**TESTIMONY OF EDMUND RICE**
**ON BEHALF OF**
**THE COALITION FOR EMPLOYMENT THROUGH EXPORTS**
**ON H.R. 5068**
**THE EXPORT-IMPORT BANK REAUTHORIZATION ACT OF 2006**

**Before the**
**SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY**
**COMMITTEE ON FINANCIAL SERVICES**

**APRIL 5, 2006**

Madam Chairman, Congresswoman Maloney and members of the subcommittee, thank you for the opportunity to testify at this hearing. The Coalition for Employment Through Exports is comprised of 27 member exporters, banks and trade associations. We are focused on strengthening the competitiveness of U.S.-origin exports and export-related investment.

Our coalition strongly supports the reauthorization of Ex-Im Bank. We commend the subcommittee members and staff for their work on this issue. We believe that H.R. 5068, introduced by the Chair, Ms. Maloney, Mr. Oxley, Mr. Frank, Ms. Biggert, Mr. Manzullo and Ms. Velazquez provides a sound basis to begin the legislative process.

In recent years, Ex-Im Bank has supported roughly 3,000 overseas sales of American-made goods and American-provided services. During FY 2005, Ex-Im issued $13.9 billion in financing – mostly guarantees and insurance of commercial loans. That financing supported $17.8 billion in U.S. exports. Those export sales in turn supported thousands of jobs for American workers. In FY 2005, the Bank approved 3,100 separate credit authorizations. Of these, 2,600, or 84 percent were to support exports by small- and medium-sized companies.

## THE TWIN MISSIONS OF EX-IM BANK

For U.S. exporters and their banks, Ex-Im Bank has two essential missions: to address the unavailability of private financing for export sales in certain overseas markets and to level the playing field when foreign competitors have the financial backing of their own governments. In both of these circumstances, American exporters and their banks are increasingly dependent on Ex-Im Bank, as the utilization data indicate.

## EX-IM HELPS GENERATE PRIVATE EXPORT FINANCING

All U.S. exporters prefer private financing for their overseas transactions and projects. However the availability of private financing varies greatly from market to market. In some cases, financing is readily available, such as in western Europe, Japan, Australia, etc. However, in many markets, private trade financing is difficult or impossible to obtain, at any price. This is certainly true for small- and medium-sized companies, but it is also true for the largest corporations. Our coalition members report that the mis-match is growing between export sales opportunities for U.S. companies and the availability of loans to their customers.

When a U.S. exporter has an export transaction or project, but cannot find private financing for the customer or project sponsor, the availability of an Ex-Im guarantee or credit insurance is often the key to obtaining private financing. In FY 2005, all of Ex-Im's 3,100 transactions were guarantees or insurance of private loans; there were no direct loans made by Ex-Im. In FY 2004, it was essentially the same: of 3,100 transactions, all but 5 were guarantees or insurance of private transactions.

By facilitating private financing of trade, Ex-Im is supporting, not competing with or supplanting, the private sector.

EXPORT CREDIT AGENCIES ARE GROWING IN WORLD TRADE

Traditionally, companies competed on product quality, price and service. In today's world, financing has become an equally important competitive element. Increasingly, overseas customers require that bids include a proposed financing offer, especially in the largest transactions and projects.

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

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

## KEY COMPETITIVE CHALLENGES FROM FOREIGN EXPORT CREDIT AGENCIES

For U.S. exporters and their banks, competitive challenges arise not only from the growth of foreign export credit agencies, but also from the increasingly aggressive financing activities that they employ to help their national exporters. These activities include: co-financing, tied and untied aid, flexible national content rules, aggressive risk-taking in selected markets or industry sectors and rapid processing and approval times. In sum, there is an increasing pattern among some of our major trade competitors to use their export credit programs strategically.

Co-financing - Cofinancing is the combination of two or more export credit agencies to share in the financing of an individual transaction or project, usually to mirror the multinational cooperation of companies. These arrangements are most effective when there is an established framework between the ECAs through which transactions can be processed easily. Such a framework is well-established in western Europe, where the ECAs of France, Germany, Italy and the U.K. are spearheading the development of an EU-wide co-financing network to support consortia of European companies in competing jointly on large transactions and projects.

By contrast, Ex-Im Bank has four co-financing agreements and will consider case-by-case agreements with others. However, U.S. government policies on documentation, claims recovery and currency acceptance all have impeded expansion of co-financing agreements, to the competitive disadvantage of U.S. companies.

Ex-Im Bank has statutory authority to enter into co-financing arrangements, which are -- and should remain -- limited to the U.S.-origin content of all transactions and projects. However, we believe that the committee can play a role in urging the Bank and other U.S. government agencies to expand co-financing arrangements to better support our exporters.

Tied and Untied Aid - Tied aid refers to the combination of export credits and other financing or assistance to gain a competitive advantage in a transaction. The supplemental financing or assistance is “tied” to the export transaction. Despite an international agreement two decades ago that constrains the use of tied aid, some of our exporters report that tied aid is increasing once again. Moreover, some foreign governments appear to be masking tied aid offers as assistance that is ostensibly not tied to an export transaction, but is tied in reality.

The U.S. approach is to seek tighter international rules to restrict tied aid and to expand the rules to unmask untied aid offers in export transactions. We commend and fully support these initiatives. However, we believe that the U.S. tied aid "war chest" should be used more aggressively in individual transactions to support our exporters, and not only to support our multilateral negotiations. The war chest should support both goals.

We commend the committee's continued oversight of the Executive Branch on this issue.

Flexible National Content Rules - The U.S. has the most strict requirements of any major ECA on the origin of goods and services that Ex-Im can support. By contrast, some other ECAs are moving to a more flexible "national benefits" test, instead of tying financing strictly to the origin of good or service. The Japanese, German and Canadian ECAs, in particular, are willing to provide financing for transactions that are in the overall trade-strategy interests of their countries, not only to support their exporters. As a result, ECAs are being used both to gain a foothold in a given overseas market and to solicit the shifting of manufacturing and service capacity to their countries.

While we do not have a specific legislative recommendation at this point, we believe the committee should add this issue to its oversight agenda for Ex-Im Bank, to help focus the U.S. government's attention to the competitive advantage that such flexibility gives to our trade competitors.

Aggressive risk-taking - Increasingly, export credit agencies are being used strategically by their governments to strengthen trade and economic ties with targeted markets.  Part of this strategy is to aggressively assume credit risk in order to win export sales and project contracts, as well as to support national foreign policy goals.

By contrast, the U.S. government does not use export credit programs strategically.  As a result, in any given transaction, U.S. exporters may be faced with a competitor whose government will extend financing terms that the U.S. will not match.  In our companies' view, the U.S. should consider a more aggressive policy to be prepared to match all competing financing offers, especially in the largest transactions or projects.

We believe that the two Chinese export credit agencies (one of which is already equal in annual financing volume to Ex-Im) are being used in this way to push Chinese companies into overseas markets, both for market share increases and for larger Chinese trade policy objectives. We urge the committee to include this development in its oversight agenda and to press the Executive Branch to develop a policy to respond to this development.

Rapid processing/approval times - Some of our exporters continue to report significant differences between the processing and approval time frames of other export credit agencies and Ex-Im. In some cases, this appears to be another aspect of governments' strategic use of export credit for competitive and policy goals. In some cases, ECAs will make a firm financing commitment as part of a company's bid on a transaction or project, which provides a significant competitive advantage.

In 2002, the Administration announced that it would begin a pilot program to test a similar approach. Called the "early project development" initiative, the idea was to identify as early as possible significant transactions and coordinate export credit, advocacy and related government backing for U.S. companies, up front. The goal was to give U.S. companies a stronger competitive position in these significant transactions. The effort was included in the 2002 National Export Strategy.

We strongly supported this initiative. However, we do not find evidence that it has been implemented. It remains a potentially important competitive improvement for U.S. companies. We urge that the committee add this to its oversight agenda and seek implementation.

Let me conclude by drawing the committee's attention to the financial strength of Ex-Im Bank and its net positive impact on the federal budget.

EX-IM BANK IS FINANCIALLY SOUND

Ex-Im Bank is financially sound. At the end of FY 2005, Ex-Im Bank had a total exposure of $62.9 billion. Against that exposure, the Bank had $7.6 billion in reserves – a very strong reserve position.

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

According to the Bank's FY 2005 annual report, the Bank generated a net income of $2.6 billion, through its interest charges, premiums and fees. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot retain its own revenues to cover its costs.  Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves, even those outlays are fully offset by its income. Thus, the Bank is handicapped by the government's own budget rules.

CONCLUSION

We commend this subcommittee for its timely consideration of Ex-Im Bank's reauthorization and we urge that the committee act expeditiously to report a reauthorization bill to the House, so that Congress can complete the legislative process prior to the September 30th expiration of the Bank's charter.  We believe that H.R. 5068 is a sound basis for beginning the legislative process and we commend its sponsors and their staffs for a thoughtful and carefully-drafted bill.  Doubtless refinements and amendments will be considered by the subcommittee and full committee and we look forward to contributing to those deliberations.

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