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REAUTHORIZATION OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL TRADE AND FINANCE

OF THE

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

ENSURING THAT EX-IM BANK HAS THE RESOURCES TO ENABLE IT TO FULFILL ITS STATUTORY MANDATE FOR U.S. EXPORTERS BOTH SMALL AND LARGE TO PROVIDE FINANCING TERMS AND CONDITIONS COMPETITIVE WITH THOSE OFFERED BY FOREIGN EXPORT CREDIT AGENCIES

JUNE 19, 2001

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C O N T E N T S

TUESDAY, JUNE 19, 2001

REAUTHORIZATION OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

TUESDAY, JUNE 19, 2001

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

The Subcommittee met at 2:30 p.m. in room SD–538 of the Dirksen Senate Office Building, Senator Evan Bayh (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. The Committee will come to order. We would like to thank everyone in attendance today. This is the second of two hearings on the potential reauthorization of the Export-Import Bank, the authority for which expires this September 30. So this is a timely matter of great significance to all of us present today as well as to the country.

It has tremendous macroeconomic significance given our substantial balance-of-trade deficit, and that will impact our currency and the rest of our economic health in the years to come if we are not diligent about addressing that issue.

It has significant microeconomic considerations for companies that wish to compete on a level playing field. It is important that we try and level that playing field so that American industries and businesses can export their goods and services without having undone the natural competitive advantage they would otherwise enjoy being negated by unfair practices on the part of other countries that are not addressed by the United States and our Government.

I want to express my appreciation to Senator Hagel. We have had a good working relationship, Chuck, and I want you to know that that is going to continue regardless of who is in the Majority and who is in the Minority. We see eye to eye on many of these issues, and I look forward to having a good bipartisan relationship with you as well as a personal friendship.

I am honored by the presence of our Full Committee Chairman, Senator Sarbanes, today, an individual for whom I have a great deal of respect. Paul, thank you for your time and presence today.

The first hearing on this subject matter involved hearing from State governments and the private sector. We heard many positive comments about the role of the Export-Import Bank and the contributions it has made to the welfare and well being of America's economy.

Of course no organization is perfect. We heard some areas of criticism, particularly with regard to the adverse impact rules and the question of whether the Bank has at all times lived up to its own standards of analysis in regard to enforcing those rules. It is an issue of which I have some significant interest to address in the course of these hearings.

This second set of hearings will focus upon the administration and the witnesses representing the administration, starting with John Robson. John, I want to congratulate you on your confirmation. Welcome aboard.

Mr. ROBSON. Thank you, Mr. Chairman.

Senator BAYH. He continues a lifetime of a distinguished public service. And of course John Taylor, as well. John, thank you for your time. I was looking over your very impressive list of credentials. Almost every well-known, prestigious academic institution has had the benefit of your tenure at one point in time. So we are pleased to have the benefit of your wisdom and insight today.

I do not know if he will be able to join us, but I do want to say a word about Jackie Clegg who performed admirable service at the Bank. She is going to be missed, but is going on to other things. I know Chris Dodd, our colleague, is very proud of her work, as are we, and I want to again take this opportunity to publicly salute her contribution to our Government and our people.

Also Jim Harmon for the leadership he provided. John, you are filling some big footsteps. I know you will do it admirably, but Jim was a very effective leader as well. The Subcommittee is in particular looking forward, John, to hearing your views on the use of the Tied Aid Credit War Chest. This is a significant issue. I know you are aware that there have been some issues that have been raised in this regard. I am sure that will be the subject of questions and we will be interested in having the benefit of your views with regard to that issue.

With regard to the significant questions that will be addressed during the course of these hearings, we are looking forward to working with the leadership of the Bank and the Treasury. We want to have the benefit of your thoughts on the economic impact, the adverse economic impact, issue.

John, I am looking forward to having the analysis that your predecessor indicated would be forthcoming offered up, I think July 13 was the target date. I hope we are still on schedule. If not, perhaps you can indicate if we are not then why not. But in any event, we are looking forward to having the benefit of that analysis with regard to that important issue.

Also, tied aid financing. John, I just mentioned the market window is a financing issue. The 5 year instead of the 4 year reauthorization. The pluses and the minuses of that with regard to the functioning of the Bank.

Finally, and of great significance, the issue of the budget for the Export-Import Bank. Of course the Administration suggested a 25 percent reduction in funding. We are interested in hearing what the consequences of that will be in a practical sense in the functioning of the Bank and the mission that the Bank is charged with pursuing. Let me say a few things about the witnesses that we will hear from today, and then I will ask for comments and opening statements from my colleagues.

First, John Robson, who is a very distinguished individual. He is formerly an investment banker with the San Francisco-based firm of Robertson Stephens. He served with distinction as a Deputy Treasury Secretary under former President Bush, and was Dean of the Emery University School of Business from 1986 to 1988. He received his undergraduate degree from Yale, and his law degree from Harvard University.

John, I want to thank you for your testimony and again your willingness to step forward and take on the trials and tribulations of public service. You have done it in a bipartisan way and we are grateful to you for your dedication once again.

John Taylor, as I mentioned, has a very distinguished background. He received his undergraduate degree from Princeton and his Doctorate in Economics from Stanford—which seems to be a popular place for graduates these days, judging by the news over the last weekend. He has taught economics at Columbia, Yale, Princeton, and his alma mater of Stanford University. He previously served as a senior economist and then a member of the Council of Economic Advisers under President George Herbert Walker Bush. He was also a delegate to the Uruguay Round of trade negotiations. Much of his research is focused on developing tools that central bankers and financial market analysts can use to analyze policy and developments in foreign markets. Gentlemen, I thank you for your time. We are looking forward to hearing from you. Without any further ado, I would like to turn the proceedings over to my friend and colleague, the Senator from Nebraska, Senator Hagel.

STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. Mr. Chairman, thank you. Good afternoon. I want to thank you, Chairman Bayh, for continuing these important hearings on the reauthorization of the Export-Import Bank. Thank you. Also, to Full Committee Chairman Sarbanes for his leadership in prioritizing this effort as one of the most important responsibilities this Committee has this year.

The Export-Import Bank serves a valuable role in this Nation's trade policy. It gives our businesses a tool with which to compete with foreign companies. It lowers our trade deficit and it promotes growth and jobs in every sector of our country. Ex-Im has proven to be an efficient and cost-effective way of supporting exports. A successful and efficient Export-Import Bank supports the President's trade agenda. A priority for the Administration is to open markets around the world for goods and services.

The United States has quality goods and services that can compete with products from any nation in the world. However, it is difficult for U.S. companies to compete with these products when they come with an aggressive financial offer. Once the U.S. exporter loses one deal, it is difficult to get back in that market once certain foreign standards are established. U.S. exporters sometimes need the Bank to help provide competitive financing in areas where the waters have not yet been tested and where the risk is greater than what U.S. commercial banks are prepared to take.

We have many issues to review in the reauthorization of the Bank. Senator Bayh has outlined several of them already. I would like to address a couple of these issues. The first of which is the budget.

Part of the goal of this authorization procedure is to determine whether the Bank has the resources, authority, legislative support, and means through which it can assist U.S. companies in the most effective and accountable way possible. I will be interested to hear Chairman Robson's perspective on the proposed budget for the Bank. It is the job of Congress to ensure that the appropriations set for the Bank enables it to meet its objectives and its purpose.

Another important issue is competitive financing. At a hearing we held last month, as Chairman Bayh referenced, we heard from some of the witnesses that their competitors are able to receive better financing terms than what the Export-Import Bank can offer. All export credit agencies are obliged to obligate the Bank to follow the arrangement negotiated in the Organization for Economic Cooperation and Development, OECD, when offering financing through government entities.

It seems that other countries are able to offer more flexible terms at better rates through banking institutions called market windows that fall outside of this arrangement. These other countries, such as Germany, Canada, and others, provide government assistance to market windows while claiming that the market windows are commercial banks. Thus, market windows are able to provide commercial bank service and very aggressive financing without being covered by the OECD regulations. In this hearing I would like to hear how the administration is going to address this problem.

Tied aid is again an issue that Chairman Bayh has mentioned. Another competitive issue which needs to be addressed today is concerning tied aid and the consequences of tied aid. Tied aid is credit given to foreign companies that is tied to the procurement of goods or services from the donor country. While this practice is allowed under the OECD arrangement, there are several requirements associated with this tied aid.

It has come to my attention that the procedure and criteria used by the administration to grant tied aid funding to U.S. exporters has not yet been cleared up and has in fact not been clear in the past. An example of one such case comes from my home State of Nebraska. One of the most successful internationally savvy companies in Nebraska applied for such tied aid from Ex-Im last year.

The company testified before this Committee last month that it was led to believe by Ex-Im that it met the criteria for tied aid, but then found out later the Treasury had overturned the decision and tied aid financing was not granted.

This Nebraska company has gone on with its business and is not raising this case as a complaint. However, this case illustrates that there is a lack of clearly defined procedures for granting tied aid.

It is my understanding that the Treasury Department and the Export-Import Bank are currently working on an administrative policy to address this issue. I look forward to hearing the progress on this policy today as well as the testimony from our distinguished panel today and leaders of these two most important agencies of our Government. Mr. Chairman, thank you.

Senator BAYH. Thank you, Senator Hagel.
Chairman Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Mr. Chairman, thank you very much. First of all, I want to congratulate you on assuming the gavel and chairing the Subcommittee. This is your first hearing. I must say, by way of prelude, this morning we had a hearing on the housing issue and one of the witnesses at the table was a fellow named Ira Pepperkorn. I want to say that he was effusive in his praise of you, Mr. Chairman, having worked for you when you were Governor of Indiana. And I hastened to assure him that all of the Members of the Committee shared your glowing opinions. I told him we would be sure to deliver the message to you, so I feel that I have done my duty there.

Senator BAYH. Thank you, Mr. Chairman. I am glad that his soft spot for me was not held against him by my colleagues.

[Laughter.]

Senator SARBANES. I also want to say it is good to be back with Senator Hagel with whom we have worked on so many issues in a very positive and constructive way, and I am sure that you and he will be a very effective team in charge of this Subcommittee.

The charter for the Export-Import Bank expires on September 30, and it is important that we move expeditiously to consider its reauthorization. I am hopeful that after the testimony today we will be able to think about doing a markup sometime after the July 4 recess. We only have one more week after this week, but I would hope once we come back in the July period we will be able to move ahead. We have got to move the bill out of the Committee, through the Senate, and, of course, through the House. There is a challenge ahead to get it done by September 30. With the indulgence of my colleagues, since this is an issue in which I have been quite interested over the years, I want to take just a couple of moments.

Senator BAYH. By all means.

Senator SARBANES. First of all, I strongly support the reauthorization of the Export-Import Bank and I am very pleased that John Robson, the Chairman and President of the Bank, and John Taylor, the Under Secretary of Treasury for International Finance, are before us. I think there are two strong market-based reasons for the existence of the Ex-Im Bank.

First, in my view U.S. exporters are able to compete very effectively in international markets on the basis of price and quality. I would like to see that competition limited to those factors. However, when foreign governments provide subsidies to their exporters, U.S. exporters are placed at a competitive disadvantage, often a decisive competitive disadvantage.

The Ex-Im Bank has a critical role in leveling the playing field for U.S. exporters by countering the public financing made available by foreign governments. In addition, in undertaking this effort the Ex-Im Bank also provides leverage to U.S. negotiators seeking to achieve international agreements to limit the use of government export subsidies.

Second, certain countries in the developing world pose credit risks of such magnitude that commercial banks are reluctant to finance U.S. exports to those countries even though they may present a significant opportunity for the U.S. exporters. The Ex-Im Bank has a difficult but important task of assessing the country's risk and determining if a guarantee should be provided for a commercial export loan that would make possible an export deal that would otherwise not occur.

Now in considering all of this, I think it is important to note that the Ex-Im Bank has an exceptional track record in managing the risk associated with its lending activities. The Ex-Im Bank has an excellent repayment record with losses running 1.4 percent of disbursements over its 67 year history. In the last 10 years, these losses have been somewhat higher because of the financial crises we have confronted in the developing world. But in any event, it is my understanding that over the past 5 years the interest and fees collected by the Ex-Im Bank have earned the Federal Government over $4 billion.

When the Banking Committee last reauthorized the Ex-Im Bank 4 years ago, there was a sense that some progress was being made in controlling the growth of export credits offered by national governments. The OECD arrangement on tied aid credit seemed to be having some effect, and there was hope that further progress could be made.

I now have the sense that developments are perhaps moving in the opposite direction. Funding for export credit agencies of other governments has been growing. In addition, foreign governments have been utilizing other mechanisms such as market windows and untied aid to get around the OECD arrangement. In light of these developments, the proposal in the Administration's budget to reduce funding for the Ex-Im Bank by 25 percent was particularly disappointing.

Given the growing use of export credits by our competitors and efforts to get around the restrictions that exist, this would not seem to be the time to reduce the resources of the Ex-Im Bank. Also of concern are proposals that have been floated by the OMB to compensate for the proposed reduction in funding by raising fees on Ex-Im Bank loans, reducing the proportion of Ex-Im Bank financing and export deals, and imposing a more stringent standard on whether an export deal really requires Ex-Im Bank financing. It is not clear that these proposals are being developed with consideration of the lending policies of the export credit agencies of other countries to determine how these proposals will affect the competitiveness of Ex-Im Bank financing.

I want to turn my attention just briefly to an issue that has been raised by my colleagues. And that is, what I regard as the unduly intrusive role by the Treasury into the Ex-Im Bank's utilization of the Tied Aid Credit War Chest. The Ex-Im Bank Charter provides that the Tied Aid Credit Program shall be administered by the Ex-Im Bank, "in consultation with the Treasury Secretary 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 the charter."

These purposes are focused on efforts to enforce and facilitate new international agreements restricting the use of tied aid, which is an area in which the Treasury has taken the lead in negotiations. So there is a broad policy question I think which I want to distinguish from the specific individual judgments on particular loans.

In the past, Ex-Im Bank and the Treasury have collaborated closely on the use of the War Chest. In fact, the charter of Ex-Im Bank was amended in 1992 to give the Bank additional authority to match foreign tied aid credits when it determines a U.S. trade or economic interest justify the matching, even if the foreign credits are in compliance with an international agreement, even if it complied with an international agreement we authorize the Bank to engage in matching, if it determined that the trade or economic interest justified it. The Treasury, which has lead responsibility in negotiating arrangements in the OECD to limit export credits, has provided general guidance to Ex-Im Bank on how the War Chest may be used to advance the negotiating objectives.

While agreement has usually been reached on individual tied aid cases, when disagreements have arisen in the past, the Treasury has generally deferred to the judgment of the Ex-Im Bank Board. It was therefore disturbing that a case arose earlier this year in which the Ex-Im Bank Board voted four to nothing in favor of a tied aid grant case, and the Treasury Department moved to overturn that decision.

Now Senator Hagel alluded to that case, and of course I know he is familiar with it since it involved a Nebraska company, which in fact testified at the first Subcommittee hearing on the Ex-Im Bank reauthorization held in May. The Ex-Im Bank, which was supported by the Commerce Department, believed that on the merits this case clearly deserved tied aid credit support.

Apparently even the Treasury Department agreed that it was a close call—conceded that it was a close call—yet the Treasury insisted on the unprecedented action of overturning this specific Ex-Im Bank decision. This suggests a level of micromanagement by the Treasury that I am fearful could seriously disrupt the functioning of the Tied Aid Credit Program.

Now it is my understanding, as my colleagues have indicated, that an effort is underway between Ex-Im Bank and the Treasury to work out their differences over the operation of the Tied Aid Credit War Chest and reach a common understanding of their respective roles. As I indicated earlier, it was my understanding that the Treasury in the context of negotiating to try to get general limits provided, as it were, policy guidance to the Ex-Im Bank but in the past it has not intruded to the point of overturning specific Ex-Im Bank decisions.

I hope that this effort at coming to a common understanding may prove successful. I regard the Tied Aid Credit War Chest as a very important resource to meet the challenges posed by foreign export credits. Senator Heinz and I worked on this issue many years ago.

The fact of the matter is that if we do not counter these foreign export credits our exporters are left totally exposed and they are not competing on a level playing field. I think if we use it effectively and with the deep pockets that people understand the United States has, other countries will be less likely to engage in the effort to provide this assistance. But as long as they think they can do it and get away with it, and the Nebraska contract was lost directly on that basis, that their competitors—I think it was an Austrian company—were getting significant credit support from their government, they took the contract. It wasn't a very large contract, but it has significant follow-on possibilities. So we hope to get that straightened out. I think it is very important to do that.

Mr. Chairman, I am pleased that these two very able and competent witnesses are before us. I join you in wishing John Robson the very best as he has assumed the presidency and the chairmanship of the Export-Import Bank. Thank you very much.

Senator BAYH. Thank you, Chairman Sarbanes.

Senator Miller.

COMMENT OF SENATOR ZELL MILLER

Senator MILLER. I do not have any remarks but I will have some questions later.

Senator BAYH. Thank you. Thank you, Senator.

Senator Dodd, before you arrived I just wanted to take this opportunity to praise Jackie Clegg for her devotion to the Export-Import Bank and to the good work that it does. We said that she would be sorely missed but is soon to assume even greater responsibilities in the capacities as a mother. So we congratulate both of you on that.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. I thank you, Mr. Chairman, for that. I had better add some remarks of my own about it or I will be in trouble when I get home.

[Laughter.]

Senator DODD. I thank you very much, and she has enjoyed her service immensely and has been deeply impressed with John Robson. I wanted to apologize. I missed your swearing-in ceremony the other day. You sent a kind invitation, and I missed it. So I apologize to you for not being there, but I gather it was a wonderful ceremony and I congratulate you on your new responsibilities.

Mr. Taylor, it is good to see you here with us, as well. Again, Mr. Chairman, thank you for your kind comments about Jackie. She has enjoyed her work there immensely and enjoyed working with the staff there; and the comments that Senator Sarbanes has raised are important ones.

I will be very interested in hearing some responses to these questions. My questions run along similar lines. I am sure all of us have sort of the same questions. I think that Nebraska arrangement was about $3 million—it was not a massive deal, as I understand it. The Senator from Nebraska can correct us on that. So I look forward to your testimony, and again congratulations to both of you and I look forward to working with you.

Senator BAYH. Thank you, Senator Dodd. Gentlemen, you have been good enough to listen to us. We are eager to listen to you.

Mr. Robson.

STATEMENT OF JOHN E. ROBSON, PRESIDENT AND CHAIRMAN EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. ROBSON. Thank you, Mr. Chairman. With your permission—hello to the Committee and thank you Senator Sarbanes for coming to this hearing; I know you have a high degree of interest in the Ex-Im Bank—I would like to put my full statement in the record and read one that I hope will not be deemed excessively long. When we get through with the hearing, I hope that the adjective "potential" reauthorization is no longer found in the vocabulary.

I am happy to be here today to testify on behalf of rechartering the Export-Import Bank. The Ex-Im Bank is a sunset agency. Our charter needs to be renewed by Congress by September 30, 2001. In this reauthorization we are requesting a renewal of the Bank's charter for 4 years, through September 30, 2005. We are also requesting that our Sub-Saharan Africa Advisory Committee be extended for 4 years. This advisory committee has offered valuable advice which has been instrumental in our ability to increase our business with sub-Saharan Africa.

I can assure you that I would not have accepted my position if I were not convinced that the Ex-Im Bank with its program of direct loans, loan guarantees, insurance, and working capital loans is a valuable part of the U.S. economic arsenal. It is, because working in partnership with business and labor it keeps our exporters competitive, helps create good jobs for U.S. workers that pay above the average, and plays a role in reducing the trade deficit. This has been the task of the Ex-Im Bank in the past, and with the charter being renewed, the Bank will continue its vital work. It is a highly respected institution of long standing staffed by a group of dedicated professionals.

Since its inception in 1934, the Bank has had a unique role in our country's history. In 1939, the Bank helped finance the 717 mile Burma Road in China. And in 1941, the Bank supported U.S. exports for the Pan American Highway in Central America and Mexico. In 1946, it authorized $2 billion for the reconstruction of Europe. In 1948, it administered the funds for the Marshall Plan, and also authorized $100 million for exports to the newly recognized state of Israel. More recently, when private-sector lending institutions back out due to the Asian financial crisis, Ex-Im Bank stepped in to provide short-term financing that resulted in $2 billion of U.S. exports going to Korea.

So the Bank has a proud history of not only supporting exports and creating jobs generally, but also stepping in under circumstances where we can play a role in advancing broader American interests. With that introduction, let me now turn briefly to our budget.

With an appropriation of $633 million as the Administration has proposed, plus $90 million in additional program budget funds that we estimate will be available due to cancellation of prior year commitments, the Ex-Im Bank would have a total of $723 million in program budget funds available for fiscal year 2002. The Bank estimates that its total fiscal year 2002 program budget resources of $723 million can support about $11.4 billion in export credit authorizations.

We have also projected the level of demand for export transaction credit for fiscal year 2002. And because of some uncertainty, rather than projecting a single export credit demand dollar amount, we have calculated a range. The low end of the demand range is $11.9

billion in authorizations. The mid range is $12.5 billion. The high end is $14.5 billion.

We have said above that the $723 million in fiscal year 2002 program budget resources can support $11.4 billion in export credit authorizations. Thus, if actual export credit demand exceeds that level, then the Bank's available resources would not be adequate to support the higher increment of export credit demand.

The President's budget suggests the possibility of making up a gap between exporter credit demand and program budget resources by instituting changes in the way the Bank does business such as raising fees and/or lowering the percentage of Ex-Im Bank's export credit coverage of a transaction from its current 85 percent.

I will consider conducting some very limited and carefully designed clinical trials for the purpose of gathering real-world data on these issues. And it is my plan to work with the export community and Congress in designing these limited experiments. Turning to our administrative budget, our administrative budget is essential to our mission, and I urge that our request be fully funded.

For fiscal year 2002, we are requesting $65 million for our administrative budget, which is an increase of $3 million or 5 percent over fiscal year 2001. The increase is representative of our continuing effort to improve our case processing and upgrade our information technology system. Let me turn now to our small business operations. The benefits of increased exporting by Ex-Im Bank credit extend to businesses of all sizes in almost all States.

According to the most recent available national data, 96 percent of exporters are small- and medium-sized businesses. They represent 30 percent of U.S. merchandise exports by value. Ex-Im Bank tends to track this national average since fiscal year 2000 86 percent of our transactions directly benefit small businesses, and they consumed approximately 20 percent of our authorization expenditures. Small businesses account for most of the job growth in our country. We are directly assisting some 2000 small businesses each year. But this represents just a small fraction of the small businesses which export.

Ultimately the most cost-effective way to reach the thousands of small businesses that could make use of our services is to expand our technological base by making use of the Internet which will involve significant capital investment. Let me now turn to several issues which will have our attention in the immediate future.

The first is tied aid. Tied aid is essentially highly concessional foreign assistance conditioned on the purchase of goods and services from the donating country. This combination has the potential effect of injecting a grant element into trade finance by lowering interest rates, lengthening terms, or both.

One continuing issue which has been mentioned several times already is the use of the Tied Aid War Chest. There needs to be continued scrutiny of tied aid activities by our industrial competitors, and we need to gather more data to determine the extent of evasion of the OECD rules which limit tied aid.

Turning to new markets and new initiatives, over the past few years Ex-Im Bank has made a concerted effort in expanding our support to U.S. exporters in new and revitalized markets such as Mexico and sub-Saharan Africa. The most notable growth in Ex-Im

Bank's programs recently has been sub-Saharan Africa, the result of Ex-Im Bank's effort to meet its 1997 Congressional mandate.

In 1998, the Bank authorized about $56 million to support U.S. exports to sub-Saharan Africa. It authorized $589 million in 1999, and $914 million in fiscal 2000. While the figures in the last 2 years may be abnormally higher due to some especially large transactions, we will continue our efforts to support sales to these areas.

In Mexico where exporters are doing a growing business, our medium- and long-term authorizations for fiscal years 1997 through 2000 total $5.1 billion. Future prospects there look bright, given further capital expenditure needs and the new policies being proposed by President Fox. Turning briefly to market windows, the new export credit mechanisms which are being developed by the other countries, again mentioned by a number of the Senators here.

Market windows are State-owned institutions which claim to operate on a commercial basis in the province of trade credits and thus, arguably, outside disciplines imposed by the OECD arrangement. Again we need to determine if the OECD rules of engagement are being circumvented by market windows and to this end we plan to commit resources to a major research effort.

I am keenly aware of the Bank's charter obligation to examine economic impact when it authorizes export transactions. This issue is at the top of my agenda. We are currently reworking our economic impact guidelines and will include Congress, the exporting community, and labor in this process, and a draft of our report should be available for comment shortly.

Turning to the environment, in 1995 again at the direction of Congress, Ex-Im Bank adopted a comprehensive environmental policy that included a program to support environmentally beneficial and renewable energy exports, and a set of environmental procedures and guidelines applicable to its support of foreign projects. Since 1995, Ex-Im Bank has supported $3 billion in environmentally beneficial U.S. exports and environmentally beneficial projects.

In 1997, we initiated discussions with the heads of the G–7 export credit agencies to persuade them to work with the OECD to adopt policies which impose on their exporters meaningful environmental guidelines. The Export-Import Bank believes that our competition should agree to specific standards, environmental impact assessment in sensitive cases, and transparency. And these negotiations are still ongoing. Mr. Chairman, that concludes my oral testimony and I shall be happy to answer any questions.

Senator BAYH. Thank you, Mr. Robson, very much.

Mr. Taylor.

STATEMENT OF JOHN B. TAYLOR
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF THE TREASURY

Mr. TAYLOR. Thank you, Mr. Chairman, and thanks for inviting me here to testify on the reauthorization of the Export-Import Bank. We strongly support the reauthorization, and I agree with Chairman Robson that it would be good to no longer call it "potential" reauthorization. I want to submit my written statement for the record and, if I may, just have my introductory comments focus on the role of the United States Treasury in working with the Export-Import Bank.

The Treasury has a very important role to play in implementation and in formulation of policy regarding the Export-Import Bank. I look forward to working closely with John Robson, a good friend, along with the Full Banking Committee and this Subcommittee in making things work smoothly.

There are two specific roles for Treasury which I would like to just briefly mention. One is that the Treasury works along with Export-Import Bank to ensure that the policies followed are consistent with those of the Administration. Second, and this is the major focus of this hearing on the Treasury's role in export finance policy, Treasury works closely with Export-Import Bank to negotiate and enforce rules limiting the use of foreign export subsidies. I think it is very important to establish such rules and to enforce them for several reasons.

First, such subsidies distort trade significantly. Second, they interfere with efficient resource allocation around the world. Third, they are an immense disadvantage to the U.S. exporters because frequently foreign export subsidies are larger. And fourth, subsidies are a drain on the budget. They require using funds that could otherwise go to other purposes.

The U.S. Treasury for many years has worked through the OECD to negotiate these rules and to enforce them. There is a fine professional staff at the Treasury that goes to these OECD meetings and has done so through many years. It is a bipartisan operation and has been in existence with the same career people through a number of different Administrations. A number of things of importance have been accomplished through these negotiations and believe that similar progress can be made in the future.

I just mentioned two things that are quite significant to me as I look at the progress. One is that there is now a limit that has been achieved through negotiations on the amount of interest rate subsidies that can be associated with Export-Import financing. The subsidies can be no less than 100 basis points over the cost of funds to the government. This rule has saved governments hundreds of millions of dollars of scarce budget resources.

The second is the limitation on the use of tied aid credits. As John Robson indicated, we need to have the best data we can to assess these trends. But the data I look at suggest a significant reduction in the amount of tied aid credits in the 1990's.

For example, in 1991 there were $9 billion of tied aid credits if you exclude Japan. In the year 2000 there were $1.8 billion, again if you exclude Japan. So excluding the Japanese aid, both tied and untied, which I will describe more, there is no question that there has been an enormous reduction in the amount of tied aid.

Looking at these numbers separately from Japan is important because Japan in recent years has moved from untied aid to tied aid, and therefore the gross numbers in terms of tied aid have showed a significant increase, especially in the last couple of years. So it is very important to look carefully at these numbers in order to assess the trends.

Going forward, it seems to me that there is a chance to make progress to deal with some of the problems that you mentioned in your opening remarks.

There are two areas which we think are very important in Treasury. One is untied aid and the other is the market windows. These distortions relating to export financing can occur, of course, even if aid is not legally tied to donor country firms. And this is the case of untied aid. You might think of it as tied aid in disguise.

Currently untied aid is exempt from the tied aid rule solely because the donor government does not directly tie procurement to its firms. With untied aid, procurement is effectively tied to firms from the donor country in a variety of less direct ways. Without an international agreement to provide rules for the use of untied aid, it will continue to distort trade and misallocate global resources much as tied aid has done in the past.

The second item is the market windows. Market windows are another threat to the long-term integrity of the existing OECD rules which have been negotiated over the years. Market windows are quasi official institutions that support national exports. The two largest are KfW of Germany and EDC of Canada. Because market window institutions purport to operate as private-sector actors, there is currently no agreement in the OECD rules to discipline them. We at the Treasury plan a major push in the OECD to establish rules on market windows, and we will work with OMB and Ex-Im Bank to undertake our own analysis of market windows.

Let me just conclude, Mr. Chairman, and Members of the Subcommittee, by saying that I have tried to explain the role of the Treasury in this operation, and I want to work with this Subcommittee and with the Ex-Im Bank to take on some of the goals that I have listed. I particularly look forward to working with Chairman Robson who was Deputy Treasury Secretary at one time, and a very close friend. Thank you.

Senator BAYH. Thank you, Mr. Taylor. We will now begin questions from Members of the Subcommittee, and I am privileged to begin the questioning.

Mr. Robson, I would like to begin with you. I agree with what both you and Mr. Taylor said in hoping that we can remove the provisional status of reauthorization from the Bank in a very expeditious and timely manner. But of course reauthorization is only the first step. We need to make sure you have the resources to robustly fulfill the mission of the Export-Import Bank.

I find myself in the interesting position of being a zealous advocate for giving you more tools than perhaps some other Members of the Administration, of which you are a part, would give you, but I am going to play that role here today because I believe in what you are trying to do. I think it is good for American business. I think it is good for our macroeconomic situation in terms of fighting the trade deficit, and a variety of other matters.

So let me specifically mention the budget as an issue. You indicated that there are $90 million of cancelled commitments from last year, which I think added to the budget request would provide you with $723 million of resources with which to go forward during the next budget year. Is that correct?

Mr. ROBSON. That is correct.

Senator BAYH. This is still a significant reduction from the previous funding level and, if my figures are correct, would support about $4 billion less in financing activity during the coming year. This is potentially somewhat troubling in terms of the trade deficit, in terms of other countries stepping up their efforts at a time when we would be cutting back, and of course since you are a money-making operation might actually have an impact to the Treasury. What do you have to say about this?

Mr. ROBSON. Well let me, if I may, address this in two ways, one is to say that the nominal reduction is, much as Mark Twain said about Wagner's opera, "it is not as bad as it sounds." The reason for that is that the risk criteria which determine how much of our resources must be used or set aside for each of our transactions has gone down. And consequently we will get out of the resources that have been asked for a bigger bang for our buck than we are getting in the current year.

Senator BAYH. By "risk criteria going down," you mean we are taking on riskier projects? Or less riskier projects?

Mr. ROBSON. This is a calculation, Mr. Chairman, that is made under the Federal Credit Reform Act of 1990 by the Office of Management and Budget. It is a fairly arcane process but the result of it is to make risk assessments for countries and various kinds of transactions which then govern the amount of money that Ex-Im Bank needs to set aside as a reserve for losses in each of the transactions that it does. And that risk level for the year 2002 has gone down, and consequently we get a larger bang for our buck.

Senator BAYH. So your risk profile is going down, enabling you to undertake more activities with somewhat less resource?

Mr. ROBSON. That is correct. Now that is not a cure for the entire amount, but it probably makes up about half of it. And the $11.4 billion of export credit that we think we can support with the appropriation asked for, plus our cancellations, is the figure that we have estimated under our historic bang for the buck ratio.

Senator BAYH. I appreciate that explanation. To the layman you indicated a range of a potential demand for your services.

Mr. ROBSON. We did.

Senator BAYH. To the layman it would appear that we are somewhere closer to the bottom of the range rather than the top of the range, perhaps putting us at somewhat of a risk of curtailing your activities, hence your suggestion of perhaps reducing the percentage of the activities being covered or the possibility of imposing higher fees for the services of the bank.

Mr. ROBSON. It was suggested that that would be a way to stretch resources. My own feeling about that is that I do not think we are in a position to do that on a sufficiently broad or across-the-board basis in order to have anything more than a negligible effect, and I am prepared to do some experimenting in that area, but I do not think that I would feel confident in trying to do it across the board or as a way to try to make up a budget deficiency.

Senator BAYH. I see my time is about up, and rather than go into overtime on this round I may reserve some questions for a subsequent round. This is an issue that concerns several Members of the Subcommittee, Mr. Robson. We simply want to make sure that you have the tools with which to get the job done. We know that you have to be a loyal soldier; that is a part of being a member of the Administration; and we want to simply make sure that you have the budget necessary to fulfill the mission of the Department.

Mr. ROBSON. Thank you.

Senator BAYH. I will now ask Senator Hagel for his questions.

Senator HAGEL. Mr. Chairman, thank you.

I would like to stay on the budget for a couple of questions. You noted in your testimony, Mr. Chairman, as you were developing your answers for the Chairman in response to his questions that you would look at reducing costs, and you explained a couple of the issues of risk criteria. Then you went on to say that examples of these changes would be to raise fees and/or to lower the percentage of Ex-Im Bank's export credit coverage of a transaction from its current 85 percent.

A couple of questions there, one do you think that if that is what you did, and if that was a course of action that you would take, that that would in fact make the Bank less competitive?

Mr. ROBSON. It could, and that is the reason that I suggested that we do some clinical trials on that and try to make an assessment. I have met with the exporters on that very subject and told them that I would like to work with them, and work with you in Congress in fashioning those experiments, and then let's come up with some data and see whether the answer to your question is "yes," "no," or "we do not know."

Senator HAGEL. What has the response been from the exporters to this possibility?

Mr. ROBSON. Well I think they were prepared to look at the question of doing some limited clinical trials on it if they were designed with them and with Congress. I cannot say that they leapt from their chairs in enthusiasm when the idea was broached, but on the other hand they were I think comfortable with the notion that this was an experiment and would be done on a limited basis, and would be done with their collaboration. And so consequently I think we are going to try to go forward and see if we can figure out some experiments to work. But this is not what I would characterize as a way to make up any substantial amount of resource deficiency.

Senator HAGEL. Well that is a decision that you and your team will have to make, but if that is the case—what you just said—and if in fact it may well hurt the competitiveness of your Bank, then that may not be the best, cost-effective way to make anything up. And one other thing, if I understand the Bank's mission it is not to look for the safe harbors of markets. In fact, it is just a bit of the opposite. So I think we can go the other way to make the books look good, but in fact not fulfill the mission of the Bank.

Mr. ROBSON. Well I do not think we have any intention of walking away from our mission, and the limited experiments are not ones that are going to be done across the board. They are limited, and narrow, and the idea is to use them as data-gathering exercises, not as major changes in the way we do business. And you are absolutely right. Our job is to go into places where commercial lending institutions fear to tread.

Senator HAGEL. Thank you. On tied aid, you both alluded to the tied aid issue. And maybe you each could give us some perspective on where your two agencies are regarding coming to some understanding and agreement on how tied aid is supposed to work, not work, who makes the final decisions. Chairman Sarbanes talked a bit about that. I understand you, Mr. Chairman, have exchanged correspondence with Secretary O'Neill on this.

Mr. ROBSON. I have, and I received a letter back from him as well. What I told him was that this is something we need to sit down and get resolved. In my personal judgment as an expert of 2 weeks on the job, the problems that we have had resulted centrally from a breakdown in the interagency process; and it needs to be repaired. We need to get a new tied aid play book that is simple and is exporter sensitive, because one of the parties that is affected when the interagency process breaks down is obviously the exporter. We need to get a set of principles and a workable mechanism. Secretary O'Neill wrote back and said you are right. Let's get it done. John Taylor and I have talked and I have the highest respect and admiration for John. I think if we sit down and are serious about getting this behind us, we will.

Senator HAGEL. Secretary Taylor.

Mr. TAYLOR. I agree very much with that. I want to try to find a way to make this process work as smoothly and efficiently as possible so we can do the job before us. I have been on the job just slightly less time than Chairman Robson, but have been looking at and learning quite a bit. I think the process can be made to work very effectively and look forward to working with him and you to do that.

Senator HAGEL. Is there a difference of philosophy between your two agencies about tied aid?

Mr. TAYLOR. I can just talk a little bit about the perspective of my agency. My understanding is that there are always some differences of opinion on particular cases, but that the general rules of the OECD and existing criteria for using tied aid are well known. They are documented on pieces of paper, which is the play book people use to make decisions.

What we try to do is use the resources that are available in the Tied Aid War Chest, to use them efficiently and judiciously to make sure that the playing field is level. That means that you have to consider each case separately to see whether there is follow-on business, to see what the size of this business is, and I can assure you there will be disagreements from time to time, but as long as we have a set of principles that we can look at, I think we should be able to work this out smoothly.

Senator HAGEL. My time is up, so I will come back on the next round and follow up on some of these, Mr. Chairman. Thank you.

Senator BAYH. Thank you, Senator Hagel. We have been joined by our colleague, Senator Corzine. Senator, I will give you a choice. I hate to interrupt the line of questioning, but if you—

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. I am very pleased to be here with you in your first hearing. And I also want folks to know that I feel very strongly about the Export-Import Bank's effectiveness as a tool to promote our exports. We are living with maybe one of the greatest trade deficits that has ever been created in the human mind, and

I am quite concerned about this pulling back. So I look forward to the testimony.

Senator BAYH. Thank you, Senator. We appreciate your leadership on this issue.

Senator Miller.

Senator MILLER. Chairman Robson, knowing you as I do from your distinguished tenure at Emory University in Atlanta, I know that you are not going to walk away from anything, as you put it. We just want to make sure you have the resources to do your job, and that is why I was so pleased with Chairman Bayh's opening questions.

I want to ask Mr. Taylor this, and please indulge me if I am getting into just the primer of this business, but in your statement you said the 2002 budget proposes a 25 percent decrease in program budget resources, in part to reflect lower estimates of international lending risks. I wish you would tell me a little bit more. Elaborate on "reflect lower estimates." Who measures that? And what if they are wrong? What happens?

Mr. TAYLOR. Well the job of estimating this lending risk is located at the Office of Management and Budget. There are lots of consultations that go on with respect to how to assess the risks, but the assessment of the risks determines the budget impact of U.S. financing programs, loans, or the guarantees, or whatever it happens to be. As the assessment of the risks comes down, it lowers the budgetary costs to support any given size loan or guarantee.

So the question of being right or wrong is really important for the future in making sure that the overall integrity of this process works well, but in terms of understanding whether, say, a half or more of the reduction in the budget can be explained by this change in rules does not depend on it being "wrong" or "right." It is basically a rule that is going to be used for this budget, and it is lower than previous budgets. So the same amount of money that is budgeted can be used to make more loans than in the past. That is the ultimate purpose of my statement.

Senator MILLER. Thank you. Mr. Taylor, Mr. Robson in his written testimony says that Ex-Im will look at a range for export credit demand, rather than a single export credit demand dollar amount. Then he goes on to say of course the range could be $11.9 to $14.5 billion. If the export demand were to be $14.5 billion instead of the $11.9 billion, which is what the budget request is for this year, and Ex-Im was unable to meet the need of the U.S. exporting community, what does Treasury say then?

Mr. TAYLOR. Well, the——

Senator MILLER. To your exporting community folks, are we saying we just do not quite have enough help?

Mr. TAYLOR. Well the hope with this budget is that it would be enough to satisfy the demands and needs. In any kind of budget you rely on forecasts and try to do the best you can. Sometimes you are off, but the purpose of the appropriation that the Administration requested is to take into account the fact that the same amount of money could go further, and that there are going to be some other adjustments to be more selective in the activity so that that would be sufficient funding. But it is always based on some forecast. In any year, whether the amount was larger or smaller—in fiscal year 2000 for example $811 million was allocated—and I believe that turned out to be sufficient. But, just like you are asking now, that could have been off, depending on how the demand actually evolved. But given the change in scoring that you asked about in your first question and given the assessments, this request should be sufficient.

Senator MILLER. One other question. This is along the line that Chairman Sarbanes was getting into about what we heard from Mr. Meany with Valmont Industries in Nebraska. What can be done about a situation like that? Why does the Treasury Department get to nix something that Ex-Im has said "yes" to? And should there be some way of arbitrating that?

Mr. TAYLOR. Well the Secretary of the Treasury, by legislation, has a role in this process. It is a role which is very important for a number of reasons, but one is that the negotiations take place at the OECD under the auspices of the Treasury. So the Secretary of the Treasury has some significant say, and having his advice being taken is very significant. It is very important for those negotiations to work properly. So the Secretary of the Treasury has a substantial role, and it is legislated as Senator Sarbanes indicated in his opening remarks.

In the case you are referring to, my understanding of the events is characterized as follows, there was a vote on this case at Ex-Im Bank. Before that vote took place, the Secretary of the Treasury indicated that he did not think that that would be a good use of the tied aid fund, considering the fact that the resources are scarce, and they have to be used efficiently to do the best we can to level the playing field. That was the Secretary's assessment.

That assessment was conveyed to the Ex-Im Bank Board, but even after that assessment there was still a vote by the Board to approve. After that vote was taken, it is my understanding there was a legal consultation as to whether that vote should stand, given that the Secretary of Treasury had previously recommended against it. The legal counsel was that it should not stand, and therefore Ex-Im Bank notified the firm that the tied aid credit would not be granted.

So that is the sequence of events. I do not know how you want to characterize it, but it seems to me that the Secretary of the Treasury did have the role of making the recommendation. He did so based on the information put before him in this case. And that is the sequence of events that occurred.

Senator MILLER. My time is about up, but if Ex-Im says yes and the Treasury says no, then there is not an appeal anywhere?

Mr. TAYLOR. The Secretary of the Treasury by legislation makes the recommendation and the decision by the Board should be taken in accord with those recommendations. So it is a very significant role for the Secretary of the Treasury and one that I think has worked very well over a long period of time. Again, I want to work with Chairman Robson to make this process work as smoothly as possible, but I think the legislation is there and it has worked effectively. I hope we can continue to make it work in that same way in the future.

Senator MILLER. Do you agree with that, Chairman Robson? Is Ex-Im's legal view the same as Treasury's?

Mr. ROBSON. It is my hope that this will be resolved on grounds of comity and getting the process to work, but the direct answer to your question is no.

Senator BAYH. That is a very direct answer, Mr. Robson. We appreciate that. Thank you, Senator Miller.

Senator MILLER. Thank you, Mr. Chairman.

Senator BAYH. Senator Dodd.

Senator DODD. Let me just pick up on my colleague from Georgia, because I think it is a very important point. I mean I guess I have always understood it as the role of the Treasury is a consultative role. Do you disagree with that, Mr. Taylor?

Mr. TAYLOR. I have to disagree with those terms without qualification because the legislation says that the decision should be made in accordance with the Secretary's recommendations. So there is consultation that takes place prior to the decision. But the views of the Secretary of the Treasury should be honored, and that is more than just a consultation.

Senator DODD. Of course you have only been on the job a few days, but I would be very interested in where you could point me to in the statute that is in effect a veto power. You make a recommendation to the Treasury you have to follow——

Mr. TAYLOR. If you would like to use that word, that is fine. I do not think we need to use that word, but I think the actual language is "in accordance with the Secretary's recommendations". That is a quote from the statute. Again, I agree very much with Chairman Robson. I want to work together with him. I do not want to think about this as something which is taken to a level at which we can not talk sensibly. But I think the language is pretty clear. It is ultimately a decision and discussion that will take place with our counsel. This has been the way it has worked for a number of years, and I do not really see a reason for a change.

Senator DODD. Well my suggestion might be, Mr. Chairman, as part of the reauthorization, I think there is a need for some clarity here. And maybe over the next week or two we can work on this. But certainly I think what Senator Miller has raised here, and raised by you and others, Chairman Sarbanes as well, points to a potential, sort of a train wreck potentially along the way here on this matter, and we need some clear lines or we are going to be inviting, it seems to me, a very disruptive process.

I mean this is vague, at best, in my view. Maybe I am a minority of one on this issue, but I hear very different responses to the same question from the Senator from Georgia. It seems to me we need some clarity on this. I see, Mr. Robson, you sort of want to say something so let me provide you the opportunity.

Mr. ROBSON. Well, without in any way changing my "No."

Senator DODD. Yes.

Mr. ROBSON. In answer to Senator Miller's question about whether I agreed with Mr. Taylor on his apparent position that the Treasury had the final say on Tied Aid War Chest use decisions, Congress clearly conferred on the Treasury a special consultative role, and we want to give substance to that. And as I said, I think what we need here is a new play book that is simple, practical, exporter sensitive, and can make this thing work. And I believe we can get there, and I know if John Taylor sits down with me that we can.

Having said that they have a special consultative role, I do not think that they conferred on the Treasury a veto power or the authority to impose kind of a moratorium on individual cases. But I would hope that that is not the resort in this case, because what we really need to do is work out a system of operations. And you have my commitment that we are going to start tomorrow to try to do that.

Senator DODD. I appreciate that. Because I gather, and I will stand corrected here, but I do not know if this is the only example we have ever had where this authority has been exercised?

Mr. TAYLOR. Senator, there have been many cases over the years where there has been a recommendation by the Secretary.

Senator DODD. I understand that.

Mr. TAYLOR. And to my knowledge——

Senator DODD. But actually one has been reversed.

Mr. TAYLOR. [continuing]. there has never been a case where his recommendation, specifically the recommendation of the Secretary of the Treasury, has been overruled, if you like, by an Ex-Im Board vote. So I think that is what is unusual here. It is really not appropriate to focus on this one case, however important it is, and it is very important and——

Senator DODD. Tell that to the Senator from Nebraska, that it is not that important.

Mr. TAYLOR. It is very important.

[Laughter.]

Mr. TAYLOR. I did not say anything except it was very important.

Senator BAYH. The Secretary corrected himself.

[Laughter.]

Mr. TAYLOR. And we will continue to work on that. But the process over the years has worked well, as I have been able to understand it and study it. There is a lot of progress that has been made.

Senator DODD. Mr. Robson made a good recommendation here. We need to just work on this a bit, and I think the Committee clearly wants to, Mr. Chairman. Let me, if I can, just jump to the budget question because this is clearly an important one, John. Having sat on this dais here now for 20 years—and through various Administrations where obviously OMB has the strong hand—and I am fully understanding of the role that people are charged with heading up agencies have and must bear in all of this, but I think it is important just for you to carry back in a sense—you are getting some sense of it already here in a bipartisan way of our concern about the budget issue.

I made the—I did not intend to make the mistake. This Export-Import Bank does not produce revenues, as such, except through the taxes that come in. It is self-sustaining in that sense. And it clearly does a tremendous job. Correct me if I am wrong, but I think it is a dollar leverages about 18 in the private sector. It is a phenomenal leverage. One dollar gets you 18.

In a sense of listening to my good friend's, the Chairman, math on this, he is absolutely right. It is about—I think if it was a loss of say between 932, last year's level, and 732 here, about $200 million, you are looking at about $4 billion potentially.

I just know from my own State's perspective, and hearing this from exporters and others, that at a time when we are in a global economy, competition is stiff, other countries of course engage in export financing—we are not alone in this regard—it is a very difficult environment we operate in. I just would like you to know from those of us up here that we are concerned about it. I know you are going to carry this back to the powers that be that you are hearing from a lot of us up here of ways in which we might be able to enhance the revenue package here so that we can contribute to an employment.

I mean the jobs alone, aside from the amount of business and the consumer habits, and obviously producing tax revenues, all of the positive things that occur from all this, there is a strong sense here that we might find some other places to pick up some resources.

So again I know you want to respond to this, and I will be happy to listen. There is a great deal of concern about the overall decision about a 25 percent cut. And I accept your math, that it does not have to be exactly that amount if you do some of the things you have properly identified. So it could be less than that. But even that worries some of us up here.

Mr. ROBSON. Thank you, Senator Dodd.

Mr. Chairman, may I just say that many of you were here when I had my confirmation hearing, and I said I would come back to you and give you my honest appraisal of the real world impact of the budget. And I feel like I have done that. I have told you what the resources would be. I have told you what they would support in terms of export credits. And I have told you a range of demand, and even a former English major like myself can figure out, do the arithmetic and figure out where you would go.

Now the range of demand is uncertain. It is not a perfect process, and you are obviously dealing with what happens out in the world, and whether some country falls out of bed, or a deal gets delayed, or whatever. But we have given you—I have given you as honest an appraisal as I can and feel like I acquitted the commitment that I made when you all were here for my confirmation.

Senator DODD. You did very well, John. No argument here at all with you. And as I say, I think you have been very creative with some of the things that may be done to actually minimize some of this, and I appreciate that very much.

Thank you, Mr. Chairman.

Senator BAYH. Thank you, Senator Dodd.

Senator Corzine—if I could just make one quick comment, Mr. Robson. What you are hearing from some of us is that we appreciate the range that you have given us. At a time when the trade imbalance is so large, many of us feel that we should be zealous and aggressive in promoting exports, not doing the bear minimum within the range. That is the concern you are hearing. We appreciate your efforts.

Senator Corzine.

Senator CORZINE. As I said in the opening remarks, I cannot do anything but underscore what Chairman Bayh just said. I do not understand this cut in the context of our current account deficit, which seems to grow each quarter, and is one of the gravest imbalances at least I see in the economy. I want to go back to one of the questions that Senator Miller raised with regard to the lower estimates of international lending risk.

Is that just a given and there is no challenge to that relative to real-world circumstances as we see it today? It strikes me that it does not meet with sort of the common-sense test of seeing the Japanese economy struggling and, in many views, deteriorating and the Asian economy which is quite weak. I do not see grave improvement in Africa. Given the macroeconomic conditions of the global economy right now, how can one presume that we are having lower lending risks?

Mr. TAYLOR. Well, Senator, the factors you suggest obviously are to be taken into account in these calculations, but all I can say is when you go through the arithmetic to make the assessments you get a lower estimate going of the risks forward for this fiscal year. Some of it has to do with projects. Some of it has to do with other countries. I think the main thing is, if you go through the whole arcane analysis, as John Robson described, you will find that these risk estimate are lower. But once they are lower, for budget purposes, then, the bottom line is a smaller amount of resources goes further for making the loans.

Once that risk estimation decision is made—and we can discuss that further, and I would be happy to provide any more information you would like about it—once that decision is made, then we are in the situation where a smaller amount of budget resources can give you the same amount of loans, or loan guarantees, as before. That is most important for the budget.

Senator CORZINE. I do accept that part. I just find it difficult to juxtapose real-world conditions with a conclusion that there is lower risk. And I do not think you would find that in the credit rating agencies assessment of credits. So it looks to me—and I was just talking to Senator Dodd—if you look where we are forgiving Third World debt, there are just too many anecdotal and real-world conditions to think that that rationale is complete, even though I know what its implication is for the budget fact. And I think again I tie that back to a macro concern about this growing current account, which does not seem to jibe.

Then 30 percent of these loans are going to small business, and that is the most difficult position for companies to be in the export business, and without having these resources. I do not know how we can promote that effectively. So it is more of a statement than it is a question, but I would be concerned with the analysis.

Mr. TAYLOR. Well, thank you. I will be happy to provide some more analysis to support it. One thing I might say is that the risks may be higher in certain dimensions as you indicate, but they can be lower from what they were when the analysis was previously done. So you are coming down from a very risky situation in the late 1990's with the financial crises in Asia and Russia. And while things can be improved tremendously, it is better than it was. That is what these budget figures are reflecting. But again, we will be able to give you the detailed calculations, if you like.

Senator CORZINE. Thank you.

Senator BAYH. Thank you, Senator Corzine.

Chairman Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman. I share the concern expressed by my colleagues by this cut in the resources for the Bank, but I also see this increase in fees, and the cut back in the amount of loan that would be financed, and so forth, these OMB proposals now as just an indirect way to reduce the activities of the Bank. Would they not in effect amount to that?

Mr. ROBSON. Well may I address that again, and I tried to make it clear, Senator Sarbanes, I think when you were not here, and that is all we have proposed is a very limited experiment to see what the impact may be on competition. We would try fee raising and coverage lowering on a very limited experimental basis, and then we would hopefully gather some data in that process and be able to come back to Congress and the export community and say here is what we found out.

But this is—and I hope, again I want to make a record of it—this is not a budget fix. This is a knowledge-gathering experiment in which we are going to try something that maybe would give us the opportunity to stretch our resources in the future if we found that there was not, in certain kinds of cases, a significant competitive downside.

Senator SARBANES. Well——

Mr. ROBSON. Intuitively you would say, gee, there has to be. But we do not know.

Senator SARBANES. [continuing]. I think I would be more sanguine about that if your starting point or your frame of reference was what are other countries doing?

Mr. ROBSON. That is certainly one frame of reference.

Senator SARBANES. To me that is in a sense the dominant frame of reference. Because if they were not doing anything, we might not do anything. In other words, if they were not—now the Berne Union, I am looking at a sheet here from the Berne Union of export credit activity. Of course I am not exactly sure how they define it, but in any event they have well ahead of us Japan, France, Korea, Canada, Germany, the Netherlands, Spain just behind us. Of course our economy is much larger than any of these economies.

So we know these other countries are doing very substantial things. It is the same thing with the Tied Aid War Chest. We would not have put it in if these other countries were not doing these things.

We put it in in order to be competitive with them, and also we thought if we had it they would be less likely to engage in these activities since in a sense they would lose out in the end. But it seems to me we have got to work within that framework.

Mr. ROBSON. Let me try to, if I may, Senator Sarbanes, bring that down to kind of a micro level. In private-sector transactions, I believe there are a number of cases where Ex-Im Bank fees are lower than other countries' comparable agencies charge.

With respect to sovereign transactions, I think all the OECD countries are pretty much on the same ground. That may not be the case, however, with respect to private sector transactions. It is one area that we felt we would take a look at.

Senator SARBANES. Okay. All right. That is a responsive answer. I wanted to ask both of you, this Committee established a Trade

Promotion Coordinating Committee as part of the Export Enhancement Act of 1992. It was designed to bring together all the agencies of the Federal Government involved in export promotion to improve coordination and develop a government-wide strategy to promote U.S. exports. It actually was provoked. We had about seven or eight representatives at the witness table from different departments and agencies when we were examining export promotion, and I remember asking them the question. These were the lead people in each agency on exports.

I asked them the question whether they knew one another, or whether they ever met together. Well first of all, they never met together. And a number of them did not know the other people at the table, which it seemed to me it was just an obvious statement of the problem right there on its face. So we have put together the Trade Promotion Coordinating Committee. They come in with a report every year. We treat it seriously in this Committee in terms of hearings, and we certainly intend to increase our attention to it.

The Commerce Department heads it up. Now Secretary Evans, I know, has an interest in it, because I have had a chance to talk to him. Ex-Im is the vice chair, I think, and Ken Brody, one of your predecessors, was very active. And the Treasury of course is part and parcel of it. I would just like to get from you all some view of how you see the importance of that Coordinating Committee and what it might do.

Mr. ROBSON. Well I might offer my view, and we had a conversation about this when we met before my confirmation, so I am not entirely unprepared. I have actually a draft of a letter on my desk to Secretary Evans asking whether he would be willing to turn the efforts of the Committee toward getting some broader data on the market window issue, which is something I think would be very helpful to us in looking forward as to what U.S. policy might be with respect to those entities. It is partly a matter, as John Taylor says, of trying to negotiate this down in OECD. But one of the ways you do that is by having facts, and I think it would be useful to hopefully use the resources of that 19 member group to help us gather those and pull together some data that would really be helpful. So that is one thing I have on my plate right now. And our intention is to participate in that actively.

Mr. TAYLOR. I have not yet been invited to a meeting of the Trade Promotion Coordinating Committee, so I cannot reflect on it from firsthand experience. But I think to the extent that it gives members of different agencies the ability to coordinate what they want to do in this area, it should be very useful. As I indicated, I am looking forward to coordinating my activity with Ex-Im bank as well as with the other agencies. But trade promotion remains a high priority. So any way we can do that more effectively is most welcome.

Senator SARBANES. Is there enough going on in the negotiations at OECD on tied aid credits, on untied aid, and on the market window issue to warrant a hearing on what is transpiring, or is not much happening?

Mr. TAYLOR. Well, as I indicated, I think it is a high priority for us to proceed in both of those areas. I would think at the right time, it would be useful to have a hearing on those items. As you know, both are growing in size, and if there is not some effort to contain them, they will be a problem like tied aid credits were before we developed rules and disciplines.

So I think it is a good idea. We have a great deal of focus on them already at the Treasury, and I would be happy to share that information in a hearing or any other way you would like.

Senator SARBANES. John.

Mr. ROBSON. I was just going to say I think on the tied aid side, it is really more of a question of enforcement than finding new agreements. Untied aid, as Secretary Taylor said before, is really tied aid in disguise. And I think again, it is really an enforcement issue where they do not have a formal link between the buyer and the donor of funds and the requirement that you buy the goods from the donor.

On market windows, I think that is something that ought to be addressed. What I do not know is whether we have adequate data in hand to be able to come before you and say here's what the facts are, here's what is going on out there. We hear a lot of allegations. I am not sure how supported they are by data.

Senator SARBANES. Thank you very much.

Senator BAYH. Thank you, Mr. Chairman. Second round of questioning. I have three very brief questions. Mr. Taylor, I would be interested to know, do you know what—this is with the lower, the risk analysis. Do you know what the date of that analysis happened to be? Date of completion?

Mr. TAYLOR. No, sir, I do not. The date of the completion of the study?

Senator BAYH. Yes.

Mr. TAYLOR. I do not know the date, no.

Senator BAYH. The reason I ask—forgive me, I have only been in Washington a couple of years, but the city is permeated with skepticism from time to time. I would be fascinated to know if the data in the study preceded or came after the submission of the budget request for the Export-Import Bank. Some of the telltale signs have been the number driving an analysis rather than the other way around.

Mr. TAYLOR. I will be happy to find that out for you. I do know that these risk assessment factors have implications for the entire budget. It occurs throughout cases where there are loans and loan guarantees. So it has implications not just for Ex-Im Bank. But I will get the timing for you.

Senator BAYH. No, I understand.

Mr. ROBSON. I can tell you that there is a lag. And the reason is that the budgeting process requires that the budget go forward. It is not changed every week to pick up what the latest bond rating may be. The risk assessment factors that OMB calculates prior to the submission of the 2002 budget were done significantly ahead of that time in order that, as John points out, quite a number of agencies would use those data in the submission of their budgets.

Senator BAYH. Perhaps it is a convenient coincidence that those things do happen. But was I interested to ask. A couple of other things I wanted to ask. With regard to tied aid, well, to either one of you, but particularly Mr. Taylor.

It is been my understanding that there have been disagreements in the past, perhaps not rising to the level of the Ex-Im Board actually voting to go in a different direction from a formal recommendation from the Secretary of the Treasury, but there have been differences of opinion, at least expressed at the informal level where the Ex-Im Bank has gone forward without the sort of outcome we have seen in this particular case. Can you comment on that? What was different about this case that rose to this level?

Mr. TAYLOR. I do not know actually, to be honest with you, what was different about this case. But I can tell you that in every case, there is interpretation of how the Administration's tied aid criteria are applied. My guess is that in this case, the members of the Ex-Im Board felt that the facts did fit the criteria of the use of the Tied Aid War Chest.

I believe it had to do with different assessments of the longer-term impact of this sale for, the firm from Austria, and its product, in that market. And there are differences of opinion about that.

But there are sometimes differences of opinion. I even understand that sometimes the Treasury Secretary has recommended the use of tied aid when the Ex-Im staff at least did not think it would be appropriate. I asked a lot of questions about this. I think it is a difference of opinion that because of the timing, and perhaps because of the transition, was not resolved. I have to say, we have to take that into account. The transition period is still on in many respects, and I was not on the job at that particular time.

But as I understand the process, we followed the procedures which we normally would do at the Treasury. The judgment was made by the staff and the Secretary reviewed it and made the decision that he thought was appropriate. Then the Ex-Im Board voted the other direction.

Senator BAYH. As one of my colleagues—yes, Mr. Robson?

Mr. ROBSON. I wasn't there either when this happened, and I do not want to play Monday morning quarterback, but I think the thing was badly mishandled. There is plenty of responsibility to spread around in the executive branch for it, and I apologize for whatever Ex-Im Bank contributed to the train wreck. And my goal here is to try to go forward.

It stemmed, as I said at the very beginning, from a breakdown in the relationship and the way the thing worked, and we are going to try to—and I think we will fix it.

Senator BAYH. Yes. I yield to my colleague.

Senator SARBANES. I want to be clear on one thing. It is my understanding that this was the first instance in which the Treasury negated an action in which the Ex-Im Board had approved it. Is that not correct?

Mr. TAYLOR. Senator, I would characterize it the following way, which I do not think is consistent with the way you put it. So let me just describe it the following way.

The Secretary of the Treasury recommended against the use of the War Chest for this particular case, based on the facts and a careful consideration. That advice, that recommendation was conveyed to the Board of the Export-Import Bank. Subsequent to that recommendation, the Board voted to approve the use of the Tied Aid War Chest funding. After that vote occurred, legal consultation proceeded to see if that was consistent with the legislation in which the actions of the Ex-Im Board are supposed to be taken in accordance with the recommendations of the Secretary of the Treasury.

Legal counsel from both the Treasury and Ex-Im Bank, it is my understanding, determined that it was therefore not legal or appropriate—I do not know what the word is exactly—for Ex-Im Bank to have voted that way. Ex-Im Bank itself notified the company that they would not be getting the support. So there was no subsequent action by the Secretary of the Treasury at any time that could be conveyed as an overruling. So that is the timing of events as I understand them and can describe them to you.

Senator SARBANES. Well, we are going to need to go back and check it out, because this doesn't correspond with the understanding I have received. Leaving to one side the argument of what the statute means and who has the ultimate authorities, it was my understanding that the Secretary of the Treasury was unaware that the Ex-Im Bank had voted unanimously to approve the project when he nixed it.

Mr. TAYLOR. Well, Senator, my understanding is that the Secretary made that recommendation before the vote was taken by the Ex-Im Bank.

Senator BAYH. This is an issue that needs to be resolved. We appreciate your ongoing efforts to resolve it between the two departments. I hope you can get that done. If not, it may be something we need to address within the context of reauthorization.

I just have two brief requests, John Robson, for you. First, I would be interested to see the legal analysis from your former counsel that reached this conclusion on the basis of somewhat ambiguous statutory language. I mean, it speaks of consultation in accordance with recommendations. And I understand the legal opinion wasn't formally adopted by your board but nevertheless was acquiesced in.

Mr. ROBSON. I do not think there has ever been a formal opinion given by the general counsel of the Agency on the subject. And indeed, I have requested one, and it is that work that led me to my answer to Senator Miller.

Senator BAYH. Then I have been somewhat misinformed. I was under the impression that there had been some legal analysis done in accordance with this case that we are talking about that was——

Mr. ROBSON. I think that there was a staff analysis done along the way, but I do not believe there ever was a formal opinion request to the general counsel which I have requested.

Senator BAYH. We will look forward to the results of that. Senator Hagel has been waiting very patiently. Oh, one final thing. I do look forward to the adverse economic impact analysis, and I appreciate your commitment to get that to us in a timely fashion.

Mr. ROBSON. We will, and it is something I have personally been spending time on.

Senator BAYH. I am grateful for that. Thank you, Chairman Robson. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you. May I pick up on a line of questioning here that we just went through, initiated by Chairman Sarbanes. Back on the Valmont case and the procedure and the process and where you were about 60 seconds ago. Do I understand that in fact the decision that was made at the Treasury was in fact made by the Secretary himself? This was not a staff decision or any part of that process up the chain on behalf of the Secretary. The Secretary was aware of it every step of the way, he made the decision and signed the letter to Valmont himself?

Mr. TAYLOR. The Secretary of the Treasury made the decision based on the information he had before him. He conveyed that information to his staff, who then conveyed the information to the Ex-Im Bank Board.

Senator HAGEL. So he made the decision himself?

Mr. TAYLOR. He made the decision himself, yes.

Senator HAGEL. All right. Thank you. I would be interested in your answer then to the question. Why, in your opinion, do you think it is important that Treasury have the final say, essentially the veto, on tied aid projects?

Mr. TAYLOR. I think there are several reasons why the Secretary of the Treasury should have the say. Number one, the negotiations at the OECD and the enforcement of the OECD process are handled by Treasury. One reason for that is, all the other players are finance ministries in this process. So that is the logical representation for the United States.

So for a negotiator to be talking about "we are going to do this" or "we are going to do that," and not to have the ability to call out the War Chest if it is necessary, makes the negotiating more difficult. It is a natural tie between the negotiations and the actual pulling of the trigger, if you like—the negotiator having the ability to pull the trigger.

The second reason I think it is important is that the Secretary of the Treasury has the responsibility for overall economic policy, international economic policy especially. In that context, these programs have implications for international economic policy. So that is a natural reason for the Secretary of the Treasury to be involved with this process.

Those are the considerations that were put into place. These are scarce resources. Well, we want to use them in the most effective way possible to lower the barriers to trade, to level the playing field. Given that this tied aid negotiation process is at the Treasury, it is the logical place for——

Senator HAGEL. Obviously the Ex-Im Board is not capable of making that decision.

Mr. TAYLOR. I wouldn't say that is——

Senator HAGEL. Excuse me just a minute because I am going to run out of time here. But I would like to get the Chairman's opinion on this. Do you agree with the Secretary?

Mr. ROBSON. Well, as I have already said, Senator Hagel, our view is that the Treasury has a significant consultative role to play in Tied Aid War Chest use. We do not think that extends to a veto power over individual cases or the ability to impose by some general rule a moratorium.

But I want to get back to what I started out to say, which is I do not think this issue is going to get settled in a lawsuit and I do not think it needs to. But down to the bare bones of what our view is of the respective roles, we want to give substance to the

Treasury's special consultative role. We do not think that extends, however, to a veto.

Senator HAGEL. But obviously in this case it did not work very well because it is more than a consultative role.

Mr. ROBSON. You know, with all due respect, and I wasn't here when this decision was made but—my sense is, and John Taylor may or may not agree with me—this thing got wrapped around the axle and just was badly handled.

Senator HAGEL. Well, in all due respect, Mr. Chairman, we know that. But what we are trying to do is move forward here.

Mr. ROBSON. I understand. So am I.

Senator HAGEL. And why is this not going to happen again?

Mr. ROBSON. Well, I think we can get a play book in place that is simple—and by that I mean enunciates some policy guidance that we are in agreement with. Second, establishes some mechanism to talk about individual cases which come up that may be interpretive. Nevertheless, in our judgment, the ultimate decision as to the application of that in an individual case would be with the Ex-Im Board.

Senator HAGEL. Well, unless you acquiesce to what Treasury thinks is important, and that is that the Secretary has the final decision in this, then you are not going to go any further. But we do look forward to the documentation that you are going to send forward here on how you intend to deal with it. Because you heard here this panel this afternoon talk about maybe a legislative remedy or we put some very clear definition in the law.

One last question if I could indulge the Chairman, for you, Mr. Taylor, what is really the criteria for granting tied aid? What is it in your mind that, for example, Valmont or any company comes and makes their case? Did they have to prove that they will lose the entire market, part of the market, follow-on market? Our colleague, Senator Dodd, said that the Valmont project was a small one, and he was about right, a little over $3 million. But the follow-on was $9 million, $10 million. It was an anchor, obviously, in a very important part of the world, which is the real value of these kinds of investments, as you both know. So what do they have to prove? They are going to lose all of that area or lose one or two projects? Would you define that?

Mr. TAYLOR. It doesn't have to be all of the area, but the important thing is that the effect of the subsidy has to be a factor in the follow-on business. So there may be follow-on business for other reasons. But the criterion here is whether that subsidy that is coming, in this case from Austria, would be the factor determining that follow-on business. If it were, that would be a significant factor. So that, perhaps, is where the differences of opinion were.

I think, Senator, you also mentioned that an important factor here is that this particular transaction was small by some measures relative to the whole market. This particular Austrian firm is not a large player in the world market, and these are scarce resources. So it is really not possible to use the War Chest every single time a relatively small case comes up. Otherwise, we will waste it and won't be able to be effective.

I will just give you an example. In January a much larger request to use $50 million tied aid—use of the War Chest, I should say—was determined, and that was a case in Indonesia. In that instance there was a very clear sense that there was a follow-on opportunity, in this case for Japan. So a much larger amount of the use of the War Chest came in that case, and Treasury analysis used the existing tied aid criteria to make that analysis.

So I think it is working. We are going to make it work better, and I feel it is my responsibility here as Under Secretary to make it work transparently, clearly, and to just make it work well. I think we can do that. I do think the process, if you look over the years, has done a good job in reducing the amount of tied aid, and that is what the War Chest is for. So I hope we can work together and make this whole process work.

Senator HAGEL. Well, I can assure you that this U.S. Senator will look forward to your response. And I suspect, like all my colleagues, we will reserve our judgment on what we intend to do next about this if it is not in keeping with the original mission and purpose of Ex-Im. Thank you.

Senator BAYH. Thank you, Senator Hagel. Senator Sarbanes, if I could just offer a piece of unsolicited advice, gentlemen. The next time you confront an unsettled area of law, I would suggest that you use as your test vehicle a company from a jurisdiction other than Nebraska.

[Laughter.]

Senator BAYH. Senator Sarbanes. Chairman Sarbanes.

Senator SARBANES. Well, thank you, Mr. Chairman. I have been learning more as I go. My understanding is that traditionally Treasury, Commerce, the USTR are at the Ex-Im meetings and state their recommendations with respect to matters that are before the Board for approval. That in the past, Treasury has recommended against certain loans, and the Ex-Im Bank Board has gone ahead and approved them, having the benefit of Treasury's recommendation, and that then those loans have gone into effect.

Now in this instance I am told that there was a—Treasury recommended against, as they had done on previous occasions. The Board went ahead and approved the loan. But Treasury then in effect with I think a very heavy hand said, well, now, you cannot go ahead with this loan. And that Treasury staff interacting with Ex-Im's staff in effect the end result was they sent the denial letter to the Nebraska company.

So it is a departure from what has transpired in the past. And the implications of it I think are quite far-reaching. Because if Treasury is going to be able to micromanage the Ex-Im Bank to this extent, in effect, you will be calling the shots in every instance on whether a loan ought to be approved, the specific shots. Not a sort of a policy framework for the Ex-Im Bank in order to support OECD negotiations or something of that sort.

So first of all, I think it is important as the two of you try to work this out to go back and just look at what the past history has been in terms of the practice. I would be interested if you would come back to us and say well this doesn't represent a departure, because it is generally seen as a departure, a substantial departure from past practice. And I think its implications, if you stop and think about it, are quite far-reaching.

Now there is a difference, of course. Treasury's always been very chary I think about using the Tied Aid War Chest, and the Ex-Im Bank has I think, at least under certain leadership, been more prepared to do so, and I think the Congress has generally been supportive of that.

And as Chairman Bayh said, this may well be a matter that we would have to try to address in the authorization process. Now it may not be, depending on how your discussions go. But I do think it is a matter of some consequence for the workings of the Export-Import Bank and the application of the Tied Aid War Chest and I think it is of great significance to our export community.

The amount of money was small. It is like Daniel Webster said. What was it? It is a small college, but there are those who love it. It is a small company, but there are obviously those who love it. But the implications of it I think are pretty far-reaching. Thank you, Mr. Chairman.

Senator BAYH. Thank you, Chairman Sarbanes. Gentlemen, thank you for your time. The record will remain open for further questions or statements from Members of the Committee. But other than that, this Subcommittee is adjourned. Thank you.

Mr. ROBSON. Thank you very much, Senators, one and all.

[Whereupon, at 4:23 p.m. the hearing was adjourned.]

[Prepared statements and response to written questions for the record follow:]

PREPARED STATEMENT OF SENATOR EVAN BAYH

The Subcommittee on International Trade and Finance meets today for the second of two important hearings on the reauthorization of the Export-Import Bank of the United States. I would like to begin by thanking Senator Hagel, the Ranking Member of the Subcommittee, for working with me on this issue.

At this second hearing we will hear testimony from two distinguished Administration witnesses: John Robson, President and Chairman of the Export-Import Bank and John Taylor, Under Secretary for International Affairs, U.S. Department of the Treasury. I welcome you both here today.

Newly confirmed as Chairman and President of the Bank, John Robson was formerly an investment banker with the San Francisco-based firm of Robertson Stephens. He also served as Deputy Treasury Secretary under former President Bush. I would like to thank Chairman Robson for providing testimony today regarding the reauthorization of the Bank's charter as well as other operational issues—such as tied aid financing, adverse economic impact determinations, and the impact of the proposed 25 percent cut to Ex-Im's budget.

The Subcommittee is looking forward to hearing Under Secretary Taylor's testimony on Treasury's views regarding the use of the Tied Aid Credit War Chest. Previously, Mr. Taylor served as a Senior Economist and then as a Member of the Council of Economic Advisers under President George H.W. Bush, and he was also a delegate to the Uruguay Round of trade negotiations.

The Ex-Im Bank was last reauthorized in 1997, and its charter expires on September 30 of this year. The Administration has sent Congress a request to reauthorize the charter for the next 4 years with no changes in its current operations. We have an opportunity today to review the Bank's effectiveness and respond to the Administration's request.

I look forward to working with Chairman Robson and the new leadership at the Bank on a speedy reauthorization and hope that certain issues will be addressed—such as the determination of adverse economic impact.

Indiana produces many things in the agriculture sector, the automotive sector, pharmaceuticals, consumer electronics, insurance, banking and a variety of others. But, we make more steel than any other State in the country. During the first Subcommittee hearing, we heard testimony from USX Steel Corporation on some of the competitive factors that exist internationally for steelmakers in a very competitive environment. That testimony brought to light the fact that there have been instances in which the Export-Import Bank has lent its support to exports that have helped foreign companies with a track record, indeed, ongoing investigations into whether they were engaged in illegal dumping into our domestic market.

The Export-Import Bank has a standard that is supposed to be enforced for assessing whether there is an adverse economic impact to the domestic economy from the activities that they are supporting. We have assurances that the Bank is going to look into how it implements the adverse economic impact test and report to us by July 13, 2001. I look forward to receiving that report, because it is important that we not inadvertently assist those who are engaged in illegal trade practices.

The Subcommittee will also address other charter issues that impact the effectiveness of the Bank—such as tied aid financing and market windows financing—in order to help our industries compete with officially supported foreign competition.

Some people favor a pure model of economics which would view the Export-Import Bank as essentially a subsidy that would be unnecessary in the give and take of free markets and free economy. My own view is that while that model has some merit in terms of economic theory, we do not live in a theoretical world. We live in a real world. We have to focus very carefully upon what it takes to enable our country to compete and to level the playing field, particularly at a time when many of our foreign competitors have financial support for their exports from their own governments. If our competitors offer their exporters assistance, so should we.

The magnitude of our country's trade deficit is a very big problem. At a time when our trade imbalance is so large that over time, it is going to threaten the vibrancy of our economy, we must do everything we can to close that gap, including promoting exports. Now is not the time to cut back—now is not the time for the Administration to cut the Export-Import Bank's budget by 25 percent.

The Export-Import Bank is important. We need to continue its function and make sure that it enforces its own regulations and, in so doing, benefits the American economy as it was intended to do. I look forward to the testimony we are about to receive from Chairman Robson and Mr. Taylor, and to working on the speedy reauthorization of the Bank's charter.

PREPARED STATEMENT OF JOHN E. ROBSON

PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

JUNE 19, 2001

I am happy to be here today to testify on behalf of rechartering of the Export-Import Bank for fiscal year 2002. Ex-Im Bank is a "sunset" agency. Our charter needs to be renewed by Congress by September 30, 2001. In this reauthorization, we are requesting a renewal of the Bank's charter for 4 additional years, through September 30, 2005.

We are also requesting that our Sub-Saharan Africa Advisory Committee be extended for 4 years. This advisory committee has offered valuable advice which has been instrumental in our ability to increase our business in sub-Saharan Africa.

I can assure you that I would not have accepted my position if I were not convinced that Ex-Im Bank is a valuable part of the U.S. economic arsenal. It is because working in partnership with business and labor, it keeps our exporters competitive, helps create good jobs for U.S. workers that pay above the average, and plays a role in reducing the trade deficit. This has been the task of Ex-Im Bank in the past, and with Charter renewal, the Bank will continue its vital work. It is a highly respected institution of long-standing, staffed by a group of dedicated professionals.

The Bank can also play an important role in advancing broader U.S. economic interests abroad. When we help to develop an export market, not only is there potential for follow-on sales, hopefully without Ex-Im Bank support, but we can help to hasten the development of lasting free market mechanisms.

When I talk of Ex-Im Bank's past, I am referring to a very special history. Since its inception in 1934, the Bank has had a unique role in our country's history. In 1939, the Bank helped finance the 717 mile Burma road in China. In 1941, the Bank approved financing for U.S. exports for the Pan-American highway in Central America and Mexico. In 1946, it authorized $2 billion for the reconstruction of Europe, and in 1948 it administered the funds for the Marshall Plan that rebuilt Europe after World War II and helped to establish the United States as a superpower. In that same year, it authorized $100 million for exports to the newly recognized state of Israel. More recently, in June of 1997, when private sector lending institutions backed out due to the Asian financial crisis, Ex-Im Bank stepped in to provide short-term financing that resulted in $2 billion dollars of U.S. exports going forward to Korea. This helped stabilize both Asia and Latin America in the wake of the crisis. The Bank is playing a role as Russia moves from a command economy toward a free market economy. In short, the Bank has a proud history of not only supporting exports and creating jobs generally, but also stepping in under circumstances where we can play a role in advancing broader American interests.

Ex-Im Bank Programs

Our basic programs consist of direct loans to foreign buyers of U.S. goods and services, guarantees of commercial loans to foreign buyers, and providing a number of transactional insurance programs that are of great assistance for short-term, small business sales. In fiscal year 2000, the Bank authorized $932.6 million in loans, $8.4 billion in guarantees, and about $3.3 billion in insurance, supporting a total U.S. export value of $15.5 billion. Since our last rechartering in 1997, we have supported approximately $60.2 billion in U.S. exports. For every $1 dollar of taxpayer money invested in Ex-Im Bank's program budget, there have been historical returns of $15 dollars in credit support for export transactions. Since Ex-Im Bank supports 85 percent of most transactions, this means that the actual export value is 15 percent higher, raising the ratio to $18 in total value of exports supported for every $1 of program budget.

Ex-Im Bank programs preserve U.S. jobs by financing exports around the globe from businesses of all sizes, large and small. And Ex-Im Bank's services are not free. In the past 5 years, we have collected $4.2 billion in interest and fees.

The Bank participates in financing export transactions in riskier markets where the private sector will not extend credit or will not meet the financing terms and conditions necessary to enable our exporters to offer a financing package that is competitive to exporters from other countries who are receiving assistance from their governments' export credit agencies. We try to reach out to small businesses and communicate with under served exporters in inner-cities and rural areas through speeches, briefings, seminars, local partnerships, and our internet site.

As our charter tells us, 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 U.S. exporters." And we operate within the policy that we only participate in financing an export where the private sector will not extend credit or meet the financing terms and conditions necessary to enable our exporters to offer a competitive financing package.

We take seriously the long-standing Congressional mandate in our charter that in approving transactions there must be a "reasonable assurance of repayment." And while we are not perfect, we do a pretty good job. The Bank continues to have an excellent repayment record, with losses running 1.4 percent of disbursements over our 67 year history. In the last 10 years, these losses have run at 3.4 percent of disbursements, which reflects the impact of the recent economic turmoil. It speaks well for our credit judgments and for our Asset Management Division, which does a very good job at recovering assets when a buyer gets into financial difficulty.

All-in-all, Ex-Im Bank represents a prudent, intelligent use of taxpayers' dollars. If we accept the widely embraced proposition that exports are important to U.S. economic health and jobs and acknowledge the facts of subsidized competition from our exporters' foreign competitors as well as the unwillingness of commercial banks to finance transactions in risky markets, the United States has basically three choices:

—We can withdraw, and leave the field to our competition at the cost of American jobs;

—We can engage in a constantly escalating export subsidy "arms race" with our competition; or

—We can do what we are doing now—give U.S. exporters a fair shot at meeting foreign competition and filling in where commercial banks will not, and simultaneously attempting through multilateral agreements to eliminate or limit government export subsidization.

Fiscal Year 2002 Budget Request

Mr. Chairman, my testimony to the House Appropriations Subcommittee on Foreign Operations was sent to you. This next part of my testimony draws from it.

In my confirmation hearing and in numerous individual conversations with Members of Congress, I was persistently asked my opinion of the Administration's budget proposal for the Ex-Im Bank. Since I had no participation whatever in the budget preparation, I was not sufficiently informed to have a useful opinion. So I made a commitment that when I testified on the Bank's appropriation, I would provide my honest appraisal of the effect of the Administration's budget request on Ex-Im Bank's ability to execute its mission.

What is most relevant in assessing the Administration's fiscal year 2002 program budget request of $633 million—and most important to the execution of the Bank's mission—is an analysis of what dollar amount of export transactions will the Bank be able to authorize based on those and other program budget resources which may be available to us in fiscal year 2002.

In other words, how much export bang from our available program budget bucks can the Bank get. If Congress and the exporting community understand this analysis they can make an informed judgment on the Administration's budget request.

Then, to make an honest appraisal of the real world impact of the level of the Bank's fiscal year 2002 program budget resources, we should compare the level of export credit authorization that those resources will support against the expected level of demand for export credit for the same period.

Before getting back to the numbers, I should address one critical point of budget methodology required under the Federal Credit Reform Act of 1990. I refer to the calculation by the Office of Management and Budget of the so-called "risk premia" cost that Ex-Im Bank must apply in using its program budget resources. The OMB calculation is reasonable, extremely complicated, and Ex-Im Bank does not challenge it. The risk premia, which are essentially a calculation of the level of credit risk a particular country, region and/or type of transaction represent, change from period to period. When they rise, it means that Ex-Im Bank has to set aside a larger reserve for its export transactions and thus spend more of its program budget funds to support a smaller level of transactions than when the risk premia are lower. The contrary is the effect—a bigger bang for our buck—when risk premia decrease.

With that backdrop, let me return to the fiscal year 2002 program budget:

1. With an appropriation of $633 million as the Administration has proposed, plus $90 million in additional program budget funds that we estimate will be available due to cancellation of prior year commitments, Ex-Im Bank would have $723 million in program budget funds available for fiscal year 2002.

2. While the $633 million appropriation request is a nominal 25 percent reduction from the $863 million appropriation for fiscal year 2001, the actual effect on the level of export credits the Bank can authorize is less because the OMB calculated risk premia for fiscal year 2002 have substantially decreased.

3. The Bank estimates that its total fiscal year 2002, program budget resources of $723 million ($633 million in appropriation plus $90 million in prior

year cancellations) can support about $11.4 billion in export credit authorizations. We make this "Bang for the Buck" calculation based on an historic average of about $15 in export credits authorized per $1 of program budget used.

4. We have projected the level of demand for export transaction credit for fiscal year 2002. Let me concede that the projection of future transaction demand is to some degree more of an art than a science. But the Bank's staff has reviewed the transaction "pipeline" carefully and identified specific projects and transaction which make up the estimate. While some of these might not be consummated or could be delayed, I am reasonably satisfied with the range of demand levels we are projecting.

5. Because of some uncertainty, rather than projecting a single export credit demand dollar amount, we have calculated a range. The low end of the demand range is $11.9 billion in authorizations, which is the past 4 year average. The mid range is $12.5 billion and the high end is $14.5 billion. While, again, this is not a certainty, we would look at $11.9 billion to $12.5 billion as the most reasonable range.

6. We have said above that the $723 million in fiscal year 2002 program budget resources can support $11.4 billion in export credit authorizations. If actual export credit demand exceeds that level, then the Bank's available resources would not support the higher increment of export credit demands.

The President's budget suggests the possibility of making up a gap between exporter credit demand and program budget resources by instituting changes in the way the Bank does business that would have the effect of reducing the cost, in terms of program budget usage, for export transactions. Examples of these changes would be to raise fees and/or lower the percentage of Ex-Im Bank's export credit coverage of a transaction from its current 85 percent.

Against the backdrop of Congress' mandate to administer our programs so that U.S. exporters are competitive with their foreign export credit agency assisted competitors, and in the absence of any reliable data as to the competitive impacts and other possible consequences of such program changes, I would only consider an orderly and cautious approach to any program changes to determine their impact.

An orderly and cautious exploration of the potential impact of such changes on the Bank's resource usage and U.S. exporter competitiveness could possibly illuminate ways in which the Bank could increase the firepower of its resources without adverse competitive consequences to our exporters. To that end, and with no opinion on what the data might show or specific architecture for the experiment in mind, I will consider conducting some very limited and carefully designed "clinical trials" for the purpose of gathering real world data on these issues. It would be my plan to work with the exporting community and Congress in designing these limited experiments and to make what data was revealed available to Congress and other interested parties. It could be a responsible means of generating some potentially constructive data for future policy deliberations.

Administrative Budget

Mr. Chairman, our Administrative budget is essential to our mission and I urge that our request be fully funded. For fiscal year 2002, we are requesting $65 million for our Administrative budget, an increase of $3 million, or 5 percent, over the fiscal year 2001 level of $62 million. The bulk of the budget, 85 percent, is accounted for by staff salaries, rent and supplies. The increase represents our continuing effort to improve our case processing and upgrading our information technology systems.

We want to improve our overall efficiency, decrease our case processing time, and expand our customer base by reaching greater numbers of small- and medium-sized businesses. This Subcommittee has previously been supportive of these objectives which are funded by the Bank's administrative budget. We are grateful for this past support, and hope that you will continue it.

We believe there are opportunities for improvements if we are able to employ technology for faster, more accurate exchange of information within the Bank and with its customers, the exporters. These are the changes that our competitors in Canada, Europe and Japan have already implemented, and if funded and implemented they will allow us to compete better with them.

The Administrative Budget and Small Business

These changes are important to our efforts to expand our small business support. In recent years, 86 percent of our total transactions have directly benefitted small business, mostly through our insurance and working capital programs.

In fiscal year 2000, we supported $1.8 billion in insurance for small business. One of the processes we are developing is the Insurance Automation Project, which will help us address problems in distribution, productivity, and risk management. The

Project is expected to use available technological solutions to address Ex-Im Bank's staffing and productivity constraints for expanding support to a targeted market of small businesses. It will help Ex-Im Bank to move from a labor and paper-intensive transactional level underwriting approach to more of a portfolio management approach, and from our current predominant reliance on brokers and direct sales to hopefully more of a technology-based acquisition focus. It will also enhance Ex-Im Bank's risk quantification and management, and provide increased levels of customer service support that are needed by smaller and less experienced exporters.

Implementation of the Project will require follow-on investment over the next few years. This is an investment we believe we should make if we want to support more small business exports.

Small Business

The benefits of the increased exporting the Bank makes possible extend to businesses of all sizes in almost all States. By the most recent data, nationally 96 percent of exporters are small- and medium-sized businesses. They represent 30 percent of U.S. merchandise exports by value. Ex-Im Bank tends to track this national average, since in fiscal year 2000 86 percent of our transactions directly benefit small businesses, and they consumed about 20 percent of our authorizations.

Small businesses account for most of the job growth in our country. We currently directly assist some 2,000 small businesses each year, but this represents just a small fraction of the small businesses which export. While we are making substantial efforts to expand our small business base, there is much more that needs to be done. Ultimately, the most cost effective 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 small business initiatives 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 Small and New Business Group (SNBG) 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, San Francisco, Newport Beach, and Long Beach, California. Since then, the SNBG has endeavored to meet the exporting needs of the small business community with superior customer service. This has included the establishment of an Emerging Market team to promote Ex-Im Bank products and services to small business in the minority, women-owned and rural communities. I would like to add that the results of a national survey conducted by the University of Michigan entitled the American Customer Satisfaction Index, which measures customer service ratings of public and private companies, show that Ex-Im Bank's customer service rating is a "70", which is "excellent" and compares well to not only other U.S. Government agencies but also commercial banks.

Business Development

Starting in 1998, we transformed to a much more proactive business development philosophy. We have:

—Changed our regional offices to outreach organizations with sales goals and objectives.

—Developed an Exporter Database, that includes approximately 200,000 exporting companies.

—Developed a Direct Mail campaign aimed at small businesses. We send more than 200,000 pieces of mail each year to exporters, building awareness of how the Bank can support their export financing needs. We have developed about 2,000 qualified leads for immediate sales follow-up with new contact management software.

—Developed a program of Nationwide Exporter Seminars, throughout the U.S. These have proven to be very popular and are large cost- and time-savers for exporters, since they do not have to travel all the way to Washington for our multiday seminars.

In addition, our regional offices have formed strategic alliances with our partners in the U.S. Export Assistance Centers (the Department of Commerce and the Small Business Administration) to facilitate small business outreach; we are in the process of overhauling our web site to make it more user-friendly and logical; and we are utilizing more than 100 partnerships with trade associations and our City/State partners to reach small businesses at the local level.

We have increased our efforts to promote activities linking Ex-Im Bank with the Congress, State and Federal agencies, and trade promotion groups. For example, Ex-Im Bank trade briefings have been coordinated for 10 Members of Congress.

These are joint efforts between Ex-Im Bank's City/State partners, local Chambers of Commerce, and the offices of various Senators and Representatives.

Export Credit Insurance

Mr. Chairman, our export credit insurance which covers political and commercial credit risk is the primary tool that supports small business. 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 (STCS) designed to achieve greater transparency, predictability and consistency of application outcomes for small business exporters under the short-term insurance program. With the STCS, 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 STCS is an improvement in application turnaround time.

Small Business Product Enhancements: At the same time the STCS 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:

—We have extended the use of Enhanced Assignments, which transfer the risk of exporter performance from the commercial bank lender to Ex-Im Bank and make transactions more "bankable".

—Reduced the Minimum Annual Premium for small business (and other applicants as well).

—Expanded use of delegated authority to small business exporters.

—30–40 percent broker commissions for small business: To encourage greater broker participation in marketing and selling Ex-Im Bank's short-term insurance, the Bank increased the commissions to be paid to brokers specializing in small businesses.

—Threshold increase for small business from $3 to $5 million: Ex-Im Bank 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.

—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. This simplifies pricing for the small exporter.

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 fiscal year 1998 to $588.3 million in fiscal year 2000, an increase about 52 percent. About 88 percent of these transactions support small businesses. In addition to the hard work of our staff, this increase has been made possible by some program changes:

—Simplified documentation.

—Greater use of delegated authority which is, in effect, a limited credit line Ex-Im Bank extends to qualifying lenders who may commit our guarantee for working capital loans. This allows lenders to conclude qualifying transactions on their time and with their resources, not ours.

—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.

Because of the way our budget expenditures are calculated, the direct impact of the reduction in our program budget on small business will not be great. However, small businesses make a large contribution to the exports of large companies.

Looking Ahead

Mr. Chairman, much of my testimony has discussed what our history has been and examined current policies. But even more importantly, in a time of rechartering, we have to look to the future. We have an idea of where some of the challenges are, and I want to discuss these issues.

Tied Aid

Tied aid is essentially highly concessional foreign assistance conditioned on the purchase of goods and/or services from the donating country. This combination has the effect of injecting a grant element into trade finance by lowering interest rates, lengthening terms, or both.

As the United States has long taken the position that aid in any form or amount should be used only for development—not commercial—purposes, the ultimate objective of the United States as regards tied aid is to discourage its use. During the early nineties, the United States had success in controlling the use of tied aid through negotiations at the OECD on rules and procedures. From 1992 to 1997, tied aid use fell from roughly $10 billion to around $3 billion. Moreover, several countries effectively "dropped out" of the tied aid game. For instance, Japanese tied aid dropped from several billion dollars in the early 1990's to literally zero in 1997.

Since 1997 there has been an increase in tied aid, which reached roughly $5.5 billion in 2000. However, this increase is entirely due to higher tied aid levels from Japan, which seems to have made a policy decision to be much more explicitly commercial in all of its aid giving. Levels of tied aid from all other major donors continue to decrease. For these other countries, we must maintain vigilance against the occasional use of tied aid for commercial advantage.

In this context sits the Ex-Im Tied Aid Matching Fund. Established in 1993 to provide muscle for negotiations and a block to the more egregious commercial impacts, it has seen episodic use during the 1990's—totaling a little over $100 million (supporting some $300 million in exports). One continuing issue is the use of War Chest funds.

There needs to be continued scrutiny of tied aid resources and we need to gather more data to determine the extent of evasion of the OECD rules.

Increasing Use of the Private Sector

In fiscal year 1992, 32 percent of Ex-Im Bank's transactions involved the private sector. In fiscal year 2000, 55 percent were private. The fact that many economies are privatizing is good news, but it does complicate our job, because we now have to analyze the credit risk posed by many private buyers as opposed to a relatively few sovereign buyers. Moreover, we have to do this analysis for many more countries, as we open in new markets around the world. Trade relations between countries have become more competitive and complicated. This is the world U.S. exporters are facing, as they compete with the exporters of other countries and the export credit agencies which help them.

New Markets and New Initiatives

Over the past few years, Ex-Im Bank has made a concerted effort in expanding our support to U.S. exporters in new and revitalized markets such as Mexico, 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.

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. Whereas in 1998 the Bank authorized approximately $56 million to support U.S. exports, it authorized $589 in 1999 and $914 million in 2000. And while the figures in the last 2 years may be abnormally high due to especially large transactions and may go down this year, we are determined to continue our efforts to support sales to this area.

In Mexico, where exporters are doing a growing business, our exposure is about $4.4 billion, our second largest. Future prospects there look bright given further capital expenditure needs and the new policies being proposed by President Fox.

The Bank is also developing tools to enter new marketplaces as well as to expand in old markets. For instance, in August of 2000 the Bank announced a new subsovereign program that will help foreign borrowers with municipal, State and provincial support gain access to Ex-Im Bank financing. In the future, through our own efforts as well as the invaluable assistance of the U.S. Trade Representative, the

Department of Commerce, and others, we hope to expand our availability to many new markets.

New market mechanisms are also being developed by other countries. One, "market windows," are State-owned institutions which claim to operate on a commercial basis in the province of trade credits and thus arguably outside the disciplines imposed by the OECD Arrangement. These institutions benefit from many indirect subsidies. For instance, they may pay no taxes or they may borrow with government backing. Canada and Germany are the primary users of this new financing concept through the Export Development Corporation of Canada and KfW of Germany. Market windows are a condition of today's marketplace and are growing.

One of our jobs at Ex-Im Bank is to examine important policy issues. In this case, we need to see if the OECD rules of engagement are being affected, or perhaps even evaded. We will be pulling together data on this issue to educate ourselves, formulate a position for use in the OECD if necessary, and bring back information to the Administration and Congress.

On all of these issues, we will continue to gather data on a broad basis in order to be helpful to ourselves and the Congress as we work together to determine exactly what is occurring in the changing international marketplace. To this end, we are willing to commit some of our resources to a major research effort.

Economic Impact

I am keenly aware of the Bank's obligation to examine economic impact. This issue is at the top of my agenda, and it has produced great interest in Congress and the exporting community. We are reworking our economic impact guidelines. We are going to include Congress, the exporting community, and labor in this process. A draft of our report should be available shortly.

Environment

In 1995, at the direction of Congress, Ex-Im Bank adopted a comprehensive environmental policy, that included a program to support environmentally beneficial and renewable energy exports and adopt a set of environmental procedures and guidelines applicable to its support of foreign projects. This was in recognition that the United States 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 emphasize U.S. Government support for environmental technology exports, thereby enhancing 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 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 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. The Export-Import 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.

As you are probably aware, these negotiations in the OECD are on-going. The Export-Import Bank believes that we have to arrive at an international policy that "levels the playing field" for our exporters. Our competition should agree to specific standards, assessment in sensitive cases, and transparency. The Congress has laid out the path for us to follow, and we are pursuing what is right for the environment and our exporters, and thus right for the agency.

Cofinancing

Let me now turn to the subject of cofinancing. Cofinancing 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 ECA.

The U.S. exporter enhances its competitiveness by offering foreign buyers the administrative simplicity of a seamless cofinancing 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 U.S. exporter that demonstrate compliance.

The Bank currently has a bilateral agreement with ECGD of the UK and is ending discussions with EDC of Canada. Other ECA's—most notably Coface of France and Hermes of Germany are on the horizon to sign bilateral agreements also.

Mr. Chairman, that concludes my testimony. I will be happy to answer questions.

PREPARED STATEMENT OF JOHN B. TAYLOR

UNDER SECRETARY, INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

JUNE 19, 2001

Thank you for the opportunity to discuss the reauthorization of the Export-Import Bank (Ex-Im) of the United States. Treasury has an important role in the formulation and implementation of policy related to Ex-Im and I look forward to working with Ex-Im's new chairman, John Robson, in this regard. Treasury works closely with Ex-Im to ensure that international financing rules are developed to limit the scope for foreign export financing subsidies. Treasury also works with Ex-Im to ensure that its programs and policies are consistent with the U.S. Government's broader international economic and financial policies. Treasury chairs the interagency National Advisory Council (NAC) that reviews U.S. international economic policies and also individual Ex-Im transactions.

The Administration supports a clean reauthorization bill without amendment. It is important for the Administration to have time to assess the institution and draw its own conclusions about how well Ex-Im works in supporting U.S. exports, and what, if any, adjustments to its charter may be necessary. The request is for a 4 year reauthorization; if, in the course of our analysis, we conclude that changes in its charter are necessary, we are prepared to seek additional legislation.

The purpose of Ex-Im is to aid in the financing and promotion of U.S. exports, which are a vital component of the U.S. economy. Ex-Im accomplishes this objective in several ways: it assumes commercial and political risks that exporters or private institutions are unwilling to take; it assists U.S. exporters to compete on a level playing field when faced with government-subsidized foreign export credit competition; and it provides leadership and guidance in export financing, especially for small- and medium-sized U.S. exporters.

The 2002 budget proposes a 25 percent decrease in program budget resources, in part to reflect lower estimates of international lending risk. This means that Ex-Im will be able to support more exports per budget dollar than in the past. The Administration believes that Ex-Im can continue to support exporters facing subsidized competition through policy changes that further target assistance on exporters who cannot obtain private sector financing when competing with foreign subsidies. It is important that Ex-Im's programs foster greater levels of unsubsidized competition in the international market for exported goods, where U.S. companies will be able to compete freely and most successfully.

Exports have been one of the key engines of economic growth in the United States over the last two decades as globalization has accelerated. Our export growth in recent years has outstripped domestic growth, and exports have risen as a share of GDP. The U.S. jobs that exports generate are, on average, higher skill and higher wage jobs than in the economy at large. These trends will continue in the future so exports and Ex-Im will remain a high priority for the Administration.

Ex-Im advances the Administration's pro-export agenda in two very specific ways. First, it ensures that the official export credit agencies (ECA's) that other governments have in place do not provide foreign exporters a competitive advantage in international export competitions Second, because Ex-Im exists, the United States has a seat at the international table that sets rules for how official export financing operates. These rules are made in the OECD by the countries that are the Participants to the Arrangement on Guidelines for Officially Supported Export Credits (Arrangement). This is an arrangement among nations that provide the vast bulk of official export financing for capital goods to developing countries. These rules, which are embodied in the OECD Arrangement, are critical to ensuring that the export financing provided by governments promotes market principles and fair competition.

U.S. Export Financing Philosophy and the Role of the OECD Arrangement

Reducing export financing subsidies is critically important from an international policy perspective because they distort trade in favor of firms in those countries offering subsidies. By distorting trade flows, they also distort the global allocation of resources and reduce international economic efficiency. Moreover, subsidized exports disadvantage U.S. exporters because other governments budget proportionately more resources for export subsidies than does the United States.

Limiting these subsidies is also extremely important from a budget point of view. Simply put, these subsidies drain the budget.

The OECD Arrangement embodies agreed rules that provide international financing disciplines. The Arrangement plays an important role in the overall U.S. strategy to promote free trade by reducing export subsidies in the international arena. It complements the WTO antisubsidy rules—specifically, by reducing export-financing subsidies. The United States has used the Arrangement to build an international rule-based system of limits on export subsidies.

The WTO does not restrict the use of aid-financed subsidies because resource transfers to LDC's are important for their development. The United States uses the OECD Arrangement to ensure aid-financed subsidies are really development aid and not export promotion in disguise.

Treasury leads the U.S. delegation to negotiations of the OECD Arrangement. Finance Ministries normally lead this OECD policy-making body. Ex-Im's representative sits next to Treasury in virtually all OECD negotiations.

Let me provide two examples of how the OECD Arrangement limits subsidies.

Limits on Interest Rate Subsidies

Under an agreement negotiated in the 1980's, the Arrangement ensures that interest rates offered by ECA's are full 100 basis points above the cost of funds to governments. This means that exporters compete on the basis of the quality and pricing of their goods and services, and not on the basis of the most favorable officially supported financing terms. It also reduces the likelihood that commercial banks are systematically undercut by subsidized financing. Annual appropriations that Ex-Im now requires for any given level of exports are hundreds of millions of dollars lower than they would be without these disciplines on interest rate subsidies.

Reductions in Tied Aid

The OECD Arrangement also limits the use of tied aid. Tied aid is subsidized financing that is offered in the name of economic development but is tied, or linked, to procurement from a firm in the donor country. For instance, tied aid is offered by the Japan Bank for International Cooperation. Tied aid can arbitrarily close markets to efficient exporters, and misallocate global resources.

The benefits of negotiating and enforcing international restrictions on the use of tied aid are clear. In 1991, before the OECD tied aid rules, traditional tied aid donors reported almost $9 billion of tied aid. In 2000, these same donors reported only $1.8 billion of tied aid—an 80 percent reduction. (These tied aid figures overstate the actual volume of tied aid flows. These tied aid figures are based on OECD notifications of intended offers of tied aid. A significant number of these credits have been deemed ineligible for tied aid under the OECD Arrangement and abandoned.)

When one adds in the tied aid now offered by Japan, the figure for overall tied aid is approximately $5.5 billion. However, the Japanese component of this figure appears to represent a shift from one type of potentially trade distorting aid—untied aid—to another—tied aid. From a policy perspective, this shift in Japanese aid has not increased the overall amount of potential trade distortions but shifted it from one official category to another. Therefore, this shift does not offset the large reductions in trade distortions achieved in the programs of the traditional tied aid donors.

Tied aid is now focused on the poorer LDC's, those with per capita incomes below $3,000 annually. Wealthier countries like Mexico, Korea and Malaysia are no longer eligible for tied aid. Tied aid is now virtually nonexistent in projects for manufacturing, power (thermal and hydro), oil and gas pipelines, telecommunications, and sophisticated air traffic control equipment. This has opened up these sectors to U.S. exporters to compete for commercial contracts. Treasury has previously estimated that as the result of reducing tied aid trade distortions, U.S. exports are higher by $1 billion a year than they would have been without the Arrangement disciplines.

To better appreciate the success of this policy, if the United States had been required to compete for these additional exports using tied aid instead of having negotiated OECD restrictions for tied aid, Ex-Im would have required about $300 million annually in additional appropriations—a cumulative total of $2.4 billion of additional appropriations since 1993, the first full year of implementation of the tied aid rules.

The OECD tied aid rules have been tremendously successful in significantly narrowing the scope for tied aid—thereby reducing trade distortions, leveling the playing field for U.S. exporters, reducing budget pressures, and promoting a much more appropriate use of aid resources.

Treasury continues to work very closely with Ex-Im on tied aid issues. This work includes negotiating Arrangement agreements, implementing and policing these agreements, and ensuring that tied aid that meets the OECD rules is not being used to undermine the long-term competitiveness of U.S. exporters for commercial sales. In carrying out our tied aid work we also work closely with Ex-Im in use of the Tied Aid Capital Projects Fund (War Chest).

Future Plans

With tied aid significantly disciplined, Treasury is now focusing on two new forms of trade distortions that arise in export financing: untied aid and market windows.

Untied Aid

These distortions can occur even if aid is not legally tied to donor country firms—the case of so-called "untied aid." Currently, untied aid is exempt from the tied aid rules solely because the donor government does not directly tie procurement to its firms. With untied aid, procurement is effectively tied to firms from the donor country in a variety of less direct ways. The requirement that the aid recipient use the design and engineering work for a project provided by firms in the donor country biases the choice of technologies in favor of donor firms. Similarly, the requirement by the donor that one of its firms run the bidding process, including qualifying bidders, evaluating bids, and awarding bids, can create bias in favor of firms from the donor country. Finally, the aid relationship itself encourages the recipient to reward the donor by selecting its firms in an effort to ensure the continued flow of this aid financing in the future. Nevertheless, in spite of these biases, untied aid remains free to finance projects that tied aid cannot—including commercially viable projects, and projects in countries with per capita income above $3,000.

There are no OECD rules on what procedures, practices and procurement results constitute untied aid—de facto—for purposes of being exempt from the tied aid disciplines intended to open markets and reduce trade distortions. U.S. exporters are concerned that untied aid programs are not always freely available to finance exports from other countries calling into question whether untied aid should continue to be exempt from Arrangement rules that govern the proper use of aid.

Without Arrangement disciplines, untied aid can be used to circumvent the tied aid rules and distort trade and misallocate global resources. Perhaps more importantly, without disciplines on untied aid, existing tied aid donors could "untie" their aid programs and escape the existing tied aid disciplines. This would put the United States back in the situation we faced in the early 1980's when aid was used to systematically distort trade. In fact, there is a strong financial incentive for tied aid donors to "untie" aid because the minimum concessionality—the budget sacrifice—required for untied aid is approximately half that required for tied aid—about 17 percent vs. 35 percent of the credit is value. Therefore, untied aid requires no more budget sacrifice now than tied aid did prior to Reagan-era OECD negotiations that increased these concessionality requirements.

Recognizing the many indirect biases in procurement decisions that can arise with untied aid financing, Treasury formally proposed in the OECD to extend the highly successful tied aid disciplines to untied aid. This would ensure that tied aid and untied aid are available for the same types of projects in the same countries. Treasury is now working to build support within the OECD for this proposal.

Market Windows

Market windows are another threat to the longer-term integrity of existing OECD disciplines. Market windows are quasi-official institutions that support national exports. The two largest are KfW of Germany and EDC of Canada. Because Market window institutions purport to operate as private sector actors, there is currently no agreement in the OECD to discipline them or to provide transparency concerning the terms and conditions of this financing. Treasury plans to begin a major push in the OECD on Market window transparency this Fall. We also will work with Ex-

Im and OMB to undertake our own analysis of Market windows. We will then work to design and negotiate appropriate Arrangement disciplines for these institutions.

Conclusion

In summary, in this testimony, I have tried to review the role of Treasury in working through the OECD and with Ex-Im to reduce the amount of trade distorting subsidies in the world. We at Treasury look forward to working closely with Chairman Robson—a former Deputy Treasury Secretary—to look for and reduce new forms of export financing subsidies and trade distortions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BAYH FROM JOHN E. ROBSON

Q.1a. With regard to OMB's proposal for "greater risk sharing," doesn't this really amount to a reduction in maximum portion of a transaction which the Bank would finance, leaving the exporter to find more financing from other sources?
b. Do you have any evidence that commercial banks would be willing to pick up a larger portion of export transactions in emerging markets?
c. If commercial banks would be unwilling to pick up a greater share of an individual transaction, wouldn't this effectively kill off export opportunities for U.S. companies?

A.1. Ex-Im Bank does not have sufficient evidence to draw a reasonable conclusion on whether or to what extent the private sector has the capacity to pick up a larger portion of export transactions in emerging markets. The Bank is in the process of gathering data on this issue to establish a factual basis for its conclusion. However, Ex-Im Bank believes that a lack of appetite for emerging market risk by the private sector could limit private sector support for U.S. exports and make obtaining financing of U.S. exports relatively more difficult.

Q.2. The Bank's statutory charter carries a fundamental directive to the Bank: that its financing policies must be competitive with other export credit agencies.
a. Has any study been done of how the OMB proposed policy changes (that is higher fees, reduced cover) would square with the policies of other export credit agencies?
b. If not, doesn't that put these OMB proposals in a potential conflict with the Bank's competitiveness mandate?
c. What will you do to resolve this conflict?

A.2. Since implementation of the new OECD fee system on minimum fees in April of 1999, the OECD has been operating in a new world. The point of the fee system is that cover and price are flip "sides" of the competitiveness "coin," when cover goes down/up, fees go down/up and competitiveness is maintained. There is limited data available, but so far it indicates that there may be some room in the nonsovereign area to raise fees or reduce cover without significantly affecting competitiveness.

Q.3. According to data from the Berne Union, in 1998 the Bank's volume of business ($13.8 billion) ranked it only 7th among the 47 Berne Union members. Total export credit volume that year was $488 billion.
a. Isn't Ex-Im Bank already far behind what other ECA's are providing to their exporters?
b. Doesn't that disparity, between Ex-Im Bank and other ECA's, affect the competitiveness of U.S. exporters?
c. Wouldn't the proposed OMB cut further reduce the Bank's competitiveness against other ECA's?
d. Wouldn't you agree that the Bank should be measured against the performance of other ECA's, both in terms of volume of finance and in terms of financing policies?

e. Would you provide the Committee with the latest data from the Berne Union (which the Bank gets quarterly from the Berne Union) on how Ex-Im Bank stacks up against other ECA's?

A.3. The Berne Union is an association of about 50 export credit insurance agencies from about 40 different countries. Its members include both private and public export credit agencies. Included within Berne Union activity data are substantial amounts of short-term export credit insurance, much of which is provided by private companies at their own risk or by mutualization of all short-term insurance within a government program (Japan).

Thus, Berne Union data on total activity is not the best comparison of official export credit competitiveness.

Ex-Im Bank gauges its competitiveness by comparing its medium- and long-term program—not volumes—with its G–7 counterparts. (The G–7 export credit programs comprise, on average, 85 percent of the medium- and long-term official export credit activity of the OECD countries.) Comparisons of medium- and long-term activity are significantly influenced by the fact that, unlike its G–7 counterparts, Ex-Im Bank is mandated not to compete with private commercial banks.

Q.4. Last year, Secretary Summers stated that the United States could not stand by and watch a small number of countries undermine the OECD arrangement on market windows. He stated, "Practices that involve the unilateral reinterpretation of multilateral rules undermine the effectiveness of the Arrangement and the competitiveness of U.S. exporters and financial institutions."

Summers indicated that while he hoped that these problems could be resolved on a multilateral basis, the United States was ready to act unilaterally if other countries were not. He also indicated that the U.S. Government has both the responsibility and the tools in hand to protect U.S. exporters from unfair practices that undermine their competitiveness, and the U.S. Government can and will act if multilateral negotiations fail.

According to the Bush Administration, what should the policy of our Government be with respect to these market windows? What does the new Administration plan on doing to address this issue?

A.4. There is no OECD Arrangement on market windows so we are hoping to get to the table to negotiate this issue. In the meantime, we have asked the Trade Promotion Coordinating Committee to gather data on the problem.

Q.5.a. Does the Bank have the tools it needs to protect U.S. exporters against market windows?

b. It has been requested that language in the Bank's charter reauthorization be included to the effect: "The Bank in its financing policies shall provide financing that is fully competitive with that provided by export credit agencies of other nations, including market window transactions in any market."

How would this change help the Bank protect U.S. exports against market window activities?

A.5. While this would clearly authorize the Bank to counter foreign market window offers, we do not believe that adequate data exist to assess this problem. We have asked the Trade Promotion Coordinating Committee to gather the necessary information. In fact, rushing in to create such U.S. financing capacity in advance of this information would signal to others that the United States is creating its own market window, and could thereby exacerbate the problem rather than contribute to a solution. Such a signal would likely encourage the proliferation of market windows as others would create such institutions to protect themselves. Once market windows proliferate, a negotiated solution to discipline their activities (if deemed necessary) will be much harder to achieve.

Q.6. As you are aware, the Export-Import Bank is required to conduct an economic impact assessment to determine whether a loan or guarantee would have a negative impact on U.S. production and employment. In setting forth the procedure for conducting the economic impact analysis, the Bank's "Policy Handbook" states that based on the legislative history, "the likelihood of a project going ahead with the support of non-U.S. suppliers is not to be considered in the analysis of net economic impact on the United States." The Bank's own policy is clear: it should assess the potential adverse effect of a loan on U.S. production and employment and not the possibility that a foreign producer might otherwise supply the project if the Bank does not approve the loan. Despite this policy, in approving the loan for the Benxi Iron and Steel Company in China, the Bank stated as a factor for approval of the loan that "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." This statement appears to be in conflict with the Bank's own policy guidelines. We do not want to be in a position where the Bank is funding projects that will lead to increased global oversupply and injury to U.S. workers and businesses.

What can we do in the Bank's reauthorization to make more certain that it will strictly adhere to the proper rules for making the economic impact analysis?

A.6. Ex-Im Bank is currently reviewing our economic impact procedures and policies and has made proposed revisions to these procedures widely available for comment by Congress, labor, industry, exporters and banks and other interested parties. Our objective in proposing revisions to the Bank's economic impact procedures and obtaining broad public comment on the proposed revisions is to make it more certain that the Bank's procedures fully reflect our statutory mandates, are methodologically contemporary and are responsive to the rapidly changing dynamics of the domestic and global economies. Because the Bank's procedures will need to evolve in the future with further changes in the domestic and global economies, we do not believe that further legislative language is necessary.

Q.7. Do other Export Credit Agencies go through a periodic reauthorization process, such as the one Ex-Im Bank is now going through? If yes, how often. If no, what impact does this process have on Ex-Im's ability to be competitive and its perceived reliability in the international marketplace.

A.7. No other ECA has periodic reauthorization or a sunset situation. Most ECA's, like all government agencies, are subject to a review process every 5 to 20 years which may significantly change practice.

In terms of competitiveness, Ex-Im Bank feels that the Bank's reauthorization process has little effect on our ability to be competitive. Other ECA's are well aware that this is standard operating procedure for us and that the Bank has been regularly reauthorized over its 75 years.

Q.8. Recognizing that it is wise not to have the reauthorization process occur in a transition year, would the Bank support a 5 year extension, rather than the 4 year extension recommended by the Administration?

A.8. Ex-Im Bank supports a 4 year reauthorization as well as a 4 year extension of the sub-Saharan Africa language contained in our charter.

Q.9. The Export-Import Bank is required by law, as made clear in its own policy guidelines, to assess whether its loans are likely to cause substantial injury to U.S. industry, and not to extend such support if it would have an adverse impact on U.S. production and employment. Nevertheless, the Ex-Im Bank in January approved a loan guarantee for a project that will increase by 1.5 million metric tons hot-rolled steel capacity at the Benxi Iron and Steel Company in China. This decision was made at a time when the already existing excessive foreign steel capacity has been dumped into the U.S. market causing the loss of over 20,000 steel industry jobs. Further, the loan was extended over strong opposition from Members of the Administration. Former Secretary of Commerce Norman Y. Mineta wrote to the Ex-Im Bank in vigorous opposition to the loan; former Secretary of Treasury Lawrence Summers wrote to the World Bank calling on all financial institutions to withhold financing for overseas steel projects. As you know, President Bush earlier this month announced that he was initiating a Section 201 investigation of injury to the U.S. steel industry due to "significant excess capacity" of steel on world markets. While I recognize that this action by President Bush comes months after the Ex-Im Bank decision on the Benxi project, the fact that the domestic steel industry was in a state of severe crisis caused by foreign producers dumping their excess production in the U.S. market, was widely known at the time. Despite all of this, the Bank approved the loan. This is a deeply troublesome decision. In approving the loan for the Benxi project, former Chairman of the Bank James A. Harmon stated that "in the future the Bank may want to take a look at its policy regarding economic impact analysis and its effect on the U.S. economy". I want to work with you to establish the appropriate rules, procedures and guidelines to make certain that such decisions do not reoccur.

What, if anything, should be done with respect to the Bank's procedure for economic impact analysis in order to prevent such misguided investment from occurring again?

A.9. Ex-Im Bank is currently revising our economic impact procedures and policies. The Bank is seeking an economic impact review process that is transparent and receptive to the views of any party impacted, either positively or negatively, by a transaction as well as the views of other U.S. Government agencies. This information would be integrated into the analytical process and would be at the disposal of Ex-Im Bank's board in the deliberative process.

These new procedures and policies have been made available for public comment by Congress, labor, industry, exporters, and banks and other interested parties.

Q.10. The United States is a leader in international negotiations to persuade all Export Credit Agencies (ECA's) to adopt binding environmental policies such as those of the 1FC at the World Bank Group. IFC's policies include the advance disclosure of environmental impact assessments and consultation with affected communities and stakeholders. Public access to environmental information and consultation by ECA's is called for in the 2001 G–8 Trieste Communiqué (endorsed by EPA Administrator Christie Todd Whitman). However, Ex-Im Bank currently does not require minimal advance disclosure and consultation in its own operations. Doesn't this contradiction undermine the U.S. Government's position? Is the Ex-Im Bank willing to implement a requirement for an advance comment period for environmental assessment and consultation with affected communities and stakeholders?

A.10. Currently, Ex-Im Bank is the only export credit agency with Environmental Procedures that provide for the release of Environmental Assessments (EA) to "interested parties" for their review and comment prior to a financing decision by the Bank. Ex-Im Bank has required advance disclosure of the EA and has encouraged public consultation processes with affected stakeholders since 1998. Although our Procedures do not set an explicit minimum period for disclosure of the EA and subsequent public comment, the average period during which these environmental assessments have been available for comment exceeds 60 days. Ex-Im Bank will consider formally establishing a minimum period for comment on the environmental assessments it releases once our foreign competitors demonstrate their commitment to the process of releasing environmental assessments.

Concerning requirements for prior consultation with affected communities and stakeholders, we are negotiating within the OECD for guidelines requiring export credit agencies to adopt World Bank standards, which require such consultation.

Q.11. Ex-Im Bank recently supported the controversial Chad-Cameroon pipeline project. Human rights and other groups have been very critical of the project, citing severe abuses of the rights of project critics, use of project revenues for arms purchases and, more recently, election fraud. Meanwhile, Ex-Im Bank project human rights clearances are currently conducted by the State Department. These clearances only consider whether Ex-Im involvement contradicts larger U.S. interests, and not the impact on project viability specifically. Don't human rights-related issues also affect the risk and viability of projects, and therefore, fall within Ex-Im Bank's authority to consider?

A.11. One of several factors assessed in determining the sovereign risk rating is "political/social stability." While there is no specific element within this factor called "human rights," the rating on this factor could be affected by a country's human rights situation. For example, if abuses in the human rights area were judged likely to result in widespread violence that would disrupt economic and political stability and undermine a government's ability to function, this factor would score poorly and could drag down the entire sovereign risk rating.

Q.12. According to Export-Import Bank policy, any project over $10 million requires the State Department to do a human rights impact assessment. What is the procedure for that assessment?

A.12. Ex-Im Bank obtains a human rights review from the State Department for all transactions greater than $10 million where the buyer's country is not on a pre-cleared list. The list of pre-cleared countries was issued by the State Department to Ex-Im Bank in 1998. For all applications above $10 million and not on the pre-cleared list, Ex-Im Bank sends a clearance request sheet to State prior to beginning a credit review of a final commitment application. Generally, both a Human Rights and a Political desk officer at State review the transaction. Therefore, all applications presented to the board must pass the clearance process.

In addition, under the Leahy Amendment contained in the Foreign Operations appropriations bill, Ex-Im Bank has interpreted that it is precluded from providing financial support for the sale of products or services to security forces of a foreign country without clearance from the State Department. The law stipulates that State must satisfy itself that the "units" of the security forces that benefit from Ex-Im Bank support have not committed gross violations of human rights, or, if such actions have been committed, that the government of the foreign country is taking effective measures to bring the responsible members of the security forces unit to justice. The responsibility for making the determination under this provision rests solely with the State Department.

The term "security forces" is interpreted as extending to any military buyer and any arm of the foreign country's federal, regional, or local law enforcement. If there is ambiguity as to whether a particular buyer falls within the "security force" category, Ex-Im Bank submits the application to the State Department and State makes the determination.

All engineering evaluations for transactions involving security forces are required to contain language confirming that the State Department has reviewed the transaction and provided a clearance for Ex-Im Bank to proceed.

Q.13a. Which countries have been denied export credit from Ex-Im Bank on human rights grounds under the Chafee Amendment?

A.13a. The Secretary of State has issued two determinations of national interest under the Chafee Amendment for human rights concerns. The two determinations were for Argentina and Cameroon. The Chafee Amendment for Argentina was invoked on April 30, 1982, because of the Falklands War and human rights concerns and revoked on July 27, 1982. The Bank also received a Chafee for a transaction specific sale of automobiles to the Government of Cameroon on March 25, 1994, because the vehicles were to be used by security forces.

Q.13b. Which countries have been denied export credit on terrorism grounds? Please explain the process used to make these determinations and the grounds for those decisions.

A.13b. The Secretary of State has issued 3 determinations of national interest under the Chafee amendment for terrorism concerns. The first instance was Chile, which was invoked on November 29, 1979, and revoked on February 20, 1981. The second instance was Libya, which was invoked on April 9, 1985. Finally, State Department invoked a Chafee for Syria on December 4, 1986.

As the maker of U.S. foreign policy, State Department made these determinations for foreign policy reasons.

Q.14a. What specific criteria does Ex-Im Bank use when it makes a political risk assessment for a country?

b. Former Chairman of the Bank, Jim Harmon, indicated that, "country ratings could be negatively affected to the extent that human rights abuses contribute to potential unrest." Are human rights violations considered part of the political assessment?

A.14. One of several factors determining the sovereign risk rating is "political/social stability." While there is no specific element within this factor called "human rights," the rating on this factor could be affected by a country's human rights situation. For example, if abuses in the human rights area were judged likely to result in widespread violence that would disrupt economic and political stability and undermine a government's ability to function, this would result in a poor score and could drag down the entire sovereign risk rating.