REAUTHORIZATION OF THE EXPORT-IMPORT BANK

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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WITNESSES

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APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

REAUTHORIZATION OF THE EXPORT-IMPORT BANK

WEDNESDAY, MAY 2, 2001

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

The subcommittee met, pursuant to call, at 2:10 p.m., in room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee], presiding.

Present: Chairman Bereuter; Representatives Oxley, Ose, Green, Shays, Miller, Capito, Ferguson, Sanders, Waters, Frank, Watt, Sherman, C. Maloney of New York, Schakowsky, and Bentsen.

Mr. OXLEY. [Presiding.] The hearing will please come to order. Obviously, I am not Mr. Bereuter. Mr. Bereuter has been delayed in another committee, and the Vice Chairman is also delayed on the floor. So I am either in the right place at the wrong time or the wrong place at the right time. Whatever it may be, we didn't want to keep our distinguished panel waiting. To that end, the Chair would recognize himself for a brief opening statement.

I want to thank Mr. Bereuter for holding this hearing on the reauthorization of the Export-Import Bank. The Administration is expected to send up legislation renewing the Bank's charter beyond its current expiration date of September 30, 2001, soon. I support the reauthorization of Ex-Im Bank, and I look forward to working with the Administration, subcommittee Chairman Bereuter and others, and speedy committee consideration of reauthorization legislation.

My support for the Ex-Im Bank stems from the fact that it has been an important tool for increasing trade and providing U.S. exporters access to markets that they would otherwise not be able to reach. With the backing of the full faith and credit of the United States, Ex-Im Bank has initiated thousands of transactions in foreign markets that commercial banks deem too risky to enter. The result is that U.S. businesses export more goods and develop new and stronger trading relationships abroad.

In my home State of Ohio, Ex-Im Bank has authorized transactions to over 420 businesses valued at more than $1.1 billion since 1994. In my district alone, in the Fourth Congressional District, Ex-Im Bank has worked with 10 different small businesses, enabling them to reach markets they would not normally be able to reach. Over $62 million in exports have been financed through Ex-Im Bank in my district over the past 6 years.

In a perfect marketplace, there would be no need for export credit agencies; however, the realities of today's international trading system demand that Ex-Im Bank operate aggressively to support the sale of U.S. products abroad. Every major actor in international trade utilizes an export credit agency similar to the Ex-Im Bank to support its trade initiatives. Without Ex-Im Bank, U.S. companies would be forced to compete against foreign firms who are receiving assistance from their export credit agencies.

In discussing exports, most people focus on large corporate transactions and tend to overlook the importance of small businesses in the international trade equation. In 1997, Congress mandated that Ex-Im Bank expand its outreach to small businesses and work to facilitate more transactions among these exporters. In fiscal year 2000, Ex-Im Bank approved 2,176 small business transactions, an increase of over 13 percent from the previous fiscal year. Further, financing and support of small businesses increased by nearly 10 percent in fiscal year 2000 to $2.3 billion.

This improvement in small business export activities is an encouraging sign that Ex-Im Bank has been successful in helping small businesses access overseas markets. I commend them on this progress and hope that they continue to bring more small businesses into the international trade arena.

As we begin the review of Ex-Im Bank, I look forward to hearing how we can improve the Bank in order to ensure that it has the resources to compete in the modern international trade environment.

Mr. Chairman, I would like to thank you for your leadership in reviewing this important program. I yield back the balance of my time, and I also yield the chair to the distinguished Chairman of the subcommittee, Mr. Bereuter.

[The prepared statement of Hon. Michael G. Oxley can be found on page 82 in the appendix.]

Chairman BEREUTER. [Presiding.] Well, thank you, Mr. Chairman. I couldn't have had a better person to fill in to start the subcommittee hearing.

I apologize for being late. We are holding a markup in International Relations, and there was an amendment which zeroed out the Asia Foundation I wanted to oppose.

But I am pleased today that we are beginning open session hearing to receive testimony on the reauthorization of the Export-Import Bank, Ex-Im Bank. The Ex-Im Bank was last reauthorized in 1997 for a 4-year term that will expire on September 30 of this year. As the subcommittee with jurisdiction over the Ex-Im Bank, this hearing is the first step in an important reauthorization process. So today we are hearing from representatives of the Export-Import Bank.

I would remind my colleagues here on the subcommittee that on May 8 representatives of the private sector, including NGOs, will testify regarding the Export-Import Bank. We will have critics and we will have supporters at that time. I also want to mention to my colleagues that you probably have noticed, as I have, the recent decisions coming out of the annual meeting of the IMF and the World Bank here in the Nation's capital, and they have important implications for our responsibilities on the international financial institutions, those two in particular. A number of things they are proposing on Africa, for example, are a major departure from the existing practice, and I know Members of the subcommittee will welcome a hearing soon on that subject, and it is my intention to proceed with that.

Now, back to the Export-Import Bank. Because of Chairman Oxley's comments, I will abbreviate some of my remarks and provide all of them for the record. But I think it is important to reiterate what the Chairman has mentioned with respect to two mandates that were a part of the 1997 authorization act.

The first one from Congress was to expand the participation of small and rural businesses. We will be particularly interested in hearing from the Export-Import Bank witnesses before us today how well they have done, what problems they have run into in that respect. My understanding is that for fiscal year 2000, the Ex-Im Bank invested approximately 18 percent of its lending activity in small business. Now, that may not sound like a great deal, but it is an increase, and I believe the number of transactions involving small businesses was actually 86 percent, so a very large percentage of your activities, your transactions were focused in that area.

Second, as a mandate, we asked for an expansion of the Export-Import Bank's financial commitments to Sub-Saharan Africa. In that 1997 language, we established an advisory committee to make recommendations to the Board of Directors on how the Export-Import Bank can facilitate greater support for trade with Africa. As a response to this mandate, the Export-Import Bank created an internal African task force to coordinate its activities in Africa. Since that 1997 mandate, my understanding is that the Export-Import Bank has increased their activities and the number of exports involving the Export-Import Bank has increased dramatically. But we started from a low base. In 1998, the Export-Import Bank invested $16 million of exports to Sub-Saharan Africa, in 1999 that increased to $589 million, and in 2000 it is expected to have reached $914 million. Did I say $589 thousand? I should have said $589 million. In particular, I am interested in seeing how the Ex-Im Bank can continue to increase its investment in Africa, and I am sure Members have that same interest in light of our mandate.

Third, any hearing on the Export-Import Bank this year must consider the fact that the Administration has proposed a 25 percent reduction in Ex-Im Bank funding for fiscal year 2002. It is important to note, I believe, that the Export-Import Bank's budget includes the following two components: program budget and administrative budget. The program budget includes the cost of loans, guarantees and insurance programs, administrative budget of course is self-explanatory, but my understanding is that many people think we have really shorted the kind of upgrading necessary for administrative capacity.

So we have some statistics on that, and we will look for some interesting information in those areas from our witnesses.

I do have significant concerns about the Administration's proposed cuts in the Export-Import Bank. I look forward to testimony today to explain the effects that those proposed cuts would have on the activities of the Bank.

Lastly, I would also like to emphasize the subsidies offered by foreign governments which have export financing agencies, the developed countries which are major export competitors. We have statistics which I will enter for the record, but the United States in most ways you could calculate fares pretty badly in comparison with our competitors.

[The prepared statement of Hon. Doug Bereuter can be found on page 74 in the appendix.]

So we will now, after we hear from the Ranking Member of the Minority if he wishes, we will now introduce Mr. Hess, the Chief Financial Officer of the Bank. Mr. Hess has been with the Export-Import Bank since 1966. He has been the Chief Financial Officer since 1992. He comes highly recommended as a person who has great institutional knowledge of the Export-Import Bank.

Next, Mr. William W. Redway, the Export-Import Group Vice President of Small and New Business, will testify. Mr. Redway, a graduate of the University of Pennsylvania, is in charge of the Small Business Group outreach activities. Prior to that current position, he has been the Vice President of the Bank's Insurance Division and also served as New York Regional Manager of the Export-Import Bank.

Mr. SHERMAN. Mr. Speaker, I am interested in these introductions, but I just want to make sure I am given a chance to make an opening statement.

Chairman BEREUTER. Indeed, you will be.

Subsequently, Mr. Bert C. Ubamadu will testify. He is an attorney with the Bank, where he works on project, structured, and trade finance transactions throughout Africa. He is a member of the Bank's Africa Task Force. Prior to his position, he worked with Marriott International, where he served as their representative to the Corporate Council on Africa.

There are three other people from the Ex-Im Bank at the table to supplement and to assist: Ms. Elaine Stangland, Deputy General Counsel; Mr. Jeffrey Miller, Group Vice President for Structured and Trade Finance; and Mr. James Cruse, Group Vice President of Policy. As you make your contributions, I would appreciate it if you would identify yourself for the hearing record beyond this introduction.

So we welcome the distinguished panel. Now I would like to see if there are other Members who would have a brief opening statement. I turn to Mr. Sherman from California first.

Mr. SHERMAN. Thank you, Mr. Chairman.

The first two opening statements lauded the Export-Import Bank, but we would be unmindful of the thoughts and concerns of many if we didn't hear some of the criticisms.

The Bank is attacked very loudly as a quintessential embodiment in the eyes of its critics of corporate welfare. The critics point out that while a large number of transactions involve small business, that small business as reasonably defined receives a tiny portion of the dollars disbursed. The President of the United States has sought to cut this bank by 25 percent, and this is a President who is the most pro-business President, I think, in our lifetimes.

Mr. Chairman, I have not been able to find a single business in my district, and I have worked very hard, in conjunction with bank staff, to try to find any business in my district who thought that the Bank was a significant benefit to them, and we couldn't find one.

But that aside, I am not here just to support the narrow economic interests of my own district. This is a bank that is important and is viewed as important to the national economy, because it promotes American exports. I hope to work with this subcommittee to fine-tune some aspects of what the Bank does. But before we get there, we have to deal with what I think is the biggest economic issue facing not my district, but the entire country, and that is the energy crisis in the western States.

The charter of the Bank in its own rules says that it should do nothing to harm the United States economy. Yet, one concern arises, and that is that the number one beneficiary of the Bank's export subsidies through export financing go to the industry that makes electric turbines. It flabbergasts everyone in California to hear that in our hour of extreme need, American-built turbines are the subject of subsidies paid for by California tax dollars.

I won't take the time, unless someone asks me to, to disprove a couple of the, I think, rather silly attacks made against California. The argument that you can't site a plant in California or couldn't a few years ago, that is demonstrably false, and I will answer that if somebody is concerned, or somehow that California has mishandled the deregulation in some way that others saw as a problem, that we ignored anyone's warnings, there were no such warnings, and that somehow the crisis that has hit California is somehow just retribution for California's own governmental decisions.

Now, I know the Bank has distributed documents showing how its activities affect each of our districts. I believe the Chairman of the full committee used the figure $61 million. Let me assure everyone here that you can take whatever figure the Bank gives you for its impact on your district and multiply not by 100, not by 1,000, multiply that figure by 10,000, and that is the economic relationship that your district has with California.

Chairman BEREUTER. Will the gentleman try to conclude his comments?

Mr. SHERMAN. I will conclude within 1 minute.

So these turbine manufacturers are the number one beneficiaries of these export subsidies. And during this period of crisis, a period that I think will not only hurt the economy of California, it will drag down the economy of the entire country and it is beyond economics, there will be deaths in California, both this summer and next summer as a result of this.

Before we go forward and reauthorize this bank to do business as usual, we must make sure that the turbine companies are not just doing business as usual, but in this extraordinary crisis they are willing to take extraordinary actions, because they receive and have received for decades extraordinary subsidies to deal with this crisis by providing California with the turbines that it needs.

Chairman BEREUTER. The time of the gentleman has expired.

Are there other Members who wish to make an opening statement?

The gentlewoman from New York.

Mrs. MALONEY. Thank you, Mr. Chairman. I join my colleagues in the effort to reauthorize the Export-Import Bank. I have a very long and thoughtful statement, and I will put it in the record because I would like to hear what everybody has got to say.

Chairman BEREUTER. I thank the gentlewoman, and I am sure it is, and it will be in the record.

Now, I understand that you will share your testimony with approximately 15 minutes and then proceed to questions, so you may proceed as you wish. Your entire written statements, if you have them, will be made a part of the record, and I know that you provided some information already.

STATEMENT OF JAMES HESS, CHIEF FINANCIAL OFFICER, EXPORT-IMPORT BANK

Mr. HESS. Thank you, Mr. Chairman.

Chairman Bereuter, Members of the subcommittee, my name is Jim Hess. I am the Chief Financial Officer of the Bank. I am happy to testify today on behalf of the Bank's rechartering. Thank you for entering our full testimony into the record.

Chairman BEREUTER. Would you pull that mike just a little bit closer, sir?

Mr. HESS. Accompanying me are five of my colleagues who are prepared to answer your questions in their particular areas of expertise, and two of them to offer testimony.

Mr. Speaker, Export-Import Bank is a sunset agency. Its charter expires on September 30, 2001. The Administration is requesting a renewal of the charter until September 30, 2005, including a 4-year extension for our Sub-Saharan Africa Advisory Committee.

The mandate of the Export-Import Bank is to sustain jobs here in the United States by helping to finance U.S. exports that would not take place without us. We only step in where we are needed; that is, where the markets are too risky for the private sector to assume the risk, or to meet the government-sponsored export finance provided by our competitors. Also, we are required by our charter to find a reasonable assurance of repayment for every transaction we approve. Since our last rechartering in 1997, those exports have totaled just——

Chairman BEREUTER. Mr. Hess, I am going to ask you to just put the mike a little lower. We are having a hard time picking it up for some reason. Thank you.

Mr. HESS. Those exports have totaled just over $60 billion.

We financed those exports by guaranteeing loans from commercial banks to foreign buyers, lending directly to foreign buyers, offering a variety of insurance policies which assure repayment, and guaranteeing working capital loans to small U.S. exporters.

I want to emphasize that these are not giveaways to corporate America. We get repaid. Our losses over the last 20 years are only about 2 percent of disbursements. This compares very favorably with commercial banks.

I would like to now turn to my colleague, Bill Redway, on my left, who will briefly describe our small business programs.

STATEMENT OF WILLIAM REDWAY, GROUP VICE PRESIDENT OF SMALL AND NEW BUSINESS, EXPORT-IMPORT BANK

Mr. REDWAY. Thank you, Jim.

Chairman Bereuter and Members of the subcommittee, over 80 percent of our transactions directly benefit small businesses. These transactions consumed about 18 percent of our authorization expenditures, and this does not take into consideration the tens of thousands of small businesses that benefit indirectly from exports from large corporations. Small businesses account for most of the job growth in our country. We currently directly assist some 2,000 small businesses each year.

I would like to take this opportunity to review some of the major small business initiatives the Export-Import Bank has undertaken since we were last rechartered.

First, we have reorganized internally to centralize all of our small business efforts. In 1997, the Small and New Business Group was established to provide specific services for the small business community. This group includes the Insurance, Working Capital, and Business Development Divisions, along with the regional offices located in New York, Chicago, Miami, Houston, and Long Beach, California. In 1998, overseas selling was transferred to the Structured and Trade Finance Group. This move, which consolidated all domestic selling, allowed us to attack the small business market aggressively. Since then, the Small and New Business Group has endeavored to aggressively meet the exporting needs of the small business community.

Chairman BEREUTER. Mr. Redway, I am sorry. I need you to move that mike a little closer.

Mr. REDWAY. To be specific, we have opened new regional offices in San Francisco, Orange County, California, and Washington, DC., and given all regional officers substantial new business goals. We have constructed a database of small exporters, which now numbers over 200,000 and have begun a direct mail campaign that has resulted in over 2,000 qualified small business leads for our regional offices. During this fiscal year, we have scheduled 60 nationwide exporter seminars, where we take Ex-Im Bank's story to the marketplace. We have also established an Emerging Market Subgroup to promote Ex-Im Bank products and services to small business in the minority, women-owned, and rural communities.

It is through our short-term insurance program that the majority of our small business transactions are enacted. Ex-Im Bank has adopted a detailed strategic approach in supporting and increasing its support for small business exporters and associated lenders. Central to this strategy are three key components: offering useful, high-quality products that are reasonably priced and will attract a greater number of small business exporters; providing prompt customer service by investing in technology to support a growing volume of small transactions; and, finally, through technology, being in a position to monitor and adapt risk-taking to the marketplace on a real-time basis. Insurance small business authorizations increased from $1.2 billion in 1999 to $1.5 billion in 2000, a 25 percent increase.

Another way of assisting small business is through our Working Capital Guarantee Program, which guarantees commercial bank loans to exporters so that they can tool up to meet export contracts. The program has grown from $387 million in fiscal year 1998 to $588 million in fiscal year 2000, an increase of about 52 percent, of which 88 percent are small business transactions.

In addition to the hard work of our staff, this increase has been made possible by some program changes. The program has added additional delegated authority lenders and has increased the amount of delegated authority afforded to lenders many times in the last 5 years. Program documentation also has been simplified for ease of operation. New partners have been added to broaden the potential marketplace for this product. Asset-based lenders and community bank initiatives have resulted in additional usage of the program.

Finally, Ex-Im Bank has joined the Commercial Finance Association and dedicated a business development officer to increase our exposure to small business lenders.

Mr. Chairman, all of these efforts would be for naught without superior customer service in all of our programs. I am pleased to inform you that a study done by the University of Michigan, entitled the American Customer Satisfaction Index, shows that Ex-Im Bank's customer service rating is a 70, which is termed excellent and compares favorably to other U.S. Government agencies and U.S. commercial banks. This study covers all of Ex-im Bank's programs, large, medium, and small; and we are proud of these results.

Jim.

Mr. HESS. Thank you, Bill. Of course, we also deal with medium and large businesses. About 80 percent of our program budget supports exports by larger companies. But, a job in these companies is no less important than any other job. Also, exports from large corporations contain inputs from businesses, large and small, all over the United States.

I would like now to introduce Bert Ubamadu, who is with our General Counsel's office, to briefly explain our program in Sub-Saharan Africa.

STATEMENT OF BERT UBAMADU, OFFICE OF THE GENERAL COUNSEL, EXPORT-IMPORT BANK; ACCOMPANIED BY JEFFREY MILLER, GROUP VICE PRESIDENT, STRUCTURED AND TRADE FINANCE

Mr. UBAMADU. Thank you, Jim.

Mr. Chairman and Members of the subcommittee, the most notable growth in Ex-Im Bank's regional programs has been in Sub-Saharan Africa, a market where previously both Export-Import Bank and U.S. exporters were largely inactive. As a result of Export-Import Bank's commitment to meet its 1997 congressional mandate to increase our programs to Sub-Saharan Africa, the Bank has seen nearly a 15-fold increase in supported exports to the region. Also to meet this mandate, the board of directors established both an internal Africa Task Force to direct the activities of the Bank pertaining to Africa, and also named the Sub-Saharan Africa Advisory Committee, as the Chairman pointed out earlier, to bring practitioners from the field, to offer advice to Export-Import Bank in its efforts.

The importance and commitment of the Bank to this market is also underscored by several bank delegations in fiscal year 2000, which included missions to Nigeria, Ghana, South Africa, Mozambique, Cameroon and Senegal.

As a result of these efforts, Export-Import Bank's support to Sub-Saharan Africa has grown substantially. Again, as the Chairman pointed out earlier, in 1998, the Bank authorized approximately $56 million to support U.S. exports to this region. In 1999, the Bank's authorizations increased to $589 million. I am happy to let you know that in 2000, the Bank's authorizations again increased to $914 million.

In terms of volume, Export-Import Bank authorized 103 transactions in 1999 and 125 in 2000. This is a 25 percent increase. In 1998, the Bank was open for business in 21 countries and has been open in 32 countries now for the past 2 years. We will work hard with U.S. exporters and African buyers to continue this progress in the future.

Thank you.

Mr. HESS. Thank you, Bert.

Regarding our budget, the Administration has requested $633 million for our program budget for fiscal year 2002. This is the budget that serves as our loan loss reserve and is the money we use to actually do our transactions. The requested budget is approximately a 25 percent reduction from the current fiscal year level of $863 million. This means that we will have to manage very carefully in fiscal year 2002. The request for our administrative budget is $65 million, up from $62 million for this fiscal year. We will use this increase to further improve our technical infrastructure, including computers, and to reduce our processing time, especially on small business transactions.

Mr. Chairman, Export-Import Bank is a good deal for America and a bargain for taxpayers. For every dollar invested in our program budget, we support $15 to $20 of exports that would not go forward without us. This translates into good, high-paying jobs.

At this point, my colleagues and I will be happy to answer any questions you or the Members of the subcommittee may have.

[The prepared statement of James Hess can be found on page 92 in the appendix.]

Chairman BEREUTER. Mr. Hess, thank you very much. We will turn directly to questions. I was going to yield to Chairman Oxley if he had been here, but we will go in the usual fashion in order of seniority of those Members here at the beginning of the hearing and then we will proceed to people as they appeared in order of appearance, moving from one side of the aisle to the other.

So therefore, first, I recognize Mr. Green under the 5-minute rule.

Mr. GREEN. I have no questions at this time, Mr. Chairman. Thank you.

Chairman BEREUTER. Mr. Sherman is not here, Mr. Bentsen is not here. Mrs. Maloney. Well, let's see. We then need to move to Mr. Shays. All right. He yields to you, Mrs. Maloney.

Mrs. MALONEY. Well, I yield to Mr. Shays, my good friend.

OK. The Bush Administration has put forth a budget that will reduce your institution's funding by 25 percent. What impact will this have on the amount of projects that the Bank can support in the coming year, as well as the U.S.'s ability to compete in industries that the Bank supports?

Mr. HESS. Congresswoman, the budget of $633 million that is requested by the Administration for the Bank is estimated to support about $11.5 billion of U.S. exports. This figure and all of our figures are estimates of demand. We do not program funds, as you probably know, but we respond to requests from U.S. exporters for their export sales. We have estimated that the figure of $633 million will be doable, but tight, for fiscal year 2002. If our demand estimates are under what the actual call on our resources happens to be in that year, the Bank will have to look at policy options that could be taken to stretch our resources while still keeping U.S. exporters competitive in their financing offers for their export sales efforts. We will not know if we have to do that until we see if demand actually materializes in 2002. It does promise to be tight. We are keeping a close eye on it, but we have every intention of keeping U.S. exporters competitive in our export efforts, as well as living within the $633 million that the Administration has requested.

Mrs. MALONEY. I would like to go to questions that I raised with the Bank in 1999 about the Export-Import Bank's transaction for the benefit of Halliburton and ABBM Tyumen to develop Russian oil fields, controlled by Tyumen, a Russian oil company. At the time a number of constituents came to my office and there were editorials in the *The Washington Post* and really front-page articles in several papers objecting to Tyumen's business practices, telling the American public that the company had gained control over a particular oil field by manipulating Russian policies and through other acts of crony capitalism. Eventually, the Administration temporarily halted the transaction using the so-called Chafee Amendment.

From the beginning, the Export-Import Bank defended Tyumen's business practices and, frankly, I am not concerned about debating the merits of the Tyumen business transaction. What I am concerned about is the general issue of whether the Export-Import Bank has the ability to take into consideration past fraudulent acts committed by companies it works with around the world when making a decision about a transaction.

I asked CRS to review this question in February of 2000. CRS responded that, and I quote: "Congress has placed a number of specific requirements on the Export-Import Bank for it to consider in authorizing extensions of credit or guarantees to firms seeking such assistance. These requirements, however, do not specifically reference the disallowance of credit or credit guarantees based on acts of fraud or corruption on the part of the beneficiary unless such fraud occurred on the application for credit."

My question is, would it be beneficial for Congress to specifically give the Bank authority to disallow a transaction based on fraud or corruption on the part of the beneficiary?

ELAINE STANGLAND, DEPUTY GENERAL COUNSEL, EXPORT-IMPORT BANK

Ms. STANGLAND. This is Elaine Stangland. If I can try to respond to you, Congresswoman, I think it is important to know that the Bank does take into consideration——

Chairman BEREUTER. Will you pull that mike a little closer, please?

Ms. STANGLAND. I am sorry. The Bank does take into consideration issues of corruption, character, and good governance. We do that within the framework of finding creditworthiness in our transactions and on two levels. One is an indirect way in the ICRAS process, which helps us determine the fee levels and our risk rating for various countries. The ICRAS process is an interagency process that does take into account business climate, judicial system, and political climate in each country. But, probably more importantly, we are required to find a reasonable assurance of repayment on each transaction we support, and as every banker knows, character, past actions, and past performance does enter into the determination of whether a credit meets the reasonable assurance of repayment standard.

Earlier this year, we submitted a report to the Senate Committee on Appropriations that outlined the considerations of the Bank, and its procedures for dealing with issues of this nature within the context of creditworthiness. We do due diligence, we consult with our embassies abroad, we consult with other sister agencies, and we believe these characteristics play an important role in determining the creditworthiness of any transaction.

Mrs. MALONEY. But you mentioned that creditworthiness was your goal if they will repay the loan. I mean, a lot of crooks have good credit, a lot of crooks are going to repay a loan.

My question is, given the Tyumen Oil, there was no question that they had a shady past. Some of the major periodicals in our country wrote about it, and it is well-known, and several American companies were suing them, as you know.

But my question is not just creditworthiness, are you going to pay it back, but shouldn't we look at what the business practices are? I mean when people take this example of Russia seeing us giving loans to Tyumen and they feel that they have manipulated the bankruptcy laws and manipulated politicians and manipulated this, that and the other, it doesn't instill confidence in the American form of government. I was just thinking that if a company has a history of fraud, corruption, fraudulent bankruptcy proceedings such as Tyumen had, shouldn't we possibly consider not giving them a loan, even though they are going to pay us back, just based on their method of operating?

Chairman BEREUTER. The time of the gentlewoman has expired, but if you wish to respond, you certainly may.

Ms. STANGLAND. I just want to remind the Congresswoman that we were aware of the various allegations that were made against Tyumen.

Mrs. MALONEY. I know I had several conversations with your offices.

Ms. STANGLAND. We investigated this by absolutely all means available to us and did extensive due diligence. However, we did not find any credible evidence of misconduct.

There are provisions in our charter which allow the President, and he has delegated that authority to the Secretary of State, to consider non-commercial and non-financial factors in determining credit. This happened in Tyumen. A final decision on the case was postponed until the Chafee Amendment was removed. So there is a mechanism that Congress has put into our charter that allows for the consideration of factors other than commercial and financial when determining whether Ex-Im Bank can support a transaction.

Actually, right now the company that brought most of these allegations and Tyumen are strategic partners.

Mrs. MALONEY. OK. Thank you.

Chairman BEREUTER. The gentlewoman may pursue that again later if she wishes.

The gentleman from Connecticut, Mr. Shays, is recognized under the 5-minute rule.

Mr. SHAYS. Thank you, Mr. Chairman.

Mr. Hess, Export-Import Bank is basically supposed to be the lender of last resort, correct?

Mr. HESS. That is correct, sir.

Mr. SHAYS. And what I am trying to determine is how you determine that you are, in fact, the lender of last resort. I happen to think if in the end we wouldn't have these sales without the Export-Import Bank, then thank God we have the Export-Import Bank. But how do you know we would or would not have these sales without your involvement?

Mr. HESS. Well, we look at this very carefully. In certain transactions, the U.S. exporter is facing competition from a foreign exporter who is supported by below interest rate financing from their export credit agency. In those cases, we are directly meeting the foreign competition and clearly we are needed to do that.

There are other instances where the U.S. exporter is selling into a situation that the commercial sector is unwilling or unable to go, simply because it is too risky or because they have found it——

Mr. SHAYS. Let me just ask you, do they attempt to get financing in the marketplace before they come to you?

Mr. HESS. They try to get financing in the marketplace before they come to us; and we look at the transaction when it is presented to us to make sure that we are necessary before we authorize the transaction, yes, sir.

Mr. SHAYS. Some of these companies are quite large and some are actually in my district and I am grateful they have the business. But when you look at a company like General Electric, what tells you that they do not have the ability to get financing, the project itself? Certainly their financial capability is quite sound. So what do you do, you isolate each project, and it is not important—it has no impact that it is a large company like GE? Walk me through something like a GE loan.

Mr. HESS. We look at all of the cases that come in, whether they are from large companies or small companies, and we look to see if we are needed. We have those two situations, which I just explained, where we find that we are necessary to make the transaction go forward. We try to get as much private sector participation in the transaction as we can. You have to remember that we do not do the entire 100 percent of the financing. We require a 15 percent cash payment, which is frequently financed, and it is done at the risk of another party, either the exporter or a commercial lender.

So we are only financing 85 percent of the transactions, and it is very frequently a strain on resources from the private sector or the U.S. exporter to put together the other 15 percent.

Mr. SHAYS. When we appropriated the $927 million in this year's budget and $62 million of it was administrative expense, does the balance of the $62 million ultimately come back to us? In other words, if that is a loan extended, they pay the cost of money? I mean I am not quite sure that money doesn't disappear. The money that we appropriated ultimately just makes your fund larger?

Mr. HESS. That is correct. The money that is appropriated beyond our administrative expenses is, in effect, a loan loss reserve. We, as a technical matter, put the money into what is called a financing account at the U.S. Treasury where it is available to pay losses, if necessary, for those credits.

Mr. SHAYS. And then how much of this $927 million minus the $62 million, how much of it ends up just disappearing in terms of loans that are not paid and so on? What is our ratio of our loan to loss?

Mr. HESS. Over time, the ratio of our losses to disbursements is about 2 percent. Credit reform itself has only been in place since 1992, and our medium and long-term programs generally have repayment terms that are 5 years to 10 years. So, we have not yet closed out any of the year cohorts for the medium- and long-term business under credit reform. Therefore, I can't give you a definitive answer for any of those years.

However, credit reform provides for that type of analysis to be done, and the information will be available.

Mr. SHAYS. The basic cost to the Government is just the fact that we are subsidizing very low-interest loans?

Mr. HESS. We are basically charging a risk premium for the risk that is in the credit, and we are charging an interest rate that is approximately 1 percent or so above the U.S. Treasury rate.

Mr. SHAYS. You are only having a 2 percent loss? The risk isn't as great as I made an assumption. I mean that is a pretty low loss.

Mr. HESS. That is a very low and a very good loss record. This is a different methodology than the credit reform process uses to assess losses. That methodology will change over time as the few losses under credit reform actually become measured, so there is a difference in methodology there which is a slight dislink between the two losses.

Mr. SHAYS. Thank you.

Thank you, Mr. Chairman.

Chairman BEREUTER. I appreciate you bringing that out. We have a committee amendment in the nature of a substitute pending. We will hear from one more Member at this point and then resume when we return.

The gentleman from North Carolina, Mr. Watt, is recognized.

Mr. WATT. Thank you, Mr. Chairman. I will try to be expeditious. I have a couple of questions, though.

Representatives of the Bank visited me recently and in the course of that conversation advised me that you all basically have never lost any money for the U.S. Government, that you make money for the U.S. Government.

Mr. HESS. Well, Congressman, as I said earlier, we have lost about 2 percent of our total disbursements. Our financial statements of the last 2 years——

Mr. WATT. The question I am trying to get to is does that include the annual appropriation? Does your premium and the returns you get on interest cover your operating cost?

Mr. HESS. It does not totally cover the estimate, the current estimate of what may be the losses under our credits. We charge the minimum fee that is allowed under the OECD agreement so that we can keep our exporters fully competitive with the foreign packages that are offered by ECAs. But, the fees in higher risk markets are not sufficient to cover what the Office of Management and Budget considers to be the risk in those markets. So in order to cover the risk, we need the appropriation.

However, those are estimates, and over time we may find that those estimates are on the high side in terms of losses. If so, then that money will go back to the U.S. Treasury.

Mr. WATT. I guess the question I am asking is, up to this point in the history of operation of the Bank, have you covered both the risks and losses that result from that risk and your operating cost, or have you not?

Mr. HESS. Over the history of the Bank up until now, Congressman, we have not fully covered those losses.

Mr. WATT. How much of a shortfall per year approximately would there be historically, I mean?

Mr. HESS. Well, for example, recently, by definition, the shortfall that we are talking about for fiscal year 2002 would be $633 million for an appropriation for the credit risk; and it would be $65 million for administrative expenses. So it would be about $698 million.

Mr. WATT. Well——

Mr. HESS. Like I said, those are estimates.

Mr. WATT. Maybe I am asking the wrong question. You are looking prospectively at risk, I am looking retrospectively at losses. You are not saying that the $600 some million is needed to cover past losses; you are saying that it is needed to cover OMB's estimate of what future risk of losses; is that what you are saying?

Mr. HESS. That is exactly what I am saying.

Mr. WATT. OK. The question I am asking is not that question. I am asking a retrospective question. How have you covered the actual losses in the past by the premiums that you have charged or user fees that you have charged?

Mr. HESS. We have not fully covered actual losses from the Bank's inception in 1934.

Mr. WATT. OK. I asked that question. Now, the question is, how much of a shortfall has there been historically?

Mr. HESS. Well, I can provide the figure for the record, but because we have been recapitalized since credit reform began, the figure is in the neighborhood of about $8 billion.

[The information referred to can be found on page 109 in the appendix.]

Mr. WATT. $8 billion ever since 1994?

Mr. HESS. No, no, since 1934.

Mr. WATT. 1934, I am sorry, OK.

Mr. HESS. But this again is a very small percentage of the total activity of the Bank. We have supported over $400 billion of exports in that period of time and our losses have been minimal, less than 2 percent of our disbursements.

Mr. WATT. You all gave me a list of 28 businesses in my Congressional District who have benefited from the Export-Import Bank, six of which were banks. Can you give me an example of what you do for a bank?

Mr. REDWAY. Yes.

Mr. WATT. They are not exporting anything, I take it. They are not exporting money.

Mr. REDWAY. Congressman, no, they are not. Speaking from a small business standpoint, the banks will take out policies themselves for some of your constituents in your area and do the project or do the transaction in their name rather than the exporter's name. They also may take an assignment of a policy so that they would advance against an insurance policy that we issued for one of your constituents and help them that way, or you could do a working capital guarantee where they would be advancing funds against our working capital guarantee to provide funds to produce the export order.

Mr. WATT. Mr. Chairman, I think I am out of time, but I would just say that I did write to all of the 28 companies in my Congressional District and asked them to tell me what experience they have had with the Bank, and that letter went out on April 4, and I have since gotten three responses which I would like to submit for the record. I ask unanimous consent to submit these for the record.

Chairman BEREUTER. Without objection, that will certainly be a part of the record.

[The information can be found on page 89n the appendix.]

Chairman BEREUTER. We need to proceed now.

Ms. Waters, I don't know if you can come back or not, but you can take 2 minutes now if you choose.

Ms. WATERS. Let's go vote.

Chairman BEREUTER. We will go vote. The hearing will stand in recess. We have one vote. We will be gone for 15 minutes. If a second vote comes shortly thereafter, it will be a little bit longer.

The hearing is in recess.

[Recess.]

Chairman BEREUTER. The hearing will come to order. I regret we had such a long intervention in our hearing. We had three votes awkwardly spaced to complete the votes on the floor. It is part of democracy. Thanks for your patience to the witnesses and to all the people interested in the hearing today.

I will begin the questions until we have other Members return.

Mr. Hess, I wonder if I might ask you the questions. Of course you redirect it as you wish or supplement. One of the concerns that I have heard expressed by the Export-Import Bank's funding and its operations relates to the simple technology gap within the agency, which means that you are, I am told, not able to respond as quickly to potential American businesses, particularly small businesses who do not have the capabilities. We are talking about information technology, computers, and so on. This is the word I have received from a variety of sources, and I wonder if you would comment on the state of affairs when it comes to processing information and being able to respond.

Mr. HESS. Mr. Chairman, this is a problem that we have been working on quite diligently. We have recently put in a couple of processes that use the internet and computers to reach out to the exporting community and the banking community. We also have our claims filing system now working through the internet. We have a system whereby banks can send to us requests for cover on disbursements through the internet.

So we are beginning to move in that direction. It is true that we need to do a lot more. The increase that we are requesting in our fiscal year 2002 budget will be earmarked virtually entirely for improvements in our automated information systems and in outreach efforts to use the internet, to use computers, to streamline our insurance program and our small business programs to make them more user-friendly and more quickly responsive to the community. This is a valid concern of the exporting community as well as ours, and we are actively trying to address it.

Chairman BEREUTER. Thank you. To the extent that you had a problem or still may have a problem on being responsive because of obsolescence, does that have a greater negative impact upon the small businesses?

Mr. REDWAY. Mr. Chairman, I would say that the small business programs would benefit the most from an increase in technology. If we could basically automate some of our credit decisionmaking, which can be done, and is being done in the private sector, it would speed up turnaround time and would free staff for the more difficult cases. So yes, we could very much stand for an increase in our technological capabilities.

Chairman BEREUTER. Could you provide us with a description of the problem and what you hope to do to solve that problem during the upcoming fiscal year based upon the resources that you have proposed for the agency in the Administration's budget?

Mr. HESS. Mr. Chairman, we would be happy to do that for the record, yes, sir.

Chairman BEREUTER. And then would you go further and suggest, if you had more resources, how you would devote the first additional resources beyond that?

Mr. HESS. We will do that, sir.

[The information referred to can be found on page 107 in the appendix.]

Chairman BEREUTER. Thank you.

Now, one of the interesting things to this committee, I am sure, and particularly this subcommittee is, to compare the resources that the Export-Import Bank has as compared to agencies of competitor export countries, the developed countries like Japan, the Netherlands, Canada, Germany, France, and so on, which seem to have substantially more resources in a direct sense than does the Export-Import Bank of the United States.

Is the OECD a source of objective information about the comparative resources the agencies have, or is there another source that you would suggest to us?

Mr. HESS. I will let Mr. Cruse address that.

JAMES CRUSE, GROUP VICE PRESIDENT, POLICY, EXPORT-IMPORT BANK

Mr. CRUSE. Yes, Mr. Chairman. The OECD is a very good source of information on activity of export credit agencies. But, it is not an expert on all export promotion activity that the Commerce Department types or others do.

There have been a variety of studies that have dealt with that information, which we will be glad to provide to you.

Chairman BEREUTER. Who would be the source of some of those studies, looking at the resources that are available? For example, in the various categories, the two to three major categories of the Export-Import Bank, what your competitors are able to put forth in the way of resources? Where do we go for objective information?

Mr. CRUSE. On export credit activity, we could generate an extensive detail of activity there. For activities from the Commerce Department, the Track Promotion Coordinating Committee—TPCC—put together a study on this a couple of years ago in one of the reports that they had done. So we could get that too. But, if it is just export credit activity, we have ample and detailed information on that.

Did you want any information on administrative budgets?

Chairman BEREUTER. That would be helpful too.

Mr. CRUSE. We could take care of that.

Chairman BEREUTER. Because we hear that in some ways we are not able to respond because of the physical and the information technology resource that you have at your disposal.

Mr. CRUSE. OK. We will get you both, activity and administrative resources.

[The information referred to can be found on page 113 in the appendix.]

Chairman BEREUTER. Thank you. I will ask one more question to open it up and then let Ms. Waters have her 5 minutes and we will go back for a second round for other Members as the case demands.

I am going to move to Africa where we have had this mandate in place with respect to the 1997 authorization legislation. Are there any additional statutory changes needed to facilitate the Export-Import Bank's supported trade with U.S. supported trade with Sub-Saharan Africa, and has there been any internal or external examination of our effectiveness in providing additional resources to U.S. exporters whose markets are in Africa or who hope to exploit markets in Africa?

Mr. UBAMADU. Mr. Chairman, with regard to the first part of your question, any additional legislation needed, and I would have to say that based on the experience that we have had, the answer would be no at this point. Congress has already provided for the Sub-Saharan Africa Advisory Committee, as you well know, which is a group of private sector advisors that are experts in Africa, who meet with the Bank three times a year to give us advice on how to increase our programs to this region. Beyond these meetings, Ex-Im Bank is always talking to them on ways to increase our support to the region. So our answer would be no additional legislation is needed at this time.

With regard to the second part of your question, we are constantly traveling to the region. For example, I just returned in December with a four-member team where we did a bank sector study in Nigeria to see what the needs of the borrowers are in that community, and we are then able to disperse information out to U.S. exporters when we meet with them. But, I don't believe we have done a comprehensive study to see what our effectiveness is, but I think you can certainly see by the numbers—where we started with $58 million in 1998 and we are now up to $914 million—that our efforts are working. We certainly hope to see an increase next year.

Chairman BEREUTER. Is there anything you could say, in short, about the number of U.S. firms coming to you who are asking for your assistance on Africa-related trade as compared to U.S. companies who have interests they want to exploit in other continents? Are we meeting a higher percentage or lower percentage of those businesses wanting to have your assistance for Africa trade?

JEFFREY MILLER, GROUP VICE PRESIDENT, STRUCTURED AND TRADE FINANCE, EXPORT-IMPORT BANK

Mr. MILLER. Mr. Chairman, Jeffrey Miller. We don't have statistics that compare the level of interest by continent. But the interest in Sub-Saharan Africa has certainly increased due to the efforts of the Sub-Saharan Africa Advisory Committee.

Chairman BEREUTER. The gentlewoman from California is recognized.

Ms. WATERS. Thank you very much.

Mr. Chairman, you started down the road that I would like to go down in relationship to Sub-Saharan Africa. I was a little bit distracted here. I heard the response relative to whether or not we needed additional legislation or they needed additional authority of any kind. But what I don't have a sense of is the level of involvement we have in Sub-Saharan Africa.

Could you describe to me since the mandate, generally; basically what have we done?

Mr. UBAMADU. Congresswoman, are you speaking in general or for a specific area? I can certainly tell you in general what we are doing with regard to Africa is both on the continent and as well as here in the U.S. We work very closely with U.S. exporters and U.S. banks to inform them about the various programs that we have for Africa. With regard to the banks, we are trying to encourage more U.S. banks to get involved in working with Export-Import Bank where we can provide guarantees for loans that they make to this region.

Ms. WATERS. Could you describe to me in a dollar amount how much you have been able to do? How many loans have you made, or loan guarantees?

Mr. UBAMADU. Last year we did 125 transaction loans in Africa compared to 123 the year before.

Ms. WATERS. All of Africa or Sub-Saharan Africa?

Mr. UBAMADU. In Sub-Saharan Africa.

Ms. WATERS. Did you say 125 loans?

Mr. UBAMADU. I can certainly give you the breakdown. There are a number of different programs that we have. We have what we call working capital guarantee, where we provide a guarantee to a bank, a U.S. bank, that has provided a loan to a U.S. company that would export the product. Just to let you know, of that 125, 11 transactions were done under the working capital guarantee program. Under loans and guarantees, we had 32 transactions, and for insurance, we had 82 transactions. This is all in calendar year 2000.

Ms. WATERS. Do you consider that you have done a good job? Are you happy with what you have been able to do?

Mr. UBAMADU. Congresswoman, if I may, I came to this bank about 2 years ago specifically for the goal of trying to do work in Africa, and I can certainly tell you that I have worked in a number of other institutions that do similar things that have also attempted to do work in Africa. But the answer to that is absolutely yes. I think more absolutely has to be done, but Export-Import Bank has a specific mandate and part of that is we have to show reasonable assurance of repayment for a lot of the transactions that we do. However, we are working as hard as we can within that mandate to increase U.S. exports to Africa. We are certainly making strong progress, but there is always more that can be done, and we are trying to do that.

Ms. WATERS. Where are we most successful? What country do we make the most loans to?

Mr. UBAMADU. Ghana probably is our most successful.

Ms. WATERS. Non-African countries. I want to just get some comparisons so I can try and understand this amount as compared to what? Where do we do the most loans?

Mr. MILLER. Congresswoman, Mexico is our largest market.

Ms. WATERS. And could you give me a dollar amount, total amount of authorization?

Mr. MILLER. Our authorization amounts in Mexico were $1.4 billion in fiscal year 2000.

Ms. WATERS. And the amount for Sub-Saharan Africa, all of Africa, I guess, is how much?

Mr. UBAMADU. $914 million.

Ms. WATERS. What are your plans to increase it?

Mr. UBAMADU. Congresswoman, we have undertaken a number of initiatives to increase our activity. First, we have staff that is constantly traveling to Africa, and we have what we call regional training seminars in various regions of the continent. For example, we have one scheduled this month in South Africa, which will basically capture all of the SADC, Southern African countries, where we are trying to work with them to explain our programs. At the same time, we also encourage U.S. exporters to attend these training seminars.

We also take along with us U.S. financial institutions as a way of letting them see the market, meet the potential buyers and see the business that is in these countries. We are doing this all over the continent. Last year, I was able to participate in two of these training seminars. I mentioned earlier that we think this is one of the key aspects of working in this region because there are a lot of U.S. banks that are looking into this region. We are also trying to encourage African banks to get involved in our programs. This is one of the reasons why we were in Nigeria back in December, where we spent 2 weeks, and had an opportunity to meet with 16 banks to talk to them about the local economy, and to take a look at their financial position. So we are going to continue these endeavors.

In the U.S., we are also trying to encourage meetings with U.S. exporters, and U.S. banks to again encourage them to look into this region.

Ms. WATERS. Mr. Chairman, I know my time is up, but I would like to set up a meeting with the Bank to talk about a combination of Sub-Saharan Africa and small businesses in our country and how we can get more of them involved. Thank you.

Chairman BEREUTER. Would you like to respond to the Congresswoman's request?

Mr. REDWAY. Yes. We would be delighted to have such a meeting.

Chairman BEREUTER. Thank you. I think it should be productive for all of us.

The gentleman from New Jersey, Mr. Ferguson, is recognized for 5 minutes.

Mr. FERGUSON. Thank you, Mr. Chairman.

I thank you, Mr. Hess, and the panel for your patience with our sometimes unpredictable schedule here. I certainly appreciate your testimony and your willingness to stay and to answer some questions, and I appreciate the chance, Mr. Chairman, to follow up on a couple of things.

I represent the Seventh District in New Jersey and particularly with our high-tech industry in New Jersey, I have a particular interest in the health and the activities of the Ex-Im Bank, and I am concerned, as the Chairman had mentioned before, about the current budget funding request. I want to get into a little bit about some of your activity, and just a couple of points I would like to address.

There has been a lot of comment about the need for reform with Export-Import Bank in order to make it a more effective agency for U.S. exporters as they strive to compete with foreign competitors. What are some of the changes that you, Mr. Hess, believe need to be made in order to make your process more efficient and more in line with the global economy?

Specifically, do you believe that this market window approach, which is used by European and some of the other export credit agencies, do you believe that to be effective? I wanted to get some of your reaction or thought on that.

Mr. HESS. Congressman, thank you. Let me first comment on the administrative efficiency. We have asked for an increase in our administrative budget to $65 million for 2002. Virtually all of that has been earmarked for more computerization efforts to streamline and make the Bank's operations more efficient. It will also increase our ability to interface with the U.S. exporting community, particularly small businesses. So we are actively trying to improve in the area because we feel other ECAs have an edge on us, and we are not as up-to-the-minute as we should be.

So in this area, we definitely are trying to improve and we believe we will do so.

As far as programmatic changes are concerned, we are also constantly looking at those.

On the market windows issue, I think Mr. Cruse can comment on that. He has done a significant amount of work on that issue within the OECD context.

Mr. CRUSE. Yes, thank you. On market windows and other areas, it is important to say that the world is changing. We are very competitive with our current programs, but given the world of banking and export credit, most of the export credit agencies are trying to find new ways to do things. One of them is to be very efficient, which Mr. Hess just mentioned.

Another one is to provide for specially dedicated institutions which are called market windows. In the U.S., the closest approximation might be to Fannie Mae. Just imagine to the extent that you can, an institution dedicated with a Federal charter to exports and doing anything it can to encourage current and future exports out of the country without any regulation and with almost unlimited access to funds. That type of an institution has not yet made a major appearance on the export scene, but two of them are operating. We believe that some time in the future that type of institution would pose a major challenge to us.

Mr. FERGUSON. What about specifically with high-tech folks? Lucent, for instance, is a company in my district, major company in my district. Is there anything specifically that Ex-Im Bank is doing to work with high-tech companies, particularly regarding our new economy in a global economy?

Mr. MILLER. Congressman, in the high-tech area in the last 2 years, we have increased our exposure fivefold, particularly in sectors such as electronics, telecommunications, information biotechnology, and life sciences; and we currently have a tremendous interest in more transactions in these areas. We are also expanding our marketing efforts in those areas.

Mr. FERGUSON. Just finally, I know my time has almost expired, Mr. Shays was talking before about how Ex-Im Bank is a lender of last resort and we talked about that a little bit. Does this mean if Ex-Im Bank isn't adequately funded or if it were to disappear somehow that U.S. exports and their related jobs would be completely lost, or would competing export credit agencies end up financing that competition overseas, would they fill the void? I mean we are talking about a 25 percent reduction in your appropriation. Can you talk just briefly about how that would affect your activity?

Mr. HESS. Well, we do have a significant reduction in the appropriation request for fiscal year 2002. We estimate demand in the future, we don't program our funds, so we do not have precise knowledge today of either the amount of demand or the risk profile of that demand that will be coming into the Bank.

To the extent that either the risk profile or the total amount of demand exceeds the amount that it appears that we can do with the $633 million, we will have to look at program changes with a strong eye on competitiveness. However, if changes are necessary, we will try to continue to keep the U.S. exporter competitive, but at the same time stretch our resources. We have every intention of making the $633 million last through fiscal year 2002 and providing a strong support for U.S. exporter sales.

Mr. FERGUSON. I know my time has expired. I do have more questions, but I will be in touch with you directly on those. Again, thank you for your patience and I appreciate your willingness to stay and answer these questions.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Ferguson. I was going to call on the Ranking Minority Member, Mr. Sanders, for his comments and questions.

Mr. SANDERS. Thank you, Mr. Bereuter. I apologize for not being here for this important hearing, but I was on the floor of the House offering a motion to recommit.

I want to focus on one or two very simple issues and I hope you can educate me on them.

The United States today has the largest trade deficit in its history, over $400 billion. We have a trade deficit with China which is over $80 billion. I think economists will tell us that these trade deficits are costing us hundreds of thousands of decent paying jobs. So in other words, our trade policy, from my perspective, is failing, and I think it is hard not to acknowledge that.

Now, the question that I have is I find it ironic, and please tell me about this, how it is that some of the largest recipients of Ex-Im Bank subsidies, companies like AT&T, Bechtel, Boeing, General Electric, and McDonnell Douglas, which is now a part of Boeing, these are the major recipients of Ex-Im Bank subsidies, and these are the very same companies that have laid off huge numbers of American workers. In fact, just those companies that I mentioned have reduced their overall employment by 38 percent.

So if you have companies like General Electric and if you have the President of General Electric, he would say, “Hey, that is how we are making so much money. We are running to China, we are running to Mexico, we are throwing American workers out on the street. That is why we are a very profitable company. And we are delighted, just ever so delighted that Ex-Im Bank is supporting us. So thank you. We thank the American taxpayers, especially those we are throwing out of work as we go to China and Mexico for your support. We really do appreciate it.”

So on behalf of a few hundred thousand American workers, some of them in my own State, who were laid off by these companies who Ex-Im Bank supports, why isn’t there a link being made? When these companies are coming to you for their welfare payments, why don’t you say, “Well, gee whiz, you have been laying off American workers, sorry.”? Why don’t you say to some of these smaller companies, who have been growing companies, creating new jobs, say, “Thank you, we are going to support you, we like what you are doing.”?

So bottom line is, why do you give huge taxpayer subsidies to corporations who are laying off huge numbers of American workers?

Mr. MILLER. Congressman, we provide financing for the foreign entities to purchase the goods of those companies you mentioned, and some of those large corporations also do not have the resources to stand up against government-subsidized foreign competition or the reluctance of commercial banks——

Mr. SANDERS. Excuse me. AT&T, General Electric do not have the resources? Did I hear you say that correctly?

Mr. MILLER. Yes, sir.

Mr. SANDERS. You said that?

Mr. MILLER. Yes, sir.

Mr. SANDERS. You want that on the record. AT&T does not have the resources. General Electric does not have the resources.

Mr. MILLER. Foreign borrowers do not need the financing to buy the products.

Mr. SANDERS. OK. I see. I just wasn’t clear. AT&T does not have the resources. Sorry. All right. I find it frankly hard to believe that these large corporations who make large sums of money do not have the resources.

Now, you raised the issue of competing against other companies which provide the resources, right?

Mr. MILLER. Yes.

Mr. SANDERS. Now, do you also ever raise the question that in many of these countries, especially European countries, our competitors, France, Germany, that, A, the wages in many of those countries are substantially higher; that all of those countries guarantee national health care, they guarantee free college education to their children, they have universal and publicly subsidized child care? Is that part of the equation?

Mr. MILLER. It is not part of our——

Mr. SANDERS. Not part of the equation, I see. It is only because they don’t provide, B, subsidies.

Mr. Chairman, as I have indicated, I have a real problem with the philosophy of the Bank. If somebody wants something from me and they want a subsidy from the American people, it seems to me that the representatives of the American people have a right to say, fine, but what are you going to do for the working people of this country? Do you want some help? No problem. Tell us about the jobs you are going to create. But it is not good enough just to talk about this one project when they go next door—if General Electric were here, they would tell you that is their philosophy now; it is to lay off American workers to go to China and hire people at 20 cents an hour. Is that true? Do you agree with me? Is that largely what they would tell us?

Mr. MILLER. I don’t know that, sir.

Mr. SANDERS. Would you disagree with me?

Mr. MILLER. I don’t know what he would say.

Mr. SANDERS. Does anyone want to disagree with me, that if we had—what is the name of—who is head of GE? What is his name? Jack Welch. I think he writes books on this. Does anyone want to disagree with me that Jack Welch is not very proud of the fact that he has laid off American workers and hired people abroad at low minimum wages. I don't think anyone can disagree with that.

Why do you reward companies like that with American taxpayer subsidies? I would like somebody to respond.

Mr. MILLER. Mr. Chairman, we look at individual transactions, foreign borrowers to buy U.S. products. We don't discriminate against large or small corporations. We look at creditworthiness of the transactions.

Mr. SANDERS. Not a good enough answer. It is an answer that says, yes, we are going to look at this particular transaction but oh, by the way, we forgot the fact that you laid off 10,000 workers last week; not of concern to the Ex-Im Bank.

I think we need to rethink the whole process. I think we should provide help to those companies that are committed to the well-being of American workers. Many of these corporations are not. They should not receive our subsidies.

Chairman BEREUTER. I really need to recognize the gentlewoman from Illinois, but perhaps she will yield to you and I will not take it out of her time.

I recognize the gentlewoman from Illinois, and she can yield. It will come out of her time. Would you like to yield to the gentlewoman from California briefly?

Ms. SCHAKOWSKY. I would be happy to.

Ms. WATERS. Mr. Chairman, I am a little bit concerned. At this panel today we don't have the person that is in charge of this agency, the Acting Director, so I don't know who is running the show. It bothers me because I suspect that there has not been a concentrated, well-defined effort to take care of the mandate in Sub-Saharan Africa and I don't have anybody to charge with that.

Chairman BEREUTER. Well, if the gentlewoman from Illinois would yield, just to respond briefly, I am concerned of course that we don't have the Chairman here today too, but we have a Chairman that is on the way out, and frankly I will say at least discouraged from testifying by the current Administration, and we have no new Chairman in his place at this moment. But I think that we need to hear from the Chairman as soon as there is, in fact, a Chairman appointed and confirmed by the Bush—for the Bush Administration.

Now, if the Clerk will start the clock over, I recognize the gentlewoman from Illinois.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I apologize to the witnesses for not being here for your testimony. I have been looking through the testimony. I wanted to just echo to some extent what my colleague Mr. Sanders has said.

When you look at the charter of the Export-Import Bank and it says that contributing to the promotion and maintenance of high levels of employment and real income, a commitment to reinvestment and job creation, and so forth, that I would also say that it would be important in making these decisions with very precious resources of taxpayer dollars that we do scrutinize more carefully the overall mission. I understand the mission of looking project-to-project, but I think taxpayers rightfully may question, especially those, as Mr. Sanders mentioned, who may be out of an a job from one of the very companies that is receiving support for their work overseas. It seems a little bit like we are using taxpayer dollars and pouring salt into a very painful wound.

Let me ask you this. I know that there is one issue, and that is, as I understand the environment, on which project-by-project the Export-Import Bank may decide to deny a loan, and that that happened, let's see, the Three Gorges Dam project in China for environmental concerns. But I am concerned about other loans that have been made which, I guess, were not allowed to look at project by project, but I think have some unfortunate results.

For example, the Export-Import Bank provided $298 million to the—I am going to say it wrong, probably, Dabhol Power Project in India, despite documentation by Human Rights Watch of serious abuses, including beatings and harassment of protestors by state security forces. With the Chairman's concurrence, I would like to submit the Human Rights Watch report on the power project into the record.

Chairman BEREUTER. Without objection, that will be the order.

[The Committee has received the report and it has been retained in the Committee's permanent files.]

Ms. SCHAKOWSKY. And then recently, the Bank announced a $5 billion program to help Africans buy AIDS drugs, but it does nothing to check the pricing policies of the pharmaceutical companies, which is the biggest roadblock to slowing the pandemic, or at least addressing parts of the pandemic which are ravaging the continent.

It would just seem to me that again, when we are making these kinds of loans that it would be useful to have a broader scope when we examine individual projects and would welcome anyone's response to those concerns.

Ms. STANGLAND. Elaine Stangland from the Office of General Counsel, Congresswoman. I would like to address the first part of your comments with respect to human rights. Our charter does specifically speak to human rights. It speaks to it in the context of what is known as the "Chafee Amendment."

The Export-Import Bank's staff is some 400 people with expertise in banking, economics and law.

The Chafee Amendment is a reflection of Congress' determination that the expertise and the resources for determining human rights abuses and how they should impact the Export-Import Bank's financings best lies with the Secretary of State. So our charter does speak to it specifically.

There is other legislation, including an appropriations bill, and the so-called Leahy Amendment, which provides that we cannot do financing to security forces of any country without going through a process with the State Department relating to abuses of human rights.

Ms. SCHAKOWSKY. Although those deal with countries and not projects, right?

Ms. STANGLAND. That is correct. Leahy deals with security forces of governments.

The Chafee Amendment tries to balance the benefit from the export with human rights concerns and our national policy and foreign policy with respect to those issues. The Chafee Amendment is not limited to government deals at all; it applies to private sector deals as well. But, it is in the realm of expertise of the State Department; and Congress has set forth this procedure to take those types of issues into account.

Ms. SCHAKOWSKY. Exactly how does that interaction with State happen?

Ms. STANGLAND. The State Department gets copies of all of our board agendas and they have a representative attending each of our board meetings.

With respect to the Chafee Amendment, the way that works is the Secretary of State, having gotten the powers delegated from the President, will send us a letter specifically referring to that section and telling us that we are allowed to consider non-commercial and non-financial factors in our determination.

But, we do have an ongoing working relationship with the State Department.

With respect to the Leahy Amendment, we have instituted a procedure where we will notify the State Department any time we have any request for a financing to security forces and we wait for their clearance.

Ms. SCHAKOWSKY. My understanding is that credit has been denied because of human rights reasons only twice, right? Argentina and Cameroon, if I am not mistaken. So this is a fairly—well, a very rare occurrence.

Ms. STANGLAND. Your facts are correct, according to my records. On human rights, it has been twice.

Ms. SCHAKOWSKY. Under human rights, would violence against women and issues related to abuse based on gender be included?

Ms. STANGLAND. Well, the Chafee Amendment does list some specific concerns. They include international terrorism, nuclear proliferation, environmental protection, and human rights. We have always taken the position, and it is well accepted throughout the U.S. Government that the list of examples is not exclusive. If the State Department were to find that it is in the national interest and would importantly advance our national policy, they can do a Chafee Amendment for other foreign policy considerations.

I can't be more specific in my response than that. I am sorry.

Ms. SCHAKOWSKY. Thank you very much.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you for pursuing those questions.

The gentleman from Texas, Mr. Bentsen, is recognized.

Mr. BENTSEN. Thank you, Mr. Chairman.

Let me apologize if you have already gone through these questions. I am sorry for the disjointed nature of this hearing today, but obviously the floor schedule got in the way.

The Administration has proposed a 25 percent reduction in your budget for fiscal year 2002 and presumably that would carry on through the outyears. I am curious, how would the Bank absorb a reduction in that amount, and second of all, I believe this is correct that they have argued in the past that—or they have argued in their budget that in fact the Bank has not necessarily utilized all of its capital resources. I am not sure that is correct. But I would like you to comment on both of those issues.

Mr. HESS. On the budget reduction, Congressman, we do, as you say, have a 25 percent reduction in the proposed $633 million for an appropriation for program budget for fiscal year 2002. The estimates that the Bank makes on the resources necessary for a future fiscal year are just that, estimates. We don't program funds; we respond to requests that come in. If it turns out that the $633 million would be insufficient to handle the demand that comes in under our current programs and policies, we would look to program changes that could be made while maintaining U.S. exporter competitiveness in their financing packages that would stretch the $633 million to meet the demand that would, in fact, come in.

We do not necessarily believe that the $633 million would be a figure that would carry out into future years. We look at each year separately. Our budget request to OMB goes over each year with a new analysis of the projected demand for that current budget year. So we anticipate OMB will respond to our request and our analysis not based on just moving forward from a $633 million level, but from the analysis that we present on the demand we have projected.

Mr. BENTSEN. Let me ask you this, and I am not asking you for a policy decision here. I know that is not in your bailiwick. But last year, for the current fiscal year, your appropriated amount is $963, the prior year it was $865, or this year it is $630, approximately. Was the Bank fully subscribed in its lending or guarantees for fiscal year 2000 to the $865 figure and is the Bank on track this year to utilizing the $963 figure? If so, obviously, if by the whims of Congress and the Administration you end up with $663 million or whatever the dollar amount that is in the President's budget is exactly, assuming that the trends continue, then how would you make up that shortfall? Would you have to raise fees or just underwrite less guarantees? What would you do?

Mr. HESS. Well, the Bank's estimates sometimes are right on the mark and sometimes they are over or under. This past year we did carry over $38.5 million from last year into this year, a program budget that we did not use. The year before that, we had to budget our resources very carefully toward the end of the year because we had sufficient transactions presented to us that used up virtually our entire budget. The year before that, we had a carryover. So it goes both ways.

This year, as we look at demand coming up over the next 5 months, we believe there is sufficient demand to use up the entire appropriation that we have this year. So there will be little or no carryover from this year into next year's program budget. Therefore, we will have to rely on the $633 million plus any cancellations of prior year commitments to carry us through next year.

Mr. BENTSEN. So assuming trends continue the way they are this year and have been where you have been utilizing between 95 and 100 percent of your appropriated amount, then you would just reduce the number of guarantees that you would make, or would you raise your fees? What would you do?

Mr. HESS. Well, there are several things that the Bank could do. One of them, as you just mentioned, is raising fees. A second is lowering the amount of the transaction that we would finance. Right now we finance 85 percent of the transaction. By lowering the overall amount of the transaction financed, we would save budget authority. A third way would be to simply look with a more stringent eye at additionality and make judgments that some transactions simply do not need us.

Now, all of these kinds of actions tend to increase the cost to the U.S. exporter. So we would have to make any changes very carefully in order to ensure that the U.S. exporter's financing packages still remained competitive with those offered by other ECAs.

This would be a very delicate balancing act. But, we hope that we would be successful in doing it.

Mr. BENTSEN. Mr. Chairman, with your indulgence, if I could just ask the counsel, because I don't know the answer to this, I was involved with the 1997 reauthorization. To adjust the guarantee level or the fee level, does the Bank have that authority under the current authorization, or is that statutory authority?

Ms. STANGLAND. The 85 percent is not statutory. It is, however, a reflection of the OECD arrangement.

Mr. HESS. But that is a minimum. We could lower it from 85 percent; however, we just couldn't go above it to 90 percent.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you. The time of the gentleman has expired. I know the hour is late. I do have a number of questions I would like to ask on a second round and perhaps other Members do as well.

So first of all I would like to go to the question of the War Chest, over $300 million available that has not been used now for over 3 years. What is the direction to the Export-Import Bank and from whence did that direction come not to use the War Chest?

Ms. STANGLAND. Mr. Chairman, Elaine Stangland. Under the legislation that established the Tied Aid War Chest, the administration of the War Chest is lodged with Export-Import Bank. However, our ability to use the War Chest must be done in consultation and in accordance with the recommendations of the Secretary of the Treasury.

The legislative history of that provision we believe makes it fairly clear that it is the Secretary of Treasury that has the final word in how and when the Tied Aid War Chest is used.

Chairman BEREUTER. I would like to see the justification for that conclusion, if you could provide that to me in writing.

Ms. STANGLAND. I would be happy to, sir.

Chairman BEREUTER. What is the value of having the War Chest if we rarely use it? Is there any value at all?

Mr. MILLER. Mr. Chairman, obviously we are a demand-driven organization and the transactions are not coming in, but to the extent that we see them, and we try to do it, it is helpful to many of our exporters.

Chairman BEREUTER. Do you have any flexibility in using the War Chest funds for other purposes at the Export-Import Bank? Do you have any statutory authority to use it for other purposes?

Mr. HESS. Yes, Mr. Chairman, the War Chest can be used for other purposes, for normal day-to-day business, but we can only do that after we have consulted with the appropriate congressional committees.

Chairman BEREUTER. And that is the authorizing committees or the authorizing and appropriation?

Mr. HESS. We would normally consult with both, Mr. Chairman.

Chairman BEREUTER. Thank you. Export-Import Bank has been accused of facilitating transactions that have a net result of goods being dumped on U.S. markets to the detriment of U.S. industries. I know one of our colleagues from Ohio has a concern about steel. What procedures are in place, if any, to prevent Export-Import Bank in effect to have a dumping effect, a negative dumping effect on our country?

Mr. CRUSE. Mr. Chairman, Jim Cruse here. There are procedures mandated by Congress that evaluate what is called the economic impact of any Export-Import Bank transaction on the U.S. economy. We have developed a process, rules, and principles for that procedure. We would be glad to provide them to you if you wish.

In the context of the very specific requests about dumping, we have added a feature to those procedures that says that if there is a completed antidumping or countervailing duty determination against a specific country and a specific buyer that has exported to the United States, we will not provide any support for capital equipment to produce the specific goods under penalty to that buyer.

Chairman BEREUTER. But it takes that official determination?

Mr. CRUSE. Yes, to absolutely prohibit it. The larger review could come to a same conclusion, but that could take a lot of time.

Chairman BEREUTER. All right. What statutory provision or procedure was utilized to block Export-Import Bank's involvement in Three Gorges Dam. Was that the Chafee Amendment?

Mr. CRUSE. No. No, Mr. Chairman. That is the provision in Ex-Im Bank's charter that allow the Bank to deny a transaction based on environmental considerations.

Chairman BEREUTER. So that is not the Chafee Amendment?

Mr. CRUSE. That is not the Chafee Amendment.

Chairman BEREUTER. That is another provision that you must take into account?

Mr. CRUSE. It is. And moreover, the Congress specifically gave us the authority to deny a transaction, which, by the way, we did not deny the Three Gorges. We asked the buyer a lot of environmental questions which were never answered by the time the transaction went to the board for a decision.

Chairman BEREUTER. Yes. I remember that. Mr. Manzullo remembers it very well.

That provision traces only back to the 1997 authorizing act, is that correct?

Mr. CRUSE. The environmental provision came in 1992.

Chairman BEREUTER. 1992. And how long has the Chafee Aendment been in effect?

Mr. CRUSE. Since 1978, I believe.

Ms. STANGLAND. That is correct.

Chairman BEREUTER. I still have just enough to sneak in one more here, I think. Can you give us examples of how Export-Import Bank reaches out to local and regional banks to assist in financing transactions, and what is your experience, success, or what do you need, in addition, if anything, in the way of encouragement or statutory authority?

Mr. REDWAY. Mr. Chairman, we reach out in a number of ways. In fiscal year 2001, we are doing 60 seminars across the country, of which about 25 of those are lender seminars. Those are seminars where we go into local communities and talk about Export-Import Bank. We are doing these seminars all of the time. We also run a training program in Washington, which we have cut back since we have taken so many on the road. But we are doing about six in Washington where we have invited lenders.

In addition, on a very regular basis, we talk to the people at BAFT, the main trade association for the commercial banking industry. I think we reach out to banks just about every which way we can do it. They are our best customers.

Chairman BEREUTER. Thank you.

Ms. Waters.

Ms. WATERS. I had raised with the Chairman the fact that I was concerned about the head of the Bank, new or old, not being here, because I want to ask more questions about Sub-Saharan Africa. I was looking at—tell me how the Bank is organized so that—do you all have organizations specifically to take care of the Sub-Saharan mandate? How is it staffed? Who is in charge of it? How does it work?

Mr. UBAMADU. Congresswoman Waters, as you know, in 1997 there was congressional legislation to establish the Sub-Saharan Africa Advisory Committee. This group meets with the Bank to advise us on doing more transactions in the region. We also have an internal task force called the Africa Task Force that is composed of individuals from different divisions in the Bank. Just to let you know, this is the only internal task force that is dedicated to a specific region. This group meets once every Monday to look at issues that are related to Africa, and to look at transactions that are in the Bank and try to find ways to move them forward.

Ms. WATERS. Who is in charge of that?

Mr. UBAMADU. The counselor to the Chairman and to the Board, Gloria Cabe.

Ms. WATERS. Counselor to the Chairman of the Board.

Mr. UBAMADU. Yes. And we can give you specific information on the record.

Ms. WATERS. So this counselor has as her responsibility this issue only?

Mr. MILLER. Congresswoman, she chairs the African Task Force. In addition to the task force and the advisory committee within the International Business Relations area, we have a Sub-Saharan Africa team that is committed just to that region, and within different geographic groups in the Bank that process and analyze the transactions, there is a Sub-Saharan Africa region.

Ms. WATERS. How is it staffed? For the Sub-Saharan Africa region, describe the staff to me.

Mr. MILLER. Within the international business relations—are you referring, Congresswoman, to the number of staffers?

Ms. WATERS. Yes.

Mr. MILLER. In the international business relations area, we have three; within the trade finance——

Ms. WATERS. But that is broken up into regions?

Mr. MILLER. It is within the region of Sub-Saharan Africa, yes, ma'am.

Ms. WATERS. Oh, I see. So go back and describe to me again how the Bank is organized to specifically deal with the Sub-Saharan mandate. Who is in charge of it? I understand your committees. I just noticed that when I looked at Mr.—what is your name? Mr. Ubamadu, there is his name, but no title; he didn't have one. It says you are with the Office of the General Counsel. Are you a Deputy General Counsel?

Mr. UBAMADU. No. I am just a Counsel in the office. But, I am a member of the Africa Task Force.

Ms. WATERS. Do you work for the General Counsel's Office, or do you do something else with Sub-Saharan Africa?

Mr. UBAMADU. I do work for the General Counsel's Office, but we also have three representatives from the General Counsel's Office that are members of the Africa Task Force and I am a member of the Africa Task Force. As I mentioned before, as part of the task force, we work very closely with our Regional Director for Africa on various issues that are related to where there is market or trying to structure transactions in the region.

Ms. WATERS. So I take it that with this mandate, there has never been a structure where you have had something like a Vice President or other officer with the specific responsibility for Sub-Saharan Africa, with the staff that is advised by a task force and an advisory committee. What you have done is you have kind of taken someone from the General Counsel's Office to do some coordinating work of the task force or the advisory group; is that what you do?

Mr. MILLER. Congresswoman, each of the divisions within the Bank, the General Counsel's Office, the Small and New Business Group, the Structured and Trade Finance Group, which includes International Business Relations, are part of the Africa Task Force and coordinate with the Sub-Saharan Africa Advisory Committee to focus on activities for developing business and doing transactions in the region.

Ms. WATERS. Who is in charge of it?

Mr. MILLER. The task force is headed, as Mr. Ubamadu said before, by Gloria Cabe. The Sub-Saharan African Advisory Committee has a private sector chair, and the Small and New Business Group obviously is Mr. Redway and the Structured and Trade Finance Group is myself. So we all contribute to this effort.

Ms. WATERS. Is that the same way that you work with Mexico, for example?

Mr. MILLER. We don't have a specific task force for Mexico.

Ms. WATERS. How do you work with Mexico? Give me the structure.

Mr. MILLER. We have regional people within Latin America also, yes.

Ms. WATERS. Give me the structure of your Mexico operation.

Mr. MILLER. Within International Business Relations we have a Latin America team, and in the Structured and Trade Finance Group we have people focused on Latin America.

Ms. WATERS. What is different about what I am hearing about Sub-Saharan Africa and Mexico, for example, and the way that it is staffed?

Mr. UBAMADU. Congresswoman, if I may take that——

Ms. WATERS. I can't hear you.

Mr. UBAMADU. Sub-Saharan Africa is the only region at Export-Import Bank that has a task force which is specifically tasked to work in this area. It is also the only region that has a specific advisory committee that provides advice and counsel to the board on how to improve its business to the region. So unlike let's say Mexico or other regions where you have business development officers that are responsible for it, for Sub-Saharan Africa we have both business development officers plus individuals on the task force that work very closely with the business development officers, and the board, and the advisory committee to meet the 1997 legislative mandate.

Ms. WATERS. So is the business development officer considered the key person with responsibility for making things happen?

Mr. MILLER. Congresswoman, to develop the business, and the credit officer that would get the transaction would make the transaction happen and bring it to the authorizing decisionmaking body.

Ms. WATERS. They would bring it to the board?

Mr. MILLER. Correct. But it all feeds into the task force so that the whole region is looked at as a whole and there is initiative to direct the activities in the region.

Ms. WATERS. I have lots more questions, but we can't do it today. But I want to talk about again the staffing and I want to talk about how the decisions actually get made.

Chairman BEREUTER. Thank you. I think it would help this Member, the Chairman, perhaps Ms. Waters, if we had an organizational chart which is specified exactly as you can about the Africa effort.

Mr. MILLER. Mr. Chairman, we will provide it for the record.

Chairman BEREUTER. At this point we are looking for some sort of an overall organization chart for Ex-Im Bank, and either we do not have one with us, or we have not received one.

Mr. MILLER. We will provide it for the record.

Chairman BEREUTER. The gentlelady from Illinois, Ms. Schakowsky, is recognized again for 5 minutes.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I wanted to go back to some parts of the questions that were not answered before. I wanted to talk about the $290 million that went to the Dabhol project in India, which is a subsidiary of the Enron Development Corporation in India, and wondered were there any considerations, was that even part of the debate, the human rights abuses that took place around that project which were brought to my attention by Human Rights Watch and are very carefully documented. And I wondered if that was even a consideration.

Ms. STANGLAND. Congresswoman, I did not personally participate in that transaction but, I would be very happy to check with our staff and get you a response.

Ms. SCHAKOWSKY. It is the single largest foreign investment in India, so what we do there has an enormous implication.

Ms. STANGLAND. I don't mean any ignorance to be taken as——

Ms. SCHAKOWSKY. And I didn't mean that as a criticism.

Ms. STANGLAND. We will get you that answer.

Chairman BEREUTER. And will you share that with the subcommittee?

Ms. STANGLAND. Yes.

[The information referred to can be found on page 79 in the appendix.]

Ms. SCHAKOWSKY. Five million dollars to help with AIDS is very important. I guess I just wanted to make a suggestion. There are many Members of Congress, including Representative Waters and Representative Lee and myself and others, who are very concerned about this issue, and when a huge investment like that is made, is there ever any process that would involve consultation with Members who have weighed in heavily on issues like this to look at that kind of loan, that kind of commitment to such a project?

Mr. UBAMADU. Congresswoman, the initiative that was announced last year was to provide $1 billion per year in support to exports that would be HIV/AIDS-related. What this program does is allow us to export such items as medical supplies, AIDS testing kits, hospital supplies, equipment and services, which we traditionally finance right now on longer terms. So, what we basically announced was that for some pharmaceuticals and other products that traditionally we finance on a 180-day to 1-year term, we are now willing to provide up to a 5-year term.

With regard to consultation with the Congress, Congress has given us legislation to carry on the program; and there really is nothing new within this program that requires additional legislation. But, we can certainly discuss these issues with the Members if they would like, and with the subcommittee Members if they would like.

The key aspect of this program is that Ex-Im Bank was trying to help in this severe humanitarian crisis. This is not really within Ex-Im Bank's mandate in some sense. We are not a grant agency. We provide loans where we are required to show reasonable assurance of repayment, and many of these countries are heavily indebted. However, we did not want to stand to the side of such a catastrophic issue and do nothing. In the instance where perhaps grants are not available but infrastructure products are not needed, Ex-im Bank is willing to help finance this.

Clearly what we are looking at with this program is more in the private sector, but there are some countries where we are open in the public sector and we would be willing to look at this.

Ms. SCHAKOWSKY. I would say there is a lot of expertise on this committee and in this Congress and interest in this particular issue.

I wanted to just end quickly with this. While you defer to the State Department on human rights, you are not environmentalists either, and yet on environmental policy you do make decisions project by project within the Bank. Why is that not also true of any other subject, including human rights?

Mr. CRUSE. The environment is one of the two areas besides commercial creditworthiness where the Bank is granted independent authority to deny a case, and the other is economic impact. Only in those two areas can we go beyond the issue of commercial and financial creditworthiness. Everything else is prohibited by Chafee and requires going through the Chafee process.

Ms. STANGLAND. I would just add that we do have an engineering department that has expertise in the environment. It is a much more contained area than some of the other areas that you have talked about; and we have an engineer who focuses solely on environmental matters.

Ms. SCHAKOWSKY. Thank you.

Chairman BEREUTER. Thank you very much.

I would like to conclude the hearing, which is the first of at least several we are going to be holding on the Export-Import Bank, with a question and to encourage you, Mr. Hess, to invite members of the Export-Import Bank to be here in the audience on May 8, when we hear from supporters and critics of the Export-Import Bank programs.

But my question to you now, a concluding question, is, as objectively as you can, as candidly as you can, without pushing you into policy, what in your judgment are the implications for U.S. Exporters of a proposed 25 percent cut in the budget for the Export-Import Bank?

Mr. HESS. I think that if the estimates of demand, which are fairly conservative, in the budget are, in fact, exceeded by the calls on our authority, that it will be very tricky to fashion program changes that continue to have the Export-Import Bank offer competitive financing packages while still remaining within the $633 million. Candidly that will be a real challenge, but one that we will try to meet.

Chairman BEREUTER. Thank you very much. This will be a subject of considerable discussion within the subcommittee and on May 8 for the next hearing of the Export-Import Bank.

Again, I want to mention to Members of this subcommittee and the staff who are here watching for other Members that I expect we are going to be revising to some extent our proposed hearing schedule to take into consideration some of the changes that have been approved by the World Bank in the IMF meeting, specifically as it relates to AIDS, HIV. And, Ms. Stangland, I am anxious to see the information that you will provide me on which you base the interpretation that we mention with respect to the U.S. Treasury.

Ms. STANGLAND. Yes, sir.

Chairman BEREUTER. Thanks to all of you for taking time today to help us begin our examination of the Export-Import Bank reauthorization legislation. I very much appreciate it. Thank you.

Mr. HESS. Thank you, Mr. Chairman. We appreciate the subcommittee's attention.

Chairman BEREUTER. The hearing is adjourned.

[Whereupon, at 5 p.m., the hearing was adjourned.]

REAUTHORIZATION OF THE EXPORT-IMPORT BANK

TUESDAY, MAY 8, 2001

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

The subcommittee met, pursuant to call, at 2:00 p.m., in room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee], presiding.

Present: Chairman Bereuter; Representatives Ose, Roukema, Capito, Sanders, Sherman, Schakowsky, and Bentsen.

Chairman BEREUTER. Good afternoon. The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony on the reauthorization of the Export-Import Bank, the Ex-Im Bank.

The Ex-Im Bank was last reauthorized in 1997 for a 4-year term that expires on September 30th of this year. At this hearing the subcommittee will hear from representatives of a large corporation and a small business which use the Ex-Im Bank, as well as organizations who have differing opinions or criticisms of the Export-Import Bank's programs.

This is the subcommittee's second hearing on the Ex-Im Bank, and I am pleased to say we have only one panel today. I have been concerned for some time that we tend to hear from the Administration witnesses and then we don't have enough time for people who come to testify about the subject matter from the private sector and from the nonprofits.

So today we'll have, I think, a good break in that respect. Also, the House is not expected to cast votes until 6:00 p.m.

On May 2nd, the subcommittee heard from an experienced panel of professional staff from the Export-Import Bank. In addition to giving their testimony, the Ex-Im Bank submitted a legislative proposal just recently which would be a straightforward reauthorization of the Export-Import Bank for 4 years until 2005, and the extension of the life of the Sub-Saharan Africa Advisory Committee to that date. I look forward to receiving the panel's views on this legislation and the bank in general.

Before introducing our outstanding panel, I am going to briefly stress the following items which were discussed in the first hearing of the Export-Import Bank: Proposed cuts in funding; possible net income; small business activities; Ex-Im Bank activities in Africa;

and types of subsidies offered by export financing agencies in other countries, including tied aid war chests.

I would like the witnesses today to address those issues if they can and will and any others that they are planning to address will be most welcome.

I am going to summarize my following remarks and ask unanimous consent that my entire statement be made a part of the record, and to extend that privilege to all Members. Hearing no objection, that will be the order.

First, on May 2, the Ex-Im Bank testified regarding the proposed reduction in funding for fiscal year 2002. The Administration requested $633 million to fund its program budget which administers the Ex-Im Bank loan, insurance and guaranty programs. This is an approximately 25 percent cut from fiscal year 2001.

I do have significant concerns about the Administration's proposed cut, but we'll see what this panel has to say about it.

Furthermore, the Ex-Im Bank also testified that they need additional funding for upgrading their technology. As a result, the Administration proposed $65 million for fiscal year 2002 for Ex-Im Bank administrative budget, which is an increase of $3 million from the prior year.

Second, at the May 2nd hearing, some questions were asked regarding the annual and cumulative net income for the Ex-Im Bank. And that's a subject in which the membership showed considerable interest.

Third, with respect to small businesses, the 1997 authorization law mandated that the Export-Import Bank make additional efforts to enhance its programs to small and rural companies. When the Ex-Im Bank testified, they explained how they continued to try to meet this mandate.

Today our small business witnesses will testify as to the efforts of the Ex-Im Bank in that regard from his perspective.

And also in the 1997 authorization bill, another mandate, an increase in the Ex-Im Bank's financial commitment to Sub-Saharan Africa.

I would like to pass over some comments about tied aid, but as I said before would welcome your suggestions about whether or not we've been successful in our efforts in OECD to reduce tied aid on the part of the other countries or whether or not some of them have found other ways to achieve the same purposes.

[The prepared statement of Hon. Doug Bereuter can be found on page 118 in the appendix.]

Chairman BEREUTER. To assist the subcommittee in examining these reauthorization issues, I am pleased we have an opportunity to hear from a distinguished panel. First we will receive testimony from Mr. Richard Christman, President, Case IH Agricultural Businesses. I understand you have at least a 4:00 o'clock time constraint to catch a flight, and I think that should be no problem.

Case New Holland, which uses Ex-Im Bank, is the number one manufacturer of agriculture tractors and combines, the world's third-largest maker of construction equipment.

Next, Mr. Ian McLaughlin, the Chairman and CEO of Watson Machinery International based in Patterson, New Jersey will testify. He will bring the perspective of a small business owner who uses the Export-Import Bank and lots of machinery, supplies high performance machinery and production systems for wire, cable, fiber optics and wireless industries.

Our third panelist is Dr. Fred Bergsten, the Director of the Institute for International Economics. Since its creation in 1981, among other past positions, he was Assistant Secretary of the Treasury for International Affairs. He has testified before this panel and before the full Banking Committee and expects to be before the Financial Services Committee on many future occasions.

Next, Mr. Ian Vásquez, the Director of Cato Institute's Project on Global Economic Liberty. He will testify. His writings have appeared in newspapers throughout the United States and Latin America, and we look forward to his testimony.

Dr. Brent Blackwelder, President of Friends of the Earth will testify. He was the founder of the Environmental Policy Institute which merged with the Friends of the Earth and Oceanic Society in 1989.

The final witness is Mr. George Becker, the former President of the United Steelworkers of America. He recently retired as President, was first elected to that position in November 1993. He is a second generation steel worker and a native of Granite City, Illinois.

We welcome the distinguished panel to our hearing. Without objection, their entire written statements will be included in their entirety in the record.

But now before we proceed with the panel, I would like to turn to the distinguished Ranking Member, the gentleman from Vermont, Mr. Sanders, for opening comments.

Mr. SANDERS. Thank you very much, Mr. Chairman, and thank you for putting together an excellent panel which I think will give us different viewpoints of the pluses and minuses of the Ex-Im Bank.

This is the major concern that I have. We do not discuss it as a government very much, but right now the United States has a recordbreaking trade deficit of well over $400 billion a year. And I think that the work of the Ex-Im Bank has got to be looked at within the context of a failed—f-a-i-l-e-d—failed trade policy, which is costing us hundreds of thousands of jobs. So that's the first thing.

Our trade policy is failing, to my mind. We have a recordbreaking trade deficit. We have an $83 billion trade deficit with China, and Ex-Im Bank has got to be looked at within that context. And it is not good enough to say, well, gee, we have a huge trade deficit. That's why Ex-Im Bank is so important, that we can create a few more jobs. I think we have to look at Ex-Im Bank from a different perspective.

Second of all, I think that it is bad public policy to say to some of the largest corporations in America, companies like Boeing and General Electric, who have made substantial reductions in their workforce, who have laid off huge numbers of American workers, and say to them, well, thank you very much for laying off large numbers of American workers. Here is a subsidy from the Export-Import Bank.

It seems to me that if the United States is going to provide subsidies to employers, what we want to say to those employers, we are giving you this subsidy because we appreciate the work that you have done in increasing decent-paying jobs in the United States. And there are certainly companies in the United States who are working under very difficult odds. Small businesses, large businesses who are saying we want to grow jobs in the United States of America. Those, it seems to me, are the companies that we want to give support to.

When you have a company—and I will just single out G.E.—but there are many others. G.E., if Jack Welch were here today, what he would say, one of the things that we have focused on in recent years is globalization. One of the reasons that we are such a profitable corporation is that we are intentionally laying off American workers at decent wages and hiring people all over the world at very low wages. That's what we are doing. And for the Ex-Im bank to simply come and say, G.E., thank you for that policy of laying off American workers. We are going to make you one of the major beneficiaries of the Ex-Im Bank, is to me absolutely absurd.

It is not good enough to look at Ex-Im Bank from a project-to-project-to-project basis, to say, OK, this project is creating 400 jobs, but we are forgetting the fact that you've laid off 10,000 workers, and that's your intention. Your intention is to move to China and pay people 20 or 30 cents an hour. But we don't care about that. This particular project will create a few jobs. Not good enough.

If you have a carrot, use the carrot, and use the carrot to benefit the people of the United States of America who are paying for these subsidies in general.

I am particularly impressed in reading through Mr. Becker's presentation to learn that the Export-Import Bank is financing a multi-million-dollar project to modernize a Chinese steel mill that is under investigation for illegally dumping steel into the United States. Now, that may make sense to some people. It does not make a lot of sense to me.

I think Mr. Blackwelder will talk in a moment about how some of the Ex-Im Bank projects have been very anti-environmental and at a time when every sane human being is worried about global warming and other negative things that are happening to our environment, I think we want to take a hard look at that as well.

So, Mr. Chairman, thank you for putting together this excellent panel, and I look forward to participating in the discussion.

Chairman BEREUTER. Thank you, Mr. Sanders, and thank you for your recommendations. Under the Committee rules, we will recognize other Members for opening statements of 3 minutes each. Gentleladies? Thank you very much.

We will now proceed with testimony. First we will hear from Richard M. Christman. He is the President of Case IH Agricultural Business, but I failed to mention he is also appearing in behalf of the National Foreign Trade Council and the Coalition for Employment Through Exports.

Gentlemen, we would appreciate it if you could each limit your presentations to approximately 5 minutes. And as I said, your entire statement will be made a part of the record. Mr. Christman, you may proceed as you wish.

STATEMENT OF RICHARD M. CHRISTMAN, PRESIDENT, CASE IH AGRICULTURAL BUSINESS OF CASENEWHOLLAND INC.

Mr. CHRISTMAN. Thank you, Mr. Chairman and Members of the subcommittee. My name is Richard Christman, President of Case IH Agricultural Business of CaseNewHolland Inc. CNH is the number one manufacturer of agricultural tractors and combines in the world, and as indicated, the third largest manufacturer of construction equipment, and has one of the largest equipment finance operations within our industry.

I am also testifying today on behalf of the National Foreign Trade Council and the Coalition for Employment Through Exports, whose members comprise major U.S. exporters and financial institutions.

Now at the onset, let me emphasize that CNH and the other members of CEE and NFTC urge Congress to reauthorize the Ex-Im Bank for 5 years. It is essential to American exporters and our workers that the bank's charter be reauthorized until September 30th, 2006. This would avoid the difficulty which occurred in 1977, and then again this year, when the reauthorization occurs during the first year after a Presidential election and in the same year as when the Ex-Im Bank chairman's and vice chairman's terms expire.

And we look to your leadership in ensuring that the bank is fulfilling its mandate to promote U.S. exports and, importantly, U.S. jobs, by being fully competitive with other major export credit agencies.

Now in this regard, adequate appropriations are just as important as the reauthorization in accomplishing this critical goal. Ex-Im Bank's budget must be funded adequately and its policies and procedures must recognize the realities of today's very fierce competitive marketplace.

CEE and NFTC recently issued a port on the important benefits of Ex-Im Bank to small and medium businesses. The report highlights that thousands, literally thousands of what we call "invisible exporters" across this nation by listing 35,000 primary suppliers of goods and services to 13 major U.S. exports, and CNH was one of those 13.

Now at CNH, our construction equipment moves the earth, and our agricultural equipment helps feed the world. Well, how do we do this? By exporting this construction equipment and ag equipment to over 160 countries. Now why do we do it? It's because trading gives us an opportunity to grow our business. It also gives then our suppliers an opportunity to grow their business. Because through our exports, their products then ultimately reach global customers.

So each of our suppliers can be viewed as what we call an "invisible exporter."

Now many of our exports are assisted by Ex-Im Bank. The result: Exporting CNH equipment means that we are really importing business to our U.S. suppliers and to our factories in the U.S.

Ex-Im Bank serves as what we call our "lender of last resort" for U.S. exporters. And we use it when commercial bank financing is not available for those export sales, and the U.S. exporters, when we are confronted with foreign competitors that do have financing available from their governments. Currently there are some 70 governments around the world that have ECAs similar to Ex-Im Bank. And they provide $500 billion a year in government-backed financing.

Now increasingly, as we try and sell across the world, financing is a key to winning these export sales. Great products are not enough in today's marketplace. Customers demand that exporters arrange financing for sales. However, in many emerging markets where the export potential is the greatest, commercial banks are often unwilling to provide financing even for creditworthy customers.

And at this juncture, we cannot risk foreign suppliers stepping into these markets because of financing support from their ECAs. Lack of a viable or a fully funded Ex-Im Bank would adversely impact the ability of our company to compete against some very formidable foreign suppliers.

From 1977 through 2000, CNH financed more than $420 million worth of sales of Ex-Im Bank board-approved transactions to Uzbekistan, Turkmenistan, and Ukraine. Without Ex-Im Bank, none—and I stress none—of these sales would have been completed.

And this does not even consider the impact of hundreds of thousands of other employees at our suppliers' factories or their sub-suppliers in the U.S.

For example, as shown on the charts here, to build one combine, we engage 235 suppliers from 30 states representing in total 100,000 employees.

To build a magnum tractor out of Racine, Wisconsin, we engage 200 suppliers, 27 states, and another 75,000. And while you probably can't read all the suppliers, many of those——

Chairman BEREUTER. I hate to interrupt you, but could you summarize and conclude in about 30 seconds?

Mr. CHRISTMAN. OK. Are under 100. Real life stories. In Uzbekistan, we have sold these. We need Ex-Im Bank financing to defend ourselves against the likes of Claas, Deuz-Fahr, Fendt. The key success factors is to get the financing, have it at a competitive rate, and make sure that we are competitive with those foreign governments out there that are competing for our business.

Thank you, Mr. Chairman.

[The prepared statement of Richard M. Christman can be found on page 128 in the appendix.]

Chairman BEREUTER. Thank you very much, Mr. Christman.

Next, we will hear from Mr. Ian McLaughlin. He is the Chairman and CEO of Watson Machinery International, but he is also speaking and appearing on behalf of the National Association of Manufacturers. Please proceed.

STATEMENT OF IAN WATSON McLAUGHLIN, CHAIRMAN OF THE BOARD AND CEO OF WATSON MACHINERY INTERNATIONAL

Mr. MCLAUGHLIN. Good afternoon, Mr. Chairman. As you introduced me, I am Ian McLaughlin. Watson Machinery is a leading manufacturer of machinery and production systems that essentially make wire and cable, fiber optic cable, and wireless cable. We are based in Patterson, New Jersey, and I have prepared testimony that I ask to be submitted in the written record, and I have some brief remarks.

I am also testifying on behalf of the National Association of Manufacturers.

Thank you for the opportunity to testify on the reauthorization of the Export-Import Bank. Many might be surprised that Watson Machinery, a small American business with 90 employees, is even remotely interested in Ex-Im Bank. After all, the claim is often made that Ex-Im Bank is the financial boutique of the Fortune 100.

I am here to let you know that Ex-Im Bank is actually vital to small manufacturers such as myself and/or my company, and it does fill a gap in the financial market that we could not find elsewhere.

Bottom line is that about as much as 60 percent of the sales of Watson are outside the United States. And without Ex-Im Bank, these deals would go to my competitors in Italy, in France, in Germany and elsewhere, all of whose export credit agencies do provide the working capital guarantees necessary to support small businesses in their countries.

An illustration of the critical role Ex-Im Bank plays occurred at the end of 2000 for Watson Machinery. We signed a contract to sell capital machinery worth $4.6 million, and that machinery represented two lines of production for fiber optic cabling equipment and two lines to manufacture radio frequency wireless cable to Ocean Cable Communications, called OCC, in Tochigi, Japan. This sale would not have occurred without help from Ex-Im Bank's Working Capital Guarantee Program.

To get to the essence of the matter, our banking facility does not allow work-in-process inventory financing. As this order represented our first penetration into the Japanese marketplace, we had intense competition from Europe. We did not ask for progress payments, and that is where Ex-Im Bank came in.

Watson filed an application for an Ex-Im Bank working capital loan guarantee. Now that Working Capital Loan Guarantee Program encourages commercial lenders to make loans to U.S. businesses for various export-related activities, including the purchase of raw materials, labor and overhead to produce the goods and services which we export.

The guarantee may be used to cover working capital loans to a U.S. business only if the lender shows that the loan would not have been made without the assistance and guarantee of Ex-Im Bank, and that Ex-Im Bank determines that the exporter is creditworthy. In the case of Watson, Ex-Im Bank approved a $3 million guarantee that backed our ability to be able to produce $4.6 million in equipment to sell to Japan. And I can tell you, it would not have happened otherwise. We have been dealing with one of the largest banks in New Jersey, and they are still skitterish on providing export financing.

I emphasize two points. Again, the transaction would not have gone forward without Ex-Im Bank, and that this support doesn't come for free. Ex-Im Bank only entered into the transaction when the lender showed that the loan would not have been made, and our lender in fact is a bank that's headquartered out of Connecticut, that would not have been made with Ex-Im Bank's guarantee. In other words, Ex-Im Bank proved that it can fill gaps in financial markets for small companies.

No corporate subsidy here, particularly when you consider that the export credit agencies of my competitors overseas are not holding back in this area.

We paid a $500 processing fee and an up-front facility fee of 1.5 percent of the total loan amount. And that helped ensure that there was an adequate loan loss reserve and an acceptable risk level for the U.S. Government.

Watson Machinery International will continue to do everything in its power to remain competitive in global markets. And I am here to ask you to do your part to help in filling those gaps in financial markets.

I see that my time is up, and I will cease at that point.

[The prepared statement of Ian Watson McLaughlin can be found on page 144 in the appendix.]

Chairman BEREUTER. Thank you very much, Mr. McLaughlin.

Next we will hear from Dr. C. Fred Bergsten. He is the Director and founder of the Institute for International Economics. Dr. Bergsten, you may proceed as you wish.

STATEMENT OF DR. C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

Dr. BERGSTEN. Mr. Chairman, thank you very much. Let me start with the bottom line. I think it would be a huge mistake to substantially cut the budget and program of the Export-Import Bank as the Administration has proposed.

To the contrary, I believe there should be a substantial increase in funding for the Ex-Im Bank because that is the only way to assure a level playing field for American exporters in world trade.

I give calculations in my paper suggesting that the increase should be about 50 percent, and I trace what that would mean for budget authority, the authorization ceiling, and the annual program level.

I stress, only with such an increase will we provide a level playing field for American exporters in the world economy.

I also believe the reauthorization bill, far from being a clean bill, should give the bank new authorities to compete with the market windows through which other competitors are eating our lunch, and authority to compete with so-called untied aid, which often amounts to de facto tied aid and is also eating our lunch in key markets like power equipment in China.

We should use the current war chest availability for that purpose and the new legislation should authorize it.

Why do I make these strong proposals? I agree with Mr. Sanders. We have to see the Ex-Im Bank issue in a much broader context, not just the individual transactions, important as they are, but in the context of our whole economy and indeed our whole trade deficit, exactly as Mr. Sanders said.

But my conclusions are very different from his. First, we have to recognize that export expansion has been a major driver of U.S. economic growth for two to three decades. The share of exports in our economy has tripled over the last generation. It has been a major source of the dynamic improvement of the U.S. economy, particularly over the last decade. My Institute has published two studies showing why this is so. We've another one coming in the next few months. I'm happy to share the details on that with you if you wish.

The second big picture reason is, as Mr. Sanders said, the trade deficit. I'll go him one better. It's getting close to $500 billion this year, 5 percent of the economy. It's a financial risk because the dollar could fall sharply at any moment, and it's a trade policy risk, as he implies.

There are only two ways to correct the big trade deficit. One is to reduce imports, the other is to expand exports. I would argue that export expansion is by far and away the overwhelmingly better way to do it. The Ex-Im Bank is not going to do that by itself, but it can certainly help, and that's one reason we should want to promote it.

I should add that in both the overall economic and trade balance contexts, according to a series of studies, including those by my institute, export jobs are considerably better than other manufacturing jobs, let alone other average jobs in the economy. They pay 5 to 10 percent better, benefits are even better than that by comparison, productivity is 20 percent higher in export firms, and they are 10 percent less likely to go out of business and destroy jobs.

So, on both quantity and quality grounds, it's a big plus for the economy.

Mr. Sanders rightly asks the question, what about those firms that get big Ex-Im Bank credits but reduce jobs? My answer is quite straightforward. Without the Ex-Im Bank credits and the exports, they would have reduced more jobs. Indeed, the jobs they have created with the credits are very good, high-paying, stable jobs, and that is what we want.

Moreover, if you look at the whole economy, it has, until quite recently, been at full employment by anybody's definition. We cannot look at just one firm or even one industry. We have to look at the impact on the economy as a whole, and that is where the payoff has been.

The final policy reason to support a stronger Ex-Im Bank is overall trade policy. The President is about to come to the Congress for trade promotion authority—fast track as it used to be called—to enable the U.S. to negotiate new reductions in trade barriers around the world. As you know better than me, that's going to be a big battle. And those of us who support increased trade activity and authority to do it need all the help we can get. This for sure means strong support from the exporting community. That in turn means working with them in constructive ways where the government can help, like supporting a bigger and more effective Export-Import Bank program.

The final point, Mr. Chairman, is to suggest that the basic strategy we need for the Ex-Im Bank is a two-track strategy. We want to get a level playing field for American industry in world trade, which means getting foreign countries to stop providing excessive subsidies. We want to negotiate reductions or preferably elimination, of their subsidies wherever possible.

We know from history, not theory, that the only way to do this is to have sufficiently serious programs of our own so that we can bring the foreign competitors to the negotiating table.

So, we not only want to increase our own programs to support exports on their merits but also use those programs to get others to reduce their subsidies.

We know from history that it works. When I was running the international part of the Treasury, we did it in the late 1970s—we created the OECD agreement that eliminated excessive maturities and excessive interest rate subsidies.

It was done in the mid-1980s. The war chest was used to stop tied aid practices that amounted to export subsidies. But today, new practices have crept in. We need to seriously deal with them. I believe that, in your reauthorization legislation, you need to increase the amounts, not cut them; broaden the authorities; and promote an effective U.S. policy in this area.

[The prepared statement of Dr. C. Fred Bergsten can be found on page 147 in the appendix.]

Chairman BEREUTER. Thank you very much, Dr. Bergsten.

I mispronounced the next panelist's name, giving him the name of our colleague. It's Mr. Ian Vásquez, not Velasquez. Senior Fellow—apologize for that—Cato Institute. Accent on the last syllable or first syllable?

Mr. VÁSQUEZ. First syllable.

Chairman BEREUTER. Mr. Vásquez, you may proceed as you wish.

STATEMENT OF IAN VÁSQUEZ, DIRECTOR, PROJECT ON GLOBAL ECONOMIC LIBERTY, CATO INSTITUTE

Mr. VÁSQUEZ. Thank you. I would like to thank Chairman Bereuter for inviting me to testify. In the interest of transparency, let me point out that neither the Cato Institute nor I receive government money of any kind.

President Bush has called for a 25 percent cut in the funding of the Export-Import Bank. I believe that the proposed cuts are a good start, but that Congress should go much further in recognition that the rationales for using the Export-Import Bank and its credit do not justify its current level of authorizations.

The Ex-Im Bank and its proponents cite a number of reasons that the credit agency benefits the United States. Yet because the bank takes resources from the U.S. economy and diverts them toward politically determined less efficient uses, its intervention creates distortions in the national economy and imposes opportunity costs that surely outweigh the value of the bank's intervention.

Moreover, as the GAO and the Congressional Research Service and numerous economists have pointed out, subsidized export credits do not create jobs, nor noticeably affect the level of trade. Indeed, only about 1.5 percent of all U.S. exports are backed by the Ex-Im Bank, far too small to make an impact on trade.

Other factors play a much larger role in influencing jobs and trade, including interest rates, capital flows and exchange rates. Rather, the effect of subsidized exports is to subsidize foreign consumption and to alter the composition of employment and production in the U.S. economy without increasing economic activity or levels of employment.

A principal rationale for use of Ex-Im Bank resources is that the agency provides its services when the private sector is unable or unwilling to do so. Yet the bank has been providing the bulk of its services to countries like China and Mexico that have had little difficulty in attracting private investment on their own. Ten countries account for 50 percent of the agency's total exposure.

At best, then, the bank provides financing to countries that do not have trouble obtaining credit, and in many cases may be merely displacing private investment. At worst, the credit agency underwrites exports that should not be financed and would not otherwise receive support.

Indeed, the lack of private sector finance is not an example of market failure but rather an important market signal about a project's prospects or a country's investment regime. In the cases where the bank provides credit into a bad policy environment, it discourages host governments from introducing the types of market reforms that are necessary to genuinely attract private capital.

And so I believe that it is worrisome that the Ex-Im Bank has significantly expanded its operations in sub-Saharan Africa in the past few years since the majority of those countries lack economic freedom and are on the World Bank and the IMF's list of highly indebted nations unable to pay their debts.

In sum, if the private sector is not already providing export credit or insurance to a project, there are probably good reasons for that, and the bank should not step in. The risks of government failure far outweigh that of so-called "market failure," and examples of that include the fact that Ex-Im Bank credit helps to postpone market reforms, imposes large opportunity costs and finances firms abroad that compete with U.S. firms.

The other principal rationale for Ex-Im Bank credit is that it is used to countersubsidize competition that U.S. firms sometimes face. But much Ex-Im Bank credit helps U.S. firms that do not face competition subsidized by foreign governments. In 1999, for example, only 18 percent of medium-and long-term loan guarantee transactions went to counter government-backed export credit competition, representing about $6.3 billion of the Ex-Im Bank's activity.

Those figures suggest that the bank could significantly reduce its activities without undermining its mission to counter foreign-subsidized competition. The Bush Administration's proposal to cut the bank's funding by 25 percent should be viewed as a starting point even by those who believe that the agency has a legitimate role in countering subsidized foreign exports. At the very least, then, the Export-Import Bank should be limited to financing exports that meet that criteria.

But the idea that the United States suffers from a playing field that is not level is questionable. The United States exports about $1 trillion of goods and services per year. The Ex-Im Bank backs only $15.5 billion of that amount, or 1.5 percent of total exports, only some of which face government-subsidized competition.

When only a fraction of 1 percent of U.S. exports faces competition supported by foreign export credit agencies, it is difficult to conclude that the U.S. economy is threatened by a playing field tilted against it.

If the goal is to help U.S. exporters, there are other, more preferable ways in which to do so; namely, by making the United States a more competitive economy, and Congress can do much by addressing issues related to tax and regulatory policy.

It is time that Congress retire this corporate welfare agency. The bank benefits a small number of firms at the expense of the rest of us. Moreover, the tiny percentage of U.S. exports supported by Ex-Im Bank shows that the U.S. economy does not suffer from a lack of a level playing field.

Finally, and most importantly, Congress does not have the Constitutional authority to use general taxpayer money to support specific groups.

Thank you.

[The prepared statement of Ian Vásquez can be found on page 162 in the appendix.]

Chairman BEREUTER. Mr. Vásquez, thank you very much.

Next we will hear from Dr. Brent Blackwelder, President, Friends of the Earth. He reminded me he had appeared 18 years ago before the predecessor subcommittee. We were looking at the World Bank. And you may well have had some impact on us enhancing the environmental review process of the World Bank because of the oversight activities of this subcommittee and our push to their executive director.

Dr. Blackwelder, please proceed as you wish.

STATEMENT OF DR. BRENT BLACKWELDER, PRESIDENT, FRIENDS OF THE EARTH

Dr. BLACKWELDER. Thank you, Mr. Chairman. We are very grateful for the opportunity to testify. And in my testimony I'm going to stress several ways in which once again Congress could make some decisive changes as you have in the past with respect to the World Bank, and those produce very beneficial results in terms of the projects which they support.

Friends of the Earth is a national environmental group. We're part of Friends of the Earth International with member groups in 69 countries. So we bring a global perspective to these recommendations.

Before I go forward with these suggestions, I want to commend outgoing Chairman Harmon, because the Export-Import Bank has some of the very best environmental standards. And rather than leading to a downward harmonization, these have led to an upward harmonization, because Australia and Japan's export credit agencies are moving up with their guidelines to improve the environmental performance.

Furthermore, those guidelines have helped us avoid giving a blessing to projects which are environmentally damaging. So I think there is a good thing that we can look at there.

Now I want to turn to several suggestions for changes which you could put into the authorization bill. One is to ensure timely public input and comment on projects, making environmental assessments available. The disclosure. This could be similar to what is required in the case of OPIC. We suggest a 120-day period.

Second, you could put into place an ombudsman or an independent review panel. This is what you did in the case of the World Bank, and one of the beneficial results of that review was that they put the red flags up on a very dangerous and damaging World Bank project, the Western China Poverty Project, and that was scrapped. So I think Congress, in particular this Committee, could take credit there. And once again, the Export-Import Bank could use some sort of ombudsman or independent review panel or function.

Next, the World Commission on Dams has just completed its series of recommendations. And we would urge that the U.S. Export-Import Bank adopt and abide by those recommendations. They are outstanding. And right now, there are several major dams being proposed which may be eligible for export credit financing. Not only would they create serious environmental and social impacts, but some of them would actually destroy places of great cultural significance to human civilization. I'm referring, for example, to the Ilisu Dam in Turkey.

Next let me turn to the final and most significant area in which I think what the Export-Import Bank does has huge and major implications to the environment of Planet Earth, implications that affect everybody on the Earth.

What the U.S. Export-Import Bank and OPIC did, according to our study, between 1992 and 1998, was to provide support for fossil fuel projects which will emit as much carbon dioxide over their lifetimes as the entire world economy emitted in 1996. So, there has been discussion mentioned earlier, is Export-Import Bank that big? I'm telling you, in the environmental area, they are huge.

And their energy policy is undermining the climate concerns and objectives that President Bush has articulated and others have expressed concern about. And this is typical also of what export credit agencies have been dong around the world. They are not respecting the G–8 communique saying that we need to be aware of climate change and we should not with our financing be supporting projects that keep countries like China and India hooked on fossil fuels. And this was one of the concerns the U.S. Congress raised about the Kyoto Treaty.

So it makes no sense on the one hand to say, well, we want to go ahead, but we're not going to do it if China and India are going to stay hooked, and then with our Export-Import Bank and other resources, provide only funding for this kind of project.

We would say that the big reform needs to be to shift to clean energy sources. Because the Export-Import Bank's financing has gone from 3 percent to 28 percent of the portfolio in terms of fossil fuel projects between fiscal' 99 and fiscal 2000.

So you can make a decisive difference, and I would urge you to do so. We would really support this. Because it's absolutely crucial to the health of people throughout the world that we shift our approach to energy, and the Export-Import Bank could help do so.

[The prepared statement of Dr. Brent Blackwelder can be found on page 169 in the appendix.]

Chairman BEREUTER. Thank you, Dr. Blackwelder, and right on time.

Next we will hear from Mr. George Becker, former President, United Steelworkers of America. Mr. Becker, you may proceed as you wish.

STATEMENT OF GEORGE BECKER, FORMER PRESIDENT, UNITED STEELWORKERS OF AMERICA

Mr. BECKER. Thank you, Mr. Chairman, Ranking Member Sanders and Members of the Committee. It's an honor to be with you. You have my testimony. I'm not going to repeat the testimony. You can read that.

I'd like to make some comments, though. I was the President of the United Steelworkers of America. We have about 750,000 members in two countries. We're a manufacturing union. We're the largest steel union. We're the largest aluminum union. When I say "aluminum", I'm representing the members in those industries.

We're the largest union representing rubber workers in the United States and in manufacturing generally throughout those countries. We had a broad diversification in our union, touching all segments. Most people tend to think of us as steel only. That's really not true.

I want to make one point with the Committee very clear. We are not opposed to trade. We're a trading union. At conferences and conventions I would many times ask the people in attendance, the delegates in attendance, to hold up their hand if they're involved in exports. And so clearly some 85 percent of our members across the boards from the representative leaders as these sessions indicate that they are involved in export in one way or another.

We are opposed to unfair trade. This is clear. We're opposed to dumping. We're opposed to the virtual dismantling of American industry in the United States that's taking place today. Literally hundreds of thousands of jobs are being wiped out in the manufacturing sector annually.

We're under an assault like we've never faced, at least within my lifetime, which is far longer than what I care to think about anymore these days.

I guess the one thing that—we deal with trade, we deal with imports coming into the country, and we know there are prices to pay, but we want it to be fair competition. But even if it's predatory competition, we have to deal with that. The one thing that we don't understand, we don't like, is when our institutions in the United States, in which we contribute a lot, workers do, in supporting the tax base, is used against their own best interest, like in the Ex-Im Bank and the $18 million that was fed into Benxi, I think is how you pronounce it, the iron and steel company in China, strictly for the purpose of increasing its capacity.

We have a worldwide glut of steel in the world today. We're suffering from that here in the United States, and people tell us continually—this Administration and the one previous told us that we have to deal somehow with the world capacity. Somebody has to deal with it, but nobody has dealt with it. This is the wrong way to increase that capacity.

This is an export mill that's in China, and it's going to be used to bring product back into the United States. We do not need to increase capacity of that kind. We don't need to use our tax money to do that. What we're wiping out is family supportive jobs, what I call the American Dream, where you can buy a house, you can buy a car, you can educate your children, you can pay your taxes, you can support the social network in the United States, you can afford to pay the taxes on Social Security and Medicare. You can't do that on minimum wage jobs. We're wiping out the family supportive jobs.

Let me be blunt, if I haven't been up to now. I'm outraged over the fact that our tax base money is being used to put our industry in jeopardy. Right now we've got 18 steelmaking plants in bankruptcy in the United States. We've got hundreds of thousands of jobs at risk. Some of these are going to be wiped out. Our pricing structure has been destroyed by the imports coming in. You can't sell steel at the prices today that the import levels have driven it to.

The answer is what? Do we want to wipe out the steel industry? We're operating at 76 percent last week, 76 percent capacity in the United States. That's not enough to keep it going. We're going down the drain. Big mills are going down the drain. I mean, the third largest is in bankruptcy and is in danger of going into Chapter 7, which means you turn the lights out on it, and others aren't far behind.

You can't borrow money. They can't reinvest in the industry. You talk about Ex-Im Bank pouring money in for the Chinese to build steel capacity to take our markets in the United States? Why don't they invest somewhat in the United States to where we can build the capacity and make more efficient industry and keep the jobs here in the United States, the kind that pays all of our freight—yours, mine, and everybody else in this country?

I think it's outrageous for us to deal with China this way. It's a predator nation. We have over a $400 billion deficit, trade deficit with China. They don't respect human rights. They're a repressive government. People cannot share in a wealth they help create in China. They can't take collective action like we can in the United States, and you can in the rest of democracies. I think it's a terrible situation.

Surely this can't be what Ex-Im Bank was designed to produce, to wipe out jobs.

You know, there was a comic strip I used to refer to years and years ago. Maybe everybody's forgot it—"Pogo". He said, "We have met the enemy and he are us". Sometimes I think this is where we're heading right now. We should come to grips with who's side we're really on.

In conclusion, let me say I think this is an excellent opportunity for your Committee to examine the functions of the Ex-Im Bank, to take a good look at this, and let's get it back on track while we still have time.

Thank you.

[The prepared statement of George Becker can be found on page 173 in the appendix.]

Chairman BEREUTER. Thank you, Mr. Becker. And may I say that I think all of you have made your points very concisely and very ably.

The subcommittee will now proceed under the 5-minute question rule. And I can assure Members that we expect to have a second round of questions, so if you don't complete your first line of questioning, we'll come back to you shortly.

So I'll begin with the questioning under the 5-minute rule, and we will recognize Members here in order of seniority at the beginning of the hearing and those who arrived slightly after it began, we'll recognize you as you appeared.

Mr. Christman, I would begin with you and ask you two questions. If it's possible, can you estimate what effect a cut in Ex-Im Bank funding would have on Case? Would you have had to lower your production levels if we had this proposed level of authorization, a 25 percent cut? And that's a difficult one to answer, I imagine.

But here's the second one. Case is a large—I've got to make sure I get "IH" in there, having some family history in it—is a large corporation with a strong credit history. Please explain why a major corporation such as yours could not finance these export transactions without the Export-Import Bank.

Would you take a crack at those two questions, please?

Mr. CHRISTMAN. I'd be happy to, Mr. Chairman. If we look at the impact of a 25 percent reduction, let's just put it in perspective. If we look at the tractors that we build at a union facility in Racine, Wisconsin and the production that goes into just those former Soviet Union countries that require Ex-Im Bank financing, represent one month of production at that factory.

Out of our combine factory, Ex-Im Bank finance production accounts for 2½ months of our production. So if you just do very simple math, if the budget is cut 25 percent and our share of that business goes down 25 percent, we would have to take temporary shutdowns at our tractor facility of an additional week, workers would be off work. And at our combine factory it would be a little over 2½ weeks. So a major impact to our factories and the workers in those factories for a 25 percent cut.

It's important as we compete on a world market, relative to the second part of your question, we are willing to compete with any company in the world on product, on pricing and financing, company to company. It's when we're up against government-subsidized financing that we're not able to compete, even with a fairly large company. When we're up against Hermes financing from Germany or Kolke from Poland or wherever, that is where we're not competitive, and that's where we need Ex-Im Bank's support.

Chairman BEREUTER. Thank you very much.

Dr. Bergsten, you have quite a discussion on page 6 on market windows. And you're describing a situation where the official institution of a competitor country is the official lender and a private bank. And you suggest that together, the Canadian and German market windows, these hybrid institutions, did $12 billion of financing in 1999. Can you enlarge a little bit as to what you think the overall impact of that is?

And since OECD arrangement appears not to have covered this issue, what should be the policy of our government with respect to these market window competition factors that we face?

Dr. BERGSTEN. On the second question, I think our policy, as I suggested in broad terms in my statement, should be to bring these market windows, like all other aspects of export credit finance, under the international restraint agreement.

The problem has been that the nature of those new market windows has enabled their proprietors—particularly the Canadians and Germans, but more are coming—to argue that they are not covered by the arrangement. I know the Ex-Im Bank has tried to take them to court, so to speak, but they have rejected it. As a result, those operations have clearly won contracts that our people didn't even know about.

Part of the international arrangement on export credits is prior notification so that the various export credit agencies can match the offers made by their competitors. In these cases, the foreigners do not even notify. So our people, like Case or somebody else, wind up losing the contract for which they didn't even know there was competition from an official export credit agency abroad. I think that's an egregious practice, and we certainly want to bring it under control.

As I argued, however, we're going to bring it under control only if we're willing first to fight fire with fire.

What's the nature of the beast? It's an invention by foreign countries that literally provides market-type operations under a government guise. The two countries involved have brought in a lot of private-sector expertise—incidentally at higher salaries—people with experience in the banking sectors, but they've brought them under a government program in which the government provides the startup capital. It requires no payment of dividends and there is no taxation of earnings, therefore that money can be plowed back into the program. Also, where there are implicit government guarantees for any of the credits being made.

In addition, they even shift some of their administrative cost to the government payroll. In the German case, for example, through an institution that does a lot of domestic finance as well as international finance.

So it's a clever invention on the part of the foreign competitors. It reveals once again the old truth that people in this business are always trying to stay one step ahead of the judge. The problem is, if we don't catch up and match it, and then try to bring it back under the rules, we lose.

Chairman BEREUTER. Thank you, Dr. Bergsten.

The gentleman from Vermont, Mr. Sanders is recognized.

Mr. SANDERS. Thank you, Mr. Chairman. Let me say a few words on an issue that I think almost everybody has touched on, and then I have a couple of questions. That is the issue of the level playing field. And I think Dr. Bergsten and others have said that it seems to be unfair that some of the European countries, for example, provide higher subsidies than we do and it creates an unfair level playing field.

But let me talk about comparisons between the United States and Europe. I find it interesting that people pick out this issue. In Germany, wages today are about 25 percent higher than they are in the United States for manufacturing.

Every worker in Europe has a national health care program, and I hope that those people who are speaking in favor of the Export-Import Bank will tell us that they want to level that playing field and we can count on your support for national health care program, higher wages for our workers. I hope you'll be talking about leveling the playing field.

In Europe, most of the countries have very strong family leave programs, as you know, not like we have where we don't pay workers, but in Europe I think they pay 50, 80 percent of the wages of women who have babies, and I look forward to your support on that issue, and it will level the playing field.

In Germany we heard college education is free, not $20,000 or $30,000, because the government puts money into college education. So we'll look forward to your support for my legislation to double and triple Pell Grants.

In Germany I think it is, the workers have 6 weeks' paid vacation, and we want to know obviously as we level the playing field with Europe, for your support in that area as well.

And I think probably in Europe, although I'm not an expert on that, you probably don't have situations where large multinationals pay zero taxes like General Motors does in the United States. They probably have a more progressive tax system.

The point being, Mr. Chairman, when we talk about a level playing field, let's look at all aspects of our society and not just one. And if they want to talk about a level playing field in terms of the social services that are provided to the working people in Europe, let's work together on that issue.

Also when we talk about a level playing field, I would like some of the gentlemen who are supporting MFN either now or later to talk about a level playing field for an American worker competing against somebody in China who makes 25 cents an hour, who can't form a union, who can't demand democratic representation for their government. I want to talk about a level playing field in that respect as well.

Let me ask Mr. Becker a question. Mr. Becker, the United States has today something like a $450 billion trade deficit. We hear many people telling us, as we have today, about all of the jobs that are created through exports, and that is very clearly true. Good jobs are created from exports. I have no argument with that. But I seem not to hear another part of that equation. Maybe my ears didn't hear it. And that is if you have a $400 billion trade deficit, there has to be at least one or two jobs that seem to be lost.

In other words, economists tell us—I know they differ on this—that for every $1 billion of export, you create 14,000 new jobs. What about every $1 billion of trade deficit? Mr. Becker, do you want to comment on that?

Mr. BECKER. Absolutely. I was a member, as you'll see on my testimony, I was a member of the Congressional Trade Deficit Review Commission that was just terminated at the beginning of this year.

The figures that they use, that the Commerce Department has used and Labor has used, that 13,000 jobs exist for every $1 billion of exports, and they point to that with a great degree of pride, you can multiply that. If you use that same figure and turn it around. Now maybe it wouldn't be precise. Incidentally, it's between 13,000 and 20,000 jobs. It's somewhere in that range, according to the pricing of the product and that. You turn that around with a $400 billion deficit, you're talking somewhere in the neighborhood of six million jobs that have been lost as a result of that.

Could I add one thing? You referred to Germany. Something that's always bothered me. You know, a lot of the transfer of jobs from the United States to Mexico and other places in the world is to escape the union. And I point out the value of having family supportive jobs. We have an adversarial relationship in the United States which bothers me. You know, it's not all from our side. The industry would like to move.

Industry in the United States, and in some respects a lot in government, has never accepted the union's right to exist as an institution in this country in spite of the law. They will do everything they can to break the union. They'll do everything they can to run from the union. One individual of a leading company in the United States, maybe the world's largest company, has said to—which represents a lot of union workers—ideally, every plant I own would be on a barge". Every plant I own would be on a barge.

Mr. SANDERS. I think that's Jack Welch.

Mr. BECKER. And I could float it anywhere in the world to the lowest price and move it at will.

Mr. SANDERS. That's Jack Welch I think of G.E., isn't it?

Mr. BECKER. You know who he is, too. Yes.

Mr. SANDERS. Thank you, Mr. Becker.

Chairman BEREUTER. The time of the gentleman has expired.

Mr. BECKER. Incidentally, they are the contractor on the Benxi that I'm talking about. That's the only reason I make reference to that. They're the ones who will be the recipient of electronics that goes in there, into that plant.

Chairman BEREUTER. The time of the gentleman has expired. Now, in accordance with the rules, we'll call on those Members who were here at the beginning of the hearing. So the gentlelady from Illinois, Ms. Biggert is recognized for 5 minutes.

Ms. BIGGERT. Thank you, Mr. Chairman. First of all, I would like to thank Mr. Christman for taking the time to be here. Case's Burr Ridge, Illinois Agriculture Equipment Research and Development facility is located in my district. So I'm glad to welcome you here.

As the number one manufacturer of agricultural tractors and combines in the world, certainly Case's operations are important to both the 13th Congressional District and the entire State of Illinois. So I know that Ex-Im Bank has been a large part of the success of Case and many other companies like Case.

In Illinois alone, the Ex-Im Bank has supported 118 communities, 285 companies, and financed a total of $3 billion in exports over the last 5 years. So this certainly is, in addition also to the 42,000 jobs that it has helped to sustain in Illinois. So we're very happy to have you there.

Maybe you could expand on these numbers, Mr. Christman, and share with us how the Ex-Im Bank benefits you and other exporters.

Mr. CHRISTMAN. OK. Let me just make another comment, and also relative to production. The merger of New Holland and Case brought some capacity rationalization. As I said, the industry is down here 40 percent. And one of the decisions that CNH had to make was relocating axial flow combine production. And we had a choice of two factors, one in Grand Island, Nebraska, and another in Brazil. And when we look at the differences between those two and even the differences in labor. And in a combine, labor is only about 8 percent of the total cost of the product. Most of it is, you know, the iron and steel that goes in it.

One of the factors in that decision to keep that production in the United States was Ex-Im Bank financing. As I indicated, that is a large part of our production of axial flow combines. Had we not had Ex-Im Bank financing, the decision could have had a very different outcome. Because then we might have just looked at total lowest cost of production.

But because of Ex-Im Bank and the importance—because Ex-Im Bank only finances U.S. production, our decision was to keep not only the production in the U.S. but the jobs in the U.S.

Ms. BIGGERT. In your testimony, you offered the example of the Ukraine as an instance where Ex-Im Bank support was withdrawn and a foreign corporation completed the transaction. Can you give us more detail on why the Ex-Im Bank support was withdrawn in this instance?

Mr. CHRISTMAN. I must confess, I don't know the details of that. That was before I came into this present job. That was a couple of years ago. But I could just—on a little associated note, in Uzbekistan where we have been very successful, not only did Ex-Im Bank complete, you know, with the financing of the initial sales, but our company then made additional investments for the long term in joint ventures to service the equipment. Because as you know, farmers look for much more than just the initial purchase price.

So we are making investments, long-term investments, and that's why for us a very stable policy out of Ex-Im Bank is very important for us to take that risk and make those investments.

Ms. BIGGERT. OK. Would you have any suggestions for improvements or increased efficiencies that Ex-Im Bank could implement in its transaction procedures?

Mr. CHRISTMAN. I think the flexibility. As we indicated, there are other countries out there that are our competitors on a financing. We need to be aggressive in those, be able to look at and evaluate what that competition is and also make decisions on a fairly quick basis. Because a lot of times, especially for seasonal products, you need fairly fast decisions in order that you can complete your production cycle and get it into a customer's hand to be productive.

Ms. BIGGERT. Thank you. I see my time is just about up, so I'll yield back.

Chairman BEREUTER. Thank you very much. Unless Ms. Kelly returns, we're going to go to Ms. Roukema and Mr. Bentsen and Mr. Sherman. The gentlelady from New Jersey is recognized.

Mrs. ROUKEMA. Thank you, Mr. Chairman. And I apologize for not being here earlier. My plane at Newark Airport was long delayed, I've got to tell you, but we did make it. They repaired it and we got here.

I see I have a gentleman from New Jersey whom I haven't yet met, but we should have met I'm sure, because we're not far from each other if your firm is in Patterson. And I do appreciate what you have said here. And that's a good example, this Watson Machinery International is a good example that we're not talking about corporate welfare, we're talking about real jobs at real wages in a small business. And I really appreciated what you said, Mr. McLaughlin. I don't know whether you want to add anything.

Oh, there was a part of what you said that you may want to amplify on, but you used the word "skitterish". Skitterish about the banks, both in New Jersey and Connecticut, that you were not able to get help from or get financial assistance from, and that forced you to the Ex-Im Bank, if I understood your testimony. Can you amplify on that? Because that is central to this whole question of how we deal with the global economy and how we deal with establishing a level playing field. Would you like to comment further?

Mr. MCLAUGHLIN. Understood. Well, I'd like to say, on the one hand, if we have a foreign receivable, our bank will not support that in the way that we have our financing. In other words, we sometimes finance our accounts receivable. And if it's foreign, they don't want to have anything to do with it. And that, you know, for a company that, I mean, we as Watson have, you know, 4 years ago we only had about 10 percent export sales. So we're still learning the ropes in how to do all this.

But that is one example. And when I say this happens to be something that's probably more specific to our company. In other words, we've transitioned the company from being a distributor—we were a manufacturer. We became a distributor of foreign equipment made in Japan, and now we've gone back into manufacturing ourselves. And frankly, we've been doing that in an environment where the banks are not—the flow of credit today is not exactly what it was a number of years ago, and that's where we have run into this problem, and that's why we need the support and guarantee of Ex-Im Bank.

Mrs. ROUKEMA. Good. I think that's very helpful to us. I appreciate that. I do want to acknowledge that Mr. Bergsten really gave us excellent, excellent testimony, and I took note of that. And "they're eating our lunch" phrase, I generally agreed with.

But I do want to observe that Mr. Vásquez, from a conservative think tank group, and the labor union here seems to be the left and the right coming to some of the same conclusions. But I'm not so sure how we get back, as was said by the, I believe—maybe I misunderstood you, Mr. Becker, but I believe you made a statement about how do we deal with China and get them back on track, some reference to that.

It seems to me that unless we can deal, Mr. Vásquez, with the predatory lending that is out there, and countries like China, we are really going to lose an awful lot of business and jobs, regardless of what level the pay scale is. If the job isn't there, the job isn't there. I don't know. Mr. Becker, do you want to comment, or Mr. Vásquez? We don't have a lot of time here. But the conflict there between the left and the right I thought was an interesting observation here.

Mr. BECKER. I don't know what—I would like to think there's some point that me and Mr. Vásquez would agree on. I can't grab one right of the sky right now. But let me say this. It's hard for me to imagine a steel company like Benxi getting a loan or a grant from the Ex-Im Bank without some strong pressure from the United States companies that's going to supply them with the technology. I think that's a given that that was done.

Mrs. ROUKEMA. Well, we'll look into that.

Mr. BECKER. Pardon? Well, General Electric is going to supply X millions of dollars worth of electronic equipment and the upgrading, which is a very laudable thing. I have no problem with that. I was trying to say that we are in favor of exports. And I've had some people ask me, well what about the 1,600 people that's going to benefit from that in the United States in doing that? And I understand that.

But I think you have to look deeper at what's going to be the end result. Sixteen hundred people that's going to get a short-life job in order to supply the electronic equipment for a permanency of capacity expansion that's going to butcher our industry here. And I think you have to examine General Electric. This is a company that moved their engine division down to Mexico and held seminars and forced all the suppliers in the United States to attend the seminars and told them if you want to continue supplying General Electric, you're going to move your operation to Mexico.

That is not trade. And that's where I draw the difference. When you close a place in the United States and you build it in another country and you bring the product back into the United States, that isn't trade. That's relocation. That's a transfer of technology and wealth and capacity. And I think that's a big difference that we fail to come to grips with when we talk about Ex-Im Bank and creating jobs.

Chairman BEREUTER. Ms. Roukema, you've generated a little interest in the possibility for interaction here which could serve the subcommittee. So, Mr. Vásquez, if you wish to comment, and Dr. Bergsten I noticed thought he would like to comment, so we'd like to hear from each of you briefly if you wish.

Mrs. ROUKEMA. Thank you. I thank the Chairman.

Mr. VÁSQUEZ. OK. Perhaps we can begin by agreeing with the approximately correct pronunciation of my name is Vásquez.

[Laughter.]

Mr. VÁSQUEZ. I think that it's important to keep the big picture in mind. As Mr. Bergsten mentioned, in the past several decades, exports and trade have grown tremendously as a share of the U.S. economy. And it is an important share of the U.S. economy.

However, only 1½ percent of that is supported by the Ex-Im Bank, and only a fraction of that is supported by the Ex-Im Bank in order to counter subsidies by export credit agencies of other countries.

So the United States has done quite well despite the so-called lack of a level playing field that is harming the U.S. economy.

One area in which we would probably also agree on is that the United States should not be financing through the Export-Import Bank firms such as steel mills in China that compete with United States firms. And yet this is not an uncommon aspect of Ex-Im Bank lending. When the Ex-Im Bank provides financing for airplanes in other countries, those airlines that benefit from that subsidized financing then compete with U.S. airlines.

So I again see that the government failure of Ex-Im Bank lending is bigger than the so-called market failure that it is purportedly trying to correct.

Chairman BEREUTER. Thank you.

Dr. Bergsten.

Dr. BERGSTEN. I'd like to make one comment, Mr. Chairman, specifically on both Mr. Becker's and Mr. Vásquez' statements. And, if we have time, I'd like to come back to some of the very basic economic questions raised by Mr. Sanders and Mr. Becker.

But just one specific each for now. I have a lot of sympathy for Mr. Becker's concern about investment in additional world steel capacity. It is an industry with overcapacity. This is bad for the world, bad for the U.S., bad for everybody. Agreed.

But here is the problem. The Chinese are going to build that plant and we cannot stop them. The denial of Ex-Im Bank credit to General Electric or anybody else is not going to stop the Chinese from building that plant or adding to world capacity.

The issue is with whose equipment they will build the plant. Mr. Becker acknowledges that if we export some of the electronic equipment, we get 1,600 high-paying jobs. I'm not sure they're only short-term jobs; I don't know the details. But at least we get that. The alternative is to get nothing because we're not going to stop the plant. That is the conundrum, but we have to face the reality.

On Mr. Vásquez' statements, he forgets a very fundamental principle of economics called the "theory of the second best." Mr. Vásquez is giving us, as his Cato Institute does all the time, and admirably so, good free market economics. But this is not a free market. This is a rigged market where the foreign export credit agencies subsidize their output.

The theory of the second best in good classical economics says that when a distortion is created by government action the welfare-enhancing outcome is to counter it with government intervention to offset the subsidy. So even in welfare economics terms, it's a winner.

Mr. Vásquez has said that only a small percentage of Ex-Im Bank transactions compete with foreigners. I just don't believe it. I will have to look at his numbers and his source. These may be only those that have been notified by the foreign export credit agencies, I'm not sure. But I can tell you, one Boeing aircraft is worth more than all the numbers he cites for being directly competitive. Yet every Boeing aircraft is competing with an Airbus supported, and to a large extent subsidized, by Europe. His numbers just can't be right.

The whole purpose of the Ex-Im Bank—and I trust its management to a reasonable extent in that regard—is to cope with foreign export credit competition. They do not have such an unlimited budget from Congress that they can run around striking whatever deals they want.

So I would submit that most of it is competitive with foreign export credit subsidies. To the extent that's true, the theory of the second best says, I think even to the Cato Institute, you match it and then try to drive it down to a level playing field at the lowest possible subsidy level.

Chairman BEREUTER. Thank you, gentlemen, for this exchange. Members may want to pull you back to it again, but I want to turn now to Mr. Bentsen for his 5 minutes.

Mr. BENTSEN. Thank you, Mr. Chairman. I'm going to follow up on that. Because Mr. Vásquez, you went on to say when we subsidize an aircraft for sale, a Boeing aircraft—since that's the only commercial aircraft manufacturer left in the United States—to a foreign country, then it competes with our airlines.

And the next logical step, if that would appear to be a problem, would be that we then have some form of an export control regime on U.S. aircraft and other equipment to ensure that it doesn't end up in the hands of our competitors, which I think would be a catastrophe in the long run.

I think Dr. Bergsten is right that we are trying to sell goods and services. The fact is the rest of the world does manufacture steel plants, or create steel plants. They do operate airlines. They do a lot of things that we do in this country. But aren't we better off that among the ingredients of providing those services are ingredients that are produced in the United States as opposed to ingredients that are produced in other industrialized countries or emerging countries around the world?

The second thing I would ask is this. And this is an issue that's come up in the past when we've talked about this, that somehow there is a zero sum in terms of capacity in our manufacturing. That somehow if we provide an export subsidy, we are swapping manufacturing or job creation manufacturing from the United States to another locale.

And that would seem to me, the logic of that—I think it's illogical, but it would seem to me that would be saying that there's a limit on, an absolute limit on what U.S. corporations can manufacture, you know, the number of turbines, that we've hit those limits and somehow we're either creating wealth over there or wealth over here, as opposed to being able to create wealth in both places.

And I'm not sure that even Cato would agree with that. And I apologize for missing your testimony. But again, I have to agree with Dr. Bergsten that otherwise you're taking the position that we should be purely free market, purely classical, all others be damned, regardless of whether it's at our disadvantage in the long run or not. Is that the position?

Mr. VÁSQUEZ. Let me begin by saying that my figures come directly from the Ex-Im Bank in terms of what size of exports the Ex-Im Bank helps to support and in terms of the percentage of its loans and guarantees.

Mr. BENTSEN. I'm not asking about that. That's between you and Mr. Bergsten.

Mr. VÁSQUEZ. Right. I'm answering. I'm making a point. I agree that export controls would be a disaster. That is not something that I would advocate. I think that that would harm the U.S. economy.

In a situation where the foreign country is subsidizing its exports, are we better off doing the same? I think we have to weigh that with the opportunity costs that are implied by Export-Import Bank financing—and I went through some of that at the beginning of my testimony—because we are pulling resources from the rest of the U.S. economy in order to subsidize certain exports. And in that sense, we are imposing opportunity costs that many economists have identified as potentially large. Those are difficult to measure.

Mr. BENTSEN. OK. Well, let's go there for a second. The opportunity costs on $800 million per year that could be spent or reduced taxes or something along those lines. Is that what you were getting at?

Mr. VÁSQUEZ. No. I'm saying that when you pull resources from efficient uses to politically determined, less efficient uses, you are reducing the productivity of the U.S. economy and increasing the opportunity costs to the rest of us. Financing that goes to Boeing is not available for financing that would go for something else in the U.S. economy. That is an opportunity cost.

Proponents of the Ex-Im Bank usually never mention those costs.

Mr. BENTSEN. Let me ask you this. And that's a legitimate issue for you to raise. Do you have an analysis of what that opportunity cost is or a theory beyond just the basic theory, do you have some pro forma of where other companies that might produce and create jobs in addition to the jobs that Boeing has that investment would be made in the United States otherwise were Ex-Im Bank not to exist?

Mr. VÁSQUEZ. I have never seen the Ex-Im Bank or anybody else even look into that in a systematic way.

Mr. BENTSEN. But have you, has Cato or anyone else looked into that?

Mr. VÁSQUEZ. No, we haven't. It's a difficult cost to measure.

Mr. BENTSEN. Anyone else?

Dr. BERGSTEN. Yes, I would just add a word. Mr. Vásquez is, of course, right. There's an opportunity cost for any dollar that we as individuals, and we as a Government spend. So you have to ask, what's the cost-benefit payoff on an individual expenditure?

My view is that a dollar spent on Ex-Im Bank programs has a much higher payoff than most dollars spent by the Federal Government. The reason is what I said at the outset. Exporting firms and workers in exporting firms do better, considerably better than the average. They get higher pay. Their jobs are more stable. Productivity is much higher.

If we can use Ex-Im Bank effectively and strategically to bring firms like Mr. McLaughlin's, particularly small firms, into the exporting business where they have faced barriers to entry and have not played as big a role as they can, we will be making a major contribution to raising incomes, wages, and benefits in the U.S. economy.

In fact, expanding the share of exports in our economy is one of the most cost beneficial steps we can take with the use of Federal funds. And so I would submit sure, maybe Mr. Vásquez or somebody else can come up with a still better use of the marginal Federal dollar. But this is a pretty good one, as documented by study after study, including by my own Institute.

Mr. BENTSEN. Thank you.

Mr. VÁSQUEZ. May I briefly say——

Chairman BEREUTER. We'll hear briefly from you again, Mr. Vásquez.

Mr. VÁSQUEZ. I am not comparing the opportunity costs of one Federal program against another. I'm comparing the benefits of Ex-Im Bank spending to the benefits of ordinary citizens keeping their money and spending it on their own.

Chairman BEREUTER. I appreciate the interaction in the panel. I think it's probably in the best interests of the subcommittee to let it proceed. The gentleman from California, Mr. Sherman, is recognized.

Mr. SHERMAN. Thank you, Mr. Chairman. I think that what's before us is not just whether we reauthorize this bank for 5 years, no changes, congratulate them on the one hand, or pull the plug completely on the other.

We ought to explore whether to reauthorize for 1 year or 2 years. If we do otherwise, we're basically abdicating our responsibility to oversee this bank and giving all that authority to the Appropriations Committee, which will then decide year after year whether the bank is worthy of its appropriation, and will in that process try to give the bank some direction.

I think we have more expertise in this subcommittee to give the bank direction. I think that it's particularly important that we do so, because the witnesses here today have illustrated that sometimes the bank violates its own rule against financing activities that hurt the United States economy.

We're told that the Chinese are going to build the plant anyway, and therefore, Ex-Im Bank isn't displacing the steelworkers that we're concerned about. But one would suspect that the total amount of subsidized financing that's available to China is being ratcheted up. We offer a 5 percent loan, so Europe offers a 4 percent loan, so we offer a 3 percent loan, Europe offers a 2 percent loan, so Ex-Im Bank really isn't involved in the transaction, but the Chinese then get a 2 percent financing of their plant. And I see Fred even nodding.

I think that having Europe and the United States compete to subsidize Chinese industrialization has got to lower the cost of capital to China and lead to more competition for American steelworkers.

And so I'll ask Mr. Vásquez, have we seen the political power that's being used to try to get this bank reauthorized instead used to try to get the United States to pressure the Europeans to stop their corporate welfare? Or put another way, perhaps the best best for the companies involved on both sides of the Atlantic is for the United States companies to demand corporate welfare to match the European corporate welfare, and the European companies get corporate welfare to match the American corporate welfare.

Have you seen any political power whatever being used to stop this escalating process?

Mr. VÁSQUEZ. There have, of course, been initiatives to reduce this type of unfair competition globally, as Dr. Bergsten has cited. His Institute published a book earlier this year in which it is noted that even the Europeans that have more expensive export financing programs are now reassessing those programs.

Mr. SHERMAN. Have we had any success? Have we been able to reduce the subsidy? I see your colleague also wants to comment, but I get a limited—several do want to comment, but I have such a limited amount of time. I want to go onto what is the most important issue.

Mr. VÁSQUEZ. Over the years there has been limited success, but countries have found ways around it. Those same countries are also finding less expensive ways to operate.

Mr. SHERMAN. All of my colleagues have been given kind of this recapitulation of Ex-Im Bank as district pork. I was given a list 6 months ago or less of companies in my district who are helped. We called them all. None of them thought they got any significant help. I've been given two more companies, and we will be calling them as well.

What concerns me is, yes, you can add up your sheet and maybe find that in your district, $5, $10, $20 million worth of productivity is occurring in your district supported by Ex-Im Bank. But you have to weigh that against the adverse effect that I think Ex-Im Bank is having on the California energy situation. And if you were to look at the number of jobs dependent in every one of your districts on trade with California, it would dwarf the one percent of the five or ten percent of our economy that's involved in exports, the one percent of that that is somehow involved in the Export Bank.

Do no harm to the American economy means not only don't lead to the production of more steel plants in China. It also means, don't finance those companies that are telling California, go to the back of the line when it comes to getting electric turbines. This is a crisis that will kill people in California and perhaps put the entire country in a recession. And yet the Export Bank is, I believe their number one category, number one or number two, is the very electric turbines that California needs.

So I would hope that through continued oversight, we can make sure that this bank does no harm and perhaps that at least in the electric turbine area, we restrict our subsidies to those companies that really treat this American tragedy in California seriously.

I don't know if I have any more time, but I know that several——

Mr. BECKER. Could I make some comments?

Chairman BEREUTER. Briefly you may respond, certainly.

Mr. BECKER. Pardon?

Chairman BEREUTER. Briefly, you certainly may respond.

Mr. BECKER. This is something we always wrestle with. I mention that we represent aluminum companies. I want you to know what's happening in the Bonneville Power Basin up in Washington where the largest concentration of aluminum smelters are located, some of them steelworkers, some of them not. The Bonneville Power Association is trying to get them to voluntarily shut down all of the aluminum capacity and the power will go down to California.

That may sound very noble on the surface, but we shut down steel, we shut down aluminum, we're shutting down the rubber industry. I mean, where does this end? These are the jobs that keeps this engine of America going. And I think we need to look at this on a broad basis.

You know, the Ex-Im Bank was empowered—is a creature of our own policies in this country. And the policy of this country should not be to create permanent competition for America abroad.

Dr. BLACKWELDER. Mr. Chairman, could I also respond?

Chairman BEREUTER. Dr. Blackwelder.

Dr. BLACKWELDER. In my testimony I tried to emphasize that the Export-Import Bank was doing serious environmental harm by its energy portfolio. And what it's doing is essentially subsidizing a very mature fossil fuel industry, neglecting all of the potential opportunities in wind, solar renewables and so forth that are possible to pursue.

And so this is a very, very serous choice that I think the Committee has, what kind of policy is this bank supposed to be pursuing in the energy sector? Because that lending grew to 28 percent of its total portfolio between fiscal 1999 and the year 2000.

Chairman BEREUTER. I thank the gentleman. I think we should move to our second round. It's a little difficult to be consistent with a national energy policy, though, I can't help saying, when we don't have one.

I'd like to ask briefly Mr. McLaughlin, can you tell me exactly how you came to use the Export-Import Bank for the first time? We've had questions about information technology and whether it's small business-friendly or not. Tell us how you first became involved, if you would, just briefly.

Mr. MCLAUGHLIN. Yes. I had been going to seminars by a group called the Capital Equipment Export Council, and there was a presentation there by Ex-Im Bank that raised our interest, and that's how it got started.

Chairman BEREUTER. Thank you. Have you had more than one involvement with Export-Import Bank? Have you had more than one export?

Mr. MCLAUGHLIN. Transaction?

Chairman BEREUTER. Yes.

Mr. MCLAUGHLIN. Yes. We're doing ongoing transactions at this stage.

Chairman BEREUTER. Thank you.

Mr. Vásquez, we heard testimony, written testimony from small businesses, that they are not able to find local and regional banks willing to provide export financing to them. And my question to you is how can these businesses access capital when often the private sector is too inexperienced or unable to provide export financing to the small businesses, particularly if they have no long-term or demonstrated involvement in export?

Mr. VÁSQUEZ. There are about 200,000 medium and small businesses that export in the United States. About one percent of that receives Ex-Im Bank credit. So I suppose that you're talking about the tiny proportion of companies that face this problem.

I think that they would have to begin just as other companies begin, by looking at the options that are available in the market.

And sometimes if a company cannot find financing in the market, there are good reasons for that. The risks may be too high. Apparently this is not too much of a problem for the U.S. economy or for small businesses.

Chairman BEREUTER. I'll just venture a view that some parts of the country are not served well with banks that have experience with exports at all, and so there's quite a differential in the quality and experience in the banking sector across the country.

I'd like to ask Mr. Blackwelder whether or not you have raised or if you know that anyone has raised the issue that you raise with respect to a public comment period such as the World Bank has, and if so, what the reaction has been.

Dr. BLACKWELDER. Well, I would just say, we have had discussions with a lot of people, and most recently was with the Committee when you proceeded to provide a 60-day comment period with OPIC. And we are suggesting that you ought to do this with the Export-Import Bank as well, in addition to requiring disclosures of their environmental assessments and so forth.

Chairman BEREUTER. Dr. Bergsten, you before wanted a chance to respond to the basic question in which the panel involved itself, and I have about a minute and 20 seconds left here. Do you want to start that process, and we will hear at least from one or two other panel members, and that will conclude my time?

Dr. BERGSTEN. Right. Both Mr. Sanders and Mr. Becker raised the question of the effect of the trade deficit and aggregate economic conditions on the issue we're talking about today.

I'm with Mr. Sanders. I would like higher wages, better pensions, better health care, more paid vacations for American workers. But countries make different choices about such variables. And what happens in the big picture of the world economy is that those are evened out by exchange rate changes.

When countries adopt fundamental national standards or outcomes, like wages, a couple of things are in play. One is, they reflect underlying productivity levels. The reason German wages are higher than American wages, the reason they take more paid vacations, and so forth, is that German productivity is considerably higher than American productivity. They earn it.

Then in terms of the international effects, it is equated over time by exchange rate movements. Now, they're not perfect. If they were, we wouldn't have these huge surpluses and deficits. Germany, incidentally, for all its high productivity, has been running a trade deficit for the last 10 years since the unification of the country.

But you have to look at wages and everything else in the context of underlying productivity. There is one place where I believe that you have to fight fire with fire. That's when you compete directly across borders, as with export credits or import tariffs and quotas, where you have direct international economic competition. That's where I would argue you have to find a level playing field, whether it's on trade barriers or export subsidies or whatever.

Mr. Becker picked up the point and said we've lost six million jobs over a recent representative period. Well, of course, he cannot be speaking about net jobs, because over the recent 10 to 20 years, we've created 20, 30, 40 million jobs on balance. We certainly lost some jobs, but we've created many more than we lost. So there has been net job creation.

And the point about international trade, both exports and imports—I agree with him on that—is that the impact is not on the total number of jobs, it's on the quality of jobs and their composition. And as I said, the export jobs turn out to be the best jobs, the highest-paying, and the most stable. So to the extent we can shift in that direction, we're better off.

But the fact that we've had a large and growing trade deficit, which I incidentally have criticized, attacked, and tried to remedy more than most outside economists, does not mean we haven't created jobs. That large and growing trade deficit has coincided with the most dramatic period of job creation in the history of the United States; and in recent years, with creation of good jobs with rising wages at all levels of the income stream.

So this puts those basic economics on the table.

Chairman BEREUTER. Thank you. I think undoubtedly this question may generate more responses, but on other Members' time.

The gentleman from Vermont is recognized for a second round of questions.

Mr. SANDERS. A fascinating discussion. I think we can go on a long time with it. Let me make a few comments and then ask some questions. Marge Roukema before mentioned that our competition is quote/unquote, "eating our lunch". I think she is right.

I would hope then that she would reconsider support and Members of Congress—and I want opinions up here—about Most-Favored-Nation status for China, which has led us to an $83 billion trade deficit; NAFTA, which has led us to a trade deficit. We can't say, gee, they're eating our lunch. No kidding.

We've opened our entire market. We're competing against people who make very terrible wages. American corporations are running to these countries investing all kinds of money, not in Vermont but in China, and lo and behold, they're eating our lunch. What a great shock. I am not shocked. So I would like to ask briefly the members up there, are you prepared to ask for revoking MFN with China? Just go right down the line, based on the failure of an $84 billion trade deficit.

Mr. Christman.

Mr. CHRISTMAN. No.

Mr. SANDERS. Mr. McLaughlin.

Mr. MCLAUGHLIN. No.

Mr. SANDERS. Mr. Bergsten.

Dr. BERGSTEN. No. Because China is about to join the WTO.

Mr. SANDERS. I have to keep it narrow here.

Dr. BERGSTEN. When they join the WTO and you don't give them MFN, we lose the market and the $83 billion becomes $100 billion.

Mr. SANDERS. Sorry. I've got limited time. I'll get back to you.

Mr. Vásquez.

Mr. VÁSQUEZ. No. I don't view the deficit as a sign of failure.

Mr. SANDERS. Dr. Blackwelder.

Dr. BLACKWELDER. We opposed Most-Favored-Nation for China.

Mr. SANDERS. Mr. Becker.

Mr. BECKER. Absolutely. And I'd like to have the opportunity to respond to our steelworkers in productivity, if I could have a second.

Mr. SANDERS. I should also point out, Dr. Bergsten is of course correct in saying that we have seen the growth of many jobs, and unemployment is relatively low. But we should point out that with the decline of manufacturing, we have also seen that real wages, inflation accounted for wages today for the average American worker is 8 percent less than in 1973.

So we have seen the growth of jobs. Many of them are part-time jobs. Many of them in fact are low-wage jobs. And I would agree with you that manufacturing jobs and export jobs are good jobs. But it is not in my view, Dr. Bergsten, good enough to say, well, we are creating these jobs. They're becoming a more important part of our economy.

What about the issue of lost opportunity? And that has to be part of the equation. When people are investing billions in China, they are not investing in the United States of America. When we're seeing steel going down, textiles going down, bicycles going down, those are jobs—sneakers—those are jobs that could have been done by American workers.

Let me get back to a point I raised earlier, and very briefly because we have very little time and I'd like all the people to speak very briefly about it. Over and over again we've heard about "level playing fields". Does anybody up there honestly believe that when we, quote/unquote, "compete" with China, a country where workers are paid 20 cents an hour, can't form a union, can't speak up for their rights without going to jail, how does anybody talk about that being a level playing field?

Just go right down the line and be very brief. And I apologize for the brief. Mr. Christman, do you believe that you can have a level playing field under those conditions?

Mr. CHRISTMAN. Well, our competitors exist in Europe and they're not manufacturers in China.

Mr. SANDERS. OK. Fair enough.

Mr. McLaughlin.

Mr. MCLAUGHLIN. Well, I mean, there's competition, and we have to figure out a way to become better at it.

Mr. SANDERS. But we represent the American people. Do you think we should put American workers to quote/unquote "compete" against people who are forced to work for 20 cents an hour?

Mr. MCLAUGHLIN. We have to figure out—yes. I think we have to figure out how to do that. I think we do.

Mr. SANDERS. Dr. Bergsten.

Dr. BERGSTEN. You certainly can have a level playing field in those conditions because of the much lower productivity in China. Having said that, I'm with you on trying to use every lever we have to get them to permit free association, unionization of the workforce, and democratization of their labor force.

I think the best way to do it is to engage with them, not divorce from them.

Mr. SANDERS. OK. Good discussion.

Dr. BERGSTEN. And therefore move in that direction.

Mr. SANDERS. I apologize. I've got to move on.

Mr. Vásquez.

Mr. VÁSQUEZ. I am in favor of engagement for many of the same reasons.

Mr. SANDERS. Dr. Blackwelder.

Dr. BLACKWELDER. We should do an entirely different trade arrangement with China which recognizes the unlevel playing field but also looks at the opportunity to improve worker rights, improve their environmental conditions and so forth, and it's not the kind of trade agreement which you had the opportunity to vote on last year.

Mr. SANDERS. Right.

Mr. Becker.

Mr. BECKER. Yes. With all of those things. If I could say, there's two kinds of trading partners that we have. One are like the G–7, industrial countries that have the same kind of standards we do, the same laws, the same environment, the same respect for human rights.

Mr. SANDERS. Right. Brief.

Mr. BECKER. And then we have the other kind that comes under those same laws like, more than China, but China for sure, Russia, Indonesia and several of the South American countries.

Mr. SANDERS. Let me just say this. I think there is probably widespread agreement from everybody in this room that we want a trade policy which creates good paying American jobs. Nobody in this room is against trade. You've got to be crazy to be against trade.

It is my feeling, and I think the evidence is overwhelming—I cannot believe that people cannot see it—is that our current trade policy in general is failing, and failing big time. That doesn't meant to say that Mr. Christman is not going to create some good jobs. Of course there are good jobs being created.

But overall, if you look at what is going on in terms of lost opportunity, lowering wages, huge trade deficits, I think we have got to be rethinking our entire trade policy, rethinking Ex-Im Bank, and say how do we use these $800 million in a much better way than we are currently using it to create decent-paying jobs in this country?

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Sanders.

The gentlelady from Illinois, Ms. Biggert is recognized.

Ms. BIGGERT. Thank you, Mr. Chairman.

Mr. Bergsten, in testimony before this subcommittee, the Ex-Im Bank suggested some options that it might have to consider to operate with the lower appropriation, including increased transaction fees, reducing the percentage of a transaction it will finance or limiting the number of high-risk transactions it undertakes.

What is your reaction to these possibilities, and do you think that such changes in Ex-Im Bank's operations would hurt U.S. exporters?

Dr. BERGSTEN. I think all those changes would be bad, and I think they would hurt U.S. exports. The bank's staff apparently has given you an honest rendition of what they would have to do if forced to live within a tighter budget. But by definition, all those would raise the cost of exports and thus hurt our market share or reduce our responsiveness.

I particularly worry about the part that says they would take less risky transactions, because—I'm with Mr. Vásquez in a sense—wherever you've got private finance available, you use it. The objective of government finance is to come in where the private market fails, in part because of risk. And therefore, you want Ex-

Im Bank to take some of the riskier business that can generate new sales, which otherwise wouldn't occur.

That option would be particularly harmful. But I think they're all bad. That's why I propose a sharp increase in the bank's level and certainly would strongly oppose any decrease like that proposed by the Administration.

Ms. BIGGERT. Thank you.

Mr. Vásquez, when you were talking about how little the bank actually takes on competition, have you done an analysis of who competitors were? I know on page 6 you point out that less than 20 percent of Ex-Im Bank's finance deals were justified on grounds of foreign credit competition. Have you analyzed that 20 percent?

Mr. VÁSQUEZ. No. The data was not very transparent that was available by the Ex-Im Bank. But I would be interested in getting much more information from the agency to be able to do a more thorough analysis so that we all know what the effects of Ex-Im Bank finance are.

Ms. BIGGERT. Well, it would seem that when Ex-Im Bank has been able to provide the level entry capital in regions where the commercial banks deem that they're too risky, would it be true that after they have helped in these transactions then that other banks are willing to come in and be involved with that so that they really have provided companies to bring in lenders where that wouldn't otherwise be—they wouldn't be viable?

Mr. VÁSQUEZ. Yes. That's what Ex-Im Bank does. And in my testimony I explained why I thought that was not a good idea, because in many cases, the Ex-Im Bank is actually financing investments that would not otherwise take place and should not.

I gave examples of Sub-Saharan Africa, for example, that for some reason many projects in many countries there are not able to attract private capital genuinely on their own. And a large part of the reason is because they have economic policies that are poor, that are inimical to growth. They need to change those polices. We should not be rewarding them with Export-Import Bank credit. That merely discourages the spread of market reforms.

Ms. BIGGERT. So the alternative would just be not to have anything to do with those markets and let somebody else come in if they wanted to?

Mr. VÁSQUEZ. The alternative is to increase the pressure of the market to those countries to introduce market reforms. In some cases other governments will provide that financing. But that's a mistake both for the recipient governments and for the lenders, in my view.

Ms. BIGGERT. OK. Thank you. My time has expired.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank the gentlelady.

The gentlelady from New Jersey is recognized.

Mrs. ROUKEMA. All right. Thank you. And with respect to my friend from Vermont referencing the fact that I said they're eating our lunch, I was quoting one or two of our panel members and asked them for an explanation of that. That was not my authority. That was not my quote.

But they responded very directly to the question. Now I'm not ideological on this subject. I'm a very pragmatic person. I try to look for pragmatic and workable solutions. And all I know is that we are facing a global economy that's a revolution in world history, OK? And people like those of us in this room and those that we're representing here are going to have deal with it and not look at ideological resolutions and look at the past centuries, because it won't work, as the Boeing Airbus question pointed out.

And I don't know if Mr. Bereuter will agree with me, but I'm a member of the—we are members of the NATO Assembly and we go to these NATO meeting assemblies and I serve on the Economic Committee. And if there's anything I've learned over the past several years, it's that we're in competition. We have a lot of competition with the Europeans.

If we don't deal with the Chinese and these other countries, the Europeans are going to very quickly—Airbus—are going to very quickly step in, whether it's WTO or not, OK?

So I just want to say, I think we have to deal with this, not thinking that the Ex-Im Bank is perfect. I'd like to have some constructive recommendations on how we improve it, but recognizing that it's the real global world, globally economic revolution that's out there, and it's not going to go away, and we can't close our doors and build trade barriers up and ignore it.

So I'd like to see if anybody has a closing comment in that respect.

Mr. Bergsten.

Mr. BERGSTEN. Well, perhaps just two quick ones. It's certainly a revolution in the world, but it's also a revolution for the United States. As indicated, the share of trade in our economy has tripled in a generation. That's a stunning change for a mature industrial economy. We could think of ourselves as self-contained, continental economy only a generation ago.

Today, we have a bigger share of trade in our economy than Japan, and the European Union as a group. We're deeply dependent. We have to fight fire with fire to compete internationally.

The second point is to link what you said to something Mr. Becker said. Mr. Becker said trade with Europe is fine because they have the same high standards, they're not low wage, and so forth. He's exactly right on that. But you are also right that they are the ones with whom we frequently compete the most intensely in this area. It's the Germans who have pioneered the market window, and close behind them are our northern friends——

Ms. ROUKEMA. I should have mentioned specifically the European Union as a component of this.

Mr. BERGSTEN. Well, in this area, interestingly, the individual European countries still operate on a national basis and not as a group. So the Germans, French, Italians, the British, all compete with each other, as with us.

Incidentally, that's part of the answer to Mr. Sherman's point. Mr. Sherman said if we offer export credit to China for a steel plant, they'll ratchet the interest rate down and benefit. Again, they'll do it with or without us. The Europeans compete with each other, the Japanese are in, the Canadians are in. It'll still happen the same way.

We're no longer a dominant force. And that's the other element of the world revolution. We can no longer call the shots. The others outnumber us. They're bigger than we are in economic terms. They're even getting bigger in political terms. We're still the most important single country, but we are subject to very intense competition from others, and if we don't forcefully try to lead everybody to a more rational outcome, we will continue to have our lunches eaten.

Mr. BECKER. Could I answer some of these things? They keep referencing me.

Ms. ROUKEMA. Please, Mr. Becker.

Mr. BECKER. First of all, I'd like to back up a little bit. I want to talk about Europe.

Ms. ROUKEMA. Yes.

Mr. BECKER. The United States steel industry, if we're talking about steel, is the most efficient steel industry in the world. At least there's none higher. This is not me, this is not our industry, this is the Department of Commerce. So when you talk about competition, we're there.

When you talk about Europe, examine their trade deficit with China. It's almost nonexistent. It's not anywhere like we are now. We're targeted here. We're the ones. We're the only free market in the world. You don't have a free market for goods coming in from those countries in China or Japan, Japan the number two economy. It doesn't happen.

Second, the steel industry——

Mrs. ROUKEMA. If you could provide some objective data on that score, I would appreciate it for the record. I hear testimony all the time. We can accumulate it. We'll have our people put it together for you.

Mr. BECKER. This is true. Second, the steel industry in Europe, the government picks up all the health care costs, one of the most tremendous costs our industry faces, the only steel industry in the world that has to pay what we call legacy costs, health care for retirees. It's an incredible amount of money. It's in the billions of dollars. We're the only country that we have to compete against. The Chinese don't have it. The Japanese don't have it. The Canadians don't have it. Europe doesn't have it. England doesn't have it. The Scandinavians, the Italians, none of them. That's a government cost.

And when you talk about competition, our industry has to pay that right straight up front. Bethlehem, that's skirting on the edge of bankruptcy—they're not bankrupt—their health care costs run somewhere in the neighborhood of $250 million a year. They haven't made $250 million profit probably in my lifetime.

Chairman BEREUTER. If there are other panelists.

Dr. BLACKWELDER. Might I respond?

Chairman BEREUTER. The gentleman from Case IH. It's 4:00 o'clock, and I promised you'd be out of here. Do you want to respond briefly before you——

Mr. CHRISTMAN. Just very quickly, because I'm actually headed to Europe to see some of our competitors there.

[Laughter.]

Mr. CHRISTMAN. All we ask for is something very simple. We're looking for policies and procedures that can match the foreign governments that we compete against. What we want to do is very simple: Give our U.S. workers a chance to compete on the technology and the products we build against anybody in the world.

If you just give us equal financing, we know that we can win on the product and technology side. Just give our workers a chance. Give us the policies, procedures, and give us the funding. Thank you.

Chairman BEREUTER. Mrs. Roukema, yours was the last question. Do you want to hear from any of the other panelists on it? It looks like there are several.

Mrs. ROUKEMA. Yes, I would.

Chairman BEREUTER. Mr. Christman, if you need to leave, thank you for your testimony, and we'll be concluding shortly.

Dr. BLACKWELDER. If I could just give an environmental perspective on your question.

Mrs. ROUKEMA. Yes.

Dr. BLACKWELDER. Number one, I think you want to make sure that the Export-Import Bank is not lending for socially and environmentally destructive projects. We have suggested a number of ways that you can improve those standards, which have actually been a model and served to increase the environmental standards of other export credit agencies around the world.

But second, the Export-Import Bank is loaning for highly destructive and damaging fossil fuel projects, as I stressed. If in fact we are as a government going to subsidize in the energy area, we ought to be subsidizing some of the innovative new things that are happening in wind, solar efficiency and so forth, and not being in the position of maximizing and augmenting and subsidizing global pollution. And that is something fundamentally that has to change if the Export-Import Bank is going to exist.

Mrs. ROUKEMA. All right. Thank you. I think what we've learned is that there is a little more complexity to this than any of us would like to have faced.

Chairman BEREUTER. Mrs. Roukema, I notice the gentleman from New Jersey, who I think wants to make a couple—now you wouldn't want to miss him.

Mrs. ROUKEMA. Oh, absolutely. He may even be my neighbor. Yes?

Mr. MCLAUGHLIN. Thank you. I'm just going to quote very briefly from some remarks that Chairman Harmon made recently when he was—I guess he was in the process of leaving the bank.

"We should take note that in 1998, the U.S. ranked seventh in terms of export credits provided. As a proportion of GDP in 1999, France spent 16 times more on export promotion, Canada 13 times more, and the United Kingdom 9 times more. These disparities are a wake-up call for all who are concerned about the U.S. economy."

Mrs. ROUKEMA. Thank you very much. I appreciate that contribution New Jersey has made. Thank you.

Chairman BEREUTER. Thank you very much. Mr. Sanders and I agree, and I think the Members of the subcommittee that participated agree that this has been an excellent panel. The interaction among you has only added to the benefit to the subcommittee.

And I want to thank all of you gentlemen and the organizations that you represent for your effort to help advise us, to give us your suggestions and recommendations. We appreciate it.

And as we conclude, I want to ask unanimous consent to include three things in the record. One is the recent transmittal of the proposed draft legislation for the reauthorization of the Export-Import Bank. Very simple, straightforward, conveyed by letter of May 2nd.

A memorandum responding to a request to Elaine Stenglin, counsel of the Export-Import Bank, which answers our question of the previous hearing related to Treasury's role in Export-Import Bank tied aid program, a memorandum dated September 4, 2000.

And an Export-Import Bank press release dated January 2, 2001, which goes to the Benxi hot steel mill modernization grant—excuse me—assistance that went to General Electric Company of Salem, Virginia.

Is there objection?

[No response.]

Chairman BEREUTER. Hearing no objection, that will be the order.

Mr. SANDERS. I just want to conclude by concurring with you, Mr. Chairman. I think this was an excellent panel, and it was a good diversity of viewpoints, and I want to thank all the panelists for being with us today.

Chairman BEREUTER. Indeed, thank you. The hearing is adjourned.

[Whereupon, at 4:05 p.m., the hearing was adjourned.]

A P P E N D I X

May 8, 2001

Subcommittee on International Monetary Policy and Trade
Export-Import Bank Reauthorization
May 2, 2001

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony on the reauthorization of the Export-Import Bank (Ex-Im Bank). The Ex-Im Bank was last reauthorized in 1997 for a four-year term that expires on September 30, 2001. As the Subcommittee with jurisdiction over the Ex-Im Bank, this hearing is the first step in this important reauthorization process. At this first hearing, three representatives of the Export-Import Bank will testify. Moreover, on May 8, representatives of the private sector will testify regarding the Ex-Im Bank.

The Ex-Im Bank is an independent U.S. government agency. It provides guarantees to loans to buyers of U.S. products, loans to buyers of U.S. exports, and insurance products which greatly benefit small business sales. To illustrate the importance of the Export-Import Bank, in FY2000, the Ex-Im Bank invested over $15 billion in exports through its loans, guarantees, and insurance. For example, the Ex-Im Bank finances exports such as civilian aircraft, electronics, engineering services, vehicles, agricultural products, etc. The Ex-Im Bank is intended to be only the "lender of last resort" and to not compete with private lenders.

Before introducing our outstanding panel, I am going to briefly discuss four items which I believe are very important to this hearing. These issues are as follows:

1. The activities of the Export-Import Bank in small business;
2. The activities of the Export-Import Bank in Africa;
3. The proposal by the Administration to cut the Export-Import Bank; and
4. The export subsidies offered through foreign government financing programs.

First, with respect to small businesses, the 1997 authorization law mandated that the Export-Import Bank undertake efforts to enhance the Ex-Im Bank's programs to small and rural companies which have not previously participated in the Ex-Im Bank's programs. As a Member of Congress from a state with hundreds of small and rural businesses, I am interested in what efforts the Export-Import Bank has taken to address this mandate.

Federal law requires the Export-Import Bank to have at least 10% of its investment in small businesses. For FY2000, the Export-Import Bank invested approximately 18% of its lending activities to small businesses. In fact, in FY2000, the Ex-Im Bank invested 86% of its total number of bank transactions in small business. In addition to this data, I am interested in any quantifiable data that the Ex-Im Bank can provide on the number of small business suppliers who work with corporations who use either the loan, guarantee or insurance products offered by the Export-Import Bank. I am aware that private industry has recently conducted such a study.

Second, in regard to investment in Africa, the 1997 authorization bill required the expansion of the Export-Import Bank's financial commitments in Sub-Saharan Africa. This 1997 authorization language established an Advisory Committee to make recommendations to the Board of Directors on how the Export-Import Bank can facilitate greater support for trade with Africa. As a response to this mandate, the Ex-Im Bank created an internal Africa Task Force to coordinate its activities in Africa.

Since this 1997 mandate, the Export-Import Bank support for exports in Sub-Saharan Africa has increased dramatically. In 1998, the Ex-Im Bank invested $56 million of exports to Sub-Saharan Africa. In 1999, this amount increased to $589 million and in 2000, this total reached $914 million. In particular, I am interested in seeing how the Ex-Im Bank can continue to increase its investment in Africa.

Third, any hearing on the Export-Import Bank this year must consider the fact that the Administration has proposed a 25% reduction in the Ex-Im Bank funding for FY2002. It is important to note that the Ex-Im Bank's budget includes the following two components: program budget and the administrative budget. The program budget includes the costs of the loan, guarantee, and insurance programs. The administrative budget is the cost of implementing the Ex-Im Bank programs.

For FY2001, the Ex-Im Bank received an appropriation of $863 million for the program budget and $62 million for the administrative budget. For FY2002, the Administration is proposing a 25% appropriation cut to the program budget which would equal $633 million. With respect to the administrative budget, the Administration is proposing a $3 million increase to a total of $65 million. I have been told by both the Ex-Im Bank and by private industry that more administrative funding is needed for technology and computer upgrades.

I am interested in knowing what is the Administrative's rationale for the 25% cut to the program budget. Furthermore, I would like the Ex-Im Bank to explain what effect this type of cut would have on their loans, guarantees and insurance products. In addition, I am interested in any recalculation of international risk associated with the investment portfolio of the Export-Import Bank and its effect on the appropriation for the Ex-Im Bank.

I do have significant concerns about the Administration's proposed cut to the Export-Import Bank. I look forward to the testimony today to explain the effect that these proposed cuts could have on the activities of the Ex-Im Bank.

Lastly, I would also like to emphasize the subsidies offered by foreign government export financing agencies. Examples of these export subsidies include, among others, market windows and untied aid. First, market windows are official institutions that conduct themselves as both a government lender and a private bank.

Canada and Germany both have these market windows which have advantages over both private banks and government export financing agencies. Second, untied aid, which is utilized in particular by Japan, is bilateral aid given to a developing country with no persay requirement that the recipient country buy goods from the donor country. However, in actuality, the recipient country does indeed buy the products from the donor country.

Unfortunately, untied aid is not covered by the Organization for Economic Cooperation and Development (OECD) Arrangement, of which the U.S. is a member. The OECD Arrangement conducts negotiations and reaches agreements between countries to reduce government export financing programs. The OECD Arrangement commits member countries to decrease certain types of export subsidy. For example, the OECD Arrangement covers tied aid. Tied aid is a direct export credit where the recipient country is required to buy products from the donor country.

Unfortunately, despite the efforts of the OECD, all 30 members of the OECD still have an export financing agency similar to the U.S. Ex-Im Bank. In fact, according to the most comprehensive data available for 1998, the following countries had higher government export credit subsidies than the U.S.: Japan, France, Korea, Canada, Germany, and the Netherlands. I am interested in any more recent data that the Export-Import Bank can provide on this subject.

To assist the Subcommittee in examining these reauthorization issues, I am pleased that we have the opportunity to hear from our experienced panel of witnesses from the Export-Import Bank. The new Chairman of the Export-Import Bank has been nominated (Mr. John Robson), but due to the backlog of Executive Branch nominees, it may be some time before he is confirmed. As a result of the September 30th reauthorization statutory deadline, the Subcommittee is moving forward with testimony from this experienced Export-Import Bank panel.

We will receive testimony from Mr. James Hess, the Chief Financial Officer of the Bank. Mr. Hess has been with Export-Import Bank since 1966. He has been the Chief Financial Officer since 1992. Mr. Hess comes highly recommended as a person with great institutional knowledge of the Export-Import Bank.

Next, Mr. William W. Redway, the Export-Import Group Vice President of Small and New Business will testify.
Mr. Redway, a graduate of the University of Pennsylvania, is in charge of small business group outreach efforts. Prior to his current position, Mr. Redway had been Vice-President of the Bank's Insurance Division and he also served as the New York Regional Manager of the Export-Import Bank.

Subsequently, Mr. Bert C. Ubamadu (A-bomb--a-du) of the Office of General Counsel will also testify. He is an attorney with the Bank where he works on project, structured, and trade finance transactions throughout Africa. He is a member of the Bank's Africa Task Force, which is an intragency group that coordinates and facilitates the Bank's Africa initiative. Prior to his current position, he worked for Marriott International where he served as their representative to the Corporate Council on Africa.

In addition to the testimony provided by these three gentleman, three other individuals from the Export-Import Bank will be available to answer questions. They are as follows: Ms. Elaine Stangland, Deputy General Counsel; Mr. Jeffrey Miller, Group Vice President for Structured and Trade Finance; and Mr. James Cruse, Group Manager - Policy. Mr. Cruse, who was born in Lincoln, Nebraska, located in Nebraska's 1st Congressional District which I represent, is involved with OECD negotiations.

We welcome the distinguished panel to our hearing. And, without objection, your written statements will be included in their entirety in the Record. Thank you.

EX-IM BANK

Press Release

FACT SHEET
January 2, 2001

BENXI HOT STRIP MILL MODERNIZATION, LIAONING, CHINA

- The Export-Import Bank's Board of Directors on December 19, 2000, approved an $18 million comprehensive medium-term guarantee to support the $21.7 million sale of computer software, control systems and main drive power supplies by **General Electric Co., Salem, VA,** and various U.S. suppliers to **Benxi Iron & Steel Co., Benxi, Liaoning, China.**

- The other U.S. suppliers on the transaction are **CIC Co., Glenshaw, PA,** and **Carlen Controls Inc., Roanoke, VA.**

- The equipment will be used to modernize, and improve production at the Benxi hot strip steel mill.

- The borrower and primary source of repayment is the Industrial & Commercial Bank of China, which is backed by the full faith and credit of the Chinese government.

- The guaranteed lender is **Deutsche Bank North America, New York, NY.**

- Ex-Im Bank found the transaction worthy of support after conducting a credit analysis, analyzing its economic impact on the U.S. economy, and determining that it complies with Ex-Im Bank's environmental guidelines and standards. The economic impact analysis concluded that the transaction would have a net positive impact on the U.S. economy.

- GE said the transaction directly supports 300 union jobs at its 1,600-employee Salem, VA plant, and represents 10% of the Salem plant's production.

- Had the Board declined to approve the financing of this transaction, the buyer stated that it would procure the equipment from French and German companies, thus permitting the same plant modernization, but with no benefit to U.S. exporters' jobs and profits.

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Visit Ex-Im Bank's Website at www.exim.gov

MEMORANDUM

To: File
From: Elaine Stangland
Date: September 4, 2000
Re: Treasury Role in Eximbank's Tied Aid Program

The Office of General Counsel has been asked its views on whether the Treasury has a "veto' over the Bank's use of its Tied Aid "War Chest" and, in particular, whether the Bank may initiate (as opposed to match) tied aid without Treasury's concurrence.

The Bank's existing Tied Aid Program was enacted in 1986 (P.L. 472) and significantly amended (for purposes of the issues raised in this memo) in 1989 (P.L. 101-240) and 1992 (P.L. 102-429). Prior to 1986, P.L. 98-181 had established a predecessor program at the Bank, administered in cooperation with TDA. While the 1986 legislation obviously responded to the same concerns over increased use of tied aid, it appears to be a substantial departure from the 1983 law and is clearly the legislative starting point for an analysis of the current charter provisions.

The legislative history of the 1986, 1989 and 1992 tied aid legislation is quite extensive and has been informally summarized in a separate memo to file (still in draft form). An excellent history of the Tied Aid War Chest is contained in Senate Report 102-320, which accompanied S. 2864, the bill which was ultimately enacted as the Export Enhancement Act of 1992 as P.L. 102-429. A copy is attached.

1. Role of Treasury. The threshold question of the Treasury's ability to "veto" use of tied aid by the Bank revolves around an analysis of Section 10(b)(2) of the Charter. This section, captioned "Administration of the Program" reads, in relevant part, as follows. The text is unchanged since 1986.

> "The tied aid credit program shall be administered by the Bank—
>
> (A) in consultation with the Secretary [of the Treasury] and *in accordance with the Secretary's recommendations on how such credits could be used most effectively and efficiently to carry out the purposes described in subsection (a)(5); ......* " (emphasis added).

The legislative history of this section leaves little doubt that the Secretary of the Treasury had ultimate responsibility for the use of the War Chest, not only on a policy level, but on a deal by deal level.

> "The responsibility for administering funds under this section lies with the Secretary of the Treasury" Report 99273 on S.2247 March 18, 1986.
>
> "Thus, though the War Chest is lodged administratively in the Bank, the secretary's role is assured by the language in this section [cites subsection 10(b)(2)(A)]. Conference report on H.R. 5548 October 2, 1986.
>
> "Its [i.e. the Tied Aid Program] overriding purpose is to strengthen the hand of the Secretary of the Treasury in negotiating a comprehensive agreement to limit the use of mixed credits." Comments of Mr. Dole on H.R. 5548, Congressional Record, September 24, 1986.

Significantly, the House version of the bill, which ultimately became P.L. 101-240, deleted the italicized language of subsection 10(b)(2)(A) quoted above. This was proposed to transfer control of the fund to the Bank in a belief that the Bank would more aggressively used the War Chest and that "since Eximbank's mandate is to ensure the competitiveness of U.S. exporters, they should have primary control in administering the fund". House Report 101- 271 on H.R. 2494. This provision was struck from the bill however, because "Reinstatement of Treasury's oversight of the Eximbank's war chest is needed in order to ensure compliance by other countries with an international agreement of tried aid credits." Comments of Mr. Wylie on H.R. 2494, Congressional Record October 18, 1989.

2. Matching vs. Initiating Offers. The purposes for which the War Chest may be used are governed by subsection 10(b)(1) of the Charter. The current language of the these provisions has not changed since 1992. A copy is attached.

As summarized in the attached Committee Report, the initial use of the War Chest was to give the U.S. Treasury team negotiating with the OECD members leverage in reaching an agreement on restricting tied aid. It was used "aggressively " until the conclusion of the first OECD agreement concerning tied aid in 1987. Thereafter, its use was restricted to enforcement of the agreement. The 1989 amendments to the Bank Charter represented, in part, Congress' disagreement with this passive use of the War Chest. Both the language of the statute and the legislative history dictated "aggressive" use of the War Chest in an effort to reach a more effective and restrictive OECD agreement.

The 1992 Helsinki agreement on Tied Aid resulted in another shift in policy as to the use of the War Chest. The policy was to use the War Chest only if foreign governments utilized tied aid in violation of the Helsinki agreement. The 1992 legislation clearly provides for both "defensive" and "offensive" use of tied aid. The Bank may match tied aid offers of other countries when they violate the agreement and even if they comply with the Helsinki agreement so long as it is in the trade or economic interest of the U.S. to do so. (subsection 10(b)(1)(A). In addition, the 1992 amendments also allow the Bank to "offensively" use tied aid if the Bank determines that other countries engage in predatory official export financing in the relevant market and such practices "impedes negotiations to eliminate the use of such credits for commercial purposes". (Subsection 10(b)(1)(B)). Finally the Bank may use tied aid "to supplement the financing of United States exports under such other circumstances as the Bank may deem appropriate for carrying out the purposes of this section." (Subsection 10(b)(1)(C)).

In testimony given on May 25, 1994 before the House Subcommittee on Economic Policy, Trade and Environment of the Committee on Foreign Affairs, then Bank Chair Kenneth D. Brody announced a "two prong" strategy to reduce the use of tied aid. The first prong was "an aggressive defense" which would be used to match foreign tied aid credits even if permitted under the OECD agreement. Chairman Brody stated that "Ex-Im Bank" will not commit the U.S. to be the first OECD government to initiate tied aid credit financing into any particular competitive situation. However, Ex-Im Bank will preemptively counter potential foreign tied aid offers, even before they are notified to the OECD." The second prong of the policy involved working with Treasury to strengthen the commercial viability case law being developed under the OECD arrangement; working with the Treasury to negotiate new OECD rules covering untied aid credits; and defending the OECD rules by matching tied aid offers which violate those rules.

Thus, while the Bank has limited power to initiate tied aid under subsection 10(b)(1)(B) and (C); it appears that it has, in conjunction with the Treasury, a policy of not doing so. I am unaware of any further changes in the Bank tied aid policy in this regard and by copy of this memo to Jim Cruse ask that he advise me of any updates since Mr. Brody's testimony.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on International Monetary Policy and Trade

May 8, 2001

Export-Import Bank Reauthorization

Thank you, Chairman Beureter, for holding this second hearing on the reauthorization of the Export-Import Bank. This opportunity to hear from individuals who actually use the Export-Import Bank will give members of the Subcommittee real world examples of the activities of the Ex-Im Bank.

I applaud the Administration for sending up legislation to renew the Bank's charter beyond its current expiration date of September 30, 2001. However, there are several additions that may have to be made to the legislation in order to ensure that the Ex-Im Bank remains competitive in the international trade arena. I look forward to working with the Administration, Subcommittee Chairman Bereuter, and others in speedy Committee consideration of reauthorization legislation.

I would like to commend the Chairman for organizing this hearing, which will give the members an opportunity to hear different perspectives, both pro and con, on the Bank. The goal of our hearings is to give all voices an opportunity to be heard, and this will certainly occur today.

Ex-Im provides assistance to both large and small corporations across the United States. Without the guarantees, insurance and direct loans provided by Ex-Im, many of these businesses would not reach high risk, or emerging markets with their products. As a result production levels would be lowered, the U.S. trade deficit would be larger and fewer Americans would be employed in high paying manufacturing jobs.

I look forward to hearing from both Case IH Agricultural Businesses and Watson Machinery today. Case, one of America's largest manufacturers of agricultural machinery, employs thousands of people both directly and through suppliers across the country. Watson Machinery is a small business, employing 90 people, and is on the cutting edge of high-technology manufacturing. Both of these very different businesses rely on the Ex-Im Bank to help finance transactions in international markets. Today's testimony should give members valuable insight into the need for a strong Export-Import Bank.

I am also very interested in the testimony of the other witnesses on today's panel. Both the Institute for International Economics and the CATO Institute are highly respected think tanks. While they may disagree on the need for the Bank, their insightful opinions are highly valued and respected. Additionally, the United Steel Workers and The Friends of the Earth will give our members important perspectives on issues which might have been overlooked had they not been part of today's proceedings.

As we continue our review of Ex-Im, I look forward to hearing recommendations on how we can improve the Bank in order to ensure that it has all the resources at its disposal to compete in the international trade environment of the 21st century.

Mr. Chairman, I would like to join you in welcoming these witnesses and to thank you for your thorough review of this agency. I yield back the balance of my time.

U.S. REPRESENTATIVE KENNETH E. BENTSEN, JR. BEFORE THE SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE WEDNESDAY, MAY 2, 2001 HEARING REGARDING EXPORT-IMPORT BANK REAUTHORIZATION

Thank you, Mr. Chairman for holding this hearing today. I appreciate the opportunity to address the importance of the EX-IM Bank to our nation's economy, and particularly to exporters in our home states.

I would like to commend EXIM Bank and Mr. Redway from our panel for their commitment to small business. Because this is a reauthorization hearing, and because I realize the panel members work for the Executive Branch and may not be able to comment on funding levels, I will try to focus my questions on the overall competitiveness of the Agency, while touching on some concerns related to the Administration's proposal.

Mr. Chairman, as we'll hear today, the President's budget proposal included a 25 percent reduction in EXIM's budget. The reduction would occur in the Bank's Program Budget account, which provides the loan-loss reserves needed to comply with the Credit Reform Act of 1990. In accordance with this Act, the loan-loss reserves increases relative to the risk level of the country involved. I am concerned that the impact of the Administration's proposed budget cut would significantly affect the Bank's ability to finance U.S. exports to many developing nations, including sub-Saharan African countries, because they continue to require high loan-loss reserves.

It is also my understanding that the U.S. Treasury is considering a two-year moratorium on new EXIM financing for transactions with the 41 HIPC countries. While I understand that the moratorium is in part, a response to a British-led effort to reduce credits to these countries, I am concerned that if such a policy were implemented, the EXIM bank would be effectively closed in much of sub-Saharan African, including the 22 HIPC countries that have already entered the World Bank/IMF debt relief program. I also understand that the Treasury is considering a limitation on export financing for impoverished countries to "productive expenditures," requiring evidence that the proposed transactions contribute to poverty relief and sustainable economic development. As it stands, the 63 poorest nations are sometimes eligible for loans only from the concessional window of the International Development Agency. If implemented, I am concerned that the EXIM Bank would take on an entirely new role in promoting social and economic role, which conflicts with its statutory requirement to provide financing for U.S. exports. In short, I am concerned that the Bank's effectiveness as a "lender of last resort" for U.S. exporters would be impaired.

Turning to the broader effects of the Administration's proposal, I believe that the proposed 25 percent cut would greatly undermine the EXIM Bank's ability to provide a level playing field for U.S. exporters, especially small businesses. Since Ex-Im Bank's last reauthorization in 1997, Ex-Im Bank has supported over $45 billion worth of US goods and services. Last year, 86% of all Ex-Im Bank transactions were with small businesses. These export sales simply could not have happened without EXIM Bank. In fact, every EXIM Bank dollar leverages $15 - 20 worth of exports. In my state of Texas, the EXIM Bank has supported 124 communities, 850 companies and financed a total of $5.3 billion in exports during the last five years.

I understand that, even facing a budget reduction of possibly as much as 25%, the Bank is determined to ensure that sufficient Program budget is set aside to meet all qualifiable small business export needs. I am encouraged by this commitment. However, I continue to be concerned that small business and U.S. jobs will be harmed by the proposed budget reduction. While directly supporting small business may require a smaller portion of the program budget because of the generally short-term nature of their deals, limiting support for medium and larger transactions will affect small business. Fifty percent of total U.S. exports are generated by large corporations, with thousands of smaller sub-suppliers also participating. Large corporations buy many of their components from small business and reducing support for these corporations will result in lost export sales for small business. Boeing, for example, spent more than $13 billion in obtaining goods and services from US companies in 1999, and many of those companies are small businesses. No concrete measurement can be made regarding the toll of these cuts, but I remain concerned that jobs will be lost if export opportunities are lost.

I am also concerned about how these cuts will be perceived internationally. As foreign buyers look at where to source from, the US Government reducing EXIM Bank by 25% certainly sends an ominous signal. I am concerned buyers will look for suppliers located in other countries that can provide aggressive financing with relative certainty, and which do not have government backing that is being noticeably reduced.

Mr. Chairman, by targeting financing gaps and officially supported competition, the EXIM Bank supports export sales that otherwise could not move forward. These export sales expand employment in sectors where jobs are among the highest paid in the country, and has an important effect on the overall strength of our economy. I am hopeful that in their testimony today, the panel can address some of these important issue areas, and better describe the role of the Bank in creating jobs and creating opportunity for businesses across our nation. I want to thank the panel again today for testifying, and I look forward to hearing their testimonies.

Statement of Rep. Carolyn B. Maloney
Subcommittee on International Monetary Policy and Trade
May 2, 2001

It is my pleasure to join my colleagues in the effort to reauthorize the Export-Import Bank.

The Export-Import Bank is a unique institution -- a successful government agency that facilitates American business and worker interests by promoting exports to areas of the world that would be closed to U.S. companies without its support.

Primarily through its loan guarantees, insurance and direct lending programs, Bank programs were responsible for approximately two percent of U.S. exports per year. At the same time, the U.S. experienced a trade deficit in 2000 of $369.7 billion on goods and services measured on a Balance-of-Payments basis for the year.

Unfortunately, the Bush Administration has proposed a 25 percent decrease in funding for the Bank in the FY2002 budget. Currently, the Bank funds 2,500 U.S. exporters. In my state of New York the Bank has assisted 385 businesses since October 1995, 95 of which are located in my district. I do not believe the Administration has made a case for their reduction which will severely adversely affect these businesses and their employees.

As we examine the activities of the Bank I look forward to a constructive process that builds on the past success of this institution. I look forward to hearing from the Banks proponents and critics and am open to any proposal the will improve its operations and mission.

Export-Import Bank Hearing
Statement by Rep. Maxine Waters
May 2, 2001

I would like to thank Chairman Doug Bereuter and Congressman Bernard Sanders for organizing this hearing on the Export-Import Bank.

I am concerned about the fact that the Chairman of the Export-Import Bank, James Harmon, is not here today to testify. Neither is the Chairman-designee, John Robeson, who was nominated by the Bush Administration and is currently awaiting Senate confirmation. It will be difficult for Members of this Subcommittee to carry out an informed discussion of the myriad of issues involved in the reauthorization of the Export-Import Bank without the benefit of input from the current or incoming chairman.

One of the issues that concerns me is the impact that the HIV/AIDS pandemic is having on developing countries. Every day, 15,000 people become infected with HIV, and 95% of them live in developing countries. In sub-Saharan Africa alone, an estimated 25 million people are living with the AIDS virus.

Last year, the Export-Import Bank announced that it would offer $1 billion a year in loans to sub-Saharan African countries to support the purchase of HIV/AIDS medicines from American pharmaceutical companies. I opposed this initiative, which South Africa and Namibia immediately rejected. African countries need access to AIDS medicines at prices they can afford -- not more loans they will never be able to repay.

Today, I am introducing **The Export-Import Bank HIV/AIDS Medicine Access Promotion Act**. This legislation would prohibit the Export-Import Bank from promoting exports by pharmaceutical companies that are attempting to overturn laws and policies in developing countries that promote access to affordable AIDS medicines. Specifically, my bill would prohibit Export-Import Bank guarantees, insurance and credit for the benefit of American companies that are trying to overturn developing countries' AIDS access laws through legal challenges or complaints to the United States Trade Representative (USTR) or the World Trade Organization (WTO).

In 1997, the South African government passed a law to allow the distribution of generic HIV/AIDS medicines. A total of 39 pharmaceutical companies sued the South African government to prevent this law from being implemented. These companies faced tremendous international opposition, and on April 19, 2001, the companies agreed to drop their lawsuit. I commend the pharmaceutical industry for dropping this devastating lawsuit. However, I remain deeply concerned that multinational pharmaceutical companies are continuing to pressure other developing countries to sacrifice the lives of people living with AIDS for the sake of their profits.

Brazil has developed a model program for the treatment and prevention of HIV/AIDS in developing countries. The program is based on the local manufacture and free distribution of generic AIDS medicines. This program has cut the number of AIDS-related deaths in half within only four year. Nevertheless, Brazil is now facing pressure from pharmaceutical companies to discontinue the program. USTR is supporting the pharmaceutical industry's claim that Brazil is violating intellectual property rights. The WTO has granted a request from USTR to establish a panel to rule on whether Brazil is in violation of WTO intellectual property laws.

On March 7, 2001, I introduced H.R. 933, The Affordable HIV/AIDS Medicines for Poor Countries Act. This bill would allow developing countries like South Africa and Brazil to expand the availability and affordability of HIV/AIDS medicines without worrying about whether USTR or the WTO will challenge their laws. This bill, which was referred to the Ways and Means Committee, already has sixty cosponsors.

The legislation I am introducing today will ensure that the Export-Import Bank is not subsidizing American pharmaceutical companies while those same companies attempt to deny poor people access to life-saving AIDS medicines. If American pharmaceutical companies want support from the American taxpayers to export their products, they should make those products available at prices that people in developing countries can afford. However, if American pharmaceutical companies are determined to deny access to AIDS medicines, they have no business asking the Export-Import Bank for assistance with export promotion. I urge my colleagues to support **The Export-Import Bank HIV/AIDS Medicine Access Promotion Act**.

I yield back the balance of my time.

Amarr
GARAGE DOORS

April 16, 2001

The Honorable Melvin L. Watt
United States House of Representatives
2236 Rayburn HOB
Washington, DC 20515-1512

Dear Representative Watt:

I was most pleased to receive your letter dated April 4, 2001, regarding the Export-Import Bank. It is great to have our representatives reach back to their constituents and get their opinion on important issues such as the ExIm Bank.

Our experience with the bank has been fantastic as it has allowed us, as a small company, to more confidently enter the international markets. As I am sure you are aware, our ability to collect bad debts from international accounts would be severely hampered without this invaluable assistance.

We would appreciate all of your efforts to reauthorize the ExIm Bank. If I may provide you with any further information, please do not hesitate to call me at 336/744-5100, Ext. 237.

Best regards,

Richard A. Brenner
President

B:RepWatts
cc: Frances Frazer
Greg Gilmer
Jeff Mick
Gerry Hardee
David Reed

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MIDREX

AN ISO 9001 CERTIFIED COMPANY

April 12, 2001

Office of Representative Melvin L. Watt
1230 W. Morehead Street, Suite 306
Charlotte, NC 28208-5214

Attention: The Honorable Melvin L. Watt

Subject: Support for US ExIm Bank
Your Letter Dated April 4, 2001

Dear Sir:

I was very pleased to receive your letter regarding the reauthorization of the US ExIm Bank. In fact, I thought that your letter was going to reference our current project under development in Australia (please see the attached letter from our Vice President - Sales, Mr. Rob Klawonn, transmitted to you in March). This Australian project will have a total value of US$3 billion, and our contract share in this project will be over US$300 million. Our proprietary technology is featured prominently in this high profile project. Although we are not an equity investor in the project, our role will be very significant, thanks to the support of US ExIm Bank.

The financial advisor (IBJ) is scheduled to meet with US ExIm and Midrex in Washington sometime in the next sixty days to formally introduce the project concept and to discuss the anticipated schedule. A project Information Memorandum will be issued shortly thereafter to officially kick off the financing effort.

It is imperative that US ExIm Bank remain strong and committed to supporting U.S. companies in order to enhance their competitiveness. This project, when implemented, will be a perfect case study of why US ExIm Bank should remain available to all U.S. companies wishing to capitalize on overseas opportunities.

We are thankful for the financial support we have received from US ExIm Bank in the past. In 1995, we worked directly with ExIm on a project to provide engineering services, equipment, and site services to Ispat Mexicana, SA de CV (Mexico). Our revenue from this project was approximately US$73 million; approximately US$21.5 million of the revenue was supported by an ExIm guarantee.

In 1996, our parent company, Kobe Steel, Ltd. (Japan), received ExIm guarantees for the U.S.-sourced scope of a sponge iron plant that they provided to a client in Venezuela. We benefited indirectly, for our parent company subcontracted the engineering scope (over 200,000 man-hours) to us.

The above examples illustrate why we feel that US ExIm Bank is a vital link in the export of goods and services from the U.S. We enthusiastically support the reauthorization of US ExIm Bank.

I look forward to receiving your comments on the Australian project and hope to receive your support with US ExIm Bank accordingly.

With best regards,

Winston L. Tennies

Winston L. Tennies
President

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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Facsimile Transmission

Date: 04/11/01 Number of Pages(including cover): 2

Recipient:		**Sender:**	
Facsimile Number:	202.225.1512	Facsimile Number:	704.785.8486
Individual Name:	Melvin L. Watt	Individual Name:	Stanley Swider
Company Name:	U.S. Congress	Company Name:	Wall Industries
Telephone Number:	202.225.1510	Telephone Number:	704.785.8484 EXT 204

Re: ExIm Bank

Dear Mr. Watt:

I have received your correspondence dated April 4, 2001 regarding the above noted matter.

Wall Industries has been a client of the ExIm Bank for a period of 2 years. This opportunity has provided Wall with the ability to export our products. Without this insurance we simply could not expand our business base by exporting.

We utilize First Union Bank as our financial institution. First Union as well as other similar banks do not loan money on foreign receivables . This simply means that if Wall or any other small company cannot use export business sales as loan collateral we simply cannot export. In addition, If Wall was financially able to internally finance exports, we still could not take the credit risk of not collecting the receivables. It is extremely difficult to collect a foreign debt. First Union does accept a foreign receivable with ExIm bank insurance!

In summary, the ExIm Bank insurance allows us to utilize our export receivables as loan collateral. This provides us the opportunity to export our products, grow our business and expand our job base at a reasonable cost with minimum risk.

Wall could not have achieved this opportunity without the ExIm Bank.

Sincerely,

Stanley Swider

EXPORT-IMPORT BANK OF THE UNITED STATES
RECHARTERING TESTIMONY
HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
MAY 2, 2001

Mr. Chairman, I am pleased to be here today representing the Export-Import Bank of the United States (Ex-Im Bank). Ex-Im Bank's Charter states:

> It is the policy of the United States to foster expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income, a commitment to reinvestment and job creation, and the increased development of the productive resources of the United States.

Working in partnership with business and labor, we support exports in order to create and sustain jobs here in the United States. This has been the task of Ex-Im Bank in the past, and with Charter renewal, the Bank will continue its vital work as long as foreign competition has to be met and our partnership with the private sector is necessary to assure that exports go forward and jobs are sustained.

The charter goes on to tell us that our programs have to be "fully competitive with the government-supported rates and terms and other conditions available...from the principal countries whose exporters compete with United States exporters." And we focus our resources on financing exports where the private sector cannot meet the financing terms and conditions necessary to enable our exporters to offer a competitive financing package. Because of this, Ex-Im Bank supports 2% or less of total US exports, the balance financed by the private market. This is near the bottom for all industrialized countries, reflecting the comparative depth of our capital markets. Our support helps businesses finance transactions in risky countries where the private sector does not want to get involved, or meet offers from competing export credit agencies. We reach out to small businesses and communicate with underserved exporters in inner-cities and rural areas through speeches, briefings, and our internet site.

We are also constantly making sure that US taxpayers' monies are committed with the greatest care. Our loan officers are careful to assure that Ex-Im support is necessary for a transaction to go forward. The Ex-Im Bank Board frequently asks this question specifically when considering a transaction. I would also emphasize that Ex-Im Bank is not a free service. We charge fees which serve to offset some of the monies we must set aside to reserve against possible loan losses.

Mr. Chairman, Ex-Im Bank is a "sunset" agency. Our charter needs to be renewed by Congress by September 30, 2001. In this preauthorization, we are requesting a renewal of the Bank's charter for four years, through September 30, 2005

We are also requesting that our sub-Saharan Africa Advisory Committee be extended for four years. This advisory committee has offered valuable advice which has been instrumental in our ability to increase our business in sub-Saharan Africa.

Let me take some time to explain how Ex-Im Bank assists exporters and sustains US jobs. Our basic programs consist of direct loans to foreign buyers of US goods and services, guarantees of commercial loans to foreign buyers, and providing a number of insurance programs that are of great assistance for short-term, small business sales. In FY 2000, the Bank authorized $932.6 million in loans, $8.4 billion in guarantees, and about $3.3 billion in insurance, supporting a total US export value of $15.5 billion. Since our last rechartering in 1997, we have supported approximately $60.2 billion in US exports. For every $1 dollar of taxpayer money invested in Ex-Im Bank's program budget, there have been returns of $15-$20 dollars in exports. Export-driven jobs typically pay 4-6% above the average in the United States.

These are not give-aways to large corporations. Ex-Im Bank programs finance exports from businesses of all sizes, large and small. Also, we are being repaid. Losses over our 67 year history are less than 3% of disbursements, and while this obviously can vary depending on world economic conditions, I would put our record up against any commercial bank. It speaks well for our credit judgments, and it also speaks well for our Asset Management Division, which does a very good job at recovering assets when a buyer gets into financial difficulty.

FY 2002 BUDGET REQUEST

The request for our *program budget* for FY 2002, the budget that allows us to carry out our guarantee, insurance, and loan programs, is $633 million. This is approximately a 25% reduction from the 2001 enacted level of $863 million. We will manage carefully to assure that we do not run short of funds for our medium and long-term transactions. There will be sufficient funds to service all of our small business customers. These management decisions could include increasing fees, reducing the percentage of any given transaction that we will finance, or limiting the amount of riskier transactions we undertake. All of these steps will balance our role as lender of last resort against Ex-Im Bank's role to 'level the playing field'.

We are also requesting $65 million for our administrative budget, a $3 million increase over this year. The bulk of that increase is accounted for by pay raises for our staff and our continuing effort to improve our case processing procedures, especially our computers. Our goal is to improve our overall efficiency and decrease our case processing time.

SMALL BUSINESS

The benefits of the increased exporting Ex-Im Bank makes possible extend to businesses of all sizes in almost all states. In FY 2000, 86% of Ex-Im Bank's transactions directly benefitted small businesses. These transactions consumed about 18% of our lending levels. And this does not even take into consideration the tens of thousand of small businesses that benefit indirectly from exports from large corporations such as Boeing.

Small businesses account for most of the job growth in our country. We currently directly assist some 2000 small businesses each year, but this represents just a small fraction of the small businesses which export. While we are making every effort to expand our small business base, there is much more that needs to be done. The only way to reach the thousands of small businesses that could make use of our services is to expand our technological base, ultimately by making use of the internet, which involves significant capital investment.

I would like to take this opportunity to review some of the major small business initiatives the Ex-Im Bank has undertaken since we were last rechartered. First, we have reorganized internally to centralize all of our small business efforts. In 1997, the New and Small Business Group (NSBG) was established to provide specific services for the small business community. This group included the Insurance, Working Capital and Business Development Divisions along with the Regional Offices located in New York, Chicago, Miami, Houston and Long Beach, California. Since then, the NSBG has endeavored to aggressively meet the exporting needs of the small business community with superior customer service. This has included the establishment of an Emerging Market sub-group to promote Ex-Im products and services to small business in the minority, women-owned and rural communities. I would like to add at this point that the results of a survey entitled the American Customer Satisfaction Index show that Ex-Im Bank's customer service rating is a "70", which is "excellent" and compares well to not only other US government agencies but also commercial banks.

Our regional offices have also changed to emphasize small business initiatives. Ex-Im Bank has:

- -- changed from a reactive to proactive approach to marketing and selling Ex-Im products to achieve small business goals, and

- -- opened a Mid-Atlantic regional office and West Coast satellite offices in San Francisco and Orange County to attract small business in those areas.

Business Development

Starting in 1998, we transformed from a reactive to proactive business development philosophy. We have developed:

- – an **Exporter Database,** that includes 180,000 exporting companies (two-thirds of all exporters).

- a **Direct Mail** campaign aimed at small businesses. We have sent out more than 200,000 pieces of mail each year to exporters. We have developed about 2,000 qualified leads for immediate sales follow-up with new ACT contact management software.

- a program of **Nationwide Exporter Seminars**, which cover the entire US. These have proven to be very popular and are large cost and time-savers for exporters, because it means they do not have to travel all the way to Washington for our multi-day seminars.

In addition, we forged strategic alliances with our partners in the US Export Assistance Centers (the Department of Commerce and the Small Business Administration) to facilitate small business outreach; we have overhauled our web site to make it more user-friendly and logical so the first-time visiting exporter can easily understand it; and we are utilizing more than 100 partnerships with trade associations and our City/State partners to reach small businesses at the local level.

Starting in 2000, we have increased our efforts to promote our activities linking Ex-Im Bank with the Congress, state and federal agencies, and trade promotion groups. We have been proactive in working with a variety of these organizations to promote exporting opportunities through speeches, briefings, and informal meetings. In addition, we have performed the following:

- Ex-Im Bank trade briefings have been coordinated for ten Members of Congress. Such programs are joint efforts between Ex-Im Bank's City/State partners, local Chambers of Commerce, and the offices of various Senators and Representatives. In addition, packages of information have been sent to several other Members of Congress interested in preparing for a trade event in their respective districts. Using these briefings as an outreach tool, Ex-Im Bank has been able to develop and strengthen relationships with a growing number of first-time users of the Bank.

- Memoranda of Understanding (MOU's) have been signed with the Governor of New Jersey. Signing a MOU allows Ex-Im Bank to work together with state commerce departments and economic development agencies.

Insurance

Mr. Chairman, it is through our insurance program that the majority of our small business transactions are enacted. Ex-Im Bank has adopted a detailed strategic approach in supporting and increasing its support for small business exporters and associated lenders. Central to this strategy are three key components: offering useful, high quality products that are reasonably priced and will attract a greater number of small business exporters; providing prompt customer service by investing in technology to support a growing volume of small transactions; and finally, through technology, being in a position to monitor and adapt risk-taking to the marketplace on a real time basis. Since 1997, the following initiatives in the Insurance program have been undertaken in support of these strategic objectives relating to small business.

Short-Term Credit Standards: In 1999, Ex-Im Bank introduced Short Term Credit Standards (SACS) designed to achieve greater transparency, predictability and consistency of application outcomes for small business exporters under the short term insurance program. Prior to the introduction of the SACS, exporters and lenders were not sure what credit information would be necessary and under what circumstances Ex-Im Bank would approve an application. With the SACS, all participants are informed as to what credit information is required and on what basis Ex-Im Bank will approve an application. A critical additional benefit derived from SACS is an improvement in application turnaround time.

In addition, the SACS have also enabled Ex-Im to take a more aggressive posture with regard to risk assumption and with a faster turnaround capability on smaller exporter applications because the standards offer the means to quickly evaluate the critical credit components. The SACS will also serve as the platform for automated credit scoring (See Automation below).

Small Business Product Enhancements: At the same time the SACS were introduced, Ex-Im Bank also modified a number of its policies to provide greater flexibility and incentives for small business exporters and their lenders to use the short-term credit insurance program. These included the following:

- α We have made it even easier for small businesses to sell to private buyers by extending the use of Enhanced Assignments, which transfer the risk of exporter performance from the commercial bank lender to Ex-Im Bank. This is also helpful to lenders, when exporter performance risk may be too high to allow for the provision of any financing

- α Reduced the Minimum Annual Premium for small business (and other applicants as well)

- α Expanded use of delegated authority to small business exporters

Automation: In recognition of Ex-Im Bank's commitment to support an ever-growing number of small dollar sized transactions from small business exporters and the availability of technology to efficiently and effectively support this effort, the insurance program's strategic plan incorporated the "Automation Project" as a key component in assisting Ex-Im Bank to achieve its small business goals. This effort, which is dependent on receiving sufficient administrative budget, will provide a number of key benefits to the US SME exporting community and to Ex-Im Bank as well:

- -- Ability to handle a significantly larger volume of applications, most of which will be generated by small business exporters and/or their lenders in an expedited manner
- -- Expedited turn around time on up to 80% of all applications
- -- Ability to monitor, evaluate, and modify the risk of the short term portfolio on a real-time basis
- -- Provides the framework for expanded risk taking because of the portfolio approach versus a case by case approach.

30-40% broker commissions for small business: To encourage greater broker participation in marketing and selling Ex-Im Bank's short-term insurance, we increased the commissions to be paid to brokers who are able to sell a minimal number of policies to small businesses from the standard 10% commission rate to either 30 or 40% with the commission rate based on number of policies sold.

Threshold increase for small business from $3 to $5 million: Ex-Im recently changed its maximum annual export credit sales "small business enhancement" threshold from $3 million to $5 million. This change allows for a greater number of small business exporters to be eligible to receive the enhancements available under its Small Business Policy.

GMAT Short-Term Mexico Program: Ex-Im Bank recently agreed to insure short term transactions under a commercial paper funded program set up by GMAT, which focuses on providing export financing support for and between US small business exporters and Mexican small business buyers.

Short-Term Insurance Pricing: In order to provide simplified insurance premium pricing for small business exporters, Ex-Im Bank adopted the use of a short-term fee table in which the Bank charges a flat fee based on term and buyer type, and excludes the variability of country risk as a factor. Thus, the fees charged can be known up-front regardless of the country where the exporter may be shipping to (e.g., more predictable), as opposed to a fee based on term, buyer type and country risk formula that can also change without warning to the exporter (e.g., less predictable). Moreover, the small business exporter benefits when the country of the buyer is a relatively higher risk because the fee charged is typically lower than the higher risk fee.

Working Capital

Mr. Chairman, we have made great strides in our Working Capital program since 1997. The program has grown from $387.7 million in FY '98 to $588.3 million in FY '2000, an increase of about 52%. About 88% of these transactions are for small businesses. In addition to the hard work of our staff, this increase has been made possible by some program changes:

-- The program has added additional delegated authority (DA) lenders and has increased the amount of DA afforded to lenders many times in the last 5 years.

-- The program documentation has been simplified for ease of operation.

-- New partners have been added to broaden the potential marketplace for this product. Asset based lenders and community bank initiatives have resulted in additional usage of the program. Ex-Im Bank has joined the Commercial Finance Association and dedicated a business development officer to enhance this relationship.

The attached charts depict activity under the Insurance and Working Capital programs along with overall business growth over the preceding two years.

SUPPORT FOR LARGER COMPANIES

We also, of course, deal with large corporations and help support their exports to markets which are risky. We do it because even large corporations do not have the resources to stand up against government subsidized foreign competition or the reluctance of most commercial banks to deal in many emerging markets. These transactions result in high-paying jobs for the individuals who work for these corporations. And as I stated above, there has been a good record of repayment.

Let me address the issue of our support for large companies such as Boeing, which seems to have attracted more than its share of attention. I am pleased that we have been able to help Boeing export, because when we have done so, we have helped them compete against their highly subsidized competition and defend a US industry. The Europeans have been very candid about their ambition to make Airbus, Boeing's only competitor in the large commercial jet aircraft market, the dominant manufacturer in this industry. We want to make sure that Boeing can compete with them on the basis of quality and price, not the availability of finance subsidized by our European competitors. There is a lot at stake. Thousands of companies in all fifty states contribute to the building of a Boeing aircraft. In 1999, Boeing paid approximately $23.5 billion to 35,000 companies in the United States. I am no more or less proud of the exports we support for Boeing and the jobs we support there than I am of the exports we support for small businesses. They are all equally valuable.

Let me make it very clear that when we are asked to support an export, we make every effort to assure that it cannot be supported commercially, or that there is officially supported finance from our competitors. We call this "additionality", assuring that the export would not proceed without us. We take this task very seriously, and we are always open to suggestions as to how we can do this job better.

Also, we do not arbitrarily "pick winners and losers." We accept transactions on a first come, first served basis, and judge them as to whether or not they are creditworthy and, in some instances, whether they meet our environmental guidelines.

And, of course, we make sure to follow our Congressional mandate that there is a reasonable assurance that the loan or guarantee will be repaid.

THE ASIAN FINANCIAL CRISIS

I would now like to highlight some of Ex-Im Bank's activity of the last four years. In June of 1997, the economies of Asia experienced a severe financial downturn. Korea, Thailand, and Indonesia, three major economies, virtually ceased importing US goods and services. The private sector in the industrialized world placed a hold on further dealings with these countries. Hundreds of millions of dollars of US exports were literally sitting on US docks, injuring US exporters large and small and costing US jobs. Ex-Im Bank concluded that short-term transactions were still viable in most of these countries, and we offered short-term lines of credit for $1 billion in each. This was meant to signal that Ex-Im Bank would remain engaged in these markets, that we expected to be repaid and would continue to do our best to stick by US exporters who were trying to maintain trade flows. I am convinced that the role of Ex-Im Bank proved crucial in promoting recovery and sustaining US exporters.

Our efforts had an immediate impact in Korea and demonstrated the unique role Ex-Im Bank played at a crucial time. Through our efforts, over $2 billion dollars in US exports went forward that otherwise would have been lost, much of it from small business. In the first ten months, from March through December, over 2,500 transactions were processed, compared with fifty transactions the previous year. Most importantly, when we reviewed our repayment records, we discovered that there was not a single loss. This was obviously a great benefit to US exporters and workers, but it was also a stabilizing factor for Korea and all of Asia. And because we stayed, the private sector banks were encouraged to return to the market. Through this experience, Ex-Im Bank showed the value of its presence during a financial crisis.

Indonesia has been the most difficult of our markets in recent years. Our current exposure there is about $3.3 billion, down from $3.8 billion at the end of FY '97. At that time, the exposure comprised about 7% of Ex-Im Bank's total portfolio. Our best current estimate is that in the end, our losses in that country will probably be about 5% of our exposure there.

These challenges in Asia have put Ex-Im Bank staff to the test and here, as in Russia and in other troubled areas, the Bank has met the challenges. Our losses are modest. The Bank's portfolio has solid industry and regional balance. The Bank has sustained US exports and jobs during periods of economic instability.

ENVIRONMENT

In 1995, at the direction of Congress, Ex-Im Bank adopted a comprehensive environmental policy, that included an aggressive program to promote environmentally beneficial and renewable energy exports, and adoption of a set of environmental procedures and guidelines applicable to its support of foreign projects. This was in recognition that the US is a leader in the manufacture of environmental technology, yet the level of our exports did not reflect this.

During the next generation, the world market for environmental technology will grow to nearly $1 trillion. As evidenced in its Annual Performance Plan, Ex-Im Bank is committed to increasing the level of support it provides to exporters of environmentally beneficial goods and services as well as to exporters participating in foreign environmental projects. To achieve this objective, Ex-Im Bank offers enhanced financing support with its Environmental Export Credit Insurance and under its Loan, Guarantee, and Medium-Term Insurance programs. These programs are intended to maximize US government support for environmental technology, thereby enhancing substantially the competitive position of U.S. environmental exporters. Since 1995, Ex-Im Bank has supported $3 billion in environmentally beneficial U.S. exports and environmentally beneficial projects.

In addition to proactively encouraging U.S. companies to export environmentally friendly goods, Ex-Im Bank instituted review procedures to ensure the projects it supports are environmentally responsible. If a project does not meet all Ex-Im Bank environmental measures, the Bank will work with the exporter to implement mitigating measures.

In 1997, we initiated discussions with heads of G-7 export credit agencies to persuade them to work with the OECD to adopt environmental policies with meaningful environmental guidelines. Ex-Im Bank is recognized internationally for its progressive environmental policy and it spearheaded U.S. government efforts at recent G-8 Summits to encourage leaders of other nations to require that their export credit agencies adopt effective environmental guidelines.

Ex-Im Bank's environmental guidelines add significant value to the projects it finances. Emissions of project pollutants and effluents have been reduced, and the ecological effects of Bank supported projects have been mitigated extensively. Ex-Im Bank's environmental guidelines have prompted foreign buyers to purchase additional U.S. exports of goods and services totaling over $250 million to mitigate the environmental effects of their projects. Examples of these exports include pollution control equipment, highly efficient electric power plants, effluent disposal systems, and services to mitigate regional ecological impacts.

NEW MARKETS

Over the past few years, Ex-Im Bank has made a concerted effort in expanding our support to U.S. exporters in new markets such as sub-Saharan Africa, Russia, and the NIS as well as retooling in older markets such as India. As a result, Ex-Im Bank will expand U.S. export opportunities into markets that may hold great potential for U.S. export growth. These are either markets where the private sector will not provide financing, or where Ex-Im must act to meet competition from foreign export credit agencies.

The most notable growth in Ex-Im Bank's programs has been in sub-Saharan Africa, a market where previously both Ex-Im Bank and U.S. exporters were largely inactive. As a result of Ex-Im Bank's commitment to meet its 1997 Congressional mandate, the Bank has seen nearly a 15-fold increase in supported exports to the region. Also to meet this mandate, the Board of Directors established both an internal Africa Task Force to direct the activities of the Bank pertaining to Africa, and named a sub-Saharan Africa Advisory Committee to bring practitioners from the field to offer advice to Ex-Im Bank in its efforts.

The importance of this market was also underscored by several Ex-Im Bank delegations in FY2000, including missions to Nigeria, Ghana, South Africa and Mozambique, Cameroon and Senegal.

As a result of these efforts, Ex-Im Bank's support to sub-Saharan Africa has grown substantially. Whereas in 1998 the Bank authorized approximately $56 million to support U.S. exports, it authorized $589 in 1999 and $914 million in 2000. In terms of volume of business, Ex-Im Bank authorized 103 transactions in 1999 and 125 in 2000, a 25% increase. In 1998 the Bank was open in 21 countries and has been open in 32 countries for the past two years.

The Bank is also working to maximize trade opportunities for U.S. exporters in Russia as well as the other NIS countries. The Asian and Russian financial crisis had a large impact on activity in these markets, and we are just starting to see a resumption of activity in some of these markets.

In Russia, Ex-Im Bank is working with that country's leadership to find ways to expand U.S. exports and encourage Russia's development as a trade partner with the U.S. Reflective of this effort, authorizations supported by Ex-Im Bank rose from zero in 1999 to $223 million in 2000. Some of the transactions involved the sale diamond mining equipment, aircraft equipment, and medical equipment for a Moscow children's hospital.

Ex-Im Bank also moved to expand its programs in Russia by initiating a program to accept the risk of Russian Commercial Banks. After extensive due diligence by staff, compiled in a banking sector study, the Bank's Board of Directors chose 15 Russian banks as creditworthy partners, eligible for short and medium-term financing.

The Bank also assisted its first Azerbaijan transaction last year, which supported $66 million in asset-based financing for two aircraft to Azerbaijan's Airlines.

The Bank is also developing tools to enter new market places as well as to expand in old markets. For instance, in August of 20000 the Bank has announced a new subsovereign program that will help foreign borrowers with municipal, state and provincial support gain access to Ex-Im Bank financing to buy, among other things, medical equipment, construction vehicles, information technology, and environmentally beneficial goods and services. This program is aimed at optimizing U.S. export support while helping many emerging market cities and states strengthen their economies by addressing critical infrastructure needs, including their access to cutting-edge information technology. Transactions of this nature could also be used for entities in many countries, including Russia, Malaysia, Argentina, Brazil, Bulgaria, China, Colombia, Croatia, the Czech Republic, Estonia, Latvia, Poland, Slovakia, and South Korea.

Essential to U.S. export growth and utilization of Ex-Im Bank in particular is a general broadening of the Bank's focus on maximizing exports through increased creativity in financing and flexibility in structuring transactions so that they meet the Bank's creditworthiness criteria.

FOREIGN CONTENT, LOCAL COSTS, AND COFINANCING

Over the past 18 months, in cooperation with several exporting organizations and in consultation with representatives of organized labor, Ex-Im Bank has formulated new polices in foreign content, local cost, and co-financing. In all three areas, the idea is to use greater flexibility to achieve higher US export and job levels.

The premise behind these changes is that U.S. exports would benefit by: (a) providing exporters with greater flexibility; (b) creating efficiencies (such as minimizing paperwork); and (c) enhancing U.S. exporter competitiveness through co-financing arrangements. The validity of our premise will be measured over the next 18-24 months as transactions that benefit from these changes flow through the Ex-Im Bank process and we review the results to determine if the changes are accomplishing the intended results – to encourage U.S. exports. This review process is an integral component to the changes we have implemented and will provide an important feedback loop on the effectiveness of these changes.

Let me begin by explaining "foreign content", which is the amount of goods and services in a U.S. export supply contract that were not produced in the United States. The basic parameters of Ex-Im Bank's foreign content policy continue to be the same. That is, Ex-Im Bank will support the lesser of 85% of the U.S. export supply contract or 100% of the U.S. content. The difference between the current and previous foreign content policy is the way in which eligible foreign content is calculated.

Prior to the change in procedures, the production cost of each good and service in the U.S. supply contract must have been a minimum of 50% U.S. content and the foreign content must have been incorporated in the United States; all content must have been shipped from the United States. **Each item of supply** had to meet this criteria to be included in the Ex-Im Bank financing package. In contrast, the new foreign content procedures calculate foreign content on an **aggregate basis**. That is, instead of applying our foreign content procedures to each item of supply, we apply them to the aggregate U.S. supply contract.

Local costs are costs incurred in the buyer's country. Local costs are generally related to the US exporter's contract and can be an important factor in helping the US exporter win the contract. Notwithstanding, local costs do not directly benefit the US economy and therefore, Ex-Im Bank has developed procedures and policies to limit the extent to which Ex-Im Bank provides support for these costs. Ex-Im Bank policy allows it to provide support for locally originated goods and services for up to 15% of the US contract price.

Ex-Im Bank has recently approved changes in the local cost policy that will significantly improve US exporter competitiveness. The specific changes fall into two broad categories – availability rules for obtaining local cost support, and eligibility requirements.

Ex-Im Bank has eliminated the availability criteria for long-term transactions that required proof of foreign competition or evidence of insufficient private financing for local costs. As a result, Ex-Im Bank may provide support for all long-term transactions providing there are local costs associated with the US exporter's contract.

Regarding eligibility, in order to ensure Ex-Im Bank support for local costs benefitting a US export contract, former Ex-Im Bank policy required the US exporter to explicitly document the local costs portion in the exporter's contract. In some countries this requirement made the local cost appear to be a US (i.e. imported) cost and was taxed as such by the host government. Thus, to avoid this unintended tax consequence, Ex-Im Bank now allows the exporter to document local costs in a variety of ways that establish a "functional" relationship between the local costs and the US exporter's contract. Moreover, for non-recourse project finance transactions, the eligibility criteria has been broadened. Ex-Im Bank may support local costs outside of the US exporter's contract, provided that the local costs benefit the project as a whole.

Let me now turn to the subject of co-financing. The content procedure changes made co-financing possible as previous Ex-Im Bank procedures did not lend themselves to these types of agreements.

Co-financing is sometimes referred to as a "One-Stop-Shop" arrangement that allows buyers to source products from two or more countries without having to negotiate separate financing packages with each export credit agency (EA.). The US exporter enhances its competitiveness by offering foreign buyers the administrative simplicity of a seamless co-financing package that contains a common documentary structure for the entire transaction -- one set of terms, conditions and procedures. The buyer interfaces with only one ECA who leads the financing. The lead ECA secures a counter-guarantee from the "follower" ECA for its portion.

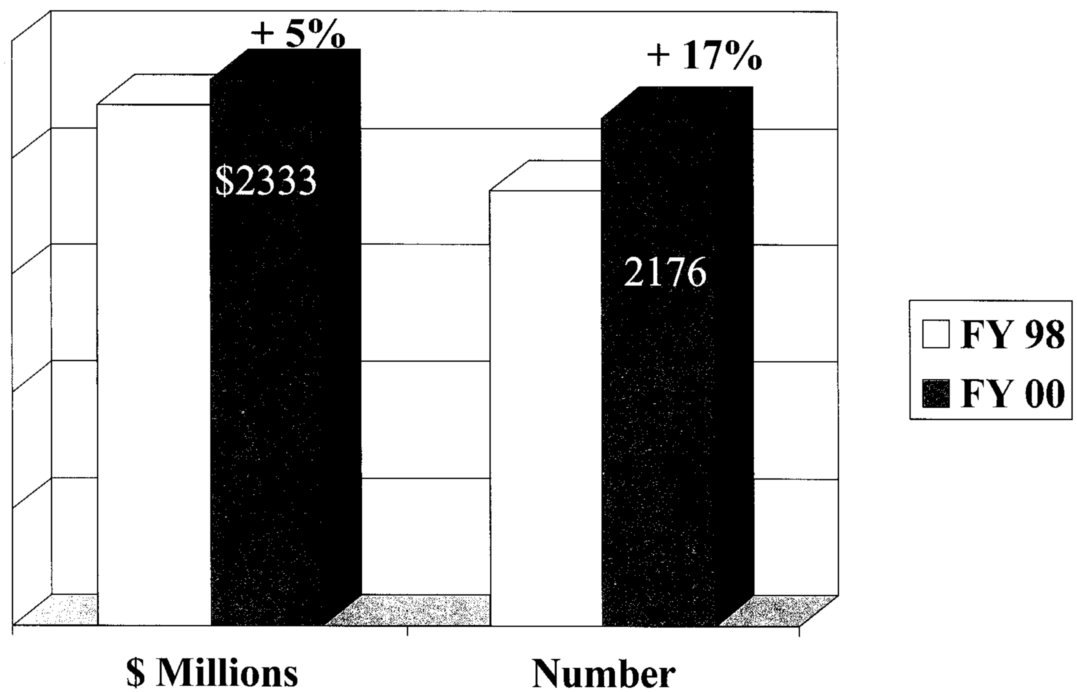
Ex-Im Bank will continue to ensure compliance with its legal and policy requirements by either making certain that the transaction has met its standard procedures or by requiring side certifications and information from the US exporter that demonstrate compliance.

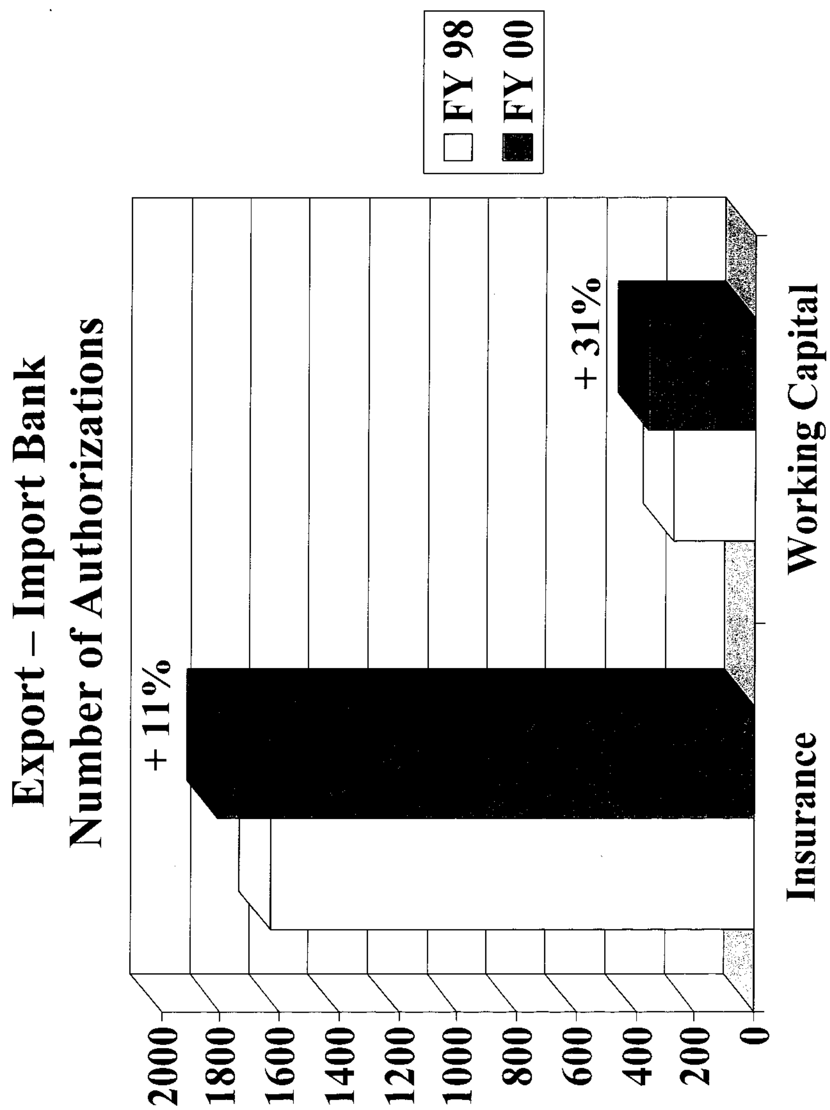
Ex-Im Bank currently has a bilateral agreement with ECGD of the UK and is concluding discussions with EDC of Canada. [Other ECAs – most notably Coface of France and Hermes of Germany are on the horizon to sign bilateral agreements as well.]

CONCLUSION

Mr. Chairman, Ex-Im Bank is in its 67th year of operation, helping to sustain US jobs by supporting exports which would not go forward without us. We meet the export finance offered by competing governments, and we work to eliminate market imperfections to assure that creditworthy deals can go forward. I am pleased to be the representative of a dedicated career staff, many of which have accompanied me here today. We will be happy to answer any questions you or other Members of the subcommittee may have.

Export – Import Bank
Total Small Business Authorizations




Export – Import Bank
Number of Authorizations
FY 98
FY 00
+ 11%
+ 31%
Insurance
Working Capital
2000
1800
1600
1400
1200
1000
800
600
400
200
0

EXPORT-IMPORT BANK
OF THE UNITED STATES

May 2, 2001

Dear Mr. Speaker:

I have the honor of submitting herewith a draft of the legislation "To amend the Export-Import Bank Act of 1945, as amended."

This legislation would provide a four-year reauthorization of the Export-Import Bank of the United States and a four-year extension of its authorities under Section 2(b)(9), the sub-Saharan Africa provisions.

The Office of Management and Budget has advised that there is no objection to the submission of this proposal and that its enactment would be in accord with the program of the President.

Sincerely,

James K. Hess
Chief Financial Officer

Enclosure

The Honorable
J. Dennis Hastert
Speaker of the U.S. House of
Representative
H-209, U.S. Capitol
Washington, D.C. 20515

A BILL

To reauthorize the Export-Import Bank of the United States the Export-Import Bank Act of 1945 (12 U.S.C. 635 et seq.)

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

SECTION 101. EXTENSION OF AUTHORITY.

Section 7 of the Export-Import Bank Act of 1945 (12 U.S.C. § 635f) is amended by striking "2001" and inserting "2005".

SECTION 102. SUB-SAHARAN AFRICA ADVISORY COMMITTEE

Section 2(b)(9)(B)(iii) of the Export-Import Bank Act of 1945 (12 U.S.C. § 635(b)(9)(B)(iii)) is revised to read as follows:

"The sub-Saharan Africa advisory committee shall terminate on September 30, 2005."

The question of how much of a shortfall the Bank has had historically is complex. The Bank's initial capital when it was created in 1934 was $11 million. This was later increased several times and eventually reached a total of $1.0 billion by 1947. No additional capital was added until FY 1992. Ex-Im Bank used this capital, borrowings from the U.S. Treasury and the private market, and retained earnings to fund its operations.

From its inception through FY 1981, the Bank reported a profit on its operations, paid a total of $1,051 million in dividends on its capital stock, and had accumulated retained earnings of $2,199 million as of September 30, 1981.

Beginning in FY 1982, the Bank reported net losses on its operations and this continued through FY 1995. By the end of FY 1987, funding and net claim losses had reduced retained earnings to $312 million. The following year, the Bank established loss reserves on its loan, guarantee and insurance portfolio. This caused the Bank's retained earnings to drop to a negative $3,151 million as of September 30, 1988. Retained earnings continued to grow more negative until 1991, the last year before the Credit Reform Act of 1990 made available permanent indefinite appropriations. By the end of FY 1991, negative retained earnings reached $7,451 million.

Beginning in FY 1992, appropriations made available by the Credit Reform Act began to recapitalize the Bank. From FY 1992 through FY 2000, the Bank received appropriations from permanent indefinite authority totaling $6,442 million to meet cash flow needs principally related to commitments made prior to FY 1992 and appropriations of $6,860 million to cover estimated losses on new credit commitments. The Bank also received appropriations of $420 million during that period for administrative expenses.

After taking into account $5,350 the Bank has returned to the U.S. Treasury during the period FY 1992 to FY 2000 through loss re-estimate procedures, the net addition to the Bank's capital since credit reform has been $8,372 million.

The additions to capital enabled the Bank to pay down its debt, thus decreasing interest expense. This, together with only a modest provision for losses in some years, has enabled the Bank to report net income in some recent years, and in FY 1999 and FY 2000 the Bank reported net income of $214 million and $346 million respectively. However, even with the net income, cumulative retained earnings at the end of FY 2000 were a negative $1,622 million and total equity was a negative $173 million. These totals include an estimate for future losses on the Bank's current portfolio. The actual losses could be lower or higher than the estimates.

The Bank believes that the best way to view the Bank's credit losses over time is to relate these to total disbursements and shipments made. These losses have been less than 2% of total disbursements and shipments since the Bank's inception. This is a lower loss ratio than many commercial banks, and is particularly impressive since the Bank has been taking risk in the higher risk markets where commercial sources of funds are generally unwilling or unable to go.

Question: What are Ex-Im Bank's technology needs in FY 2002 and if provided with additional funding how would the funds be used.

Answer: During FY 1999 and FY 2000, the focus of Ex-Im Bank's Information Management and Technology Group (IM/T) was on the Y2K problem and the upgrade of the existing infrastructure. With those tasks completed, in late FY 2000 IM/T turned its attention to E-Commerce and improving Ex-Im Bank's core applications. These two large and complementary projects will continue to be primary projects of Ex-Im Bank's IM/T Group through FY 2001 and FY 2002.

In FY 2001 Ex-Im Bank will begin the migration of all the Insurance applications from the existing AS/400 to a modern, web-enabled database. In addition to the migration of the existing legacy applications, new functionality such as credit scoring, portfolio management, work flow and E-Commerce features will be added. This is a major project and it is anticipated that the total time to completion will be 13-16 months. A major portion of this project will be carried over to FY 2002.

IM/T plans to continue its efforts in FY 2002 to provide paperless Internet based transaction capabilities to all employees, customers, and partners. IM/T expects to maintain an aggressive approach to fulfilling the Bank's E-Commerce Strategy which includes web site updates, redesign and development; expanding the online Working Capital Guarantee application form to additional platforms; and moving into phase 2 and 3 of the Invitation to Submit Proposal (ISP) Internet model designed to established a public/private sector technology partnership for the delivery of Ex-Im Bank products and services as well as providing value-added export services delivered through our technology partners.

In FY 2002, PCDocs will require an upgrade of the software (currently 3.9 Docs Open) to new Fusion Release expected to be released in late 2000. PCDocs is evolving into an enterprise information system and the new software will enable integration into the new insurance project and allow further workflow and information portal accessibility. In addition, all of the current library databases, running various versions of Oracle will be combined into a few number of more comprehensive enterprise libraries in order to better support Ex-Im Bank's Business Development Group's ACT Contact Database and Outreach Contact Databases (Exporters, Lenders, Banks, Small and Mid-Sized Businesses, Conference and Seminar Attendees).

During FY 2002 Computer Security will continue with the ongoing requirements of access control, awareness briefings, and policy development. Recommendations resulting from the external audit and penetration testing will be implemented. Appendix III of OMB Circular A-130 requires critical systems to undergo a risk assessment every three years. This risk assessment will begin during FY 2001 and carry over into 2002.

Additional requirements include the cost of running and maintaining existing legacy (mainframe) systems, web development, implementation of electronic workflow processes including digital signatures, maintenance of the existing network infrastructure, and periodic replacement of equipment as it reaches the end of its life cycle.

If additional funds are made available to the Bank, these funds would be used to accelerate the insurance project mentioned above and to further expand E-Commerce initiatives.

PRESIDENT AND CHAIRMAN

EXPORT-IMPORT BANK
OF THE UNITED STATES

May 24, 2001

The Honorable Janice Schakowsky
515 Cannon House Office Building
Washington, D.C. 20515

Dear Representative Schakowsky:

Thank you for your question posed at the May 8, 2001 hearing of the International Monetary Policy Subcommittee for the reauthorization of the Export-Import Bank of the United States (Ex-Im Bank) regarding (i) the alleged human rights violations at the Dabhol power plant project in India, and (ii) the financial role Ex-Im Bank played in the financing of the project.

At the hearing you expressed an interest in both the human rights considerations Ex-Im Bank applies when reviewing a project, and the criteria Ex-Im Bank uses to determine that no human rights have been violated when considering a transaction approval.

Since the passage of the 1978 amendments to the *Export-Import Bank Act of 1945*, as amended, Ex-Im Bank can only deny its financing for human rights violations if the President, (acting through the State Department) determines that such a denial would be in the national interest. As a general rule, Ex-Im Bank relies on the expertise of the State Department with respect to human rights and foreign policy issues.

As you may know, the State Department can specifically exercise authority in this area through a legislative vehicle known as the Chafee Amendment. Short of formal Chafee determinations, Ex-Im Bank has worked with the State Department to establish a set of standardized procedures for examining human rights concerns in countries where the Bank provides medium and long-term support. Transactions of more than $10 million are generally subject to human rights review by the State Department. This review is delivered to Ex-Im Bank for its consideration in evaluating a case.

Ex-Im Bank's Board of Directors approved financial support for U.S. exports for Phase I of the Dabhol project in September 1994 and again in May 1996. These decisions were reached after numerous consultations with the State Department (including diplomatic personnel in India) and other U.S. government agencies.

The *Human Rights Watch* report to which you referred was released in January 1999, five years after Ex-Im Bank initially approved the transaction. To date, Ex-Im Bank has completed its disbursements and is now in the repayment phase of the transaction.

Sincerely

James A. Harmon

cc: International Monetary Policy Subcommittee

May 21, 2001

MEMORANDUM

SUBJECT: International Comparisons of Official Export Credit/Export Promotion Activity and Administrative Resources

As promised in Jim Cruse's testimony, attached is information regarding G-7 export credit activity levels, G-7 export credit staff levels, and a comparison of G-7 export promotion expenditure prepared as part of the Trade Promotion Coordinating Committee's Seventh Annual Report to the Congress of the United States (March 2000). If staff per $billion of medium and long-term activity can be a fair proxy for the level of administrative resources committed to official export credit, a rough comparison of the two data sets on export credit activity and personnel indicates that – consistent with the TPCC finding on export promotion expenditure – the US is at the low end of the scale.

G-7 Medium and Long Term Activity
In $ Billions

	Average M/LT Activity 1998-1999	Average M/LT Activity 1995-1997
United States	$8.0	$8.4
as % of Total MLT Activity	(18.5%)	(16.7%)
United Kingdom[1]	$4.2	$3.3
as % of Total MLT Activity	(9.8%)	(6.5%)
Canada[2]	$4.1	$3.2
as % of Total MLT Activity	(9.5%)	(6.3%)
France[3]	$7.0	$7.9
as % of Total MLT Activity	(16.3%)	(15.6%)
Germany[4]	$7.5	$11.6
as % of Total MLT Activity	(17.5%)	(23.0%)
Italy	$1.2	$2.1
as % of Total MLT Activity	(2.8%)	(4.1%)
Japan[5]	$11.0	$14.0
as % of Total MLT Activity	(25.6%)	(27.8%)
Total of all Medium and Long term activity	**$43.0**	**$50.4**

1 The United Kingdom activity figures include military exports, sometimes significant. For example, for its 1999/2000 fiscal year (April-March31) approximately 33% of the UK's export credit support was for military exports.
2 Canada's activity figures include market window activity, increasingly dominant. For example, in 1999 it is estimated that over 75% of Canada's medium/long-term export credit support was done under its market window.
3 France's total for 1999 was based on doubling six month figures.
4 Germany's activity figures do not include KfW's market window activity.
5 The Japanese figures are comprised of EID/Miti/NEXI's insurance activity and JEXIM/JBIC's direct lending activity which may yield some double counting.

The following is a comparison of staff levels for the G-7 for 1999:

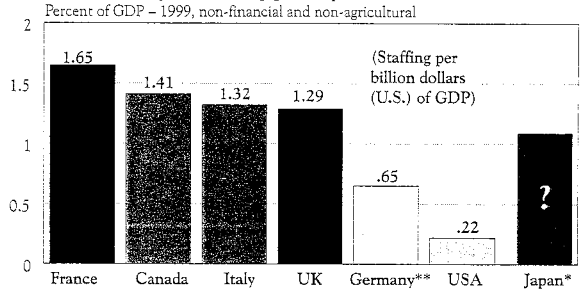
1999 Full Staffing Levels		1999 Medium/Long-term Staff Levels (est.)	
United States	390 - 440	United States	300 - 350
United Kingdom[1]	390 - 440	United Kingdom	375 - 425
Canada[2]	780 - 830	Canada	325 - 375
France[3]	770 - 820	France	275 - 325
Germany[4]	460 - 510	Germany	300 - 350
Italy[5]	310 - 360	Italy	175 - 225
Japan[6]	750 - 800	Japan	350 – 400

Footnotes:

1. The United Kingdom no longer provides short-term export credits, although it does have the authority to offer reinsurance to the private market insurers in the event of a lack of adequate private market reinsurance. A small adjustment based on the estimate for staffing related to the reinsurance business has been made.
2. Canada provides extensive short-term export credits (approximately 2/3 of volume in 1999), as well as other financial products such as investment insurance and performance bond cover. A major adjustment based on the estimate for staffing related to the non-medium/long-term export credit business has been made.
3. France is a private insurance company that operates the official export credit program (medium and long term) on behalf of the French government. The staffing figures include those ministry personnel assigned to oversee Coface. An adjustment based on the estimate for staffing related to the non-medium/long-term export credit business has also been made.
4. Germany is a private insurance company that operates the official export credit program (medium and long term) on behalf of the German government. The staffing figures include those ministry personnel assigned to oversee Hermes. An adjustment based on the estimate for staffing related to the non-medium/long-term export credit business has also been made.
5. Italy's figures include staff from Simest, the Italian entity that administers Italy's interest make-up program. An adjustment based on the estimate for staffing related to the non-medium/long-term export credit business has also been made.
6. Japan does substantial volumes of short-term export credits (over 90% of activity in 1999). JBIC provides non-export credit loans (e.g., investment and

Export Promotion Staffing

Domestic & Foreign Personnel Engaged in Export Promotion as a Percent of GDP – 1999, non-financial and non-agricultural



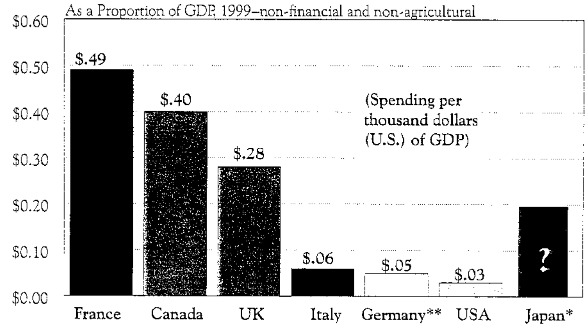
* Figures for Japan are difficult to interpret because the government of Japan maintains that its non-financing trade promotion activities are devoted to import promotion. Commerce believes that there is substantial support for export promotion that is supplemented by industry associations with close ties to government.

** German figures are also likely to be understated since they exclude German Economics Ministry headquarters personnel.

Source: Based on Commercial Service staffing estimates and OECD GDP figures

Export Promotion Spending

As a Proportion of GDP, 1999–non-financial and non-agricultural



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** German figures are also likely to be understated since they exclude German Economics Ministry headquarters personnel.

Source: Based on Commercial Service staffing estimates and OECD GDP figures

APPENDIX

May 8, 2001

Opening Statement
The Honorable Doug Bereuter
Chairman
Subcommittee on International Monetary Policy and Trade
Export-Import Bank Reauthorization
May 8, 2001

Good afternoon. The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony on the reauthorization of the Export-Import Bank (Ex-Im Bank). The Ex-Im Bank was last reauthorized in 1997 for a four-year term that expires on September 30, 2001. At this hearing, the Subcommittee will hear from a representative of a large corporation and a small business which use the Ex-Im Bank as well as organizations who have different opinions on the Ex-Im Bank's programs

This is the Subcommittee's second hearing on the Ex-Im Bank. On May 2nd, the Subcommittee heard from an experienced panel of professional staff from the Export-Import Bank. In addition to giving their testimony, the Ex-Im Bank submitted a legislative proposal, which would reauthorize the Ex-Im Bank for four years until 2005. I look forward to receiving the panel's views on this proposed legislation.

Before introducing our outstanding panel, I am going to briefly stress the following items which were discussed in the first hearing on the Ex-Im Bank: proposed cuts, possible net income, small business activities, investment in Africa, and types of subsidies offered by export financing agencies including the U.S. tied aid war-chest. I would like the witnesses today to address these issues, among others.

First, on May 2nd, the Ex-Im Bank testified regarding the proposed reduction in funding for FY2002. The Administration requested $633 million to fund its program budget which administers the Ex-Im Bank loan, insurance, and guarantee programs. This is approximately a 25% cut from the FY2001 enacted level of $633 million. To accommodate this possible cut, the Ex-Im Bank testified that they may have to increase fees, reduce the percentage of loans, guarantees, and insurance that they finance, and/or limit their amount of higher risk transactions.

I do have significant concerns about the Administration's proposed cut to the program budget of the Ex-Im Bank as it could likely result in fewer U.S. exports. In light of the slowdown in the U.S. economy, this proposed Ex-Im Bank reduction comes at a particularly bad time for American businesses.

Furthermore, the Ex-Im Bank also testified that they need additional funding for upgrading their technology. As a result, the Administration proposed $65 million for FY2002 for the Ex-Im Bank administrative budget, which is an increase of $3 million from the prior year.

Second, at the May 2nd hearing, some questions were asked regarding possible net income for the Ex-Im Bank. According to the 2000 Annual Report from the Ex-Im Bank, they had a net income for FY2000 of $345.8 million. Moreover, for FY1999, the Ex-Im Bank had a net income of $214.4 million. This net income is given to the U.S. Treasury rather than being used by the Ex-Im Bank in its next fiscal year.

Third, with respect to small businesses, the 1997 authorization law mandated that the Export-Import Bank make additional efforts to enhance its programs to small and rural companies. When the Ex-Im Bank testified on May 2nd, they explained how they continue to meet this mandate. Today, our small business witness will testify as to the efforts of the Ex-Im Bank in this regard. In addition, I would like any data that the witnesses can provide on the number of small business suppliers that work with corporations which use the products offered by the Export-Import Bank.

Next, the 1997 authorization bill required an increase in the Export-Import Bank's financial commitments in Sub-Saharan Africa. Moreover, in this mandate, Congress also required the Ex-Im Bank to establish a Sub-Saharan Africa Advisory Committee.

On May 2nd, the Ex-Im Bank testified that that they have dramatically increased their support for U.S. exports to Sub-Saharan Africa since this mandate. Moreover, the Ex-Im Bank pointed out that the authorization for the Sub-Saharan Africa Advisory Committee will expire this year. As a result, the Ex-Im Bank has requested a four-year extension for this Advisory Committee.

Lastly, the Ex-Im Bank also testified as to the type of subsidies offered by government export financing agencies including the tied aid war-chest of the U.S. In particular, I am interested in any of the panel's thoughts on these different types of export subsidies. Examples of these export subsidies include, among others, market windows and untied aid. Market windows are state sponsored institutions that conduct themselves as both a government lender and a private bank. Canada and Germany both have these market windows which have advantages over both private banks and government export financing agencies.

Another example is untied aid, which is utilized in particular by Japan. It is bilateral aid given to a developing country with no requirement per se that the recipient country buy goods from the donor country. However, in actuality, the recipient still feels compelled to buy the products from the donor country.

Unfortunately, untied aid is not covered by the Organization for Economic Cooperation and Development (OECD) Arrangement, of which the U.S. is a member. The OECD Arrangement conducts negotiations and reaches agreements between countries with the intent to reduce government export financing programs. For example, the OECD Arrangement covers tied aid. Tied aid is a direct export credit where the recipient country is required to buy products from the donor country.

With respect to tied aid, there is a war-chest which can be used by the U.S. to match tied aid offers by other countries. This war-chest, which is administered by the Department of Treasury, has not been used since 1998. I have concerns with the apparent veto power of the U.S. Treasury over the use of the tied aid war-chest.

To assist the Subcommittee in examining these reauthorization issues, I am pleased that we have the opportunity to hear from our distinguished panel of private sector witnesses with diverse views on the Ex-Im Bank. First, we will receive testimony from Mr. Richard Christman, the President of Case IH Agricultural Business. Case IH is one of the brands for CaseNewHolland agricultural products. CaseNewHolland, which uses the Ex-Im Bank, is the number one manufacturer of agricultural tractors and combines in the world, and the third largest maker of construction equipment. Mr. Christman has been with the company since 1975 in a variety of capacities.

Next, Mr. Ian McLaughlin, the Chairman and CEO of Watson Machinery International based in Paterson, New Jersey, will testify. Mr. McLaughlin will bring the perspective of a small business owner who uses the Ex-Im Bank. Watson Machinery supplies high performance machinery and production systems for the wire, cable, fiber optic and wireless industries.
Mr. McLaughlin has been the CEO of Watson Machinery since 1989. In addition to this, he has been a member of the Ex-Im Bank Advisory Committee since 1998.

Our third panelist is Dr. Fred Bergsten, the Director of the Institute for International Economics (IIE) since its creation in 1981. Among his many past positions, he was the Assistant Secretary of the Treasury for International Affairs from 1977-1981. Dr. Bergsten received his Masters and Ph.D. degrees from the Fletcher School of Law and Diplomacy. It should be noted that in January of 2001, the IIE published a very comprehensive book entitled, "The Ex-Im Bank in 21st Century. A New Approach?"

Next, Mr. Ian Vasquez, the Director of CATO's Institute Project on Global Economic Liberty, will testify. His writings have appeared in newspapers throughout the United States and Latin America. He received his Bachelor's degree from Northwestern University and his Master's degree from the School of Advanced International Studies at Johns Hopkins University.

Subsequently, Dr. Brent Blackwelder, the President of the Friends of the Earth, will testify. He was the founder of the Environmental Policy Institute, which merged with the Friends of the Earth and the Oceanic Society in 1989. Dr. Blackwelder has received degrees from Duke, Yale, and the University of Maryland.

The final witness is Mr. George Becker, the former President of the United Steelworkers of America. Mr. Becker, who has recently retired as President, was first elected to this position in November of 1993. Mr. Becker, a second-generation steelworker, is a native of Granite City, Illinois

We welcome the distinguished panel to our hearing. And, without objection, your written statements will be included in their entirety in the Record. Thank you.

EXPORT-IMPORT BANK HEARING #2
HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

MAY 8, 2001

OPENING REMARKS
REP. JULIA CARSON

Mr. Chairman, I would like to thank you for convening this important hearing.

This hearing is important because it addresses an institution that directly affects the small businesses and workers in our districts. Just as importantly, the Export-Import Bank reflects the values of U.S. taxpayers to governments and people all over the world.

For these reasons, I take very seriously our jurisdiction over the legislation to reauthorize the Export-Import bank.

Mr. Chairman, fossil fuel projects release carbon dioxide into the atmosphere, contributing to global warming. In its fiscal year 2000 annual report, Ex-Im reported that the loans and loan term guarantees it authorized totaled \$7.8 billion.

The agency devoted 28 percent of that total-or \$2 billion- to fossil fuel projects. These investments pollute local communities and the global environment.

However, the most troubling aspect of the bank's fossil fuel investments is that it contradicts the 1997 Resolution authored by Senator Bird and Senator Hagel.

In this resolution, the Senate unanimously demanded that developing countries, such as China and India, commit to reducing their global warming emissions before the U.S. takes similar action domestically.

Thus, at the same time that the U.S. is demanding better energy policies from developing countries, we allow the Ex-Im Bank to support destructive energy policies around the world.

The bank's support of fossil fuel projects comes at the expense of cleaner, renewable energy sources and oftentimes portrays the U.S. as insensitive to local demands around the world.

For example, the Ex-Im Bank recently considered supporting a coal-fired power plant in Bo Nok, Thailand that was opposed by local communities. The police injured dozens of peaceful protestors who were concerned about the project, and local communities are now threatening to burn the plant down if it is built. Local residents have stated they would prefer clean, renewable energy.

Mr. Chairman, these are not the projects that U.S. taxpayers want to fund.

Mr. Chairman, the reauthorization of the Ex-Im bank provides this subcommittee with an excellent opportunity to respond to these alarming issues.

To address these problems, the Ex-Im bank must:

#1. Increase its accountability by establishing an independent evaluation office, or an ombudsperson. This position would provide the public with a mechanism to ensure that the Ex-Im bank is following its own environmental policies.

Furthermore, the Ex-Im bank would be following a precedent set by other international financial institutions—such as the World Bank—that have recognized the importance of transparency and accountability.

2. The Ex-Im Bank has a 15-member Advisory Committee that advises the agency on its program and reports to Congress on whether or not it is following its mandate.

Finance, agriculture, services, commerce and labor are represented on the committee. The committee should be further expanded to include at least two representatives from the environmental community.

3. The Ex-Im Bank should be required to publicly disclose environmental impact assessments of applicable projects, and to provide the public with 120 days to comment.

Disclosure and public comment periods are key elements of project finance at the World Bank and U.S. Overseas Private Investment Corporation. They improve the quality of projects, ensure against negative environmental impacts, and make the institutions more accountable to the public.

4. The Ex-Im Bank energy lending has overwhelmingly supported fossil fuel projects, from coal fired power plants to oil and gas extraction. The Ex-Im bank should move away from this type of energy lending and toward renewable energy and energy efficiency.

I support the proposal by Green Scissors to cut the 28 percent of Ex-Im subsidies that support destructive energy projects.

Mr. Chairman, while the Exim bank reports that 86% of its transactions directly benefit small businesses, the reality is that just 20% of the bank's subsidies go to small businesses.

Meanwhile, 80% of the bank's subsidies go to Fortune 500 companies. Nearly half of that money goes to just 15 big firms.

Mr. Chairman, this lending pattern must change. U.S. taxpayers should NOT be funding the exports of big business. To the contrary, the reauthorizing legislation of the ExIm Bank must require the bank to return to its founding mission: to finance export projects that would otherwise not be possible.

My colleague Chris Shays asked a wonderful question during the hearing last week and that was—"how is it possible that a company such as GE is unable to finance its export projects?"

Mr. Chairman, I don't believe that question was adequately answered and it remains a question to which I would like an answer. I do not believe that the Ex-Im Bank follows its mandate to provide assistance to those who could not otherwise export. This must change.

One of the most oft-repeated justifications for the Ex-Im Bank's funding for big business is that through export-assistance, the bank creates jobs. Mr. Chairman, I am wondering how this argument can be supported when two of the Bank's biggest recipients either halved their work force or are employing **more people in other countries** than in the **United States?**

IBM has received over $20 million in direct loans and loan guarantees from the Ex-Im Bank. However, IMB now has more workers employed abroad than it does in the U.S.

Mr. Chairman, beginning in 1987, companies have been allowed to receive Ex-Im assistance as long as 50 percent of the products they want to export are made in the U.S. This policy must be followed.

Then there is the case of General Motors, which has received over $500 million in direct loans and loan guarantees from Ex-Im Bank. GM has shrunk their U.S. workforce from 559,000 to 314,000.

Mr. Chairman, I support small business and I support efforts to foster employment and create jobs. However, from every indication we have received, the Ex-Im Bank is subsidizing the same companies that are exporting good, U.S. jobs overseas.

Finally, I would like to go on the record to support the efforts of Congresswoman Maxine Waters who has introduced a bill to address the role of the Ex-Im Bank in the global fight against the HIV/AIDS crisis.

As many of you know, on April 19, 2001, the 39 pharmaceuticals that had brought suit against the South African Government responded to worldwide opposition and dropped their 4-year lawsuit.

Though I, along with my colleagues on the Congressional Black Caucus, applaud this decision, we are fully aware that these same companies continue to pressure developing countries to enact programs that benefit pharmaceutical interests.

Mr. Chairman, the case of Brazil is telling. Brazil has developed a model program for the treatment and prevention of HIV/AIDS through the local manufacture and free distribution of generic AIDS medicines. This program has cut the number of AIDS-related deaths in half in just four years.

However, as speak, Brazil is facing pressure from pharmaceutical companies to discontinue the program. The U.S. Trade Representative is supporting the pharmaceutical industry's claim that Brazil is violating intellectual property rights. The WTO has granted a request from the USTR to establish a panel to rule on whether Brazil is in violation of WTO intellectual property laws.

Mr. Chairman, these disciplinary actions in the face of a worldwide pandemic that is killing 6,000 Africans every day are scandalous. I DO NOT support the Pharmaceutical companies, the USTR, or the WTO in this regard and I urge them to withdraw their request and focus the world's attention on getting cheap drugs to the millions of people worldwide who are living with HIV and AIDS.

Mr. Chairman, until Ex-Im Bank financing supports the environment and American workers, this institution will continue to come under attack.

Again, I thank you for convening this important hearing. I look forward to hearing from our witnesses and I look forward to the subcommittee's involvement in ensuring that import reforms are made at the Export-Import Bank.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on International Monetary Policy and Trade

May 8, 2001

Export-Import Bank Reauthorization

Thank you, Chairman Beureter, for holding this second hearing on the reauthorization of the Export-Import Bank. This opportunity to hear from individuals who actually use the Export-Import Bank will give members of the Subcommittee real world examples of the activities of the Ex-Im Bank.

I applaud the Administration for sending up legislation to renew the Bank's charter beyond its current expiration date of September 30, 2001. However, there are several additions that may have to be made to the legislation in order to ensure that the Ex-Im Bank remains competitive in the international trade arena. I look forward to working with the Administration, Subcommittee Chairman Bereuter, and others in speedy Committee consideration of reauthorization legislation.

I would like to commend the Chairman for organizing this hearing, which will give the members an opportunity to hear different perspectives, both pro and con, on the Bank. The goal of our hearings is to give all voices an opportunity to be heard, and this will certainly occur today.

Ex-Im provides assistance to both large and small corporations across the United States. Without the guarantees, insurance and direct loans provided by Ex-Im, many of these businesses would not reach high risk, or emerging markets with their products. As a result production levels would be lowered, the U.S. trade deficit would be larger and fewer Americans would be employed in high paying manufacturing jobs.

I look forward to hearing from both Case IH Agricultural Businesses and Watson Machinery today. Case, one of America's largest manufacturers of agricultural machinery, employs thousands of people both directly and through suppliers across the country. Watson Machinery is a small business, employing 90 people, and is on the cutting edge of high-technology manufacturing. Both of these very different businesses rely on the Ex-Im Bank to help finance transactions in international markets. Today's testimony should give members valuable insight into the need for a strong Export-Import Bank.

I am also very interested in the testimony of the other witnesses on today's panel. Both the Institute for International Economics and the CATO Institute are highly respected think tanks. While they may disagree on the need for the Bank, their insightful opinions are highly valued and respected. Additionally, the United Steel Workers and The Friends of the Earth will give our members important perspectives on issues which might have been overlooked had they not been part of today's proceedings.

As we continue our review of Ex-Im, I look forward to hearing recommendations on how we can improve the Bank in order to ensure that it has all the resources at its disposal to compete in the international trade environment of the 21st century.

Mr. Chairman, I would like to join you in welcoming these witnesses and to thank you for your thorough review of this agency. I yield back the balance of my time.

Statement by
Congresswoman Marge Roukema
Subcommittee on International Monetary Policy and Trade
Export-Import Bank Reauthorization
May 8, 2001

I want to commend Chairman Bereuter for holding this second hearing on the reauthorization of the Export-Import Bank. I was had hoped to attend the first hearing on May 2, however, I was detained in a markup in the Education and Workforce Committee. But today, I want the record to show that I support the reauthorization of the Ex-im Bank and look forward to working with Chairman Beureter to make sure that we get the job done in a timely and responsible manner. Since coming to Congress in 1981, the Bank has been reauthorized seven times, and I have supported each and every one of these reauthorizations.

The Bank plays a very significant r role in U.S. trade policy. It ensures that U.S. businesses will not be denied access to overseas markets because of market imperfections that prevent them from obtaining financing from the private sector or because of unfair competition from foreign export agencies.

The last time we reviewed the Bank's charter was 1997 when it was reauthorized for four years, the Bank was instructed to reach out to small companies that have not previously participated in the Bank's export financing programs. The Bank was also required to expand its lending for exports to Africa. I look forward to hearing today from the Bank officials on how the Bank is accomplishing these 1997 mandates.

In addition, Congress has inserted into the Bank's charter a provision requiring it to look at the environmental impact of its lending programs. The U.S. is the only major developed country that has placed this pro-environment requirement on its export credit agency. It is my understanding that the U.S. is now leading international negotiations to get other countries to follow the U.S. lead on this matter.

In our review of the Bank, we will also want to make sure that the Bank is in good fiscal and operational shape. The world of finance and the international trading system are changing fast. Other countries are finding more sophisticated ways of assisting their exporters and new financing mechanisms are being developed. One question we will want to ask is whether the Bank has all the tools necessary to assist U.S exporters in this global economy.

Finally, while the Bank has historically focused on financing the exports of planes and other manufactured goods, so called "old economy" exports, I will be interested in learning what role the Bank can play in assisting high tech businesses in exporting their products overseas.

In closing, Mr. Chairman, I was struck by a statement the outgoing Chairman of the Bank made last month at the Bank's annual conference. He noted that the most significant and fundamental changes of the Bank have not come from within the Bank nor from the Adminstration, but from Congress. Mr. Harmon cited Congressional led efforts on tied-aid credit, small business lending and the other reforms I mentioned earlier. Mr. Chairman, I look forward to working with you, Chairman Oxley and others in continuing Congressional leadership in making the Bank a more effective instrument of U.S. trade financing in the future.

TESTIMONY OF RICHARD M. CHRISTMAN, CASENEWHOLLAND INC.
ON BEHALF OF
THE NATIONAL FOREIGN TRADE COUNCIL
AND
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS
ON
REAUTHORIZATION OF THE EXPORT-IMPORT BANK
MAY 8, 2001

Mr. Chairman and Members of the Subcommittee, I am Rich Christman, President of Case IH Agricultural Business of CaseNewHolland Inc. (CNH). CNH is the number one manufacturer of agricultural tractors and combines in the world, the third largest maker of construction equipment, and has one of the industry's largest equipment finance operations. I am testifying today on behalf of the National Foreign Trade Council (NFTC) and the Coalition for Employment Through Exports (CEE), whose members comprise major U.S. exporters and financial institutions.

SUMMARY: EX-IM NEEDS A 5-YEAR REAUTHORIZATION

At the outset, let me emphasize that CNH and the other members of CEE and the NFTC urge Congress to reauthorize the Export-Import Bank of the United States (Ex-Im Bank) for five years. It is essential to American exporters and workers that the Bank's charter be reauthorized until September 30, 2006. This would avoid the difficulty which occurred in 1997 and again this year when reauthorization occurs in the first year after a Presidential election and in the same year when the Ex-Im Chairman's and Vice Chairman's terms expire.

We look to your leadership in ensuring the Bank is fulfilling its mandate to promote U.S. exports and jobs by being fully competitive with other major export credit agencies (ECAs). In this regard, adequate appropriations are as important as reauthorization in accomplishing this critical goal, Ex-Im's budget must be funded adequately and its policies and procedures must recognize the realities of today's fiercely competitive global market place. Its independent status also must be reaffirmed and strengthened.

BACKGROUND ON CASENEWHOLLAND

CNH is the number one manufacturer of agricultural tractors and combines in the world, the third largest maker of construction equipment, and has one of the industry's largest equipment finance operations. Revenues in 2000 were over $10 billion. Based in the United States, CNH's network of 10,000 dealers and distributors operates in over 160 countries. CNH agricultural products are sold under the Case IH, New Holland and Steyr brands. CNH construction equipment is sold under the Case, Fiatallis, Fiat-Hitachi, Link-Belt, New Holland, and O&K brands.

CNH is engaged in three principal lines of business: agricultural equipment, construction equipment and financial services. These businesses are organized globally with separate, brand-driven commercial organizations and distribution networks. CNH was formed in 1999 through the merger of New Holland and Case Corporation. CNH is building on the legacies of both organizations, which together have a combined 265-year history. Jerome Increase Case founded the J I Case Company in 1842 and soon gained recognition as the first builder of a steam engine for agricultural use. In 1895 New Holland Machine Company was founded in Pennsylvania specializing in agricultural equipment.

In maintaining the leading brands of both companies, while combining manufacturing, engineering, purchasing and other business functions, CNH is preserving choice for its customers, furthering its industry leadership position and creating value for shareholders.

CNH EXPORTS BENEFIT OUR SUPPLIERS

CEE and NFTC recently issued a report on the important benefits of Ex-Im to small and medium businesses. The report highlights the thousands of invisible exporters across the nation by listing more than 35,000 primary suppliers of goods and services to 13 major U.S. exporters. CNH was one of the 13 participants in the study.

At CNH our construction equipment moves the earth and our agricultural equipment helps feed the world. How do we do this? By exporting our construction machinery and our agricultural machinery to more than 160 countries around the globe. Why do we do this? Trading gives us an opportunity to grow our business when we go abroad to sell our products. It also gives our suppliers an opportunity to grow their business because, through our exports, their products also reach our global customers. Each of our suppliers can be viewed as an "invisible exporter." Key to these accomplishments is our continuing relationship with our suppliers. These solid relationships are integral to our manufacturing and exporting success as well as the success of our suppliers. Many of our exports are assisted by Ex-Im. The result, exporting CNH equipment means importing business for our suppliers and us.

EX-IM BANK IS VITALLY IMPORTANT TO CNH

One of the things that continuously surprises CNH is how misunderstood international trade, as an issue, is with opinion leaders, American workers, and even our global trading partners. As a result, CNH has embarked upon a very aggressive trade education program. One aspect of the program is the discussion of Ex-Im.

Ex-Im Bank is a federal agency serving as the "lender of last resort" for US exporters when commercial bank financing is not available for export sales and when the US exporter is confronted with foreign competitors which have financing available from their government. Currently, some 70 governments around the world have ECAs like Ex-Im, providing about $500 billion a year in government-backed financing.

Increasingly, financing is a key to winning export sales. Customers now demand that exporters arrange financing for sales. However, in many emerging markets, where the greatest export growth opportunities now exist, commercial banks are often unwilling to provide financing, even for credit-worthy customers. In these cases, government export credit agencies step in to finance the sales, either through direct loans to the customer, or through guarantees and insurance that a commercial lender will be repaid by the customer. With guarantees/insurance, commercial banks are willing to provide financing.

Ex-Im is not corporate welfare. The Bank charges interest on its direct loans and premiums for its guarantees and insurance, costs that the U.S. exporter usually passes through to its overseas customer. These charges usually range from 5-17% of the financing obtained, depending on the risk. From the exporter's and customer's point of view, the Bank does not subsidize the cost of financing an export transaction; Ex-Im is no less expensive to use than a commercial bank or other financial intermediary.

During the many years we have worked with Ex-Im Bank, it has become clear that Ex-Im is vital to the success of our export business. For one, it counters the aggressive financing programs found abroad and, secondly, its assistance has allowed CNH, along with many other companies, to increase revenues and strengthen the size of the work force in the United States.

Of particular importance to CNH is the former Soviet Union where farm conditions are ideally suited to our production agriculture equipment. We have invested considerable effort during the last five years in developing marketing plans and are now only starting to reap the benefits which will create many jobs in the CNH family, its sub-suppliers and related US agribusiness suppliers for years to come. The ability to provide pioneering finance through Ex-Im has given us a leading edge in breaking into these new markets and ensuring an ever-increasing market share, resulting in jobs for American workers in Illinois, Kansas, North Dakota, Minnesota, Pennsylvania, Iowa, Nebraska and Wisconsin from our plants. The effect on our hundreds of sub-suppliers and their industries magnifies the overall job creation effect significantly.

At this juncture, we cannot risk foreign suppliers stepping into these markets because of financing support from their own ECAs. Lack of a viable and fully funded Ex-Im Bank would adversely impact the ability of our company to compete against formidable foreign suppliers. Last year, Ex-Im Bank provided some 2,500 US exporters with $12.6 billion in financing. This supported $15.5 billion in export sales. The sales figure is higher because Ex-Im never finances 100 percent of a sale, always requiring other parties to take at least 15 percent of the risk. However, based on CEE/NFTC projections, we believe that in order to fully fund Ex-Im to cover anticipated demand in FY 2002, the Bank needs $1.5B in appropriations. However, the Administration has announced a 25% reduction in their program budget below the current level of $927 million. The mission of Ex-Im is to support US jobs, and having more money available is needed to do this, not less. If Ex-Im experiences a short-fall in funding, then US exports -- and export-related workers -- will feel the impact. Ex-Im is the major US agency available to help

US exporters meet the competition. If Ex-Im is not available, the sales will go to our foreign competitors.

From 1997 through 2000 CNH financed nearly $420,000,000 worth of Ex-Im Board approved transactions to Uzbekistan, Turkmenistan, and Ukraine. Without Ex-Im none of these sales would have been completed and many of our workers at our Racine, WI tractor plant, East Moline, IL, combine and cotton picker plant, Grand Island, NE, combine plant would not have had jobs. This does not even consider the impact on the hundred of thousands of other employees at our supplier's factories or even their sub-suppliers. Approximated 30-70% of our machinery's cost is purchased parts. This, consequently, has a dramatic impact on our suppliers and their bottom line.

For example:

- It takes over 235 suppliers in 30 states, representing about 100,000 employees to build and export just one of the combines manufactured by Case IH.
- It takes nearly 200 suppliers in 27 states, representing about 75,000 employees to build and export just one of the tractors manufactured by Case IH.
- It takes 180 suppliers in 26 states, representing about 63,000 employees to build and export just one of the loader backhoes manufactured by Case.

Let me call you attention to the attached brochures: Who Benefits When Case Exports a Tractor? and Who Benefits When Case Exports a Combine?

In the 16 states represented by Members of the International Monetary Policy and Trade Subcommittee of the House Financial Services Committee States we have suppliers in 12 of 16 states. Moreover, just focusing on three of the fourteen plants (Racine, East Moline, Wichita) we have in the US, we have over 500 suppliers in 34 states.

We simply could not have achieved this degree of success without Ex-Im's valuable assistance. No commercial entity exists or is planned to replace the risk absorption capacity of Ex-Im Bank and the future role of agribusiness in US exports depends on its continued viability. Currently, the United States ranks seventh behind The Netherlands in support for exports. Without the support Ex-Im Bank, US agribusiness will be at a distinct disadvantage against foreign competitors.

CNH'S U.S. MANUFACTURING FACES GROWING FOREIGN COMPETITION

The decade of continuous economic growth and fast technology development left us all - the businessmen and politicians alike - pretty much assured that North America remains the largest market in the world with the demand capacity being practically unlimited. But is it the right assumption?

Let me challenge this supposition by sharing with you some market data that we at CNH are being faced with now and then in exploring new business development opportunities in the world markets. Our company is one of the global leaders in agriculture machinery. In fact we are the number one manufacturer of agricultural tractors and combines in the world. We manufacture and sell combine harvesters and tractors in North America. The annual production capacity of our East Moline, IL combine plant is over 6,000 units, while our tractor factory in Racine, WI is capable of assembling more than 15,000 units per year. This supply capacity is more than enough to cover the current demand of the American farmers and more! Currently, we are producing about 2,600 combines and 5,700 tractors at these facilities, respectively. You might be genially surprised to know that the potential demand for these products on just one of the many export markets – Russia – is estimated by authorities at 100,000 combines and 300,000 tractors.

Getting access even to a small share of this huge market would have resulted in creating many extra job opportunities not only in the US industrial factories, but in service industry, transportation and other sectors of the economy. More than that, given stable positions on large emerging markets like Russia, we could easily cope with such serious economic problem like the cyclical North American agriculture machinery sector, supposedly the biggest market in the world.

Why then is the impact of the exports to Russia – with annual sales of not more than 400-500 combines and approximately the same amounts of tractors – so negligible? The answer is simple – availability of financing.

I am sure you are aware that most of the modern agriculture equipment is being purchased by farmers on credit terms allowing them to repay the value of the machines over time from the revenues generated with the use of combines, tractors, ploughs, seeders, etc. As future proceeds from agriculture yields are very unpredictable, financing of equipment purchases is associated with high risks. In most of the markets suppliers are sharing these risks with all kind of specialized organizations – banks, financing firms and leasing companies.

With export markets becoming more and more competitive, the traditional private sources of financing are supplemented with the government budget funds used to support the domestic suppliers through the financing facilities of the ECAs like the Ex-Im Bank. ECA financing works primarily as an insurance, where the full faith and credit of a government is used to guarantee the repayment of the credits provided to the exporters through syndicated loans from the private financial institutions. As a rule, ECAs sign the credit agreement with the importer's government that provides the sovereign guarantee of the repayment to the ECA. Among other things the use of such financing opens to an importer access to the most beneficial borrowing terms and conditions, supporting the competitiveness of exported products in foreign markets.

In the emerging markets increasing agriculture productivity becomes not only economical but more a political priority, as the basis for the necessary socio-economic transformations and market reforms. The massive imports of modern, highly productive agriculture equipment is the shortest way to ensure the sustainability of the agricultural production. But extremely weak state finances, undeveloped banking sector, high investment risk environment of the markets in transition very often prohibit the effective use of imports. In these circumstances Ex-Im financing become the only feasible solution to break the vicious circle in an inefficient, under-invested farming industry that is unable to generate enough revenues to support the purchases of necessary equipment.

HOW CNH IS USING EX-IM BANK

Let me share with you some of the real life stories in our company experience in the export markets.

Uzbekistan – a former Soviet Union republic in Central Asia – is a classic illustration of the successful use of US government resources allocated through Ex-Im to support the export activities of a US manufacturer. During the last seven years our company has been able to supply this comparatively small market, experiencing basically the same financial problems as Russia, with 6,000 combines, tractors and cotton pickers. Case IH brand enjoys the dominant position in this market, successfully defending it against the efforts of such formidable competitors as Claas, Deuz-Fahr, Fendt and others.

What are the key success factors of our business in Uzbekistan? The answer is evident – availability of Ex-Im financing support to promote the sales of our equipment. The effectiveness of this support from the US side has been reinforced by CNH's active engagement in cooperation with the Uzbekistan government. From the very beginning CNH has been focused on aligning its business model with the agriculture development priorities of Uzbekistan. The efficiency of this mutually beneficial cooperation that goes beyond traditional export deals and involves CNH participation in the manufacturing, service and financing joint ventures, ensured the generation of revenues in the sector to cover all the repayment obligations to the US Ex-Im bank in a timely and disciplined manner. As a result, Ex-Im's credit line to Uzbekistan purchases of farming equipment has remained open.

Ukraine may be just an opposite case study. In mid 90s the US Ex-Im credit lines helped the American manufacturers to enter this very big agricultural market that used to be called "the bread basket of Europe." Case IH started exploring the opportunities of a broader cooperation in the sector to develop this market to its full potential, comparable to that of Russia. But after the Ex-Im bank support was withdrawn all of our attempts to fight German suppliers in Ukraine have failed. As a result, the market has been virtually closed to the American ag machinery manufacturers during the last 3 years. Retail financing problems disrupted all other entry strategies including those through the joint venture production. On the other hand, the market is being filled with German used equipment sales by Claas, CIS suppliers using government swap deals or exporters from the countries like Poland trying to use government export credits of KUKE.

And finally we are getting back to **Russia**. For more than 2 years CNH has been trying to develop and implement a viable entry strategy into the market. CNH has been able to explore some of the regional markets in the country, successfully competing with the European suppliers. But frankly speaking the market full potential has yet to be tapped. And Ex-Im financing support is the focal point of any strategic initiative there.

First, the level of competition in Russia is considerably higher than in any other CIS market – German Hermes, Italian SACE, Belgian OND, Japanese Ex-Im bank are actively supporting their own exporters. Besides the fact that German exporters have been traditionally enjoying the benefits of very strong brand recognition in Russia, some of them have been aggressively pushing their oversized inventory to attack CNH positions in the market. Russian producers of combines and tractors demand and receive tax breaks and direct government financial support to revive their production and sales.

Furthermore, the memories of the August 1998 default still impact the attitude of the Western private banking institutions towards large-scale projects and business opportunities in Russia.

We do appreciate the latest US Ex-Im bank efforts to find appropriate solutions for providing the necessary support to the Russian agriculture. The Bank's initiative in working with the non-sovereign regional or private bank guarantees might open new opportunities for the American exporters.

Our last decade of experience in the emerging markets is a compelling case for the crucial importance of the Ex-Im's support to successful export activities of domestic manufacturer. It is the proof of the effectiveness of the Ex-Im agenda – to support the competitiveness of the American manufacturers in their export drive creating new employment opportunities in the US, through exports. We are counting on the US government's continued understanding and cooperation in this area.

EX-IM BANK IS FINANCIALLY SOUND AND IS NOT A CORPORATE SUBSIDY

Not only is Ex-Im vitally important to the ability of CNH and other U.S. companies to compete for export sales, but we are paying the government's costs of operating the Bank. Ex-Im charges interest on its direct loans and premiums for its guarantees and insurance. There is a widespread mis-conception that taxpayer funds are used to subsidize the terms of a Bank-backed export transaction. In fact, this is not true; Ex-Im financing is both costly and time-consuming to arrange. We always prefer private financing, but private financing is usually not available in many of the markets where our greatest growth opportunities exist: the emerging markets.

According to the Bank's FY 2000 annual report, the Bank generated $1.7 billion in revenues through its interest, premium and fee charges. Its total expenses, including borrowing costs, totaled $1.4 billion. Thus the Bank generated a net $345 million surplus for the U.S. government. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot utilize its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves. On OMB's books, the Bank appears to have spent $927 million, even though the Bank's own financial statement shows a surplus. Thus, the Bank is handicapped by the government's own budget rules.

Moreover, the Bank has a very low loss rate, historically about 2 percent. In FY 2000, the Bank paid out $249 million in claims, even though the federal government's process for estimating losses required reserves of $938 million for the $12.6 billion in credit which was issued that year. The actual loss rate is far lower than the estimated loss rate that is used to calculate the loan-loss reserves that are required in annual appropriations. As a result, the Bank has accumulated $10 billion in reserves, against its approximately $61 billion in current exposure. That reserve rate is far higher than comparable commercial bank reserves.

EX-IM IS BEING OUTGUNNED BY OTHER EXPORT CREDIT AGENCIES

The United States is significantly behind its major trade competitors in supporting its exporters in emerging markets through competitive export financing. This is true in terms of both quantity and quality. While we debate the latest round of proposed budget cuts for Ex-Im, other countries are increasing their budgets for similar programs, leading to increased exports and jobs. Based on 1998 Berne Union data, for example, Ex-Im financed $13.8 billion in U.S. exports that year, while Japan financed more than $130 billion and France financed more than $50 billion. Korea, Germany, Canada, and the Netherlands all financed significantly more exports than the United States.

In fact, the United States ranked 7th among eight advanced industrialized countries in terms of the amount of exports it supported with official export financing programs.

Not only do America's trade competitors have more export credit backing from their respective governments, they also have more innovative programs that are increasingly being used to finance their exports. Additionally, these ECAs do not have the range of policy conditions and restrictions, as well as periodic unilateral sanctions that have been imposed on Ex-Im.

For example, Germany, Canada, and other foreign governments have created and are aggressively using so-called "market windows." These are quasi-official financing arms that operate outside of the OECD rules and borrow and lend money with the full faith and credit of their governments on much more attractive terms than Ex-Im or private banks. These market windows, such as Germany's KfW and Canada's EDC, claim that they operate on a commercial basis, however, there is no transparency or reporting on these activities to verify such claims. One thing is clear. U.S. private financial institutions cannot match these terms. Moreover, Ex-Im Bank believes it does not have a clear enough legislative mandate to combat these ECA practices by creating its own market window or by matching market window transactions when needed on behalf of U.S. exporters. We hope that the reauthorization legislation can rectify this serious problem and challenge faced by U.S. exporters.

In examining the practices of other foreign governments -- in Europe, Japan and Canada -- the one common theme among them is that they are aggressively competing against U.S. exporters and tailoring their export finance programs with the single objective of promoting their respective country's exports. Ex-Im Bank must have a similar focus if American exporters and their workers are to succeed in the global marketplace. Without a level playing field, U.S. exports and jobs will be lost.

While Ex-Im Bank has made recent progress in updating some of its procedures to improve its competitiveness, changes which U.S. exporters have urged be adopted for years, much more remains to be done. In line with its mandate of leveling the playing field on behalf of U.S. exporters and jobs, needed additional steps include combating tied aid and "untied aid" practices through aggressive use of the tied aid war chest. We also can no longer afford to ignore the phenomenon of market windows. Ex-Im should have the legislative mandate to combat these practices, alongside a focused government wide effort to negotiate rules to bring these practices within the OECD Arrangement.

U.S. EXPORTERS AND WORKERS NEED A STRONGER EX-IM BANK

Our experience at CNH and that of other major U.S. exporters leads us to one over-riding conclusion: we need a stronger Ex-Im Bank, with more robust financing products and a more aggressive approach. We can compete with anyone in the world on quality, service and price, but no U.S. company can compete on its own against foreign companies which have the backing of well-funded and aggressive government-backed export credit agencies.

Increasingly, finance determines who wins export sales. Our customers expect us to bring financing to the table. If our competitors are able to utilize their governments' export credit agencies and we do not have Ex-Im backing, we will lose out and the jobs flowing from those sales will go to foreign workers.

The U.S. government must look on Ex-Im as an essential component of our overall trade competitiveness. The Bank's mix of products must be calibrated to match those of other export credit agencies. The Bank's budget must be large enough to allow the Bank to issue the volume of financing that U.S. exporters request – every year. When other export credit agencies develop innovative financing mechanisms, such as market windows, Ex-Im Bank must bring equivalent mechanisms on line. To do otherwise would put U.S. exporters and their workers at a serious competitive disadvantage.

THE ADMINISTRATION'S PROPOSED BUDGET CUTS WILL COST U.S. EXPORTS AND JOBS

While not a reauthorization issue per se, we must alert you to our grave concerns about the Administration's proposed budget cut for Ex-Im next year.

The Bush Administration has proposed a 25 percent cut in the Bank's FY 2002 budget. All of this reduction would be taken from the Bank's loan-loss reserve funds. With fewer funds for loan-loss reserves, the Bank would have to reduce the amount of financing available for U.S. exporters.

OMB indicates that it would implement the budget cut through a combination of unilateral fee increases in some markets, reductions in the amount of a transaction which the Bank finances, restrictions on the availability of financing to some U.S. companies and a recalibration of the amount of loan-loss reserve required for a given amount of credit.

Of those four specific proposals, the first three all would have the effect of reducing the competitiveness of the Bank and U.S. exporters. Unilateral fee increases, cuts in the Bank's share of a transaction and added hurdles for qualifying for Ex-Im financing all would make U.S. exporters' financing proposals more costly and less attractive to our overseas customers. As a result, loss of export sales would be inevitable.

Of particular concern to us is the fact that the Administration's proposed cut comes while other governments are increasing their own export credit agencies. Canada, for example, has increased the volume of its export credit agency to $30 billion in 2000, up from $19 billion in 1998. By contrast, Ex-Im's financing volume in FY 2000 was $12.6 billion.

In sum, the Administration is headed in the wrong direction, to the detriment of U.S. exports and American jobs. We urge you to indicate to the Appropriations Committee your concerns about the Administration's ill-advised reductions.

Thank you. I'll be happy to answer any questions at this time.

Testimony of

Ian Watson McLaughlin
Chairman of the Board and Chief Executive Officer
Watson Machinery International

on behalf of

the National Association of Manufacturers

before the

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

on

Reauthorization of the Export-Import Bank

May 8, 2001

Good morning, Mr. Chairman. My name is Ian Watson McLaughlin. I am the Chairman of the Board and CEO of Watson Machinery International, a leading manufacturer of high performance machinery, production systems and process solutions to the wire, cable, fiber optic and wireless industries, based in Paterson, NJ. Thank you for the opportunity to testify before the House Financial Services International Monetary Policy and Trade Subcommittee on reauthorization of the Export-Import Bank (Ex-Im Bank). I am testifying on behalf of the National Association of Manufacturers (NAM) – "18 million people who make things in America" – the nation's largest and oldest multi-industry trade association representing 14,000 members (including 10,000 small and mid-sized companies) and 350 member associations serving manufacturers and employees in every industrial sector and all 50 states.

Many might be surprised that Watson Machinery, a small American business with 90 employees, is even remotely interested in Ex-Im Bank. After all, the claim is often made that Ex-Im Bank is the financial boutique of the Fortune 100. I am here to let you know that Ex-Im

Bank is vital to the "little guy," filling in the gaps in the financial market for small exporters such as Watson Machinery. The bottom line is that 60% of my company's sales are outside the United States, and that without Ex-Im Bank, these deals will go to my competitors in Italy, France, Germany and elsewhere, all of whose export-credit agencies do provide the working capital guarantees necessary to support small businesses in their countries.

Watson Machinery International began in 1845 as The Watson Machine Company supplying production machinery to the manufacturing companies in Paterson and across the growing United States. Watson became a leading maker of waterwheels and heavy shafts and gearing, as well as casting iron and brass in our foundry. Our water turbines and steam engines helped provide the power for the great economic boom following the Civil War.

Watson Machinery's long life as a successful family business is attributed to its ability to adapt to new technologies and service new industries. The latest change occurred in 1998, when we completely overhauled our corporate strategy -- from a distributor of value-added machinery produced by Kinrei of Japan, to a leading global supplier of high performance machinery, production systems and process solutions to the wire, cable, fiber optic and wireless industries. This change did not occur by accident. We recognized that in order to grow and prosper, to continue to provide jobs to our employees, and to continue to fund the R & D efforts necessary to our success, we have to export and be experts in doing international business.

Superior after-sales service and timely global customer support are fundamental components of Watson's varied product line for the fast growing global telecommunication infrastructure. Today, communications move at the speed of light through fiber optic cables. Many millions of strands, created under incredibly high and exacting tolerances, are produced on Watson machinery. For 150 years, as American industry has moved forward so have we. We plan an equally impressive future, but I need your help. I urge you to support renewal of Ex-Im Bank's charter, which expires on Sep. 20, 2001.

An illustration of the critical role Ex-Im Bank plays occurred in 2001, when Watson Machinery signed a contract to sell capital machinery worth $4.6 million – representing two lines for the production of fiber optic cabling equipment and two lines (to manufacture) radio frequency wireless cable – to Ocean Cable and Communication (OCC), of Tochigi, Japan. This sale would not have occurred without the help of Ex-Im Bank's Working Capital Guarantee Program.

To get to the nub of the matter, our banking facility does not allow for financing work-in-process inventory. As this order represented our first penetration of the Japanese marketplace, and the European competition was intense, we did not ask for progress payments. That's where Ex-Im Bank came in. Watson Machinery filed an application for an Ex-Im Bank working capital loan guarantee. The Working Capital Guarantee Program encourages commercial lenders to make loans to U.S. businesses for various export-related activities, including the purchase of raw materials, labor and overhead to produce goods and/or to provide services for export. The guarantee may be used to cover working capital loans to a U.S. business only if the lender shows that the loan would not have been made without Ex-Im Bank's guarantee, and Ex-Im Bank determines that the exporter is creditworthy. In my case, Ex-Im Bank approved a \$3 million guarantee to back Watson Machinery's sale of \$4.6 million in equipment to OCC of Japan

I want to emphasize two points: that the transaction would not have gone forward without Ex-Im Bank, and that this support doesn't come free. Ex-Im Bank only entered into the transaction when the lender showed that the loan would not have been made without Ex-Im Bank's guarantee. In other words, Ex-Im Bank proved that it can fill gaps in the financial market for small business. No corporate subsidy here, particularly when you consider that the export-credit agencies of my competitors overseas are not holding back. For this I paid a \$500 processing fee, and an up-front "facility fee" of 1.5 percent of the total loan amount, which help ensure adequate loan-loss reserves and an acceptable risk level to the U.S. government.

Watson Machinery International will continue to do everything in its power to remain competitive in the global markets. I am here today to ask you to do your part – help fill the gaps in the financial market for small exporters and level the playing field so our people, our technology and our products can compete in the global market. Level the playing field by reauthorizing the Ex-Im Bank. Don't force us to compete with barriers that our competitors overseas do not have to face.

I know more than 80% of Ex-Im Bank's transactions have provided financing for small exporters, but I don't need government reports, statistics or business experts to tell me that that small businesses are an important source for job growth and that they can become even more so through exporting, especially if they have access to competitive financing. For small business, Ex-Im Bank is not a luxury we can afford to do without, but a critical filler of the gap in export financing, without which our international customer base – currently 60% of our sales – will quickly disappear. Thank you.

THE US EXPORT-IMPORT BANK: MEETING THE CHALLENGES OF THE 21ST CENTURY[1]

C. Fred Bergsten
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Subcommittee on International Monetary Policy and Trade
Committee on Financial Services
U.S. House of Representatives

May 8, 2001

Exports and the American Economy

Exports of goods and services have been a major source of US growth for 40 years. Since 1960, the share of US gross domestic product accounted for by exports has tripled—a stunning increase in globalization for a mature industrial economy. In the 1990s, even as US growth—powered by the forces of the new economy—turned in one of its best performances ever, the export share rose further from 9.2 percent to 10.3 percent. Globalization is likely to continue to accelerate and the share of exports in the US economy is thus likely to grow substantially further in the future.

When other characteristics of companies are held constant, exporting firms perform much better than nonexporters. Worker productivity is 20 percent higher. Export jobs

[1] This statement draws extensively on Gary Clyde Hufbauer's "The US Export-Import Bank: Time for an Overhaul," Economics Policy Brief PB01-3, Washington, DC: Institute for International Economics, March 2001, and also on *The Ex-Im Bank in the 21st Century: A New Approach?* eds. Gary Clyde Hufbauer and Rita M. Rodriguez. Washington, DC: Institute for International Economics, January 2001. The latter volume includes the papers contributed to a major conference hosted by the Institute on the occasion of the 65th anniversary of the Export-Import Bank. The volume also includes presentations by former Secretary of the Treasury Robert Rubin, Secretary of the Treasury Lawrence Summers, Secretary of Commerce William Daley and chairman of the House Financial Services Committee James Leach.

are better jobs: production workers in exporting firms earn 6.5 percent more. They are also more stable jobs: exporting firms are 9 percent less likely to go out of business than comparable nonexporting firms.[2]

Despite the dramatic export expansion, the United States will run a trade deficit that could reach $500 billion in 2001—almost 5 percent of our GDP. The deficit is no cause for panic but it is clearly unsustainable as it requires us to borrow almost $2 billion, net, from the rest of the world on every working day.[3] There are only two ways the deficit can be reduced: fewer imports or more exports. For the health of the United States and the world economy, more exports are far better than fewer imports. Ex-Im can contribute importantly to that goal.

There is another key policy reason to support a stronger Ex-Im Bank. To its great credit, the Administration is seeking Congressional support for Trade Promotion Authority (aka "fast track") that would enable it to participate in new negotiations to reduce trade barriers multilaterally (especially in the World Trade Organization), regionally (especially to create a Free Trade Area of the Americas) and bilaterally. Such negotiations are vital to enhance the access of US firms to world markets and to avoid new discrimination against the United States as other countries, in our absence from major negotiations, create regional deals of their own. It will be a difficult challenge for the Administration to garner a Congressional majority to support the needed authority, however, and the full support of the export community is an essential ingredient of

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[2] J. David Richardson. 2001. "Exports Matter... And So Does Trade Finance", in *The Ex-Im Bank in the 21st Century: A New Approach?*, eds. Gary Clyde Hufbauer and Rita M. Rodriguez. Washington DC: Institute for International Economics. Also see J. David Richardson and Karin Rindal. 1996. *Why Exports Matter More!* Washington, DC: Institute for International Economics and The Manufacturing Institute.

[3] Catherine L. Mann. 1999. *Is the U.S. Trade Deficit Sustainable?* Washington, DC: Institute for International Economics as updated by Catherine L. Mann. 2001. "Is the US Trade Deficit Still Sustainable?" Washington, DC: Institute for International Economics. March 1.

assembling a successful coalition. It would make no sense to reduce official support for export activities just when the strongest possible assistance from that quarter is so necessary.

Ex-Im is only one way—and a comparatively modest way at that—of promoting US export growth. However, it has two unique functions: it helps secure a level playing field for US exporters, in the face of foreign export credit competition, and it corrects market failures in trade finance. These missions have challenged Ex-Im for at least three decades but the Bank, and the United States as a whole, now face a wholly new environment of world export competition.

The New Environment of World Export Competition

Ex-Im and similar official export credit agencies (ECAs) in other countries traditionally finance exports of capital goods, mainly but not entirely to developing countries. Competition in these markets has changed dramatically since the 1970s, when the industrial nations first agreed to a "ceasefire" in export credit competition under the auspices of the OECD Arrangement on Officially Supported Export Credits.

Thirty years ago, the dominant users of ECAs were vertically integrated "national champions" like Siemens, Hitachi, and General Electric. In that era, large firms were not nimble at changing the source of components for major capital goods. Instead, each firm would strive to produce components at designated factories within its corporate structure. The goal of ECAs was to ensure that their national champion won the order; and the goal of the OECD Arrangement was to limit highly subsidized competition between the ECAs. Today, things are different:

- No longer are major capital goods, such as power plants and civil aircraft, made in vertically organized firms based entirely in a single country. Instead, economic efficiency requires enormous amounts of outsourcing. The value-added chain is sliced up and the slices are located wherever production costs are lowest.
- Responding to this new reality, important trading nations are using export credits (among other industrial incentives) in a strategic fashion to attract procurement and direct investment from multinational corporations that can choose from a range of locations around the world. Most other countries depend even more heavily on exports than does the United States; the competition in global markets is thus becoming tougher all the time.
- Small- and medium-sized companies are becoming a bigger factor in the export picture. One reason is the slicing and dicing of the value-added chain. Another reason is falling communication and transportation costs: air freight, fiber optics, and the Internet are all helping smaller firms reach new customers overseas. But small companies are still handicapped by the cumbersome character of trade finance.
- Meanwhile, foreign ECAs have invented clever ways around the OECD Arrangement to the disadvantage of US exporters. Unlike the Ex-Im Bank, where operating procedures are rooted in the bureaucratic practices of the 1980s, many foreign ECAs have acquired the streamlined characteristics of market competitors while retaining the advantages of government support.

Securing a Level Playing Field: A Two-Track Strategy

In the field of export credit competition, as in many dimensions of international affairs, the olive branch is diplomacy. Through continued negotiations under OECD auspices, the industrial countries have whittled down the subsidies offered by official government export financing programs. Despite US efforts, however, the OECD Arrangement has not been extended to cover new practices and institutions that *indirectly* distort credit terms and export competition.

This is where the arrows come into play—specifically Ex-Im. Unless the United States, through Ex-Im, is prepared to counter the financing terms offered outside the letter of the OECD Arrangement, foreign governments have little incentive to extend the rules, through OECD negotiations, to cover the new practices and institutions.

In the 1970s and 1980s, the United States successfully used both carrots and sticks to curb wasteful competition among OECD countries in the export credit realm. Substantial increases in Ex-Im program levels in the late 1970s enabled us to negotiate the original OECD Agreement that brought subsidized interest rates, unrealistic loan terms, tied aid, and bargain insurance terms back to commercial norms.[4] The creation of the "war chest" in the 1980s had a similarly salutary effect in checking competition in the use of tied aid to support exports. But in recent years Ex-Im has been hampered both by a shortage of money and its own legislative constraints from effectively supporting US diplomacy. The result is the growing importance of financial practices that skirt the edges of the OECD Arrangement on Official Supported Export Credits.

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[4] Peter C. Evans and Kenneth A. Oye, 2001 "International Competition: Conflict and Cooperation in Government Export Financing". In Hufbauer and Rodriguez, *op. cit.*

In an era of high US trade deficits, it is not acceptable for the US government simply to sit back and accept the market-distorting practices that have crept into the export credit picture. Over the last few years, three financial practices have badly eroded the value of the OECD Arrangement, disadvantaging US exporters: market windows, untied aid, and interest make up.

Market windows. These are official institutions that operate both as official lenders and private banks. Canada's Export Development Corporation and Germany's Kreditenanstalt für Wiederaufbau are the leading exemplars. The Canadian and German market windows are hybrid institutions with advantages over both private banks and official ECAs.[5] Together, they did $12 billion of financing in 1999.

Unlike private banks, market windows get start-up money from the government. They pay no corporate income taxes. They raise funds with an implicit government guarantee. They can shift some of their administrative costs to the government payroll. Unlike official ECAs, market windows can respond rapidly and flexibly to commercial opportunities, and they can pay competitive salaries to attract talented personnel.

Market windows have so far insisted, against US objections, that they are *not* subject to the OECD Arrangement and its reporting requirements. Ex-Im may not even know that it faces competition from a foreign market window until a deal is lost.

Untied aid. In principle, untied aid is bilateral aid extended to a developing country with no requirement that the recipient procure goods and services from the donor country. The annual volume of untied aid is running about $11 billion. Supposedly the recipient

[5] Allan I. Mendelowitz. 2001. "The New World of Government-Supported International Financing". In Hufbauer and Rodriguez, *op. cit.*

country can use the aid funds to procure goods and services from the cheapest source worldwide.

In practice, "untied aid" is often an oxymoron. The recipient country knows very well who is providing the funds and places orders accordingly. Japan is the most important donor of untied aid. Peter C. Evans and Kenneth A. Oye provide a detailed case study of Chinese power plant purchases demonstrating that, for practical purposes, Japanese untied aid finances procurement from Japan.[6]

Unlike tied aid, nominally untied aid need not have a minimum 35 percent grant element. And unlike normal export credits, untied aid need not observe minimum commercial terms of the OECD Arrangement (interest rate, down payment, and maturity terms). Putting these two loopholes together, untied aid amounts to a backdoor route for subsidizing export credits.

Interest make up. Several European ECAs (e.g., France, Italy, Spain, and the United Kingdom) use this method to provide official export credits at the fixed rates permitted under the OECD Arrangement. In this method, commercial banks are guaranteed a return equal to the cost of borrowed funds (say the London Interbank Offer Rate, Libor), *plus a spread of 40 to 150 basis points a year,* when they provide official financing to overseas borrowers. Thus the ECAs "make up" the difference between the permitted OECD Arrangement rate and the commercial cost of funds.

There is nothing wrong with this in principle. However, the size of the "make up" may be excessively generous, relative to the services provided and the risks taken by the commercial bank. In turn, the generous spreads may induce European commercial banks

[6] Peter C. Evans and Kenneth A. Oye. 2001. "International Competition: Conflict and Cooperation in Government Export Financing", in Hufbauer and Rodriguez, *op. cit.*

to provide export financing for projects and countries that US commercial banks would not extend to US exporters. In extreme cases, the European commercial banks may even "kick back" some of the extra spread to the borrower, providing an additional inducement to buy European exports.

Market Failures in Private Trade Finance

Over the past decade, innovation in the private financial markets has moved at a breathtaking pace—but not in the realm of export finance, where the trend has been more retreat than attack. Commercial banks have merged with investment companies and insurance firms, and a whole new menu of financial products has been invented. These innovations have not, however, transformed the world of trade finance, and export credits are nowhere nearly as efficient a market as home mortgages. Market failures today are different than they were 20 years ago but they are no less important:

- On average, in 1995-98, the United States exported $128 billion of capital goods annually to developing countries (table 1). Many of these developing countries enjoyed reputations for economic stability—*before* the 1994-95 Mexican crisis and the 1997-98 Asian crisis. In the wake of the financial crises of the 1990s, however, commercial banks reevaluated the risks of trade finance. Today they are less willing to accept medium- and long-term export credit risk (terms over 1 year), even for shipments by major US corporations to steady markets such as Brazil and Korea.[7]

[7] William R. Cline. 2001. "Ex-Im, Exports, and Private Capital: Will Financial Markets Squeeze the Bank?" In Hufbauer and Rodriguez, *op. cit.*

- Meanwhile, small- and medium-sized exporters (whose ranks grew by 65 percent in the 1990s) report difficulty getting export credits, even for shipments to Europe or Japan. Small exporters are not big enough to establish strong client relationships with giant banks, and their trade finance business is not worth the hassle for medium-sized banks. Dot.com trade finance is still on the drawing boards. Banks have not yet securitized trade credits the way they have routinely bundled home mortgages.

Meeting the Challenge

Our competitors abroad have found new ways to play the export financing game at the official level while oue private financial markets at home have not yet perfected export financing packages. This has left many US exporters between the proverbial rock and hard place. Ex-Im is the arm of the US government that should buttress US diplomacy in curbing export credit subsidies (however disguised). Ex-Im should also step in when private export finance is not available for particular foreign markets and aspiring US exporters.

But Ex-Im is seriously disadvantaged in fulfilling its two core missions—providing arrows to reinforce the US stance in official negotiations and stepping in when private markets fail. Ex-Im is limited by the modest size of its financial muscle, relative both to competitor ECAs and the needs of the export market (see table 1). Ex-Im is also limited by a series of crippling legislative constraints. Hence Congress should give the Bank new financial muscle and relax the legislative constraints that hamper Ex-Im.

Financial muscle. Table 1 compares Ex-Im's financial muscle with its major competitors. The focus is on medium- and long-term credits (credits over 1 year), the arena where competition is hottest. In recent years, Ex-Im's medium- and long-term credits amounted to about 4 percent of US capital goods exports to the world and 8 percent of US capital goods exports to less developed countries (LDCs). The figures for competing G-7 industrial exporters were 6 percent and 15 percent respectively.

These comparisons, coupled with business experience recorded in our volume *The Ex-Im Bank in the 21st Century*, point to a clear recommendation. Ex-Im should increase its medium- and long-term credit activity by at least 50 percent so that it can effectively carry out its dual mission. With this increase, Ex-Im's total annual budget for new export credits, guarantees, and insurance would rise to about $20 billion, up from the current figure of about $13 billion annually.[8]

Under its current authorizing legislation, Ex-Im is permitted a total of $75 billion of loans, guarantees, and insurance outstanding at any one time.[9] Of this amount, $61.6 billion had been used at the end of fiscal year 2000. Annual repayments of outstanding loans, and expiration of guarantees and insurance, amount to about $10 billion annually. To support $20 billion of new activity each year in FY 2002 and FY 2003, and to provide a cushion for extraordinary circumstances, the Ex-Im ceiling should be raised to at least $110 billion.[10]

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[8] An argument sometimes made against increasing Ex-Im's budget is that Ex-Im will turn into another giant government credit agency, like Freddie Mac or Fannie Mae. The comparison is totally misleading. Together, the two home finance agencies have floated about $1.4 trillion of securitized loans. By comparison with these elephants, Ex-Im is a mouse.

[9] Export-Import Bank of the United States. *2000 Annual Report*, p. 42.

[10] The rough calculation is as follows. Two years of new credit activity at $20 billion per year equals $40 billion. Two years of repaid loans and expired guarantees and insurance at $10 billion per year equals $20 billion repaid. Additional authorization for extraordinary activity (matching untied aid and short-term crisis loans) equals $10 billion. Cushion at the end of FY2003 equals $5 billion. Total authorization ceiling equals present authorization of $75 billion plus $40 billion minus $20 billion plus $10 billion plus $5 billion equals $110 billion.

The immediate constraint facing Ex-Im, however, is *not* the ceiling on loans, guarantees, and insurance. Instead, it is the combination of annual appropriations to cover possible losses together with the schedule of required reserve ratios. Annual congressional appropriations have been running about $800 million to $900 million. For FY 2001, the figure is $927 million. The OMB (in consultation with Ex-Im) sets required reserve ratios on loans, guarantees, and insurance for different countries and sectors to cover potential losses. The ratios are very conservative and Ex-Im reserves have now reached $10 billion to cover possible losses on assets of $60 billion.[11]

In order to support a 50 percent increase in annual activity, a combination of two measures should be taken. OMB should modestly reduce the required reserve ratios for seasoned loans. In addition, Congress should raise the current level of appropriations from $927 million in FY 2001 to about $1.3 billion in FY 2002.

By contrast with this recommendation, President Bush's budget calls for a 25 percent *cut* in Ex-Im's appropriation to $699 million in FY 2002.[12] Ex-Im's total activity would be slashed from $12.6 billion in FY 2000 to $8.5 billion in FY 2002. Cutting Ex-Im's budget at this time would be a major mistake. It would undermine US commercial diplomacy and US exporters just at a time when faster export growth is needed to strengthen our economy and reduce the trade deficit in a constructive manner.

I should note that Ex-Im's budget has been cut before. There were sharp reductions in the middle 1970s and again in the early 1980s. In both cases, such steps clearly turned out to represent mistakes and the policies were quickly reversed. We should not repeat

[11] Under the Federal Credit Reform Act of 1980, Ex-Im is required to set aside very generous reserves for potential credit, insurance, and guarantee losses. Annual appropriations cover these reserves. According to Allan I. Mendelowitz, *op. cit.*, Ex-Im's excess reserves over probable losses may total $10 billion.

[12] As reported in *Inside U.S. Trade*, vol. 19, no. 9, March 2, 2001.

the historical errors of the past and, once again, lose market share for US exports that has to be made up by redoubled efforts at a later time after much ground has been lost.

Besides increasing Ex-Im's financial muscle, Congress should give Ex-Im legal authority to compete in the 21st century of export finance—both to support US exports and to bolster the OECD Arrangement. The legal authority would have several components, any of which could be implemented with Treasury approval:

- Power to match market-distorting "market window" activity both in third world markets and within the United States.[13]
- Power to use the so-called "war chest" funds to match officially untied aid.[14]
- Power to launch an "interest make up" program similar to the European programs.

Legislative contraints. Ex-Im faces several congressional mandates that also make it a sluggish competitor. Three should be singled out for correction in the 2001 charter renewal:

- Under existing law, Ex-Im must ensure that that there is less than 15 percent foreign content in the exports it supports.[15] While the Ex-Im changed its procedures in 2000 to apply the foreign content rule more flexibly, the requirement can still be at odds with the new ways of slicing and dicing the value-added chain with components from a range of countries. Ex-Im should be permitted to act as the umbrella finance agency when a major project is predominantly built with US capital equipment even if US exports do not amount to 85 percent of the total. However, Ex-Im should also keep a running set of records with other ECAs to ensure that they either refinance part of the

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[13] To match market window finance within the United States, the powers under Section 1912 of the Ex-Im statute should be widened.
[14] The "war chest" was created in the mid-1980s so that the Ex-Im could match tied aid. It succeeded in invigorating negotiations that significantly curtailed tied aid. See Peter C. Evans and Kenneth A. Oye, *op. cit.*
[15] Allan I. Mendelowitz, *op. cit.*

project or that, in their role as the umbrella finance agency for other projects, they finance an equivalent amount of US exports.

- Over the last 20 years, Congress has given Ex-Im multiple tasks with wide-ranging national interest objectives. Ex-Im is mandated to meet official competition worldwide, make sound credit calls on risky transactions, create new financial instruments to access US capital markets, manage more than $60 billion of global assets in a wide range of legal and financial systems, and aggressively help small, rural, and environmental exporters. Yet, over the same period, Ex-Im has been administratively starved. It has roughly the same staff numbers as 20 years ago, it has minimal flexibility in its pay and average grade structure,[16] and its information technology system is outdated. Congress should scale up Ex-Im's administrative capability to the size and scope of its mission.
- There are times when economic sanctions are necessary, whatever the cost in terms of exports.[17] For Ex-Im, however, economic sanctions are more an issue of reputation than reality. In 1999, for example, Ex-Im, was closed for foreign policy reasons in only five markets: Cuba, Iran, Iraq, Libya, and Pakistan. To reduce the "reputation cost" of sanctions, however, Congress should eliminate the Chafee Amendment requirement that Ex-Im Bank transactions be withheld for foreign policy reasons under certain circumstances. If the Amendment is retained, it should be implemented only upon direct approval of the President, after consultation with the

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[16] Ex-Im can hire only 35 employees outside the normal civil service pay structure.
[17] But unilateral US sanctions seldom succeed and sanctions of all types have decreased sharply in effectiveness over the past several decades. See the comprehensive analysis in Elliot, Kimberly Ann, Jeffrey J. Schott, and Gary Clyde Hufbauer. *Economic Sanctions Reconsidered* (3rd edition). Washington, DC: Institute for International Economics. Forthcoming (2001).

appropriate congressional committees; currently, the power to curtail Ex-Im transactions for foreign policy reasons, is delegated to the Secretary of State.

Conclusion

With more financial muscle and a new legislative mandate, Ex-Im can fulfill its twin missions. On the one hand, it can reinforce US diplomatic efforts to update the OECD Arrangement to curtail untied aid, and to bring market windows and interest make up plans fully within the purview of official discipline. On the other, it can fill the holes in private trade finance. Both missions will provide essential support for US exports. Without new authority from Congress, Ex-Im will sink into irrelevance. US exporters will be put at a severe disadvantage in world markets. The US economy will suffer substantially. I urge the Congress to make the recommended changes when it passes legislation to renew the Bank's authority later this year.

Table 1. Medium and Long Term Official Export Credits Related to Capital Goods Exports, annual average 1995-1998. ($ billions and percentages)

	US	Canada	Japan	France	Germany	Italy	UK	Totals for G-7, except the US
				($ billions)				
Medium/long term credits	10.5	3.5	10.9	8.0	10.7	1.8	3.2	38.2
Capital goods exports				*($ billions)*				
World	270.9	34.4	212.1	86.8	173.6	72.0	91.3	670.2
LDCs	128.1	3.2	110.8	29.2	56.1	26.9	29.3	255.3
Medium/long term credits as percent of capital goods exports				*(percentages)*				
World	4%	10%	5%	9%	6%	2%	4%	6%
LDCs	8%	112%	10%	27%	19%	7%	11%	15%

Re-Authorize or Retire the Export Import Bank?

Testimony of

Ian Vásquez
Director, Project on Global Economic Liberty
Cato Institute

before the Subcommittee on International Monetary Policy and Trade
of the Committee on Financial Services
U.S. House of Representatives
May 8, 2001

My name is Ian Vásquez and I direct the Project on Global Economic Liberty at the Cato Institute. I would like to thank Chairman Bereuter for inviting me to testify. In the interest of transparency, let me point out that neither the Cato Institute nor I receive government money of any kind.

President George W. Bush has called for a 25 percent cut in the funding of the Export Import Bank, which provides loans, guarantees and insurance that benefit U.S. exporters. The proposed cuts are a good start, but Congress should go much further in recognition that the rationales for using Export Import Bank credit do not justify its current level of authorizations. The Bank's two main rationales—that it should provide support where the private sector does not or where U.S. exporters face subsidized competition abroad—are specious.

The Export Import Bank and its proponents cite a number of reasons, ranging from jobs created to maintaining American competitiveness, that the credit agency benefits the United States. Yet because the Bank takes resources from the U.S. economy and diverts them toward politically determined, less efficient uses, its intervention creates distortions in the national economy and imposes opportunity costs that are surely higher than the added value of the Bank's intervention.

Moreover, subsidized export credits do not create jobs nor noticeably affect the level of trade. Indeed, only about 1.5 percent of all U.S. goods and services exports are backed by the Ex-Im Bank—far too small to make an impact on trade. For that reason, those who mistakenly view the U.S. trade deficit as a sign of weakness rather than as a sign of strength should not expect the Ex-Im Bank to correct the perceived malady. As the General Accounting Office has noted, "Eximbank programs cannot produce a substantial change in the U.S. trade balance."[1] Other factors play a much larger role in influencing jobs and trade, as the Congressional Research Service recently noted.

> Most economists doubt . . . that a nation can improve its welfare over the long run by subsidizing exports. Economic policies within individual countries are the prime factors which determine interest rates, capital

> flows, and exchange rates, which, in turn, largely determine the overall level of a nation's exports. This means that, at the national level, subsidized export financing merely shifts production among sectors within the economy, rather than adding to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. This also means that promoting exports through subsidized financing or through government-backed insurance guarantees will not permanently raise the level of employment in the economy, but it will alter the composition of employment among the various sectors of the economy.[2]

Thus, the Bank benefits particular firms and their shareholders at the expense of taxpayers and the vast majority of U.S. exporters that do not receive the agency's subsidies. When the "market failure" and "level playing field" rationales of Ex-Im Bank finance are also scrutinized, reasons to fund this example of corporate welfare are difficult to find.

Government Credit and the Market

A principal rationale for use of Ex-Im Bank resources is that the agency provides its services when the private sector is unable or unwilling to do so on its own due to perceptions of excessive risk. Yet the Bank has been providing the bulk of its loans, guarantees and insurance to countries such as China, Mexico, and Brazil that have had little difficulty attracting private investment on their own. As Table 1 shows, 10 countries account for 50 percent of the agency's total exposure. Table 2 shows that the pattern did not change in FY 2000.

Table 1
Top 10 Countries Benefiting from Ex- Im Bank
(Ex- Im Bank Exposure 9/30/00)

Country		Exposure		Percentage of Total
1	China	$	6,197,191,835	10.06
2	Mexico	$	4,500,777,599	7.31
3	Brazil	$	3,576,223,094	5.81
4	Turkey	$	3,523,429,372	5.72
5	Indonesia	$	2,826,993,322	4.59
6	Saudi Arabia	$	2,526,989,512	4.10
7	Korea	$	2,389,778,130	3.88
8	Russia	$	2,075,983,958	3.37
9	Venezuela	$	1,833,180,504	2.98
10	Philippines	$	1,756,985,326	2.85
TOTAL		$	31,207,532,652	50.67

Total Exposure:
$ 61,595,682,783

Source: Export- Import Bank, *2000 Annual Report*
(Washington, D.C.: Export- Import Bank, 2000)

Table 2
Top 10 Countries Benefiting from Ex- Im Bank in FY2000
Total Actual Authorizations

Country		Total Actual Authorizations	Percentage of Total
1	Mexico	$ 1,454,768,716	11.51
2	Turkey	$ 1,247,240,959	9.87
3	Malaysia	$ 837,215,177	6.63
4	Taiwan	$ 607,848,319	4.81
5	Saudi Arabia	$ 551,227,643	4.36
6	Thailand	$ 502,615,844	3.98
7	China	$ 498,339,026	3.94
8	Brazil	$ 487,064,993	3.85
9	Venezuela	$ 371,945,750	2.94
10	Korea	$ 336,629,641	2.66
TOTAL		$ 6,894,896,068	54.56

Total Authorizations:
$ 12,637,061,926

Source: Export- Import Bank, *2000 Annual Report*
(Washington, D.C.: Export- Import Bank, 2000)

In short, Ex-Im Bank activity has largely mirrored that of private credit markets. This was even so during the Asian financial crisis that disrupted trade and private credit flows, despite claims by the Bank that its lending at the time played a crucial role in the recovery of the affected countries. Rather, economist William Cline notes that only in Korea did the Bank provide much short-term credit, but that policy "was not very successful elsewhere in the region." Although the merits of such a policy are dubious, Cline adds that the agency's "longer-term operations have not been used much for systemic stability purposes and, arguably, have been pro-cyclical rather than counter-cyclical."[3]

At best, then, the Bank provides financing to countries that do not have trouble obtaining credit and in many cases merely displaces private investment by funding ventures that would otherwise have taken place. At worst, the credit agency underwrites exports that should not be financed and would not otherwise receive support. Indeed, the lack of private-sector finance on acceptable terms is not an example of market failure, but rather an important market signal about a project's prospects or a country's investment regime. In cases where the Bank provides credit into a bad policy environment, it discourages host governments from adopting market reforms necessary to genuinely attract private capital. When the policy environment is overlooked by export credit agencies, economic development begins to suffer. In 1969, the Pearson Commission, which assessed international development policies, warned of that danger.

> More than one project rejected for financing by the World Bank Group on economic grounds has been promptly financed by an export credit. This is the most unfortunate aspect of export credit finance: it provides a temporarily painless way of financing projects conceived by over-optimistic civil servants, by politicians more concerned with immediate political advantage than with potential future economic problems, and by unscrupulous salesmen for the manufacturers of capital equipment in developed countries.[4]

Of course, the result of such an approach is debt instead of development. In the worst of cases, the accumulation of debt becomes unpayable and its reduction must be financed by Western taxpayers who funded the credit agencies to begin with. The current debt relief initiative led by the World Bank and the International Monetary Fund has identified 41 highly indebted poor countries whose foreign debts cannot be repaid. In many cases, credit from official export agencies accounts for a high proportion of that external debt.[5] Since the majority of those highly indebted countries are in sub-Saharan Africa, it is especially worrisome that Ex-Im Bank has significantly expanded its operations the region in the past few years and plans to continue expanding there. Indeed, of the 14 sub-Saharan African countries that received Ex-Im Bank credit or guarantees in the past three years, all rank poorly in terms of economic freedom and 10 are on the World Bank's and IMF's highly indebted country list.

The Ex-Im Bank undermines the spread of free markets and economic development in other ways. For example, a large portion of the agency's credit finances public-sector borrowers. In 1999, 45 percent of Ex-Im credit financed the public sector.[6] Numerous loan guarantees to Mexico's state owned oil and electricity monopolies, loans to Korea's Development Bank, and loan guarantees to Air China during the past few years have certainly not accelerated the move to the market and their provision sends a contradictory message to countries where the United States presumably wishes to promote free-market reforms.

Thus, while private credit markets are not perfect, the unintended consequences of subsidized credit loom large and, as my colleague William Niskanen, former head of President Reagan's Council of Economic Advisors has observed, "Any effects of market failure are likely to be small and transient in comparison to the effects of government failure."[7] Those effects include the fact that Ex-Im Bank operations are often harmful to economic development, often displace private-sector finance, impose "potentially significant" opportunity costs,[8] finance firms abroad that compete with U.S. firms, and politicize the market by providing a few large firms with government loans and guarantees. Indeed, as Table 3 shows, the top 10 U.S. companies that benefit from Ex-Im Bank loans and guarantees receive 86 percent of those Bank services. Boeing alone accounted for 43 percent of total Ex-Im Bank loans and guarantees in FY 2000. By contrast, small businesses account for only 18 percent of all Ex-Im lending. Yet even if more lending went to small businesses, the Bank would still not be able to avoid the perverse effects that have accompanied lending to its larger clients.

In sum, if the private sector is not already providing export credit or insurance to a project, there are probably good reasons for that outcome and little reason for the Ex-Im Bank to step in. Nor should the Bank have a role if the private sector is willing to provide finance or is contemplating it.

Table 3
Top 10 U.S Beneficiaries of Ex- Im Bank Loans and Guarantees FY2000

U.S Company	Revenues*	Total (Loans & Guarantees)	Percentage of Total
1 Boeing Co.	$ 51,321	$ 3,384	43.1
2 Bechtel International	$ 14,300	$ 1,475	18.8
3 Varian Associates Inc.	$ 704	$ 674	8.6
4 United Technologies (1)	$ 26,583	$ 334	4.3
5 Willbros Engineers	$ 314	$ 200	2.5
6 Halliburton Co. (2)	$ 11,944	$ 172	2.2
7 Raytheon Engineers & Constructors	$ 16,895	$ 150	1.9
8 Enron Development Corp.	$ 100,789	$ 132	1.7
9 General Electric Co.	$ 129,853	$ 127	1.6
10 Schlumberger Technology Corp.	$ 10,034	$ 87	1.1
TOTAL		$ 6,735	85.9
GRAND TOTAL		$ 7,844	

* In millions of U.S dollars
Sources: Export- Import Bank, *2000 Annual Report* (Washington, D.C.: Export- Import Bank, 2000); and the 2000 annual reports from each of the listed companies.
Notes:
(1) The figure for United Technologies includes loans and guarantees for Sikorsky Aircraft Corp., which is a wholly owned subsidiary of United Technologies.
(2) The figure for Halliburton Co. includes loans and guarantees for Brown and Root International, Inc., which is a wholly owned subsidiary of Halliburton Co.

Using Government Credit to Level the Playing Field

The other principal rationale for Ex-Im Bank finance is to counter the subsidized competition that U.S. firms sometimes face. Although U.S. companies should not have to compete in a world where their competitors receive support from their governments, U.S. policy should be consistent with the goal of maintaining a prosperous national economy as opposed to promoting the welfare of particular groups. Fortunately, Europe and Japan are already re-appraising the utility of their export programs in light of fiscal constraints and as a reaction to each other's subsidized export policies.[9] The consistently poorer economic performances of Western European countries and of Japan in comparison to that of the United States argues against the United States adopting the types of policies—including more expensive export-finance programs—that have hindered growth in Europe and Japan.

It is important to recognize, moreover, that much Ex-Im Bank credit helps U.S. firms that do not face competition subsidized by foreign governments. In FY 1999, for example, only 18 percent of medium and long-term loan and guarantee transactions went to counter government-backed export credit competition, representing $6.3 billion of the Bank's activity. In the same year, only 15 percent of the Bank's total dollar amount of medium-term insurance, or $89 million, went to counter officially supported foreign competition.[10] Those figures suggest that the Bank could significantly reduce its activities without undermining its mission to counter foreign-subsidized competition. Because Ex-Im Bank credit to companies that do not face this type of unfair competition cannot be justified on economic grounds, the Bush administration's proposal to cut the Bank's funding by 25 percent should be viewed as a starting point even by those who believe that the agency has a legitimate role in countering subsidized foreign exports. At the very least then, the Export-Import Bank should be limited to financing exports that meet this criteria.

But the idea that the United States suffers from a playing field that is not level is questionable. The United States exports about $1 trillion of goods and services per year. The Ex-Im Bank backs only about $15.5 of that amount, or 1.5 percent of total exports, only some of which face government-subsidized competition. When only a fraction of 1 percent of U.S. exports faces competition supported by foreign export credit agencies, it is difficult to conclude that the U.S. economy is threatened by a playing field tilted against it.

Retiring the Ex-Im Bank entirely might reduce the profits of the few large corporations that have received the bulk of the agency's finance over the years. But surely firms such as Raytheon and Enron—with annual sales of more than $16 billion and $100 billion respectively—can cope in a world without Ex-Im Bank subsidies. Likewise, small business that do not have recourse to the vast financial resources of large corporations, already seem to be doing well without the Bank's help. The agency supports only 2000 small businesses, or about 1 percent of all small and medium exporting firms.

If the goal is to help U.S. exporters, there are other, preferable ways in which to do so, namely by making the United States a more competitive economy. U.S. tax levels, regulations, and the complexity of the tax code are routinely cited as factors that hinder the competitiveness of U.S. firms. As one report by Price Waterhouse found, "The U.S. system has also diverged in a number of respects from the policies and practices of other major industrial countries—often to the detriment of U.S. businesses striving to compete in foreign markets."[11] Thus, there is much Congress can do to help the business sector. I suggest it begin by eliminating the $65 billion dollars worth of corporate welfare that exists in the federal budget—of which Ex-Im Bank is a part—a move that would generate savings sufficient to eliminate the capital gains and federal estate taxes.

Conclusion

It is time Congress retire the Export Import Bank in recognition that the Great Depression-era agency has no relevance in an increasingly liberal world economy. The Bank benefits a small number of firms at the expense of the rest of us. It does not correct for so-called market failures, but does create perverse effects at home and abroad, including by imposing opportunity costs and discouraging the spread of market reforms. The tiny percentage of exports that the Ex-Im Bank helps to counter subsidized competition overseas, moreover, demonstrates that the U.S. economy does not suffer from the lack of a level playing field. Most important, Congress should not finance this negative sum game because it is nowhere authorized in the Constitution to use taxpayer funds to benefit politically favored groups.

Notes

[1] Jay Etta Hecker, "Export-Import Bank: Key Factors in Considering Eximbank Reauthorization," Testimony before the Subcommittee on International Finance of ~~the~~ Committee on Banking, Housing, and Urban Affairs of the U.S. Senate, July 17, 1999, p. 6. For a review of the current trade deficit, see Daniel T. Griswold, "America's Record Trade Deficit: A Symbol of Economic Strength," Cato Institute Trade Policy Analysis no. 12, February 9, 2001.

[2] James K. Jackson, "Export-Import Bank: Background and Legislative Issues," Congressional Research Service Report for Congress 98-568E, January 19, 2001, p. 5.

[3] William R. Cline, "Ex-Im, Exports, and Private Capital: Will Financial Markets Squeeze the Bank?" in Gary Clyde Hufbauer and Rita Rodriguez, eds., *The Ex-Im Bank in the 21st Century: A New Approach?* (Washington: Institute for International Economics, 2001), p. 102.

[4] Lester B. Pearson, *Partners in Development: Report of the Commission on International Development* (New York: Praeger, 1969), quoted in Patricia Adams, *Odious Debts* (Toronto: Earthscan, 1991), pp. 84-5.

[5] See Friends of the Earth et al., "A Race to the Bottom: Creating Risk, Generating Debt, and Guaranteeing Environmental Destruction," March 1999, p. 35.

[6] John Lipsky, "Can Trade Finance Attract Commercial Banks?" in *The Ex-Im Bank in the 21st Century*, p. 207.

[7] William A. Niskanen, "Should Ex-Im Bank be Retired?" in *The Ex-Im Bank in the 21st Century*, p. 193.

[8] "Export-Import Bank: Background and Legislative Issues," p. 5.

[9] Peter C. Evans and Kenneth A. Oye, "International Competition: Conflict and Cooperation in Government Export Financing," in *The Ex-Im Bank in the 21st Century*, pp. 154-55.

[10] Export-Import Bank, *2000 Annual Performance Report*, chapter 1, pp. 2-3, available at: http://www.exim.gov/annperf00.html.

FRIENDS OF THE earth

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TESTIMONY OF DR. BRENT BLACKWELDER
PRESIDENT
FRIENDS OF THE EARTH

BEFORE THE

FINANCIAL SERVICES INTERNATIONAL MONETARY POLICY AND TRADE SUBCOMMITTEE

MAY 8, 2001

GREENING THE EXPORT-IMPORT BANK

Mr. Chairman, Ranking Member Sanders, thank you for the opportunity to testify before the International Monetary Policy and Trade Subcommittee today. Friends of the Earth is a national environmental advocacy organization. We are also part of Friends of the Earth International, the world's largest environmental federation with active members in 69 countries. We believe that U.S. economic policy should promote environmental stewardship and sustainable development. We appreciate the opportunity to discuss ways in which the Export-Import Bank (Ex-Im) can meet this goal.

There are four main areas where Ex-Im can improve its environmental practices in a manner that also creates more US jobs and increases our competitiveness in the global marketplace: 1) improved information disclosure, 2) better accountability, 3) implementation of the World Commission on Dams recommendations, and 4) increased lending for clean energy.

Friends of the Earth believes Ex-Im has taken several steps in the right direction when it comes to protecting the environment. The bank now has environmental standards that are among the world's best, and we commend Chairman Jim Harmon for supporting them. Not only have Ex-Im's environmental guidelines often helped prevent U.S. taxpayer support of environmentally destructive business ventures, they have also led other countries to upgrade the environmental standards of their own export credit agencies (ECAs). Under the Clinton Administration and now under President Bush, the

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U.S. continues to push for binding standards and transparency for ECAs. Others are catching on. Australia's ECA has instituted standards that exceed Ex-Im's, and JEXIM, Japan's ECA, is in the process of developing stringent environmental guidelines.

The JEXIM example is important because Japan is our closest competitor when it comes to export finance. Rather than seeking to get a leg up by financing environmentally destructive ventures that Ex-Im's standards might prevent, JEXIM chose to follow the U.S. lead. We applaud Chairman Harmon for promoting this race toward the highest common environmental denominator in international forums like the G-8 and Organization for Economic Cooperation and Development (OECD), and hope the new administration will be equally committed to the issue.

Despite these successes, however, Friends of the Earth believes Ex-Im still has a long journey ahead of it. We were particularly disappointed that the bank chose to simply extend its current environmental guidelines, which were set to lapse this April, rather than improving upon them. The U.S. position publicly has been in favor of World Bank standards, but Exim is not practicing what it preaches. Adopting such standards reduces financial risk for U.S. taxpayers. Although the bank's guidelines exceed those of most ECAs, it needs to be more transparent and more accountable. Ex-Im requires environmental impact assessments of projects it finances, but does not provide adequate opportunity for public discourse around projects' environmental impacts, particularly for local communities in developing countries directly affected by large infrastructure projects. Ever since the Pelosi amendment of 1989 the U.S. has demanded that multilateral financial institutions provide 120 days for public comment on projects. This gives citizens in the U.S. and around the world ample time to analyze and suggest improvements to projects before the institutions' Boards of Directors make a final decision.

This public comment period applies not only to public institutions, but to the World Bank's private sector arms. Two years ago, Congress voted to institute a 60-day public comment period at the U.S.'s other ECA, the Overseas Private Investment Corporation (OPIC). Congress also required OPIC to disclose environmental impact assessments in the host countries where proposed projects are sited. This empowers the communities most affected by U.S. export finance to have a voice in decisions affecting them. Friends of the Earth believes Congress should follow this precedent and require Ex-Im to institute a public comment period and to release environmental assessments in host countries. This would go a long way toward making the bank more transparent and accountable to citizens at home and around the world.

Similarly, we believe Congress should require Ex-Im to create an independent office that evaluates its investments. This office, or "ombudsperson," would scrutinize Ex-Im's investments after the bank approves them, holding the agency accountable to its own environmental standards. Congressional leadership led to the creation of the World Bank's independent Inspection Panel in 1994, a mechanism that most recently proved its worth when it exposed violations of environmental and social policies in the China Western Poverty Reduction Project. The Bank has created a similar evaluation office for its private sector arm, the International Finance Corporation (IFC). Recently, Ex-Im approved the controversial Chad-Cameroon oil pipeline project but to date has refused to reveal the contractual conditions placed upon the project. An ombudsperson position could help create the level of accountability that every government institution ought to have for the public.

As many on the subcommittee know, large hydroelectric dam projects often have environmental and social impacts. Perhaps the most devastating impact in developing countries is involuntary resettlement with hundreds of thousands of people displaced without adequate compensation. This practice increases poverty and public disdain for large dams. Recently, the private sector, World Bank and non-governmental organizations completed the findings of the World Commission on Dams. The report provides specific lending guideline suggestions for export credit agencies. We note that the private sector has approved the report findings. These recommendations promote sustainability not destructive hydro endeavors like the proposed Ilisu Dam in Turkey. We encourage Ex-Im to take a leadership role in adopting such standards.

Friends of the Earth's central concern with Ex-Im, however, is the agency's contribution to global climate change. The Bush administration's decision to back out of the Kyoto Protocol in part because of a need for developing country commitments to reduce greenhouse gas emissions underscores the policy incoherence of Ex-Im's energy investments. Through Ex-Im, the U.S. underwrites billions of dollars of greenhouse gas intensive development around the world including places like China and India—the same countries the administration castigates for not doing enough to stem climate change.

According to the World Resources Institute, Ex-Im led all ECAs in direct financing of energy-intensive projects and exports in developing countries between 1994 and 1999. The bank also surpassed everyone in its guarantees and insurance for energy-intensive projects and exports. And Ex-Im's own annual reports show that the problem isn't getting any better. In fiscal year 1999, about three percent of the agency's overall investment portfolio of $8 billion underwrote fossil fuel development. In fiscal year 2000, the bank's support of fossil fuels skyrocketed to 28 percent of its overall portfolio, or nearly $2 billion. That's why the Green Scissors Campaign, a coalition of environmental and fiscally conservative groups, is urging Congress to slash 28 percent from Ex-Im's appropriations. The U.S. should be demonstrating leadership in the effort to fight climate change, but Ex-Im is doing the exact opposite.

At the same time it spends billions of U.S. taxpayer dollars promoting polluting exports, Ex-Im does little to finance clean energy. Renewable energy and energy efficiency are the fastest growing energy markets globally.

When Ex-Im is urged to do more for renewable energy and energy efficiency, it claims it can't pick favorites among businesses. Unfortunately, its financial services—which are by nature tailored to meet the needs of large, already-established industries like coal and oil—amount to an implicit system of preferences. Ex-Im loans and guarantees are given to projects and exports on the basis of the revenues they'll generate to permit repayment. This favors fossil fuel projects and shuts out renewable energy and energy efficiency investments, which are smaller and may require more time before they can repay the initial costs.

Friends of the Earth believes Ex-Im must move aggressively away from dirty fossil fuel investments and toward clean energy sources. Congress should seize the bank's reauthorization as an opportunity to do this. We believe that as a first step, the subcommittee should require Ex-Im to establish an advisory board comprising public and private sector interests, that would assist the bank in tailoring its financial services to better meet the needs of renewable energy and clean energy associations. This requirement should be coupled with a requirement that Ex-Im shift a portion of its energy portfolio away from fossil fuels and toward clean energy. These steps will increase U.S. competitiveness in the global marketplace and increase U.S. manufacturing jobs.

Again, we applaud the positive efforts of Ex-Im Chairman James Harmon and the ongoing Administration efforts to obtain common environmental standards. But we strongly believe the U.S. can and must do better.

Prepared Testimony
Of

George Becker

on behalf of the

United Steelworkers of America

before the

House Subcommittee on International Monetary Policy and Trade

May 8, 2001

Mr. Chairman, Ranking Member Sanders, Members of the Committee. I want to thank you for giving me the opportunity to testify before you today on the reauthorization of the Export-Import Bank. This is a key issue facing this Congress and I look forward to working with you and your Subcommittee as the reauthorization process proceeds.

I appear before you today in several capacities. First, while I recently retired as President of the United Steelworkers of America, I remain deeply involved in the policy formulation and implementation activities of that union. And, I continue to serve as a member of the Executive Council of the AFL-CIO. Second, I recently served as a member of the Congressionally-created Federal Trade Deficit Review Commission – a Commission charged with reporting to Congress on the causes, consequences and potential policy approaches necessary to address our nation's huge trade deficit. Finally, I am honored to have been appointed to the recently formed U.S.-China Security Review Commission. It is in these capacities that I would like to address you this morning.

The Ex-Im Bank has the laudable goal of seeking to create jobs through exports. Indeed, the Ex-Im Bank claims that in the 65 years that it has been in existence, it has supported more than $300 billion in U.S. exports. The Ex-Im Bank claims that it is "focusing on critical areas such as emphasizing exports to developing countries, aggressively countering trade subsidies of other governments, stimulating small business transactions, promoting the export of environmentally beneficial goods and services, and expanding project finance capabilities."

I do believe that there is sometimes a need for our government to provide export financing to promote our interests and to combat the financing activities of other countries.

Unfortunately, the evidence of Ex-Im Bank's success is sorely lacking. Indeed, it appears that, in many ways, the Ex-Im Bank is undermining the very goals that it claims underlie its actions.

Last year, as a member of the Federal Trade Deficit Review Commission, I was joined by a majority of the Commissioners in concluding that our nation's trade deficit was unsustainable. While differing on the point at which it would become unsustainable, or what policy approaches we should take – this was, indeed, a very important conclusion to be reached by the Commission which included several officials chosen by President Bush to be chief policy players in his Administration: Secretary of Defense Rumsfeld, USTR Zoellick and Council of Economic Advisors nominee Anne Krueger. I should also point out that former USTR Carla Hills also served on this Commission.

Last year, our nation's trade deficit in goods reached almost $450 billion. While free trade ideologues are quick to claim that every $1 billion in exports creates somewhere between 13,000 and 20,000 jobs, they refuse to state the alternative: the flood of imports into our country takes a toll on jobs as well. Using this same equation, last year's trade deficit cost the U.S. between 5.8 and 9 million jobs.

Now we all know that despite a slowing economy, we didn't have that many people out of work – most of those adversely impacted by trade were absorbed back into the economy in other jobs. But, unfortunately, the majority of those who lost their jobs found themselves in new jobs that paid lower wages and often came with lower benefits, if they paid benefits at all.

In the last decade, according to *Time Magazine*, "just 10 companies account(ed) for half of the $70 billion in financial deals identified in the Export-Import Bank's annual reports. *Time* went on to note that "The justification for much of this welfare is that the U.S. government is creating jobs. Over the past six years, Congress appropriated $5 billion to run the Export-Import Bank of the United States, which subsidizes companies that sell goods abroad. James A. Harmon, president and chairman, puts it this way: "American workers...have higher-quality, better-paying jobs, thanks to Eximbank's financing." But the numbers at the bank's five biggest beneficiaries--AT&T, Bechtel, Boeing, General Electric and McDonnell Douglas (now a part of Boeing)--tell another story. At these companies, which have accounted for about 40% of all loans, grants and long-term guarantees in this decade, overall employment has fallen 38%, as more than a third of a million jobs have disappeared."

And, as we found out during the hearings held by the Federal Trade Deficit Review Commission, many of these companies are, in fact, some of our largest importers as well. So, in providing Ex-Im Bank financing to these companies, we have to determine whether we are actually undermining U.S. employment, rather than expanding it? Since money is "fungible" are the Ex-Im Bank benefits necessary to ensure these exports or are these funds also providing the wherewithal for these and other firms, to underwrite their import purchases as well?

It is getting harder and harder for business to argue that Ex-Im Bank funds are vital to their efforts and that they share the desire of the original authors of the Bank to promote U.S. jobs and exports. In 1934, only products made with 100% domestic U.S. content could qualify for Ex-Im financing. Through an aggressive campaign by U.S. business over the years, that requirement has been whittled down to a 50% requirement. We need to seriously examine the claims of those who argue that we need to trade away the domestic content requirement so that we can compete against the export financing activities of countries like Canada and Germany. Our efforts should be targeted at ensuring compliance with OECD protocols and other efforts, rather than simply trading away our jobs with our financing.

Ex-Im Bank's activities hit home for the Steelworkers early this year.

As many of you know, the steel industry has been ravaged by a flood of unfairly priced imports for several years. Beginning with the Asian financial crisis, imports have displaced large amounts of domestic production. Despite a booming economy, the U.S. steel industry has been unable to compete effectively. Today, 18 companies have declared bankruptcy and the jobs of tens of thousands of steelworkers are ultimately at risk.

In responding to this crisis, the Clinton Administration took limited action. They recognized that global over-capacity was one of the principal causes of the industry's and the workers problems. Indeed, the U.S. Commerce Department study on the steel crisis recommended a ban on multilateral lending institutions financing projects that would increase steel production capacity and exacerbate the world's steel-making over-capacity.

Against this backdrop, we were outraged to learn that the Ex-Im Bank would help finance the purchase of millions of dollars in equipment and services to modernize Benxi Iron & Steel Co. Ltd., a Chinese steel mill and exporter. The contemplated assistance will allow the Chinese steel-maker to increase production by 1.5 million metric tons a year.

Joining together with major U.S. steel companies, we spoke as a coalition earlier this year: we called the Ex-Im Bank's decision "unconscionable and utterly inconsistent with explicit, broader U.S. policy interests." We called the Bank's rationale "flawed and indefensible."

In December of last year, the U.S. International Trade Commission made a preliminary determination that China was among those countries that was illegally dumping hot-rolled steel in the United States. Benxi, the Chinese company that is the intended beneficiary of the Ex-Im financing, is currently under investigation for illegally dumping steel into the U.S.

The labor-industry coalition said: "It's disgraceful that the U.S. government is bank-rolling Chinese steel production when U.S. steel companies are declaring bankruptcy and American steelworkers are being laid-off. Every American taxpayer should be outraged by the Export-Import Bank's action."

As a member of the U.S.-China Security Review Commission, I also intend to examine whether the Ex-Im financing is strengthening China's military-industrial infrastructure. We should ensure that our financing adds to our economic security, not undermines it both economically and militarily.

During these reauthorization hearings, this Subcommittee needs to thoroughly review the Bank's activities not only on this matter, but to determine whether the bank is fulfilling its original mandate. At a minimum, I would urge the Subcommittee examine and review all of the Bank's financing and put it through a stringent analysis of what its impact is on our economic health, our standard of living and our employment.

This means not only an initial round of examinations. Clearly sending a machine tool to another country may count as an export, but if in providing the financing for these exports we are dramatically enhancing the productive capacity of a competitor who will then corrode our jobs base here at home, we should say that's not in our nation's interest.

We also must demand that our financing activities enhance, not undermine, our interest in promoting adherence to internationally recognized workers rights and not undermine environmental standards. It's clear that these issues must be integrated into our policy-making institutions more aggressively. The public is increasingly concerned that our policies undermine rather than advance our interests. The Ex-Im Bank's reauthorization gives us a perfect opportunity to thoroughly examine their activities and set out guidelines and benchmarks for future activities.

Congressman Sanders has raised an issue recently that, I believe, should be a key component of Ex-Im Bank reform: prohibiting Ex-Im financing from going to profitable companies that are reducing the pension or retirement health benefits of U.S. workers and retirees. The Steelworkers strongly support Congressman Sanders' efforts.

We must send a strong message that there are certain standards we expect from those who are to benefit from our nation's programs. One of those standards is that we will not subsidize activities that undermine the livelihood and future of our workers.

Many have targeted the Ex-Im Bank as a symbol of corporate welfare. Let us use the coming months to aggressively and thoroughly examine the activities and practices of the Ex-Im Bank to guide Congress on a path to reforming the institution. Its principal goal must be to enhance our standard of living and the future of our workers. Right now, the Ex-Im Bank wouldn't pass that test.

Thank you.

U.S. House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
Hearing on "Reauthorization of the Export-Import Bank"
May 8, 2001

Statement for the Record by Citigroup Inc.

Citigroup welcomes the opportunity to submit this statement upon the occasion of hearings related to the proposed reauthorization of the Export –Import Bank of the United States (Eximbank). We believe that Eximbank plays a vital role (1) in stimulating the export of goods and services from the United States and (2) in establishing and maintaining a "level playing field" upon which corporations around the world, with support from or in partnership with their Export Credit Agencies (ECAs) and other official agencies, compete to win export sales in the global economic arena.

In this Statement for the Record, we would like to make five primary points:

1. Eximbank support is, in many cases, the single most important factor in determining whether U.S. companies succeed in winning contracts to export goods and services to customers in international markets.

2. Eximbank is a sound, well managed financial institution that prices its services compatibly with the risks it bears, that analyzes, underwrites, and manages risks effectively, and that incurs losses, net of recoveries, at ratios well within the ranges that would be expected given the markets it serves. In recent years, Eximbank has produced substantial surpluses that have been returned to the U.S. Treasury.

3. Eximbank does not displace private sector lending; rather it serves as a catalyst for private financial flows into markets and to borrowers that generally would not qualify for private sector finance.

4. Eximbank provides no subsidies to exporters or financial institutions. Critics who assert that Eximbank is a mechanism for the extension of "corporate welfare" to U.S. exporters or their customers seem to discount the reality that nations are engaged in fierce economic competition to support their national interests.

5. Eximbank provides the United States with a competitive tool to mount a partial defense to the aggressive tactics of the ECAs and related official agencies of other countries intent on securing advantages for their exporters.

Eximbank's Vital Role in Stimulating Incremental Exports

Eximbank plays an exceptionally important role in stimulating exports from the U.S. which in many, if not most cases, would not have otherwise occurred. Eximbank, as the official export financing agency of the United States, is able to capitalize on its ability to forge government-to-government understandings which enable Eximbank to reasonably bear financial risks that private sector financiers are not in a position to take without the participation of a party such as Eximbank.

Eximbank's role as a "lender of last resort" should not imply that it takes unreasonable risks. Because of its stature as an official institution, Eximbank is simply able to accept certain commercial and political risks that exceed the thresholds of the commercial market. The relatively modest loss record of Eximbank suggests that it has made prudent financing decisions and it has effectively administered its portfolio.

The availability of financing on reasonable terms can be a major factor in tilting the purchase decision of an emerging markets customer from one supplier to another. We believe that access to financing support from Eximbank plays a valuable role in "paving the way" for broader acceptance within a target market for goods and services exported from the United States.

Eximbank Does Not Displace Private Sector Lenders

Eximbank does not displace private sector financing. Eximbank serves as a catalyst for incremental private sector financial flows into the emerging markets. Eximbank has frequently been effective in securing legal protections and contributing to the establishment of regulatory regimes within specific countries, which benefit all lenders.

In serving this function, Eximbank assists in opening doors to U.S. companies seeking to export products and services to these markets. With options to finance the acquisition of goods and services from the United States with support from Eximbank, potential foreign buyers may be generally more inclined to consider U.S. based sourcing alternatives.

Eximbank as Tool in Globally Competitive Marketplace

Every major OECD country sponsors an official Export Credit Agency (ECA) such as Eximbank. Non-OECD countries have also created ECAs to assist in export promotion. Several countries officially sponsor other financing agencies, which are frequently involved in providing capital directly to borrowers in the emerging markets on terms outside of the regulations governing the policies of the ECAs.

It is widely understood that other governments make aggressive use of their ECAs and related financing agencies to pursue national interests. Eximbank provides the United States with a "threat of retaliation" in the arena of world trade to combat excessively aggressive tactics of other governments in linking financial assistance to procurement.

We observe that a sort of "strained equilibrium" currently exists among the various ECAs, related agencies, and their sponsor governments with respect to the scope, nature, and cost of support provided by the respective ECAs. Even so, we note that the U.S. plays a much smaller role overall in supporting its exports than do most of the other major OECD countries. Should the U.S. weaken, de-emphasize, or unusually constrain Eximbank, other nations could be emboldened to make even more aggressive use of their agencies in support of their national agendas, at a likely cost in U.S. jobs and exports.

Citigroup's Role in Eximbank Financing

Citigroup has had the privilege of working with Eximbank and the exporters it supports over a period of decades. Last year, Citigroup was authorized to arrange Eximbank related financing which supported in excess of $2.0 billion in U.S. exports. We believe we are the largest aggregate arranger of Eximbank supported financing and we were pleased to have been selected to advise Eximbank on risk management and transfer techniques designed to improve Eximbank's efficiency and reduce the risk inherent in its operations.

As a U.S. based multinational financial institution with a presence in over 100 countries and territories, Citigroup has been a global leader in the arrangement of medium and long-term trade related financing in the emerging markets. In serving our clients, we have gained familiarity with a number of the ECAs and other financing agencies sponsored by governments around the globe.

We list this information only to suggest that we are qualified to make the following observations and recommendations:

1. Eximbank should be reauthorized for a period of five years, in order to promote stability and continuity among the staff and programs and to avoid the current circumstance of having reauthorization deliberations proceeding at a time during which the nominee for the position of Eximbank President has not been duly appointed and confirmed.

2. Eximbank's program budget for the upcoming fiscal year should be approved at a level designed to permit Eximbank to provide financing support consistent with that which it has provided in recent years.

3. Eximbank should be granted authority to engage in risk management and transfer techniques practiced in the private sector designed to permit Eximbank to better manage the risk in its portfolio, promote a more efficient use of program subsidy, and ultimately to leverage tax payer dollars by attracting more private sector finance in support of Eximbank programs.

4. Eximbank should be granted additional operating budget funds to continue to upgrade systems, staff and facilities.

5. Eximbank's status as an independent agency whose mandate is export promotion should be affirmed, in order for exporters, financing partners, and customers to be able to depend upon Eximbank, and other administrative bodies should generally defer to Eximbank in the determination of the creditworthiness of potential borrowers applying for Eximbank support.

Conclusion

Citigroup estimates that ECAs and other bilateral financing agencies based abroad supported amounts in excess of $500 billion in exports last year. Eximbank authorized approximately $13 billion. On a relative basis, the U.S. makes significantly less usage of its official agencies to support its exporters than do most of the other leading industrialized nations. If economic competition is replacing military conflict as a means to secure national advantage, a decision to cut back or curtail Eximbank authority to support U.S. exports could be viewed as akin to an act of "unilateral disarmament".

While the total percentage of U.S. exports supported by Eximbank is quite small, Eximbank plays a critical role in promoting U.S. economic competitiveness in the emerging markets. Citigroup also observes that Eximbank support benefits an entire spectrum of companies in the United States, not just larger corporations. We appreciate and support Eximbank efforts to assist smaller U.S. companies in the process of expanding into international markets, and we continue to be impressed that the larger corporations who make use of Eximbank secure components and services from large numbers of smaller companies throughout the country.

If Eximbank financing were not available to the emerging markets customers of smaller U.S. based businesses, those businesses would likely be ineffective in competing with companies whose export sales are supported with ECA financing. Such a circumstance would thwart job creation that might otherwise have been anticipated. If Eximbank support were not available to larger multinational corporations, the U.S. would face a perhaps more ominous risk that companies would simply shift production away from the U.S. to other markets, at a cost of existing jobs. If access to ECA supported financing is a determinant in a customer's choice of a supplier, multinational corporations increasingly have the capacity to divert production from one country to another.

In an era when U.S. trade deficits continue to expand, when long term economic growth in the U.S. is vitally dependent upon the successful expansion into international markets by more U.S. companies, and when other governments make aggressive use of agencies they sponsor to gain economic advantages for their own companies, an invigorated Eximbank makes good sense for the United States.