you are a manufacturer, it is less than 500 employees, but it actually varies industry wide. A small car dealer—

Mr. EMMER. If you are a manufacturer, it is less than 500.

Mr. HOCHBERG. Yes, but it varies, as I say, industry to industry.

Mr. EMMER. All right, I believe I am correct, and please correct me if I am wrong, the Ex-Im Bank provides less than 2 percent of the loan guarantees and insurance, in other words the financing, for American exports?

Mr. HOCHBERG. About 2 percent of U.S. exports, that is correct.

Mr. EMMER. And, again, 75 percent of that goes to large businesses, correct?

Mr. HOCHBERG. As I said earlier, Ex-Im financed $27 billion last year, and 39 percent of the total value of the exports we financed was shipped directly from small companies.

Mr. EMMER. Actually, Mercatus just put out the one for 2014, and it had 76 percent going to the top 10 largest companies.

I am going to move on from that because my time is limited. You have focused on how other countries are aggressively supporting their commercial sectors as a means to enhance their sphere of influence, and you used China as the example and the ranking member this morning talked about China. In fact, I think you said at one point, in the near future, they will double the financing for their exports. And yet, according to some information that I have, your Bank last year guaranteed, I think it was $18 million, for a deal the Chinese ex-im bank was doing. Why is the Ex-Im Bank in this country helping to guarantee this wonderfully successful and aggressive Chinese ex-im bank?

Mr. HOCHBERG. We do a number of transactions with China. A lot of them are—for the company I mentioned earlier, Tuftco in Chattanooga, Tennessee, the debt is guaranteed by the China Ex-Im bank. So—

Mr. EMMER. I understand—

Mr. HOCHBERG. —with the buyer in China, we actually have a government guarantee.

Mr. EMMER. Mr. Hochberg, let me put it this way, if they are so successful and they are so aggressive, it doesn't seem to make sense that you are guaranteeing their deals. They should be able to do it on their own. I will also ask you this: Apparently last year before they ran in sanctions, your Bank was actively working with a Russian bank that is doing business with Russian arms dealers and you didn't stop that until the sanctions were put in place. All I would suggest is that in my initial review of this, it looks like we are not staying in accordance with our mission.

And Mr. Chairman, I would yield my last 30 seconds to the Chair.

Chairman HENSARLING. I thank the gentleman.

Chairman Hochberg, you have heard several members speak of this NewSat scandal today. We are under the impression that you, the Ex-Im, have in your possession the report by the consultant Brendan Rudd, I believe is his name. Our staff has asked your staff for a copy of this. It is my understanding that your staff has refused. Will you provide the Rudd report on NewSat to the committee?

Mr. HOCHBERG. Mr. Chairman, there is not a report. It is an email we received from Mr. Rudd which outlines a number of allegations that we are working with the legal authorities on to run them down, to find out what is true and what is not true so we don't have a lot of—

Chairman HENSARLING. Okay, sir, will you provide a copy of this to the committee?

Mr. HOCHBERG. Right now, it is still business confidential. We would like to keep this so we can actually move forward. I am trying to find a way we can get to a good answer and a good outcome for the American taxpayers and for Ex-Im Bank.

Chairman HENSARLING. Okay, the committee has requested this. We will put in an official request. I hope we don't have to subpoena it. We would hope that you would voluntarily supply this.

The time of the gentleman has expired.

The Chair now recognizes the gentleman from Tennessee, Mr. Fincher.

Mr. FINCHER. Thank you, Mr. Chairman.

And thank you, Chairman Hochberg and Mr. McCarthy, for being here today.

A lot has been said today, many comments on both sides of the aisle, pro and con. I was just thinking, as I was looking over some notes, about one of our greatest Presidents, President Reagan, and how he was able to guide the country in the direction of prosperity and growth, was able to make things work, and I was thinking about a lot of the policies that he championed, and I wonder, in today's political world, on the Republican side of the aisle, how many of my colleagues would politically go after President Reagan because he wasn't, in their mind, conservative enough, which is really ridiculous because he was able to do a lot for this country with his leadership?

Also today, as I have been listening to a lot of the comments, I guess I have to get on my staff, I thought we had introduced a bill with 60 cosponsors earlier in the year, H.R. 597, to reauthorize and reform the Ex-Im Bank. So many of the issues that have been brought up today we are addressing in our reform package. I was just looking over some of the things making the Office of Ethics statutory.

To my good friend Mr. Williams from Texas, we allowed the Bank to build its own earnings now. So if there is ever a place and time that there is a failure, we allow the Bank to build its own capital so the taxpayer will not be on the hook. We are actually strengthening and making this—what is frustrating as a good conservative Republican is we are sent to Washington to make the government more accountable, more transparent, and more responsible, and to work for our constituents.

Last night, I had a lot of thoughts go through my head, and I asked my wife, "Am I sure I am doing what is right?"

And she said, "You know in your heart you are doing what is right."

And I said: "Well, it is very difficult on me having a disagreement with the chairman."

And she said, "Well, honey—and she has been wrong before, but I think she was right this time—you don't work for the Chairman.

You don't work for the President. You don't work for the Speaker. You work for your district. You work for the hard-working Americans all over this country, and you are sent to Washington to do the best you can with what you have."

Now, look, the easiest thing for us to do here politically is to blow this thing up and go back home to our districts, and blame everybody else for it. And you know who is going to be left holding the bag? The workers who lose their jobs because these companies are buying products from people in other places around the world.

Now, we have a challenge here. Are we going to step up and try to do the right thing? Roger Williams brought up a great point when it came to reforming this part of the nonrecourse loan. Do you know how we do that? We do that by bringing something before this committee in regular order. Chairman Hensarling has been a champion of regular order. Allow us to have our day, allow us to have our say, and if the opponents of this win out, then we lose and the Bank won't be reauthorized. But we have all of these reforms. We have been working on a conservative approach to fixing the problems with this Bank, but yet we somehow can't seem to come together and at least have an open and honest debate.

The hearings are good. I know they serve their purpose. But this is getting a little old doing the same thing over, and over, and over, when we could have a markup. We could have regular order. The people could offer amendments, amendments if they wanted to end the Bank, amendments to have nonrecourse, whatever amendment they wanted to offer. And we could all vote. We could all have our say. We could all show people where we stand on these issues. Or we can continue to play the game—it expires in, what, 14 days? We have an obligation to do what is right for the American people. And I have an obligation to work for my district: 160,000 jobs nationwide; 8,300 jobs in the State of Tennessee; 116 exporting companies in the State of Tennessee. The American people deserve better and we need to give it to them.

And I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Hampshire, Mr. Guinta.

Mr. GUINTA. Thank you, Mr. Chairman.

And thank you, Chairman Hochberg, for being here today to talk about this issue. I have listened to a lot of the testimony and a lot of the questions, and I think this is a very serious and complex issue before this committee, and before Congress.

I served back in the 112th Congress when this was reauthorized. And I have met with you, and I have listened to your testimony. I have read your testimony, and I have tried to look at this in a way that gives me as much information as I can possibly have as I try to make a decision. I have met with companies back home who favor and support reauthorization. I have talked to constituents who oppose reauthorization for different reasons.

There are two areas that I think I would like to focus on, on which I need some clarification. You stated in your testimony this morning, I think in your written testimony, a very basic statement: "To be clear, every action and study required in the Bank's 2012 bipartisan reauthorization has been completed and implemented or is being compiled with on an ongoing basis." And you have the attachment to identify that.

What I would like you to walk me through as I looked through all of these recommendations, I see a number of them that are fully implemented, but I see quite a number that say, "concur, working to implement."

Mr. HOCHBERG. Concur what?

Mr. GUINTA. "Concur, working to implement." And a number of them going back to 2010, 2012, 2013, so I wonder if you could clarify for me why would it be taking so long to implement some of these recommendations? And I can be specific on some of them, but if you just want to answer generally or broadly then I can get more specific.

Mr. HOCHBERG. Well, for example, for me—the inspector general's are ongoing studies, ongoing audits, ongoing proposals for improvement. They are currently standing at 145. We have closed out 97 of them. Two-thirds of them are closed out. Since we last had a hearing here 6 weeks ago, we have closed out another 9 or 10 of them in that period. So we are continually working through that. We reviewed it, and have agreed with the inspector general on 143 out of 145 recommendations. So once we agree, then the next work is to do a work plan together to actually implement it. That is what we are working on.

Mr. GUINTA. What about in the area of portfolio risk and loss reserve allocation policy? Under recommendation 5, it says: "Create a position of chief risk officer to oversee the design implementation of an agencywide risk management."

And it says, "concur, working to implement." Is that accurate?

Mr. HOCHBERG. I added a chief risk officer, C.J. Hall. He joined the Bank in the fall of 2013.

Mr. GUINTA. So are there reports from him?

Mr. HOCHBERG. C.J. Hall, he chairs the Enterprise Risk Committee, and then—there are two people under him, two long-serving employees who are actually the two sort of deputies on that committee who meet on a regular basis, review the portfolio; review credit policy; when appropriate, make recommendations to me and the Board if it requires board approval; but work closely on providing an enterprise-wide review of all risk whatsoever. That was one—that was an earlier recommendation before the 2012 reauthorization that we implemented voluntarily.

Mr. GUINTA. So are there reports which C.J. Hall creates that Congress should be looking at or can look at?

Mr. HOCHBERG. One of these they approve is the default report, which comes to Congress every 90 days.

Mr. GUINTA. How about other reports?

Mr. HOCHBERG. There are other reports. Some of them they send to the audit committee of the Bank. Some come to me. Some will go to the inspector general. I prefer that the inspector general answer the rest of that question.

Mr. GUINTA. What about—there is another one from September 28, 2012, Export-Import Bank Short-Term Insurance Program. It is recommendation 6: "Development and implement a monitoring processor for periodically reviewing a sample of authorizations." It says, "concur, working to implement." Is that not completed?

Mr. HOCHBERG. I would be probably better served by having Mike McCarthy respond directly.

Mr. MCCARTHY. Which one are you referring to?

Mr. GUINTA. Recommendation 6, from September 28, 2012, under Export-Import Bank Short-Term Insurance Program. It is recommendations 6 and 7; both say, "concurring, working to implement." I guess my question is, if that is accurate, if you are working to implement, why would it take from September 2012 to today to not complete?

Mr. MCCARTHY. I think our view overall is that we have been working with the Bank to implement these recommendations. We have drawn a distinction, and I did in my testimony today, between current recommendations they have been issued in this fiscal year and older ones. The older ones we would like to see more progress on.

Mr. GUINTA. Okay, thank you.

Chairman HENSARLING. The time of the gentleman has expired.

There are no other Members in the queue, so we will excuse our first panel.

Mr. McCarthy, Chairman Hochberg, thank you very much for your testimony.

The Chair wishes to alert all Members that there are currently votes taking place on the Floor. Thus, we will not at this time convene the second panel, but we will excuse the first panel.

We expect to be on the Floor for quite some time. We anticipate convening the second panel in approximately an hour and a half. Until then, the committee stands in recess.

[recess]

Chairman HENSARLING. The committee will come to order. Before we recessed for Floor votes, we heard testimony from our first panel of witnesses. We have now impaneled our second panel, and we will introduce them.

Starting on my left, Mr. Daniel Ikenson is the director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.

I now wish to yield to the gentleman from Arkansas, Mr. Hill, to introduce our next witness.

Mr. HILL. Mr. Chairman, thank you so much.

It is a pleasure for me to introduce Rachael Cox, who is vice president of business development for Conway Machine, Inc., a small, successful, family-owned manufacturer located in Conway, Arkansas, which is in the Second Congressional District. Like many small businesses, Conway Machine faced tough economic times during our Great Recession. But they adapted and innovated, largely by increasing exports around the world. And in 2013, Conway Machine received the Governor's Award for Excellence in Global Trade for small businesses.

I appreciate Mrs. Cox taking time away from her family to be with us today. Her husband is deployed overseas, and we appreciate their family's service to our country. And I look forward to her testimony.

Thank you, Mr. Chairman.

Chairman HENSARLING. Thank you.

I now recognize the gentleman from New Hampshire, Mr. Guinta, to introduce our next witness.

Mr. GUINTA. Thank you, Mr. Chairman.

It is an honor today to introduce my fellow Granite Stater, Mike Boyle. Mike is the CEO and president of Boyle Energy Services and Technology, Inc., which is located in New Hampshire's largest City and my hometown, Manchester. After serving in the Navy, Mike utilized the skills gained in his training to start his very successful company, Boyle Energy, back in 1990. He has served our country and he served our great State, and I very much appreciate him being here. I look forward to hearing his testimony, and I believe he'll be a great witness.

Chairman HENSARLING. Our next witness, Mr. Clifford Smith, is the executive vice president of business development at Cliffs Natural Resources. He graduated from the South Dakota School of Mines and Technology with a degree in mining engineering, and previously held mine management positions with other concerns.

Mr. John Murphy is the senior vice president for international policy at the U.S. Chamber of Commerce. He graduated Phi Beta Kappa from the University of Colorado at Boulder, with a Master's degree from the School of Foreign Service at Georgetown. He previously served as the Chamber's vice president for western hemisphere affairs.

Richard Ben Hirst is the executive vice president and chief legal officer of Delta Air Lines. He graduated from Harvard College, Harvard Law School. He previously served in general counsel positions for Northwest Airlines, the Minnesota Twins, Burger King, KB Home, and Continental Airlines.

I know we have several witnesses who have never testified before Congress. It is not quite as difficult as it looks, but there is a little button system and a light system. When it is your turn, if you can please make certain that your microphone is on. Green means go, yellow means really go because you are about to run out of time, and red means stop. Hopefully, that will be abundantly clear to all.

And at this time, Mr. Ikenson, you are now recognized for 5 minutes to give a summary of your testimony.

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

Mr. IKENSON. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee. I am Dan Ikenson, director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute. Thank you for the invitation to share my views with you today, which are my own and should not be construed as representing any official positions of the Cato Institute.

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. Given the exalted status of exports in the public's mind, Ex-Im's self-portrayal as indispensable to U.S. export success insulates it from the level of scrutiny it deserves.

Trade is not a competition between us and them. It is not a national sport played between countries. The goal of trade policy is not to secure a national trade surplus. Why should U.S. taxpayers underwrite and U.S. policymakers promote the interests of exporters 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. Policymakers should stop conflating the interests of exporters with the national interest. Instead, they should aim to make the United States a more attractive place for companies, both domestic and foreign, to invest, hire, and engage in production and commerce.

For example, most of the value of U.S. imports in 2014 consisted of intermediate goods, capital equipment, and raw materials, which are the purchases of U.S. businesses. Yet many of those imports, products like sugar, steel, magnesium, and polyvinyl chloride 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.

Now, that is fairly easy to grasp. But just as U.S. steel tariffs raise costs for U.S. manufacturers of appliances and auto parts, subsidies to exports steel have the same adverse effect on steel-using industries: diverted supply leading to higher domestic input cost and lower input prices for competitors abroad. What is seen and celebrated is the tariff or export subsidy that benefits the steel industry. What goes unseen but is every bit as real are the costs imposed on the downstream industries.

Ex-Im 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. But those same transactions impose costs on two different sets of U.S. 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 the U.S. Government.

Nearly 55 percent of U.S. manufacturing output is purchased by other U.S. manufacturers as inputs to their own production. So subsidizing its diversion abroad amounts to a policy that does pick winners and losers. Ex-Im financing enables the lucky U.S. exporter to offer more favorable sales firms to the foreign customer to win the sale, and it reduces the cost of capital for that foreign customer. Those two parties are the beneficiaries.

But hurt by that same transaction are U.S. competitors of the U.S. exporter, in other words, U.S. firms in the same industry as the subsidized exporter and U.S. competitors of the foreign customer who are put at a relative cost disadvantage. If Ex-Im provides a $50 million loan to a foreign farm equipment manufacturer to purchase steel from U.S. Steel, the transaction may benefit U.S. Steel, but it hurts competitors like Nucor, Steel Dynamics, AK Steel, and the other steel firms in the United States that compete for the same customers at home and abroad.

These are what I call the intra-industry costs. The $50 million subsidy of U.S. Steel is a $50 million cost to the other steel firms. And while Ex-Im would call that a $50 million benefit to the U.S. economy, it is really a $50 million benefit to U.S. Steel, not the broader economy. What is given to U.S. Steel is taken from Nucor and other firms.

But there is more, the downstream industry cost of those imposed by the transaction on the U.S. companies that compete with the foreign customer. When that foreign farm machinery producer purchases steel on credit at subsidized interest rates, it obtains an advantage over its competitors, including its U.S. competitors. Some percentage of that $50 million loan to the foreign farm equipment producer is a cost borne by U.S. farm equipment producers such as John Deere, Caterpillar, New Holland, et cetera, who compete in the United States and abroad with foreign producers whose costs are lower courtesy of the U.S. taxpayer.

Ex-Im measures its success by the exports it underwrites. Last year, it supported $27.4 billion of U.S. exports, but the analysis doesn't simply end there. Those are, at best, the gross benefits. Costs need to be taken into account, considering only the downstream costs and not the intra-industry costs or the opportunity costs. A recent Cato Institute paper found that Ex-Im policies amount to an annual tax on the U.S. manufacturing sector of approximately $2.8 billion, and the victims include companies across the manufacturing spectrum and across the United States.

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 must be considered when rendering judgment about the efficacy of policy; in other words, costs and not just the shiny benefits, must be taken into account. And when they are, the case is clear, Congress should allow Ex-Im to expire at the end of the month and refrain from subsequent reauthorization.

Thank you.

[The prepared statement of Mr. Ikenson can be found on page 170 of the appendix.]

Chairman HENSARLING. Thank you.

Mrs. Cox, you are now recognized for 5 minutes for your testimony.

STATEMENT OF RACHAEL COX, VICE PRESIDENT, BUSINESS DEVELOPMENT, CONWAY MACHINE, INC.

Ms. COX. Thank you, Chairman Hensarling. My name is Rachael Cox. I am the vice president of business development for Conway Machine. We are a woman-owned, small business specializing in precision machining, Swiss style and standard CNC turning and milling, as well as the manufacturer of replacement parts for the printing and packaging industries.

I am an Air Force wife. My husband is presently deployed. I, therefore, rely heavily on my network of family and friends in the caretaking of my two young daughters. My parents purchased the business when I was about 8 years old, so I have a lifetime of experience in the industry. And in 2010, as the economy was crashing and it looked like it was going to take us down with it, my parents requested that I join the business, and like any good daughter, I obliged them.

When I came on board, we regrouped, refocused, and decided if the U.S. economy could not provide the sales that we needed, we would find the sales in new markets overseas. And it didn't take long to start seeing results. As we began our recovery, we were overwhelmed with work. And any small business owner can tell you that on any given day, you are wearing about five different hats, of which all you are the expert. So as we reintroduced Conway Machine to the international stage, we began to hire new employees as well.

Now, my first full year with the family business saw a total export of over $300,000 in 2011, and that was 13 percent of overall sales. And at that time, the shop was running a day shift with about 15 employees. The next year in 2012, it grew slightly, $441,000 in exports, about 16 percent of overall sales.

But in 2013, after we did a trade show in Germany, we saw a nearly 50 percent increase to $809,000 in exports, about 25 percent of our overall sales. That same year, as Congressman Hill mentioned, we did receive the Governor's Award for Excellence in Exporting. We maintained these new customers the following year with $875,000 in exports, in 2014, again 25 percent of overall sales. And it looks like this year we are going to maintain that growth.

We have doubled our workforce, and we now employ an average of 30 full-time workers. We run a day and a night shift and are in the process of adding a weekend shift as well. Last year, Conway Machine made a large investment of $1 million in new equipment, and by the end of this summer, we will be moved into our new expansion of over 5,000 square feet of production facility. All of these have served to increase our capacity, technological expertise, and overall quality of product and price.

Our 50 percent increase in exports was accomplished without the assistance of the Ex-Im Bank. That is not to say Conway Machine is adverse to government resources for small businesses. We have good relationships with the folks at the Arkansas World Trade Center, and I am currently taking classes with the Small Business Administration.

However, Conaway Machine is not dependent on the government for its success. When I researched the Ex-Im Bank, and especially the sign-up process, it became clear that it was designed more for large businesses. The amount of information required was pretty overwhelming at best and invasive at worst. And after some consideration, I did decide against it.

As an Air Force wife, I consider myself a bit of a patriot. It is important to remember that our servicemen sign up because they wish to protect and defend the Constitution. They understand and cherish the fact—and I will quote from the Declaration of Independence—" that All men are created equal, endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.—That to secure these rights, Governments are instituted among Men..."

As you consider the renewal of the Ex-Im Bank, I would ask you to consider our founding documents and the principles from which they were derived. What is the purpose of government? And in fulfilling that purpose, what is the role of government? It seems that if government aims to aid small businesses and their exports and thereby grow the domestic economy, it would be much more beneficial to create more free trade agreements with other countries and decrease the red tape barriers to trade.

While the Ex-Im Bank may work for some companies in other industries, it has not been a resource for Conaway Machine. As previously stated, we have grown our exports by 50 percent and doubled our workforce without the use of the Ex-Im Bank. Given the complaints that we have seen today, it may be time to consider whether a good intention by the government has gone awry yet again.

Thank you, Mr. Chairman.

[The prepared statement of Mrs. Cox can be found on page 118 of the appendix.]

Chairman HENSARLING. Thank you.

Mr. Boyle, you are now recognized for 5 minutes for your testimony.

STATEMENT OF MICHAEL P. BOYLE, PRESIDENT AND CEO, BOYLE ENERGY SERVICES & TECHNOLOGY, INC.

Mr. BOYLE. Thank you, Chairman Hensarling and Ranking Member Waters.

I am Mike Boyle of Boyle Energy Services & Technology. I have a unique business. I don't manufacture a product or machine parts. I am a service provider, a unique person in the Ex-Im world. My company helps transition the world's largest energy facilities from construction to operation, a very unique niche of services that we started 25 years ago, I guess, now, in 1990.

I went on, 10 years of that time, as a sort of "me too" organization working mostly domestically here in the United States. And then, we invented a new technology that we patented here in the United States and decided that our best markets for penetration during the downturn would be overseas, and we were right. Our opportunities were great because the technology that we provided as an American engineering corporation were greater than were available overseas.

During that time, I was very concerned as a small business that the cash flow for the company be supported, more so for my vendors and employees than for the benefit of the company as a whole. But, in fact, that was our greatest fear, our ability to collect the receivables that we were able to produce overseas.

Having done so, we had a couple of successes, but the projects grew in large scale. Much, much bigger than a simple terms of payment would be available to some of these companies. We were competing with companies such as Abener Abengoa that had terms of 180 days of payment, which was unconscionable for a small business. It is impossible for us to work with that environment.

So what we did is we secured a working capital line of credit through our bank after we had applied to Bank of America and were rejected, because our receivables were not able to be secured overseas, so they were discounted to zero, and therefore not creditworthy. It wasn't whether or not the process that we were doing was risky; we had been performing more than 200 of these projects in the United States at that time.

Having secured that, we went on to become one of the leading technologists in the industry. We are considered the foremost technological leader in the world at what we do. We patented our program here in the United States. We are seeing 4 times growth in revenue since that time, and 6 times the amount of employees are now at Boyle Energy Services.

We actually have just made an offer and it was accepted to buy a 70,000-square foot building, which would now bring us up to nearly 100,000 square feet in New Hampshire. We are the only company, outside of Houston in the Texas marketplace, that has ever done this globally in the commissioning energy industry from New Hampshire. And this is all from a service I learned while I was in the Navy. I bill myself as the world's most successful U.S. Navy-enlisted boiler technician. So until somebody challenges me on it, I am going to hang that hat on my award wall.

We have had great success with the Ex-Im Bank. We are the success story. We have used it appropriately, and as such, we have repatriated 100 percent of our profits. We pay a nominal tax rate of 26 percent on those profits, all returned to the Treasury. We were advised recently on the structure of our corporation, because we have gone global. We have offices in Brazil, Mexico City, and Bahrain. We have a laydown yard in Saudi Arabia.

I have been working in 22 countries, and I think we are in 11 countries tonight, all with American employees. We have equipment purchased from the United States and shipped overseas, $75 million since we started exporting. All of that is at work in support of our working capital line of credit through the Ex-Im Bank. When I have asked my banks if I could get additional credit without Ex-Im, they answered, "no." Plain and simple.

I don't know of any other instruments or facilities that can support. We have sought that out across the United States and have been unsuccessful. We want to go forth, we want to continue with our growth. I am hiring at a rate that—I am putting seats in my office faster than I can hire people right now. We have enjoyed success, and we have projects going forward, and we continue to believe that we will be successful with the Export-Import Bank supporting us.

I am in favor of the Export-Import Bank, and I would ask that the House of Representatives call for its reauthorization. Thank you.

[The prepared statement of Mr. Boyle can be found on page 114 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Boyle.

Mr. Smith, you are now recognized for 5 minutes for your testimony.

STATEMENT OF CLIFFORD SMITH, EXECUTIVE VICE PRESIDENT, BUSINESS DEVELOPMENT, CLIFFS NATURAL RESOURCES INC.

Mr. SMITH. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee for allowing me to testify today. My name is Clifford Smith, and I am the executive vice president of business development for Cliffs Natural Resources. We have five major mines in the States of Minnesota and Michigan, and we are the largest producer of iron ore pellets for the steelmaking industry in the United States.

I am here to speak about the Ex-Im Bank and its $694 million direct loan to the Roy Hill project in Western Australia that we believe exposes serious flaws in the Bank's governance and has contributed to the decimation of the global iron ore trade.

In May of 2013, following the release of the economic impact notice for the Roy Hill project, Cliffs conducted an independent economic study on the proposed transaction which found that the transaction would cause a loss of almost $600 million worth of U.S. exports and the loss of $1.2 billion of U.S. domestic sales due to price degradation of our products supplying iron ore.

The total impact to Cliffs over the term of the loan was estimated to exceed $1.8 billion. These pricing estimates were based on an assumption that global oversupply would lead seaborne prices to degrade from an average of $135 a ton in 2013 to $96 a ton in 2018. And, in fact, the global oversupply of iron ore has become much worse than our own economic analysis predicted.

Today, the global seaborne iron ore price is in the low $60-a-ton range, and has dipped as low as $45 in the month of April of this year. The oversupply situation has been caused by new projects and the conscious decision of major iron ore producers like Rio Tinto and BHP Billiton to add unneeded iron ore capacity, even as the Chinese economy continues to slow down and demands less iron ore.

Over the past 9 months, we have been reshaping Cliffs to be a peer U.S.-centric company and to remove us from the iron ore trade with China. While we still have an international iron ore mining operation in Australia that participates in the seaborne iron ore trade, we have initiated court-supervised proceedings for our Canadian operations to complete our exit from Canada in an orderly fashion.

This was a difficult but necessary step after considering and exploring other alternatives for these assets. In addition, let me point out that there is a direct correlation between low seaborne iron ore pricing and U.S. steel imports. Low-cost iron ore is facilitating Chinese steel producers to flood the United States with cheap steel. The U.S. steel market is experiencing all-time record levels of imports. A staggering 34 percent of finished goods hit the United States in the first quarter of this year.

To put this in perspective, when the Roy Hill transaction was approved, the U.S. iron ore industry was producing at or near capacity and at full employment. Today, there are over 1,200 workers in the domestic iron ore business who are currently on layoff or have been notified of an impending layoff, including 350 employees at Cliffs Empire Mine in the State of Michigan.

The Roy Hill project proposes to add even more iron ore to the market, and then the U.S. industry and aggregate will compound this oversupply situation when the project begins later this year in 2015. The Ex-Im Bank's charter precludes the extension of financing for a material that will be in a state of global oversupply, and prohibits the Bank from funding the project that will harm one set of U.S. producers, iron ore miners, over others, equipment manufacturers.

How then could the Bank justify the Roy Hill loan? The Bank's own economic analysis found an adverse economic impact to the U.S. producers of only $25 million, compared to our study of $1.8 billion in harm. To reach that outcome, there were widely unsupported claims that the 55 million metric tons of production for the Roy Hill project would not affect the global supply demand dynamics.

In short, the Ex-Im Bank second-guessed Cliffs' economic impact and largely refused to acknowledge our outlook on our own industry. Going forward, we look forward to working with the committee to share our thoughts on the necessary amendments to the Bank's charter to ensure that the Bank can never again fund a fatally-flawed project such as Roy Hill.

Thank you.

[The prepared statement of Mr. Smith can be found on page 196 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Smith.

Mr. Murphy, you are now recognized for 5 minutes for your testimony.

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

Mr. MURPHY. Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you very much for the opportunity to be here today. I am pleased to testify on the importance of reauthorizing the Ex-Im Bank. I represent the U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than 3 million businesses of every size, sector, and State.

At this point in the hearing, you have heard most of the fundamentals. From the perspective of our business members of all sizes, 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 baffled.

This morning, the Chamber and the National Association of Manufacturers sent a letter to Congress signed by more than 1,000 companies of every size, sector, and State, calling for the Bank to be reauthorized swiftly. Consider how refusing to reauthorize the Bank would put specific sectors and industries at a competitive disadvantage in global markets.

First, shutting down Ex-Im would mean many small businesses couldn't even export because commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex-Im guarantee. For these small firms, Ex-Im is often indispensable. In fact, buyers overseas nowadays expect vendors to offer financing in many cases. Without Ex-Im's accounts receivable 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, Ex-Im isn't just nice to have; it is indispensable. Nor is there any assurance that eliminating Ex-Im would cause commercial banks to step into the breach. In addition to these direct small business beneficiaries, tens of thousands of smaller businesses that don't even always recognize it are also benefiting as they supply goods and services to large exporters that benefit from Ex-Im support.

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 past years, we have seen major tenders for locomotives and a number of emerging markets hang in the balance.

These tenders, worth hundreds of millions of dollars, require 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 Ex-Im, no sale.

Third, with regard to foreign infrastructure opportunities, closing Ex-Im would shut American exporters out of these huge and growing business opportunities overseas, because export credit agencies support is often required for a company to even bid on overseas infrastructure projects.

Fourth, nuclear power is another sector where the fate of Ex-Im will have a major impact. According to the Nuclear Energy Institute, 5 nuclear power plants are under construction in the United States, but 61 are under construction overseas. So for the U.S. nuclear industry, which directly employees more than 100,000 American workers 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 vendors. Without Ex-Im, U.S. nuclear power companies won't even be able to bid for business overseas. Make no mistake, executives in a number of these industries will face the hard question of whether to shift production to locations abroad where export credit agency support is available.

Ex-Im'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 hand, it is such a small agency that its abolition would do no harm to U.S. companies or their workers. It can't be both. In fact, Ex-Im is modestly and appropriately scaled, acting mostly in the circumstances I have described where it is necessary to U.S. competitiveness.

In closing, 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 export credit agencies. It doesn't pick winners and losers, but refusing to reauthorize Ex-Im is picking foreign companies as winners and U.S. exporters as losers in many head-to-head competitions.

Ex-Im's opponents have attempted to tie it to unsavory customers overseas. We believe this is just a diversion from the true beneficiaries of Ex-Im, the tens of thousands of American workers who hope and expect to see Congress vote on a reauthorization bill here in the short term. Thank you.

[The prepared statement of Mr. Murphy can be found on page 189 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Murphy.

And Mr. Hirst, you get to bat cleanup. You are now recognized for 5 minutes for your testimony.

STATEMENT OF RICHARD B. HIRST, EXECUTIVE VICE PRESIDENT AND CHIEF LEGAL OFFICER, DELTA AIR LINES

Mr. HIRST. Thank you very much, Mr. Chairman, and members of the committee. On behalf of the more than 80,000 employees of Delta Air Lines, I very much appreciate the opportunity to testify on the need for substantial reform of the Export-Import Bank of the United States. My testimony today is an update for you of what has happened since Delta last appeared before this committee one year ago. And we believe the events of the past year continue to highlight the need for reform of the Bank.

I would like to make three main points in my testimony today: first, despite the reforms of the 2012 reauthorization bill, the Bank continues with business as usual, financing more than $6.8 billion in aircraft transactions in 2014, without any real analysis as to whether Ex-Im's actions cause harm to airlines or their employees; second, the courts have recently ruled that there is no judicial review of the Bank's actions because of gaps and ambiguities in the Bank's statutory charter; and third, if there is to be any meaningful progress to ensure that all U.S. employees are treated fairly, Congress must take a leadership role to ensure that the Bank only acts as a lender of last resort.

Since its inception in 1934, the Export-Import Bank has been charged with promoting U.S. jobs, while ensuring that its efforts do not harm other U.S. businesses. When it comes to the airline industry, however, the Bank's loan guarantees to foreign competitors provide a significant unfair advantage in the form of low-cost financing, which hurts Delta's competitive position.

Moreover, the biggest users of Ex-Im financing are some of the most profitable foreign airlines in the world, which regularly access the private markets for capital, and do not need export financing from Ex-Im. Almost half of the Bank's financial capacity is used to finance these airlines, which means that a substantial portion of the Bank's financial capacity is used to harm Delta.

In 2012, we worked with many of you to include two reform provisions in Ex-Im's reauthorization. The first reform provision requested that Ex-Im make publicly available the procedures and methodology for its economic impact analysis. As we have learned in the past year from the Bank's own emails and documents obtained through a Freedom of Information Act (FOIA) request, this effort was never undertaken by the Bank in good faith; rather, it was engineered to produce a specific result that would not upset the status quo.

The second reform provision requested that Treasury undertake negotiations to reduce, and eventually eliminate, export credits, a directive included in the Bank's charter. We thought that this reform held the greatest promise to ensure that a level playing field exists for everyone. Regrettably, there has been no good faith effort to negotiate.

Recently, as I said, the courts have ruled against Delta and others in lawsuits challenging Ex-Im's lack of economic impact analysis in specific transactions. What the committee may not appreciate is the magnitude of the court's ruling: first, because of gaps and ambiguities in the Bank's enabling statute, the court ruled that Ex-Im has near total discretion about how and whether to consider economic impact, effectively eliminating any ability for an injured party to obtain judicial review; second, the court took the view that Congress and only Congress can impose any meaningful restrictions on Ex-Im's discretion, and to date, Congress has not done so.

It is now clear that Congress must act if any real reform is to occur. We continue to believe that the best solution is a mutually-negotiated reduction in international exports subsidies, a negotiation that really needs to take place only with the three countries that provide export credit subsidies for Airbus's wide-body aircraft: France; the U.K.; and Germany.

For there to be any urgency behind these negotiations, we continue to believe that Congress must take the lead and require Ex-Im to adhere to its statutory mandate as a lender of last resort. If private market financing is available to a foreign airline, Ex-Im should not be permitted to undercut the private sector.

Throughout this debate, Delta's sole aim has been to advocate on behalf of our 80,000 employees, at least one of whom resides in the State of every member of this committee. Their request is a simple one, that their government consider their jobs to be as important as the jobs of every other American.

Chairman Hensarling, Ranking Member Waters, thank you again for the invitation to appear before the committee. I look forward to answering any questions that you may have.

[The prepared statement of Mr. Hirst can be found on page 121 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Hirst.

I want to thank all of the panelists. Without objection, your full written statements will be made a part of the record. The Chair now recognizes himself for 5 minutes for questioning.

Mr. Murphy, in your testimony, you are a very articulate, effective advocate for Ex-Im. Indeed, this is some old ground that is getting plowed here. But having said that, you used a phrase that Chairman Hochberg used in his testimony, and that was, "Ex-Im does not pick winners and losers." Now that you have heard the testimony of Cliffs Natural Resources, now that you have heard the testimony of Delta Air Lines, do you still stand by that line?

Mr. MURPHY. I do.

Chairman HENSARLING. Okay.

Mr. MURPHY. In many cases around the world, we have seen instances where it is very clear that a purchase is going to be made. And the question is whether or not the U.S. company that is making an export can get the business or not, and often, it is the presence or the absence of export credit finance that will determine that.

Chairman HENSARLING. Let me ask this question, then. So in the vaunted 2012 reforms, I believe it was Section 12 that had to do with the economic impact statement. And Mr. Hirst, I think, alluded to it in his testimony. Do you believe that Ex-Im has executed that reform effectively in the 2012 reauthorization bill, that they effectively take the detrimental impact on other U.S. companies into account before engaging in the process of credit allocation?

Mr. MURPHY. I do.

Chairman HENSARLING. Okay.

Mr. MURPHY. And I would cite the court case that was mentioned earlier as a source of that. The court—

Chairman HENSARLING. Mr. Murphy, I will take "yes" for an answer. So that is your answer. Maybe I will get a "yes" answer to this, as well.

I think it was a Mr. Brilliant—what a wonderful name—Myron Brilliant, executive VP head of International Affairs at the U.S. Chamber who said that, "TPA is the Chamber's top priority before Congress."

Tom Donahue, President and CEO, U.S. Chamber, March 9, 2015, "Renewal of TPA is priority number one."

Is renewal of TPA the number one priority of the Chamber?

Mr. MURPHY. As a very broad business organization, it is difficult to prioritize, but we have spared no effort on TPA.

Chairman HENSARLING. Apparently, Mr. Donahue and Mr. Brilliant—

Mr. MURPHY. And I am not going to differ from my bosses on that, Mr. Chairman.

Chairman HENSARLING. You are a wise man, Mr. Murphy. You are a wise man.

I respect the right of all Americans to petition their government for the redress of grievances. Last I looked, the Chamber had a pretty healthy lobby budget. But just out of curiosity, are you expending greater resources on lobbying for the reauthorization of Ex-Im or are you spending more on the renewal of TPA?

Mr. MURPHY. Mr. Chairman, we believe it is a false choice. What TPA can do—

Chairman HENSARLING. It may be a false choice, but can you answer the question?

Mr. MURPHY. We have a nationwide effort going on to back TPA.

Chairman HENSARLING. I am just asking which are you spending more on. And if you don't know the answer, I will accept, "I don't know the answer." But if you do know the answer, I would appreciate the answer.

Mr. MURPHY. I believe we have more resources dedicated to TPA right now.

Chairman HENSARLING. Okay. Thank you.

Mr. MURPHY. But it does no good to open a foreign market if, in fact, we don't have the tools that will allow American exporters to be competitive—

Chairman HENSARLING. The last I looked, particularly at my friends on this side of the aisle, you might want to look at investing a few more resources in that particular effort.

You referenced also, I guess, a letter with the National Association of Manufacturers (NAM). According to NAM, over 50 percent of our competitive disadvantage with our trading competitors is as a result of our tax structure, and specifically the corporate tax advantage. Does the Chamber agree with NAM's analysis?

Mr. MURPHY. I am not familiar with the details of it, but certainly, the world beating high corporate tax rate is a major factor—

Chairman HENSARLING. Okay. So they seem to cite the number one problem being our tax structure, and not necessarily the presence or absence of an export credit agency. I just wanted to note that for the record.

Mrs. Cox, I want to thank you for coming here today, and thank you for your family's service to our country. I take note that as a small business person, you don't use Ex-Im. Apparently, you don't begrudge those who do. But I have heard from other small businesses, one in Pullman, Washington, who said, "If the Ex-Im Bank were to disappear, I believe buyers and sellers would find attractive commercial options unencumbered by politics and special interests."

I heard another one from Cook, Illinois, in the airline logistics business say, "Over the long run, Ex-Im subsidies from foreign carriers creates a tilted playing field that makes fewer U.S. airline jobs and translates into economic pain for our employees." Is that a fair assessment of your small business and other small businesses of which you are familiar?

Ms. COX. I really can't speak for other small businesses. I will say that the industry for which we are exporting is rather niche, and so it is a small network and we are able to know that those companies that we are working with we are able to—we get credit references from them just like we do any other kind of domestic customer and try to establish a good business relationship with them before extending terms of credit.

So I can only speak for my small business and the industry that we are serving. I hope that is helpful.

Chairman HENSARLING. Thank you. I am way over my time. The Chair now recognizes the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman and members.

We have been in a discussion and somewhat of a debate for a long time about the reauthorization of Export-Import, and we have said about everything that could be said about it. My colleagues on the opposite side of the aisle have mentioned over and over again that back in 2002, I voted against the Bank. And they did not mention that in 2006, I think it passed on a voice vote and nobody objected on either side of the aisle. So there is a mixed history about Ex-Im on this committee.

But I think it is important for me to say that we have gone through some very difficult times; 2008 was not a good year. And we ended up having to bail out some of the biggest banks in this country because of a failed oversight by regulators, et cetera. We witnessed a decline in employment, and there was a lot of unemployment, and people suffered quite a bit.

I am joining with the Chamber of Commerce in ways that I have never done before, because I am focused on jobs and job creation. There is a lot of talk now—you are going to hear it even on both sides of the aisle—about income inequality and discussion about wealth building, et cetera, et cetera.

I make no apology for the fact that SpaceX is in my district. I make no apology for the fact that I have a great number of suppliers to Boeing in my district. They create jobs, and I am very proud and I am very pleased about that. And I think that Ex-Im is doing what was designed for them to do. That is their mission, to create jobs.

I have been involved in working on Ex-Im for reform. I have been involved in supporting small businesses to make sure that we have as many small businesses as possible supported by Ex-Im. I have also worked on other reforms in Ex-Im. And for those on the opposite side of the aisle, we have been interested in reform, we join them in looking at ways by which it could be stronger and better.

What is very interesting about this discussion is that we have members on the opposite side of the aisle who point to that one indictment and they try to paint Ex-Im with a broad brush of corruption and mismanagement. What you don't hear is anybody on the opposite side of the aisle painting the big banks in America with the same kind of brush no matter how many crimes they commit, no matter how much fraud they are responsible for.

We are watching as we look recently at the manipulation of LIBOR, which determines the interest rates. We have watched as the attorneys general in this country had to penalize some of the big banks for the servicing mismanagement that they were involved in, on and on and on.

So I think it is important for me to say this, as quickly as I can with the minute that is left: I support Ex-Im. I support the job creation. I support the fact that they have put money into our Treasury. I support the fact that we are more competitive with Ex-Im, and the fact that we consider ourselves the number one country in the world, and we are having our clocks cleaned by China and some of the other nations, and I don't think we want to do that.

We have always had a deficit for too long in export, and we should be proud of the fact that we have an agency that is dedicated to the proposition that we can do better. So there are problems; if there are, they should be worked out. But to talk about killing this Bank, not reauthorizing this Bank, is radical. That is a radical decision. And it does not make good sense for our country, which prides itself on innovation and creation and business expansion and job development. So I am hopeful that for all of those who may be unhappy, find a way to work with Mr. Hochberg and the Bank to work out these problems.

I am thankful that you are here, Mr. Boyle, because you are the poster child for what this Bank is all about. And so I would just implore not only those who are here criticizing the Bank, to say it is all right to have criticism, but to talk about the killing the Bank is a radical response to whatever your concerns are.

And for my friends on the opposite side of the aisle who have painted this as chronic—what do you call it?—corporate welfare, et cetera, I think that is an extreme way to deal with this.

And for you, Mr. Duffy, I must point out to you that you kind of crossed the line when you implied that there was some kind of connection between campaign contributions and support for Ex-Im. I went and took a look at your record and everybody else's record, and if you want to get into that debate, I am ready for that one, okay.

I yield back the balance of my time.

Chairman HENSARLING. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, the chairman of our Monetary Policy and Trade Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman. I'm glad to see this has continued to be a high-brow debate here.

Unfortunately, especially for Mrs. Cox and Mr. Boyle and Mr. Smith, I think you are seeing some of the reasons why people in America believe that their government is dysfunctional. That is a sad commentary.

And especially for the three of you, I want to thank you for taking your time out of your family businesses. I know from Michigan, Mr. Smith from Cliffs, I am very familiar that when I served in the State legislature, I was able to go up and see a number of your facilities in the upper peninsula. And as well as, Mr. Hirst, from the private sector.

I do have a quick question for Mr. Murphy. Mr. Murphy, what would have more impact on the U.S. economy in our standing internationally, tax reform or Ex-Im?

Mr. MURPHY. Again, tax reform is a big issue that it is difficult to assess—

Mr. HUIZENGA. Okay. How about regulatory reform versus Export-Import Bank?

Mr. MURPHY. When I work for such a broad business organization with many issues before the Congress, you see clear the linkages and the importance of moving forward on a variety of fronts, including reauthorization of Ex-Im Bank.

Mr. HUIZENGA. Okay. I take that as a regulatory reform.

How about TPA and TPP and TTIP?

Mr. MURPHY. Opening up foreign markets for American exports is vital. Making sure that American exporters have the tools to be able to serve those foreign markets is also important.

Mr. HUIZENGA. Okay. So are you comfortable with direct loans to companies such as NewSat? Foreign companies. Direct loans. We are not talking loan guarantees. We are talking direct loans.

Mr. MURPHY. In the course of today's hearing, there has been a lot of discussion about different overseas customers for American exporters. At a time when we need economic growth and job creation here at home, we see the primary beneficiaries of Ex-Im as the workers in American companies who are able to sell their goods—

Mr. HUIZENGA. Are you comfortable putting those same workers' hard-earned taxpayer dollars at risk in a foreign company with a direct loan, yes or no?

Mr. MURPHY. In the case of Ex-Im where the many controls are in place and where the active default rate is below a quarter of 1 percent, we are comfortable with the system that does that, and also welcome reforms that have been proposed in a number of bills now before the Congress.

Mr. HUIZENGA. Okay. Which would not get rid of direct loans, by the way, I might add. All right.

So Mr. Smith, could you just, again, maybe give us a quick picture on what you think is going to be happening and how this deal that put you at an economic disadvantage has really, I think, two things have happened: one, you have obviously seen the world market change; but two, you have seen your competitive playing field change, correct?

Mr. SMITH. That is correct. The one-off equipment sales really contributed to a decade of additional global supply. Picking winners and losers and selling equipment, now this installed capacity that will come online later this year. We have struggled to secure further overseas sales in exports, and we actually ceased exporting pellets from Michigan and Minnesota in the third quarter of last year as global oversupply continued to build.

We have lost our ability to export any iron ore pellets to any steel makers in Europe or anywhere else. So we have lost that export capacity, and now we are seeing the compounding effect as cheaply made steel from South Korea and China enters the country and puts pressure on our customer base. Because iron is only used for one thing: making steel. There is nothing else that we can do, no substitute that we can seek out for our markets.

Mr. HUIZENGA. Okay. Mr. Hirst, really quickly, I know that there may be some other options for purchases and leases out there that are in the private sector or in the nongovernmental sector, is that the case as people would be looking for aircraft for their particular airline? Are there lease programs?

Mr. HIRST. There are many options, and there are leasing companies that currently make aircraft available to virtually any buyer.

Mr. HUIZENGA. Virtually any buyer, even someone who might have some dubious credit?

Mr. HIRST. Even some that may have difficulty obtaining credit to purchase aircraft outright.

Mr. HUIZENGA. But it would be easier to use the loan guarantee?

Mr. HIRST. It is much easier to use loan guarantees when the effect is that you are—

Mr. HUIZENGA. Mr. Chairman, I am just reminded of a few other conversations being had in this committee and others, and it goes like this: The Feds currently do X. And X either, "has always been done" or we have seen, as we have seen with FHA and some other agencies, new responsibilities have been expanded massively. And now that argument is that there is no proof that the nongovernmental sector can handle it, and suddenly we are stuck. And it is time that we actually move beyond stuck. This is beyond broken. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Chairman, I love my country. I love what it stands for. I love the great and noble ideals expressed in the Gettysburg Address, "Government of the people, by the people, for the people." I love the words in the pledge of allegiance: "liberty and justice for all."

But as much as I love these, there is something that I love, I believe, even more, and it is the respect that we have for the vote. In this country, every 2 years, Representatives are elected; every 4 years, a President is elected; every 6 years, Senators are elected. We in this country allow power to change hands from one President to another the passage of the keys to the nuclear arsenal, every 4 years because of a vote that we respect.

So Mr. Ikenson, my dear friend, you and I have a lot in common. As you can see, we both have beards. But my suspicion is we have something else in common. I believe you have respect for the vote. And I just believe that you, while you may not agree with the results as I might not agree with the results. There are many elections that I don't agree with, but I respect the results even when I differ.

Would you respect the will expressed by the Congress of the United States of America, the will of the American people expressed by and through their elected representatives? Would you respect a vote, Mr. Ikenson? A simple yes or no would suffice. The chairman and I have that in common. We have a proclivity to ask for yes-or-no answers, kind sir.

Mr. IKENSON. Yes.

Mr. GREEN. You would. Thank you, sir.

By the way, others, please take note of the paradigm that has been established here. Excellent job. In court, we would probably call this voir dire. It is a French term and it means—or voir dire, depending on where you are from, it means to speak the truth. So this is sort of the truth-telling portion of this hearing.

Let me just go down the line and I will ask Mrs. Cox, and I will go to each of you. Would you respect the will of the people expressed by and through their duly-elected Representatives, ma'am?

Ms. COX. That is a trick question there.

Mr. GREEN. Not really.

Ms. COX. I am just considering the percentage of people who actually vote anymore. It has kind of gotten to where, is it really representative of the citizenry? I don't know that you can really say that anymore.

Mr. GREEN. I can say this: I bemoan the fact that they don't vote, but I respect the vote.

Ms. COX. I do, too.

Mr. GREEN. I respect the vote. When we cease to respect the vote—

Ms. COX. Right.

Mr. GREEN. —we are going to lose a lot of what we call respect for law and order in the country. So Mrs. Cox, I will pass on you, I see you are not prepared. I'm sorry.

Ms. COX. It is not a lack of preparation. I would love to debate political theory with you.

Mr. GREEN. I will just pass on you and go to Mr. Boyle.

Would you respect a vote, sir?

Mr. BOYLE. Yes, sir.

Mr. GREEN. All right. Mr. Smith, do you respect a vote?

Mr. SMITH. Yes.

Mr. GREEN. Mr. Murphy, do you respect a vote?

Mr. MURPHY. Yes, sir.

Mr. GREEN. Sir?

Mr. HIRST. Of course.

Mr. GREEN. All right. And the truth be told, that is what we are looking for, a vote. And while Mr. Murphy and I agree on many things, I am sure there are things that we differ on, Mr. Murphy. But you and I respect the vote. This is all about whether or not we will have an opportunity to go to the well of the Congress, have a robust debate, and then take a vote.

TTP, there would be a vote if it is brought before the Congress.

Ms. Waters, if I may say so, my ranking member whom I admire greatly, a vote resolved all of the issues. I respect the vote. She respects the vote. We need to vote and then let the votes fall wherever they may. And whether one side wins or loses, I promise you, I will respect the vote even when I differ with the results.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentlemen has expired.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, the chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman.

Listen, it has been a fascinating, not just day of testimony, but also a fascinating couple of months of hearing the debate go on of Ex-Im Bank, and it is pretty obvious that we have pretty high passions on both sides. I think a lot of folks can argue, as we have heard, that Ex-Im Bank helps create and save American jobs; I think a lot of other people say, well, it also costs American jobs. I think that has been the root divide of folks in this debate.

Mr. Hirst, does Delta analyze the consequence of Ex-Im Bank to cost American jobs in Delta Air Lines?

Mr. HIRST. It is very hard to have a precise analysis of the total effect of what Ex-Im does, but Ex-Im's support of Boeing means that it supports our competitors. And we include in our testimony an analysis of the financing that Emirates Airlines did a couple of years ago which showed that Ex-Im's support for Emirates provides them with a subsidy of about $20 million in aircraft, and that kind of subsidy, that level of impact has an impact on Delta's ability to compete with Emirates. And in the case of Emirates, we are dealing with an airline that is already subsidized by its own government. It is an instrument of state policy. It is owned by the government. And so the impact is significant and severe, given the magnitude of the Bank's financing activities in the aircraft sector.

Mr. DUFFY. Mr. Murphy, I appreciate the position of the Chamber. I have had my local Chambers, my State Chambers, my neighboring Chambers, the national Chamber, all of your members, a lot of them have come through to chat with me over the 5½ years I have been in Congress, and they usually talk to me about taxes; say, listen, we can't compete internationally, because we have the highest tax rate in the industrialized world. We in Congress here vote inversions where American companies are buying foreign counterparts and moving their headquarters overseas because we pay too much in American taxes. They talk about rules and regulations.

I have to tell you, over the 4½ years that I have been here, one of the main things I hear from the Chamber or your members is not, oh, my gosh, the world is going to fall apart if we don't have Ex-Im Bank.

I am troubled with your testimony when you say Ex-Im doesn't pick winners and losers. Mr. Hirst, right next to you with Delta, would say, listen, yes, it helps Boeing and saves Boeing jobs, but how do you say that Delta sees a subsidy to a—its competitors and doesn't hurt Delta and the American employees with Delta, and the bank therefore isn't picking winners and losers?

Mr. MURPHY. There are, at present, two vendors of wide-body aircraft in the world today, and soon there will be more out of China. Every time a foreign airline goes to buy aircraft, export credit agency support is there from Airbus. In those situations, if a foreign airline wants to purchase planes, the absence of Ex-Im support can be determinative.

Mr. DUFFY. So what you are telling this committee is, we value the Boeing jobs more than the Delta jobs, because Delta is telling you that they are losing jobs because of Ex-Im, and you are telling me, I know that, but—

Mr. MURPHY. I am telling you that if the foreign airline buys an Airbus plane, it doesn't—

Chairman HENSARLING. The time belongs to the gentleman from Wisconsin.

Mr. DUFFY. You are telling me that you care about the Boeing jobs, and so do I. I am sensitive to the Boeing jobs as well. I want Boeing to thrive and sell all over the world, but we can't turn a blind ear to what Delta experiences as a competitive loss. Even Mr. Boyle is saying—listen, I have been to the mines in northern Minnesota. They can't compete, and we are going to say that, listen, I am going to come in and have—with an honest face, which you usually have, and say there are not winners and losers being picked with Ex-Im Bank. That is—listen, I am all about the debate, but to tell me that Ex-Im, through its subsidies, through its financing, isn't picking winners and losers, I have a hard time buying that.

And with Mr. Hochberg, I pointed out, even on the environmental front, you have to point out—you have to recognize that loans in the carbon space aren't being made. And so we will say the green jobs in America, we love those jobs, but if it is a carbon job, not so much. Again, you would agree in green versus carbon, Ex-Im does pick winners and losers? Yes?

Mr. MURPHY. It is plain that in the aircraft space—

Mr. DUFFY. Yes or no?

Mr. MURPHY. —since 2011—

Mr. DUFFY. I am asking about green. I am not talking about that. Green versus carbon, winners or losers?

Mr. MURPHY. You know—

Mr. DUFFY. Mr. Murphy, come on. It's easy.

Mr. MURPHY. We support a nondiscriminatory approach to what Ex-Im supports—

Mr. DUFFY. I will take, Mr. Murphy—

Mr. MURPHY. —and doesn't.

Mr. DUFFY. I will take your nonanswer as a "yes" to that question.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, ranking member of our Monetary Policy and Trade Subcommittee.

Ms. MOORE. Thank you so much, Mr. Chairman, and Ranking Member Waters. And I thank the panel for your patience and the time you are spending here with us this afternoon.

I am particularly impressed with you, Mrs. Cox. Being a woman-owned business and being in the heavy equipment area, I think you are a fantastic role model for women, and I applaud you and thank you for being here this afternoon.

I want to ask a little bit about Conway Machine and what you do. First of all, I am happy to see that you are a participant in the SBA Step Program, which, by the way, is a government-funded program, but in addition to that, I was wondering if you were—if you supplied parts and services to Galley Support Innovations?

Ms. COX. Hi, Ms. Moore. Thank you for your kind words.

We do supply parts to Galley Support Innovations.

Ms. MOORE. And Galley Support Innovations is a supplier to Boeing and Gulfstream and other aircraft manufacturers. So you are part of this supply chain that we have been talking about, and so even though you may not—and I can understand it if you say the paperwork is too onerous. So even though you don't directly benefit, you benefit as part of this supply chain that I believe the Chamber has talked about constantly. I know in my own district, for example, I visited a company called Maxin, which has 30 employees, but they are part of this huge supply chain, and they pay well, because they are. So I want to thank you for that.

Let me ask Mr. Ikenson from the Cato Institute, I went on your website, and I just want to make sure that I have your objection to the Ex-Im Bank put into some sort of context. You guys believe climate change is a hoax, and are against central banking, the Fed, against public education, want voucher schools, and you are against the Ex-Im Bank, right? I just want to sort of get a profile of the Cato Institute.

Mr. IKENSON. We all have our own opinions, Congresswoman.

Ms. MOORE. That is true.

Mr. IKENSON. So—

Ms. MOORE. I just want to make sure that backdrop was there.

Mr. IKENSON. There was some mischaracterization there, but—

Ms. MOORE. Okay.

Mr. IKENSON. —go on.

Ms. MOORE. You will allow it.

But you do agree with—do you think we should have the TPP?

Mr. IKENSON. Well, I want to see it. I support trade liberalization. And I think in order for us to see TPP, we need to pass TPA first—

Ms. MOORE. Okay.

Mr. IKENSON. —and then we can evaluate TPP.

Ms. MOORE. All right. You quoted Milton Friedman, and we all disagree. He was very brilliant, we know that. You quoted him, and he said, according to your testimony, that the real benefits of trade are transmitted through imports and not through exports.

Now, 95 percent of the consumers on the entire planet are somewhere other than the United States of America, but we ought to measure it by imports. So if we get a lot of these foreign—Asian, China, like Vietnam, cheaper products imported into the United

States, that is how we ought to measure our progress, versus exporting our goods. Was that your testimony? I am reading it here.

Mr. IKENSON. Yes. I have made the point that exports are the things that we produce but don't get to consume.

Ms. MOORE. And we have jobs here in the United States when we export.

Mr. IKENSON. Right. And—

Ms. MOORE. Versus importing and supporting some other economy.

Mr. IKENSON. Right. So the purpose of exchange, like, when you go to the grocery store, you want to part with as few dollars as possible for your purchases. That is the same thing we want to do. We want to give up—

Ms. MOORE. But I deliberately don't go to a certain big box store typically, unless I just have to, because I want to support American jobs.

It is my time, so I need the next 25 seconds to ask Mr. Smith a question about Roy Hill. You have your mining project, and it is—would you agree that it is a regional business, that iron ore is a regional kind of business?

Mr. SMITH. It is a global business. The price of iron ore is controlled by delivered to China, and indexes are worked back from that delivered to northern China price based on freight rates. So it is a global business now.

Ms. MOORE. Okay. I see my time has expired. May I have leeway to ask this question, Mr. Chairman?

Chairman HENSARLING. I'm sorry. I didn't hear that.

Ms. MOORE. I just wanted to ask him a question, and I didn't have time. I am wondering if I am going to get the indulgence of the Chair.

Chairman HENSARLING. It depends on how quickly the member can ask her question.

Ms. MOORE. Okay. You supply iron ore to Canada, right?

Mr. SMITH. No longer. We do not.

Ms. MOORE. Okay. Because the Roy Hill project was designated for Asian markets, and so I am wondering what your objection was to places like Caterpillar, which is a big presence in my State, sending equipment, creating 3,400 jobs.

Mr. SMITH. And also creating a—contributing to the oversupply glut that has seen the price of our commodity drop 50 percent inside of one year, and also locking us out of other markets in Korea, in Japan, as Roy Hill has secured those long-term supply agreements.

I was being polite about our Canadian operations. They are in bankruptcy. At this time last year, we were exporting to China and to Korea, and I had some 1,600 employees, and they were Canadian employees. We are down to 100 today. So, it is a seaborne business.

Chairman HENSARLING. The time of the gentlelady has long expired.

The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

Mr. Hirst, I just want to ask you a simple question at first. Does Delta belong to the U.S. Chamber of Commerce?

Mr. HIRST. I don't think we do here.

Mr. WESTMORELAND. Oh, okay. Mr. Hirst, earlier today I asked Mr. Hochberg about some emails between Ex-Im Bank staff and Boeing regarding these rules on the economic impact. Did you hear me ask those questions?

Mr. HIRST. Yes, sir, I did.

Mr. WESTMORELAND. You did? How would you characterize his answer that he gave me back as far as his analysis was concerned?

Mr. HIRST. I would characterize it as incomplete. The truth is that the Bank is required by its charter to give full consideration to the effects of its actions on employment in the United States, including industries that would be affected, like Delta is, by the financing of our competitors, but rather than considering those effects on a case-by-case basis, the Bank has designed economic impact procedures that include a number of screens that a transaction has to pass through before the Bank will even consider what the effects are on the employees of other companies.

And what these emails showed was that when the Bank designed these procedures following the 2012 Reauthorization Act, it designed them with a view in mind, the clear and intended view in mind to avoid having to consider individual transactions. And so in the last year, in 2014, of 20 large transactions which the Bank considered, averaging over $350 million in aircraft financing each, the Bank only considered the effects of one of those transactions out of 20, because these screens, which set up blocks to that consideration, and that one transaction with Aeroflot, the Russian airline, was a fundamentally insignificant transaction to the U.S. airlines.

Mr. WESTMORELAND. Just from me reading, not as a lawyer but as a builder, did it seem like they were what we would call cooking the books on this analysis, to you?

Mr. HIRST. They were clearly crafting the procedures so that the analysis that is called for by the statute would very rarely be done. And, in fact, one of the documents—this is one of the documents that was produced by the Bank in its response to our FOIA request, and it is a chart prepared by Boeing showing all the steps that a transaction must go through before the Bank even begins to analyze its economic effect. So you can see there is one hurdle after another, and the effect is that very few transactions will get through that test, and that is intentional.

Mr. WESTMORELAND. Yes, sir. If this committee were to craft a reauthorization bill, what would be some of the language in there that Delta or you would recommend for the ability to come up with a good comprehensive impact analysis?

Mr. HIRST. Sir, we think the most important thing that the committee can do and that the Congress can do is to require that the Bank actually be a lender of last resort, as Mr. Hochberg repeatedly characterized. He repeatedly said that the Bank is here to provide back-up financing.

We think that if the Congress were to adopt a reform, the most important reform would be actually to implement that requirement, so that a foreign airline seeking Ex-Im's support would first have to show that it could not obtain financing in the private market.

Of the 20 largest recipients of Ex-Im financing over the last 10 years, virtually every one has access to the private financial market. And that financial market is robust, it is there, it is available, but it is more expensive, and from Delta's standpoint, that is the most single important reform.

Mr. WESTMORELAND. Would your definition of a bank of last resort be that they had gone through all their other options as far as financing goes?

Mr. HIRST. Yes. If they certified that they were unable to obtain private financing, then I believe an airline should then be available—or accessible—have access to the Bank, but if, in fact, an airline has access to private financing, it should not have access to Ex-Im.

Mr. WESTMORELAND. You would think that Emirates Air and Qatar and those people would have access to cash, wouldn't you?

Mr. HIRST. Ex-Im has provided about $4 billion of support over the last 15 years to Emirates, and Emirates regularly accesses the private markets, they are highly profitable, they are state-supported.

Mr. WESTMORELAND. Or a cash deal. Or cash.

Chairman HENSARLING. The gentleman's time has expired. I assume the gentleman yields back the remainder of his nonexistent time.

So with that, the Chair recognizes Mr. Delaney for 5 minutes.

Mr. DELANEY. Great. Thank you, Mr. Chairman.

Mr. Hirst, it is nice to see you again. Thanks for coming in and testifying. I think it is important for companies to give their perspective, particularly a great company like Delta. We appreciate what you do.

Mr. HIRST. Thank you, sir.

Mr. DELANEY. But I did want to dwell again on the topic I talked about last year, which was understanding better this chart that you lay out between the financing that Emirates is able to obtain from Ex-Im versus the financing they are able to obtain in the market, because I do think it is important that when we are thinking about Ex-Im, that it does provide financing that is consistent with market terms, which is what they have represented that they do, which I believe they do.

In fact, I have even suggested that they look at potentially selling off part of their portfolio from time to time so that people could get a sense as to how well it is priced according to the market, but I also do think it is important that things get presented on an apples-to-apples basis. And my recollection when I looked at this more carefully last year was that when you are comparing the Ex-Im terms of the financing where you show an interest rate of 3.41 percent to the market terms, that it is not really an apples-to-apples comparison, because when Emirates borrows from Ex-Im Bank, they are borrowing on a recourse basis. Is that correct?

Mr. HIRST. I am not sure that I know the answer to your question, sir.

Mr. DELANEY. Well, I think they do. I think when Ex-Im lends to Emirates, they get a lien on the planes and then Emirates also promises to pay the loan back. So the Ex-Im Bank is the lender. It would be like if Ex-Im was lending to Delta. On a recourse basis, they would get a lien on your planes.

Mr. HIRST. Correct.

Mr. DELANEY. Right. And then the corporation would also guarantee the loan in the event the planes were worth more than the debt. And it seems to me you are comparing it to examples where Emirates is borrowing effectively on a nonrecourse basis, where the market terms are set up as a special purpose entity, where the borrower is actually this entity, this Irish special purpose corporation, I can't really read the name in my footnotes, but it is a special purpose corporation, it owns the planes, it leases the planes from Emirates, so it gets the Emirates cash flow during the terms of the lease, but at the end of the lease, the residual value of the planes cover whatever debt is outstanding, if any, so therefore it is nonrecourse.

So my question to you is if Delta Air Lines was borrowing money from one bank, on what I will call a nonrecourse basis, in other words, just pledging the planes as collateral, and from another bank on a recourse basis, where you not only pledge the planes as collateral, but you also provide a corporate guarantee that in the event the collateral is worth less than the debt, that Delta would make up the difference, wouldn't you expect to pay a lower rate in the second category and potentially a substantially lower rate?

Mr. HIRST. I think the loan rate results from the guarantee.

Mr. DELANEY. Right. And that is my sense. So when you point out that Ex-Im lends to Emirates on a lower rate, it is because they not only have the planes as collateral, but they also have the Emirates' guarantee.

Mr. HIRST. They have the guarantee of the U.S. Government.

Mr. DELANEY. No. But the premise of your point here is that Emirates can actually borrow from the Ex-Im Bank at terms cheaper than the market.

My point to you is the market terms you are comparing it to are not the same terms the Ex-Im Bank is getting. The Ex-Im Bank is getting a lien on the planes and a guarantee of Emirates Airline, which is a subsidiary of the Dubai Investment Corporation, which it a subsidiary of the Dubai Sovereign Wealth Fund.

Mr. HIRST. Correct.

Mr. DELANEY. So basically when Ex-Im is lending in your first column here, they not only get the planes as collateral, but they get a guarantee from the Sovereign Wealth Fund of Dubai, whereas your market terms, they just have the planes as collateral. So as a lender, I would expect to get paid a much higher rate if I was just lending on the planes than if I was lending on the planes plus a guarantee of the Sovereign Wealth Fund.

Mr. HIRST. Mr. Delaney, my memory is that is not accurate and that the—and it has been about a year—

Mr. DELANEY. Right.

Mr. HIRST. —since I have actually read these documents, but my memory is that the credit of Emirates, taking into account—

Mr. DELANEY. Yes.

Mr. HIRST. —this provenance was, in fact, a factor.

Mr. DELANEY. Yes, during the terms of the lease. So I just think that—look, I want to go back to my initial premise. I don't think the Ex-Im Bank should be subsidizing loans relative to the market, certainly material terms, and I think there are good ways for us to figure out if that is happening. We could have Ex-Im sell off part of its loan, see where the market is, but I do think this premise that this $20 million-per-plane subsidy that really you build a lot of your arguments on is, in fact, flawed, because I think the two credits that you lay out here were very different. It would be like a lender lending to a government office building and getting the building as collateral, but not a guarantee by the U.S. Government, versus if a lender lent on a government office building, got the building as collateral and then also had a guarantee of the U.S. Government. I would expect that second lender to get a much better deal, which is what is effectively happening here.

Mr. HIRST. We do disagree, and I would be happy to talk to you further about it.

Mr. DELANEY. Thank you.

Chairman HENSARLING. The time of the gentlemen has expired.

The Chair now recognizes the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman. I appreciate the chairman holding this hearing. And I think there is a group of witnesses with diverse views that all bring important perspectives to this debate. And I, for one, believe that Mr. Hirst and others have some points about some reforms that are very importantly needed, but I do think that we need to, with substantial reforms, reauthorize the Bank.

My first question is for Mr. Murphy. Mr. Murphy, you said during your testimony that 78 different countries have export credit finance agencies, or 79 countries?

Mr. MURPHY. Yes.

Mr. STIVERS. Do we compete against those companies in the marketplace every day?

Mr. MURPHY. Yes. There are 79 export credit agencies around the world, and there is evidence that a large majority of them are greatly expanding the trade finance that they are making available. By contrast, if the United States is left as the only major trading nation that doesn't have an export credit agency like this, there will be circumstances like the ones I have described where American companies are uniquely disqualified from even participating in business opportunities.

Mr. STIVERS. Even outside the uniquely disqualified, in the marketplace, if we are competing against countries that have export credit finance agencies and we do not, and let's say we take the assumption on the small end that it is 1 percent of our exports, what would happen to that 1 percent of our exports?

Mr. MURPHY. It is actually 2 percent, but $27 billion is—it is not nothing. That is more than the United States exports to Italy, India or Australia.

Mr. STIVERS. What would happen to those exports without an export credit financing agency?

Mr. MURPHY. It may be that in some cases that there can be an accommodation and they will find commercial support, but in many cases they won't. And so—and in many of these head-to-head competitions where the foreign competition, say, heavy equipment manufacturers from Japan or Korea that have export credit support—

Mr. STIVERS. So who would likely win those deals?

Mr. MURPHY. In many of those, where the customer is in a position to demand that support be available, the American company would lose.

Mr. STIVERS. And where would those jobs be?

Mr. MURPHY. They would be elsewhere.

Mr. STIVERS. Thank you.

Mr. Hirst, I have some real sympathy and empathy for the concern you bring up. And I think the first point you brought about how we really do need to—and it is clear from what Mr. Ikenson said and others that export credit finance agencies create an aberration in the marketplace. They are an aberration in 79 countries, though, and if we unilaterally disarm, that might not be the smartest strategy, but I would hope that we would put some teeth in requiring the U.S. trade representative to negotiate with France, the U.K., and Germany with regard to wide-body planes that we disarm together. And while we are doing that—and you only mentioned those three countries. In the next 5 years through this reauthorization, we need to be acutely aware that Brazil and China are working on wide-body planes, and we need to add them to the list that we negotiate with, even though in the marketplace today, we don't face them. In the next 5 years, that could easily happen.

Mr. HIRST. Probably not in the next 5 years, sir.

Mr. STIVERS. Okay. But they are working on it—

Mr. HIRST. Right.

Mr. STIVERS. —and we need to—we definitely need to start negotiations there too, because, frankly, China's not going to be easy to negotiate with on that and Brazil might not either, but I think that is the most important thing we can do. And you already talked about the lender of last resort reform, which I think is a good real reform.

What about if we did a reform on the adverse impact to American businesses that made it clear that injured parties could bring a judicial review? Would that be a good or a bad reform?

Mr. HIRST. No. It would be a very good reform, and I think tied to that would be the—placing obligation on the Bank to analyze individual transactions and not use screens to do it. There is no reason why they can't craft regulations that would require borrowers to file applications far enough in advance to allow individual transactions to be analyzed.

Mr. STIVERS. And my next question is for Mr. Ikenson. You talked a lot about the aberration in the marketplace that export credit finance agencies create. And assuming for a second that the Bank was to be reauthorized, what if there was a program that guaranteed some type of reinsurance that showed the true market-based pricing for different transactions as a percentage—a required percentage of their business? Would that be a step in the right direction, from your perspective, or would that just be a waste of time?

Mr. IKENSON. I think it would be a step in the right direction. However, there are many problems with the Ex-Im Bank, and if they weren't all addressed at the same time, then we would be in a position of possibly reauthorizing a slightly improved aberrational system. We can get rid of this thing. It is—actually, John, you mentioned 2 percent. It is actually 1.2 percent. So 98.8—

Mr. STIVERS. Like I said, there are differences of opinion, so I even went with the lower number of 1 percent.

I do have one question for Mrs. Cox. I appreciate that. So, Ms. Cox, you used the Small Business Administration, you don't choose to use Ex-Im Bank. Do you think we should also do away with the Small Business Administration, because it also picks winners and losers and is an aberration in the marketplace and guarantees credit?

Ms. COX. I would rather not—I think you will see with any kind of government welfare type of program that there can be a lot of overlap in services offered, and you do see that with the SBA and the Ex-Im Bank. However, the program that I am using is called the Emerging Leaders Program. It is a beneficial resource for small business owners, and I would recommend it.

The way that I see it personally, and I do believe in small government, but I see it as getting some of my tax dollars back. I give up 30 percent of my check, and if I am able to get something back from the government, I am going to take a little bit of it, so—

Mr. STIVERS. I yield back the balance of my time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Ah. Mr. Chairman, thank you, and I will be yielding to you in a second, because I have a question.

We talked earlier about bringing a bill to this committee or to the Floor, but particularly to this committee for markup, and you asked me whether any bill had 218 supporters. That is a rule that we use for bills that involve minting a commemorative coin, but with that one exception, I don't think any—90 percent of the bills that come before the committee don't have 218 cosponsors when they start. In fact, the whole purpose of our effort here is to offer amendments and to improve the bill to the point where we hope it has majority support in the committee. So, we can have democracy where we all in this room work together to try to create a bill that is worthy of our support, or we can have a situation where we don't get a chance to do that.

Are you planning to bring any version of an Ex-Im reauthorization bill before the committee in the next couple of weeks?

Chairman HENSARLING. Will the gentleman yield?

Mr. SHERMAN. I will definitely yield.

Chairman HENSARLING. I think I have already answered the gentleman's question, but I was just curious, when your party was in the Majority, where was your voice for bringing a balanced budget amendment to the Floor?

Mr. SHERMAN. I think I cosponsored the balanced budget amendment, and certainly would have supported committee consideration, but sometimes my voice is so soft, it cannot be heard. My shyness is something I am trying to overcome.

But, Mr. Chairman, do you know, will we have a chance to work in this room to create a bill worthy of the support of a majority of the House? I yield to the chairman.

Chairman HENSARLING. The chairman has already answered your question.

Mr. SHERMAN. Ah. I can't be as tough on the chairman as I am on witnesses when the answer may not be a complete answer to a question. I will turn instead to Mr. Murphy and probably give him less deference than I do our chairman.

Mr. Murphy, we have a couple of businesses here that feel that, on balance, Ex-Im hurts business. You represent an organization that pretty much sweeps across American business. Is this a close call for the Chamber? Is this, like, oh, 60 percent of our members think it helps their business—60 percent of those affected members are on one side and 40 percent are on another, and, gee, it may split our organization, or is this one of those issues where you can safely say that for the vast majority of your concerned members, this is a helpful organization?

Mr. MURPHY. I would say there is extremely broad support in our membership, and I am not aware of any members that are in opposition. In fact, if you look at press clips, you will find just a small number of—

Mr. SHERMAN. The gentleman sitting next to you isn't a member?

Mr. MURPHY. Neither of the gentlemen immediately next to me are members of the Chamber.

Mr. SHERMAN. But you do have how many members in total?

Mr. MURPHY. We have 300,000 direct members, and through our State and local Chambers, 3 million.

Mr. SHERMAN. That is—and within your organization, it is overwhelming that, on balance, Ex-Im Bank helps American business?

Mr. MURPHY. I have to tell you, I have never gotten a call from a member in the past months, when it has been quite public that the Chamber was advocating for a reauthorization of Ex-Im Bank—never gotten a call from a member protesting.

Mr. SHERMAN. Now, one issue that arises is the competition in airlines. One approach is to say if Air India is going to fly from Dulles to Delhi and they get good financing on their plane, that might put United Airlines or even Delta at a disadvantage. Another approach is to say that if a plane is acquired by a U.S. carrier for use in an Ex-Im-eligible route, that we should regard that as an export, because a plane flying from Dulles to Delhi is the same as a plane flying from Delhi to Dulles; that is to say, United States Airlines flight going in one direction is the same as the Air India flight going in the other direction.

Does the Chamber have a position on whether Ex-Im Bank would be allowed to provide financing when a U.S.-based airline is operating from Dulles to Delhi in the same way as one flying the other direction?

Mr. MURPHY. I think our position is that this is a problem that has been addressed pretty successfully. There was a 2011 agreement reached at the OECD which considerably raised the fees imposed for the purchase of aircraft. It is an aircraft sector understanding. The cost of using Ex-Im to purchase aircraft has gone up considerably and is very comparable to commercial rates now. By contrast, U.S. domestic airlines can access capital markets here for approximately one-third the cost of what export credit agency support is. So in that sense, there has been real progress in this area.

Mr. SHERMAN. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

And thanks to each of you for enduring this process. It is important for each of us to hear from you and to better understand your perspective.

And I appreciate my friend, Mr. Green, as well, addressing the issue of our vote. Our vote is very important to each of us. We all represent about 750,000 people and we want to make the right decisions that are fair and equitable for our constituents, so we are deliberate, we are thoughtful, and we are concerned, as we probe these issues to see what is really fair.

As I have reviewed these materials and studied the information from the Ex-Im Bank, I have read the following, that from—according to their own data, more than 60 percent of Ex-Im Bank's financing benefits just 10 large corporations. At the end of 2014, no less than 45 percent of Ex-Im's exposure was concentrated just in the air transportation system.

Mr. Murphy, how do you respond to that? How do you consider the weighted role that Ex-Im has in supporting large corporations that really don't benefit the same folks that I am trying to represent every day?

Mr. MURPHY. The most important market for small business isn't Canada or Europe or China, it is big business, and that is why you see some of the largest exporters in the country have so many suppliers, like Boeing has nearly 15,000 suppliers, GE has more than 35,000. So those are how small and medium-sized companies get into the export business—

Mr. PITTENGER. Well, Mr. Murphy—

Mr. MURPHY. —is as providers to the larger companies.

Mr. PITTENGER. —you heard the testimony of Mrs. Cox, and there are others like it, how cumbersome and how difficult and challenging it is for a small business time-wise, information-wise, and cost-wise, to even begin to process this out. And I think what concerns many of us is the weighted interest that Ex-Im Bank has from individuals who have strong financial and political interest. You probably heard the testimony earlier today, and with recognizing the strong political role and financial role this has played into this entire process.

And that is really a concern to many of us, that it seems as though the big guys with huge resources are putting enormous weight and pressure in this process. They come and they make a lot of noise. And I appreciate and respect the role of every business, I am here to represent large and small, but the reality is that even by the data given by the Ex-Im Bank, 10 of the large corporations get 60 percent of the benefit.

Mr. Ikenson, do you have any response, do you have any thoughts or reflections on some of the concerns you have heard today?

Mr. IKENSON. Yes. I think that the problem you raise is a big problem. The Bank shouldn't be there to begin with. The fact is that, I think, it is closer to 70, 75 percent go to the top 10 users, but more indicting than that is the fact that 98.8 percent of U.S. exports don't go through the Ex-Im Bank. So this notion of unilateral disarmament or leveling the playing field by requiring this export credit agency implies that Americans are selling—or that this small percentage of Americans are selling perfect substitutes for other—to other products in 70 other countries with ECAs.

Our products are distinguishable, and yet the financing terms are not the final say. There are lots of determinants that go into buying decisions. And there are humongous costs that are not taken into account. I heard the testimony of Mr. Hochberg this morning saying that they do an analysis of the costs of the policies, but I have never been privy to that, I have never seen the details of that. I did an analysis which suggests that there are profound costs across the economic, the manufacturing sector.

Many of these companies are silent to respond to a question that was brought up earlier to Mr. Murphy about why they don't raise the issue. Many don't recognize it. The cost of an input that is subsidized for export might only be 1 or 2 or 3 percent of its total cost of production. For Delta, it is—airplanes are huge, it is a huge part of their costs, so they were able to recognize it. For Cliffs Mines, mining equipment is huge, so they were able to recognize the impact, but many of the companies across the manufacturing spectrum don't realize they are being pickpocketed.

Mr. PITTENGER. Thank you, Mr. Chairman. I yield back my time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman. I first want to express my appreciation to Mr. Hirst for alluding to the litigation that has been brought on this, but before I do that, I want to mention in passing that I do not want to be accused of that which my friend, Mr. Duffy from Wisconsin inartfully described as turning a blind ear to the claims that Delta is suffering as a consequence of Export-Import Bank activity. I have a hard time squaring it with the performance of the last year, when they had record revenues, when their passenger load was at an all-time high, when they are aggressively expanding in markets, especially my own up at Seattle, and the chairman of the board and the CEO have press conferences touting their historic performance. I can't square those two things. In fact, I would say if this is suffering, sign me up.

The assertion has been made by the company that Ex-Im financing gets foreign airlines to buy new airplanes which are used to compete against U.S. carriers. It is pretty simple and straightforward. This point has been litigated. And for the record, I would like to clarify. This is what the judge said when Delta lost the case. The record contradicts Delta's presumption that the availability of Ex-Im Bank financing sways foreign airlines to purchase new aircraft they would otherwise would not acquire, thereby causing an increase in competition with U.S. airlines that otherwise would not exist; rather, the availability of bank financing, or the lack thereof, is more likely to affect only the secondary decision of whether to purchase aircraft from Boeing or Airbus when a specific need for new planes arises. Thus, Delta's underlying assumption that U.S. airlines necessarily face less competition if the Bank does not provide financing to foreign airlines falls apart.

I might add that Delta has litigated not once, but 4 times, and lost every single case.

Mr. Murphy, it seems to me that we have been down this road before. I see an antecedent and an analog. I would be interested in your reaction. Thirty-four years ago, we had the same kind of policy debate in this chamber, and it was over the Federal Government's subsidy of shipbuilding. In that instance, however, there was a bit of a difference. It wasn't an indirect subsidy, as some allege, in the instance of the Export-Import Bank, in fact, it was a direct Treasury subsidy. Some people in this chamber advocated that we needed to continue that subsidy in order to continue to compete in the global market of shipbuilding. Congress decided instead that the United States, as some would argue in this instance, should lead by example and get rid of the shipbuilding subsidy.

Mr. Murphy, how did that work out?

Mr. MURPHY. Congressman, I appreciate that you pointed out that it is a somewhat imperfect analogy since, after all, in the case of Ex-Im, it is a curious kind of subsidy program that returns money to the Federal Treasury. In the case of shipbuilding, it was actual taxpayers' dollars at work. But when the U.S. oceangoing shipbuilding industry was—when its subsidies were taken away in the 1980s, it could not compete, because other countries around the world continued with those subsidies, and today the United States has basically very little, or none, in the way of oceangoing shipbuilding.

It shows the challenge of the world that we live in, where we would like to see free markets and free enterprise prevail in every case, but getting rid of Ex-Im just ourselves and not doing anything about those 79 export credit agencies around the world could have a very damaging effect for a lot of export industries.

Mr. HECK. Finally, Mrs. Cox, thank you for being here. I think you have done the hardest thing in the world to do, which is stand up a successful small business. I also want to thank your family and your husband, in particular, for their service. Bluntly, painfully put, I doubt there are too many people in this room who better understand the sacrifice or potential sacrifice that such service can cause than my family, and I genuinely thank you for that.

I do, however, want to note and hope you appreciate that you are a part of benefiting from the Export-Import Bank insofar as you are one of the members of the supply chain for the Boeing Aircraft Company, which makes the best airplanes on the face of the planet, in no small part due to your parts, and I thank you for that as well.

With that, I yield back the balance of my time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Missouri, Mrs. Wagner.

Mrs. WAGNER. Thank you, Mr. Chairman. I would like to start off this hearing by asking that this letter, Mr. Chairman, the letter that Mr. Murphy referenced earlier in his opening statement, it was sent out and it is dated today by over 1,000 local organizations, Chamber groups, local and the U.S., and businesses, I should say, of all sizes from all across the country urging reauthorization of the Export-Import Bank be submitted for the record, Mr. Chairman.

Chairman HENSARLING. Without objection, it is so ordered.

Ms. WAGNER. Thank you all for joining us today to talk about renewing the Export-Import Bank. This is an incredibly important debate and deals with our global competitiveness and our country's economic output. However, for reauthorization, for any kind of reauthorization, Congress must take the opportunity to consider the merits of the program and whether any reforms or changes are warranted. So, let's look at the Ex-Im Bank.

According to its charter, the Bank works on maintaining or increasing employment of United States workers. I can vouch that in St. Louis and the State of Missouri, the Bank is fulfilling that goal in a very large way. Since 2007, the Ex-Im Bank has supported 125 companies and 9,400 jobs in Missouri, helping finance $1.5 billion in goods and services for exports. 9,400 jobs. Think about all of the house payments and car payments and monthly grocery bills and college tuition payments that those jobs actually support.

These are real jobs and these are real families, and they are depending on this and they are depending on us. In fact, just last month the Bank supported 3 small businesses in my district by financing over $2 million in exports. This is a packaging company, a children's products company, and a plastics company.

Now the question is whether those same companies would still be able to find assistance in the private market in July should the authorization for the Bank lapse? In addition, would such financing be able to adequately compete against foreign export credit agencies?

Let me be clear, as certainly Mr. Murphy has and as my colleague, Mr. Stivers, has, that every developed country in the world has their own form of ex-im bank and they are constantly working against us in the United States of America to win business.

Mr. Murphy, many people make the argument that if export financing is, in fact, a good deal, that the private sector is perfectly capable of taking on the risk of that loan. Is the private sector, at this time, able to step in and fill the void that the Bank's expiration would leave behind?

Mr. MURPHY. The reality is that the private sector does provide the vast majority of trade finance in this country, and that is a virtue, not a weakness of the Ex-Im Bank, but what we could not do is take care of those particular circumstances where Ex-Im or ECA support is required in order to participate in foreign markets in bids on infrastructure projects, in nuclear energy and in the head-to-head competition. Those are areas where we would see American companies really competing with one arm tied behind their back.

Ms. WAGNER. In my limited time that I have left, I want to talk about reforms of the Bank. I believe many of my colleagues on this committee, including the chairman, have some valid concerns and criticisms. Everybody is interested in reforms. So I personally have worked in the past year and a half on at least two different working groups, the Campbell group and the Fincher group here in Congress, to put together reform packages that ensure the Bank is not crowding out private market.

Mr. Murphy, as you listened to the debate today, what recommendations would you and the Chamber propose to address criticisms of the Bank, and are there any reforms that you think the Bank absolutely must implement?

Mr. MURPHY. In my limited time, I have to say that we respect the work that has gone into the Fincher bill and also Ranking Member Waters' bill. There are quite a few good reforms on the table there.

What we need most of all, though, is for Congress to take up these bills and debate them expeditiously, because we have just days left until American exporters will be at a unique competitive disadvantage.

Ms. WAGNER. Thank you, Mr. Murphy. And I thank all of our panelists.

I thank you, as well, Mr. Chairman, and I yield back the rest of my time.

Chairman HENSARLING. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Thanks to all of our witnesses in this second panel. We really appreciate your testimony and your help in fleshing out some of these issues.

Let me start with Mrs. Cox, because I read your written testimony, and like others, I share in extending our appreciation for your family's service to our country. And I wanted to share with you an example of Ex-Im financing that I would like for you to comment on as a member of a military family.

This is from The Wall Street Journal: "Ex-Im has given hundreds of millions of dollars in taxpayer-backed guarantees to the state-owned Russian bank, 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 USSR, VEB maintains an operating agreement with a Russian arms exporter to promote exports of Russian military products and boost their competitive edge in the world market. This Russian arms exporter also handles more than 80 percent of Russian's weapon exports. In this capacity, it has become a cheap weapons supplier to Bashar al-Assad's regime in Syria and has provided advance missile systems to Iran, according to a reporting last year. VEB has said that its practices fully comply with the European Union and the 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, this Russian bank, received a $497 million loan guarantee in 2012 and a further $703 million loan guarantee in 2014. American taxpayers still haven't received Thank You cards from President Assad and the mullahs in Tehran."

As the wife of a U.S. Air Force airman, can you please comment on that report from The Wall Street Journal?

Ms. COX. Thank you for bringing that up. I think anybody who looks into the support that we have given to Syria will find that it is very likely that we have supplied arms to Syrian rebels that may have gone to ISIS, and that is very disturbing to me.

I would say that today during this hearing, we have found that Ex-Im Bank may be in need of some reforms. Usually when you have a government entity, things can get sticky.

Mr. BARR. Mr. Ikenson, I was very interested in your testimony about the World Trade Organization litigation as a potential. Much discussion over this reauthorization has gone into the necessity of an export credit agency where participation with one is required in order to compete as a threshold matter for American companies in these nuclear power plant construction projects and other examples.

Can you elaborate on the alternative to Ex-Im in terms of pursuing litigation in the WTO so that we do achieve a level playing field without Ex-Im?

Mr. IKENSON. Yes. First of all, I think characterizing the existence of our Ex-Im Bank as leveling the playing field misses an important point, which is that it is unleveling the playing field for downstream industries, and I have been trying to point that out.

Ex-Im has been around since 1934. It invented this stuff. The People's Republic of China didn't come around until 1949, so it is not like we have to do this because others are doing it. And what happened to our standing in the world?

Mr. BARR. Let me follow up with a quick question. My time is short. The argument that the Bank's lending activities yield an annual return to the Treasury is another argument that we hear for proponents of reauthorization, but that argument, to me, suggests that there would be a considerable appetite in the private sector to enter the space exited or vacated by Ex-Im. If this is truly a profitable enterprise, it seems to me that a bank or a group of banks pooling and diversifying risk would enter that space.

Mr. IKENSON. I think that is absolutely right. We need to see if that happens.

Mr. BARR. Mr. Murphy, I know you have a contrary opinion to that, and I will give you an opportunity to respond to that.

Mr. MURPHY. Well, just to say that hope is not a strategy. There are dozens and dozens of companies that we have interviewed, we have their stories on our website, where they have found that their commercial banks are unwilling to accept their foreign receivables as collateral and they have had no alternative to Ex-Im.

Mr. BARR. I understand that, and you have made a big point of the nuclear power projects as an example. Members of the Chamber include coal-fired power and coal companies, a big part of the U.S. Chamber's portfolio membership. They don't get the same treatment that the nuclear power industry does. Does that concern you?

Mr. MURPHY. In the past few years through an appropriations writer, there has been a nondiscriminatory approach.

Mr. BARR. Oh, I know. And I voted for it and fought for those. And, Mr. Murphy, I fought for those and I believe in that. The problem is they still haven't provided any financing for coal-fired powered projects.

Mr. MURPHY. Good to include in reform.

Mr. BARR. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. I now recognize the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

I thank the panel for being with us all day. It has been a long day for a very important discussion.

I think a fair number of us who are in Congress today are here because of what we saw happening in the late 2000s with the financial crisis, with the bailouts. I remember as a private sector citizen back in the early 2000s, some people started to raise the alarm about Fannie and Freddie, and attempts at that time to reform Fannie and Freddie, and then we get to the financial crisis, and all of a sudden there is a $150 billion bailout after individuals involved with Fannie and Freddie themselves have made millions of dollars.

I mentioned this in the panel earlier. I cited the work that Michael Grunwald had done in Politico Magazine in an article earlier this year. It was titled, "The Real Bank of America." It described the more than $3 trillion in loans that the Federal Government, and therefore, the American taxpayer, the hardworking American taxpayer is on the hook for.

We usually have the debt clock running, $18 trillion in debt, and obviously, this is a significant concern for many of us. And so we look at our programs and we think, is there any way to shield taxpayers from a potential loss. And Fannie and Freddie were going along great until they weren't. Mr. Ikenson, I just want to float with you the idea that I spoke with Chairman Hochberg about this morning. And one way that we could potentially create additional protections for American taxpayers is by requiring full collateralization or sovereign guarantees for all direct loans or loan guarantees issued by the Bank. We know that the Bank has said that they are 77 percent collateralized right now. What about 100 percent collateralization? Would that not be a good idea?

Mr. IKENSON. Why not just allow Ex-Im to expire, and just turn it over to the private sector? Why are we—

Mr. ROTHFUS. Well, look at what happens in the private sector when a loan happens. And a private-sector bank is going to be looking for collateralization. And frankly, it has not been more than 100 percent. When you have a piece of property that you are going to buy and it is going to cost a million bucks and you go down and put—it is commercial property and they are going to put $200,000, the bank will make a loan for $800,000 but it is going to take a security interest in the entire property, even if it is worth more than $800,000, in case there is a default, and then they have to go and liquidate and try to recover.

And here we have a situation where I am concerned that there is going to be an exposure for the taxpayers as we are seeing with NewSat today. And I am wondering if there might be a better way to have constructed that transaction so that the American taxpayers aren't out $100 million right now?

Mr. IKENSON. Yes, I think that is problematic, and I point to the fact that 98.8 percent of U.S. exports don't require the Bank, so somehow they are able to manage without it. I think the necessity of this Bank has been overstated. Just because other governments have it, doesn't mean we can't differentiate our offerings on other terms. We can go to the WTO, the question was asked earlier. I didn't get a chance to respond to that.

Mr. ROTHFUS. What about the entity that is doing the export? Should there be consideration as to whether or not that entity which is earning a profit from the transaction may think of guaranteeing the indebtedness of the purchaser?

Mr. IKENSON. Sure, I think that is one way of doing it.

Mr. ROTHFUS. Just a quick question for Mr. Murphy, we have had some discussion today about the NewSat transaction. Can you think of a way that transaction could have been structured so that the American taxpayers aren't looking at a $100 million loss?

Mr. MURPHY. I am not sufficiently familiar with the case, but if you look at the record of Ex-Im, under the accounting rules that were established by Congress and required by law, it has a $4 billion loan loss reserve and a very low default rate which has been mentioned many times here. Yes, there will be cases like this that go south, but the record is not one that is bad.

Mr. ROTHFUS. Shouldn't there have been some collateralization? To me, it is just common business sense that a lender is going to be seeking a security in something to make sure that they are going to mitigate any kind of loss.

Mr. MURPHY. As I said, I am not familiar with this particular case.

Mr. ROTHFUS. I thank the chairman, and I yield back.

Chairman HENSARLING. The gentleman yields back. Mrs. Cox, I have been informed that you have a plane to catch. I don't know if it is a Delta plane or not. Regardless, we will excuse you from the panel at this time. Thank you for your testimony. We hope you found it to be a worthwhile experience. The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. I thank the chairman. Mr. Murphy, I had a chance to look very briefly at your written testimony. You mentioned a South Carolina company that I am not familiar with. But last week I did have a chance to go visit another South Carolina company that uses the Ex-Im Bank facility, Sage Automotive in Marietta, South Carolina. They make textiles for automobile seats. And they take advantage of a small line of credit that is offered by the Export-Import Bank, and they asked me to try and figure out ways to preserve that function so that it is still available to them in the future. Their argument is, they are not part of the problem. It is very small. There is no corruption. It is not the type of thing that really warps markets. And I told them I would give that some thought.

So I am hoping that you can do that here with me today as we try and figure out a way to find a compromise. The U.S. Chamber of Commerce would not support a reform that would limit the Export-Import Bank to only doing small business transactions, would it?

Mr. MURPHY. No, for the reasons that I mentioned earlier, it is important for others.

Mr. MULVANEY. It is important for others. So you wouldn't support ones that would preserve the 90 percent of transactions because you need a private transaction. So would you support a reform that would have the Export-Import Bank do the 90 percent of small business transactions, plus participate where we are leveling the playing field, where other export credit facilities are involved in negotiations, and we are simply meeting the competition? Would the U.S. Chamber of Commerce support a reform that had the Export-Import Bank do just those two primary functions?

Mr. MURPHY. I think we would have to look at what are the other particular circumstances where it is uniquely necessary, so for instance, when it is a bidding requirement, and other instances that I have mentioned.

Mr. MULVANEY. And my guess is, I could go through the whole list of adding a little bit here and adding a little bit here. But the bottom line is that the U.S. Chamber of Commerce supports a full and clean reauthorization of the Export-Import Bank without reform, doesn't it?

Mr. MURPHY. We express support for the Fincher bill, and think that there are a number of good reforms in there that are definitely worth considering.

Mr. MULVANEY. But you told all of my local Chambers that you support full and clean reauthorization, right?

Mr. MURPHY. Our goal at present is to find a path forward. We know that this is a fierce debate and there are going to have to be compromises made all around.

Mr. MULVANEY. Let me switch gears with you a little bit because you mentioned something, and we have sort of gotten, not sidetracked, but a lot of folks were focusing on the language of winners and losers. I don't want to use that language. I want to use your language from your opening testimony where you said you worried about putting American firms at a competitive disadvantage in the global marketplace. It was more or less your words.

Do you believe that the Export-Import Bank puts Delta Air Lines at a competitive disadvantage in the global market when it facilitated the purchase of Boeing 777 airplanes by Air India?

Mr. MURPHY. I believe that there are many cases like that where the foreign airline has a very clear choice between buying Airbus and Boeing. In those cases, if Ex-Im were not available, I believe that there will be instances when that can determine that the sale goes abroad.

Mr. MULVANEY. Thank you, Mr. Murphy. The airplane in question was the Boeing 777, and it was going to used by Delta to fly nonstop from the Continental United States to India. In fact, they were using it for that purpose. Air India sought it for the same purpose. At that time in the mid-2000s, the Boeing 777 was the only airplane in the world capable of making that trip.

So I would suggest to you, sir, that it was not a circumstance where we were competing with Airbus. We were simply trying to sell the Boeing airplane. So I ask you again, did that transaction put Delta Air Lines at a competitive disadvantage?

Mr. MURPHY. I believe that these—there are many substitutes in the different classes—

Mr. MULVANEY. And I am simply telling you, Mr. Murphy, and you can go look it up if you want to, there were no substitutes in this instance. Only the 777 extended range, long-range plane could make the trip. So do you want to change your answer or are you going to stick by what you told me?

Mr. MURPHY. I think we can agree to disagree.

Mr. MULVANEY. No, we can't. So what airplane could Airbus offer that would make the trip.

Mr. MURPHY. Airbus has a variety of different aircraft that it sells aggressively around the world.

Mr. MULVANEY. They absolutely do. So tell me the one they had in 2004 that could make a trip nonstop from India to the United States. And I can assure you, Mr. Murphy, I know this one, I got you on this. There was no Airbus airplane that could make it, okay. I don't think there was until about 2012. So I ask you one last time, would you at least admit that in that one transaction, the Export-Import Bank put an American business at a competitive disadvantage?

Mr. MURPHY. I don't know further details about it enough to answer you.

Mr. MULVANEY. Thank you, Mr. Murphy. I appreciate your time. Thank you, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. It keeps getting more and more interesting. I want to run through a couple of the mechanics here because some of the sort of hyperbolic conversations that seem to have gone on in the last month, I want to sort of distill this down to what is really in debate moving here. Mr. Murphy, are you comfortable with the discussion that over 98 percent of U.S. exports either find loan enhancement surety credit through other avenues other than the Export-Import Bank?

Mr. MURPHY. Yes, that is—

Mr. SCHWEIKERT. All right. Mr. Ikenson, tell me if I have my basic understanding of credit tree set up properly.

I am going to sell widgets around the world, often before it is able to get in that container and start heading overseas, I need to—my loan facility, I may need an enhancement on it to make the bank happy or to be able to make the bank's regulators happy as it may ultimately be. I may need a surety device, surety bonding, which is technically not a type of bond. It is a type of laddering, or an actual credit facility from my buyers. Am I missing any particular categories?

Mr. IKENSON. Not that I am aware of.

Mr. SCHWEIKERT. Isn't it true that every single day around this world, and maybe in the hundreds of billions of dollars every week, that secured—or excuse me, that syndication of risk is done?

Mr. IKENSON. Yes.

Mr. SCHWEIKERT. And functionally, it is just like all of us here who have had a home mortgage. We may have had Fannie, Freddie, FHA or other types of mortgage insurance. Functionally, that is what those loan enhancements are doing, is guaranteeing part of that debt instrument.

Mr. IKENSON. Yes.

Mr. SCHWEIKERT. So right now we are basically engaged in this conversation for less than 2 percent of our exports, basically saying that there is something that is already working for over 98 percent of our trade, whether it be the credit, whether it be the surety, whether it be the enhancements.

Mr. IKENSON. Right.

Mr. SCHWEIKERT. So could you and I tomorrow design a way where the full faith and credit, which is what many of us object to, of my 318 million brothers and sisters in this country that their credit is on the line on this less than 2 percent of the transactions, could you and I design a mechanism where you could still call it the Export-Import Bank? You could still have some of the same employees. The fact of the matter is the majority of their book is actually creating loan enhancement vehicles to make the money center bank or whoever the lender is putting up the money, could you see something like Export-Import Bank being rechartered so we remove the taxpayers and it basically becomes a risk syndicator out in the marketplace?

Mr. IKENSON. I haven't given that a whole lot of thought. But perhaps that is the way to go, and—but it can have a private charter and just be a regular bank.

Mr. SCHWEIKERT. Yes, well functionally, it is not technically—what is it, only about 20 percent of its book is actually true lending credit.

Mr. IKENSON. Right.

Mr. SCHWEIKERT. So in many ways, it is actually more of a lending enhancement vehicle than it really is as a bank, which there are hundreds of companies that do that. On occasion in these discussions you will hear one of our witnesses refer to it as the insurance brokerage industry. It is not homeowner's insurance. It is actually lending enhancement insurance. In many ways, we are engaging in an absurd debate here. The vast majority of the world's trade goes without my taxpayers, without your taxpayers, for my brothers and sisters who are members here being on the hook.

Mr. IKENSON. I agree.

Mr. SCHWEIKERT. If that is what ultimately people like me mostly object to, I can see a path where it may not give the Chamber ultimately what they want, which is the easiest path, but it is already out there. It exists every day. If you all were economics majors, or finance majors, you used to sit through a class of how Lloyd's of London was organized and what it basically was doing which was enhancing or guaranteeing ships and their cargo. It is time to start to realize the solution is already out there in the private marketplace. We actually just need to find a way to have what is already working in this instance. And with that I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back. The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Mr. Chairman. I appreciate it. Thank you all for being here today, and helping us through this very important discussion. I have been listening to this discussion since, I don't know, about 10 this morning, and there are about 4 things that I am guessing that all of us here in this room, including you folks at the table, agree on. Number one is that Ex-Im does pick winners and losers. I don't see how we can debate that. You just listen to everything that we listened to today and a couple of examples right here with the nice gentleman from Delta.

Second of all, there is a cost. There is absolutely a cost. There is a cost to the taxpayers, because the risk that they are on if something goes wrong. There is a cost to the workers who work at a company that don't have—have not been supported by Ex-Im. And I think the third thing, fourth thing that we all can probably agree on, is that there has been gross mismanagement at the Bank, gross mismanagement. When you talk about the fraud, the corruption, and you talk about how a Member of Congress is in jail down in Louisiana because he had $90,000 in his freezer as a result of a bribe related to the Bank. So there has been corruption. There has been gross mismanagement.

Nobody knows what the result is going to be of this discussion. I know that in my experience with the private sector where I came from, and as a business owner currently, I would never do business with a bank like this. Now, I am not criticizing those who have chosen to do that. But there is reputational risk, and if you are dealing with the folks who have this sort of behavior, who knows what they are going to be doing.

So my question really is to you, Mr. Murphy, and help me out with this: Is this normal behavior for export credit agencies around the world? Your members deal with the folks in every different space in our economy and throughout the world. Is this sort of behavior common among other ECAs around the world?

Mr. MURPHY. Your question is a bit like asking me if I stopped beating my wife yet. On behalf of the Chamber's members who do business around the world, I would just have to say that it is a tough global environment where every day they are going head to head with competitors from around the world. U.S. merchandise exports are just 8 percent of the world's total. Everything we make has competition and substitutes around the world. And they face—and they enjoy support from their ECAs.

Mr. POLIQUIN. Okay, where I am going with this, if I may, sir, and all of you, if the Bank is not reauthorized that is one avenue. If the Bank is reauthorized, it seems like to me, from what I have heard today, there will be a lot of very badly needed reforms. I would hope that would be the case if it goes down that path. And I am hopeful that those of you who have experience in dealing with the Bank, and with the think tank over here with Cato and the folks who have other experience in this room, is that we won't be shy about reforms that deal with the Bank's structure, management structure, because that, of course, is what ultimately leads to unacceptable behavior.

For example, earlier this morning, we learned that Mr. Hochberg effectively reports to nobody. He is appointed by the President. He has been a fund-raiser for the President. He chairs his own board. So the only way that management at Ex-Im is accountable, is if we don't reauthorize the Bank. So if we go down this path and Ex-Im is reauthorized, and I am not saying it will be, but if it is, I would hope that all the stakeholders in this room and outside of this room can bring it upon themselves to make sure that we have reforms in place that deal with the management structure that leads to their business practices such that we don't have to come to this point again where it is, you are on or you are not. It is all or nothing.

And so I would hope that all of us can keep that in mind as we move forward. But I do appreciate all of the folks being here today. This has been a tough discussion. But I will tell you, I represent about 650,000 people in northern Maine. They play by the rules. They are as honest a group as you could ever find. And they see this, and they hear this behavior, and their hair just stands up on end. So I don't know where this is going to go. But if it goes down the path of reform, let's fix this thing. Thank you, Mr. Chairman. I yield back.

Mr. SCHWEIKERT [presiding]. Thank you, and we are excited to watch your hair stand on end.

Mr. Emmer?

Mr. EMMER. Thank you, Mr. Chairman, and I thank the witnesses for being here today. I have limited time, Mr. Hirst, but I want to thank you, even though you have moved to the beautiful State of Georgia, we still have very good feelings about Delta, and especially Northwest Airlines in Minnesota. You talked a little bit about not being able to quantify specifically the jobs. My understanding is that Delta employs some 80,000 people. I had the number in Minnesota. I don't have it right in front of me now. Maybe you know it offhand. I am interested to know what this means to my State, and other airlines. You are just talking about Delta, but is Delta the only one that this impacts or have you talked to other airlines?

Mr. HIRST. No, sir, it impacts the U.S. airlines that operate in international markets because where the Ex-Im Bank and the European export credit agencies provide subsidies to foreign airlines, U.S. airlines cannot receive comparable subsidies, and we don't want them. We are all affected by that. I say that in any situation where a foreign airline displaces a U.S. airline, or a foreign airline serves the market that a U.S. airline therefore can't enter, subsidize, the effect on jobs is about 1,000 on net. About 1,000. That is the number that can have an impact in Minneapolis which is a Delta hub—

Mr. EMMER. Thank you. And Mr. Smith, obviously, mining is a big deal in Minnesota, and we have had some challenges. I am glad you are still there. I hope you are still there next year and the year after. I am concerned. How is this going to affect Minnesota mining, and specifically the jobs?

Mr. SMITH. With the 1,800 jobs we have in Minnesota, some of those are at risk due to the high levels of steel that are being imported into the United States. And just to correct something that I said earlier to Ms. Moore about our exports, we still export to Canada at a limited tonnage right across to Sault Ste. Marie, but going through Canada out to other markets into Europe, and into the Far East, we don't export anymore. So we have cut back our production tonnage at Northshore already this year, one our mines in Minnesota. And we have done that through attrition, but our customers are struggling with high levels of imports.

Mr. EMMER. How many jobs has that cost us in Minnesota so far?

Mr. SMITH. It is right at probably 200.

Mr. EMMER. Mr. Murphy, quickly, and then I am going to run out of time. I do have a question for Mr. Boyle if I can get there.

But you are talking about how we would be the only country without an Export-Import Bank. And contrary to what you may be suspecting, I want to know why it is important to maintain it. One of the things that caught me when you were talking was we need this to offset what other countries are doing. And yet, I assume you are aware that only a third of the Ex-Im's portfolio, or Ex-Im's work actually goes to a countervail, or to a deal with competitive Export-Import Banks from foreign countries. You are aware of that?

Mr. MURPHY. Yes, but some of the remainder goes to the circumstances I have mentioned where it is a bid requirement, and so on. And I think Doug Holtz-Eakin, former head of the CBO, said it well when he said, "I would like to live in a world where the Export-Import Bank is not necessary, but this is not that world."

Mr. EMMER. Okay, and Mr. Boyle, quickly, you talked about initially, when you are in this niche market where you take power plants from construction to operation, and that you went out initially looking for a line of credit, operating capital, and your commercial bankers wouldn't do it. They wouldn't take a security interest in your foreign accounts receivables, I think is what you had said.

Mr. BOYLE. Yes.

Mr. EMMER. And my question is, did they ask for a security interest in your domestic accounts receivable, in domestic hard assets?

Mr. BOYLE. They have 100 percent of my personal and corporate assets.

Mr. EMMER. And last question, just because I am going to run out, is, what is the collateral of the security interest that Ex-Im Bank asked you for?

Mr. BOYLE. Ex-Im Bank didn't ask me for it. Bank of America did.

Mr. EMMER. No, but you got the credit line with Ex-Im.

Mr. BOYLE. No. Bank of America asked Ex-Im Bank for the backing of my credit. I asked Bank of America. I had never asked Ex-Im Bank for any credit.

Mr. EMMER. What is the collateral that Ex-Im has?

Mr. BOYLE. The same as Bank of America, because Bank of America would be paid first, which is 100 percent of my personal and business assets.

Mr. EMMER. Thank you. That is what I want to know. I appreciate it.

Mr. SCHWEIKERT. The gentleman from Tennessee, Mr. Fincher.

Mr. FINCHER. Thank you, Mr. Chairman. Just a few comments. A few minutes ago, my colleague, Mr. Poliquin, was talking about Ex-Im Bank picking winners and losers, and Mr. Hochberg said this morning that he didn't feel that it did. But any time that American workers are picked over other countries, we are winning. So when we are making products and selling in all of the world, that is a positive step in the right direction. Mr. Hirst just listening, and I love Delta Air Lines too, just so you know, it is a great, great airline company. At Delta Air Lines, have you ever purchased Airbus airplanes using foreign Ex-Im financing?

Mr. HIRST. No, sir.

Mr. FINCHER. Are you in favor of reauthorization of the Ex-Im Bank with reforms?

Mr. HIRST. Yes.

Mr. FINCHER. Okay. Mr. Murphy, explain to us what happens, for example, credit insurance, if we don't reauthorize Ex-Im Bank, the private sector insuring some of these deals, if it goes away, what happens? Who steps up?

Mr. MURPHY. I think many small businesses have already had the experience that commercial banks are unwilling to provide that without an Ex-Im backstop. So I think a lot of those small businesses would no longer be able to export.

Mr. FINCHER. It is a shame when we have the conversation, I have been watching the debt clock, 18-plus trillion dollars here of all of the things that we could be focusing on trying to fix the debt problem, but we are spending a lot of time and a lot of energy here focusing on something that no doubt, I will be the first to admit, we need to reform. We have the bill to reform it. But it is actually something that returns money to the Treasury every year. We are changing the accounting standards to GAAP accounting standards, so if someone has a problem with that. But also, I am troubled by some of my colleagues continuing to go down this path of, well, it is the bank of 10 big companies. The top 10 get all of the loans, blah, blah, blah. Well, it is no fault of Boeing, or Caterpillar, or John Deere, or other companies that build products that are very expensive.

Boeing puts together airplanes that are built all over the country, and it just happens to cost a lot of money to sell these airplanes and to build these airplanes. So we are going to be now, a country of capitalism, in that you can be successful, but not too successful. We can be the country, and this is frustrating for me as a Republican, we can be the country and the land of opportunity and growth, but don't grow too much. Because if you do, then you are the enemy.

We somehow have to get our heads around that this goes back to the American worker, and being competitive around the world. And there are 60 other countries. I get it. In a perfect world, it wouldn't be needed. But the world is not perfect, and we have to stay competitive. And if we don't reauthorize this, jobs are going to be lost, and so we are, again, we have been beating this horse all day, and it seems like forever. We have to get this done. We owe it to the American workers. Let's don't punish job creators all over the country for something that is no fault of theirs. And let's continue to be competitive. And with that, Mr. Chairman, I yield back.

Chairman HENSARLING. The gentleman yields back. The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Thank you so much, Mr. Chairman. Thank you all for being here today. I just wanted to point out a couple of things. I will just get right into it.

Mr. Hochberg said in his statement today that Ex-Im Bank does not pick winners and losers; rather, it serves any eligible American business seeking competitive finance to export goods and services. That sentence alone suggests that you pick winners and losers when you are deciding who is eligible and who isn't eligible to receive that.

Mr. Hirst, have you ever been eligible for Ex-Im financing?

Mr. HIRST. No.

Mrs. LOVE. Okay. We will just leave it at that. I am having a hard time believing this argument that this bank doesn't pick winners and losers. I just have a quick slide I wanted to show, just some pictures here. Those are employees of Delta who actually just finished building a park for students. The others volunteered to build homes, on their free time, by the way, their own vacation time. Other volunteers who are Delta employees, you can go through the pictures and you can get my gist there.

We have been advocating for jobs. That is all I keep hearing about. Jobs here, jobs there. I want to know if their jobs are expendable? I want to know what about their jobs and the people that they serve and their families that they serve? One of the things that I love about my colleague on the other side of the aisle, Al Green, who talks about—he talked about justice for all. He talked about liberty and justice for all. He is incredibly passionate and I know that he loves this country. But where is the justice for some of these people who may have their jobs at risk?

This is not about a vote. This is not about you and me. It is not even about the votes that we make here today. What makes this country exceptional is not the decision we are going to make whether we—whether we vote to reauthorize Ex-Im Bank. It is about allowing people the freedom to make decisions on their own, to be able to compete in a world and in a country where government is not picking winners and losers for them.

I think that we would be doing a much better job in this body if we were spending our time here arguing—instead of arguing about how we are going to improve the Bank's exercise in picking winners and losers, that we could actually be spending our time talking about real justice in terms of how we reduce regulatory burdens, tax burdens on companies that prevent them from creating jobs. Why not fight for every single job by fighting for every single company by reducing the corporate tax rate that we have, by reducing burdens that we put on every single company? Why not save as many jobs as possible? This is what this body should be doing, not making decisions for other people and saying, hey, by the way, we are going to choose you, and not choose you. But we are going to say we are going to give as many people as many options as possible so that they have the best chance in providing for themselves and going back and helping their communities.

That is what I came here to do. What are we doing? If we are in the business of providing every—of making sure that every company is able to sell their products here and across the—across this—the great seas, then we are grossly underperforming.

Again, I want to thank you all for testifying here, for being here. But I want to be able to live in a world where my children can be able to compete equally and make choices and reap the benefits of those choices that they make. Thank you. I yield the remainder of my time.

Chairman HENSARLING. The gentlelady yields back. The Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman. Panel, thank you for your indulgence and your tenacity. I appreciate you staying through this process.

Mr. Hirst, you commented on, be a lender of last resort as a reform idea. And I am curious how you would see that manifest itself? What would that mean to you? What does that mean?

Mr. HIRST. Any applicant for bank financing, any foreign airline that would apply for bank financing would have to certify that it was unable, it had made an effort and was unable to obtain financing in the commercial markets for the aircraft that it wants support for.

Mr. HILL. Thank you, and Mr. Murphy, you talked a lot about international tenders for projects and products that companies bid on on a global basis. And you said that frequently financing was a component of that tender, and I don't think you meant to say ECA-type financing as a component of the tender. Perhaps you did. So I want you to clarify that for me. Because why wouldn't it just simply be that we are going to sell large-scale product X to a country or company and country Y, and that financing be provided, but are you implying that those tenders require only the ECA of the selling country?

Mr. MURPHY. That is exactly what I am saying. And it is a common practice in infrastructure projects around the world which are big business and huge opportunities for American exporters. That is one of the particular instances where it is required.

Mr. HILL. Thanks for the clarification. Would you describe that as a non-tariff barrier to American trade then?

Mr. MURPHY. Absolutely.

Mr. HILL. And in Trade Promotion Authority and when we think about TTIP, and TPP, should we be very cognizant of non-trade barriers like that when we look at those agreements, non-tariff barriers?

Mr. MURPHY. I think that the emphasis that a number of members of the committee have put on trying to find a path forward for international negotiations is something that we can all support. But I think one of the messages here today that we hear from around the world is that there is very little appetite from foreign governments to engage in that. They are all expanding in almost every instance their ECAs.

Mr. HILL. Particularly the European—we have heard a lot about Europe, particularly today that didn't affect our friends in the construction business, which is global, but in the aviation business, it seems to be Europe is a prime part of the discussion. And they are the primary countries that are seeking an Atlantic TTIP treaty with the United States, right, so don't we have some clout or credibility there in putting this on the table as a non-tariff barrier to be eliminated?

Mr. MURPHY. It is certainly worth trying, but as has been pointed out, China has four of these banks. They are providing volumes of export finance that are 10 and 20 times between the four different policy banks that China has, 10 and 20 times what our little old Ex-Im Bank is providing, so it is an uphill struggle.

Mr. HILL. Okay, thank you for that.

Mr. Boyle, I have never had an opportunity to question a boiler technician of your standing. So it is a treat. Thank you for coming, and thanks for your passionate story you told. Following up on Mr. Emmer, I had some of the same questions which was, when I meet people, some people apply for Ex-Im because their credit is insufficient to do a transaction. Others, it is the buyer. There is some buyer-seller problem in a foreign country, or the lack of credit standing.

So I take it in your discussion with Mr. Emmer, it was expanding or qualifying your credit on behalf of your primary bank. Do you think that was the nature of your receivables, and your inventory, and your balance sheet, or—

Mr. BOYLE. Yes and no, because my receivables are foreign-based and unsecure. They are with foreign corporations, Korean construction companies, GE, foreign companies overseas, GE's companies overseas, and large construction companies around the world.

Mr. HILL. I was a former commercial banker in my previous life, and we made loans to people who had foreign receivables, and we tended to take bank letters of credit from those countries, particularly if they were developed countries, or countries with a solid banking system. I wondered if you would explore that aspect of it and just get you to comment on that as well?

Mr. BOYLE. We haven't been able to make that become a reality. It is not available in the current marketplace that we can find. This discussion has been ongoing for some period of time, and we in small business across the United States that are currently working with the Ex-Im Bank, seek an answer to that question. And I think, hope as a strategy is what we are having a problem with at the moment, in that regard, is the answer isn't out there, and you want us to hope that it materializes overnight. If it materialized beforehand, we might have a discussion.

But there isn't anything that we know of. We don't have the resources to scan the globe looking for this. I have spent a great deal of time doing this, so you are putting the cart before the horse.

Mr. HILL. Thank you, Mr. Boyle. My time has expired and, again, I thank the panel. And thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. I understand the ranking member wishes to be recognized for a unanimous consent request.

Ms. WATERS. Thank you, Mr. Chairman. I seek recognition to insert into the record a document entitled, "GOL Issues $41 million Ex-Im Bank-Guaranteed Bond for Services Exported by Delta TechOps, MRO Division of Delta Air Lines."

Chairman HENSARLING. Without objection, it is so ordered.

There are no other Members in the queue on either side of the aisle, so this is good news for our panel. I wish to thank all of our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for today's panels, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is adjourned.

[Whereupon, at 5:30 p.m., the hearing was adjourned.]

A P P E N D I X

June 3, 2015

STATEMENT FOR THE RECORD

REP. JOYCE BEATTY (OH-03)

The House Financial Services Committee

Full Committee Hearing on

"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"

June 3, 2015

Mr. Chairman, here we are – only 14 legislative days away from shutting down a real job creating and economy boosting agency – the Export-Import Bank of the United States.

I am amazed that we have wasted every single day of last year's nine month charter extension of the Bank without so much as a legislative hearing or, of even more importance, having an up or down vote to reauthorize the Bank.

In this Congress, not one, but two reauthorization proposals have been introduced in the House, H.R. 1031 and H.R. 597 – each of them led by members of the House Financial Services Committee, but still no action on these bills.

Between the two measures, 191 House Democrats and 61 House Republicans are in support of reauthorizing the Bank in some form, but still no vote.

This bipartisan support for the Bank, however, is not surprising.

Unlike many other programs, it does not cost the federal government anything to reauthorize the Bank, as its customers pay fees and interest for the financial services offered by the Bank.

Last year alone, the Bank supported $27.5 billion worth of U.S. exports and an estimated 164,000 U.S. jobs.

In fact, since 2007, the Bank has supported 13 companies in my district - Ohio's Third - while providing $67 million in support for exports.

My constituents – like a majority of Americans – support reauthorizing the Export-Import Bank and want Congressional action to ensure it remains open to continue to invest in American companies.

Just last month, I received a constituent letter from an employee of GE Energy, an electrical solutions business based in my district.

In it he writes, "Ex-Im Bank is important to companies like mine to have access to the critical support that we rely on to sell our goods overseas….Without it, our work – and some U.S. jobs – may go with it as companies from China and Russia win the business instead."

He closes the letter candidly, "Cutting the Ex-Im Bank is the last thing you should do…Congress should be looking to improve agencies like this, not cut them."

Mr. Chairman, for the good of domestic manufacturers, U.S. exporters, job creation, lowering the federal deficit and reducing the trade deficit, I implore you, bring a vote to reauthorize this institution before June 30, 2015.

Statement of Representative Kyrsten Sinema
June 3, 2015
Committee on Financial Services Hearing, ``Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing''

Thank you Chairman Hensarling and Ranking Member Waters for holding this important hearing on the reauthorization of the Export-Import Bank. I support the reauthorization of the Export-Import Bank because helping Arizona businesses expand their manufacturing capacity and exporting ability creates jobs and grows our economy.

The Export-Import Bank fills gaps in private financing, stepping up where the private sector can't or won't. In 2013, Export-Import Bank Chairman Fred Hochberg visited my district to help small and growing businesses increase their global exports right from our own backyard. From 2007 to 2015, the agency supported $208 million in exports from AZ-09 companies.

ServerLIFT is a high-tech Arizona company that employs workers in my district and specializes in the manufacturing of lifts for lifting and handling data center servers. This company originally manufactured in China and moved operations back to the U.S. in several stages over the past few years. This effort – combined with growth in domestic and international sales – helped ServerLIFT double the number of its U.S. employees.

In June 2011, ServerLIFT received a $250,000 Express Insurance policy from the Export-Import Bank with approved foreign buyers in Ireland and Turkey. ServerLIFT can now seek new business by extending terms to international buyers via Express Insurance. As a result of having an insurance policy with the Export-Import Bank, ServerLIFT has expanded its list of potential distributors and, therefore, driven up overall sales.

ServerLIFT is not the only Arizona business to benefit from Export-Import Bank support. In March 2015, Antenna Technology Communications, Inc., Av-Air, Inc., Axus Technology LLC, Blockwise Engineering LLC, Mobility Research, Inc., Paragon Vision Sciences, Inc., and Trio Forest Products, Inc. utilized $1,341,816 in Export-Import Bank financing to grow and add jobs in my district.

As we all know, the Export-Import Bank's current charter is set to expire at the end of June. A lapse in authorization would threaten the competitiveness of these and many other Arizona businesses. I am a co-sponsor of legislation to extend the Export-Import Bank's authorization and will continue to work to reauthorize this important investment in American jobs.

BOYLE ENERGY SERVICES & TECHNOLOGY, INC.
SigmaCommissioning™....It's about time!

Written Statement of Michael P. Boyle
President and CEO, Boyle Energy Services & Technology, Inc. (BES&T)
Manchester, New Hampshire 03101
before the
U.S. House Committee on Financial Service Hearing
"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"
June 3, 2015

BES&T is an exporter of U.S. Patented Commissioning Technology know as SigmaCommissioning. The most advanced equipment and engineered process available in the world today. BES&T and Sigma significantly helps its clients (global energy companies) start (commission) their energy infrastructure projects for far less cost, fuel, water and time.

In short, we convert the largest power plants and refineries from a construction environment into an operating environment faster, less costly and with a higher degree of quality than is available anywhere else in the world.

In the first 10 years of BES&T's history we did 90% of our work in the US.

We then spent 4 years inventing and perfecting our new commissioning technology before declaring our services, equipment, and engineering to be out of the R&D stage and therefore commercially viable.

We began exporting the work. Foreign companies had very limited technical support for our work and the competition for technical services was very weak. This meant that our clients would most likely be first adopters of this new technology. We were right. We also wanted to be tested, to apply our services in remote locations, in extraordinary terms on the toughest projects.

To be certain we could pay our people and vendors should clients not pay in far off lands, we insured our work with the EXIM bank. We sought to protect against major cash-flow disruption as we had little knowledge of collection, legal recovery, or any other understanding of the commercial codes of the countries where we were deploying our services. We could do the work but did not know what we would do if a foreign buyer did not pay us.

As our service became accepted and our abilities grew, so did our receivables. We solicited a National US Bank to provide us with the needed credit to support our working capital. They were agreeable to it domestically but we were informed that they had no means of securing our collateral to perfect full collection from foreign countries if we were to default. Even though those receivables were insured. So we worked with them to apply for a working capital guarantee package with EXIM much as we had done when we bought our first building using 504 support through the SBA. We were approved and fees were required and paid. Since the time we began with the credit insurance and the working capital LOC we have had neither claims nor losses that required EXIM support to the bank.

Here are some of the results. In the 7 years since we began exporting and working with EXIM we have:

- Become known as the most advanced technical commissioning service company in power in 22 countries
- Spent $71 million on the cost of producing our work
    - Trucking
    - Pipe and materials
    - Valves
    - Pumps
    - Filters
    - Manpower
    - Airfare
    - Fabrication
    - Chemicals
    - Hoses
    - Fittings
    - Ocean Freight
    - Air Freight
- Spent $25 million on back office or SGA support.
- Paid 25% of our profits in federal taxes to the Treasury Department
- Repatriated *all* of our profits.
- Increased our revenue 4x
- Increased our employment 6x
- Paid 100% health insurance for all our workers.
- Paid Christmas and Profit sharing bonuses
- Provided an average wage of $100K USD over our entire employment force
- Increased benefits by adding dental, 401k, Life insurance, PTO, Family Leave etc.
- Worked in 22 countries
- Filed for and received further US Patents
- Received an Audit by the IRS with received a notice of no changes or faults.
- Donated $218,000 to local charities and non-profits in New Hampshire
- Successfully completed 60 projects
- Completed 5x the revenue in the second 10 years of the company as was completed in the first 10 years
- Eliminated 80,000,000 gallons of hazardous chemical waste in foreign countries.
- Opened new markets in Oil and Gas production to augment power plant work.
- Commissioned more than 27,351 megawatts of power and 200,000 barrels of oil per year from natural gas.

I personally have so enjoyed, and our company has benefited so much from the experience of and value derived from the EXIM bank that I was honored to be asked to volunteer my time to serve on the Advisory Committee of the bank, and have cosigned the 2013 and 2014 Competitiveness Report to the Congress of the United States. During that time I was chosen to serve as Chairman of the Sub-Committee on Public Engagement to the Advisory committee. I have also worked and consulted directly with Chairman Fred Hochberg on the issues impacting small business. I have also been asked to consult on the operational content and usability of the website offered by the bank. I have given voice to my experience to members of congress, regional resource and economic development offices in New Hampshire, to local businesses thinking of working with EXIM. I have even been so honored as to join Chairman Hochberg in a discussion of the EXIM bank in the Roosevelt Room of the Whitehouse. To date my finest hour.

I can therefore state that I have been witness to positive changes in the bank's operating approach since my colleagues and I volunteered to serve on the advisory committee. We, and the information we have imparted, have had a direct impact on the bank because the bank's leadership was fully intent on providing the best support not just to small business, but to *all* businesses using the bank's services. The bank and each and every employee of the EXIM bank I met and worked with cared greatly about our concerns and took action to make the experience and value greater.

I have very good knowledge of the value of this bank to both the US exporter companies using the bank and the taxpayers in the US.

While I wish that there were no ECA global competition for credit support, there is. In as much as I have read and been required to review and make comment on the OECD and Non-OECD research of the activities of the global competitors to US exporting I am fully aware that both good and bad actors are in abundance across the world, and that their supporting ECAs are outspending in both percentage and real dollars the EXIM bank of the US. These actions are deliberate and these organizations will go to great lengths to create the unbalanced competition that we would like to have eradicated.

Until such time as there is no further need for global ECA competition, I would therefore ask the House and Senate of the United States to consider the following actions.

1. Re-authorize the EXIM bank for 7 years.
2. Add an addition 20 billion USD authority to the Bank
3. Allow the bank greater flexibility to advertise its existence and benefits.
4. Allow the bank greater budget flexibility to conduct regional training and recruitment of customers.
5. Establish treaties with Non-OECD countries to severely restrict and penalize unfair ECA support or non-competitive actions related to exports
6. Ensure 100% compliance with the law of the United States and all foreign Borrower nations.

7. Ensure that US policy support by the bank is fair and equally balanced.
8. Promote the establishment of a global Uniform Commercial Code or similar instrument for the security of international assets derived from commercial transactions.
9. Empower domestic banks to further support export credit of viable receivables and exported collateral under some strict country limitation schedule.
10. Negotiate ECA interest rates worldwide to stabilize differentials.
11. Vigorously promote the bank to small businesses.

In conclusion, we, as American business people value our support from our government. I personally have benefitted from being a citizen of the United States. When I was young my mother reached out for food stamps and welfare to assist us till we could get on our feet. I had school lunch programs in the public schools I attended. Not being able to afford college I joined the United States Navy. I was trained to be a boiler technician over a 6 year period. I traveled the world on 3 destroyers and a tender and earned a great education in life, leadership, steam, and boilers. I was honorably discharged and have gone on to build a family and a company. My company has 60 families employed and we all still travel the world and we still work on boilers. I have been blessed to have the people and government of these United States beside me then and beside me now. I have estimated that my work in this regard has returned many time over the money given to my mother for my benefit and the salary I earned in the Navy. I have visited the White House, and am now here in the Capitol speaking to our Congress. Beyond all that I have accomplished, my mother and father are proud, my wife and sons too.

So I will make you a promise. When I don't need to use the EXIM bank any longer, when we have grown our business and employed hundreds more people, I will stop using the bank. But even then, I will volunteer my time to defend this organization and its people, and to help each and every small business that asks me to help them learn to export and how to do so with EXIM.

I love my country, am grateful to have its help, and wish to thank the Congress for making this valuable tool available.

Thank you for the honor of participating in this discussion.

God Bless the United States of America

Michael P. Boyle

President and CEO

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CONWAY MACHINE, INC.
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Testimony of Rachael Cox
Vice President, Business Development
Conway Machine, Inc.
Before the House Financial Services Committee
June 3rd, 2015

My name is Rachael Cox, and I am VP of Business Development for Conway Machine, Inc. Conway Machine is a Woman-Owned Small Business specializing in precision machining (Swiss style and Standard CNC Turning & Milling) as well as a manufacturer of replacement parts for the Printing & Packaging Industries. I am an Air Force wife. My husband is presently deployed, and I therefore rely heavily on my network of family and friends in the caretaking of my two young daughters. My parents purchased the business when I was about 8 years old so I like to say that I have a "lifetime" of experience in the industry! In 2010, as it seemed the whole economy was a whirlpool sure to suck us under, my parents requested I join the business and like a good daughter, I obliged.

This is a likely story for many family-owned small businesses. We are the backbone of the economy and touted as such when it is politically favorable. What is much less often mentioned in grandiose campaign speeches or in the headline of the business section is the personal sacrifice and real collateral that small business owners are forced to shell out: personal property, investments, the dream house, your children's college funds. This is probably the greatest differentiator between small businesses and large corporations: the small business owner risks his entire life's financial accomplishments. Following the crash of 2008, we struggled to keep our doors open and some of our own collateral was sacrificed.

When you have put as much of your life into something as a small business owner has, you get to a point where you can't walk away—financially or otherwise. So, when I came on board, we re-grouped and re-focused. If the U.S. economy could not provide the sales we needed, we would find the sales in new markets overseas.

With this new goal to increase exports, the office morphed into a call center. Our database of thousands of customers was culled through one by one. Nearly half had gone out of business. Those that had survived had a new, keen appreciation for our product: high quality at an affordable price.

We invested in a brand new website. "Adwords for Dummies" became the office textbook as we worked to improve our SEO results. We hired a web marketing manager. Along with the makeover came new brochures, business cards and catalogs. Business trips, email blasts, referrals and social media were employed. We joined the Conway Chamber of Commerce, then the Arkansas State Chamber of Commerce. We started exhibiting at tradeshows again. The past decade had seen little to no sales or marketing efforts. Now, all of our resources were poured into that endeavor.

It didn't take long to start seeing results. As we began to recover, we became overwhelmed. Any small business owner can attest that on any given day, you are wearing about five different hats, of which all you are the expert. So as we worked to re-introduce Conway Machine to the international stage, we brought on another sales person.

All of this was building up to one grand goal: to attend DRUPA 2012. With 314,248 visitors from 20+ countries, it is the largest Print/Packaging Tradeshow in the world. An 11-day long show, it is held every three years in Dusseldorf, Germany. Conway Machine, Inc. had been absent the last time the show was held. We did not plan on making that mistake again.

The month of May 2012 was spent at DRUPA. With our new brochures (in three different languages), fancy website and digital catalogs at the ready, we announced "We are back." With a month of exhibiting completed, the follow-ups then took place.

My first full year with the family business saw total exports of $367,000 in 2011 (13% of overall sales). The shop was running a day shift with about 15 employees. In 2012, that grew slightly to $441,000 (16% of overall sales). In 2013, after the Germany tradeshow, we saw a nearly 50% increase to $809,000 in exports (25% of overall sales). That same year, Conway Machine was awarded the Governor's Award for Excellence in Exporting.

We maintained these new customers the following year with $875,000 in exports in 2014 (25% of overall sales). For the current year, we are expected to maintain exports at about 25% of overall sales. We have doubled our workforce and now employ an average of 30 full time workers. We run a day and night shift and are trying to add a weekend shift as well. Last year, Conway Machine made a large investment ($1 million dollars) in new equipment last year. By the end of the summer we will be moved in to our new addition of over 5,000 square feet of production facility expansion. All of these have served to increase our capacity, technological expertise and overall quality of product and price.

Our 12% increase in exports over a four year period was accomplished without the assistance of the ExIm Bank. That is not to say that Conway Machine is adverse to government resources for small businesses. We have good relationships with the folks at the Arkansas World Trade Center, and I am currently taking a class with the Small Business Administration. However, Conway Machine is not dependent on the government for our success. When I researched the ExIm Bank and especially the sign-up process, it became clear that it is designed for large businesses. The amount of information that was required was overwhelming at best and invasive at worst. After some consideration, I decided against it.

As an Air Force wife, I consider myself a bit of a patriot. It's important to remember that our servicemen sign up because they wish to protect and defend the Constitution. They understand and cherish the fact "that all men are created equal, that they are endowed by their creator with certain unalienable rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed."

As you consider the renewal of the ExIm Bank, I would ask you to consider our founding documents and the principles from which they were derived. What is the purpose of government? And in fulfilling that purpose, what is the role of government?

It seems that if government aims to aid small businesses in their exports and thereby grow the domestic economy, it would be much more beneficial to create Free Trade Agreements with more countries and decrease the red-tape barriers to trade.

While the ExIm Bank may work for some companies in other industries, it has not been a resource for Conway Machine. As previously stated, we have grown our exports by 50% and doubled our workforce without use of the ExIm Bank. Given the complaints, it may be time to consider whether it is benefitting the citizenry that it was originally intended to benefit?

TESTIMONY OF RICHARD B. HIRST
EXECUTIVE VICE PRESIDENT AND CHIEF LEGAL OFFICER
DELTA AIR LINES

BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

JUNE 3, 2015

INTRODUCTION

Chairman Hensarling, Representative Waters, and members of the Committee, on behalf of Delta Air Lines and our hard-working employees, I want to thank you for giving me the opportunity to testify regarding the continuing need for strong congressional action to prevent the Export-Import Bank of the United States from causing harm to U.S. airlines and their employees. All of us at Delta appreciate the Committee's use of its time and resources on these important issues.

Almost a year ago, Delta's Chief Executive Officer, Richard Anderson, testified before this Committee regarding the harms inflicted on U.S. airlines by the Bank's practice of providing loan guarantees to subsidize foreign airlines' purchases of wide-body aircraft. We are resubmitting Mr. Anderson's testimony as an attachment to mine because Delta's position regarding the Bank has not fundamentally changed. We still believe that competition for the business of international airline passengers should take place on an even playing field. We still believe that the Bank's policy of subsidizing our foreign competitors tilts that playing field, harming U.S. companies and their workers. In addition, developments in the last year show even more clearly that Congress must – and only Congress can – put a stop to the continuing subsidies that the Bank continues to provide to foreign airlines by deploying the full faith and credit of the United States to support their aircraft purchases.

Among other things, the Bank has continued its massive support of foreign airlines, providing them with $6.8 billion in Treasury-backed loan guarantees in fiscal year 2014. It has also continued its embrace of our state-owned and state-supported competitors, such as Emirates – companies that already receive market-distorting assistance from their own governments and do not need more from the United States. It has refused to give any substantive consideration to the economic impact of its actions, and has instead adopted procedures designed to frustrate any such review. Recent rulings from Delta's long-running litigation against the Bank make clear that the courts will not rein in the Bank. Congress must now act to do so.

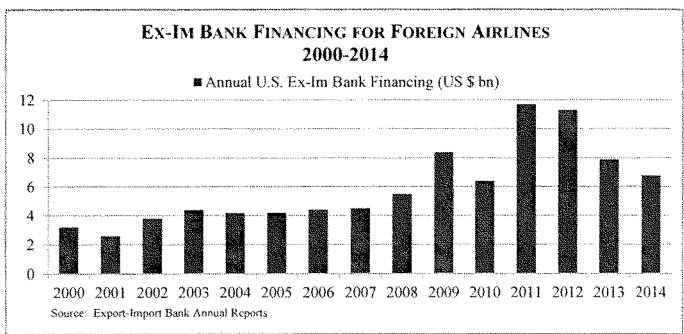
If the Bank is to be reauthorized, it can only be in the context of meaningful reform – reform that strictly limits the Bank's role to serving as a lender of last resort where private financing is not available. That is the role that Congress contemplated for the Bank when it provided that "the Bank in the exercise of its functions should supplement and encourage, and not compete with, private capital."[1] By removing the Bank's authority to compete with private sources of financing, Congress can ensure that the United States leads the world in reducing government subsidies through export financing. Our exporters, including Boeing, can and should win

[1] 12 U.S.C. § 635(b)(1)(B)(ii).

business on the merits of their products in free and fair competition rather than by relying on government aid. Such decisive and immediate congressional action, moreover, can revitalize international negotiations over aircraft financing that have been stalled for years.

THE BANK SUBSIDIZES OUR FOREIGN COMPETITORS

As Mr. Anderson's detailed testimony explained last year, the Bank's aircraft financing program allows foreign airlines to receive loan guarantees backed by taxpayer dollars for their purchases of wide-body aircraft. Because they allow those airlines to borrow at below-market rates, those guarantees are subsidies, plain and simple – as the Government Accountability Office has recognized,[2] though the Bank has long denied it. Loan guarantees to foreign airlines, moreover, have long been the mainstay of the Bank's business. Over the past five fiscal years, an astonishing 46% of the Bank's total financial exposure has been devoted to air transportation. In 2014, the Bank reported that it had almost $51 billion in outstanding loans and loan guarantees solely for air transportation.[3] No other sector in which the Bank operates comes close to these amounts. As the chart below shows, the Bank has issued hundreds of aircraft loan guarantees worth billions of dollars in the preceding decades.



Taking into account the spike in transactions in 2011 and 2012 as airlines sought to have financing approved under the previous, lower rate structures, the Bank's volume of business remains at historic levels. The Bank's subsidies to our foreign competitors remain enormous, including Treasury-backed guarantees of approximately $6.8 billion for 20 transactions in 2014. Considered over time, the Bank's guarantees have reached well into the billions of dollars for a host of foreign airlines. All or most of the airlines on this list can readily access commercial financing markets when purchasing aircraft. The list includes some of the most profitable

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[2] *See* U.S. Government Accountability Office, *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management*, at 21-22 (Mar. 2013), *available at* http://www.gao.gov/assets/660/653373.pdf.

[3] 2014 Annual Report, *Export Import Bank of the United States*, at 62 (Exhibit 8) ("Ex-Im 2014Annual Report"), *available at* http://www.exim.gov/sites/default/files/reports/annual/EXIM-2014-AR.pdf.

airlines in the world. For instance, Emirates reported 2014 profits of $1.2 billion,[4] Ryanair reported 2014 profits of $944 million,[5] Turkish Airlines reported 2014 profits of $845 million,[6] and Korean Air reported 2014 profits of $355 million.[7]

TOP AIRLINE RECIPIENTS OF EX-IM FINANCING 2000-2014

Rank	Airline	Ex-Im Financing (millions)
1	Ryanair	$6,033
2	Air India	$5,216
3	Korean Air	$4,998
4	Emirates	$4,206
5	LATAM	$4,205
6	Cathay Pacific Airways	$3,403
7	Air China	$3,289
8	Turkish Airlines	$3,070
9	Ethiopian Airlines	$2,578
10	Thai Airways Intl Ltd.	$2,173
11	WestJet Airlines	$1,935
12	Virgin Australia	$1,844
13	KLM Royal Dutch Airlines	$1,769
14	Air Canada	$1,586
15	China Airlines	$1,503
16	Jet Airways Ltd.	$1,433
17	Asiana Airlines	$1,379
18	Kenya Airways	$1,379
19	Copa Airlines	$1,336
20	Norwegian Air Shuttle ASA	$1,298

Emirates – which has received $4.2 billion in Treasury-backed loan guarantees since 2000 – is perhaps the best example of unneeded ExIm assistance. In 2014, Emirates ranked highest in the world in widebody capacity. It has ready access to private financing, boasts $5.5 billion in cash reserves,[8] reported operating profits of $1.2 billion last year,[9] and is exempt from a range of

[4] The Emirates Group Annual Report: 2014-2015, at 4 ("Emirates 2014-15 Annual Report") (assuming a 1 AED to 0.27 USD conversion rate), *available at* http://www.theemiratesgroup.com/english/facts-figures/annual-report.aspx.
[5] Lewis Dean, *Ryanair results: Irish airline profits soar to £613m after increase in passenger numbers*, Int'l Business Times, May 26, 2015, *available at* http://www.ibtimes.co.uk/ryanair-results-irish-airline-profits-soar-613m-after-increase-passenger-numbers-1502906.
[6] Turkish Airlines, *Turkish Airlines recorded 845 million USD net profit, 638 million USD operating profit in 2014* (Feb. 2, 2015), *available at* http://www.turkishairlines.com/en-int/corporate/press-room/press-releases/press-release-detail/turkish-airlines-recorded-845-million-usd-net-profit-638-million-usd-operating-profit-in-2014.
[7] Ellis Taylor, *Korean Air swings to big operating profit in 2014*, Flightglobal (Feb. 12, 2015), *available at* http://www.flightglobal.com/news/articles/korean-air-swings-to-big-operating-profit-in-2014-408973/.
[8] Emirates 2014-15 Annual Report at 4 (assuming a 1 AED to 0.27 USD conversion rate), *available at* http://www.theemiratesgroup.com/english/facts-figures/annual-report.aspx.

taxes in its home jurisdiction, making it a formidable competitor even when it borrows at unsubsidized rates. Emirates has publicly stated that it has used Ex-Im financing for 12% of its entire Boeing fleet.[10] In the last few years, Emirates received an Ex-Im loan guarantee worth $297 million in December 2011,[11] another worth $436 million in November 2012,[12] and another worth $284 million in January 2014.[13] It has also applied for another guarantee just this past month.[14] Each subsequent loan guarantee comes with a subsidy courtesy of U.S. taxpayers – a subsidy that Delta estimated last year was worth $20 million per plane, as the chart below demonstrates. Emirates is able to use these immense savings to compete aggressively with us and with other American carriers, cutting ticket prices and adding capacity on already competitive international routes.

ExIm Subsidies Benefit Foreign Carriers; Harm U.S. Airlines

In 2012 and 2013, Emirates conducted both ExIm-backed and market-based (EETC) financings. The benefits of using ExIm support are highlighted in the chart below.

	Emirates **ExIm** (June 2012)	Emirates **Market*** (June 2012)	Emirates **Market*** (June 2013)
Type and Number	2 Boeing 777s	4 Airbus A380s	4 Airbus A380s
Coupon	2.00%[1]	5.48%[2]	5.48%[2]
Loan-to-Value	80%[3]	66%	69%
Loan-to-Value Price Adjustment	0%	.69%	.54%
Annualized ExIm Fees	1.41%[4]	0%	0%
Total Annual Rate	**3.41%**	**6.17%**	**6.02%**

Emirates saves approx $20m per plane by using ExIm

*EETC through a lessor to fund four A380 aircraft.
1 2.00% is actual rate from 6/18/12 ExIm bond. Average life was 6.32 years, similar to the EETC of 5.7. In July 2012 Emirates issued another ExIm bond at 1.55% coupon, but with a shorter average life of 4.93 years (which based on yield curve would be expected to be lower rate).
2 5.48% is blended average coupon of the A/B tranches as priced on 6/21/12 and 6/24/13. The issuer of the EETC was "Doric Nimrod Air Finance Alpha" and "DNA Alpha but the credit was Emirates".
3 Assumes 80% LTV, maximum allowed for a Risk Category 1 credit.
4 141 bps is average quarterly MPR for Risk Category 1 credit from the beginning of the 2011 ASU up to and including the July 2012 quarter.

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[9] *Id.*
[10] Emirates Airline, *Airlines and subsidy: our position* at 14 (2012), *available at* http://www.emirates.com/english/images/airlines%20and%20subsidy%20-%20our%20position%20new_tcm233-845771.pdf.
[11] 2012 Annual Report, *Export-Import Bank of the United States*, at 40, *available at* http://exim.gov/sites/default/files/reports/annual/exim_2012annualreport.pdf.
[12] 2013 Annual Report, *Export-Import Bank of the United States*, at 37, *available at* http://archive.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
[13] Ex-Im 2014 Annual Report at 49.
[14] Export-Import Bank of the United States, *Application for Final Commitment for a Long-Term Loan or Financial Guarantee in Excess of $100 Million: AP088934XX*, Public Notice 2015-0009, 80 Fed. Reg. 25,290 (May 4, 2015), *available at* http://www.gpo.gov/fdsys/pkg/FR-2015-05-04/pdf/2015-10250.pdf.

THE BANK IGNORES THE EFFECT OF ITS SUBSIDIES ON U.S. AIRLINES

When Congress last reauthorized the Bank in 2012, it incorporated several reforms, including an requirement that the Bank give public notice and respond to comments on certain large exports – those exceeding $100 million in value – that "may be used to . . . provide services in competition with . . . the provision of services by a United States industry."[15] Combined with the Bank's long-standing statutory obligation to "take into account any serious adverse effect of [any] loan or guarantee on the competitive position of United States industry . . . and employment,"[16] those new provisions should have signaled clearly to the Bank that it should give serious consideration to the economic impact of its subsidies on U.S. airlines and their employees. Indeed, in theory, the Bank agrees that is required to consider such impact. In practice, however, the Bank applies a set of procedures it calls "screens" that exclude any such harm from substantive consideration. As Mr. Anderson explained in his testimony last year, those screens "function in the vast majority of cases to allow the Bank to approve guarantees without ever having to give serious consideration to their effects on U.S. airlines."

Since that time, it has become clear just how the Bank designed its new screening and analysis procedures – and why they function as they do. In November 2014, after delaying for years, the Bank finally released documents in response to a Freedom of Information Act request from Delta's counsel. Those released documents show that the Bank designed the majority of its screens with the help of Boeing and with the deliberate purpose of excluding the vast majority of commercial aircraft transactions.[17] Policy analysts at the Bank reached out to a senior manager in Boeing's "Airline Financial Analysis" group to ask how long the economic impact analysis period should last. He explained that an 18-month period might end up "capturing too many customers" and "recommend[ed]" a shorter "rolling 12-18 month[]" period.

The newly released documents also show that the Bank asked for Boeing's help because it knew that most of the transactions would *not* go forward if they were subjected to detailed economic impact analysis. For example, Robert Morin, then the head of the Bank's Transportation Division and now its senior Vice President for Business and Product Development in Export Finance, wrote to Boeing employees that it was "important [to] establish the correct procedures" because "[s]ubjecting and applying other transactions to detailed analysis under economic impact procedures has had the effect of killing most of those deals." He added: "if Boeing expects Ex-Im Bank to continue supporting wide-body aircraft, we need to get this right."

The Bank's screens have had their intended effect of removing any possibility that the 2012 Reauthorization Act would seriously affect the Bank's subsidies to foreign airlines. Under the new procedures, the Bank has completed only one "detailed economic impact analysis" – that is,

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[15] Export-Import Bank Reauthorization Act of 2012 ("2012 Reauthorization Act"), Pub. L. No. 112-122, § 9, 126 Stat 350, 354 (codified at 12 U.S.C. § 635a(c)(10)(C)(ii)(I)).
[16] 12 U.S.C. § 635(b)(1)(B).
[17] *See* Timothy P. Carney, *Here are the emails between Export-Import Bank officials and Boeing officials*, Washington Examiner, Mar. 30, 2015, *available at* http://www.washingtonexaminer.com/here-are-the-emails-between-export-import-bank-officials-and-boeing-officials/article/2562276.

one transaction that passed its "screens."[18] The Bank thus has never analyzed the harmful effects on U.S. airlines of its transactions with its largest state-owned and -supported foreign airline beneficiaries, despite pledging billions of taxpayer dollars to these airlines. Indeed, the Bank has *withdrawn* more detailed economic impact analyses than it has conducted, including one withdrawn after the foreign airline modified a loan-guarantee application to fall within one of the Bank's "screens."[19]

The Bank also routinely provides financing to airlines without seriously considering whether that financing is necessary for Boeing to win a particular order. As an example, Emirates placed the largest-ever civil aircraft order with Boeing in November 2013,[20] an order which will generate work for Boeing for years, but canceled a multibillion-dollar order for 70 aircraft with Airbus this past summer.[21] There can be no doubt that Emirates is committed to the Boeing 777. Yet Emirates filed an application for financing with the Bank this past month and will receive a loan guarantee in the hundreds of millions of dollars. The bank even provides financing to all-Boeing airlines such as LOT, to which it issued a nearly $475 million loan guarantee, and Ryanair, which has received over $6 billion in Ex-Im financing despite only operating Boeing narrowbody 737s. To be clear, the decision to maintain a fleet of one aircraft type is strategic and long-term. These airlines are committed to this model because of the cost-savings they believe can be realized from a simplified maintenance and operations structure. A deviation from that model to purchase Airbus would destroy their strategic advantage and send costs spiraling. For such airlines, there is no meaningful competition from Airbus to justify the Bank's financing.

RECENT COURT RULINGS HAVE INDICATED THAT CONGRESS MUST TAKE ACTION

Delta has previously sought to enforce the Bank's statutory duties through several challenges to its actions. Recently, a federal court dismissed Delta's complaints against the Bank.[22] The Bank has treated those rulings as vindicating aircraft subsidies; but in fact they do nothing of the kind, and instead only underscore the need for Congress to act. In rejecting Delta's challenges, the court stated that "the Bank Act creates far more questions than it answers regarding how the Bank should implement the statutory scheme. Indeed, the obligations imposed on the agency by the Bank Act are, at best, modest and, at worst, riddled with gaps that must be filled by the

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[18] *See* Export-Import Bank of the United States, *Intent To Conduct a Detailed Economic Impact Analysis*, 78 Fed. Reg. 69,669 (Nov. 20, 2013), *available at* http://www.regulations.gov/#!documentDetail;D=EIB-2013-0006-0010.
[19] *See* Export-Import Bank of the United States, *Intent To Conduct a Detailed Economic Impact Analysis*, 78 Fed. Reg. 66,929 (Nov. 7, 2013), *available at* http://www.regulations.gov/#!documentDetail;D=EIB-2013-0006-0011; *see also* Export-Import Bank of the United States, *Intent To Conduct a Detailed Economic Impact Analysis*, 79 Fed. Reg. 57,930 (Sept. 26, 2014), *available at* http://www.regulations.gov/#!documentDetail;D=EIB_FRDOC_0001-0341.
[20] Emirates Airline, *Emirates announces largest-ever aircraft order*, Nov. 17, 2013, *available at* http://www.emirates.com/english/about/news/news_detail.aspx?article=1443077.
[21] Nicola Clark, *Emirates Cancels Major Order From Airbus*, N.Y. Times, June 11, 2014, *available at* http://www.nytimes.com/2014/06/12/business/international/emirates-cancels-major-order-from-airbus.html?_r=0.
[22] *See Delta Air Lines, Inc. v. Export-Import Bank of the United States*, No. 13-0192, 2015 WL 1421206 (D.D.C. Mar. 30, 2015); *Delta Air Lines, Inc. v. Export-Import Bank of the United States*, No. 13-424, 2015 WL 1424021 (D.D.C. Mar. 30, 2015); *Delta Air Lines, Inc. v. Export-Import Bank of the United States*, No. 14-42, 2015 WL 1424152 (D.D.C. Mar. 30, 2015).

Bank."[23] These gaps and ambiguities, the court concluded, gave the Bank near-total discretion about how and whether to consider economic impact.

The district court thus took the view that only Congress – not the courts – can impose any meaningful restrictions on the Bank's discretion, and that Congress had not yet done so either in the Bank's original statutory charter or in the 2012 Reauthorization Act. Delta believes strongly that the court misunderstood Congress's intent and that Congress meant the Bank's existing economic impact obligations to be real and substantive, with a remedy in the courts when the Bank has failed to comply. Nevertheless, the recent rulings demonstrate that current law is far too unclear, and that Congress must give clear instructions if the Bank is to operate under any real constraints at all. Indeed, the court invited just such instructions, stating that "as part of th[e] next reauthorization process, Congress will have another opportunity to clearly communicate to all interested parties what role it wants the Bank to play in financing aircraft transactions."[24]

NEGOTIATIONS TO ELIMINATE EXPORT CREDIT SUBSIDIES MUST BE PART OF REFORM – AND THE UNITED STATES MUST LEAD THE WAY

The other major avenue for reform that Congress attempted to introduce in the 2012 Reauthorization Act was to instruct the Treasury Department to undertake negotiations "with all countries that finance air carrier aircraft with funds from a state-sponsored entity, to substantially reduce, with the ultimate goal of eliminating, aircraft export credit financing."[25] Delta fully supported that initiative at the time and continues to support it today; negotiations to reduce export credit financing to zero are ultimately the best solution for both Boeing and U.S. airlines, as well as for air travelers worldwide, who will be the ultimate beneficiaries of the increased competition made possible by a truly level playing field. To date, however, there has been essentially no progress. When Mr. Anderson testified before this Committee, negotiations had not even commenced. That remains the situation today.

Delta believes that the only way to secure real movement on this front is for the United States to lead by example by sharply curtailing the Export-Import Bank's role in subsidizing aircraft exports. Doing so will create an immediate incentive to press our allies and trading partners to reduce their own subsidies, and will bolster our credibility when we do so. America has historically led the world as an advocate of free markets and open competition; it is well suited to lead the way in reducing aircraft export subsidies, and we already have partners in Europe that would like to see this issue addressed. Legislation that significantly reduces the Bank's role will ensure that the comfortable status quo is no longer an option.

Indeed, the present situation is a uniquely good time for such a move. Boeing – the principal domestic beneficiary of the Bank's aircraft financing program – is currently in extraordinarily strong competitive position. In 2014, Boeing delivered a record-setting 723 aircraft, breaking the previous year's record of 648 aircraft.[26] As of April 2015, it is on track to break 2014's record, with 250 deliveries in the first four months of this year, and with a production backlog of 5,667

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[23] *Delta*, 2015 WL 1424021, at *18.
[24] *Id.* at *2 n.1.
[25] 2012 Reauthorization Act § 11(a), 126 Stat. 357.
[26] The Boeing Co., *Orders & Deliveries*, *available at* http://www.boeing.com/commercial/#/orders-deliveries.

aircraft.[27] If Boeing maintains its current record-breaking production rate, it will still take seven-and-a-half years to complete the work it has currently lined up. And Boeing continues to generate new work at a rapid pace, having added 1,432 aircraft to its order book in 2014.[28]

Boeing's remarkably strong order book cannot be attributed to the Bank's help. Financing terms are generally unknown at the time that initial orders are placed. Boeing is able to achieve its success because it is a strong competitor that wins on the strength of its product. Airlines like Emirates buy Boeing planes because they fit with its business strategy; the Bank's subsidy is simply a bonus. That is why financial analysts at Goldman Sachs concluded last year that "[i]f the Export-Import [Bank's] charter is not renewed, we believe the overall impact [on Boeing] in the near-to-medium term would be fairly limited."[29]

REFORM OF THE BANK IS MORE IMPORTANT THAN EVER

It is clear that the instructions that Congress gave the Bank in the 2012 Reauthorization Act have not had any real effect upon it, legally or practically. Instead, the Bank has given them mere lip service. Similarly, the negotiations that Congress directed in order to end export credit subsidies were never seriously pursued, leaving in place a status quo unacceptable to U.S. airlines and their employees.

Delta understands that the Committee is giving serious consideration to the question whether to reauthorize the Bank at all. Consistent with our past position, we believe that significant, meaningful changes are required if the Bank is to be reauthorized. We believe that the most important reform this Committee can put in place is to subject the Bank to legally binding constraints that require it to serve only as a lender of last resort by clearly prohibiting it from expending Treasury funds or committing Treasury guarantees where private market financing is available. The Bank should not use Treasury loans or loan guarantees to subsidize creditworthy or state-owned or -supported enterprises.

Coupled with that prohibition – which will demonstrate America's commitment to leading an effort to end aircraft subsidies globally – Congress should reiterate its past directive that the executive branch actively pursue negotiations to achieve that end, and require regular reports on the progress of those negotiations. We believe it is much more likely that such negotiations will succeed once it is clear that business as usual is no longer an option.

CONCLUSION

Thank you for giving me an opportunity to reiterate and further explain Delta's position on why reform of the Export-Import Bank is needed. Delta believes that reforming the Bank offers a real opportunity for American leadership in support of the free market. I look forward to answering any questions you may have.

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[27] *Id.*
[28] *Id.*
[29] Goldman Sachs, *Equity Research – Global: Aerospace & Defense*, July 20, 2014, at 10.

TESTIMONY OF RICHARD H. ANDERSON
CHIEF EXECUTIVE OFFICER
DELTA AIR LINES

BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

JUNE 25, 2014

INTRODUCTION

Chairman Hensarling, Ranking Member Waters, and members of the Committee, I want to thank you on behalf of the nearly 80,000 employees of Delta Air Lines for the opportunity to provide testimony about the need for substantial reform of the Export-Import Bank of the United States. I am here to testify about Delta's experience with the Bank, and in particular the harms caused to U.S. airlines by the Bank's widebody financing; but I first want to emphasize how much Delta and our employees appreciate the Committee's use of its valuable and limited time to examine the important issues raised by the Bank's financing practices.

President Franklin D. Roosevelt established the Export-Import Bank in 1934, when America was pulling itself out of the Great Depression. Worldwide capital markets as we know them today did not exist. Without the help of the U.S. government, foreign purchasers primarily operated on a local scale. The aviation industry was in its infancy, with fewer than 250 commercial planes in operation in the United States. The most advanced passenger aircraft at that time – Douglas Aircraft Company's DC-3 – had only 21 seats and took 15 hours to travel from New York to San Francisco. Today, the world is very different. We live in a global economy; foreign airlines now significantly compete with U.S. airlines on a global scale and have access to robust capital markets. The conditions that gave rise to the Bank's formation have long since passed.

Delta and other U.S. airlines have been raising concerns for some time about the Bank's use of billions of dollars in Treasury-backed loan guarantees to support foreign airlines' purchase of widebody aircraft. Many of those airlines are themselves owned or heavily subsidized by foreign governments. Emirates, for example, is owned by Dubai and receives benefits from that ownership that make it an extraordinarily strong competitor. The credit markets are well aware that Emirates is backed by Dubai's ruling family; it is not subject to corporate or income taxes; and it is not subject to a wide range of fees and excise taxes in the United Arab Emirates that are imposed on U.S. airlines in their home jurisdiction – fees and taxes that together make up over 20% of the average ticket price that U.S. airlines must charge for a domestic flight.

Yet Emirates is backed not only by *its* government, but also by our own. Delta has prepared an analysis, presented as part of my testimony today, that illustrates how the Bank's loan guarantees save Emirates as much as about $20 million in financing costs per plane under the Bank's current fee structure – and Emirates likely actually saved even more than that under the Bank's prior fee structure, which was in place when Emirates acquired the majority of its fleet. Although the Bank's and Emirates's lack of transparency makes it impossible to know the full magnitude of the Bank's subsidy to Emirates, that $20 million per-plane advantage alone suggests that Emirates is essentially getting a *free* additional widebody plane for every eight new planes it buys. That kind of deal is simply not available to airlines that must rely on market financing.

The Bank's subsidies have gone too far, and it is time for reform. We have proposed five measures that would help to reduce the Bank's impact on U.S. airlines. *First*, the Bank should be prohibited from financing widebody aircraft to airlines that are owned by foreign states, supported by foreign states, or creditworthy in their own right. Those airlines do not need U.S. government subsidies. *Second*, the Bank should be required to be completely transparent in its widebody aircraft financing – it is committing public money and it should do so in an open and accountable manner. *Third*, the Bank should be required to conduct a full economic impact analysis of every widebody aircraft transaction that it finances, to ensure that any harm to U.S. airlines and our employees is properly taken into account. *Fourth*, as part of that economic analysis, the Bank should be required to give affected parties (including Delta and other U.S. airlines) enough information and time that they can comment on the transaction; to consider those comments in its decision; and to provide a public, reasoned justification if it chooses to go ahead with the transaction after concerns have been raised. *Fifth*, and finally, Congress should reaffirm the directive it gave in 2012 that the Treasury negotiate with its European counterparts to eliminate widebody aircraft financing. Previous efforts to reduce the subsidies from export credit financing have not been enough, and the United States should lead the way to embrace market principles and eliminate government subsidies in this highly competitive industry.

THE STATE OF THE AIRLINE INDUSTRY

Delta is proud to be part of a group of U.S. airlines that are among the most innovative companies in the world. The product of more than 30 years of fierce competition in a deregulated market, U.S. airlines are capable of winning any fair competitive fight. But the competitive fight for international passengers is not fair. Instead, that fight is heavily tilted in favor of foreign airlines receiving government subsidies, both from those airlines' home governments, and – amazingly – from our own.

Traditionally, the U.S. government has fostered a policy of discouraging state-subsidized competition in the international aviation marketplace. By securing Open Skies Agreements with well over 100 nations, the U.S. government has replaced the highly regulated regimes of the past in which foreign governments, to the detriment of consumers and commerce, restricted entry and service levels to protect national flag carriers.

The Airline Deregulation Act of 1978 set the framework for those international Open Skies Agreements. That legislation recognized the importance of a level playing field by emphasizing the need for

> maximum reliance on *competitive market forces* and on actual and potential competition (A) to provide the needed air transportation system, and (B) to encourage efficient and well-managed carriers to earn adequate profits and to attract capital.[1]

That policy of maximum reliance on competitive market forces is still part of the government's core legislative mandates for air transportation policy today.[2] Likewise, the Department of Transportation has historically pursued Open Skies Agreements that reflect a policy of

[1] The Airline Deregulation Act of 1978, Pub. L. No. 95-504, § 3, 92 Stat. 1705, 1706 (emphasis added).
[2] *See* 49 U.S.C. § 40101(a)(6).

"[e]nsur[ing] that competition is fair and the playing field is level by eliminating marketplace distortions, such as government subsidies" and an understanding that "national governments [that] continue to give their national airlines financial aid . . . . distort competition and deprive the aviation system and consumers of the benefits that greater cost efficiency and lower prices would encourage."[3]

Allowing U.S. airlines to compete in international markets free of government distortions is also consistent with the current Administration's policy to minimize the benefits afforded to and the impact of state-owned enterprises across international trade. Through the Trans-Pacific Partnership negotiations, for example, the Obama Administration has sought to achieve competitive neutrality, or an environment in which state-owned enterprises receive no competitive advantages beyond those enjoyed by private sector companies.[4] Past administrations have similarly acknowledged and attempted to minimize the impact of state owned enterprises as part of the U.S. government's free trade agreements.[5]

In spite of our government's stated goal to foster open markets free of state subsidized competition, U.S. airlines today face that very competition from our own government in the form of Ex-Im loan guarantees – subsidies that are both massive and unnecessary. The following chart shows the combined scope of that subsidy across the world's largest 20 state owned or supported airlines:

LARGEST 20 STATE OWNED OR SUPPORTED AIRLINES

International Widebody Capacity Rank (2013)	Airline	Ex-Im Funding
1	Emirates Airline	✓
6	Singapore Airlines	✓
11	Thai Airways International	✓
12	Qatar Airways	
17	Etihad Airways	✓
18	Japan Airlines International	✓
21	Turkish Airlines	✓
23	Air China	✓
24	Malaysian Airlines	
28	Saudi Arabian Airlines	
29	Aeroflot Russian Airlines	✓
31	China Eastern Airlines	
32	South African Airways	✓
33	Air New Zealand	✓
36	China Southern Airlines	✓
37	Air India	✓
38	TAP Portugal	
40	Finnair	
43	Ethiopian Airlines	✓
44	Pakistan International Airlines	✓

[3] *Statement of United States International Air Transportation Policy*, 60 Fed. Reg. 21,841, 21,843-44 (1995).
[4] *See* Congressional Research Service, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress* 46 (2013).
[5] *See, e.g.*, USTR, *United States-Singapore Free Trade Agreement*, ch. 12 (May 2003).

U.S. GOVERNMENT SUPPORT TO FOREIGN AIRLINES

For many foreign airlines, the U.S. government, through Ex-Im Bank, provides a significant subsidy. Over the past five years, an astonishing 47% of the Bank's total financial exposure has been devoted to air transportation.[6]

TOP AIRLINE RECIPIENTS OF EX-IM FINANCING 2000-2013

Rank	Airline	Ex-Im Financing (Millions)
1	Ryanair	$6,033
2	Air India	$5,216
3	Korean Air	$4,502
4	LATAM	$4,270
5	Emirates	$3,922
6	Cathay Pacific Airways	$3,258
7	Turkish Airlines	$2,900
8	Ethiopian Airlines	$2,282
9	Air China	$2,131
10	WestJet Airlines	$1,936
11	KLM Royal Dutch Airlines	$1,769
12	Virgin Australia	$1,705
13	Jet Airways Ltd.	$1,433
14	Asiana Airlines	$1,379
15	Copa Airlines	$1,336
16	Etihad Airways	$1,294
17	Lion Air	$1,124
18	Qantas Airways Ltd.	$851
19	Egyptair	$408
20	China Southern Airlines	$337

Most of those foreign airlines are creditworthy and do not need U.S. government support to finance their aircraft purchases on the private market; but the foreign airlines that receive Bank subsidies compete head-to-head with U.S. airlines on hundreds of international routes to and from the United States. A study commissioned and submitted to the U.S. Treasury Department by Delta in 2012 found that 90% of widebody aircraft financed with export credit in 2011 went to foreign airlines with medium- and low-risk credit ratings, all of which had a history of using private markets to finance aircraft purchases. The Bank uses the full faith and credit of the United States to make those foreign airlines stronger, healthier competitors – to the detriment of U.S. companies and their employees.

THE HARM TO U.S. AIRLINES AND OUR EMPLOYEES IS REAL

Ex-Im provides a tangible competitive advantage to foreign carriers. We have prepared an illustration of the difference between the financing available to Emirates Airline on the market

[6] 2013 Annual Report, *Export Import Bank of the United States*, at 50 (Exhibit 8) ("Ex-Im 2013Annual Report"), *available at* http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

and the financing that it receives when it is supported by Ex-Im. Emirates is the world's largest operator of both the Boeing 777 (135 aircraft with 150 more on order) and the Airbus A380 (47 aircraft with 12 more on order). As of March 2014, Emirates had $4.5 billion in cash on hand;[7] last year, it generated an operating profit of $1.2 billion.[8] Despite Emirates's ability to leverage its strong financial position to obtain private-market financing, in the transaction described below we estimate that Ex-Im support under Ex-Im's current fee structure would have saved Emirates approximately 250 basis points by financing its aircraft with Ex-Im guarantees. Based on a $120 million loan with a 12-year term, that makes a difference of more than $20 million in cost-of-capital savings per aircraft.

EX-IM SUBSIDIES BENEFIT FOREIGN CARRIERS; HARM U.S. AIRLINES

In 2012, Emirates conducted both Ex-Im-backed and market-based (EETC) financings. The benefits of using Ex-Im support are highlighted in the chart below.

	Emirates **Ex-Im Financing (June 2012)**	Emirates **Market Financing* (June 2012)**
Type and Number	2 Boeing 777s	4 Airbus A380s
Coupon	2.00%[1]	5.48%[2]
Loan-to-Value	80%[3]	66%
Loan-to-Value Price Adjustment	0%	.69%[4]
Annualized Ex-Im Fees	1.41%[5]	0%
Total Annual Rate	3.41%	6.17%

EMIRATES WILL SEE SAVINGS OF $20.3M PER PLANE BY USING EX-IM AT THESE RATES.

*EETC through a lessor to fund four A380 aircraft. See Emirates's May 8, 2014 earnings release.
1. 2.00% is actual rate from 6/18/12 Ex-Im bond. Average life was 6.12 years, similar to the EETC of 5.7. In July 2012 Emirates issued another Ex-Im bond at 1.55% coupon, but with a shorter average life of 4.93 years (which based on yield curve would be expected to be lower rate).
2. 5.48% is blended average coupon of the A/B tranches as priced on 6/21/12. The issuer of the EETC was "Doric Nimrod Air Finance Alpha" but the credit was Emirates's. Avg. life 5.7 years.
3. Assumes 80% LTV, maximum allowed for a Risk Category 1 credit.
4. The adjustment to the total annual rate to reflect the loan-to-value ratio is an estimate derived from a regression analysis (using information about other public transactions) of the rate that would have been required to obtain market financing with an 80% ratio.
5. 141 bps is average quarterly MPR for Risk Category 1 credit from the beginning of the 2011 ASU up to and including the July 2012 quarter.

Our estimate of roughly $20 million in savings is based on two actual transactions that took place in June 2012: one in which Emirates financed 2 Boeing planes with Ex-Im's help, and one in which Emirates financed 4 Airbus planes on the open market. We know the terms of the market financing because those were publicly disclosed. We know some, but not all, of the terms for the Bank-guaranteed financing and have used those where available. We have also made an adjustment to the market rate to reflect the fact that with Bank support, Emirates was eligible for a higher loan-to-value ratio (80%) without having to pay the premium that would have been

[7] The Emirates Group Annual Report: 2013-2014, at 4 ("Emirates 2013-14 Annual Report"), *available at* http://www.theemiratesgroup.com/system/aspx/download.aspx?id=tcm:409-1644932.
[8] *Id.*

necessary in the private markets. We note, however, that neither the Bank nor Emirates disclosed the actual loan-to-value ratio for the June 2012 transaction.[9]

The actual fees that Emirates paid the Bank itself were also not disclosed. For our illustration, we have estimated the fees under the terms of the 2011 Aircraft Sector Understanding ("ASU"). The 2011 ASU is a new agreement reached by the Organization for Economic Cooperation and Development that replaced an earlier 2007 ASU. It sets forth increased risk-based fees export credit agencies ("ECAs") are to charge, largely beginning in January 2013, in an effort to neutralize the effect of export credit. Because the 2011 ASU did not come into effect until January 2013, the subsidy Emirates *actually* received in its 2012 Ex-Im financing was almost certainly substantially larger. As our analysis shows, however, even taking the 2011 ASU fees into account, Ex-Im provides airlines like Emirates with substantial savings.

When viewed across its entire fleet, a multi-million dollar per-plane subsidy gives Emirates a significant competitive advantage. As of March 2014, Emirates operated 217 aircraft – 134 Boeing 777s, 2 Boeing 747s, and the rest Airbus.[10] Of those aircraft, Emirates purchased 51 Boeing 777s itself.[11] Emirates has publicly stated that the airline uses Ex-Im financing for 12% of its *entire fleet*,[12] which means that it used Ex-Im financing for about 26 – more than half – of the 51 Boeing 777s the airline purchased.

In addition, looking at purchased planes alone does not tell the full story. Emirates also operates 85 *leased* Boeing widebody aircraft.[13] It is common for leasing companies – even though they are themselves usually creditworthy and able to obtain financing from private sources – to receive Ex-Im loan guarantees for aircraft which they intend to lease to foreign airlines such as Emirates. Emirates does not disclose information about how its lessors finance the aircraft leased to Emirates, and does not include these aircraft in its export credit percentages. It is possible that the actual percentage of Emirates's Boeing fleet that has received Ex-Im financing is as high as 80%, including both owned and leased aircraft. We cannot give a number with certainty, but it is at least fair to say that the total number of Ex-Im financed planes operated by Emirates is significantly more than the 12% number that Emirates presents to the public. Further, because leasing companies compete with one another for Emirates's business, it is also fair to assume that all or nearly all of the Bank's subsidy is passed through to Emirates in the form of reduced payments on the aircraft it leases.

At the outer bound, if the full $20.3 million subsidy from our illustration is representative of Emirates's savings for all of its Bank-financed aircraft (purchased and leased) and if all of Emirates's leased Boeing planes are Bank-financed, Emirates may be receiving a total subsidy on all its Bank-backed Boeing aircraft of up to *$188.7 million* per year. To put that in

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[9] The adjustment to reflect the loan-to-value ratio is an estimate derived from a regression analysis (using information about other public transactions) of the rate that would have been required to obtain market financing with an 80% ratio.
[10] *Id.* at 56.
[11] *Id.*
[12] Emirates Airline, *Airlines and subsidy: our position* at 14 (2012), *available at* http://www.emirates.com/english/images/airlines%20and%20subsidy%20-%20our%20position%20new_tcm233-845771.pdf.
[13] Emirates 2013-14 Annual Report at 56.

perspective, it means one free plane a year based on the savings in financing costs alone. If we make the more conservative assumption that half of Emirates's leased fleet is Ex-Im financed, Emirates still saves roughly *$116 million* per year – more than two free planes every three years. Further, because Emirates financed most of its fleet under the earlier, lower 2007 ASU fees, our estimates based on the 2011 ASU likely significantly *understate* Emirates's actual savings.

Emirates can devote a substantial portion of its Ex-Im sponsored savings to enhance its competitive position vis-à-vis U.S. carriers. For example, Emirates recently introduced service between New York's John F. Kennedy Airport and Milan, quickly surpassing the capacity of existing service providers on that route. As of mid-2013, before Emirates introduced this route, three U.S. carriers (Delta, United, and American) and Italy's flag carrier (Alitalia) offered service between New York and Milan. Emirates started non-stop service in November 2013, using a Boeing 777-300ER – a substantially larger aircraft than the aircraft used by the existing airlines – and offering more seats on this route than did any other airline. By April of this year, total capacity on the New York to Milan route was up 62%, based largely if not entirely on Emirates's Bank-backed entry. In short, the Bank has fueled Emirates's expansion, providing nearly $2.5 billion in loan guarantees to the state-owned airline since 2009, including one guarantee in 2013 for nearly $500 million and another in January of this year for likely well over $100 million. The Bank has issued these guarantees without regard to the impact of Emirates's international expansion on U.S. airlines and our employees.

Emirates is not the only beneficiary of Ex-Im's largesse. Since July 2012, the date after which Congress required the Bank to begin telling the public about the type of export at issue in its largest transactions, we estimate that the Bank has approved about 30 applications for widebody financing, many of which benefit our competitors. Etihad Airways has received nearly $1.3 billion from the Bank since 2009. This year, the Bank approved an approximately $1.6 billion loan guarantee to Aeroflot, the Russian-owned airline, through the Russian-owned leasing company VEB Leasing. And in September 2011, the Bank approved $3.4 billion to Air India to support that airline's purchase of 30 new widebody aircraft. Air India provides an especially revealing example of the Bank's disregard of the adverse impact its financial guarantees impose on U.S. airlines. Only two years earlier, Air India had used separate guarantees to secure below-market financing for the purchase of Boeing 777s and deploy them between JFK and Mumbai, in direct, head-to-head competition with Delta at significantly reduced ticket prices. Delta had no choice but to exit that market. I personally presented this problem to the Bank following the Bank's September 2011 deal, but my concerns fell on deaf ears. With its latest round of Ex-Im guarantees, Air India continues to take delivery of subsidized widebodies to this day.[14]

The Bank has claimed that the 2011 ASU is enough to solve the problem, but that is not the case. The Bank's activity in the aircraft market has not slowed since the 2011 ASU went into effect on January 1, 2013. Although the Bank's historical data shows a spike in transactions before that date – which likely reflected foreign airlines wanting to benefit from the old rates – the Bank since that time has approved 40 aircraft transactions,[15] on pace with its activity in prior years.

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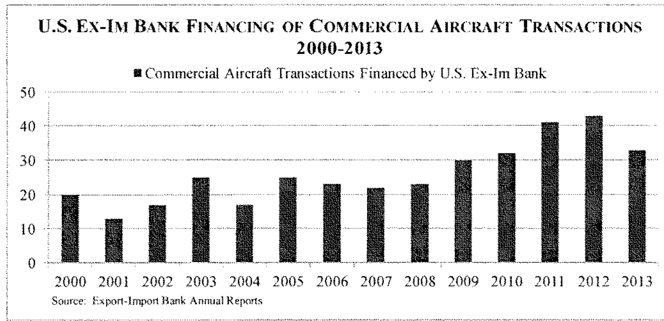
[14] *See* Boeing Orders & Deliveries, User Defined Reports, http://active.boeing.com/commercial/orders/index.cfm?content=userdefinedselection.cfm&pageid=m15527 (last visited June 19, 2014).
[15] *See* Ex-Im 2013 Annual Report; Export-Import Bank Meeting Minutes, *available at* http://www.exim.gov/newsandevents/boardmeetings/board/ (last visited June 20, 2014).



Such strong continued demand for Ex-Im financing alone demonstrates that a significant gap continues to exist between market and Ex-Im supported rates – otherwise, foreign airlines would have no reason to come to the Bank so often.

THE BANK IGNORES ITS STATUTORY OBLIGATIONS TO CONSIDER ECONOMIC IMPACT

Congress has long recognized that the Bank's activities can do more harm than good. In 1968, Congress required the Bank's Board of Directors to "take into account the possible adverse effects [of the Bank's loans and guarantees] upon the United States economy."[16] Since then, Congress has made numerous changes to the Bank's charter, but has always required the Bank to weigh the effects of its financing on the competitive position of American industries.

Indeed, the particular effects of the Bank's financing on U.S. airlines and our employees have featured in Congressional debates for nearly forty years, dating back to 1975, when the Senate Committee on Banking, Housing, and Urban Affairs received data from the airline industry about a $383 million loan to a "major competitor of U.S. airlines in the Pacific[]" that reduced its cost to purchase aircraft by "more than $7 million."[17] Responding to those and other concerns, Congress strengthened the Bank's mandate to consider economic impact, requiring the Bank to "take into account any serious adverse effect of [any] loan or guarantee on the competitive position of United States industry . . . and employment in the United States."[18]

That requirement remains in force today, and it is supported by two additional provisions that Congress added later. Section 635a-2 requires the Bank to "insure that full consideration is given to the extent to which any loan or financial guarantee is likely to have an adverse effect on industries . . . and employment in the United States, either by reducing demand for goods produced in the United States or by increasing imports to the United States."[19] Finally, Section 635(e)(1) specifically prohibits the Bank from providing loans or financial guarantees for establishing or expanding the production of any commodity for export by another country if "the

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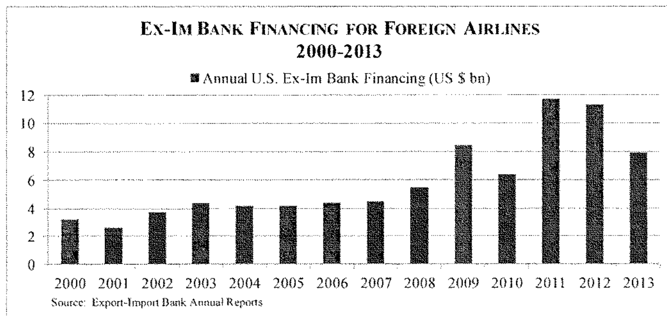
[16] Export-Import Bank Act Amendments of 1968, Pub. L. No. 90-267, § 1(b), 82 Stat. 47, 47.
[17] S. Rep. No. 93-1097, at 7 & n. 1 .
[18] 12 U.S.C. § 635(b)(1)(B).
[19] *Id.* § 635a-2.

extension of such credit or guarantee will cause substantial injury to United States producers of the same, similar, or competing commodity."[20]

When it comes to widebody aircraft transactions, the Bank has consistently ignored those mandates. Indeed, the harm that the Bank has caused to U.S. airlines is only recently coming to light, and the full extent of that harm is still unknown. Delta became directly involved in this controversy in 2011, when we began working with the Air Transport Association of America ("ATA"; now Airlines for America) to challenge the Bank's support of its $3.4 billion transaction with Air India to support the airline's purchase of 30 Boeing widebody aircraft. Those guarantees allowed Air India – a foreign competitor known for aggressively competing with U.S. airlines – to purchase 30 Boeing aircraft, including 27 state-of-the-art Dreamliner aircraft.[21]

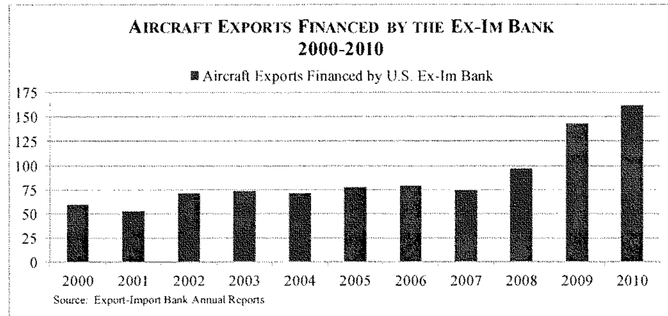
ATA, Delta, and the Air Line Pilots Association International ("ALPA") asked the Bank to rethink its massive support for Air India and consider the harm that transaction would do to U.S. airlines and our employees, but the Bank refused, and we filed a challenge to that action in federal court.[22] In the course of that action, we discovered that, since at least 2001, the Bank had been conducting *no* analysis of the adverse economic impact of its aircraft financing on U.S. airlines and our employees – the very requirement Congress enacted to force the Bank to review injury to U.S. airlines – while at the same time approving nearly $80 billion in loan guarantees to foreign airlines for the purchase of Boeing aircraft.[23] As the chart below shows, from 2000 to 2013, the Bank sent billions of dollars in guarantees to foreign airlines every year, peaking in 2011 at a staggering $11.7 billion. In no case did the Bank provide meaningful consideration to whether any of these commitments would harm U.S. airlines or our employees.



As further shown in the next chart below, those billions of dollars in government-subsidized loans helped foreign competitors like Emirates purchase over 950 new aircraft, at cheaper rates

[20] *Id.* § 635(e)(1).
[21] *Air Transportation Association of America, Inc. v. Export-Import Bank of the United States*, No. 11-2024, Dkt. No. 1, at ¶ 31 (D.D.C. Nov. 16, 2011) ("*ATA*").
[22] *See id.*
[23] Export-Import Bank Annual Reports, 2001-2013 ("Ex-Im Annual Reports"), *available at* http://www.exim.gov/about/library/reports/annualreports/.

than would otherwise have been possible.[24] To put that number in perspective, in 2011, only 721 widebody Boeing aircraft were in service in the *entire* U.S. air transportation industry (including 262 planes used for cargo, not passenger, service).[25]



In a notable series of transactions over the course of 2012 and 2013, the Bank authorized roughly $2.2 billion in loan guarantees to help five foreign airlines – including Emirates and Etihad, two state owned airlines that count among the fastest growing in the world – purchase numerous aircraft, again without providing any meaningful consideration of their impact on U.S. airlines.[26]

If the committee has any doubt about the Bank's refusal to analyze adverse economic impact, simply consider the Bank's recent admission, in response to a question from the Senate Banking Committee, that from May 2009 until February 2014 – a period covering thousands of transactions – it conducted detailed economic impact analyses for only 24 transactions and only a single one for an airline transaction (involving Aeroflot), which the Bank ultimately approved. Fortunately, the Bank's procedures received their first real scrutiny in over a decade when Congress, in the Export-Import Bank Reauthorization Act of 2012, instructed the Bank to "develop and make publicly available methodological guidelines to be used by the Bank in conducting economic impact analyses or similar studies."[27]

Forced back to the drawing board by the 2012 Reauthorization Act, the Bank put out new proposed economic impact procedures for public comment in September 2012, made them final in November 2012, and began applying them to transactions in April 2013.[28] Those rules are a colossal disappointment that disregard both the letter and the spirit of Congress's directions to the Bank in the 2012 Reauthorization Act. Instead of simply exempting all aircraft transactions

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[24] We do not know how many of those 950 Bank-financed planes were widebody aircraft because the Bank did not disclose which of those financings were widebody aircraft and which were narrowbody. We also cannot give even total aircraft figures for 2011 or for later years, because in 2011 the Bank stopped making this minimal disclosure and currently does not disclose in its annual reports the total number of aircraft exports financed.

[25] *See Delta Air Lines, Inc. v. Export-Import Bank of the United States*, No. 13-424, Dkt. No. 39-2, at 1801 (D.D.C. Mar. 2, 2014) ("*Delta III*").

[26] *Delta III*, Dkt. No. 31-1, at 5-6.

[27] Export-Import Bank Reauthorization Act of 2012, Pub. L. No. 112-122, § 12(a), 126 Stat. 350, 357 ("2012 Reauthorization Act").

[28] 77 Fed. Reg. 59,397 (Sept. 27, 2012).

from any meaningful economic impact analysis as it had done since at least 2001, the Bank has now adopted a series of screens that – without *technically* excluding aircraft transactions from *all* economic review – function in the vast majority of cases to allow the Bank to approve guarantees without ever having to give serious consideration to their effects on U.S. airlines.

To give just one example, the Bank has adopted a policy of refusing to consider economic impact where a foreign airline represents that it will not use the *specific* planes financed by the Bank to compete *directly* with U.S. airlines on direct or one-stop, same-plane routes. Of course, everyone who has ever taken an international plane flight knows that this is a completely unrealistic view of the way airlines actually compete. Consider a simple example. Delta serves Dubai from Dallas via our hub in Atlanta. Emirates, on the other hand, offers a direct flight to Dubai from Dallas. In the Bank's view, Emirates and Delta do not compete at all for passengers between Dubai and Dallas because Emirates flies directly while Delta uses a connection. That is absurd. No industry experience is needed to know that Emirates can and does take passengers from Delta by offering direct routes using Bank-subsidized planes – all that is needed is common sense, or one look at any booking website on the Internet that displays both direct and connecting flights right next to each other.

OTHER AVENUES FOR CHANGING THE BANK'S POLICIES HAVE FAILED

Other efforts to move the Bank away from its policy of automatic support for foreign airlines have been similarly unsuccessful. For example, in the 2012 Reauthorization Act, Congress specifically instructed the Secretary of the Treasury to engage in negotiations "with all countries that finance air carrier aircraft with funds from a state-sponsored entity, to substantially reduce, with the ultimate goal of eliminating, aircraft export credit financing."[29] Delta fully agrees that negotiation to reduce aircraft subsidies is an excellent goal. An even playing field benefits everyone, and frees taxpayers from having to subsidize a race to the bottom between the Bank and the European export credit agencies.

Yet, despite Congress's unambiguous mandate to the Treasury, negotiations have not even commenced.[30] Still worse, the Administration has accepted the Bank's position that the fees *currently* charged for export credit financing of aircraft under the 2011 ASU – which were already in place *before* Congress directed the Treasury to engage in negotiations – will sufficiently discourage airlines from using the Bank to obtain subsidies.[31] As I've already explained, the behavior of foreign airlines tells a different story. If the Bank's financing did not advantage foreign airlines, they would not seek it out. But in fiscal years 2012 and 2013 – the first two full years after the ASU came into effect – the Bank authorized 75 commercial aircraft guarantees with a total value of more than *$19 billion*.[32] Moreover, by Delta's calculations, even accounting for the fees charged under the ASU, if U.S. airlines had access to the Bank's financing rates, their last eight aircraft financings comparable to those done by the Bank would

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[29] 2012 Reauthorization Act § 11(a), 126 Stat. 357.
[30] *See* Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations, at 1-2 (Nov. 2012) ("Nov. 2012 Treasury Report").
[31] *Id.* at 3-4. The Bank has also repeated this point many times. *See, e.g.*, Response One at 15-16.
[32] These calculations come from the Bank's annual reports, which may be accessed at http://www.exim.gov/about/library/reports/annualreports/.

have been almost $12.5 million less expensive on average. One particular transaction would have been over $70 million less expensive.

The Bank has likewise given short shrift to the requirements of the 2012 Reauthorization Act that were intended to ensure greater transparency and reliability in its transactions. For example, the Bank is now required to publish "a brief non-proprietary description of the purposes of the transaction[,] . . . the anticipated use of any item being exported, . . . [and] the identit[y] of the obligor."[33] Yet in cases where the Bank gives a loan guarantee to a lessor or other party to purchase a widebody aircraft that will then be leased to a foreign airline, the Bank refuses to disclose the identity of the foreign airline that will actually *use* the plane, making it virtually impossible to evaluate the competitive effect of the transaction. Similarly, the Bank is required to "provide to a commenter on [an] application" a "non-confidential summary of the facts found and conclusions reached in any detailed analysis . . . with respect to the loan or guarantee." But by construing the statute not to require a "detailed" analysis, the Bank has rendered this requirement a dead letter. Every time we have requested such a summary, the Bank has replied with a form letter stating only that it did not carry out a detailed economic impact analysis.

THE BANK'S COUNTERARGUMENTS ARE MISLEADING

In trying to justify its aircraft financing program, the Bank has made numerous inaccurate and misleading arguments. Consider its argument that its financing supports jobs here at home. Delta knows firsthand that the Bank's statements on this front are unreliable.

The Bank has repeatedly touted two deals it financed involving Delta TechOps and the Brazilian airline GOL, asserting that these guarantees "support[] an estimated 400 jobs at Delta TechOps, according to Ex-Im Bank's jobs-calculation methodology"[34] – which GAO has criticized.[35] Contrary to the Bank's public pronouncements, however, that financing did not support, much less create, a single job at Delta TechOps. The guarantees helped GOL to issue cheap debt in 2012, ostensibly to pay the costs of a Delta TechOps contract to provide maintenance service for GOL's narrowbody aircraft engines. The truth is that the contract was signed in 2010 and the Bank's support arrived only after the contract had been finalized, the work was underway, and payments were being made. If the Bank is willing to publicize a deal where it is so wrong on the facts, it raises the question of what the Bank is doing in the vast majority of transactions as to which it discloses little if any information. Worse, the Bank reported to Congress that the reason it approved these two guarantees was to "overcome maturity or other limitations in private-sector financing."[36] That statement is misleading (if not outright false) because it implies that GOL

[33] 2012 Reauthorization Act § 9(a), 126 Stat. 355.

[34] Export-Import Bank of the United States, *GOL Issues $41 Million Ex-Im Bank-Guaranteed Bond for Services Exported by Delta TechOps, MRO Division of Delta Air Lines* (Mar. 25, 2014), *available at* http://www.exim.gov/newsandevents/releases/2014/GOL-Issues-41-Million-Ex-Im-Bank-Guaranteed-Bond-for-Services-Exported-by-Delta-TechOps-MRO-Division-of-Delta-Air-Lines.cfm.

[35] United States Government Accountability Office, *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency* (May 2013), *available at* http://www.gao.gov/assets/660/654804.pdf

[36] Export-Import Bank of the United States, *FY 2013 Long-Term Loans and Guarantee Authorizations*, at 32 (2013), *available at* http://www.exim.gov/about/library/reports/annualreports/2013/FY2013-long-term-guarantees-auth.pdf; Export-Import Bank of the United States, *FY 2012 Loans and Long-Term Guarantee Authorizations*, at 34 (2013), *available at* http://exim.gov/about/library/reports/annualreports/2012/files/exim_2012annualreport.pdf.

needed help to pay its bills or that Delta would have lost the deal without the Bank's support. In fact, the contract was signed in 2010 for a five-year term, and was being fully performed, without GOL's needing, seeking, or receiving Ex-Im support. Although the Ex-Im guarantees were nominally related to the 2010 TechOps contract, their actual effect was to provide GOL with low-cost working capital in 2012 and beyond. The Bank's statutory justification and motive to provide financing for a contract that was already in place, was proceeding in a normal commercial manner, and did not involve competition from a subsidized foreign competitor is not apparent to us.

Such misrepresentations are common currency with the Bank. To give a different illustration, the Bank has tried to deflect attention from its consistent support for foreign competitors by pointing to Delta's use of Brazilian and Canadian export financing. But this financing supports the purchase of *regional* jets used for purely short-haul routes. Our competitors on these routes are other American carriers, all of whom have equal access to the same kinds of financing. That level playing field has nothing in common with the Bank's unqualified support for our foreign competitors – support no American carrier has access to.

Also incorrect is the Bank's oft-repeated claim that if it does not support foreign airlines' purchases of Boeing aircraft, those sales will go to Airbus.[37] Many of these foreign airlines have committed to buying U.S.-made planes through private financing. Emirates is again a good example. According to Emirates's own figures, roughly half (25 of 51) of its purchased Boeing planes were privately financed[38] through a diverse range of sources, ranging from conventional bond offerings to Islamic financing.[39] Emirates, like many other airlines, has shown a strong commitment to Boeing – it placed the largest-ever civil aircraft order with Boeing this past November,[40] but recently canceled a multibillion-dollar order for 70 aircraft with Airbus.[41] Boeing itself has expressed confidence that foreign airlines will continue to buy its aircraft and "could find alternative funding sources" absent the Bank's financing.[42]

PROPOSED 2014 EX-IM REFORM

Congress should take the opportunity presented by the need to reauthorize the Bank to substantially and effectively reform the Bank's practice of financing our competitors. Delta and others have proposed five amendments that will ensure U.S. airlines and our employees are not put at a further competitive disadvantage through U.S. government subsidies to foreign airlines.

First, Congress should prohibit the Bank from financing widebody aircraft to creditworthy or state owned or supported airlines. These airlines can obtain financing on the private market and

[37] *See, e.g., Delta Air Lines, Inc. v. Export-Import Bank of the United States*, 14-42, Dkt. No. 14-1, at 41-42 (D.D.C. Apr. 11, 2014).
[38] Emirates Airline, *Airlines and subsidy: our position*, at 14.
[39] *See* Airfinance Journal, *Treasury team of the year 2012: Emirates* (May 10, 2013).
[40] Emirates Airline, *Emirates announces largest-ever aircraft order* (Nov. 17, 2013), *available at* http://www.emirates.com/english/about/news/news_detail.aspx?article=1443077.
[41] Nicola Clark, *Emirates Cancels Major Order From Airbus*, N. Y. Times (June 11, 2014), *available at* http://www.nytimes.com/2014/06/12/business/international/emirates-cancels-major-order-from-airbus.html?_r=0.
[42] Doug Cameron, *Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank*, Wall St. J. (Aug. 7, 2013), *available at* http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.

therefore do not need subsidies from our government to do so. Although Boeing and the Bank claim that airlines prohibited from tapping Ex-Im for widebody purchases would purchase those aircraft from Airbus with European ECA support instead of from Boeing, we have yet to see any data to substantiate that claim. Indeed, the Bank's position that the Bank's subsidies are necessary to help Boeing prevail cannot be reconciled with its simultaneous assertion that under the 2011 ASU its rates do not provide an advantage over private financing. In any event, any jobs actually created or supported by the Bank's widebody guarantees to creditworthy or state owned or supported airlines are not more valuable than the pilot, flight attendant, and other jobs created by U.S. carriers flying international routes. The U.S. government should not be picking winners and losers in this complicated market, especially where many of these particular airlines already receive substantial benefits from their own governments.

Second, Congress should require the Bank to be 100% transparent in its widebody financings. Currently, the Bank is not required to – and routinely does not – disclose significant details about its widebody transactions, such as the number of widebody aircraft it plans to finance or the routes on which those aircraft will be deployed. In some cases, such as where the applicant is a leasing or similar shell company, the Bank does not disclose the expected end user of the widebody aircraft at all. As recently as the 1990s, by contrast, the Bank's annual reports disclosed the number and type of aircraft in its annual reports.[43] No sound reason exists to allow the Bank to keep confidential the details of its commitment of public funds.

Third, Congress should require the Bank to conduct a detailed economic impact analysis in *all* transactions involving widebody aircraft, and should prohibit the Bank's current practice of "screening" such transactions from review without giving them a serious, hard look. That practice is illustrated by the Bank's recent acknowledgment that, from May 2009 to February 2014, the Bank conducted only *one* detailed economic impact analysis for an aircraft transaction,[44] even though the Bank's annual reports and meeting minutes show that during that same time period it approved *173* transactions for the export of Boeing aircraft.[45] Further, we know from the Bank's prior practice that it also did not conduct *any* detailed economic impact analyses of aircraft from 2001 to 2009, even though during that same time period it approved 160 transactions for the export of Boeing aircraft. One out of 333 is not a credible attempt by the Bank to fulfill its statutory mandate.

Fourth, Congress should require the Bank, as part of its economic analysis of each widebody transaction, to give U.S. airlines and other interested parties enough information and time to comment on each transaction; to consider those comments in its decisionmaking process; and to provide a public, reasoned justification if it chooses to go ahead with a transaction after concerns are raised. As we have noted, the Bank has so far interpreted the notice-and-comment requirements of the 2012 Reauthorization Act so narrowly as to make them a dead letter. Congress should make clear that those requirements must be important and meaningful. Because the Bank has demonstrated a consistent unwillingness even to examine the strong evidence that

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[43] *See, e.g.*, 1999 Annual Report, *Export Import Bank of the United States*, at 20-27, *available at* http://www.exim.gov/about/library/reports/annualreports/1999.cfm.
[44] Responses to Questions for the Honorable Fred Hochberg, Chairman and President, Export-Import Bank of the United States, from Senator Toomey, at 29 (questions dated Jan. 28, 2014).
[45] *See* Ex-Im 2009-2013 Annual Reports; Agendas & Minutes of the Meetings of the Board of Directors (October 2013-February 2014), *available at* http://www.exim.gov/newsandevents/boardmeetings/board/.

its widebody transactions are hurting U.S. airlines and our employees, legislation is needed that requires the Bank to take that evidence seriously and to live up to its responsibility to refrain from using U.S. taxpayer dollars to create a net negative impact on U.S. companies and our employees.

Fifth, Congress should reaffirm the requirement in the 2012 Reauthorization Act that the U.S. government negotiate with European export credit agencies to eliminate widebody financing altogether.[46] In response to the 2012 Reauthorization Act, the U.S. Department of Treasury reported to Congress that it "will be in a position to further refine the ASU so that [ECA widebody financing] complements the commercial markets without crowding them out."[47] In light of the analysis presented in this testimony, it is clear that the 2011 ASU is insufficient. ECAs continue to provide a substantial benefit to our competitors unlike anything found on the private markets. Earlier in my testimony I referred to the U.S. government's long-standing policy to eliminate the effect of state subsidies on international competition and trade. If that policy is to have any meaning in the market for international air travel, the U.S. government must address the substantial adverse impact ECA subsidies continue to have on U.S. airlines.

CONCLUSION

Thank you for holding a hearing on this important issue and for giving me the opportunity to explain the need for reform at the Export-Import Bank. Delta believes that the changes we have proposed would help fulfill the U.S. policy of minimizing the influence of state-sponsored competition, allowing airlines to succeed in the international marketplace based on their competitive merit rather than relying on government subsidies. I look forward to answering any questions you may have.

[46] *See* 2012 Reauthorization Act § 11(a), 126 Stat 357.
[47] Nov. 2012 Treasury Report at 4.

WRITTEN TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

"Examining the Export-Import Bank's Reauthorization Request
and the Government's Role in Export Financing"
June 3, 2015

Chairman Hensarling, Ranking Member Waters, and distinguished members of the Committee, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

The Export-Import Bank (EXIM Bank) was created to support American job growth by facilitating the export of American goods and services. Each year, EXIM Bank empowers thousands of U.S. businesses—the vast majority of which are small—to contend for sales in an increasingly competitive global marketplace. With 95% of the world's consumers living beyond America's borders, U.S. companies are increasingly looking abroad so that they can grow sales and add jobs here at home. Because of global trends in financing, however, U.S. companies are no longer simply competing for sales against foreign businesses—they're also competing against countries offering generous financing terms to their domestic exporters. American exporters face additional competitive headwinds due to broader trends in global trade; for three decades prior to the financial crisis, global trade grew at twice the rate of the global economy, but today, that rate has been cut in half. In an ideal world, competitive financing terms would not be an additional challenge faced by our businesses; however, countries such as China, Russia, and others increasingly see expanding their respective nations' exports as critical to growing their economies. It is incumbent upon America to continue to lead, and to strive to level the playing field in the global export arena—restoring free market factors to their rightful place at center stage of competition. That is where the EXIM Bank comes in.

EXIM Bank is a small and effective government agency whose approximately 450 employees are passionate about empowering businesses to create more American private sector jobs, while serving as responsible stewards of taxpayer dollars. EXIM fulfills its mission to support U.S. jobs in two ways. First, EXIM fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank, and for exports to the developing world, which accounted for 68 percent of EXIM's authorizations in 2014. Second, the Bank seeks to ensure a level playing field for U.S. exports by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors' state-sponsored or cut-rate financing.

EXIM Bank does not pick winners and losers; rather, it serves any eligible American business seeking competitive financing to export goods and services. EXIM's customers pay fees and interest for the financial services offered by the Bank, and as a result, EXIM Bank is a self-sustaining agency. Over the past two decades, EXIM Bank has sent nearly $7 billion to the U.S. Treasury. Consequently, if EXIM Bank were not reauthorized, the agency would no longer be able to serve as a budgetary offset.

EXPORT-IMPORT BANK REAUTHORIZATION ACT OF 2012 (P.L. 112-122)

In May 2012, the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122) was passed by Congress with overwhelming bipartisan support in both chambers – 330 Republicans and Democrats in the House and 78 in the Senate. The vote carried on a long tradition of bipartisan support that has existed for 81 years.

To be clear, every action and study required in the Bank's 2012 bipartisan reauthorization has been completed and implemented, or is being complied with on an ongoing basis (Attachment 1). Of the 16 recommendations made by the Government Accountability Office (GAO) since the 2012 reauthorization, EXIM has addressed 15, and is working to address the final recommendation (Attachment 2). Further to the work we do with the GAO, the Bank regularly consults with the Office of the Inspector General (OIG). Since early 2012, the Office of Inspector General has issued 26 reports and follow-up evaluations containing a total of 145 recommendations. Of those 145 recommendations, EXIM Bank has fully concurred with 143 and has fully implemented 92 to date. We are diligently working to fully implement the remaining 51. On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward (Attachment 3). We have closed four additional recommendations since the April 15th hearing.

I fully respect and would like to thank the Committees, Congress, the Office of the Inspector General, and the GAO, as well as the EXIM Bank employees, all of whom have played an integral role in ensuring effective oversight of the Bank. This attention and oversight has helped the Bank to become a better institution, and has allowed us to better achieve our shared goals of growing U.S. exports while protecting American taxpayers. Over the past several years, the Bank has become more transparent, heightened its focus on risk, expanded its attention on small business and textiles, and is increasingly mindful of global competition—all of which has made the Bank a more effective, more resilient institution supporting U.S. job growth.

ENHANCING PRIVATE SECTOR COMPETITIVENESS

The top priority at EXIM Bank has and will continue to be to support American jobs by facilitating U.S. exports. In FY 2014, EXIM Bank supported 164,000 U.S. jobs through financing approximately $27.5 billion worth of exports. In accordance with its Charter, the Bank must first and foremost consider a reasonable assurance of repayment standard for the Bank's approval of financing transactions. Except in certain cases that are clearly and carefully defined in EXIM Bank's Charter, EXIM Bank support is only available to finance exports to buyers that lack sufficient private sector liquidity or capital to finance most transactions.

Transparent & Consistent Lending Standards

EXIM Bank's practices adhere to competitiveness and transparency standards established by the Organisation for Economic Cooperation and Development (OECD) Arrangement on Guidelines for Officially Supported Export Credits. In an effort to promote a level global playing field for exports based on free market competition, the OECD Arrangement put into place responsible market based lending and transparency rules, which for several decades governed the totality (100 percent) of official export credit support worldwide. Today, only 16 years removed from that 100 percent figure, the share of official export support that still falls under these guidelines has now dropped to 35 percent (this includes tied and untied financing), as countries such as China and Russia, which operate outside of the OECD Arrangement, have begun to aggressively back their domestic exporters with unregulated, opaque financing. Even among countries that adhere to the OECD guidelines, competition is increasing. For example, Korea's medium- and long-term official export support was more than double that of the United States in 2014, despite the fact that the U.S. economy is eleven times larger than the Korean economy.

Equipping American Businesses to Compete and Promoting a Free and Open Market

More often than not, American businesses and workers aren't simply competing against their Chinese, Russian, and French counterparts; more and more, they're being asked to compete against 'China, Inc.' Though the United States remains well-stocked with innovative businesses of all sizes—many of which are perfectly capable of winning sales opportunities on their merits throughout the world—American companies aren't always able to bring competitive financing packages with them to close a sale, which is increasingly required today. Even those that can secure financing from private lenders face a serious disadvantage when going up against foreign rivals offering generous state financing support of their national champions. This trend has the potential to threaten America's global economic leadership.

I just returned from a meeting with the Berne Union, a group made up of my counterparts from many of the 79 and counting export credit agencies around the globe. At that meeting, I wanted to know whether they anticipate doing more or less to support their domestic exporters over the next five years than they currently do. Japan, Korea, Russia, Germany, France, United Kingdom, Brazil, and others all indicated that they expect to accelerate their official export credit backing for their exporters. Generally, China is hesitant to share such forecasts with the world—but no serious observer could possibly anticipate anything other than rapid, aggressive acceleration of official export financing support from China in the years to come. Only Austria and Norway indicated they did not expect significant growth in the coming years.

Our European rivals in particular are keenly focused on job growth. Following our lead, they are putting increased emphasis on supporting their small business exporters. As a result, there's going to be more competition than ever for U.S. small businesses looking to win sales in global markets. And that's to say nothing of larger foreign exporters who will have access to more financial backing than ever before as they compete for business against some of America's largest manufacturing employers. It is also important to remember that those large manufacturers support extensive small business supply chains in cities and towns across America.

Additionally, as my foreign counterparts acknowledged their export credit agencies have become increasingly critical resources in the face of financial crises—both global and regional. When private financiers withdraw from regions or sectors that are experiencing downturns, export credit agencies are equipped to step in so that their domestic exporters don't experience a drop in sales—thereby maintaining domestic jobs. Export credit agencies are like firetrucks in that sense—not always necessary, but, when disaster strikes, absolutely essential. Like firetrucks, export credit agencies have a security function, safeguarding U.S. exporters' sales from the fires of global and regional financial meltdowns. You don't sell off the firetruck just because there doesn't happen to be a fire at this time. No one can predict when or where the next crisis will hit.

Other countries are aggressively supporting their commercial sectors as a means to enhance their sphere of influence. For example, in February, 12 former national security officials sent a letter to Congress stating: "By way of example, the government of China has announced a new initiative to devote an additional $10 billion in export credit to Africa – bringing China's total to $30 billion, roughly the equivalent of the EXIM Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent – particularly in the infrastructure sector, where projects can have a lifespan of twenty to thirty years. In an environment such as this, we should be exploring how to strengthen the EXIM Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors" (Attachment 4).

GOVERNMENT ACCOUNTABILITY

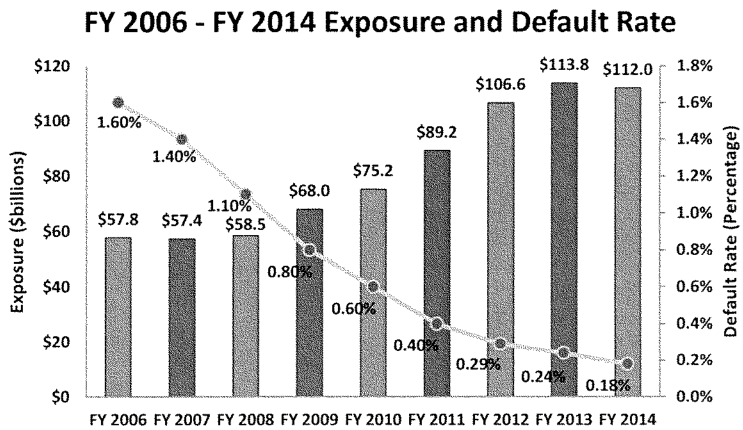
EXIM Bank is a demand-driven agency; EXIM does not pick winners and losers. Therefore, EXIM Bank does not set pre-determined exposure limits for industries, companies, and countries. Within those limitations, the Bank's rigorous underwriting and due diligence processes ensure that the standard of reasonable assurance of repayment embedded in our charter is achieved for all approved transactions. The Bank has a comprehensive risk management framework as noted by a recent GAO Audit (GAO Report 13-303). EXIM Bank continually improves the accuracy and reliability of its monitoring and loss reserve systems based on recommendations from internal and external auditors, OMB, OIG, GAO, as well as private sector best practices. The Bank's Country Limitation Schedule, which is derived from the Interagency Country Risk Assessment System (ICRAS, chaired by OMB) country rating process, provides policy limitations on the Bank's business based on country credit considerations. The Bank's low default rate is evidence that this system of portfolio management is effective.

Safeguarding American Taxpayers from Excessive Exposure

Essential to protecting taxpayer dollars is a solid risk management framework which starts with effective underwriting for potential transactions. After a new transaction is authorized, the Bank focuses on proactive monitoring of the credit, through both rigorous due diligence and documentation. This proactive management framework prevents potential defaults and allows the Bank to recover the rare actual defaults, as noted in a recent GAO audit (GAO-13-446).

The result of our strong focus on comprehensive risk management: our low default rate of 0.167% as of March 31, 2015.[1] As called for in the 2012 reauthorization, we now report our default rate to Congress every quarter, using a methodology that is completely transparent. As illustrated in the chart below, EXIM's default rate remained low during the global financial crisis—the most realistic 'stress test' imaginable—and has declined since that time. In addition, in FY 2014, almost 80 percent of the Bank's exposure was backed by collateral or a sovereign guarantee.

EXIM Bank's risk management framework has ensured a low number of defaults, coupled with high recovery rates on those rare credits that have entered into default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio. Claims are paid from fees collected from the Bank's customers—not from taxpayers.



In addition to closely monitoring its exposure, EXIM Bank performs regular stress testing of its portfolio to identify how the current portfolio may perform in the future under stressed scenarios. Those stress tests results are included in our quarterly default rate reports that we send to Congress.

Stress testing provides a forward-looking assessment of the potential impact of various adverse scenarios that could impact a banking institution's financial condition and capital adequacy. EXIM Bank's stress testing builds capacity to understand the Bank's risks and the

[1] This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.

potential impact of stressful events and circumstances on the Bank's financial condition. EXIM Bank's Inspector General recommended—and EXIM accepted—that "Ex-Im Bank should develop a systematic approach to stress testing and should conduct stress testing at least annually as part of its re-estimate process." The Bank accepted the OIG's recommendations and took proactive measures to go one step further by including an additional stress scenario, which assumes zero recoveries for the Bank—a highly unlikely, but informative stress test. The Bank will continue to monitor and report the results of these future stress test scenarios to the U.S. Congress.

EXIM Bank has a culture of continuous improvement, and has implemented numerous risk management improvements to further ensure that we remain effective stewards of the taxpayers we serve. Equally important is the Bank's commitment to improving how it measures, controls, and mitigates risks. The Bank has made numerous advancements in recent years, including:

1. Hiring a Chief Risk Officer;
2. Creating the Enterprise Risk Committee to examine and monitor all bank wide risk;
3. Creating a Special Assets unit to enhance recoveries;
4. Expanding proactive monitoring efforts;
5. Increasing staffing in our asset monitoring divisions by 33 percent;
6. Going beyond federal requirements to implement mandatory ethics training for ALL Bank employees;
7. Updating, streamlining, and simplifying domestic content requirements;
8. Streamlining our application process to provide better customer service and reduce decision time;
9. Enhancing the customer contact center, now operating from 8am to 8pm Monday through Friday with a team of trained operators; and
10. Implementing mandatory training on preventing and detecting fraud for all loan officers/underwriters.

Small Business, Customer Experience, and Data Quality

EXIM Bank is constantly seeking out new ways to serve its customers more efficiently without compromising our underwriting standards. Expanding on the 2012 reauthorization efforts to improve our IT infrastructure, we have taken additional steps to meet industry standards and focus on data quality. With a new Chief Information Officer, the Bank is proactively working to improve these practices. Alongside this effort to improve technology, EXIM has streamlined its application processing, which has seen the number of days needed to reach an authorization decision cut in half since 2009.

Additionally, as part of our ongoing efforts to enhance the customer experience for current and prospective exporters, EXIM Bank initiated a new and improved customer contact center that includes an improved 1-800 number experience, along with a new email response system. The contact center also has online chat capabilities that allows small businesses to get questions answered quickly. The new contact center is the latest EXIM Bank initiative aimed at bringing our customers "government at the speed of business." EXIM Bank is one of only four government agencies to have established a dedicated customer experience function. In addition, to improve the quality, reliability, and accuracy of the data we collect, we updated our application processes to require that certain data be included prior to accepting an application, such as number of employees, annual sales volumes, and NAICS codes. By requiring this information, we are working to improve our data quality as well as enhance the support we provide to our customers, your constituents.

HISTORY OF ONGOING ACTIONS TO PREVENT CORRUPTION & FRAUD

As a U.S. Government agency, EXIM Bank takes rigorous proactive measures to protect taxpayer dollars. Corruption and fraud mitigation efforts begin with EXIM Bank participants meeting our "Know Your Customer" requirements and "Transaction Due Diligence" standards. Risk-based due diligence is performed by staff to underwrite transactions. Subsequent due diligence is performed post-authorization using a risk-based sampling of authorized transactions to identify possible corruption and fraud. Any evidence of corruption and/or fraud uncovered as a result of these activities is referred to the Office of Inspector General (OIG), which began operating in 2007 and has a team of 23 employees. The successful record of the OIG in prosecuting parties involved in attempting to defraud the Bank is an important deterrent as well.

EXIM Bank has zero tolerance for fraud, waste, or abuse and takes thorough and immediate action when any hint of misconduct or fraud is detected by the safeguards we have in place, including working closely with OIG. EXIM Bank conducts mandatory ethics training for all employees on an annual basis, including specific segments on rules relating to gifts from participants in EXIM Bank programs. Additionally, there is mandatory fraud-awareness training for all loan officers/underwriters on an annual basis. This training is designed to maintain a vigilant awareness of the risk of fraud in EXIM Bank transactions.

EXIM's culture of high ethical standards is evident in the Bank's collaborative work with the OIG and support of OIG investigations and Department of Justice prosecutions of fraud matters. Of course, any organization can experience a bad apple. However, in the last six years, there has been only one indictment involving an EXIM Bank employee. In fact, the situation was uncovered thanks to a tip received by the OIG from a fellow EXIM employee. That employee recently pled guilty and is facing sentencing. Fortunately, this was an isolated incident. Unfortunately, like many other government agencies, there are also those outside the agency who try to take advantage. As Michael McCarthy, Acting Inspector General, stated in his testimony before the joint subcommittees of the House Financial Services Committee and House Oversight and Government Reform Committee on April 15, 2015: "So what I can assure you is at this time in those other cases that we are investigating [*sic*] do not have evidence that we have developed of EXIM Bank employee internal complicity or participation...In those other cases, [Interruption] at this point, [interruption] within the 31 cases, I would not at this point expect indictments of EXIM employees."

EXIM Bank is committed to operating under the highest ethical standards. The agency's ethics program is not only fully compliant with all laws, but goes beyond government regulations, and policies that govern this aspect of our work. We conduct comprehensive ethics training for all employees and foster an environment where employees are encouraged to ask questions and report suspected unethical behavior. Among other duties, our ethics staff:

- Reviews 227 Confidential Financial Disclosure forms and 55 Public Financial Disclosure forms and conducts conflicts reviews;
- Reviews outside activity requests from Bank employees;
- Provides advice to employees on ethics questions;
- Provides advice on post-employment restrictions for current and former employees;
- Provides travel guideline advice; and
- Monitors the Bank's "Ethics Advice" email account, which was created to provide employees quick and discreet ethics advice on basic ethics questions.

Furthermore, all new employees receive introductory ethics training upon arrival and mandatory training annually thereafter. The Bank brings in the Office of Special Counsel (OSC) to conduct Hatch Act training as well. Our ethics staff ensures 100% participation of all employees (above and beyond the minimum requirements of GS-11) by tracking who attends the training and following up with employee supervisors to ensure attendance. Employees who are unable to attend live sessions take an electronic course through the AGLearn online learning program.

Also, the Bank introduced the "Ethics Guide for Federal Government Employees" a pocket sized guide to provide a quick reference for employees to refer to ethics rules. We incorporated the use of the guides into the 2013 training module, and we distribute the guides to all new employees. The guides have been well-received by the staff and resulted in increased employee engagement in ethics rules.

CONCLUSION

We appreciate the widespread bipartisan support of EXIM, and are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation. Deciding to export is not a last-minute decision, but one that requires extensive planning. For companies like Bassett Ice Cream in Philadelphia, L&H Industrial in Gillette, Wyoming, or Murray Equipment in Fort Wayne, Indiana, EXIM Bank plays a critical role—and one that by definition would not be filled by the private sector.

Selling goods across borders is not the same as selling goods domestically. Access to credit is frequently what is needed to make global projects happen. When U.S. companies compete for international, large-scale infrastructure projects, the financial options are more limited. The larger the project, the greater the impact on a company's day-to-day cash flow. Zeeco, a combustion technology company in Broken Arrow, Oklahoma knows this fact very well. Zeeco started as a small business, but due to export sales has been able to triple its size and grow into a medium-sized business. This was primarily due to the superior products they provide, but also a result of the guarantee they were able to obtain from EXIM Bank. That guarantee allowed them to effectively compete with foreign rivals who were offering financing packages as a part of their sales pitch. When I visited Zeeco in March, they told me that commercial banks get nervous about making loans on international transactions, and that unless you are investment-grade, the commercial sector would not extend credit without a guarantee. Zeeco is a great example of where EXIM Bank has been able to simultaneously fill the gap and level the playing field.

Companies face a variety of challenges in competing for sales. The U.S. government should be there to break down barriers wherever we can, not to put up more road blocks. We know that export-backed jobs pay up to 18 percent more on average than other jobs and we also know that exports have accounted for nearly one-third of our total economic growth over the past five years. Right now, U.S. exports are at record levels, representing over 13% of our GDP. But I think we can do better, which is why the President is trying to open more markets for American goods with bipartisan free trade agreements, and why EXIM continues to work with the private sector to fill in commercial financing gaps in order to encourage more U.S. exports.

Rising competition and an ever-globalizing world have made EXIM Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.

EXPORT-IMPORT BANK *of the* United States

Export-Import Bank Reauthorization Act of 2012: Every Reform Completed

Less than three years ago, Congress voted to reauthorize the Export-Import Bank of the United States, including a number of reforms (P.L. 112-122). Ex-Im Bank has now completed and implemented **every single reform**. But reforming and improving our operations doesn't begin or end with a bill's passage. At Ex-Im Bank, we pride ourselves on "government at the speed of business," and we've taken a number of steps in recent years to improve the customer experience for small business exporters, streamline operations, manage risk, and improve transparency.

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 1: Short Title; Table of Contents . . . . **No Action Required**

Section 2: Extension of Authority . . . . **No Action Required**

Section 3: Limitations on Outstanding Loans, Guarantees, and Insurance . . . . **Completed**

Ex-Im Bank met all conditions for an increase in its exposure cap to $130 billion in 2013 and an increase to $140 billion in 2014 (see sections 4-6, 11).

Section 4: Export-Import Bank Exposure Limit Business Plan . . . . **Completed**

Ex-Im Bank sent its final business plan to Congress and the Comptroller General on September 28, 2012.

Section 5: Study by the Comptroller General on the Role of the Bank in the World Economy and the Bank's Risk Management . . . . **Completed**

GAO submitted its report to Congress in March 2013. The Bank submitted its report to Congress on the implementation of GAO's recommendations in June 2013.

Section 6: Monitoring of Default Rates on Bank Financing; Reports on Default Rates; Safety and Soundness Review . . . . **Completed Quarterly**

Ex-Im Bank submits a default rate report to Congress each quarter.

Section 7: Improvement and Clarification of Due Diligence Standards for Lender Partners . . . . **Completed**

Ex-Im Bank updated its due diligence standards and "know your customer" requirements on May 30, 2014.

Section 8: Non-Subordination Requirement . . . . **Completed**

Ex-Im Bank added this requirement to its Policy Handbook and completed training of Ex-Im Bank staff.

Section 9: Notice and Comment for Bank Transactions Exceeding $100,000,000 . . . . **Ongoing**

Notices are regularly published in the Federal Register as required.

Section 10: Categorization of Purpose of Loans and Long-Term Guarantees in Annual Report . . . . **Completed**

Ex-Im Bank first included a categorization of long-term loans and guarantees in its FY 2012 Annual Report. The categorization will continue to be included in all future Ex-Im Bank Annual Reports.

Section 11: Negotiations to End Export Credit Financing . . . . **Completed Annually by U.S. Department of Treasury**

Completion of this reform was assigned by Congress to the U.S. Department of the Treasury. Treasury provides a report on export credit financing to Congress annually.

Section 12: Publication of Guidelines for Economic Impact Analyses and Documentation of Such Analyses . . . . **Completed**

Updated economic impact procedures and methodology were approved by Board on November 19, 2012. They were published online and reported to Congress, GAO, and the Inspector General on November 26, 2012.

EXPORT-IMPORT BANK *of the* United States

Continued:

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 13: Report on Implementation of Recommendations of the Government Accountability Office . . . Completed

Ex-Im Bank submitted this report to Congress on November 26, 2012.

Section 14: Examination of Bank Support for Small Business. . . . . Completed

Ex-Im Bank's Small Business Report was submitted to Congress on November 26, 2012.

Section 15: Review and Report on Domestic Content Policy . . . . Completed

Ex-Im Bank's report to Congress on domestic content policy was submitted on May 30, 2013.

Section 16: Improvement of Method for Calculating the Effects of Bank Financing on Job Creation and Maintenance in the United States . . . . Completed

GAO submitted its report on May 23, 2013.

Section 17: Periodic Audits of Bank Transactions. . . . . Initial Audit Completed

GAO completed an initial audit of underwriting guidelines, lending policies, due diligence procedures, content guidelines, and fraud controls. It was sent to Congress on September 9, 2014. Future audits will take place periodically.

Section 18: Prohibitions on Financing for Certain Persons Involved in Sanctionable Activities with Respect to Iran . . . . Completed

Procedures and certificates have been posted on Ex-Im Bank's website, and training of Ex-Im Bank staff has been completed. Certificates are being collected as required.

Section 19: Use of Portion of Bank Surplus to Update Information Technology Systems . . . . Ongoing

Ex-Im Bank is modernizing its IT systems.

Section 20: Modifications Relating to the Advisory Committee . . . . Completed

Beginning in 2013, each Ex-Im Bank Advisory Committee has included a textile industry representative. That member helps ensure that the Advisory Committee is working to advise Ex-Im Bank on how to increase support for the U.S. textile industry.

Section 21: Financing for Goods Manufactured in the United States Used in Global Textile and Apparel Supply Chains . . . . Completed

Ex-Im Bank's Report on Global Textile and Apparel Supply Chains was sent to Congress on November 30, 2012.

Section 22: Technical Correction . . . . No Action Required

Section 23: Sub-Saharan Africa Advisory Committee . . . . No Action Required

Section 24: Dual-Use Exports . . . . No Action Required

Section 25: Effective Date . . . . No Action Required

Ex-Im Bank has also enacted a number of additional voluntary improvements to better serve exporters and protect taxpayers:

- Realigned internally by industry sector to respond to market trends and better serve U.S. exporters.
- Improved customer service for U.S. exporters through the new Customer Contact Center at 1-800-565-EXIM.
- Established the office of Chief Risk Officer and created the Enterprise Risk Committee to maintain comprehensive and systematic risk management.
- Mandated ethics training for every single Ex-Im Bank employee, resulting in a 100% participation rate.

EXPORT-IMPORT BANK *of the* United States

Export-Import Bank Reauthorization Act of 2012: Working with GAO to Keep Improving

Since the last Ex-Im Bank reauthorization, the GAO has issued five reports containing a total of 16 recommendations. Of those 16 recommendations, Ex-Im Bank has agreed with all 16 and has addressed 15 of them – subsequently 13 have been closed by GAO, and GAO is currently reviewing materials provided by Ex-Im for two. Ex-Im Bank is also working diligently to address the one remaining recommendation from the most recent GAO report.

March 28, 2013 - Recent Growth Underscores Need for Continued Improvement in Risk Management (GAO-13-303)

- **Recommendation 1** – Improve reliability of loss estimation model – **CLOSED**
- **Recommendation 2** – Retain point in time data on credit performance – **CLOSED**
- **Recommendation 3** – Report stress test scenarios to Congress – **CLOSED**
- **Recommendation 4** – Develop and monitor workload benchmarks – **CLOSED**

May 23, 2013 - More Detailed Information about its Jobs Calculation Methodology Could Improve Transparency (GAO-13-446)

- **Recommendation 1** – Increase transparency of the methodology to calculate number of jobs Ex-Im supports – **CLOSED**

May 30, 2013 - Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources (GAO-13-620)

- **Recommendation 1** – Adjust Bank's forecast models – **CLOSED**
- **Recommendation 2** – Report financial performance at sub-portfolio level – **CLOSED**
- **Recommendation 3** – Assess sensitivity of the exposure forecast model – **CLOSED**
- **Recommendation 4** – Provide additional information on the resources associated with meeting the mandated target – **CLOSED**

August 28, 2014 - Monitoring of Dual-Use Exports Should Be Improved (GAO-14-719)

- **Recommendation 1** – Strengthen Ex-Im guidance for monitoring end use – **RESPONDED**

(over)

Continued:

September 9, 2014 - Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes (GAO-14-574)

- **Recommendation 1 –** Develop and implement procedures prior to loan guarantee approval – **RESPONDED**
- **Recommendation 2 –** Establish mechanisms to oversee compliance with Ex-Im's existing procedures – **CLOSED**
- **Recommendation 3 –** Develop and implement detailed instructions prior to loan guarantee approval – **CLOSED**
- **Recommendation 4 –** Update CRTI review process – **WORKING TO ADDRESS**
- **Recommendation 5 –** Document risk-based approach for scheduling delegated authority lender examinations – **CLOSED**
- **Recommendation 6 –** Document overall fraud process – **CLOSED**

Export-Import Bank Reauthorization Act of 2012: Working with OIG to Keep Improving

Since early 2012, the Office of Inspector General has issued 26 reports and follow-up evaluations containing a total of 145 recommendations. Of those 145 recommendations, Ex-Im Bank has fully concurred with 143 and has implemented 92 to date, while we are diligently working to implement the remaining 51 (26 of which have been issued in the past 90 days). On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward to address concerns raised in the reports.

September 17, 2010 - Economic Impact Procedures (OIG-EV-10-03)

- **Recommendation 1** – Present the available quantitative and qualitative information a concise balancing format – **FULLY IMPLEMENTED**
- **Recommendation 2** – Consider guidance provided by OMB in developing specifications for its analysis and reports to the Board – **FULLY IMPLEMENTED**
- **Recommendation 3** – Reliance on trade flow analysis or any other quantitative methods should be made subject to Board approval – **FULLY IMPLEMENTED**
- **Recommendation 4** – Trade flow analysis should not be the sole or primary criterion for deciding economic impact cases – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop additional criteria for analysis of economic impact – **FULLY IMPLEMENTED**
- **Recommendation 6** – Provide for a periodic backward-looking empirical review – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Reevaluate the "sensitive commercial sectors list" – **FULLY IMPLEMENTED**
- **Recommendation 8** – Include more information about the PPG staff's methodology and publish it on the Bank's website – **FULLY IMPLEMENTED**
- **Recommendation 9** – Revise the Bank's internal procedures in preparing economic impact reports – **FULLY IMPLEMENTED**
- **Recommendation 10** – Make economic impact reports publicly available – **FULLY IMPLEMENTED**
- **Recommendation 11** – Develop and make public a methodology to identify at an early stage low risk transactions – **FULLY IMPLEMENTED**
- **Recommendation 12** – Request exporters of capital equipment to provide relevant data to support an accelerated review – **FULLY IMPLEMENTED**

(over)

- **Recommendation 13** – Inviting proponents of transactions subject to formal economic impact review to submit white paper analyses – **FULLY IMPLEMENTED**
- **Recommendation 14** – Provide earlier notice to Congress and the Reviewing Agencies of the initiation of economic impact review – **FULLY IMPLEMENTED**
- **Recommendation 15** – Implementing a policy with the Reviewing Agencies that would set a specified limited time period – **FULLY IMPLEMENTED**
- **Recommendation 16** – Hire a trained economist to assist in implementing the improvements suggested in this Report – **FULLY IMPLEMENTED**

June 7, 2011 - Review of the Ex-Im Bank Nigeria Banking Facility (OIG-SR-11-01)

- **Recommendation 1** – Develop policies and procedures clearly defining when a Special Delegation of Authority is beneficial– **FULLY IMPLEMENTED**
- **Recommendation 2** – Develop policies and procedures describing how credit facilities would be established – **FULLY IMPLEMENTED**
- **Recommendation 3** – Establish an anti-corruption hotline – **FULLY IMPLEMENTED**

January 24, 2012 – Information Technology Support for Ex-Im Bank's Mission (OIG-AR-12-04)

- **Recommendation 1** – Have business owners individually and in aggregate reevaluate their business requirements – **FULLY IMPLEMENTED**
- **Recommendation 2** – Develop a formal working file document management policy – **FULLY IMPLEMENTED**
- **Recommendation 3** – Implement a unique identifier to ensure that all participants can be readily identified with their historical transactions – **FULLY IMPLEMENTED**
- **Recommendation 4** – Revise required minimum participant data necessary to process an application – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop a formal data management policy and procedures to ensure complete and accurate participant data – **FULLY IMPLEMENTED**
- **Recommendation 6** – Require that the formal data management policy and procedures be communicated, reviewed and readily accessible – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Develop a process for creating a clear and comprehensive IT Strategic Plan – **FULLY IMPLEMENTED**
- **Recommendation 8** – Classify requested and authorized IT funds according to OMB's CIRCULAR A–11 – **FULLY IMPLEMENTED**
- **Recommendation 9** – Enhance or replace the AAA system to provide information on actual versus planned IT – **FULLY IMPLEMENTED**

- **Recommendation 10** – Formally direct the CIO on the implementation of requirements in OMB's M-11-29, Chief Information Officer Authorities – **FULLY IMPLEMENTED**

- **Recommendation 11** – Ensure Ex-Im Bank's SDLC process is consistently followed when implementing major systems – **FULLY IMPLEMENTED**

March 27, 2012 – Performance Metrics & Operational Efficiency (OIG-INS-12-01)

- **Recommendation 1** – Develop a systematic approach to defining and measuring customer satisfaction via annual survey – **FULLY IMPLEMENTED**

- **Recommendation 2** – Develop a customer service plan in accordance with Executive Order 1357 on improving customer service – **FULLY IMPLEMENTED**

- **Recommendation 3** – Participate in an inter-ECA dialogue on operational performance and customer service. Promote ECA best practices – **FULLY IMPLEMENTED**

- **Recommendation 4** – Implement performance standards throughout the agency in accordance with GPRA Modernization Act of 2010 – **FULLY IMPLEMENTED**

- **Recommendation 5** – Redefine performance measures and implement a balanced score card, incorporating quantitative and qualitative metrics – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 6** – Solicit customer input and revisit its metrics and customer service response time levels to reflect customer expectations – **FULLY IMPLEMENTED**

- **Recommendation 7** – Develop uniform response time cycle – **FULLY IMPLEMENTED**

- **Recommendation 8** – Implement improved monitoring procedures and appropriate response time targets for long-term guarantees and loans – **FULLY IMPLEMENTED**

September 26, 2012 – Audit of Export-Import Bank's Purchase Card Program (OIG-AR-12-06)

- **Recommendation 1** – Verify that all purchase card program participants complete required purchase card training – **FULLY IMPLEMENTED**

- **Recommendation 2** – Establish a process and recordkeeping system for tracking and verifying completion of required training – **FULLY IMPLEMENTED**

- **Recommendation 3** – Provide a current Delegation of Procurement Authority to purchase cardholders – **FULLY IMPLEMENTED**

- **Recommendation 4** – Develop Bank specific purchase card training to supplement refresher training offered by GSA – **FULLY IMPLEMENTED**

- **Recommendation 5** – Revise Ex-Im Bank's Purchase Card Policy to more clearly describe restrictions on use of convenience checks – **FULLY IMPLEMENTED**

- **Recommendation 6** – Perform random audits of cardholder accounts and conduct annual review of the purchase card program – **FULLY IMPLEMENTED**

September 27, 2012 – Portfolio Risk and Loss Reserve Allocation Policies (OIG-INS-12-02)

- **Recommendation 1** – Develop a systematic approach to identifying, measuring, pricing, and reserving for portfolio risk – **FULLY IMPLEMENTED**
- **Recommendation 2** – OCFO should design and implement a formal governance framework for the use of financial models – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Develop a systematic approach to stress testing and conduct stress testing annually as part of its re-estimate process – **FULLY IMPLEMENTED**
- **Recommendation 4** – Implement soft portfolio concentration sub-limits based on industry, geography, or asset class – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5** – Create the position of Chief Risk Officer to oversee the design and implementation of an agency-wide risk management – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Amend bylaws to broaden the responsibility of the Audit Committee to oversight of agency-wide risk management – **CONTINUE TO WORK WITH OIG**
- **Recommendation 7** – Review current risk metrics and reporting procedures to enhance transparency and to better inform key stakeholders – **FULLY IMPLEMENTED**

September 28, 2012 – Export-Import Bank's Short Term Insurance Program (OIG-AR-12-05)

- **Recommendation 1** – Document policies and procedures through management directives, administrative policies, and operating manuals – **FULLY IMPLEMENTED**
- **Recommendation 2** – Implement enhanced due diligence procedures for insurance applications that may have elevated business risks – **FULLY IMPLEMENTED**
- **Recommendation 3** – Ensure that individuals with delegated authority verify that CRTI due diligence is performed before approving a policy – **FULLY IMPLEMENTED**
- **Recommendation 4** – Implement a monitoring process for periodically reviewing a sample of short-term insurance program authorizations – **FULLY IMPLEMENTED**
- **Recommendation 5** – Implement a due-diligence procedure checklist that is completed by individuals with delegated authority – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Develop and implement a monitoring process for periodically reviewing a sample of authorizations – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Perform separate underwriting for all new multi-buyer policies, all new SBCLs over $5,000, and all enhanced assignments – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 8** – Perform separate underwriting for all policy renewals with a limit over $1 million – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 9** – Implement periodic reviews of authorizations underwritten and approved by the same individual – **FULLY IMPLEMENTED**
- **Recommendation 10** – Implement controls to ensure that EOL's exporter score calculations used during underwriting are accurate – **FULLY IMPLEMENTED**

January 23, 2013 – FY2012 Financial Statement Audit – Management Letter (OIG-AR-13-02)

- **Recommendation 1** – Enhance the review process from TPMD prior to submission of the risk rating to the VP of TPMD for approval – **FULLY IMPLEMENTED**
- **Recommendation 2** – Review changes made in the LGA after August 31 by Office of the Controller to ensure BCL risk ratings are appropriate – **FULLY IMPLEMENTED**
- **Recommendation 3** – Review and compare information for transactions in LGA against the final approved executed agreements / amendments – **FULLY IMPLEMENTED**
- **Recommendation 4** – Add a second level of review on the subsidy calculation prior to releasing approved or amended transactions into the LGA – **FULLY IMPLEMENTED**
- **Recommendation 5** – Perform a thorough review of "accrual" status of loans on a regular basis – **FULLY IMPLEMENTED**
- **Recommendation 6** – Enhance controls around the journal entry review process to detect any misstatements that may potentially occur – **FULLY IMPLEMENTED**
- **Recommendation 7** – Perform a more detailed review of the formulas used in in the allowance for loan loss methodology – **FULLY IMPLEMENTED**
- **Recommendation 8** – Ensure all actions taken on the Daily Security Monitoring report are documented and retained – **FULLY IMPLEMENTED**

March 14, 2013 – Improper Payments Reporting (OIG-AR-13-03)

- **Recommendation 1** – Revise procedures to ensure improper payments assessment correctly calculates improper payment rates – **FULLY IMPLEMENTED**
- **Recommendation 2** – Address the potential elevated risk of improper loan disbursements or management's acceptance of the risk – **FULLY IMPLEMENTED**
- **Recommendation 3** – Modify the method used to score improper payments risk assessment questionnaires – **FULLY IMPLEMENTED**

- **Recommendation 4** – Include a reasonable estimate of fraudulent insurance claim payments or obtain OMB's written approval to exclude – **FULLY IMPLEMENTED**

- **Recommendation 5** – Consider the cost effectiveness of conducting payment recapture audits and additional periodic testing to prevent – **FULLY IMPLEMENTED**

March 22, 2013 – FY2012 Information Security Program and Practices Audit (OIG-AR-13-04)

- **Recommendation 1** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

- **Recommendation 2** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

- **Recommendation 3** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

September 26, 2013 – Export-Import Bank's Management of Direct Loans and Related Challenges (OIG-AR-13-05)

- **Recommendation 1** – Develop a systematic quality control review program to correct Bank staff noncompliance with credit program policy – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2** – Identify operational risks and impacts on Ex-Im Bank's ability to achieve credit program goals and objectives – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 3** – Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **FULLY IMPLEMENTED**

- **Recommendation 4** – Adopt applicable Federal credit program policies and guidance – **FULLY IMPLEMENTED**

September 30, 2013 – Minera y Metalurica del Boleo S.A. (OIG-INS-13-01)

- **Recommendation 1** – Conduct a comprehensive review of its credit analysis and approval procedures by benchmarking credit review – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2** – Consider the implementation of a risk–based approach to monitoring – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 3** – Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 4** – Enhance the KYC/CRTI process, perform a full check (including local media sources) – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Evaluate current fraud prevention practices for local costs by benchmarking best practices – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Increase staff in both the pre- and post-operative transaction monitoring teams and related internal resources – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7 –** Conduct a post–mortem review of the structural issues encountered in the Boleo transaction – **FULLY IMPLEMENTED**

December 11, 2013 – Report on Export-Import Bank's Content Policy (OIG-AR-14-01)

- **Recommendation 1 –** Implement procedures to verify exporter self-certifications of content throughout each fiscal year – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Obtain resolution on the 2001 requirement to provide an Annual Report on Content Trends – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **CONCUR, WORKING TO IMPLEMENT**

December 13, 2013 – Audit of Export Import Bank of the United States Fiscal Year 2013 Financial Statements (OIG-AR-14-02)

- No recommendations resulted from this report.

March 21, 2014 – FY 2013 Financial Statement Audit Management Letter (OIG-AR-14-04)

- **Recommendation 1 –** Enhance the review process of the working capital guarantee information entered by staff members – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Institute policies for the application of proper invoice date according to the Prompt Payment Act – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Review of the subsidy re-estimate spreadsheet be performed to detect any material misstatements in a timely manner – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Perform a review of the inputs used in the macro prior to performing the calculation of the subsidy re-estimate – **FULLY IMPLEMENTED**
- **Recommendation 5 –** Implement controls to ensure that the proper journal entry is recorded to write off the rescheduled loan – **FULLY IMPLEMENTED**
- **Recommendation 6 –** Perform a review of transactions in the portfolio to ensure that they are assigned to appropriate monitoring divisions – **FULLY IMPLEMENTED**
- **Recommendation 7 –** Focus on the execution of access changes in relation to the annual access review – **FULLY IMPLEMENTED**

March 26, 2014 – FY 2013 Information Security Program and Practices Audit (OIG-AR-14-03)

- **Recommendation 1** – Implement the use of PIV cards to achieve multifactor authentication – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Document policies and procedures for information security oversight of externally hosted services and systems – **FULLY IMPLEMENTED**
- **Recommendation 3** – Ensure that individuals with significant security responsibilities complete annual security training – **FULLY IMPLEMENTED**
- **Recommendation 4** – Clearly define, document, and review a list of events required to be captured by the system – **FULLY IMPLEMENTED**
- **Recommendation 5** – Ensure that inactive accounts are disabled after a 90 days and terminated individuals are removed immediately – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Follow the established security assessment and authorization policy and procedures document – **FULLY IMPLEMENTED**

April 15, 2014 – Improper Payments Reporting (OIG-AR-14-06)

- **Recommendation 1** – State in the Annual Financial Report (AFR) the decision whether or not to perform payment recapture audits – **FULLY IMPLEMENTED**
- **Recommendation 2** – Ensure that OGC reports all required payments received from non-Federal sources – **FULLY IMPLEMENTED**

April 23, 2014 – Ex-Im Bank's Sponsored Travel (OIG-AR-14-05)

- **Recommendation 1** – Establish reporting procedures over sponsored travel – **FULLY IMPLEMENTED**
- **Recommendation 2** – Ensure that OGC reports all required payments received from non-Federal sources – **FULLY IMPLEMENTED**
- **Recommendation 3** – Establish effective control activities over submission of the sponsored travel vouchers – **FULLY IMPLEMENTED**

June 18, 2014 – PNG LNG Project (OIG-INS-14-01)

- **Recommendation 1** – Strengthen the effectiveness and transparency of the CRTI/KYC due diligence – **FULLY IMPLEMENTED**
- **Recommendation 2** – Strengthen compliance with Ex-Im Bank Policies and to enhance transparency in the financing of local goods and services – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**

September 30, 2014 – Punj Lloyd Solar Power, Ltd. (OIG-INS-14-02)

- **Recommendation 1** – Review and evaluate its current CRTI policies and procedures – **FULLY IMPLEMENTED**
- **Recommendation 2** – Evaluate its current Post-Operative Monitoring Policy – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Consider obtaining a credit reference or sharing information with the other federal credit programs – **CONCUR, WORKING TO IMPLEMENT**

January 14, 2015 – FY 2014 Financial Statement Audit Management Letter (OIG-AR-15-02)

- **Recommendation 1** – Enhance the effectiveness of the review processes over the ESS risk rating and CSC2 input form – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Enhance the process for removing user access as part of the employee separation process – **FULLY IMPLEMENTED**
- **Recommendation 3** – Expand its review process over the privileged access groups – **FULLY IMPLEMENTED**
- **Recommendation 4** – Establish a review process for privileged access to the application servers – **FULLY IMPLEMENTED**
- **Recommendation 5** – Configure the password settings for its servers in accordance with its Access Control Policy – **CONCUR, WORKING TO IMPLEMENT**

February 9, 2015 – Independent Audit of Ex-Im Bank's Information Security Program for FY 2014 (OIG-AR-15-03)

- **Recommendation1–** Deploy mobile phone security controls – **FULLY IMPLEMENTED**
- **Recommendation 2** – Improve Controls over Remote Access – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish effective control activities over submission of the sponsored travel vouchers – **CONCUR, WORKING TO IMPLEMENT**

March 23, 2015 – Audit of Ex-Im Bank's Short Term Multi-Buyer Insurance Program (OIG-AR-15-0)

- **Recommendation 1** – Develop and implement procedures to ensure underwriting summaries clearly present the required information – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Ensure operating profit information is collected for Express transactions – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Develop a procedure to ensure CRTI checks are completed – **FULLY IMPLEMENTED**
- **Recommendation 4** – Provide additional professional training and enhance communication amongst TCID underwriters and directors – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 6 –** Develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 7 –** Make the necessary changes to EOL and the Manual to ensure exporter scores are properly calculated – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Report on Ghana Credits: Ridge Hospital Complex & Kumawu-Mampong Water Treatment Works (OIG-INS-15-01)

- **Recommendation 1 –** Conduct a post mortem review of the Kumawu-Mampong Transaction – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2 –** Follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component – **CONTINUE TO WORK WITH OIG**

- **Recommendation 3 –** Consistently adhere to the monitoring requirements set forth in the Credit Agreement – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 4 –** Establish policies and procedures for the borrower and end-user to address grievances with the Bank – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Ensure it establishes a uniform record keeping system – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Independent Audit on Ex-Im Bank's Planning and Implementation of FMS-NG (OIG-AR-15-05)

- **Recommendation 1 –** Plan and document data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2 –** Save key evidence of FMS-NG data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 3 –** Centrally organize and maintain all planning, converting, testing and implementation documentation – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 4 –** Document formal account management procedures – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Develop and implement an access request form – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 6 –** Develop and implement separation-of-duties requirements – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 7 –** Develop and document contingencies for essential functions – **CONCUR, WORKING TO IMPLEMENT**

May 12, 2015 – Improper Payments Reporting (OIG-AR-15-06)

- **Recommendation 1 –** Align the Bank's Process and Procedures for Improper Payments with OMB requirements - **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Review the Improper Risk Assessment Questionnaire - **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Review the Improper Payment Risk Assessment prior to the issuance of the Annual Financial Report - **CONCUR, WORKING TO IMPLEMENT**

February 11, 2015

The Honorable John Boehner
Speaker of the
House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Democratic Leader
House of Representatives
Washington, D.C. 20515

The Honorable Harry Reid
Democratic Leader
United States Senate
Washington, D.C. 20510

Dear Speaker Boehner, Senator McConnell, Senator Reid, and Representative Pelosi:

We recognize the many challenges requiring Congressional attention today, but as the 114th Congress begins its work this year, we write to encourage Congress to make one a particular priority - the reauthorization of the US Export-Import Bank, or Ex-Im Bank.

From our prior experience in government, each of us has seen how commercial and economic diplomacy have become critical elements of US national security. The involvement of US companies in emerging markets is fundamentally beneficial to the American economy while helping to drive growth, prosperity and political stability abroad. When companies in America export their goods to foreign countries, they promote transparency and sound business practices, and in many cases share knowledge, provide training, and increase investment and employment in the markets where they operate. All of this helps to spread American values and strengthen our interests, while creating jobs and sustaining economic growth here in the United States. American economic engagement through exports to foreign countries is truly a win-win proposition, and the American government must do what it can to support our companies on the front lines.

The Ex-Im Bank is one of the most important tools in our system of government to enable US companies to compete and secure business in overseas markets. As much as the United States has done to promote the creation of free markets and fair trade, it remains an imperfect world. The foreign competitors of US manufacturers all have access to export credit agencies in their countries of origin – many of which are much larger and do not abide by the same stringent rules as the Ex-Im Bank. The Ex-Im Bank levels the playing field for our companies, whether small, medium or large, and enables them to participate in international tenders where their goods and services will be evaluated on an equal basis against their foreign competitors. Indeed, many global customers require access to export credit agency funding as a prerequisite to submit a proposal. Without access to the Ex-Im Bank, US manufacturers could lose deals before they even begin to assemble their bids.

To us, it is inconceivable that some in Congress could contemplate dismantling the Ex-Im Bank while the dynamics of global trade remain as they are. Unilateral disarmament has never been considered a viable defense policy, and we cannot think of a reason why it should be considered a rational export policy. By way of example, the government of China has announced a new initiative to devote an additional $10 billion in export credit to Africa – bringing China's total to $30 billion, roughly the equivalent of the Ex-Im Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent – particularly in the infrastructure sector, where projects can have a lifespan of twenty to thirty years. In an environment such as this, we should be exploring how to strengthen the Ex-Im Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors.

We urge you to support reauthorization of the Ex-Im Bank's charter immediately. Our national security and economic interests depend upon it.

Sincerely,

Madeleine Albright, Former U.S. Secretary of State

Richard Armitage, Former U.S. Deputy Secretary of State

Samuel Richard "Sandy" Berger, Former U.S. Assistant to the President for National Security Affairs

William Cohen, Former U.S. Secretary of Defense

Kenneth M. Duberstein, Former White House Chief of Staff

Carlos Gutierrez, Former U.S. Secretary of Commerce

Stephen Hadley, Former U.S. Assistant to the President for National Security Affairs

Carla Hills, Former U.S. Trade Representative

General James L. Jones, Former U.S. Assistant to the President for National Security Affairs and Former Supreme Allied Commander Europe and Combatant Commander

Ron Kirk, Former U.S. Trade Representative

Thomas "Mack" McLarty, Former White House Chief of Staff

John Negroponte, Former Director of National Intelligence

CATO INSTITUTE

Written Statement of Daniel J. Ikenson
Director, Herbert A. Stiefel Center for Trade Policy Studies,
Cato Institute, Washington, DC

before the

United States House of Representative Committee on Financial Services

"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"

June 3, 2015

Introduction

Chairman Hensarling, Ranking Member Waters, and members of the committee, it is a great pleasure to have been invited to share my perspectives on the Export-Import Bank, its reauthorization request, and the role of government in export financing. 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.

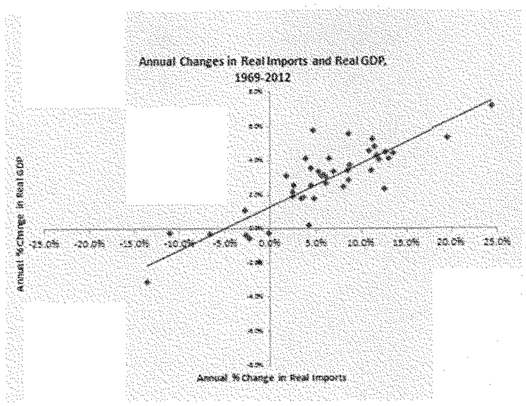
The purpose of exchange is to enable each of us to focus on what we do best. By specializing in an occupation – instead of allocating small portions of our time to producing each of the necessities and luxuries we wish to consume – and exchanging the monetized output we produce most efficiently for the 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."

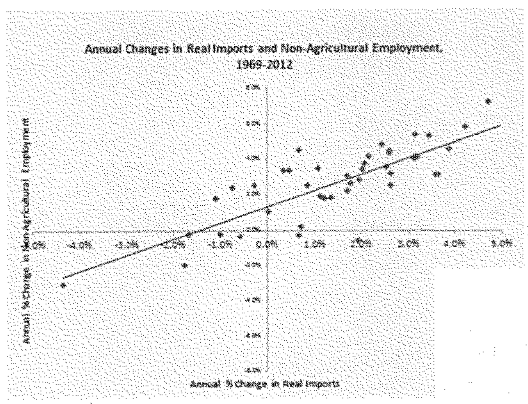
The benefits of trade come from imports, which deliver more competition, greater variety, lower prices, better quality, and innovation. Arguably, opening foreign markets should be *an aim* of trade policy because larger markets allow for greater specialization and economies of scale, but real free trade 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.

[1] Data from the U.S. Bureau of Economic Analysis



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.



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 five 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.

[2] Data from the U.S. Bureau of Economic Analysis and the U.S. Bureau of Labor Statistics

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 ingredients 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?

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[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.

[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.

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 non-beneficiaries 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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[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 benefitting 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. ExIm 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.

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[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.

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 ten 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, after-market 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 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.

EXPORT-IMPORT BANK
***of the* UNITED STATES**

INSPECTOR GENERAL

Statement of

Michael T. McCarthy
Deputy Inspector General
Export-Import Bank of the United States

before the

United States House of Representatives
Committee on Financial Services

June 3, 2015 at 10:00 am

Good morning, Chairman Hensarling, Ranking Member Waters, and members of the committee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank.

I. Export-Import Bank and the Office of Inspector General

The Export-Import Bank of the United States (Ex-Im Bank) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

In the past five years, OIG audits, inspections, and investigations have produced quantifiable cost savings to the Bank and the U.S. Treasury. Based on court-ordered forfeitures, restitution, and repayments directly resulting from OIG investigations of $255 million, the OIG has returned more than 10 times its total budget since the office was created. Including cost savings from transactions canceled based on OIG referrals of $47 million and the reduction in medium-term claims of at least $80 million annually from FY 2012 onward, the OIG has returned more than 25 times its budget.

II. Semiannual Report to Congress

On May 29, 2015, Ex-Im Bank published the Office of Inspector General Semiannual Report to Congress for October 1, 2014 – March 31, 2015. This report is statutorily required by the Inspector General Act as a means to keep Congress fully and currently informed about problems and deficiencies in agency operations and the progress of corrective action.

In the first half of FY 2015, the Export-Import Bank Office of Inspector General continued its work in advising the management of the Export-Import Bank and the Congress on recommendations for improving Bank operations and detecting, preventing, and prosecuting fraud. As Congress considers reauthorization of the Bank's charter, the goal of our office is to provide timely, accurate, and credible information to aid legislators and Bank officials in making policy decisions.

The **Office of Audits** completed five audits and one risk assessment:

- *Audit of the Export-Import Bank of the United States Fiscal Year 2014 Financial Statements*
  (OIG-AR-15-01, November 14, 2014)
- *Fiscal Year 2014 Financial Statement Audit—Management Letter*
  (OIG-AR-15-02, January 14, 2015)

Under a contract overseen by the Office of Audits, Deloitte and Touche LLP conducted the independent audit of Export-Import Bank's financial statements for fiscal year 2014 and found (1) the financial statements were fairly presented, in all material respects, in conformity with U.S generally accepted accounting principles; (2) there were no material weaknesses in internal control; and (3) there were no instances of reportable noncompliance with laws and regulations or other matters it tested. The audit identified one significant internal control deficiency which resulted from errors in the BCL rating for one transaction, a formula error on an input form, and incorrect authorization dates. Management concurred with Deloitte and Touche LLP's recommendation to correct the deficiencies.

In addition to the Independent Auditor's report on the FY 2014 Financial Statements, Deloitte and Touche LLP issued a management letter that identified four other deficiencies in Ex-Im Bank's internal control over financial reporting. Deloitte and Touche LLP made recommendations to correct these deficiencies and management concurred with the recommendations.

- *Independent Audit of Export-Import Bank's Information Security Program for Fiscal Year 2014*
  (OIG-AR-15-03, February 9, 2015)

Under a contract overseen by the Office of Audits, Cotton & Company LLP performed an audit of Ex-Im Bank's Information Security Program for FY 2014. Cotton & Company determined that overall Ex-Im Bank was in substantial compliance with the Federal Information Security Management Act of 2002 (FISMA). While Ex-Im Bank continues to improve and strengthen its information security program, it is not compliant with all FISMA requirements. The report included three new recommendations and three re-issued recommendations. Management concurred with the recommendations.

- *Audit of Export-Import Bank's Short-Term Multi-Buyer Insurance Program*
  (OIG-AR-15-04, March 23, 2015)

We conducted this audit to determine if the internal control environment and activities for Ex-Im Bank's Short-Term Multi-Buyer Insurance program were designed, operated and updated to provide reasonable assurance of (1) compliance with applicable laws and regulations and (2) the efficiency and effectiveness of internal operations for underwriting and issuing insurance policies. We found that Ex-Im Bank's internal control environment and activities for the Short-Term Multi-Buyer insurance program were generally designed, operated and updated to provide reasonable assurance of compliance with applicable laws and regulations. However, based on our review of 23 transactions totaling approximately $25 million in credit limits, we found that underwriters did not comply with the Bank's policies and procedures for 5 transactions totaling over $5 million in credit limits. One of these transactions resulted in an unsupported questioned cost of $118,000. While the remaining 18 transactions met the Bank's credit standards, the underwriting decisions for 15 of these transactions, along with the 5 noncompliant transactions, were not sufficiently documented. The report included 7 recommendations for corrective actions and management concurred with the recommendations.

- *Independent Audit on the Export-Import Bank's Planning and Implementation of the Financial Management System—Next Generation*
  (OIG-AR-15-05, March 31, 2015)

Under a contract overseen by the Office of Audits, Cotton & Company LLP (Cotton) performed an audit of the Export-Import Bank's planning and implementation of the Financial Management System—Next Generation (FMS-NG). The audit did not identify any significant issues or major risks that would prevent the implementation of FMS-NG. However, the audit found that improvements could be made with the planning and documentation of the implementation of FMS-NG. Specifically, the audit found that Ex-Im Bank did not develop and maintain comprehensive project plans and supporting documentation to ensure that the migration to FMS-NG fully adhered to established plans and that business operations could continue without significant complications. The report included 7 recommendations and management concurred with the recommendations.

- *Risk Assessment of Export-Import Bank's Purchase and Travel Card Programs* (November 13, 2014)

In accordance with the Government Charge Card Abuse Prevention Act of 2012, we conducted a risk assessment to identify and analyze the risks of illegal, improper, or erroneous use of Ex-Im Bank's purchase and travel cards in order to determine the scope, frequency and number of periodic audits the OIG will conduct. Our risk assessment determined that Ex-Im Bank's risk of illegal, improper, or erroneous use within the purchase and travel card programs was low. Overall, we determined that the purchase and travel card expenditures were immaterial in comparison to Ex-Im Bank's total FY 2013 expenditures; the policies and procedures and internal controls for each program appeared to be sufficient with one exception, and prior recommendations were fully implemented. As a result of our risk assessment, we did not include audits of Ex-Im Bank's purchase and travel card programs in our FY 2015 Annual Audit Plan. Future audit needs for the purchase and travel card programs will be based on the results of our annual risk assessments.

The **Office of Inspections and Evaluations** (OIE) completed an inspection report on two Ex-Im Bank financings in Ghana and continued working on three additional inspection assignments:

- *Report on Ghana Credits: Ridge Hospital Complex AP087225XX & Kumawu-Mampong Water Treatment Works, AP083137XX* (OIG-INS-15-01, March 31, 2015)

The Ghana inspection involved the review of two Ex-Im Bank transactions: the $155.4 million financing for the renovation of the Ridge Hospital Complex ("Ridge") in Accra, Ghana and the $23.1 million Tied Aid financing for the rehabilitation and expansion of the Kumawu-Mampong Water Treatment Works project ("Water Works") in Mampong, Ghana. Our inspection found the Ridge hospital transaction to be proceeding on time and on budget with a targeted completion date of March 30, 2017. OIG determined that Ex-Im Bank staff performed an appropriate level of due diligence and monitoring and proactively addressed payment risks through structural enhancements to the transaction. The inspection found that while the Water Works Project is operational and provides treated water to the city of Mampong, water distribution to the 22 surrounding communities of Mampong is intermittent. The project's commercial contract and scope of work did not address existing conditions of voltage irregularities and Ex-Im Bank engineering staff did not identify and address these problems during the design, procurement and construction phases of the project. As a result, the completed project does not meet the full scope of work envisioned in Ex-Im Bank's Board Memorandum, nor the development goals of the Tied Aid financing. The report outlines five recommendations for corrective action. Management agreed with four recommendations and disagreed with one of the recommendations.

The **Office of Investigations** concluded the following actions:

- *Obtained a $3.8 million settlement in a civil fraud lawsuit*

In March 2015 after a lengthy and complex OI investigation, the U.S. Department of Justice announced that Hencorp Becstone Capital L.C. (Hencorp) agreed to pay $3.8 million to resolve allegations under the False Claims Act that it made false statements and claims to Ex-Im Bank in order to obtain loan guarantees. The government alleged that a former Hencorp business agent created false documentation and that Hencorp acted recklessly by outsourcing key credit review functions to the agent without adequate supervision or oversight.

- *Investigated criminal fraud cases*

During the reporting period, OI agents worked diligently with the Department of Justice to complete several criminal investigations. Based on OI's efforts, agents obtained three convictions, four indictments, and one criminal information in export finance fraud cases against outside parties who schemed to defraud Ex-Im Bank. OI also closed 18 investigations after concluding all remaining actions and prosecutive results in those cases.

- *Investigated employee integrity matters*

During this reporting period, OI closed two cases involving allegations of misconduct by Ex-Im Bank employees. In one case, OI substantiated allegations that a contractor, contractor employees, and an Ex-Im Bank contracting official engaged in a scheme to overstate the hours worked in the second half of October 2013 in order to compensate contractor employees for hours not worked or billed during the shutdown period. The scheme resulted in the payment of approximately $19,356 for hours not actually worked. In another case, OI substantiated allegations that an Ex-Im employee had been hired despite a prior felony conviction, and while working at Ex-Im Bank, misused IT resources and engaged in conflicts of interest.

- *Referred information to Ex-Im Bank resulting in administrative actions.*

OI Special Agents work collaboratively to share investigative intelligence with Ex-Im Bank to help identify potential and suspected fraudulent activity within Bank transactions and to protect Bank funds at risk. During this reporting period, OI made 80 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank. OI agents also conducted training and outreach with various lenders and partners to enhance investigative and financial intelligence sharing.

III. Recent Activities

Since the conclusion of the semiannual reporting period on March 31, 2015, court proceedings have been held resulting from OIG investigations, and the Office of Audits issued one new report.

- *Former Loan Officer at Export-Import Bank Pleads Guilty to Accepting Over $78,000 in Bribes*

On April 22, 2015, Johnny Gutierrez, a former loan officer at Ex-Im Bank, pleaded guilty to one count of bribery of a public official, for accepting more than $78,000 in bribes in return for recommending the approval of unqualified loan applications to the bank, among other misconduct.

According to his plea agreement, as an Ex-Im Bank loan officer, Gutierrez was responsible for conducting credit underwriting reviews for companies and lenders submitting financing applications to the Ex-Im Bank.

As part of his guilty plea, Gutierrez admitted that on 19 separate occasions between June 2006 and December 2013, he accepted bribes totaling more than $78,000 in return for recommending the approval of unqualified loan applications and improperly expediting other applications. Specifically, Gutierrez admitted that he intentionally ignored the fact that one company had previously defaulted in 10 previous transactions guaranteed by the bank, causing the Ex-Im Bank to lose almost $20 million. Despite these defaults, Gutierrez accepted bribes to continue to recommend the approval of the company's loan applications. Additionally, Gutierrez admitted that he accepted bribes from a financing broker to expedite applications submitted by the broker, and that he privately assisted the broker to improve its applications before submission to the bank. In exchange, Gutierrez was to receive half of the broker's profit on the transactions financed by the bank. Further, Gutierrez disclosed to the broker inside information about financing applications submitted to the Ex-Im Bank, so that the broker could solicit the applicants as clients.

A sentencing hearing is scheduled for July 20, 2015.

- *Mexican National Sentenced to 41 Months in Prison for Executing a $4 Million Dollar Bank Fraud Scheme*

On May 22, 2015, Julian Martin Gaspar Vazquez (Gaspar), 52, of Mexico was sentenced to forty-one months imprisonment, to be followed by five years of supervised release for executing a $4 million dollar bank fraud scheme. Gaspar was also ordered to pay $4,488,000 in restitution. In addition, the Court imposed a $4 million forfeiture money judgment against Gaspar.

On February 12, 2015, Gaspar pled guilty to one count of bank fraud, in violation of 18 U.S.C. § 1344. According to court documents, Gaspar was the owner of "Ecologia en Tratamientos de Agua, S.A. de C.V." ("ETA"). ETA was a Mexican company in the business of water treatment. In or around March of 2006, Gaspar sought an Ex-Im Bank insured credit line from Espirito Santo Bank, a United States bank located in Miami, Florida. The stated purpose for the credit line was to enable ETA to import United States goods into Mexico.

From September 2009 through February 2010, Gaspar caused Espirito Santo Bank to make four reimbursement disbursements of $1 million each to ETA. The supporting documents included false bank records purporting to show payments by ETA to a United States company and false Mexican customs documents purporting to show that United States goods had been exported to Mexico. From in or around March 2010, through in or around August 2010, ETA and Gaspar failed to repay the disbursements when due, and defaulted on the Ex-Im Bank insured loan. As a result, Gaspar caused $4,488,000 in losses to Ex-Im Bank which had insured the loan that Gaspar fraudulently obtained from Espirito Santo Bank.

- *Audit of Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for FY 2014 Reporting*
  (OIG-AR-15-06, May 12, 2015)

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. Each agency's Inspector General is required to perform an annual review of their agency's compliance with improper payments legislation.

The audit found that Ex-Im Bank did not fully comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for FY 2014 reporting. The Bank met five of the six IPERA reporting requirements, but did not conduct a program specific risk assessment for each program or activity as required for compliance.

The Bank developed a process for assessing improper payment risk; however, its assessment did not cover all activities or consider all risk to adequately determine whether the Bank had any programs or activities susceptible to significant improper payments. Specifically, (1) underwriting and approval of Bank transactions including direct and guaranteed loans and insurance were not adequately assessed for improper payments according to the nine minimum risk factors; (2) the risk assessment did not consider claims for transactions with unconditional guarantees – an important risk factor; and (3) Ex-Im Bank's risk assessment questionnaire was not sufficient to support its low risk determination for significant improper payments.

We found Ex-Im Bank's risk assessment for FY 2014 reporting provided limited insight into the actual risk of significant improper payments. As a result, the Bank's improper payment reporting is incomplete and the true risk of significant improper payments is unknown. Although the Bank did not fully comply with IPERA, the OIG recognizes the Bank's efforts to improve its improper payment review process. Specifically, the Bank conducted an interim assessment on authorizations for the FY 2014 reporting cycle. In addition, the Bank plans to include claim payments for transactions with unconditional guarantees and transactions with inappropriate underwriting and approval decisions in the next reporting cycle.

IV. Conclusion

This testimony highlighted some of the challenges facing Ex-Im Bank and the steps that are in process to address issues and improve the operations of the Bank. The OIG will continue to perform its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have.

Witness Bio

Michael T. McCarthy is the Deputy Inspector General of the Export-Import Bank of the United States and currently leads the Office of Inspector General. He provides overall direction to the teams of auditors, investigators, and inspectors responsible for improving the programs and operations of Ex-Im Bank and preventing and detecting fraud, waste, and abuse.

Mr. McCarthy is a career public servant who has worked in all three branches of government. Before joining Ex-Im Bank, he was a senior executive at the U.S. Department of the Treasury and the Administrative Conference of the United States, and previously served at the U.S. Department of Justice. For the U.S. House of Representatives, Mike served as deputy staff director and general counsel to the Committee on Oversight and Government Reform and as staff director of that panel's Subcommittee on Government Management. He was law clerk to U.S. District Judge Leonie Brinkema (E.D. Va.). Mr. McCarthy graduated with honors from Harvard Law School and received a B.A. from Georgetown University, where he was a Big East All-Academic swimmer. Mike and his wife, Carrie Wilks, have three daughters.

Statement of the U.S. Chamber of Commerce

ON: Examining the Export-Import Bank's Request for Reauthorization and the Government's Role in Export Financing

TO: U.S. House of Representatives Committee on Financial Services

BY: John Murphy
Senior Vice President for International Policy
U.S. Chamber of Commerce

DATE: June 3, 2015

1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

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% 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 Hensarling, Ranking Member Waters, 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 2014 merchandise exports of Arkansas, Delaware, Maine, New Hampshire, New Mexico, and Oklahoma combined.

Ex-Im is especially important to U.S. small- and medium-sized businesses, which account for nearly 90% 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.

Underscoring this broad support, the Chamber today joined with the National Association of Manufacturers to release a letter signed by more than 1,000 companies of every size, sector, and region, as well as state and local chambers of commerce and industry associations, urging Congress to reauthorize Ex-Im before June 30.

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 seventeen 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 ten 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 one percent and stood at 0.167% 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% 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% 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 aforementioned letter signed by more than 1,000 companies of every size, sector, and region, as well as state and local chambers of commerce and industry associations, shows the breadth and depth of support for Ex-Im's reauthorization. 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.

U.S. House Financial Service Committee Hearing
Examining the Export-Import Bank's Reauthorization Request
and the Government's Role in Export Financing
June 3, 2015

Thank you, Chairman Hensarling, Ranking Member Waters and member of the Committee, for the opportunity to testify today. My name is Clifford Smith and I am the Executive Vice President of Business Development for Cliffs Natural Resources Inc. With five major mines in Minnesota and Michigan, Cliffs is North America's largest producer of iron ore pellets for steelmaking.

I am here today to speak about a recent transaction at the Export-Import Bank of the U.S. that, we believe, exposed serious flaws in the Bank's governance and has contributed to the decimation of the global iron ore trade. I want to emphasize up-front that Cliffs has not advocated for the outright elimination of Ex-Im Bank. However, we believe Ex-Im Bank's financing activity is making it more difficult for Cliffs to compete and we believe substantial revisions to the Bank's Charter and operating procedures are needed to protect U.S. interests.

Through Cliffs' recent experience opposing the Bank's $694 million direct loan for the Roy Hill iron ore project in Australia, it is apparent that the Bank is falling short of adherence to its Congressionally authorized Charter. Quite simply, the Bank is failing to properly account for the negative economic impact its transactions have on domestic companies.

To summarize, in late 2012, Cliffs became aware of Ex-Im Bank's pattern of support for foreign iron ore producers. ***In total, between 2009 and 2013, the Bank has helped bring on-line 124 million metric tons of new or expanded iron ore capacity (which is 2.31 times annual U.S. production).***

In the case of Roy Hill, Ex-Im Bank provided a $694 million direct loan to the project proponent, Hancock Prospecting. Hancock Prospecting is owned by Gina Rinehart, one of the richest women in the world and a highly controversial figure in Australia. In May 2013, following the release of the Economic Impact Notice (EIA) for the Roy Hill project, Cliffs commissioned an independent EIA on the impact that the Roy Hill project would have on global iron ore supply and demand, specifically noting the impact on U.S. producers. Cliffs' EIA found that the Roy Hill project would cause the loss of almost $600 million worth of U.S. iron ore exports and the loss of $1.2 billion in U.S. domestic sales (due to price degradation by increasing supply iron ore). ***Total impact to Cliffs over the financing period could exceed $1.8 billion!***

These pricing estimates were based on an assumption that global oversupply would lead seaborne iron ore prices to degrade from an average of approximately $135 per-ton in 2013 to a price of $96 dollars per-ton in 2018. In fact, the global oversupply situation has become much worse than even our own EIA predicted. ***Today the global seaborne iron ore price is in the low $60 per-ton range, with the price having dipped in the $40s per ton during the month of April 2015.***

To put this into perspective, when the Roy Hill transaction was approved, the U.S. iron ore industry was producing at near capacity and at full employment. Today, the situation is quite different, with well over 1,200 workers at domestic iron ore operations who are currently on layoff or have been notified of a coming layoff.

This oversupply situation has been caused by the conscious decision of major iron ore producers like Rio Tinto and BHP Billiton to bring on additional, unneeded iron ore capacity, even as the Chinese economy continues to slow down and demands less iron ore. Over the past nine months, we have been reshaping Cliffs' business to be a pure U.S.-centric company, and to take us out of the iron ore trade with China. While we still have an international iron ore mining operation in Australia, we have initiated restructuring proceedings for our Canadian operations – Companies Creditor Arrangement Act, also known as CCAA.

In addition, let me point out that there is even a direct correlation between low cost seaborne iron ore and U.S. steel imports. How? Low cost iron ore is facilitating Chinese steel producers to flood the U.S. with cheap steel. As many of you already know, the U.S. steel market is experiencing all time high levels of finished imports. A staggering 34 percent at the end of the first quarter of this year. As it stands today, the domestic steel market is not capturing any new growth and has remained relatively flat for the past two years. It is being captured by cheap steel imports.

Cliffs has been impacted by the steel import situation too. We lowered our full-year U.S. sales and production volume expectations due to the weakened demand and view of the U.S. steel market conditions. At the end of June, we are temporarily idling our Empire Mine in Michigan through the end of October of this year. This will impact approximately 350 of our employees.

The Roy Hill project, which proposes to add more iron ore to the market than the U.S. industry produces in aggregate, will further exacerbate this global oversupply situation when the project begins production at the end of 2015. The findings of Cliffs' Ex-Im Bank study were sound and should have precluded Ex-Im Bank from approving the Roy Hill loan for the following reasons: 1.) The Charter prohibits the Bank from approving transactions that would result in production of a commodity when that commodity is in a state of global oversupply; and 2.) Ex-Im Bank's Charter prohibits the Bank from financing projects that would harm U.S. producers more than it would benefit the U.S. exporter requesting the financing

Notwithstanding these well documented economic impacts, the Bank approved the transaction without ever releasing or acknowledging the outcome of its own Economic Impact Analysis (which it is bound by its Charter to conduct). When a non-confidential summary of the Bank's economic analysis was finally made available...***only after the transaction was formally approved***, it was clear that the EIA was substantially flawed:

The Bank's EIA found an adverse economic impact to U.S. producers of only $25 million! (compared to Cliffs' finding of $1.8 billion in harm).

In order to reach this outcome, Ex-Im Bank made wildly unsupported claims. ***For example, the Bank deemed, without explanation, that 55 million metric tons per year would not change global supply/demand dynamics in the iron ore space***

These unsupported assumptions and shortcomings in the Bank's EIA stand as a primary example of why the Bank must be more accountable and more transparent.

In short, in the case of Roy Hill, Ex-Im Bank second-guessed Cliffs' EIA and largely refused to acknowledge our outlook on our own industry. Now, over a year-and-a-half later, our predictions have come true with terrible consequences for U.S. companies and workers.

Going forward, we look forward to working with the committee to share our thoughts on necessary amendments to the Bank's Charter. The goal of these proposed changes will be to ensure that the Bank must be accountable to parties that object to its financing arrangements, in order to ensure that the Bank can never again fund a fatally flawed project such as Roy Hill.

Thank you once again for your time today. I'm happy to answer any questions the committee may have.

DELTA

Andrea Fischer Newman
Senior Vice President
Government Affairs

April 23, 2014

The Honorable Fred P. Hochberg
Chairman and President
Export-Import Bank
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Chairman Hochberg:

Earlier this month, I wrote you to identify inaccuracies in statements made by the Export-Import Bank ("Ex-Im" or "the Bank") in a March 25 announcement of a loan guarantee for the Brazilian airline GOL. That letter was dated April 7, 2014, and is attached. Despite highlighting the Bank's misleading statements directly to you, we recently learned that Ex-Im has continued to promote these false and misleading statements, including making false statements in communications with Members of Congress.

In a recent letter to Members of Congress dated April 14, 2014, you claimed that "[t]he availability of Ex-Im Bank financing was the key to GOL choosing the U.S. provider for these services." As I informed you earlier this month, Delta Air Lines performed this work for GOL for more than a decade before Ex-Im became involved in this transaction. Ex-Im financing has never been and is not currently a consideration in the relationship between Delta TechOps and GOL.

You also claimed in your letter that "[t]he financing supports an estimated 400 jobs at Delta TechOps." Again, as I informed you earlier this month, not a single job at Delta TechOps was added as a result of the Bank's transaction with GOL and not a single job would have been lost had the transaction not occurred. It especially concerning that, after being informed of the facts of the transaction, you would continue to make false representations to Members of Congress.

While we acknowledge the Bank's efforts to support small businesses across the United States, Delta Air Lines continues to be concerned that Ex-Im engages in transactions for widebody aircraft with airlines that don't need export credit financing because they can access the capital markets or because they are state subsidized. Federal courts have held that such transactions can have a negative impact on the U.S. airline industry and American jobs.

The Honorable Fred P. Hochberg
Page 2
April 23, 2014

We respectfully request that you correct the false and misleading statements that you have made on your website, in press releases, and to Members of Congress, and present a complete and accurate description of the GOL transaction in any future communications.

Sincerely,

Andrea Fischer Newman

Andrea Fischer Newman

Enclosure: April 7, 2014 letter from Andrea Fischer Newman to Chairman Fred Hochberg

cc: Members of Congress (with enclosure)

DELTA

Andrea Fischer Newman
Senior Vice President
Government Affairs

April 7, 2014

The Honorable Fred P. Hochberg
Chairman and President
Export-Import Bank
811 Vermont Ave., N.W.
Washington, DC 20571

Dear Chairman Hochberg:

I write today about the Export-Import Bank's ("Ex-Im" or "the Bank") March 25 announcement of a loan guarantee for the Brazilian airline GOL to help support GOL's purchase of engine maintenance services performed by Delta TechOps, the maintenance, repair and overhaul division of Delta Air Lines. In its press release accompanying this announcement, the Bank makes a number of false and misleading statements that distort Delta's longstanding relationship with GOL and the purported benefits that this loan guarantee actually provides.

First, the Bank implies that Delta's contract with GOL was the product of Ex-Im engagement. The facts show otherwise. As you know, Delta has performed engine maintenance work for GOL at our TechOps facility in Atlanta since 2002, ten years before the Bank first provided any loan guarantees to GOL. The Bank's transactions with GOL, which began in 2012, have simply guaranteed payment for some of that maintenance work. To date, GOL has paid for all Delta TechOps work without any assistance or support from the Bank.

Second, the Bank's claim that its guarantee produced 400 jobs is pure fiction. The GOL contract which ExIm supported did not add any new jobs, and no jobs would have been lost - no one would have been laid off - if the contract had not been executed. If the Bank engages in this kind of exaggeration in estimating the jobs supported by its aircraft financings, those claims are wildly inflated.

Most importantly, the Bank's support for GOL does not harm any other U.S. industry nor does it cost any American their job. This stands in stark contrast to the Bank's support for foreign airlines that use Ex-Im support to purchase widebody aircraft on better-than-market terms and then compete – with discounted and excess capacity – with U.S. carriers on key international routes.

In short, the Bank's real impact on the U.S airline industry stems not from minor transactions like the one touted in the Bank's self-serving press release on GOL. Rather, by supporting foreign airlines – especially state-sponsored carriers – with tens of billions of dollars each year in better-than-market loans and guarantees, Ex-Im is inflicting real and lasting harm on the U.S. airline industry and American jobs.

Thank you for your attention to these issues.

Sincerely,

Andrea Fischer Newman

Andrea Fischer Newman

NATIONAL ASSOCIATION OF
Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

Statement

of Linda Dempsey
Vice President, International Economic Affairs
National Association of Manufacturers

For the Hearing of the House Financial Services Committee

on "Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"

June 3, 2015

Statement for the Record of
Linda Dempsey

Vice President, International Economic Affairs
National Association of Manufacturers

For the

Hearing of the House Financial Services Committee entitled

"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"

June 3, 2015

Chairmen Hensarling and Ranking Member Waters and members of the committee, thank you for the opportunity to submit this statement for the record. 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 a voice for more than 12 million women and men who make things in America. Manufacturing in the United States 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

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

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 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 than 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

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[2] Moutray, Chad, "NAM/*IndustryWeek* Survey: Manufacturers Bullish, But Frustrated with Washington," *IndustryWeek*, 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.

[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.

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 FY 2014, 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 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 UK Export Finance (UKEF), Korea Trade Insurance Corporation (K-Sure) and Deutsche

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[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.
[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-content/uploads/2013/10/Berne-Union-Yearbook-2012.pdf - Quoting Steve Tvardek, Head of the OECD Export Credits Division, OECD.

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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[8] Berne Union Yearbook 2014 at 66, accessed at http://www.berneunion.org/wp-content/uploads/2012/10/Berne-Union-80-Yearbook-2014.pdf.

[9] *See, e.g.*, "Power Shift: The Rise of Export Credit and Development Finance in Major Projects." November 2013; Baker & 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." [need Publication, date]

[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

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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 ECA 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 favourable officially supported terms." OECD, "Official Export Credit Agencies,"

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 International 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.

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accessed at http://www.oecd.org/tad/xcred/eca.htm; see also, OECD, *"Official Export Credit Agencies,"* accessed at http://www.oecd.org/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 nine participants in the OECD arrangement (Australia, Canada, the European Union, Japan, New Zealand, South Korea, Switzerland United States) and nine non-OECD 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.

- 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, D.C., 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. Earlier today, the NAM joined with the U.S. Chamber of Commerce to release a letter from more than a thousand businesses and organizations from across the country calling on you and your colleagues to move forward this month with a long-term reauthorization of Ex-Im Bank.

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 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 Hensarling and Ranking Members Waters for holding this hearing and for allowing me the opportunity to submit a statement for the record.

June 3, 2015

The United States Congress
United States Capitol
Washington, DC 20510

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned 1,053 organizations from across the country are writing to urge your support for long-term reauthorization of the U.S. Export-Import Bank (Ex-Im) before its charter expires on June 30. Ex-Im provides loans, loan guarantees and export credit insurance to help cover financing gaps for American exporters. It helps level the playing field for U.S. companies seeking new sales in fiercely competitive global markets.

Last year, Ex-Im provided financing or guarantees for $27.5 billion in U.S. exports, thereby supporting more than 164,000 American jobs at 3,300 companies. The Bank's support is especially important to small and medium-sized businesses, which account for nearly 90 percent of the Bank's transactions. Tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Not only does Ex-Im directly support American jobs, it operates at no cost to the U.S. taxpayer. Ex-Im charges fees for its services, follows rigorous accounting and risk-management standards, and its loans are often backed by the collateral of the goods being exported. As a result, Ex-Im's default rate has consistently been less than two percent over the past eight decades, a default rate lower than commercial banks.

Failure to secure a long-term reauthorization of Ex-Im would amount to unilateral disarmament in the face of other governments' far more aggressive export credit programs, which have provided their own exporters with significant financing support in recent years. The export credit agencies of our top trading partners provide nearly half a trillion dollars in official export credit financing annually to their exporters – about 18 times more export credit assistance to their exporters than Ex-Im did for U.S. exporters last year.

If Ex-Im is not reauthorized before June 30, American companies would be put at a unique disadvantage in global markets, resulting immediately in lost sales and lost jobs. U.S. businesses of all sizes would be deprived of a vital financing source at a time when boosting exports is increasingly vital to growing our nation's economy and jobs.

We urge you to support Ex-Im's swift reauthorization.

Sincerely,

A&K Railroad Materials, Inc.
ABB Inc.
Able Engineering & Component Services
Accelerate Colorado
Ace Pump Corporation
Acme Manufacturing Company
Action Manufacturing Company
Acuity Brands Lighting, Inc.
Acura Spa Systems, Inc. / Regal Spas Inc.
ADEC - Arizona District Export Council
Adirondack Regional Chamber of Commerce
Advanced Superabrasives Inc.
Advantage Environmental Technologies
Aeration Industries International, LLC
AERO INDUSTRIES
Aerospace Industries Association
Afton Pumps, Inc.

AGCO Corporation
Agio Press Inc.
AHW LLC
Air Products and Chemicals, Inc.
Air Tractor, Inc.
AirBorn, Inc.
Air-Conditioning, Heating, and Refrigeration Institute
Alabama World Trade Association
Alaska Chamber
Alcoa Inc.
Al-jon Mfg. LLC
ALOM
Alpha Technologies, Inc.
Alpine Technical Services, LLC
Alternate Power Technology, LLC
Altrius Group, LLC
AME, Inc.
Amegy Bank of Texas
AMER-CON CORPORATION
American Apparel & Footwear Association (AAFA)
American Association of Exporters and Importers
American Automotive Policy Council
American Axle & Manufacturing
American Boat Builders & Repairers Association
American Chemistry Council
American Crane & Equipment Corporation
American Home Furnishings Alliance
American Loggers Council
American Petroleum Institute
American Security Project
American Shipping & Logistics Group
American Shizuki Corporation
American Sportfishing Association
American Textile Machinery Association
Ames Chamber of Commerce
AMPAL, Inc.
AMT - The Association For Manufacturing Technology
Anderson Area Chamber of Commerce
Antelope Valley Board of Trade
Antrim's Electronics, Inc.
Apollo Education Group
Appleton Marine, Inc.
Aqua-Aerobic Systems, Inc.
Aransas Pass Chamber of Commerce
Ardmore Chamber of Commerce
Arizona Chamber of Commerce & Industry
Arizona Manufacturers Council
Arizona Technology Council
Arkansas District Export Council
Arkansas State Chamber of Commerce
Arrow Gear Co.
Asheville Area Chamber of Commerce
Asian Pacific Latin America Development Corp.
Associated Industries of Florida
Associated Industries of Massachusetts
Associated Industries of Missouri
Associated Industries of Vermont
Associated Oregon Industries/The Oregon Chamber
Association and Society Management International, Inc.
Association of Equipment Manufacturers (AEM)
Association of Washington Business
Astronics AeroSat Corp.
Auburn Area Chamber of Commerce
Auburn Manufacturing, Inc.
Audubon Machinery Corp
Auto Care Association
Aviall, Inc.
Aztalan Engineering, Inc.
Ball Corporation
Bannockburn Global Forex, LLC
Bard Manufacturing Company
Barnhardt Manufacturing Company
Baron Services
Barrow County Chamber of Commerce
Barsplice Products, Inc.
Bassetts Ice Cream Company
Baton Rouge Area Chamber
Battle Creek Area Chamber of Commerce
Bauer's Hardware & Rental
Bay Area Houston Economic Partnership
Baytown Chamber of Commerce
BCH Trading Co
Be Green Packaging
Beacon Allied Resources, Inc.
Beaverton Area Chamber of Commerce
Bellevue Chamber of Commerce
Best Practice Advisors
Bexar County Economic Development Department
Big Ass Solutions
BioSand Bag Filter Co
Birmingham Business Alliance
Bismarck-Mandan Chamber of Commerce

BJM International, Inc.
Black & Veatch
Blank Rome LLP
BLS Enterprises, Inc.
Bluegrass Dairy and Food, Inc.
Boise Metro Chamber of Commerce
Bolivar Trading Inc.
Boone Area Chamber of Commerce
Bossier Chamber of Commerce
Brea Chamber of Commerce
Brett Tarnet Insurance Services
Bretton Woods Committee
BriskHeat Corporation
Brookings Area Chamber of Commerce
Broward County Office of Economic and Small Business Development
BTE Technologies, Inc.
Buckeye Valley Chamber of Commerce
Buffalo Niagara Partnership
Bulman Products, Inc.
Busby Maintenance & Construction Co.
Business and Industry Association of New Hampshire
Business Council of Alabama
Business Roundtable
C3 Business Information, Inc.
C. A. Curtze Co.
Cabarrus Regional Chamber of Commerce
Cal Truck Sales, LLC
California Chamber of Commerce
California Chrome Company
California Inland Empire District Export Council
California Manufacturers & Technology Association
Camarillo Chamber of Commerce
Cameron
Camino Real District Export Council
Campus Compact for NH
Cange International, Inc.
Capital Region (NY) Chamber
Capitalize LLC
Cardinal Resources Inc.
Cargo Risk Consulting
Carlsbad Chamber of Commerce
Carson Valley Chamber of Commerce
Carter Products Co., Inc.
Caterpillar Inc.
Catoosa County Chamber of Commerce
Cauffiel Corporation
CB&I
CC Solutions LLC
CCK
Cedar Rapids Metro Economic Alliance
Central Aroostook Chamber of Commerce
Central Florida Brazilian American Chamber of Commerce
Central Florida DEC
Central New York International Business Alliance
Central Pinellas Chamber of Commerce
CentraLite
Centre Merchant Finance Inc.
Century Freight Corporation
Cerritos Regional Chamber of Commerce
Chamber of Commerce Association of Alabama
Chamber of Commerce Hawaii
Chamber of Commerce Huntsville/Madison County
Chamber of Commerce of Hawaii
Chamber of Commerce of the Palm Beaches
Chamber of Commerce Southern New Jersey
Chambers of Commerce Alliance of Ventura and Santa Barbara Counties
Chandler Chamber of Commerce
Charleston Metro Chamber of Commerce
Charlotte Chamber of Commerce
Chattanooga Area Chamber of Commerce
Chester County Chamber of Commerce
Chicagoland Chamber of Commerce
Cincinnati USA Regional Chamber
Classic American Hardwoods, Inc.
Click Bond, Inc.
CMD Corporation
CNH Industrial
Coachella Chamber of Commerce
Colorado Association of Commerce & Industry (CACI)
Colorado Office of Economic Development and International Trade
Colorado Space Coalition
Colorado Technology Association
Columbia Bank
Columbia Chamber (SC)
Columbia Chamber of Commerce (MO)
Columbus 2020
Columbus Chamber of Commerce
Committee of 100 for Economic Development, Inc.

Compass International Company Inc.
Conductix Inc.
CONNECT
Connecticut Business & Industry Assn, Inc.
Connecticut Technology Council
Constech Consulting
Control Technology, Inc.
Coral Gables Chamber of Commerce
Corning Incorporated
Corpus Christi Chamber of Commerce
Council Bluffs Area Chamber of Commerce
Council of Industry of Southeastern New York
Cozy Cocoon
Cozzoli Machine Company
CRC Logistics, Inc.
Crowley Chamber of Commerce
Cummins Inc.
Custom Engineering Co.
Customs Brokers & Freight Forwarders Assn of Charleston, SC
Daimler
Dakota County Regional Chamber of Commerce
Daktronics, Inc.
Daniel Mark Ogden, Attorney at Law
Daubert Cromwell
Davis County Chamber of Commerce
Dayton Area Chamber of Commerce
DEC
Decatur-Morgan County Chamber of Commerce
Deere & Company
Delaware County Chamber of Commerce
Delaware State Chamber of Commerce
Delphos International
Denver Metro Chamber of Commerce
Dessau International Inc.
Detroit Regional Chamber
deugro (USA), Inc.
Devasco International, Inc.
Devon Energy Corporation
DHL Global Forwarding
Direct Online Marketing
Distribution International
District Export Council of Kentucky and Southern Indiana
District Export Council of Southern California - DECSC
DiverseAmerica Network
Doral Business Council
Draper, Inc.
DSC Dredge, LLC
Duer/Carolina Coil, Inc. an SSS Management Corp. Company
Dulles Regional Chamber of Commerce
Duluth Area Chamber of Commerce
Duperon Corporation
DuPont
Dura-Belt, Inc.
DuraComm Corp
Dynamis Energy LLC
e^2: equitable energy
E2SOL LLC
Early Economic Development Corp
Eau Claire Chamber of Commerce
Economic Alliance Houston Port Region
Economic Alliance Snohomish County
Economic Development Commission of Florida's Space Coast
Edison Electric Institute
EFCO Corp.
EIW LLC
EJ Ajax Metal Forming Solutions
El Toro Wines, LLC
ElectraTherm
Electronics Representative Association
Elk Grove Chamber of Commerce
Ellicott Dredges, LLC
Energy Equipment and Infrastructure Alliance
Entrematic
Environment One Corporation
Erie Regional Chamber and Growth Partnership
ESTA International, LLC
Exit King Realty
Export Connector
EXPORT EXPERTS LLC
Export Risk Management, Inc.
ExportAble LLC
Exporter's Competitive Maritime Council (ECMC)
Expotech USA, Inc.
F. H. Kaysing Company
F.N. Sheppard & Co.
Fagerman Technologies, Inc.
Fairfax County Chamber of Commerce
Fallingwater Consulting Group LLC
FEDCO
Fedelta Partners
FedEx Services

Filipino-American Chamber of Commerce San Diego County
Fireblast Global
Firebrand International LLC
First Sound Bank
Firstar Fiber, Inc.
Florida Black Chamber of Commerce, Inc.
Florida Chamber of Commerce
Florida District Export Council
Florida Export Finance Corporation
Fluid Equipment Development Company
Fluid Quip, Inc.
Fluor Corporation
Fond du Lac Area Association of Commerce
Foreign Investment and Trade Advisory
Foreign Trade Association
Forest City Gear
Forging Industry Association
Formula Boats
Fort Worth Chamber of Commerce
Fox Cities Chamber of Commerce
FRD Properties LLC
Fremont Area Chamber of Commerce
French Oil Mill Machinery Company
Frisco Chamber of Commerce
Frontier Electronic Systems Corp.
Frontier Trading, Inc.
FTC Commercial Corp.
Fullerton Chamber of Commerce
Fulton Bank
G & B Real Estate
Gamesa
Gateway Chambers Alliance
Gateway Regional Chamber of Commerce
GE
GE Aviation
General Aviation Manufacturers Association
Geocent
Georgia Association of Manufacturers
Georgia District Export Council
Geothermal Energy Association
Ghana International Chamber of Commerce
Gibson Brands, Inc.
Gilbert Chamber of Commerce
Givens International Drilling Supplies, Inc.
Glass Manufacturing Industry Council
Glendale Chamber of Commerce
Global Business Dimensions Inc.
Global Cold Chain Alliance
Global Commerce Education
Global Commerce Education, Inc.
Global Green Development Group
Global Growth Consulting
Global Language Translation, Inc.
Global Sales Initiatives
Global Services, Inc.
GNI WATERMAN LLC
Golden Aluminum, Inc.
Goleta Valley Chamber of Commerce
Goss International Americas, Inc.
Granbury Chamber of Commerce
Grand Rapids Area Chamber of Commerce
Granite State District Export Council (GSDEC)
Grapevine Chamber of Commerce
Greater Austin Chamber of Commerce
Greater Boca Raton Chamber
Greater Burlington Partnership
Greater Cedar Valley Alliance & Chamber
Greater Conejo Valley Chamber of Commerce
Greater Des Moines Partnership
Greater Fairbanks Chamber of Commerce
Greater Flagstaff Chamber of Commerce
Greater Franklin County Chamber of Commerce
Greater Green Bay Chamber
Greater Hartsville Chamber of Commerce
Greater Hot Springs Chamber of Commerce (AR)
Greater Houston Partnership
Greater Idaho Falls Chamber of Commerce
Greater Irmo Chamber of Commerce
Greater Irving-Las Colinas Chamber of Commerce
Greater Louisville, Inc.
Greater Machining and Manufacturing Co.
Greater Memphis Chamber
Greater Miami Chamber
Greater North Dakota Chamber of Commerce
Greater Oak Brook Chamber of Commerce and Economic Development Partnership
Greater Oklahoma City Chamber
Greater Omaha Chamber of Commerce
Greater Philadelphia Chamber of Commerce
Greater Phoenix Chamber of Commerce
Greater Phoenix Leadership
Greater Pittsburgh Chamber of Commerce
Greater Providence Chamber of Commerce
Greater Raleigh Chamber of Commerce

Greater Reading Chamber of Commerce & Industry
Greater Riverside Chambers of Commerce
Greater Spokane Incorporated
Greater Summerville/Dorchester County Chamber of Commerce
Greater Tomball Area Chamber of Commerce
Greater Yakima Chamber of Commerce
Greenville-Pitt County Chamber of Commerce
Greenwood Clean Energy, Inc.
GROTEC International, LLC
Group Lamerica, L.L.C.
Gruber Systems Inc.
Guild Associates
Hach Company
Haemo-Sol International, LLC
Halliburton
Hanover Area Chamber of Commerce
Harlowe & Falk LLP
Hastings Area Chamber of Commerce
Hawaii Pacific Export Council
Hayward Chamber of Commerce
HDBmarine
Headland Area Chamber of Commerce
Headworks International Inc.
Health Options, Inc., d/b/a Animal Health Options
Healthcare International Partners LLC
Healthy Oilseeds, LLC
Heat Transfer Equipment Co.
HELD & ASSOCIATES, INC.
Hermitage Hardwood Lumber Sales, Inc.
Herzfeld & Rubin PC
Hess Pumice Products, Inc.
Hialeah Metal Spinning, Inc.
Hi-Lex
Hillenbrand, Inc.
Hilton Head Island-Bluffton Chamber of Commerce
Hispanic Leadership Development Foundation
Hobart Machined Products Inc.
HOERBIGER Corp. of America
Holcombe Mixers
Holmes Corporation
Holmes County Development Commission and Chamber of Commerce
Honeywell International Inc.
Houston District Export Council
Houston International Trade Development Council, Inc.
HOWORTH International, LLC
Hudson Extrusions, Inc.
Hueneme Chamber of Commerce
Huntington Beach Chamber of Commerce
Huntington Ingalls Industries
Huron Chamber & Visitors Bureau
Hurst Euless Bedford Chamber of Commerce
HUSCO International
Hycomp, Inc.
IBM Corporation
iCAD, Inc.
Idaho Department of Commerce
IDEC - Idaho District Export Council
iDiverse Export Consultants
Illinois Chamber of Commerce
Illinois District Export Council
Illinois Manufacturers' Association
Indiana Chamber of Commerce
Indio Chamber of Commerce
Industrial Fasteners Institute (IFI)
Industrial Sales & Mfg., Inc.
Industry Manufacturers Council
Indianapolis Chamber of Commerce
Infilco Degremont, Inc.
Information Technology Industry Council (ITI)
Inland Empire Economic Partnership
Inland Empire Regional Chamber of Commerce
Innova Technologies
Innovative Global Supply, LLC
Insight interAsia LLC
Institute of Scrap Recycling Industries Inc.
Interliance Capital, LLC
InterMark3, Inc.
Insurance Management Company
International Dairy Foods Association
INTERNATIONAL EXPORT SALES
International Provider Services, Inc.
International Services Council of Alabama
International Trade & Transportation, Inc.
International Trade Association of Greater Chicago
International Trade Center
International Trade Center, Georgia SBDC
Iowa Association of Business and Industry
Iowa Business Council
Iowa Chamber Alliance

Iowa City Area Chamber of Commerce
Irrigation Association
Irvine Chamber of Commerce
ISCO Industries, Inc.
It Straps On, Inc.
J.A.M. International Co., Ltd.
J.T. Shannon Lumber Co., Inc.
J.U.M. Global, LLC
Jabil
Jackson Area Manufacturers Association
JAX Chamber
JCM Industries, Inc.
Jeco Plastic Products
Jeff Davis Chamber of Commerce
Jet, Inc.
Jim Rowland & Associates
John S. James Co.
Johnson City/Washington County/Jonesborough TN Chamber
Joshi Technologies International, Inc.
Juneau Chamber of Commerce
K&N Engineering, Inc.
Kalispell Chamber of Commerce
Kalorama Partners, LLC
Kansas Global Trade Services
KB International LLC
KBR, Inc.
KC&MO LLC
Kent Corporation
Kentucky Association of Manufacturers
Kentucky Chamber of Commerce
Kershaw County Chamber of Commerce
Kingman County Economic Development Council
Kingsbury, Inc.
Kingsport Area Chamber of Commerce
Kingsville Area Industrial Development Foundation
Kingsville Economic Development Council
Kiva Plastics, Inc.
Klamath County Chamber of Commerce
Kolberg-Pioneer, Inc.
KOSMO Corporation
Kuder, Inc.
Kuhn Krause
La Crosse Area Chamber of Commerce
La Palma International, Inc.
La Quinta Chamber of Commerce
Lake County Chamber of Commerce
Lake Houston Area Chamber of Commerce
Lanco Trading
Lansing Regional Chamber of Commerce
Laredo Chamber of Commerce
Las Vegas Metro Chamber of Commerce
Latin America Connection
LAW OFFICE OF DAVID J HABIB
Law Offices of Jon P. Yormick Co. LPA
Lectrosonics, Inc.
Leeco Spring International Inc.
Leggett & Platt, Incorporated
Lexair Electronics
Lincoln Chamber of Commerce
Lion Precision
Little Rock Regional Chamber of Commerce
LiuGong Dressta Machinery
Lockheed Martin
Lodi Chamber of Commerce
Long Beach Area Chamber
Longview Chamber of Commerce
Lord Corporation
Los Angeles Area Chamber of Commerce
Los Angeles County Economic Development Corporation (LAEDC)
Louisiana Association of Business & Industry
Lynxs Group
MAC Products, Inc.
MACNY - The Manufacturers Association
Madison-Perry Area Chamber of Commerce
Maine State Chamber of Commerce
Manchester Trade Limited Inc.
Manhasset Specialty Company
Manhattan Chamber of Commerce
Manufacturers Association of Florida
Manufacturing-Works
Manufacturing Works Wyoming
ManzellaReport.com
Marana Chamber of Commerce
Mark Molenda Export Management
Markel Corp
Marshall Area Chamber of Commerce
Marshalltown Area Chamber of Commerce
Maryland Chamber of Commerce
Maryland/DC District Export Council
Mason City Chamber of Commerce
Mason/Hull Associates Inc.
Materials Transportation Company
Materion Technical Materials
MB Financial bank
McAuley Manufacturing, Inc.
McLarty Associates
Meadowlands Regional Chamber

Medgyn Products, Inc.
Meridian Chamber of Commerce
Meridian Imaging Solutions
Merit Technologies
Mesa Chamber of Commerce
Metals Service Center Institute
Metro South Chamber of Commerce
MetroHartford Alliance
Metropolitan Milwaukee Association of Commerce
MFZ Management Corporation
MGK
Miami Valley Marketing Group
Michigan Manufacturers Association
Micro Products Company
MicroCool
Mid-America District Export Council
Mid America Manufacturing Technology Center (MAMTC)
Midatlantic Employers Association
Mid-Atlantic Hispanic Chamber of Commerce
Middlesex County Chamber of Commerce
MIDJersey Chamber of Commerce
Mills Machine Co.
Miner Elastomer Products Corporation
Minnesota High Tech Association
Mississippi Economic Council The State Chamber of Commerce
Mississippi Manufacturers Association
Missouri Association of Manufacturers
Mobil Steel International, Inc.
Mobile Area Chamber of Commerce
Mobile Lifts, Inc.
Modine Manufacturing Co.
Mohammad Vossoughi CPA
Molded Fiber Glass Companies
Monroe County (MS) Chamber of Commerce
Montana Chamber of Commerce
Montana District Export Council
Montana Manufacturing Council
Monterey Institute of International Studies
Moridge Manufacturing Inc.
Morris County Chamber of Commerce
Morrison Textile Machinery
Moses Lake Chamber of Commerce
Motor & Equipment Manufacturers Association
Motorcycle Industry Council
Murphysboro Chamber of Commerce
Murrieta Chamber of Commerce
Mustang Chamber of Commerce
Myron F Steves & Company
Myrtle Beach Area Chamber of Commerce
NAHAD - The Association for Hose & Accessories Distribution
Naperville Area Chamber of Commerce
Nashville Area Chamber of Commerce
National Shooting Sports Foundation
National Association of Chemical Distributors
National Association of Government Guaranteed Lenders
National Association of Manufacturers
National Council for Advanced Manufacturing
National Council of Farmer Cooperatives
National Council of Textile Organizations
National District Export Council
National Electrical Manufacturers Association (NEMA)
National Entrepreneur Center
National Foreign Trade Council
National Grain and Feed Association
National Institute for World Trade
National Marine Manufacturers Association
National Shooting Sports Foundation
National Waste & Recycling Association
Navistar Inc.
Nebraska Chamber of Commerce & Industry
Nebraska DEC
Neenah Enterprises, Inc.
Nevada District Export Council
Nevada Industry Excellence
Nevada Manufacturers Assn
New Jersey Chamber of Commerce
New Mexico Association of Commerce & Industry
New Orleans Chamber
New York District Export Council Inc.
New York Technology Council (NYTECH)
Newmark Grubb Knight Frank
Nexans AmerCable
NH International Trade Resource Center
Nidek Medical Products, Inc.
NiKan Trading Inc.
Nimbus Water International
New Jersey State Chamber of Commerce
Noble House Entertainment Pictures, Inc.
Non-Ferrous Founders' Society

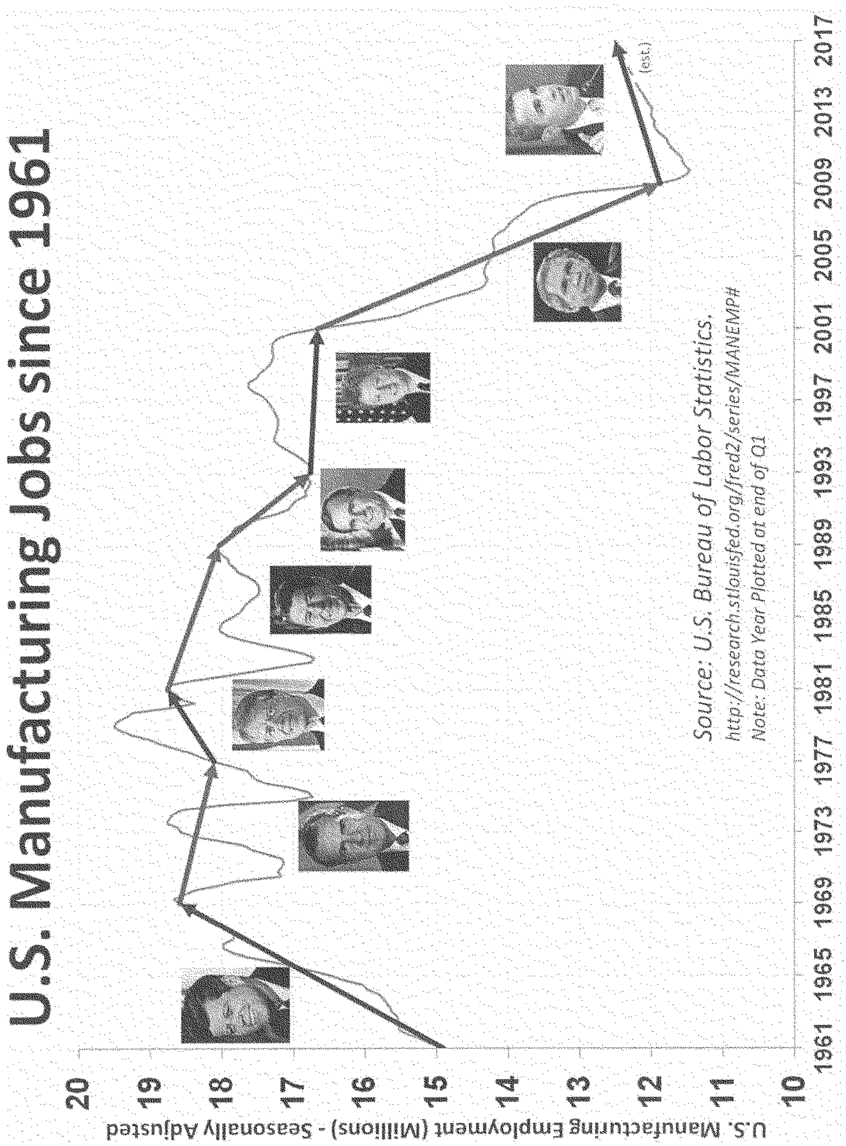
Nordson Corporation
Nor-Tex Autoplex, Inc.
North Alabama International Trade Association (NAITA)
North American Die Casting Association
North American Equipment Dealers Association
North American Tool
North Carolina Chamber of Commerce
North Carolina District Export Council
North Country Chamber of Commerce
North Myrtle Beach Chamber of Commerce
North Texas Commission
North Texas District Export Council
North Texas Gay Lesbian Bisexual Transgender Chamber of Commerce
North Texas Urban Services LLC
Northeast PA Manufacturers & Employers Association
Northern California District Export Council
Northern California World Trade Center
Northern Kentucky Chamber of Commerce
Northern Ohio District Export Council
Northern Palm Beach County Chamber of Commerce
Northern Rhode Island Chamber of Commerce
NOSHOK, Inc.
NOW Health Group, Inc.
Nuclear Energy Institute
Nucsafe Inc.
Oakland County Executive Office
Odessa Chamber of Commerce
ODIN INDUSTRIAL, INC.
Ogden/Weber Chamber of Commerce
Ohio Chamber of Commerce
Ohio Manufacturers' Association
Ohio Society of CPAs
Oklahoma District Export Council
Olney Chamber of Commerce
Olney Industrial Development Corporation
OMNI INDUSTRIES
O'Neal Manufacturing Services
Opelika Chamber of Commerce
Open Spectrum Inc.
Optical Cable Corporation
OptiLedge LLC
Orange County Business Council
Orange County Technology Alliance
Orlando Regional Chamber of Commerce
Oshkosh Chamber of Commerce
Outdoor Amusement Business Association
Outdoor Power Equipment Institute, Inc.
Overland Park Chamber of Commerce
Owens-Illinois, Inc.
Oxnard Chamber of Commerce
Pacific Continental Bank
Pacific Mercantile Bank
Pacific Northwest Advisors, LLC
Pacific Northwest Waterways Association
Pacific Stainless Products, Inc.
Palm Desert Area Chamber of Commerce
Palos Verdes Peninsula Chamber of Commerce
Panalpina, Inc.
Panasonic Avionics Corporation
Paradigm Precision
Parker Aerospace
Parkwood Partners LLC
Pasadena Chamber of Commerce
Pathfinder LLC
Patton Electronics Company
PCS Edventures, Inc.
Pearson Packaging Systems
Pelican Holdings Group
Pelican Wire Company
Penn United Technologies, Inc.
Pennsylvania Business Council
Pennsylvania Chamber of Business and Industry
Pennsylvania Manufacturers' Association
Petroleum Equipment Company, Inc.
Phoenix Products, Inc.
Pickerington Area Chamber of Commerce
Pioneer Balloon Company
Plano Chamber of Commerce
Planson International Corporation
PLC International Consulting
Plymouth Community Chamber of Commerce
Pocatello-Chubbuck Chamber of Commerce
Polaris Asset Corporation
PolyBrite International
Polyguard Products, Inc.
Port Lavaca Chamber of Commerce
Port of Galveston
Port of Tacoma
Porta-King Building Systems
Portland Business Alliance
Portland Cement Association
Ports Association of Louisiana
Powdersville Water

Power Curbers Inc.
Power Technology, Inc.
PPG Industries, Inc.
Precision Custom Components, LLC
Precision Machined Products Association
Precision Tune Auto Care
Preferred Popcorn LLC
Pro Concepts Inc.
Process Equipment
Progauge Engineering
ProGauge Technologies, Inc.
ProStuff
Proven Logistics Solutions LLC
Purafil
Quad Cities Chamber of Commerce
Quality Filtration, LLC
Quality Float Works, Inc.
R. K. Graves Associates
R.J. Housman Trade Consulting
Rabobank, N.A.
RAD-Planning
Ram Energy Inc.
Ramsgate Engineering Inc.
Ransmeier & Spellman, P.C.
Rebounces
Red Bud Industries, Inc
Redondo Beach Chamber of Commerce
REM Pipeline Consultants, LLC
Remedy Interactive
Remy International
ResinTech Inc.
Revere Control Systems
Rhode Island Chamber of Commerce Coalition
Rhode Island Manufacturers Association
Rio Tinto
River Region Chamber of Commerce
Riverside County Manufacturers & Exporters Association
Rochester Area Chamber of Commerce
Rochester Business Alliance
Rockport-Fulton Chamber of Commerce
Rockwell Collins, Inc.
Rocky Mount Cord, Co.
Rocky Mountain District Export Council
Rogers Lowell Area Chamber of Commerce
Rolling Meadows Chamber of Commerce
Roseburg Area Chamber of Commerce
Rosenbauer America, LLC
Ruan Transportation Management Systems
Rust-Oleum Corp
Rutherford County Chamber of Commerce
Ryder System, Inc.
S.I.TECH INC
Sable Systems International
Sacramento Center for Int'l Trade Development
Sacramento Metro Chamber of Commerce
Sally Industries, Inc.
Salt Lake Chamber
Samuels International Associates, Inc.
San Antonio Hispanic Chamber of Commerce
San Antonio Manufacturers Association
San Diego and Imperial District Export Council
San Diego Regional Chamber of Commerce
San Francisco Chamber of Commerce
San Gabriel Valley Economic Partnership
San Jose Silicon Valley Chamber of Commerce
Sandy Area Chamber of Commerce
Santa Clara Chamber of Commerce & Convention-Visitors Bureau
Satellite Industry Association
Savannah Area Chamber
SB&B Foods Inc.
Scarbrough International Ltd.
Schaumburg Business Association
Schuylkill Chamber of Commerce
Scottsdale Area Chamber of Commerce
Scout Boats
South Carolina Ports Authority
Seattle Metropolitan Chamber of Commerce
Sebright Products, Inc.
SENIOR Solutions
Sentry Group
Seydel Companies
Shelton Mason County Chamber of Commerce
Shipco Transport
Shoals Chamber of Commerce
Siemens Financial Services, Inc.
Simi Valley Chamber of Commerce
Sioux Corporation
Sioux Falls Area Chamber of Commerce
SKF USA Inc.
Smith & Loveless, Inc.
Smith, Currie & Hancock LLP
Smiths Group
Smith Provision Co., Inc.
Soilmoisture Equipment Corp.

Solar Energy Industries Association
Solutions Technologies, Inc.
South Baldwin Chamber of Commerce
South Bay Association of Chambers of Commerce (SBACC)
South Carolina Chamber of Commerce
South Carolina Manufacturers Alliance
South Dade Chamber of Commerce
South Florida Hispanic Chamber of Commerce
South Metro Denver Chamber
South Padre Island Chamber of Commerce
Southwest California Legislative Council
Southwest King County Chamber of Commerce
Space Systems/Loral
Space Age Coatings Concepts, Inc.
Sparks Media and Content Inc.
Spartanburg Area Chamber of Commerce
Special Products & Mfg., Inc.
SPI: The Plastics Industry Trade Association
Spirit AeroSystems
Sprayroq Inc.
Springfield Area Chamber of Commerce
SPX
St. Cloud Area Chamber of Commerce
St. Joseph Chamber of Commerce
St. Joseph County (IN) Chamber of Commerce
St. Louis Regional Chamber
St. Tammany Economic Development Foundation
Stanley Black & Decker, Inc.
Star Cutter Company
STEPHEN D. WILSON Inc.
Steril-Aire, Inc.
STERIS Corporation
Stonebank Management LLC
Strauss Surgical Group
Strongwell
Sukup Manufacturing Co.
SUMCO Phoenix Corporation
Summit Financial Group, Inc.
Summit Industries, LLC
Superior Chamber of Commerce
Superior Graphite Co.
Superior Tire & Rubber Corp
Swartfager Welding Inc.
SWLA Chamber
T. Thomson & Associates, LLC
Tacoma-Pierce County Chamber of Commerce
Tampa Bay Trade and Protocol Council
TCI, LLC
Team Askin Technologies, Inc.
Team China/California LLC
TechAmerica, Powered by CompTIA
Technology Association of Oregon
Tempe Chamber of Commerce
Tenneco Inc.
Tennessee Association of Manufacturers
Tennessee Chamber of Commerce and Industry
Teras Breakbulk Ocean Navigation Enterprises LLC
Teras Cargo Transport (America), LLC
Terex Corporation
Test Devices Inc.
Texas Alliance of Energy Producers
Texas Association of Business
Texas Association of Manufacturers
Texas Capital Bank
Texas City - La Marque Chamber of Commerce
Texas Independent Producers and Royalty Owners Association
Texas Oil and Gas Association
The Agulhas Group LLC
The Association of Washington Business
The Babcock & Wilcox Company
The Boeing Company
The Business Council of Fairfield County
The Chamber Fargo Moorhead West Fargo
The Chamber of Medford/Jackson County
The Chamber of Reno, Sparks, and Northern Nevada
The Chamber of the Santa Barbara Region
THE CLEVELAND PLANT & FLOWER COMPANY
The Dow Chemical Company
The Gabriela Noemi Smith Law Firm, PLLC
The Irwin Brown Company
The Kansas Chamber
The Manitowoc Company, Inc.
The Manufacturing Consortium
The Miami-Dade Beacon Council
The National Industrial Transportation League
The New England Council
The Ohio Manufacturers' Association
The San Antonio Chamber of Commerce

The Sisto Company II, LLC
The State Chamber of Oklahoma
The Timken Company
The Toney Watkins Company
Thermcraft, Inc.
ThinkGlobal Inc.
Timberline Mfg
TLS Logistics, LLC
TMEIC Corporation
TOBIDA International Inc.
Toledo Regional Chamber of Commerce
TOMAD International, Inc.
Toney Watkins Corporation
Torrance Area Chamber of Commerce
Total Airport Services, Inc.
Towpath Group International, LLC
Toy Industry Association
Trade Acceptance Group, Ltd.
TradeMoves LLC
TransNational ATM
Traverse City Area Chamber of Commerce
Treated Wood Council
Tri-City Regional Chamber of Commerce
Tri-County Regional Chamber of Commerce
Trinity Yachts
Troup Environmental Alternatives LLC
TrueNorth Transport LLC
Tucson Hispanic Chamber of Commerce
Tucson Metro Chamber
Tulsa Regional Chamber
Twin City Die Castings Company
TwinWest Chamber of Commerce
U. S. Asia Chamber of Commerce
U.S. Chamber of Commerce
U.S. Travel Association
Unex Manufacturing Inc.
Unified Energy Solutions, Inc.
Unit Load Systems LLC
United Equipment Accessories, Inc.
United Industries, Inc.
United Risk Consultants
United States Council for International Business
United States Metal Powders, Incorporated
United States Steel Corporation
United Technologies Corporation
Universal Alloy Corporation
Universal Electric Corporation
Unverferth Mfg Co Inc.
Upper Tampa Bay Chamber of Commerce
Upstate New York District Export Council
US International Foods LLC
UST GROUP
Utah Manufacturers Association
Utah Valley Chamber of Commerce
UTSA International Trade Center
Valley Industrial Association
Valley Industry & Commerce Association (VICA)
Varella & Advogados Associados
Vektek, Inc.
Ventura Chamber of Commerce
Vermeer Corporation
Vermont Chamber of Commerce
VERSACI GROUP INTL INC
Victoria Chamber of Commerce
Virginia Chamber of Commerce
Virginia Manufacturers Association
Virginia Transformer Corporation
Virginia-Washington, DC District Export Council
Vista Chamber of Commerce
Volvo Group North America
Vulcan, Inc.
Waddell & Reed
Washington Council on International Trade
Washington Retail Association
Washington Roundtable
Washington State District Export Council (DEC)
Water and Wastewater Equipment Manufacturers Association
Waterbury Regional Chamber
WCCO Belting, Inc.
Webster City Area Chamber of Commerce
Weichert, Realtors The Space Place
Weiss-Aug Co. Inc.
Welch Manufacturing Technologies, Ltd
Wells Fargo
West Chambers County Chamber of Commerce
West Texas District Export Council
West Virginia Manufacturers Association
Western DuPage Chamber of Commerce
Westinghouse Electric Company
Wharton Chamber of Commerce and Agriculture
Wheeling Truck Center
White Pine Chamber of Commerce
Wichita Metro Chamber of Commerce
Wickenburg Chamber of Commerce
Willoughby Western Lake County Chamber

of Commerce
Wilmington Chamber of Commerce
Winergy Drive Systems Corporation
Winona Area Chamber of Commerce
Wisconsin District Export Council
Wisconsin Manufacturers & Commerce
Wm. H. Reilly & Co.
Woodworking Machinery Industry
Association (WMIA)
World Affairs Council of New Jersey
World Alliance for Decentralized Energy
World Logistics Inc.
World Trade Center Arkansas
World Trade Center Delaware
World Trade Center New Orleans
World Trade Center of Greater Philadelphia
World Trade Center Seattle
World Trade Consult, LLC
Worldwide Logistics Limited
Wright Tool Company
WRT, LLC
Yadkin County Chamber of Commerce
Yankton Chamber of Commerce
Yokogawa Corporation of America
Youngstown Warren Regional Chamber
Yuma County Chamber of Commerce
Zaclon LLC
Zeeland Farm Services, Inc.
Zippo Manufacturing Company


U.S. Manufacturing Jobs since 1961
U.S. Manufacturing Employment (Millions) - Seasonally Adjusted
20 19 18 17 16 15 14 13 12 11 10
1961 1965 1969 1973 1977 1981 1985 1989 1993 1997 2001 2005 2009 2013 2017
(est.)
Source: U.S. Bureau of Labor Statistics,
http://research.stlouisfed.org/fred2/series/MANEMP#
Note: Data Year Plotted at end of Q1

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

* * *

Pursuant to Section 11(b) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) (the "Act"), the Secretary of the Treasury (the "Secretary") shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, an annual report on the progress of any negotiations described in Sections 11(a)(1) and (a)(2) of the Act.

Section 11(a) calls on the Secretary to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof.

* * *

Governments first began offering official export credits to their exporters in order to provide financing support to those countries where there was a lack of commercial financing, but for which there nonetheless was a reasonable assurance of repayment. Over the years, this predominantly continues to be the case, although there are now more countries providing support to their exporters and even a few that in fact are competing with the commercial market. Consequently, the Administration's priorities on international export credit policy have been guided by the following principles:

1. There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the quality of any officially-supported financing;

2. China and other emerging markets, which now provide nearly half of all official export credit financing, should be parties to and abide by an international, rules-based framework; and

3. The terms and conditions of official export credits should be as market oriented as possible in order to minimize trade distortions.

The Administration has sought to ensure that export credit support neither displaces available commercial financing nor imposes a burden on the taxpayer. While the United States could unilaterally disarm by ceasing its official export credit program, this would only hurt U.S. exporters who would be at a competitive disadvantage and likely lose business to their foreign competitors that are supported by their respective official export credit programs. In today's global market, the major U.S. exporters may have no choice then but to shift production overseas to remain competitive in foreign markets.

During the past two years, the Treasury Department has made two significant policy advancements in this area: the establishment of a new international working group to negotiate an export credit framework that would include all major providers of export financing (including China); and a revised arrangement that sets the terms and conditions for the financing of commercial aircraft sales more in line with the market.

Making China and Other Emerging Market Countries Play by the Rules

In the last decade, the major providers of official export credits have evolved from a group dominated by the G-7 countries, which historically provided about 85 percent of all medium- and long-term export credits, to one in which major emerging market countries, including China, India, and Brazil, now provide about as many official export credits to support their own exports as the G-7. (See Ex-Im Bank 2011 Competitiveness Report, Chapter 8.) For instance, over this time period, China has grown from a minor player to one of the largest providers of official export credits. Without China and other emerging market providers of official export credits operating within the international export credit rules, there can be no level playing field for U.S. exporters.

As one of its top bilateral priorities, the Administration has been working to bring China's financing programs within the international guidelines on the provision of official export credits, thereby subjecting China's export credit activity to clear financing and transparency rules. A transparent and level playing field for official export credits is key to ensuring that government-supported export financing does not result in trade distortions. Market-oriented disciplines seek to ensure that official export credits complement market financing but do not displace it.

As part of Vice President Xi's visit to Washington in February 2012, and at the fourth meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) in May 2012, the United States secured a commitment from China that the countries will "establish an international working group of major providers of export financing to make concrete progress towards a set of international guidelines on the provision of official export financing that are consistent with international best practices, with the goal of concluding an agreement by 2014." China and the United States further committed that the first meeting of the International Working Group on Export Credits would take place in mid-2012. Treasury has worked consistently over the last few years with its Chinese counterparts to secure these May 2012 commitments, and currently is working to successfully launch the International Working Group. As part of this process, Treasury also has consulted with other major trading countries, so as to ensure the widest possible participation in this effort.

The first meeting of the International Working Group took place in Washington, D.C., in November 2012. Eighteen delegations representing the major providers of export credits were invited to the meeting: Australia, Brazil, Canada, China, the EU, India, Indonesia, Israel, Japan, Korea, Malaysia, New Zealand Norway, Russia, South Africa, Switzerland, Turkey, and the United States. At that meeting, the International Working Group agreed to a schedule of meetings for 2013 that will allow for substantial progress towards an outcome.

The launching of the International Working Group represents a long-term effort to bring China and other emerging economies into a rule-based framework for official export credits. Getting all of the major providers of official export credits around the table to negotiate common rules is the first step in the process of reducing, with the ultimate goal of eliminating, subsidized export financing programs. This initiative has also been welcomed by U.S. exporters that are competing against foreign companies supported by government financing, including from China.

Minimizing Distortions in the Aircraft Export Credit Market

Unlike small and large aircraft export credit competition, which involves countries that participate in the current international framework (that is, the OECD Arrangement on Officially Supported Export Credits [the Arrangement]) and those that are not, heavy aircraft are only produced by two manufacturers – Boeing and Airbus – both supported by countries abiding by the Arrangement. The United States has sought to reduce official export credit financing for heavy aircraft in past negotiations, most recently during the negotiation of the 2011 Aircraft Sector Understanding (ASU). In doing so, the Administration, responding to the interests of all U.S. stakeholders, reached an agreement with its negotiating partners that reflects the interests of both the aircraft manufacturers and domestic airlines that largely rely on market financing for their aircraft purchases.

The history of export credit rules for large aircraft shows the progress that the United States has made in bringing more market-oriented rules to the Arrangement. In the mid-1980s, the parties negotiated the Large Aircraft Sector Understanding (LASU). The LASU set out maximum repayment terms and interest rate rules, but included neither fee nor financial structuring disciplines. A minimum three percent upfront fee for all borrowers (regardless of risk) was informally agreed to between the Airbus export credit agencies and Ex-Im Bank, but risk-adjusted fees would have to wait until the 2007 ASU.

Notwithstanding the lack of financial structuring disciplines under the LASU, Ex-Im Bank underwriting took a disciplined approach to aircraft financing. For example, Ex-Im Bank financed only the actual costs of the aircraft and not its list price (as done at times by its competitors and the commercial markets). It also insisted on cross-collateralization and financing lease structures for maximum protection of the taxpayer.

In negotiating the 2007 ASU, the United States successfully brought these structuring disciplines into the rules for all aircraft financing, encouraging export credit agencies to behave more like commercial lenders. In addition, exposure fees were raised from the longstanding informal three percent fee for all borrowers to a range of from four percent to 7.5 percent, depending on the airline's credit rating. Subsequently, in the 2011 ASU negotiations, while not agreeing to any U.S.-proposed capacity limitations on export credit support for such aircraft, the Airbus countries (France, Germany, and the United Kingdom) were willing to revise the premium rate system under the ASU into one that resets rates quarterly, based on market benchmarks. As of the most recent adjustment, the fees ranged from 8.01 percent to 17.92 percent, a more-than-doubling of the costs of export credit support. The 2011 ASU goes fully into effect in January 2013.

While demand for official export credits for aircraft remains strong given the current financial climate, the demand for official export credits is expected to decline once private sources of financing return. Even with the potential for less demand, the United States will continue to discuss with its European counterparts possible limitations on official export credit support for heavy aircraft, which it did at the most recent meeting of the ASU participants during the week of November 11, 2012. It is important that demand for official export credit support arise only from a lack of market financing and not the mere presence of competing official export credit offers. As part of this effort, the United States and its European counterparts are coordinating with aircraft manufacturers, airlines, and financiers to benchmark the 2011 ASU fee rates against commercial-market financing of aircraft. Once we have a clear understanding of how well the 2011 ASU pricing compares to that available in the commercial markets, we will be in a position to further refine the ASU so that it complements the commercial markets without crowding them out.

Historical Context of the Arrangement on Officially Supported Export Credits

For decades, successive administrations have pursued the objective of minimizing the impact on U.S. exporters of trade-distorting foreign government financing of their exports. Since the 1970s, the United States has done so primarily through the development and negotiation of an international set of disciplines – known as the Arrangement on Officially Supported Export Credits – at the Organisation of Economic Cooperation and Development (OECD). Elements of the Arrangement also have been incorporated into the World Trade Organization (WTO) disciplines on export subsidies, as set forth in the WTO Agreement on Subsidies and Countervailing Measures.[1]

The Arrangement arose at a time when many developed countries were engaged in an export credit war in support of their national exports. The major exporting countries at the time, the United States, Japan, and the European Community, had different approaches to offering official export credits, with some offering only insurance, while the United States could offer direct loans. As each country had certain advantages – the Europeans would provide support for low interest rates by banks, while the U.S. Ex-Im Bank could offer longer repayment terms – competition in financing terms caused each side to use increasing amounts of budget support to compete. Without an international set of disciplines, foreign buyers reaped the benefits at national taxpayers' expense. To end the downward spiral of more and more generous terms, in 1978 the major exporting countries of the OECD negotiated the Arrangement, which sets out the terms and conditions for official government export financing. As part of Ex-Im Bank's reauthorization in 1978, Representative Jim Leach (R-IA) proposed language instructing the Administration to upgrade the ongoing negotiations to end predatory financing programs. This mandate is found in Section 635a-1 of Ex-Im Bank's Charter. (See Pub. L. 95–630, title XIX, §1908, Nov. 10, 1978, 92 Stat. 3725.)

Specifically, the Arrangement seeks to establish a level playing field for government-supported export credits by providing limits on the maximum financing terms and conditions that governments may offer foreign buyers of their national exports. In so doing, it seeks to prevent an export credit race to the bottom in which exporters compete for sales on the basis of the

[1] It is contemplated that any new arrangement would need to provide at least comparable disciplines and transparency in order to be a successor undertaking to the current international guidelines within the meaning of the WTO Agreement on Subsidies and Countervailing Measures.

amount of officially-supported financing from their respective governments, rather than on the quality and price of their products.

Over the decades, transparency of and disciplines on official export credits have steadily expanded to include all of the components of support, which the United States has consistently and strongly supported. For instance, the first disciplines on official interest rates for export credit loans set specific minimum lending rates, which over time had fallen below governments' costs of borrowing. As such, even when official export credit loans were repaid, the governments providing the loans bore substantial interest rate costs. Thus, the participants to the Arrangement negotiated the CIRR (Commercial Interest Reference Rates) system, which sets official interest rates at the cost of funds plus a margin, thereby ensuring that official lending rates at least reflected governments' actual costs of funds and more closely approximated market rates.

The interest rate rules were followed by rules on tied aid to require minimum concessionality and to exclude tied aid for commercially viable projects or for rich countries. The next major rules negotiated set minimum premium rates (exposure fees) to ensure that export credit programs charged fees sufficient to cover long-term operating costs and losses. In addition, the United States led the effort to negotiate environmental guidelines and anti-bribery rules. Throughout these negotiations, the United States has pursued discipline and transparency, and sought to make official export credits complementary to market financing through good governance rules and financing terms that are as market oriented as possible.

Conclusion

The international conditions that led to competitive export credit imbalances among G-7 countries in the 1970s have intensified since major emerging market countries have entered the global export and export-credit markets. Seeking the reduction or the elimination of export credits with just our OECD counterparts would leave out too many key players given the growth of non-OECD export credit support. Consequently, Treasury supports a new international successor arrangement to replicate the success of the Arrangement in creating a level playing field for all major providers of official export credits and their respective exporters. Such an arrangement would ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, and would provide a framework within which to negotiate substantial reductions in (and eventual elimination of) subsidized export financing programs. As we create export opportunities for our businesses and workers, the Administration will continue to ensure that U.S. exporters have a level global playing field on which to compete.

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

December 2013

* * *

Pursuant to Section 11(b) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) (the "Act"), the Secretary of the Treasury (the "Secretary") shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, an annual report on the progress of any negotiations described in Sections 11(a)(1) and (a)(2) of the Act.

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* * *

Since last year's report, the Treasury Department has diligently continued its long-running efforts to discipline the use of official export financing in a way that minimizes trade distortions, helps ensure that official export credit support does not crowd out market finance, and provides a level playing field for all U.S. stakeholders. During the past year, the United States has: (1) advanced the multilateral effort to establish a new international framework for disciplining the provision of official export credits by all major providers (including China); (2) preliminarily evaluated the new guidelines that set the terms and conditions for the financing of commercial aircraft sales to determine their comparability to the market, and seen a dramatic reduction in the reliance on official export credits by aircraft purchasers, particularly purchasers with stronger access to commercial financing; and (3) launched an effort to review the interest rate provisions of the current international framework governing official export credits to help ensure that there is a level playing field, and that official export credit financing does not crowd out the market.

As highlighted in last year's report, the Administration's priorities on international export credit policy have historically been and continue to be guided by the following three principles:

(1) There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the generosity of any officially-supported financing;

(2) China and other emerging markets, which now provide nearly half of all official export credit financing, should be parties to and abide by an international, rules-based framework; and

(3) The terms and conditions of official export credits should be as market oriented as possible in order to minimize trade distortions, and help ensure that they complement, rather than crowd out market financing.

These principles complement each other in minimizing trade distortion – to the benefit of U.S. exporters and consumers – while ensuring that official export financing does not impose a burden on the taxpayer. As we continue to be guided by these principles, we remain cognizant of the need to avoid putting U.S. exporters at a competitive disadvantage through unilateral reductions in official export financing. Such unilateral reductions run the risk of U.S. exporters losing business to their foreign competitors that are supported by their respective governments.

Making China and Other Emerging Market Countries Play by the Rules

Treasury's efforts to discipline the use of government export financing programs over the past year have been shaped by fundamental changes in the global export financing landscape. These changes are highlighted by the evolution of the major official export credit providers from a group dominated by the G-7 countries, to one in which major emerging market countries, including China, India, and Brazil, now provide about as much official export credit support for their own exports as the G-7 countries. *See* U.S. Export-Import Bank (Ex-Im Bank) 2012 Competitiveness Report, Chapter 7. Without China and other emerging market providers of official export credits operating within the international export credit framework, there can be no level playing field for U.S. exporters.

Past U.S. experience has demonstrated that disciplining the use of government export financing programs is possible, but that these disciplines must proceed from a common set of financial terms and conditions, and be implemented in a coordinated manner. Therefore, getting all of the major providers of official export credits to agree to a common set of terms and conditions is the essential first step in the process of achieving such disciplines. Accordingly, the Administration has been working to bring emerging market countries, including particularly China, within the international guidelines on the provision of official export credits, thereby subjecting their official export credit activities to clear financing and transparency guidelines.

A major step forward in bringing China within a new set of international guidelines was achieved as part of then-Vice President (now President) Xi's visit to Washington, D.C., in February 2012, and at the fourth meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) in May 2012. During these events, the United States secured a commitment from China that the two countries would establish an international working group to make progress towards a new set of international guidelines on the provision of official export financing that apply to all major providers. Most recently, at the July 2013 S&ED, the United States and China welcomed the progress that had already been made, and reaffirmed the goal of concluding an agreement by 2014. These commitments were made possible by sustained, high-level Treasury work with its Chinese counterparts, reflect the high level of support for this initiative within both the U.S. and Chinese governments, and have been welcomed by other major trading countries, as well as by U.S. exporters.

Specifically, in November 2012, the United States and China successfully launched the International Working Group on Export Credits (IWG), which includes all major providers of official export credits.[1] This year, there have been three further IWG meetings – two full meetings (hosted by China in May and the European Union in September) and one technical meeting (hosted by Germany in March).

Thus far, IWG members have taken a number of necessary and important steps on the path to the establishment of a new set of international guidelines on official export credits. These include the: (1) decision to first negotiate new guidelines for the ships and medical equipment sectors, which will form the basis for horizontal (*i.e.*, broadly-applicable) guidelines; (2) robust exchange of information on IWG members' respective export credit practices and policies; (3) delineation of preliminary IWG member positions on the different elements that will be included in the new set of international guidelines; and (4) identification of gaps in those positions, along with discussion of how to narrow them. Near-term U.S. priorities at the IWG are to reach agreement on a concrete plan and timeline for further advancing negotiations, and to continue to narrow the gaps in the positions of IWG members. While progress at the IWG will depend largely on the ability of its members to reach consensus on the necessary elements of new international export credit guidelines, a solid base for reaching this consensus has been established.

Minimizing Distortions in the Aircraft Export Credit Market

While small and large single-aisle aircraft export credit competition involves countries that participate in the current international framework (*i.e.*, the Arrangement on Officially Supported Export Credits [the Arrangement]) and those that do not, twin-aisle commercial aircraft are only produced by two manufacturers: Boeing and Airbus. Official export financing support for both of these manufacturers is only provided by countries abiding by the Arrangement (*i.e.*, the United States for Boeing, and France, Germany, and the United Kingdom for Airbus). For years and in past negotiations, the United States has sought to limit official export credit financing for twin-aisle aircraft and worked to make the international guidelines setting the terms and conditions for official export credits for all aircraft track more closely those of the market. This occurred most recently during the negotiation of the 2011 Aircraft Sector Understanding (ASU). In the 2011 ASU, which went fully into effect at the start of 2013, the Administration, reflecting the interests of all U.S. stakeholders, reached an agreement with its negotiating partners (the European Union, Canada, Japan, and Brazil) that reflects the interests of the aircraft manufacturers and domestic airlines that largely rely on market financing for their aircraft purchases.

In the 2011 ASU negotiations, the Airbus export credit agency countries (France, Germany, and the United Kingdom), as well as Canada, Japan, and Brazil, were willing to revise the premium rate system under the ASU into one that resets rates quarterly, based on market benchmarks. As of the most recent adjustment, the exposure fees (*i.e.*, those charged to cover borrower risk) ranged from 5.49 percent to 14.21 percent, up substantially from the fixed 4 to 7.5 percent range embodied in the previous version of the ASU. These higher fees, coupled with the greater

[1] United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey, and Russia

market benchmarking in their construction, should help to ensure that official financing support for aircraft exports complements the commercial markets, rather than crowding them out.

Moreover, demand for aircraft exports has continued to grow at a robust pace, while demand for official financing to support those exports has declined since the 2011 ASU went fully into effect. According to industry estimates, around 23 percent of all aircraft deliveries will be financed by official export credits in 2013, down from an average of around 30 percent in the years following the financial crisis. For Boeing, only 22 percent of 2013 deliveries are projected to be financed by official export credits from the Ex-Im Bank, down from 29 percent in 2012. This decline has led to a similar decline in total Ex-Im Bank support for Boeing aircraft exports of approximately 30 percent in dollar volume terms between FY2012 and FY2013. In addition, this reduction in Ex-Im Bank support for Boeing aircraft exports has been most pronounced for the most creditworthy borrowers (*i.e.*, Category 1 in the ASU). Use of Ex-Im Bank support for aircraft by this borrower group declined by over 60 percent in dollar volume terms between FY2012 and FY2013.

This reduced demand for official export credit financing for aircraft, including among more creditworthy borrowers, appears to stem from: (1) an increasing reliance by aircraft purchasers on the capital markets (*e.g.*, Enhanced Equipment Trust Certificates or the EETC market), (2) the increasing role of aircraft leasing companies in the financing of aircraft deliveries, and (3) and a meaningful increase in commercial bank financing for aircraft. The more market oriented nature of 2011 ASU pricing has also likely been a contributing factor. However, due to differing assumptions regarding market pricing, divergent views remain between aircraft manufacturers, which argue that 2011 ASU pricing is on the high end of commercial market financing, and domestic airlines, which argue that ASU pricing is cheaper than commercial market financing. Over the coming year, the Administration will continue to work with the aircraft manufacturers, airlines, and private market financiers to benchmark 2011 ASU pricing against commercial market financing to gain a fuller understanding of how well 2011 ASU pricing compares to that available in the commercial markets. The results of this exercise will inform the U.S. position on possible future refinements to the 2011 ASU.

Even with the reduced demand for official support for aircraft financing in 2013, the United States will continue to discuss with its European counterparts possible limitations on official export credits for twin-aisle aircraft, particularly for airlines with access to commercial market financing. This discussion continued at the most recent meeting of the ASU participants during the week of November 18, 2013. As we move forward, we continue to recognize that maintenance of a level playing field for all U.S. stakeholders requires that reductions in U.S. financing support for twin-aisle aircraft exports be accompanied by concurrent reductions by the only other government financiers of those exports, the French, German, and British governments.

Updating the Arrangement on Officially Supported Export Credits

For decades, successive administrations have pursued the objective of minimizing the impact on U.S. exporters of foreign government financing of their exports. Since the 1970s, the United States has done so primarily through the Arrangement on Officially Supported Export Credits at the Organisation of Economic Cooperation and Development (OECD). Elements of the

Arrangement also have been incorporated into the World Trade Organization (WTO) disciplines on export subsidies, as set forth in the WTO Agreement on Subsidies and Countervailing Measures.

Specifically, the Arrangement seeks to establish a level playing field for government-supported export credits by providing limits on the most generous financing terms and conditions that governments may offer foreign buyers of their national exports. In so doing, it seeks to prevent an export credit race to the bottom in which exporters compete for sales on the basis of the generosity of officially-supported financing from their respective governments, rather than on the quality and price of their products.

Over the decades, the transparency of and disciplines on official export credits have steadily expanded to include all of the components of official support, which the United States has consistently and strongly supported. During this period, the United States also has consistently pressed to make official export credits complementary to market financing through good governance rules and financing terms that are as market oriented as possible. The most recent U.S. effort in this regard centers on review of the Arrangement interest rate provisions, or the CIRR (Commercial Interest Reference Rate) system. This system sets the minimum interest rates under the Arrangement at which export credit agencies may provide direct loans, and its main purpose is to help ensure that official export credit support complements commercial financing.

The CIRR system has not been substantively updated in years as direct lending was largely unused until the financial crisis, and given the rapidly changing export finance landscape since the financial crisis, members of the Arrangement decided to seek a review of the Arrangement interest rate provisions. The United States actively supported undertaking this review, which began very recently, and will take time to complete. Working with U.S. stakeholders and Congress, we will seek to ensure through this review that the Arrangement's interest rate provisions continue to contribute to the goals of a level playing field and official export credits that complement commercial finance, rather than crowding it out.

Conclusion

Treasury's longstanding policy and continued efforts to discipline the use of government export financing programs in a way that minimizes trade distortions, helps ensure that official export credit support does not crowd out market finance, and provides a level playing field for all U.S. stakeholders remains consistent with the Congressional mandate. Our strategy to accomplish this goal must be tailored to the current international economic circumstances. The conditions that led to competitive export credit imbalances among G-7 countries in the 1970s have reemerged as China and other major emerging market countries have entered the global export and export-credit markets.

Consequently, Treasury believes a new international successor arrangement is needed to replicate the success of the Arrangement in creating a level playing field for all major providers of official export credits and their respective exporters. Experience has shown that a common set of guidelines and transparency measures for official export financing is the essential first step in disciplining the use of government export financing programs. Treasury's efforts over the past year have created a solid basis for the establishment of such a new arrangement. Over the coming year, the Administration will continue to seek to ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, and to make significant progress in building a comprehensive framework necessary for disciplining the export financing programs of all major official export credit providers.

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

December 2014

* * *

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Section 11(a) directs the Secretary to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof.

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Since last year's report, Treasury has worked to strengthen the existing international export credit guidelines, which are contained in the Arrangement on Officially Supported Export Credits ("Arrangement"), and to bring countries currently not participating in the Arrangement into a new set of guidelines. Through its focused work on these guidelines, the United States seeks to maximize private participation in export finance, limit crowding out and trade distortions, and promote a level playing field for all U.S. stakeholders.

As highlighted in last year's report, U.S. priorities on international export credit policy have historically been and continue to be guided by the following three principles:

(1) There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the generosity of any government-supported financing;

(2) China and other large emerging market countries, which now account for a major share of all official export credit support, should participate in and abide by an international, rules-based framework; and

(3) The terms and conditions of official export credit support should be as market oriented as possible in order to limit trade distortions, and help ensure that this support complements, rather than crowds out, market financing.

While seeking to discipline government export financing support through the development and strengthening of the international guidelines, we remain cognizant of the need to avoid putting U.S. exporters at a competitive disadvantage by unilaterally constraining U.S. official export credit support. Such unilateral reductions run the risk of U.S. exporters losing business to their foreign competitors that are supported by their respective governments, which would ultimately take a toll on jobs in the United States.

Consistent with the above principles, during the last year, the United States has: (1) made important progress towards bringing China and other large emerging market countries into an international framework for disciplining the provision of official export credit support; (2) seen a meaningful reduction in the use of official export credit support by aircraft purchasers, and engaged with the other providers of this support to confirm their willingness to move forward in 2015 with a review of the 2011 Aircraft Sector Understanding (ASU), thereby providing an opportunity for U.S. stakeholder views to be considered; and (3) continued to push for updating the interest rate provisions of the Arrangement to make them more reflective of what is available in the private market.

Bringing China and Other Emerging Market Countries Into A Rules-Based Framework

As detailed in past reports, the global export finance landscape has experienced fundamental change over the past decade, with China and other large emerging market countries coming to account for nearly as much official export credit support as the G-7 countries, which had dominated this space for decades. However, many of these large emerging market countries are not Participants in the Arrangement. Without these countries operating within the international export credit framework, U.S. exporters could face an unlevel playing field, and concerns about trade distortions and crowding out will remain.

The first step in disciplining official export credit support provided by China and other large emerging market countries is developing guidelines with a common set of financial terms and conditions. Accordingly, the United States has been working to establish a new set of international guidelines with these countries that would bring their official export credit activities within a set of clear financing and transparency standards. The Administration has made important progress in this regard, beginning with securing China's commitment in early-2012 to establish the International Working Group on Export Credits (IWG) to negotiate a new set of international export credit guidelines, and then securing additional important Chinese commitments in the U.S.-China Strategic and Economic Dialogue (S&ED) between 2012 and 2014.

The IWG, which includes all major providers of official export credit support,[1] convened three meetings in 2014, hosted by Brazil, the United States, and China. The next IWG meeting will occur in Brussels in early-2015. Through these meetings, IWG members have made meaningful progress toward establishment of a new set of international guidelines on official export credit support. This progress includes: (1) the launch and advancement of text-based discussions of sectoral guidelines for medical equipment and ships, which will form the basis for horizontal (*i.e.*, generally-applicable) guidelines (with the medical equipment guidelines being used as proxy for horizontal guidelines); (2) narrowing of gaps in IWG member positions in specific areas of the text proposals; (3) useful exchange of information on the rationale for the positions taken by various IWG members, which will help to further narrow gaps going forward, and (4)

[1] United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey, and Russia

continued technical discussions on IWG member financing practices, which has further increased transparency and mutual understanding.

Near-term U.S. priorities in the IWG are to reach consensus on: (1) a comprehensive scope of guideline coverage that limits the space for members to act outside of the guidelines, and (2) initial sectoral guidelines that position the United States to pursue robust horizontal guidelines in the future. The Administration made important progress on these priorities during President Obama's November 2014 visit to China, where it secured China's commitment to take all steps necessary to advance the IWG initiative, including by supporting the start of negotiations on horizontal guidelines as soon as possible, and by supporting comprehensive guideline coverage. This commitment and others were made possible by sustained, high-level Treasury work with its Chinese counterparts, reflect the high level of support for the IWG initiative within both the U.S. and Chinese governments, and have been welcomed by other major trading countries, as well as by U.S. stakeholders.

Minimizing Distortions in the Aircraft Export Credit Market

Over successive administrations, the United States has sought to achieve significant reforms to the international guidelines for government financing of aircraft exports, most recently in the 2011 ASU. The 2011 ASU improved upon the previous ASU in a number of ways, the most important being revision of the premium rate system to incorporate greater market benchmarking. This revision resulted in more market-oriented fees charged by export credit agencies (ECAs) to cover borrower risk. In the 2011 ASU, the Administration, reflecting the interests of all U.S. stakeholders, reached an agreement with its negotiating partners (the European Union, Canada, Japan, and Brazil) that struck a careful balance between the priorities of aircraft manufacturers and those of domestic airlines that largely rely on market financing for their aircraft purchases.

Since the 2011 ASU reform went into effect in 2013, the proportion of Boeing and Airbus large commercial aircraft deliveries supported by official export financing has declined in a meaningful way, even as the overall number of deliveries for each company has increased. Industry estimates indicate that the dollar volume of large aircraft deliveries financed with official export credit support declined from 30 to 23 percent of total deliveries in 2013, and will again decline in 2014 from 23 to 18 percent. In line with these estimates, total U.S. Export-Import Bank (Ex-Im Bank) support for Boeing large aircraft[2] exports decreased by approximately 30 percent in dollar volume terms between FY2013 and FY2014, after dropping by a similar percentage between FY2012 and FY2013. This decline in dollar volume support was accompanied by significant declines in the number of aircraft exports supported by the Ex-Im Bank, which fell by 42 percent between FY2013 and FY2014, after having declined by 32 percent between FY2012 and FY2013.

These statistics demonstrate that aircraft purchasers are relying more on private market financing and less on official export credit support. We believe that this trend stems from the more market-oriented nature of the 2011 ASU, along with the countercyclical nature of export credit agency support, which increased during the financial crisis, and has since declined as private

[2] Refers specifically to single and twin-aisle passenger aircraft.

market financing has returned and expanded for aircraft. This expansion has been driven to a significant degree by high levels of market liquidity, and growing participation by the capital markets (*e.g.*, Enhanced Equipment Trust Certificates or the EETC market). Due to differing assumptions, however, divergent views remain between U.S. aircraft manufacturers and airlines on how close to market financing the 2011 ASU is, with the former viewing 2011 ASU pricing as more expensive than market financing, and the latter viewing ASU pricing as cheaper than market financing.

As noted above, the Administration believes that the 2011 ASU is a solid improvement over the previous ASU, and has contributed to increasing use of market finance, rather than official export credit support, by aircraft purchasers. However, even with this declining demand for official support, the United States continues to engage its European counterparts on possible ways to limit this support for twin-aisle aircraft, particularly for airlines with access to market financing. This discussion continued at the most recent meeting of the ASU Participants during the week of November 17, 2014. Nonetheless, maintaining a level playing field for all U.S. stakeholders requires that reductions in U.S. financing support for twin-aisle aircraft exports be accompanied by concurrent reductions by the only other government financiers of those exports, the French, German, and British governments.

Finally, at U.S. urging, following a meeting with ASU stakeholders at the OECD in November 2014, ASU Participants confirmed their willingness to move forward in 2015 with a review of the 2011 ASU, thereby providing an opportunity for U.S. stakeholder views to be considered. In preparation for this review, the Administration will engage all U.S. stakeholders and Congress as it considers the U.S. approach.

Updating the Arrangement on Officially Supported Export Credits

The United States has consistently worked over a number of decades to make official export credit support complementary to market financing through Arrangement financing terms and conditions that are as market-oriented as possible. The most recent U.S. effort in this regard centers on the current review of the Arrangement's Commercial Interest Reference Rate (CIRR) system. The CIRR system sets the minimum interest rates at which official export credit support providers may provide direct financing, refinancing, and interest rate support under the Arrangement. The United States actively supported the Participants to the Arrangement undertaking this review, which began in late-2013. Through this review, the United States is seeking to ensure that the interest rates applied by official export credit providers are more reflective of what is available in the private market.

This important review will take time to complete. Working with U.S. stakeholders and Congress, we will seek to ensure that the Arrangement's interest rate provisions continue to contribute to the goal of official export credit support that complements private market finance, rather than crowding it out, and that promotes a level playing field.

Conclusion

Treasury's longstanding and continuing efforts to discipline the use of government export financing support in a way that maximizes private participation in export finance, limits crowding out and trade distortions, and provides a level playing field for all U.S. stakeholders remains consistent with the Congressional mandate. Over the past year, our efforts have resulted in important progress. As we seek additional progress going forward, Treasury believes that establishment of a new set of international export credit guidelines is needed to replicate the success of the Arrangement in achieving meaningful discipline on government export financing support. Over the coming year, we will continue to seek to ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, rather than on the terms of government financing support, and to make significant progress in building the comprehensive framework necessary for disciplining the export financing programs of all major official export credit providers.

June 3, 2015

The United States Congress
United States Capitol
Washington, DC 20510

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned 1,053 organizations from across the country are writing to urge your support for long-term reauthorization of the U.S. Export-Import Bank (Ex-Im) before its charter expires on June 30. Ex-Im provides loans, loan guarantees and export credit insurance to help cover financing gaps for American exporters. It helps level the playing field for U.S. companies seeking new sales in fiercely competitive global markets.

Last year, Ex-Im provided financing or guarantees for $27.5 billion in U.S. exports, thereby supporting more than 164,000 American jobs at 3,300 companies. The Bank's support is especially important to small and medium-sized businesses, which account for nearly 90 percent of the Bank's transactions. Tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Not only does Ex-Im directly support American jobs, it operates at no cost to the U.S. taxpayer. Ex-Im charges fees for its services, follows rigorous accounting and risk-management standards, and its loans are often backed by the collateral of the goods being exported. As a result, Ex-Im's default rate has consistently been less than two percent over the past eight decades, a default rate lower than commercial banks.

Failure to secure a long-term reauthorization of Ex-Im would amount to unilateral disarmament in the face of other governments' far more aggressive export credit programs, which have provided their own exporters with significant financing support in recent years. The export credit agencies of our top trading partners provide nearly half a trillion dollars in official export credit financing annually to their exporters – about 18 times more export credit assistance to their exporters than Ex-Im did for U.S. exporters last year.

If Ex-Im is not reauthorized before June 30, American companies would be put at a unique disadvantage in global markets, resulting immediately in lost sales and lost jobs. U.S. businesses of all sizes would be deprived of a vital financing source at a time when boosting exports is increasingly vital to growing our nation's economy and jobs.

We urge you to support Ex-Im's swift reauthorization.

Sincerely,

A&K Railroad Materials, Inc.
ABB Inc.
Able Engineering & Component Services
Accelerate Colorado
Ace Pump Corporation
Acme Manufacturing Company
Action Manufacturing Company
Acuity Brands Lighting, Inc.
Acura Spa Systems, Inc. / Regal Spas Inc.
ADEC - Arizona District Export Council
Adirondack Regional Chamber of Commerce
Advanced Superabrasives Inc.
Advantage Environmental Technologies
Aeration Industries International, LLC
AERO INDUSTRIES
Aerospace Industries Association
Afton Pumps, Inc.

AGCO Corporation
Agio Press Inc.
AHW LLC
Air Products and Chemicals, Inc.
Air Tractor, Inc.
AirBorn, Inc.
Air-Conditioning, Heating, and Refrigeration Institute
Alabama World Trade Association
Alaska Chamber
Alcoa Inc.
Al-jon Mfg. LLC
ALOM
Alpha Technologies, Inc.
Alpine Technical Services, LLC
Alternate Power Technology, LLC
Altrius Group, LLC
AME, Inc.
Amegy Bank of Texas
AMER-CON CORPORATION
American Apparel & Footwear Association (AAFA)
American Association of Exporters and Importers
American Automotive Policy Council
American Axle & Manufacturing
American Boat Builders & Repairers Association
American Chemistry Council
American Crane & Equipment Corporation
American Home Furnishings Alliance
American Loggers Council
American Petroleum Institute
American Security Project
American Shipping & Logistics Group
American Shizuki Corporation
American Sportfishing Association
American Textile Machinery Association
Ames Chamber of Commerce
AMPAL, Inc.
AMT - The Association For Manufacturing Technology
Anderson Area Chamber of Commerce
Antelope Valley Board of Trade
Antrim's Electronics, Inc.
Apollo Education Group
Appleton Marine, Inc.
Aqua-Aerobic Systems, Inc.
Aransas Pass Chamber of Commerce
Ardmore Chamber of Commerce
Arizona Chamber of Commerce & Industry
Arizona Manufacturers Council
Arizona Technology Council
Arkansas District Export Council
Arkansas State Chamber of Commerce
Arrow Gear Co.
Asheville Area Chamber of Commerce
Asian Pacific Latin America Development Corp.
Associated Industries of Florida
Associated Industries of Massachusetts
Associated Industries of Missouri
Associated Industries of Vermont
Associated Oregon Industries/The Oregon Chamber
Association and Society Management International, Inc.
Association of Equipment Manufacturers (AEM)
Association of Washington Business
Astronics AeroSat Corp.
Auburn Area Chamber of Commerce
Auburn Manufacturing, Inc.
Audubon Machinery Corp
Auto Care Association
Aviall, Inc.
Aztalan Engineering, Inc.
Ball Corporation
Bannockburn Global Forex, LLC
Bard Manufacturing Company
Barnhardt Manufacturing Company
Baron Services
Barrow County Chamber of Commerce
Barsplice Products, Inc.
Bassetts Ice Cream Company
Baton Rouge Area Chamber
Battle Creek Area Chamber of Commerce
Bauer's Hardware & Rental
Bay Area Houston Economic Partnership
Baytown Chamber of Commerce
BCH Trading Co
Be Green Packaging
Beacon Allied Resources, Inc.
Beaverton Area Chamber of Commerce
Bellevue Chamber of Commerce
Best Practice Advisors
Bexar County Economic Development Department
Big Ass Solutions
BioSand Bag Filter Co
Birmingham Business Alliance
Bismarck-Mandan Chamber of Commerce

BJM International, Inc.
Black & Veatch
Blank Rome LLP
BLS Enterprises, Inc.
Bluegrass Dairy and Food, Inc.
Boise Metro Chamber of Commerce
Bolivar Trading Inc.
Boone Area Chamber of Commerce
Bossier Chamber of Commerce
Brea Chamber of Commerce
Brett Tarnet Insurance Services
Bretton Woods Committee
BriskHeat Corporation
Brookings Area Chamber of Commerce
Broward County Office of Economic and Small Business Development
BTE Technologies, Inc.
Buckeye Valley Chamber of Commerce
Buffalo Niagara Partnership
Bulman Products, Inc.
Busby Maintenance & Construction Co.
Business and Industry Association of New Hampshire
Business Council of Alabama
Business Roundtable
C3 Business Information, Inc.
C. A. Curtze Co.
Cabarrus Regional Chamber of Commerce
Cal Truck Sales, LLC
California Chamber of Commerce
California Chrome Company
California Inland Empire District Export Council
California Manufacturers & Technology Association
Camarillo Chamber of Commerce
Cameron
Camino Real District Export Council
Campus Compact for NH
Cange International, Inc.
Capital Region (NY) Chamber
Capitalize LLC
Cardinal Resources Inc.
Cargo Risk Consulting
Carlsbad Chamber of Commerce
Carson Valley Chamber of Commerce
Carter Products Co., Inc.
Caterpillar Inc.
Catoosa County Chamber of Commerce
Cauffiel Corporation
CB&I
CC Solutions LLC
CCK
Cedar Rapids Metro Economic Alliance
Central Aroostook Chamber of Commerce
Central Florida Brazilian American Chamber of Commerce
Central Florida DEC
Central New York International Business Alliance
Central Pinellas Chamber of Commerce
CentraLite
Centre Merchant Finance Inc.
Century Freight Corporation
Cerritos Regional Chamber of Commerce
Chamber of Commerce Association of Alabama
Chamber of Commerce Hawaii
Chamber of Commerce Huntsville/Madison County
Chamber of Commerce of Hawaii
Chamber of Commerce of the Palm Beaches
Chamber of Commerce Southern New Jersey
Chambers of Commerce Alliance of Ventura and Santa Barbara Counties
Chandler Chamber of Commerce
Charleston Metro Chamber of Commerce
Charlotte Chamber of Commerce
Chattanooga Area Chamber of Commerce
Chester County Chamber of Commerce
Chicagoland Chamber of Commerce
Cincinnati USA Regional Chamber
Classic American Hardwoods, Inc.
Click Bond, Inc.
CMD Corporation
CNH Industrial
Coachella Chamber of Commerce
Colorado Association of Commerce & Industry (CACI)
Colorado Office of Economic Development and International Trade
Colorado Space Coalition
Colorado Technology Association
Columbia Bank
Columbia Chamber (SC)
Columbia Chamber of Commerce (MO)
Columbus 2020
Columbus Chamber of Commerce
Committee of 100 for Economic Development, Inc.

Compass International Company Inc.
Conductix Inc.
CONNECT
Connecticut Business & Industry Assn, Inc.
Connecticut Technology Council
Constech Consulting
Control Technology, Inc.
Coral Gables Chamber of Commerce
Corning Incorporated
Corpus Christi Chamber of Commerce
Council Bluffs Area Chamber of Commerce
Council of Industry of Southeastern New York
Cozy Cocoon
Cozzoli Machine Company
CRC Logistics, Inc.
Crowley Chamber of Commerce
Cummins Inc.
Custom Engineering Co.
Customs Brokers & Freight Forwarders Assn of Charleston, SC
Daimler
Dakota County Regional Chamber of Commerce
Daktronics, Inc.
Daniel Mark Ogden, Attorney at Law
Daubert Cromwell
Davis County Chamber of Commerce
Dayton Area Chamber of Commerce
DEC
Decatur-Morgan County Chamber of Commerce
Deere & Company
Delaware County Chamber of Commerce
Delaware State Chamber of Commerce
Delphos International
Denver Metro Chamber of Commerce
Dessau International Inc.
Detroit Regional Chamber
deugro (USA), Inc.
Devasco International, Inc.
Devon Energy Corporation
DHL Global Forwarding
Direct Online Marketing
Distribution International
District Export Council of Kentucky and Southern Indiana
District Export Council of Southern California - DECSC
DiverseAmerica Network
Doral Business Council
Draper, Inc.
DSC Dredge, LLC
Duer/Carolina Coil, Inc. an SSS Management Corp. Company
Dulles Regional Chamber of Commerce
Duluth Area Chamber of Commerce
Duperon Corporation
DuPont
Dura-Belt, Inc.
DuraComm Corp
Dynamis Energy LLC
e^2: equitable energy
E2SOL LLC
Early Economic Development Corp
Eau Claire Chamber of Commerce
Economic Alliance Houston Port Region
Economic Alliance Snohomish County
Economic Development Commission of Florida's Space Coast
Edison Electric Institute
EFCO Corp.
EIW LLC
EJ Ajax Metal Forming Solutions
El Toro Wines, LLC
ElectraTherm
Electronics Representative Association
Elk Grove Chamber of Commerce
Ellicott Dredges, LLC
Energy Equipment and Infrastructure Alliance
Entrematic
Environment One Corporation
Erie Regional Chamber and Growth Partnership
ESTA International, LLC
Exit King Realty
Export Connector
EXPORT EXPERTS LLC
Export Risk Management, Inc.
ExportAble LLC
Exporter's Competitive Maritime Council (ECMC)
Expotech USA, Inc.
F. H. Kaysing Company
F.N. Sheppard & Co.
Fagerman Technologies, Inc.
Fairfax County Chamber of Commerce
Fallingwater Consulting Group LLC
FEDCO
Fedelta Partners
FedEx Services

Filipino-American Chamber of Commerce San Diego County
Fireblast Global
Firebrand International LLC
First Sound Bank
Firstar Fiber, Inc.
Florida Black Chamber of Commerce, Inc.
Florida Chamber of Commerce
Florida District Export Council
Florida Export Finance Corporation
Fluid Equipment Development Company
Fluid Quip, Inc.
Fluor Corporation
Fond du Lac Area Association of Commerce
Foreign Investment and Trade Advisory
Foreign Trade Association
Forest City Gear
Forging Industry Association
Formula Boats
Fort Worth Chamber of Commerce
Fox Cities Chamber of Commerce
FRD Properties LLC
Fremont Area Chamber of Commerce
French Oil Mill Machinery Company
Frisco Chamber of Commerce
Frontier Electronic Systems Corp.
Frontier Trading, Inc.
FTC Commercial Corp.
Fullerton Chamber of Commerce
Fulton Bank
G & B Real Estate
Gamesa
Gateway Chambers Alliance
Gateway Regional Chamber of Commerce
GE
GE Aviation
General Aviation Manufacturers Association
Geocent
Georgia Association of Manufacturers
Georgia District Export Council
Geothermal Energy Association
Ghana International Chamber of Commerce
Gibson Brands, Inc.
Gilbert Chamber of Commerce
Givens International Drilling Supplies, Inc.
Glass Manufacturing Industry Council
Glendale Chamber of Commerce
Global Business Dimensions Inc.
Global Cold Chain Alliance
Global Commerce Education
Global Commerce Education, Inc.
Global Green Development Group
Global Growth Consulting
Global Language Translation, Inc.
Global Sales Initiatives
Global Services, Inc.
GNI WATERMAN LLC
Golden Aluminum, Inc.
Goleta Valley Chamber of Commerce
Goss International Americas, Inc.
Granbury Chamber of Commerce
Grand Rapids Area Chamber of Commerce
Granite State District Export Council (GSDEC)
Grapevine Chamber of Commerce
Greater Austin Chamber of Commerce
Greater Boca Raton Chamber
Greater Burlington Partnership
Greater Cedar Valley Alliance & Chamber
Greater Conejo Valley Chamber of Commerce
Greater Des Moines Partnership
Greater Fairbanks Chamber of Commerce
Greater Flagstaff Chamber of Commerce
Greater Franklin County Chamber of Commerce
Greater Green Bay Chamber
Greater Hartsville Chamber of Commerce
Greater Hot Springs Chamber of Commerce (AR)
Greater Houston Partnership
Greater Idaho Falls Chamber of Commerce
Greater Irmo Chamber of Commerce
Greater Irving-Las Colinas Chamber of Commerce
Greater Louisville, Inc.
Greater Machining and Manufacturing Co.
Greater Memphis Chamber
Greater Miami Chamber
Greater North Dakota Chamber of Commerce
Greater Oak Brook Chamber of Commerce and Economic Development Partnership
Greater Oklahoma City Chamber
Greater Omaha Chamber of Commerce
Greater Philadelphia Chamber of Commerce
Greater Phoenix Chamber of Commerce
Greater Phoenix Leadership
Greater Pittsburgh Chamber of Commerce
Greater Providence Chamber of Commerce
Greater Raleigh Chamber of Commerce

Greater Reading Chamber of Commerce & Industry
Greater Riverside Chambers of Commerce
Greater Spokane Incorporated
Greater Summerville/Dorchester County Chamber of Commerce
Greater Tomball Area Chamber of Commerce
Greater Yakima Chamber of Commerce
Greenville-Pitt County Chamber of Commerce
Greenwood Clean Energy, Inc.
GROTEC International, LLC
Group Lamerica, L.L.C.
Gruber Systems Inc.
Guild Associates
Hach Company
Haemo-Sol International, LLC
Halliburton
Hanover Area Chamber of Commerce
Harlowe & Falk LLP
Hastings Area Chamber of Commerce
Hawaii Pacific Export Council
Hayward Chamber of Commerce
HDBmarine
Headland Area Chamber of Commerce
Headworks International Inc.
Health Options, Inc., d/b/a Animal Health Options
Healthcare International Partners LLC
Healthy Oilseeds, LLC
Heat Transfer Equipment Co.
HELD & ASSOCIATES, INC.
Hermitage Hardwood Lumber Sales, Inc.
Herzfeld & Rubin PC
Hess Pumice Products, Inc.
Hialeah Metal Spinning, Inc.
Hi-Lex
Hillenbrand, Inc.
Hilton Head Island-Bluffton Chamber of Commerce
Hispanic Leadership Development Foundation
Hobart Machined Products Inc.
HOERBIGER Corp. of America
Holcombe Mixers
Holmes Corporation
Holmes County Development Commission and Chamber of Commerce
Honeywell International Inc.
Houston District Export Council
Houston International Trade Development Council, Inc.
HOWORTH International, LLC
Hudson Extrusions, Inc.
Hueneme Chamber of Commerce
Huntington Beach Chamber of Commerce
Huntington Ingalls Industries
Huron Chamber & Visitors Bureau
Hurst Euless Bedford Chamber of Commerce
HUSCO International
Hycomp, Inc.
IBM Corporation
iCAD, Inc.
Idaho Department of Commerce
IDEC - Idaho District Export Council
iDiverse Export Consultants
Illinois Chamber of Commerce
Illinois District Export Council
Illinois Manufacturers' Association
Indiana Chamber of Commerce
Indio Chamber of Commerce
Industrial Fasteners Institute (IFI)
Industrial Sales & Mfg., Inc.
Industry Manufacturers Council
Indianapolis Chamber of Commerce
Infilco Degremont, Inc.
Information Technology Industry Council (ITI)
Inland Empire Economic Partnership
Inland Empire Regional Chamber of Commerce
Innova Technologies
Innovative Global Supply, LLC
Insight interAsia LLC
Institute of Scrap Recycling Industries Inc.
Interliance Capital, LLC
InterMark3, Inc.
Insurance Management Company
International Dairy Foods Association
INTERNATIONAL EXPORT SALES
International Provider Services, Inc.
International Services Council of Alabama
International Trade & Transportation, Inc.
International Trade Association of Greater Chicago
International Trade Center
International Trade Center, Georgia SBDC
Iowa Association of Business and Industry
Iowa Business Council
Iowa Chamber Alliance

Iowa City Area Chamber of Commerce
Irrigation Association
Irvine Chamber of Commerce
ISCO Industries, Inc.
It Straps On, Inc.
J.A.M. International Co., Ltd.
J.T. Shannon Lumber Co., Inc.
J.U.M. Global, LLC
Jabil
Jackson Area Manufacturers Association
JAX Chamber
JCM Industries, Inc.
Jeco Plastic Products
Jeff Davis Chamber of Commerce
Jet, Inc.
Jim Rowland & Associates
John S. James Co.
Johnson City/Washington County/Jonesborough TN Chamber
Joshi Technologies International, Inc.
Juneau Chamber of Commerce
K&N Engineering, Inc.
Kalispell Chamber of Commerce
Kalorama Partners, LLC
Kansas Global Trade Services
KB International LLC
KBR, Inc.
KC&MO LLC
Kent Corporation
Kentucky Association of Manufacturers
Kentucky Chamber of Commerce
Kershaw County Chamber of Commerce
Kingman County Economic Development Council
Kingsbury, Inc.
Kingsport Area Chamber of Commerce
Kingsville Area Industrial Development Foundation
Kingsville Economic Development Council
Kiva Plastics, Inc.
Klamath County Chamber of Commerce
Kolberg-Pioneer, Inc.
KOSMO Corporation
Kuder, Inc.
Kuhn Krause
La Crosse Area Chamber of Commerce
La Palma International, Inc.
La Quinta Chamber of Commerce
Lake County Chamber of Commerce
Lake Houston Area Chamber of Commerce
Lanco Trading
Lansing Regional Chamber of Commerce
Laredo Chamber of Commerce
Las Vegas Metro Chamber of Commerce
Latin America Connection
LAW OFFICE OF DAVID J HABIB
Law Offices of Jon P, Yormick Co. LPA
Lectrosonics, Inc.
Leeco Spring International Inc.
Leggett & Platt, Incorporated
Lexair Electronics
Lincoln Chamber of Commerce
Lion Precision
Little Rock Regional Chamber of Commerce
LiuGong Dressta Machinery
Lockheed Martin
Lodi Chamber of Commerce
Long Beach Area Chamber
Longview Chamber of Commerce
Lord Corporation
Los Angeles Area Chamber of Commerce
Los Angeles County Economic Development Corporation (LAEDC)
Louisiana Association of Business & Industry
Lynxs Group
MAC Products, Inc.
MACNY - The Manufacturers Association
Madison-Perry Area Chamber of Commerce
Maine State Chamber of Commerce
Manchester Trade Limited Inc.
Manhasset Specialty Company
Manhattan Chamber of Commerce
Manufacturers Association of Florida
Manufacturing-Works
Manufacturing Works Wyoming
ManzellaReport.com
Marana Chamber of Commerce
Mark Molenda Export Management
Markel Corp
Marshall Area Chamber of Commerce
Marshalltown Area Chamber of Commerce
Maryland Chamber of Commerce
Maryland/DC District Export Council
Mason City Chamber of Commerce
Mason/Hull Associates Inc.
Materials Transportation Company
Materion Technical Materials
MB Financial bank
McAuley Manufacturing, Inc.
McLarty Associates
Meadowlands Regional Chamber

Medgyn Products, Inc.
Meridian Chamber of Commerce
Meridian Imaging Solutions
Merit Technologies
Mesa Chamber of Commerce
Metals Service Center Institute
Metro South Chamber of Commerce
MetroHartford Alliance
Metropolitan Milwaukee Association of Commerce
MFZ Management Corporation
MGK
Miami Valley Marketing Group
Michigan Manufacturers Association
Micro Products Company
MicroCool
Mid-America District Export Council
Mid America Manufacturing Technology Center (MAMTC)
Midatlantic Employers Association
Mid-Atlantic Hispanic Chamber of Commerce
Middlesex County Chamber of Commerce
MIDJersey Chamber of Commerce
Mills Machine Co.
Miner Elastomer Products Corporation
Minnesota High Tech Association
Mississippi Economic Council The State Chamber of Commerce
Mississippi Manufacturers Association
Missouri Association of Manufacturers
Mobil Steel International, Inc.
Mobile Area Chamber of Commerce
Mobile Lifts, Inc.
Modine Manufacturing Co.
Mohammad Vossoughi CPA
Molded Fiber Glass Companies
Monroe County (MS) Chamber of Commerce
Montana Chamber of Commerce
Montana District Export Council
Montana Manufacturing Council
Monterey Institute of International Studies
Moridge Manufacturing Inc.
Morris County Chamber of Commerce
Morrison Textile Machinery
Moses Lake Chamber of Commerce
Motor & Equipment Manufacturers Association
Motorcycle Industry Council
Murphysboro Chamber of Commerce
Murrieta Chamber of Commerce
Mustang Chamber of Commerce
Myron F Steves & Company
Myrtle Beach Area Chamber of Commerce
NAHAD - The Association for Hose & Accessories Distribution
Naperville Area Chamber of Commerce
Nashville Area Chamber of Commerce
National Shooting Sports Foundation
National Association of Chemical Distributors
National Association of Government Guaranteed Lenders
National Association of Manufacturers
National Council for Advanced Manufacturing
National Council of Farmer Cooperatives
National Council of Textile Organizations
National District Export Council
National Electrical Manufacturers Association (NEMA)
National Entrepreneur Center
National Foreign Trade Council
National Grain and Feed Association
National Institute for World Trade
National Marine Manufacturers Association
National Shooting Sports Foundation
National Waste & Recycling Association
Navistar Inc.
Nebraska Chamber of Commerce & Industry
Nebraska DEC
Neenah Enterprises, Inc.
Nevada District Export Council
Nevada Industry Excellence
Nevada Manufacturers Assn
New Jersey Chamber of Commerce
New Mexico Association of Commerce & Industry
New Orleans Chamber
New York District Export Council Inc.
New York Technology Council (NYTECH)
Newmark Grubb Knight Frank
Nexans AmerCable
NH International Trade Resource Center
Nidek Medical Products, Inc.
NiKan Trading Inc.
Nimbus Water International
New Jersey State Chamber of Commerce
Noble House Entertainment Pictures, Inc.
Non-Ferrous Founders' Society

Nordson Corporation
Nor-Tex Autoplex, Inc.
North Alabama International Trade Association (NAITA)
North American Die Casting Association
North American Equipment Dealers Association
North American Tool
North Carolina Chamber of Commerce
North Carolina District Export Council
North Country Chamber of Commerce
North Myrtle Beach Chamber of Commerce
North Texas Commission
North Texas District Export Council
North Texas Gay Lesbian Bisexual Transgender Chamber of Commerce
North Texas Urban Services LLC
Northeast PA Manufacturers & Employers Association
Northern California District Export Council
Northern California World Trade Center
Northern Kentucky Chamber of Commerce
Northern Ohio District Export Council
Northern Palm Beach County Chamber of Commerce
Northern Rhode Island Chamber of Commerce
NOSHOK, Inc.
NOW Health Group, Inc.
Nuclear Energy Institute
Nucsafe Inc.
Oakland County Executive Office
Odessa Chamber of Commerce
ODIN INDUSTRIAL, INC.
Ogden/Weber Chamber of Commerce
Ohio Chamber of Commerce
Ohio Manufacturers' Association
Ohio Society of CPAs
Oklahoma District Export Council
Olney Chamber of Commerce
Olney Industrial Development Corporation
OMNI INDUSTRIES
O'Neal Manufacturing Services
Opelika Chamber of Commerce
Open Spectrum Inc.
Optical Cable Corporation
OptiLedge LLC
Orange County Business Council
Orange County Technology Alliance
Orlando Regional Chamber of Commerce
Oshkosh Chamber of Commerce
Outdoor Amusement Business Association
Outdoor Power Equipment Institute, Inc.
Overland Park Chamber of Commerce
Owens-Illinois, Inc.
Oxnard Chamber of Commerce
Pacific Continental Bank
Pacific Mercantile Bank
Pacific Northwest Advisors, LLC
Pacific Northwest Waterways Association
Pacific Stainless Products, Inc.
Palm Desert Area Chamber of Commerce
Palos Verdes Peninsula Chamber of Commerce
Panalpina, Inc.
Panasonic Avionics Corporation
Paradigm Precision
Parker Aerospace
Parkwood Partners LLC
Pasadena Chamber of Commerce
Pathfinder LLC
Patton Electronics Company
PCS Edventures, Inc.
Pearson Packaging Systems
Pelican Holdings Group
Pelican Wire Company
Penn United Technologies, Inc.
Pennsylvania Business Council
Pennsylvania Chamber of Business and Industry
Pennsylvania Manufacturers' Association
Petroleum Equipment Company, Inc.
Phoenix Products, Inc.
Pickerington Area Chamber of Commerce
Pioneer Balloon Company
Plano Chamber of Commerce
Planson International Corporation
PLC International Consulting
Plymouth Community Chamber of Commerce
Pocatello-Chubbuck Chamber of Commerce
Polaris Asset Corporation
PolyBrite International
Polyguard Products, Inc.
Port Lavaca Chamber of Commerce
Port of Galveston
Port of Tacoma
Porta-King Building Systems
Portland Business Alliance
Portland Cement Association
Ports Association of Louisiana
Powdersville Water

Power Curbers Inc.
Power Technology, Inc.
PPG Industries, Inc.
Precision Custom Components, LLC
Precision Machined Products Association
Precision Tune Auto Care
Preferred Popcorn LLC
Pro Concepts Inc.
Process Equipment
Progauge Engineering
ProGauge Technologies, Inc.
ProStuff
Proven Logistics Solutions LLC
Purafil
Quad Cities Chamber of Commerce
Quality Filtration, LLC
Quality Float Works, Inc.
R. K. Graves Associates
R.J. Housman Trade Consulting
Rabobank, N.A.
RAD-Planning
Ram Energy Inc.
Ramsgate Engineering Inc.
Ransmeier & Spellman, P.C.
Rebounces
Red Bud Industries, Inc
Redondo Beach Chamber of Commerce
REM Pipeline Consultants, LLC
Remedy Interactive
Remy International
ResinTech Inc.
Revere Control Systems
Rhode Island Chamber of Commerce Coalition
Rhode Island Manufacturers Association
Rio Tinto
River Region Chamber of Commerce
Riverside County Manufacturers & Exporters Association
Rochester Area Chamber of Commerce
Rochester Business Alliance
Rockport-Fulton Chamber of Commerce
Rockwell Collins, Inc.
Rocky Mount Cord, Co.
Rocky Mountain District Export Council
Rogers Lowell Area Chamber of Commerce
Rolling Meadows Chamber of Commerce
Roseburg Area Chamber of Commerce
Rosenbauer America, LLC
Ruan Transportation Management Systems
Rust-Oleum Corp
Rutherford County Chamber of Commerce
Ryder System, Inc.
S.I.TECH INC
Sable Systems International
Sacramento Center for Int'l Trade Development
Sacramento Metro Chamber of Commerce
Sally Industries, Inc.
Salt Lake Chamber
Samuels International Associates, Inc.
San Antonio Hispanic Chamber of Commerce
San Antonio Manufacturers Association
San Diego and Imperial District Export Council
San Diego Regional Chamber of Commerce
San Francisco Chamber of Commerce
San Gabriel Valley Economic Partnership
San Jose Silicon Valley Chamber of Commerce
Sandy Area Chamber of Commerce
Santa Clara Chamber of Commerce & Convention-Visitors Bureau
Satellite Industry Association
Savannah Area Chamber
SB&B Foods Inc.
Scarbrough International Ltd.
Schaumburg Business Association
Schuylkill Chamber of Commerce
Scottsdale Area Chamber of Commerce
Scout Boats
South Carolina Ports Authority
Seattle Metropolitan Chamber of Commerce
Sebright Products, Inc.
SENIOR Solutions
Sentry Group
Seydel Companies
Shelton Mason County Chamber of Commerce
Shipco Transport
Shoals Chamber of Commerce
Siemens Financial Services, Inc.
Simi Valley Chamber of Commerce
Sioux Corporation
Sioux Falls Area Chamber of Commerce
SKF USA Inc.
Smith & Loveless, Inc.
Smith, Currie & Hancock LLP
Smiths Group
Smith Provision Co., Inc.
Soilmoisture Equipment Corp.

Solar Energy Industries Association
Solutions Technologies, Inc.
South Baldwin Chamber of Commerce
South Bay Association of Chambers of Commerce (SBACC)
South Carolina Chamber of Commerce
South Carolina Manufacturers Alliance
South Dade Chamber of Commerce
South Florida Hispanic Chamber of Commerce
South Metro Denver Chamber
South Padre Island Chamber of Commerce
Southwest California Legislative Council
Southwest King County Chamber of Commerce
Space Systems/Loral
Space Age Coatings Concepts, Inc.
Sparks Media and Content Inc.
Spartanburg Area Chamber of Commerce
Special Products & Mfg., Inc.
SPI: The Plastics Industry Trade Association
Spirit AeroSystems
Sprayroq Inc.
Springfield Area Chamber of Commerce
SPX
St. Cloud Area Chamber of Commerce
St. Joseph Chamber of Commerce
St. Joseph County (IN) Chamber of Commerce
St. Louis Regional Chamber
St. Tammany Economic Development Foundation
Stanley Black & Decker, Inc.
Star Cutter Company
STEPHEN D. WILSON Inc.
Steril-Aire, Inc.
STERIS Corporation
Stonebank Management LLC
Strauss Surgical Group
Strongwell
Sukup Manufacturing Co.
SUMCO Phoenix Corporation
Summit Financial Group, Inc.
Summit Industries, LLC
Superior Chamber of Commerce
Superior Graphite Co.
Superior Tire & Rubber Corp
Swartfager Welding Inc.
SWLA Chamber
T. Thomson & Associates, LLC
Tacoma-Pierce County Chamber of Commerce
Tampa Bay Trade and Protocol Council
TCI, LLC
Team Askin Technologies, Inc.
Team China/California LLC
TechAmerica, Powered by CompTIA
Technology Association of Oregon
Tempe Chamber of Commerce
Tenneco Inc.
Tennessee Association of Manufacturers
Tennessee Chamber of Commerce and Industry
Teras Breakbulk Ocean Navigation Enterprises LLC
Teras Cargo Transport (America), LLC
Terex Corporation
Test Devices Inc.
Texas Alliance of Energy Producers
Texas Association of Business
Texas Association of Manufacturers
Texas Capital Bank
Texas City - La Marque Chamber of Commerce
Texas Independent Producers and Royalty Owners Association
Texas Oil and Gas Association
The Agulhas Group LLC
The Association of Washington Business
The Babcock & Wilcox Company
The Boeing Company
The Business Council of Fairfield County
The Chamber Fargo Moorhead West Fargo
The Chamber of Medford/Jackson County
The Chamber of Reno, Sparks, and Northern Nevada
The Chamber of the Santa Barbara Region
THE CLEVELAND PLANT & FLOWER COMPANY
The Dow Chemical Company
The Gabriela Noemi Smith Law Firm, PLLC
The Irwin Brown Company
The Kansas Chamber
The Manitowoc Company, Inc.
The Manufacturing Consortium
The Miami-Dade Beacon Council
The National Industrial Transportation League
The New England Council
The Ohio Manufacturers' Association
The San Antonio Chamber of Commerce

The Sisto Company II, LLC
The State Chamber of Oklahoma
The Timken Company
The Toney Watkins Company
Thermcraft, Inc.
ThinkGlobal Inc.
Timberline Mfg
TLS Logistics, LLC
TMEIC Corporation
TOBIDA International Inc.
Toledo Regional Chamber of Commerce
TOMAD International, Inc.
Toney Watkins Corporation
Torrance Area Chamber of Commerce
Total Airport Services, Inc.
Towpath Group International, LLC
Toy Industry Association
Trade Acceptance Group, Ltd.
TradeMoves LLC
TransNational ATM
Traverse City Area Chamber of Commerce
Treated Wood Council
Tri-City Regional Chamber of Commerce
Tri-County Regional Chamber of Commerce
Trinity Yachts
Troup Environmental Alternatives LLC
TrueNorth Transport LLC
Tucson Hispanic Chamber of Commerce
Tucson Metro Chamber
Tulsa Regional Chamber
Twin City Die Castings Company
TwinWest Chamber of Commerce
U. S. Asia Chamber of Commerce
U.S. Chamber of Commerce
U.S. Travel Association
Unex Manufacturing Inc.
Unified Energy Solutions, Inc.
Unit Load Systems LLC
United Equipment Accessories, Inc.
United Industries, Inc.
United Risk Consultants
United States Council for International Business
United States Metal Powders, Incorporated
United States Steel Corporation
United Technologies Corporation
Universal Alloy Corporation
Universal Electric Corporation
Unverferth Mfg Co Inc.
Upper Tampa Bay Chamber of Commerce
Upstate New York District Export Council
US International Foods LLC
UST GROUP
Utah Manufacturers Association
Utah Valley Chamber of Commerce
UTSA International Trade Center
Valley Industrial Association
Valley Industry & Commerce Association (VICA)
Varella & Advogados Associados
Vektek, Inc.
Ventura Chamber of Commerce
Vermeer Corporation
Vermont Chamber of Commerce
VERSACI GROUP INTL INC
Victoria Chamber of Commerce
Virginia Chamber of Commerce
Virginia Manufacturers Association
Virginia Transformer Corporation
Virginia-Washington, DC District Export Council
Vista Chamber of Commerce
Volvo Group North America
Vulcan, Inc.
Waddell & Reed
Washington Council on International Trade
Washington Retail Association
Washington Roundtable
Washington State District Export Council (DEC)
Water and Wastewater Equipment Manufacturers Association
Waterbury Regional Chamber
WCCO Belting, Inc.
Webster City Area Chamber of Commerce
Weichert, Realtors The Space Place
Weiss-Aug Co. Inc.
Welch Manufacturing Technologies, Ltd
Wells Fargo
West Chambers County Chamber of Commerce
West Texas District Export Council
West Virginia Manufacturers Association
Western DuPage Chamber of Commerce
Westinghouse Electric Company
Wharton Chamber of Commerce and Agriculture
Wheeling Truck Center
White Pine Chamber of Commerce
Wichita Metro Chamber of Commerce
Wickenburg Chamber of Commerce
Willoughby Western Lake County Chamber

of Commerce
Wilmington Chamber of Commerce
Winergy Drive Systems Corporation
Winona Area Chamber of Commerce
Wisconsin District Export Council
Wisconsin Manufacturers & Commerce
Wm. H. Reilly & Co.
Woodworking Machinery Industry
Association (WMIA)
World Affairs Council of New Jersey
World Alliance for Decentralized Energy
World Logistics Inc.
World Trade Center Arkansas
World Trade Center Delaware
World Trade Center New Orleans
World Trade Center of Greater Philadelphia
World Trade Center Seattle
World Trade Consult, LLC
Worldwide Logistics Limited
Wright Tool Company
WRT, LLC
Yadkin County Chamber of Commerce
Yankton Chamber of Commerce
Yokogawa Corporation of America
Youngstown Warren Regional Chamber
Yuma County Chamber of Commerce
Zaclon LLC
Zeeland Farm Services, Inc.
Zippo Manufacturing Company

June 3, 2015

Statement for the Record

of

BAFT (Bankers Association for Finance and Trade) and the Financial Services Roundtable (FSR)

before the

Committee on Financial Services

of the

United States House of Representatives

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June 3, 2015

Chairman Hensarling, Ranking Member Waters, 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 3, 2015, regarding examining the Export-Import Bank's ("Ex-Im" or "the Bank") reauthorization request and the government's role in export financing.

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.

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

MENU

NEWS

GOL Issues $41 Million Ex-Im Bank-Guaranteed Bond for Services Exported by Delta TechOps, MRO Division of Delta Air Lines

Ex-Im Bank-guaranteed financing supports an estimated 400 jobs at Delta TechOps

FOR IMMEDIATE RELEASE **March 25, 2014**

Media Contact Name/Phone: Linda Formella, 202-565-3200

Washington, D.C. - The Export-Import Bank of the United States (Ex-Im Bank) today announced the successful issuance of an Ex-Im Bank-guaranteed bond funded by the capital markets that raised $40.7 million for the Brazilian airline, VRG Linhas Aéreas S.A. (GOL), for engine-maintenance services performed by Delta TechOps in Atlanta, Ga. Delta TechOps is the maintenance, repair and overhaul (MRO) division of Delta Air Lines Inc.

The Ex-Im Bank-guaranteed bond was issued in mid-February to raise the funds to reimburse GOL for costs related to engine-maintenance services performed by Delta TechOps in 2013. The two-year bond bears interest at a fixed rate of 0.622 percent.

GOL issued the bond under a $45.5 million guarantee authorized by Ex-Im Bank in May

2013 to support Delta TechOps exports to the Brazilian airline. The financing is supporting an estimated 400 jobs at Delta TechOps, according to Ex-Im Bank's jobs-calculation methodology.

With this transaction, Ex-Im Bank continues to support hundreds of highly-skilled jobs of Delta TechOps in Atlanta, said Ex-Im Bank Chairman and President Fred P. Hochberg. Our guarantee made possible the capital-markets funding of these services under Delta TechOps's multiyear contract with GOL, a longtime Ex-Im Bank customer in Latin America.

Delta TechOps, a division of Delta Air Lines, is performing essential aircraft-engine maintenance and overhaul services for our existing fleet, said Paulo Kakinoff, chief executive officer of GOL. The availability of Ex-Im Bank's financing was the key to our choosing this U.S. provider for these services and is strengthening the partnership between our two companies.

The February 2014 issuance was the third successful Ex-Im Bank-guaranteed bond issuance to finance engine-maintenance services. The previous two issuances, which also supported Delta TechOps's services to GOL, were done in 2012 under an $84.8 million Ex-Im Bank commitment approved the same year. The transaction earned Ex-Im Bank an Airfinance Journal Deal of the Year award in April 2013. The financing covered the first two years of GOL's five-year engine-maintenance contract with Delta TechOps that was signed in December 2010.

In accordance with the contract, Delta TechOps is performing heavy maintenance on GOL's CFM56-7B engines that are installed on the airline's Boeing 737 next generation aircraft fleet. Delta TechOps is providing GOL with up to 253 scheduled engine removals and additional unscheduled removals. The GOL engines are shipped from São Paulo, Brazil, to Atlanta for heavy maintenance performed by Delta TechOps.

About Ex-Im Bank:

Ex-Im Bank is an independent federal agency that creates and maintains U.S. jobs by filling gaps in private export financing at no cost to American taxpayers. The Bank provides a variety of financing mechanisms, including working-capital guarantees, export-credit insurance and financing to help foreign buyers purchase U.S. goods and services. In the past fiscal year alone, Ex-Im Bank earned for U.S. taxpayers more than $1 billion above the cost of its operations.

In FY 2013, Ex-Im 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 American jobs in communities across the country. For more information, visit www.exim.gov (http://www.exim.gov/).

Questions for the Record
Representative Patrick Murphy
"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"
June 3, 2015

Chairman Hochberg, thank you for appearing before our committee and for the work that you and the Export-Import bank do to promote American jobs and American manufacturing. Since 2007, the Bank has financed over $7 billion for more than 700 Florida companies, helping Florida's working families and small businesses survive the Great Recession.

As a former small business owner, I understand how important access to financing can be to executing a business deal. In today's global economy, goods Made in America remain world class for quality and innovation; yet, with particularly aggressive state-sponsored export finance options, many American companies cannot offer competitive financing to close the sale.

1. *If the United States unilaterally disarms and allows the Export-Import Bank to lapse, what economic impact would it have on American manufacturers and what impact would it have on their foreign competitors?*

Answer:

There are approximately 85 other export credit agencies similar to EXIM around the world fighting for sales and export backed jobs for *their* countries. Even prior to EXIM's lapse, U.S. manufacturers were experiencing situations where foreign export agencies were trying to steal away sales (and consequently jobs) from American exporters. As Deputy Secretary of Commerce Bruce Andrews stated, "By unilaterally disarming and shutting down the Export-Import Bank, it creates a market advantage for our competitors from (countries like) China, Germany and Japan."[1]

Unilaterally disarming means that other countries around the globe have a financing tool available to them that exporters in the United States would no longer have available to them. As a senior official from China's Export-Import Bank told reporters recently, EXIM going away would be "a good thing" for China[2]. The Export-Import Bank of India's chairman also recently commented that "we think that the role of ECAs (export credit agencies) in countries like India, ones in Asia is immense. In fact, seeing our pattern, many other countries are opening up Exim Banks. With US Exim Bank closing down, we would now have more market, because, Indian products were competed by US products. Now that competition will go away"[3].

[1] Reuters, Boeing says loss of Ex-Im Bank would be competitive disadvantage, July 6, 2015, http://www.reuters.com/article/2015/07/06/usa-eximbank-boeing-idUSL1N0ZM2GR20150706
[2] http://www.reuters.com/article/2015/06/24/usa-congress-exim-idUSL1N0Z80W420150624
[3] http://www.business-standard.com/article/finance/q-a-with-exim-bank-cmd-with-us-exim-bank-closing-we-would-have-more-market-115071400885_1.html

EXIM has worked with a range of manufacturers including small, medium, and large, but the majority of our customers are small businesses. Of the 3,700 authorizations EXIM completed in 2014, more than 3,300—or nearly 90 percent—directly served U.S. small business. Last year, EXIM supported 164,000 U.S. jobs and over the past six years, more than 1.3 million American jobs. At the same time, through the fees and interest we charge our customers, the Bank also generated a surplus of $675 million profit for American taxpayers in 2014, above and beyond all costs.

Current headlines have argued that the lapse of EXIM will "leave the field to China" as China has "lent extensively to Africa and has set up a family of joint funds on that continent, in the Middle East, and in Europe."[4] China's medium- and long-term export credit financing grew by 40% last year, from $40.6 billion in 2013 to $58.0 billion in 2014.[5] In addition, Japan, Korea, Russia, Germany, France, United Kingdom, Brazil, and others all indicated that they expect to accelerate their financial backing for their exporters.

U.S. exporters echo this negative outlook for domestic manufacturers and a positive outcome for foreign competitors.

- Kevin Stanley, CEO of Ventech Engineers, wrote that "if Ex-Im shuts down after its charter expires Tuesday, we will not be able to build a critically needed $300 million facility to supply fuels required for the fight against ISIS."[6]

- David Ickert, Vice President of Air Tractor Inc., wrote that if EXIM's authority lapses "the results will be devastating for small businesses."[7]

- Ray Connor, President of Boeing Commercial Airplanes said that the loss of EXIM financing would put Boeing Co. at a "huge competitive disadvantage."[8]

We are very concerned about the impact that the lapse in authorization is having on U.S. exporters and the ability of those exporters to receive the financing they need to export goods.

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[4] Financial Times, Demise of the US Ex-Im Bank would leave the field to China, June 22, 2015, http://blogs.ft.com/beyond-brics/2015/06/22/demise-of-the-us-ex-im-bank-would-leave-the-field-to-china/

[5] EXIM, 2014 Competitiveness Report, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf

[6] Star Telegram, Ex-Im Bank is crucial to U.S. strength, June 26, 2015, <http://www.star-telegram.com/opinion/opn-columns-blogs/other-voices/article25630657.html?

[7] Chron, Ickert: Critics wrong that Ex-Im Bank only benefits "big", http://www.chron.com/opinion/outlook/article/Ickert-Critics-wrong-that-Ex-Im-Bank-only-6347317.php

[8] Reuters, Boeing says loss of Ex-Im Bank would be competitive disadvantage, July 6, 2015, http://www.reuters.com/article/2015/07/06/usa-eximbank-boeing-idUSL1N0ZM2GR20150706

2. *What would an expiration of the Bank's charter mean for Florida's small businesses?*

Answer:

Since FY2010, EXIM has directly supported 546 small businesses and over $7 billion in exports in Florida alone. Without EXIM support, small businesses in Florida would be unable to compete on a level playing field with foreign firms, access the working capital needed to take on and fulfill sales, and mitigate the risks of the international marketplace. EXIM support improves the competitiveness, risk management, and liquidity of small businesses in Florida. The absence of such support would mean missed opportunities, lost sales, and, ultimately, fewer jobs.

Numerous Florida business groups including the Manufacturers Association of Florida, Florida Chamber of Commerce and Florida Export Finance Corporation have written to Congress urging support for the reauthorization of EXIM Bank.[9] The mayors of many Florida cities including Orlando, Miami, and Tallahassee have also signed a letter supporting EXIM reauthorization.[10] Given the importance of exports to port cities, it is no surprise that the Miami-Fort Lauderdale-West Palm Beach metropolitan area provided 64.8% of Florida's exports in 2014.

The statements below from two Florida small businesses demonstrate the effect the expiration of the Bank's charter would have on those companies.

"Before we started working with EXIM Bank, we simply had no capacity to give credit," explains Luis Arguello, Sr., President and CEO of DemeTech in Miami Lakes. "Once we partnered with EXIM Bank, we immediately started giving credit to our clients. This allowed our revenues to pop up immediately. Since 2009 to today, we could say that we have increased our sales four times. Our company will lose over half of the employees if EXIM is not recertified."[11]

"If we didn't have the ability to borrow against our receivables, probably we could not survive in this business," said Lee Levenberg, Controller of Ben Kaufman Sales in Medley. "Without EXIM we wouldn't be able to exploit these international sales, and we'd be a smaller company, and we wouldn't have as many people working for us."[12]

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[9] http://www.nam.org/Issues/Trade/Ex-Im-Bank/FINAL-NAM-Chamber-Joint-Ex-Im-Letter-7-1.pdf
[10] http://www.exim.gov/sites/default/files//congressional-resources/Ex-Im-Letter-02-25-15-Final.pdf
[11] EXIM client testimonial videos, March 2015.
[12] EXIM client testimonial videos, March 2015.

Congress has reauthorized the Export-Import Bank charter 16 times under both Republican and Democratic administrations; yet, we are currently facing the first lapse in more than 80 years. This is at a time when foreign export credit institutions are aggressively growing to support their domestic industries.

3. *If the Export-Import Bank is not reauthorized, will foreign governments step in to provide financing for export of American products?*

Answer:

Export Credit Agencies (ECAs) exist to facilitate cross-border trade. Historically, ECAs have provided export credit support that is directly tied to the export of domestic goods and services. Thus, foreign ECAs generally do not support exports from other countries and certainly would not step in to provide financing for American manufacturers at the level that EXIM does.

American exporters are facing increasingly intense global competition. By equipping U.S. businesses with responsible, transparent, rules-based financing, EXIM has worked to level the playing field, so that U.S. goods and services have the opportunity to compete on free market principles such as quality and value rather than on cut-rate financing.

Questions for the Record
Representative Lynn Westmoreland
"Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing"
June 3, 2015

1. *In 2014, the Export-Import Bank issued long-term loan guarantees in the amount of $10.789 billion, is that figure correct? If not, please provide corrected figure with methodology used for calculating the corrected figure.*

Answer:

Long term loan guarantees are guarantee transactions with terms over 7 years or authorized amounts over $10 million. As is noted in our annual report to Congress, in FY 2014, EXIM Bank authorized a total of $20.5 billion in financing, of which just under $10.8 billion was long term loan guarantees.[1] The Bank's financial statements are audited annually by the Office of the Inspector General through outside, third-party auditors. In FY 2014, the external auditors Deloitte and Touche provided an unqualified or "clean" opinion on the presentation of the Bank's financial statements.

2. *Please provide a list of all financial institutions that currently hold loan guarantees for the Export-Import Bank, including dollar figure of loan guarantees and total number loan guarantees at each financial institution.*

Answer:

Please see the attached Excel spreadsheet.

3. *It is my understanding these financial institutions earn between 3-4% for holding these loan guarantees. Is this figure correct? If not, please provide corrected figures along with methodology used to calculate the corrected figure.*

[See answer below question 5 which addresses both questions 3 & 5]

4. *How does the bank establish its fee structure for these financial institutions holding the Bank's loan guarantees? If the Bank doesn't set the rate, how is it determined?*

EXIM Bank charges fees to financial institutions based on the risk of the buyer being funded by the guaranteed loans. These fees are regularly passed through to the buyer by the financial institution. EXIM exposure fees are charged to cover the risk of non-

[1] Export-Import Bank of the United States, Annual Report 2014, page 40.
http://www.exim.gov/sites/default/files/reports/annual/EXIM-2014-AR.pdf

payment of a transaction and they are, in part, similar to insurance premiums that insure against risk of loss. As a result, fees are determined by the following structuring elements particular to the specific transaction:

- credit quality of the foreign borrower
- the length of the drawdown period
- the length of repayment period, etc.

The minimum exposure fees EXIM charges on its 2-year and over loan guarantee transactions are dictated by guidelines outlined in the international Organisation for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Export Credits (the Arrangement).

The Arrangement determines the minimum premium rates that all export credit agencies (ECAs) party to the OECD Arrangement[2] can charge on transactions with similar structuring elements. These minimum fees help to create a level playing field among ECAs globally. As such, EXIM views these fees as a floor, abiding by the rules of the Arrangement. However, EXIM must also ensure that the fees collected meet the U.S. Government's minimum budgetary requirements. As a result, in certain cases, EXIM charges exposure fees that are higher than the minimum fees required under the OECD premia system in order to properly compensate for risk.

For your reference, EXIM provides exporters a sample fee calculator on its website to estimate the exposure fee for obtaining an EXIM Bank guarantee in accordance with the rules of the OECD Arrangement at http://www.exim.gov/tools-for-exporters/exposure-fees/long-term-exposure-fee-calculator.

5. These large financial institutions have extended the loan for a multi-million dollar transaction, but due to the Export-Import Bank loan guarantee, there is no risk to the financial institution. So these financial institutions have zero risk, but are earning 3-4% on a multi-million dollar loan, is that correct?

Answers to questions 3 and 5:

The interest rates a commercial bank charges under an EXIM long-term guarantees vary considerably. These rates are determined by negotiations between the borrower and commercial bank. EXIM is not a party to these negotiations. For long-term guarantees the spreads are usually lower than 3-4%, particularly when you factor in several additional costs that considerably reduce the gross income as it moves to net income for the bank. The most significant of those costs incurred by the commercial banks include

[2] Many of the approximately 85 Export Credit Agencies worldwide are not party to the Arrangement and operate outside of the Arrangement rules.
http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf

the cost of money lent, the cost of reserves/liquidity (regulatory costs), and the cost of overhead (people and buildings).

To the best of our knowledge, in calendar year 2014, the interest rates charged by commercial banks on EXIM guaranteed transactions were generally 75-105 basis points (bps)(0.75 – 1.05%/year) on long-term transactions. Those costs can rise to as much as 3.00% on small (under $1 million) medium-term transactions. After deducting the costs of doing business like those described above, banks financing a transaction under an EXIM guarantee generate on average a before-tax net earnings in the neighborhood of 25-35 bps (0.25-35%/year).

Lender at the Time of Authorization*	Outstanding Exposure (in Millions)	Lender Guarantee Count
ABN Amro	$15.8	1
Alliant International Funding Corporation	$0.6	2
Amegy Bank National Association	$0.1	1
Apple Bank For Savings	$4,261.9	28
Arab Banking Corporation B.S.C.	$6.5	1
Atrafin, Llc	$21.8	27
Australia & New Zealand Banking Group Ltd, The	$23.9	1
Banco Bilbao Vizcaya Argentaria S.A.	$155.0	3
Banco Monex, S.a., Institucion De Banca Multiple, Monex Grupo Financiero	$2.5	9
Banco Nacional De Comercio Exterior, S.n.c.	$0.2	2
Banco Santander, S.A.	$246.8	7
Bank Of America Corporation	$237.1	5
Bank Of New York Mellon Corporation, The	$1.4	1
Bank Of Nova Scotia, The	$3.6	2
Barclays Bank Plc	$879.4	10
Barclays Capital Inc.	$377.9	7
Barrett Trade & Finance Group Llc	$0.3	1
Bayerische Landesbank	$39.2	1
Bnp Paribas	$4,064.6	28
Cengiz Enerji Sanayi Ve Ticaret A.S.	$7.2	1
Centre Merchant Finance	$17.3	30
Chancery Export Finance Llc	$1.4	1
Chindex Export Medical Products Llc.	$1.5	2
Citigroup, Inc.	$5,264.5	56
City National Bancshares, Inc.	$3.5	1
Cofine, S.A. De C.V. Sofom Enr	$2.5	4
Commerzbank Ag	$3.4	3
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	$76.0	4
John Deere Capital Corporation	$11.0	5
Dekabank Deutsche Girozentrale	$312.2	1
Deutsche Bank Ag	$824.8	5
Drake Finance Group, Inc.	$3.3	10
East West Bancorp, Inc.	$11.1	11
Espirito Santo Group	$10.5	2
Ex-Im Bank	$2,228.8	14
Export Finance And Insurance Corp	$1.6	1
Fortis Bank (Nederland) N.V.	$15.0	1
General Electric Capital Corporation	$71.1	24
Goldman Sachs Group Inc.	$214.8	2
Govco	$239.7	2
Hencorp Becstone L.C.	$8.7	21
Hsbc Holdings Plc	$1,183.5	21
Hsh Nordbank Ag	$16.4	1

Huntington Bancshares Incorporated	$1.2	1
Ing Capital Llc	$642.5	2
Ing Direct Of Canada	$56.9	1
Intercam Banco, S.A., IBM	$2.5	7
Interfinanciera, S.A. De C.V., Sofom, E.N.R.	$0.7	6
International Bank Of Miami (Coral Gables, Fl)	$1.9	1
Investec Bank Plc	$343.2	1
Japan Development Bank	$136.5	1
Jpmorgan Chase & Co.	$13,225.2	74
Kbc Bank Nv	$8.7	1
Lloyds Tsb Bank Plc	$30.7	1
M&T Bank	$0.3	1
Mizuho Corporate Bank, Ltd.	$279.7	2
Natixis	$154.6	3
Norddeutsche Landesbank Girozentrale	$635.9	2
Northstar Trade Finance Inc.	$9.8	27
Pnc Financial Services Group, Inc.	$52.3	14
Privatbank	$1.8	2
Private Export Funding Corporation	$6,279.7	64
Raiffeisen Landesbanken Holding Gmbh	$11.3	6
Rand Merchant Bank Ltd.	$68.6	1
Rfs Holdings B.V.	$1,232.4	15
Royal Bank Leasing Company	$176.9	1
Royal Bank Of Scotland Group, Plc, The	$346.0	5
Sanlam Capital Markets Ltd	$5.9	1
Sas Rue La Boetie /Dba/ Credit Agricole /Dba/ Credit Agricole Corporate And Investment Bank	$2,378.8	26
Sidernet Mexicana, S.A. De C.V.	$0.9	1
Siemens Financial Services	$3.1	2
Societe Generale S.A.	$504.6	20
Sonoran Bank N.A.	$0.3	1
Standard Chartered Plc	$296.8	8
Sterling Bancshares, Inc.	$49.7	1
Stichting Ing Aandelen	$1,423.5	18
Sumitomo Mitsui Financial Group, Inc	$867.3	7
Suntrust Bank	$5.0	3
Toronto-Dominion Bank, The	$5,124.4	39
Tradex International Finance Llc	$2.2	2
Ups Capital Business Credit	$97.4	64
Us Bancorp	$0.9	1
Wells Fargo Bank N.A.	$82.5	11
Total Outstanding Exposure	**$55,411.0**	**804**

***Please note that some transactions can have multiple lenders. In general, EXIM Bank aggregated lenders at the authorization level.**