

**U.S. House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
Hearing on “Reauthorization of the Export-Import Bank”
May 8, 2001**

Statement for the Record by Citigroup Inc.

Citigroup welcomes the opportunity to submit this statement upon the occasion of hearings related to the proposed reauthorization of the Export –Import Bank of the United States (Eximbank). We believe that Eximbank plays a vital role (1) in stimulating the export of goods and services from the United States and (2) in establishing and maintaining a “level playing field” upon which corporations around the world, with support from or in partnership with their Export Credit Agencies (ECAs) and other official agencies, compete to win export sales in the global economic arena.

In this Statement for the Record, we would like to make five primary points:

1. Eximbank support is, in many cases, the single most important factor in determining whether U.S. companies succeed in winning contracts to export goods and services to customers in international markets.
2. Eximbank is a sound, well managed financial institution that prices its services compatibly with the risks it bears, that analyzes, underwrites, and manages risks effectively, and that incurs losses, net of recoveries, at ratios well within the ranges that would be expected given the markets it serves. In recent years, Eximbank has produced substantial surpluses that have been returned to the U.S. Treasury.
3. Eximbank does not displace private sector lending; rather it serves as a catalyst for private financial flows into markets and to borrowers that generally would not qualify for private sector finance.
4. Eximbank provides no subsidies to exporters or financial institutions. Critics who assert that Eximbank is a mechanism for the extension of “corporate welfare” to U.S. exporters or their customers seem to discount the reality that nations are engaged in fierce economic competition to support their national interests.
5. Eximbank provides the United States with a competitive tool to mount a partial defense to the aggressive tactics of the ECAs and related official agencies of other countries intent on securing advantages for their exporters.

Eximbank's Vital Role in Stimulating Incremental Exports

Eximbank plays an exceptionally important role in stimulating exports from the U.S. which in many, if not most cases, would not have otherwise occurred. Eximbank, as the official export financing agency of the United States, is able to capitalize on its ability to forge government-to-government understandings which enable Eximbank to reasonably bear financial risks that private sector financiers are not in a position to take without the participation of a party such as Eximbank.

Eximbank's role as a "lender of last resort" should not imply that it takes unreasonable risks. Because of its stature as an official institution, Eximbank is simply able to accept certain commercial and political risks that exceed the thresholds of the commercial market. The relatively modest loss record of Eximbank suggests that it has made prudent financing decisions and it has effectively administered its portfolio.

The availability of financing on reasonable terms can be a major factor in tilting the purchase decision of an emerging markets customer from one supplier to another. We believe that access to financing support from Eximbank plays a valuable role in "paving the way" for broader acceptance within a target market for goods and services exported from the United States.

Eximbank Does Not Displace Private Sector Lenders

Eximbank does not displace private sector financing. Eximbank serves as a catalyst for incremental private sector financial flows into the emerging markets. Eximbank has frequently been effective in securing legal protections and contributing to the establishment of regulatory regimes within specific countries, which benefit all lenders.

In serving this function, Eximbank assists in opening doors to U.S. companies seeking to export products and services to these markets. With options to finance the acquisition of goods and services from the United States with support from Eximbank, potential foreign buyers may be generally more inclined to consider U.S. based sourcing alternatives.

Eximbank as Tool in Globally Competitive Marketplace

Every major OECD country sponsors an official Export Credit Agency (ECA) such as Eximbank. Non-OECD countries have also created ECAs to assist in export promotion. Several countries officially sponsor other financing agencies, which are frequently involved in providing capital directly to borrowers in the emerging markets on terms outside of the regulations governing the policies of the ECAs.

It is widely understood that other governments make aggressive use of their ECAs and related financing agencies to pursue national interests. Eximbank provides the United States with a "threat of retaliation" in the arena of world trade to combat excessively aggressive tactics of other governments in linking financial assistance to procurement.

We observe that a sort of “strained equilibrium” currently exists among the various ECAs, related agencies, and their sponsor governments with respect to the scope, nature, and cost of support provided by the respective ECAs. Even so, we note that the U.S. plays a much smaller role overall in supporting its exports than do most of the other major OECD countries. Should the U.S. weaken, de-emphasize, or unusually constrain Eximbank, other nations could be emboldened to make even more aggressive use of their agencies in support of their national agendas, at a likely cost in U.S. jobs and exports.

Citigroup’s Role in Eximbank Financing

Citigroup has had the privilege of working with Eximbank and the exporters it supports over a period of decades. Last year, Citigroup was authorized to arrange Eximbank related financing which supported in excess of \$2.0 billion in U.S. exports. We believe we are the largest aggregate arranger of Eximbank supported financing and we were pleased to have been selected to advise Eximbank on risk management and transfer techniques designed to improve Eximbank’s efficiency and reduce the risk inherent in its operations.

As a U.S. based multinational financial institution with a presence in over 100 countries and territories, Citigroup has been a global leader in the arrangement of medium and long-term trade related financing in the emerging markets. In serving our clients, we have gained familiarity with a number of the ECAs and other financing agencies sponsored by governments around the globe.

We list this information only to suggest that we are qualified to make the following observations and recommendations:

1. Eximbank should be reauthorized for a period of five years, in order to promote stability and continuity among the staff and programs and to avoid the current circumstance of having reauthorization deliberations proceeding at a time during which the nominee for the position of Eximbank President has not been duly appointed and confirmed.
2. Eximbank’s program budget for the upcoming fiscal year should be approved at a level designed to permit Eximbank to provide financing support consistent with that which it has provided in recent years.
3. Eximbank should be granted authority to engage in risk management and transfer techniques practiced in the private sector designed to permit Eximbank to better manage the risk in its portfolio, promote a more efficient use of program subsidy, and ultimately to leverage tax payer dollars by attracting more private sector finance in support of Eximbank programs.
4. Eximbank should be granted additional operating budget funds to continue to upgrade systems, staff and facilities.

5. Eximbank's status as an independent agency whose mandate is export promotion should be affirmed, in order for exporters, financing partners, and customers to be able to depend upon Eximbank, and other administrative bodies should generally defer to Eximbank in the determination of the creditworthiness of potential borrowers applying for Eximbank support.

Conclusion

Citigroup estimates that ECAs and other bilateral financing agencies based abroad supported amounts in excess of \$500 billion in exports last year. Eximbank authorized approximately \$13 billion. On a relative basis, the U.S. makes significantly less usage of its official agencies to support its exporters than do most of the other leading industrialized nations. If economic competition is replacing military conflict as a means to secure national advantage, a decision to cut back or curtail Eximbank authority to support U.S. exports could be viewed as akin to an act of "unilateral disarmament".

While the total percentage of U.S. exports supported by Eximbank is quite small, Eximbank plays a critical role in promoting U.S. economic competitiveness in the emerging markets. Citigroup also observes that Eximbank support benefits an entire spectrum of companies in the United States, not just larger corporations. We appreciate and support Eximbank efforts to assist smaller U.S. companies in the process of expanding into international markets, and we continue to be impressed that the larger corporations who make use of Eximbank secure components and services from large numbers of smaller companies throughout the country.

If Eximbank financing were not available to the emerging markets customers of smaller U.S. based businesses, those businesses would likely be ineffective in competing with companies whose export sales are supported with ECA financing. Such a circumstance would thwart job creation that might otherwise have been anticipated. If Eximbank support were not available to larger multinational corporations, the U.S. would face a perhaps more ominous risk that companies would simply shift production away from the U.S. to other markets, at a cost of existing jobs. If access to ECA supported financing is a determinant in a customer's choice of a supplier, multinational corporations increasingly have the capacity to divert production from one country to another.

In an era when U.S. trade deficits continue to expand, when long term economic growth in the U.S. is vitally dependent upon the successful expansion into international markets by more U.S. companies, and when other governments make aggressive use of agencies they sponsor to gain economic advantages for their own companies, an invigorated Eximbank makes good sense for the United States.