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ECONOMIC IMPACT ISSUES IN EXPORT-IMPORT BANK REAUTHORIZATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL TRADE AND FINANCE

OF THE

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

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

THE REAUTHORIZATION OF THE U.S. EXPORT-IMPORT BANK, FOCUSING ON WAYS TO IMPROVE THE BANK'S ECONOMIC IMPACT PROCEDURES

MARCH 8 AND MARCH 29, 2006

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C O N T E N T S

WEDNESDAY, MARCH 8, 2006

WITNESSES

Additional Material Supplied for the Record

WEDNESDAY, MARCH 29, 2006

WITNESSES

Additional Material Supplied for the Record

REAUTHORIZATION OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

WEDNESDAY, MARCH 8, 2006

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

The Subcommittee met at 10:03 a.m., in room 538, Dirksen Senate Office Building, Senator Mike Crapo (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. This hearing will come to order. The Subcommittee on International Trade and Finance meets here today to discuss the reauthorization of the Export-Import Bank. The Export-Import Bank is operated under a renewable charter that expires on September 30, 2006. As the Subcommittee with jurisdiction over the Ex-Im Bank, this hearing is the first step in that important reauthorization process.

The Ex-Im Bank was established in 1934 as the official Export Credit Agency of the United States and it helps the U.S. companies, small and large, by providing loans, guarantees, and insurance to finance the sale of U.S. exports.

Last year, Ex-Im Bank supported close to $18 billion in U.S. export sales and these exports include airplanes, tractors, medical equipment, and agricultural equipment, to name just a few.

There are three issues which are important to our reauthorization process, among others, that I intend to explore with our witnesses today. One, why has not the Bank met it is 20 percent small business mandate and what steps are necessary to fix this? Are additional steps necessary? Two, what are the issues surrounding implementation of the economic impact procedures? And what can be done to improve that process? And three, are the principles, process, and standards governing the use of tied aid credit funds appropriate?

I am sure there are going to be other issues and I do not want to discourage our panelists from raising issues that they think we need to address, but those are three that I am aware of that I am sure that we need to address.

For our first panel today, we welcome James H. Lambright, the Acting Chairman and President of the Export-Import Bank. President Bush recently nominated James Lambright to be Chairman and President of the Import Bank and I cannot think of a better choice. I am hopeful that we can expedite your nomination and I am looking forward to getting that process concluded, as well. James Lambright's experience and expertise will be a great help to this Bank and to the Committee as we go forward.

Our second panel today includes Mr. Gerald Rama, Senior Vice President and Deputy Group Head of Global PNC Bank; Mr. Al Merritt, the President of MD International, Inc.; and Mr. John Matthews, the Managing Director of Boeing Capital Corporation. We welcome all of you here with us today.

I hope that you have all gotten the instructions, and I try to run kind of a tight ship here, and that is that you are asked to keep your oral presentation to 5 minutes. There is a clock in front of you and right up here, as well, that will turn yellow with one minute left and turn red when your time is up. And I ask you that you try to keep your remarks to the 5 minutes. It is always tough. I know for me that I cannot exactly tell when 5 minutes is up. It seems to go faster when I am talking.

So please keep your eye on that so we can have time for give and take during our exchange. And if there is something that you did not get to say that you really wanted to, do not worry, there will be plenty of questions and discussion really between us so that you can get your points in.

Why don't we proceed then and we will start out with you, Mr. Chairman. Please proceed.

STATEMENT OF JAMES H. LAMBRIGHT ACTING CHAIRMAN AND PRESIDENT, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. LAMBRIGHT. Thank you very much, Mr. Chairman.

I am pleased to be here today to testify on the 2006 reauthorization of the Export-Import Bank of the United States.

The mandate of the Bank, as expressed in our charter is to create and sustain U.S. jobs by supporting U.S. exports that otherwise would not go forward, either because of use of government supported competition or because the private sector is unwilling or unable to assume that risk. We do this through loans, guarantees and insurance. That mandate remains at the core of why the Bank exists and why it should be reauthorized.

We are requesting an extension of this charter for 5 years to September 30, 2011. We are also requesting that our existing authority to approve dual-use transactions, as well as the life of the sub-Saharan African Advisory Committee be extended to that same date. Except for these changes, we at Ex-Im Bank believe that the current charter language provides the institution with sufficient powers and flexibility to meet the challenges of the next 5 years.

Our charter provides guidance as to how to meet our mandate. We then must set our course by those beacons, one representing the aggressive support we provide workers and exporters, and the other representing responsible stewardship of taxpayer dollars.

Since our 2000 reauthorization, we have authorized over $47 billion in financing support of an estimated $63 billion in U.S. exports. Some of those have been big-ticket items, such as aircraft and power generation equipment, but over 80 percent of those transactions have been made available to directly support small business exports.

For fiscal year 2005, every taxpayer dollar invested in the Bank's program and administrative budget has yielded financing support of over $50 in exports.

Since I was appointed Acting President and Chairman about 8 months ago, no topic has received more attention at Ex-Im Bank than small business. We have worked closely with Congress and small business representatives on a number of changes in this area, including the claims process, a new division for small business outreach, small business specialists designated in each division and expanding our online capabilities.

We have already laid a strong foundation for growing our small business program. In fiscal year 2005, Ex-Im authorized 47 percent more in dollar volume than in fiscal year 2002 and 21 percent more in terms of transactions.

Another focus of the Bank has been economic impact. Through the economic impact process, the Bank seeks to determine whether a transaction under consideration will adversely affect U.S. production and employment or result in the manufacture of a good subject to specified trade measures.

In analyzing these cases, Ex-Im Bank must balance the benefits associated with the U.S. export against the long-range implications of increased foreign production. In recent years, economic impact decisions have affected Ex-Im Bank financing support for many exports, including steel-making equipment, glassmaking equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment and others. The inescapable responsibility of having to choose the interests of one set of U.S. workers over another makes these the most challenging cases the Bank must assess.

In looking to the future, industrialized countries not part of the OECD such as Brazil, India, and China are emerging as significant exporters of capital goods. We have to decide what Ex-Im Bank's response should be as those governments provide aggressive financing. There is no more fundamental mandate than leveling the playing field for our exporters and keeping their jobs here in the United States. I have every confidence that Ex-Im Bank will continue to serve American workers and preserve American jobs for years to come.

I look forward, Mr. Chairman, to working with you on this during the Bank's reauthorization process and I would be happy to take any questions.

Thank you.

Senator CRAPO. Thank you very much, Mr. Lambright.

Let us start out on the small business issue. Basically, I appreciated your statement that although the Bank is making progress, there is room for improvement on the small business front. I also applaud for recently establishing the Ex-Im Small Business Committee that I understand reports directly to you, as the President and the Chairman.

Do you feel that more changes are needed? And should Congress direct the Bank to delegate more medium-term financing authority to commercial banks and export financial institutions? I have been told that SBA and OPIC have been successful in this delegation. And I am just curious as to whether you feel that we have adequate procedures and processes in place or whether we need to do something in addition, from either your perspective or ours here?

Mr. LAMBRIGHT. In terms of advancing the needs of small businesses, there is a lot that we have done in the last few months. Ex-Im Bank is demand driven and our charter directs us not to compete with the private sector. And so we have never turned down a small business transaction for budget reasons. What we are doing right now then is focusing on increasing awareness within the small business community so that they know that our programs are available.

You mentioned the Small Business Committee that we also developed recently to focus explicitly on outreach and providing more awareness and education in the small business community. And the Small Business Committee will serve a number of needs of small businesses. We have designated specialists in each business unit so that small businesses see familiar faces when they come to the Bank and they are dealing with people sensitive to the needs of small businesses.

As you mentioned, the Committee reports directly to me, as does the new Senior Vice President for Small Business. So there is a lot that we are doing in terms of future changes. I would like to see how these changes play out in reaching small businesses and boosting demand.

You mentioned medium-term delegated authority as a particular mechanism, and that is something that I would be happy to explore with you. We do use delegated authority in other programs, particularly those used by small businesses and the medium-term program is another place that we can explore that.

Senator CRAPO. I have been noticing, I was looking at the statistics. The goal is, I guess, the lending mandate is now 20 percent. In the last 3 years, we have hit, if I am reading this chart right, 19.8, 16.9, and 19.1 percent, respectively, which means we are getting close. We are in the ballpark.

I did not fail to notice that you indicated that you have not rejected a small business loan for budget reasons. That seems to imply to me that Congress has set a pretty accurate target. You are getting close to it.

If we are not, on a budgetary basis, rejecting loans it may suggest that we allow you to continue with the processes that you are using.

Mr. LAMBRIGHT. I would appreciate the opportunity for the Bank to continue along that path. The 20 percent measure was raised from 10 percent in the last rechartering. And while we since then have always been comfortably above the 10 percent, we have been stretching and not meeting the 20 percent. As you note, the number has been knocking around just below 20 percent in the last few years. And I think that the measures that we are taking now to increase outreach and improve some of our systems such as roll out an online application system that will make it easier for small businesses to work with the Bank. We hope that it would reach and even exceed 20 percent.

I do not look at 20 percent as the end of the process. I would like to do as much as we can for small business. But I also do not think the 20 percent is the only measure against which to think about the Bank's performance. Since rechartering in 2002, each fiscal year we have shown a steady improvement in the amount of dollars that we make available for small businesses, as well as the number of transactions that serve small business. So each year we are doing more for small business and I would like to continue doing that.

Senator CRAPO. Thank you very much.

I appreciate your focus on this, and we will look forward to watching how it proceeds and working with you on it.

Let us move to the economic impact process. The last reauthorization changed the economic impact procedures to include the effect of outstanding trade orders, preliminary injury determinations, and Section 201 investigations before determining the Bank's financing of exports. This was an attempt to ensure that the Bank support for transactions not only helps U.S. exporters but also does not negatively impact domestic companies.

The current system still has problems and tensions between the companies on both sides of the issue. It is my intention to hold a future hearing on this specific topic. But although the vast majority of loan guarantees before the Bank should not be slowed down, some of the larger and more controversial loan guarantees do need to be better vetted, in my opinion. Otherwise groups that believe they will be harmed by the loan guarantee start coming to Congress and asking us for intervention. We certainly would rather have you keep it all on your plate if we possibly can.

To me a better approach than having it work that way would be to establish a system or a process which is fair and perceived to be fair by everybody, so that the facts are all well-presented to the board and they can act accordingly.

I guess my first question is do you think that there are changes that are necessary or could be helpful in accomplishing that?

Mr. LAMBRIGHT. Senator, I think your description is fair that these cases are a challenge for the Bank to resolve because they pit the interests of one set of workers against another. They do generate a lot of interest from those who see the benefits of the immediate export and from those who see the potential longer-term implications to U.S. producers of the same commodity. And that is a balance that we have to struggle with.

We do have a rigorous analytical process. I think that sometimes cases come to Congress's attention because this process can take a long time. It is not particularly predictable from the outset what the outcome will be because it weighs a variety of factors, it involves a lot of analysis and input from interested parties. We have a public notice and comment period which allows people to give us their viewpoints on the proper elements to be balancing.

But I do think that where we could improve it would be to make it more predictable and transparent.

Senator CRAPO. I am not going to hold you to this but explain a little bit more about the transparency and predictability, how we could change to improve that.

Mr. LAMBRIGHT. We have a process that lays out a number of steps and asks questions that the Bank must determine before we can proceed with a transaction that implicates these procedures.

And I guess the reason that it is not as transparent or predictable from the outset is it involves compiling a lot of information about our domestic industry but also about the industry of the borrower who would be increasing this production of a commodity. So that can take a long time to generate that information and digest it and come up with the answers to the questions laid out in our charter.

I think that is one way we might be able to make it more predictable or transparent is to try to involve interested stakeholders more quickly in the process. What we have been trying to do is, through our homework, develop answers to these questions and then put them out for comment.

I think that is an appropriate way to come to the right outcome, but it is not necessarily the best way to let interested parties know the likely outcome. So if we let people come into the process earlier, that may be a way for us to get all the issues on the table up front so that people see what is at stake and can react accordingly.

Senator CRAPO. Thank you.

In your opinion what are the most contentious aspects of the economic impact procedures?

Mr. LAMBRIGHT. There are a number of steps in the process, from determining what is an exportable good to whether an item is substantially the same as one that is subject to a trade measure, asking then if the foreign production will lead to substantial injury in the domestic market? Will the commodity be in oversupply at the time the project comes on stream? Will the foreign producer produce enough of the commodity to displace American production?

With each step there are questions that need to be answered and interested parties can weigh in on either side of any of those questions.

Before getting you a more specific answer, and before we would take a position on any of these issues, we would want to work with you, your staff, and the rest of the Committee and exporters, labor groups, and industry representatives as to where they think perhaps there could be different interpretations of some of these provisions.

Senator CRAPO. Thank you. As a part of the economic analysis, do you think that adequate focus is been made on a foreign country providing subsidies or imposing some other kind of trade distorting practice or barrier that could have a negative impact on U.S. producers?

Mr. LAMBRIGHT. We try to account for a wide variety of elements that will end up increasing the displacement of American production and consequently put American workers in that industry at risk here in the United States. That is something that we would look at.

Senator CRAPO. Thank you very much. Let us go on to the tied aid issue. I expect that, in fact, is already included in the written testimony of some on the second panel.

There is a concern, and I am going to be kind of paraphrasing or quoting here, that although the Bank's 2005 Report to Congress expressed the view that the OECD tied aid rules have been a great success in reducing the level and distorting influence of tied aid, there is a general perception among American bankers and exporters that the use by other countries of tied aid and implicitly tied aid is growing.

Are there principles, processes, and standards governing the use of tied aid, of the tied aid credit fund, appropriate use? And are they giving us an accurate picture?

Mr. LAMBRIGHT. If you think about the U.S. Government's efforts in this area over the last 15 years, there has been a dramatic success in reducing the amount of trade distorting tied aid that is seen globally through international negotiations, to the use of tied aid funds. So the tied aid funds that the Ex-Im Bank have are not meant to be a tool to be used with great frequency. They are used to be a credible deterrent against the use of tied aid by foreign governments and should be used selectively.

As a result, the policy parameters surrounding the Ex-Im Bank make for a very small strike zone in proving what cases make the use of the war chest appropriate. And so while we still do hear of other governments, we see other governments doing this, we have pursued those cases on the transaction level but also at the international negotiation level.

Senator CRAPO. It is my understanding that no tied aid deals have been approved since the last reauthorization. Can you explain to me why?

Mr. LAMBRIGHT. You are correct that since the last reauthorization the Bank has had no approved transactions. We have had about 20 requests that we have pursued and there are a variety of reasons no approvals came to be.

As I mentioned, there are a lot of policy elements that need to be proven. In some cases exporters decided to devote their energies elsewhere. In others, exporters have withdrawn for fear of the backlash from the buyer. Others, the market may have been too rich or too poor to necessitate the use of the funds. And some have had transactional elements fail, such as credit or environmental reasons. But it has been a wide variety of reasons.

Senator CRAPO. Thank you.

I have one more question, and that is according to the Ex-Im Bank's 2004 Competitiveness Report the status goal of official export credits is being challenged by the emergence of an alternative ECA world, particularly the recent rapid growth in the activity of Chinese, Brazilian, and Indian Export Credit Agencies.

To what degree is the Ex-Im already seeing the impacts of emergence of these ECA's and demand for its own financing of U.S. exports?

Mr. LAMBRIGHT. We are starting to see aggressive government financing more and more, though Ex-Im Bank has not yet been asked to match one of these aggressive financings. The Chinese, in particular, have been using aggressive government financing for commercial reasons, especially to lock in long-term market share.

So this is something that we expect to see more and more of. And our charter gives us not just the authority but the responsibility to level that playing field for exporters. But the Ex-Im Bank cannot act in a vacuum.

As part of the Executive Branch, I have to be cognizant of other considerations, broader legitimate policy concerns within the U.S. Government. And so I think this is an issue that we in the Government will be facing during the whole course of this new charter reauthorization.

Senator CRAPO. Thank you very much. That is all the questions I have.

Senator Sarbanes is here.

Senator Sarbanes, if you would like to make an opening statement and ask questions, you are welcome to do so.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman. I would like to do that.

I am not going to be able to stay for the hearing and I apologize to these witnesses and I assure them that we will carefully review their testimony.

Mr. Chairman, I want to thank you as the Chair of the Subcommittee, and Senator Bayh who is the Ranking Member, for arranging for this hearing, and also for a second hearing which I understand has been scheduled for later in the month concerning the reauthorization of the Export-Import Bank.

The Bank's charter expires on September 30 of this year. And I think it is very important for this Committee to follow a schedule that will permit Congress to finish the reauthorization process by that date, actually even earlier would be better.

I strongly support reauthorization of the Ex-Im Bank, as I have in the past. I have been very much involved in the previous reauthorizations. U.S. exporters can compete very effectively on the basis of price and quality, but they encounter a competitive disadvantage when foreign governments provide subsidies to their country's exporters that more than balance where our companies find themselves.

The work of the Export-Import Bank also provides leverage to U.S. negotiators attempting to extend international agreements to limit the use of government export subsidies. If everyone limited them, we would have a different situation, but that is not the world in which we find ourselves. And I think we have to deal with the real world.

There is another important reason to support the Ex-Im Bank. Some developing economies can pose credit risks from which commercial banks shy away, even when the transactions may represent significant opportunities for U.S. exporters. By evaluating the country risk involved, the Export-Import Bank can provide a guarantee for commercial export loans, opening the way for an export transaction that would otherwise not occur.

The Bank has handled the risks associated with its activities quite well. Its losses are more no more than 2 percent of its disbursements over its 72 year life. The fees it charges for its financing services have brought hundreds of millions of dollars into the Federal Government which have been returned to the Treasury.

Obviously, our approach to the Ex-Im Bank should reflect whatever progress has been made in controlling the growth of exporter credits offered by a national government, but it appears that overall funding for the Export Credit Agencies of other governments have not declined and may, in fact, have been growing although different accounting and funding methods sometimes make comparisons difficult.

In addition, foreign governments may continue to use market window and untied aid arrangements to avoid the OECD limitations on tied aid.

In light of the size of our trade deficit and the continuing challenges to our trade competitiveness, I was disappointed by the Administration's proposal to substantially reduce funding for Ex-Im Bank. But we are told that in the short-term the Bank will be able to maintain its programs at current levels because it will have available carryover funds and funds freed up when anticipated transactions are not completed. But obviously the Bank is being put right at the margin, at the edge, and I am concerned about a possible downward trend in the Bank's funding. I do not think we are a point in international trading arrangements where a reduction in Ex-Im Bank funding is prudent.

This is especially true if we want the Bank to extend the reach of its operations for support of exports by smaller U.S. business and exports to developing countries.

Mr. Chairman, I want to share one other concern that I have, and that is that the Treasury Department may be taking an unduly intrusive role in the Ex-Im Bank's use of the tied aid war chest. I am going to ask about this, but it appears that there have not been any transactions from the war chest authorized over the past 4 years.

Now, the Treasury has the legal responsibility to negotiate arrangements in the OECD to limit tied aid export credits, and that is an important objective. But one of the objectives of the Congress in the 2002 reauthorization was to limit the Treasury's role in the Bank to the formulation, along with the Bank, of general guidelines for tied aid transactions. Case-by-case decisions about tied aid were to be left to the Bank, subject to rejection by the President. This is a complex subject, but I think we need to explore it in the course of these hearings.

I said back then, when we did the reauthorization, and I want to repeat it, the tied aid credit war chest is a very important resource to meet the challenge posed by foreign export credits and its use should not be hampered by disagreements among Executive Branch agencies.

Mr. Lambright, let me ask you, how many transactions have been financed with funds from the war chest since September 2002?

Mr. LAMBRIGHT. None.

Senator SARBANES. None? How do you explain that no war chest transactions have been authorized?

Mr. LAMBRIGHT. Given the U.S. Government's success over the last 15 years to reduce the amount of tied aid use globally, we now have a war chest that is a tool to be a deterrent but not to be used with great frequency. And as a result, the policy parameters surrounding when it would be appropriate——

Senator SARBANES. But does it continue to be a deterrent if you use it with no frequency?

Mr. LAMBRIGHT. That is a good question, Senator, but the global use of tied aid has come down. And so on any particular case that we assess we need to make sure that it meets all of the transactional and policy elements. And the cases that we have seen we have pursued, but they have dropped away for a variety of reasons, leaving us with no approved transactions, as you noted.

Senator SARBANES. When does the Treasury become involved in any transactions in this case-by-case examination?

Mr. LAMBRIGHT. The charter does give Treasury a consultative role in the process and they weigh in early in the process to assess the proper course of action. Sometimes the decision might be to pursue remedies in the OECD. Other times it might be to develop information on a case to decide whether or not Ex-Im war chest funds would be appropriate to use.

Senator SARBANES. Have there been instances in which Ex-Im thought that using the war chest was reasonable but it was blocked by Treasury?

Mr. LAMBRIGHT. I would not say that we put forward a formal proposal to use it and it was blocked. The way it works in practice is, as we develop a file on a case to answer all of the transactional and policy elements sometimes the cases just do not come to fruition. Even if at the beginning we would have thought that it did meet the criteria, sometimes exporters just do not stick it out with us through the whole process.

And so while there may have been cases that would have fit the criteria, we never had any that went all of the way to winning an American contract.

Senator SARBANES. I mean, you are saying we have the OECD limitations and people are adhering to those. But it is my understanding that countries are developing all sorts of end runs around these limitations. Is that correct?

Mr. LAMBRIGHT. We certainly have heard of cases where there have been rule violations or new types of government financing that we have to deal with. Where there have been clear violations is where I think the procedures have worked best.

We did have one case where there was a violation. Ex-Im Bank did make its war chest funds available but ultimately the exporter did not win the contract.

Senator SARBANES. What can you do to get a better handle in terms of knowledge and information about these alternative ways of financing that competitor countries are using?

Mr. LAMBRIGHT. Just next week, I am hosting my G-7 Export Credit Agency head counterparts where this will be a major focus of discussion. In our preliminary conversations with them, I think what we are seeing is more and more use of these, particularly by the Chinese. So we are going to be spending a great deal of time next week exploring the details of those kinds of financings and how traditional Export Credit Agencies can respond.

Senator SARBANES. I have to say to you, and I will close this line of questioning, it does not seem to me that the Bank is standing shoulder-to-shoulder with our exporters the way it should be doing in terms of the competition. If it is a level playing field out there, than it is up to the exporter to compete on price and quality. If that is the basis of it, I think our people can do quite well. And if they can do quite well then we need to examine why we are falling short.

But it is my understanding that other countries are figuring out all kinds of ways to provide support to their exporters and that our people take it on the chin as a consequence.

Mr. LAMBRIGHT. Senator, I agree with you 100 percent on the competitiveness of the U.S. exporter. In terms of U.S. Ex-Im Bank with respect other Export Credit Agencies you are right, there has been some divergence in the flexibilities that various Export Credit Agencies hold.

Certainly in Europe, many of the Export Credit Agencies have been given greater flexibilities to operate effectively off budget and that has freed them up to find a number of new tools to compete with the emergence of new forms of government finance.

The U.S. Ex-Im Bank is a very traditional Export Credit Agency by our charter. We are focused on the U.S. jobs associated with exports and so our policies reflect that focus. But I can tell you that I personally come to work every day thinking about how to help U.S. exporters and keep jobs here in the United States.

And if I see any way that the U.S. Ex-Im Bank can stand up on behalf of exporters, I will do that.

Senator SARBANES. You keep referencing Europe but my understanding is that China, Brazil, India are all engaged in these activities as well. Is that correct?

Mr. LAMBRIGHT. You are absolutely right and they are outside of the OECD and not constrained by the rules that we operate by. What I was suggesting is that some of the European ECA's are developing flexibility to try to compete with those emerging Export Credit Agencies.

Senator SARBANES. I know the Chairman asked about this or has expressed an interest in it. And that is what can the Bank do to strengthen its small business program? Is there a small business division within the Bank?

Mr. LAMBRIGHT. Just in the last few months, we have taken a number of steps to further our small business outreach. We now have a new small business unit headed by a Senior Vice President that has about a tenth of our staff focused exclusively on outreach to small businesses and advocacy within the Bank for small businesses. There are a number of other steps that we have taken to improve our technology, to designate specialists within each Bank division, who will be experts on small business.

So there is a lot we are doing but we strive every day to do more and more for small businesses that need our help to export.

Senator SARBANES. Is the position of Executive Vice President and Chief Operating Officer, do you continue to hold those positions and Acting President as well?

Mr. LAMBRIGHT. Technically, in the paperwork, I suppose my title was changed to Acting President but those positions are not filled.

Senator SARBANES. Not filled?

Mr. LAMBRIGHT. Right.

Senator SARBANES. Is it the assumption that you will return to them because there has now been a nomination for President of the Ex-Im Bank; is that right?

Mr. LAMBRIGHT. Right, and——

Senator SARBANES. Okay, I am sorry. I was misinformed. You are waiting.

Mr. LAMBRIGHT. I am currently the Acting President of the Bank, as well as, just a few weeks ago, have been nominated to the position and I await Senate confirmation.

Senator SARBANES. I assume those positions will not be filled until the Senate acts on your nomination; is that correct?

Mr. LAMBRIGHT. That is most likely, yes, sir.

Senator SARBANES. Okay. Thank you very much.

Thank you, Mr. Lambright.

Mr. LAMBRIGHT. Thank you, Senator.

Senator CRAPO. Again, thank you, Mr. Lambright.

We appreciate your attention to these issues and coming before us today.

That will conclude our first panel. You are excused, Mr. Lambright. We appreciate your attendance.

Mr. LAMBRIGHT. Thank you, Mr. Chairman.

Senator CRAPO. I will call up the next panel and while they are coming up let me introduce them.

The next panel, as I indicated at the outset, is made up of Mr. Gerald Rama, who is the Senior Vice President and Deputy Group Head of Global at PNC Bank; Mr. Al Merritt, President of MD International, Inc.; and Mr. John Matthews, the Managing Director of Boeing Capital Corporation.

Gentlemen, if you will please these take your seats at the appropriate part of the table as designated, and Mr. Rama, we will begin with you.

I would like to remind all of our witnesses that we want to have you—by the way, I wanted to say you provided very excellent written testimony. You are not going to be able to say it all in 5 minutes but I encourage you to remember to watch the clock and then we will get into some good discussion.

Mr. Rama, you may proceed.

STATEMENT OF GERALD F. RAMA
SENIOR VICE PRESIDENT AND
DEPUTY GROUP HEAD GLOBAL, PNC BANK
ON BEHALF OF
THE BANKERS' ASSOCIATION FOR FINANCE AND TRADE

Mr. RAMA. I am pleased to be here today to express the banking industry's view on the reauthorization of the U.S. Ex-Im Bank, particularly since I have had the opportunity of work consistently with the Ex-Im Bank over the last 32 years. The agency and staff, in my mind, are some of the most committed and hard-working public servants.

The credit support Ex-Im provides is a vital and integral component in the competitiveness of American products in the international market. Its reauthorization is designed to keep American products competitive in the global marketplace.

My written statement includes comments on a variety of topics. This morning I will focus on the two topics I believe are the most important, economic impact and domestic content.

The Export-Import Bank is required to consider the extent to which transactions are likely to have an adverse effect on industries and employment in the United States. Though the rationale for this requirement is understandable I am unaware of another ECA that is subject to a similar requirement. In most cases, the domestic harm that might result from a transaction will occur whether or not the U.S. exporter seeking Ex-Im support makes the sale. If the U.S. exporter does not make the sale, one of its competitors from another country will.

In evaluating economic impact however, Ex-Im staff does not consider the availability of goods from foreign sources. We strongly feel that the Bank should take into account whether a project will go forward, particularly since we may be limiting an exporters ability to be considered a consistent and righteous provider in future sales and in this sale.

We appreciate the mission of the Export-Import Bank and the U.S. jobs created through exports. We feel that the Bank has adopted an overly restrictive policy of only providing credit support for the value of the U.S. content and capital goods term sales. The Bank limits its involvement in the transactions for the lesser of 85 percent of the value of eligible goods and services and 100 percent of the U.S. content in those goods and services. If the U.S. export consists of 50 percent U.S.-made components and 50 percent non-U.S. made, the Bank support is limited to 50 percent of the contract price. This is problematic because as the complexity increases in the manufacturing processes and the sourcing of components it is more difficult to track the levels of sources of non-U.S. content.

This is particularly true for small businesses who lack the resources to do such research. Requiring strict proportionality results in fewer U.S. exports than could otherwise be achieved.

Other countries have concluded that strict porportionality and less strict accounting for content is not required. For example, Japan's ECA does not reduce its support of transactions that have at least 30 percent Japanese content and Canada decides its level of support on a case-by-case basis. Italy's ECA announced in 2004 that it would shift its standard from made in Italy to made by Italy. And Ex-Im reported that other countries are moving to this approach as well.

Ex-Im should adopt a case-by-case approach that balances the costs and benefits of individual transactions rather than adhering to a strict formula that requires precise tracking of U.S. content and we urge Congress to express its support for that approach as well.

The Export-Import Bank, I am saying this again, plays a key role in helping U.S. businesses of all sizes compete in markets around the world. Ex-Im has recently been critiqued as being too slow and overly conservative. Within the constraints of its budget and resources we feel that Ex-Im Bank and its current management is doing a good job, particularly as the staff has lost experienced personnel through attrition. But improvements can always be made.

We believe the Bank is hampered by having too few people and too many requirements imposed on it by Congress and by the Government requiring seasoned staff to do that work that do not relate to its primary mission. We urge Congress to provide the Bank with significant additional resources in its administrative budget and to act on our recommendation to reduce the Bank's administrative burdens.

We look forward to continuing to work with Members of Congress and with the Bank to maximize its effectiveness in promoting American exports.

Thank you.

Senator CRAPO. Thank you very much, Mr. Rama.

Mr. Merritt.

STATEMENT OF JAMES "AL" MERRITT PRESIDENT AND CEO, MD INTERNATIONAL, INC., MIAMI, FLORIDA

Mr. MERRITT. Thank you, Chairman Crapo and Senator Bayh and Members of the Subcommittee. Thank you for asking me to appear here today. This is a thrill for a small business owner from Miami to come up here to Washington and be in this fancy room. So thank you.

Senator CRAPO. We welcome you here.

Mr. MERRITT. I am Al Merritt, President, Owner, and Founder of MD International, a small business based in Miami, Florida. We export medical equipment and services, primarily to Latin America.

MD International has used Ex-Im Bank financing on numerous occasions during our 19-year history. In 2003, we had the honor of being named Ex-Im Small Business Exporter of the Year, which was very thrilling with a ceremony here in Washington, DC.

We are proud of the relationship we have had with Ex-Im and we look forward to working with them in the future.

I also appear here as a board member of the Small Business Exporters Association of the United States. SBEA is the Nation's oldest and largest nonprofit association of small and mid-sized companies.

We had a meeting in Miami in my offices 2 weeks ago and people flew in from around the country from our association to prepare for this and discuss the issues, so I am truly speaking for the association as well as my own company.

SBEA represents the more than 22,000 companies of the NSBA that export. The NSBA is the National Small Business Association that has 22,000 members in the United States.

As in prior years, SBEA and NSBA strongly support the 2000 reauthorization of the Ex-Im Bank by Congress. We are optimistic about Ex-Im's future under the leadership of Jim Lambright and we appreciate the open and honest dialogue that we have had with him thus far and the other Ex-Im Bank board members and the Ex-Im Bank senior management.

A strong Ex-Im Bank is very much in the interest of smaller companies and the Nation as a whole. Ex-Im is not simply the bank of last resort but for many small exporting companies it is the bank of only resort.

Yet while we honor Ex-Im Bank for financing billions of dollars in export sales by smaller companies, we also want to offer some recommendations for improving the Bank's performance in a rapidly growing globalizing and competitive world.

This subject is treated extensively in my written testimony, which I will simply summarize.

First, we backed the mandate enacted by Congress in 2002 that Ex-Im devote 20 percent of its financing dollars strictly to small business. The 20 percent mandate remains a reliable indicator of the Bank's focus on small business and the effectiveness of its efforts.

The Bank exceeded this mark several times in the 1990's and it reached 19 percent or better several times since. The fact that the Bank has fallen below the mandate since 2002 is no reason to change this measurement.

SBEA believes that the Bank can achieve the 20 percent mandate consistently if it organizes its efforts under a small and medium-size enterprise division comparable to the highly successful ones at the Overseas Private Investment Corporation and the Canadian Export Credit Agency. Ex-Im needs permanence and stability in its SME operation.

By our count, Ex-Im has had 15 major changes in the structure, leadership, and responsibilities of its small business operations just in the past 10 years. Ten of those changes have occurred since the last reauthorization. I think that is a key point.

At various points since 2002, a Group Vice President, a Senior Vice President, a Vice President, and an Office Director have headed the Bank's small business organization.

At times since 2002, the operation has reported directly to the Bank President, at times to lower middle management figures and at times there has been no small business office at all.

During periods when the Bank has had a designated small business operation its responsibilities have fluctuated considerably, as has its authority to make decisions about transactions. Normally, we prefer to let Ex-Im Bank handle small business on its own and we certainly commend Chairman Lambright and the Bank's management staff for the effort that went into the recent Small Business Committee proposal. But on this point the Bank needs some additional Congressional guidance, in our opinion.

The commercial banking community, exporters, and the Bank staff need to know that the small business operation is permanent and stable. They need transparency and a sustained focus. Congress needs clear accountability. We recommend that Congress create a small and medium-sized enterprise division at Ex-Im Bank. We recommend that the division handle all of Ex-Im small business financing and credit decisions, that it have full-time staff including underwriters dedicated exclusively to small business transactions and that the head of the division report directly to the Ex-Im Bank board.

A similar structure has helped OPIC go from $10 million in small business financing in 2001 to $347 million in 2005. It lifted Canada's Export Credit Agency from dealing with less than 500 SME's to dealing with 7,000, one-fifth of Canada's exporting companies. Ex-Im deals with about 1 percent of the SME exporters in this country.

We suggested two ways that Ex-Im can use this proposed SME division to increase U.S. exports. First, it can focus on the 60 percent of SME exporters who are only shipping to one country and encourage them to ship to two or three. The Commerce Department can help Ex-Im with this.

Second, Congress can direct Ex-Im to begin delegating authority for medium-term transactions to commercial banks and export finance institutions. Medium-term financing covers periods of 6 months to 7 years. It is what buyers of U.S. manufactured capital equipment want. Those capital equipment exports offer the quickest payoffs in high-paying jobs at home, trade deficit reduction, and benefitting for U.S. manufacturing.

Yet, while SBA delegates authority for its small export finance transactions and OPIC is delegating authority for its larger transactions, and even Ex-Im itself delegates authority for other transactions, the Bank still does all of the nuts and bolts work for medium-term transactions at its headquarters.

One consequence is that medium-term transactions take inordinate amounts of time, sometimes more than a year. The slow paperwork, heavy process is costing our country important export sales.

Giving commercial banks more authority to move these transactions along subject to final Ex-Im approval would be enormous benefit to exporting companies of all sizes.

That concludes my remarks and I would be happy to take any questions.

Senator CRAPO. Thank you very much, Mr. Merritt.

Mr. Matthews.

**STATEMENT OF JOHN MATTHEWS
MANAGING DIRECTOR, BOEING CAPITAL CORPORATION
ON BEHALF OF
THE NATIONAL ASSOCIATION OF MANUFACTURERS,
THE NATIONAL FOREIGN TRADE COUNCIL, AND
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS**

Mr. MATTHEWS. Mr. Chairman and Members of the Subcommittee, I am John Matthews, Managing Director of Boeing Capital Corporation, the financing arm of the Boeing Company.

We at Boeing and the other members of NAM, NFTC, and CEE strongly support the reauthorization of Ex-Im Bank. Each year, Ex-Im Bank supports some 3,000 overseas sales of American-made goods and American-provided services. During fiscal year 2005, Ex-Im issued $13.9 billion in financing, mostly guarantees and insurance of commercial loans. That financing supported $17.8 billion in U.S. exports. Those export sales, in turn, supported thousands of jobs for American workers.

Most of these transactions are sales by small and medium-sized companies. But even for large corporations like Boeing, Ex-Im Bank plays an essential role not only for our 50,000 commercial aircraft employees but also for our 26,000 U.S. suppliers and vendors throughout all 50 States.

In 2005, the Boeing Company purchased approximately $5 billion from more than 11,500 small business suppliers in the United States. Of that total our commercial unit, Boeing Commercial Airplanes, paid $1.4 billion to over 2,900 American small businesses.

Today, I would like to focus on three key points. One, financing is the key element of global competition. Two, Export Credit Agencies are growing around the world. And three, Ex-Im Bank is financially sound.

First, financing. Traditionally, companies competed on product quality, price, and service. In today's world, financing is an increasingly important competitive element. Ex-Im Bank has two central missions: To level the playing field first when U.S. exporters are confronted with competitors that have ECA financing; and second, when commercial banking is not available. Each year, 70 percent of all Boeing's commercial aircraft sales are to overseas customers. Historically, 30 percent of these Boeing exports have relied upon Ex-Im to provide loan guarantees. In fiscal year 2005 alone, Ex-Im authorized financing to support the export of 78 Boeing commercial aircraft to 19 airlines located in 18 different countries around the globe, including nations in Africa and Latin America. This represented 33 percent of all of our exports for that year.

Second, Export Credit Agencies. Virtually all trading nations operate Export Credit Agencies. The most recent data show that ECA financing is increasing worldwide. Last October, the International Union of Credit and Investment Insurers, the Berne Union, reported that its 52 member ECA's executed a total of $788 billion in financing during 2004, the highest total ever measured.

That total approaches 10 percent of global trade flows in that year. Even more telling, the 2004 total marked a 60 percent increase over the 2001 level of $470 billion. While the structure of ECA's varies from country to country, virtually all operate in close corporation with their national government and most operate with government financial support of some type.

Faced with that financial backing for its foreign competitor, no U.S. company, no matter how large, can compete on its own. When foreign ECA support is present, we must have the backing of Ex-Im Bank.

Third, Ex-Im Bank is financially sound. At the end of fiscal year 2004, the most recent public data, Ex-Im Bank had a total exposure of $61.1 billion. Against that exposure the Bank had $9.6 billion in reserves, a very strong reserve position.

Exporters and our overseas customers pay fees for Ex-Im's participation in overseas sales, which in the last several years have covered the Government's costs of operating the Bank.

Ex-Im charges interest on its direct loans and premiums for its guarantees and insurance. Ex-Im does not subsidize interest rates. In financial terms, Ex-Im's commercial role is in mitigating risk, especially in markets where commercial financing is not available.

Specifically in aircraft transactions, Ex-Im generally does not provide direct loans. Rather, Ex-Im guarantees that if the airline customer defaults on the loan, Ex-Im will assume the financial liability. These guarantees make it possible for certain foreign airlines, especially in developing countries, to secure commercial bank loans they might otherwise not qualify for at those commercial banks. Ex-Im has not incurred any losses on its commercial airplane guarantees over the past 15 years. This is a real testament to the continuing effective due diligence performed by the Bank before it provides guarantees to foreign airlines.

According to the Bank's Annual Report, Ex-Im generated a net income of $2 billion during fiscal year 2004 through its interest charges, premiums, and fees. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot utilize its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan loss reserves. As a result, the Bank is handicapped by the Government's own budget rules.

In conclusion, Mr. Chairman, I want to thank you for the opportunity to testify today. The Bank is indispensable to Boeing and has been innovative and reliable in times of crisis, such as the financial markets' retrenchment in the aftermath of September 11. It is critical to our ability to compete against a subsidized competitor while sustaining high-paying U.S. jobs.

We commend this Committee for its timely consideration of Ex-Im Bank's reauthorization, and we urge that the Committee act expeditiously to report the reauthorization bill to the Senate so that Congress can complete the legislative process prior to the September 30 expiration of the Bank's charter.

I would be happy to answer any questions.

Senator CRAPO. Thank you very much, Mr. Matthews. And again to each of you, I thank you for not only your testimony here today but also the written testimony that you have provided, which has gone into a number of issues in more detail that you have been able to do in your comments and it will be very helpful to us.

I want to just start out with you, Mr. Rama. I was interested in both your discussion of the economic impact and the domestic content issues. Starting out with domestic content, could you review with me again just what the U.S. rule is, what is required?

Mr. RAMA. We will only support on term capital goods, capital goods sales, medium-term not short-term up to the U.S. content with the foreign content being no more than 85 percent. So that if you have a $100 million sale, $60 million of which is U.S. made, $40 million is non-U.S. made, Ex-Im will only support the $60 million level.

The second problem with the U.S. content is you have many small businesses that do not know what the sources of their primary material are and are unable to complete the forms necessary to access Ex-Im Bank. There is a major supplier in the Pennsylvania area of rebuilt carburetors employing thousands of people, selling both domestically and internationally, that cannot tell you where the original carburetor came from or where the original auto part came from and cannot access to Ex-Im.

Senator CRAPO. I was interested in, was it Japan or Italy that was changing——

Mr. RAMA. All of the above.

Senator CRAPO. They are doing made by as opposed to made in.

Mr. RAMA. That is correct.

Senator CRAPO. The notion there is that if the manufacture takes place there that they are not focusing so much on where the individual parts came from.

Mr. RAMA. We stand, as a bank, PNC—and I am representing BAFT, but I can speak specifically for PNC. We were the most active in the number of transactions in medium-term transactions with Ex-Im last year. We devote inordinate amounts of time working with exporters and with Ex-Im trying to figure out whether the goods qualify. Sometimes they simply do not and it is a lost sale and a lost financing.

Senator CRAPO. What is the source of the U.S. domestic content rule? Is that in statute?

I see someone behind you shaking their head yes.

So basically, the Ex-Im Bank is operating under a statutory requirement that they deal with these——

Mr. RAMA. I think the reality of the global marketplace, that particular issue, people simply do not know where their primary products when they are manufacturing is coming from. And they are being asked to make an attestation and oftentimes they simply cannot. The bigger companies can because they have the research, et cetera. The small companies simply cannot. And sales are lost and opportunities are lost, in our mind.

Senator CRAPO. I suppose that one of your recommendations would be regardless of whether this is a statutory requirement or not, we should probably address the question as we deal with reauthorization?

Mr. RAMA. Yes, sir.

Senator CRAPO. Thank you very much.

Let us move to your discussion of economic impact, as well. You indicated in your testimony that your concern with it was that even in those cases—and let me get to it—where if a U.S. exporter does not make the sale, one of its competitors from another country will.

Mr. RAMA. That is correct, sir. That is our opinion.

Senator CRAPO. I underlined your, as I was reading it, the notion that the competitor from another country will. How does the Ex-Im Bank make that determination with confidence, that another competitor from another country will be the one that steps in and makes that sale?

Mr. RAMA. In my mind, there is a partnership with Ex-Im Bank and it is a tripartite partnership with the importer, the exporter, and oftentimes the Bank. When the importer is saying I can buy this product elsewhere and they are showing you a quote, I think that answers the question.

Certainly, I am not doing major financing in my own bank, but we have been involved with issues involving economic impact. And when we lost that sale, when the U.S. company lost the sale, the project was made anyway.

In talking at—I am a member of BAFT, which is part of the ABA—our last Trade Finance Committee meeting it was generally stated that no one could say one project that was not done by Ex-Im because of economic impact that was not done anyway with sourcing from other places.

It becomes also problematic when that supplier is further deemed to be unreliable in the global marketplace because the importers do not know whether Ex-Im will support them.

Senator CRAPO. I understand the points you are making and I also see the potential problem if the United States began subsidizing or supporting transactions that truly are competitive with the U.S. producer, if there is a U.S. producer who could fill that order. And it seems to me that that is an issue we want to address because, as you indicate, if in fact the transaction will take place with a non-U.S. producer no matter what, that is pretty relevant. But on the other hand if, in fact, a U.S. producer has the most likely opportunity to pick up a transaction if we do not finance it from some other source, that should be a very relevant factor in the Ex-Im Bank deliberations.

And so somehow we have to get to a median level here where we are analyzing the right things and making the determinations on the right basis. I understand your point.

Mr. RAMA. And I agree, sir, the question is particularly difficult. But again I think the research will prove, at least from the banker's perspective, that the deals are getting done. However the resolution occurs, I do not have an answer. I am simply raising the point.

Senator CRAPO. Thank you very much.

Mr. Merritt, I would like to turn to for a moment. You are a very strong and eloquent advocate for the small business mandate. There are some who say that the calculation of how we hit the 20 percent is not been made or does not take into consideration the small business benefits from a lot of other transactions that are considered to be large transactions and so forth.

To me, one of the facts that was the most significant about the testimony of Chairman Lambright was that no small business loan had been denied on a budget basis. In other words, if they had been denied it was on other grounds. What does that say to you?

Mr. MERRITT. I do not really know how they calculate those numbers. I think that if Boeing has small business suppliers to them, I believe that they included those in that 20 percent.

They do not? Okay, so I really do not know how they make those calculations.

I understand that about 28 percent of all U.S. exports are made by small companies, companies with less than 500 people. And the Bank has no office to support those transactions, with no authority to make credit decisions.

Senator CRAPO. I also found or have significant interest in your suggestions as to this office that you would like to see the Bank establish. You went into this a little bit in your testimony and I would like you to expand on it.

Chairman Lambright has taken some steps in that direction and has established this new unit that will report and has a person with I think the same level of seniority in the company that you were recommending. What are your thoughts about what they have done so far and what, in addition to that specifically, do you think that we would need to encourage them to do?

Mr. MERRITT. I think, with all respect, that started 2 months ago immediately prior to the Bank's reauthorization. There has been 15 changes, 10 in the last 5 years. So, I really do not think that the Bank is structured competitively for the people like us in a small business.

I think the best way to measure things is by comparison. In Canada, as a comparison, their Ex-Im Bank equivalent financed $57 billion in export transactions and of those, $11 billion were small business. Our bank did $18 billion and of those $2.7 billion were small business. Canada's economy is one-seventh the size of our economy.

The reason that the Bank has been so successful is about 10 or 12 years ago they set up an office like what we are asking the Bank to do, which is dedicated to small business, a separate team of people with a career track, with authority to make credit decisions that structure for small businesses, for this 28 percent of our economy, 28 percent of the exporters that are represented by small businesses. Our Bank does not have an office like that.

Senator CRAPO. So basically your point is that there is plenty of fertile ground out there for these types of loans if we can simply——

Mr. MERRITT. You better believe it. I can tell you, many companies like our size, we do not have the time to go through the process and try to figure out who we should talk to this year at the Bank.

We were talking about the tied aid before. It is a very similar situation with tied aid. When we see tied aid cases, the effort that it takes a small business, a company with $10 million, $20 million, or $30 million in sales to fight that battle in Washington, we just do not have the ability to do that.

If we had an advocacy office in the Bank that looked after our interests, that came to know us as clients, it would be a very different story, I believe.

We made some calculations yesterday and the small business exporters, if we only increase 10 percent the amount that they are exporting, it will take a $280 billion bite out of our Nation's $700 billion deficit. We have an enormous problem in this country, and this Bank is a key element in the solution, along with Commerce Department and trade promotion, to solve that problem.

Senator CRAPO. Thank you very much. I appreciate that.

Mr. Matthews, in your testimony you talked a little bit about the way in which we handicap the Ex-Im Bank by our own budget rules. Your point, if I understand it correctly, and I would like you to explain it to me a little bit, is that the Ex-Im Bank generates a significant amount of income through its interest charges, premiums, and fees. And yet it is not allowed to use those varied resources, its own revenues, to cover its own costs. And it has to come back to Congress on an annual basis to get appropriations and so forth.

First of all, tell me if I have explained the issue correctly and clarify it a little bit, if you would like to.

But also, would you recommend that we change the operations of the Bank so that we allow them to use their own revenues for these costs and then to engage in more transactions?

Mr. MATTHEWS. Thank you, Senator.

Yes, as I mentioned, the Bank generated over $2 billion in fees and interest in 2004, and that was more than enough to cover its costs of operation. So we believe that if the Bank is able to retain those earnings and revenue over time the surplus would grow and they would be able to do more business without imposing any financial impact on the Government.

As far as whether we would recommend changing that, I think we would but we would like to get back to you in writing with more detail on that.

Senator CRAPO. Certainly, and I appreciate that.

Let me say to the entire panel, just because of time I am going to have to wrap up here. There is a lot of questions on each one of your testimony that I would like to pursue further with you, although the testimony itself is very helpful. And we can go into a number of the aspects of it simply with your written testimony.

But I would encourage you, if there are additional points or if you want to clarify or enhance anything or any points that you have made, please do not hesitate to submit further supplemental testimony to us if you will, as we move forward.

We are going to hold another hearing on the economic impact issues specifically, but just in reviewing your testimony I have seen a number of other issues I personally was not aware of and will be very interested in pursuing.

So again, thank you for the time and effort that you have put into preparing you written and your oral testimony today and your interest in the Bank. I do know that although each of you have raised issues about how we can improve and strengthen the system, each of you have very strongly indicated that we should proceed expeditiously with the reauthorization of the Bank and try to strengthen it because it is a very key part of our competitiveness globally. And I want to let you know that I agree with that. I believe our whole panel, our whole Subcommittee, and full Banking Committee agrees with that. And we just need to figure out the things that we need to do to improve and strengthen the operations of the Ex-Im Bank.

So with that, again I thank you all for coming and this hearing will be adjourned.

Thank you.

[Whereupon, at 11:15 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR MICHAEL B. ENZI

I would like to thank Senator Crapo for scheduling this important hearing on the reauthorization of the Export-Import Bank. I also want to thank Mr. James Lambright, acting Chairman and President of the Export-Import Bank, Mr. Gerald Rama, Mr. Al Merritt, and Mr. John Matthews for agreeing to testify today.

As the official export credit agency of the United States, the mission of the Export-Import Bank is to assist in the financing of goods and services from the United States for export. Since the Bank operates under a renewable charter that is authorized through September 2006, it is important that the process for reauthorization begin and I applaud the work of Senator Crapo for holding this hearing.

I am a strong supporter of encouraging U.S. exports abroad. By expanding our Nation's ability to export, we are in turn creating more jobs and stimulating the economy here at home. It is clear that some businesses cannot obtain the funding necessary to expand their export business without the financial support of the Export-Import Bank. In addition, as a former small businessman, I am particularly supportive of the small business lending mandate that was increased in the 2002 reauthorization. I hope that the Bank will work with the small business community to encourage additional applications. I also hope that small businesses are receiving the support they need from the Bank in order to increase their ability to export.

One issue that I have major concerns with is the economic impact determination. As you know, when the Board of Directors reviews an application, the Board will look to see if the benefits of approving the proposal outweigh the costs. It is my understanding that the Board will only look at the benefits/burden analysis during the repayment period. By only looking at the economic impact during the repayment period, the Board is receiving a skewed version of just how detrimental certain loans can be to the U.S. economy. The Bank is currently reviewing an application to finance the export of refurbished locomotives to a soda ash facility in Kenya. I am strongly opposed to this application. If approved, U.S. taxpayers will be subsidizing a soda ash facility overseas that will be in direct competition with domestic soda ash producers. Soda ash, which is a primary raw material in the manufacture of glass and detergents, is America's largest inorganic chemical export. About 90 percent of soda ash production in the United States is located in my home State of Wyoming. This industry is a crucial supplier of jobs and economic expansion in communities throughout Wyoming. By aiding this facility in Kenya, the Export-Import Bank would be supporting a company that is a direct competitor of U.S. companies in the soda ash export market.

Under the application discussed above, the Board will only review the costs associated with increasing global production of soda ash over 6 years, or the life of the loan in question. It is clear that refurbished locomotives can be used for far longer than the 6-year period. By limiting the economic impact period to the life of the loan, the Bank is giving its economic support to projects that in the long-run will have a detrimental impact on the U.S. economy. This practice must change.

This proposal is one example of the flaws in the current economic impact process. Under its own Economic Impact Fact Sheet, the Export-Import Bank stresses the fact that its charter requires that the Bank "assess whether the extension of its financing support is likely to yield a net adverse economic impact on U.S. production and employment or would result in the production of substantially the same product that is the subject of specified trade measures." In order to ensure that the Bank is not approving applications which would adversely affect the American economy, the Bank must look at the economic impact of a proposal over a timeframe that is similar to the life of the export.

As the Banking Committee considers the reauthorization of the Export-Import Bank, I urge my fellow Members of this Committee to ensure that the Bank is upholding its duty to properly balance the benefits of an application with any negative economic impact on the U.S. economy.

Thank you again to Senator Crapo for holding this important hearing today.

PREPARED STATEMENT OF JAMES H. LAMBRIGHT

ACTING CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK OF THE UNITED STATES

MARCH 8, 2006

Mr. Chairman, Senator Bayh, Members of the Subcommittee, I am pleased to be here today to testify on the 2006 reauthorization of the Export-Import Bank of the

United States (hereinafter Ex-Im Bank, or Bank). Ex-Im Bank was originally chartered in 1934 and has played an active role in assisting in the financing of U.S. exports ever since. The mandate of the Bank as expressed in our charter is to create and sustain U.S. jobs by supporting U.S. exports that otherwise would not go forward. And while there are many issues pertaining to Ex-Im Bank policies that I will discuss in this testimony, that mandate remains at the core of why the Bank exists and why it should be reauthorized.

There is little argument that we are living in a very competitive global economic environment, and there are many instances when our exporters cannot be left to go it alone if we are to sustain the well-paying jobs behind those exports. In this kind of environment, the United States cannot afford to unilaterally disarm. The specific role of the Bank is to help provide export financing in instances where otherwise creditworthy transactions would not go forward. That can occur when private sector banks find a market or a buyer too risky for commercial financing, or when the export credit agencies of other countries offer support to their exporters in order to secure a sale for their workers and industries.

Make no mistake about it—I believe that U.S. workers make goods and services that can more than match the price and quality of any of our major competitors. But when other export credit agencies such as COFACE of France, Hermes of Germany, or ECGD of Great Britain offer financial support to their exporters, Ex-Im Bank steps in to "level the playing field" for our exporters and our workers. We want to make it possible to keep those jobs here in the United States.

We do this by offering direct loans to foreign buyers of U.S. goods and services, guaranteeing commercial bank loans to those same buyers, guaranteeing working capital loans to U.S. exporters to make it possible for them to make the exports and offering insurance policies so exporters, especially small business exporters, can offer extended payment terms to their foreign buyers. It is through working capital guarantees and our insurance policies that we do the great bulk of our small business transactions, a topic I will discuss in depth below.

The Congress, through our charter, has offered us clear guidance on how to meet our mandate. I liken it to steering a ship between two beacons. One beacon represents the benefits we offer to U.S. workers and exporters when we assist in the financing of exports that otherwise would not occur, while the other represents the risks associated with credit. Over the years, those exports have helped to sustain U.S. jobs, jobs that on the average offer higher wages than nonexport jobs. Since our 2002 reauthorization, we have authorized $47.9 billion in financing support of an estimated $63 billion in U.S. exports. Some of those have been big ticket items such as aircraft or power generation equipment. But over 80 percent of those transactions have been made available to directly support small business exports.

But we adhere just as strictly to the other beacon—the one that represents assuming reasonable risk and responsible stewardship of the resources provided by taxpayers necessary to bear those risks. The beacon of risk is "reasonable assurance of repayment," a term Congress has explicitly put in our charter as our standard for making credit judgments. Once we decide to finance a transaction, we set aside a "loss reserve" to cover expected future losses. This reserve is provided for by the appropriations for our "program budget," which represents the taxpayers' contribution necessary to, when added to fees paid by our customers, serve as an estimated loan loss reserve against expected losses on transactions underwritten in a given year. So the taxpayers assume the risk represented by the program budget and also provide for our administrative budget. The results have been a bargain. Currently, every taxpayer dollar invested in the Bank's program and administrative budgets makes financing available for over $50 in U.S. exports. The overall loss rate for Ex-Im Bank over the course of its history has been less than 2 percent. That compares favorably to rates for commercial banks. Loss rates vary between markets and products, and we keep a close eye on what is occurring with every type of transaction. We believe Ex-Im Bank's financial success is attributable to (i) productive international negotiations to create a level playing field with other Organisation for Economic Co-operation and Development (OECD) countries, (ii) responsible credit underwriting standards that seek reasonable assurance of repayment and (iii) rigorous management of our portfolio.

The conclusion is that we are conscientious fiduciaries of taxpayers' dollars. When we manage to steer a course between the beacons of supporting exporters and workers on the one hand, and assuming reasonable risk on the other, we are of real benefit to the U.S. economy.

Congress also guides us on some course refinements along the way. It has instructed us to make 20 percent of our financing authority available for small business transactions, and though the 20 percent has never been fully realized, we have never turned down a small business transaction due to lack of resources. We are still seeking the best course to steer in order to maximize support for small businesses, within the context that Congress has instructed us to be a demand-driven institution and not to compete with the private sector. We are happy to follow Congress' guidance on that issue. Congress has also told us to include efforts to promote exports to sub-Saharan Africa. As a result, Ex-Im Bank supported 115 transactions in 20 countries in the region, totaling $461.8 million, a 36.4 percent increase over the fiscal year 2004 volume. In addition, Congress told us to support exports from businesses owned by women and minorities, which I will discuss later.

I was privileged to become Acting President and Chairman in July 2005, and I am happy to continue in that role until the Senate acts on my nomination to be President and Chairman. If I am confirmed, I will continue to steer the Bank between those beacons, to keep an even and predictable course. But I won't be able to do it by myself. I will need the help of our very capable Bank staff, upon whom all Board members depend for the vital information that makes it possible for the Bank to function. Moreover, I want to emphasize that the Chairman and President of the Bank cannot act in isolation from the other Board members and expect to have an effective, smooth-running institution. I depend upon my fellow Board members for advice and counsel right now, and I can promise that I will continue in that practice if I am confirmed. That includes assuring that members of the Board have access to all of the information available on transactions and Bank policies, and have access to Bank staff to supply that information. That is the way I work now, and that is the way I will work in the future, if confirmed.

In the 8 months I have held the position of Acting President and Chairman, and the 4 years I served on the staff level at the Bank, I have participated in Bank decisionmaking and become familiar with Bank policies. The Administration's decision not to request any substantive changes in the policies laid out in our charter is appropriate to our needs. Although the role and need for official export credit are constantly evolving in the face of the changing nature of export credit competitors (from France and Japan to China and Brazil) and the massive flows of private capital into the emerging markets since 2000, we at Ex-Im Bank believe the current charter language provides the institution with sufficient powers and flexibility to adjust our programs and policies to meet those challenges.

We are requesting an extension of the charter for 5 years, to September 30, 2011. We are also requesting that our existing authority to approve dual-use transactions, as well as the life of the Sub-Saharan Africa Advisory Committee, be extended to that same date.

Ex-Im Bank currently has the authority to approve transactions supporting the financing of dual-use exports as long as the items are of a nonlethal nature and are used primarily for civilian activities. While not widely used, that authority is important to some of our exporters. And the Sub-Saharan Africa Advisory Committee has proved to be a valuable source of knowledge to the Bank as we attempt to increase our exports to this important part of the world that offers great potential for our exporters.

Appropriations

For fiscal year 2007, Ex-Im Bank is requesting $26.4 million for its program budget. When added to other available budget authority, that will give us a total estimated program budget of $176.5 million. We further estimate that it will allow us to authorize financing of approximately $17.5 billion in support of $22.5 billion in U.S. exports. From fiscal year 2002 through fiscal year 2005, the Bank has authorized financing of $48 billion in support of U.S. exports using $1.6 billion in program budget. That is a bargain for the U.S. taxpayer.

The Administration is also requesting $75.2 million for our administrative budget, compared to $72.5 million enacted for fiscal year 2006. This pays for every aspect of our operations, from salaries to rent. I would like to emphasize that it is the administrative budget that is most important for our small business initiatives. It covers our outreach efforts and technological upgrades.

Small Business

Since I was appointed Acting President and Chairman about 7 months ago, no topic has received more attention at Ex-Im Bank than small business. We have been working with Congress on its concerns as well as with the U.S. Government Accountability Office (GAO) as they prepared a report on how we interpret our small business legislation and account for our small business transactions. We have conferred with small business representatives on changes I am about to discuss. And while I cannot say we have reached total agreement on all issues with all of the parties involved, we are embarking on major changes in our administrative structure with the purpose of continuing to increase our support for small businesses.

I say *continuing* to increase because we have already laid a strong foundation for growing our small business program. In fiscal year 2005, Ex-Im authorized 2,617 transactions that were made available for the direct benefit of small business, compared to 2,154 in fiscal year 2002, which represents a 21 percent increase. In terms of dollar volume, the Bank supported $2.66 billion in small business transactions in fiscal year 2005 compared to $1.8 billion in fiscal year 2002, a 47 percent increase. And the Bank's Working Capital Guarantee Program, which benefits primarily small business exporters, had a record year in fiscal year 2005. Of the Bank's total Working Capital authorizations of $1.096 billion, 78 percent, or $850 million, directly benefited small business exporters.

While I recognize that we have been making progress, I am also aware that there is room for improvement. As I stated above, Congress has placed in our charter the mandate to make available 20 percent of our resources for direct support for small business. We have consistently made these resources available but they have never been utilized at the 20 percent level. We feel the way to move to the 20 percent level and beyond is to improve our outreach programs in order to increase demand. I have appointed John Emens to the new position of Senior Vice President for Small Business to manage his own unit, a staff focused solely on small business outreach. He will report directly to the President and Chairman of the Bank. The person holding the position of Senior Vice President will serve as the primary small business advocate on the staff level, and will of course work closely with the Board member given responsibility for small business matters. In addition, the Bank's regional offices in New York, Florida, Illinois, Texas, and California are now dedicated exclusively to small business outreach and support. Since his appointment in August as Vice President for Small Business, Mr. Emens has had a total of 129 meetings with, and sales calls to, small businesses.

Because the new Senior Vice President for Small Business is responsible to the President and Chairman for outreach to small business, and therefore has the lead responsibility for increasing the number of our small business transactions and the overall dollar amount of those transactions, we are separating those responsibilities from Bank personnel who are responsible for actually processing the transactions—that is, those in what we call the "business units." That reflects what we do for all businesses, large and small, within the Bank. It is part of our credit culture, and reflective of the culture in the private sector, that those who must objectively evaluate credit not be the same as those responsible for business outreach.

However, I want to assure you that small business transactions are processed only by personnel experienced in small business and who are sensitive to the special needs of the small business exporter. To further enhance our services to small business, I have designated all such employees throughout our business units as "small business specialists," so that when representatives of small business come into the Bank to discuss their transactions, they will interact with personnel who are familiar to them and knowledgeable about what their needs are.

The GAO report mentioned earlier finds that Ex-Im Bank "generally classifies small business status correctly." Ex-Im Bank employs a transparent and reliable methodology for determining our customers' small business status and reporting our direct support for small business. We have appreciated GAO's cooperative approach to the small business review. It has been a positive experience for Ex-Im Bank, both in terms of reaffirming our methodology and from the perspective of identifying areas in which Ex-Im can improve the efficiency with which we determine and report our direct small business support. For example, in conjunction with the introduction of our Ex-Im Online program, we are this fiscal year updating electronic participant records, strengthening internal controls around small business reporting, and arranging for an independent external audit of the Bank's direct small business reporting starting with fiscal year 2006.

Ex-Im Bank's Small Business Committee

We also realize that outreach to small businesses and processing small business transactions involve almost every division within the Bank. Therefore, we have established an Ex-Im Bank Small Business Committee (SBC) to coordinate, evaluate and make recommendations regarding the many Bank functions necessary for a successful small business strategy. The SBC will be co-chaired by the Senior Vice President of Export Finance and Senior Vice President for Small Business, who will report to the President and Chairman of the Bank. And we have institutionalized this structure by having the Board formally approve it. The SBC will be composed of representatives from Domestic Business Development under the Senior Vice President for Small Business as well as the principal processing units within our Small Business Group—Export Finance (Business Credit, Trade Finance and Insurance and Multi-Buyer Insurance), Credit Underwriting, the Office of the General Counsel and Asset Management. Other divisions within the Bank, including Congressional Affairs, will also participate at meetings.

The goals for the SBC are to:

- Provide a Bank-wide focus on small business;
- Report and evaluate each unit's small business performance;
- Identify opportunities for cross-selling and expanding the use of Bank programs for small business;
- Measure the progress and take steps toward meeting small business plan objectives; and
- Serve as a forum for exploring new small business initiatives.

Claims Committee

In addition, we have established a new claims reconsideration procedure and "Claims Committee." The Claims Committee will be responsible for evaluating and making final decisions with respect to claims originally denied by the Office of the Chief Financial Officer. I believe these changes will help all of our customers, but will be particularly useful to small businesses, by improving transparency in the claims reconsideration process. In addition, the new procedure establishes formal consultation among the business units of the Bank and the Asset Management Division as part of the reconsideration process. The Claims Committee will comprise (i) the Senior Vice President for Small Business, (ii) the Senior Vice President for Export Finance, (iii) the General Counsel, (iv) the Chief Financial Officer, and (iv) the Senior Vice President for Credit and Risk Management.

To strengthen customer education about the reconsideration process, a small-business portal with information pages will be created on Ex-Im Bank's website. The Claims Committee will hold its first meeting in mid-March.

Technology Upgrades

I also want to discuss with you the progress we are making regarding our technology improvements. The Bank has responded to the Congressional mandate in our last reauthorization to "implement technology improvements that are designed to improve small business outreach, including allowing customers to use the Internet to apply for the Bank's small business programs." The Bank has substantially expanded its online capabilities for its customers, especially small businesses. The Bank has been implementing online capabilities in stages. In the past 5 years, we have done the following:

- *Forms automation.* Ex-Im Bank has updated its website to provide all customers, particularly small businesses, with improved access to information, applications, and forms. All of Ex-Im Bank's applications and forms are available through the website.
- *Electronic claim filing.* Ex-Im Bank has established an electronic claim filing system to expedite claim filing and enable customers to obtain a quicker claim payment.
- *Electronic compliance.* Ex-Im Bank has developed an online Medium-Term Electronic Compliance Program, which greatly improves the efficiency and turnaround time in approving disbursements.
- *Letter of Interest.* Ex-Im Bank has implemented an online application for its letter of interest. The online letter of interest system provides a paperless workflow and application process for small businesses. This capability streamlines the process for small businesses and saves them time in tracking the status of their submitted applications.
- *Registration and subscription services.* Customers can sign up online to receive Ex-Im Bank publications, e-mail updates, and other information and to manage their subscriptions.

Ex-Im Online

Ex-Im Online, our major business reengineering and automation project, is the next step. In June, small business customers will begin using Ex-Im Online for multibuyer products, including support for special buyer credit limits. These are the products most heavily used by small business: More than 80 percent of the customers are small businesses, and these products represent half of Ex-Im's annual transaction volume. Customers will apply online, get quick decisions, and receive online status information. Programming for the system is complete. The system has been fully tested and customers are being trained.

Ex-Im Online will reengineer, automate, and modernize Ex-Im Bank's primary business processes, particularly for the products used by small businesses (short-term export credit insurance) and the products that provide significant indirect support for small business exporters and suppliers (medium-term insurance and guarantees).

Ex-Im Online will provide exporters, in particular small businesses, the benefits of electronic application submission, processing, and insurance policy management. Ex-Im Online will reduce customers' paperwork, improve Ex-Im's response time, increase productivity and improve risk management.

Ex-Im Online will allow customers to:

- *Apply online.* Applications and all supporting documentation can be submitted and processed electronically.
- *Get quick decisions.* Online retrieval of credit and demographic information and automated underwriting will reduce review and decision time for short-term transactions.
- *Receive online information on application status.* Applicants will receive email notification of the status of their application.
- *Reduce paperwork burden.* Automatic data entry and reuse of existing data will permit "enter once-use many times" management of customer information.
- *Manage export accounts receivable online.*
- *Strengthen product development.* Ex-Im will be able to consider a broader range of product enhancements and modifications, particularly in the short-term insurance area, as a consequence of better risk quantification and management capabilities using online systems.

There will also be benefits to Ex-Im Bank:

- *Increased productivity and better resource use.* Replacing manual processes will allow staff to focus on meeting growing small business needs and extending outreach to new customers. Ex-Im will redeploy staff from processing to customer service. As small business transactions and volume grow as expected from increased outreach, we will be able to manage the growth without adding staff. In addition, staff shifted from processing to customer service will provide more person-to-person service for small business customers, especially new exporters.
- *Increased customer satisfaction.* Streamlined application submission, automated case processing, and quicker decisions will increase satisfaction with Ex-Im services, supporting our outreach and marketing.
- *Stronger risk management.* Business intelligence tools and better sharing of information will improve management of the portfolio.

This program is the result of approximately $10.8 million in spending over 5 years, and while it has taken a long time to get it in place, I am confident it will bear fruit by easing small business customers' interaction with the Bank.

Pursuant to direction in our 2002 reauthorization, the Bank has realigned its budget to support small business technology. Technology expenditures in fiscal years 2001 and 2002 increased from $7.6 million to $12.0 million, an increase of more than 50 percent, with smaller increases in fiscal year 2003 and fiscal year 2004. In the last three fiscal years, Ex-Im's administrative expense budget has been generally flat, and Ex-Im has funded improvements to its portfolio of online applications and services from its general technology budget.

In the end, I would like to be able to guarantee that these efforts will result in 20 percent of our funds being utilized by small business exporters, and that our small business figures will continue to grow in absolute terms. Unfortunately, I cannot. At Congress' direction, we are a demand-driven enterprise. I cannot predict business cycles, or whether applications that come in tomorrow will be appropriate for the financing we have to offer. But what I can guarantee is that we will do everything within our power to increase demand through improved outreach programs. And I promise you that Ex-Im Bank is going to listen to small business input concerning our programs, that we will communicate with Congress and take your concerns seriously, and that our renewed efforts in small business are going to be sustained.

Economic Impact

Through the economic impact process the Bank seeks to determine whether a transaction under consideration would adversely affect U.S. production or employment, or result in the manufacture of a good subject to specified trade measures. In analyzing these cases, Ex-Im Bank must balance the benefits associated with the U.S. export against the long range implications of increased foreign production. Given Ex-Im Bank's objective of maintaining and increasing employment of U.S. workers, Ex-Im Bank has long accepted the principle that it should not extend financing support when such support would adversely affect the U.S. economy.

While Ex-Im Bank's consideration of economic impact predates the Bank's 2002 reauthorization, Congress made substantive changes to the economic impact section of our charter in 2002. After extensive vetting and coordination with our stakeholders—including the U.S. export community, industry, labor interests, and Congress—Ex-Im Bank issued revised economic impact procedures in March 2003.

The economic impact procedures are intended to lay out a reasonable and logical process to analyze the impact of Ex-Im Bank support for a particular transaction. The economic impact analysis considers issues such as whether the goods and services Ex-Im Bank is asked to support would establish or expand foreign production capacity of an exportable good, the relevance of trade measures, the global supply and demand for the good to be produced and the competitive impact on U.S. industry from increased production. The process includes review by other U.S. Government agencies, as well as input solicited from interested parties through *Federal Register* notification.

In recent years, economic impact decisions have affected Ex-Im Bank financing support for many exports, including steel-making equipment, glass-making equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment, and others.

Keeping the Competitive Edge in New Products and Special Markets

Environmentally Beneficial Exports

Ex-Im Bank established the Environmental Exports program to increase support of environmentally beneficial goods and services. Since the program's inception in 1994, Ex-Im Bank's environmental transactions have grown significantly, with a total portfolio in excess of $2 billion. That has allowed U.S. environmental companies to compete in promising emerging markets. From fiscal year 2002 to fiscal year 2005, Ex-Im Bank has supported more than $1.3 billion in environmentally beneficial exports. The Ex-Im environmental portfolio includes transactions financing U.S. exports of renewable energy equipment, wastewater treatment projects, air pollution technologies, waste management services, and many other goods and services. Renewable energy and water project exports are eligible for repayment terms of up to 15 years under an OECD agreement that became effective July 1, 2005, for a trial period of 2 years. It is our goal to use these new terms and our outreach programs to expand our exports in this sector, where we feel the United States has a real technological edge over its competition.

Women and Minorities

As a nation, our institutions work best if they reflect the society in which we live. This holds true especially for business. It is easier to successfully market a product or services to a community if you know that community and are part of it. With this in mind, we at Ex-Im Bank are striving to help the American export community be more competitive by working to increase our transactions involving women- and minority-owned businesses. For fiscal year 2005, our authorizations in this area were $353 million, compared to $296 million in fiscal year 2004. We have increased our outreach to achieve this goal, and plan to increase it even more this year. In fiscal year 2005, Ex-Im Bank staff participated in 57 speaking engagements and attended thirteen conferences expressly aimed at these targeted audiences. We are committed to continuing and expanding these efforts.

Future Challenges

Any testimony about Ex-Im Bank must include a discussion of the challenges Ex-Im Bank will be facing over the next 5 years, the length of our request for reauthorization. That is no easy task, because it is extremely difficult to predict even such major events as the Asian financial crisis of the late 1990's, or the rise and fall of some or our major markets in South America such as Venezuela and Argentina. But there are issues that bear watching and which may have to be dealt over the next 5 years.

Developing countries on the upper part of the industrialization scale (for example Brazil, Russia, India, and China) are emerging as significant exporters of capital goods such as airplanes, trains, and construction and telecommunications equipment. Those products are generally priced very attractively, are steadily improving in their quality and are typically supported by official financing. This financing is often on better terms better than agreed to by members of the OECD. U.S. companies, and those in all G-7 countries for that matter, are noting that these emerging exporters are displacing them in a variety of markets around the world—and financing is sometimes a key element in that displacement. We have to decide what should Ex-Im Bank's response be.

Looking at this issue from the standpoint of our Congressional mandate, there is little doubt that the guidance would be for Ex-Im to offset the financing if requested to do so, keeping in mind that we also must find a reasonable assurance of repayment, comply with our environmental guidelines, live within a limited budget and meet our economic impact requirements. There is no clearer or more fundamental mandate than leveling the playing field for our exporters and keeping jobs here in the United States.

Conclusion

I have every confidence that this institution that I have grown to admire and respect will continue to serve U.S. workers and taxpayers for years to come. A flexible charter allowing Ex-Im Bank—with the guidance of Congress and the exporting community, to develop answers to the pressing issues facing us now and in the future—is key. The beacons to help a steer a true course have been set so we can do our job for the U.S. economy. There is no more important economic issue than preserving our job base, and with the help of Congress in this year of our reauthorization, we will continue to fulfill that mandate.

I will be happy to answer your questions.

PREPARED STATEMENT OF GERALD F. RAMA

SENIOR VICE PRESIDENT AND DEPUTY GROUP HEAD GLOBAL, PNC BANK

ON BEHALF OF THE

BANKERS' ASSOCIATION FOR FINANCE AND TRADE

MARCH 8, 2006

Introduction

I am pleased to be with you today to discuss the banking industry's views on reauthorization of the Export-Import Bank of the United States. I am testifying today as a banker who has worked with the Ex-Im Bank for over 32 years and as a member of Trade Finance Committee of the Bankers' Association for Finance and Trade (BAFT), an organization founded in 1921. Today, BAFT is an affiliate of the American Bankers Association and its membership includes most of the major American banks that are active in trade finance and other international banking activities and also many of the major international banks chartered outside of this country.

My employer, PNC Bank, is part of the PNC Financial Services Group, one of the Nation's largest financial services firms. PNC is headquartered in Pittsburgh, Pennsylvania, and has a diversified business mix, which includes providing a broad range of international banking solutions such as trade finance, foreign exchange, correspondent banking, international cash management, and online trade services applications. For more than 30 years, PNC Bank has supported export growth by providing export financing and trade facilitation to companies nationwide. In 2005, our bank received the Presidential "E" Award for export service on the basis of the bank's record of export promotion and continuing efforts to educate U.S. companies about trade finance resources.

Why We Need the Export-Import Bank

Every so often, and particularly during the process of reauthorizing the Export-Import Bank, someone will express the view that the United States does not need and should not have such an agency. They contend that the Bank is unnecessary and constitutes nothing more or less than corporate welfare. If the Bank actually were serving an important purpose, they argue, the private sector would meet that need without requiring any taxpayer support. In their view, the Bank simply is a mechanism to hand out taxpayer money to special interests.

In my view, these critics are wrong. The reality is that the Bank serves the interests of our Nation by providing credit support that is a vital component in the competitiveness of American products in international markets. For example:

- An American software developer with 60 high-paying U.S. jobs in the Southeast started exporting products in 2004. The company had a contract to provide software priced at $1.6 million to a foreign purchaser but could neither get financing approval from its principal bank nor find another lender. The company went to the Ex-Im Bank and obtained single-buyer export insurance for $1.6 million and a $900,000 Working Capital Guarantee Program transaction-specific guarantee. It then was able to obtain financing from a local bank. The insurance policy from the Ex-Im Bank was critically important to the software company's success for several reasons: (i) it is a pay-as-you-go policy which the private sector does not provide (small businesses often cannot afford the large up-front premiums the private sector requires regardless of usage); (ii) it covers countries and situations that the private sector will not (because of long lead-times to project completion and installation); and (iii) Ex-Im was able to provide a fast and very reasonable response to a small, but complex transaction.

- A small family held company in the Northeast, which employs 100 people, manufactures machine tools used to maintain transportation equipment. The company also has a larger, German affiliate that manufactures the same equipment (and which can obtain export credit financing from Germany's export credit agency). The company has a large customer in Eastern Europe on which it relies for a significant portion of its annual revenue, and this customer's needs can be met by products made by the company in America or by its affiliate in Germany. The customer is undertaking an extensive, long-term refurbishment of its operations and when it makes equipment purchases it specifically seeks export credit financing. Medium-term guarantees from the Ex-Im Bank on two occasions (approximately $10 million and $6 million) played an important part in the company's sales of equipment manufactured in the United States.
- A guarantee provided by the Ex-Im Bank has enabled a company in Arizona that manufactures electronic test products to obtain working capital financing that otherwise would not have been available. The company's sales in foreign markets have expanded in the face of international competition and exports now contribute about 45 percent of the company's total sales. The total number of employees at the company has grown by 25 percent per year since 2003, largely on the basis of the expanded foreign sales made possible by the Ex-Im Bank's guarantee.
- An American company that employs 70 people in the Southeast emerged from bankruptcy in 2005. It is the last producer of its product in the United States and Europe, and it is facing substantial competition from producers in Japan. More than 30 percent of the company's sales are outside the United States and it expects that to grow to 50 percent in the next few years. Without Ex-Im Bank multibuyer insurance coverage, the company's asset-based lender would not be willing to include the foreign receivables in the company's borrowing base and it could not survive. The pay-as-you-go feature and Ex-Im's quick response time on special buyer credit limits were essential to meeting this company's financial needs.
- An American company based in the Midwest employs 77 people in manufacturing operations that produce processing equipment. It competes with companies from Taiwan, Japan, and China. The company sold equipment to a buyer in Eastern Europe. The buyer made a down payment of 15 percent of the purchase price. An American bank was willing to finance the remaining 85 percent only because the company obtained an Ex-Im Bank guarantee under its medium-term financing program. The bank also used the Ex-Im Bank's Working Capital Guarantee Program to extend a $1.5 million transaction-specific line of credit to the company to enable it to meet the payment guarantee bond and work-in-process financing needs of this transaction. Ex-Im's credit support of this company has enabled it to be successful against its foreign competition in the global marketplace.

Each of these situations represents incremental export sales by American companies that support the jobs of American workers and help to reduce our national trade deficit.

Many other examples could be cited. These are the "special interests" the Ex-Im Bank serves and I would like to suggest it is in our national interest for it to continue doing so.

It is important for Congress to remember that American businesses are engaged in fierce competition with foreign companies in the global market. Many of those foreign companies come into the market with various advantages, including credit support from their home country export credit agency (ECA). In the midst of this competition we cannot afford to abandon one of the most important factors that helps American business compete—the Export-Import Bank—nor can we afford to impose any new or more onerous restrictions on its ability to support American exports. If we did, the inevitable result would be fewer export sales, loss of jobs, and an even wider trade deficit.

Something that I and other trade bankers have observed in recent years is that the ECA's from other countries are getting to be more strategic and flexible in their approaches to export finance. In addition, new competition is coming from emerging market ECA's, such as those in China, India, Eastern Europe, and Brazil. They all understand the extent of international competition and they are taking new approaches that will enable their exporters to win in the global marketplace. For example, many ECA's are becoming more aggressive when it comes to taking on risk and more willing to provide financing for transactions that generally benefit their country, even if the transaction does not directly involve the export of locally produced goods. I believe that U.S. companies' efforts to compete in international markets will be hampered if our Ex-Im Bank does not take a similarly aggressive approach. (This is not to say that Ex-Im has not been aggressive in certain respects in the past. Trade bankers have noted the Bank's willingness to take on credits that commercial banks have been unwilling to accept.) I hope that in reauthorizing the Bank, Congress will clearly express its support for an aggressive effort by the Export-Import Bank to meet the needs of American businesses—large and small—competing in global markets.

Issues Related to Ex-Im Bank Operations

I would like to comment on a number of issues that arise out of the Ex-Im Bank's operations and the various requirements imposed on the Bank under current law.

Small Business

The Export-Import Bank is required by law to make available an amount equal to at least 20 percent of its aggregate loan, guarantee, and insurance authority in each fiscal year to finance exports made directly by small business concerns. The Bank frequently is criticized on Capitol Hill for its repeated failures to satisfy this requirement. We think the criticism is unfair.

In the first place, it should be acknowledged that the 20 percent standard is a limited and arbitrary measure of the Bank's service to small business. Small business transactions, by number, typically make up more than 80 percent of the transactions approved by the Ex-Im Bank each year. But when the sole measure is total dollar amount, large business transactions overwhelm those done by small business. By their very nature, the large export products that generally are produced by larger companies (airplanes, heavy equipment, and project work) mean large dollar volumes. If Ex-Im were evaluated on the amount of effort it puts into small business transactions, the 20 percent standard would be easy to meet because the work put in by the Bank on a small transaction can be as much or more than a large one. Another shortcoming of the test is that it fails to take into account the participation of small business in large business transactions. A single airplane sold by Boeing has myriad components produced by small business, yet Ex-Im gets no credit in its small business ledger for the support it provides to Boeing that indirectly benefits those small businesses. Finally, it also is difficult to understand why 20 percent is an appropriate test. As a banker, I find it difficult to comprehend why Ex-Im should be considered a failure at 19 percent and a success at 21 percent.

I also believe that critics of the Bank are misconstruing the 20 percent test. The Bank is required to "make available" to small business a specified amount of its authority—the law does not *require* the Bank to actually extend loans, guarantees, and insurance equal to that amount. This is appropriate because the Bank is a demand-driven organization. It has no control over the source of credit support requests it receives. All that it can do is educate small businesses about its programs, encourage them to use its programs, and assist them in negotiating their way through the process. We believe that through its small business outreach efforts the Bank is *making available* to small business the *full amount* its authority, thus in reality it is satisfying the statutory requirement.

Thinking of this provision as if it were a *mandatory* 20 percent requirement also puts the Ex-Im Bank in an untenable position. Suppose that the Bank's loans, guarantees, and insurance extended to support small business exports in a particular fiscal year exceeded 20 percent of its authority by a small amount near the end of the year. If an exporter that does not qualify as a small business brings a large export transaction to the Bank, the 20 percent standard gives the Bank an incentive to delay or not do the transaction in order to stay above 20 percent. That does not make sense if the real purpose of the Ex-Im Bank is to promote U.S. exports. At the same time, the 20 percent standard also creates an incentive for poor credit decisions if the Bank is below 20 percent and needs more transactions to satisfy the test. Neither incentive is a healthy one for the Bank.

Congress should rethink this requirement and devise a better way to measure the Ex-Im Bank's success in working with small business.

Economic Impact

The Export-Import Bank is required by law to consider the extent to which transactions are likely to have an adverse effect on industries and employment in the United States. The rationale for this requirement is understandable (although I am not aware of any other ECA that is subject to a similar requirement): Taxpayer money should not be used to support a transaction if its benefits for U.S. industry and employment are outweighed by the transaction's adverse impact on U.S. producers and employment. In most cases, however, the harm that might result from a transaction will occur whether or not the U.S. exporter seeking Ex-Im support makes the sale. If the U.S. exporter does not make the sale, one of its competitors from another country will. The adverse impact on U.S. industry will occur in either case. Thus, it seems that unless the U.S. exporter is the only possible source of the equipment to be sold, the economic impact on the United States of an export sale will always be positive. Unfortunately, when it evaluates the economic impact of a transaction, the Ex-Im Bank staff does not consider the availability from another source of the goods to be sold. We believe this is a valid consideration that the Bank should take into account in its analysis and we urge Congress to provide direction to the Bank in that regard.

I have another concern that the Ex-Im Bank and Congress should consider as well—the reputation risk created by the economic impact test. Whenever the Bank turns down a transaction on the basis of economic impact, it has an adverse effect on the perception of U.S. exporters as reliable suppliers: The financing support that was expected did not come through. If a foreign purchaser has doubts about whether Ex-Im support for the financing of their purchase actually will be made available, the likelihood of the U.S. exporter getting the sale is diminished. For this reason we believe that the economic impact test should be used as little as possible. A step in the right direction would be to raise the minimum transaction size for economic impact assessment from $10 million to $25 million, to take into account the effects of inflation over time.

Co-Financing

Co-financing is an arrangement whereby exports that are sourced from more than one country can receive credit or credit support from two or more ECA's in an efficient manner. Typically, the ECA for the country that is the principal source of the products or services takes the lead and is the sole agency with which the purchaser must interact. The cofinancing arrangement allows for one set of documents and one source of disbursements, in each case provided by the lead ECA which obtains supporting financial commitments directly from the other participating ECA's.

Bankers that finance these transactions like cofinancing arrangements because they are an efficient and convenient way of providing credit support for what otherwise could be extremely complex transactions. As the Export-Import Bank noted in its June 2005 *Report to the U.S. Congress on Export Credit Competition* (the *2005 Report to Congress*), the "availability and ease of ECA cofinancing has become an important and measurable competitive issue."

According to the Ex-Im Bank's website, it currently has bilateral cofinancing agreements with ECA's in four other countries: Canada, Italy, Japan, and the United Kingdom (and a limited agreement with K-Exim of Korea). At a hearing before the Senate Banking Committee prior to the Bank's last reauthorization in 2001, Ex-Im Chairman John Robson reported that the Bank had entered into a bilateral agreement with ECGD of the United Kingdom and that discussions with EDC of Canada were close to completion. We are disappointed that agreements have been signed with only two other countries in the ensuing 4 years (a 1998 GAO report said there were more than 70 ECA's operating throughout the world; the UK's ECGD has agreements with ECA's in 24 different countries). Although the Bank has participated in cofinancing arrangements on a one-off basis with ECA's in countries with which it does not have a cofinancing agreement, having signed agreements is preferable. The agreements make it clear to potential purchasers that cofinancing is available and they establish a framework that facilitates cofinancing implementation for an actual transaction. When the Bank signed its cofinancing agreement with Canada in May 2001, its press release said, "This is another step in the right direction by Ex-Im Bank to deliver the same type of flexibility offered by a number of ECA's." We urge the Bank to take more of these steps and to make cofinancing agreements with other ECA's a priority.

MARAD

Transactions supported by Export-Import Bank guarantees in excess of $20 million or that have a repayment period of more than 7 years are subject to a requirement (administered by the U.S. Maritime Administration—MARAD) that the goods being financed must be shipped on a U.S.-flag carrier if they are transported by sea. The exporter is required to use a U.S.-flag carrier even though other carriers might (i) be available at lower cost; (ii) have vessels that are more suitable for the particular cargo being shipped; and (iii) provide logistical advantages with respect to their availability and routing. This can result in situations that are nothing short of ridiculous. For example, a West Coast-based exporter that was selling goods to a purchaser in Jamaica was required to use a U.S.-flag carrier and as a result watched its goods in one shipment go from San Diego to Japan, to the Dominican Republic, then finally to Jamaica. Another shipment went from San Diego to Florida, to Spain, and then to Jamaica. If it were not required to use a U.S.-flagged vessel, the exporter could have arranged direct shipment from San Diego to Jamaica. The MARAD requirement added significant costs and weeks of shipping delays. The exporter summed it up as "extortion." It certainly is nonsense.

Although waivers are available in certain limited circumstances, the waiver process itself acts as a disincentive for potential purchasers of U.S. goods.

At a time when the United States is recording record merchandise trade deficits, it seems foolish to burden U.S. exporters with requirements of this kind. According to the *2005 Report to Congress,* "None of the other G-7 ECA's have similar cargo preference restrictions." Congress should seriously consider rethinking the MARAD requirement and, at the very least, restrict its application by raising the minimum amount from $20 million to $30 million or more.

Domestic Content

The Export-Import Bank's mission is to support U.S. jobs through exports. In pursuing that mission, the Bank has adopted a restrictive policy of only providing credit support for the value of the U.S. content in an export. The Bank limits its involvement in a transaction to the lesser of: (i) 85 percent of the value of eligible goods and services, and (ii) 100 percent of the U.S. content in those goods and services. Thus, if a U.S. export consists of 50 percent U.S.-made components and 50 percent non-U.S. made, the Bank's support would be limited to 50 percent of the contract's value. This is problematic in several related respects. First, as complexity increases in manufacturing processes and the sourcing of components, it is becoming increasingly difficult to track the levels and sources of non-U.S. content. This is particularly true for small businesses that do not have the resources to devote to it. Second, requiring such strict proportionality likely results in fewer U.S. exports than could otherwise be achieved. The question is: How much support should Ex-Im be willing to provide in order for an export transaction to occur? It is not at all clear that the correct answer is tied to the proportion of U.S. content. What is clear is that other countries have concluded that strict proportionality—and thus strict accounting for content—is not required. For example, the *2005 Report to Congress* indicates that Japan's ECA does not reduce its support of transactions that have at least 30 percent Japanese content and Canada decides its level of support on a case-by-case basis. Italy's ECA announced in 2004 that it would shift its standard from "Made in Italy" to "Made by Italy" and Ex-Im reported that other countries were moving to this approach as well. We believe that Ex-Im should adopt a case-by-case approach that balances the costs and benefits of individual transactions, rather than adhering to a strict formula that requires precise tracking of U.S. content, and we urge Congress to express its support for that approach as well.

Tied Aid

The Export-Import Bank's tied aid war chest was established to enable the Bank to combat export subsidies provided by foreign governments in the form of financing for public-sector projects that is tied to the purchase of goods and services from exporters in the donor country. Although the Bank's *2005 Report to Congress* expressed the view that OECD tied aid rules have been a "great success in reducing the level and distortive influence of tied aid," there is a general perception among American bankers and exporters that the use by other countries of tied aid and implicitly tied aid (referred to as "untied aid") is growing. The particular countries that are mentioned include China, Japan, Germany, and Denmark. We are concerned that the Bank has not utilized any tied aid funds *since 2002,* possibly because the Bank is unwilling to act unless it has overt proof and possibly because of the unwieldy procedures that govern the relationship between the Treasury Department and the Bank regarding use of the war chest (and the Treasury Department's unwillingness to use the war chest funds). We believe that the Bank should reexamine what is happening in the market and then determine whether greater use of the war chest is needed. Congress should review the procedures followed by the Treasury Department and Ex-Im Bank for utilizing the war chest and consider whether they could be simplified and whether clarifying the Bank's authority to utilize the war chest would facilitate the use of those funds to combat the use of tied aid by other countries.

Dual-Use Products

The Export-Import Bank generally is prohibited from providing credit or credit support in connection with the sale of defense articles or services to any country, with the exception that the Bank may provide such support if it determines that the articles or services are nonlethal and that their primary end use will be for civilian purposes. This exception, which we believe is useful and appropriate, sunsets and requires periodic renewal. It currently is set to expire on October 1, 2006. In 1997, the U.S. General Accounting Office reported, "the Ex-Im Bank appears to have established procedures that provide a sound basis for determining whether these exports are nonlethal and primarily used for civilian purposes, as required by law." We believe the time has come to make this a permanent provision that does not require periodic renewal.

Conclusion

We believe that, within the constraints of its budget and other resources, the Export-Import Bank generally is doing a good job in promoting the export of American goods and services to international markets, but improvements always can be made. The Export-Import Bank plays a key role in helping U.S. businesses of all sizes compete in markets around the world, but we believe the Bank is hampered by having too few people and too many requirements imposed on it that do not relate to its primary mission. Consequently, we urge the Congress to provide the Bank with significant additional resources in its administrative budget, and to act on our recommendations to reduce the Bank's administrative burdens that inhibit its functions. We look forward to continuing to work with Members of Congress and with the Bank to maximize its effectiveness in promoting American exports.

PREPARED STATEMENT OF JAMES "AL" MERRITT

PRESIDENT AND CEO, MD INTERNATIONAL, INC. MIAMI, FL

MARCH 8, 2006

Senator Crapo, Senator Bayh, Members of the Subcommittee, thank you for inviting me to appear here today. I am Al Merritt, President of MD International, Inc., of Miami. MD exports medical equipment and related services to Latin America, the Caribbean, and other markets. Areas of medical care that we address include general medicine, ENT obstetrics/ gynecology, ophthalmology, physical therapy, cardiology, surgery, critical care, anesthesiology, and imaging. We also provide turn-key and ongoing hospital renovation and remodeling projects throughout the world.

Throughout its 19-year history, MD International has offered financing to foreign buyers, often with the support of the Export-Import Bank of the United States. Without Ex-Im's assistance, our company would have lost important sales, and individuals throughout Latin America would have gone without access to modern medical technology.

I also appear here today as a representative of the Small Business Exporters Association of the United States, on whose Board of Directors I serve. SBEA is the Nation's oldest and largest nonprofit organization of smaller exporting companies. As the international trade council of the National Small Business Association, SBEA also represents NSBA's 22,000 exporting companies.

Let me begin by stating unequivocally—on behalf of MD International and SBEA—that we strongly urge Congress to reauthorize Ex-Im Bank.

We support Ex-Im and we want to make it even more effective.

The Need for Ex-Im Bank

Sales of products and services to developing nations involve a significant degree of foreign risk, especially when the foreign buyers finance their purchases over several years. Commercial banks historically have been reluctant to assume a major share of this risk. For one thing, the collateral securing the loans is often in another country, where recovery can be difficult.

Every exporting Nation grapples with this risk. Nearly all of them address it by providing guarantees to commercial lenders and brokers that agree to finance exports using certain criteria, or by providing credit directly to exporters.

This is particularly vital for transactions by smaller companies. Not many banks are involved in export finance. And not many of those will handle smaller international transactions, especially when the exporter is a small business. Fewer still will accept "walk-in" small business exporters who are not long-time commercial customers. Without Ex-Im's (and SBA's) available backing for export finance, small business access to export finance would be close to zero. Congress envisioned Ex-Im as a "bank of last resort" for exporters; for small and medium-sized companies, it is frequently the "bank of only resort."

Our company is a good example. We have been exporting successfully for nearly 20 years. We ship to forty countries. We employ 111 people. Yet even with our history, reach, and employees, many deals would be impossible for us without Ex-Im guarantees and insurance.

Maybe I can illustrate this with an analogy. If you buy a tire for your car, you probably will pay cash for it. If you buy a new transmission for your car, you may well charge the cost to your credit card and pay it off over 3 or 4 months.

But if you buy a new car, you probably are not going to pay cash for it or even pay it off in a few months. You will most likely want to finance it over a couple of years.

Lots of small exporters in effect sell tires. Tire sales can be a good business. Plenty of foreign buyers want the equivalent of tires, and that can form a pretty good trading relationship. You can do a lot of "tire exporting" as a cash business without having to find financing for your buyers.

With "transmissions" and products that cost more per unit, however, many buyers will want to take a few months to pay. Unless you as an exporter want to act like a bank—and most exporters cannot and do not—you will need short-term export financing.

"Transmissions" and their equivalents are desirable exports that can support good jobs at home and form the foundation for solid and growing international trade channels. So it helps everybody when Ex-Im provides short-term guarantees and insurance for the financing of these exports.

"Cars" (in other words, higher value exports like capital equipment) are a much bigger deal. The buyers want to take years to pay, but the benefits to the exporters and the United States as the exporting country are huge. Companies that build "parts" for the "cars" get sales. Many jobs, both direct and indirect, get created and supported. "Car"-type exporting is a very good business. Sales are larger. Margins are usually healthy. And the buyers eventually come back for "tires" and "transmissions," not to mention servicing and training. "Car" transactions use medium-term financing. Without Ex-Im backing, these transactions are extremely hard to put together.

(Ex-Im also provides long-term financing for very big ticket items. Let's call them "airplanes." They are vital to the U.S. balance of trade, and necessary, but not a major focus for "SME's."* Few small business exporters want to extend payments out beyond 7 years.)

In sum, American companies of all sizes would lose countless billions of dollars in export sales—and the high-paying export-related jobs that go with them—without Ex-Im, the official export credit agency of the United States.

But there is another side of it, too. I like to think that companies like mine help the United States put its best foot forward overseas. Companies that construct roads, purify water, build homes and schools, and improve health care. We show our neighbors that we care about the quality of their lives. We demonstrate that our government and our private sector want to help them achieve health and prosperity. Without Ex-Im, that capability, too, would be greatly diminished in the developing world.

Here are two examples of MD International transactions that Ex-Im financed.

- (A "transmission") We sold a fluoroscopic diagnostic device, manufactured in Utah, to a Mexican hospital for $150,000. Ex-Im provided the hospital with financing.
- (A "car") We completely outfitted a women's hospital in the Dominican Republic with $7 million worth of U.S. manufactured medical equipment. Thanks to 7 year financing from Ex-Im, we made the sale despite stiff competition from German and Spanish companies, selling EU-manufactured equipment, and backed by the export credit agencies of Germany and Spain.

So MD International and many other SBEA members keep a close watch on Ex-Im.

How To Improve Ex-Im

MD International and other SME exporters appreciate the assistance that Ex-Im has provided. But it is no secret that Congress gave Ex-Im a mandate in 2002 to allocate 20 percent of its financing dollars to SME transactions, and that the Bank has so far failed to meet that mandate.

SBEA would like to suggest some reasons why, based on the experiences of companies like mine, and to recommend steps that Congress and the Bank could take to meet this entirely achievable threshold.

Ex-Im starts with an great resource—many dedicated, hard-working people. There are also several Ex-Im products that are well-suited to smaller companies. These in-

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*Here, as elsewhere in this testimony, "small and mid-sized enterprises" (or exporters or "SME's) refers to U.S. businesses with fewer than 500 employees, with certain limited exceptions as defined by the U.S. Small Business Administration (SBA).

clude the agency's export working capital (preshipment) financing and its short-term insurance against buyer default.

While these products—and the SME awareness of them—could always be improved, overall they tend to work well. The criteria for obtaining the financing are relatively transparent and the authority to get the transactions underway is delegated to a network of banks and brokers.

Ex-Im's principal challenge with these products is finding and educating its potential customers. A secondary challenge is making sure that those customers, once inside, are retained and return again.

So our first recommendation is to the Bank: Broaden outreach to SME's on these products and use their feedback to make improvements in them.

While we would encourage Congress to stress this point in the Report accompanying the reauthorization legislation, we do not feel it is necessary to be included in the statute itself.

To its credit, Ex-Im has developed an ambitious plan for outreach, as part of its recent "Small Business Committee" initiative.

In terms of identifying further new SME customers, I would simply repeat what my SBEA Board colleague Jim Wilfong said at last week's Ex-Im Advisory Committee meeting. Over 60 percent of the SME's that are currently exporting ship to only one country. Getting them into a second or third country would increase the demand for Ex-Im products—without the sometimes steep learning curve involved in a company's first export transaction. The Commerce Department's U.S. Export Assistance Centers, located in over 100 cities across the country, could be helpful partner to Ex-Im in this process.

Our second point is that the Bank's emphasis on SME transactions has tended to ebb and flow over the years, based on the priority that the Bank leadership has attached to them. Unfortunately, this has resulted in considerable SME management instability.

When we consulted with current and former Bank staffers about Ex-Im's approach to SME management over the past decade, a rather confused picture emerged.

By our count, Ex-Im has had 15 different management structures for addressing SME's since 1997, *or more than two a year, on average.* The point person for SME's has been at various times a Group Vice President, a Senior Vice President, a Vice President, and an Office Director. For at least two substantial periods of time since 1997, *no one* was in charge of SME responsibilities. "Business Development" has been included in and excluded from the small business operation (when the Bank has had one), at one point being separated into *international* business development, which was excluded, and *domestic* business development, which was included. The Ex-Im field offices have been told to concentrate on small business, to concentrate on large business, and again to concentrate on small business. The SME operation has been near the top of the organization chart, answering to the President, in the middle, answering to various Senior Vice Presidents, near the bottom, and for a while in 2004–5, essentially off the chart, directing no one and essentially directed by no one. The staffing levels have ranged from one to more than twenty. Sometimes the person in charge of SME's could intervene in specific transactions, but sometimes not. Sometimes the SME operation has handled insurance products, sometimes guarantee products, sometimes both, and sometimes neither. Sometimes the SME operation has had the authority to approve credit and authorize transactions, but sometimes not. Sometimes the head of the Bank's SME operation has long been involved in the Ex-Im's small business transactions; sometimes the person has had *no significant* recent SME experience.

Ex-Im's SME management reached one of its "high points"—with a Group Vice President answering directly to the Bank President—prior to the Bank's 2002 reauthorization. Shortly afterward, the entire operation was abolished. What followed was one of the periods in which the Bank had *no* SME operation as such.

Our normal preference would be to let Ex-Im handle SME's on its own, and we certainly commend Chairman Lambright and the Bank's management and staff for the effort that went into the recent "Small Business Committee" proposal.

But we do believe that the lack of a permanent, stable structure with responsibility and accountability for the Bank's SME performance has reduced the effectiveness of the Bank's SME work. It also has confused commercial banks and exporters, as well as the Bank's own staff. So we request that Congress provide Ex-Im with additional guidance in this area.

We recommend that Congress:

- create a permanent Small and Medium Size Enterprise Division at the Bank,
- direct this Division to have its own staff of underwriters and business development specialists, devoted exclusively to SME transactions,

- authorize the Division to create its own credit standards and to process its own transactions (subject to approval by the Ex-Im Board),
- require this Division to have a system of compensation, benefits, incentives, and promotions comparable to other career tracks at the Bank,
- put a Senior Vice President or higher in charge of the Division,
- stipulate that the person holding that position have significant recent SME experience, and
- have this person report directly to President and Board of the Bank.

We believe that this approach would offer significant advantages.

First, it offers a framework of transparency, responsibility and accountability for SME transactions at the Bank. It puts the Bank's senior SME management in charge of the Bank's SME products and transactions.

Second, it creates an environment of stability in a domain of Ex-Im management that has been subject to frequent upheavals. It permits planning and benchmarking.

Third, it provides a secure setting for Bank employees who want to focus on SME's but fear more sudden shifts in the winds.

Fourth, it shortens the "feedback loops" between the Bank's SME customers and its SME policies, as well as between the Bank's SME officials and its Board. Process streamlining, turnaround time reduction and new product offerings will be simplified. Outreach becomes strategic and sustainable.

Fifth, it facilitates oversight by the Bank and Congress as Ex-Im carries out such Congressional mandates as the requirement to devote 20 percent of the Bank's financing dollars directly to SME's.

We suggest that the SME Division's funding allocation be left up to the Bank. Adjustments can be made, if necessary by Congress, according to the Division's success in hitting its benchmarks.

We believe that this approach to the management of Ex-Im SME transactions will be successful in part because we have seen something very similar to it succeed spectacularly at the Overseas Private Investment Corporation.

OPIC's mission is in many ways more difficult than Ex-Im's. Rather than finding American companies that want to *sell goods* overseas, OPIC must find ones that want to *invest* overseas.

These investments must promote American companies and not cost a single American job. They must aid in the progress of developing countries (OPIC was once part of USAID), and they must make economic sense on their own.

If the universe of SME's that export is small—5–10 percent of all U.S. SME's—the universe of SME's that want to *invest* overseas, and with these stipulations, is a fraction even of that.

Five years ago, a debate raged within OPIC about whether to stop handling SME transactions altogether.

OPIC's President at the time, Dr. Peter Watson, made the decision to go in the other direction. He set up a Small and Medium Enterprise Finance Department, installed an focused and energetic leader to head it, allocated significant agency resources to it (including full-time dedicated underwriters), and gave it his strong public and private backing.

In fiscal year 2001, OPIC handled SME transactions valued at *$10 million.* Last week, the agency released its numbers from fiscal year 2005: *$347 million* in SME transactions.

At the same time, the agency announced a new Enterprise Development Network that will use delegated authority financing to raise these figures even higher.

A similar approach also had a dramatic impact at Canada's export credit agency, Export Development Canada (EDC). In 1994, the Canadian Government decided to create an SME unit within EDC, with its own underwriters and business development staff, with full responsibility for EDC's SME products, and with its reporting directly to EDC's President.

Since then, EDC has grown from servicing fewer than 500 SME's to more than 7,000,—or one-fifth of Canada's 35,000 total exporters. Providing export financing through commercial banks (80 percent) and directly (20 percent), EDC last year provided CAN$11 billion in SME export financing.

From a base of 220,000 SME exporters in the United States, Ex-Im provided export financing to around 2,300, in the amount of US$2.7 billion. This is only about a *fourth* of the export financing that Canada provided to its SME's, despite the fact that the overall U.S. economy is *seven times larger* than the Canadian economy.

Ex-Im has the raw material—in the U.S. economy and in its own staff—to greatly expand its SME financing. It needs an appropriate management structure, the right allocation of resources, and strong backing from Congress.

On that note, our next recommendation relates to the Bank's allocation of staffing.

To step back a bit, Ex-Im as an institution reflects the environment in which it developed. Founded in the 1930's, the Bank evolved mainly in the 1950's through the 1970's—a time when larger companies represented nearly all of the demand for buyer financing instruments, especially those involving terms of longer than a few months.

As more American "SME's" have gone global in recent decades, that demand pattern has shifted. SME's here are finding overseas customers quite willing to place larger orders, and orders for more expensive items (cars), but in need of more flexible and longer-term financing.

In 1986, the year before MD International began exporting, there were about 65,000 small business exporters in the United States. Today, there are nearly 220,000. The value of American small business exports now tops $200 billion annually. (And that's just counting merchandise exports, not most service exports. Many small businesses like MD International sell services separately or packaged with goods exports.)

Today, over 97 percent of all U.S. exporters are small businesses. Their activity is broadly dispersed across the country. Take my home State of Florida. Over half the value of Florida's exports comes from SME's. The same is true, remarkably enough, in the economic powerhouse of New York State. In California, the figure is *almost* half—and the number of SME exporters tops 50,000. Across the Nation, more than one-fourth of all U.S. zip codes show merchandise exports of over $500 million a year.

Ex-Im as a whole has not really reflected these changes in the business environment.

The Bank's staff is highly concentrated in Washington, DC. No more than 25 Bank employees—highly dedicated and overworked ones, we might emphasize—are in the field. And virtually none of them have the authority to underwrite and approve transactions.

In terms of "being where the customers are," the Bank is almost the polar opposite of the Small Business Administration, about 20 percent of whose staff is in Washington, with 80 percent in the field. Even SBA's modest Office of International Trade has only 6 people in Washington, with 17 in the field.

As noted, the Commerce Department maintains a network of over 100 U.S. Export Assistance Centers across the Nation. These would be logical settings for Ex-Im personnel.

So our third recommendation to Congress is to have Ex-Im provide you with a report on how it could shift more underwriting and business development staff, especially those handling SME transactions, into the field.

But field staff alone cannot reach every SME exporter with financing needs. The Bank operates through a network of brokers and delegated authority lenders. Except when it does not.

And here I return to my point from earlier, about tires, transmissions, and cars.

Companies like mine—capital equipment exporters with bundled services—are selling "cars." More and more SME exporters are migrating into cars—higher value equipment and service exports. But buyers want to take several years to pay for cars.

This upside potential is extremely significant for several reasons. First, capital equipment exports support U.S. manufacturing. MD International, for example, buys from smaller U.S. manufacturers like Welch-Allyn in New York, Wallach Surgical in Connecticut, Miltex Surgical Instruments in Pennsylvania, Health-O-Meter Scales in Chicago, Gendex Del X-Ray Company in Chicago, Midmark in Ohio, Simmons in Atlanta, Mettler Electronics in California, Protocol Monitoring in Oregon, and Medical Research Labs in Illinois. Altogether, we buy from over 100 U.S. manufacturers based all across the country—almost all of them SME's.

Second, these exports are closely linked to higher-paying jobs in the United States—jobs that pay 15–20 percent higher, on average, than comparable work in nonexporting companies, according the Commerce Department statistics.

Third, these exports establish longer-term buying relationships with foreign customers, as those customers order parts, upgrades, servicing, training, and ancillary equipment over time.

Fourth, they also help establish American technical standards and specifications in overseas markets, a boon to a wide array of exporters.

Fifth, capital equipment exports are simply worth more money, on average, than most other types of exports.

So if the SME Division of Ex-Im that we are proposing needs an early focus, expanding SME capital equipment exports should be it, in our opinion. Nothing will get the Bank's SME numbers up above 20 percent faster, nothing will yield a quicker payoff in job creation, and nothing offers greater potential to make an early dent in the U.S. trade deficit.

But there is a rub.

Because foreign buyers of capital equipment (car buyers) want and need to spread their payments over many months or even several years, exporters like me and quite a few other SBEA members need to access Ex-Im's "medium-term" financing, covering repayment periods of 6 months to 7 years.

Ex-Im does not delegate authority for its medium-term products to private sector lenders. As a result, the agency's transparency and decision cycle times for these products leave much to be desired.

The Bank says that medium-term transactions take about 40 days. I will have to tell you that just about every capital equipment exporter I know tells me they endure much longer waits—months and even years. I know I often do.

Given the many good transactions with Ex-Im that I have had, I hate to say this, but the Bank has developed a bad reputation among foreign buyers for its medium-term financing. Knowledgeable buyers that my company encounters often flinch when we say we want to finance through Ex-Im. They tell us stories of shuffling paper back and forth with Ex-Im for a year or 18 months—and then being turned down. They tell us they turn to the Europeans and Japanese and get their transactions settled in a matter of weeks.

SME's cannot handle delays of this duration. Customers walk away. Cash flow problems develop. Business reputations get damaged.

While the Bank does not break out its figures for the small business share of medium term financing, we have heard Bank officials estimate it at about $100 million out of $1.7 billion in overall medium-term financing. If this is correct, the SME share is less than 6 percent.

This medium-term bottleneck will persist, in our opinion, as long as Ex-Im itself continues trying to handle the nuts and bolts of every transaction at its headquarters. There simply are not enough people at 811 Vermont Avenue, and there never will be.

The only way to truly solve the problem is to make the commercial banks genuine partners by delegating more authority to them for medium-term transactions.

If delegating authority works for SBA, with smaller transactions, and for OPIC, with larger transactions—as well as for Ex-Im itself with other products—it can be made to work with the Bank's medium-term financing.

Accordingly, we urge Congress to direct the Bank to delegate more medium-term export financing authority to commercial banks and export finance institutions.

I might note that this proposal is also strongly backed by the Bank's larger company customers.

What we are ultimately talking about here is *faster turnaround times, higher customer satisfaction levels,* and *lower transaction costs.*

Those are three pretty good measures for service improvements at the Bank.

Another way to accomplish both is by putting more of the Bank's transactions online.

Happily, the Bank's new "Small Business Committee" plan anticipates this.

We would encourage Congress to hold Ex-Im to this commitment by stipulating, at least in Report language if not in the law, that the Bank's online system for exporters be up and running by July 2006, as promised, and that it soon include a password-protected area of the Ex-Im website displaying:

- where each exporter's application(s) for financing stand,
- what decisions have been made on the application(s) and what decisions remain,
- whether any further information will be needed from the applicant,
- the person or persons at the Bank responsible at each step of the process,
- the anticipated timeline for final action on the application, and
- the anticipated date for the disbursal of funds.

Such a system would not only improve turnaround times and lower transaction costs, but would also enhance transparency at the Bank and provide a valuable benchmarking tool for senior management.

Finally, there is one Ex-Im metric that we believe Congress should *not change.* It is the requirement for the Bank to devote 20 percent of its financing dollars directly to small business.

The Bank surpassed this percentage at least three times during the 1990's, and it is perfectly able to do so again, particularly if it manages for a goal of 21 percent or 22 percent.

For fiscal year 2005, the Bank says the SME share is at 19.7 percent.

The SME share metric supplies a necessary spur to Ex-Im to keep a strong focus on SME financing. It works hand-in-glove with the SME Division that we are proposing. Each reinforces the other.

Other metrics have significant disadvantages, in our view. For example, the Bank's SME *dollar volumes,* while generally useful, reflect a mixture of factors. General trends in world trade and exchange rate variations can play as much of a role in shifting the Bank's dollar volumes as the efforts of the Bank itself.

Focusing too closely on *the number of transactions* will perversely incentivize the Bank to emphasize simple, very low risk transactions with rapid approval times. More complex transactions, particularly medium-term transactions with higher dollar values—where the Bank's approval processes are already far too long—could well be pushed to the back burner. Yet, as noted, these types of transactions generally have far greater paybacks in high-paying U.S. export jobs.

A concern is sometimes expressed that the 20 percent requirement for SME's might cause larger exporters to be refused financing if their transactions occurred toward the end of a fiscal year and would thus drop the Bank's final SME percentage below 20 percent. While SBEA believes that the Bank could avoid such unforeseen difficulties by managing for a goal of 21 percent or 22 percent rather than 20 percent (which allows little room for error), we share the view that the Bank itself—and not exporters—should be held responsible for any failure to meet the 20 percent mandate.

Accordingly, we propose the following process for assuring Bank compliance with the 20 percent mandate:

- In any Fiscal year that the Bank fails to allot 20 percent of its transaction dollars to SME's, the Bank shall submit a report to Congress within 60 days acknowledging the shortfall and describing a *specific plan of action for rectifying it.* This plan must, at a minimum, specify additional funds that will be allocated from the Bank's administrative budget to the SME Division.
- Within 30 days after the above plan is submitted to Congress, the Bank shall report to Congress on its implementation.
- During the fiscal year following the one in which the Bank fails to meet the 20 percent mandate, it shall report quarterly to Congress on the percentage of its dollars that have financed SME transactions.

We believe that this approach will communicate the seriousness with which Congress views the Bank's SME responsibilities without adversely affecting any other exporters. The requirement for Ex-Im to allocate more administrative funds to the SME Division if the mandate is not met will help keep the agency's management focused on the SME goals. The quarterly reporting requirement assures that Congress does not have to wait till the end of the next fiscal year to see whether the Bank has corrected any deficiencies.

In sum, Ex-Im has inherent strengths and the Bank does some things very well. As a Nation, we would be seriously set back without it.

SBEA strongly supports Ex-Im's reauthorization, and we intend to strongly support it in the appropriations process.

But Ex-Im can be improved, and we hope Congress will do so.

This concludes my testimony. I would be happy to take any questions at this time.

Chart 2

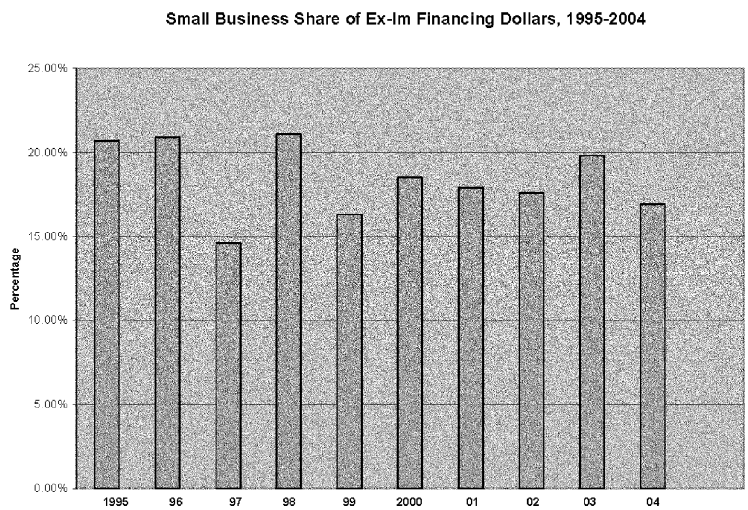
Small Business Share of Ex-Im Financing Dollars, 1995-2004
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
Percentage
1995
96
97
98
99
2000
01
02
03
04

Chart 3

Can American business compete in selling capital equipment abroad? Can small business?

We *can* and *do*!

U.S. CAPITAL EQUIPMENT EXPORTS IN SELECTED MAJOR CATEGORIES, 2002, BY SIZE OF EXPORTING BUSINESS

In Billions of U.S. Dollars

NAICS Code	Description	Total receipts	SME Receipts	% SME
331	Primary metal manufactures	$14.3 billion	$4.4 billion	30.4%
332	Fabricated metal products	$15.9	$4.8	30.3%
333	Machinery manufactures	$65.5	$18.6	28.4%
334	Computers and electronic products	$133.3	$29.5	22.1%
335	Electrical equipment, appliances and parts	$19.5	$4.7	24.3%
336	Transportation equipment	$118.8	$17.5	14.7%
337	Furniture and related products	$1.6	$0.7	42%
339	Miscellaneous manufactures	$22.5	$10.0	44.6%
Totals		**$391.4**	**$90.2**	**23%**

(Sources: *2002 Economic Census* and *2002 County Business Patterns*, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)

Chart 4

Can Exports By American Small Businesses Be Increased? YES!
Examples of economic sectors where strong SME domestic performance could yield more exports -- with the help of export financing

U.S. Domestic Production, 2002, in Billions of Dollars (except as noted)

NAICS Code	Description	Total Receipts	SME Receipts	SME %
2213	Waste, Sewage & Water Systems	$8.3 billion	$4.0 billion	48%
233	Building and developing	$535	$411.4	77%
234	Heavy construction	$174.4	$119.7	69%
2358	Water well drilling	$3.2	$3.0	93%
421	Wholesale trade in durable goods	$2,332.2 (= $2.33 trillion)	$979.3	42%
441	Motor vehicle & parts dealers	$813.2	$683.5	84%
*44122**	*Motorcycle, boat and other motor vehicle dealers*	*$32.9*	*$31.0*	*94%*
4431	Electronic and appliance stores	$92.3	$37.6	41%
444	Bldg equipment, garden equipmt & supply dealers	$288.4	$146.8	51%
45393	Manufactured home dealers	$9.6	$7.2	75%
54136	Geophysical surveying and mapping svcs	$1.0	$ 0.785	78%
54151	Computer systems design and related svcs	$181.8	$93.0	51%
5416	Mgmt, scientific & technical consulting svcs	$130.8	$74.3	57%
5418	Advertising and related svcs	$60.4	$36.0	60%
5419	Market research & public opinion polling	$11.4	$5.5	48%
56	Administrative & support, waste management & remediation svcs	$457.4	$210.3	46%
Total		**$5.1 trillion**	**$2.8 trillion**	**55%**
Total, less 421		$2.8 trillion	$1.8 trillion	64%

<u>Adding just 10% of these SME sales to the export market would increase U.S. SME exports by up to $280 billion annually.</u>

(Sources: *2002 Economic Census* and *2002 County Business Patterns*, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)
* Subset of preceding (441) category, excluded from totals

PREPARED STATEMENT OF JOHN MATTHEWS

MANAGING DIRECTOR, BOEING CAPITAL CORPORATION,
ON BEHALF OF
THE NATIONAL ASSOCIATION OF MANUFACTURERS,
THE NATIONAL FOREIGN TRADE COUNCIL, AND
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

MARCH 8, 2006

Mr. Chairman and Members of the Subcommittee, I am John Matthews, Managing Director of Boeing Capital Corporation, the financing arm of The Boeing Company.

We at Boeing, and the other members of NAM, NFTC, and CEE, strongly support the reauthorization of Ex-Im Bank. Each year, Ex-Im Bank supports some 3,000 overseas sales of American-made goods and American-provided services. During fiscal year 2005, Ex-Im issued $13.9 billion in financing—mostly guarantees and insurance of commercial loans. That financing supported $17.8 billion in U.S. exports. Those export sales in turn supported thousands of jobs for American workers.

Most of these transactions are sales by small- and medium-sized companies. But even for large corporations like Boeing, Ex-Im Bank plays an essential role, not only for our 50,000 commercial aircraft employees, but also for our 26,000 U.S. suppliers and vendors throughout all 50 States. In 2005, the Boeing Company purchased approximately $5B from more than 11,500 small business suppliers in the United States. Of that total, our commercial unit, Boeing Commercial Airplanes (BCA), paid $1.4B to over 2,900 American small businesses.

Today, I would like to focus on three key points: (1) Financing is a key element of global competition; (2) Export credit agencies are growing around the world; and (3) Ex-Im Bank is financially sound.

Financing is a Key Element of Global Competition

Traditionally, companies competed on product quality, price, and service. In today's world, financing is an increasingly important competitive element. Ex-Im Bank has two central missions: To level the playing field when U.S. exporters are confronted with competitors that have ECA financing; and when commercial financing is not available.

Each year, 70 percent of all Boeing's commercial aircraft sales are to overseas customers. Historically, 30 percent of these Boeing exports have relied upon Ex-Im to provide loan guarantees.

In fiscal year 2005 alone, Ex-Im authorized financing to support the export of 78 Boeing commercial aircraft to 19 airlines located in 18 different countries around the globe, including nations in Africa and in Latin America. This represented 33 percent of all our exports for that year.

Export Credit Agencies are Growing Around the World

Virtually all major trading nations operate export credit agencies. The most recent data show that ECA financing is increasing worldwide. Last October, the International Union of Credit and Investment Insurers—the Berne Union—reported that its 52 member ECA's issued a total of $788 billion in financing during 2004, the highest total ever measured. That total approaches 10 percent of global trade flows in that year. Even more telling, the 2004 total marked a 60 percent increase over the 2001 level of $470 billion.

While the structure of ECA's varies from country to country, virtually all operate in close cooperation with their national government, and most operate with government financial support of some type. Faced with that financial backing for its foreign competitor, no U.S. company, no matter how large, can compete on its own. *When foreign ECA support is present, we must have the backing of Ex-Im Bank.*

Ex-Im Bank is Financially Sound

Ex-Im Bank is financially sound. At the end of fiscal year 2004, the most recent public data, Ex-Im Bank had a total exposure of $61.1 billion. Against that exposure, the Bank had $9.6 billion in reserves—a very strong reserve position.

Exporters and our overseas customers pay fees for Ex-Im's participation in export sales, which in the last several years have covered the government's costs of operating the Bank. Ex-Im charges interest on its direct loans and premiums for its guarantees and insurance. Ex-Im does not subsidize interest rates. In financial terms, Ex-Im's crucial role is in mitigating risk, especially in markets where commercial financing is not available.

Specifically, in aircraft transactions, Ex-Im generally does not provide direct loans. Rather, Ex-Im guarantees that if the airline customer defaults on the loan, Ex-Im will assume the financial liability. These guarantees make it possible for certain foreign airlines, especially in developing countries, to secure commercial bank loans they might otherwise not qualify for at those commercial banks. Ex-Im has not incurred any losses on commercial airplane guarantees over the past 15 years. This is a real testament to the continuing effective due diligence performed by the Bank before it provides guarantees to foreign airlines.

According to the Bank's fiscal year 2004 annual report, Ex-Im generated a net income of $2 billion, through its interest charges, premiums, and fees. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot utilize its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves. As a result, the Bank is handicapped by the Government's own budget rules.

Conclusion

Mr. Chairman, thank you for the opportunity to testify today. The Bank is indispensable to Boeing. It has been innovative and reliable in times of crisis such as the financial market's retrenchment in the aftermath of September 11. It is critical to our ability to compete against a subsidized competitor while sustaining high-paying U.S. jobs. We commend this Subcommittee for its timely consideration of Ex-Im Bank's reauthorization and we urge that the Committee act expeditiously to report a reauthorization bill to the Senate, so that Congress can complete the legislative process prior to the September 30 expiration of the Bank's charter.

I would be happy to answer any questions about the broader exporting community or provide more specific examples of the Bank's criticality to Boeing's ability to compete.

STATEMENT FOR THE RECORD
MR. JOHN W. DOUGLASS
PRESIDENT AND CHIEF EXECUTIVE OFFICER
AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA

Hearing on Reauthorization of the United States Export-Import Bank

United States Senate Committee on Banking
Subcommittee on International Trade and Finance

March 8, 2006

Introduction

Chairman Crapo, Senator Bayh, and members of the International Trade Subcommittee: the Aerospace Industries Association of America (AIA) appreciates the opportunity to provide a statement for the record of today's hearing on the critical public policy mission of the Export-Import Bank ("the Bank," or "EXIM"). AIA represents more than 100 regular and 180 associate member companies, and we operate as the largest professional organization in the United States across three lines of business: space systems, national defense, and civil aviation. With a total workforce of 612,000 that manufactures products for customers around the world, we also have a long history of leadership in the development of American export promotion strategies.

An Aerospace Perspective on the Export-Import Bank

The Export-Import Bank, Mr. Chairman, contributes to the vitality of U.S. aerospace companies by expanding access to high-risk international markets and countering the aggressive industrial policies of foreign export credit agencies. These core missions of the Bank hold strategic value for aerospace since our sector of the economy exports 40 percent of its total output. Global sales subsequently sustain a minimum of 250,000 high-wage jobs throughout the U.S. aerospace industrial base, and we lead the manufacturing economy in maintaining a positive balance of trade; AIA members collectively posted a $40 billion export surplus last year.

Beyond routine operations, the Bank's emergency export financing capabilities during the 1990s proved critical to the economic stabilization of two regions -- Asia and Latin America -- that will shape the future direction of our business. Latin American civil air fleet requirements will triple by 2024 and nearly quadruple in Asia, with mainland China leading the way.

We can also measure the Bank's performance by examining the budgetary record. During EXIM's last reauthorization cycle four years ago, this Subcommittee reported that the institution's interest and fee assessments yielded a net gain of four billion dollars for the U.S. Treasury. Between 2002 and 2005, EXIM supported $50 billion in U.S. exports, with more than 80 percent of all transactions involving small businesses. And in congressional testimony last November, the Bank estimated that for every administrative dollar expended, it facilitated nearly $250 in exports.

Finally, Mr. Chairman, the Export-Import Bank follows a number of statutory safeguards to ensure that its programs correspond with sound public policies. EXIM can only finance U.S. export activity. By law, the Bank cannot try to compete with private lenders, must issue a finding that loan guarantees carry a "reasonable reassurance of repayment," and bears the duty to disapprove any transaction if it would negatively affect the domestic economy. Legislation passed in 2002 also clarifies the President's discretion to deny any EXIM loan that might undermine our counter-terrorism, weapons proliferation, human rights, and international environmental objectives.

Sustaining a Competitive Environment for the Commercial Aircraft Industrial Base

Export-Import Bank programs play a decisive role in industry's cultivation of global air transport markets, a national imperative given the growing significance of civil aviation to our economy. A 2004 report by the FAA revealed that in the next 20 years, 20 more U.S. airports will handle at least 500,000 arrivals and departures on an annual basis. Commercial aircraft also account for 27 percent of the nation's international trade volume.

U.S. airline bankruptcies, as well as rising fuel and operational costs, amplify the importance of offshore markets to the domestic aerospace industry. Foreign customers, for example, buy 70 percent of Boeing's commercial airframes, making the company's 50,000 air transportation jobs highly dependent on international sales. Worldwide markets further sustain tens of thousands of additional jobs in the company's 6,600-strong supplier base.

EXIM supports almost one-third of Boeing's current export business, permitting emerging market airlines to secure commercial bank loans for which they may not qualify in the private sector. As the Bank's most recent Competitiveness Report notes, increasing Latin American and Asian demand for both rural connections to hub airports and direct service between medium-sized cities will only enhance the aerospace business potential of developing countries.

Dual-Use Financing as an Instrument of U.S. Foreign Policy

In addition to its cooperation with the industry's civil aviation segment, EXIM recognizes the diversified global requirements for dual-use military products. AIA therefore urges the Subcommittee to establish on a permanent basis the Bank's authority to finance international sales of non-lethal defense equipment for civilian applications. Congress created this authority in 1994 and renewed it three subsequent times (Public Law 105-447, the Foreign Operations Appropriations Act for FY 2006, contained the most recent one-year extension of the authority).

The Bank's dual-use financing provision advances key foreign policy objectives by allowing the United States to work with non-traditional allies on initiatives that strengthen civil society. Most of the dual-use transfers approved by EXIM meet the needs of Central European, African, and Latin American governments in search-and-rescue operations; air traffic control upgrades; port security; forest protection; firefighting; and rural infrastructure development.

Furthermore, the dual-use statute incorporates several protections against abuse. Officials can allocate no more than 10 percent of the Bank's resources to dual-use transactions. Before permitting a transfer, EXIM must determine that a product is non-lethal in nature and has a primarily civilian purpose. It must also obtain a written certification of these conditions from the purchasing country. The State Department reviews each case, Congressional committees of jurisdiction receive advance notifications, and the GAO issues an annual compliance report.

Since its first report on the Bank's execution of dual-use authority in 1995, the GAO has not discovered any violations of national security or improper diversion of products by foreign end-users. At the same time, the provision fosters opportunities for the nation to help our friends abroad in addressing public safety and humanitarian challenges. This benefit to America's foreign policy, more than any other consideration, merits the permanent extension of EXIM's dual-use authority in the FY 2007 reauthorization bill.

Conclusion: A Prudent Investment in a Dynamic World

Thank you once again, Mr. Chairman, for allowing me to detail some of the critical EXIM services for the U.S. aerospace industry, and AIA enthusiastically recommends a congressional extension of the Bank's charter. In summary, our base of commercial aircraft, engine, and military platform producers view the Bank as a constructive business partner for the following reasons:

- EXIM loan guarantees ensure that U.S. products remain competitive against financing from foreign governments and overcome private sector lending limitations to win purchase orders from international aerospace customers;

- the Bank lowers investment risk for export-driven economies in the world's high-growth civil aviation markets; and

- dual-use export financing authority makes a broad complement of aerospace technologies available to nations for the promotion of social and economic development.

ECONOMIC IMPACT ISSUES IN EXPORT-IMPORT BANK REAUTHORIZATION

WEDNESDAY, MARCH 29, 2006

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

The Subcommittee met at 10:02 a.m., in room SD–538, Dirksen Senate Office Building, Senator Mike Crapo (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. This hearing will come to order.

Today, the Subcommittee on International Trade and Finance meets to discuss the reauthorization of the Export-Import Bank. This is our second hearing and today we are going to focus on ways to improve the Bank's economic impact procedures.

The last reauthorization changed the economic impact procedures to include the effect of outstanding trade orders, preliminary injury determinations, and Section 201 investigations before determining the Bank's financing of exports. This was an attempt to ensure that the Bank support for transactions not only helps U.S. exporters but also does not negatively impact domestic companies.

The current system still has problems and tensions continue between companies on both sides of the issues. This has been demonstrated on loan guarantees involving steel, semiconductors, ethanol, and soda ash to name a couple. Although the vast majority of loan guarantees before the Bank should not be slowed down, some of the larger and more controversial loan guarantees do need to be better vetted. Otherwise, groups that believe they will be harmed by the loan guarantee are then forced to come to Congress and ask us for intervention. A better approach would be to establish a process which is fair and perceived to be fair by everybody so that the facts are all well-presented to the board and they can act accordingly.

For our first panel today, we welcome Jim Lambright, the Acting Chairman and President of the Export-Import Bank. Welcome, Mr. Lambright. At our last hearing, Jim Lambright suggested that Ex-Im could improve the economic impact process by making it more predictable, transparent, and by involving interested stakeholders in the process earlier. I completely agree with this and I appreciate Mr. Lambright's willingness to work with our Subcommittee on these issues.

Our second panel includes Steve Appleton, the CEO of Micron Technology, Inc. and Thomas Sneeringer, Governmental Affairs Director of United Steel Corporation. Both of these witnesses have considerable experience with the Export-Import Bank's economic impact procedures and have specific suggestions on how procedures could be improved to provide greater fairness and transparency.

I thank each of you for coming before the Committee this morning and I look forward to your testimony.

Let me turn off my Blackberry so it does not keep beeping into the microphone.

We will now proceed. I know that the witnesses have all received the instructions about testimony today. What we like to do, we have a little system of lights here to help you try to keep focused on the time limits. We ask you to keep your oral presentations to 5 minutes and that will give us time to go through questions and answers. I always remind witnesses that if you are like me and like 99 percent of all other witnesses, the 5 minutes run out before you run out of things to say. Please be assured that we will have an opportunity during the question and answer period with me and with other senators who will be here to get in the points that you want to make. So we just ask you to pay attention to the clock.

With that Mr. Lambright, please proceed.

STATEMENT OF JAMES H. LAMBRIGHT
ACTING CHAIRMAN AND PRESIDENT
EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. LAMBRIGHT. Thank you very much, Mr. Chairman. I am happy to be here today to testify on Ex-Im Bank's procedures involving economic impact.

As I stated in my testimony of March 8, the mandate of the Bank is to preserve and create U.S. jobs by supporting U.S. exports that would not otherwise go forward. Consistent with this mandate Ex-Im Bank fully agrees with the principle that it should not approve a transaction that would, on balance, harm the U.S. economy. This is the foundation of our economic impact procedures.

Decisions that raise economic impact considerations, however, are the most difficult the Bank must make because it weighs the interests of American workers against those of another.

The Bank's economic impact procedures are intended to lay out a reasonable and logical process for analyzing the impact of Ex-Im Bank support for a particular export transaction. Ex-Im Bank endeavors to implement the Congressional mandate in a thoughtful, considered, and transparent manner with full participation of interested stakeholders.

In 2001, Ex-Im Bank recognized the shortcomings in the then-existing economic impact procedures and initiated a process to improve them. The process of vetting changes was extensive and included representation of all stakeholders.

In March 2003, Ex-Im Bank released new procedures reflecting changes developed through public consultation as well as changes mandated by Congress in the Bank's 2002 reauthorization. Many of the shortcomings of the prior economic impact analysis were addressed, including clearer criteria and definitions, broad consideration of trade measures, enhanced interagency consultation, and provision of notice to interested parties. As you noted in your opening, Mr. Chairman, since the new procedures took effect economic impact issues have arisen in a number of transactions, including those related to the production of textiles, chemicals, steel, semiconductors, soda ash, and solar panels.

Ex-Im Bank must balance the need for inclusiveness with commercial practices that require efficiency and timeliness on transactions. While the Ex-Im Bank makes every effort to complete the economic impact analysis expeditiously, it requires a substantial dedication of staff resources, usually takes 8 to 10 weeks, and has even taken up to 1 year, depending on the extent to which the feedback and information obtained through the notice and comment period comport with the Bank's analytical findings.

For example, a lack of consensus among industry observers about the outlook on supply and demand balances can lead to an inconclusive finding on oversupply and may complicate the Bank's analysis.

Exporters have indicated that the delay and uncertainty associated with the Bank's economic impact policy have, in some instances, frustrated their commercial relationships and caused them to lose export sales to foreign competitors. At the same time, the Bank must ensure that potential transactions are thoroughly vetted and all interested parties have an opportunity to be heard.

The revisions of the economic impact procedures implemented in 2003 have been successful from a number of perspectives. They clarified the criteria for Ex-Im Bank's analysis and expanded participation by other U.S. Government agencies and stakeholders in the process.

Yet, as you noted, the economic impact analysis continues to present challenging issues for Ex-Im Bank. Despite these challenges, Ex-Im Bank strives to implement the economic impact procedures so that they are transparent, predictable, effective, and fair to exporters, affected industries, and other interested parties.

I look forward to working with you and the Committee to achieve these objectives and I would be happy to take any questions. Thank you.

Senator CRAPO. Thank you very much, Mr. Lambright.

I do have a number of questions. I have been studying the flow chart of the economic impact policy to try to understand just exactly how economic impact decisions and trigger points are reached. And it actually is not one of the more complicated Government flow charts that I have seen. It is relatively comprehensible and I think that you guys should be commended for that. We need to just be sure that the substance in it is what we want to have.

At our last hearing, you suggested that the Ex-Im Bank could improve the economic impact process by making it more predictable, transparent, and involving more stakeholders in the process at an earlier date. Could you elaborate on those points and give me a little more detail about what exactly it is you think that can be done to improve in those areas?

Mr. LAMBRIGHT. Certainly, Mr. Chairman. While you note that we have worked hard to develop a clear flow chart of the decisions that need to be made, unfortunately at nearly every stage in that flow chart a debate can arise, depending on the facts of a particular case.

Take the very first step. Some cases are subject to debate as to whether they implicate the procedures at all. For example, if the export is part of a plant but is only ancillary to production, does it expand production capacity? As an illustration, think of a dedicated power supply to a widget factory where our export would not be involved in making more widgets but it is certainly part of the overall operation.

Right now, Ex-Im Bank errs on the side of inclusion but I think that exporters would benefit from more clarity in this case as to what even falls under the procedures. And we would be happy to work with the Committee on developing guidance on that front.

Senator CRAPO. Thank you.

We are going to get into some more details on each of these issues but, as you know, one of the questions or issues is whether a product in question will be in surplus or in oversupply at the time when it is marketed or when it is sold. It seems to me that is a really difficult calculation to make, and frankly reasonable people are going to have different points of view on that.

How does the Ex-Im Bank or how should the Ex-Im Bank resolve that question?

Mr. LAMBRIGHT. During the last reauthorization, the Bank went into the process of reauthorization with no definition and no indicators of how to think about that term surplus or oversupply. What was added in the last reauthorization was a list of possible indicators that the Bank should look to as guidance in assessing this oversupply question. But there is still no explicit definition.

So we look to this list of indicators that includes Section 201 investigations or preliminary trade measure determinations, price dynamics—are they rising or falling? We look at bankruptcy or unemployment trends. We can even look at whether there are trade adjustment and assistance program petitions.

In many cases, these indicators form a consensus view and it is an easy decision. As you noted, many of them are very difficult. But I think one thing that we may do to make it easier could be to explore finding a clearer definition that would add some more predictability or clarity.

But I am not sure that there is an elegant solution that would eliminate contentiousness entirely, Mr. Chairman, because this is a test about predicting the future, forecasting global supply and demand dynamics of an industry several years out. And as you might imagine, especially when jobs are at stake, opinions can diverge dramatically as to what that future will look like.

From my days in banking, I saw people make and lose fortunes speculating on the future dynamics of a commodity. So finding a consensus might be difficult.

And so what we do with these indicators that guide us is we must judiciously assess all of the positions that are put forward in the process and work to develop the most reasonable set of assumptions for the board to consider.

Senator CRAPO. Do you think we need to change or alter the process which the statute now sets forth and the indicators that the statute now requires?

Mr. LAMBRIGHT. Because there is an inherent likelihood for diverging opinions, given that this is looking forward to the future, there is some prognostication involved, and as you noted reasonable people can disagree. I do not know that we can eliminate that contentiousness entirely. But I do think that we could work with various industries, exporters, to try to explore a definition that perhaps we could all agree on, even though some people will still likely disagree in its application.

Senator CRAPO. I think that would be very helpful because, as you indicated, people have made and lost fortunes trying to figure out what the market is going to do in a particular product. And yet that is exactly what you are asked to do, to determine whether to proceed with a loan or a loan guarantee.

I do not know that I have the answer but I think it would be very helpful if some type of review process were undertaken in which participants were involved in a decisionmaking process or at least a review process to help identify not only the factors but also the decision points that need to be reached in terms of making that decision.

Obviously nobody has a final answer to this or they would be probably the most sought-after investment adviser in the world. But I think that we can get to the point where we generate a process by which we have a much higher level of confidence. And so I would be encouraged by your suggestion that perhaps getting people together to analyze that would be a good idea.

Mr. LAMBRIGHT. I would be happy to work on that in any way that the Committee would advise.

Senator CRAPO. Thank you very much.

Let us go on. Another issue that comes up is in determining whether the product in question competes with U.S. production of a same or similar product. That is an easy thing to answer if it is the same product that we are talking about. But often what we find out, I am learning, is that there are similar products or products in the chain that manufacturing equipment can be utilized to make or that can be facilitated by the loan, even though they are not directly related to the proposed product that is at issue in the loan.

The question that I have is how do you make the determination as to whether the product in question competes with another U.S. product that is the same or similar? And how do we improve that determination, if there is a way to do so?

Mr. LAMBRIGHT. It seems like there were two parts of your question. The first is making the determination. If I understood the second part of your question correctly, it was also making sure that a borrower is going to use a machine as they say they would so that it is not producing other products that might also compete with U.S. firms.

But both of those are things that we do investigate in the course of underwriting a transaction. First of all, we determine the magnitude of the competitive threat to U.S. firms by looking at where the foreign producer will sell this new output and then comparing that with the markets where U.S. firms are active so that we can try to measure the displacement of U.S. production that is at risk.

In terms of determining whether a product is the same or similar, we have engineers that assess the technical elements of the export and advise us on the various uses to which that export could be put. We also work with other U.S. Government agencies that may have expertise in certain industries in coming to a conclusion of whether this is a competitive product. But we try to be inclusive in that definition so that we are not ignoring a potential threat to U.S. industry.

Senator CRAPO. It would seem to me that this is one area where getting the proposals publicly vetted at an early stage would significantly benefit the Ex-Im Bank analysts because, as wonderful and as smart as they are, I do not think that they are necessarily experts in every product in every market. If we were to have the public availability of what is being considered accomplished at an earlier stage, then those who might feel that there is a competing product or a circumstance involved could then provide that information and help the analysis at an earlier stage.

Would you agree with that?

Mr. LAMBRIGHT. There seems to be a lot of merit in that and we can explore ways to introduce that part of the process earlier.

Senator CRAPO. Thank you.

Another aspect of this, which I do not even have any idea how we would solve is that often, although we might be trying to analyze whether a certain set of manufacturing equipment can be used for this process or that process or product, in a significant sense financing is fungible. And if money is utilized for a totally unrelated aspect of a business but is provided for that, then that can free up money inside that company or that business for what may not be a related product but would be money that is related because the company is manufacturing it and they have freed up assets in another area.

Is that kind of issue discussed?

Mr. LAMBRIGHT. It is certainly discussed but, as you noted, it can be a difficult question to resolve because money is fungible and it may be difficult to identify all the potential uses to which a firm might put its funds. But we certainly do look at whether an overseas firm or even a country generally is subject to any kind of a U.S. Government trade measure so that if a foreign entity has been determined by the U.S. Government to be an unfair competitor, then that would certainly limit our interest in working with that borrower.

Senator CRAPO. I can see that in terms of any trade circumstances where a competitor has already been identified as being in violation of some kind of a trade rule but it seems to me the question goes even more broadly to those who are not engaging in unfair conduct in any way, it is just that they are competitors and money is fungible. And it seems to me to be a very difficult— I do not have an answer for you. It just seems to me to be a very difficult issue.

I wonder is that issue even a factor in the economic analysis at this point?

Mr. LAMBRIGHT. It is not a formal factor mentioned in our procedures, but certainly if interested parties raise that issue with us it is something we can take into account.

Senator CRAPO. Then you can and do take it into account.

Mr. LAMBRIGHT. We can take it into account although, as you noted, it can be difficult to decide what to do with that information. But it is certainly something that we can explore.

Senator CRAPO. Right.

To move on, when loan applicants claim that the Ex-Im Bank financing is warranted because private sector financing is not available or because there is some market failure of some kind, what kind of documentation do you currently require from applicants to demonstrate that this is the case?

Mr. LAMBRIGHT. This is certainly a concern of ours and it is part of our due diligence up front in a transaction. We pay close attention to the markets. We follow a number of banks and we look for an absence of commercial financing in these transactions.

Programmatically as well, we are comfortable that our transactions have the element of additionality which is the term we use for the characteristics you are describing.

We do very little direct lending. There is always a commercial bank involved in our transactions. And so the commercial banks can let us know when this is a transaction ripe for commercial lending.

But to your question about documentation, this is something that we do as part of our due diligence. I am not aware that we require anything formally in writing.

Senator CRAPO. So maybe you have just answered this question, but do you require the applicant, for example, to provide to you, for example, the last 3 years of their capital raising efforts and the success or failure of them? Or do you require them to provide to you applications for commercial financing that have been rejected so that they can establish that they have not been able to get financing?

Mr. LAMBRIGHT. No, Mr. Chairman, we do not go so far as that in our analysis of additionality. What we have found is that these are hard fought transactions and if it is too difficult or too unattractive for a borrower to document their failure to obtain funds, it might increase the attractiveness of foreign-made products. So we try to strike a balance in our due diligence of investigating the question. We understand that it is central to our mission and so we do not want to be doing transactions that violate this additionality standard. But we also need to realize that we are a participant in private sector transactions and try to keep pace with those transactions.

Senator CRAPO. Do you have any concerns that the banks, for example, that you might be working with would have a financial interest in having you conclude that the loan would be something you should proceed with?

Mr. LAMBRIGHT. Yes Senator, although generally they would make more money doing it themselves if they found it to be a creditworthy transaction. So, I think the profit they make on an Ex-Im Bank transaction is very thin. So we really step in as a lender of last resort.

Programmatically our policies are structured so that we are not anybody's first choice for financing and really we come in where we are needed to fill a market gap or to meet competition.

Senator CRAPO. Another related issue is the question of whether a foreign export credit agency will provide the support if we do not. I know that is often a question that is raised or an issue that is raised.

What proof is provided in those cases that a foreign export credit agency will provide financing if the Ex-Im Bank does not go forward and that the U.S. exporter would lose that business?

Mr. LAMBRIGHT. I think both the question and my answer will follow our last exchange because again this is an area that we investigate, and take very seriously. Again, it is a central tenet to our mission that we are here to level the playing field against foreign government supported financing.

And yet, to your question, we are not receiving formal reports from borrowers as to the offer that a foreign export credit agency might have on the table.

And again it gets to the issue that these are hard fought transactions. We work with our counterpart export credit agencies in the OECD to try to set up rules that level the playing field. And so we do have procedures that we can pursue through the OECD to make sure that these rules are being followed. But in a transaction specific instance, the pace of the transaction may not permit waiting for a fully authorized foreign offer. It may put the U.S. export at risk.

Senator CRAPO. You indicated some OECD procedures and so forth and that there was communication back and forth between you and other similar operations. Is that level of communication sufficient, in your opinion, that you can have confidence in the judgment that the Ex-Im Bank will make as to whether there is, in fact, an alternative source of financing?

Mr. LAMBRIGHT. I do not put that forward as an answer to a specific transaction. What I was suggesting is that it sets a general framework for export credit agency behavior. I know that the U.S. Ex-Im Bank follows those rules, as do most other export credit agencies in the world.

So it sets a framework for behavior. It allows us to have relationships with these other export credit agencies so that we can investigate suggestions that there would be offers. But on any particular transaction we do need to go further than that. We try to work with the export credit agency to confirm the terms of the offer. Sometimes we are able to do that, sometimes we are not. We try not just to rely on a simple allegation made by one party. We do try to corroborate it.

But at the end of the day we do not have a formal requirement for written proof of an offer.

Senator CRAPO. Would having such a formal requirement of written proof of the offer pose a problem? In other words, would it slow down the process or make it so that the system could not work well?

Mr. LAMBRIGHT. I would want to think about that and talk to some of our exporters, lenders, and borrowers about that. My sense is that we ask about it, we do investigate it but that we are not demanding formal written proof either because the pace of the transaction does not allow it. But my fear really, Mr. Chairman, would be that if we would have such a formal requirement that by waiting for verification from a foreign export credit agency to confirm a formal authorization the deal may be done and U.S. exporter competitiveness would be damaged.

Senator CRAPO. The deal being the alternate credit agency would actually do the deal? Is that what you are saying?

Mr. LAMBRIGHT. Right. Exactly.

Senator CRAPO. So it seems to me that if an applicant were to say look, if you do not do the deal with us, we are going to do at it with XYZ foreign credit agency, that it should be something that is relatively simple to say to the applicant have you made an application? And if so, can you produce it to us? Am I just oversimplifying the issue?

Mr. LAMBRIGHT. I understand your concerns, Mr. Chairman, and I think that it is a topic that we would certainly be willing to explore with you of where the appropriate line to draw would be.

Senator CRAPO. Thank you. And again, I do not profess to be an expert in these areas like you and your analysts are, and frankly a lot of the participants in the industry are. But it seems to me that from what I have observed there is a lot of representations and allegations that are made from all sides that seem to be able to be verifiable, if we had the time and the connections to be able to do so, or if we had the requirements that the applicant be prepared to document facts.

I think the same would probably be true about those who were objecting, maybe not just the applicant but the objectors may be required to document some of the financial information or conclusions that they are suggesting that the analysts reached in the process.

Another issue is input to our Ex-Im analysts from other sources. For example, would it be useful to the Bank and the Bank's economic impact assessment to be able to get greater input from agencies like the Department of Commerce and others that may have greater expertise in some of the industries that are subject to the economic analysis being done?

Mr. LAMBRIGHT. Mr. Chairman, we certainly put a great value on the input that we get from other agencies and it might be useful to explore the role of these other agencies' inputs. Today, our procedures reach out to other agencies at the end of the process. We could explore the practicality of changing the timing of that as well as the extent of the interagency involvement in the process and how their input is to fit into our decisionmaking.

We certainly get a lot of value from the expertise that these agencies bring and any guidance on how to use that information in the process would be helpful.

Senator CRAPO. It does seem to me that is probably an avenue of significant help.

Another issue, has the Bank ever looked into policies or practices of other Government agencies such as, for example, the International Trade Commission, to try to see how they approach these same types of issues in terms of due process and transparency or economic impact provisions?

Mr. LAMBRIGHT. Yes. At the time of the last reauthorization, the Ex-Im Bank staff conducted a broad survey of best practices that we could bring to bear on our process, and one of the valuable additions that we made at that time was introducing the public notice and comment period, so that interested parties, not just the participants of the transaction, but any interested party, would have an opportunity to voice concerns in the process.

Senator CRAPO. Thank you. This question, I suspect you might have guessed you were going to get. There are some who are concerned about previous economic impact analyses that the Bank has done, and on a subject related to economic impact procedures, some of my colleagues are concerned by that application by the Ex-Im Bank of the test as to whether the issuance of credit or financial guarantees by the Bank will cause substantial injury to producers. Namely, they are concerned that the credit insurance was issued to help finance the construction of an ethanol dehydration plant in Trinidad and Tobago, although this extension of credit resulted in substantial injury as defined by the Ex-Im Bank's authorizing statute to U.S. producers, and that is the concern that I know you are very aware that some of my colleagues have raised.

I assume you are familiar with these issues. Are you confident that the Ex-Im Bank staff are aware of the current statutory limits on credit insurance?

Mr. LAMBRIGHT. I am familiar with the concerns of your colleagues, Mr. Chairman. I have drawn upon my staff to look into this matter thoroughly, and they have kept me well-informed of Congressional concerns.

As for Bank staff, I consider it my responsibility to ensure that staff are fully aware of the statutory constraints surrounding our ability to extend credit. I have done that. I consider it an important part of my job, and, yes, I am confident that staff is aware of those limits.

Senator CRAPO. As you may be aware, there is at least one Senator and probably others who would like to see some kind of an analysis of this particular transaction by the Inspector General's Office, but you do not have an Inspector General's Office operating right now; is that correct?

Mr. LAMBRIGHT. That is correct. We have appropriated funds, but we do not have a nominated or confirmed Inspector General.

Senator CRAPO. When did the funds get appropriated?

Mr. LAMBRIGHT. In this fiscal year cycle.

Senator CRAPO. This current fiscal year cycle?

Mr. LAMBRIGHT. Right, for the first time.

Senator CRAPO. So you now have the funds, but you do not have the nominee.

Mr. LAMBRIGHT. Right.

Senator CRAPO. Do you have any other employees in this office of the IG?

Mr. LAMBRIGHT. No. This would be the first time that we would have the Inspector General function inside the Bank.

Senator CRAPO. So for those who would like to see an IG investigation into this particular transaction, is there any way that we could proceed without having to wait for the nomination and then confirmation of the IG, him or herself?

Mr. LAMBRIGHT. Mr. Chairman, I am as interested as anyone in reaching a resolution on this matter, and I would like to move as quickly as possible in addressing the Senators' concerns on this transaction. And I stand ready to refer the matter to an Inspector

General as soon as we have one, and I would be willing to explore any alternatives to that in terms of referring the matter to an outside party. I am not in a position to know whether we are able to do that or not.

Senator CRAPO. I appreciate your willingness to consider these other alternatives, because I, too, would like to get this issue resolved as promptly as possible, and see if we cannot move forward and really get past it. We seem to be stuck just with the procedural fact that the President and Congress have not appropriated the money and nominated and confirmed the nominee for Inspector General fast enough to be able to address it, at least at the pace that I would like to see it addressed.

I am going to be exploring other alternatives with those who are concerned, and I appreciate your willingness to work with us on those alternatives. Hopefully, we can find an agreeable approach to this that does not require us to have to wait for the IG's office to become fully functional.

I believe those are all the questions that I have right now. I want to come back to the very first question that I asked, and just ask you, again, looking at this from the perspective of this Committee and its effort at reauthorization—I guess what I am saying is looking at the potential for statutory reform, statutory provisions that will address the economic impact analysis process, are there any specific statutory provisions that you believe we need to include, either changing some existing provisions to improve them, or adding some new provisions that would help to improve the process?

Mr. LAMBRIGHT. Mr. Chairman, the Bank has come into the reauthorization process requesting a fairly clean bill. In the area of economic impact, while we recognize that the process certainly can benefit from refinement, I think most of the ideas that I have heard or that we have contemplated may not rise to the level of a statutory change. Rather, they are a process or implementation change. I would be open to hearing any ideas that you are hearing, or that you think may not rise to the level of a statutory change, but that the Bank should be considering nonetheless. And if in exploring any of the ideas that we have heard from interested parties, if any of them strike me as rising to the level of a statutory change, I will certainly continue to remain in contact with you and your office on this.

Senator CRAPO. I appreciate that, Mr. Lambright. I would like to first of all thank you. The willingness to work with the Committee that you have just expressed is something that you have proven by your conduct in the past to be something that you are sincere about, and I appreciate the fact that you are so willing to work with us, because it gets a lot easier when we are able to talk these things over, find solutions, and then agree on moving forward. In that way we have to do much less legislating, which I think in the end is better.

With that, I do not have any further questions, and so we appreciate you coming today, Mr. Lambright, and you are excused.

Mr. LAMBRIGHT. Thank you very much, Mr. Chairman.

Senator CRAPO. We will now invite our second panel to come up to the table.

Mr. Lambright, you did not get away from the table fast enough. One of my colleagues had asked me if I would ask you a question for him. Senator Enzi is not able to be here, so if it is okay, I would like to bring you back to the table and ask you to answer one more question.

Mr. Appleton, you can stay right there because this should not take very long.

I apologize. You should jump up fast when you are released from your testimony.

[Laughter.]

Senator Enzi has asked that I ask you the following question. He indicates that it is his understanding that the Export-Import Bank is considering an application to finance the purchase of refurbished locomotives by a soda ash facility in Kenya. It is his understanding also that the Export-Import Bank only considers the negative economic impact that these locomotives will have during the life of the loan. Locomotives will certainly last longer than the life of the loan, and it would seem to him, and I would agree with him, that the economic impact analysis should consider the full impact of such a transaction over the life of the entity, not over just the life of the loan.

At any point during the process, does the Export-Import Bank evaluate the full impact of such a transaction, and if not, why?

Mr. LAMBRIGHT. The useful life of the export is a substantial factor in setting the term of our support, and while certain exports may have a life that extends beyond the term of our support, it does provide an objective method for calculation, and if we keyed our analysis to useful life, it may open us up to yet another point for debate as to exactly how long this piece of equipment might last, and under what circumstances it might have enhanced or diminished longevity.

But let me assure you, Mr. Chairman, and your colleague, that our staff is quite cognizant of the potential threats from this transaction. They are working seriously on assessing those potential threats to U.S. industry. We have already had our public notice period where we have received comments from interested parties. It has not yet gone to other agencies for comment. And as it proceeds, we will continue to keep your office and his fully apprised of any developments.

Senator CRAPO. I appreciate that, and like I said, I have confidence when you make the representation that you will approach it in that way, that you will do so. This may be an issue that we would want to mandate that you evaluate. I know you just said that it is tough, but this may be one that the question of looking at the full life of the product or the process might be something that we will want to be sure that the Agency does figure out a way to evaluate.

Mr. LAMBRIGHT. And I would appreciate the opportunity to participate in that analysis of finding a way to address this concern.

Senator CRAPO. All right, Thank you very much.

Mr. LAMBRIGHT. Thank you.

Senator CRAPO. And now you are excused if you move fast.

[Laughter.]

Mr. LAMBRIGHT. Thank you, again, Mr. Chairman.

Senator CRAPO. We would like to welcome our second panel here today. As I indicated earlier, our Panel No. 2 consists of Mr. Steve Appleton, who is the Chief Executive Officer of Micron Technology, Inc., and we welcome you here with us, Mr. Appleton; and Mr. Thomas Sneeringer, Governmental Affairs Director of the United States Steel Corporation. Mr. Sneeringer, we welcome you as well.

We will begin with you, Mr. Appleton, and you may proceed.

STATEMENT OF STEVEN R. APPLETON
CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER AND PRESIDENT, MICRON TECHNOLOGY, INC.

Mr. APPLETON. Thank you, Mr. Chairman. Thank you for inviting me here today to testify before this Subcommittee regarding the reauthorization of the Export-Import Bank of United States. I will keep my comments brief, but I have submitted a more detailed version of my statement for your review.

Senator CRAPO. And I should have said all witnesses' full statements will be made a part of the record.

Mr. APPLETON. Thank you. Let me start by saying I appreciate the work of the Ex-Im Bank in encouraging exports from the United States, and the work of this Committee in authorizing and overseeing funding for the Bank. These activities have clearly had an advancing effect on the interests of the United States.

However, I would like to also share a perspective that highlights how these efforts might be improved. First, a little background on Micron. I could spend all my time telling you Micron's history, but in recognition of your time and the others here, let me sum it up this way. In the last 25 years, there have been over 40 companies that have manufactured a computer memory chip known as a DRAM. Today, there are only five still developing this technology, one in the United States—that is us—one in Japan, one in Europe, and two in Korea.

Most of this consolidation was the result of nonmarket artificial manipulations, in other words, directed Government subsidies, but that is another story for another day. So regardless of the reasons that there are not many of us left, Micron has survived as one of the most competitive and innovative memory producers in the world, with operations in Japan, Europe, the Far East, obviously in the United States in many location, Idaho, Utah, Virginia, California, Texas, Minnesota, et cetera. So we have a large presence and we are a very competitive company.

So with that background in mind, you can appreciate my surprise when I discovered in August 2004, that the Ex-Im Bank was considering $500 million in loan guarantees to a DRAM competitor in China, a company called Semiconductor Manufacturing International Corporation, also known as SMIC. Now, SMIC is a foundry that manufactures product for both themselves and others, including memory like the DRAM and NAND flash chips that Micron makes and sells today.

SMIC, at that time, had three semiconductor facilities in China. They were financed with a mix of private equity, loans from Chinese banks, and vendor financing. Most of the equipment it purchased for these three factories was from U.S.-based equipment suppliers, so it was even more perplexing to me that SMIC could claim to need Ex-Im Bank financing in order to purchase manufacturing equipment.

So what happens when a constituent hears about something happening in Washington they have a lot of concerns about? They come to Washington, and indeed, I did. In fact, I met with most of the Ex-Im Bank Board Members and various agencies, and guess what I found out? The $500 million request had, without notice, turned into $1.2 billion for an already over-supplied market to produce product for our competitors, under the umbrella that the dollars would be used for making products that did not compete with us, with a claim that Japan was going to provide the financing if the United States did not, and force them to buy all Japanese equipment, along the lines of the issues you were asking Mr. Lambright before. Of course, this turned out to not be the case.

As you might imagine, we objected based on the available data, and hired an economic consulting firm to further study the issue. They performed an independent economic impact analysis, which we submitted to the Ex-Im Bank. Fortunately, then-Chairman and President Phillip Merrill, reviewed all of the available data, and as you know, Mr. Chairman, including the submitted analysis by the economist that we had provided, and made the determination that the SMIC request did not meet some of the required criteria, and would need further review, at which point SMIC chose not to pursue the loan.

As a result of this experience, I have detailed a number of recommendations that I mentioned in my written comments to improve the Ex-Im Bank process, but let me just focus on a couple of them.

First, more detailed information should be provided in the *Federal Register* notice, and if there any significant changes—as I mentioned there were in the loan amount—from the original notice, the Ex-Im Bank should be required to issue another request for public comment.

Second, the public comment period should be extended from 14 days to a minimum of 30 days, and the period of time the interagency group has to review the proposed deal should also be extended.

So, in summary, I believe these changes, along with the others submitted, will be useful in future instances that may affect companies like Micron.

Thank you, and I would be happy to answer any questions.

Senator CRAPO. Thank you very much, Mr. Appleton.

Mr. Sneeringer, please proceed.

STATEMENT OF THOMAS M. SNEERINGER
DIRECTOR, FEDERAL GOVERNMENTAL AFFAIRS
UNITED STATES STEEL CORPORATION
ON BEHALF OF THE AMERICAN IRON AND STEEL INSTITUTE

Mr. SNEERINGER. Thank you, Mr. Chairman, and for this opportunity to appear. I am appearing for the American Iron and Steel Institute, of which U.S. Steel is a member, and we have been as active as we can be at the Ex-Im on steel issue. We also find a great value to the Bank, I will not take the time now to talk about that, but, as many people as are in this room cannot all be wrong.

The Bank is obviously addressing a very important need in the economy.

I would like to draw your attention and the Subcommittee's attention to some thoughts that occur to us after working on steel issues at the Ex-Im as long as we have, and I could summarize it in three points.

Number one. The Ex-Im Bank should not be in the business of undermining a primary negotiating objective of the United States to eliminate steel subsidies around the world.

Number two. The Ex-Im Bank should not be in the business of enabling circumvention of trade law remedy orders after they have been won.

And third, those of us who wish to have a greater role in helping the Bank make the right decision, as Mr. Appleton has suggested, can think of a number of ways in which it would be easier for us to do that, and we think beneficial to the Bank. Let me cover each of these very quickly.

On the subsidization issue, the steel industry operates in a distorted market. In a real market, a persistent or a permanent oversupply of product could not exist. When supply exceeds demand, the price falls, the least competitive companies fall off the bottom of the list, and some kind of equilibrium is attained. Never, ever, ever does that happen in the steel industry, and that is because the market is deeply distorted through governmental intervention. This can take the form of high tariffs, opaque nontariff barriers, currency manipulation, et cetera, but the primary cause of the market distortion in the steel world is subsidies.

Our Government knows that. The Clinton Administration found it in a deeply detailed study done in 2000, and in 2001, newly elected-President Bush instructed the USTR and the Commerce Secretary to initiate worldwide talks to eliminate steel subsidies. The U.S. position, going into those talks, and maintained ever since, is that all governments should get out of all steel making. Those talks have been very unsatisfying, I am afraid to say, because what quickly happened is that the rest of the world divided into two camps. The developing countries wanted off the hook, and the developed countries wanted their existing subsidies grandfathered and their new subsidies green-lighted. If nothing else, it confirmed what we already know, and that is that governments all over that world are addicted to subsidizing their steel industries.

Now comes the Ex-Im Bank. When the Ex-Im Bank subsidizes construction of excess capacity elsewhere in the world through finance support or any other means at its disposal, it does two things. It helps to create additional overcapacity in a flooded market, and it undermines the negotiating posture of the United States in trying to get other governments to give up their subsidies. Every time the Ex-Im Bank subsidizes steel capacity in other countries, the way I see it is it cuts another inch off the bottom of the negotiating chair at the steel subsidy talks on circumvention. All this excess steel that is floating around looking for a home finds its home in North America, and largely in the United States. That is because we have no tariffs, no real nontariff barriers, and we have customers who are always happy to pay less than the real price of steel in their cost-cutting efforts.

So we bring trade law cases to defend ourselves. We win orders and, immediately, the respondents go into a deep circumvention exercise: Trans-shipping, yes; fraud, yes; but more often just shifting products and switching countries. Some of the ideas that have been put forward in anticipation of this hearing address that kind of circumvention. The Ex-Im Bank should not be in the business of helping people build capitol equipment that is going to help them take their steel products one more step downstream in order to avoid orders, and it should not help them build steel capacity in other countries to get around the order.

Last, on administrative procedures, we have not found the procedures at the Ex-Im Bank to be particularly transparent. We do not feel that we have been reached out to the way the Bank promised we would be. It is very easy to contact the steel industry. Contacting one person at the American Iron and Steel Institute will do it. We are highly organized. I would add, finally, that all the suggestions that have been made in terms of notification to the Congress, et cetera, we support.

Thank you very much.

Senator CRAPO. Thank you very much, Mr. Sneeringer. I have some questions—some will be specific, but several I think would be the type that both of you could respond to.

Mr. Appleton, first of all, thank you again for coming before the Committee today and for helping us to analyze this issue. I know that because of the time limits you were not able to go into all of the recommendations that are contained in your written testimony. Could you give us an overview, maybe, and a little more detail of some of the changes that you think should be made to the Ex-Im Bank procedures to increase the fairness and the process for companies like yours?

And, Mr. Sneeringer, I am going to ask you the same question. Mr. Appleton.

Mr. APPLETON. First of all, let me just start out by saying, and I think echoing some of the comments made by my peer, that the process of transparency in general needs to be improved. When we talk about the *Register* notice and what is in the *Register* notice, there is not a lot in there. In order to adequately respond, we need to be able to understand a lot more about what is being requested of the Ex-Im in order for us to go through the three things that are important on the transparency side. When you think about what the economic impact analysis is supposed to do, it is supposed to look at oversupply, it is supposed to look at competing product, and whether there is harm or injury, and those are relatively all detailed, involved items to look at, and we need time to do that, which was the other thing that I had mentioned about we need more time than what is allowed for the comment period.

Now, specifically, if you look at some of the things surrounding—you know as you look around this impact economic analysis, what is it that we are trying to avoid, or what is it that we are trying to accomplish? An application is made today, and there are a lot of assertions, as you had mentioned, regrading things around the application, like is there really another Government agency that is willing to loan the money? In the example that I provided, that company said that another country was waiting in the wings in order to provide this money, and require them to all buy non-U.S. equipment or Japanese equipment, and they asserted that many times, both in the discussions I think over a number of months.

And in fact, when the Ex-Im Bank loan guarantee did not occur, as a result of them not pursuing it, none of that ever happened. It just evaporated, although it was a guarantee, it was a done deal, if we were willing to step up. So your comment earlier, I think, of Mr. Lambright about what kind of proof do you require, we need written proof around those kinds of things, that in fact, there has been a market failure, that you cannot go to the market and access the money, that in fact, there is a Government agency that is in waiting and so forth. Those things and the specifics of them are very important, and I think you are on the right line of inquiry as to what we can do about that.

Senator CRAPO. Thank you very much.

Mr. Sneeringer, same question?

Mr. SNEERINGER. Mr. Chairman, what we are looking for is an opportunity to share what we consider relevant information, and information that the Bank says it takes into consideration. I imagine they have their independent sources, but there is just no better source on what is going on in the steel market than the steel industry itself, because we study it every day.

For example, on subsidies, we have comprehensive information on what the subsidy picture is going to look like and the capacity picture is going to look like in the future, because we vigilantly cover every announcement by every government about what it is going to build, how much the new "investment" is going to lead to in terms of additional tonnage, who is going to own it, et cetera. Attached to my prepared testimony is the most recent paper that we submitted in to the OECD on exactly that subject. When an application is pending before the Ex-Im Bank relating to global steel production, we would like to explain what we know about subsidization and capacity growth in the markets involved.

Similarly, on circumvention, I know that there has been some resistance at the Bank to employ this one or two steps upstream or downstream formulation that was in the legislative history of the last amendments, and that is suggested might be incorporated into the statute. In our case, it is easy to implement if you are in the normal process of steel making. If you have an order against hot-rolled steel, we know that people can take it one step downstream to cold-rolled, or they can coat it, or they can paint it, and any of these processed will allow them to get out from under the order. So, in the steel industry, this proposed rule can be relatively easy to apply. But it is not always easy to apply, and one could make a big mistake applying it mechanically. For example, if you went upstream in steel, say you had a hot-rolled order, you would have trouble getting the whole way upstream to iron ore or scrap, or a scrap substitute. So it does not always work.

The objective, however, is to help the Bank understand when something might be being done for the purpose of circumvention. We have a very strong case to present to them on that. Basically, we do not know what cases will be considered. We get 14 days when a proposed financing finally surfaces. Very minimal information is available. We do not know exactly what steel products are involved. We sometimes have trouble even telling what the country is until the very last minute.

So, I embrace everything that Mr. Appleton said about extending the comment period from 14 to 30 days. I also wish there was more of a mandatory outreach to the trade associations that are involved. In addition, there are government agencies—going back to the subsidies negotiating objective principle—that are there at the table at these steel subsidy talks. I am sure they put their oar in the water ultimately at the Ex-Im Bank, but, they should be consulted right off the bat.

Senator CRAPO. Thank you very much. It seems to me that a theme that both of you have been talking about is apparent here, and that is that as the Ex-Im Bank approaches making, obviously, very difficult analysis, that it can be benefited in that by getting an early, aggressive, and complete expression of the issue out to the public so that those who know whether the potential for circumvention is there, and if so, why, can contact and let the Bank analysts know what is going on.

Mr. SNEERINGER. It does not necessarily mean that they are triggering an outcry of opposition. It might or it might not end up there, but we want to have a reasoned opportunity to present facts that we have and they do not have.

Senator CRAPO. Right. First of all, let me say, both of your sets of written testimony were very well-prepared and have a significant amount of very helpful information in it, and I appreciate that. I am assuming, because both of you have tended to focus on this aspect of the public involvement and the notice and comment opportunities, that is probably the most important—not that we would ignore the rest—but that is probably the most important area for us to focus on; am I correct in that, Mr. Appleton?

Mr. APPLETON. Yes. Clearly, as I mentioned, when I first had learned, inadvertently almost, what was happening in our particular case on a loan going to the competitor in China, you know, I came to Washington and spent some time here, and I am glad that I did. I learned a lot more that was without notice by spending time with those that were involved, things that probably never would have surfaced. There was no transparency to it. And, of course, it heightened the issue.

Senator CRAPO. One of the other suggestions that has been made is that when a final economic analysis is reached by the agency, that be made public and available for comment. Do you have any suggestions or thoughts on that?

Mr. APPLETON. Yes. If you do not mind, let me start.

Mr. SNEERINGER. Sure.

Mr. APPLETON. I completely agree. And because what happens is—by the way, we never did see it. We never do see what that is, so it is hard for an industry to voice input and provide concerns when it never sees the analysis. That kind of goes without saying.

Mr. SNEERINGER. I agree it should be made available to the public. But I also like the provision that has been suggested that it be reported to the Congressional Committees of jurisdiction. I think you have a right to know.

Senator CRAPO. And that the Committee receive the economic analysis.

Mr. SNEERINGER. Can I just make two other points?

Yes, we are interested in procedural changes but there are two statutory changes that I would like to highlight. One is to be very clear that the $10 million threshold cannot be ducked under through disaggregation of projects. We have had that occur in the steel industry where there was an application for financing—I forget the exact number—it might have been $30 million. But we were not hearing about it because it was being sliced into a series of projects that were under $10 million each. So we think that is a very important point.

Also, going back to circumvention, again I do not know if one or two steps upstream or downstream can even be legislated. I know it would very difficult to word it. And it would be dangerous to try to employ it mechanically.

On the other hand, I really think there should be some changes in the law that require the Bank to take into account the possibility that the project that they are subsidizing is for the purpose of circumventing a trade order. So that would cover both additional machinery in the country where the firm was caught dumping or creation of new capacity in a second country that would be owned by the firm under order so they could export product in the United States and avoid the order.

Senator CRAPO. Those are very helpful, thank you.

Moving to another issue, what are you respective thoughts about the notion that I raised with Mr. Lambright about making sure that we have increased and adequate participation by other Government agencies that have expertise in the area of the particular proposal?

Mr. SNEERINGER. The agencies that we know the most about are the ones that are involved in trade cases and that would be Commerce and the ITC. Certainly when you talk about negotiating postures around the world, although Commerce is the lead agency, USTR would be involved. And I do believe that they ultimately, can and do put their oar in the water at the Bank.

But I think early consultation with those agencies is very important and I am really not aware of the extent to which the Bank goes to the ITC. The ITC is also a fabulous wealth of information, in our case, on how the steel market operates, and what competes with what.

When the ITC investigated our safeguard action, known as the Section 201 case, it divided the entire steel market into only four pieces because there is so much competition within each piece. Each industry segment covered as many as 20 or more products but the division took into account what competes with what. So, I think that type of information is important to the analysis conducted by the Bank.

Mr. APPLETON. I completely agree with his comments on the Agency and let me just add one other which we also found helpful in the time that we spent looking at some of these issues, and that was the Treasury Department, given their expertise in the financial markets.

I know Mr. Lambright mentioned the evaluation that goes into the probabilities and the financial expertise of these other agencies and the capability and market principles and I think they could be helpful there as well.

Senator CRAPO. Thank you.

In the same context, we have say the Commerce Department, the Treasury Department, the ITC, and others who I assume are in the business of making similar types of economic analysis in other contexts but similar types of analysis. Are there any examples there of those types of Government agencies who have already addressed these questions of transparency and due process that we could look to see how perhaps we could improve things at the Export-Import Bank?

Mr. APPLETON. Absolutely. If you look at the processes that are in place at both Commerce and ITC, and of course USTR, and how they work together, they have pretty good precedents and pretty good process for transparency and how to work through these.

Mr. SNEERINGER. I agree. And I know the Bank is concerned about proprietary information and that is one of the reasons we get so little information when we ask for it. The fact is they could look at the ITC's procedures for redacting and publishing parallel documents that leave Business Proprietary Information out. I think we should be able to learn more than we do at the Bank and without jeopardizing the economic well-being of the applicant.

Senator CRAPO. Thank you. I think these are some hopefully very productive areas we can look into to try to move this in the right direction.

Another question, you have both discussed the economic analysis that you had to deal with in your particular circumstances. What factors did the Ex-Im Bank examine when looking at economic impact in your cases?

Mr. APPLETON. Let me just highlight one that I think is important that you noted earlier in a question that you had of Mr. Lambright.

Right now there is an oversupply calculation, forecast that is required. I am sure it is this way for the steel industry and it is certainly that way for the semiconductor industry. These markets are difficult, if not impossible, to forecast beyond about six minutes, much less 6 months or a couple of years. And it seems to me that the focus has been on what is going to happen 2 years from now. And if there is a forecast that somehow says the market is going to be fine 2 years from now that then over weights what is going on currently in the industry.

It just strikes me as odd that the current industry has little to no bearing, as opposed to a forecast of something that might happen on whether there is going to be an oversupply in the market.

One other comment that I want to make really along the regards of fungibility. A lot of these assets are about can you be injured or not? And what are the assets going to be used to produce? And they are fungible. It is almost like pouring a cup of water into a bucket of water. It just disappears because in this particular case, in semiconductor equipment, when you are buying advance semiconductor equipment, you can use it to build a number of semiconductors. It does not just have to be the one that is particularly a competing product.

That goes along the lines of how do you determine what is a competing or a similar or like product. And we think that in that analysis it needs to look at not only the potential but also the probability of the capacity being used for a competing product.

Senator CRAPO. Thank you.

Mr. Sneeringer.

Mr. SNEERINGER. The question is what factors went into the economic analysis in cases we were interested in. At risk of sounding glib, for reasons stated earlier, we do not have the foggiest idea.

Senator CRAPO. So therefore the earlier comments about the public notice getting engaged earlier and perhaps being able to see the economic analysis or have access to the information, even if it has to be redacted, would be very helpful?

Mr. SNEERINGER. Yes, sir.

Senator CRAPO. Thank you very much.

I want to go just a little further into the question that Mr. Appleton just raised or the issue that Mr. Appleton just raised and that is this notion of trying to predict into the future whether there is going to be an oversupply.

I too think that it raises a question. If there is currently an oversupply, why would that not be the biggest factor rather than a projection about what may be the case a couple of years down the road?

Mr. Appleton, you can elaborate on that if you want, and Mr. Sneeringer, I would like to have your thoughts on that as well.

Mr. SNEERINGER. I will go first. If we just took the existing capacity of the steel industry right now and looked at history where, as I said before, no matter how low the price gets the least competitive companies do not fall off the bottom of the list, I would say it is going to be static. But I do not have to rely on that kind of deduction.

Attached to my statement is a detailed report on announcements made by foreign governments about capacity they are going to build well into the future, at least to 2012. It is pretty frightening. It is very detailed. Our experience is that a lot of this new capacity does get built and very little of the existing capacity gets taken down in the process.

In the case of steel what is now an oversupply will only get worse. We can quote the foreign governments for that proposition.

Senator CRAPO. Mr. Appleton, do you want to go into that any further?

Mr. APPLETON. I just want to expand it slightly and that is, I think similar in our industry there are a lot of forecasts that are made about capacity and overcapacity and subsidized. And as my colleague is well aware of, just like we are, there are government activities, government actions if you will, and rules and regulations and WTO compliance to try to deal with a lot of that.

But what happens—and if there is something currently in place, that is clear. But what happens at the Ex-Im Bank is they make forecasts that are very difficult to do or rely upon forecasts, if you will, that are very difficult to rely upon with any accuracy.

And so we really do need to look at, I think as you mentioned, the current state of the industry should clearly be the greatest weighting.

But we also need to look at the potential, recognizing that it may not be in overcapacity today but that it very well could be.

Senator CRAPO. Thank you. I am just about at the end of my questions, although I want to try to summarize in my own mind what we have gone over. I am going to ask you each a final question and that is going to be is there something else that we have not gotten into that you want to be sure we get on the table? Or do your own summary for me about what you would like to be sure we take from this hearing.

But it seems to me, as we have looked at this, we have covered a bunch of issues but most prominent seems to be the importance of making sure that we get detailed information regarding proposed financing to the public at an early stage and in an adequate way so that input can be bough to bear by those who have expertise on the specific proposal and the industries involved.

Giving more time to that process so that we allow again those who are interested and who have the expertise to be able to muster their forces and their analysis and engage in a timely fashion would be another.

Another is extending the levels and nature of performance by the interagency group.

Another would be making a final version of the economic impact analysis available to the public after the decisions have been made so that can be then commented on and evaluated.

Another would be adopting really stronger criteria for the economic impact analysis itself. That is a little vague but a lot of different aspects of that have been discussed here today.

Another could be requiring substantiation of competing offers or assertions about availability of competing offers and, with regard to the additionality criteria, requiring substantiation for the potential of the proposal to meet the additionality criteria.

I have notes that I have been writing to myself all over the desk here and I am sure that I have missed some of the issues there but it seems to me that a number of these types of issues have been raised today and I think they are all helpful.

What I would like to do is to just give each of you an opportunity to wrap up if you would like to, anything that you would like to add to this basket or to focus on and make sure that we have before us.

Mr. Sneeringer, I will start with you.

Mr. SNEERINGER. Thank you, Mr. Chairman.

Certainly the administrative procedure improvements that you have listed go beyond what I brought to the table so I would certainly endorse all of those.

But to go back to the top two points that I mentioned, one is the fact that the U.S. Government's position on steel subsidies is that all governments ought to pull out of all steelmaking. I do not know if you can legislate that but it certainly needs to be taken into account by the Bank. I think that could be done through better and earlier consultation with other agencies and taking other agencies' word for these things, really taking the lead from agencies that are out there trying to negotiate the end of steel subsidies worldwide.

Second on circumvention, again I hope there is something that can be legislated that would require the Bank to ask itself, ask others, take into account, and make findings, that what it is doing does not constitute enabling circumvention of trade remedies. Because how untoward would that be? Private companies spend millions of dollars and years, right through the appeals, finally getting these orders that are designed to stop dumping or stop subsidization, only to find that another arm of the Federal Government is helping the very same people get around those orders? I think it is wrong and I think it should be outlawed in some way.

Senator CRAPO. Thank you. Mr. Appleton.

Mr. APPLETON. Mr. Chairman, I will be brief and again let me thank you for inviting us here today to share some of our thoughts.

First of all, we need transparency.

Second, we need to be able to respond to that transparency.

And third, and finally, we need to substantiate within that transparency the assertions and the data that are involved in the analysis. If we can get that accomplished we will have gone a long ways from where we are today.

Senator CRAPO. Thank you. That was a very good succinct analysis of the objectives that we need to accomplish.

Before I wrap up, I was just noting, Mr. Sneeringer, when you were speaking about your first point about making sure that we do not support the violation of a trade measure in the United States.

On the Ex-Im's chart for their economic impact analysis, one of the boxes is the economic good subject to specified trade measures? And so the issue is certainly raised already. But what I am hearing you say is that, at least in the case of steel, you do not think that the box is working.

Mr. SNEERINGER. Let me give two quick examples. Let us say the trade order is against dumped hot-rolled steel and now we find out that somebody, namely the very same firm that got hit with the order, has decided to build a cold mill by which they can take hot-rolled steel and make it cold-rolled steel or a hot dip line where they make it galvanized or corrosion resistant steel, something downstream that is not subject to the order.

Why would we want the Bank to help subsidize that?

Another example would be what if that firm owned or wanted to own a plant in another country and they decided that the hot-rolled steel they used to make in country A they will now make in country B because that is not covered by in the order. Why would we help build that plant?

Senator CRAPO. So we have to be more expansive in our evaluation of the trade implications rather than very narrow in terms of where there is a specific trade order?

Mr. SNEERINGER. Right.

Senator CRAPO. I think that is very helpful. I assume, Mr. Appleton, the same thing would be true in the semiconductor business?

Mr. APPLETON. That is right. At the risk of going on too long, I want to make one final comment.

In all of this analysis that we go through, I think one of the key factors is to make sure that we are not unintentionally harming U.S. interests. And of course there is an interest in terms of exportation and there is an interest in terms of competition in making sure the United States stays healthy in a particular industry.

That seems to be sometimes in the background and not as prominent as it should be.

Senator CRAPO. Thank you very much. And I do want to again say to both of you that your testimony was very well-prepared, the written testimony and your oral presentations have been very helpful here.

As you both started out with, we all understand that the Export-Import Bank has a very important function and is very useful and helpful. And our purpose here is to make sure that it does actually achieve very effectively those objectives that we all can agree on that are the proper objectives.

I think that the issues that we have raised here today clearly can be helpful in getting us much further down that road and your testimony has been very helpful in helping us to bring some specificity and some focus on the specific things that we can do.

So again I thank you very much both for the presentation and the material and the support that you have given us but also for the time you have given to come here and the present your information to this Committee.

With that, the hearing is adjourned. Thank you very much.

[Whereupon, at 11:19 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREARED STATEMENT OF SENATOR MICHAEL B. ENZI

I would like to thank Senator Crapo for holding this important hearing today to discuss economic impact issues in the context of the reauthorization of the Export-Import Bank. I also want to thank Mr. James Lambright, acting Chairman and President of the Export-Import Bank, Mr. Steve Appleton, and Mr. Thomas Sneeringer for agreeing to testify today.

Earlier this month, Senator Crapo held a hearing in this Subcommittee on the reauthorization of the Export-Import Bank. At that hearing, I shared major concerns I have with the economic impact determination the Export-Import Bank uses to see if the benefits of approving a proposal outweigh the negative economic impact. I want to reiterate those concerns and discuss an application that is currently pending to show why the Bank's economic impact procedures do not make sense.

Each time the Board of Directors of the Export-Import Bank meet to review an application, they do a cost-benefit analysis of that project to determine the projects impact on our economy. If the economic benefits outweigh the economic harm, the application should be approved. Vice versa, if the net benefit is negative, the application should be denied. It sounds simple, and as a strong supporter of sending U.S. exports abroad, I support financing projects that are beneficial to our Nation.

Unfortunately, it is not as straightforward as it sounds because the process that is used to determine the net benefit of a project is suspect. The Board only examines a portion of the transaction and therefore, only does a portion of the analysis necessary to determine the economic impact. It is my understanding that the Board only examines the economic impact of the transaction during the repayment period. They do so even though the entity may be used for years and as such, may pose challenges to the U.S. economy for years beyond the repayment period.

The problematic nature of this process can easily be seen through an application pending before the Board. The Board is currently reviewing an application to finance the purchase of refurbished locomotives for the Magadi Soda Company, a soda ash facility in Kenya. The application is for $14.4 million in financing, but it is my understanding that the economic impact analysis will only look at the burden on the U.S. economy over 6 years, the life of the loan.

The refurbished locomotives will allow the Kenyan facility to supply an additional 325,000 metric tons of soda ash to the market, and those locomotives will obviously be functional for more than 6 years. Our domestic soda ash industry, which is primarily in my home State, will therefore face export markets with an additional 325,000 metric tons of soda ash each year. That additional product will have an impact on prices and will negatively impact our economy. Thus, I would argue that an economic impact analysis which takes into account the effect on our domestic market for only 6 years is inadequate.

In order to give my colleagues additional information on this issue, I would also like to submit a letter the Wyoming delegation recently sent to the Export-Import Bank in opposition to the locomotives application. This letter discusses in more detail the negative economic impact that this pending application will have on Wyoming's soda ash communities. I hope the Board takes the information seriously and I hope my colleagues examine it to look at the problems with the Export-Import Bank's current process.

The process right now just does not make sense. Without looking at the full impact of any transaction, we cannot know if the transaction is truly beneficial to our economy. As we work through the reauthorization of the Export-Import Bank, this is an issue that needs to be addressed. I look forward to working with my colleagues to improve the process for approving applications at the Export-Import Bank.

Thank you again to Senator Crapo for holding this important hearing today.

PREPARED STATEMENT OF JAMES H. LAMBRIGHT

ACTING CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK OF THE UNITED STATES

MARCH 29, 2006

Mr. Chairman, Senator Bayh, and Members of the Subcommittee, I am happy to be here today to testify on Ex-Im Bank's procedures involving economic impact.

As I stated in my testimony of March 8, the mandate of the Export-Import Bank of the United States (Ex-Im Bank or the Bank) is to preserve and create U.S. jobs by supporting U.S. exports that would not otherwise go forward. Consistent with this mandate, Ex-Im Bank fully agrees with the principle that it should not approve a transaction that would harm the U.S. economy. This is the foundation of our economic impact procedures. But as the Bank acknowledges the importance of this principle and these procedures, these decisions are among the most difficult to make.

Through the economic impact process, the Bank seeks to determine whether a transaction under consideration would adversely affect U.S. production or employment, or result in the manufacture of a good subject to specified trade measures. The statutory language requiring consideration of economic impact, which has existed in various forms for over 35 years, reflects Congressional intent to balance two competing priorities—supporting U.S. export transactions and denying support for otherwise creditworthy transactions due to the possibility of long-term adverse economic consequences to the United States.

The Bank's economic impact procedures are intended to layout a reasonable and logical process for analyzing the impact of Ex-Im Bank support for a particular export transaction. The economic impact analysis considers issues such as whether the goods and services Ex-Im Bank is asked to support would establish or expand foreign production capacity of an exportable good, whether the product is the subject of trade measures, the global supply and demand for the good to be produced, and the competitive impact on U.S. industry from increased foreign production. The process includes review by other U.S. Government agencies, as well as input solicited from interested parties through notification in the *Federal Register*.

The Bank does not take this obligation lightly, and thoroughly analyzes these transactions in an attempt to reach the right result. Ex-Im Bank strives to implement the Congressional mandate in a thoughtful, considered, and transparent manner, with full participation of interested stakeholders. At the same time, the Bank stands ready to work with the Congress, affected industries, exporters, organized labor, and others to refine the process for considering these transactions, based on experience over the past several years.

I would like to take this opportunity to explain how Ex-Im Bank's current economic impact procedures were developed, how they are applied to export transactions, and the Bank's experience with these procedures over the last 4 years.

Procedures Prior to 2001

In 2001, Ex-Im Bank recognized the shortcomings in the then-existing economic impact procedures, and initiated a process to improve the procedures. At that time, the principal criticisms of the economic impact procedures were that they: (i) lacked clear definitions and criteria for important terms, such as "surplus" and competitive impacts; (ii) only considered final trade measures, as opposed to preliminary determinations and injury findings; (iii) did not provide for sufficient interagency consultation; and (iv) provided for inconsistent and inadequate notice to potentially interested parties.

The process of vetting changes to the economic impact procedures was extensive and included representation of all stakeholders. Ex-Im Bank held a public hearing to discuss the procedures and consulted with Members of Congress, other U.S. Government agencies, as well as representatives of industry, exporters, and organized labor. In March 2003, Ex-Im Bank released the new economic impact procedures reflecting changes developed through public consultation, as well as changes mandated by Congress in the Bank's 2002 reauthorization. These procedures addressed many of the shortcomings of the prior economic impact analysis, including:

Clearer Criteria and Definitions. The procedures clarified important concepts such as oversupply by establishing indicators relevant to the determination. Such indicators include commodity prices, capacity utilization rates, employment levels, and bankruptcies. In addition, Ex-Im Bank broadened its evaluation of the impact of new production on an industry by consulting with a variety of knowledgeable industry sources, including independent industry observers, trade associations and U.S. Government agency experts.

Broad Consideration of Trade Policies. In addition to final trade measures, the economic impact procedures consider preliminary antidumping and countervailing duty determinations, suspensions agreements arising from trade investigations, and Section 201 injury findings.

Enhanced Interagency Consultation. Ex-Im Bank changed the procedures to include regular consultation with other U.S. Government agencies (including the Department of Commerce and the Office of the U.S. Trade Representative.) Ex-Im Bank alerts these agencies early in the process to all transactions that may be subject to detailed economic impact analysis. The Bank solicits agency views on the applicability of trade measures, industry information, and the appropriateness of its findings.

Notice to Interested Parties. Ex-Im Bank promptly notifies interested parties of transactions that are subject to detailed economic impact analysis. These notices are published in the *Federal Register* and on the Bank's website. U.S. Government agencies are separately notified of such transactions.

Current Analvtical Process

Ex-Im Bank staff subjects each transaction to a series of questions to assess the potential adverse impact. First, staff ascertains whether an export to be supported by Ex-Im Bank will enable the foreign buyer to establish or expand production capacity of an exportable good. Transactions that enable a foreign buyer to establish or expand production capacity of an exportable good are subject to further analysis.

Second, staff determines whether the resultant production will be "substantially the same product" as a good that is the subject to an applicable trade measure, including antidumping orders, countervailing duty orders, and Section 201 safeguards. If a trade measure is applicable, then Ex-Im Bank is prohibited from supporting the transaction.

If the resultant production is not the subject of a trade measure, and the Ex-Im Bank transaction is more than $10 million, then Ex-Im Bank staff considers whether the resultant production will meet the "substantial injury" threshold of 1 percent or more of U.S. production. Transactions under $10 million are included in a post-authorization annual review to determine whether the Bank authorized multiple transactions to a single buyer that, in the aggregate, exceeded $10 million.

If a transaction meets the 1 percent threshold, then Ex-Im Bank staff conducts a detailed economic impact analysis that weighs the benefits of an export against the potential costs and harm to the U.S. economy from supporting the transaction. At this stage, Ex-Im Bank publishes the details of the transaction in the *Federal Register* and on its website and notifies relevant U.S. Government agencies. These public notices are intended to reach out to trade associations and other interested parties for comments on the proposed transaction.

The staffs analysis seeks to determine: (1) the likelihood that the product in question will be in "surplus" (or oversupply) on global markets at the time it is first sold; and (2) whether the product in question competes with U.S. production of the same, similar or competing product.

If either of these two circumstances exists, then Ex-Im Bank is prohibited from supporting the transaction unless the Board of Directors determines that the short- and long-term benefits to industry and employment in the United States are likely to outweigh the short- and long-term injury to U.S. producers and employment of the same, similar, or competing commodity. Comments received pursuant to public notice are included in the analysis that is presented to the Board of Directors for decision.

Recent Experience with Economic Impact Analvsis

Since the new economic impact procedures took effect, Ex-Im Bank has received requests to support capital equipment sales to a variety of foreign buyers. Economic impact issues have arisen in a number of these transactions, including those relating to the production of textiles, chemicals, steel, semiconductors, soda ash, and solar panels.

Ex-Im Bank must balance the need for inclusiveness with commercial practices that require efficiency and timeliness on transactions. While Ex-Im Bank makes every effort to complete the economic impact analysis expeditiously, it requires a substantial dedication of staff resources, and usually takes 8 to 10 weeks. Completion of an economic impact analysis may take up to 1 year, depending on the extent to which the feedback and information obtained through the notice and comment period are consistent with the Bank's analytical findings. The oversupply assessment requires an analysis of future supply and demand balances of the new production associated with Ex-Im Bank financing. However, a lack of consensus among industry observers about the outlook on supply and demand balances can lead to an inconclusive finding on oversupply and may impede the Bank's analysis.

Trade measures, oversupply and trade flow impacts have figured prominently in Ex-Im Bank's analysis of these transactions. Since 2002, Ex-Im Bank has conducted a detailed economic impact analysis of 22 transactions, a quarter of which involved sales primarily by small business exporters. Ex-Im Bank's Board of Directors has approved 11 transactions, and two were denied on economic impact grounds. Seven transactions were withdrawn prior to Board consideration. While applicants may withdraw their transactions for any reason, exporters have indicated that the delay and uncertainty associated with the Bank's economic impact policy have in some instances frustrated their commercial relationships and caused them to lose export sales to foreign competitors. The Bank must ensure that potential transactions are properly vetted and all interested parties have an opportunity to be heard. At the same time, it is critical that Ex-Im Bank's processes permit U.S. exporters to remain competitive in the global marketplace.

Conclusion

The revisions to the economic impact procedures implemented in 2003 have been successful from a number of perspectives. They clarified the criteria for Ex-Im Bank's review and expanded participation by other U.S. Government agencies and stakeholders in the process. Despite this progress, economic impact analysis continues to present challenging issues for Ex-Im Bank. The analysis inherently pits one set of interests and U.S. jobs—those of the prospective exporter and its suppliers—against those of another U.S. company or industry that may be harmed by the export sale. Moreover, Ex-Im Bank continues to grapple with some of the core concepts raised by economic impact analysis, including the determination of oversupply and the evaluation of trade flow impacts. Despite these challenges, Ex-Im Bank strives to implement the economic impact procedures so that they are transparent, predictable, effective, and fair to exporters, affected industry, and other stakeholders.

I look forward to working with you to achieve these objectives.

PREPARED STATEMENT OF STEVEN R. APPLETON

CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER, AND PRESIDENT
MICRON TECHNOLOGY, INC.

MARCH 29, 2006

Mr. Chairman, Senator Bayh, and Members of the Subcommittee, my name is Steve Appleton, and I am the Chairman of the Board, Chief Executive Officer and President of Micron Technology, Inc. (Micron.) Thank you for inviting me here today to testify before this Subcommittee regarding the 2006 reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). I appreciate the important work of the Ex-Im Bank in encouraging exports from the United States, and the work of this Committee in authorizing and overseeing funding for the Bank. I welcome the opportunity to describe to the Subcommittee Micron's experience with the Bank and to share some thoughts on how the Ex-Im Bank's Economic Impact Analysis process and other related procedures could be enhanced to guarantee greater fairness and transparency.

Let me start by giving you some background on Micron and the semiconductor industry. Micron is one of the world's largest and most innovative providers of advanced semiconductor solutions. Micron produces advanced DRAM, NAND Flash memory, and imaging semiconductors that are used in today's cutting-edge, mobile, computing, server, automotive, networking security, industrial, consumer, and medical applications. The company is based in Boise, Idaho and began operations in 1978. In the United States, Micron has major manufacturing facilities in Boise, and Manassas, Virginia, and Micron also is a partner with Intel Corporation in a Joint Venture manufacturing facility in Lehi, Utah. Additionally, Micron has design centers in Texas, Minnesota, California, and Idaho, and operations around the world, including fabrication facilities in Italy and Japan, a joint venture manufacturing facility in Singapore and a wholly owned assembly and test facility in Singapore. Micron employs nearly 21,000 people worldwide, over half of those employees in the United States. Micron's revenues last fiscal year were $4.88 billion and we invest a total of about $1–1.5 billion annually in our worldwide operations and on research & development.

The semiconductor industry is extremely competitive. Only those companies able to aggressively control costs, increase productivity, and continuously innovate are able to survive. In 1985, there were about 11 major U.S.-based companies in the DRAM business—today, Micron is the only one still manufacturing DRAM. To compete, Micron has to produce faster and smaller devices that provide greater capability at the lowest possible price. At the same time, we have to be able to anticipate the development of a wide array of end use consumer products and electronic systems that might require our products and adapt accordingly.

The semiconductor industry is also capital intensive. Manufacturing equipment is highly specialized and has a life span of only about 3 years. Companies must continually reinvest to keep ahead of the innovation curve. This means making major investments in research and development as well. It costs around $2.5 to $3 billion to construct and equip a manufacturing facility from green field to full operations.

And, the semiconductor industry spends an average of 40 percent of its revenues on new capital equipment and R&D each year.

Due to the capital intensive nature of the business, the semiconductor industry is also sensitive to the availability and cost of capital. When our semiconductor competitors have special access to favorable financing through government-subsidized programs, it creates enormous and artificial advantages for that competitor. For decades, Micron has spoken out against illegal subsidies from foreign governments to develop and protect a domestic semiconductor industry. In many instances, this practice has led to massive overcapacity. In the DRAM industry, Micron has seen time and again—first in Japan, then in Korea, and then in Taiwan—government-subsidized capital poured into expanding capacity in an effort to gain market share or given to keep companies from otherwise going bankrupt. For example, in 2001–2003, the Government of Korea provided domestic manufacturer Hynix Semiconductor with over $16 billion in illegal subsidies. As a result of this, Micron filed and won antisubsidy cases against Hynix in the United States, Europe, and Japan.

Given this background on Micron and the semiconductor industry, you can appreciate my surprise when I discovered in August 2004 that the Ex-Im Bank of the United States was contemplating providing $500 million in loan guarantees to a DRAM competitor in China, a company called Semiconductor Manufacturing International Corporation; also know as "SMIC." SMIC is a relatively new, but rapidly growing, entrant into the pureplay semiconductor foundry business. A pureplay foundry is a manufacturing facility designed to produce a variety of semiconductor products, including memory like the DRAM and NAND Flash chips that Micron makes and sells, as well as logic products and other types of integrated circuits. At the time of the proposed financing, SMIC was one of the fastest growing semiconductor manufacturers in the world. Most of its revenue came from DRAM, either manufacturing and selling product under its own label or manufacturing product for other companies to sell. Both from a design and a production perspective, SMIC had made DRAM a central part of its business plans. Within 3 years, it had become the world's third largest semiconductor foundry.

Even more perplexing to me was that SMIC could claim to need Ex-Im Bank financing in order to purchase manufacturing equipment. SMIC had recently completed the construction and ramp of three different semiconductor facilities in Shanghai and had done so with a mix of private equity, credit from Chinese banks, and vendor financing. Most of the equipment it purchased for these three factories was from U.S.-based equipment suppliers. Moreover, in March 2004, only 3 months before applying for the Ex-Im Bank loan guarantee, SMIC had raised $500 million on international capital markets through an initial public offering. Clearly, SMIC was a sophisticated company with access to international capital markets and a track record of raising money when needed. So, why did SMIC need to go to the Ex-Im Bank? The most likely answer was SMIC wanted to benefit from lower than market interest rates.

As you know, the role of the Ex-Im Bank is to provide financing to help promote the export of U.S. goods and services with the stated purpose of maintaining and creating American jobs. Importantly, Ex-Im Bank however, does not provide export financing for just any transaction, but may do so under two scenarios. The first is to match export financing from the Export Credit Agencies of other countries. The second is to fill in gaps in private sector financing or to address some other market failure—that is, *only* when an export would not go forward without the assistance of the Bank. Accordingly, the Ex-Im Bank should not operate as a private sector financial institution and should not supplant or compete with financing from the private sector.

Moreover, Ex-Im should not provide financing for transactions that would result in a net negative impact on the U.S. economy. Through its Economic Impact Analysis procedures, the Ex-Im Bank determines whether a transaction under consideration would adversely affect U.S. production or employment. For example, adverse effects would occur when the financing supports the creation or expansion of capacity of a product that could then be exported to the United States and cause injury. In carrying out its Economic Impact Analysis, the Ex-Im Bank looks at the following factors:

- Whether the commodity produced with the equipment financed by the Ex-Im Bank will be in oversupply on world markets at the time the resulting commodity is first sold;
- Whether the resulting production capacity is expected to compete with U.S. production of the same, a similar, or a competing commodity; and
- Whether the Ex-Im Bank determines that the extension of such credit or guarantee will cause substantial injury to United States producers of the same, a similar or a competing commodity.

A *Federal Register* notice requesting public comment must be filed under the Ex-Im Bank's Economic Impact Analysis procedures. With respect to the proposed SMIC financing, a *Federal Register* notice was published in August 2004. Unfortunately, the notice itself provides very little information regarding the proposed financing, so it is difficult to provide meaningfully comments on a proposal. The SMIC related notice only indicated that the proposed financing was for $500 million to a Chinese company to make 60,000 wafers a month of advanced semiconductors. Nonetheless, after doing some investigating of our own to flesh out more details, we filed comments objecting to the financing. We were able to assess the impact that the proposed financing guarantee would have on Micron's operations because DRAM was a central focus of SMIC's well-publicized business plan and a large proportion of its production. We provided the Ex-Im Bank detailed information on SMIC's competing DRAM production, the state of oversupply in the DRAM market, and SMIC's apparent access to private financial markets.

In December 2004, I came to Washington to meet directly with members of the Ex-Im Bank Board to make this case. During these meetings, I was informed that the terms of the proposed financing had fundamentally changed—that the proposal was instead to provide SMIC with a $1.2 billion loan guarantee, more than double the original proposal. Moreover, SMIC was reportedly guaranteeing that it would produce only small quantities of DRAM and that instead its real intention was to make logic devices which it claimed were not in oversupply in the global market. From my perspective, SMIC's guarantees were not reassuring. First, the same equipment used to produce logic semiconductors can be used to produce DRAM. Second, even if the equipment were dedicated to logic production, it still freed up SMIC's capital to invest its own money in DRAM production.

When I asked the Ex-Im Bank Board if Micron would have an opportunity to comment on the revised proposed financing, there was resistance. It was only after we persisted that the Board agreed to publish a new *Federal Register* notice. We asked to see the draft Economic Impact Analysis report, but that request was denied. Consequently, Micron hired a private firm, CapAnalysis, to conduct a comprehensive economic impact assessment. Based on a report by CapAnalysis, the economists concluded that: (1) the world market was in oversupply for both DRAM and logic chips: (2) SMIC was capable of accessing financing on its own without an Ex-Im Bank guarantee; and (3) the proposed financing would have a net negative impact on the U.S. economy and U.S. jobs.

Ultimately, the proposed financing never went to a vote of the Ex-Im Bank Board. As then-Chairman and President Phillip Merrill noted, this was a large and complex transaction that implicated a number of requirements under the Ex-Im Charter including the economic impact test, the additionality standard, and reasonable assurance of repayment.

As a result of our experience with the Ex-Im Bank process, I believe there are a number of steps that could be implemented to improve the economic impact assessment procedure and help ensure that other Ex-Im Bank requirements are being met.

With respect to the economic impact procedures, I would make the following suggestions to improve the transparency of the process:

- More detailed information should be provided in the *Federal Register* notice so as to enable potentially affected U.S. producers to comment meaningfully on the proposed transaction.
- The comment period should be extended from 14 days to a minimum of 30 days (and, for large financings, such as the one involving SMIC, 45 days or more) to allow for a more thorough analysis by potentially affected U.S. producers and other interested members.
- The period of time the Interagency Group has to review the proposed deal and the completed Economic Impact Analysis should also be lengthened. Based on our experience, members of the Interagency Group were frustrated that their questions and concerns were not being adequately addressed, and that they were consulted only at the last minute. Moreover, certain agencies on the Interagency Group, especially the Department of Commerce, should be consulted early in the application procedure because they often have industry expertise—for example, concerning the semiconductor industry—that does not exist in-house at the Ex-Im Bank. This especially makes sense given that the Secretary of Commerce is an *ex officio* member of the Ex-Im Board.
- The Ex-Im Bank should be required to issue another request for public comment if there are significant changes to the terms or the amount of the financing.
- And finally, a public version of the final Economic Impact Analysis should be made available for inspection and comment before a Board vote on a particular financing proposal. Right now, affected U.S. companies are never given the chance

to see the final analysis, the comments of other parties or the input from the private experts retained by the Ex-Im Bank. This lack of transparency puts the potentially affected producer at a significant disadvantage in terms of transparency and due process. These due process procedures are only what are minimally required in other agency contexts such as the International Trade Commission or the Department of Commerce, as well as with the Regulatory Impact Analysis review procedures followed by OMB in the context of E.O. 12866.

I also believe that the Ex-Im Bank should implement targeted provisions to ensure that its mandate is being met. First, as I noted previously, pursuant to its rules, Ex-Im Bank can provide financing to match the competition from foreign Export Credit Agencies that provide financing or guarantees to their own exporters. During the SMIC application, we were told that SMIC had informed the Ex-Im Bank that if it did not get a loan guarantee from the United States, it would get financing from JABIC, the Japanese Export-Import Bank and that the United States exporters would lose business. When we asked what proof was provided, we were told that the borrower was not required to provide documentation showing the availability of alternative financing—instead, an applicant merely had to provide assurance that this was the case. In our experience, SMIC never received financing from JABIC despite its assurances to Ex-Im Bank. Applicants should be required to provide some proof of alternative financing from a foreign Export Credit Agency.

Likewise, if the Ex-Im Bank provides financing based on the "additionality" standard, then the Bank should be required to document the alleged market failure at issue. Specifically, the Ex-Im Bank should establish guidelines for determining whether its financing is truly necessary. Among other things, they should request documentation from the foreign applicant detailing their record of raising capital from the private sector during the 3-year period prior to the date of any Ex-Im Bank financing application. This should include all loans, equity issuances, and vendor financing. Documentation should also be provided to demonstrate recent, failed attempts to access financing from the public sector.

I believe that these changes would have been helpful in assessing the SMIC case and will be useful in future instances that may affect Micron. However, I am not in a position to say that the recommendations I have outlined should be applied in all cases. I would leave that to the discretion of the Committee and the Ex-Im Bank.

I applaud the Ex-Im Bank for its efforts supporting and promoting U.S. exports—a laudable goal. Without question, the Ex-Im Bank should strive to help small exporters that really need assistance. As I described, the problems that we encountered in our dealings with the Ex-Im Bank could be improved significantly if additional procedures were implemented to ensure a more balanced and transparent process. Micron would be happy to work with you, Mr. Chairman, other Members of the Committee and appropriate officials at the Ex-Im Bank.

Again, thank you for the opportunity to testify and I would be happy to answer any questions.

PREPARED STATEMENT OF THOMAS M. SNEERINGER

DIRECTOR, FEDERAL GOVERNMENTAL AFFAIRS
UNITED STATES STEEL CORPORATION
ON BEHALF OF
THE AMERICAN IRON AND STEEL INSTITUTE

MARCH 29, 2006

I appreciate the opportunity to testify here today on behalf of the American Iron and Steel Institute (AISI) and its U.S. member companies who together account for approximately three-fourths of the raw steel produced annually in the United States.

American steel producers strongly support U.S. Government policies to open foreign markets and more specifically the goals of the Export-Import Bank (Ex-Im Bank) to foster export of U.S.-produced goods and services. The financial well-being of our industry and of our domestic suppliers and customers is vital to our economy. At the same time, the domestic steel industry remains concerned about U.S. Government-subsidized financings of manufacturing facilities which lead to the expansion of production capacity of a major commodity already in oversupply—a problem that has been especially prevalent in the global steel industry.

Our concerns regarding overcapacity are deepened by the fact that world steel supply is likely to expand dramatically in the near future. Past experience clearly demonstrates that overcapacity is the root cause of the economic conditions that have regularly subjected American steel producers and workers to substantial injury caused by often unfairly traded imports. As the Department of Commerce confirmed in its 2000 study entitled "Global Steel Trade: Structural Problems and Future Solutions," government-enabled distortions and government-tolerated anticompetitive practices are pervasive in the world steel market. The outcome is that market forces are not able to bring world capacity and supply in line with demand. Much of the resulting oversupply in steel ends up, directly or through displacement, in the open U.S. market. As a result, the American steel industry is repeatedly injured by import surges.

This is why the President has made reducing global steel oversupply a priority and in June 2001 launched a multilateral initiative designed to restore market forces to world steel markets and eliminate the unfair trade practices that harm the industry and its workers. In announcing his multilateral initiative on steel, President Bush confirmed the extent of foreign government interventions and the severity of the subsidy-induced global steel excess capacity problem and their direct impact on domestic steel producers and workers:

> The U.S. steel industry has been affected by a 50-year legacy of foreign government intervention in the market and direct financial support of their steel industries. The result has been significant excess capacity, inefficient production, and a glut of steel on world markets. . . . Absent strict disciplines barring government support, direct or indirect, for inefficient steel-making capacity, the problems confronting the U.S. steel industry—and the steel industry worldwide—will only recur.

The initiative included: (1) negotiations with America's trading partners seeking the near-term elimination of inefficient excess capacity in the steel industry worldwide; and (2) negotiations to eliminate the underlying market-distorting subsidies. Thus, when the Ex-Im Bank subsidizes loans which result in increased steel production capacity abroad, it directly contradicts the policies and goals established by the President.

Steel companies around the world have recently announced plans to expand steel capacity by close to 600 million metric tons from 2005–2012. While capacity expansion must of course be viewed in the context of demand growth, this capacity growth far exceeds any reasonable expectation for global consumption growth. The capacity expansion continues to occur in Asia and South America, with spurts of growth also occurring in Russia and other areas. These capacity expansion facts are sourced from a memorandum which AISI and five other major steel associations in the NAFTA region submitted recently to the OECD. This submission is attached hereto for inclusion in the record.

Much of the unprecedented building binge occurring in multiple regions of the world is taking place in countries which are producing more steel than they consume domestically, and as a result of decisions by governments to support the expansion of domestic steelmaking capability. For instance, India's Government has announced that it aims to increase steel production to 110 million tons by the 2019/20 financial year—tripling its current output.

The large, open, and therefore vulnerable U.S. market is the natural choice for export by countries who produce more flat-rolled steel products than they consume and are heavily reliant on exports, as many other major steel markets are either effectively closed to imports, or net steel exporters, or both. A renewed import wave of surplus product flooding the U.S. market would be both harmful and unfair. It would threaten to undermine the significant progress that domestic steel producers have made in recent years in historic and ongoing restructuring efforts, which in turn would be put into serious jeopardy.

The U.S. steel industry does not oppose financings by the Bank so long as they are not undermining U.S. Government policies to reduce global steel overcapacity. The industry wants to work constructively with the Bank in its consideration of requests for financing of global projects involving the steel industry to make certain that future Ex-Im Bank investments are not made that would increase production of a commodity product for which there already is overcapacity.

In 2002 Congress, responding to the Ex-Im Bank providing financing for foreign steel production over the objections of the Congressional Steel Caucus and Cabinet level officials, and other similar concerns, enacted legislation to prevent the Ex-Im Bank from financing production of foreign goods that have been found to injure U.S. producers. AISI and its U.S. members supported Congress' inclusion of provisions strengthening the Bank's economic impact analysis provisions in the 2002 Ex-Im Bank Reauthorization Act. While the statutory and procedural modifications to these rules were a great step forward, improvements can be made to make the rules more effective and more transparent. AISI therefore urges Congress to consider proposals—both substantive and procedural, relating to increased transparency—for inclusion in the Bank's reauthorization legislation:

- *Define the term "substantially the same product" to include products that are one or two steps upstream or downstream from the product subject to an order or determination.* This clarification would apply to the rules relating to both final trade measures and preliminary affirmative determinations under Title VII of the Tariff Act of 1930. This clarification would make the statute consistent with the legislative intent as expressed by Senator Bayh and Congressmen Oxley and Toomey in 2002. Similarly, and thematically consistent with the intent of the economic analysis requirement, the analysis of whether the product is or will be in oversupply or is in competition with U.S. production of a same, similar, or competing product should include also products that are one or two steps upstream or downstream from the product subject to the analysis.
- *Specify that the Bank shall not provide financing to a firm for the production of substantially the same product that is the subject of a trade law order, regardless of the country of origin of the order against that firm.* In other words, if there is a trade law order against a company producing hot-rolled steel in Country X, the Bank should not support a loan to that same company for improving existing plants or building new facilities for producing hot-rolled steel in Country Y.
- *Specify that the Bank's $10 million and $5 million financing thresholds are to be aggregated for all financings and financing applications involving the same firm and substantially the same product within a 24-month period.* Applicants for Ex-Im Bank financing should not be allowed to circumvent the rules by disaggregating financing applications into several smaller applications to avoid the economic impact analysis and Board consideration. This aggregation proposal would apply to the Bank's general $10 million threshold for an economic impact analysis; the $5 million and $10 million thresholds under the preliminary determination rules; and, the $10 million threshold under the Section 201 investigation rules.
- *Require the Bank to expand the public comment periods from 14 days to 30 days.* The statute requires that the Bank seek comments from interested parties to ensure that it refrain from financing activities which adversely affect American interests and that it has established procedures to notify interested parties and provide a comment period with regard to loans or guarantees it is reviewing. The current comment periods, however, are too short to allow full and meaningful private sector comment. In addition to the formal mechanism for comment and consultation, AISI encourages the Bank to consult closely with domestic industries to discuss proposed financings and their impact on excess foreign production capacity.
- *Require that the Bank notify the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services of proposed transactions subject to an economic impact analysis.* Currently, the Bank's procedures provide that it will notify the relevant U.S. Government agencies but there is no required notification of the Congressional oversight committees.

In conclusion, the 2002 Ex-Im Reauthorization Act made significant changes to the economic impact procedures, but the additional amendments outlined above would help to ensure that the Bank undertakes a balanced, full, and fair procedure with regard to its economic impact analysis.

Memorandum

October 21, 2005

TO: Wolfgang Hubner
OECD

FROM: American Iron and Steel Institute (AISI)
Canadian Steel Producers Association (CSPA)
Committee on Pipe and Tube Imports (CPTI)
Mexican Steel Producers Association (CANACERO)
Specialty Steel Industry of North America (SSINA)
Steel Manufacturers Association (SMA)

RE: **Capacity Expansion in the Global Steel Industry -- An Update**

The steel industry of North America, comprised of six major steel associations in the NAFTA region (AISI, CANACERO, CPTI, CSPA, SMA and SSINA), is pleased to provide comments to the October 27-28, 2005 OECD Steel Committee meeting on steel capacity developments. These comments update the document our six associations submitted to the January 2005 "Outlook for Steel" conference co-sponsored by the OECD and IISI.[1]

> At the January conference, a number of participants expressed concern that governments were continuing to provide subsidies to companies to expand steelmaking capacity, and the OECD communiqué noted that *"a further crisis in steel could well arise in several years time, should capacity exceed market needs by a significant amount."*

This update comments on issues arising from the rapid shift in market forces and outlook from 2004 to 2005. It also raises new issues not discussed in our previous report.

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[1] We would reiterate the statement made in the original report: Any company has the right to enter or increase its steel business. However, we believe it must be on the basis of market principles – not government support.

EXECUTIVE SUMMARY

Nucor has tracked public announcements regarding steel plant expansions, new facilities, announced delays in such facilities and any announced facility closures to determine the rate of expected capacity growth. This includes raw steel, semi-finished and finished products. Our January report outlined capacity increases between 2005 and 2008, which amounted to roughly 25 percent of current capacity in the face of a global consumption growth now projected to be in the range of 3 percent-a-year, compounded, going forward.

Due to the rapid increase in Chinese consumption, various sources (average)[2] have been expecting the global annual growth rate between 2003 and 2008 to be in the 3.9 percent range. Because most industry analysts look only at apparent steel consumption and fail to take into account changes in inventory levels, we believe that most analysts "overstated" actual global steel use in peak year 2004 by 35 million metric tons (MT) or more. Surges in demand include both actual use and inventory builds. Based on the North American experience (and parallel reports globally), there is often a degree of "irrational" behavior in the market that inflates views of actual consumption.

The planned capacity increases that far exceed demand forecasts continue to be concentrated in countries where one or more of the following conditions exist:

- State support is common;
- Home markets cannot absorb all of the capacity increases;
- Incentives for capital investment are offered if facilities export their products.

Basically, the fundamentals that lead to global steel industry instability -- and which pit private companies against governments in the marketplace -- center on subsidized, excess, uneconomic, polluting and poorly located capacity. The OECD Steel Committee provides a valuable forum for the development of policy responses based on good information. It remains a vital conduit of information and education on steel-related issues, and serves an essential role in monitoring global activity in the steel sector -- including policy changes on the part of steel producing countries, and the development of sound policies by the governments of such countries.

Continued Capacity Expansion and Steel Supply

Capacity expansion must be viewed in the context of demand growth. The attached chart[3] summarizes the public announcements that have yet to be formally rescinded or altered in any substantial way. It draws a comparison to a referenced World Steel Dynamics (WSD) report. That report represents an aggressive growth pattern versus the more conservative IISI forecast. In either case, the capacity growth far exceeds any reasonable expectation for global consumption growth.

[2] MEPS 3percent, The Economist 3.7percent, World Steel Dynamics 5percent
[3] Exhibit 1: Projected Worldwide Steel Capacity vs. Demand 2005-2010

The second attachment[4] summarizes the approximately 580 million MT of announced steel capacity additions in the 2005-2012 period, and breaks these capacity expansions down by region. The growth continues to occur in Asia (mainly China and India) and South America (mainly Brazil), with spurts of growth also occurring in Russia and other areas. In the NAFTA region, capacity growth is minimal.

While announced new capacity growth is highly visible, less so is what we will call "capacity creep." As mills make capital investments to modernize and maintain facilities, a normal outcome is improved productivity. To make a capital investment, there has to be a payback in terms of lower cost, improved productivity or increased capacity. The experience of NAFTA companies suggests that in-aggregate productivity gains of 1 percent per year for an industry such as steel are not out of the question.

Globally, incremental improvements, de-bottlenecking and facility rounding likely all contribute to "capacity creep." We see clear evidence of this in peak demand periods when mills operate above accepted norms for sustained capacity utilization. There has been no formal study on this issue, but individual companies understand the concept of incremental gains. "Capacity creep" could easily be 10 million MT annually across the global steel industry.

Demand vs. Usage vs. Projections

"Apparent consumption" in 2004 globally has been estimated by various sources at roughly 1.035 billion MT. This represents about a 91 percent utilization of the OECD's 2003 estimate of world steel capacity -- which is reasonable, given the conditions in 2004. In the United States, producers have concluded that approximately 5.5 percent of total shipments last year (domestic plus imports) were in the form of an inventory build. Anecdotal comments suggest that the same sort of inventory buildup occurred elsewhere in the NAFTA region and, indeed globally.

Highly publicized production cutbacks -- primarily in North America and Europe -- attest to users running off inventory, as economists suggest that overall metal "chew-up" in these regions is stable or even slightly improved in 2005. Reports of excessive inventories in parts of Asia in 2004 were validated by an equal number of public reports of price volatility in that region. The two go hand in glove. There was a parallel global event in 1973-74, wherein "shortage" was confused with inventory building caused by hoarding and over-buying. That is a normal buyer reaction when there is supply concern.

Why is this important? We need to understand the relationship between actual usage and capacity. Capacity built to address inventory buildup is sheer folly. Even worse is capacity built to export into that condition. When we look at the location of many of the announced new global steel capacity expansions, planned facilities are being built in the

[4] Exhibit 2: Worldwide Announced Capacity by Region 2005-2012

absence of a home market to absorb fully the increased production. Increased transportation costs make transporting steel long distances increasingly uneconomical. Not surprisingly, when we look at how this new capacity is being justified, we find that, in many cases, government subsidies are once again being provided.

To complicate matters further, we also need to take a closer look at the projections for growth in global steel demand. The most aggressive of these projections show markets will not grow anywhere near the pace of capacity growth as suggested in Exhibit 1. If we accept that a 91 percent capacity utilization rate is attainable in peak markets -- and if we even move it to a lower but still solid utilization rate (87percent) to handle peak demand periods, seasonal factors and cyclical issues -- then the needed capacity to address world steel demand in 2010 would be approximately 1.37 billion MT -- not the projected 1.55 billion tons.

The theoretical growth that we would need to go from the OECD 2003 estimate of 1.13 billion MT of capacity to meet the estimated 1.37 billion MT of world steel demand in 2010 is 240 million tons. What we find is that the announced plans for new steel capacity in Asia alone (2005-2010) total 369 million tons -- 222 million tons in China, with another 83 million tons slated for India, and 64 million tons for the rest of Asia. Exhibit 3[5] provides a more complete picture of the location of worldwide capacity growth.

An assumption that the growth in steel consumption in Asia alone would justify the magnitude of capacity expansion there suggests that metalworking in the rest of the world (ROW) would simply move to Asia and that capacity closure announcements would be the norm in ROW countries. The implications for direct steel trade are serious enough. To suggest that this growing world steel oversupply will somehow be corrected by the movement of downstream metalworking industries from OECD countries to developing countries in Asia and elsewhere has even broader implications.

Government Intervention, Jobs, Exports -- and Overcapacity

The gap between capacity growth and demand continues to widen. We would reiterate that steel is a capital-intensive industry. It is also an industry that facilitates job growth in supporting functions at a higher rate than even durable goods. The OECD and many others have analyzed the multiplier effect of manufacturing in terms of jobs and contribution to GDP.

That steel is capital-intensive and a significant generator of other economic activity gives governments a reason to develop and facilitate the operation of excess capacity for export purposes. Because subsidies and currency intervention support jobs and facilitate trade surpluses -- and excesses in a given sector can be used to address broader economic goals -- we should not consider the steel excess capacity issue solely

[5] Announced Steel Capacity by Region 2005-2012

in relationship to demand. Government intervention, jobs, exports and overcapacity all have deep linkages.

That steel needs to contribute to sustainable, and environmentally responsible, economic development should also give governments a reason to be concerned. It does not serve the interests of national economic development or the global environment for governments to subsidize a proliferation of unneeded steelmaking facilities.

Conclusions

The threat of a serious resumption of overcapacity conditions in the global steel sector is real and growing. Press reports and anecdotal comments suggest that no one has captured the full extent of this problem. Varying reports indicate that China alone has 50 million MT of excess capacity. Some Chinese industry estimates are that it could be closer to 100 million tons by the end of 2006. The Chinese industry has itself expressed concern about an oversupply situation developing in their country.

We are all in the same boat in the world steel marketplace -- and the boat will be leaking if we end up with massive world steel overcapacity and steel trade distortions facilitated, once again, by government intervention in the steel sector.

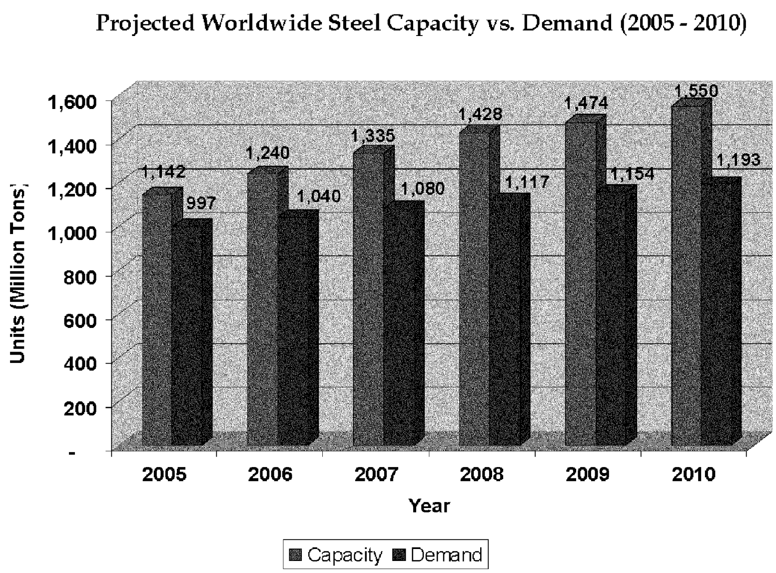
In the absence of a comprehensive, effective and enforceable Steel Subsidies Agreement (SSA), it is especially important that we all increase our understanding of global and regional steel market developments -- and the accuracy of steel-related data in both OECD and non-OECD countries regarding subsidies, capacity, trade, energy use and environmental performance.

- The OECD Steel Committee can play a valuable role in educating about steel-related data, market developments and policy issues, and in promoting a constructive dialogue among governments and industries -- without pointing fingers.
- It is essential to have major non-OECD member countries fully engaged with Steel Committee on an accurate data basis.
- Given the announced, massive capacity expansions and the current projections of world steel demand, the likelihood is growing that we will see an increase in dumped and subsidized steel, trade and market distortions and steel trade litigation.
- It will not serve the interest of any government or steel industry to see an upsurge in steel trade tensions and litigation.
- Yet, the conditions we reported in our January 2005 submission to the OECD/IISI "Outlook for Steel" conference have not changed -- and may have gotten worse.

*

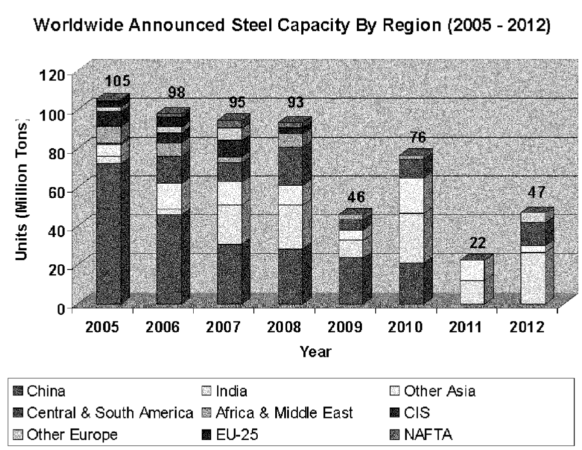
The NAFTA steel industry appreciates this opportunity to comment on steel capacity developments by providing an update to the paper we submitted in January 2005.

Exhibit 1



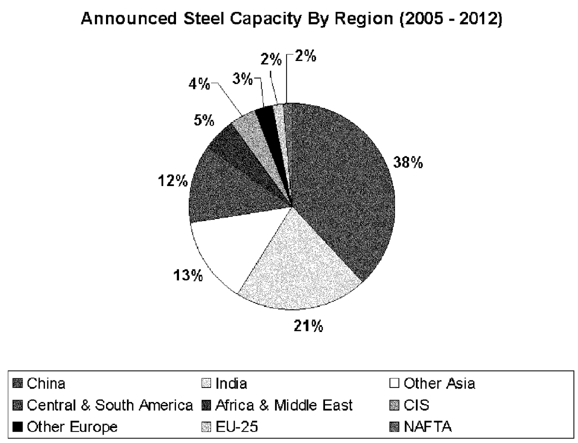
Source: Capacity – Public Data
Demand – World Steel Dynamics

Exhibit 2



Source: Public Data

Exhibit 3



Source: Public Data

Congress of the United States
Washington, DC 20515

March 20, 2006

James H. Lambright
Acting President and Chairman
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Mr. Lambright:

We would like to bring your attention to an application that will soon come before the Export-Import ("Ex-Im") Bank Board of Directors to finance the purchase of refurbished locomotives to a soda ash facility in Kenya. We strongly urge you and the other members of the Board of Directors to carefully consider the lasting economic impact of this transaction on the U.S. soda ash industry and to reject this application for $14.4 million in financing.

The U.S. soda ash industry is an important engine of jobs and economic growth in our state of Wyoming. Soda ash, which is a primary raw material in the manufacture of glass and detergents, is America's largest inorganic chemical export. In 2005, the United States produced approximately 4.5 million metric tons for export, at a value of $610 million. The United States produces approximately 11 million metric tons of soda ash annually, of which about 42 percent is exported. With U.S. soda ash demand essentially flat for the past 20 years and for the foreseeable future, export markets represent the only viable outlet for future growth.

Unfortunately, U.S. exports of soda ash are impeded by a number of factors, from high transportation costs to foreign trade barriers. The addition of 325,000 metric tons of soda ash from this Kenyan facility would severely harm the U.S. industry. As you may know, a large portion of this new soda ash will be headed towards Southeast Asia. The influx of new supply will depress world prices. We understand that the combined economic impact to the industry could approach $70 million in annual losses, at current world prices, which far exceeds the amount of the one-time purchase.

It is our understanding that the economic impact analysis will only look at the burden on the U.S. economy over six years. We urge the Board to consider the fact that the negative impact of this application on the U.S. economy will occur for far more than six years.

In addition, because Wyoming supplies 90 percent of America's soda ash and 23 percent of the world's soda ash, the negative effects felt by the domestic industry as a result of Ex-Im's approval of the application will be targeted and severe in Southwest Wyoming.

Wyoming's trona producing plants are located in Sweetwater County between two Wyoming towns - Rock Springs and Green River. Sweetwater County's small population is supported primarily by the trona industry. Four of Sweetwater County's six top employers are soda ash producing companies: FMC Wyoming Corporation, General Chemical Company, OCI Wyoming, and Solvay Minerals. Collectively, these companies employ about 2,220 engineers, equipment operators, foremen, project managers, and others in and around Rock Springs and Green River.

The soda ash industry not only employs the most people in Sweetwater County, but it also pays some of the highest wages. An average worker in one of the trona mines earns about $70,000 annually. In comparison, the average annual pay for the community is closer to $40,000. Any reduction in trona-related jobs in Sweetwater County results in families and individuals moving out of the southwest region of Wyoming due to the inelasticity of the county's labor market.

However, the stability of this industry in southwest Wyoming affects not just the economic health of the families it employs. There are, in fact, substantial economic ramifications for the economy of Sweetwater County itself. In a county with approximately 37,600 residents and a state with just over 500,000 citizens, any strain on this critical industry would severely reduce the tax resources to both the state and local entities. In 2005, soda ash production in this region yielded approximately $8 million in severance taxes to the state.

Wyoming does not collect a state income tax from its residents and is therefore dependent upon mineral severance taxes, sales taxes and property taxes to fund everything from our state's only university to local schools, roads, fire and police departments and other critical elements of our social and physical infrastructure. We are extremely concerned that, if approved, the pending application before the Ex-Im Bank has the unintended potential to further distress one of the critical pillars of our state's economy and all but eliminate a vital tax base for two Wyoming towns.

In short, Ex-Im Bank should not promote the expansion of an export competitor of the United States. Doing so would only worsen the difficulties facing the U.S.

industry and add to mounting losses of good-paying jobs in our communities. For these reasons, we urge the Board of Directors to deny the application to finance refurbished locomotives for the Magadi Soda Company.

Sincerely,

Craig Thomas
United States Senator

Michael B. Enzi
United States Senator

Barbara Cubin
Member of Congress