

STATEMENT OF
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CHAIRMAN AND PRESIDENT
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE AND TECHNOLOGY
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

MAY 6, 2004

Mr. Chairman, Representative Maloney and Members of the Subcommittee:

I am pleased to be here today to report on the progress the Export-Import Bank of the United States ("Ex-Im Bank" or the "Bank") has made in achieving our mission as set forth in our Charter. The Export-Import Bank Reauthorization Act of 2002 was the result of extensive effort and cooperation between Members of both parties in both the House and the Senate. I especially want to acknowledge the role of this Subcommittee as well as the Full Committee on Financial Services. Both Members and staff put in many long hours to get the job done.

The Act reaffirmed the Bank's basic roles and responsibilities in financing and facilitating exports of goods and services, and in so doing contributing to the employment of United States workers; in establishing a reasonable assurance of repayment before approving a transaction; and in supporting all businesses, large and small, in their efforts to create jobs through exports. It also reaffirmed that the Bank is *demand driven*. This means that as long as transactions meet our criteria of creditworthiness and our environmental guidelines we generally do not pick and choose which transactions to approve.

Everything that we are doing, we aim to do better. We are focusing on three key priorities: **putting customers first, improving cycle time, and expanding support for knowledge-based and services exports**. In putting customers first, we are implementing the three guiding principles President Bush has set forth for government – namely, that it should be citizen-centered, results-oriented and market-driven. For Ex-Im Bank, putting customers first means ensuring that every customer receives quick answers and clear responses. We have assigned relationship managers to assist customers that do a high volume of business through Ex-Im Bank in order to ensure consistent processing. And as I will discuss below, we have made our Website easier to use, with improved access to information, applications, and contacts at Ex-Im Bank.

By improving cycle time, Ex-Im Bank is particularly focused on reducing our transaction processing ("cycle") time in order to help our customers offer timely financing to their buyers. As any exporter knows, timeliness can mean everything when you are competing for international sales. To improve cycle time, Ex-Im Bank is simplifying applications for financing products that most benefit small business exporters. We are also modernizing other systems and procedures.

By expanding support for knowledge-based and services exports, the Bank shows that it is keenly aware of the importance of the new high-technology and services industries. We are working with exporter and financial groups to determine how we can best increase export financing for those industries. In each of the past eight years, we have supported between \$1 billion and \$2 billion per year of U.S. services and high-tech exports.

We have made real progress in meeting these goals. I would like to provide you with a brief overview of achievements at Ex-Im Bank since the 2002 reauthorization.

Introduction

The Export-Import Bank Reauthorization Act of 2002 was signed by President Bush in June 2002. In FY 2002, the Bank supported \$12.95 billion in exports, and in FY 2003 \$14.3 billion. This year, FY 2004, we estimate that we are going to support \$15.6 billion in exports. For FY 2005 the Administration has requested \$125.7 million for our program budget which, when combined with carryover funds from prior fiscal years, will provide us with a program budget of \$471.4 million to support an estimated \$16.3 billion in exports. We are very encouraged by this steady upward trend. Those amounts represent U.S. jobs that we support by meeting official export assistance offered by our major competitors, and by stepping in when commercial banks will not assume the financing risks in markets that still provide opportunities for our exporters.

It has been suggested that there is occasional “volatility” in the Administration’s request for Ex-Im Bank’s program budget from year to year. That is basically due to two factors. First, as I said above, we are demand driven. That means that we have to base our budget estimates on the projected needs of our customers – exporters and bankers. In keeping with the budget cycle, those estimates begin a full 18 months before the beginning of the fiscal year in which the program budget may be expended. Obviously, a lot can change in the world economy in that time span. Major markets may be downgraded or even closed, or they may be upgraded. Major sales may be lost or won.

In recognition of the fluctuations inherent in the budgetary system, Ex-Im Bank has been permitted four-year carryover authority for its program budget. That means that unused funds resulting from overestimates may be used in future years to cover unforeseen increased risk or to lower the request for new funding. We have found that this system works very well.

We can facilitate exports in several ways. Ex-Im Bank guarantees financing and extends credit directly to international buyers to facilitate purchases of U.S. goods and services. The Bank also provides working capital financing that enables U.S. exporters to obtain loans that provide them with the needed liquidity to grow their international sales. And Ex-Im Bank's export credit insurance programs enable exporters to increase their export sales by reducing nonpayment risk and giving them the ability to extend competitive credit terms to foreign buyers.

Our working capital and insurance programs are particularly useful in targeting the needs of small businesses. And while I am going to detail our small business efforts below, I want to stress the following point now. We are well on our way to meeting the Congressional target of having 20% of the total dollar value of Ex-Im Bank's authorizations directly benefit small businesses. For FY 2003, the number was 19.7%. Additionally, over 80% of our transactions directly benefit small businesses.

The key to reaching our small business goals is our administrative budget. It is through full funding of this budget that we are able to support our outreach programs and the improvements to our information and technology programs. For FY 2005, the Administration is requesting \$73.2 million, which is less than \$1 million over the level for the current year, FY 2004.

I would now like to review some of the matters raised in our 2002 reauthorization. I will lead off with small business.

Small Business

Mr. Chairman, as I emphasized in the introduction to this testimony, small business is a major, central concern for Ex-Im Bank. And here is what we are doing.

In FY 2003, the Bank authorized 2,258 transactions directly supporting small business. That was out of 2,707 total transactions and it represents over 80% of the Bank's financings. These transactions totaled \$2.075 billion, including \$622 million in working capital guarantees, \$1.361 billion in export credit insurance, and \$92 million in medium and long-term loans and guarantees. That accounted for 19.7% of the total dollar value of Ex-Im Bank's authorizations directly benefiting small businesses. Those figures represented significant increases over FY 2002, when 17.6% of the Bank's financings directly benefited small businesses.

Let me give you some examples of specific businesses that have benefited from Ex-Im Bank, which should help make the raw data understandable in human terms.

Bluefield Associates, Inc. of Ontario, California, is a manufacturer of cosmetics and toiletries that employs 30 people. The company has been an active Ex-Im Bank policyholder since 2001. Its market portfolio has been concentrated primarily in Sub-Saharan Africa. In the most recent policy year, the company reported export sales volume to Nigeria, the United Kingdom, Ghana, Namibia, Tanzania, and Canada. Export sales volume reported to Ex-Im Bank has almost doubled from \$2.2 million in 2002 to \$4.2 million in 2003. I am happy to announce that Bluefield Associates, a minority-owned business, has just been named Ex-Im Bank's Small Business Exporter of the Year.

With 35 employees, **Bio-Lok, of Deerfield, Florida**, is a manufacturer and distributor of dental implants sold to distributors who in turn sell to clinicians. In addition to its three foreign subsidiaries, Bio-Lok has distribution agreements with entities in twelve countries worldwide.

The company manufactures and distributes the Micro-Lok and Silhouette Precision Dental Implant Systems consisting of dental implants, related prosthetics, devices, tools, spade drills and items purchased for resale.

Kiss Nail Products, Inc. of Port Washington, New York, is a manufacturer of nail care products employing 300 people. It has been insured with Ex-Im Bank since 2001. It has shipped to the United Kingdom, Canada, Germany, Ireland, Japan, the Netherlands, Austria, Sweden, France, South Africa, Spain, Mexico, Russia, New Zealand, Finland, Poland and Latvia. Under its Ex-Im Bank policy, reported sales volume for this exporter has grown from \$4.2 million for 2002 to \$7.96 million for 2003 and volume has been growing steadily.

Reinke Manufacturing of Deshler, Nebraska, a manufacturer of new irrigation equipment, has experienced an increase in export credit volume in the last year from \$1.5 million to \$2.4 million. The company employs 250-300 people. Reinke's top markets are in Zambia, Israel, Mexico and South Africa, with smaller markets elsewhere around the world. The company has been an Export-Import Bank insured since May 2000. Reinke's export credit sales have increased 44% from its first full year in 2001, where sales totaled \$1.6 million, to 2003, where sales totaled \$2.3 million.

Superior Manufacturing Company of Chicago, Illinois, is a manufacturer of floor matting employing approximately 200 people. Superior Manufacturing has been an Ex-Im Bank insured since 1997 and has incurred no losses on its Bank policies. Its export credit sales in its first year were \$870,000, and in 2003 its sales, although somewhat lower, were still substantial at \$460,000. The company's top markets include Mexico, Canada, Australia, South Korea and Jamaica. Additional smaller markets are Trinidad and Tobago, Hong Kong, Singapore, Japan, Nicaragua, the Netherlands Antilles, Colombia and the Bahamas.

SRS Industries, Inc. of Los Angeles, California, is a wholesaler of wireless telecommunications equipment employing 55 people. SRS has been insured with Ex-Im Bank since 2002. In the past year, it has reported shipments to Estonia, El Salvador, Mexico, the United Kingdom, the Netherlands, the Dominican Republic, South Africa, Singapore, Bermuda, Norway, Colombia, Brazil, Guatemala, the Netherlands Antilles, Guyana, Nicaragua, Honduras, Grenada, Hong Kong, Chile, Peru, Paraguay, Nigeria, Jamaica and Dominica. Reported sales volume in the first year under its Ex-Im Bank policy was \$2.96 million, which was well above the \$1.76 million the company had projected on its policy application.

Endoscopic Technologies, Inc. /dba/ Estech Inc. of Danville, California, is a manufacturer of cardiac surgery products employing 22 people. Estech has been an Ex-Im Bank policyholder since 2001. The company reported export sales to the following markets during the past year: Italy, Germany, Switzerland, South Korea, the Netherlands, France, Greece, Taiwan, Canada, Turkey, the United Kingdom, Poland, Austria, Australia, Sweden, Hong Kong, Israel, Denmark, Finland, Spain, India and China. Reported export sales have grown from \$503,000 in 2002 to \$1.1 million in 2003.

Small Business Supplier Data

As noted above, Ex-Im Bank has a target for direct small business support of 20% of the total dollar value of Ex-Im Bank authorizations. In addition, in the 2002 Reauthorization, Congress required Ex-Im Bank to estimate on the basis of an annual survey or tabulation the number of entities that are suppliers of Bank users and are small business concerns. While that is a legal requirement, it provides Ex-Im Bank an opportunity to tell a story that too often goes untold – the significant indirect benefits that accrue to small businesses that supply goods and services to larger exporters that utilize Ex-Im Bank financing. At the time of authorization of each long-term transaction (i.e., transactions either of \$10 million or more or with a repayment term in excess of seven years), Ex-Im Bank estimates the percentage of exports supported that are attributable to small business suppliers. In FY 2003, small business suppliers accounted for approximately 13% of total export value on Ex-Im Bank's long-term transactions. That amounts to over \$1 billion in indirect support for small businesses. That support is in addition to direct support for small businesses, which as I said above accounted for 19.7% of the total dollar value of Ex-Im Bank's authorizations, and over 80% of total authorizations in fiscal year 2003.

Technology Improvements

Upgrades to its technology over the past few years have enhanced greatly the Bank's ability to meet the demands of small businesses. In fiscal year 2003, Ex-Im Bank revised and updated its Website to provide all customers with improved access to information, applications and forms. As a result, all of Ex-Im Bank's applications and forms are available through the Website, **www.exim.gov**. Letter of interest applications can now be processed electronically and claims filing can now be handled online.

In fiscal year 2003, Ex-Im Bank continued to develop its Business Automation Project (BAP), which will enable Ex-Im Bank to process applications for financing more efficiently and effectively. BAP's initial focus is on automating the Bank's short-term multibuyer insurance program, which primarily benefits small business exporters.

The Bank participates in the government-wide "Business Gateway" initiative to integrate the content and functions of the Websites of Ex-Im Bank, the Small Business Administration and other agencies into one comprehensive site, **www.business.gov**.

The Bank also is a key participant in the Trade Promotion Coordinating Committee's (TPCC) "One Stop, One Form" registration system, an Internet-based system that will enable small businesses to apply electronically for all government export programs.

Finally, Ex-Im Bank announced at its recently – concluded Annual Conference the signing of a co-guarantee Memorandum of Understanding with the Small Business Administration (SBA). Under SBA's Export Working Capital Guarantee Program, there is a \$1,500,000 statutory limit

on financing SBA's guarantee. Under the terms of this MOU, Ex-Im Bank will provide a co-guarantee that supplements SBA's guarantee in order to provide a 90% guarantee for loans of up to \$2 million. As a result, borrowers will be able to work through their existing SBA lender without coming to Ex-Im Bank for the financing.

Electronic Tracking Systems

Ex-Im Bank tracks loan, guarantee and insurance activity through its Integrated Information System, an aggregation of several electronic databases providing comprehensive information on all Bank transactions. In fiscal year 2003, Ex-Im Bank initiated a data quality review to further ensure the accuracy of the information in its electronic databases.

Ex-Im Bank also maintains a customer management database, focused primarily on small businesses, and utilizes this database to assist in outreach to small business exporters throughout the United States.

Africa

When reauthorized by Congress in 1997, Ex-Im Bank was mandated to increase its business in Sub-Saharan Africa in a manner consistent with its reasonable assurance of repayment standard. Congress reaffirmed that mandate in the 2002 reauthorization.

In FY 2003, Ex-Im Bank supported 152 transactions totaling \$643 million in 20 Sub-Saharan African countries. Just five years earlier, in FY 1998, the Bank completed a total of 91 transactions for \$61 million. Over the last six fiscal years, Ex-Im Bank has authorized transactions supporting nearly \$2 billion in U.S. exports to Sub-Saharan Africa.

The growth in business is largely the result of Ex-Im Bank's strategic marketing efforts, including deepening relationships with African banks, embassy outreach programs, African buyer training programs and staff travel to the region. The Bank also expanded its reach in Africa under the Short-Term Africa Pilot Program. The pilot program offers Ex-Im Bank support in an additional 16 Sub-Saharan African countries in which the Bank would otherwise not be open for business, raising the total number of Sub-Saharan Africa countries eligible for Ex-Im Bank trade financing to 39 countries.

Ex-Im Bank continues to be proactive in its efforts to bring medium-term financing to the region. One such mechanism is its Master Guarantee Agreement (MGA). By entering into MGAs with local lenders, Ex-Im Bank greatly increases the efficiency with which it can provide medium-term financing. By the end of FY 2003, the Bank had MGAs with 17 banks in Sub-Saharan Africa.

Pursuant to a Congressional mandate, Ex-Im Bank's Sub-Saharan Africa Advisory Committee (SAAC), composed of individuals with knowledge of and experience in Sub-Saharan Africa, advises the Bank's Board on promoting the expansion of Ex-Im Bank's financial commitments to

Sub-Saharan Africa. This year's advisory committee provided specific recommendations on how Ex-Im Bank can accept additional risk in the region, and we are actively evaluating those recommendations.

Highlights of the Bank's efforts in support of Sub-Saharan Africa during FY 2003 include:

First Authorized Credit Guarantee Facility: Ex-Im Bank authorized its first credit guarantee facility (CGF) in Sub-Saharan Africa. The CGF is a guarantee of a line of credit between a U.S. bank and a foreign bank (or occasionally a large foreign buyer), which enables the foreign bank to extend loans to its local clients on competitive financing terms that facilitate the purchase of U.S. goods and services. This \$10 million facility will help facilitate the sale of various U.S. capital goods and services financed by the Eastern and Southern African Trade and Development Bank (PTA Bank) in Nairobi, Kenya. PTA Bank is a regional development bank active in 17 eastern and southern African countries. The guaranteed lender on this transaction is Merchant & Traders Bank (M&T).

In addition, Ex-Im Bank's Board of Directors recently approved a credit guarantee facility in the amount of \$25 million to support the sale of U.S. capital goods and services financed by Standard Trust Bank, PLC, Lagos, Nigeria.

Africa Air Cargo Transport Roundtable: A working group of experts from the United States and Africa met at Ex-Im Bank to discuss ways to promote economic development and trade by addressing air cargo transportation issues between the two continents, particularly as they relate to the African Growth and Opportunity Act (AGOA). Representatives from ten African countries attended the two-day seminar, along with U.S. government, non-government and private sector officials. The recommendations of the Roundtable were presented at the January 2003 AGOA Forum in Mauritius.

Africa Short-Term Insurance Pilot Program: In FY 2003, Ex-Im Bank expanded its Africa Short-Term Insurance Pilot Program (STIPP), which now offers Ex-Im Bank financing in 16 countries that otherwise would not have received Ex-Im Bank support. In FY 2003, Ex-Im Bank supported exports to more Sub-Saharan African countries than ever before, with four new countries qualifying for transactions under STIPP. Those transactions included the sale of a grain storage facility to Chad, engineering services to Equatorial Guinea, as well as transactions in Guinea-Bissau involving marine patrol equipment and Mauritania for meat and poultry exports.

In-country interaction: Ex-Im Bank representatives traveled to Sub-Saharan Africa on several occasions in FY 2003, including Board trips to Senegal, Nigeria, South Africa, Botswana, Benin, Cameroon, Equatorial Guinea, Gabon, and South Africa. A Board member spoke at the Nigerian Economic Summit and delivered the keynote address at the African Ministerial Forum on Integrated Transport in Abuja, Nigeria. Staff were represented at the 2003 AGOA Forum in Mauritius.

Highly Indebted Poor Countries

Many states of Sub-Saharan Africa suffer from severe poverty, and this raises the question of Ex-Im Bank policy toward Highly Indebted Poor Countries, commonly referred to as HIPC. Ex-Im Bank supports financing exports under certain conditions to HIPCs that have had debt forgiveness. First, one year must elapse after the signing of the Paris Club agreed minute for the debt forgiveness before Ex-Im Bank will begin to consider export financing transactions. The country must have a rating of eight or better from the Inter-agency Country Risk Assessment System (ICRAS). The country's arrears to the U.S. government cannot exceed 1% of its total debt to the U.S. government. Finally, the export credit transaction for that country would not violate any established International Monetary Fund agreement on ceilings for non-concessional lending.

Outreach to Socially and Economically Disadvantaged and Woman-Owned Small Businesses and Small Businesses Employing Fewer than 100 Employees

Ex-Im Bank has increased its outreach to woman-owned and minority-owned businesses. In FY 2003, Ex-Im Bank participated in a wide-range of trade shows, seminars and conferences focused on woman-owned and minority-owned businesses, including the U.S. Hispanic Chamber of Commerce Annual Conference, the National Minority Supplier Development Council Annual Conference, the Center for American Indian Enterprise Development Annual Conference and the Women's Business Enterprise Annual Conference. A significant number of the small businesses that attend the seminars and trade shows in which Ex-Im Bank participates employ less than 100 workers.

Ex-Im Bank's business development officers, including those located in its network of regional offices throughout the country, focus heavily on the new-to-export segment of U.S. small businesses.

As stated above, we sponsor seminars and symposia throughout the country targeted to small businesses that traditionally have been underserved in the trade finance market. The symposia consist of half-day training programs to help U.S. companies learn how to use U.S. government resources to find foreign buyers, obtain working capital loans, protect against risks of buyer nonpayment and finance international sales. Participants in these symposia include other agency members of the TPCC, which will be discussed more fully in the following paragraph, including the U.S. Commercial Service of the Department of Commerce, the Small Business Administration and the Overseas Private Investment Corporation.

And to re-emphasize another point I made previously, I am happy to report that this year Ex-Im Bank presented its small business exporter of the year award to Bluefield Associates of Ontario, California. This is a minority-owned firm with extensive exports to Sub-Saharan Africa. We at

Ex-Im Bank are proud that we are able to help small businesses such as Bluefield prosper in the international marketplace. K.C. Obioha, vice-president of Bluefield Associates, has said of Ex-Im Bank, "Given our core market in Sub-Saharan Africa, without Ex-Im Bank's programs we couldn't have grown to the size we are now. Having tried for seven years, we otherwise could not have obtained lines of credit from commercial banks. Ex-Im Bank's financing has been our lifeline."

Fast Track

The Ex-Im Bank Board approved a framework for the Fast Track Application Processing System (for loans between \$10 and \$25 million within the Working Capital Guarantee Program) in July 2003. Staff is in final negotiations with the nine major pre-approved financial institutions to develop the credit criteria that will be required of the Lenders.

Trade Promotion Coordinating Committee (TPCC)

The President and Chairman of the Export-Import Bank serves as the Vice Chair of the Trade Promotion Coordinating Committee (TPCC). The TPCC is an interagency committee composed of 19 U.S. government agencies. Each TPCC agency plays a key role in advancing the Administration's goal of maximizing U.S. export potential. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. government export promotion initiatives under the leadership of the Secretary of Commerce.

Among the duties of the TPCC is preparation and submission to Congress of an annual report, entitled the "National Export Strategy (NES)," that outlines the Administration's trade promotion agenda. TPCC accomplishments during 2003 pertaining to Ex-Im Bank and its competitive position vis-à-vis foreign export credit agencies are summarized below.

Highlights of TPCC Accomplishments During 2003

- ! The scope of the joint marketing task force, which includes representation from Ex-Im Bank, the Small Business Administration (SBA), the U.S. Commerce Department's Census Bureau and International Trade Administration, and the U.S. Department of Agriculture has been broadened. The task force was established to produce and disseminate literature on U.S. government trade promotion programs at major domestic trade shows and trade financing seminars, and through direct mail campaigns. This marketing effort helps to provide the U.S. export community with the tools necessary to effectively utilize U.S. government programs to boost U.S. export potential.
- ! Marketing the availability of Ex-Im Bank financing to foreign buyers during early project development has increased opportunities for U.S. exporters. The effort is aimed specifically at: (1) identifying U.S. export opportunities and, where appropriate, encouraging foreign buyers to source goods and services from U.S. suppliers; and (2)

demonstrating U.S. government financing support for those U.S. export opportunities at the initial developmental stage of the project.

- ! The "mixed credit" concept has been implemented whereby U.S. Agency for International Development (USAID) grants are combined with Ex-Im Bank standard financing. Mixed credits will enable the U.S. government to leverage USAID funds and respond to comparable development projects supported by foreign governments on behalf of their exporters.
- ! TPCC agencies continue to cross-train their staff on a host of U.S. government trade promotion programs. The objective is to help the next generation of international trade officers better identify customer needs and export objectives and to package and seamlessly deliver an effective, customized solution to integrate the multitude of services offered by the various TPCC agencies. In 2003, 92 participants from a total of ten Federal agencies received the training.
- ! Ex-Im Bank and SBA have signed a co-guarantee MOU which builds on previous efforts to harmonize the export working capital loan programs of both agencies. This approach will provide the exporter with more easily accessible working capital and the lender with combined SBA and Ex-Im Bank coverage without having to deal with two separate agencies.

Economic Impact

Ex-Im Bank's Charter requires Ex-Im Bank to assess whether the extension of its financing support is likely to yield a net adverse economic impact on U.S. production and employment or would result in the production of substantially the same product that is the subject of specified trade measures. If a transaction is deemed by Ex-Im Bank to meet the legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. The purposes of Ex-Im Bank's Economic Impact Procedures are to: 1) ensure that all transactions are screened for economic impact implications; 2) identify those transactions that are subject to applicable trade measures or that pose a risk of substantial injury to the U.S. economy; and 3) put only those cases that require further economic impact analysis through a more extensive process that is fair, consistent, and publicly transparent.

Ex-Im Bank implements the requirement to analyze the economic impact of transactions it is asked to support through its Economic Impact Procedures. Transactions are subject to screens designed to: 1) identify those transactions associated with specific legislative prohibitions; and 2) determine the potential of a transaction to cause substantial injury to the U.S. economy. The Economic Impact Procedures consist of three stages, which are analyzed consecutively.

Stage I: Transactions that Establish or Expand Production Capacity. The first stage of the Economic Impact Procedures is to determine if a transaction supports the export of capital goods

that will enable a foreign buyer to establish or expand production capacity of an exportable good. Only those transactions are subject to further economic impact analysis in Stages II and III.

Stage II: Categorization of Transactions. The second stage of the Economic Impact Procedures divides transactions into one of three categories for further analysis. Those three categories are:

Category I: Transactions Not Subject to the Final or Preliminary Trade Actions Contained in Categories II and III.

Category II: Transactions Subject to Specified Final Trade Measures.

- (i) Final anti-dumping or countervailing duty orders
- (ii) Suspension agreements arising from anti-dumping or countervailing duty investigations
- (iii) Section 201 injury determinations

Category III: Transactions Subject to Specified Preliminary Trade Actions.

- (i) Preliminary anti-dumping or countervailing duty injury determinations
- (ii) Section 201 investigations initiated by the Executive or Legislative Branch

Stage III: Analysis of the Economic Impact of Transactions by Categories. The third stage of the Economic Impact Procedures consists of screens to determine whether a transaction requires a detailed economic analysis that is summarized below.

Category I: Transaction Not Subject to Specified Final or Preliminary Trade Actions.

Transactions in this category are subject to a detailed economic analysis if the transaction: 1) is for more than \$10 million in Ex-Im Bank financing¹; and 2) poses the risk of substantial injury. Pursuant to Ex-Im Bank's Charter, the established or expanded by the Ex-Im Bank financing equals or exceeds 1% of U.S. production.

Category II: Transactions Subject to Specified Final Trade Measures.

Transactions in this category are subject to automatic prohibition under

¹If Ex-Im Bank financing is \$10 million or less, exclusive of the exposure fee, a transaction is not subject to further economic impact analysis. However, these transactions are aggregated by both buyer and product for economic impact analysis in Ex-Im Bank's annual review.

Ex-Im Bank's Charter. A detailed economic impact analysis is not performed. An exception to this automatic prohibition may be granted by Ex-Im Bank's Board if an applicant shows that the exporter and/or the U.S. economy will be extraordinarily harmed by denial of Ex-Im Bank support. A 14-day notice and comment period is required prior to Board action on such a transaction.

Category III: Transactions Subject to Specified Preliminary Trade Measures. For transactions in this category, a 14-day public notice and comment period will preliminary anti-dumping or countervailing duty injury determination² and on initiated at the request of the Executive or Legislative Branch. Ex-Im Bank based on comments received during the 14-day comment period and other available information, that the transaction poses the risk of substantial injury.

If a transaction requires a detailed economic analysis, Ex-Im Bank staff will assess: (i) the global supply and demand for the product in question (*e.g.*, by considering indicators of oversupply such as price trends, U.S. employment trends, bankruptcy, and merger activity); and (ii) the broad competitive impacts on U.S. industry arising from the new foreign production (*e.g.*, whether U.S. production could be directly or indirectly displaced as a result of the new foreign production). In addition, a detailed economic impact analysis will include a 14-day public notice and comment period and will report on the views of interested parties, including the views of other U.S. government agencies. All of the information gathered, including the beneficial impact of the export on the U.S. economy, will be presented to the Ex-Im Bank Board of Directors for its consideration in determining the net impact of the transaction on the U.S. economy.

Summary Data

In FY 2003, the Bank processed 558 medium-term insurance and medium- and long-term loan and guarantee transactions. Of those transactions, 227 were applications for loans and guarantees at the preliminary commitment (PC) and final commitment (AP) stages, and 331 were applications for medium-term insurance. An economic impact analysis was required in 87 of those cases, or 16% of the total transactions acted upon. Three of those 87 transactions required a detailed economic impact analysis, and all three were found to have a net positive economic impact. The remaining 84 transactions were subject to a post-authorization review to ensure that

²To ensure the efficient processing of small business transactions, a \$10 million threshold will apply to working capital and short-term insurance transactions subject to a preliminary AD/CVD injury determination.

there were no aggregations of more than \$10 million to a single buyer that would have required a detailed economic impact analysis.

Tied Aid

The term "tied aid credits" refers to concessional financing that is contractually conditioned upon the purchase of some or all of the goods and/or services from suppliers in the donor country or a limited number of countries. To be compliant with the Arrangement Rules of the Organization for Economic Cooperation and Development (OECD), tied aid must be at least 35% concessional, but must be at least 50% concessional when provided to the least developed countries. However, tied aid can only be provided to high and upper middle income countries if it is at least 80% concessional. In addition, tied aid is prohibited for commercially viable projects in countries that require 35% concessional.

Ex-Im Bank expenditures for tied aid are financed from the Tied Aid Credit Fund (also called the "War Chest"), a special appropriation line item that currently contains \$260.5 million.

Consistent with long-standing U.S. export financing policy, Ex-Im Bank does not initiate tied aid. Instead, Ex-Im Bank and the U.S. Treasury Department work together to determine whether to match a foreign tied aid offer. A determination to match may be made when it is determined that a tied aid match would help to introduce new disciplines or be useful in enforcing existing disciplines. The United States considers that tied aid, when used by a foreign export credit agency in accordance with the technical rules but for the clear purpose of gaining a longer-term advantage for sales on market terms, violates the spirit of the tied aid rules and should be matched.

Pursuant to Section 9(a) of the Export-Import Bank Reauthorization Act of 2002, Ex-Im Bank and the Treasury Department jointly developed and revised the principles, processes and standards governing the use of the Tied Aid Credit Fund. Included in the revision, which was submitted to Congress on December 12, 2002, and consistent with Section 9(b)(ii) of the Act, Ex-Im Bank and Treasury agreed that the final case-by-case decision on the use of the Tied Aid Credit Fund would be made by Ex-Im Bank unless the President of the United States determines that issuing the tied aid credit would materially impede the purposes for which the Fund was established.

Renewable Energy and the Environment

The Bank has been responsive to the mandate in our Charter directing us to promote the export of goods and services related to renewable energy. In FY 2002, Ex-Im Bank convened a Renewable Energy Export Advisory Committee to provide guidance on ways the Bank can promote renewable energy exports. In response to the Advisory Committee's recommendations, Ex-Im Bank formed a Renewable Energy Task Force to explore ways in which the Bank can enhance the support it provides to renewable energy exports.

Renewable energy exports can benefit from Ex-Im Bank's Environmental Exports Program, which provides for the maximum allowable repayment terms under the OECD and the capitalization of interest during construction. Ex-Im Bank has actively marketed its ability to support renewable energy technology exports at a number of events. For example, in April 2003, the Bank conducted a workshop entitled "Financing Environmental Exports" at its Annual Conference that included guest speakers from GE Wind and the Solar Energy Industries Association. During 2003, Ex-Im Bank representatives participated in the American Wind Energy Association's Annual Conference in Austin, Texas; on a panel on Financing International Sales for the Solar Energy Industries Association's Annual Conference, also in Austin; on a panel on Financing Solar Energy Projects for the American Solar Energy Society in Phoenix, Arizona; and in two "reverse trade missions" for the National Hydropower Association's meeting with potential buyers from India and Mexico.

In addition to marketing the Bank's ability to support renewable energy exports, Ex-Im Bank's engineering and policy staff have explored the challenges involved in supporting renewable energy exports on OECD terms. Those are challenges that many ECAs face, and the United Nations Environment Program sponsored workshops in October 2003 and February 2004 to specifically address issues involved with ECA financing of renewable energy exports. During FY 2002 and FY 2003, Ex-Im Bank authorized more than \$66.2 million to support U.S. exports of technology, goods and services related to renewable energy.

With respect to Ex-Im Bank's environmental review policy, I am extremely pleased to announce that in late 2003, the U.S. and other members of the OECD Working Party on Export Credits and Credit Guarantees agreed to the OECD Common Environmental Approaches. In addition to setting high minimum environmental standards for foreign projects supported by ECAs, the Common Approaches will serve to level the playing field for U.S. exporters competing to participate in those projects.

Ex-Im Bank is proud of this agreement and the Bank's leadership role in this area. It is a victory for the environment and for U.S. exporters, who now will be able to compete on quality and price. The Bank is in the process of revisiting its Environmental Procedures and Guidelines to reflect the Common Approaches.

Under the Common Approaches, all ECAs will exchange information relating to each ECA's implementation of the new environmental agreement. This reporting procedure will help to ensure that the ECAs play by the new environmental rules while enabling Ex-Im Bank to monitor closely the level of environmental compliance practiced by our foreign counterparts.

Iraq

Ex-Im Bank remains committed to doing its part to support reconstruction efforts in Iraq. In November of last year, our Board approved a \$500 million insurance facility to support short-

term letters of credit issued by or on behalf of the Trade Bank of Iraq. This action was taken as part of a coordinated, multilateral effort with 15 other export credit agencies to mobilize over \$2 billion of support for Iraqi trade. At the end of April, we completed our first transaction for \$15 million.

Going forward, Ex-Im Bank continues to work with the Coalition Provisional Authority, Iraqi officials, representatives of other U.S. agencies and departments, and the private sector regarding the availability of Ex-Im Bank support for U.S. exports to Iraq.

Conclusion

Mr. Chairman, Ex-Im Bank must remain flexible enough to meet the challenges offered by the constantly changing world of international commerce, while never losing sight of the original purpose for which it was founded 70 years ago – to create and sustain high-paying jobs here in the United States by financing exports that would not go forward without us, while expecting a reasonable assurance of repayment for each transaction we approve. We take seriously the mandates and goals Congress gives us, and we feel that we have made real progress toward meeting the changes to our Charter enacted in 2002. We have been able to make this progress through the diligent efforts of exporters and the hard work of the dedicated staff at Ex-Im Bank.

I will be happy to respond to any questions you may have.