S. HRG. 109–1058

THE REAUTHORIZATION OF THE EXPORT-IMPORT BANK

HEARING

BEFORE THE

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

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

EXAMINATION OF THE EXPORT-IMPORT BANK'S CHARTER, TO REAUTHORIZE THE BANK TO CONTINUE ITS WORK AS THE UNITED STATE'S OFFICIAL EXPORT CREDIT AGENCY

JUNE 20, 2006

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C O N T E N T S

TUESDAY, JUNE 20, 2006

WITNESSES

THE REAUTHORIZATION OF THE EXPORT-IMPORT BANK

TUESDAY, JUNE 20, 2006

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

The Committee met, pursuant to notice, at 10:08 a.m., in room 538, Dirksen Senate Office Building, Hon. Chuck Hagel, presiding.

OPENING STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. The Committee will come to order. Good morning.

This morning the Committee will hear testimony on the reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). Ex-Im Bank is the official export credit agency of the United States. Since its creation in 1934, Ex-Im Bank has played a vital role in promoting U.S. exports. It provides financial supports to U.S. exporters when the private sector is unable or unwilling to do so.

Last year, Ex-Im Bank authorized more than $13 billion in loan and capital guarantees and insurance to support nearly $18 billion in U.S. exports.

The Bank is governed by a renewable charter and was last reauthorized in 2002 for a 4-year term that expires on September 30, 2006.

As the former Chairman of International Trade and Finance Subcommittee, I helped draft parts of the 2002 Reauthorization Bill authored by Senator Sarbanes.

Ex-Im Bank serves a valuable role in this Nation's trade policy. It gives American businesses a tool with which to compete with foreign competitors. It helps lower our trade deficit and it promotes growth and jobs in every sector of our economy. Ex-Im Bank has been an efficient and cost-effective way of supporting U.S. exports.

Earlier this year, Senator Crapo's Subcommittee on International Trade and Finance held two Subcommittee hearings on reauthorization of the Bank.

Today's full Committee hearing will consider whether Ex-Im Bank is using its resources and legislative authority to assist U.S. companies efficiently with taxpayer dollars.

Our hearing will examine issues surrounding tied aid, which generally requires the recipient country to use all or part of the aid to purchase goods from the donor country.

We will look at how Ex-Im Bank uses its tied aid credit program to counteract tied aid from other countries, and how the procedures for administering the program have worked.

In addition, we will discuss small business initiatives, such as extending underwriting authority to Ex-Im Bank's Small Business Division.

And finally, we will examine the process by which Ex-Im Bank implements its economic impact procedures.

The Committee will first hear testimony from Mr. James Lambright, Acting Chairman and President of Ex-Im Bank, and Assistant Secretary of Treasury for International Affairs, Clay Lowery. We welcome back to the Committee both Mr. Lambright and Assistant Secretary Lowery.

The second panel will consist of Mr. James D. McClaskey, President and Chief Executive Officer of Midrex Technologies, Inc., on behalf of the Coalition for Employment Through Exports; Mr. Harry G. Hayman, Senior Vice President, Commerce Bank on behalf of the Bankers Association for Finance and Trade; Mr. David Ickert, Vice President, Air Tractor, Inc., on behalf of the Small Business Exporters Association; and Dr. Robert E. Scott, Director of International Programs, Economic Policy Institute.

We thank the witnesses for appearing before the Committee today. Before we begin with our first panel, let me ask the distinguished ranking member of the Senate Banking Committee, Senator Sarbanes, for any statement he would wish to make. Senator Sarbanes.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Mr. Chairman, thank you very much.

The charter of Ex-Im Bank expires on September 30 of this year, so this hearing is certainly timely.

The fundamental purpose of Ex-Im Bank is to finance U.S. exports in order to create U.S. jobs, and I want to stress that. There is a linkage, since the time we established Ex-Im Bank. There has never likely been a time when boosting exports and the jobs they create was more critical for a strong U.S. economy.

In my perception, and I have held this view consistently, Ex-Im Bank has a critical role to play in leveling the playing field for U.S. exporters. Our rate of export growth shows that U.S. exporters can compete very effectively in world markets on the basis of price and quality if they can get a level playing field.

However, when foreign governments provide subsidies to their exports, it seems to me the United States has to respond or U.S. exporters will be placed at a competitive disadvantage, particularly when small variations in pricing or in credit terms can mean the difference between a sale and a lost bid.

The work of Ex-Im Bank also provides leverage to U.S. negotiators attempting to extend international agreements that limit the use of Government export subsidies altogether.

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

Our approach to Ex-Im Bank should, of course, reflect in part the progress being made in controlling the growth of export credits offered by other governments. Regrettably, it appears that overall funding for other national export credit agencies has not declined and may in fact be growing, although it is difficult to make the comparisons because of different accounting and funding methods. This is a very opaque area, I must say.

Regrettably, the Committee now faces what appear to be the same issues we faced, and I thought we had dealt with, in the reauthorization in 2002. Those issues include the adequacy of the Bank's procedures to measure whether a particular section creates a net gain in American jobs, the constant refrain that the Bank is not adequately servicing the needs of smaller exports, although the Bank has undertaken some steps in that regard, and the continued failure to make use of the Tied Aid War Chest, perhaps because of the apparent determined opposition to the use of tied aid by the Treasury Department.

I hope today's hearings will shed light on why these issues persist. We established the Tied Aid War Chest to, on occasion, use it in order to send a very clear signal to other countries that if they were going to be underwriting their exports, they were going to face pretty intense reaction on the part of the United States. If we never use it, it simply becomes a paper tiger.

I also want to note my continued concern that Ex-Im Bank still does not have a full complement of directors. No nominees have yet been even designated for two open Board positions. The risk of the Board's work being frozen by its inability to muster a quorum of three Board members is not one that the Administration should permit to continue.

This issue has been raised before in this Committee and we need a response from the Administration to get this matter taken care of.

I want to welcome Mr. Lambright, the Bank's acting chairman and president, whose nomination to lead the Bank is pending. We are disappointed that Treasury Undersecretary Adams was unable to be with us this morning, but we welcome Assistant Secretary Lowery in his place.

I also want to welcome the second panel of distinguished witnesses which the Chairman has already mentioned to the hearing.

Mr. Chairman, before I conclude my statement, I do want to note the tragic death of Philip Merrill, who served as Ex-Im Bank's chairman and president from 2002 to 2005. Mr. Merrill was born in Baltimore and remained all of his life a proud, distinguished, and generous citizen of our State. He was indeed a leading philanthropist. He was a successful publisher whose influence was first felt in the city of Annapolis. He was also the guiding force behind Washingtonian Magazine since 1979.

He was also a dedicated public servant at the Department of Defense, at NATO, and the Bank.

Many Maryland institutions have been the beneficiaries of his philanthropy, including the Chesapeake Bay Foundation, the University of Maryland School of Journalism, which is named in his honor, and the Johns Hopkins University.

I think it is fair to say his life was an American dream come true and his intensity, his intelligence and his civic spirit will be very much missed.

Thank you very much, Mr. Chairman.

Senator HAGEL. Senator Sarbanes, thank you. And I would like to associate myself with your last words regarding the late Mr. Merrill.

For the record, Chairman Shelby is not here this morning because he is attending a funeral, and has asked if I would substitute. And that is why I am here in this capacity. Chairman Shelby will be returning this afternoon.

With that, let us begin. Mr. Lowery, welcome. We will begin with you. Thank you.

STATEMENT OF CLAY LOWERY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Mr. LOWERY. Mr. Chairman, ranking member Sarbanes, thank you for the opportunity to discuss the reauthorization of Ex-Im Bank.

At the Department of Treasury, our responsibility is to formulate and implement international economic and financial policy on behalf of the executive branch, which includes working with Ex-Im Bank to support its export promotion mission and working in the OECD to reduce export financing subsidies.

My written testimony highlights some of the successes we have achieved in bringing more transparency on the practice of untied aid and working with other donors on limiting market windows practices.

This morning, however, I would like to focus on tied aid disciplines and the concerns that some members of this Committee have raised regarding the use of the so-called War Chest.

As a bit of context, tied aid is a financing subsidy that a donor conditions of the purchase of goods or services from the donor country. However, prior to the OECD tied aid rules agreed to in 1992, many donor governments, instead of using tied aid for development purposes, pursued a strategy of subsidizing their credits in an attempt to gain market share from our exporters.

The United States faced a choice: go to war with other export credit agencies by using taxpayer resources to subsidize credits or negotiate rules in which American exporters could compete on the price and quality of their goods and services rather than the financial terms that they could get from their government. We chose the latter approach, an approach that highlights agreed eligibility criteria, transparency standards, international dialog, challenge and enforcement mechanisms. Over the last 15 years, we have achieved fairly dramatic results.

Before 1992, tied aid was roughly $10 billion to $12 billion a year. Since Ex-Im Bank's previous authorization in 2002, tied aid has averaged about $4 billion a year. That is a 60 percent cut, which would be much greater if it was calculated in inflation-adjusted terms.

In addition to the scale of tied aid changing, the scope has also shifted from large-scale capital projects such as power, telecommunications and energy projects that are viable in commercial terms to what most Americans actually think of as aid, development projects in the areas of agriculture, small infrastructure and social areas such as education and clean water projects.

The change in scale and scope of foreign tied aid use has helped level the playing field for American exporters. We estimate that U.S. exports are roughly $1 billion per year greater than they would have been without those rules. The change in scale and scope has helped American taxpayers. We estimate that in the absence of the tied aid rules, we would have needed to request an additional budget appropriation of roughly $300 million a year.

The success of the OECD rules-based approach has been the result of a bipartisan effort over a number of years in which Treasury negotiators have listened to exporters about the inequities in the playing field, worked with Ex-Im Bank to design strategies and communicated forcefully with our competitors to create disciplines on each other.

One vital piece of leverage in these negotiations was the Tied Aid War Chest created by Congress. Over time the War Chest has been used by Ex-Im Bank and Treasury as an enforcement stick, to match export competitors that wanted to avoid competing with our exporters on price and quality grounds. It has been used as a deterrent to maintain the disciplines negotiated in the OECD.

Despite the success of these negotiations, concerns have been expressed about the War Chest. The three that we have discerned are the selective and disciplined approach to using the War Chest, whether the War Chest is really a deterrent, and finally the role that Treasury plays in the process. Let me try to address each issue briefly.

Given the voluntary nature of the OECD arrangement, the United States must be careful in how it decides to implement its matching policy. A change in policy away from selective and criteria-based matching, resulting in an increase in the use of commercially motivated tied aid would be seen as an abandonment of the agreement. It would give our partners an incentive to expand the scope of their tied aid programs, hurting our position in arguing for adherence to a rules-based approach that benefits all U.S. exporters.

Using the War Chest as a credible threat, or in some cases to match a competitor, however, is a vital tool to ensure that tied aid is not used to tilt longer-term competitive conditions against U.S. exporters. When the U.S. challenges the practices of another OECD member, our negotiator's hand is strengthened by demonstrating the resolve to use the power of the purse.

Treasury has lead responsibility for negotiating in the OECD and, as such, works very closely with Ex-Im Bank to pursue a rules-based approach to export financing that is beneficial to exporters and taxpayers. Ex-Im Bank has lead responsibility for working with exporters and when it should use the War Chest for matching purposes, it is natural that it consults with the lead negotiators on the rules that the War Chest could effect.

In other words, Treasury and Ex-Im Bank work cooperatively, consult frequently and are vital to each other in helping exporters compete on the most level playing field possible.

Mr. Chairman, OECD tied aid disciplines have been good for exporters, good for the international finance system by reducing trade distorting subsidies, good for international development policy, and most importantly, good for the American taxpayer.

Thank you, and I will try to answer any of your questions.

Senator HAGEL. Secretary Lowery, thank you.

Mr. Lambright.

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

Mr. LAMBRIGHT. Mr. Chairman, Senator Sarbanes, I would first like to echo the sentiments of Senator Sarbanes and acknowledge that the past week-and-a-half has been a time of sorrow at the Bank due to the tragic loss of our immediate past chairman, Phil Merrill. Phil's contributions to national service were so diverse that his tenure at Ex-Im Bank would be but a chapter in the biography of his public life. Yet we at the Bank could write volumes on the positive impact that he had at the Bank.

Phil was proud of the Bank, of its mission and its people, and we were fortunate to have had him as our leader and friend.

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

We are requesting an extension of the charter for 5 years, to September 30, 2011. We at Ex-Im Bank feel the current charter language provides the institution with sufficient powers and flexibilities to meet the evolving challenges of the next 5 years.

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

Since our 2002 reauthorization, Ex-Im Bank has authorized roughly $48 billion of financing in 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.

For fiscal year 2005, every taxpayer dollar used by the Bank yielded financing and support of over $50 in U.S. exports.

Since being appointed acting president and chairman nearly a year ago, no topic has received more attention than small business. We have made a number of changes to our business operations in order to inculcate a culture that strives to meet our small business customers' needs. These changes include improving the claims process, establishing a new division for small business outreach, assigning small business specialists in each of our product divisions and expanding our online capabilities.

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

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.

Decisions on transactions that raise economic impact considerations, however, are among the most difficult the Bank must make because we must weigh the interests of one set of American workers with those of another. While the Bank must ensure that potential transactions are properly vetted and all interested parties have an opportunity to be heard, exporters have indicated that delay and uncertainty has, in some instances, frustrated their commercial relationships and caused them to lose export sales to foreign competitors.

So we look forward to working with the Committee to enhance the transparency and predictability of our economic impact procedures.

Looking to the future, certain countries which are not OECD members such as Brazil, India, and China, are emerging as significant exporters of capital goods. We are working with both our inter agency and G–7 counterparts to better define the rising challenge of government support for these exports and determine the best array of measures to successfully address it.

There is no clearer or more fundamental mandate for Ex-Im Bank than leveling the playing field for our exporters and keeping jobs here in the United States. And I have every confidence that Ex-Im Bank will well serve the American workforce for years to come.

I look forward to working with you in this reauthorization process and I would be happy to answer your questions.

Thank you.

Senator HAGEL. Mr. Lambright, thank you.

Mr. Lowery, let me begin with you. We will pursue the tied aid issue. It is my understanding that Ex-Im Bank has not awarded any tied aid projects since the 2002 reauthorization; is that correct?

Mr. LOWERY. That is, sir.

Senator HAGEL. What is your perspective on why that has been the case?

Mr. LOWERY. I think there are a couple of reasons. The first one is the impact of the negotiations over this period of time in which basically tied aid levels were dramatically lowered around the world and, more importantly maybe, is that scope of tied aid changed. We do not challenge development projects that are for development purposes. What we challenge is when tied aid is being used to provide subsidized financing for commercially motivated reason.

And so, because of the fact that we have international disciplines and are able to challenge countries, countries are using their tied aid for commercially motivated reasons on a much less frequent basis. As I said in my testimony, it is down least 60 percent, probably more.

From a scope basis, it has basically been shifting all toward development projects.

In the last 4 years, to my understanding, we have had about 12 requests of matching tied aid. Some of those requests have gone away because the exporter was not interested, we successfully challenged the actual competitor that they were competing with on the grounds that they were breaking the tied aid rules and the offer was withdrawn, or Ex-Im Bank was off cover. The project did not meet the environmental standards.

Of the ones that I have personally looked at, there has only been one case since I assumed this job, and the Treasury Department supported using the War Chest. That case is pending right now.

Senator HAGEL. Mr. Lambright, would you care to respond to that question and what Secretary Lowery just said in his explanation?

Mr. LAMBRIGHT. I think that he is correct in noting a number of changes in trends in the field of export credits, particularly with respect to tied aid, and that Treasury and Ex-Im Bank have worked closely in assessing the merits of an application for tied aid. Both Assistant Secretary Lowery and I were quite supportive of a recent application for tied aid that we felt met both Ex-Im Bank criteria that tend to focus more at a transaction level and the policy criteria that Treasury tends to be more concerned about. Given the meeting of the minds there, both agencies were fully supportive of pursuing this case.

And I would hope that that would indicate a similar willingness in the future to work together to support exporters where tied aid is warranted.

Senator HAGEL. Since you have been at Ex-Im Bank, I believe 4 years?

Mr. LAMBRIGHT. Coming up on 5, yes.

Senator HAGEL. You have been there during the time frame that we are addressing the issue, since 2002. What is your recollection of disagreements between Treasury and Ex-Im Bank on the use of tied aid, if there have been any?

Mr. LAMBRIGHT. Since I have come to the Bank, there have been roughly a dozen cases that we have consulted with Treasury on. And while I would say that, in some cases there is a healthy exchange of viewpoints at the staff level, ultimately, as we have worked through all of the transactional concerns and policy concerns, that there has not been a case that has exhausted the full procedures laid out for us. And so we have not ended up with a formal disagreement.

Senator HAGEL. During that period?

Mr. LAMBRIGHT. Right.

Senator HAGEL. Thank you.

For each of you, in light of the fact that we have seen no awarding of any tied aid since the 2002 reauthorization, do you believe that this sends a signal to our exporters that there is little purpose in applying because it may not happen, or it is just not worth going through the process? Or do you think in any way, because of the awards, it has discouraged interested exporters from using tied aid?

Mr. LAMBRIGHT. I think that our recent willingness to use the Tied Aid War Chest for a recent application is a positive signal. In the course of my time at the Bank, there was one other instance where the agencies agreed to issue a willingness to match letter supporting an exporter. In that case, the exporter ended up not winning the contract and so the funds from the War Chest were never deployed.

I think we have a strong panel coming up behind us that can speak to the exporters' views on this, but I do think that both Treasury and Ex-Im Bank can work collaboratively to make the procedure more expeditious for applicants so that they can get faster answers and that there is not a chilling effect in the market from applying.

I would like all exporters who feel disadvantaged in the marketplace to feel like there is an open door at Ex-Im Bank and that we will work quickly to address their financing needs.

Senator HAGEL. Secretary Lowery.

Mr. LOWERY. I would agree with everything that Acting Chairman Lambright has said. I would just go one step further which is to say that what we try to do is work to support exporters through the tied aid negotiations by fighting where we see subsidized financing that is against the tied aid rules. And if we can keep the playing field level, we do not have to use the War Chest. But the War Chest provides us the stick or the weapon we need to fight if we cannot solve the problem through negotiation.

So I would say that that is the only thing that I would add to what Chairman Lambright said.

Senator HAGEL. Thank you, Secretary.

Senator Sarbanes.

Senator SARBANES. What kind of stick or weapon is the War Chest if you do not ever use it?

Mr. LOWERY. It is a stick or weapon for a couple of reasons. First, a demonstrated record over a period of years of being able to use it, in which we have——

Senator SARBANES. Well, you have not used it in what, more than 4 years now?

Mr. LOWERY. We have already said that we currently have a case right now pending basically where we said we were going to use it. We actually had a case, I understand about 2 years ago, I was not around, where we made a matching offer.

Senator SARBANES. Are you the responsible person in Treasury for this issue?

Mr. LOWERY. Yes, sir, delegated authority, but obviously I consult with the Treasury Secretary and the Deputy Secretary and Undersecretary when need be.

Senator SARBANES. But on a day-to-day basis, it is on your desk; is that correct?

Mr. LOWERY. No, sir. We have a staff that works on it on a day-to-day basis.

Senator SARBANES. You are the immediate supervisor of that staff?

Mr. LOWERY. The structure basically is that the staff would be working for me, yes, sir.

Senator SARBANES. You have not used it in 4 years, except now you are saying you have got a case right now; is that correct?

Mr. LOWERY. I have been in this job for 7 months. I have had one case come to me and I approved it.

Senator SARBANES. Come from Ex-Im Bank?

Mr. LOWERY. Up from Ex-Im Bank, yes, sir.

Senator SARBANES. Where they wanted to use the War Chest?

Mr. LOWERY. Yes, sir.

Senator SARBANES. How many times has Ex-Im Bank told Treasury over the last 4 years they want to use the War Chest?

Mr. LAMBRIGHT. Senator, there have been roughly a dozen cases that we have assessed in conjunction with Treasury, but I would not characterize that necessarily as an Ex-Im Bank position saying we wanted to use the War Chest.

The way the process works is that when we get an application that we deem legitimate, we will consult with Treasury and evaluate the file together. And so we ultimately will work together to reach a conclusion.

Senator SARBANES. The statute says, this is the law:

> Once the principles, process and standards referred to in subparagraph (a) are followed, the final case-by-case decisions on the use of the Tied Aid Credit Fund shall be made by the Bank.

Now I understand, from previous testimony, from what I hear and what both of you are saying this morning, that that is not being followed. These case-by-case decisions are not being made solely by the Bank. Is that right?

Mr. LOWERY. Sir, my understanding is case-by-case decisions are made in a broader policy framework. It says here that:

> The Bank shall not approve the extension of a proposed tied aid credit if the President of the United States determines, after consulting with the President of the Bank and the Secretary of Treasury, that the extension of the tied aid credit would materially impede achieving the purposes described in subsection (a)(6).

Subsection (a)(6) regards leveraging negotiations on tied and untied aid rules.

In order for the Treasury Department to have a chance of understanding and consulting with the President, we obviously have to work with Ex-Im Bank on the transactions as they might apply to the actual policy guidance in the negotiations. So we work together through these issues.

Ex-Im Bank receives the cases on a transaction basis and we try to look at them from a policy standpoint on an OECD negotiations basis.

Senator SARBANES. I know, but who makes the decision in a particular case?

Mr. LOWERY. I think that we work together, sir.

Senator SARBANES. That is not what the statute——

Mr. LOWERY. In fact, since the reauthorization, as Chairman Lambright just noted, there has not been one case where the Treasury Department and Ex-Im Bank saw differently on a Tied Aid War Chest case.

Senator SARBANES. I know, because the Treasury says you cannot do it.

Mr. LOWERY. Sir, I do not think that that is correct. I think that—you are suggesting that we have some sort of a veto power, and that is not actually what is happening. We are consulting with Ex-Im Bank on these cases, and there has not been one case where there has been a disagreement.

Senator SARBANES. You are intruding into the case-by-case decisionmaking, which by the statute was placed in the hands of Ex-Im Bank.

Mr. LOWERY. I think the word intruding would be too strong. I think that the word consulting is the word I would choose.

Senator SARBANES. Let me ask you this question. You said in your testimony that tied aid credit had generally been reduced by about 60 percent?

Mr. LOWERY. Probably more than that, yes, sir.

Senator SARBANES. So that means the other 40 percent of these OECD countries are continuing to provide an unfair advantage to their exporters; is that correct?

Mr. LOWERY. No, that is not correct, sir. The 40 percent, as I also said, represents the change in the scale of the financing. There has also been a change in the scope of the financing.

If they are providing credits that are going for legitimate development purposes, for instance if you were doing a rural electrification program on a small-project basis and it is tied aid, that would be allowed under the rules and we would not try to challenge that.

However, if you were trying to provide financing for a project that addresses a power grid or something that is commercially viable over a longer time period, that is something that we would challenge and potentially use the War Chest to match, if need be.

Senator SARBANES. We understand that a number of countries have worked out all sorts of arrangements to provide support or underwrite for their exports. Is that your perception?

Mr. LOWERY. If you could provide a little more detail, I am sorry?

Senator SARBANES. That a number of countries with whom our exporters compete with their exporters are engaged, in one way or another, in providing favorable opportunities for their exporters.

Mr. LOWERY. I think that Ex-Im Bank obviously worries very much, as does Treasury, about the competitiveness of our exporters versus other exporters based on export credit financing. If a country is subsidizing in a way that is against the disciplines that we have set up, then we will challenge that.

In fact, we have been primarily successful in around 90 or 95 percent of our tied aid challenges.

Senator SARBANES. What study do you undertake to ascertain what other countries are doing in underwriting their exporters?

Mr. LOWERY. The first thing we do is we look at the country and the eligibility. Basically, we are trying to go toward the least developed countries, so basically below around $3,000 per capita income.

Second, we look at the terms that they are giving. If there is a grant element of——

Senator SARBANES. No, I am trying to get at a broader question.

Mr. LOWERY. Sorry.

Senator SARBANES. Do you do continuous studies that say countries X, Y, and Z are engaged in the following practices, which underwrite their exporters? Can you tell me what these OECD countries are actually doing? And does the survey encompass all forms of export credit?

Mr. LAMBRIGHT. Speaking for Ex-Im Bank, Senator, we conduct an annual competitiveness report that we send up to this Committee annually that addresses how Ex-Im Bank is positioned *vis-a-vis* our export credit agency competitors. Historically, this has been looking at the behavior of OECD or, more narrowly, G–7 export credit agencies.

Within the past 2 years, we have introduced chapters on non-OECD export credit agencies, most prominently China, to try to track the behavior of other government's support for their exporters.

Senator SARBANES. What is Treasury's position on the non-OECD countries? In terms of us using tied aid credit in cases involving competition with exports financed by export credit agencies of non-OECD countries?

Mr. LOWERY. We think that we should be able to use the War Chest in circumstances that fit the criteria that we have talked about in cases of non-OECD matching——

Senator SARBANES. But you do not think any such circumstances have yet come to your attention; is that the idea?

Mr. LOWERY. I cannot say that any have come to my attention but I know that there is growing competition out there from India, China, Brazil, other countries that are not in the OECD and it is something that we have to watch very carefully. We are starting to work more with those countries to try to get them more involved in the disciplines.

But we do need to be prepared to use the War Chest if we need to in a matching case.

Senator SARBANES. It might help if you showed them right at the outside that this stick meant something.

Mr. Chairman, I have imposed on Senator Crapo. I apologize to him for going over my time.

Senator HAGEL. Senator Sarbanes, thank you.

The Chairman of the International Trade and Finance Subcommittee, Senator Crapo, welcome.

OPENING STATEMENT OF SENATOR MICHAEL D. CRAPO

Senator CRAPO. Thank you very much.

First of all, Mr. Chairman, and to our witnesses, I apologize for being late. This is one of those mornings where I literally had four very important things, all of which were unavoidable, to be at the same time. So I apologize for being late.

One of those items is a very significant markup in the Budget Committee that is going on right now as we speak on what I consider to be one of the most important budget reform measures that we have before Congress this year. So I am probably going to have to depart early to get down there and participate in that battle and that vote.

I go into that only to make it clear that my reason for being late and my reason for my early departure should not give any indication of a lack of interest in the matters before this Committee today.

As the Chairman has indicated, I Chair the International Trade and Finance Subcommittee. We have already held two hearings on this issue and I am very pleased that the Chairman has chosen to hold this full Committee hearing on the issue, and I look forward to being very involved as we work on the reauthorization.

Mr. Lambright, I just have a couple of questions before I am going to have to dash off to the budget battle.

First, at our last two Subcommittee hearings, as you know, we discussed the economic impact procedures and specific suggestions on how to improve the efficiency and really to get greater clarity, fairness and transparency in the economic impact process. I just want to state at the outset that I appreciate your willingness to work with me and other Members of Congress on these issues. I think we are making progress.

I am aware that these economic impact cases can make it difficult to provide exporters and other transaction parties a sense early on in the transaction as to where the Bank's analysis is likely to lead. And while the Bank can continue with its case-by-case approach, it strikes me that the Bank might consider establishing or publishing some kind of list of sectors in which provision of Ex-Im Bank financing is less likely.

I am interested in what your thoughts are in this approach?

Mr. LAMBRIGHT. Senator, since we last talked at our Subcommittee hearing, I have heard, as I am sure you have heard, a lot of ideas regarding transparency. Many of them are very good ideas. But some other ideas raise a concern about adding too much process for the non-contentious transactions to endure.

And so, in the context of that broader concern, I think a list seems to be an idea worth pursuing.

Of course, the details would be important, but I would welcome the chance to work with you on seeing if this is something that could work.

Senator CRAPO. How would the Bank go about creating such a mechanism?

Mr. LAMBRIGHT. Well, I could envision a number of ways to go about it. And again, I would be happy to work with you and your staff on pursuing that.

I suppose I would want to be careful that whatever list or mechanism we came up with would give an early warning sign to applicants where their cases should not go forward, but allow cases that should go forward to come forth before the Bank.

Senator CRAPO. Just one other question in this area, and if you would, could you give me just an idea of what this list might look like?

Mr. LAMBRIGHT. Well, even though we are making decisions on a transaction-by-transaction basis, these procedures tend to encompass entire industries at any given time. And so there are cases where our Board has had to decline an application because, for example, an indication that that particular sector would be in a state of oversupply at the time the project would come on stream.

So, if we were looking for something to add to the transparency and predictability and provide that early warning, I would imagine some kind of mechanism whereby if we have turned down a case that we could have a list where that industry would be put on the list since we would have made a determination really on the industry at the time that we assessed a particular transaction.

But I would also want to make sure that this mechanism or list would have an opportunity for industries to come off the list at the time that the supply and demand dynamics were to change.

But I think that this early warning sign, this transparency that you mentioned, is important and something that I would be happy to continue working with you on.

Senator CRAPO. Thank you.

I think we are talking the same thing here. We do not want to have an absolute bar, but a guidance would be very helpful at the early stages of the process.

Mr. Chairman, if I could just do one more question, I would appreciate the opportunity.

I want to shift to the small business issue, Mr. Lambright. Also, I want to commend you for making some needed reforms at the Bank that advance the needs of small businesses. I also appreciated your statement that although the Bank of making progress on these small business issues, there is room for improvement on that front.

Could you elaborate on some of the reforms that are still needed?

Mr. LAMBRIGHT. Well, since coming into my current position, we have addressed a number of areas in the small business experience with the Bank. We have developed a group to focus on outreach to small businesses, to help educate them and help them apply to the Bank. We have focused on the claims process to make sure that that is easier to navigate for small businesses.

And now we are turning our attention to the processing and approvals of applications. We have recently implemented a number of managerial and structural changes that we will need to monitor on an ongoing basis and judge their effectiveness and make any further necessary adjustments that we may need to make.

Likewise, we intend to monitor and continue making refinements to our online capabilities that will be of large benefit to small business applicants.

But of course, we have a limited discretionary budget and you mentioned budget issues, Senator. So these plans that we have could be jeopardized by budget cuts, such as the 8 percent cut to our administrative budget proposed by the House.

And so, given our very limited discretionary budget, we intend to devote a large amount of that to working with small businesses on the whole range of experience that small businesses have in the Bank.

Senator CRAPO. Thank you.

Is legislation needed to institute any of these changes that you are talking about?

Mr. LAMBRIGHT. We have already begun to make these changes, and I believe that the current charter makes it quite clear the focus the Bank should have on small business exporters. And so I do not see the need to legislate changes.

But we will continue to monitor the changes we are making and make further refinements as needed and, of course, continue to work with the small business community and the Members of this Committee to see where further refinements may be necessary.

Senator CRAPO. I assume you just expect these changes to assist the Bank in meeting the 20 percent target?

Mr. LAMBRIGHT. I do, although in a demand-driven agency it is always difficult to promise that a particular goal or ratio will be met. But I think that these are the changes that we should be making to help maximize our support for small businesses.

Senator CRAPO. Thank you very much.

Mr. Chairman, thank you for letting me go over. As I indicated, I am going to have to leave but that should not be any indication of my lack of interest in this manner.

I would encourage everybody to pay attention to what we are doing in the Budget Committee today, too, because it is, I think, one of the best things we have got going in this Congress right now in terms of some major enforcement with some teeth in it to help get some control over our budget.

So pay attention to what is happening on the sixth floor, was well, today.

Thank you very much.

Senator HAGEL. Chairman Crapo, thank you, and thank you for your continued leadership on this issue.

Let me pursue what Chairman Crapo was referencing.

Why then, as you have just noted in response to Mr. Crapo's question, you have not been able to do more in terms of dollars on that set aside, trying to hit that 20 percent mandate? Is that, as you have noted, to some extent is it a procedural issue? Is it? Obviously demand drives a certain amount of this.

Where are the biggest issues that you find in being unable to fulfill that minimum 20 percent?

And then, if you could give the Committee some sense of when you believe that we may see that target fulfilled?

Mr. LAMBRIGHT. Mr. Chairman, I do want to start by saying that I think a great deal of progress has been made since the last rechartering on behalf of small businesses.

By dollar terms, our support in the last fiscal year for small businesses was 47 percent greater than in the year of our last reauthorization. And though we have never reached the 20 percent goal in the term of this charter, we have never turned down a small business application for budgetary reasons. We have always made the resources available to support small business exporters.

The key, I feel, to deriving that small business number has been outreach. When I travel and meet with small businesses, quite frequently they are not even aware that there is a Federal Government program that is available for them. And so, educating them and helping them work through the application process is a key. Which is why we have put together a division with significant resources targeted on outreach.

Current changes and future refinements are focusing on the experience that the small business applicant has once they apply to the Bank. So that is the processing and the underwriting process that we have turned our attention to most recently. I am hoping that those will bear fruit shortly in a way that I can come back to you soon and say that we have exceeded the 20 percent threshold.

Senator HAGEL. Thank you.

Let me ask Mr. Lambright a question about procedures. There has been, as you have noted, and since you have been at Ex-Im Bank for almost 5 years, you know that there are some criticisms about the Bank taking too long to complete procedures. This obviously injects uncertainty about what transactions can be supported and when.

Is this a continuing problem? What is Ex-Im Bank doing to deal with it? Should we be concerned? How much of an impediment is it, if it is?

Mr. LAMBRIGHT. I think it is a very fair concern. And I have heard from a number of exporters in my time at the Bank of this very concern. It is one that we have to take very seriously.

Some of our larger transactions, the larger projects, the turnaround time tends not to be an issue or a source of complaint because these are large undertakings with large lead times. So really, where the most frustration is created is where you are dealing with the smaller applicant or the smaller transaction where they are trying to get a deal done quickly and dealing with a Government agency may inject more time than they would be comfortable with.

One step that we have taken to address this concern is the rolling out of something we call "Ex-Im Online," which is an online application system that will be of particular benefit to small businesses that apply for some of our shorter-term products, so that the automation will reduce some of that turnaround time.

And in other products, we are monitoring much more closely than we used to the cycle time that it takes for applications to move through the various divisions of the Bank. And it is something that I am hopeful we will continue to improve.

Senator HAGEL. In that same general area, we talked earlier specifically in regard to some of the questions that Senator Sarbanes had asked Mr. Lowery, how does Ex-Im Bank measure up against the export credit agencies that we compete with in the way of new products, procedures, processes? Where do we lag behind other ECAs? Where are we significantly better? Is it an issue that we need to address? Should we be addressing it in a reauthorization process?

I did not attend the two hearings that Chairman Crapo had, so you may well have covered this ground in those hearings.

But if there are areas where we are, in fact, lagging in a competitive world that is becoming more competitive, and we talked a little bit earlier about some of the specific countries, we should obviously address those in this reauthorization process.

Can you answer those general questions for me? And Mr. Lowery, I would welcome your thoughts on this, as well.

Mr. LAMBRIGHT. Mr. Chairman, the Administration is requesting a clean bill, so at the fundamental level there is no request to change the charter to address the competition with other governments and their export credit agencies.

But that said, broadly speaking, where Ex-Im Bank fares well against our counterparts is at the product and program level, at the acting-as-a-bank side of the house. We tend to offer competitive terms and products and expertise to help our exporters get good financial support for their exports.

Where the criticism tends to come, or where our weakness is with respect to counterpart export credit agencies, is at the level of flexibilities in implementing and putting to use those financial skills.

And so these flexibilities are constrained along a number of lines that are found in our charter. But I am not here to say that we should eliminate any of them, but other export credit agencies do not have the same concern for the environment, let us say, or for economic impact that Ex-Im Bank has.

We are a very traditional export credit agency, focused on the jobs in our country. And other export credit agencies have started to move beyond that narrow focus, looking toward any benefit to their country, not just to the workforce. And that is not territory that Ex-Im Bank has ventured into yet. And the guidance from Congress has been clear to us that that is not territory that we will soon be venturing into. But in comparing U.S. Ex-Im Bank to our overseas competitors, that tends to be how it breaks down.

We have strength in the financial aspects, but we are more limited in flexibility.

Senator HAGEL. Thank you. Secretary Lowery?

Mr. LOWERY. I think the only thing that I would add, sir, is from the Treasury's perspective, we try to help Ex-Im Bank and the exporters level the competitive playing field through these OECD negotiations.

I would say that a couple things that we have been successful in is taking the environmental guidelines that Ex-Im Bank has and internationalizing them in the OECD process. That was something that was done in very close coordination between Treasury, Ex-Im Bank, and the State Department. I think that we actually achieved a lot back in the 2003–2004 time frame.

Second, and this goes to Senator Sarbanes' concerns, I think we need to continue to focus on squeezing out the export subsidies that are a problem for the system through discipline, challenges, and transparency. And where we need to use it, we should be prepared to use the War Chest.

In that respect, I completely agree with Senator Sarbanes. And the Treasury Department is ready to work with Ex-Im Bank on how we can use it when we receive matches that make good economic sense.

Senator HAGEL. Thank you.

Senator Sarbanes.

Senator SARBANES. I know we have another panel, Mr. Chairman. I will be very quick.

Mr. Lambright, how do you respond to criticism of the Bank's economic impact analysis? You have a mandate that your financing must generate U.S. jobs. You have been subject to some pretty strong—actually there are members of this Committee who have had some direct experiences in their States on this very issue.

Mr. LAMBRIGHT. Senator, you have touched on an area that involves the most difficult decisions we at the Bank have to make. You correctly note that our mission is to support U.S. jobs associated with exports. But when that export will be used to produce a commodity that will then enter the global marketplace and pose a competitive threat to U.S. producers of the same commodity, we are charged to be very careful in how we proceed. We need to balance the interests of the benefits associated with the export against the potential harm posed by the future threat of increased commodity production.

We have made changes since the last rechartering to try to handle these questions more transparently and efficiently. We have introduced a public comment and notice period so that all interested parties can be heard. And we have formalized the involvement of the other trade policy agencies to get their expertise on various industries and various transactions.

We have taken up this topic at the Subcommittee level, as you know, to explore these challenges and find out how we can balance the interest of both the exporters and the affected industries, so that we can have a transparent and predictable process that comes to the right outcome.

Senator SARBANES. Well Mr. Scott, who is going to be on the panel subsequent to this one, let me just read you a paragraph from his statement:

> In fiscal year 2005, the Bank provided financing for 3,128 projects. The Bank issued only six economic analysis notices, covering only 0.2 percent of the transactions financed in fiscal year 2005. Furthermore, there is not a single reference to or discussion of any of the Bank's economic impact analysis in its 2005 annual report. Given the unprecedented size of the U.S. trade deficit

and I would underscore that

> which reached $717 billion in 2005, and Congressional concern with the economic impact issue

I would underscore that, as well

> it is surprising that the Bank has provided so little public information on its economic impact analysis or the results of those investigations.

What do you say to that?

Mr. LAMBRIGHT. We have been trying to boost the transparency of this issue, both by having a public notice and comment period for the relevant cases and by posting the procedures on our Ex-Im Bank web site so that applicants can familiarize themselves with the procedures before they undertake an application with us.

But because of the nature of the guidance that we have in the economic impact realm, it is not surprising that it is a small number of cases that trigger this analysis because it really is limited to those cases where the export of some piece of capital equipment will be used to produce a commodity that may then come and displace U.S. production of the same commodity.

So, if you export agricultural commodities or spare parts or most machinery that is not itself producing a commodity, those cases are going to go through without implicating these procedures. But when they are implicated, it is a long and rigorous process that does involve public notification.

Senator SARBANES. Is the only time you think you should do an economic impact assessment is cases involving the export of capital goods that would be used to expand production capacity?

Mr. LAMBRIGHT. The guidance in the charter addresses when productive capacity will be increased. It does not necessarily have to be capital equipment. That could be through licenses or blueprints or other mechanisms that would allow for a foreign entity to increase production. But yes, that tends to be the area that triggers these procedures.

Senator SARBANES. As I understand it, it is pretty much the guiding criteria for Ex-Im Bank; is that right?

Mr. LAMBRIGHT. What is the guiding criteria?

Senator SARBANES. Expanding production through the export of capital goods. That is the thing you look for, and then you do an economic impact statement; is that right?

Mr. LAMBRIGHT. Right, yes.

Senator SARBANES. Mr. Scott suggests:

> The Bank should also do economic impact assessments for other goods' export contracts

this is besides the export of capital goods

> that include agreements to transfer production technology or formal or informal offset agreements to transfer production of related or unrelated products abroad or to serve as a marketing agent for foreign suppliers in the United States in exchange for export sales of goods of any type.

What do you say to that?

Mr. LAMBRIGHT. Well, Senator, I have not read the testimony and I am not familiar with the argument. But I do think that Ex-Im Bank tries to be inclusive when approaching the question of whether economic impact procedures should be relevant. And as I said to an earlier question of yours, this could be taken as broadly as licensing rights or blueprints. It does not necessarily need to be limited to capital equipment.

But for the other items the gentleman suggests, I would need time to think about those before taking a position.

Senator SARBANES. Well, I commend this statement to you. I think it raises a number of interesting questions. I think many of them go to the concerns that many Members of the Congress have with respect to the economic impact analysis which Ex-Im Bank is supposed to conduct.

The essential thrust of this paper is that your parameters are too narrow, in terms of when you undertake to do an economic impact analysis, and also that it is not sufficiently open and transparent, although you mentioned you are trying to start addressing that problem. So I commend that statement to you.

Second, I want to ask you about small business. Do you have a small business division now, within the Bank?

Mr. LAMBRIGHT. We do have a small business division that focuses on outreach to the small business community.

Senator SARBANES. And does that small business division report directly to the CEO of the Bank?

Mr. LAMBRIGHT. Yes, it does.

Senator SARBANES. Are the credit decisions allocated to the small business division?

Mr. LAMBRIGHT. No, they are not. Those are made in—depending on the product, most of them are made in a credit underwriting division that services all of the divisions of the Bank.

Senator SARBANES. Does the credit underwriting division have a small business division within it?

Mr. LAMBRIGHT. It does not have a small business division that is titled as such. It does have specialists in the division identified to be the credit underwriting officers focused exclusively on small business applicants, so that those looking at small business applications are sensitive to the unique needs of small businesses and expert in those concerns.

Senator SARBANES. We set a goal for small business, did we not? What was that goal?

Mr. LAMBRIGHT. To make available 20 percent of our resources for small business.

Senator SARBANES. And has that happened?

Mr. LAMBRIGHT. We have not hit the 20 percent since the last rechartering, though we have never turned down a deal from a small business applicant for lack of resources. We have always made the resources available.

But we continue to strive, Senator, to meet the 20 percent goal. And that is why we continue to make these adjustments to our management structure.

Senator SARBANES. And what percentage figure are you at?

Mr. LAMBRIGHT. In the last fiscal year we were at 19.1 percent.

Senator SARBANES. Is that the highest you have reached?

Mr. LAMBRIGHT. No. Three fiscal years ago, we were at 19.8 percent.

It tends to knock around, Senator, as a function between the amount of small business and non-small business that we do. So in any given year it depends on the pace of growth of all of our business. But we continue to strive to do as much small business as possible. Regardless of the percentage, we want to do as much as we can for small businesses.

Senator SARBANES. One would think there must be things you can do in terms of outreach and marketing, that if you are that close to the 20 percent that you could reach it.

Mr. LAMBRIGHT. I agree with you.

Senator SARBANES. Then you would be able to sit at the witness table and say we have met the goal.

Mr. LAMBRIGHT. I would like to come before you having well exceeded the goal, so that this is not an issue anymore. I do not look at it as a ceiling or a floor. I want to move well past it and do as much as we can for small business.

Senator SARBANES. You are not there yet, so let us get there.

Thank you, Mr. Chairman.

Senator HAGEL. Senator Sarbanes, thank you.

I understand there is to be a vote at 11:15, so I think this is a good opportunity to break as we exchange panels.

We will keep the record open for a few days in the event other members of the Committee wish to submit questions in writing.

Again, thank you each for coming this morning.

I am going to go vote and come back. If you would like to start, are you planning on staying for a while?

Senator SARBANES. I was going to hear the testimony.

Senator HAGEL. Then what we will do is we will not recess since Senator Sarbanes is going to stay. We would ask the second panel to come forward and get started. I will go vote.

Gentleman, welcome. Since you each have been introduced, I will dispense with that activity and again welcome you and tell you we appreciate your testimony.

Mr. McClaskey, we will begin with you.

STATEMENT OF JAMES D. McCLASKEY, PRESIDENT AND CEO, MIDREX TECHNOLOGIES, INC.

Mr. McCLASKEY. Thank you, Mr. Chairman, Senator Sarbanes.

My name is Jim McClaskey. I am President and CEO of Midrex Technology, Inc., headquartered in Charlotte, North Carolina.

Senator SARBANES. [Presiding.] Mr. McClaskey, if you could pull that microphone closer, it would be helpful.

Mr. McCLASKEY. Is that better?

Senator SARBANES. Yes.

Mr. McCLASKEY. I have worked at Midrex for the past 32 years. With me today is my colleague, Rob Klawonn, who is the Vice President of Commercial for our company.

We sincerely appreciate this opportunity to speak to you today regarding an issue which is critical to the success of our company and the hundreds of small businesses we support in the United States. Specifically, I am directing my remarks to the pending reauthorization of Ex-Im Bank of the United States.

Midrex needs the support of an active and aggressive export credit agency to allow us to compete on a level playing field with our competitors. These competitors in Europe benefit greatly from the aggressive support of export credit agencies such as Hermes and Sache.

Midrex is a small technology company with less than 100 full-time employees. We are 100 percent dedicated to the global iron and steel industry, and nearly all of our clients are foreign.

This year our revenues will be the highest in our company's history, more than $200 million. How did we achieve revenues of more than $2 million per employee? We rely heavily on the support of hundreds of U.S. and, yes, foreign suppliers and manufacturers of industrial, electrical and mechanical equipment, specialty fabrications, refractory, and much more.

We typically sell a technology package of engineering equipment materials and services for export. The pieces come together at our customers' plant sites in their home countries. Although we do not manufacture anything ourselves, the bulk of our revenues and profits are derived from the supply of goods manufactured right here in the United States.

Key supply relationships have developed over the past 30 years in States such as Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Massachusetts, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Utah, West Virginia, Wisconsin, and others.

Many of these companies are small businesses. Furthermore, we are the market leader in our segment of the industry, with two-thirds market share. And the Midrex direct reduction technology has over 90 percent market share in the Middle East-North Africa region.

In the past, Midrex had received support from Ex-Im Bank, although there were numerous complaints about its lack of speed and efficiency. We have developed support for projects in Mexico, Venezuela, and the Middle East.

We had not been in contact with Ex-Im Bank for approximately 5 years from 1998 to 2002, due to very poor global market conditions in the iron and steel business. Upon returning to Ex-Im Bank in 2003 asking for support, we were verbally instructed by one business development officer at Ex-Im Bank, do not waste your time simply because we are associated with the steel industry.

Unfortunately, we had to spend thousands of dollars over the past few years educating—and maybe that is not the right word. Let us say making people more informed, people in Washington, D.C., more informed about our business and the fit we have in the global steel industry.

I would like to make one thing very clear at this point—Midrex technology does not produce steel. Our process is used to make a metallic iron raw material that is then used to make steel, much the same way that scrap metal is used.

In December, 2004 Midrex signed a contract with a client in Saudi Arabia to supply $81 million worth of engineering equipment and field services. The majority of this revenue is dedicated to U.S. goods and services. The contract is a minor but critical part of a $1 billion investment being undertaken by our client to increase iron and steel-making capacity in Saudi Arabia.

The metallic iron produced by our technology will be used in adjacent steel-making operations to produce steel for the Arab Gulf region's fast growth and also for export to the global steel consuming customers.

In 2005, the Saudi client made its application to Ex-Im Bank for loan guarantees as part of an overall financing effort, using combinations of commercial financing and European export credit agency support.

It is interesting to note that the lead bank, who was very much aware of the sensitivities associated with Ex-Im Bank in support of foreign steel producers, recommended that his Saudi client not submit an application to Ex-Im Bank due to the high probability that the application would be denied.

The Saudi client nevertheless expressed an interest in establishing a relationship with Ex-Im Bank and instructed the financial arranger to complete the application process.

Ex-Im Bank, based upon the negative findings of the economic impact analysis, denied the application a few months ago because the project as a whole will result in the addition of nearly 1.3 million tons per year of hot-rolled coil capacity.

On the surface, the system of checks and balances on Ex-Im Bank worked. The procedures and guidelines which were put in place as a consequence of the last Ex-Im Bank reauthorization and fall-out of the Bush 201 trade sanctions imposed in early 2003, worked as intended.

However, I would like to ask you a question. Did the denial of this application when all other European ECAs approved respective portions protect the U.S. economy? The answer is a big "no." Did it make some people feel good because we did not use U.S. taxpayer dollars to support the project? The answer is "yes." But let us look at the real outcome.

This project is still moving ahead as planned and will become operational in April 2007. So ask yourselves, what did we really accomplish here?

We must admit that hot-rolled coil was being dumped on the global market in the earlier part of this decade. Anti-dumping duties and tariffs were imposed on some foreign producers. Many of these producers were selling at or below their cash cost of production. You have heard for years from various sources that there is a glut of steel capacity. However, as we all know, China has entered the picture now and on its own has raised total global crude steel-making supply and demand by more than 30 percent.

Furthermore, tremendous efforts have been made by the likes of Mittal, Nucor, US Steel, Severstal and other major players to absorb under performing assets through acquisition and merger. Some inefficient and poorly located assets were simply taken out of operation altogether, like Gulf States Steel and Geneva Steel.

The threat of state-owned steel companies dumping steel and causing prices to plummet has ben diminished, with the exception of China, of course. As for China, the story is a young one. We have been told by many analysts and industry leaders that China is not a near-term threat due to high iron ore prices. They are expected to import approximately 300 million metric tons of this raw material in 2006 at market prices.

Iron ore costs are a major factor in determining production costs. They have other issues facing them, as well, such as the high cost of energy, high prices for metal iron, rising labor costs and labor inefficiencies, infrastructure issues, environmental concerns, currency uncertainties, and so on.

U.S. steel producers face some of these same issues. Despite this recent explosive growth, China is still a developing nation when considering its low per capita consumption of steel and its huge demand for infrastructure development.

Please do not misunderstand me. I do not mean to imply that the domestic U.S. steel industry is now well-protected. This is still, and will always be a commodity business subject to the ups and downs of the global economic cycles and there will be some producers willing to sell it any price.

However, I do offer that the future will look much different than the past because of the huge privatizations which have taken place, putting capacity in the control of market-driven companies.

Just look at the recent industry gatherings and you will find many statements by current U.S. steel executives which are positive about the future. An American Metal Market article published last month quoted the CEO of Nucor when he said: "No one predicted that 2004 would do what 2004 did. I think we are going to be in a bull market for the next 10 to 15 years. There is something much bigger going on here. We are in a place where things will be very positive."

An article titled Raw Materials: The Sourcing Game, published in American Metal Market, dated May 15, 2006, was making the argument that "Raw materials remain a key area of concern" and cited a few steel leaders here in the United States on issues of raw material and logistics issues. The Head of Mittal Steel USA was discussing raw materials and North America infrastructure when he was quoted. Here is a key excerpt from the article.

"They, raw materials, are still very tight," said Louis L. Schorsch, chairman of the AISI and President and Chief Executive Officer of Mittal Steel USA, Inc., Chicago. "I do not think there is any bad behavior out there or anything like that, but I think it is clear that the level of investment in raw materials or logistics infrastructure needs to improve. Investment in raw material capabilities is critical for steel producers. It is the market at work," he said. "Supplies are tight and demand is high."

Later in the same article the writer goes on to conclude by saying: most observers predict that steel consumption will continue to grow globally for the foreseeable future, putting further strain on raw material supplies, not only in North America but worldwide.

So back to the question at hand. How does the denial of the Saudi application and others like it protect the U.S. economy? As I said before, the project is still proceeding, the European export credit agencies have no problem supporting it, and now Midrex has a free hand to buy its equipment from global sources rather than right here at home, from American companies.

The denial of the Saudi application by Ex-Im Bank does absolutely nothing to protect U.S. companies and its employees. To the contrary, I would like to put forward that it will have far-reaching negative effects. The Saudi client is now 100 percent sure that their lead bank was correct. They never should have wasted their time pursuing support from Ex-Im Bank.

I must also mention that its predisposition to avoid Ex-Im Bank is very common among many of our foreign clients. I would like to read for you a direct quote from our client's banker, taken from an e-mail of November 2004, before the application was submitted to Ex-Im Bank: "I think the way I would describe our position with regard to potential Ex-Im Bank support is that we would much prefer not have a separate Ex-Im Bank facility and therefore wish to explore all other alternatives first. Hence, our desire to understand all possible sourcing options."

Now let us look at the future for a moment. This same client has intentions to further expand his business. He will give Midrex the opportunity to supply its technology. If export credit is wanted or needed, then our European competitors will have a distinct advantage over us.

What can we do? Who do we turn to for support? Remember, if we get the job, many other U.S. companies, especially small business, get business, especially if Ex-Im Bank would participate. However, if it does not, then we will have to look at other alternatives.

Perception is reality, and this view, unfortunately, is shared by many of our prospective clients. Since 2002, and with numerous visits to Washington, D.C., we have learned that it is a widespread opinion shared by many foreign buyers, not only Midrex clients, who believe that approaching Ex-Im Bank is a fruitless endeavor. To be truthful, we are also beginning to feel this way.

Speaking for the thousands of small companies without a voice here today, the assumption that denial of applications actually protects the U.S. economy could not be more wrong. Such decisions deliver a terrible message to foreign buyers considering U.S. offerings. These buyers will proceed with or without the support of the U.S. export credit agency, which means that U.S. offerings are at a competitive disadvantage to foreign companies using their own export credit agencies to support clients.

Furthermore, American exporters like Midrex, with the flexibility to buy goods competitively across the globe will quickly find ways to regain their competitiveness. European ECAs, JBIC, Japanese ECA and EDC in Canada are very eager for Midrex to source more equipment from their respective countries and are willing to offer promotional support as well as tremendous flexibility.

Given the restrictive nature of the current economic impact analysis guidelines, Midrex, and who knows how many other companies like us, have no other option but to source equipment needs abroad in order to compete when ECA support is desired by our clients. Many, however, have their manufacturing here in the United States and cannot take advantage of foreign supplies and foreign ECAs.

Thankfully for us, we can change our sourcing patterns. And we do have some clients who can arrange financing without the need for ECA support. But there are many prospective Midrex clients who need and will receive ECA support for their projects.

Picture this as a headline: A Ukrainian export deal goes to Japan——

Senator SARBANES. Mr. McClaskey, I am going to have to, regrettably and with apologies, recess the Committee hearing. There is a vote on. And if I do not leave here pretty quickly, I am not going to make that vote.

Senator Hagel is going to return and he will resume the hearing when he comes back in. We tried to keep going in order to get as much in as we could, out of respect for the time of the members that are on the panel. But all those lights that are lit on that clock up there behind you mean if you do not get moving quickly you might miss a vote.

So I recess the hearing and when Senator Hagel returns, he will pick it up again.

Thank you all very much. We have no control over this.

[Recess.]

Senator HAGEL. [Presiding.] Good morning again. I apologize for the break but, as you know, we had a vote.

I understand that our first witness, Mr. McClaskey, has completed his statement. Let me remind the witnesses, if you were not reminded before, first, your entire statement will be included in the record. And if you could keep your opening remarks to within 5 minutes, we would very much appreciate it.

Mr. Hayman, thank you.

STATEMENT OF HARRY G. HAYMAN, III, SENIOR VICE PRESIDENT AND HEAD OF WHOLESALE BANKING, COMMERCE BANK

Mr. HAYMAN. Thank you, Mr. Chairman.

I am pleased to be with you today to discuss the reauthorization of Ex-Im Bank of the United States.

I am testifying on behalf of the Bankers Association for Finance and Trade, of which I am the President. Most of BAFT's U.S. members are active in trade finance and they account for a significant portion of the dollar volume of Ex-Im Bank transactions each year on behalf of our exporting customers.

As you consider reauthorization of the Bank, it is important to recognize that American businesses are engaged in fierce competition with foreign companies in the global marketplace. In the midst of this competition, we cannot afford to abandon one of the most important weapons in our national economic arsenal, Ex-Im Bank. Nor can we afford to impose any new or greater restrictions on its ability to support American exports.

If we did, the inevitable result for our country would be fewer export sales, loss of jobs, and an even larger trade deficit.

Something that other trade bankers and I have observed in recent years is that the export credit agencies from other countries are getting to be more strategic and flexible in their approaches to export finance. I believe that U.S. companies' efforts to compete in international markets will be impaired if our Ex-Im Bank does not take a similar approach.

I hope that in reauthorizing the Bank, Congress will clearly express its support for an aggressive effort by Ex-Im Bank to meet the needs of American businesses large and small competing in global markets.

I would like to comment on several issues related to Ex-Im Bank that concern U.S. banks active in the trade finance business. The first is economic impact assessment. Ex-Im Bank is required by law to consider the extent to which the transaction brought to it are likely to have an adverse effect on industries and employment in the United States. The rationale for this requirement is understandable: taxpayer money should not be used to support a transaction if its benefits for the U.S. economy are outweighed by adverse consequences.

You should be aware, however, that the economic impact requirement itself has an adverse effect on U.S. exports. Whenever the Bank turns down a transaction on the basis of economic impact, it means the financing support that a purchaser expected will not be made available and the transaction likely will not occur. This adds to a perception in the market that U.S. exporters are not reliable suppliers.

For that reason, we believe that economic impact assessments should be required only in the most compelling cases and we would strongly oppose any steps to expand the application of economic impact assessments to a broader range of transactions or to make those assessments more rigorous.

Another issue that affects the competitiveness of U.S. exports in world markets is the availability of cofinancing arrangements that facilitate credit support from two or more export credit agencies for exports that are sourced from more than one country. Typically, the ECA in that country that is the principal source of the products takes the lead and is the sole agency with which the purchaser must interact.

Bankers that finance foreign trade prefer cofinancing arrangement because they are a straightforward, efficient, and convenient way of providing credit support for what otherwise could be a much more complicated transaction.

As Ex-Im Bank noted in its June 2005 report to Congress, the availability and ease of ECA cofinancing has become an important and measurable competitive issue. According to the Ex-Im's web site, it currently has completed cofinancing agreements with only five countries. We are disappointed that there are not more.

We would believe that it would be appropriate for this Committee or the appropriate committee of the Senate to monitor the Bank's progress in establishing cofinancing arrangements and we suggest that the Bank be required to report to you annually on the cofinancing agreements it has in place.

With respect to small business, we would like to commend Chairman Lambright and John McAdams on recent initiatives to increase Ex-Im Bank support of small business.

We also would like to congratulate the Bank on the expanded environmental program that they have developed.

Additional initiatives to coordinate all of the public and private export development resources would also be critical in addressing the generally weak export performance of our country. By that, I mean public and private export initiatives that are widely in place but are not coordinated.

In conclusion, we believe Ex-Im Bank plays an important role in our Nation's economic prosperity by helping American exporters sell their goods and services to purchasers in other countries. We hope that Congress will act promptly to reauthorize the Bank and, in so doing, take steps that will enhance and not detract from its operation and effectiveness.

Thank you.

Senator HAGEL. Mr. Hayman, thank you.

Mr. Ickert.

STATEMENT OF DAVID ICKERT, VICE PRESIDENT AND CFO, AIR TRACTOR, INC.

Mr. ICKERT. Chairman Hagel, Senator Sarbanes and the Committee, thank you for inviting me here today.

I am David Ickert, Vice President and CFO of Air Tractor, Inc.

Air Tractor is a small business that manufacturers agricultural airplanes and forestry firefighting airplanes. We are located in Olney, Texas, a rural town with a population of about 3,500. We employ 175 folks.

We have manufactured and delivered over 2,100 aircraft to buyers in more than 20 countries. Over the past 10 years, we have used Ex-Im Bank financing on about 35 occasions.

I am here also on behalf of the Small Business Exporters Association (SBEA) of the United States. SBEA is the Nation's oldest and largest trade association, representing small- to medium-sized enterprises (SMEs), that export. I am a Board member and former chair of SBEA.

SBEA, Air Tractor, and I strongly support the reauthorization of Ex-Im Bank. With our country's trade deficit now about $700 billion a year and rising rapidly, Federal agencies like Ex-Im Bank must do all they can to encourage exports.

Exporting, however, is not easy. Export financing is often central to it and that can be a daunting task. You have to balance the customer, who is probably new to the process, against the uncertainties of the deal and often difficult underwriting process. Underwriting is a key. A time-consuming and cumbersome underwriting process ending with a "no" can be demoralizing for the exporter and the buyer, even to the extent of discouraging future international efforts on the part of both of them.

As the official export agency of the U.S. Government, Ex-Im Bank can make or break exports. Commercial banks and brokers will not take on foreign risk that these transactions entail without Government guarantees. So for smaller companies, Ex-Im Bank is not the bank of last resort, it is probably the bank of only resort.

And yet, the most promising upside potential for exports come from SMEs in this country, only about 10 percent who now export.

Ex-Im Bank has a mixed record in handling small business transactions. Under its new Chairman, Jim Lambright, Ex-Im Bank has undertaken several initiatives to help small exporters, such as the appointment of a new Senior VP for Small Business. Mr. Lambright's openness and willingness to listen are refreshing and encouraging. We applaud these moves and we have told the Bank so.

But can these moves be sustained without further Congressional action? On past experience, it seems unlikely. Many small business initiatives have come and gone at the Bank over the past 10 years.

In short, Congress needs to give the Bank some guidance. If sustainability of small business initiatives is an important problem, sufficiency is even more critical. Ex-Im Bank's recent initiatives have come about because of problems. The Bank has repeatedly failed to meet its Congressional mandate to allocate 20 percent of its financing dollars to small business. In fact, it has not met that mandate since its reauthorization in 2002.

In recent years, many exporters have complained that the Bank is not transparent enough, that it is too bureaucratic, and that its decision cycles are slow and exasperating.

To be frank, we doubt whether the Bank's recent initiatives are sufficient to solve these problems. The Bank's new Senior VP for Small Business, for example, still has no authority over the Bank's products, processes and transactions. His sole operational function is outreach.

Outreach is useful. But what matters most to small companies is what happens once they get in the door. Outcomes are the important issue.

In fact, outreach efforts that over promise and under deliver risk driving companies away from exporting and hurting Ex-Im Bank's reputation in the small exporters' community.

Establishing someone as the visible small business leader within the Agency but giving that person no authority to match the implied responsibility is a recipe for disappointments. It will also frustrate Congress' effort to gain accountability, since real authority for small business transactions will continue to be scattered across multiple operating units of the Bank.

Therefore, we strongly recommend that Congress create a permanent small and medium-sized enterprise finance division at the

Bank, headed by a senior VP who answers directly to the chairman and authorize that division to direct Ex-Im Bank's core small business products, processes, and transactions.

This does not have to occur overnight. It can be phased in one product at a time, one underwriter at a time.

We also ask Congress to help exporters to access the Bank's medium-term financing, which is to say financial for capital equipment, by authorizing Ex-Im Bank to delegate more medium-term underwriting authority to commercial banks, as the Bank has done with other types of financing.

In our written testimony, we have cited some best practices of organizations, EDC in Canada, OPIC in the United States, that have outstanding results in their small business portfolios.

As small business exporters, our honest advice to you is without rigorous SME structure and focus, Ex-Im Bank risks falling behind the export credit agencies of other nations. That means the Bank will not be able to do its full share of helping exporters reduce the U.S. trade deficit. A rigorous and focused small business structure at Ex-Im Bank will address the outcomes and results of our country's export promotion needs.

Thank you.

Senator HAGEL. Mr. Ickert, thank you.

Dr. Scott.

STATEMENT OF ROBERT E. SCOTT, Ph.D., DIRECTOR OF INTERNATIONAL PROGRAMS, ECONOMIC POLICY INSTITUTE

Mr. SCOTT. Senator Hagel, thank you very much.

My name is Robert Scott. I am a senior international economist with the Economic Policy Institute. Thanks again for inviting me here to testify on the Bank's economic impact procedures.

I am going to summarize my remarks for the record.

As I say in the statement, I have two primary areas of concern. First, whether the Bank is living up to its obligations under existing law to use the economic impact analysis techniques for certain transactions where the provisions of Ex-Im Bank financing could cause substantial injuries to domestic producers. My conclusion is that the Bank is not fully utilizing this procedure to analyze potential transactions.

Second, I am going to examine criteria for conducting these analyses and ways in which they could be expanded and the procedures could be improved. I note three areas for improvement here.

First, I think the Bank should expand its definition of industries covered within the scope of substantially the same industry in its economic impact methodology.

Second, the bank's policy of only conducting these assessments for capital goods, that is goods that can be used to produce exports, should be expanded. In particular, I think we should also, or the Bank should also, be at least examining information, collecting information, about contracts that include offset agreements. These are formal or informal agreements to transfer production or technology to other countries. They are extremely common in some industries, especially in aerospace, a sector that receives a large amount of financial support from the Bank.

And finally, as noted earlier, I think the Bank should improve its openness and transparency with the economic impact process. As Senator Sarbanes noted earlier, the Bank only carried out about six or issued six economic impact notices in all of fiscal year 2005.

As he further noted, this is not widely discussed on the Bank's web site or in its annual report. in fact, I can find nothing other than the guidelines and the notices of assessments in my study of that.

Turning to the definition of industries that could be affected, the Subcommittee heard testimony from Mr. Steven Appleton of Micron Technology about an application to finance a semiconductor pure play foundry that was made for the SMIC Semiconducting Manufacturing Company from China. This foundry can be used to make two kinds of products, DRAM chips and NAND flash memory chips. The application listed the purpose as to make these NAND chips, which are rather specialized. However, the DRAM market is subject to vast amounts of overcapacity and boom and bust cycles. And there are U.S. producers in that industry and I think the Bank should have been concerned from the outset with the potential for this export to worsen this cycle of boom and bust in the DRAM market.

Micron was able to intervene in this case and after a prolonged series of interventions, Ex-Im Bank finally never voted on this contract. But it is the kind of transaction, I think, that should be highlighted and the Bank should be concerned with because it can lead to expansion of production capacity abroad.

In terms of expanding the Bank's scope, I think that there is concern in particular with exports in the steel industry, that was noted earlier. I have been an expert witness in a large number of steel anti-dumping cases in the last 15 years. In my experience that industry has suffered again, periodic crises and capacity gluts that lead to massive dumping, particularly in the United States, which has the most open steel market in the world. I think our Government has been attempting to negotiate an agreement to reduce excess capacity in the steel industry for many years. And yet China and India, and many other countries have announced plans to dramatically expand steel production capacity.

So investments abroad that augment this effort by foreign governments to build up excess steel production capacity are simply going to stabilize the market and hurt U.S. steel producers, which have lost tens of thousands of jobs in the past decade alone.

With that, I think I will stop and thank you for the opportunity to testify and I will be happy to answer any questions.

Senator HAGEL. Dr. Scott, thank you. And again, thanks to each of you for your testimony and your assistance today.

Let me ask each of you about the general points and some specific points that were covered in each of your testimonies.

You all have focused to some extent on product offerings and the competitive nature of other ECAs. In Mr. Ickert's testimony, he spent a good deal of time talking about the small business facilities, how those should be increased, widened, deepened, specifically by giving small business individuals at Ex-Im Bank more authority.

If I could start with you, Mr. McClaskey, now that you have listened to the other's testimony in light of your own, do you generally agree with what you have heard from your colleagues here on some of the general areas that were covered in the four of your testimonies on small business? Dr. Scott talks about expanding product bases and coverage areas.

Take any pieces of those that you like but I would be interested in getting each of your reactions to the testimony that you heard from your colleagues, specifically during this time that we are spending to take a look at reauthorization. And one of the questions that you might recall I asked to the first panel, specifically Mr. Lambright, are there areas that we should be focusing on as we go through this reauthorization process to expand the powers or to broaden authorities, to do something new, give Ex-Im Bank more options and flexibility?

So with that general context, let me begin with you, Mr. McClaskey.

Mr. MCCLASKEY. First of all, based on what you were told, I actually was not finished with my speech, but that is OK.

Senator HAGEL. It is because you did not have enough time, I understand. We will include your entire testimony in the record.

So if you felt that there was something at the end of your testimony that you did not have a chance to cover, if you would like to restate that now within the limits of time here, please proceed.

Mr. MCCLASKEY. That is OK. We support Ex-Im Bank. I know there are some times they are between a rock and a hard place, trying to choose between helping this group of workers over here and harming this group of workers over there.

But I think that my personal opinion is that they do not do enough of looking in both directions. They look in one direction only and they really do not investigate thoroughly what they need to do, to do a real economic analysis of who does it really hurt.

For example, the project that we indicated, the project went ahead anyway. It is going ahead anyway, so who is hurt here?

The reason why we brought that particular project up was the fact that this client is going to do another project. We have competition in Europe. If our European competitors get the job because they can offer ECA financing, we do not get the job. If we do not get the job, then the list of these States in the back, on the attachment here, that we give business to, which the majority are small businesses, millions of dollars. I think the total was $147 million since January of 2005, we have given to small businesses in this country. We have another approximately $40 million to purchase this year from small businesses in this country.

If we do not get that opportunity in the future, then they lose and we lose. That was my point that I did not get to make.

Senator HAGEL. Let me ask you specifically, you heard what Mr. Ickert said in his testimony. He came forward with specific ideas and thoughts, expanding this general area. Do you agree with what you heard from Mr. Ickert?

Mr. MCCLASKEY. Yes, I do. I do agree. I would like to see Ex-Im Bank expand. I would like to see them become more flexible. I certainly would like them to be more thorough in their investigation of the economic impact analysis, which really bothers me, so that we can move on and make some positive business here in the States. That is what I would really like to see.

Senator HAGEL. Thank you.

Mr. Hayman.

Mr. HAYMAN. The point that is being discussed now is, I think everyone understands what that point is, that if the transaction is going to happen anyway, why should we let the Germans get the order? And that is probably really at a Congressional level because Ex-Im Bank is certainly acting within the rules that are set by Congress.

So that might be an issue that would be discussed with Jim Lambright.

Senator HAGEL. Do you believe that that answers part of the question that was put to Mr. Lambright by essentially the three senators that have been here this morning, about why you have not reached the 20 percent goal? And what have been the impairments and the difficulties in making that happen?

Mr. HAYMAN. I think that is part of it. The other one is the point that was made by Air Tractor on the ability of the sort of newly created small business division to be able to accomplish their mission.

And on that point I would say we would support Air Tractor's views, that over probably a fairly extended period of time if the small business effort that Jim Lambright talked about were given more authority and ability, for example, to approve transactions, that gets them back to 2002 when they were much more effective.

So we would support that not as something that has to be done in a short order, because that would just slow down things again. But we would support that point, yes.

Senator HAGEL. Thank you.

Mr. Ickert.

Mr. ICKERT. As far as the products of the Bank, from a small business perspective, I feel like the Bank offers very good products.

As far as transaction authority, such things as I mentioned, like giving more delegated authority to Banks to actually underwrite and to help move transactions along, would be most helpful.

I guess the one point I would like to come back to, and I do not mean to go over this over and over, but again we feel very good about the willingness of Mr. Lambright to listen and initiate new projects.

The problem is the need for institutionalizing the small business division. Mr. Lambright could be gone 1 day. And we have seen in the past, as chairmen change, as policies change, then you see the ebb and flow of small business on the radar screen of the Bank.

In fact, we have counted that in the last 10 years there have been about 15 major changes in the small business area, from being somewhat high in the organization chart to being in the middle to not even being on the radar screen.

So again, I am very comfortable with what Jim Lambright is doing, but we would like to see these things institutionalized to prevent the ebb and flow that happens with administration changes from sapping the efforts.

Senator HAGEL. Thank you.

Dr. Scott.

Mr. SCOTT. Thank you.

Two brief comments. In my prepared remarks I noted that there is a need, I think, for *ex poste* assessments, after the Bank has done a number of transactions to look at their impact on different industries.

I think in this regard also, it is important for the Bank to develop a strategic outlook on the kinds of industries that it should or should not be financing export transactions. I learned of another case yesterday where the Bank was considering a proposal to finance an export of equipment to produce soda ash in Turkey. This is an industry that supplies the global glass-making production. This industry is another one where there is a chronic global excess capacity glut.

So if we are going to think strategically, I think, at a minimum, we can ask the Bank to begin to assess what kinds of exports are actually going to hurt U.S. producers of final products. I think that is a key area.

Second, I mentioned the onset agreements, a very tough issue to analyze. I think, at a minimum, it would be useful if the Bank would simply be able to ask applicant companies to list or describe formal or informal offset agreements. It could then use that information. Simply collecting the data would be useful.

Last, just a point on small business exports. I would just like to add that I have looked at small business exports, and between 85 and 90 percent of all of U.S. exports come from medium and large enterprises. It is very hard for small firms to penetrate foreign markets to have sufficient scale or marketing channels.

So encouraging small business exports is a Sisyphean struggle. It is something that will have to be pursued on a continuing basis because the structure of international markets is such that it is just inherently difficult for small businesses to export.

So I think that it is important to keep that economic background in mind. Think you.

Senator HAGEL. Thank you.

Let me ask each of you this question: what was your reaction to Mr. Lambright's response to my question when I specifically asked him were there new authorities required, any new framing, any new language, anything that should be included as we move toward reauthorizing Ex-Im Bank for another 4 years? If you recall, he said we are asking for a clean bill.

Now I was not at Chairman Crapo's two hearings, but the Acting Chairman and President of Export-Import, at least when I asked the question do you see any need for more flexibility, more range, more authority for a SBA division, he said "no."

Were you surprised by that, especially in light of what the four of you have just said? Mr. McClaskey.

Mr. MCCLASKEY. Yes, I was surprised by that. I think they do need to have more flexibility and to certainly take a look at exactly how they do support—what they can do to support small businesses in the country.

Yes, I was surprised by his remarks.

Senator HAGEL. Mr. Hayman.

Mr. HAYMAN. I think the reason for his comment was that most of the things on the small business side, they already have the power to do. It is a matter of organization and will and structure.

On the area of economic impact, I think, their concern would be that any legislation would make it more difficult for them to support U.S. exports, so they are probably not looking for any change.

Senator HAGEL. So you essentially would not agree with what Mr. Ickert said in his testimony on the SBA authority? Mr. Ickert says they need more authority.

Mr. HAYMAN. No, I would agree with him. I would agree with him. In other words, that is not authority. Within Ex-Im Bank, they can say the small business division has ability to approve——

Senator HAGEL. But you are saying they already have the authority?

Mr. HAYMAN. They have already got that.

Senator HAGEL. For what reason would they not be exercising that authority in this specific case?

Mr. HAYMAN. It used to be that way. They had an insurance division which would do transactions up to $10 million. They reorganized 4 years ago and put it all in one kind of neat block, so big and small transactions were being approved by the same people.

That has made it much more difficult to get the smaller transactions done, and I think that is what we have all noted.

What Jim Lambright is trying to do is reverse the field a little bit, but keeping the same infrastructure but having some authority or some focus within the larger group to support small business. He is trying to work his way back to where they were before, without another massive reorganization, which nobody probably wants. So the point of doing it over a period of time, I think, is a good one.

Senator HAGEL. Thank you.

Mr. Ickert.

Mr. ICKERT. First of all, you asked does it surprise me that Mr. Lambright answered that way? I would say "yes" and "no." It does not surprise me because I think Jim Lambright has an honest desire to move forward in a lot of these areas, and I believe he will. And I would like to see more authority, delegated authority, things of those sorts, to answer your question specifically.

However, as Mr. Hayman just pointed out, there are changes that happen, administration changes that happen, reauthorizations that happen. And without a dedicated, institutionalized system or division, these things can cause small business initiatives to disappear. And so, institutionalization is what I would like to see in order to foster more small business activity at the Bank and to foster more small business exporting.

I would disagree to some extent with what Dr. Scott said. Yes, it is difficult for small companies to export. But it is not impossible. Small business can do a good job of exporting. They can do a better job with help, and that comes back to the processes and the transactions and the procedures at Ex-Im, which we would like to see become more of an institutionalized effort. This would also give more accountability for the 20 percent mandate that Congress has put out there that has not been met since the last reauthorization.

Senator HAGEL. Thank you.

Dr. Scott.

Mr. SCOTT. I have already talked about the need for reform of the economic impact procedures, and I think that would require some charter amendments, although I have not looked in detail at the charter myself. I am an economist, not a lawyer.

I guess the other point that I would make is if we are going to ask the Bank to expend additional efforts on conducting economic impact assessments, that will probably require additional resources, as well. And I think there is some attention that will have to be paid to that.

Senator HAGEL. Thank you.

Again a question for each of you. As you all are aware, and was noted in the previous testimony, on June 1 Ex-Im Bank launched Ex-Im Online, which Mr. Lambright noted in his testimony, a new interactive web-based service which enables exporters and financial institutions to go online to apply for insurance, monitor the status of applications, receive and accept quotes and receive a variety of other services.

My question is this, have any of you had the opportunity to use this service? If so, what is your initial evaluation of its effectiveness? Mr. McClaskey?

Mr. MCCLASKEY. I have not had an opportunity to use the service. I was unaware until today that it existed.

Senator HAGEL. You were unaware until today?

Mr. MCCLASKEY. Yes.

Senator HAGEL. Thank you.

Mr. Hayman.

Mr. HAYMAN. We have used it. It is a good effort. I think it only went into effect June 1 or so.

But as they improve it, it will have some small benefit. But a technology solution is, you are addressing 5 percent of the overall— it is nice to have but it does not solve any core problems.

Senator HAGEL. Mr. Ickert.

Mr. ICKERT. No, sir, we have not used it. We are aware of it.

However, from the standpoint of tracking and helping the process, I applaud that. We do medium-term deals. Our applications run between 70 to 200 pages long. So I am not for sure how much this particular effort will benefit our situation.

Senator HAGEL. Thank you.

Dr. Scott.

Mr. SCOTT. I am not familiar with the new procedure.

Senator HAGEL. Mr. Hayman, you noted in your testimony that other ECAs are becoming more strategic and flexible than Ex-Im Bank and that was a significant concern you had, that essentially we are being overrun and will continue to be.

I want you to dwell on that and develop that a little more. And then I would like very much the other three panelists to respond to that observation.

Mr. HAYMAN. I think the other ECAs, the United States has always had a problem not really being a trading nation. Obviously, all of our competitors grew up as trading nations. If they can figure out a way to get a big export order, they are going to work on it and they are going to get it done.

Specifically, on the cofinancing, we see much more action from the other ECAs. If their company is producing 30 or 40 percent of its product in Taiwan, which is, as we all know, getting more and more common, then they are going to support the transaction. So they are going to support that as if it were 100 percent French manufacture because it is 60 percent French, they get exports, they get profits. They pay taxes. They boost the will of their company. That is probably the largest one right now.

Senator Sarbanes' questions on the tied aid. We all know that they are using charitable donations to support transactions. It was a nice agreement. It has probably helped some. But they are going to figure out a way to get that big export order to make it happen.

I would say, as Jim Lambright said, that they tend to be more—they are quicker in responses, in terms of getting approvals done. And Jim is trying to address that. But again, that is another area where we are behind the curve.

Senator HAGEL. What do we need to do to pull ourselves back up into a more competitive position, especially for the long run?

Mr. HAYMAN. Clearly, there are some things that have been suggested on Ex-Im Bank. But one of the others is that we have so many resources in this country, both public and private, that are working to promote exports. And they are not coordinated at all. So you have U.S. Chamber of Commerce, SBA, Ex-Im Bank, Department of Commerce, Bucks County Economic Development, the banks. Everybody is working to promote exports. Banks spend huge amounts of time working with exporting customers. But there is no coordination.

So as a national policy or a national will, say wow, if we have all of these resources and they were coordinated, then would that help us? And being $700 billion in the hole, strategy would probably be a good thing to have.

Senator HAGEL. Do you believe our overall trade policy, starting with trade promotion authority, is adequate? We have seen here on the Hill the last few years a trickle of trade legislation. And I, for one, am very concerned about that because I see a very dangerous protectionist streak developing up here, in both political parties by the way. Comment on that.

Mr. HAYMAN. No, I would 100 percent agree with that. If we were doing better on the export side, if we were out there winning orders and getting jobs, I think the protectionist sentiment would be less. But right now it seems like it is almost a, well we cannot really compete so we might as well throw up the barriers, which has some short-term benefit and some appeal. But I think history shows that long term it does not work.

So the aggressive export effort, getting behind exports, using the tools of Ex-Im Bank, SBA, everyone puts us in a position where we do not have to be protectionist.

Senator HAGEL. Thank you.

Mr. McClaskey.

Mr. MCCLASKEY. I agree with Mr. Hayman. It is really, night and day between our ECA, Ex-Im Bank, and the other ECAs. We do work with some German companies and they get tremendous support from Hermes over there. It is unbelievable.

As a matter of fact, I was there last week and one of them told me they went to meet with one of their clients and Hermes sent three of their people with the company to meet with the client to show their support.

I am not exactly sure if I asked Ex-Im Bank to go with me to visit somebody over in the Ukraine if they would send anybody with me to do that. So I think it is actually night and day.

We are actually being courted by JBIC right now because they want our business because we are doing so good. We are owned by a Japanese company, Kobe Steel Limited in Japan. They have opened up the door with JBIC and they are very interested in financing a project in the Ukraine for us so that we can—but that means that we will have to go and supply a certain amount of Japanese-supplied equipment if we do that.

Senator HAGEL. All of this, of course, you mentioned tied aid is why there has been so much interest, particularly in Senator Sarbanes' line of questioning, as some of mine this morning as well. It all does connect. Thank you.

Mr. Ickert.

Mr. ICKERT. Our experience with other ECAs, is from the standpoint of Canada, where we do some cofinance work. They seem to be much faster and much quicker in decisions than Ex-Im. And I think that is a big issue in this whole discussion, the process. There are 225,000 small business companies in the United States that are actually exporting. But there are far more export-capable companies than that in the United States. We should encourage more of them to export. The process sometimes can be discouraging

I am going to be part of a group speaking in Grand Island, Nebraska, on Thursday to small business exporters. And I would hope that new people coming out of that would find the process quick and efficient. Unfortunately, I do not think that has been the case all the time.

EDC seems more focused, more willing to move and faster to move.

We have had an example recently, and unfortunately there is really no answer for it. In Brazil, the government is making concessionary financing for airplanes to compete with us there. Those are winning airplane sales from us, using concessionary financing.

When we talked to Ex-Im Bank about that, they said that Brazil is not a member of the OECD, so there is nothing really that we can do. So there are areas like that, I think, that I would like to see addressed more.

Senator HAGEL. Mr. Ickert, if you are going to be in Grand Island, Nebraska you shall receive special status. Thank you for your efforts there, as well.

My State, the small State of Nebraska, is very, very involved, as you know, not just in agriculture but across a range of products in exports and trade. So thank you.

Dr. Scott.

Mr. SCOTT. Just a couple of points. I think it is generally true that many of the other advanced industrial countries that we compete with are much, much more strategic in terms of their efforts to buildup industrial capacity and sustain exports. I think that kind of strategic outlook requires an assessment of what is going on in other countries. I think that Senator Sarbanes and others mentioned the need to conduct those kinds of assessments to understand what other countries are doing on an industry-by-industry basis and use that information in planning.

So we need to develop that kind of capacity. Japan has a Ministry of Industry and Trade. The Chinese have industrial planning agencies. We shy away from those kinds of activities and I think that hurts our competitiveness as a nation.

I would just go back in regard to your earlier question about the broader trends in trade legislation and say I have studied the broad problems of our trade and current account deficits and have written extensively on this for a number of years.

Again, we face a problem with other countries intervening, particularly in currency markets, in ways to make it very difficult for the United States to export. I think until we address those problems, it is going to be tough to bring down this massive trade deficit that we are confronting.

Senator HAGEL. Thank you.

Paperwork. How big a problem is paperwork in the processing of projects and all that Ex-Im Bank does? Does it impede? Is it directly attributable to people staying away or shying away or being reluctant to deal with Ex-Im Bank? Or is it not a problem?

Mr. McClaskey.

Mr. MCCLASKEY. I do not think that is a big issue, the paperwork. I think what is required is what is required in order to do a proper due diligence on the application. So I do not see that as a hindrance.

Senator HAGEL. Mr. Hayman.

Mr. HAYMAN. It is a problem, yes.

Senator HAGEL. Problem?

Mr. HAYMAN. Yes, problem.

Senator HAGEL. Give me an example.

Mr. HAYMAN. In 2003, our Institution was the largest user of Ex-Im Bank, among all banks. Our cycle time, from approval, from acceptance of the transaction to shipment, was 182 days. Two-and-a-half years later, it was 282 days.

There are a number of factors in that, and I think Chairman Lambright is working to address them. It is not quite as simple an issue as I say it is, because there are some other things that happened at Ex-Im Bank that we would support them being more careful.

I mean, clearly the ability to evaluate transactions quickly would be a significant help for U.S. exporters.

And I think they are working on that. But as Jim Lambright said, they are not there and it is a problem.

Senator HAGEL. These are issues that can be resolved within the current authorities of management?

Mr. HAYMAN. Absolutely.

Senator HAGEL. Thank you.

Mr. Ickert?

Mr. ICKERT. First of all, Ex-Im Bank published its the medium-term credit standards several years ago and that move significantly helped in the transparency and the understanding of what was required.

However, as I mentioned earlier, our particular applications will run 70 to close to 200 pages. So, yes, the process is difficult. It is also difficult for our buyers on the other side, as many of them are small buyers and we are trying to help them gather the information they need to submit.

And that, in itself, makes the process complex.

That being said, I think Ex-Im Bank has a better sensitivity to that complexity and especially to small exporters that may be the first or second time through the process. Unfortunately, the underwriting complexity that exists without a lack of sensitivity, and the process time that Mr. Hayman just mentioned, I think discourages more than it encourages people to export in this country.

Senator HAGEL. Thank you.

Dr. Scott.

Mr. SCOTT. Following up on my earlier comments, my personal belief is an understanding based on the study of the trade trends that we need to go beyond Ex-Im Bank to address this issue. We need to have capacity to plan for competition with foreign suppliers and to help U.S. industries export, perhaps to have preapproved forms, to have Government help in filling out the forms.

This is going to require, I think, other kinds of institutional support in the Government that go beyond what Ex-Im Bank can hope to accomplish.

Senator HAGEL. Gentleman, thank you. You have been very generous with your time.

Let me ask, before we adjourn, if there is any one last comment that any of you would like to make? We will keep the record open, as I noted with the first panel, because we may have members of the Committee who would like to send a question.

So if there is anything else you would like to say, you have an opportunity to do it. Mr. McClaskey.

Mr. MCCLASKEY. No, I would just like to thank the Chairman and the Committee for inviting me to be here today to give my testimony. I really appreciate that. Thank you.

Senator HAGEL. Thank you. Mr. Hayman.

Mr. HAYMAN. Thank you, Senator Hagel.

I think the other thing that we would take away from the last several comments is that a coordinated approach to U.S. export performance would be a very valuable thing for our country.

Senator HAGEL. Thank you.

Mr. Ickert.

Mr. ICKERT. No, sir. Thank you for the opportunity to be here.

Senator HAGEL. Spend a lot of money in Grand Island.

Mr. Scott.

Mr. SCOTT. No comments. Thank you, Senator.

Senator HAGEL. Thank you all. The hearing is now adjourned.

[Whereupon, at 12:24 p.m., the hearing was adjourned.]

[Prepared statements and response to written questions follow:]

PREPARED STATEMENT OF CLAY LOWERY

ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS,
U.S. DEPARTMENT OF THE TREASURY

JUNE 20, 2006

Chairman Shelby, Ranking Member Sarbanes, and members of the committee, thank you for the opportunity to discuss the reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). I am pleased to be here with Acting Ex-Im Bank Chairman James Lambright because we are in total agreement on the importance of a strong Ex-Im Bank.

This Administration believes that, given a level playing field, U.S. exporters can compete with anyone in the world. As the lead U.S. Government agency on international economic and financial policy, Treasury leads the U.S. delegation to the OECD export credit negotiations, which are intended to establish that level playing field. Working closely with Ex-Im Bank and other U.S. Government financing agencies, we have successfully developed multilateral rules to reduce or eliminate the use of foreign export financing subsidies. These rules help to protect all U.S. exporters by ensuring that the competition for export sales is driven by price, quality, and service—and not by unfair government financing. Equally important, these OECD rules protect U.S. taxpayers from having to pay for a subsidy program that would be necessary to counter foreign subsidy programs in the absence of these rules.

Export Financing and the Role of the OECD Arrangement

The OECD members that negotiate these multilateral financing rules are referred to as the Participants to the Arrangement for Officially Supported Export Credits (the Participants; the Arrangement). The Participants are those governments which provide the vast bulk of export financing for capital goods to developing countries. The Arrangement rules are critical to ensuring that the export financing provided by governments promotes market principles, a level playing field, and transparency. As these rules apply to all sources of official export financing, policy agencies such as finance and economics ministries represent their governments among the Participants. In addition to Treasury and Ex-Im Bank, the U.S. delegation includes the Departments of Commerce and State, USTR, USAID, the Trade and Development Agency, and any other agency whose programs or policy role might be affected by negotiations.

Export subsidies are bad economic policy and very costly to taxpayers. They close markets to competition and reduce global economic growth. By distorting trade flows, subsidies also distort the global allocation of resources and reduce international economic efficiency. Exporters who become dependent on tied aid subsidies become less efficient and unable to compete on market terms.

Moreover, using subsidies for export promotion is ultimately self-defeating because when one nation uses subsidy programs to gain a competitive advantage, others naturally follow suit to protect their interests. This inevitably leads to an export-subsidy race which harms the international economic system and severely undermines or reverses the gains from trade. This is why successive Administrations have worked in the OECD to negotiate a trade finance environment driven by market forces in which all U.S. exporters can compete.

The Arrangement complements the WTO anti-subsidy rules. The WTO does not restrict the use of aid subsidies—tied or untied—because resource transfers from rich to poor countries are important for the latter's development. The United States uses the Arrangement to ensure that aid-financed subsidies are really development aid and not export promotion in disguise.

Aid—tied or untied—is normally in the form of official development assistance (ODA) offered by a donor's development ministry and can be in the form of grants or credits. However, tied aid also is a form of export subsidy in which financing is formally linked to the purchase of goods and services from donor-country firms.

The U.S. offers tied aid through USAID, as part of the "Buy America" mandate. However, U.S. tied aid is usually in the form of grants which, dollar-for-dollar, distort trade far less than credits and provide greater assistance to developing country recipients.

Many other OECD donors use tied and untied aid credits in order to leverage more exports while reducing the budgetary cost of aid and thereby increase domestic political support for their aid programs. Before the Arrangement, competitive economic and political pressures resulted in many foreign tied aid credits being *de facto* export promotion. Since tied aid credit terms are more favorable to the borrower than standard export credit terms, tied aid distorts trade flows in favor of the tied aid provider's firm when the two forms of financing compete.

Under the rules, tied aid is now focused on the poorer countries—those with per capita incomes below $3,255 annually. Wealthier countries like Mexico, Korea and Malaysia are no longer eligible for tied aid. Tied aid is now virtually non-existent in major projects for power (thermal and hydro), oil and gas pipelines, telecommunications, air traffic control equipment, industry, and manufacturing. This has enabled U.S. exporters to compete for contracts in these commercial sectors without the concern of confronting tied aid. Instead, tied aid now is used primarily for what are generally regarded as bona fide development projects in sectors such as health, education, water, sanitation, and roads.

Recent Negotiating Successes

During Ex-Im Bank's 2002 reauthorization, Treasury reported on the success of disciplining tied aid use and the remaining challenges associated with two other foreign financing practices that distort trade and threaten the level playing field that we seek—untied aid and market windows. Since that testimony, Treasury has continued its work to address these issues in the OECD. (Efforts were highlighted in two reports to Congress in June 2004.) I am pleased to report that significant progress has been made on all fronts, and, as Ex-Im Bank's latest Competitiveness Report shows, neither untied aid nor market windows pose the same challenge that they did in 2002.

Untied aid is aid that may not be formally linked to donor country procurement. Untied aid typically is used for non-commercial projects with a development impact. However, without formal OECD rules on what procedures, practices, and procurement results constitute untied aid for the purposes of exempting it from the tied aid disciplines, donor governments can use untied aid to circumvent the tied aid rules agreed to by the OECD members in 1992 and distort trade in favor of the donor. Examples include requiring aid recipients to use donor-country firms for design and engineering work or requiring a donor-country firm to run the bidding process, thereby creating a *de facto* bias toward the firms of that country.

Over the last few years, Treasury negotiated an agreement in the OECD that members would stop offering *tied* aid for design and engineering studies for projects that will then be financed with *untied* aid. We firmly believe that this practice provided an unfair technical advantage to donor country firms when bidding for untied aid projects.

In addition, in January 2005, following intensive bilateral discussions with the EC and Japan (the two largest untied aid donors) and a Treasury-led initiative in the G–7, a ground-breaking OECD agreement was reached. This agreement requires that untied aid donors notify the OECD of projects and bidding information 30 days in advance of the start of the bidding process. We believe that this will provide valuable information to U.S. exporters to help them compete effectively for untied aid projects that have averaged $8 billion a year since 1993 and are currently rising. Moreover, donor governments agreed to maintain a minimum bidding period of 45 days to further facilitate participation by U.S. and other exporters. The United States makes this project and bidding information available on the Commerce Department's web site at *http://web.ita.doc.gov/sif/untied.nsf/*.

Furthermore, to ensure that donor governments treat foreign bidders fairly, donors will report the outcome of untied aid bids to the OECD on an annual basis. We will review carefully the results of the transparency agreement later this year to confirm whether U.S. exporters are winning a fair share of these projects. If not, and this new transparency shows that untied aid continues to distort trade, the data will provide a credible foundation for the United States to request OECD negotiations for comprehensive rules for untied aid.

We also have seen some progress on disciplining market windows since Ex-Im Bank's 2002 reauthorization. Market windows are quasi-official institutions that support national exports, but because they purport to operate as private sector actors, they are not subject to any transparency or discipline concerning the terms and conditions of their financing. Market windows have the ability to offer financing on better terms than either the private markets or export credit agencies. The two largest market windows are KfW of Germany and EDC of Canada.

Following extensive but inconclusive OECD and bilateral discussions on the issue, EDC seems to be voluntarily shifting its activities toward non-export credit support. KfW has been subjected to an EC-mandated separation of its official and commercial business. We expect this action to result in far greater transparency and market-like discipline on its export financing function. While the potential certainly remains that either institution could offer terms that undercut the OECD rules and the private market, current trends show that significant progress is being made. Nevertheless, Treasury and Ex-Im Bank will continue to monitor the situation closely.

Finally, our success in disciplining tied aid continues since our last testimony. The benefits to the United States of negotiating and implementing international rules on the use of tied aid continue to be dramatic. Prior to 1992—before the OECD tied aid rules came into effect—donors offered $10–$12 billion of tied aid annually and the resulting U.S. export losses were estimated to be $2 billion or more per year. Since 1992, tied aid credits have averaged only $4 billion annually—a minimum reduction of 60 percent—and therefore have been cumulatively reduced by about $80 billion.

Treasury estimates that U.S. exports of capital goods are higher by at least $1 billion a year as the result of tied aid rules that reduce trade distortions. Furthermore if the United States had competed for these additional exports by using tied aid, the War Chest would have required roughly $300 million annually in additional appropriations—a cumulative savings of $4 billion for U.S. taxpayers since 1993.

The War Chest

Continued success in the OECD rules-based approach to tied aid as well as untied aid and market windows is dependent in large part on Treasury's ability to use the War Chest as a policy tool. Removing that role would undermine U.S. credibility and deter cooperation from our OECD partners. More importantly, this would seriously weaken the U.S. position in any effort to negotiate new rules, such as those for untied aid, and to enforce the existing rules. A weakened U.S. position in the export financing disciplines arena will almost certainly raise the cost to the U.S. taxpayer of protecting U.S. exporters against unfair foreign subsidies.

Congress created the tied aid War Chest in 1986 in order to provide the Administration with leverage to negotiate economically and developmentally sound tied aid rules in the OECD. The War Chest was also intended as a means to enforce these rules and leverage additional market-opening negotiations, as necessary. As a result of Treasury-led negotiations, the comprehensive set of tied aid rules outlined earlier took effect in 1992, providing a better balance between the development and commercial objectives of the OECD donor governments.

The selective use of War Chest funds to enforce tied aid rules has worked exceedingly well in reducing trade distortions and leveling the playing field for U.S. exporters *at virtually no cost to the U.S. taxpayer.* As a result of this success, foreign tied aid programs have been pushed out of most areas of commercial competition, and the demand by U.S. exporters for tied aid matching has declined dramatically. Despite this decline in demand, the War Chest remains an important tool in the U.S. policy arsenal. Treasury uses the War Chest as leverage not only to enforce existing rules on tied aid and other trade-distorting activities but also to negotiate new rules as needed—as may be the case for untied aid.

While we refer to tied aid "rules," *they are not legally binding.* They are voluntary, as are all the export credit rules under the Arrangement. Other donors have voluntarily addressed U.S. concerns and agreed to stop or limit their financing for the types of capital projects that the United States has argued should be ineligible for tied aid credits. The tied aid projects that our OECD partners are now financing are specifically permitted under the rules and are less distorting to trade.

Given the voluntary nature of the Arrangement, the United States must be careful how it decides to implement its matching policy. An insufficiently judicious policy on use of our tied aid would give our OECD partners an incentive to abandon the Arrangement and expand the scope of their tied aid programs to include larger, more commercial projects.

This would create a vicious cycle of increasing tied aid from all parties and generating a larger demand for the War Chest. The gains that the successive Administrations have worked to achieve over the last fifteen years would quickly unwind. This is not to suggest that the United States should never match any tied aid offers. Some tied aid projects pass the OECD eligibility test but can still create longer-term advantages for foreign exporters by setting technical standards, providing brand name recognition, allowing maintenance and repair capabilities to become established, etc. Any of these elements can tilt the playing field for future commercial sales. War Chest matching is a vital tool to ensure that tied aid is not used, intentionally or unintentionally, to tilt longer-term competitive conditions against U.S. exporters. Treasury fully supports using the War Chest in such instances.

In addition, the tied aid rules have two systemic shortcomings. The first relates to small projects below $3 million and the second relates to projects in the railway and mass transit sectors. Small projects are exempt from the tied aid rules in order to minimize the administrative burden of the rules. However, some OECD members used this exemption aggressively to finance small commercial projects in violation of the spirit of the rules. In response to this, Treasury has been clear that it automatically supports using the War Chest to match small commercial projects.

Passenger railway and mass transit projects also meet the eligibility rules because they are highly capital intensive, meaning their costs are normally not recouped from their own earnings over the term of an export credit agency (ECA) loan. In addition, their revenues are limited because they are often unable to charge the full economic value of their services. Therefore, Treasury has been clear that such projects are frequently good candidates for War Chest matching, and just such a matching offer was approved earlier this year.

In conclusion, this policy-based approach to matching foreign tied aid offers allows us to protect U.S. exporters from unfair use of tied aid, while recognizing the legitimate development objectives of foreign aid programs. It is in the interest of U.S. exporters and taxpayers that the War Chest remain a tool to leverage the broader, rules-based approach. The current Treasury/Ex-Im Bank tied aid principles and procedures were put in place in close cooperation with Congress in 2002, are working well, and have not produced a single disagreement between the two agencies.

I appreciate the opportunity to appear before you today and look forward to your questions. Thank you.

PREPARED STATEMENT OF JAMES H. LAMBRIGHT

ACTING CHAIRMAN AND PRESIDENT,
EXPORT-IMPORT BANK

JUNE 20, 2006

Mr. Chairman, Senator Sarbanes, Members of the Committee:

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 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. The specific role of the Bank is to help provide export financing in instances where creditworthy transactions would not otherwise go forward. That can occur when a market or a buyer is too risky to obtain 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 provide 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 driving between two guideposts. One guidepost represents the benefits we offer to U.S. workers and exporters when we assist in the financing of exports that otherwise would not occur. Over the years, those exports have helped to sustain U.S. jobs, jobs that on the average offer higher wages than non-export 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 guidepost—the one that represents assuming reasonable risk and responsible stewardship of the resources provided by taxpayers necessary to bear those risks. The guidepost of risk is "reasonable assurance of repayment," a term Congress has explicitly put in our charter as our standard for making credit judgments.

The results have been tremendous. 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.

The conclusion is that Ex-Im Bank is a great deal for the taxpayers. When we manage to drive between the guideposts 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. In 2002, Congress increased from 10 to 20 percent the amount of financing authority that must be available for small business transactions, and though the Bank has not yet authorized the full 20 percent of authorizations for the direct support of small business, we have never turned down a small business transaction due to lack of resources. We are still seeking the best course to drive 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 continue our efforts to increase financing commitments for exports to sub-Saharan Africa. In fiscal year 2005, Ex-Im Bank supported 115 transactions in 20 countries in the region, totaling $461.8 million, a $78.6 million increase over fiscal year 2004. 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 drive the Bank between those guideposts, 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.

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 is 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 non-lethal 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. 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 almost a year ago, I have devoted more attention to small business than any other issue. We have been working with Congress on its concerns. We have conferred with small business representatives on changes we have been implementing which I am about to discuss. And we are institutionalizing 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 Bank 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 authority 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 that one of the primary ways to increase support for small business is to improve our outreach programs in order to increase demand. I have created the new position of Senior Vice President for Small Business to manage an independent business development unit with a dedicated staff focused solely on small business outreach. He reports directly to the President and Chairman of the Bank. The Senior Vice President for Small Business serves as the primary small business advocate on the staff level, and of course works 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.

Although the Senior Vice President for Small Business is responsible directly to the President and Chairman and he and his staff comprise an independent business development unit, they still work closely with the Bank personnel who are responsible for actually processing the transactions—that is, those in what we call the "business units." This is consistent with what we do for all business development, large and small, within the Bank. It is part of our credit culture, and reflective of best practices in the private sector, that those who must objectively evaluate credit not be the same people as those responsible for business outreach.

Furthermore, small business transactions are now processed only by specified 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 small businesses come into the Bank to discuss their transactions, they will interact with personnel who are familiar to them and knowledgeable about their needs.

Ex-Im Bank's Small Business Committee

To facilitate seamless interaction between the dedicated small business outreach division and the small business specialists in the business units, we have established an Ex-Im Bank Small Business Committee (SBC) to coordinate, evaluate, and make recommendations regarding the many Bank functions necessary to successfully execute our small business plan. The SBC is co-chaired by the Senior Vice President for Small Business and Senior Vice President for Export Finance, and reports directly to the President and Chairman of the Bank. And we have institutionalized this structure by having the Board formally approve it. The SBC is composed of representatives from a number of Bank divisions. Other divisions within the Bank, including Congressional Affairs, also participate at meetings.

The goals of 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.

The SBC has already had impact. For example, as a result of SBC-initiated action, Ex-Im Bank is encouraging brokers to more proactively market our short-term insurance policies to small businesses through increased broker commissions. The SBC approved a 25 percent premium discount for Ex-Im Bank short-term multibuyer insurance policies offered to small business exporters that are using the Small Business Administration's international loan programs. Furthermore, in order to make short-term insurance policies more user-friendly for small businesses, the SBC approved several endorsements to short-term insurance policies relative to shipments and delegated authority.

Claims Committee

In addition, we have established a new claims reconsideration procedure and "Claims Committee" consisting of five senior Bank officials. The Claims Committee is responsible for evaluating and reconsidering claims originally denied by the Asset Management Division. I believe these changes are helping all of our customers, but are particularly useful to small businesses, by improving transparency in the claims 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. To strengthen customer education about the reconsideration process, a small-business portal with information pages has been created on Ex-Im Bank's web site.

Technology Upgrades

We are making significant progress 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." Since the Bank's last reauthorization, the Bank has been implementing its online capabilities in stages.

Ex-Im Online

Ex-Im Online, our major business reengineering and automation project, is the latest step. On June 1, small business customers began 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 Bank's annual transaction volume. Customers apply online, get quick decisions and receive online status information.

Ex-Im Online is reengineering, automating and modernizing 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 provides exporters, particularly small businesses, the benefits of electronic application submission, processing and insurance policy management.

Ex-Im Online reduces customers' paperwork, improves the Bank's response time, increases productivity and improves risk management. Ex-Im Online allows 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 reduces review and decision time for short-term transactions.
- **Receive online information on application status.** Applicants receive email notification of the status of their application.
- **Reduce paperwork burden.** Automatic data entry and reuse of existing data permits "enter once—use many times" management of customer information.
- **Manage export accounts receivable online.**
- **Utilize enhanced products.** Ex-Im Bank 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 are also benefits to Ex-Im Bank:

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

When considering Ex-Im Bank support for small business, it is important to note that we are a demand-driven enterprise. We 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. Moreover, I am going to continue to inculcate a culture that strives to meet all of our small business customers' needs through improved processing of small business applications by our small business specialists, the development and implementation of forward-leaning initiatives by the Small Business Committee, the careful consideration of the Claims Committee and further expansion of Ex-Im Online. Ex-Im Bank is going to continue to seek out and listen to small business input concerning our programs, we will communicate with Congress and take your concerns seriously, and our renewed efforts in small business are going to be sustained and further institutionalized.

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. This is the foundation of our economic impact procedures. Decisions on transactions that raise economic impact considerations, however, are the most difficult the Bank must make because it must weigh the interests of one set 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 the new economic impact 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.

Since the new procedures took effect, economic impact issues have arisen in a number of 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, 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 properly vetted and all interested parties have an opportunity to be heard.

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 analysis and expanded participation by other U.S. Government agencies and stakeholders in the process. Yet, 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 industry, and other interested parties.

KEEPING THE COMPETITIVE EDGE IN NEW PRODUCTS AND SPECIAL MARKETS

Women- and Minority-Owned Exporters

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 $363 million, compared to $296 million in fiscal year 2004. In fiscal year 2005, transactions involving women- and minority-owned businesses accounted for over 13 percent of our total small business authorizations and over 20 percent of our working capital guarantee authorizations in dollar terms. Ex-Im Bank staff participated in 57 speaking engagements and attended thirteen conferences expressly aimed at these targeted audiences in fiscal year 2005. We have increased our outreach with the goal of doing even more this year. We are committed to continuing and expanding these efforts.

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. 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 $1.1 billion in environmentally beneficial exports. The Bank's 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 fifteen 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.

FUTURE CHALLENGES

Any testimony about Ex-Im Bank must include a discussion of the challenges the 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 with over the next 5 years.

Developing countries on the upper part of the industrialization scale (e.g. 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 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 are working with both our interagency and G–7 counterparts to better define this rising challenge and determine the best array of measures to successfully address it. 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. 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 JAMES D. McCLASKEY

PRESIDENT AND CEO, MIDREX TECHNOLOGIES, INC.

JUNE 20, 2006

I am Jim McClaskey, President and CEO of Midrex Technologies, Inc., headquartered in Charlotte, North Carolina. I have worked at Midrex for the past 32 years and with me today is Rob Klawonn, Vice President, Commercial, for our company. We sincerely appreciate this opportunity to speak to you today regarding an issue which is critical to the success of our company and the hundreds of small businesses we support in the United States. Specifically, I am directing my remarks to the pending reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). Midrex needs the support of an active and aggressive export credit agency to allow us to compete on a level playing field with our competitors. These competitors in Europe benefit greatly from the aggressive support of export credit agencies such as Hermes and Sache.

Midrex is a small technology company with less than 100 full-time employees. *We are 100 percent dedicated to the Global Iron & Steel Industry and nearly all of our clients are foreign.* This year our revenues will be the highest in our company's history, more than $200 million. How did we achieve revenues of more than $2 million per employee? We rely heavily on the support of hundreds of U.S., and yes, foreign suppliers and manufacturers of industrial electrical and mechanical equipment, specialty fabrications, refractory and much more. We typically sell a technology package of engineering, equipment, materials and services for export, and the pieces come together at our customer's plant site in their home country. Although we do not manufacture anything ourselves, the bulk of our revenues and profits are derived from the supply of goods manufactured right here in the United States. Key supplier relationships have developed over the past 30-plus years in states such as Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Massachusetts, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Utah, West Virginia, Wisconsin, and others. Many of these companies are small businesses. Furthermore, we are the market leader in our segment of the industry with two-thirds market share, and the Midrex Direct Reduction Technology has over 90 percent market share in the Middle-East North Africa region.

In the past, Midrex had received support from Ex-Im Bank, although there were numerous complaints about its lack of speed and efficiency. We had developed support for projects in Mexico, Venezuela, and the Middle East. We had not been in contact with Ex-Im Bank for approximately 5 years, from 1998–2002 due to very poor global market conditions in the iron and steel business. Upon returning to Ex-Im in 2003 asking for support, we were verbally instructed by one business development officer at Ex-Im "don't waste your time" simply because we are associated with the "steel" industry. Unfortunately, we have had to spend thousands of dollars over the past few years educating many in Washington, D.C., about our business and the fit we have in the global steel industry. I'd like to make one thing very clear at this point; the Midrex technology does not produce steel. Our process is used to make a metallic iron raw material that is then used to make steel, much the same way that scrap metal is used.

Saudi Ex-Im Bank Denial: In December 2004, Midrex signed a contract with a client in Saudi Arabia to supply $81 million worth of engineering, equipment and field services. The majority of this revenue is dedicated to U.S. goods and services. The contract is a minor, but critical part of a $1 billion investment being undertaken by our client to increase iron and steelmaking capacity in Saudi Arabia. The metallic iron produced by our technology will be used in adjacent steelmaking operations to produce steel for the Arab Gulf region's fast growth and also for export to their global steel-consuming customers.

In 2005, the Saudi client made its application to Ex-Im Bank for loan guarantees as part of an overall financing effort using combinations of commercial financing and European export credit agency support. It is interesting to note that the lead bank, who was very much aware of the sensitivities associated with Ex-Im Bank and support of foreign Steel producers, recommended that his Saudi client not submit an application to Ex-Im Bank due to the high probability that the application would be denied. The Saudi client, nevertheless, expressed an interest in establishing a relationship with Ex-Im Bank and instructed the financial arranger to complete the application process.

Ex-Im Bank, based upon the negative findings of the economic impact analysis, denied the application a few months ago because the project as a whole will result in the addition of nearly 1.3 million tons/year of hot-rolled coil capacity. On the surface, the system of checks-and-balances on Ex-Im Bank worked. The procedures and guidelines which were put in place as a consequence of the last Ex-Im Bank reauthorization and fall-out of the Bush 201 Trade Sanctions imposed in early 2003 worked as intended.

However, I would like to ask a question: **Did the denial of this application, when all other European ECA's approved their respective portions, protect the U.S. economy?** The answer is a big NO! Did it make some people feel good because we didn't use U.S. Taxpayer dollars to support the project? . . . The answer is YES. But, let's look at the real outcome.

This project is still moving ahead as planned and will become operational in April 2007. So ask yourselves, what did we really accomplish here?

We must admit that hot-rolled coil was being dumped on the global market in the earlier part of this decade—anti-dumping duties and tariffs were imposed on some foreign producers. Many of these producers were selling at or below their cash costs of production. You have heard for years from various sources that there is a glut of steel capacity. However, as we all know, China has entered the picture now and on its own has raised total global crude steelmaking supply and demand by more than 30 percent. Furthermore, tremendous efforts have been made by the likes of Mittal, Nucor, US Steel, Severstal, and other major players to absorb under-performing assets through acquisition and merger. Some inefficient and poorly located assets were simply taken out of operation altogether like Gulf States Steel and Geneva Steel. The threat of state-owned steel companies dumping steel and causing prices to plummet has been diminished, with the exception of China, of course. As for China, the story is a young one. We have been told by many analysts and industry leaders, that China is not a near-term threat due to high iron ore prices (they are expected to import approximately 300 million metric tons of this raw material in 2006 at market prices). Iron ore costs are a major factor in determining production costs. They have other issues facing them as well, such as the high cost for energy, high prices for metallic iron, rising labor costs and labor inefficiencies, infrastructure issues, environmental concerns, currency uncertainties, etc. U.S. steel producers face some of these same issues. Despite this recent explosive growth, China is still a developing nation when considering its low per-capita consumption of steel, and its huge demand for infrastructure development.

Please don't misunderstand me, I don't mean to imply that the domestic U.S. steel industry is now well-protected. This is still, and will always be, a commodity business subject to the ups-and-downs of the global economic cycles and there will be some producers willing to sell at any price. However, I do offer that the future will look much different than the past, because of the huge privatizations which have taken place, putting capacity in the control of market-driven companies. Just look at recent industry gatherings and you'll find many statements by current U.S. steel executives that are positive about the future. An *American Metal Market* article published last month quoted the CEO of Nucor when he said:

> No one predicted that 2004 would do what 2004 did . . . I think we are going to be in a bull market for the next 10 to 15 years. There is something much bigger going on here . . . We are in a place where things will be very positive.

An article titled "Raw Materials: The Sourcing Game" published in *American Metal Market* dated May 15, 2006 was making the argument that *"raw materials remain a key area of concern"* and cited a few steel leaders here in the United States on issues of raw material and logistics issues. The head of Mittal Steel USA was discussing raw materials and North American infrastructure when he was quoted. Here is a key excerpt from the article:

> "They (raw materials) are still very tight," said Louis L. Schorsch, chairman of the AISI and president and chief executive officer of Mittal Steel USA Inc., Chicago. "I don't think there is any bad behavior out there or anything like that, but I think it is clear that the level of investment in raw materials or logistics infrastructure needs to improve . . . investment in raw material capabilities is critical for steel producers. "It is the market at work," he said. "Supplies are tight and demand is high."

Later in the same article the writer goes on to conclude by saying:

> Most observers predict that steel consumption will continue to grow globally for the foreseeable future—putting further strain on raw material supplies not only in North America, but worldwide.

So, back to the question at-hand . . . How does the denial of the Saudi application and others like it protect the U.S. economy? As I said before, the project is still proceeding, the European export credit agencies have no problem supporting it, and now Midrex has a freehand to buy its equipment from global sources, rather than right here at home from American companies. **The denial of the Saudi application by Ex-Im Bank does absolutely nothing to protect U.S. companies and its employees!** To the contrary, I would like to put forward that it will have far-reaching negative effects. The Saudi client is now 100 percent sure that their lead bank was correct: They never should have wasted time pursuing support from Ex-Im Bank. I must also mention that its predisposition to avoid Ex-Im Bank is very common among many of our foreign clients. I would like to read for you a direct quote from our client's banker taken from an email of November, 2004 (*i.e.,* before the application was submitted to Ex-Im Bank).

> I think the way I would describe our position with regard to potential Ex-Im Bank support is that we would much prefer not to have a separate Ex-Im Bank facility and therefore wish to explore all other alternatives first. Hence our desire to understand all possible sourcing options.

Now, let's look at the future for a moment. This same client has intentions to further expand his business. He will give Midrex the opportunity to supply its technology. If export credit is wanted or needed, then our European competitors will have a distinct advantage over us. What do we do? Who do we turn to for support? Remember, if we get the job, many other U.S. companies get business especially if Ex-Im Bank would participate. However, if it does not, then we will look at other alternatives.

Perception is reality, and this view, unfortunately, is shared by many of our prospective clients. Since 2002 and with numerous visits to Washington, D.C., we have learned that it is a widespread opinion shared by many foreign buyers (not only Midrex clients) who believe that approaching Ex-Im Bank is a fruitless endeavor. To be truthful, we are also beginning to feel this way.

Speaking for the thousands of small companies without a voice here today, the assumption that denial of applications actually protects the U.S. economy could not be more wrong. Such decisions deliver a terrible message to foreign buyers considering U.S. offerings. These buyers will proceed with or without the support of a U.S. export credit agency, which means that U.S. offerings are at a competitive disadvantage to foreign companies using their export credit agencies to support clients. Furthermore, American exporters, like Midrex, with the flexibility to buy goods competitively across the globe will quickly find ways to regain that competitiveness. European ECAs, JBIC (the Japanese ECA), and EDC in Canada are all very eager for Midrex to source more equipment from their respective countries and are willing to offer promotional support as well as tremendous flexibility. Given the restrictive nature of the current economic impact analysis guidelines, Midrex, and who knows how many other companies like us, have no other option but to source equipment needs abroad in order to compete when ECA support is desired by our clients. Many, however, have their manufacturing here in the United States and cannot take advantage of foreign supplies and foreign ECAs. Thankfully for us, we can change our sourcing patterns. And, we do have some clients who can arrange financing without the need for ECA support. But there are many prospective Midrex clients who need, and will receive ECA support for their projects.

Picture this as a Headline: **A Ukrainian Export Deal Goes to Japan!:** Let me give you another VERY REAL example. In the Ukraine we now have a client in the process of developing his financing for a 3 million tons per year steel slab-making facility. The order value for Midrex would be approximately $150 million. In light of recent experience, we have already instructed our client to consider other ECA coverage, not Ex-Im Bank. In fact, we will probably be offering Japanese ECA financing. If successful, the result is that we would have to place tens of millions of dollars in orders to Japanese suppliers in order to obtain their financing support. That means that many of our company's loyal U.S. suppliers and manufacturers will not get the opportunity to bid on these items as a result, and Midrex will lose some profit due to the higher costs of Japanese equipment purchases. Is this a good thing? . . . Of course not.

Specific Changes to the rules imposed on Ex-Im Bank have been proposed, and many of them are positive or neutral. Minor changes relating to notification and public comment periods, as well as methods of calculating the value trigger point for initiating an economic impact analysis are not worth debating. Also, specifying that certain companies with a history of dumping should not receive Ex-Im Bank support seems reasonable and we agree with that. However, vague but substantive changes which might encourage unfounded political influence or oversight into the application review process is likely to destroy any appearance of objectivity and possibly be seen by many as an effort designed to grant unchecked influence on specific applications. Not to mention the fact that people may not take the initiative to really look at what is the real impact to the American economy of a negative decision. Could other small American companies get hurt? To what extent? Would anyone even think to check it out? Is it worth it to make some people feel good while the project or projects go ahead anyway? We do not want to see this happen.

Lastly, and perhaps most debatable is the introduction of the definition of "substantially the same product". While on the surface this request seems reasonable, it could easily be used to prohibit very legitimate projects intended to manufacture products which are globally traded and are in high demand and short supply. If you examine the attached flowchart of the Iron & Steel making processes, you will see that the Midrex ironmaking technology is far upstream from any finished steel products. Our technology produces a steelmaking raw material which is in very high demand and short supply. No one could rightfully claim that product made from our technology does harm to U.S. steel interests. To the contrary, increased supply of this metallic iron raw material does everything to help assure U.S. steelmakers of readily available and lower cost metallic iron for their steelmaking efforts.

Numerous Electric Arc Furnace steel producers exist in many of your States. In fact, the States represented by this committee alone have existing Electric Arc Furnace steelmaking capacity which is approximately 25 percent of the total U.S. crude steelmaking capacity, or roughly half of the total U.S. electric furnace steelmaking capacity. Therefore, your own steel producing companies need our technology to flourish in the global market so that they can continue to rely upon plentiful supplies of raw materials at low cost. Unfortunately, our technology cannot be applied here in the United States due to exorbitant energy prices, specifically natural gas—the primary energy source for Midrex plants.

Concluding Remarks: We will conclude our remarks by insisting that foreign companies abiding by WTO trading policies and guidelines, with no history of dumping, should be able to receive the support of a U.S. export credit agency. In fact, we should go out of our way to reward trading partners abiding by WTO rules, while simultaneously promoting the export of U.S. goods and services. This should be the ultimate objective of Ex-Im Bank fully demonstrated by its actions, not just words. The objective of Ex-Im Bank should be to *support* exporters, not to offer itself as a club to *protect* U.S. producers, because when used this way the club strikes only the U.S. exporters and not the foreign producer.

Insisting to place even more stringent rules and guidelines on Ex-Im Bank will simply render the bank useless to us and even more out of reach than it already is to the thousands of small businesses trying to compete globally. And, export-oriented, technology companies like Midrex will find other ways to compete and support our customers, unfortunately to the detriment of many U.S. manufacturers, who otherwise would not have access to these foreign projects.

Lastly and more near and dear to our heart, denial of legitimate applications for Ex-Im Bank support will greatly impact the competitive position of Midrex and hurt many U.S. companies, not to mention undermine the United States' reputation for promoting fair trade. American exporters, including Midrex, ***will*** lose orders and to compensate we will be forced to take business purchases overseas when products could have been made available right here in our country. Over the long-term, continued protectionist actions disguised as medicine to relieve apparent chronic overcapacity in world markets, will significantly weaken the technological dominance of hundreds if not thousands of U.S. companies. Many will close their doors permanently, or already have, and those that survive will do so only by reducing profit levels and changing their business model to procure goods and services from foreign countries which are obviously more supportive of their exporters. All of this debate is supposedly based on the false assumption that denial of support for U.S. exporters actually protects American jobs when it is clearly obvious that the companies most likely to flaunt WTO rules and incur Anti-Dumping/Countervailing Duties would never qualify for the loan guarantee in the first place.

Please look at the attached state-by-state breakdown of our recent purchases. Dozens of suppliers in these states benefit from export business that they otherwise would not have. There are many millions of dollars in purchases to be made in the coming 12 months as a result of new projects as well. How do we explain to these suppliers that, due to our government's failure to promote exports, we have to go across the Pacific or Atlantic Ocean to find an export-oriented government willing to do what is necessary to support us, our clients and its own domestic manufacturers? Do we tell them that our government stood on principle based on the best information available at the time? What kind of explanation would that be? Remember, the projects manage to go ahead anyway so who wins as a result of an Ex-Im Bank denial, and who are the REAL losers here?

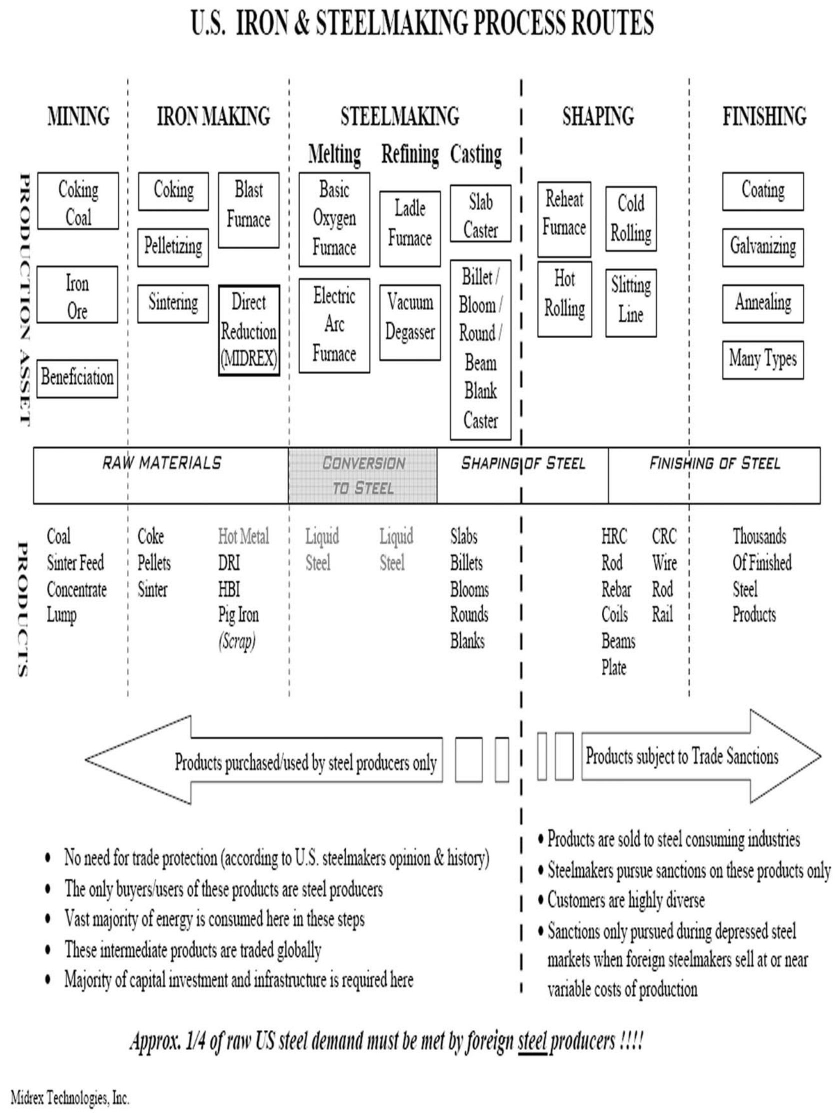
I submit to you that the application of economic impact analyses may theoretically determine the possibility of future economic harm, but the reality is that most investments will move forward with or without the support of Ex-Im Bank. Thus, restricting the Bank and its ability to support exporters during a time when manufacturing in this country is quickly moving abroad and our trade balance is deteriorating, will do nothing to protect U.S. jobs but will only hurt the U.S. economy.

I want to thank each and every one of the distinguished committee members gathered here today for your attention. I am hopeful that this committee will recognize these challenges we face and we ask that you please stand behind small companies like Midrex, promoting job creation rather than job protection, strengthening the United States' reputation rather than weakening it, and understanding that global trade is a very dynamic and ever-changing world in which to compete. Please support us and give us the chance to compete fairly, on a level playing field with foreign competitors by allowing Ex-Im Bank to meet the goals of its charter and allow it to operate freely with prudent oversight and management under the leadership of Mr. Lambright and the many professional and hard-working managers at Ex-Im. ***Do not allow Ex-Im Bank to be used as a protectionist club, because its strike zone does not extend beyond our own borders!***

Thank you.

/s/ JAMES D. McCLASKEY

President & CEO, Midrex Technologies, Inc.


U.S. IRON & STEELMAKING PROCESS ROUTES
MINING
IRON MAKING
STEELMAKING
Melting
Refining
Casting
SHAPING
FINISHING
PRODUCTION ASSET
Coking Coal
Iron Ore
Beneficiation
Coking
Pelletizing
Sintering
Blast Furnace
Direct Reduction (MIDREX)
Basic Oxygen Furnace
Electric Arc Furnace
Ladle Furnace
Vacuum Degasser
Slab Caster
Billet / Bloom / Round / Beam Blank Caster
Reheat Furnace
Hot Rolling
Cold Rolling
Slitting Line
Coating
Galvanizing
Annealing
Many Types
RAW MATERIALS
CONVERSION TO STEEL
SHAPING OF STEEL
FINISHING OF STEEL
PRODUCTS
Coal
Sinter Feed
Concentrate
Lump
Coke
Pellets
Sinter
Hot Metal
DRI
HBI
Pig Iron
(Scrap)
Liquid Steel
Liquid Steel
Slabs
Billets
Blooms
Rounds
Blanks
HRC
Rod
Rebar
Coils
Beams
Plate
CRC
Wire
Rod
Rail
Thousands Of Finished Steel Products
Products purchased/used by steel producers only
Products subject to Trade Sanctions
• No need for trade protection (according to U.S. steelmakers opinion & history)
• The only buyers/users of these products are steel producers
• Vast majority of energy is consumed here in these steps
• These intermediate products are traded globally
• Majority of capital investment and infrastructure is required here
• Products are sold to steel consuming industries
• Steelmakers pursue sanctions on these products only
• Customers are highly diverse
• Sanctions only pursued during depressed steel markets when foreign steelmakers sell at or near variable costs of production
Approx. 1/4 of raw US steel demand must be met by foreign steel producers !!!!
Midrex Technologies, Inc.

MIDREX
AN ISO 9001 CERTIFIED COMPANY

MIDREX®

CLIENT CLASSIFICATIONS

1. **Iron Making Only Client** who sell their product as metallic iron for consumption as a raw material to the global steelmaking community.

2. **Semi-Finished Steelmaker looking to add only ironmaking for self-consumption and/or some merchant ironmaking exports** - i.e. slab/billet producer who does not have ironmaking capabilities and wishes to add just ironmaking for their own needs and even to export the excess iron to the global steelmaking community. Furthermore, the steel product produced by the client is a semi-finished steel (i.e. available to the global steel market and purchased and used only by other steelmakers including U.S. steel producers).

3. **Finished Steelmaker looking to add only ironmaking for self-consumption** - i.e. a steelmaker who produces finished steel products for export to global steel consumers

4. **Semi-Finished Steelmaker looking to add both ironmaking & steelmaking capacity** - i.e. slab/billet producer who wants to establish both ironmaking and steelmaking capacity to make slab/billets. Again, like Type II above, the steel product is a semi-finished steel which is consumed only by other steel producers for re-rolling/finishing.

5. **Finished Steel producer looking to add both ironmaking & steelmaking capacity** - i.e. steelmaker who produces finished steel products for export to global steel consumers.

MIDREX TECHNOLOGIES, INC.
2725 Water Ridge Parkway, Suite 100 • Charlotte • North Carolina, 28217 • USA • Phone: 704-373-1600 • Fax 704-373-1611
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MIDREX Equipment / Material Purchase Order Values
Purchases to-date since January 2005

STATE	PURCHASE ORDER VALUE
ALABAMA	$12,721,934
CALIFORNIA	$73,590
COLORADO	$349,500
CONNECTICUT	$56,006
FLORIDA	$8,037,522
GEORGIA	$2,630,184
ILLINOIS	$865,227
INDIANA	$13,151,728
KENTUCKY	$11,732,981
LOUISIANA	$7,722
MASSACHUSETTS	$262,542
MICHIGAN	$255,471
NEW JERSEY	$623,599
NEW YORK	$510,477
NORTH CAROLINA	$11,015,230
OHIO	$380,225
OKLAHOMA	$100,337
PENNSYLVANIA	$38,787,529
RHODE ISLAND	$18,028
SOUTH CAROLINA	$254,814
TENNESSEE	$62,409
TEXAS	$15,121,206
UTAH	$546,250
VIRGINIA	$94,759
WEST VIRGINIA	$4,048,354
WISCONSIN	$25,080,065
TOTAL	**$146,787,690**

Midrex Technologies, Inc. 6/16/2006

US Electric Arc Furnace (EAF) capacity by state
(per ISS EAF Round-up, May, 2003, with some updates)
Figures are in thousands ('000s) of tons capacity per year

	carbon	foundry, forge, or powder	high alloy, SS or other specialty	totals by state
Alabama	4,820	140		4,960
Arizona	500			500
Arkansas	2,980			2,980
California	750			750
Colorado	1,200			1,200
Delaware	400			400
Florida	600			600
Georgia	850			850
Illinois	1,965	200		2,165
Indiana	6,200	97	123	6,420
Iowa	1,580	38		1,618
Kansas		70		70
Kentucky	1,800	63		1,863
Louisiana	1,365			1,365
Michigan	750			750
Minnesota	600			600
Mississippi	500		10	510
Missouri	960			960
Nebraska	1,000			1,000
New Jersey	1,550	112		1,662
New York	550		50	600
North Carolina	1,450			1,450
Ohio	6,186	235	706	7,127
Oklahoma	600			600
Oregon	1,500		42	1,542
Pennsylvania	2,530	343	2,473	5,346
South Carolina	5,550			5,550
Tennessee	1,125	500		1,625
Texas	4,885	18	196	5,099
Utah	500			500
Virginia	1,910			1,910
Washington	840			840
West Virginia	400			400
Wisconsin	515			515
totals, by steel type	58,911	1,816	3,600	
				GRAND TOTAL 64,327

AMM
AMERICAN METAL MARKET
May 11, 2006

Steel executives share bright view of industry

May-9-2006 6:30PM

By Scott Robertson

BOCA RATON, Fla. -- Most steel industry observers have an upbeat view of the industry, but limit their optimism to what might happen in the remainder of the second quarter. The more optimistic of them might say the fundamentals are in place for continued prosperity for the remainder of 2006.

And then there is Daniel R. DiMicco, vice chairman, president and chief executive officer of Nucor Corp., Charlotte, N.C., who believes that steel's glass is not only half-full, but will stay that way for as long as 15 years.

"No one predicted that '04 would do what '04 did," DiMicco said at the Metals Service Center Institute/American Iron and Steel Institute annual meetings in Boca Raton, Fla. "I think we are going to be in a bull market for the next 10 to 15 years."

DiMicco allowed that the typical steel industry business cycles will remain, but said peaks and valleys will be more level and that down periods would be for shorter durations than in years past. "The cycles will still be there," he said. "But we are entering an age of building and construction that we have not seen since the end of World War II. Today, we don't have the reconstruction that we did at the end of the war. But what we have is the rest of the world starting to grow and building infrastructure."

Many speculate that the boon China has meant to the world steel industry will disappear in 2008-if not before-as much of China's growth is attributed to the country's need to build infrastructure in advance of the 2008 Olympic Games in Beijing. But DiMicco said there is enough going on in other developing countries and in new product development to keep the steel industry strong well beyond the 2008 Games. "There is something much bigger going on here," he said. "We are in a place where things will be very positive."

He pointed to the development of alternate fuels, stating that any new ethanol plant would require anywhere from 160 to 200 new, specialized railcars to be built. "There is going to be more spending on ethanol," he said. "Those cars haven't been built yet."

Others participating in a panel discussion on the future strength of the global steel industry also were optimistic, but many qualified their optimism by noting that any type of cataclysmic event could place the industry in peril.

"I share the optimism," said Bill Jones, president and chief executive officer of O'Neal Steel Inc., a service center in Birmingham, Ala., "but not quite to the exuberant level that Dan has. I'm still wary of the cycles in the business. We are only as good as our customer base. We've got to be aware of what is happening with our customers-we are only as good as that base is strong."

David Sutherland, president and chief executive officer of Ipsco Inc., Lisle, Ill., said his company's presence in the energy markets as a manufacturer of plate and oil country tubular goods bodes well for the near term. "We think the energy part of the business will be active for some time," he said. "The (original equipment manufacturers) we service are predicting a strong performance for a number of quarters to come. Short of a cataclysmic event, this will carry on for at least a few quarters, at least in plate and pipe."

PREPARED STATEMENT OF HARRY G. HAYMAN, III

SENIOR VICE PRESIDENT AND HEAD OF WHOLESALE BANKING,
COMMERCE BANK

JUNE 20, 2006

Introduction

I am pleased to be with you today to discuss reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). I am testifying on behalf of the Bankers' Association for Finance and Trade (BAFT), an organization founded in 1921 by a small group of American bankers from the Midwest. Their purpose in forming the association was to enable its members to exchange opinions on the conduct of foreign business, and to aid in the development and maintenance of foreign trade. Today, BAFT is an affiliate of the American Bankers Association. Most of its U.S. members are active in trade finance and they interact with Ex-Im Bank every business day. I don't have statistics on this, but I believe that BAFT's members account for a significant portion of the dollar volume of Ex-Im Bank transactions each year.

I am a senior officer of Commerce Bank, which has its headquarters in Cherry Hill, New Jersey. Until recently I was a banker with PNC Bank in Philadelphia and I have spent much of my career in the trade finance area. I am the President of BAFT, and I have served as a member of Ex-Im Bank's Advisory Board. I am pleased to be with you today and thank you for giving me the opportunity to speak with you about a subject that is very important to American financial institutions and their exporting clients.

Why We Need Ex-Im Bank

Ex-Im 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. There are many examples of transactions in which the sale of U.S. goods abroad has been made possible by the participation of the Bank. These transactions represent incremental export sales by American companies that support the jobs of American workers and help to reduce our national trade deficit. Surely it is in our national interest to have Ex-Im Bank continue playing its role in promoting American exports.

As you consider reauthorization of the Bank, it is important to remember that American businesses are engaged in fierce competition with foreign companies in the global market. Among the advantages that many of those foreign companies enjoy is 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 weapons in our competitive arsenal—Ex-Im 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 greater trade deficit.

Something that other trade bankers and I have observed in recent years is that the ECAs 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 ECAs, 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 ECAs 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 100 percent locally produced goods. I believe that U.S. companies' efforts to compete in international markets will be impaired if our Ex-Im Bank doesn't take a similarly aggressive approach. (This is not to say that Ex-Im Bank hasn't been aggressive in certain respects in the past, as shown by its 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 Ex-Im Bank to meet the needs of American businesses—large and small—competing in global markets. I also believe Congress should support additional initiatives to coordinate public and private export development resources, which would help address the generally weak export performance of our country.

Issues Related to Ex-Im Bank Operations

I would like to comment on a number of issues related to Ex-Im Bank that concern U.S. banks active in the trade finance business.

Economic Impact

Ex-Im Bank is required by law to consider the extent to which the transactions brought to it are likely to have an adverse effect on industries and employment in the United States. The rationale for this requirement is understandable: taxpayer money should not be used to support a transaction if its benefits for the U.S. economy are outweighed by other, adverse consequences. You should be aware, however, that the economic impact requirement, itself, has an adverse impact on U.S. exports.

Whenever the Bank turns down a transaction on the basis of economic impact, it means the financing support that a purchaser expected won't be made available and the transaction likely won't occur. This adds to a perception in the market that U.S. exporters aren't reliable suppliers. Many exports are sold as a package—the goods, plus bank financing (with an Ex-Im Bank guarantee) to cover the purchase price. If a foreign purchaser has doubts about whether Ex-Im Bank support for the financing of their purchase actually will be made available, the likelihood of the U.S. exporter getting the sale is diminished. Conversely, the likelihood of a producer in another country getting the sale is increased, and so far as we are aware none of the other export credit agencies in other countries are required to make this kind of economic impact assessment.

The magnitude of the sales that are lost due to economic impact assessments that are performed is known, but we don't know how many export sales never are initiated because potential buyers are unwilling to take the chance that the financing they need won't be available. Bankers who are active in trade finance believe the volume of U.S. export sales that don't occur for this reason is significant. That is why we believe that economic impact assessments should only be required in the most compelling cases and we would strongly oppose any steps to expand the application of economic impact assessments to a broader range of transactions or to make those assessments more rigorous.

Small Business

Small business plays an important role in the American economy and we believe that it is appropriate for Ex-Im Bank to make special efforts to ensure that it is meeting the export financing needs of the small business community. In that regard, we would like to commend Chairman Lambright and John McAdams for recent Bank initiatives to increase its support of small business. We are concerned, however, that the small-business requirement imposed on the Bank (it must 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) can create the wrong incentives for the Bank's decisionmaking.

Suppose, for example, 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 a strong reason to delay or not do the transaction in order to stay above 20 percent. That doesn't make sense if the real purpose of 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 reach that target. Neither incentive is a healthy one for the Bank and, for that reason, we would oppose any effort to make the Bank's small business goal more rigorous or demanding.

Tied Aid

Ex-Im 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 on Export Credit Competition (*the *"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 other, similar or related kinds of export support is growing. China, in particular, is among the countries that are mentioned. 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 re-examine 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 changes would be appropriate in order to combat the misuse of tied aid and other forms of export support and to better protect the interests of American exporters.

Cofinancing

Cofinancing is an arrangement whereby exports that are sourced from more than one country can receive credit or credit support from two or more ECAs 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 ECAs.

Bankers that finance these transactions like cofinancing arrangements because they are a straightforward, efficient and convenient way of providing credit support for what otherwise could be much more complicated transactions. As Ex-Im Bank noted in its June *2005 Report to the U.S. Congress,* the "availability and ease of ECA cofinancing has become an important and measurable competitive issue."

According to Ex-Im Bank's web site, it currently has bilateral cofinancing agreements with ECAs in five other countries: Canada, Italy, Japan, The Netherlands, 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 Bank Chairman John Robson reported that the Bank had entered into a bilateral agreement with ECGD of the U.K. and that discussions with EDC of Canada were close to completion. We are disappointed that agreements have been signed with only three other countries in the ensuing 4 years (a 1998 GAO report said there were more than 70 ECAs operating throughout the world; the U.K.'s ECGD has agreements with ECAs in 24 different countries).

Although the Bank has participated in cofinancing arrangements on a one-off basis with ECAs 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 ECAs." We believe that the Bank should take more of these steps and make cofinancing agreements with other ECAs a priority. It would be appropriate for the congressional committees that have jurisdiction over the Bank to monitor its progress in this respect and we suggest that the Bank be required to report to you annually on the cofinancing agreements it has in place and on its efforts to enter into cofinancing agreements with ECAs in other countries.

Dual-Use Products

Ex-Im Bank generally is prohibited from providing credit or credit support in connection with the sale of military 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 non-lethal 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, "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." With this endorsement of the Bank's approach, we think it would be appropriate to make this a permanent provision that does not require periodic renewal.

Conclusion

Ex-Im Bank plays an important role in our nation's economic prosperity by helping American exporters sell their goods and services to purchasers in other countries. The global competition they encounter is intense and many countries have well-funded, effective government agencies that advance the efforts of their exporters by providing them with credit, credit support, and other assistance. We believe Ex-Im Bank generally does a good job helping American exporters meet this competition and at the present time we feel that our association and its member banks—virtually all of which are in the business of financing American exports—have effective channels of communication and a solid working relationship with the Bank.

As Congress acts on the Bank's reauthorization and considers whether it should take additional steps to improve the Bank's operations, it should be aware of the concerns of American banks that work with Ex-Im Bank, which we have addressed in this statement. They include the adverse consequences of economic impact assessment, the need to improve utilization of other provisions that should make the Bank more effective, such as the Tied Aid War Chest; and areas, such as cofinancing, where the Bank itself could do more to fulfill its mission of promoting American exports. We hope that Congress will act promptly to reauthorize the Bank and, in so doing, take steps to make the Bank more effective; Congress should reject proposals that will make it more difficult for the Bank to fulfill its mission.

PREPARED STATEMENT OF DAVID ICKERT

VICE PRESIDENT AND CFO, AIR TRACTOR, INC.

JUNE 20, 2006

Chairman Shelby, Senator Sarbanes, members of the Committee, thank you for inviting me here today. I am David Ickert; Vice President and CFO of Air Tractor, Inc. Air Tractor is a small business that manufactures agricultural and forestry firefighting aircraft. We are located in Olney, Texas (population 3,500) and employ 175 people. Air Tractor has manufactured and delivered over 2,100 aircraft to buyers in more than 20 countries. Over the past 10 years, we have utilized the Export-Import Bank (Ex-Im Bank) financing on about 35 occasions.

I am also here on behalf of the Small Business Exporters Association of the United States (SBEA). SBEA is the nation's oldest and largest trade association representing small- to medium-sized enterprises (SMEs) that export.[1] I am on the Board of SBEA and have served previously as the Board Chair.

SBEA, Air Tractor, and I strongly support the reauthorization of Ex-Im Bank, and we urge Congress to do so expeditiously.

Exports are good for our country.

- Companies that began trading internationally between 1993 and 2001 had about *five times the employment growth* of other companies, a recent study has shown. Companies that stopped trading during this period actually *lost* jobs.[2]
- Export-related jobs also pay more—15–20 percent more, on average, than similar jobs in non-exporting companies, according to Commerce Department statistics.
- Each $1 billion in exports generates an average of over 14,000 of these higher-paying U.S. jobs.

But exports depend critically on financing. In many parts of the world, financial systems are underdeveloped or prohibitively costly. Buyers in these countries who need financing almost always ask sellers to provide them with it.

Thus, exporters in the United States need ready access to:

- loans for their own business expansion to meet foreign demand,
- insurance against foreign buyer default, and
- the ability to provide financing to foreign buyers who require it.

In the United States, as in all other industrial nations, commercial banks are extremely reluctant to accept these foreign risks without government guarantees. This problem is especially acute for SMEs, who typically lack the economic power to get banks and brokers to overcome their hesitancies about this kind of risk.

Thus all major industrial nations have "export credit agencies" to judiciously provide this capital, offer this insurance, and extend these guarantees. Ex-Im Bank is ours. For SME exporters in this country, Ex-Im Bank is not the "bank of last resort." It is the bank of *only* resort.

And not only do smaller exporters need Ex-Im Bank. There are compelling economic reasons for Ex-Im Bank to actively court these companies.

With our country's trade deficits now above $700 billion a year and rising rapidly, Federal agencies like Ex-Im Bank must do all they can to encourage exports. The most promising upside potential for increased exporting is the nation's small and medium-sized business community. Virtually all of the Fortune 1000 companies are active international traders already, but less than 10 percent of the nation's small companies export. With 96 percent of the world's consumers living outside the United States, with global communications rapidly shrinking the world community, and with trade deficits threatening our future economic stability, this disappointing

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

[2] *Importers, Exporters, and Multinationals: A Portrait of Firms in the United States That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, Working Paper 11404, June 2005, pp. 4–5.

overall export performance by smaller companies is something our nation can no longer afford.

Abroad, it is small company *buyers* who often represent best upside potential for U.S. exports. These buyers want to purchase products like water wells or diagnostic equipment for small medical clinics, or the know-how to wire an office building for computers or to build a mile-long road or to access alternative energy. Or perhaps they want to buy a forest fire-fighting plane like Air Tractor sells. As an exporter, I can tell you that "Made In USA" has never lost its tremendous drawing power all over the world.

On paper many American companies sell the products and services that these smaller company buyers overseas want. But it is frequently only *smaller* U.S. companies that truly take an interest in these smaller foreign sales—and can deliver them with the pricing and terms that the foreign buyers want.

If Ex-Im Bank and other parts of the government can help make everything go smoothly on this end, then these smaller foreign sales could collectively deliver tens, and perhaps hundreds, of billions of dollars in new exports. Look at capital equipment. SMEs play a huge role in domestic sales of capital equipment, and do a remarkably good job at capital equipment exports. These are especially valuable exports because they:

- typically utilize parts and sub-assemblies manufactured by a whole array of U.S. companies.
- are usually bundled with service exports like training and after-sale-service.
- help build U.S. product standards and specifications in the buyer's country, paving the way for future export sales.
- offer the biggest and fastest "bang for the buck" in U.S. job creation, and
- in the case of capital equipment exports like medical equipment, construction machinery, road building equipment, food handling equipment and the like, help demonstrate to our neighbors that the United States wants to work with them in improving the health and prosperity of their societies.

If SME capital equipment exports could be increased by just ***10 percent*** of the domestic sales figure, it would add as much as $280 billion to U.S. exports. (See attached tables.)

A national campaign to double the volume of U.S. small business exporting, which is not at all unrealistic, would—by itself—cut the U.S. trade deficit almost in half.

Such an achievement would also spread the benefits of international trade to Main Streets across America, which would go a long way toward addressing the doubts that many people in our country have about trade.

So one of the issues that we encourage Congress to explore fully during Ex-Im Bank's reauthorization is how the Bank's work with small businesses can be improved.

Positive Aspects of the Current Small Business Environment at the Bank

Ex-Im Bank has a good foundation for serving SME exporters. SMEs accounted for over 75 percent of the companies and 89 percent of the dollars that Ex-Im Bank financed through its Working Capital Guarantee Program last year. In the Bank's Export Credit Insurance programs, SMEs were responsible for more than 2,100 transactions valued at about $1.7 billion. About 90 percent of the companies accessing the Bank's short-term insurance products are SMEs.

Ex-Im Bank is also moving forward with its pledge to put more transactions online. This is an especially important innovation for both SME buyers and sellers, because it lowers their *transaction costs,* a critical determinant of whether smaller sales occur.

In recent months, under the strong leadership of its Acting Chairman, Jim Lambright, Ex-Im Bank also has made several administrative changes designed to aid SMEs. The Bank has created a Senior Vice President for Small Business, answering directly to the Chairman, and named a person to occupy the position. It has set up a "Small Business Committee" whose members are drawn from various operating units around the agency. It plans to increase its outreach to SMEs, notably through its Regional Offices, which have been directed to focus on SME business. It has designated certain underwriters to focus exclusively on SME transactions.

For Medium-Term Financing (6 months to 7 years), which is crucial for capital equipment exporting, the Bank has indicated a willingness to delegate more authority to commercial banks, as it has done with other types of transactions. This would help unclog a major Ex-Im Bank bottleneck.

Dialogue with SMEs, (including SBEA), has increased.

All of these are welcome developments.

The critical questions, however, are these:

- Are these changes **sustainable** without further legislative backing?
- And, are they **sufficient** to meet the challenge?

Congress clearly intended for Ex-Im Bank to play an important role in stoking exports by U.S. small business. During the last Ex-Im Bank reauthorization in 2002, the Bank was given a mandate to allocate 20 percent of its financing dollars to small businesses.

Ex-Im Bank has yet to meet that mandate.

Ex-Im Bank was directed by earlier Congresses to designate a member of its Board of Directors to keep the Board apprised of the Bank's SME activities and to serve as an advocate for them.[3]

No Board member has been named to this position since it became vacant in July 2003, nearly 3 years ago.

Moreover, complaints about the Bank have increased among smaller exporters and the commercial banks and brokers who handle their Ex-Im Bank transactions. Some of these complaints have surfaced in Congressional hearings.[4] Others have been expressed privately to Members of Congress. A recent GAO Report identified weaknesses in Ex-Im Bank's internal controls for accurately determining its small business financing,[5] a problem that a more unified small business management structure would be better suited to correct.

Sustainability

Part of the problem at Ex-Im Bank, in our view, is chronic instability in the Bank's management of its overall SME activities. As SBEA testified before the International Trade and Finance Subcommittee of this Committee on March 8 of this year, our analysis indicates that Ex-Im Bank has had at least 15 major changes in its overall SME management since 1997, *or more than one a year, on average.*

During the past 10 years, the point person for SMEs 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 broadly in charge of SMEs. "Business Development" has been included in and excluded from the Bank's small business operation. Currently it is separated into *international* business development, which is excluded, and *domestic* business development, which is included. Ex-Im Bank 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 SMEs 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 Ex-Im Bank's small business transactions; sometimes the person has had no significant recent SME experience. And so on.

So while we genuinely respect the SME initiatives that the Bank, under Jim Lambright, has undertaken during the past 6 months, the Bank's longer history would suggest that these initiatives probably cannot be sustained without further Congressional guidance.

Moreover, even if Mr. Lambright is confirmed soon by the Senate, which we hope happens, his term in office will end in 2½ years, well before the end of the 4–6 year reauthorization that the Bank is likely to get from Congress. So Congress ought to spell out the SME structure and performance that it expects from the Bank over the longer haul.

Sufficiency

If Ex-Im Bank's current SME structure were to be maintained through the next reauthorization, would it be sufficient to meet the challenge?

SBEA doubts it. At present, the Bank's Senior Vice President for Small Business directs only the Bank's outreach to SMEs, not the actual handling of SME customers.

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[3] 12 USC 635(E)(i)(I)(iii–iv).

[4] See, for example, Ex-Im Bank oversight hearings of the House Financial Services Committee on May 4, 2004 and November 11, 2005, and the House Small Business Committee on April 6, 2005.

[5] "Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing", GAO Report 06–351, March 2006.

To ramp up its SME export financing, Ex-Im Bank needs to impose a clear management structure over SME *products, processes, and transactions.*

As worthy as the agency's "outreach" emphasis may be, the new customer prospects won't last long if they encounter cumbersome or inappropriate products and processes inside the Bank. Worse still, customer prospects who find their initial transactions unsatisfactory will probably never return—and will likely complain about the Bank to their peers and colleagues, hurting Ex-Im Bank's overall reputation in the smaller exporter community.

A disconnect between the "sales"/"outreach" people who are promoting Ex-Im Bank to small business, and the Bank personnel actually handling those transactions, seems almost certain to lead to such outcomes—through misinformation, over-promising, and unmet expectations.

Under the current Ex-Im Bank structure, the Senior Vice President for Small Business has the apparent responsibility for small business, but not the corresponding authority. If this "Small Business" Senior VP wishes to improve specific aspects of how SMEs are handled within the Bank, he or she must ask other operating units of the Bank to make those changes or ask the Chairman of the Bank to intervene. Alone, this Senior VP can't compel anyone who's actually handling the SME work flow to do anything.

At the same time, the people who do conduct the actual small business work inside the Bank will continue answering to the heads of various other operating units—who may or may not place an emphasis on successful SME transactions.

If the Bank's SME performance falls below expectations—if, for example, the Bank again fails to meet Congress' 20 percent mandate—all eyes will turn to the Senior VP. Yet the Senior VP will be essentially powerless to offer any remedies beyond "more outreach" or perhaps more requests for the Chairman of the Bank to intervene in assorted problem situations.

Accountability

For its part, Congress will be stymied in conducting oversight by the current SME structure. The real authority over SMEs will continue to be scattered across a half dozen operating units within the Bank. **Accountability will remain elusive.**

What should be done?

Best Practices

One way to think about the small business question at Ex-Im Bank is to look at "best practices" elsewhere that have facilitated smaller companies in international trade.

Over 70 governments around the world actively promote their exports through export credit agencies (ECAs) like Ex-Im Bank, and most of them have carefully analyzed small business exporting.

The ECAs of many of our global competitors have targeted smaller companies as a source of huge and largely untapped exporting potential. Australia, Canada, France, Germany, Spain and Sweden are among the many developed nation examples. China and India are among the emerging nation examples.

These ECAs are assiduously developing export finance products and processes to get their smaller companies into exporting, particularly high-value exporting like capital equipment.

Canada's Export Credit Agency. Consider Canada, which in some ways represents the "best practices" in financing smaller exporters.

Canada's ECA, called Export Development Canada, does differ in some important respects from Ex-Im Bank. It has, for example, a different legal structure and more employees.[6] Still, its numbers are impressive. EDC did business with over 6,200 Canadian small business exporters in 2005. This represents 18 percent of Canada's total SME exporter population of about 34,000 companies. EDC supplied them with over C$15 billion in financing.[7] Canadian SMEs accounted for over 24 percent of all EDC financing dollars.

As good as Ex-Im Bank is, and it is certainly well respected, its numbers pale by comparison. In 2005, the Bank had about 2,500 SME transactions (probably representing about 2,000 SME exporters), or less than 1 percent of the estimated

[6] Also, one of EDC's product lines competes with the Canadian private sector, though this is declining, and EDC underwrites more export sales to the United States than Ex-Im Bank does to Canada. Still, Canadian SMEs used EDC financing to ship to 170 countries.

[7] Source: Export Development Canada, Annual Report 2005, p.2, *www.edc.ca/english/docs/2005_annualreport_e.pdf.*

225,000 SME exporters in the United States. Ex-Im Bank supplied its SME customers with $2.6 billion in financing, or 19 percent of the Bank's overall total.[8]

Thus, despite the fact that the U.S. economy is seven times larger than the Canadian economy, Canada's export credit agency managed to handle ***three times as many*** SME customers and underwrite ***five times as much*** SME business as its U.S. counterpart.

For "best practices" closer to home, consider the Overseas Private Investment Corporation (OPIC). Again, there are obvious differences between OPIC and Ex-Im Bank. But OPIC, if anything, has a much more difficult mandate to achieve. It must foster investments that assist the developing nations, don't cost a single American job, make economic sense on their own, and would not otherwise occur.

If the universe of small companies that want to, or can, export is relatively small—less than 10 percent of U.S. small businesses at present—then the universe of small companies that want to make overseas investments, with these strings attached, is a fraction even of that.

Five years ago, a debate raged inside OPIC about whether to drop all efforts to attract SME customers. In the end, under the strong leadership of Dr. Peter Watson, OPIC went the other way. The agency created a Small Business Office and then a Small and Medium-Sized Enterprise Financing unit. In fiscal year 2001, OPIC handled SME transactions worth about $10 million. Today it is handling about $500 million worth of SME transactions. OPIC is now one of the Federal Government's most striking SME international trade success stories in recent years.

What EDC and OPIC have in common is a single, consolidated Small and Medium-Sized Business unit—with full control over their agency's *SME products, processes and transactions*—and answering directly to the Presidents and the Boards of their respective organizations.

In the private sector, Ex-Im Bank's single most successful small business export financier—GE Capital—also utilizes a focused and consolidated small business financing unit. Indeed, Ex-Im Bank itself has had something approaching this structure at various times in its past. But, as noted, the Bank has had difficulty sustaining any SME management structure for long.

Significantly, EDC, OPIC and GE Capital all give their dedicated SME units enormous praise—and credit—for expanding the scope of their SME successes. They all report that the focused SME structure fosters not only a close familiarity with the "look" and "feel" of SME transactions, but also an "SME culture" within that part of the agency.

It's difficult to imagine the "SME culture" that EDC, OPIC and GE Capital find so valuable emerging under the current circumstances at Ex-Im Bank. SME specialists are assigned to slots in assorted operating units, and the Senior VP for Small Business isn't in charge of any of them. Therefore SBEA makes the following Ex-Im Bank reauthorization recommendations to Congress:

1) Create a dedicated Small- and Medium-Sized Export Financing (SMEF) Division within Ex-Im Bank, headed by the Senior Vice President for Small Business, and reporting directly to Ex-Im Bank Chairman.

2) Give the SMEF Division responsibility for, and authority over, SME products, processes, and transaction and Ex-Im Bank personnel handling them.

3) Allow Ex-Im Bank to allocate such funds as are necessary to operate the SMEF Division successfully.

4) To assure that the SMEF Division has a clear goal from Congress, maintain the current law requirement that the Bank allocate 20 percent of its financing dollars to small business. Should the Bank fail to achieve this mandate in any Fiscal Year, require the submission to Congress of a plan for doing so within the following 30 days, and a follow-up report 60 days later on the implementation of the plan. The plan should at minimum include the reallocation of funds from Ex-Im Bank's administrative budget to the Bank's SMEF Division. As part of any such plan, and to assure that Congress does not have to wait until the end of the next Fiscal Year to observe the results of the plan, the Bank should be required to submit quarterly, rather than annual, reports to Congress on the small business percentage of Ex-Im Bank financing.

5) To aid Ex-Im Bank in its willingness to improve medium-term financing, give the Bank Congressional authorization to delegate medium-term financing authority to commercial banks, subject to final Ex-Im Bank approval on each transaction, as with the delegated authority that Ex-Im Bank makes available for other types of transactions.

[8] Source: Export-Import Bank of the United States, 2005 Annual Report, p. 18, *www.exim.gov/about/reports/ar/ar2005/2005Glance.pdf.*

SBEA is aware of Ex-Im Bank's concerns about our proposals, particularly the proposed SMEF Division.

We would note that:

- The transition to the new structure need not be abrupt. To minimize disruptions, the Bank could shift one product line at a time, or even one underwriter at a time, into the new structure. And frankly, modest disruptions within underachieving units, in the interest of improved long-term effectiveness, would seem to be an acceptable tradeoff.
- SBEA is fully prepared to meet with Ex-Im Bank's Congressional appropriators, as we have done in the past, to advocate that the Bank be given the funds it needs to carry out the transition and the SME work flow.
- Concerns about any internal "conflicts of interest" can be addressed. While EDC, OPIC, and GE Capital do not seem to feel that having both underwriters and business development specialists in the same unit constitutes such a "conflict of interest," if Ex-Im Bank feels strongly about this, the two functions can be separated. The best approach would be to delegate outreach to the commercial banks that utilize Ex-Im Bank's products, in much the same way that SBA uses commercial banks to promote SBA lending. This would at least assure that institutions with a powerful interest in seeing transactions completed and customers return—namely the commercial banks—are handling the "sales pitches." Alternatively, outreach could be assigned to the Bank's communications office. What's vital, however, is to maintain SMEF Division's responsibility over—and accountability for—the Bank's core SME products, processes, and transactions.
- There is precedence at the Bank for a more unified approach to customers. Not only has Ex-Im Bank done so with small businesses at various times in the past, but the Bank's Transportation Division—which includes underwriters—is premised on just such a customer focus.

SBEA is very grateful for the sympathetic hearing that members of the House and Senate, as well as their staffs, have given to our views. The sincerity of Congress' interest in expanding U.S. exports, especially exports by smaller companies, has been heartening to us.

We believe that both the House and the Senate are off to a good start toward getting Ex-Im Bank's charter renewed well before the current one expires.

We look forward to working with Ex-Im Bank and both chambers of Congress on the legislation.

That concludes my remarks. I will be happy to accept any questions at this time.

CHART 1

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 2

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 services	$1.0	$ 0.785	78%
54151	Computer systems design and related services	$181.8	$93.0	51%
5416	Mgmt, scientific & technical consulting svcs	$130.8	$74.3	57%
5418	Advertising and related services	$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%

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

(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 ROBERT E. SCOTT, Ph.D.

DIRECTOR OF INTERNATIONAL PROGRAMS, ECONOMIC POLICY INSTITUTE

JUNE 20, 2006

Mr. Chairman, Senator Sarbanes, and members of the Committee, my name is Robert Scott and I am a senior international economist for the Economic Policy Institute. Thank you for inviting me here today to testify on the economic impact procedures of the Export-Import Bank (Ex-Im Bank). I recognize the important role played by the bank in providing export financing in cases where such financing is unavailable to foreign purchasers in commercial markets, or where U.S. firms are competing for contracts with suppliers from other countries who have access to below-market financing from their home-country governments.

My remarks today are concerned with two issues. First, whether Ex-Im Bank is living up to its obligations under existing law to use economic impact analysis for certain transactions where the provision of Ex-Im Bank financing could cause substantial injury to domestic producers. My conclusion is that the bank is not fully meeting its obligation under existing law to carry out economic impact analyses and utilize that information in its decisionmaking processes.

Second, the bank's criteria for conducting economic impact analyses should be expanded and its procedures improved. First, the bank should expand its definition of industries covered within the scope of "substantially the same industry." Second, the bank's policy of only conducting economic impact assessments in cases involving the export of capital goods that will be used to expand production capacity is excessively narrow. The bank should also do economic impact assessments for other goods export contracts that include agreements to transfer production technology or formal or informal "offset agreements" to transfer production of related or unrelated products abroad, or to serve as a marketing agent for foreign suppliers in the United States in exchange for export sales of goods of any type. Finally, the bank should improve the openness and transparency of its economic impact analysis process. Congress should also require the bank to conduct formal reviews of the aggregated impacts of its financing of exports of both capital equipment and contracts involving offset agreements on particular industries, and to adopt an adjudicatory process for such reviews that would be modeled on anti-dumping and subsidy case hearings before the U.S. International Trade Commission.

Ex-Im Bank's interpretation of existing requirements for conducting economic impact analyses

In fiscal year 2005 the bank provided financing for 3,128 projects.[1] The bank issued only six economic analysis notices covering only 0.2 percent of the transactions financed in fiscal year 2005.[2] Furthermore, there is not a single reference to or discussion of any of the bank's economic impact analyses in its 2005 annual report. Given the unprecedented size of the U.S. trade deficit, which reached $717 billion in 2005,[3] and congressional concern with the economic impact issue it is surprising that the bank has provided so little public information on its economic impact analyses, or the results of those investigations.

The bank has also taken an excessively narrow interpretation of industries that could be affected by its export financing. In a case described at the subcommittee hearing on March 29. Testimony by, Steven R. Appleton of Micron Technology, Inc., about a case in which Ex-Im Bank entertained a proposal to provide financing for a Chinese firm, the Semiconductor Manufacturing International Company (SMIC) to purchase a "pure-play" foundry that could be used to manufacture DRAM memory chips, and also NAND flash memory chips.[4] The DRAM market is subject to chronic over-capacity and boom-bust cycles. Furthermore, Micron was able to demonstrate that the SMIC had excellent access to domestic and international capital markets. Hence, there was no evidence that this transaction involved a purchaser with inadequate access to private financing, nor was there a competing offer from another vendor with access to below-market credit from another country. This case should never have been considered by the bank. Yet Micron was forced to go to con-

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[1] Export-Import Bank of the United States, "Annual Report 2005", p. 18, *http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf.*

[2] Export-Import Bank of the United States, "Economic Impact Notices," *http://www.exim.gov/products/policies/noticeindex.html.*

[3] Census Bureau, "FT 900: U.S. Trade in Goods and Services", April 2006, *http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf.*

[4] Statement of Steven R. Appleton before the Subcommittee on International Trade and Finance of the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate, March 29, 2006, p. 3.

siderable expense to intervene and testify before Ex-Im Bank's Board in this case. Although this particular contract never came to a vote before the Board, it illustrates that the bank is failing to use economic impact analysis in the way it was intended by the Congress.

Expanding the scope of and requirements for economic impact assessments by Ex-Im Bank

Congress should expand the scope of Ex-Im Bank contracts requiring economic impact assessments in at least three areas.

1. **The bank should expand and much more liberally interpret the definition of "substantially the same product."** Testimony at the subcommittee hearing in March provided referred to two clear examples where this definition should be much broader. In the SMIC case, the applicant alleged that the primary purpose for purchasing the "pure-play" foundry was to make NAND chips. However, since the same equipment could be used to make DRAM, the Bank should have also considered scenarios in which the plant could be used to make DRAM. Given the propensity of Chinese producers to flood the United States with exports of all varieties of computer and electronic products, this possibility should have been taken seriously by Bank staff in their analysis of the proposal.

The steel industry is another sector where the bank should rarely, if ever, finance the expansion of production capacity for basic steel products. Basic steel is a highly fungible product. I have served as an expert witness for domestic producers of steel products, including steel pipe, plate, and flat-rolled products, in numerous antidumping and countervailing duty cases at the U.S. International Trade Commission over the past 15 years. The global steel industry has suffered from a capacity glut for decades, as noted by Thomas M. Sneeringer of U.S. Steel Corporation in his testimony before the Subcommittee on International Trade and Finance on March 29. The United States and other governments have been attempting to negotiate a multi-lateral agreement to restructure the industry and limit excess capacity for more than a decade. Yet producers in Asia, Latin America, and other areas have announced plans for massive steel capacity additions over the next decade. In particular, the industries in India and China, working with government support, plan to double and triple their basic steel-making capacity in this period.

There are anti-dumping orders in place covering the import of steel plate, reinforcing bars and hot-rolled sheet from China.[5] Hot-rolled sheet made in China sells for at least $300 per ton less than in the United States owing to the market distortions in place there. Since China cannot directly export this product to the United States, Chinese producers have begun to produce and export massive quantities of steel pipe, which is not now subject to antidumping orders, to the United States. The vast bulk of the production cost of steel pipe is for hot-rolled plate. Hence, exports of steel pipe to the United States simply embody illegally dumped and subsidized steel plate.[6] To reiterate, Ex-Im Bank should simply not finance the export of any steelmaking equipment to China, or other countries presently subject to antidumping orders of any basic steel product.

2. **The bank should expand its economic impact assessments' scope to include goods other that production equipment for which exporters have reached formal or informal agreements with purchasers or their respective home-country governments to "offset" part or all of the value of the export sale with any concession that could affect production in the United States.** Such agreements are especially common in the U.S. aerospace industry. They have included agreements to transfer production of components to foreign countries, transfer technology for producing like or unrelated products to producers in the importer's country, or to market related or unrelated exports from that country in the United States. Private firms and public agencies in China have frequently required U.S. aerospace exporters to make offset agreements in exchange for export sales. Such agreements are also extremely common in defense products industries, and many governments explicitly require such offset concessions and maintain public offices for registering and monitoring offset agreements. In aerospace alone, increased competition from foreign producers and offset agreements could displace up to 250,000 workers from jobs in aerospace and related industries between 1994 and

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[5] U.S. International Trade Commission, "Antidumping and Countervailing Duty Orders in Place as of May 3, 2006, by Country", *http://info.usitc.gov/oinv/sunset.nsf/269dca91a05d2d878525663c006a6ac3/96daf5a6c0c5290985256a0a004dee7d/$FILE/orders-ctry-tbl.pdf.*

[6] The U.S. International Trade Commission recently found in a recent "421 investigation" that U.S. producers had been injured by a surge of imports of steel pipe from China. "CIRCULAR WELDED NON-ALLOY STEEL PIPE FROM CHINA" Investigation No. TA–421–6 (Publication 3807; October 2005).

2013.[7] Domestic firms applying for Ex-Im Bank financing should be required to disclose such agreements to the bank. Disclosure of such agreements should automatically trigger an economic impact analysis to assess the impact of those agreements on domestic firms, workers, and communities.

3. **Finally, the Bank should improve the openness and transparency of its economic impact analysis process.** The Bank should issue written reports summarizing the findings and decisions made in all of its economic impact analyses. These reports should not disclose confidential, business proprietary information provided by applicants. Their publication would better inform the Congress and affected communities of the Bank's actions and the factors considered in its decision-making process. In addition, the 14-day window for comments on economic impact notices should be expanded to 30 days.

Congress should also require the Bank to conduct formal *ex-poste* reviews of the aggregate economic impacts of its financing of exports of both capital equipment and contracts involving offset agreements, and that it should adopt an adjudicatory process for such reviews that would be modeled on antidumping and subsidy case procedures at the U.S. International Trade Commission. This procedure should provide an opportunity for representatives of exporters and affected domestic parties to assess and comment on both the public and business propriety aspects of the contracts being financed by the Bank in particular sectors. The Bank should give all parties involved aggregated, *ex-poste* reviews of transactions in an industry due time to review available data, file pre-hearing briefs, testify to the Bank's Board and file post-hearing briefs. At the completion of this process, the Bank's Board should review and, as needed, revise criteria for making loans for exports in that sector and release a public report outlining the reasons for its findings and summarizing the public data from the cases reviewed. The Board should have the option to reject all applications for financing exports of products related to import-sensitive industries, as well as contracts that unduly damage the competitiveness of U.S. producers of related or unrelated products.

In conclusion, while Ex-Im Bank plays a critical role in supporting U.S. export sales, it also needs to give greater attention and weight to the possible negative impacts on domestic producers of some of the contracts that it is supporting.

Thank you for your interest. I'd be happy to answer any questions.

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[7] Barber, Randy and Robert E. Scott, Jobs on the wing: Trading away the future of the U.S. aerospace industry, Washington, D.C.: The Economic Policy Institute, 1995. p. 2, *http://www.epi.org/content.cfm/studies_jobsonthewing.*

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM CLAY LOWERY

Q.1. Please explain the process used to evaluate tied aid applications, under the terms of the arrangements agreed to between the Department of the Treasury and the Export-Import Bank

A.1. Treasury and Ex-Im Bank follow the Tied Aid Principles and Procedures that were agreed between the two agencies in 2001.

The ***principles*** state that the United States: (1) will not initiate tied aid; (2) will use tied aid selectively and purposefully; (3) will use tied aid for negotiating objectives, including helping to create a level playing field for all U.S. exporters at minimal cost to U.S. taxpayers; (4) will use tied aid to counter any instances of untied aid that appear to be *de facto* tied; and (5) will use tied aid in situations that could create a long-run trade advantage for foreign exporters, or form a threat to long-run U.S. market access. The ***principles*** also state that credible evidence of a foreign tied aid offer is needed, as well as specific information on financing terms, before a U.S. tied aid matching offer can be made. Without this, the United States could inadvertently ***initiate*** tied aid.

Factors that are weighed in deciding whether to match foreign tied aid include: the cost and concessionality level of the transaction; whether the matching is likely to displace the foreign offer; whether the recipient country is a market already spoiled with tied aid, or is a dynamic developing market; whether a small business exporter or environmentally beneficial equipment is involved in the proposed transaction; and any particular patterns of tied aid use by the donor.

Similarly, the tied aid ***procedures*** establish: (1) specific time frames within which information will be shared between the two agencies; (2) how long agencies have to review information (including the final Board document); (3) how long agencies have to make both preliminary and final decisions; (4) steps to request additional review time, if needed; (5) how long agencies have to provide written comments on the transaction; and (6) what steps will be taken in the event of a disagreement between the two agencies at various levels within each agency, including at the most senior level.

The final step in the procedures, which was added during Ex-Im Bank's 2002 reauthorization, mandates referral of the transaction to the President if the Secretary of the Treasury does not agree with the Ex-Im Bank Chairman. However, Treasury and Ex-Im Bank have yet to disagree on War Chest use since the 2001 principles and procedures were put in place.

Q.2. The 2002 legislation reauthorizing the Charter of the Export-Import Bank attempted to end the dispute about control of the Tied Aid War Chest by giving the Department of the Treasury and the Bank a joint role in formulating principles, a process, and standards for the use of tied aid, but also stating that “the final case-by-case decisions on the use of the Tied Aid Credit Fund shall be made by the Bank.” Please explain, step-by-step, citing the provisions of the agreements between the Treasury and the Bank, how the processes used by Treasury and the Bank satisfy the terms of the legislation.

A.2. As described in the answer to Question 1, Ex-Im Bank and Treasury jointly prepared the Tied Aid Principles and Procedures that were agreed to in 2001. The late Chairman John Robson, then-Chairman of Ex-Im Bank and then-Under Secretary of the Treasury John Taylor jointly agreed to this document. Therefore, a "joint role" in formulating *principles,* a *process,* and *standards* for the use of tied aid has been assumed by each agency.

While the specific procedures outlined in the 2001 document are fairly detailed (see question 1), the bulk of the step-by-step procedures focus on how Treasury and Ex-Im Bank will consult with each other on tied aid cases and identify the steps that are required if there is a disagreement between the two agencies.

Although there is consultation at all levels, prior to a decision on tied aid, we believe that Ex-Im Bank makes the final determination. As called for in the statute, it is the responsibility of Treasury to raise this issue to the President in the event that Treasury disagrees with Ex-Im Bank's final determination. We take the requirements of the statute seriously and understand that the burden of proof in such a circumstance is clearly on Treasury to show that Ex-Im Bank's determination—whether supporting or opposing tied aid use—should be overturned. The current Ex-Im Bank/Treasury tied aid principles and procedures are working well, however, and have not produced a single disagreement between the two agencies with regard to any final determination on tied aid.

Q.3. Does the Department of the Treasury oppose the use of tied aid in cases that involve competition with exporters financed by export credit agencies of countries that are not part of the OECD?

A.3. No. Treasury supports the use of tied aid in cases of competition from export credit agencies of non-OECD member countries.

Treasury uses the same underlying market-based principles behind the OECD Arrangement to evaluate non-OECD members' tied aid offers, with the goal of ensuring a level playing field for all U.S. exporters. Treasury fully supports matching non-OECD-member countries if their financing violates accepted international financing rules. Even if a non-OECD-member's financing offer is consistent with these rules, Treasury supports matching a foreign offer that impacts a U.S. exporter's ability to compete effectively in that market.

It could be more difficult to get information about a non-OECD member's tied aid offer, such as the financing terms necessary to create a matching offer. The U.S. exporter may not have complete information, and non-OECD members have no obligation to provide such information when they are asked for it. Therefore, we would have to look at each case on its merits. However, if we learn of a foreign tied aid offer and the donor government does not cooperate when we seek information, we would likely recommend taking an aggressive matching posture as a matter of principle.

Q.4. Your testimony emphasizes that the Department of the Treasury must exercise control over the use of tied aid by the Export-Import Bank to facilitate Treasury's responsibility at the OECD. In what other countries do the national finance ministries control use of tied aid by export credit agencies in this fashion?

A.4. There are twenty-four* other governments that formally participate in the OECD Arrangement on Officially-Supported Export Credits. Not all of those governments provide tied aid. However, of the OECD countries that do, none of them allows the export credit agency alone to decide when to use tied aid. In all of these countries, the export credit agency's "guardian" authority—which is usually the finance ministry, or the aid ministry, or perhaps an inter-ministerial committee—has to approve the use of concessional financing. The reasons typically given for this procedure are to ensure the government properly appraises the feasibility, priority, and developmental effects of the project, as well as the recipient country's credit worthiness, and to ensure that the project complies with the OECD Arrangement.

RESPONSE TO A WRITTEN QUESTION OF SENATOR BAYH FROM JAMES D. McCLASKEY

Q.1. Mr. McClaskey, in your testimony on June 20, 2006, you cited the failure of Ex-Im Bank to approve a recent application by Midrex for support of a sale of Midrex products to a Saudi Arabian steel facility as an example of problems your company had experienced with the Bank. However, earlier this Spring, it was represented by Midrex officials that Midrex had withdrawn its support for this very same application and denied that it was supporting the application only two days before the application was to be taken up by the Bank's Board. If, as the U.S. exporter that would have benefited from the Bank's approval of the application, Midrex withdrew its support, it is unclear to me how the company could present this as an example of a failure of the Bank's processes. Could you please provide an explanation of how the Bank process failed if the U.S. exporter did not support the application? If the company did not withdraw its support for the application, why did the company represent otherwise?

A.1. I appreciate the opportunity to respond to your question. First, it is important to clarify for the record that Midrex Technologies never filed an application on behalf of its client in Saudi Arabia (Hadeed). Rather, it was ANZ Investment Bank, London, which is/was the applicant of record. Second, Midrex Technologies, Inc. *never said* that the Ex-Im Bank process failed. To the contrary, we stated that the process worked. Assuming the "process" to which you make reference is the economic impact analysis (EIA), it is our position that the "process" functioned as designed because it determined that the Hadeed project would result in additional (foreign produced) steel capacity which is expected to be in oversupply. Pursuant to current EIA guidelines, the denial of the application was made. I am confident a second, more thorough reading of my testimony will substantiate that I do not suggest the process failed. Rather, I challenge the presumption that the EIA and its attendant outcome (*vis-a-vis* Hadeed) actually protected the American economy. I say this because the project enjoys strong European ECA support which requires the sourcing of critical equipment from

*Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, Spain, Sweden, Switzerland, United Kingdom.

abroad. All the EIA process accomplished was to pit one American worker against another. Neither worker benefits from this result because (1) the Ex-Im Bank denial did nothing to protect the U.S. producer because the project is proceeding and will ultimately produce the product expected to be in oversupply—thus injuring that segment of the U.S. market which the EIA was trying to protect, and (2) the U.S. exporter, while successful to get the order without Ex-Im support, has the option to procure from global sources and will likely do so—thus injuring American manufacturers with loss of export opportunities.

It is also very interesting to note that this is not the first time this question has been posed to us, and in fact, the same question was posed to us by a representative of US Steel at the committee hearing break. He raised this very same challenge directly to Midrex during the break at the hearing and unfortunately, we didn't have time to refute his remarks since the committee was reconvening. The fundamental basis of this challenge, if you refer to the written testimony, is incorrect and we really didn't appreciate his pointed remarks.

1. In summary, Midrex Technologies, Inc. *made no* application to Ex-Im Bank on behalf of Hadeed. Rather as previously herein noted it was ANZ Investment Bank which made the application on behalf of our Saudi client (SABIC/Hadeed); Midrex Technologies Inc. never even received a copy of the application.

2. You will see after a second, more thorough reading of my testimony in its entirety that the ANZ Bank application for the Saudi Project was only used as a means of leading up to our real point, which unfortunately, I didn't get to make. Specifically, what needs study by you and others is the Economic Impact Assessment since it is being used solely as a "protectionist tool" for one segment of the U. S. economy while injuring other segments. The purpose of Ex-Im Bank should be to *support all exporters.* There are other government agencies whose mandate is to protect the U.S. Economy and U.S. producers when the need is legitimate.

3. Midrex Technologies, Inc. recommended on several occasions to ANZ Investment Bank that they withdraw the application because we were told by Ex-Im officials that the application stood little chance of being approved, but the client decided to pursue it nevertheless because of the desire to establish a relationship with Ex-Im Bank, which would result in future U.S. exports. Please refer to the emails below as reference to clearly show our position. **Note: Midrex *never* changed its position and I suggest if you or anyone else on the committee has any more questions concerning our position, we meet face-to-face to set the record straight.**

4. Just for general information, we tried on at least two occasions since the committee hearing to ask the Steel Lobby members to meet with us so we could explain ourselves and to this date, they have not yet responded to our offer.

5. In closing and perhaps most important, more stringent economic impact requirements will only serve to injure our key American suppliers—companies such as Dresser Industries, Roots Division in Connersville, Indiana, which is one of our biggest suppliers. When you protect one segment of the U.S. economy at the expense

of another—my question to you, Senator Bayh—must it always be to the detriment of the thousands of American small businesses which can't afford the high-priced lobbyist who seem to be so influential in today's Washington, D.C.? One final comment for clarity, Midrex is in communication with other ECAs: the result, we will (unfortunately) source millions of dollars outside the United States simply because our own ECA is of absolutely no benefit to us in cases involving neutral or negative EIA findings. Perhaps you should change the EIA concept to one of achieving the least amount of harm to the U.S. economy, because, in our opinion, the current EIA concept only seems to result in the most harm.

Reference: Email Communication:

08/Aug/05 —W. Trotter (Midrex) to J. Miller (V.P. at Ex-Im Bank)

Jeffrey:

I spoke today with Simon Lee (ANZ) regarding the Hadeed application. I suggested in view of the stringent opposition from AISI as well as US Steel, it would be better if ANZ would consider withdrawing the application. I told Simon it is my considered opinion the application stands no chance of obtaining Board approval (again, my opinion only). Simon would like to discuss this a bit more in detail with Ex-Im and I suggested he contact you in Barbara's absence. I believe she is on vacation until August 22.

Please contact me should you need additional information.

Regards,

Wayne Trotter

12/Oct/05—Simon Lee (ANZ) to B. Marcum (Ex-Im Bank)

Bob:

As discussed earlier, Hadeed have now reverted to us and they have decided that they do not wish us to withdraw the application; instead they wish the application to proceed such that a formal decision is made and communicated by U.S. Ex-Im. Obviously they are hopeful that the application will ultimately be approved, but they recognise that this may be unlikely.

I would be grateful therefore if you would now take the application forward. It would be helpful if you could let me know the likely time scale as to when it will go to the U.S. Ex-Im Board.

Apologies that it has taken some while to revert on this issue but this was due to a combination of the end of the long summer break in Saudi and subsequent travel commitments.

Please let me know if there is any further information or any other assistance we can provide at this stage.

Regards,

Simon