THE ROLE OF THE EXPORT–IMPORT BANK IN U.S. COMPETITIVENESS AND JOB CREATION

HEARING

BEFORE THE

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INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

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THE ROLE OF THE EXPORT–IMPORT BANK IN U.S. COMPETITIVENESS AND JOB CREATION

Thursday, March 10, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2128, Rayburn House Office Building, Hon. Gary Miller [chairman of the subcommittee] presiding.

Members present: Representatives Miller of California, Dold, Campbell, McCotter, Huizenga; McCarthy of New York, Moore, and Perlmutter.

Chairman MILLER OF CALIFORNIA. The hearing will come to order. Without objection, all members' opening statements will be made a part of the record.

We have agreed to 10 minutes on each side, appropriately yielded if anybody else shows up; and if nobody does, panel, that is not unusual. We have Floor debate occurring right now, and many members have meetings in their offices. So when you are having a hearing like this it is not uncommon to have a low presence. Members will come in and out as need be.

We would like to welcome you here today. This is the first hearing in the 112th Congress for the Subcommittee on International Monetary Policy and Trade. This is, I believe, a very important hearing. We are going to be talking about the Export-Import Bank reauthorization. Even Federal Reserve Chairman Bernanke said that we need to sustain a period of strong job creation to establish true economic recovery, and I believe this is a place we need to look to. How do we increase imports in this country and become competitive globally?

The Export-Import Bank effectively deals with about 175 countries. We have to ask, how can the banks better compete with foreign export credit agencies to ensure U.S. companies are not operating at a disadvantage against their foreign competitors.

And if you look at the guidelines we use on how we loan, U.S. loans are made, has 15 percent or less foreign content to receive full financial transaction funding. The U.K. has 80 percent or less foreign content. Canada will make a loan if it benefits the country in some way. Australia has 50 percent or less foreign content. France has 40 percent or less EU content or 30 percent or less non-

EU content. Germany has 40 percent or less EU content or 30 percent or less Japan, Switzerland, or Norway content. Italy, they will make a loan if it benefits them in some way. And Japan has 50 percent or less content.

So when you look at what the Export-Import Bank does, they have the most stringent requirement as far as content of any bank that applies these standards. Yet, we need to look at what the Bank does and how they can operate in a better way. Fiscal soundness has always been a priority for the Export-Import Bank. Can the Bank policies and programs ensure that the Bank continues to fund in a fiscally sound fashion?

Since 1934, the Bank has had a default rate of about 1.5 percent. In the last 10 years, though, it has had a default rate of less than 1 percent, which is significant in this economy. Last year alone, they returned $351 million back to the Federal Treasury. So this is an organization that actually makes money for the Federal Government, rather than costing the Federal Government money.

The Bank does not compete against private capital. If private capital is available, they are the first to utilize that. If it is not available, then the Bank provides liquidity when other sources of capital are not available.

Currently, they fund about 1.8 percent of all U.S. exports, not a tremendous percent, but it is a significant percent if you are the one wanting to export products and you need the money. Small businesses benefit tremendously from this. Eighty-seven percent of all the loans made by the Export-Import Bank are to small businesses. It only represents 20 percent of the funding level, but it is the majority of the type of loans they make.

Is the Bank equipped to handle increased volumes in terms of staff and administration capability is a question we need to deal with and have answers to. Can direct selling, automated underwriting, or wholesale instead of retail expedite the process? Does the Bank need to reserve some of its excess receipts to make technology and other investments?

Now, currently, about—of the $100 billion allowed to be lent by Ex-IM Bank, only $57 billion has been lent. A 5 percent reserve has been set up for those. What is the Bank's level of support for specific infrastructures, industries, science technologies, IT firms, and the service industries? And how does the Bank content requirements hinder such support?

I think we need to look specifically at, does the retirement of 85 percent impact the ability of the Bank to lend? Does it have an impact on industry and companies who want to participate in the program, yet don't have the ability to participate in the program because of the content requirement?

There are a significant amount of issues we do need to look at. There are issues that we want to have answers that are going to be needed to be provided and many questions that you might have for us and we might have for you. But we need to look at the goals of the Export-Import Bank, the opportunity to provide more jobs in this country, the opportunity to become more competitive globally, how we go about doing that, and we need to dispel some of the concerns that some feel that the process of the Export-Import Bank is similar to a GSE and such.

The portfolio of the Export-Import Bank is tremendously diverse. Their default rate is minimal compared to what you see in the private sector. And had the Export-Import Bank not have been there in the last few years, it would have been problematic for many businesses to be able to continue in business and to be able to export goods, because liquidity was not there in the banking industry.

So those are issues I would like to have addressed today in the hearing, and I will now yield to the ranking member.

Mrs. MCCARTHY OF NEW YORK. Thank you, Chairman Miller; and I appreciate your words.

Let me first begin by saying I look forward to serving with my colleagues and working in a bipartisan manner on the issues before us today, as well as other important issues this subcommittee will be addressing in the future.

The last several reauthorizations of the Export-Import Bank that this committee addressed were the result of hard work done by members on both sides of the aisle with a degree of cooperation that allowed us to send a bipartisan bill to the House Floor. I am confident this subcommittee will once again produce a collective reauthorization bill that allows the Export-Import Bank to continue being a vital tool that moves the economy forward and does create jobs for our country.

The global financial crisis has resulted in strained access to credit and fewer trade financing opportunities for American exporters. Through the financial crisis, the Export-Import Bank played a crucial role in assuring that export companies were able to continue operating, which maintained U.S. competition in the global economy. The work of the Bank was done at no cost to American taxpayers as the Bank is self-sustaining, funding its programs and administration costs from the fees paid by the returns of its investments.

The Bank is also a key contributor to the implementation of the President's national export initiative to double exports by the year 2015. A key way to achieve that goal is to support small businesses, which are the engine of job and economic growth, in their efforts to broaden their consumer base through exports. To that point, the Export-Import Bank has made progress in outreach to small businesses. Just this year, they developed new products and improved existing products to better serve the needs of our small businesses.

The Bank has made progress in other areas that were addressed through the 2006 reauthorization legislation. However, there is more work to be done; and, as Chairman Miller has said, there are questions to be answered. We want to make sure that whatever work that has to be done is done to ensure that the Bank continues to support economical growth and job creation, as well as the U.S. global export market.

I look forward to hearing the testimony from each of today's witnesses. I thank the witnesses for being here, especially on such a gloomy, rainy day. Hopefully, you all made it here all right; and I thank you for being here.

Thank you, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Thank you.

Vice Chairman Dold is recognized for 2½ minutes.

Mr. DOLD. Thank you, Mr. Chairman; and I want to welcome and thank all of our witness for your time and attention to this, what is a very important issue, the Export-Import Bank.

The Export-Import Bank is a very important institution that ensures a more level playing field in a global marketplace. It helps create jobs in a country based on exports to other countries, which is an important national objective that both parties and the Administration can agree on. And the Export-Import Bank does this at zero cost to the American taxpayer. In fact, the American taxpayer clearly benefits by the Export-Import Bank returning billions of dollars directly to the United States Treasury and by ensuring that more Americans are working in the private sector.

I hope that we can all agree that a prompt reauthorization is both beneficial and necessary. We also need to consider several other issues, including credit limits, context rules, and how we might encourage the Administration to appoint new directors to fill imminent board vacancies as they come up.

I look forward to each of your testimonies, and I look forward to working with you. I yield back.

Chairman MILLER OF CALIFORNIA. Mr. McCotter is recognized for 2½ minutes.

Pass? Okay.

I would now like to introduce the witnesses:

Ambassador Karan Bhatia joined General Electric Company in 2007 as vice president and senior counsel for international law and policy. At GE, he oversees the company's engagement in public policy issues with government around the world and works to expand its presence in global markets. In November 2005, he was confirmed by the Senate to serve as Deputy U.S. Trade Representative overseeing U.S. trade policy in Asia and Africa.

It is good to have you here today.

Mr. David Ickert is vice president of finance of Air Tractor, a small business located in Olney, Texas, population 3,500, that manufactures agricultural and forestry firefighting aircraft. Mr. Ickert is a graduate of Olney High School and Midwestern State University. He has a bachelor's degree in accounting and is a certified public accountant.

Welcome.

Mr. Kevin Law. In 2010, Mr. Law became president and CEO of Long Island Associates, which is New York State's largest business organization. Previously, Mr. Law was president and CEO of Long Island Power Authority, the second-largest public utility in the country with over 1.1 million customers. Prior to approval as president and CEO, Mr. Law served as LIPA trustee and was appointed by Governor Eliot Spitzer as chairman of the board beginning in 2007.

Mr. Scott Scherer is senior vice president of Strategic Regulation Policy at Boeing Capital Corporation. He is also a member of the Aviation Working Group, a not-for-profit legal entity which proactively engages with the U.S. Export-Import Bank and other export credit agencies to ensure availability of adequate and reasonably priced financing for developed customers and regions.

Welcome. Each of you will have 5 minutes.

Mr. Ambassador, you are recognized for 5 minutes.

STATEMENT OF KARAN BHATIA, VICE PRESIDENT AND SENIOR COUNSEL, GENERAL ELECTRIC

Mr. BHATIA. Thank you very much, Chairman Miller, Ranking Member McCarthy, and members of the subcommittee. Thank you for convening the hearing today on this very important topic.

Sovereign-backed export finance has a fundamental and growing impact on international commerce and U.S. exports. In the competition for global markets, American companies and workers are increasingly competing with foreign companies armed with substantial, attractive government-backed export finance packages.

In this highly competitive world, the U.S. Ex-Im Bank plays a critical role in supporting American exports and American jobs. GE, my company, provides a case in point. In 2010, Ex-Im helped finance $2.7 billion in GE sales to international markets, supporting more than $3.3 billion in U.S. exports. These were products ranging from heavy duty gas turbines to Saudi Arabia, to aircraft engines going to India, to MRI machines going to Brazil and Ghana. These export sales have helped support thousands of U.S. jobs in GE facilities from California to Michigan, from New York to Illinois, and from thousands of small and medium-sized enterprises and other suppliers in every State of the United States.

Ex-Im is ably led and staffed by a team of dedicated, hard-working, and creative public servants. Their contributions go beyond merely supporting U.S. exports and jobs. Ex-Im, in fact, contributes to the U.S. Treasury, as the chairman noted, generating a surplus of several billion dollars over the past decade.

But notwithstanding these efforts, Ex-Im unfortunately remains among the world's least competitive export credit agencies. Ex-Im dramatically trails other ECAs in total funds authorized. Canada, for instance, a country less than a tenth the size of the United States, has more than triple the amount of export financing as the Ex-Im Bank. Japan has more than 5 times the amount, and China has an estimated 11 times. Moreover, Ex-Im is forced to labor under restrictions and processes that lessen its attractiveness and discourage many U.S. companies from accessing it. Ultimately, these constraints cost American exports and American jobs.

To improve the effectiveness of the U.S. export finance system, we urge the Congress to focus on four priorities: first, reauthorization of Ex-Im with greater lending authority and streamlined congressional notification process; second, eliminating regulatory restrictions that weaken Ex-Im's competitiveness, vis-a-vis other ECAs; third, vesting Ex-IM with a mandate to defend strategic markets for the United States; and fourth, improving Ex-Im's accessibility. With your permission, I will talk briefly about each of these.

First and foremost, we urge that Congress fully reauthorize Ex-Im for a period of 6 years. In addition, we would urge that Ex-Im's total liability cap be increased from $100 billion to $200 billion. And it bears emphasizing that this increase in liability authority does not mean a $100 billion increase in total government spending. In fact, if history holds true, greater lending authority will, in fact, only result in an increase in their surplus, their return to the U.S. Treasury.

Second, for U.S. exporters to be globally competitive, we need Ex-Im to be as flexible and nimble as its global competitors. To that end, we would urge reform of three Ex-Im policies that diminish Ex-Im's flexibility and weaken its competitiveness:

Cargo preference requirements, Ex-Im's national content requirements that the chairman alluded to in his openings remarks and the economic impact test. I have addressed all three of these bureaucratic obstacles to American business in my written statement, but in the interest of time, I will limit my oral comments just to the first point, cargo preference requirements.

Under a long-standing requirement, almost any long-term export financed by Ex-Im must be transported on a U.S.-registered vessel. Congress imposed this requirement in the pre-World War II era to help build a U.S. merchant marine fleet. But both U.S. strategic requirements and the global shipping market have dramatically changed since that period, and today, there is an extremely limited number of U.S.-flag "break bulk" vessels in operation, and the result is transportation costs that are so high for transporting on those vessels as to nullify the benefits of Ex-Im financing.

So, accordingly, we would urge that those cargo preference requirements be eliminated or, at the very least, that the additional costs imposed by those requirements be offset by the government.

That was point number two.

Point number three is, since the financial crisis, other governments have become far more aggressive and creative in using government-supported financing to win market share around the world. They are deploying more resources, using more forms of financing, and operating in areas where Ex-Im traditionally has had very little activity. Moreover, such foreign government financing is increasingly destined for projects in the United States.

Historically, Ex-Im has matched foreign ECA financing offers that are outside the OECD framework only in rare situations and has refrained from financing projects in the United States all together. It has made very sparse use of its Tied Aid War Chest, and Ex-Im traditionally has had relatively little activity in regions of the world that may pose commercial risk but also present significant commercial and strategic opportunities, including portions of the Middle East and Africa.

So, accordingly, we would urge that Ex-Im be directed to match financing offered by foreign governments competing abroad or in the U.S. home market where such financing is inconsistent with the OECD arrangement or where investment financing is being offered to win market share from U.S. competitors; that it make increased use of its Tied Aid War Chest; and that it facilitate specialized programs in countries or regions where the United States has a strong national interest, like Iraq, Afghanistan, and sub-Saharan Africa.

Fourth and finally, Ex-Im remains underutilized by key sectors of the U.S. economy, including SMEs, manufacturing companies that have repeated exports of smaller value items—so-called flow businesses—and services providers. There are multiple reasons for this, including Ex-Im's largely undifferentiated processes for both large and small transactions, its rules governing U.S. content, and its reluctance to take less than dominant positions—

Chairman MILLER OF CALIFORNIA. The gentleman will need to conclude.

Mr. BHATIA. Thank you.

To facilitate access by SMEs and flow businesses, Ex-Im should deputize more commercial banks, community and State banks and others, while setting appropriate transaction costs and fee-sharing arrangements to facilitate cooperation.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Bhatia can be found on page 32 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, sir.

Mr. Scott Scherer.

STATEMENT OF SCOTT SCHERER, SENIOR VICE PRESIDENT, BOEING CAPITAL CORPORATION

Mr. SCHERER. Chairman Miller, Ranking Member McCarthy, and members of the subcommittee, I am Scott Scherer, senior vice president, Boeing Capital Corporation, the financing arm of Boeing company. Thank you for this opportunity to testify on this important topic.

I have an opening statement and request that my full written testimony be placed in the record.

Chairman MILLER OF CALIFORNIA. It will all be placed in the record, without objection. Thank you.

Mr. SCHERER. On behalf of Boeing's 160,000 employees, 22,000 small, medium and large U.S. suppliers to Boeing throughout all 50 States, and the 1.2 million people working in our domestic supply chain, I am here to voice our strong support for the reauthorization of the Export-Import Bank of the United States.

At a time of great debate over the role of government in our society, Ex-Im Bank stands out as the government institution that works and that provides real value to our Nation. The Bank's financial instruments help American companies, their workers, and their suppliers compete in the global economy and, in so doing, increase American exports, create and preserve export-related jobs, help stabilize our economy during periods of tight credit, like the one we just experienced, and otherwise contribute to economic growth across the United States. And because the Bank charges exposure fees to its borrowers, it is not only self-sustaining but consistently earns a profit for U.S. taxpayers. It is a government program that helps lower the deficit, something I am sure you don't hear all that often.

On the issue of global competitiveness, the Bank plays a critical role. In the aerospace business, our chief competitor, Airbus, has three European export credit agencies supporting its sales. What's more, the competitive landscape for our industry is about to get a lot more crowded. Companies in Canada, Brazil, China, and Russia are developing large commercial airplanes to compete against Boeing; and all of them have government export credit agencies to support them. Without Ex-Im, Boeing and its extensive U.S. supply chain would be at a significant disadvantage in a market we forecast to be worth $3.6 trillion over the next 20 years.

On the issue of U.S. exports and the jobs they support, there is no question that Ex-Im helps drive U.S. exports. In Fiscal Year

2010, Ex-Im financing supported a record $34.4 billion in U.S. exports; and in calendar year 2010, Ex-Im financial guarantees supported sales of 161 Boeing commercial airplanes, roughly a third of all Boeing deliveries that year.

Commerce Department figures show that aerospace exports support more than 770,000 U.S. jobs; and the aerospace sector each year produces a trade surplus, $53 billion in 2010, according to the Aerospace Industries Association. Those job and trade surplus figures are the highest of any U.S. manufacturing industry.

I mentioned that Ex-Im supported one-third of our airplane deliveries last year. That was a higher percentage than we have seen historically because of abnormally tight commercial credit markets, which brings me to my next point, and that is the Bank's vital role in helping to stabilize our economy in such economic conditions.

Ex-Im Bank helped stem at least some of the bleeding brought on by the financial crisis by shoring up exports in very tough economic times, just as it was designed to do. Since 1992, according to the Bank, Ex-Im has returned roughly $5 billion to the U.S. Treasury.

The Bank has a strong, diverse loan portfolio that presents little risk to the U.S. government and American taxpayers, particularly true for its portfolio of airplane loan guarantees. To date, the Bank rated default on commercial airplane loan guarantees as de minimus.

Mr. Chairman, and members of the subcommittee, we have several recommendations for your consideration but will focus briefly on three of them.

First, we recommend that you consider raising the cap on allowable financing by the Bank from the current level of $100 billion.

Second, we recommend you consider lowering the 85 percent domestic content requirement for Ex-Im loans and loan guarantees. This foreign content rule does not adequately take into account 21st Century supply chains, which are global in nature. This is an important competitive issue for U.S. exporters because U.S. domestic content is, far and away, the highest requirement among the world's export credit agencies.

Finally, we urge the subcommittee to press for resolution of a looming issue, and that is the vacancies on the Bank's current board. Ex-Im Bank needs a quorum of three members to approve transactions; and unless these vacancies are filled soon, the Bank will not have a quorum come July, when only the chairman will remain in office.

In conclusion, I want to reiterate how well the Bank serves the American public, helping U.S. companies, large and small, compete in the global economy, driving U.S. exports, creating good-paying jobs and economic growth and doing so with a net return to U.S. taxpayers.

Boeing, the Coalition for Employment Through Exports, and many other companies look forward to working with the Congress to reauthorize the Bank.

Again, thank you, Mr. Chairman.

[The prepared statement of Mr. Scherer can be found on page 45 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you for your presentation.

Mr. Ickert, you are recognized for 5 minutes.

STATEMENT OF DAVID ICKERT, VICE PRESIDENT OF FINANCE, AIR TRACTOR, INC.

Mr. ICKERT. Chairman Miller, Ranking Member McCarthy, and members of the subcommittee, thank you for allowing me to participate today.

I am David Ickert, vice president of finance with Air Tractor. We are the other aircraft manufacturer on today's panel; and we are located in Olney, Texas.

I have submitted written testimony which responds to the questions that we had, so I won't be redundant and go over a lot of those points.

I would like to speak today about the experiences Air Tractor has had with Ex-Im and job creation, and these are experiences of a small business. I will emphasize that what I am about to say has nothing to do specifically with Air Tractor but more to do with what is being replicated by small businesses all over this country and the potential of small business exporters in exporting and working with Ex-Im. I think there is tremendous potential and Ex-Im Bank is vital to that community to realize the job creation potential that exists there.

Air Tractor is a small business engaged in the manufacture and sale of agricultural airplanes—crop dusters, if you will—and forestry firefighting planes. We have been in business since 1972, and we are now 100 percent ESOP-owned. We have one location, in Olney, Texas. We employ approximately 225 people. Olney is a small rural town 100 miles west of Ft. Worth, and 200 miles east of Lubbock, with an approximate population of 3,000.

In 1994, we decided that we needed to look beyond the U.S. borders for our market. At that time, we had about 10 percent of our sales moving in the export market. We knew we needed a medium-term product—loan product to sell our airplanes on the international market. So after much searching and research, we discovered a couple of key partners. One is a commercial bank that we are still working with today—the same officers who have been wonderful to help us and been patient with us to bring us along in this—and the Export-Import Bank of the United States. Those two partners have helped us move forward in our quest to try and expand our international market.

Since 1995, we have now completed over 80 medium-term transactions with the Bank. That first transaction in 1995 was two firefighting planes in Spain. For the calendar year 2010, we have completed 20 medium-term transactions with the Bank; and during this same period, from 1995 to 2010, we have seen our percentage of annual new plane sales and units move from 10 percent in 1995 to 56 percent in 2010. And this included 14 different countries.

As I said, we have done business with Ex-Im for 15 years and have completed those 80 medium-term transactions, 80-plus. To date, we have never submitted a medium-term claim to Ex-Im. They are there for that, but we have never done that. So Ex-Im has received our medium-term credit premiums through the years, but they have never had to pay a claim. That is good business for Ex-Im, and it is good business for Air Tractor.

I want to speak just a little bit about Olney, Texas. It is my hometown. It is a great place to live, and it is a great place to work, and it is a great place to raise your kids. However, when one thinks of originating export transactions, a small west Texas town doesn't really come to mind. But I will remind you we have 225 employees; and at 56 percent, we have over 100 people in Olney, Texas, who today owe their jobs to exporting.

As I have described it before, Olney is three red lights and a Dairy Queen; and the significance of this is that if we can create jobs on Main Street Olney through small business exporting, it can be done in small businesses from California to New York. If we can do it in Olney, Texas, we can do it all over this country.

So what I would have to say to you today is, just for small business exporting, for job creation through exports, which has a tremendous potential in this country, we need Ex-Im, and we urge the reauthorization of Ex-Im.

Thank you.

[The prepared statement of Mr. Ickert can be found on page 37 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you.

It appears that you employ a large percentage of the adult population in your community. That is very impressive.

Mr. ICKERT. That is a true statement, yes, sir.

Chairman MILLER OF CALIFORNIA. I like that. My dad was from Sweet Home, Oregon, population 4,200.

Mr. Law, you are recognized for 5 minutes.

STATEMENT OF KEVIN S. LAW, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LONG ISLAND ASSOCIATION (LIA)

Mr. LAW. Thank you, Chairman Miller, Vice Chairman Dold, Ranking Member Carolyn McCarthy, and subcommittee members for the opportunity today to come and speak to you regarding the Export-Import Bank of the United States.

My name is Kevin Law, and I am the president and CEO of the Long Island Association. The LIA is the largest business organization in the State of New York. Our membership includes thousands of businesses, both large and small; and we employ hundreds of thousands of employees. The LIA has been in existence for over 80 years; and our mission is to lead and unify the region and strengthen Long Island as a place to live, work, and do business.

Long Island, like the rest of the Nation, has suffered through the recent recession and has been plagued by falling home values, high unemployment, and businesses closing their doors. The Long Island economy is very much a small-business-driven economy. We have over 3 million people. If Nassau and Suffolk counties were a State, we would be bigger than 18 States; and we are located right outside the City of New York.

But 90 percent of our businesses are companies that employ 20 people or less, and it is estimated that our exports from Long Island are valued at over $10 billion. Increasing the export capabilities of the manufacturing sector of our economy would certainly be a boost to companies exploring new markets.

The LIA supports the reauthorization of the Export-Import Bank. I would like to thank Fred Hochberg, the chairman and the president of the Export-Import Bank, for helping many Long Island companies over the past few years.

But, unfortunately, and despite the assistance from the good folks at the Bank to date, many smaller companies are still not aware of the Ex-Im or the services that they provide. Too often, small business owners are too caught up in the day-to-day aspects of running their businesses to take the time to explore new opportunities to grow their business; and simply they are just not aware of all the various programs that are offered. And then when they do become aware, they get inundated with the overwhelming amount of paperwork required by some of these programs.

So as the committee considers the reauthorization for the Bank, we feel it is important for you to not only consider ways for the Bank to be made more accessible to small businesses but to also streamline the application process so more small businesses can take advantage of the opportunities to expand into international markets.

Additionally, we feel there needs to be better cooperation between the various Federal agencies that play a role in the export economy. This includes the U.S. Department of Commerce, the Small Business Administration, and the Department of State; and perhaps you can better utilize the services of organizations like the Long Island Association to get that message out for the Federal Government. The government doesn't always have to do everything, and so utilize organizations like us to get the word out about the good programs like the programs that Ex-Im administers.

We also think that technology might be better used for small businesses in the application process. We have seen a rapid movement towards the digital economy, and we ask that the application process for small businesses be streamlined. Because, if we do that, I think we make it easier for small businesses, and that will generate greater participation.

The Ex-Im Bank's global access for small business forums are prime examples of how to start that process. The goal of this program is to reach 5,000 small businesses across the country, with 20 such forums being held this year alone. I am happy to be working with Congresswoman Carolyn McCarthy for a forum to be held on Long Island on April 11th, and we are marketing that event to our membership so they can take advantage of what the Ex-Im has to offer.

The recent announcement of Ex-Im Bank for the Supply Chain Financing Initiative is going to be very helpful to small businesses that supply U.S.-based corporate operations. By supplying competitively priced working capital finance to suppliers of U.S. exporters, this program will lower the cost to these suppliers and thereby strengthen the supply chain.

An additional benefit of the supply is that it allows suppliers to get paid faster and decreases the receivables on their balance sheets. This is another tool in the Federal tool kit that we feel can be helpful to many Long Island small businesses, as well as small businesses across the country, and we look forward to working with Ex-Im to take advantage of this.

Another area that we feel the committee should take a closer look at is military and defense items. A large number of smaller businesses on Long Island are involved in the defense industry. As many of you know, Long Island is the cradle of aviation and has a proud history in the air and space industry. Many of the goods and services produced by the defense industry sector can have better export applications, and we feel that any exclusion from the programs for defense-related industries should be revisited and amended.

The Long Island Association and Ex-Im have similar goals of trying to create jobs and to grow the economy. To this end, we look forward to working with the Bank and bringing its valuable services to the small businesses on Long Island. And we look forward to working with you as well so we can all improve the business climate for not only Long Island and the State of New York, but for our country.

So, Mr. Chairman, thank you for the opportunity to make some of these suggestions to the committee; and I thank our Congresswoman, Carolyn McCarthy, for the opportunity to be here today.

[The prepared statement of Mr. Law can be found on page 42 of the appendix.]

Chairman MILLER OF CALIFORNIA. That is three plugs you got. That is pretty good.

Some great issues were raised. One was cargo preference. The Bank's charter does not specifically mandate the U.S.-flag vessels in connection with Ex-Im. That jurisdiction is with the Transportation and Infrastructure Committee. It is not our jurisdiction. I have talked to Chairman Mica regarding this issue, so it is not something we would debate or discuss in this committee because we have no purview over that issue. That is a separate committee altogether.

But you have brought some great issues up. You said that Ex-Im is the least competitive—or we are—with our global competitors. You talked about regulatory restrictions that are placed over your requirements that you have to comply with with them. And you talked about raising the lending authority from $100 billion to $200 billion. And content was another concern.

One question I had was on the lending authority. They have authority for $100 billion, but they are only at about $75 billion right now. So there is an additional $25 billion in lending authority available for them to use.

The other content requirement is we require 15 percent not to exceed in foreign involvement. What changes would you like to see made in the content, for example? If that was modified in some fashion, would it change the way you are doing business as it applies to Ex-Im? Would you then modify the structure of your product where it did include a greater foreign content if we restructured that in some fashion?

Mr. BHATIA. Mr. Chairman, I guess one way to think about the content issue is, how does it currently hurt us? Okay? How does it currently hurt American jobs? And I think it hurts us in probably three ways.

So the first is there are some products that we manufacture that simply by the nature of the way the inputs come in we can't get up to that threshold. We are at maybe 65, 68 percent U.S. content. And as a result of that, Ex-Im financing, complete financing, is just not available to us. So we will not even apply in those cases.

Chairman MILLER OF CALIFORNIA. But it wouldn't change your normal product that had 85 percent. It wouldn't change that matrix for us, would it?

Mr. BHATIA. No. On that point, no.

But the second point to be made, I think, is, by virtue of having a very high U.S. content requirement, much higher than our foreign competitors, for instance, they are able to both produce goods at a—they are able to be more efficient in terms of how they manufacture the goods.

And then the other issue is, remember, they are able to get full financing. Take the U.K., for example. Twenty-five percent, let's say, U.K. content. They are able to get 85 percent financing for that. If we were to manufacture something with 60, 68 percent, we would only be able to get up to 68 percent financing on that. So there is a cost difference, there is a financing difference, there is a pricing difference, and there is an availability difference.

To get to your point about what would we recommend, I think what we would recommend, first and foremost, is that the U.S. content requirement be reduced to the OECD average, which, at the moment, the next highest to the United States is 50 percent, and many are below that.

Chairman MILLER OF CALIFORNIA. So by us changing the standards, it wouldn't put you in a position where you would lower your percentage automatically?

Mr. BHATIA. No. No. To the contrary. I think what it would allow us to do is seek export financing from the United States, be more competitive, be able to compete abroad, and retain the production out of the United States.

Right now, to be competitive, we are having to manufacture and seek export financing from other institutions around the world. So, for instance, we could export—there is a wind turbine opportunity, let's say, to sell to Kenya. We can export from two places. We can export out of the United States, out of our Greenville, South Carolina, facility or we can export out of Germany and utilize German export financing.

Chairman MILLER OF CALIFORNIA. So if we changed them, you think it would increase American jobs.

Mr. BHATIA. I can tell you it would increase American jobs.

Chairman MILLER OF CALIFORNIA. Mr. Scherer, how would you apply that to Boeing?

Mr. SCHERER. We believe—Boeing believes that the content requirement of 85 percent is too high. We believe that we could probably live with a number in the 70 range—70 percent range, probably, as we currently produce our airplanes.

But, to Karan's point, he is right to the extent that we have increases in foreign content, we have to go outside. We have to obtain co-financing from other export credit agencies to ensure that we can fill the gap.

But, again, this is a competitive world that we are in. We have—oftentimes, in order to be able to sell airplanes, we are required to make offset requirements. We have cases where we just don't—we just can't get to that 85 percent number.

Having said that, 82 percent of all the jobs and our procurement is here in the United States. But we have some aircraft that are below the 85, and it is kind of an awkward situation that we have with our customers who, for example, are acquiring Boeing 737 aircraft which maybe has an 82 percent content and we say, sorry, we can only give you 82 percent, not 85 percent. But when they buy their Airbus airplane, which has, frankly, a lot of U.S. content in it, they can still get 85 percent financing.

Chairman MILLER OF CALIFORNIA. So it is putting you at a disadvantage with competitors.

Mr. SCHERER. It is putting us at a disadvantage, yes.

Chairman MILLER OF CALIFORNIA. Mr. Ickert, I would like to hear if the small guy you said you are has an opinion on that.

Mr. ICKERT. We have a unique situation. It impacts us, also.

Now there is a work-around, if you will, in our situation. Most everything that we have is U.S. content and materials in our aircraft, except for the engine. The engine comes out of Canada. Luckily, Ex-Im and EDC have a co-finance agreement that allows us—they process—we process through Ex-Im, Ex-Im sends it on to EDC, and EDC picks up their part of the coverage.

Chairman MILLER OF CALIFORNIA. So you have an out that they don't.

Mr. ICKERT. That is exactly right. Yes, sir. We have an out.

Chairman MILLER OF CALIFORNIA. If it wasn't for that, how would it impact you?

Mr. ICKERT. If I did not have the out, it would impact us dramatically. We couldn't use Ex-Im financing because that engine—

Chairman MILLER OF CALIFORNIA. It would have a dramatic impact on your business personally.

Mr. ICKERT. That engine runs about 35 to 40 percent of our value. So I couldn't access Ex-Im without the co-finance agreement.

Chairman MILLER OF CALIFORNIA. Mr. Law, do you have a comment on that?

Okay. I have gone over my time. Mrs. McCarthy is recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman; and, again, I thank everybody for their testimony.

Mr. Law, we understand and we know that the Long Island Association is the largest association for small businesses and medium-sized businesses on Long Island and New York State. When you talk about how to expand it, is that something that should be put into the reauthorization? Is that something that we should be encouraging associations to basically say that we should be growing the advertisement part?

I went to you about—what, 2 months ago, I guess—because I wanted to have an educational event for our small businesses on exporting. So I knew to go to you mainly because of the work that we have worked together on through the association. But how do you get that message out into other areas? Mr. Ickert basically found a small lender. How would you see something like that being set up?

Mr. LAW. I think organizations like the Long Island Association that exist throughout the country could be helpful to the Federal Government in promoting your programs. I think sometimes—and I have been in and out of the public sector and the private sector and sometimes—I remember my tours with the public sector. You get so close to it and you think everybody is aware of everything that you are doing, and they are not. Because people are out there working really hard and long to run their businesses, and they don't see everything or perhaps they don't pay attention to everything.

So I think organizations like ours, where we are maybe on the street with them more often, we could be educating them about the opportunities for these programs. And so I think there are roles for organizations like ours to play with Ex-Im, the Small Business Administration, and the Department of Commerce to help get the good programs that you and this committee authorized and to help get that word out there. So I think organizations like ours could help the Federal Government get that word out.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Mr. Ickert, when you were speaking, you said you get your engines from Canada. And I am just curious. Is that because that is the best engine for the particular planes that you make, or was it a better price or—

Mr. ICKERT. For the engine, for the plane that we produce, it is the best engine to match up with the airframe that we produce.

Mrs. MCCARTHY OF NEW YORK. Okay. That is fair. I was just curious about that.

We talk about large corporations, but yet we are still talking about small businesses here, and certainly we have probably two of the largest corporations in this country, and yet small businesses are a very large part of your success in business. And I was just wondering if you could explain that and go a little bit deeper on the 85 percent content. Would that have any adverse effect on any of our businesses here in this country?

Either one of you or both of you?

Mr. BHATIA. I will go first, Congresswoman.

To your first point, small businesses are absolutely essential. Small American businesses, small and medium-sized businesses are absolutely essential to our ability to produce the goods that we need to be able to compete around the world.

We have a supply chain of tens of thousands of American SMEs, and one way we like to think of ourselves at GE is actually as the platform for SMEs to export around the world. Many of our suppliers only can access these far-flung markets around the world by basically supplying goods and services into an entity like GE and being able to sell around the world. So we see ourselves as very much tied to SMEs, small businesses, our suppliers.

As to your second point, again, I go back to my comments to the chairman. I think that high content requirements at the levels that we have them preclude us from being able to access critical Ex-Im financing to allow us to compete in international markets and thereby are preventing us, slowing us down from creating more jobs for SMEs for our own employees. So I guess that is my response.

Mrs. MCCARTHY OF NEW YORK. Mr. Scherer?

Mr. SCHERER. I would echo much of what Mr. Bhatia indicated. We have some brochures here that we would be happy to leave with you that we refer to as our invisible exporters.

But as I had indicated in my oral testimony, we have 22,000 suppliers in the Boeing company and 2,200 of those are small business suppliers to the Boeing commercial airplane company. Clearly, while we are a "large" company, we need to be mindful of the fact that we are 160,000 individuals, a lot of different types of people—scientists, engineers, mechanics, machinists, and our suppliers who help build these very technologically advanced airplanes.

But, we have to have export credit support that is competitive; and to the extent that we don't, it is going to inhibit our ability to compete effectively.

Mrs. MCCARTHY OF NEW YORK. Thank you. My time is up.

Chairman MILLER OF CALIFORNIA. Thank you.

Vice Chairman Dold is recognized for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman; and, again, I want to thank you all for coming this afternoon and for coming with some suggestions.

And if I can just go right to Ambassador Bhatia, in a recent GE transaction to sell, I think, locomotives to Pakistan, the Ex-Im Bank matched financing terms that was provided, I think, by China. And I was just wondering, how did the transaction actually play out? Can you give me an idea of whether you think this is a model for future transactions going forward?

Mr. BHATIA. Thanks, Congressman.

Yes, this is an opportunity that actually remains still playing out. So Pakistan is in desperate need of new locomotives.

I would note, as an aside, it is not only an export opportunity for us, but it is also an opportunity to strengthen Pakistan's economy, allow goods and cargo to flow more effectively, thereby strengthening the economy and hopefully addressing some of the other challenges that exist in that country.

We went in to bid on it. A Chinese company came in, backed by extremely aggressive concessionary financing; and the Pakistani government effectively said to us, if you can't match that, you are not going to be selected; you are not going to be competing.

We went to Ex-Im, and Ex-Im—and I should note that China is outside of the OECD which prescribes certain rules. So we went to Ex-Im. Ex-Im stepped forward with an offer to match what China was doing. As a result of that, we were selected.

Now, there are some legal processes going on in Pakistan today. The tender is going to be reissued, and we trust and hope that Ex-Im will step back up with support again. We are confident that at the end of the day, with Ex-Im's support, we will win that bid.

Mr. DOLD. If I can just follow up, also, you talked before about the content requirement and how if that was dropped down, you would like to see it down to be an average, I am guessing, probably around 50 percent. We see Mr. Scherer saying that they would be able to live with something around 70 percent. Is there some sort of a marrying in between, or is that something we are just going to have to kind of take a better look at?

Mr. BHATIA. I think we would say we would like to see Ex-Im become globally competitive. To be globally competitive, we think we need to get those contents requirements down to roughly what the OECD average is. If it were to be done in certain steps, perhaps going down to 70 and then moving forward to an OECD average, I think that would be something that we would be grateful for.

Mr. DOLD. And obviously making Ex-Im more globally competitive you said absolutely was going to be able to create American jobs which, obviously, from your corporation, that would be one way to do it.

You also highlighted some other regulatory burdens that were going to be impacting you and I assume the rest of you as well. Can you talk to me for a second about the economic impact test? Is that costing you jobs here in the United States right now or can you shed a little bit more light on that?

Mr. BHATIA. Sure. The economic impact test, Congressman, is a basic principle, is a requirement that Ex-Im puts in place which basically results in Ex-Im being unwilling to lend to projects where the export, the U.S. export, could result in augmenting or strengthening the production of a foreign product that may come back into the United States in some form and potentially compete with a U.S. product.

The problem with this is what it ends up doing is creating a very complex, very politicized, and ultimately, we think, unproductive equation whereby large exports, potential exports that would potentially support thousands of U.S. jobs abroad end up not happening because Ex-Im financing is unavailable because there may be a very small number of foreign products that would come back into the United States. So, from our perspective, that is simply a balance of the benefits test, and we think it should weigh in favor of the maximum number of U.S. jobs.

Mr. DOLD. Thank you.

Mr. Ickert, if I can—I just have a very short period of time. How many countries do you currently export to right now?

Mr. ICKERT. In 2010, we exported to 14 different countries during that calendar year. If you add—I have not sat down and added them together, but 20 plus. But 14 in 2010.

Mr. DOLD. And were any private entities, private financing options available to you, or was Ex-Im basically your only financing option?

Mr. ICKERT. Some of those countries were cash deals, so we didn't have to access financing. Our customers in those countries did. Where we have accessed Ex-Im, in most of those cases we had no private opportunity for financing; and without Ex-Im participation those sales would not have been made.

Mr. DOLD. Great. Thank you.

And I didn't want to let the time go without at least bringing the hometown company Boeing into this. You have outlined a couple of items here in terms of your priorities. And I see my time is up. Can you just give me, out of your list of three here, what is your top priority? What is the one thing if we could get it done that you would want to see happen here from the committee?

Mr. SCHERER. The main thing is to get the Bank reauthorized, obviously.

There is an emerging issue I would like to raise, because Ex-Im Bank does a phenomenal job on the international front. The transportation division team there, the work they have done, what they have been able to do with respect to the surge in demand to support transactions during the financial crisis has been unparalleled. But what I am concerned about is a situation now.

We just negotiated a new aircraft sector understanding under the auspices of the OECD which governs the rules of export credit, and there is a provision in there dealing with the home market. And there is a home market restriction that has operated pretty well between Boeing and Airbus whereby the U.S., France, Germany, and the U.K. don't finance in each others' markets or in their own markets. However, with Brazil and Canada coming into the new aircraft sector understanding, and now with Canada producing the new C series aircraft, which competes head to head against the Boeing 737 family of aircraft, as well as the Airbus A320 family, the Export Development Corporation of Canada will be providing export credit financing support into the United States.

Our understanding is that, when agreement has been made, the United States could have C series matching. However, we do not currently have a policy response to match. And that is something I think that is critical, that we find a way to ensure that should happen.

Chairman MILLER OF CALIFORNIA. We are having discussions with Treasury right now on that issue for you.

Mr. SCHERER. Thank you.

Mr. DOLD. Thank you all.

Chairman MILLER OF CALIFORNIA. Also, vacancies on the board were mentioned. We are working with our colleagues on appropriate letters encouraging that those vacancies be filled.

Mr. Perlmutter is recognized for 5 minutes.

Is he gone?

Gwen Moore, you are recognized for 5 minutes. You moved up.

Ms. MOORE. Thank you so much. I am so sorry that I missed a lot of the testimony of this distinguished panel. So if I ask questions that have already been addressed in your testimony or other places, please forgive me for that.

I was really interested in a further discussion of the national content requirements. What might you all say about the revision of the national content requirements perhaps contributing to a greater trade imbalance if we were to revise this? Not only with content in terms of those percentages but in terms of products and services and to provide services to some of the CAFTA countries. What argument would we be able to make that this wouldn't contribute to an already onerous trade imbalance?

Mr. BHATIA. Congresswoman, I am happy to take a stab at that.

Let me sort of give you a very concrete, tangible example perhaps. We produce steam turbines out of our facility in Schenectady, New York. These are substantial exports for the United States when we can export them, multi-million dollar exports. Each turbine supports hundreds of U.S. jobs.

Right now, those steam turbines, by virtue of the nature of the inputs into it, even if we maximize our U.S. content into it, we probably get up to 68, 69 percent. So the maximum financing we can get from Ex-Im Bank for that would be 68, 69 percent. The remainder of that either has to be found in the private markets or has to be found from the buyer themselves.

Ms. MOORE. I am sorry, just because the other 31 percent of the components are from other countries?

Mr. BHATIA. They could be raw materials that we don't have in this country. They can be things that are specialized, produced somewhere else. This is highly sophisticated production, so it involves a global supply chain.

Ms. MOORE. Why would you also object to the economic impact test? Maybe we could revise that so there could be an explanation that rubber or whatever is not available in this country, nobody grows it, and that is why the content is lower. Why do you then object to the economic impact test, say let those levels rise? Just simply explain why it doesn't meet those thresholds.

Mr. BHATIA. I think, in some ways, they are comparable. In both cases, by virtue of the requirements that are put into place, we discourage—we preclude U.S. companies from accessing Ex-Im financing. It is vital for us to be competitive abroad. Because our competitors, be they from China or from other countries around the world, have their government export financing come into play.

So whether it is content requirements that only limit our ability to access a certain amount of financing or make it unqualified altogether, or economic impact tests that may prevent us from accessing the financing altogether, that is the reason.

Ms. MOORE. I wouldn't want to get into a race to the bottom on that.

Can I ask you one other question and maybe the other folks?

It is hard not to notice that we have the largest corporations here, Boeing and GE, and I am really happy about the economic activity in Wisconsin with GE. But how do you meet the small business requirements? How do small businesses, say in Wisconsin or anywhere else, really import from the Export-Import Bank, small businesses, and to what extent do any of the credit unions or small banks get an opportunity to facilitate export-import banking, identifying customers and so on?

Mr. ICKERT. Congresswoman, I will take a shot at that from the standpoint, as I pointed out, I am from Olney, Texas, population 3,000. We use the Export-Import Bank extensively for medium-term transactions. I have probably used it for over 80 transactions over our history, and that supports—in 2010, we had over 56 percent of our product being sold outside of the United States. So that supports 100 jobs in Olney, Texas. That may not sound like a lot, but when you replicate that across this country, the potential is tremendous. And through the Export-Import Bank small businesses can do that, and we can replicate that. I think that is why it is very important that we look to the small business activity of the Bank. It contributes in Olney, Texas.

Ms. MOORE. Thank you. I yield back.

Chairman MILLER OF CALIFORNIA. Just to clarify, the banks—Export-Import does not compete against private banks. They are not allowed to. If there is a private bank available, they have to use their funds first. They only step in if those private dollars are not available. That is why we had the small business guy here to testify to that.

Mr. McCotter, you are recognized for 5 minutes.

Mr. MCCOTTER. Thank you, Mr. Chairman.

First, I just want to make sure it is the jurisdiction of the Transportation Committee to deal with cargo preference. Was that your statement earlier? Just nod.

Chairman MILLER OF CALIFORNIA. I was conversing.

Mr. MCCOTTER. You made the statement earlier that the Transportation Committee would deal with the issue of cargo preference, not us.

Chairman MILLER OF CALIFORNIA. Mr. Mica and I talked about that. It is their jurisdiction, not our jurisdiction.

Mr. MCCOTTER. I appreciate that. I just wanted to be clear.

I suppose, Mr. Bhatia, let me ask you, or perhaps Mr. Scherer from Boeing, if you lowered the domestic content requirement—let's just be theoretical about this. If lowering is good, isn't eliminating it altogether even better? Wouldn't you make even more money doing that?

Mr. SCHERER. It is an interesting question. I certainly wouldn't propose that. It would sort of give rise to the reason—what is the purpose? What is the reason? There has to be a content reason. There has to be something that is going to support the industry domiciled in a particular country. It would seem to make the most sense.

I think what we have here is a situation of unintended consequences, though, of having content levels so high that in fact it causes us to be uncompetitive.

Mr. MCCOTTER. And then the number, the percentage that you believe is the optimal percentage for the next 6 years, or however long it may be reauthorized. You are asking for the change from "X" to "Y." The "Y" that you are proposing is now the optimal number for domestic content percentage.

Mr. SCHERER. This is something we can discuss in terms of what the appropriate number would be. I do recall in my history of working at the Boeing company that one time back in the early and mid-1980s, the content requirement was 97 percent; and it was—trust me—a huge problem.

Mr. MCCOTTER. If I can, on that point, I can understand that. Because growing up around Detroit in the 1980s, we used to have a whole lot more manufacturing than we do now, and the number was put down, I suppose, as a result of that. I am sure it had no contributory effect to that.

My question then is not when you take not the major company but, say, the small-scale suppliers and the contract for those inputs into the eventual product are outsourced, is that not a cost-benefit determination by the corporation to do that?

Mr. SCHERER. Absolutely.

Mr. MCCOTTER. Then would not the decision whether to have the right domestic content in your product you seek Export-Import financing for be a cost-benefit analysis as well that would be put into I think a consideration of whether the smaller suppliers are outsourced or not for the higher figure?

Mr. SCHERER. Certainly.

Mr. MCCOTTER. But if we lower it, that would lower the cost-benefit analysis and potentially lead it to a greater favor on the scale towards more offshore sources of components for our products.

Mr. SCHERER. Not necessarily.

Mr. MCCOTTER. It would. Whether you decide to follow it or whether it has a maximal impact on the decision, it will have some relationship to the cost-benefit analysis, because it will be easier to do it with a lower requirement.

Mr. SCHERER. I would submit that the—look, the Chinese right now are building a new airplane.

Mr. MCCOTTER. The Communist Chinese, yes, I know.

Mr. SCHERER. And they are sourcing a lot of their components for that aircraft in the United States. But the U.S. Ex-Im Bank isn't going to be supporting the financing of that aircraft. It is going to be the Chinese Export-Import Bank.

Mr. MCCOTTER. It is a mercantilist predatory trading partner with which we run a massive deficit. I am aware of that.

I am concerned now with what is in front of us. Would it not make it easier to seek outside components from offshore if we lower that requirement, or at least within the cost-benefit analysis?

Mr. SCHERER. As far as the Boeing company is concerned, I don't think so, and the reason for that is because of the terms of the aircraft sector understanding. Under the issue from a pure cost perspective, the Ex-Im Bank financing is not subsidized. It is very close to market terms. So, from a cost perspective, no.

The issue for us is availability of the financing and ensuring that we have a comprehensive and competitive financing package to ensure that we have a level playing field. We are competing against Airbus. We are going to be competing against the CSeries aircraft, the Bombardier, and so on.

Mr. MCCOTTER. I appreciate that from Boeing, anyway.

I know my time is up. I have just one last question.

Mr. Bhatia, under your number one recommendations—I want to see if I have this in a nutshell, because this place is a nuthouse—you want more liability, you want to be able to incur more liability by raising the cap, and you want to report less, which will be less congressional oversight, right?

Mr. BHATIA. I think what I would say, on your first point, yes. I think there should be more liability authorized, because the Bank is running up against the cap. As far as less congressional oversight, no, I would not say that, Congressman. I would say that at the moment that number has not been revised for years, potentially decades, to adjust for inflation.

Mr. MCCOTTER. With the chairman's indulgence, without objection, let me follow up.

It says, in addition, we are raising the statutory threshold for congressional notification from $100 million to $400 million and adjust for inflation, so that you would be required less—

Mr. BHATIA. For notifications, yes, absolutely. What I meant was the committee would obviously continue to have jurisdiction, just less notification. Yes.

Chairman MILLER OF CALIFORNIA. We will have a second round of questions now. We have plenty of time.

Just so I clearly understand, there is nothing in Ex-Im Bank's charter that restricts them to 85 percent. This is a self-imposed number that they use, so it is their discretion if they choose to use it. But they don't choose to use it.

What would your opinion be if we encouraged some form of a waiver application you could use to Ex-Im, that under circumstances where there was no other course than to use "X" amount of foreign materials or whatever within a product, that you could receive a waiver for that? How would that work?

Like you said on the 737, you can't get it above 82 percent. If you could justify that. Or going to 60 percent. Would that be workable for you in your industries?

Mr. BHATIA. I think I would say, Mr. Chairman, I think it would depend heavily on what the pattern of dealing was, right, what the expectation was.

The reality is, we go into deals sort of having a sense of what the financing package may be, and if our competitors are going into deals and saying we know we can get you 85 percent, right, we have "X" percent local content. If it depends upon a waiver process that inevitably in the course of things gets, you know, tugs of war and political influence, that becomes very difficult for businesses to go in and be credible on.

Chairman MILLER OF CALIFORNIA. When the Bank is assessing risk and those kind of factors, what paperwork does the Bank require for you to provide for them to assess that risk and what level of engagement is there for you and the Bank?

Mr. BHATIA. They certainly evaluate them. There is an entire application process that goes where they would look at the commercial risk and the flow of funds and so forth. There is also a risk-analysis process that it undertakes with respect to the country at issue.

So I don't know—does that answer your question?

Chairman MILLER OF CALIFORNIA. In your judgment, what could Ex-Im Bank do to support and encourage more exports but not do it in a fashion that encourages you to use a higher percentage of outside products within your manufacturing? I guess Mr. McCotter has a concern. If we do something to reduce standards, is it going to encourage you that maybe there is a cheaper way to produce your product using more foreign goods but you know you could still qualify? Is there some way we could circumvent that?

Mr. BHATIA. To get to Congressman McCotter's issue, yes, the reality is that if you lower the foreign content, if you lower the U.S. content standards, you are going to enable and permit U.S. companies to source globally in a more efficient manner. But the consequence of that is going to be more U.S. exports. The consequence across the board will be more U.S. exports; and, as a result, you are going to have dramatically more U.S. jobs created.

Chairman MILLER OF CALIFORNIA. You are saying, even if you used a higher content, the jobs in this country would increase?

Mr. BHATIA. Would increase, yes. The reality is that Ex-Im is so limited, it is so marginalized effectively in terms of international ECAs right now, by virtue of its content requirements, cargo requirements, a variety of these other requirements, that we don't have a tool. When we are competing with the Chinese, when we are competing with the Brazilians, when we are competing around the world to try and create U.S. exports and U.S. jobs, it is simply not a viable tool. So what we are saying is bring it into line with the OECD average, with the OECD requirements, thereby giving U.S. businesses and workers a chance to compete internationally.

Chairman MILLER OF CALIFORNIA. Let's assume for a question point that we did something like that, and let's make an assumption that we increased it to $200 billion rather than $100 billion. What benefit would that be to American workers and jobs?

Mr. BHATIA. Going from $100 to $200 billion?

Chairman MILLER OF CALIFORNIA. And modifying the—

Mr. BHATIA. I can't extrapolate. I can just give you our examples.

Chairman MILLER OF CALIFORNIA. Would it increase your ability to manufacture?

Mr. BHATIA. Last year, to take as an example—let me give you two examples. Our gas turbine power plant in Greenville, South Carolina, a very large facility, 85 percent of our products exported out of Greenville was for global markets, was for international markets. Out of our aircraft engine facility in Ohio, the number was somewhere between 78 and 80 percent of production was for exports. But U.S. jobs are being sustained by international markets. That is the reality, and that is what we are seeing happening going forward.

Chairman MILLER OF CALIFORNIA. Increasing the leverage they could have as far as loans would not impact American jobs?

Mr. BHATIA. No. I see this being key to us being able to sustain U.S. economic growth and U.S. job growth.

Chairman MILLER OF CALIFORNIA. Mr. Scherer, would you agree?

Mr. SCHERER. I would agree 100 percent, and I would like to give an example.

Aircraft in particular are very high-value capital goods, and over 80 percent of the aircraft that we produce are exported outside the United States. And many countries—many governments and countries, they are looking at their trade balance as well, they are looking at their acquisitions, they are looking at their jobs programs and saying, look, if we are going to spend $2 billion on a fleet of Boeing airplanes, then we want you to source some of that work in our country. We want you to buy some components and parts and so forth from us.

They tell this to the other competitors, such as Airbus, and it gets to a point where it is a serious competitive issue for us. And if we don't, if we aren't able to address appropriately the jobs issue for a particular customer, we are not going to win the business. And in fact, we have lost transactions because we weren't prepared to go as far as a particular customer wanted us to go. This is the business reality out there.

I guess the point I would make is 70 percent of something is better than 100 percent of nothing.

Chairman MILLER OF CALIFORNIA. If you give me something in writing based on what your assumptions are today that would be more specific, I would appreciate that.

Ranking Member McCarthy, you are recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Mr. Law, I want to come back to you on small businesses and what we can do with them. I believe in your testimony you had talked about some of the smaller companies saying that to apply for the Export Bank, it was too complicated, they didn't have the time. Do you have any other recommendations that you might think the committee should be thinking about as we go through reauthorization?

Mr. LAW. I think the ideas of having the forums are a terrific idea. I think, again, utilizing business organizations, chambers of commerce to get that information out to the small businesses is a key. And anything we could do to streamline the application and do it all on the Internet, Ex-Im's Internet, I think would be worthwhile and encourage participation in the program.

Mrs. MCCARTHY OF NEW YORK. I think somewhere in your testimony, which I kind of found interesting, was that maybe there may be a possibility through the Bank, they would have people dealing just with first-time applicants.

I know, Mr. Ickert, you work exclusively with the Bank so you know how the forms go and everything right now. But for many people who have never done this before and which we are going to encourage to increase, would having someone who just specializes in people applying for the first time, would that help the small businesses? Do you think that would have helped you when you first applied?

Mr. ICKERT. Yes, ma'am, I do. I think also looking at first-time users of the Bank as to whether they are successful or not successful, the Bank being able to follow up and see what frustrations may have been there, to better understand, decide from the small business to address procedures that could address those later.

But there are difficulties. They are difficult. And I found that having a bank that has been very helpful to me—as I said in my testimony, they have been very patient with me. Ex-Im Bank has been very patient with me. It requires some patience for new, first-time users. It is not necessarily a user friendly—it is not bad, but it has gotten better in the last few years, but it is still a daunting process.

Mrs. MCCARTHY OF NEW YORK. That is something we will work on.

Mr. Law, do you have anything to add to that?

Mr. LAW. No. I would agree with what Mr. Ickert said. I think Ex-Im has a lot of terrific people working there, and they do try to be helpful, but, like with any organization, there are always things you can improve upon. That is one idea.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Mr. McCotter, you are recognized for 5 minutes.

Mr. MCCOTTER. Thanks. Just very quickly.

Again, I just want to be clear. I think you kind of hit it when you talked to the chairman. When you lower that content requirement, your contention is that even if there is outsourcing of jobs here in the United States and the cost of the social safety net, the upheaval in their lives, somehow there will still be a net increase in jobs for the United States. Right?

Mr. BHATIA. Yes.

Mr. McCOTTER. Because it is a global economy and we have to find the cheapest supply lines, right?

Mr. BHATIA. Right.

Mr. McCOTTER. So wouldn't zero domestic content then maximize American jobs under the Export-Import Bank's mission?

Mr. BHATIA. It is actually interesting you raise this, Congressman, because Canada actually has that. So Canada doesn't have a domestic content requirement. Rather, it has a national interest test requirement, which in some ways is a little bit more of a sophisticated way of looking at this, particularly in the modern era.

Now, content matters to Canada, I have no doubt, production matters in Canada, jobs matter in Canada, but it is a question of is an 85 percent hard line test creating or discouraging the creation of local jobs?

Just to give you a very concrete example, I go back—I think I may have mentioned it before—wind turbines, right? So if we need to depend upon—if there is an export market and we need to have sovereign financing to qualify for the export of that, we have the choice of shipping out of the United States or the choice of shipping out of Germany. We manufacture them there. We manufacture them here. We create jobs in both places.

If U.S. export content is set at 85 percent, we can't access full Ex-Im funding. So we will source them out of Germany. We will create the jobs there. We would prefer to do it, obviously, in the United States, but we would end up doing it out of Germany if Ex-Im is uncompetitive.

Mr. McCOTTER. Or it could be viewed that we are rewarding the initial decision to outsource the jobs and we would like to change the requirement so that we can still have the financing in place.

Mr. BHATIA. It is a global market today, and we are competing against people all over the world.

Mr. McCOTTER. One last question. I appreciate the tenuous nature of the global supply chain. I am also fascinated by how every generation in history makes that same argument that the strategic needs have changed. It is a globally interrogated economy. I am sure the Phoenicians thought the same and maybe the Athenian city state, too.

But my last thing was something you said that was very fascinating to me, Mr. Scherer, when you talked about how when you do deals with other countries they may demand that they have domestic industries taken care of.

I don't expect a response, but I would just like that to be clear to people. Because when my Republican colleagues especially talk about free trade, I want them to know that, no, there is negotiated trade in this world today, because if we had free trade, the United States would be just fine.

Thank you.

Chairman MILLER OF CALIFORNIA. Ms. Moore is recognized for 5 minutes.

Ms. MOORE. Thank you, Mr. Chairman.

Mr. Bhatia, I want to turn my attention again to your testimony regarding eliminating the cargo preference requirements. The argument that you make is that this was done during an era where there was a desire to build a U.S. merchant marine fleet.

I am wondering, if we were to eliminate this requirement, would that in fact lead to some insecurity with respect to the chain of custody of contents of these barrels, other security problems with regard to pirates, or various war components that are being shipped being able to be intervened? Do the marine vessels have sort of a military presence that would be able to be matched by the Export-Import Bank's expansion of their fleets?

Mr. BHATIA. Thank you, Congresswoman.

No, I think we do ship products that are not financed by Ex-Im on non-U.S.-registered vessels. Obviously, we use global vessels and haven't had issues that I am aware of with respect to security of those products. I think this is—from our perspective, this is a little bit of the vestige of a previous era.

Ms. MOORE. So what is shipped on the merchant marine ships that is not shipped on other cargo?

Mr. BHATIA. Goods that Ex-Im finances, right? So if Ex-Im finances an export, I can actually give you a very concrete—

Ms. MOORE. Does it matter if there are military components?

Mr. BHATIA. No. No. It has nothing to do with the components we are exporting. It has to do solely with the fact there is Ex-Im financing for us that requires us to ship it on U.S. vessels.

Ms. MOORE. I am sorry. If we are exporting—

Mr. BHATIA. Let me give you maybe a concrete example.

Wind turbines. We had an opportunity to sell wind turbines in Kenya. If we had used U.S. Ex-Im financing for that, we would have had to put those blades, these big blades that go on wind turbines, on U.S.-bottomed boats. The cost of using those U.S. boats was so high, it was actually 19 percent of the overall value of the contract—

Ms. MOORE. I am sorry. I don't understand. Why were you required to put them on the merchant marine boat?

Mr. BHATIA. Because that is standing Ex-Im policy.

Ms. MOORE. Is it because it is something that can be militarized?

Mr. BHATIA. No, it has no relationship to that. It is just simply a standing requirement.

Chairman MILLER OF CALIFORNIA. If the gentlewoman will yield, it is not Ex-Im's policy. It is maritime policy, which is a completely different committee. So it is nothing to do with Ex-Im. It is just the policy they have to comply with.

Ms. MOORE. Reclaiming my time, I was wondering, you say that we should match financing offered by foreign governments competing abroad where such financing is inconsistent with the OECD arrangement. I am wondering, would this run us into any problems with the WTO or providing these subsidies? What sort of market disruption would it provide for us to provide funding to the Ex-Im Bank to make it more competitive with places like China?

Mr. BHATIA. I am glad you raised that. I think it is a very important point.

Certainly, GE would in no way support WTO-inconsistent practices by U.S. Ex-Im or anybody else. The OECD framework is basically outside of the WTO. It sets a set of standards that the OECD member economies have agreed to. China and other major economies are actually outside the OECD framework. So all we are saying, Congresswoman, is suggesting that the Ex-Im Bank be in that situation able to match the non-OECD funding to be able to level the playing field.

Ms. MOORE. I have 30 more seconds, so let me ask you, is there any prohibition in your charter against actually marketing to small businesses that may not know that they can access your programming? It seems to be a disconnect that I am hearing from Mr. Law and people like that about people's ability to realize that you are there. Is there any prohibition against your advertising, marketing to small businesses about the availability of the Export-Import—

Mr. BHATIA. As a private sector representative, I don't know of anything that precludes Ex-Im from doing that, Congresswoman.

Ms. MOORE. Do they do it? What is the scope of their outreach? Mr. Law?

Mr. LAW. They certainly have developed small centers in communities throughout the country, not that many, and they definitely have established some and a Web site, and they do then coordination with the SBA as well. My suggestion was that they should use organizations like ours, because our members are looking to us for information, and we could help get that information to them.

Ms. MOORE. Thank you for your indulgence, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Thank you.

There are a couple of things I would like to read in the record so we can try to clear this issue up.

First of all, cargo preference programs are administered by the United States Maritime Association, an agency within the Department of Transportation, wholly outside of our jurisdiction. And if you look at PR 17, it is the sense of Congress that any loans made by an instrument of the United States Government to foster the exporting of agricultural or other produces shall provide that the produce may be transported only on a vessel of the United States, unless as to many or all other products the Secretary of Transportation after investigation certifies the instrumentality of the vessels of the United States are not available in sufficient numbers.

So, we have no control. I do understand your concerns, and others. But, for the record, when we are debating this issue, it is not something that we can control. The Transportation Committee will deal with that. I have talked to Chairman Mica about the concerns.

Ms. MOORE. Mr. Chairman, just to continue this colloquy for a second, this was their testimony, so I couldn't help but be curious about it.

Chairman MILLER OF CALIFORNIA. I understand. I wanted to make sure there was no confusion out there.

Without objection, I would like to submit for the record the statements of the following organizations: USA Maritime; the Coalition of Employment Through Exports; and the National Association of Manufacturers.

The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written question to these witnesses and to place their responses in the record.

This hearing is adjourned. Thank you, witnesses.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

A P P E N D I X

March 10, 2011

Statement of Representative Gary G. Miller, Chairman
Subcommittee on International Monetary Policy and Trade

Hearing on "The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation"

March 10, 2011; 2:00 p.m.

Ranking Member McCarthy, Vice-Chairman Dold, and Members of the Subcommittee, I would like to welcome you to the first hearing of our Subcommittee for the 112th Congress. The hearing today will focus on the role of the Export-Import Bank in promoting the competitiveness of U.S. companies and domestic job creation. We have an excellent panel of witnesses, representing companies who can inform us about the importance of the Bank to their businesses and identifying ways the charter can be improved.

This hearing will examine how the Ex-Im Bank contributes to the employment of U.S. workers through financing exports of U.S. goods and services. To get our economy on track and create jobs, we must ensure American companies are competitive with foreign companies that have access to export credit.

Job creation is the key to our nation's economic recovery. At a time when the national debt has surpassed $14 trillion and the federal government is borrowing 40 cents for each dollar spent, it is imperative that we stop spending taxpayer dollars and start really focusing on ways to grow this economy.

Even Fed Chairman Ben Bernanke has said that we need a sustained period of strong job creation to establish a true economic recovery. Estimates are that we would need to add 200,000 jobs per month to get back to a normal level of unemployment. We are not there yet. The current unemployment rate is 8.9 percent. According to the Bureau of Labor Statistics (BLS), last month, there were 192,000 jobs added to the economy. In January 2011, only 36,000 jobs were created. (December 2010 – 121,000; November 2010 100,000). Today's hearing is intended to shed some light on how the Ex-Im Bank can help create U.S. jobs by supporting American companies seeking to export their goods.

The Ex-Im Bank is an example of how our government can facilitate job growth without contributing to the national debt. When American companies export, American workers work. Ex-Im Bank authorized a record of $24.5 billion in export financing in Fiscal Year 2010, supporting $34.4 billion worth of exports and 227,000 American jobs at over 3,300 U.S. companies.

Ex-Im Bank's programs do not cost the taxpayer. The Bank is fully funded by the income it receives through its financing programs. In fact, the Bank annually provides excess receipts to the U.S. Treasury. Over the past five years, Ex-Im Bank has generated more than $2 billion for the U.S. Treasury.

The hearing today is also about how the Ex-Im Bank can help American companies be competitive in the global marketplace. The Ex-Im Bank serves a unique and important role in supporting U.S. business in their effort to increase overseas sales. The Bank helps to combat market distorting export subsidies offered by governments around the world, so American companies can compete based on quality, innovation and price, not financing. Ex-Im's financing products level the playing field for U.S. exporters when competing against foreign companies that receive assistance from their own government export credit agencies.

The Ex-Im Bank's products make it possible for American companies to compete in developing world markets, helping them secure a foothold and expand sales. Half of global economic growth is in developing world economies. Nine of the largest emerging market countries are expected to invest $3 trillion in infrastructure development over the next five years – presenting a tremendous export opportunity for U.S. companies. Ex-Im ensures American companies can secure sales in these markets by making sure financing terms are not undercut by aggressive foreign credit agencies.

It is important to consider the important role of small businesses in our economy and I look forward to hearing about how the Bank's products and services are accessible to them. The Ex-Im charter requires it to dedicate 20% of its credit exposure to serving small businesses, giving many small businesses the ability to compete for sales internationally. Currently, 87 percent of the transaction volume at the bank is for small businesses. This give small businesses the ability to compete for sales globally.

During the reauthorization process, we will seek ways for the Ex-Im Bank to better serve U.S. companies, large and small, so that they can prevail against their foreign competitors and as a result create U.S. jobs. We will also closely review the Bank's safety and soundness practices to ensure the Bank does not put the taxpayer at risk. I look forward to working with all of the Members of the subcommittee as we reauthorize the charter of the Bank.

I welcome the witnesses and look forward to their testimony.

Statement of
Karan Bhatia, Vice President & Senior Counsel, International Law & Policy
General Electric

Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
U.S. House of Representatives
March 10, 2011

Chairman Miller, Ranking Member McCarthy and distinguished members of the committee, thank you for the opportunity to appear before you today, on behalf of GE, to discuss the reauthorization of the Export-Import Bank of the United States.

Introduction

Sovereign-backed export finance has a fundamental and growing impact on international commerce and U.S. exports. In the competition for global markets, American companies and workers are increasingly competing with foreign companies armed with substantial, attractive government-backed export finance packages. Moreover, a growing number of those competitors are from emerging markets, whose governments have not signed up to the multilateral Organization for Economic Cooperation and Development (OECD) disciplines on export finance.

In this increasingly competitive world, America's principal sovereign-backed export finance institution – the U.S. Export-Import Bank ("Ex-Im") – plays a critical role in supporting American exports and jobs. GE provides a case in point. In 2010, Ex-Im helped finance $2.7 billion in GE sales to international markets, supporting more than $3.3 billion in U.S. exports – products ranging from heavy-duty gas turbines to Saudi Arabia, to aircraft engines to India, to MRI machines to Brazil and Ghana. These export sales have helped support thousands of U.S. jobs – in GE facilities from California to Wisconsin, from New York to Illinois, and from thousands of small and medium sized enterprises (SMEs) and other suppliers in every state of the union.

Ex-Im is ably led and staffed by a team of dedicated, hardworking and creative public servants. Their contributions go beyond merely supporting U.S. exports and jobs; Ex-Im in fact contributes to the U.S. Treasury, generating a surplus of several billion dollars over the past decade.

However – notwithstanding the efforts of its leadership team and staff – Ex-Im unfortunately remains among the world's least competitive export credit agencies (ECAs). Ex-Im dramatically trails other countries' ECAs in total funds authorized. For example, Canada – a country less than a tenth the size of the United States – has more than triple the amount of export financing as the U.S.; Japan more than five times; and China an estimated eleven times. Moreover, Ex-Im is forced to labor under restrictions and processes that lessen its attractiveness and discourage many U.S. companies from accessing it. Ultimately, these constraints cost American exports and jobs.

GE is fully supportive, along with other major exporters and banks, of the positions outlined by Coalition for Employment through Exports (CEE) many of which are parallel to our own.

To improve the effectiveness of the U.S. export finance system, we urge the Congress to focus on four priorities: (1) reauthorization of Ex-Im with greater lending authority and streamlined Congressional notification processes; (2) eliminating regulatory restrictions that weaken Ex-Im's competitiveness vis-à-vis other ECAs; (3) vesting Ex-Im with the mandate to defend strategic markets; and (4) improving Ex-Im's accessibility.

Recommendations

1. Reauthorize Ex-Im, with greater lending authority and streamlined Congressional notification processes.

Ex-Im's statutory authorization expires on September 30, 2011; absent reauthorization, Ex-Im will cease to operate. Moreover, under its current authorization, Ex-Im is subject to a $100 billion lending cap; with $87 billion already outstanding and a large pipeline, it will soon bump up against this cap. Its processes are also slowed through a Congressional notification requirement that has not been adjusted for inflation for many years.

Accordingly, we urge – first and foremost – that Congress fully reauthorize Ex-Im for a period of six years. In addition, we would urge that Ex-Im's total liability cap be increased from $100 billion to $200 billion. It bears emphasizing that this increase in liability authority does not mean a $100 billion increase in Government spending. (Indeed, if history holds true, greater lending authority will result in an increase in its surplus). In addition, we urge raising the statutory threshold for Congressional notification of Ex-Im deals from $100 million to $400 million and adjust for inflation.

2. Reform regulatory requirements that weaken Ex-Im's competitiveness

For U.S. exporters to be globally competitive, we need Ex-Im to be as flexible and nimble as its global competitors. To that end, we urge reform of three Ex-Im policies that diminish Ex-Im's flexibility and weaken its competitiveness with other major ECAs:

Cargo Preference Requirements. Under a long-standing requirement, any long term export (above $20 million threshold or pursuant to a direct loan) financed by Ex-Im must be transported on a U.S.-registered vessel. Congress imposed this requirement in the pre-World War II era to help build a U.S. merchant marine fleet. Both U.S. strategic requirements and the global shipping market have changed dramatically since then. Today, an extremely limited number of U.S.-flag "break bulk" carriers remain in operation, often yielding transportation costs so high as to nullify the benefits of Ex-Im financing.

Accordingly, we urge Cargo Preference Requirements should be eliminated, or, alternatively, the additional costs these requirements create should be offset by the government (e.g., under the Department of Transportation's existing Ocean Freight Differential (OFD) program).

National Content Requirements. Ex-Im, like most ECAs, limits its financing to products and services with U.S. content. However, Ex-Im's national content requirements are far more onerous and less flexible than any other ECA's, discouraging the use of Ex-Im and encouraging sourcing from other countries. Ex-Im will only support up to the lesser of (i) 85% of the value of the U.S. contract or (ii) 100% of the U.S. content in the contract. By contrast, other ECAs will finance 85% of the value of the contract if local content is at least 50% (or, in many cases, even less) of the value of the contract). Moreover, Ex-Im defines "U.S. content" very narrowly – generally excluding, for example, the value of intangible inputs and services, and disqualifying the content of U.S. Free Trade Agreement (FTA) partners.

Accordingly, we urge the revision of Ex-Im's U.S. content requirements for full financing so that they are set at the greater of (i) the average among OECD countries or (ii) 50% U.S. content. As with the EU export credit agencies, Ex-Im should automatically cover non-U.S. content for U.S. FTA partners who offer reciprocity for U.S. content under their export credit agencies. For countries which do not have ECAs (e.g. Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) countries), the U.S. should cover their content outright.

"Economic Impact Test". Ex-Im applies an "economic impact test" to all proposed transactions and often declines to finance any transaction that could aid the production of goods that could compete with a like product in the United States. This results in an expensive and cumbersome process that has been highly politicized. Moreover, to the best of our knowledge, no other major ECA imposes a similar requirement.

Accordingly, we urge that the economic impact test should be revamped to disallow only those transactions that will facilitate exports of products from companies that have been determined to be illegally dumping in the U.S. market or benefitting from an illegal countervailable subsidy.

3. Mandate Ex-Im to defend strategic markets

Globally, since the financial crisis, other governments have become far more aggressive and creative in using government-supported financing to win market share. They are deploying more resources, using more forms of financing (including tied aid and investment financing), and operating in regions of the world (such as sub-Saharan Africa), where Ex-Im has traditionally had little activity. Moreover, such foreign government financing is increasingly destined for projects in the United States.

More troublesome to U.S. companies is the fact that some of this foreign government activity – both abroad and in the U.S. domestic market – is occurring in contravention of agreed international (OECD) guidelines, distorting markets and trade flows. GE believes strongly in multilateral trade regimes (including the World Trade Organization (WTO) and OECD conventions) governing export finance, and believes that the long-term solution to these challenges is to work towards strengthening the multilateral disciplines and bring other countries into those regimes. However, to ensure that strategic global markets are not lost in the interim and to encourage non-OECD countries to sign up to multilateral regimes, we believe that Ex-Im should be mandated to defend key strategic markets.

Traditionally, Ex-Im has matched foreign ECA financing offers that are outside OECD framework only in rare situations and has refrained from financing projects in the U.S. market altogether. It has also made very sparse use of its "Tied Aid War Chest" – a program to supplement the financing of a U.S. export when there is a reasonable expectation that predatory financing will be provided by another country for a sale by a competitor of the U.S. exporter. Moreover, Ex-Im has traditionally had relatively little activity (and, indeed, is subject to policies that limit its activity) in regions of the world that may pose commercial risk, but also present both significant commercial and strategic opportunity, including portions of the Middle East and Africa.

Accordingly, we urge that Ex-Im should be directed to:

- Match financing offered by foreign governments competing abroad or in the U.S. home market, where such financing is inconsistent with the OECD Arrangement or where investment financing is being offered to win market share from U.S. competitors (predatory financing).

- Make increased use of its Tied Aid War Chest, and increase funding to the War Chest using the Bank's surplus.

- Facilitate specialized Ex-Im programs in countries or regions where the U.S. has a strategic national interest, like Iraq, Afghanistan, or Sub-Saharan Africa. To this end, Ex-Im could use its current export expansion facility, which provides up to $500 million for use in very risky markets.

- Provide enhanced technical assistance support (as permitted under the OECD Arrangement) for strategic infrastructure projects, and to use tied aid for development and demonstration projects. (This is a common practice by the EU Member States, for example).

4. Improve Ex-Im's Accessibility

Ex-Im remains under-utilized by key sectors of the U.S. economy, including SMEs, manufacturing companies that have repeated exports of smaller-value items ("flow businesses"), and services providers. There are multiple reasons for this, including Ex-Im's largely undifferentiated processes for both large and small ($10 million) transactions, its rules governing U.S. content which are oriented principally to manufacturing rather than services, and its reluctance to take less-than-dominant positions in any financing arrangement.

To facilitate access by SMEs and flow businesses and speed processing times, Ex-Im should deputize more commercial banks, community and state banks, credit unions, and non-regulated lenders to act on its behalf, while setting appropriate transaction costs and fee sharing arrangements to facilitate cooperation. Also, Ex-Im should outsource analysis/due diligence (financial, technical, legal and environmental) while retaining approval authority along the lines of the Canadian and European models.

Furthermore, we would urge that Ex-Im's content rules be revised to enable participation by service companies, including by qualifying technology company services exports regardless of where the hardware is manufactured. Ex-Im should consider following the European and Asian model of supporting 85% of the technology if the main contract is signed in the exporter's country (the U.S. in our case).

In addition, we encourage Ex-Im to undertake modest-size, "risk-sharing" stakes in large commercial lending facilities (e.g., taking 10% of a deal, where the remainder can be provided by private sector sources).

Conclusion

For the past two years, our country has faced the most damaging economic downturn since the Great Depression. As we slowly begin to recover, it is imperative that, as a country, we begin to focus on a strategy to ensure the long-term growth of our economy. Increasing our national exports is a vital part of that strategy.

We, alongside other CEE member companies, strongly support the President's National Export Initiative (NEI). As we move forward, the Export-Import Bank of the United States will play a leading role in achieving the NEI's ambitious goals, helping to create jobs, and creating long-term sustainable growth. However, these goals will be far more difficult to reach if we fail to reauthorize and modernize the Ex-Im Bank. I urge this committee and Congress to take into consideration the reforms we have proposed here today.

Thank you and I look forward to taking your questions.

Testimony of David Ickert

Air Tractor, Inc.

House Financial Services Subcommittee on International Monetary Policy and Trade

Hearing:

"The Role of the Export-Import Bank in the U.S. Competitiveness and Job Creation"

March 10, 2011

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202-293-8830

Chairman Miller, Ranking Member McCarthy and members of the committee, thank you for the opportunity to testify on ways the Export-Import Bank fosters job growth by helping U.S. companies do business in the international export market. I am David Ickert, Vice President – Finance of Air Tractor, Inc. ("Air Tractor"), of Olney, Texas. It is my pleasure to submit testimony to the Subcommittee on International Monetary Policy and Trade on the topic of "The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation."

Before addressing the specific questions of the Subcommittee, it is instructive to state some background of Air Tractor in order to understand the perspective of this testimony. Air Tractor is a small business engaged in the manufacturing and sale of agricultural airplanes and forestry fire fighting airplanes. Air Tractor has been in business since 1972 and is now 100 percent ESOP owned. We have one location – Olney, Texas and have approximately 225 employees. Olney is a small rural town located 100 miles west of Fort Worth, Texas and 200 miles east of Lubbock. The population of Olney is approximately 3,000.

In 1994, Air Tractor started exploring the possibility of finding sources of financing for our end user customers located outside of the United States. At that time, approximately 10 percent of our annual new airplane sales (units) were delivered outside of the U.S. These exports sales were either cash-in-advance or acceptable Letter of Credit. Our needs for financing were of a medium-term tenor (usually 5 years), and in many cases the end-user customer was also a small business. After much searching and research, we discovered some key partners that would help us in our pursuit of medium-term trade finance. These partners included a commercial bank and the Export-Import Bank of the United States ("Ex-Im"). Our first medium-term transaction (Medium Term Credit Insurance) with Ex-Im was in 1995 for two fire fighting planes sold to a customer in Spain. Since that time, we have completed over eighty (80) such medium-term deals through Ex-Im. For the calendar year 2010, we completed twenty (20) medium-term insured transactions with Ex-Im. During this same time period (1995 -2010), we have seen our percentage of annual new plane production (units) delivered to customers outside of the United States grow from 10 percent to a high in 2010 of 56 percent (to 14 different countries).

Describe How Your Business Uses Ex-Im Bank Financial Products.

Air Tractor has always utilized the Ex-Im Medium Term Credit Insurance product. We submit to Ex-Im an underwriting package on each of our international end-user customers requesting Medium Term Credit Insurance coverage. When Ex-Im approves Air Tractor as an insured, we sell the plane to the customer with a purchase money note payable from the customer to Air Tractor (the note is insured by Ex-Im). By way of this financing, we are able to sell planes to customers who—because of the banking situation in their countries—would not have been able to secure financing and buy the aircraft.

Additionally, during the calendar year 2010 (and continuing) Air Tractor has utilized Ex-Im's Working Capital Guarantee program to facilitate some export working capital needs.

How Did Your Company Become Aware of Ex-Im Bank and The Services It Provides? How Can Ex-Im Improve Outreach To Small Businesses?

As noted above, we began our search for international financing in 1994. During that search we were introduced to trade finance officers at a commercial bank that we still use today. Those officers introduced us and directed us to Ex-Im. Those same bankers still help guide and educate us in structuring international financing.

A variety of sources must be utilized to increase the outreach and word of Ex-Im to small business. My personal opinion is that there are many U.S. small businesses that could be exporters except for the fact that they do not know where to turn and/or the existence and services of Ex-Im. Our experience was such that during our search we came into contact with some knowledgeable and patient bankers that helped us find direction. These people were with a large regional (at that time) bank that had knowledge and experience with Ex-Im. Commercial banks would seem to be very logical and widely available sources to leverage the Ex-Im message and products. However, my experience has been that there are many banks in this country that either are not familiar with Ex-Im or only have a limited knowledge of Ex-Im and their services. Whether it be through Ex-Im, Treasury, other sources or a combination, deepening of knowledge about Ex-Im and their products in the commercial banking sector would be helpful in getting the Ex-Im message to small business.

Other sources of outreach are trade associations and export related groups. Personally, I have gained much value over the years through my involvement with the National Small Business Association (NSBA) and their affiliate, Small Business Exporters Association (SBEA). By working through such trade associations, Ex-Im could widen their reach to the small business community.

Online training, webinars and instructional commentary through the Ex-Im web site is another possible method of widening the exposure of Ex-Im to the small business community.

How Would You Describe Your Initial Contact With Ex-Im Bank? Was The Process Of Applying For Financing Difficult Or Easy? What Problems Did You Encounter When Your Company First Accessed The Bank? How Can Those Problems Be Improved?

Our initial contact was a number of years ago. Those initial applications were difficult, and the process was bureaucratic. With the passage of time, we now understand the process—which has improved over the years. If Ex-Im would identify first time applicants and 1) give them special personalized guidance during the first application and 2) follow up with all first time users (whether successful or not) to get constructive feedback on the process, improvement procedures could be identified and put in place.

When Do You Use Ex-Im Bank Services As Opposed To Private Sector Finance?

In some cases, we have no available option to obtain end-user financing except through Ex-Im. In other cases there may be a private sector alternative, but it is more involved and puts more burden on the small-business exporter. As a small business, there can be limits on how much burden it can assume. Ex-Im is in many cases the only option, and it is the preferred option.

Has Ex-Im Bank's Support Contributed To Job Growth Within Your Company? In What Way Did The Bank's Resources Help Your Company Create Or Maintain Jobs?

Absolutely, Ex-Im has contributed to the growth of Air Tractor and helped both create and maintain jobs in Olney, Texas! Ex-Im's support has allowed us to sell aircraft to customers who without that support would not have purchased our product. This is a direct contribution to our growth. On a broader basis, Ex-Im has allowed us to enter markets that have given us exposure that has lead to additional sales (without Ex-Im support needed). As an example, the Ex-Im supported sale in 1995 to a customer in Spain was our first aircraft sale in Spain. Since then we have sold approximately fifty (50) planes into the Spanish market – none requiring Ex-Im support. In our experience, Ex-Im support has both directly and indirectly helped Air Tractor increase our international sales. Without the ability to increase our export sales, we would have limited our market to the United States only or at best only a restricted amount of sales outside of the United States. By increasing our export sales, our market footprint has grown immensely. That has provided new opportunities for growth and has been a steadying factor in our overall production with some markets supporting our production when other markets for various reasons have been slower. Since 1994, our export sales percentage has increased from 10 percent to 56 percent. With 56 percent export sales in 2010, there are over 100 employees at Air Tractor in Olney, Texas that owe their jobs to exporting.

What Areas Need To Be Addressed To Optimize The Performance Of The Bank In Its Ability To Serve U.S. Business, Small And Large, To Increase U.S. Exports And Grow Jobs?

My response to this question will be focused on the small business perspective. However, part of the response speaks to both large and small. The broad (small and large) response is to maintain a continued long-term focus on increasing exports by U.S. companies. This long-term and focused approach (hopefully started by the National Export Initiative) needs to be in place to ingrain the belief and action on the part of U.S. companies to seek out international markets as part of their everyday business. From a small business viewpoint, this long-term commitment and focus are critical. Chairman Hochberg has been very good in this small business commitment and focus. Other Ex-Im administrations have not been as good. A "start and stop" process on small business focus as Ex-Im administrations change is not the best pattern to engage more small business in exporting and creating more jobs in our country. Thus, I believe and recommend that the next Ex-Im Congressional re-authorization continue to institutionalize the Ex-Im small business commitment by retaining the current authorization language as to minimum percent of small business approvals by Ex-Im, defining the key roles of small business officers at Ex-Im and other small business provisions in the current authorizations.

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

In conclusion, Air Tractor has done business with Ex-Im for over fifteen (15) years and during that time has completed over eighty (80) Medium Term Credit Insurance transactions. To date we have submitted no Medium Term claims for losses to Ex-Im. Ex-Im has received our medium-term credit premiums as income through the years and never had to pay an Air Tractor medium-term claim. That is good business for Ex-Im and has been good business for Air Tractor.

Olney, Texas is my hometown. It is a great place to live and work. However, when one thinks of a town originating export transactions, a small, west Texas town does not immediately come to mind. As I have described it before, Olney has 3 red lights and a Dairy Queen. The significance of this, if we can create jobs on Main Street, Olney, Texas—anyone can do it. We have a great potential for job creation in this country through small business exporting. A very important part of that job creation is Ex-Im.

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

TESTIMONY OF KEVIN S. LAW BEFORE THE HOUSE SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

Thank you Chairman Miller, Vice Chairman Dold, Long Island's Congresswoman Carolyn McCarthy, and the other committee members for the opportunity today to give this testimony regarding the Export-Import Bank of the United States.

My name is Kevin Law and I am the President and CEO of the Long Island Association, ("LIA"). The LIA is the largest business organization of its kind in New York State. Our membership includes thousands of businesses both large and small, which employ hundreds of thousands of employees. The LIA has been in existence for over 80 years and our mission is "to lead and unify the region in order to strengthen Long Island as a place to live, work, and do business"; a charge we take very seriously.

Long Island, like the rest of the nation, has suffered through the recent recession and has been plagued by falling home values, high unemployment and businesses closing their doors. The Long Island economy is very much a small business driven economy. Ninety percent of Long Island businesses are companies that employee twenty people or less. It is estimated that exports from Long Island are valued at over $10 billion. Increasing the export capabilities of our manufacturing and service sectors would certainly be a boost to companies exploring new markets.

The LIA supports the re-authorization of the Export Import Bank when its current authorization expires this September. The financial and technical service it offers is invaluable to companies to reach international markets. I would like to thank Fred Hochberg, Chairman and President of the Export Import Bank for helping many Long Island companies over the past couple of years.

Unfortunately, and despite the assistance from the Bank to date, many smaller companies are not aware of the Export Import Bank or the services they provide. Too often, small business owners are caught up in the day-to-day aspects of running their business to take the time to explore new opportunities to grow their businesses. They are also painfully aware that when there are government agencies willing to assist, they are overwhelmed by the paperwork necessary that is often required by these agencies because they do not have procurement professionals to assist them.

As the Committee considers the re-authorization legislation for the bank, we feel it is important for you to not only consider ways for the bank to be made more accessible to small businesses but to also streamline the application process, so more small businesses can take advantage of the opportunities to expand into international markets. Additionally, we feel, there needs to be stronger cooperation between the various federal agencies that play a role in the Export Import Bank's spheres of influence. This includes the US Department of Commerce, the Small Business Administration and the Department of State. Perhaps you can utilize the services of organizations like the LIA to help educate the business community of the numerous programs available to them by the various federal agencies administering these programs. We also think this committee should take a look at how technology might be better used for small businesses in the application process. We have seen a rapid movement towards a digital economy and the Ex-Im Bank Intranet should be used to streamline the application process for small businesses. Any efforts that make this process easier for small businesses should be one of the goals of this committee.

The Ex-Im Bank's Global Access for Small Business forums are a prime example of how to start that process. The goal of this program is to reach 5,000 small businesses across the country with twenty such forums being held this year alone. I am happy to say that we have been working closely with Congresswoman McCarthy on a forum to be held on Long Island on April 11 and we are marketing the event to our membership so they can take advantage of what the Ex-Im Bank has to offer.

The recent announcement by the Ex-Im Bank of its "Supply Chain Financing Initiative" should be a boon to thousands of small businesses that supply US based corporate operations. By supplying competitively priced working capital finance to suppliers of US exporters, this program lowers costs to these suppliers and thereby strengthens the supply chain. An additional benefit of this supply chain finance program is that it allows suppliers to get paid faster and decreases the receivables on their balance sheets. This is another tool in the tool kit that we feel could be vital to many of Long Island's small businesses and I look forward to working with the Bank to encourage eligible Long Island businesses to take advantage of this opportunity.

Another area we feel the committee should take a closer look at is military and defense items. We understand, most of Ex-Im Bank's Loan Guarantee, Direct Loan and Working Capital Guarantee programs are generally not eligible for Export Import Bank benefits. A large number of smaller businesses on Long Island are involved in the defense industry and as many of you know, Long Island is the Cradle of Aviation and has a proud history in the air and space industry. Many of the goods and services produced by the defense industry sector can have other applications and we feel their exclusion from the programs should be revisited and amended.

The last re-authorization of the Ex-Im Bank also expanded its powers for competing against the export/import banks of other countries. It was encouraging earlier this year where the US Ex-Im pursued General Electric's sale of 150 locomotives to Pakistan and made an offer designed to be competitive with China's offer. It's these kinds of actions that the US will need to take if we are to succeed on a global stage. During this year's reauthorization, I would encourage Congress to again enable the Bank to compete against the export/import banks of other countries.

The LIA and the Ex-Im Bank have similar goals in trying to create jobs and to grow the economy. To this end, I look forward to working with the Bank and bringing its valuable services to the small business members of the LIA and look forward to a productive and prosperous working relationship as we try to improve the business climate for Long Island, our State and our country.

Again, thank you Mr. Chairman, Mr. Vice Chairman and Ranking Member McCarthy, for the opportunity to provide this testimony today.

Respectfully submitted,

Kevin S. Law
President and CEO
Long Island Association

TESTIMONY OF SCOTT SCHERER, BOEING CAPITAL CORPORATION, ON THE ROLE OF THE U.S. EXPORT-IMPORT BANK IN ENSURING U.S. COMPETITIVENESS AND JOB CREATION, BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE, SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY & TRADE

2 p.m.
March 10, 2011
2128 Rayburn House Office Building

Chairman Miller, Ranking Member McCarthy, and members of the subcommittee, I am Scott Scherer, vice president of Boeing Capital Corporation, the financing arm of The Boeing Company. Thank you for the opportunity to testify today on this important topic. I have an opening statement and request that my full written testimony be placed in the record.

On behalf of Boeing's 160,000 employees, 22,000 small, medium and large U.S. suppliers to Boeing, and the 1.2 million people working throughout our domestic supply chain that help build our products, I am here to voice our strong support for the reauthorization of the Export-Import Bank of the United States. Ex-Im Bank plays a critical role in maintaining U.S. competitiveness and creating U.S. jobs – the subject of today's hearing.

At a time of great debate over the role of government in our society, Ex-Im Bank stands out as a government institution that works and that provides *real* value to our nation. The bank's export credit guarantees and other financial instruments help American companies, their workers and their suppliers compete in the global economy, and in so doing increase American exports, create and preserve export-related jobs, help stabilize our economy during periods of tight credit like the one we just experienced, and otherwise contribute to economic growth across the United States. And because the bank charges transaction fees to customers for its services, it not only is self-sustaining, but consistently earns a profit for U.S. taxpayers. Since 1992, according to the bank, Ex-Im has returned roughly $5 billion to the U.S. Treasury. It is a government program that helps *lower* the deficit – something I'm sure you don't hear all that often.

Mr. Chairman and members of the subcommittee, I will elaborate on each of these points and then make a number of recommendations for the subcommittee's consideration as you prepare legislation.

First, on the issue of global competitiveness, the bank plays a critical role. In the aerospace business, our chief competitor, Airbus, has *three* European export credit agencies supporting its sales. What's more, the competitive landscape for our industry is about to get a lot more crowded. Companies in Canada, Russia, Brazil and China are developing large commercial airplanes to compete with Boeing, and all of them have government export credit agencies to support them. In today's competitive global market, financing often is the key discriminator, and foreign governments are offering export credit to the advantage of their domestic industries. To date, the U.S. government has grappled to find a policy response, and we hope to work constructively with you to ensure fair competition. I can tell you unequivocally that without Ex-Im, Boeing and its extensive U.S. supply chain would be at a significant disadvantage in a market we conservatively estimate to be worth $3.6 trillion over the next 20 years. More than ever, we need Ex-Im to backstop U.S. industry when foreign competitors turn to their governments for financing support – to keep the playing field level and to preserve high-tech, high-paying American jobs.

Second, on the issue of U.S. exports and the jobs they support, there's no question that in today's global economy strong export performance is key to sustaining a strong, jobs-producing U.S. economy. Likewise, there's no question that Ex-Im Bank helps drive U.S. exports. In FY 2010, Ex-Im financing supported a record $34.4 billion in U.S. exports, and in calendar year 2010, Ex-Im financial guarantees supported sales of 161 Boeing commercial airplanes, roughly a third of all Boeing deliveries that year. Boeing is one of America's largest exporters of manufactured goods. The most recent Commerce Department figures show that aerospace exports support more than 770,000 U.S. jobs, and the aerospace sector every year produces a trade surplus -- $53 billion in 2010, according to the Aerospace Industries Association. Those job and trade surplus figures are the highest of any U.S. manufacturing industry.

I mentioned that Ex-Im Bank loan guarantees supported one-third of our commercial airplane deliveries last year. That was a higher percentage than we've seen historically because of abnormally tight commercial credit markets, which brings me to my next point, and that is the bank's vital role in helping to stabilize our economy in such economic conditions. Simply put, following the financial crisis, if it were not for Ex-Im Bank, the U.S. economic downturn would have been even worse than it was. Many of Boeing's customers would have struggled last year to secure affordable commercial bank financing. In response, Boeing may have had to cut production rates, lay off workers, and order fewer parts and services from its suppliers, who in turn would have had to cut their own production rates and potentially lay off their own workers. Ex-Im Bank helped stem at least some of the bleeding brought on by the financial crisis by shoring up exports in very tough economic times, just as it was designed to do.

The bank has a strong, diverse loan portfolio that presents little risk to the U.S. government and American taxpayers. That is particularly true for its portfolio of airplane loan guarantees. To date, the bank rate of default on commercial airplane loan guarantees is *de minimis*. Commercial airplanes are valuable assets that are easily moved from one region of the world to another, and they are in demand even during economic downturns – especially the newer fuel-efficient airplanes that comprise much of the bank's portfolio.

Mr. Chairman and members of the subcommittee, I now would like to turn to some of our recommendations for the subcommittee's consideration as you take up this year's reauthorization bill.

First, we recommend that you consider raising the cap on allowable financing by the bank from the current level of $100 billion. Doing so will enable Ex-Im to expand its portfolio, particularly among small businesses and high-tech service providers, one of the fastest growing sectors of the U.S. economy. Both show enormous promise for export growth and would benefit from increased Ex-Im Bank support.

Second, we recommend that you and the bank consider lowering the 85% domestic content requirement for Ex-Im loans and loan guarantees. The foreign content rule does not adequately take into account 21st Century supply chains, which are global in nature. In today's global business environment, products designed and built in the United States often have parts made elsewhere, just as products designed and built in other countries often have parts made in the United States. This is an increasingly important competitive issue for U.S. exporters because the U.S. domestic content requirement is far and away the highest such requirement among the world's export credit agencies. The next highest is Austria's 50% domestic requirement, and some nations use a "national interest" test in lieu of a fixed percentage requirement.

Third, we recommend that Ex-Im be given the resources it needs to more fully support small businesses. The bank has been working hard to increase its outreach to small companies with the potential to export, and to reduce application and approval times. But those activities are labor intensive. In short, however, small business is the backbone of our economy and a sector that holds great export promise.

Finally, we urge the subcommittee to press for resolution of a looming issue of great importance, and that is the vacancies on the bank's current board. Ex-Im must have a quorum of three board members to process transactions. Unless vacancies are filled soon, the bank will not have such a quorum come July when only the chairman will remain in office – a situation that would jeopardize a significant portion of the U.S. exports that Ex-Im expects to support this year.

In conclusion, I want to reiterate how well the bank serves the American public – helping U.S. companies large and small compete in the global economy, driving U.S. exports, creating good-paying jobs and economic growth, and doing so with a net return to U.S. taxpayers.

Boeing, the Coalition for Employment through Exports, and many other companies large and small look forward to working with the subcommittee to reauthorize the bank and make it more efficient and productive to meet the needs of current and future users. Again, thank you, Mr. Chairman, and I now would be happy to answer any questions you or other members of the subcommittee may have.

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STATEMENT FOR THE RECORD

From

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE COMMITTEE ON FINANCIAL SERVICES

March 10, 2011

Chairman Miller, Ranking Member McCarthy and Members of the Subcommittee, the Coalition for Employment through Exports (CEE) thanks you for the opportunity to provide a statement for the record on the U.S. Export-Import Bank (Ex-Im Bank) and the competitive playing field for export finance and U.S. exporters. CEE, composed of exporters, banks and trade associations, was founded over 25 years ago for the purpose of promoting competitive U.S. exports and the jobs that make those exports possible. We believe in a strong, responsive, and flexible Ex-Im Bank that enables U.S. exporters to fully compete on a level playing field with the export credit agencies (ECAs) of other countries. Such an Ex-Im would best be able to support U.S. jobs, both manufacturing and otherwise, and accelerate the recovery of the U.S. economy.

Ex-Im Bank, the Financial Crisis, and On-going Recovery

During the financial crisis, Ex-Im Bank responded by taking critical steps to compensate for the collapse in private export financing. In both 2009 and 2010, the Bank dramatically increased its transaction volume, authorizing more than $21 billion in support of U.S. exports in 2009 and $25 Billion in 2010, up from $14 billion in 2008. It also set a record for financing $4.36 billion for small business exports for 2009 and $5 billion in 2010.

Ex-Im Bank also developed new policies and programs to address the needs of exporters impacted by the credit squeeze, including a "take-out" option for banks, various financing facilities, streamlined environmental and small business application processing, and the recently announced supply chain financing. Chairman Hochberg and the entire staff at the Bank should be commended for their excellent work responding to the crisis to support so many exports and American jobs.

But with an economy whose growth is heavily dependent on increased exports, a fully competitive Ex-Im Bank must play a far greater role in supporting U.S. exports than it does. There is the potential for US goods and services companies, both large and small, to expand into more international markets and thus contribute more to the recovery of the U.S. economy. These companies will need the same export financing support that their foreign competitors receive.

The Current Competitive Playing Field

The recent financial crisis accelerated a trend which had already been developing around the world: the rapid growth in the importance, flexibility and size of ECAs as foreign governments greatly expanded their mission and resources to enhance the competitiveness of their country's businesses to support the growth of their economies. Ex-Im Bank has not been able to keep up in terms of resources or programmatic flexibility and is also subject to restrictions - some statutory and some based on Bank policy - that severely limit use of the Bank by U.S. exporters.

International competition is now so hard fought that the financing terms offered by ECAs are often the decisive factor in determining whether a U.S. company prevails over an international competitor. Foreign ECAs – both within and outside the OECD Arrangement – too often are better able to offer flexible financing to the detriment of American exporters. The Bank must be given the tools and flexibility it needs to increase its competitiveness if it is to enable U.S. firms to compete on a level playing field.

Overall, ECAs support approximately 10% of all global trade yet Ex-Im Bank supports less than 1% of U.S. exports with commitments in 2010 of approximately $25 billion. In contrast, the Canadian ECA, Export Development Canada (EDC), committed $82 billion last year in the course of supporting 7-8% of Canadian exports and 5% of Canada's GDP. Likewise, the Japanese export credit agencies committed last year well over $100 billion in support of their exporters; the Chinese over $300 billion.

A critical reason for this larger support is that most other ECAs have moved over the past decade to a "national interest" standard in which their objective is to support exports, whatever their nature, which maximize the value added to their domestic economy. These ECAs are strategic in what they support, are proactive on behalf of their exporters and look at themselves as partners with their business community to support all aspects of their national economy. In this context, they not only look at the level of content manufactured domestically, but also take into account other value important to their economy, including services, and the high value jobs created by services exports.

For example, Canada's EDC was "established for the purposes of supporting and developing, directly or indirectly...Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities." The Finnish export credit agency, Finnvera, describes its mandate as supporting "Value Added to the Finnish economy" and recognizes that in determining the Finnish national interest in supporting the competitiveness of Finnish exporters "more and more important are services and 'high value added jobs': R&D, sales and marketing, services, project management, general management." These two ECAs presented their mandates at a recent CEE conference and discussed how they look at everything an export can bring to their national economy as critical to growth of their economies.

Other ECAs also operate with more flexible content rules leaving the Bank's content rules far and away the most stringent. Austria has the next highest content rules at 50%, Japan is at 30%, and the British are at 20%. Within the EU, the content rule for France (20% minimum), Germany and Italy (50% minimum) is subject to a willingness to negotiate on a case-by-case basis such that they are trending towards a national interest standard that provides them with the flexibility but to drop their content requirement down to 30% to ensure the export goes forward. For a variety of reason, Ex-Im is unable to take this broad view.

Making Ex-Im Bank Competitive – Content Adjustment

In contrast to all other ECAs, Ex-Im Bank's eligibility requirement of 85% U.S. manufactured content is unduly narrow and severely limits the exports it can support and thus the jobs it can generate. The eligibility requirement suffers from two significant flaws:

First, because the policy determines eligibility based only on a narrow part of manufacturing, it ignores all value to the U.S. economy generated by high-tech and other services. It also ignores the high value U.S. jobs in R&D, supply chain management, software design engineering, business development and marketing, IP support, branding, and profit. Yet, in an economy based increasingly on innovation, it makes no sense for exports based on those jobs and generating more of those jobs to not be recognized and supported by Ex-Im Bank. This is even clearer when one recognizes that the services sector is the fastest growing part of the economy and there is currently a trade surplus in services.

For example, the IT sector sees huge export opportunities in emerging market counties which seek to develop and upgrade their government IT systems. Yet our world class technology companies are at a competitive disadvantage as they are unable to bring ECA backed financing due to the Bank's stringent content rules. This represents a loss billions of exports dollars each year as well as the loss of future business. Ex-Im should be following the lead of other ECAs which routinely support 85% of a services export if the main services contract is signed with a domestic company.

The second flaw is that it fails to account for the present day reality of global supply chains which exporters need to maintain their international competitiveness. As a consequence, the U.S. content levels of the current product lines of major exporters are below the 85% threshold required for Ex-Im support. Many of these product lines, which are assembled in US factories, fall between 65% and 82-83% US content yet the Bank is still unable to provide support.

As a consequence, U.S. exporters have to resort to co-financing, where available, obtain partial support from the Bank with a resulting loss in competitiveness, rely on the flexibility of other ECAs together, or not pursue opportunities which would otherwise be available to them. Co-financing is possible if the non-U.S. content comes primarily from a single other country but if parts are sourced from multiple countries this is less likely. If only partial support from Ex-Im is available, companies must scramble to find coverage for the remaining amount which means a more expensive offer and the end result that the competitiveness of that financing may jeopardize the overall sale.

By reducing the required content level from the stringent current level to a more inclusive one, a majority of exporter product lines would immediately become eligible for full Ex-Im support. For one major U.S. exporter such a change would potentially increase the company's export volume by as much as 40%, an increase of approximately $1 billion in exports on annual basis. Another would finally be able to pursue larger, long term transactions they presently cannot pursue because they cannot access Ex-Im Bank support, with the result of hundreds of millions of dollars of additional exports.

CEE recognizes that a reduction in the required level of manufactured content has historically been controversial. However, we feel that the current level no longer reflects the reality of international competition and effectively discourages both export growth and job generation that will support the manufacturing sector and expansion of the US economy. While Ex-Im Bank's eligibility requirement undoubtedly made sense when put into effect in 1987, the current competitive reality is such that it hinders U.S. competitiveness.

Other Competitive Constraints

While it is clear that the eligibility requirement represents the greatest impediment to Ex-Im Bank competitiveness, there are other requirements including several grounded in Congressional statutes that further constrain exporters.

One such issue is the MARAD cargo preference requirement embodied in Public Resolution 17, which provides that exporters using the medium and long term financing programs must use U.S. flagged vessels. This requirement is particularly burdensome for users of break bulk cargo ships since there are relatively few such ships registered in the U.S. For these exporters, the cargo preference results in substantial increased shipping costs which their buyers are increasingly unwilling to pay and major delivery uncertainties. In a transaction now at Ex-Im Bank, the cost of U.S. shipping was five times the cost of non-U.S. shipping. Because there are relatively few of these vessels, the exporter is also subject to major scheduling difficulties which can readily undermine its relationship with the client.

While we understand the Congressional support for the maritime industry, we urge Congress to consider a solution such as inclusion of the cargo preference under the Department of Transportation's existing Ocean Freight Differential (OFD) Program. For certain exporters which must ship large items, this requirement has had a devastating impact on exporter competitiveness and their relationship with their buyers.

A second major constraint for exporters is the "Economic Impact" test. The intent underlying the economic impact test is to ensure that Ex-Im Bank transactions do not create increased competition for U.S. companies that result in lost jobs within a particular sector. Most of the economic sectors subject to economic impact analysis are older, less competitive and vulnerable. The difficulty with the underlying concept is that it is fundamentally counterproductive. It erodes the competitiveness of healthy companies and exporters around the vulnerable group and prevents them from utilizing the competitive financing that only Ex-Im Bank can bring to a transaction that keeps them strong. Denying these companies access to ECA financing when such financing is integral to succeeding internationally is simply destructive for their competitiveness. CEE is aware of several situations where the result of the economic impact test was ultimately for the company which was denied access to move to offshore suppliers which could be supported by offshore financing.

New Competitive Challenges for Ex-Im Bank

The appearance of strong, active ECAs that do not comply with the terms of the OECD Arrangement represents a growing challenge for Ex-Im Bank's overall competitiveness. China, India, and Brazil have amply funded their own ECAs that are active particularly in the development of South-South trade relations. These governments are using their ECAs to penetrate critical markets in areas such as oil & gas, renewable energy, and natural resources extraction. Many OECD-compliant ECAs, including the US, simply are unable to compete with the below market and concessionary financing options provided by China and other governments. CEE represents the U.S. business community at the OECD and has encouraged the organization to do as much as possible to bring these ECAs within the OECD arrangement. Until that occurs, Congress should reinvigorate the Tied Aid War chest to help Ex-Im Bank match these concessional financing transactions.

A second new competitive challenge for the Bank is the appearance of ECA support in projects or export transactions within the United States. Because Ex-Im bank has historically supported U.S. exporters only outside of the U.S., this situation raises the prospect of U.S. firms bidding on a project in the United States not being able to compete because of the presence of ECA support from outside of the U.S. We have already seen examples of this in green energy projects; the Japanese export credit agency, JBIC, recently announced it was prepared to support its firms on projects in the U.S. including the Florida high speed rail project.

SMALL BUSINESS - CEE Supplier study

While most of CEE's members are large, global companies, we recognize the critical importance of Ex-Im Bank financing for small business exporters and applaud the Bank's efforts at expanding outreach. The Bank is essential for small businesses wary of selling overseas for fear of not being paid and helps to mitigate these concerns. Ex-Im has been extremely focused on increasing outreach, reducing application processing and approval times, and developing new initiatives to support small businesses, such as the supply chain financing program. This program will ensure payment to the subcontractor by the Bank at the time his work is completed rather than having to wait until the finished product is exported and the ultimate buyer is paid. This program is critical in supporting small businesses that are a party of the larger global supply chain for larger transactions.

CEE has now completed its 2011 "supplier study" that identify the subcontractors or "hidden exporters" involved in large Ex-Im Bank transactions. In our study five major exporters have identified over 31,000 SME suppliers which are involved in providing goods and services to the named exporters. We will be providing copies of this study to the Members of the Financial Services Committee

THE BANK IS SELF-SUSTAINING

We would like to underscore the fact that Ex-Im Bank support of a greater number of transactions does not represent a burden on the federal budget because the agency is self-sustaining. The Bank generates a revenue stream from fees and interest that enables to repay its appropriations outlay, adding to its loan loss reserve, and the returning remaining funds to the U.S. Treasury. In FY 2009, Ex-Im Bank returned to the Treasury $135.6 million after repaying its budgetary offsets, funding its loan-loss reserve and retaining $75 million as a reserve. In fact, since the inception of FCRA, the Bank has returned to the

U.S. Treasury approximately $5 billion. As the Bank is self-sustaining and contributes to reducing the debt, it is a win-win government program.

CONCLUSION

CEE would be remiss if we did not mention the pressing manner of Board vacancies at the Bank. Ex-Im Bank is governed by a five person Board of Directors which consists of a Chair, Vice Chair and three Members, and is bi-partisan in nature.. To be able to conduct new business and approve transactions, the Bank must have a quorum of three Members present. There are presently two vacancies, the Vice Chair and one Board seat. As of January 20th 2011 the terms of the two current Board members expired. Because of an automatic six month extension provided in the Charter , they may continue in their positions until July 20, 2011 at which time they must leave, leaving the Bank without a quorum to operate unless new Board members are nominated by the Administration and confirmed by the Senate. If the Bank has no quorum present on the Board, the Bank will effectively shut down, with disastrous consequences for the business community. So we strongly urge the Committee to urge the Administration to nominate and the Senate to confirm the four open - two Republican and two Democratic -- positions as quickly as possible so as to keep the Bank operating.

Ex-Im Bank is the most vital asset of the government to support the National Export Initiative and to ensure the Administration's goal of doubling exports over the next few years. It is critical that it be fully competitive with the export credit agencies of our competitors and enable U.S. exporters to compete on a level playing field. We pledge to work with Congress to assist in the process of addressing the competitive issues the Bank currently faces. To be clear, Ex-Im Bank is well managed and well led and we encourage Congress to provide the agency with the tools and flexibility to support and assist exporters from all sectors of the economy.

Statement for the Record
Submitted to the Subcommittee on International Monetary Policy
House Committee on Financial Services

March 9, 2011

The National Association of Manufacturers (NAM) appreciates the opportunity to submit a statement for the record to the House Financial Services Subcommittee on International Monetary Policy as part of its hearing on "The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation."

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries and small and medium manufacturers. The ability of U.S. companies to export has always been a critical issue for the NAM. The NAM was founded in 1895 by a group of U.S. manufacturers seeking foreign markets for their products. Since then, NAM policies have supported the development and maintenance of a robust manufacturing sector that remains globally competitive.

The United States needs to achieve the President's goal of doubling exports in five years. Jobs depend on that, as most forecasts indicate that domestic demand in the United States will grow less rapidly than productivity – meaning fewer workers will be needed. If manufacturing jobs are to increase, American companies must be able to increase their sales to the more rapidly-growing markets overseas – particularly in Asia.

The United States is falling behind. As Exhibit 1 at the end of our statement shows, U.S. manufactured goods are losing share of world markets. In 2000 the U.S. share of global exports of manufactured goods was 13.8 percent. By 2009 that had fallen to 8.6 percent. If that share loss had not occurred, U.S. exports in 2009 would have been $435 billion higher.

Other countries do a better job of obtaining market access for their exporters and provide more support to them. While the United States is still the world's largest manufacturer, we lack the export orientation of our major competitors. As Exhibit 2 at the end of this statement shows, the United States exports less than half as much of its manufacturing output as the global average. And in comparing the United States with the 15 major manufacturing economies, we rank 13th.

Export financing is an important part of being globally competitive and takes on renewed importance in today's turbulent financial environment. Exporters have more difficulty in obtaining credit and working capital and overseas customers are financially stretched – placing a higher priority on exporters who can provide better financial terms.

Among the various steps the U.S. government can take to expand exports, boosting exporter support from the Export-Import Bank (Ex-Im) should rank near the top – because not only is it effective in enhancing U.S. manufacturing competitiveness, it does so at no cost to the taxpayer. Ex-Im is "self-sustaining", no longer requiring annual funds from the Congress. The bank makes money! Since 1992, Ex-Im has returned over $5 billion in revenues to the U.S. Treasury through its transaction fees to customers. This is a no-cost stimulus measure that actually generates revenue for the U.S. government.

The playing field for export financing is tilted against U.S. companies, as Ex-Im currently operates at a scale far below major U.S. competitors. In 2010, Ex-Im provided $24 billion in loans and guarantees, while Export Development Canada (EDC) financed $80 billion and Japan's export credit agencies financed close to $140 billion. Additionally, the Ex-Im Bank is capped at supporting a total portfolio of $100 billion – less than Japan's agency supports every year.

Among NAM members, large exporters report that Ex-Im's limited ability to provide financing is a major factor hampering their ability to compete for the important capital goods market globally.

Ex-Im is also saddled with non-export objectives its competitors do not face. Recently, financing for U.S. earthmoving equipment for an Indian coal mine was initially rejected citing the Administration's desire not to promote the use of coal for electric power. Fortunately, the decision was reversed because the net result would have been a $600 million loss and over a thousand American jobs – without any effect on the environment, as there were several foreign producers of the equipment from whom the mine owners could purchase the equipment.

The NAM's smaller exporters appreciate the Bank's interest in working more closely with smaller firms. However they still report that their access to Ex-Im's products and services is limited because many banks do not want to manage Ex-Im's process and paperwork for smaller deals, claiming that it is just not profitable for them to do so.

Many of Ex-Im's provisions that impair exports are congressionally-mandated, and the Administration and Congress need to recognize these policies do not work in today's highly competitive global economy. In addition, increased use of the "tied aid war chest" to counter foreign subsidized financing is needed. The infrequent use of this funding puts U.S. firms at a significant disadvantage in emerging markets. Additionally, as new competitors enter the large civil aircraft market, it is imperative they join traditional exporters in adhering to the Home Market Rule to ensure a level playing field. In the absence of an effective Home Market Rule, the USG should develop a policy response to address these challenges. Another critical issue is the absence of Bank directors and the need for the Congress to press the Administration to accelerate the nomination process.

In order to increase U.S. competitiveness through enhanced export financing, an essential step is to double or triple the financing cap of $100 billion. If Ex-Im's overall resources were tripled, providing an additional $40 billion in loans and guarantees annually (which would be lower than Canada), and Ex-Im processes are streamlined, U.S. exports could be nearly $50 billion higher.[1]

We stand ready to work with the Subcommittee to enhance U.S. manufacturers' competitiveness by increased access to the products and services offered by the Export-Import Bank.

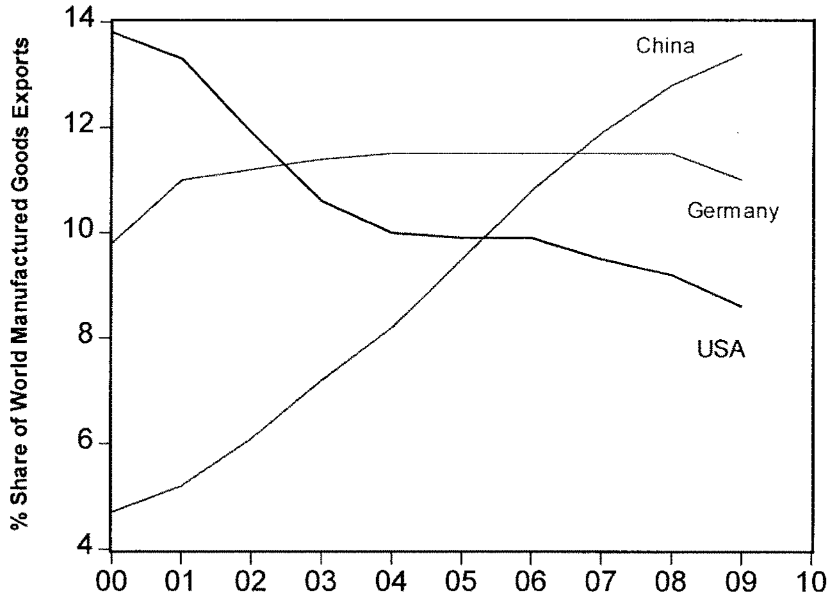
Sincerely,

Franklin J. Vargo
Vice President, International Economic Affairs

[1] Because ExIm does not finance more than 85 percent of a transaction, $40 billion of additional resources actually support nearly $50 billion of added exports.

EXHIBIT 1

UNITED STATES LOSING SHARE OF WORLD EXPORTS OF MANUFACTURED GOODS



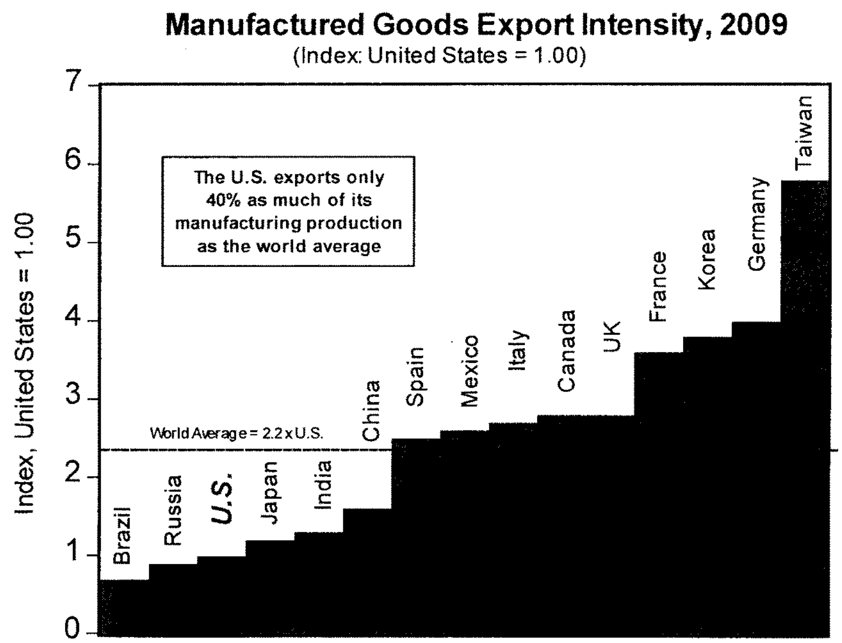
The 5.2% loss in market share from 2000 to 2009 cost U.S. exports $435 billion in 2009

Source: United Nations Committee on Trade and Development (UNCTAD)

NATIONAL ASSOCIATION OF MANUFACTURERS

EXHIBIT 2

The United States Exports Less Than Half as Much of its Manufactured Goods Production as the Rest of the World



The United States ranks 13th out the top 15 manufacturing economies in terms of the proportion of manufacturing production exported.

Source: United Nations Database; UNCTAD

Statement of

USA MARITIME

Before the

U.S. House of Representatives

Committee on Financial Services

Subcommittee on International Monetary Policy

Hearing on

The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation

March 10, 2011

Statement of

USA MARITIME

The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation

March 10, 2011

USA Maritime, a coalition of ship owning companies, maritime labor organizations and maritime trade associations, strongly supports the re-chartering of the Export-Import Bank of the United States. The continued vitality of the Bank is not only important to the promotion of U.S. exports, but is also essential to supporting a fleet of U.S-flag ships that are critical to U.S. national security.

Cargo Preference Background

The term "cargo preference" refers generally to statutory requirements which mandate that a certain percentage of U.S. Government-impelled ocean cargoes be carried on U.S. registered vessels (referred to as "U.S.-flag" vessels) for the purpose of promoting a sealift capability sufficient to meet the Nation's wartime and foreign policy objectives. The United States has had cargo preference requirements since at least 1904.

Cargo preference rests on the common sense idea that the U.S. Government should reserve a portion of the ocean cargo it generates, either directly or indirectly, to U.S. citizens, just as it generally makes its other purchases within the United States. U.S.-flag vessels fly the American flag, are owned by American companies and employ civilian American officers and crews.

Cargo preference is a highly cost efficient way to support a privately owned U.S.-flag commercial fleet. Because the goods will be shipped regardless of which ship carries them, and therefore the cost will be incurred regardless, requiring that some of the cargoes be shipped on U.S.-flag vessels leverages that basic transportation expense to provide other benefits to the Nation at a fraction of the cost of direct purchase. In fact, a July 2009 study for the U.S. Maritime Administration determined that it would cost approximately $13 billion in capital cost just to duplicate a portion of the commercial sealift capability provided by the commercial fleet of U.S.-flag vessels. Even when the U.S.-flag transportation costs more, it is offset by the direct purchases made by U.S. ship owners and crews throughout the United States and the Federal, state and local taxes paid by ship owners and their crews.

Cargo Preference and National Security

The maintenance of a strong privately owned U.S.-flag merchant marine is an essential part of our Nation's national security strategy. According National Security Directive 28, which was signed by President Bush in 1989, and which still governs sealift policy:

> Sealift is essential both to executing this country's forward defense strategy and to maintaining a wartime economy. The United States' national sealift objective is to ensure that sufficient military and civil maritime resources will be available to meet defense deployment, and essential economic requirements in support of our national security strategy.

This policy remains the same today. The Department of the Navy's fiscal year 2012 budget request provides that:

> This budget supports maintaining a robust strategic sealift capability to rapidly concentrate and sustain forces and to enable joint and/or combined campaigns. This capability relies on maintaining a strong U.S. commercial maritime transportation industry and its critical intermodal assets.

The cargo preference laws are essential to maintaining a commercial U.S. –flag merchant marine. Virtually every privately owned U.S.-flag vessel engaged in the foreign trade depends to some degree on cargo preference to remain economically viable. Indeed, absent cargo preference, it is no exaggeration at all to say that the U.S.-flag fleet in foreign commerce would disappear and the U.S. Government would have to duplicate that sealift capability at enormous expense with government-owned vessels.

The fleet of privately owned U.S.-flag vessels supported by cargo preference laws has been instrumental to the supply and support of our troops abroad. The privately owned U.S. merchant fleet has transported over 90 percent of the equipment and supplies used in the conflicts in Iraq and Afghanistan at a fraction of the cost of other alternatives.

The fleet of privately owned U.S.-flag vessels also employs the pool of trained U.S. citizen merchant mariners essential to support the U.S. Government's sealift objectives. The U.S. Government owns a fleet of many vessels in inactive and active status which cannot be mobilized or operated without that pool of mariners employed by the privately owned U.S.-flag fleet.

U.S. Export-Import Bank Re-Chartering

USA Maritime strongly supports the re-chartering of Ex-Im Bank and the continued maintenance of the existing U.S. content and cargo preference requirements.

The cargo preference requirements applicable to Ex-Im Bank are contained primarily in Public Resolution 17, codified at 46 USC § 55304. That statute, which has been in place since 1934, empowers the U.S. Department of Transportation (delegated to the U.S. Maritime Administration or MARAD) to waive the U.S.-flag reservation when U.S.-flag vessels "are not available in sufficient number, in sufficient tonnage capacity, on necessary schedules, or at reasonable rates."

In recent years, U.S. exports have prospered under Ex-Im Bank programs. Ex-Im Bank posted its second consecutive record breaking year in fiscal year 2010 supporting the export of goods and services valued at about $35 billion.

Ex-Im Bank's efforts have successfully promoted American exports and have also successfully promoted U.S. jobs on the many U.S.-flag vessels that have transported cargoes for projects where the financing was guaranteed by the Bank. These shipboard jobs are just as important to the well being of the U.S. economy as on-shore manufacturing and service jobs covered by Ex-Im Bank's U.S. content rules.

This is a "win-win" situation for the U.S. economy where U.S. jobs are created throughout the supply chain. As stated by President Reagan in 1981 –

> The maritime industry has been a key contributor to our economic strength and security since our Nation was founded. Its continued growth and prosperity is necessary for the economic renewal we all seek.

Those words are just a true today as the day they first appeared. Not to apply cargo preference would have potentially devastating consequences beginning with the loss of the U.S.-flag fleet engaged in foreign trade.

It is important to remember that the cargo preference requirements cannot adversely affect the shipment of goods if properly administered. Under current policies and procedures administered by MARAD, cargo preference generally apply only when a suitable U.S.-flag ship is available and at a reasonable rate. Moreover, MARAD has worked with the export community to help ensure that there is no disruption to the export of Ex-Im Bank financed cargoes when suitable U.S.-flag service is not available or at reasonable rates.

USA Maritime pledges that it will continue to cooperate with any effort to improve the administration of the cargo preference requirements applicable to Ex-Im Bank financings. As indicated in a report of the Office of Inspector General of The Export-Import Bank of the United States issued September 30, 2009, there is room for improvement in the way Ex-Im Bank administers cargo requirements. The members of USA Maritime would be pleased to work with the Bank and MARAD to implement the OIG's recommendations.

Conclusion

USA Maritime strongly believes that the U.S. Congress should move expeditiously to re-charter the U.S. Export-Import Bank for five additional years and preserve the cargo preference requirements in that re-chartering process.

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Members of USA Maritime –

- America Cargo Transport Corp.
- American Maritime Congress
- American Maritime Officers (AMO)
- American Maritime Officers Service (AMOS)
- American Roll-on Roll-off Carrier LLC
- APL Ltd.
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