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EX–IM BANK OVERSIGHT: THE ROLE OF TRADE FINANCE IN DOUBLING EXPORTS OVER FIVE YEARS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

AND THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY
AND TRADE

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EX–IM BANK OVERSIGHT: THE ROLE OF TRADE FINANCE IN DOUBLING EXPORTS OVER FIVE YEARS

Wednesday, September 29, 2010

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS, AND
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittees met, pursuant to notice, at 4:10 p.m., in room 2220 Rayburn House Office Building, Hon. Dennis Moore of Kansas [chairman of the Subcommittee on Oversight and Investigations] and Hon. Gregory Meeks [chairman of the Subcommittee on International Monetary Policy and Trade] presiding.

Members present: Representatives Moore of Kansas, Meeks; Biggert, and Lee.

Chairman MEEKS. [presiding] This hearing of the subcommittees is in order. We know the rules. We will have hear from both of the Chairs and, of course, both of the the ranking members, in that order. We will then introduce each of the witnesses that we have here. And I will now recognize myself for an opening statement.

I want to begin by expressly thanking Representative Moore, who chairs the Oversight and Investigations Subcommittee, for co-chairing this hearing with me today. And although he is not here, I also want to thank Representative Miller, and Representative Biggert, who is here, the ranking members of the subcommittees, co-chairing this hearing today for the bipartisan nature in which this hearing has been planned.

The concern across both sides of the aisle is that we continue to do as much as possible to support quality job creation and retention here in America by supporting America's exporting companies. I strongly support President Obama's National Exports Initiative which aims to double exports in 5 years, supporting some 2 million high-quality jobs here in America.

The global financial crises and related recession have greatly strained access to credit and trade finance for America's exporters. While our economy struggles to restore and to create jobs, emerging markets are resuming the pace of pre-crisis growth.

Just yesterday, the Asian Development Bank increased its economic growth forecast for Asia to 8.5 percent, excluding Japan. As Mr. Fred Hochberg, my good friend, puts forward in his written

testimony, 95 percent of global consumers live and work outside of the United States of America. What's more, export-related jobs have a higher hourly wage than their peers focused on the domestic market.

So as the American economy takes only hesitant steps on the road to recovery, the Nation's exporters have been able to capture the foreign economic growth to do their part to kick start the American economy.

Where the growth of the broader economy has been tempered in 2010, exports have increased some 17 percent thus far this year. The role of the Export-Import Bank in meeting the President's goals will be central. It is therefore tremendously encouraging to read that the Inspector General's and the GAO's testimony indicates that while there is always room for improvement, Ex-Im Bank has been making many of the necessary changes to improve the effectiveness of this institution. And I'm not surprised by it, because of its leader.

I am very encouraged to hear about the targeted programs being implemented to promote U.S. experts to emerging markets. The global recession has led to double speed recovery with major emerging economies, including in Asia, Latin America, and Africa, seemingly resuming on the growth path they were on prior to the global recession. It is critical that American exporters get a foothold in these emerging economies that are likely to become major resources or major sources of global consumption and production in the coming decades.

I was very happy to see the increased focus on small businesses here in America. We all know and agree that small businesses are the engine of innovation and job creation in the United States. Supporting their efforts to expand their consumer base internationally is the right thing to do, and we greatly benefit American jobs and economic recovery when we do so.

Finally, I was happy to see the increased focus on exporting American services. American service exporters are likely to remain globally competitive despite market distortion behavior by certain foreign nations, mainly China. Indeed, service- and knowledge-based businesses represent a great opportunity to grow the global share of high-value American exports, to create high-paying American jobs, and to protect America's share of the global export market.

I would like to thank the witnesses for agreeing to testify today, and I look forward to an informative discussion as we consider the critical role of the Ex-Im Bank in supporting the goal of doubling American exports over the next 5 years and supporting the related jobs that will be created here in America.

And with that, I recognize the ranking member, Mrs. Biggert for an opening statement.

Mrs. BIGGERT. Thank you, Chairman Meeks and Chairman Moore, for holding this joint hearing which is important as we work to reauthorize and reform operations of the U.S. Export-Import Bank.

The Bank's authorization expires next year. As many of you may be aware, Chairman Meeks and I are co-chairs of the bipartisan Congressional Services Caucus, of which Chairman Moore is also a

member, and in that capacity we work to highlight the crucial contribution of services to our economy, to employment, to trade and investment, and to U.S. competitiveness in the global economy.

This year, our caucus has held briefings on the importance of finalizing the U.S.-Korea, Colombia, and Panama free trade agreements, and the time is now for the Administration to finalize these agreements and submit them to Congress for a vote. These FTAs are critical to increasing the U.S. services exports, helping our economy grow and creating jobs here at home.

Towards that same goal, I wanted to thank Chairman Hochberg for his commitment to increase Ex-Im's efforts to support the services sector, particularly in the financial services sector as he correctly noted in his written statement: "Services account for a trade surplus in a real competitive advantage for U.S. companies." During their previous Ex-Im reauthorization, this committee recognized Ex-Im's important mission to create and maintain U.S. jobs by providing financial support for U.S. exports.

That's exactly what this Congress and the Administration should focus on, creating jobs. And that starts with facilitating the growth of small businesses, which generate approximately two-thirds of new jobs. That includes providing businesses with tax relief, regulatory certainty, and helping small businesses increase exports. And that's why at a time when unemployment continues to hover around 10 percent, we must continue to bolster effective, self-sustaining Federal programs like Ex-Im that can work to jump-start the economy without vast expenditures of taxpayer dollars.

I want to note that I appreciate that Ex-Im has partnered with the SBA and the Department of Commerce to reach out to small businesses. In particular, Ex-Im has increased its outreach in the Chicago area. In my district, I recently held two supermarkets for small businesses, which included Ex-Im, Commerce, and SBA officials.

The resources and guidance operated by these agencies was extremely well-received by small business operators eager to find new economic opportunities. And I encourage my colleagues on the committee to hold a similar event in their own districts.

In addition, I hope that we can work together to find new ways for Ex-Im to expand its small business resources beyond outreach. The bottom line is coupled with the FTAs. Ex-Im is one of the best tools we have to increase exports, beat the competition abroad, strengthen our economy, and create jobs.

Let's face it. In our increasingly competitive global environment, we as policymakers have to ensure that we provide every advantage and remove every disadvantage for American companies to compete successfully abroad. That means all of our government policies must work in a coordinated manner from tax to foreign assistance, trade, regulatory, and export financing.

With that, I would like to thank today's witness for sharing with us expertise and suggestions. And I ask unanimous consent that testimony be included in today's hearing record from a family-owned and operated small business, Apac Engineering products, created in Aurora, Illinois, in my district, and also testimony from BAFT–IFSA, the Bankers Association for Finance and Trade and International Financial Services Association.

With that, I yield back.

Chairman MEEKS. Thank you. And I now yield to the Chairman of the Oversight Subcommittee, Chairman Moore of Kansas.

Chairman MOORE OF KANSAS. Thank you, Mr. Chairman.

Our economy continues to slowly recover following the worst financial crisis we have seen in generations in this country. It's well known that lax oversight and poor regulation of our financial system for too many years sowed the seeds of a near collapse of our entire economy, the worst of its kind since the Great Depression. And who paid the price for these mistakes? Unfortunately, it has been our constituents and small businesses on Main Street.

So I was pleased when this Congress responded with the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new law provides tough but fair financial rules that will end "too-big-to-fail" and better protect consumers and investors while shielding responsible small businesses and community banks from excessive regulation.

We know that the success of our small businesses is crucial for a strong economic recovery. Knowing this, the Congress also passed and the President signed into law this week the Small Business Jobs Act of 2010. The new law extends successful SBA recovery loans while offering billions more in tax breaks and lending support for entrepreneurs and small business owners. But the work does not end there. Growth and exports can also help our economy if we have the full participation of small and large businesses, exporting U.S.-made goods, and competing in the global marketplace.

So I was pleased when President Obama laid out an ambitious but achievable goal in his State of the Union address earlier this year that we double U.S. exports over 5 years. Today, our Oversight Subcommittee, along with the Subcommittee on International Monetary Policy and Trade chaired by Chairman Meeks will look at the issue of finance with respect to this National Export Initiative, in particular, taking a close look at the Export-Import Bank of the United States and what role it plays in providing export finance to our businesses competing globally.

I am glad we'll hear from the Chairman and the acting Inspecting General of the Ex-Im Bank, as well as GAO and a coalition of business exporters to assess how well the Ex-Im Bank is achieving its mission, and what areas of improvement or recommendations to Congress they may have.

Thank you, Mr. Chairman, I yield back.

Chairman MOORE OF KANSAS. I yield to the gentleman from New York, Mr. Chris Lee.

Mr. LEE. Thank you, sir. I'll be brief. And, unfortunately, due to the lateness of this, I'm not going to be able to stay for all of my questioning, but I would like to be able to submit for the record some questions and be able to follow up.

To be honest, there's not a lot of government agencies that I usually am enamored with, but I think what you do is critical for this country, and I'm a very large advocate because my background is manufacturing and getting this country to realize that if we don't start producing more tangible goods in this country, we are in a world of hurt, and we need to realize that we're only 5 percent of the world's population; 95 percent of the consumers live outside of

this country and we should be having a long-term manufacturing strategy that addresses it, and your integral part is ensuring that there is capital available. Many of my questions surround whether or not you have access to the right amount of staffing support so that we can continue to grow that.

So, again, I apologize for having to leave, but I look forward to following up with you, so good luck today.

Chairman MEEKS. Thank you. It's now my distinct pleasure to present our first witness.

Fred P. Hochberg is the Chairman and the 23rd President of the Export-Import Bank of the United States. He was nominated by President Obama in April 2009, and as indicated in my opening statement we know that Ex-Im Bank will play a key role in the implementation of the President's National Export Initiative. It should double U.S. exports in 5 years, and I agree with the ranking member in that we do need to get some of these trade agreements passed.

I'm with you on that, which will help us do that and help us open some of these markets. But under the leadership of Mr. Hochberg, the Bank has broadened its credit offerings and dramatically improved the loan response time to help small and medium-sized exporters create local jobs through increased global sales. He has more than 30 years experience in business, and when you're talking about having the right man in the right place at the right time, 30 years of experience in business and government and philanthropy.

From 2004 to 2008, he was the Dean of the Milano School, the new school for management and urban policy in New York. From 1998 to 2001, he served as Deputy, then acting Administrator of the Small Business Administration, and that was during the Clinton Administration. And what is most impressive, he was president and CEO of the Lillian Vernon Corporation, where he led the transformation of a small, family-owned mail-order company into an $180 million direct marketing corporation traded on the American Stock Exchange.

So he understands business. He understands small business in particular. I am also proud to say that he is a native New Yorker, and from the New York Metropolitan area where he received his undergraduate degree from New York University and his MBA from Columbia University.

Mr. Chairman, it's a pleasure to have you and welcome.

STATEMENT OF THE HONORABLE FRED P. HOCHBERG, PRESIDENT AND CHAIRMAN, THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HOCHBERG. Thank you, Chairman Meeks, Chairman Moore, Ranking Members Miller and Biggert, and members of the subcommittees.

Thank you for inviting me to testify before this joint hearing on what the Export-Import Bank of the United States is doing to create jobs here in America. Since its establishment in 1934, Ex-Im has had but one central objective: to create and sustain American jobs to exports. The Bank was founded with this goal during the

depths of the Great Depression and remains true to its mission today.

Let me tell you, "Made in America" still resonates around the world. When the books close tomorrow, on Fiscal Year 2010, it will be another record-setting year with total authorizations in the range of $25 billion, supporting approximately 230,000 American jobs.

The important work is done at no cost to the American taxpayer. Let me repeat. This work is done at no cost, whatsoever, to the taxpayer. In fact, since 1992 Ex-Im has earned and returned more than $4.5 billion to the U.S. Treasury. The Bank is self-sustaining, meaning it funds its programs and administrative budgets from fees paid by buyers and borrowers. We don't make grants and we don't increase the deficit.

Of the approximately 3,400 transactions the Bank supported in 2010, about 85 percent of these authorizations support small American businesses, and that includes more than 600 new small business clients this year alone. Also, Ex-Im supportive environmentally beneficial exports have increased dramatically from $2.6 million in 2006 to an estimated $330 million for this fiscal year, more than an 125-fold increase over that 4-year timespan.

As a former business owner, I understand firsthand the challenges many of these companies face tapping into new markets. As Chairman of the Export-Import Bank of the United States, I have made small business a top priority. Chairman Moore, you may be familiar with one of the companies Ex-Im has assisted this year: Knit Right in Kansas City. Knit Right manufactures medical textile products. They have 160 employees, and their top markets include Mexico, Germany, and Sweden.

Additionally, Ex-Im supported almost $300,000 of export sales from Apex Engineering of Aurora Illinois, which employees 11 people in Representative Biggert's district. In overall support last year, the Ex-Im Bank supported about $1.4 billion in exports from the districts represented by the members of this subcommittee. That's $1.4 billion from this subcommittee alone.

As an official credit agency in the United States, Ex-Im plays a critical role in President Obama's National Export Initiative that seeks to double exports to $3.1 trillion by 2015. Working with Congress and the Administration, Ex-Im Bank is helping to lead that effort.

Exports of U.S. goods and services increased 17.9 percent during the first 7 months of 2010. The United States remains on track to meet President Obama's goal of doubling exports in 5 years. Ex-Im provides American small businesses with the tools they need to compete for the 95 percent of the world's consumers who live outside the borders of the United States. This past May, Ex-Im expanded access to the Bank's short-term programs.

Let me give you an example of how it works. There's a small company in Miami named Demetech that exports surgical supplies to more than 80 countries. In the past, the Bank could only cover the cost to export those products that were incurred on the factory floor. That is the net rules in effect since 1968.

We have now changed that and expanded the eligibility so we can cover costs such as design, packaging, bookkeeping, and quality

control. This means that a small company like Demetech has additional access to credit insurance to allow them to ship to more places, and the result is more sales and more jobs. This year, the company's sales are up almost 100 percent, and about 30 percent of this increase is due to the support provided by Ex-Im.

As Demetech's CEO has told me, about 40 of the company's 100 employees are working because of this increased demand. And then, just 2 weeks ago, Ex-Im launched a program to help what are called indirect exporters. These are companies, many of which are small, that supply components to products that are then exported. This program injects liquidity into the marketplace and affords small businesses with ready access to capital and an increased competitive edge.

So whether a company is exporting surgical sutures or services, and regardless of whether the final destination is Brazil or Bulgaria, Ex-Im is determined to help more U.S. companies export to more countries to find more customers, and that means more jobs here in America.

Thank you for the opportunity to testify, and I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Hochberg can be found on page 46 of the appendix.]

Chairman MEEKS. Thank you, Mr. Hochberg.

Let me just start out with, I see that there has been growth in the first year, and my question is, do you see any barriers? What happens is sometimes we have great expectations and then something hits us that's unforeseen that stops growth. Do you see any barriers in the immediate future that can prevent Ex-Im and the export market from continuing to grow at its current rate or even a greater rate as we move forward?

Mr. HOCHBERG. Thank you for that question. I see tremendous demand overseas for American products; and, as I mentioned in my testimony, "Made in America" really has resonance and meaning for quality and service. My concern is that the Bank is almost—2 to 3 years ago, the Bank did about $12 billion to $14 billion a year. We're going to be in the range of $25 billion this year.

My concern is having the resources. The Bank was built at the $14 billion to $15 billion authorization level. We are now authorizing a full $10 billion on top of that, and I see greater growth. So I see the concerns about how we are continuing to meet that market and meet it timely with the resources that we have.

Chairman MEEKS. And one of the things that—in my district in New York, we try to meet regularly with some of our small businesses, trying to show them where they should be expanding so that they can export, so there's a greater market, etc. Is there anything that the Ex-Im Bank is doing to lay a great foundation? Or, outwardly—you talked earlier about how the number of our businesses are doing exports.

Is there anything that you have to lay foundations for small businesses and districts like ours and others that we can tap into? Can you talk to me?

Mr. HOCHBERG. Yes. In October a year ago, this month a year ago, we launched a program called Exports Live, that would bring in some small business owners. Some of our sister agencies, the

Small Business Administration, Commerce, USCR, and others run a half-day seminar or workshop with small business owners.

To date, we have conducted 16 of these. Since last year, more than one a month. We have been doing them most recently working with Members of Congress and would be happy to meet with any member of this committee or other Members of Congress, and host one in their district. We did one recently with Senator Warner in Richmond, Congressman Costello in the St. Louis area, and Congressman Maffei in the Syracuse area, so these have been a successful way of getting the word out.

My concern again obviously is if we never were appropriated that money, we have sort of scraped together and done those. But they were an important way of making sure particularly small business owners understand the vast resources that are at their disposal.

Chairman MEEKS. Let me ask you one more question, and then I'm going to turn it over to Mrs. Biggert.

I am also very interested, and I think that Ex-Im seems to give American exporters better financial tools to penetrate emerging markets. How do you see the increased focus on emerging markets impacting the composition of the global export market, because I do a lot of work in some of these emerging markets, and so I would like to get your viewpoint on that.

Mr. HOCHBERG. Chairman Meeks, both of us have been to Colombia a number of times. Colombia is one of our target countries for opportunity. We in the United States are growing at a rate of 2 or 3 percent. We are growing at a somewhat slower rate than some of these emerging economies. Economies in Brazil, India, Vietnam, Indonesia, and Colombia are growing at rapid rates. There are great opportunities there for American exporters.

What we need to make sure is that we have the resources to support them, so when they are able to secure a sale, we can get an answer, get them to yes quickly so that we can provide the financial resources. But, clearly, the world has relied on the American consumer for many years. We're now going to be looking to rely on many developing countries to sort of power the global economy.

Chairman MEEKS. Are we working in sync, do you think? We are looking at American companies, those of us in the legislative bodies and the agencies. Do you think we're in sync to make sure that we can be successful in getting our businesses into these emerging markets?

Mr. HOCHBERG. I think we're in sync. I think one of the things I see, it is a brutally, brutally competitive market out there, and American companies have to fight for every single sale they get and fight with other competitors. My only concern, as I mentioned, I don't want to repeat it too often. I want to make sure I have the resources to meet in those small communities.

It takes longer to do a small business transaction. It's much more one-on-one, meeting company CEOs in their offices and sort of explaining and giving them the information so they can get over the concern about risk they might have selling overseas.

Chairman MEEKS. Thank you. Mrs. Biggert?

Mrs. BIGGERT. Thank you, Mr. Chairman.

Chairman Hochberg, Ex-Im has been criticized for not fully engaging key stakeholders and partners before implementing new

procedures or policies, and this is not the same question that you just addressed, but it seems a collaborative process should be the norm rather than the exception. That helps to avoid confusion and errors. What is Ex-Im doing to help enhance export and lender participation and put input into the Bank programs and improve their capacity to increase market growth for U.S. exports?

Mr. HOCHBERG. I think that we can do a better job of that. In these 16 Export Live events around the country, easily a dozen of those I usually meet when I'm in that community with a group of local bankers, solicit their ideas of how we could provide better service and better products. We probably could formalize that a little bit more. Those are more informal gatherings and I think that input is important so that we can design a program that banks can implement, and that's our key goal.

Mrs. BIGGERT. So when you have been doing this, are you touching all areas of the country?

Mr. HOCHBERG. I have been from Billings, Montana, to Chicago to New York to Boston to Syracuse, to Long Island. I have lost track of the 16 cities I have been to, and usually we'll meet, depending on the community. The community bankers are large bankers. We're also talking to credit unions, but a range of financial intermediaries to make sure we can meet particularly small business needs.

Mrs. BIGGERT. How do you contact them in these different areas to make sure you're getting the pulse of that?

Mr. HOCHBERG. Most recently—to give an example—when I was in upstate New York in Congressman Maffei's district, his office pulled together the local banks that they work with. So, frequently, we have done these consultations with a Member of Congress. I was in Cincinnati and Senator Brown and Congressman Driehaus brought in all their community Bankers who had an interest in this area. That has been our prime way. We also work with BAFT and other trade associations as well.

Mrs. BIGGERT. Then various reports have been critical of Ex-Im's application processing times. Is the Administration doing anything to help improve processing times for applications?

Mr. HOCHBERG. I put it in my written testimony. I have three real priorities in the Bank: small business; renewable energy; and improving processing time. It is not where it needs to be. Since I joined the Bank a little over a year ago, we have reduced it by about a third in the number of our product areas. My goal is to cut it even more. Regrettably, that does take resources. It does take people to go through those finances.

When you're dealing with a small company, they often don't have fully audited financials, so it takes more effort. And one of the impediments to really drastically improving our response time would be two-fold: one is resources of people; and I think we need to improve our IT systems. Many of these IT systems have not been touched for 12 to 15 years, and the world has changed dramatically in those 12 to 15 years.

Mrs. BIGGERT. On page 6 of your written testimony, you mention that Ex-Im is expanding the scope of private-public partnerships. You mentioned that in addition to outreach, Ex-Im is looking for lenders to participate in the guarantee programs by originating,

and in some cases underwriting transactions. It seems like a great idea, and I think it will utilize the private sector resources and significantly expand the ability of Ex-Im to help more small businesses export and strengthen our economy and create jobs. Is this your plan, and what's your timeframe for launching such an initiative?

Mr. HOCHBERG. We currently at the Export-Import Bank work with approximately 50 banks. That's clearly not enough banks, and so one of my goals has been to provide better outreach to small business owners to expand our network of banks.

I spent almost 3 years at the Small Business Administration or as senior vice president of small business, formerly worked at the Small Business Administration. We are looking to leverage some of the banking relationships that they have with banks that are experienced working with small businesses to include them in Export-Import Bank programs; in fact, in speaking at their annual conference in the month of October to try and increase that.

That's a clear goal of ours. Again, my concern is as I bring in more business I want to make sure that I don't want to over-promise and under-deliver in terms of service time for our customers.

Mrs. BIGGERT. Thank you. My time is approaching. I yield back.

Chairman MEEKS. Thank you. Chairman Moore of Kansas?

Chairman MOORE OF KANSAS. Thank you. Chairman Hochberg, I appreciate the increased role the Ex-Im Bank has played in the recent financial crisis providing export credit to businesses that had a difficult time finding credit. But, more important, I am pleased the Bank has protected taxpayers and even paid back more than $4.5 billion to taxpayers since 1992.

As we think about an expanded role for Ex-Im Bank to help meet the important goal of doubling exports in 5 years, what steps will Ex-Im take to ensure taxpayers are fully protected, and also, what additional steps can be taken to mitigate fraud with Ex-Im's financing?

Mr. HOCHBERG. Our loan write-offs are about 1.5 percent each year, which is probably better than most of the banks that this committee comes in contact with.

We have a good working relationship with our acting Inspector General, Osvaldo Gratacos, and there are two kinds of things they worry about. One, we will make a bad loan now and then, that companies make a bet and we're helping them. And sometimes things—I was in business—don't turn out the way you think they will. That's one thing.

We really have no tolerance, whatsoever, for fraud. We are looking. There was some fraud years ago. I think that a number of the systems have been closed up and the Inspector General is a very strong ally in us trying to root out any opportunities for frauds that we make that last. As I said, it's one thing to lose on a transaction that happens to go south in good faith versus one that's fraudulent.

Chairman MOORE OF KANSAS. Thank you, sir. An idea you mentioned, Chairman Hochberg, in our meeting last week to discuss today's hearing was an idea to look for opportunities with Canada and Mexico, and see if we can cooperate better in looking for export opportunities where all three countries can compete better with other countries.

Would you discuss this idea, sir, and speak to how aggressively other countries are getting with promoting their own exports, and how do we make sure the United States doesn't get outmaneuvered by other countries with these export opportunities?

Mr. HOCHBERG. I think the National Export Initiative is designed to do exactly that. This is the first time that a President has called a national effort to rally around exporting, making it: one, easier for exporters to provide the advice; and two, providing the advocacy that our trade agreements are upheld, and that, frankly, there's a level playing field for bidding.

One of the challenges American companies face is that sometimes countries favor their local suppliers over an American supplier. The United States Trade Representative and others, we work hard to make sure there's a level playing field in accordance with the WTO.

I think that's a major piece, and the important piece that we supply is the financial resources, so that our companies can compete against other countries that are also getting Export-Import Bank from their respective bank's creditors.

Chairman MOORE OF KANSAS. Okay. Thank you, sir. I don't know if you have had a chance to review the next panel's testimony, but does your office have good relations with both the Inspector General's office and GAO, and are there any particular recommendations they make in their testimony that you care to respond to? For example, the IG recommends improving the Ex-Im Bank's information technology platform. Do you have a response to that, sir?

Mr. HOCHBERG. When I meet with the Inspector General in my office, every single month, we have a meeting to review any open items to make sure that we have an open dialogue. And I do that with myself and our Chief Operating Officer. I am delighted that he finds our IT systems deficient. It probably does not take rocket science to figure that out, but they're strained. They're older systems where they have not really been invested in and we're operating at a much higher level, both of transactions and of dollars in more difficult parts of the world.

Chairman MOORE OF KANSAS. I yield back. Thank you, Mr. Chairman.

Chairman MEEKS. Let me just ask one last question, and if anyone else has one final question, feel free, before I turn it over to Mr. Moore and the second panel.

I know you were with the SBA administrator for a while. I was wondering, with Ex-Im Bank, I'm finding that to the degree, if I look at exporters, I don't see the diversity. Is there any specific outreach that you're doing to work to try to help, say, women-owned and minority-owned businesses so that they're more into exporting and getting involved. Is there anything in that regard?

Mr. HOCHBERG. We have an office of minority- and women-owned exporters. We are working with them. We have staff who are dedicated to that. We have staff, for example, dedicated purely to veterans as an example. And one of the other areas we're working on very aggressively is Sub-Saharan Africa. I'll be making my first trip there in November, partly because they're offered as a community of interest in that regard.

In 2009, we supported just over a half a billion dollars worth of exports from minority- and women-owned businesses. In 2010, we were up about 10 percent to about $560 million. I think we still should do better, and I would look forward, if members of the committee can help us do that outreach, because sometime it's a question of getting that information to those women- and minority-owned businesses that these resources are there.

Chairman MEEKS. Thank you. And I look forward to working with you on that very endeavor and continuing to focus on the President's great export initiative so that we can create jobs here in America. We thank you for your testimony.

Mr. HOCHBERG. Thank you. Thank you very much.

Chairman MOORE OF KANSAS. [presiding] I am pleased to introduce our second panel of witnesses today: Mr. Osvaldo Luis Gratacos, acting Inspector General of the Ex-Im Bank; Mr. Loren Yager, Director, International Affairs and Trade at GAO; and Mr. John Hardy, president, Coalition for Employment Through Exports. Without objection, your written statements will be made a part of the record.

Mr. Gratacos, you are recognized for 5 minutes, sir.

STATEMENT OF OSVALDO LUIS GRATACOS, ACTING INSPECTOR GENERAL, EXPORT–IMPORT BANK OF THE UNITED STATES

Mr. GRATACOS. Good afternoon, Chairman Moore of Kansas, and distinguished members of these honorable subcommittees. Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General and the programs and operations of the Export-Import Bank.

Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im Bank OIG for their dedicated work. Ex-Im Bank, as you know, is the official credit agency of the United States. It supports the financing of U.S. goods and services, international markets, turning export opportunities into active sales that help U.S. companies of all sizes to create and maintain jobs in the United States.

Ex-Im Bank has programs to address short-, medium-, and long-term needs of exporters, assuming the credit and country risk that the private sector is unable or unwilling to accept. As such, Ex-Im Bank plays and will be playing an important role in President Obama's National Export Initiative.

As expressed by Chairman Hochberg, recently Ex-Im Bank announced record authorization levels, reaching $21 billion in 2009, exceeding small business requirements of 20 percent, and will be reporting Fiscal Year 2010 authorization level, surpassing 2009 levels.

Today, the opportunity to increase American export is an important element of our Nation's economic recovery. Extending Ex-Im Bank financing to more American manufacturer service providers and exporters, including small businesses, enhances accessibility to achieve the National Export Initiatives goal.

As presented in our written testimony and discussed with Chairman Hochberg, Ex-Im Bank has taken some steps and is in the process of implementing some strategies in its efforts to increase

small business participation under the National Export Initiative and addressing recommendations issued by GAO. Ex-Im Bank's role, coupled with the growth levels mentioned, about a percent of valuable opportunity for the alleged partner with Ex-Im Bank in support of its mission while exercising our statutory independence.

Some history on our office: Ex-Im Bank was created in 2002 but the Inspector General did not officially take office until August 2007. Since routine current staffing levels in April 2009, the OIG has issued 15 audit and special reports containing over 50 recommendations and suggestions for improvement, improving Ex-Im Bank operations. Our investigative efforts have resulted in a number of law enforcement actions including 51 indictments and arrests relating to over $45 million in claims paid by the Bank.

One conviction, over 80 management referrals for actions and over $26 million in program savings due to policy cancellations arising out of investigations. Moreover, the OIG is currently investigating 48 open matters, representing approximately $327 million of claims paid by the Ex-Im Bank, or around 13 percent of all Banks claimed to pay as to the end of 2009. All of this has been accomplished with a modest budget of 2.5 million and a staff of 10 professionals.

The OIG through its statutory mission is committed to monitor and provide oversight in support of Ex-Im Bank's mission. Chairman Moore, Chairman Meeks, ranking members and members of the committee and subcommittees, thank you, once again, for the opportunity to testify before you today, and I will be pleased to respond to any questions you might have. Thank you.

[The prepared statement of Mr. Gratacos can be found on page 28 of the appendix.]

Chairman MOORE OF KANSAS. Thank you, Mr. Gratacos, for your statement, and I want to recognize now Mr. Yager for 5 minutes, sir.

STATEMENT OF LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. YAGER. Chairman Moore, Chairman Meeks, and Ranking Member Biggert, thank you for the opportunity to appear before this joint subcommittee hearing to provide our perspective on the role of the U.S. Export-Import Bank in the context of the President's initiative to increase exports.

I know the time of the committee is very valuable, and given that my written statement is part of the record, let me just talk about three main contributions that GAO has made to congressional oversight of the Export-Import Bank.

First, GAO completed a report for the Congress in 2006, which included a careful examination of the measures and the systems that Ex-Im had in place to track their progress in financing small business. One of the very first steps in ensuring that all efforts are being made to provide assistance to small business is establishing confidence and accountability in the measures used to track progress. While we found a number of weaknesses and problems in that examination, I am pleased to report that Ex-Im has been very responsive in making improvements to those systems and that

Congress can better rely on those measures as a fair representation of the Bank's efforts for small businesses.

Second, GAO completed a report in 2008 in response to a mandate in Ex-Im's 2006 reauthorization bill that had a number of important provisions related to small business, including minority- and women-owned businesses. I'm aware that much of the language in that reauthorization bill was drafted within the Financial Services Committee, so I am pleased to appear before the two key subcommittees to represent that work.

Our 2008 GAO report is a careful cross-check between the elements in that reauthorization bill and the actions that Ex-Im had taken in response. Ex-Im had addressed a number of the elements from that reauthorization, but we observed that they were in the early stages of using performance measures to improve their small business programs and results.

Finally, GAO just released a study on one of the other key agencies involved in the National Export Initiative, and that's the Foreign and Commercial Service of the Department of Commerce. A GAO team has recently traveled to a small sample of key export markets to gain some insights on U.S. efforts to achieve the goals of the National Export Initiative, as Ex-Im is only one of a number of agencies that will need to contribute to the success of that initiative.

While I cut short my travel to participate in this hearing, I would be happy to provide some insights from that travel, as I met with many of the same persons as Ex-Im officials who proceeded me in some of those same locations.

Thank you, once again, for the opportunity to appear before the hearing, and I would be happy to answer any questions on the broad range of GAO work related to the Export-Import Bank or to exports more broadly.

Thank you.

[The prepared statement of Mr. Yager can be found on page 60 of the appendix.]

Chairman MOORE OF KANSAS. Thank you, Mr. Yager.

And now, Mr. Hardy, you're recognized for 5 minutes, sir.

STATEMENT OF JOHN HARDY, PRESIDENT, THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. HARDY. Thank you very much.

Chairman Moore, Chairman Meeks, and Ranking Member Biggert, I am president of the Coalition for Employment through Exports, a coalition of exporters and banks promoting the expansion of U.S. exports and jobs that are generated thereby.

CEE appreciates the opportunity to discuss the role of the Ex-Im Bank in the Administration's National Export Initiative. Let me start by saying that CEE and its members are strong supporters of the Bank and view it as playing a critical role in the government's response to the financial crisis.

As you know, the crisis created a severe liquidity shortfall as the private sector stopped lending across-the-board; but, Ex-Im stepped in aggressively to fill the gap. And as Chairman Hochberg has spoken, it dramatically expanded its transaction volume. It also ex-

panded lending to small businesses, but the Bank did not stop there.

The Bank has been engaged in streamlining its processes, creating new programs to respond to the particular needs of exporters caught in the liquidity squeeze, such as extending Ex-Im guarantees to sub-suppliers within a supply chain. In short, we believe that Chairman Hochberg and the entire staff at the Bank should be commended for their excellent work responding to the crisis.

We also believe that for Ex-Im to continue to provide increased support to exporters, it will have to aggressively address some of the constraints we have outlined in our testimony, especially as the liquidity situation continues to improve. With regard to the National Export Initiative, CEE and its membership believe that Ex-Im Bank, if fully competitive, can be a centerpiece in the success of that initiative.

Ex-Im can facilitate the growth of exports and jobs more readily than almost any other agency in the U.S. Government. In comparison to other ECAs, which are parties to the OECD arrangement and its rules regarding premium rates, financing terms, and local costs, Ex-Im is quite competitive. The Bank is also a leader in areas such as project finance and support for small businesses. However, at present, many of the other OECD ECAs and their governments operate with a flexibility that the Bank is unable to replicate.

For the NEI to be truly effective, Ex-Im Bank, with support from the Administration and Congress, should work on addressing these policy issues. The first is foreign content. The policy of requiring 85 percent domestic content is flawed in the context of today's global supply chains, which major exporters need to maintain their competitiveness internationally.

Among the ECAs, there has been a shift towards more flexible content rules reflecting the increased emphasis at the ECAs upon a national interest or benefits approach to financing. This has been a long-developing trend, but it has been accelerated by the economic crisis, and indeed represents the perspective of most OECD ECAs, but of the non-OECD ECAs as well, particularly China, Brazil and India.

Compared to other ECAs, Ex-Im Bank's content rules are far and away the most stringent. Austria has the next highest content rules at 50 percent. Japan and Germany support their companies with as little as 30 percent domestic content. Moving on, the MARAD cargo preference requirements and the Tied Aid war chest restrictions are additional issues that need to be addressed. In different ways, they adversely affect the exporter, but we are confident each can be resolved with stronger government commitment to make Ex-Im fully competitive.

Service exports and small business exports represent great opportunities for the Bank. The export of services, especially high-tech services, is one of the fastest growing sectors of the U.S. economy. While the Bank is mandated to provide financing for services, it is not doing all that it should. The reasons include the lack of a services policy for the companies to refer to, the lack of a clear idea what the export actually comprises and the current stringent content rules that are based upon the manufacture of goods. The

content rules do not consider U.S. value received, which comprises in part intellectual property, research and development, global supply chain management, and even corporate brand; nor does the content rule include the high value jobs reflected in those elements.

We would add only one comment: that supporting small business exports consumes very substantial staff resources. Recognizing the importance of this effort to U.S. jobs, CEE fully supports an increase in administrative appropriations, so the Bank will have the resources to add much needed staff and technological resources to continue to reach small businesses around the country. And, with the Bank operating on a self-sustaining basis, the burden of an increase is an entirely different matter than for other agencies.

CEE, in preparation for the Ex-Im reauthorization this coming year, is already in discussions with Chairman Hochberg, his staff, and the Administration on these issues, and we will be preparing a draft bill for the benefit of Congress. We commend the subcommittee's oversight of the Executive Branch on these issues and look forward to working with the committee on the reauthorization bill.

Thank you. I'm happy to answer any questions.

[The prepared statement of Mr. Hardy can be found on page 41 of the appendix.]

Chairman MOORE OF KANSAS. My thanks to the witnesses for your testimony, and I now recognize myself for 5 minutes for questions.

Mr. Gratacos, I know your office is relatively new, but you have announced a number of cases where you have identified and stopped fraudulent activity with Ex-Im funds. As we think of the goal to double exports in 5 years and the Ex-Im Bank's playing a key role in the effort, do you have any recommendations for building a stronger fraud prevention mechanism with respect to Ex-Im's activities?

Mr. GRATACOS. Thank you for the question, Chairman Moore. There have been a number of fraudulent cases, the biggest portion on the Medium Term Program, which is the program that offers financing terms up to 5 years, sometimes 7 years in some instances. That was a program that we first got exposed to when we opened our office, given the losses.

We did a big audit of that program. Some small businesses actually benefitted from that program, and we found that there were a number of fraudulent cases, and we heard that part of them is due to lack of resources. That's one of the points that we can acknowledge other than the front-end and the back end oversight in terms of the asset management of those claims; but, we also know that there was a lack of implementation and of some due diligence efforts on the Bank's side, and we have recommended a number of steps where we have highlighted some of the shortcomings in some of the transactions. We have conveyed those steps to the Bank in our efforts to promote sound, due diligent practices, and also a number of lessons learned.

Chairman Hochberg alluded to a number of situations where some of those buyers did not have financial information available to them or audit their financial statements. So it makes it a little bit harder for the Ex-Im Bank staff to address some of the finan-

cials when they see it up front. But we still believe there's some current improvement within the current frames of the short-term working capital programs and medium term programs.

Chairman MOORE OF KANSAS. Thank you. It's clear that global business is getting more, not less competitive, and other countries are working hard to promote export or opportunities for their domestic businesses.

Mr. Yager, our two subcommittees are sending a letter to GAO today requesting a new report on these issues. I won't read the entire letter, but we write that, "We are particularly interested in the range of goals pursued by export credit agencies of other developed nations and how they balance the needs to serve small and medium enterprises while still supporting other export goals. We are also interested in whether there are lessons that the United States might learn from those other nations in terms of providing assistance to the private sector."

Would you speak to this request? Generally, Mr. Yager, is this a good issue for GAO to investigate, and would lessons learned from this new report help improve the effort to achieve the goal of doubling exports in 5 years?

Mr. YAGER. Chairman Moore, thanks for the letter.

I did take a look at the letter, and I should comment that I did a testimony last year which addressed in a summary level the export promotion activities of other nations. I have been quite surprised at the fact that there were so many people who have contacted me after that relatively brief testimony where we did the summary work on the efforts of other nations.

And frankly, that interest has come both from Capitol Hill as well as from the private sector and others, so it seems like an issue where there is a great deal of interest, certainly within the United States and even outside, so we look forward to looking into that issue. I believe we have the expertise to look into that, and we have relations with some of the other countries where we can work with those export credit agencies to learn more about what they do.

Certainly, I hope that we get some insights that will be useful to the Congress in making decisions about how Ex-Im can use those results and make some changes to the way they use their resources.

Chairman MOORE OF KANSAS. Thank you, sir.

Mr. Hardy, you lay out a number of helpful observations in your testimony. Do you believe the United States can meet the President's goal to double our exports in 5 years? And how do we ensure businesses—both large and small—have every opportunity to compete globally? What are the top two or three things the Ex-Im Bank should focus to support this goal?

Mr. HARDY. Chairman Moore, thank you very much for your question.

We do believe that the President's initiative can be met, but in order to accomplish that task, we believe that—and this reverts back in part to the question that you asked Mr. Yager, and that is we need to understand much better what the competitive environment is internationally. It is very aggressive.

As the chairman said, it's brutally competitive and there will need to be, we believe, changes made to the conditions under which

Ex-Im operates that will allow it to be more flexible and to be able to match the offers made by other countries; and, as such, to become more competitive in a very difficult environment.

If that's the case, then I think there's every possibility that doubling of exports in this period of time is possible.

Chairman MOORE OF KANSAS. Thank you.

The Chair next recognizes the ranking member, Mrs. Biggert, for 5 minutes.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Just following up, Mr. Hardy. It seems like we have delayed these trade agreements and so many other countries have had so many more trade agreements in this hemisphere and throughout the various areas. Aren't we really behind? How are we going to win back some of the sales that other countries have already had a much better agreement?

Mr. HARDY. Thank you, Mrs. Biggert.

I think you're right that we are behind, but at the same time, as Chairman Hochberg said in the very beginning, there's extraordinary demand for U.S. goods and services; once we do move forward and the Administration is able to address and resolve the issues that have held us up, we have the ability to move quickly and actually to be able to capture back those exports.

The concern that I think exists, and it exists with a number of member exporters in CEE, is that for high value goods, it's extraordinarily competitive. And the longer time goes on where we are not able to match offers by the export credit agencies of other countries, which particularly in the current economic climate are aggressively pursuing not only the specific transactions, but also trying to get an edge in terms of establishing footholds in other markets, U.S. exporters will lose opportunities.

It does become increasingly difficult, so that I think that there is a concern there. But the United States is resilient and can be very responsive. The exporting community can be very responsive, but there is no question that time lost is certainly a delay, too.

Mrs. BIGGERT. Isn't it too where we have to pay so many tariffs for entry into some of these countries? So our goods are costing so much more, does that lessen our competitiveness?

Mr. HARDY. Absolutely. I don't think there's any question about it, and, of course, that goes back to the issue of enforcing the laws that we have entered into; ensuring all parties to these agreements are complying with their obligations; and that is an increasingly difficult situation.

Mrs. BIGGERT. Thank you.

Mr. HARDY. Thank you.

Mrs. BIGGERT. Mr. Gratacos, and I probably didn't pronounce that right, I asked Chairman Hochberg about criticism of the Ex-Im's application processing times. Could you comment on that?

Mr. GRATACOS. That has been one of the biggest criticisms of the Bank from since I remember. The Bank did take some actions regarding addressing that issue. One of them was developing the Ex-Im on-line system. The Ex-Im Bank has helped lower the processing time, but still has some work to do, especially once it goes to the second and third phases of the transaction. It has become

more like a data collection type of system, and it doesn't communicate with the other systems that the Bank has.

But the Bank has actually taken some steps that they initiated as part of the National Export Initiative and because of our recommendations. One of them is they created cell groups to try to address some of those transactions, especially coming from certain markets where they can create a team of credit underwriting and approval people up front, and try to lower the processing time. And since January-February of this year, we have been able to use that as a test, and it has achieved some results. They also are planning on doing something similar for small businesses down the road.

Mrs. BIGGERT. Thank you.

And then, Mr. Yager, in your testimony, and I think I asked this question early on to Mr. Hochberg, too, but you in your testimony, an area in which Ex-Im could do better is communicating goals and strategies with the stakeholders. What's the result of their weakness in this area?

Mr. YAGER. One of the interesting examples that we looked at is a report that was issued quite recently on Ex-Im's efforts to achieve environmental exports, and they have not reached that goal. As a matter of fact, the Ex-Im achievements there are really just a fraction of the 10 percent target.

One of the things that we looked at is that they weren't speaking with their stakeholders and communicating with the stakeholders on how important that target was, and so the stakeholders, who were doing a lot of the front-end work for Ex-Im Bank, were not even aware that Ex-Im had that priority target. Therefore, they weren't going out and looking for business as aggressively in those particular areas as they obviously would have if Ex-Im would have communicated clearly.

One of our priority areas is environmentally beneficial products, and so that's just one example of how working with stakeholders is important. I think another example that we could give is not just for Ex-Im, but for other U.S. agencies as well, and that is we all know that resources are very limited, and they will be limited even further in future years. That way they have to work with their other stakeholders, whether it's State export agencies, whether it's Banks, whether it's other private sector sources. Even if funding is increased, they will still rely on those other stakeholders to help them achieve their goals.

Mrs. BIGGERT. Thank you.

I yield back.

Chairman MOORE OF KANSAS. Thank you. The Chair next recognizes Chairman Meeks for 5 minutes, sir.

Chairman MEEKS. Thank you, Mr. Chairman. I guess I'll start with Mr. Hardy. What I'm hearing from everyone and everyone we know about part of the challenge and the keys being competitive globally. And I know in Mr. Hochberg's remarks, he spoke about export credit agencies in emerging markets and principally in China that they use Tied Aid and other market distorting measures, and use these to promote their exports, and they are not subject to some of the same fair market rules that the OECD countries have chosen to impose upon themselves to ensure fair competition globally.

I was wondering if you could give us examples of such distortions and share your thoughts on what American exporters needed to do so that we make sure in competing with exports in someplace like China who have distorted the market, what do you think we need to do and what should we be doing?

Mr. HARDY. Thank you very much for the question. This is a very difficult issue, and it's an issue about which certainly there's an awful lot of press, indeed, we have anecdotal information about specific situations, particularly for American companies in Africa, in which U.S. companies have run up against this and have had particular difficulties in terms of contracts that they thought had already been awarded to them that had been subsequently reversed when the Chinese came in and offered soft financing.

CEE also represents the business perspective to the OECD; and in the course of our involvement with the OECD, we have engaged the OECD on this issue. It's a grave concern to the OECD, because obviously, as we commented in our testimony, there are a number of non-OECD ECAs that are not bound by the arrangement and the rules under which the OECD ECAs are operating.

China is far and away the most aggressive of the non-OECD ECAs; at one level we have tried to work with the OECD to bring China into an improved relationship with the OECD which will reduce some of these steps, very aggressive steps, that the Chinese are taking. Within the national context, the United States has a Tied Aid war chest, and the war chest has existed for a number of years precisely for these sorts of situations where an export credit agency has broken the rules of the OECD arrangement.

And under the rules of the arrangement, countries like the United States are allowed to match the offers in violation of OECD rules to basically establish a principle that we are not going to allow this aggressive and illegitimate behavior that's outside the bounds of rules that had been internationally agreed upon, even though China is not part of the arrangement, but to match those terms in an effort to make the process more expensive for them.

And it seems to us that there needs to be greater recourse to the Tied Aid war chest, in order to make the process more expensive, and to demonstrate that we are not going to walk away from those efforts, but rather we will match the Chinese and continue to support our exporters.

Chairman MEEKS. And to me, that's one of the key areas of which we need to move in. And I don't know whether the Ex-Im Bank can be helpful in that regard, because I think part of the confusion that the American people have, and you may talk trade to some, and they said, oh, we're against trade. They don't understand trade. And when people start talking about trade deficits, and particularly exporting, it seems like the deficit we have is with China. China is exporting more than we.

But, if we were able to talk about how we're leveling that playing field to show how our businesses are competing and, in fact, that is creating the jobs here, I think it can turn the tide of the difficulty that we have sometimes here in the United States Congress to pass some of these trade agreements. And, so, I do believe that's some of the focus that we need to have, because it begins to level

the playing field when most of our trade deficit is either with China or dealing with fossil fuels.

And people don't think of it that way. They think of trade as being jobs that are just going overseas, when in fact that's not the case at all. Trade and outsourcing are two different things, and we have to reeducate the American public in that regard. And I think that working with you and your organization, we can move very definitely in that direction.

Lastly, because I see that I'm out of time and I know that we have votes coming up, it is that same spirit of competitiveness, finance. Finance. How critical is trade finance among the challenges that you see in helping our American companies being able to compete on a global scale in a global market? And what do you see that's possible that we can do to help that so that we can move forward too, and, again, to me open up the greater global opportunities that are out there.

I'll start with you, Mr. Gratacos, and then Mr. Yager and Mr. Hardy. And then I'm done.

Mr. GRATACOS. Thanks for the question, Chairman Meeks. If I understand correctly, you're talking about access to finance for American exports.

Chairman MEEKS. Correct.

Mr. GRATACOS. Obviously, it's a little bit outside of the IG scope.

Chairman MEEKS. I know. The prosecutor wants to do that.

[laughter]

Mr. GRATACOS. So there's not much we can add in this regard.

Chairman MEEKS. It's really Mr. Hardy's question.

Mr. GRATACOS. Correct. But, obviously, access to finance, yes, is important to American exports.

Chairman MEEKS. Mr. Yager?

Mr. YAGER. Chairman Meeks, let me go in a slightly different direction, because I'm sure that Mr. Hardy will talk about the importance of finance, but let me make a point about some of the other partners, some of the other U.S. Government partners that are also essential in this effort, for example, the U.S. Foreign and Commercial Service. They provide the personnel in foreign locations that help U.S. firms learn about those export markets, and they sell services, such as the Gold Key service, where they provide information on the markets as well as connect U.S. exporters with potential buyers in those other countries abroad.

And that particular service in many of these booming, emerging markets, is meeting the market test, because the Foreign and Commercial Service is required to charge full price for those services to large exporters, and they charge half the price or half the cost to small exporters. And in many cases, they're booked up months ahead and find themselves unable to promote their services, because they're already booked up.

So I think one of the other things to keep in mind is that as important as export financing is, there is a package of government services and a number of different kinds of assistance that is needed by exporters, particularly small exporters, when they want to make that move from the U.S. market to a foreign market.

And so a healthy Foreign and Commercial Service as well as the Small Business Administration, all those parts, are necessary for

many of these exporters, to make that move into the foreign markets and to be successful there.

Chairman MEEKS. Mr. Hardy, do you want to say something?

Mr. HARDY. I'll be brief. The purpose underlying the OECD arrangement was effectively to take financing out of the competitive environment so that you would get essentially equivalent financing for the same transaction, whether you went to one ECA or an other ECA, as long as they were part of the OECD. But it has never worked that way.

Gaining an edge in financing has always been absolutely critical in terms of competitiveness of exports. It's never just about the quality of the product, even though we would love to have that. Because at the end of the day, American products are going to come out ahead and services are going to come out ahead, but it has never been that straightforward.

Outside of the United States, there has always been concessional financing, mixed credits, a variety of different types of financing combined in order to create that edge. And with the economic climate that we're in now, that edge is all the more important.

And the question that you raised about China is certainly absolutely reflective of this: that they have made a decision at the highest levels to move in a certain direction, and they have put whatever necessary fundings to obtain that objective behind it, and that's the nature of the dilemma.

Chairman MOORE OF KANSAS. Thank you, sir.

Mrs. Biggert, do you have a request?

Mrs. BIGGERT. Yes, I do. At the end of my opening statement I did ask unanimous consent that testimony be included in today's hearing record from a small business in my district, Apex Engineering Products, and also testimony from IFSA, the Bankers Association for Finance and Trade and International Financial Services Association.

Chairman MOORE OF KANSAS. Without objection, it is so ordered.

Mrs. BIGGERT. Thank you. I yield back.

Chairman MOORE OF KANSAS. Again, the Chair wishes to thank all of our witnesses for your testimony here today. Today's joint subcommittee hearing has given us an opportunity to learn what Ex-Im Bank is focused on and how it will play a key role in meeting the President's National Export Initiative to double exports in 5 years. This committee will continue examining these issues, especially with the Ex-Im Bank's reauthorization up next year.

The Chair notes that some members may have additional questions for our witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

The hearing is adjourned. My thanks to all.

[Whereupon, at 5:23 p.m., the hearing was adjourned.]

A P P E N D I X

September 29, 2010

FSC Joint O&I / International Hearing on Ex-Im Bank

Statement of Rep. Christopher J. Lee (NY-26)and
Questions for the Honorable Fred P. Hochberg, Chairman and President, Export-Import Bank of the United States

September 29, 2010

Having spent my career running a manufacturing business, I recently released my plan, called Manufacturing for Tomorrow that is a long-term strategy for doubling manufacturing. We need to get the United States back to creating value and tangible goods so that we don't become a service-only economy.

The part of my plan that deals with expanding export markets calls for the doubling of Export-Import Bank financing, so your appearance today is of great interest to me.

As I know you are aware, countries large and small are increasingly upping their internal financing. China, in particular, is becoming one of the major providers of official export credit in the world today. Many OECD countries may feel increased competition from the likes of China when their financing terms become more advantageous.

1. Have you found it difficult to compete with such export credit programs and if not, do you foresee the Chinese involvement presenting challenges to U.S. interests in the near future?

2. Turning back to my plan, what would it take to double your financing output? What resources, budgetary or personnel related, would you need from Congress to achieve this goal?

3. Assuming sufficient backing from Congress, how long would it take you to double financing? And what do you believe the actual return on those investments to be?

4. As I understand it, 85 percent of your support is currently focused on small businesses and I know that you are currently working to increase that number. In order to do so, do you need immediate action by Congress? And if so, on what specifically? Or can you do some of that with your current budget and personnel?

5. So that I have a clear picture of your system, approximately how many forms does a small business have to fill out and how long does it take for them to complete the application process?

6. Are you looking at ways to streamline that process to make it easier for small businesses to participate?

REMARKS OF THE HONORABLE DONALD A. MANZULLO BEFORE THE JOINT SUBCOMMITTEES ON INTERNATIONAL MONETARY POLICY AND TRADE; AND OVERSIGHT AND INVESTIGATIONS

"EX-IM BANK OVERSIGHT: THE ROLE OF TRADE FINANCE IN DOUBLING EXPORTS OVER FIVE YEARS"

September 29, 2010 4:00PM in Room 2220 Rayburn House Office Building

Thank you, Mr. Chairmen, for holding this critical oversight hearing today. I was proud of my role in helping to pass previous reauthorization bills for Ex-Im Bank, including my authorship of the small business section in the last reauthorization bill in 2006. Ex-Im plays a critical role in filling the gaps in export financing, one of the last but most important steps in the exporting process. Without trade finance, an export cannot leave our shores. But with only a relatively handful of U.S. banks that are willing to offer international financial services, Ex-Im fills an important need, particularly during these tough economic times.

Northern Illinois companies as diverse as Seaga Manufacturing in Freeport; Pro-Stuff and Ingersoll Machine Tools in Rockford; Illinois Blower of Cary; and the Matthews Company in Crystal Lake have all utilized the various programs of Ex-Im Bank in recent months. All of these firms are small businesses.

Ex-Im Bank provides these programs through the fees its charges users for its services. Thus, the taxpayer does not pay for the annual operating expenses for the Bank. In fact, just like the Overseas Private Investment Company, Ex-Im makes money for the federal government – $4.5 billion since 1992. Ex-Im also helps level the playing field in international competition from over 70 other foreign export credit agencies to insure that the product itself, not the financing package, should be the main factor in the customer's decision making process.

During the State of the Union address last January, the President set a lofty goal of doubling U.S. exports in five years. I support this initiative and I want to help our nation collectively reach this goal. A key player in helping to achieve this goal will be Ex-Im Bank. Earlier this month, the National Export Initiative (NEI) issued its report to the President in which one goal is to increase access to export financing by making more credit available through existing credit platforms and through new products. That's why I was pleased to see that Ex-Im recently established supply chain finance program to help small- and medium-sized suppliers to Case/New Holland (CNH). Hopefully, this will set the precedent for similar financing arrangements for SME suppliers to in the future.

Another idea for possible reform is in the area of stand-by letters of credit. In Europe, state banks guarantee deposits or down payments of foreign customers. However, in the United States, the manufacturer obtains a stand-by letter of credit to guarantee that work will be performed. However, U.S. banks freeze the other financial

assets of the U.S. manufacturer in order to guarantee that the bank doesn't lose any money on the stand-by letter of credit. But that defeats the entire purpose of the deposit by effectively denying the U.S. producer working capital to start on the project. The European bank guarantee provides a competitive advantage to European manufacturers by giving them the necessary working capital to begin to fulfill the particular export order. I would suggest that Ex-Im look towards matching the European bank guarantee so that our manufacturers can use the deposits of legitimate foreign customers for working capital. This change would level the playing field for U.S. manufacturers.

But this would be an oversight hearing without expressing some concerns. First, I was disturbed over the recent indecision at Ex-Im that led to the award of a $2 billion contract to Thales of France to replace Iridium's fleet of commercial satellites. This represented another blow to our struggling domestic commercial satellite industry, already reeling because of undue export control restrictions. At least Lockheed should have been given a yes or no answer in a timely manner – the indecision and risk-aversion at Ex-Im on this particular deal resulted in making it more difficult to achieve the President's goal to double exports in five years.

Second, I am concerned over the decision making process on the loan application to support the export of $500 million in mining products from Bucyrus Mining Equipment to support a coal fired power plant in India. Just like with the Three Gorges Dam project in China, this power plant in India is going to be built. It's just a question as to what equipment will be used to support it – will it be made in America or by a foreign company? Initially, Bucyrus' application was turned down because it didn't pass Ex-Im's internal environmental test. I'm glad that the situation was quickly resolved when the Indian company offered to support a renewable energy project to offset the environmental impact of this project. But I find it an odd coincidence that situation was resolved just prior to the President's town hall meeting in southeastern Wisconsin where Bucyrus is headquartered. What's in store for any future project requested by Bucyrus or any other project that emits some carbon?

Finally, the Inspector General of Ex-Im Bank issued a report in March, 2009, identifying several problems with the medium term (MT) export credit financing products. According to the IG's testimony, there is still one recommendation that is still outstanding after 18 months. The medium-term program is the one that has historically been the most problematic for use by small business exporters and for proper oversight by Ex-Im. That is why I pushed for enhanced delegated loan authority for medium term transactions in the previous reauthorization bill in 2006. But I was disappointed that it took Ex-Im 18 months to devise the program. Thus, when it was launched, it was during the time when our nation was heading deeper into the financial crisis. I would appreciate learning about the current state of affairs of the medium term program.

Thank you, Mr. Chairmen, for giving me the time to bring up these concerns.

Statement of Rep. Paulsen
Subcommittee on Oversight and Investigations and the Subcommittee on International Monetary Policy and Trade.
Ex-Im Bank Oversight: The Role of Trade Finance in Doubling Exports over Five Years

I want to thank the Chairmen and Ranking Members of both subcommittees for holding this hearing today.

I strongly support President Obama's initiative to double exports over the next five years. This goal is critical to create jobs, spur innovation, and maintain our competitive advantage. I am concerned, however, though that we are not doing enough to actually achieve this outcome.

In order to move forward with this laudable effort, I believe Congress must pass pending Free Trade Agreements (FTAs) with Korea, Colombia, and Panama, as well as proceed in negotiations at the World Trade Organization (WTO) and the Trans-Pacific Partnership (TPP).

Last week, Korea and the European Union signed their own agreement. Colombia and Canada are in negotiations over an FTA. The U.S. cannot afford to let new trade opportunities pass by while other nations rapidly sign agreements.

These pending agreements offer cost-free stimulus for the American economy by opening up markets abroad, so that farmers, manufacturers, and businesses can sell more of their products to more places

An agreement with Korea alone could lead to more than a $10 billion increase in exports to Seoul and tens of thousands of new jobs in the United States. In uncertain economic times, this is an outstanding opportunity for job growth and increased production.

The point here is simple: unlike massive government stimulus spending, free trade programs increase exports and get results.

The bottom line is that we need to find a way to provide access to new markets, increase exports and put our economy on the right track.

I am looking forward to hearing the witnesses testimony and I thank them from being here today.

OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES

STATEMENT OF OSVALDO LUIS GRATACÓS, ACTING INSPECTOR GENERAL BEFORE SUBCOMMITTEES OF THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

SEPTEMBER 29, 2010
4:00 PM

Statement of
Mr. Osvaldo Luis Gratacós
Acting Inspector General
Export-Import Bank of the United States
Before the
United States House of Representatives
Committee on Financial Services
Subcommittee on Oversight and Investigations
& Subcommittee on International Monetary Policy and Trade

September 29, 2010 at 4:00 p.m.

Good afternoon, Chairman Moore, Chairman Meeks, Ranking Member Biggert, Ranking Member Miller, and distinguished members of these honorable Subcommittees.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank). Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff, a group of career public servants who make the work possible and are committed to the OIG mission of preventing and detecting fraud, waste, and abuse.

I. Background

The Ex-Im Bank is the official export credit agency ("ECA") of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank

must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im OIG was statutorily created in 2002[1] but the Inspector General (IG) did not officially take office until August 2007.[2] By the time the IG was sworn in, Ex-Im Bank had experienced two significant and high profile fraud cases, related to its Medium-Term (MT) loan program, totaling over $200 million. The MT program provides insurance and guarantees (up to 85% of loan amount) to businesses, including small businesses, with repayment terms to up to five years (seven years in certain cases). Due to limited market capacity for this product, Ex-Im Bank aggressively marketed, utilized, and enhanced its MT program in hopes of increasing participation and expanding Ex-Im Bank's business. Improper implementation of due diligence and underwriting practices, inadequate monitoring tools, and lack of compliance functions contributed to loses attributable to the MT program.

Acting upon the above referenced exposure and recommendations from Ex-Im Bank's management, Ex-Im OIG focused its initial efforts on auditing the MT program and its information technology support, as well as investigating fraud-related matters referred to our office or uncovered by our staff. Our initial audits of the MT program's business processes and its IT support reported, in relevant part, the following findings:[3]

- Finding 1: Insufficient Credit Underwriting, Due-Diligence Requirements, and Processes
- Finding 2: Lack of Early Warning/Delinquency and Performance Reporting Capabilities
- Finding 3: Insufficient Lender Oversight and Quality Assurance Control Activities

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[1] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

[2] I had the privilege of joining Ex-Im OIG in 2008, as the first person hired by then IG, Michael W. Tankersley, and worked closely with the IG in establishing the organization. Since October 2009, I have had the honor of serving the American people as the Ex-Im Bank Acting Inspector General.

[3] Report can be found at http://www.exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf

- Finding 4: Insufficient Exposure Fee Pricing Structure for Non-Sovereign Transactions
- Finding 5: Consequences of 100% Guarantee for Non-Sovereign Transactions
- Finding 6: Processing Time Inefficiencies; Definition of a Complete Application
- Finding 7: Lack of Strategy and Vision for the MT Program
- Finding 8: Management, Oversight, and Accountability of IT Support for the MT Program Needs Strengthening[4]

I am glad to report that Ex-Im Bank has addressed some of the findings and recommendations listed and referenced above. Ex-Im Bank continues to make progress towards completion of some of the open recommendations made by this office and listed in Appendix B herein and our follow-up report issued this year.[5]

Furthermore, since reaching current staffing levels in April 2009, the OIG has had remarkable success as will be shown by the Semiannual Report to Congress to be issued next month. Specifically, the OIG has issued fifteen (15) audit and special reports containing over fifty (50) recommendations and suggestions for improving Ex-Im Bank programs and operations, including the ones contained in MT program related audits. Our investigative efforts have resulted in a number of law enforcement actions, including: fifty-one (51) indictments and arrests relating to over $45 million in claims paid by Ex-Im Bank; one conviction; over eighty (80) management referrals for actions; and over $26 million in program savings due to policy cancelations arising of our investigative efforts. Moreover, the OIG is currently investigating forty-eight (48) open matters representing approximately $327 million in claims paid by Ex-Im Bank (or around 13% of all Ex-Im Bank claims paid as of the end of FY 2009). All of this has been accomplished with a very modest annual budget of $2.5 million (for FY 2009) and a staff of ten professionals.

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[4] See Appendix B for open and closed recommendations as reported in Audit report *Medium-Term Export Credit Program–Information Technology (IT) Systems, Support and Governance*, OIG-AR-09-05 (June 12, 2009). Follow up audit, OIG-EV-10-01 (June 30, 2010). Reports can be found at http://www.exim.gov/oig/index.cfm.

[5] See Appendix A for open and closed recommendations as reported on *Follow-Up of Audit Recommendations Reported in Medium Term Export Credit Program-Credit & Fraud Risk Management Business Process Improvement*, OIG-EV-10-02 (July 7, 2010). Report can be found at http://www.exim.gov/oig/documents/Follow_Up_of_Audit_Recommendations_10_02.pdf

II. Ex-Im Bank and Small Business

In 2002, Congress mandated Ex-Im Bank to increase the financing made available to small businesses from 10% to 20%.[6] The 20% requirement was maintained in the current Ex-Im Bank reauthorization.[7] The General Accountability Office (GAO) reported that Ex-Im Bank met its small business mandate in 2006 and 2007.[8] In FY 2009, Ex-Im Bank reported 2,540 small business transactions exceeding its 20% mandate totaling $4.4 billion (or 21% of all authorizations).[9]

In 2008, GAO took a further look at Ex-Im Bank's effectiveness in measuring compliance with small business Congressional mandates.[10] GAO found that Ex-Im Bank had generally addressed most, but not all, of the legislative functions stated in the 2006 Reauthorization Act by developing 28 performance standards "ranging from providing excellent customer service to increasing outreach to small business".[11] Of particular interest was the lack of performance standards to address rural recruitment, outreach efforts to reach small businesses employing fewer than 100 employees, and promoting small business exports in cooperation with Small Business Administration.[12] Moreover, GAO stated that even though Ex-Im Bank has developed some performance standards in furtherance of its assistance to small businesses, 27 in total, almost half of them *lacked measurable targets and time frames*[13] (emphasis added). Of particular interest was the lack of performance measures to "monitor progress" for financing socially and economically

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[6] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 7(a) (June 14, 2002).

[7] Export-Import Bank Reauthorization Act of 2006, P.L. 109-438(December 20, 2006).

[8] GAO-08-419T

[9] Export-Import Bank 2009 Annual Report.

[10] *Export-Import Bank Performance Standards for Small Assistance are in Place but Ex-Im is in the Early Stages of Measuring Their Effectiveness*, GAO-08-915 (July 2008)

[11] Id. at 3.

[12] Id.

[13] Id.

disadvantaged businesses.[14] The lack of targets to measure progress and the lack of time frames prevent Ex-Im Bank management from accurately monitoring progress in achieving its standards.

The OIG, through its statutory mission, is committed to supporting Ex-Im Bank's actions in meeting its mission of assisting in the financing of exports of U.S. goods and services in international markets, protecting and creating American jobs, and increasing the participation of small businesses in Ex-Im Bank programs. Ex-Im Bank plays a key role in financing the export of these goods and services. That role has increased in recent years. Today, the opportunity for increasing American exports is an important element to our nation's economic recovery. In FY 2009, Ex-Im Bank announced record authorization levels reaching $21 billion and has reported authorization levels surpassing last year's levels for current FY 2010. Ex-Im Bank's role coupled with these growth levels present a valuable opportunity for the OIG to partner with Ex-Im Bank in support of its mission while exercising OIG's statutory independence.

OIG maintains a close monitoring and oversight perspective of Ex-Im Bank operational strategies, including small business strategies and goals. As Ex-Im Bank addresses the recommendations presented by GAO, Ex-Im Bank is also in the process of developing and implementing new strategies and processes geared to accomplish President Barack Obama's goal of doubling exports in the next five years.[15] A significant component in achieving that goal is the focus on attracting more small businesses to participate in export programs. Of importance to this office are the export-credit programs offered by the Ex-Im Bank.

[14] Id.

[15] President Barack Obama launched this goal during the State of the Union address on January 26, 2010.

Currently, Ex-Im Bank is taking steps to attract more small business participation. Some of the more visible steps are:

A). created a Small Business Committee (as required by Export-Import Bank Reauthorization Act of 2006);[16]

B). established a Senior Vice-President for Small Business reporting to Ex-Im Bank President & Chairman;

C). expanded short-term content eligibility provisions (covering U.S. content on transactions even if the U.S. content is less that 50% of transaction value);[17]

D). Export Live events nationwide (educational conferences involving other federal agencies);

E). introduced new products (re-insurance and supply-chain financing);

F). increasing Delegation of Authority approval thresholds in order to expedite transactions;

G). reorganization to create cell groups to increase approval cycle time for medium and short term applications;

H). "express" application approval policies (for small business transactions under $500,000);

I). increase small business staffing under the Senior Vice-President for Small Business[18];

J). increasing regional offices' staffing to recruit more businesses;[18]

K). opening of additional regional offices[18].

Ex-Im Bank has made significant progress in its effort to increase small business participation, although it is premature to audit the steps discussed above to determine their effectiveness. However, it is the OIG opinion that Ex-Im Bank has taken numerous steps in addressing some of the findings reported in the GAO audits, but has not fully developed all the performance standards, performance measures, and targeted time frames highlighted by GAO.[19] Being able to accurately report and measure small business participation and exports would only enhance Ex-Im Bank's ability to achieve the National Export Initiative's goal.

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[16] Export-Import Bank Reauthorization Act of 2006, P.L. 109-438(December 20, 2006).

[17] The policy was in effect since the late 1960's.

[18] Pending budget increase authority under FY 2011 OMB submission.

[19] Ex-Im Bank still uses the 2009-2011 Small Business Plan audited by GAO. Ex-Im Bank is currently preparing the 2011-2013 Small Business Plan which will address some of the strategies arising out of the National Export Initiative.

III. Challenges

It is our opinion that Ex-Im Bank is facing a number of challenges in its efforts to increase small business participation as part of the Congressional mandate and the National Export Initiative. Some of these challenges are:

- *Inefficient and Ineffective Information Technology (IT) platform.* Ex-Im Bank currently uses a fragmented IT platform composed of several databases. These databases do not interface with each other, making data mining burdensome and time consuming. Ex-Im Bank would benefit from a comprehensive IT platform that interfaces with other Ex-Im Bank's systems.[20]
- *Compliance and Oversight Procedures for Delegated Authority.* Ex-Im Bank is in the process of developing processes and procedures to address the monitoring of the delegated authority efforts. Compliance factors should be developed to effectively monitor uniform consistency of transaction approvals.
- *Enhancement of Due Diligence and Credit Underwriting Practices and Training Efforts to Address Surge in Application and Potential Decentralized Application Approval Process.* Given the lessons learned from the MT program, the surge in the number of transactions, and insufficient credit information and history from borrowers, it is vital that Ex-Im Bank enhances due diligence practices in order to identify fraudulent and incomplete transactions. With individual Delegated Authority as high as $10 million, Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to assess effectiveness of the delegations.
- *Limited Staff Resources.* In order to accomplish some of the actions stated herein, Ex-Im Bank is relying on the President's FY 2011 Budget request which provides Ex-Im Bank with a budget increase as part of the National Export Initiative.
- *Developing Performance Standards and Metrics.* In order to properly quantify the effect and success of the Small Business Strategy, Ex-Im Bank should develop these metrics, including those for socially and economically disadvantage businesses, as recommended by GAO.
- *Properly Develop Simplified Application Processes, Training and Educational Materials for First-Time Exporters.* Conveying the export financing message in simpler terms may allow small businesses to consider exporting their goods for the first time. Also, it would encourage future participation.

[20] Ex-Im Online was launched with the purpose of reducing application approval time. Ex-Im Online is a "front-end" data gathering system.

- *Continued Collaboration and Cooperation with Other Agencies, including Small Business Administration and Department of Commerce in order to Reach Out to Small Businesses.* Enhancing export opportunities require the participation, training, and collaboration of other federal agencies. The National Export Initiative addresses and encourages collaboration between agencies.

IV. Conclusion

In only three years since its inception (and just over one year since reaching current staff levels), the OIG efforts are having a noticeable impact on Ex-Im Bank's operations. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions and the recently unveiled National Export Initiative, it faces foreseeable challenges in its quests of achieving the National Export Initiative's goal. I have highlighted some of the relevant work performed by the OIG, specifically as it relates to the MT program, in order to illustrate the importance of proper planning, implementation and oversight of strategies and products and to incorporate lessons learned from prior Ex-Im Bank's activities. The OIG will continue enhancing its independent oversight role by closely focusing on Ex-Im Bank operations in order to improve its efficiency, meet Congressional requirements, as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Moore, Chairman Meeks, Ranking Members Biggert and Miller and members of these honorable Subcommittees, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you!

APPENDIX A

Findings and Recommendations: Medium-Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04) & Follow-Up Review (July 7, 2010, OIG-EV-10-02)

The OIG determined that Ex-Im Bank adequately addressed and closed four of eight recommendations noted below.

Finding – Insufficient Credit Underwriting Due-Diligence Requirements and Processes	
Recommendation 1. o Require as part of credit underwriting due-diligence on-site inspections and appraisals of the equipment being exported as well as bank/brokerage statements of obligors and guarantors for MT transactions. o Develop a process to manage the quality of appraisers and appraisals received.	Closed
Finding – Lack of Early Warning/Delinquency and Performance Reporting Capabilities	
Recommendation 2. o Institute a defined and standardized process for lenders to report payment history. o As enhancements are made to Ex-Im Bank's technology infrastructure, significant priority should be given to the end-to-end build out of performance reporting capabilities. o Strong consideration should be given to hiring a quantitative analyst with experience in the design and implementation of pricing, risk management and credit analysis tools and models to lead that effort. o Payment frequency for MT transactions should be consistent with local country norms.	Closed
Finding – Insufficient Lender Oversight and Quality Assurance Control Activities	
Recommendation 3A. o Institute a formal lender oversight function to actively manage and monitor performance of transactions on a lender-by-lender basis and to assess the quality of lender due-diligence performed on a periodic basis, quarterly at a minimum. o The lender oversight function should report into a division independent of front-office originations such as Credit Review and Compliance.	Open
Recommendation 3B. o Establish a quality assurance function for the MT program responsible for managing and monitoring performance of transaction participants. o Manage the process of performing periodic MT export credit transaction file reviews on a sub-sample of transactions.	Closed

Finding – Insufficient Exposure Fee Pricing Structure for Non-Sovereign Transactions	
Recommendation 4. o Revamp exposure fee pricing structure for non-sovereign MT program transactions to more effectively account for transaction-level risk. o Consider establishing minimum, base exposure fees for non-sovereign MT transactions that are at a premium to the OECD floor pricing that the Bank utilizes for its exposure fee pricing of sovereign transactions.	Open
Finding – Consequences of 100% Guarantee for Non-Sovereign Transactions	
Recommendation 5. o Evaluate the impact of implementing a greater degree of risk sharing or other incentives for non-sovereign transactions to reduce the moral hazard currently associated with the MT program.	Closed
Finding – Processing Time Inefficiencies: Definition of a Complete Application	
Recommendation 6. o Develop a definition of a complete application by defining documentation requirements at initial application. o Consider creating dedicated teams in Trade Finance Insurance and Credit Underwriting that would be responsible for processing transactions from first-time lenders as well as those transactions considered highly complex or risky.	Open
Finding – Lack of Strategy and Vision for the Medium Term Program	
Recommendation 7. o Develop and document a strategic plan for the MT program (even if one is not documented for Ex-Im Bank as a whole) identifying the major goals of the MT program over the next 3 to 5 years and the strategies that management will deploy to achieve the goals, including the use of technology and targets for key performance measures.	Open

Appendix B

Results of Follow-Up Testing of Audit Recommendations Reported in Medium-Term Export Credit Program – Information Technology (IT) Systems, Support and Governance (June 12, 2009, OIG-AR-09-05)

We determined that Ex-Im adequately addressed and closed four of five recommendations noted below.

Finding – Management, Oversight and Accountability of IT Support for the MT Program Needs Strengthening	
Recommendation 1A. o Develop an IT Strategic Plan that is aligned with the MT Program business plan and covers the same time period.	Open
Recommendation 1B. o Designate a senior manager with responsibility and accountability for the management of the IT systems support for the MT Program throughout its life cycle. o Direct the designated senior manager to take a leadership role in the ongoing development of detailed business requirements in response to strategic objectives identified for IT support of the MT Program and requests for enhancements from system users and in the communication of those business requirements to the Office of the Chief Information Officer (OCIO). o Direct the designated senior manager to obtain a plan of action and milestone schedule from the OCIO that addresses all outstanding Change Requests/defects, which should include all system capabilities required to meet management's objectives for the MT Program, and to take prompt action to ensure the OCIO has timely and appropriately prioritized and developed a well documented plan to address each Change Request/defect.	Closed
Finding – IT Systems that Support the MT Program Need Improvement	
Recommendation 2A. o Define and document the key transactional data fields that must be stored across all Ex-Im Bank programs and the structures and relationships between them. This data model would address the problems related to multiple participant files and other common reference data. The data model would also highlight information needs that are not currently met by existing databases or applications. o Develop, document and implement a plan to enhance the functional capabilities and interoperability of Ex-Im On-Line (EOL) and the other systems supporting MT Program transactions, with a focus on design and implementation of embedded system controls, such as: ▪ automation of MT lender rating and credit scoring models; ▪ automated system alerts that warn of transaction participants with prior claims history as well as denied, withdrawn or fraudulent transactions across all Ex-Im Bank lending programs; and o automated monitoring of all MT Program transactions regardless of size.	Closed

Recommendation 2B. o Develop data repositories that consolidate and organize the key transactional data fields.	Closed
Finding – Systems Development Process Needs Improvement	
Recommendation 3: Implement: o A user-friendly process for submitting and accepting new end user business requirements as it relates to requests for system enhancements. This process should also facilitate improved communication between the OCIO resources and end users to ensure that business requirements are accurately designed and that justification is provided for denied requests. o A more robust testing program that a) includes the development of a comprehensive suite of test cases and test scripts that can be automatically rerun multiple times and b) requires formal involvement of MT users in the development of the test cases, the execution of the tests and the sign-off of test results. o A more formal and comprehensive training program for EOL system users. The training should focus not only on the mechanics of the system but also on the policies and processes that the system is supporting. Details on the training program should be made available on Ex-Im Bank's website	Closed

TESTIMONY OF JOHN HARDY, PRESIDENT

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

And the

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

HOUSE COMMITTEE ON FINANCIAL SERVICES

September 29, 2010

Chairman Moore, Chairman Meeks, Congresswoman Biggert, Congressman Miller and Members of the Committee, thank you for the opportunity to testify on the U.S. Export-Import Bank's (Ex-Im Bank) role in supporting the Administration's National Export Initiative. The Coalition for Employment through Exports (CEE), composed of exporters, banks and trade associations, was founded over 25 years ago for the purpose of promoting competitive U.S. exports and the jobs that make those exports possible. A core element of that effort is to promote the various trade agencies like TDA, OPIC and, particularly, Ex-Im Bank.

We strongly support the administration's mandate to double exports in the next five years through the President's National Export Initiative, and believe that the centerpiece of that effort has to be a strong, responsive, and flexible Ex-Im Bank that is able to compete with the export credit agencies (ECAs) of other countries.

EX-IM BANK AND FINANCIAL CRISIS

During the financial and economic crisis, Ex-Im Bank responded by taking critical steps to compensate for the collapse in private export financing. In 2009, the Bank dramatically increased its transaction volume, authorizing more than $21 billion in support of U.S. exports, up from $14 billion the previous year. It also set a record for financing $4.36 billion for small business exports. We understand that for the fiscal year concluding on September 30, the Bank expects to authorize in the range of $24-25 billion in overall support as well as set a new record for financing small business exports.

Ex-Im Bank also developed new policies and programs to address the needs of exporters impacted by the credit squeeze, including a "take-out" option for banks, various financing facilities, streamlined environmental and small business application processing, and the recently announced supply chain financing. Chairman Hochberg and the entire staff at the Bank should be commended for their excellent work responding to the crisis to support so many exports and American jobs.

The liquidity crisis accelerated a trend which had already been developing around the world – continued growth in the program role, flexibility and size of ECAs around the world as governments injected

additional funds into their national ECAs to support their own economies and businesses; and the Ex-Im Bank has had to contend with this increasingly intense competition. Many of our members have declared from the outset of the crisis that the financing terms offered by ECAs were often the decisive factor in determining whether a U.S. company would prevail over an international competitor. For a variety of reasons, these foreign ECAs -- both within and outside the OECD Arrangement – are better able to offer flexible financing, too often to the detriment of American exporters. The Bank, in our view, must be given the tools it needs to increase its competitiveness if it is to accomplish the goals of the National Export Initiative.

A STRONG, COMPETITIVE EX-IM BANK MEANS A STRONG, COMPETITIVE ECONOMY

We believe a strong, flexible and fully competitive Ex-Im Bank is the financial backbone to the National Export Initiative. In order for the Administration to double exports and the high value jobs supporting those exports, it needs to ensure that the U.S. financing will be fully competitive with the financing provided by our competitors.

In comparison to other ECAs which are parties to the OECD Arrangement on Export Credit Financing and its rules regarding premia rates, financing terms, local cost, etc, Ex-Im Bank is quite competitive. The Bank is also a leader in areas such as project finance and support for small businesses. However, at present, many of the other OECD ECAs and their governments operate with a flexibility that the Bank is unable to replicate due to outside pressures as well as culture. The staff at Ex-Im Bank does a good job of exploring all the ways they are able to finance a complicated deal with the tools available, but they often run into policies put in place by Congress and the Administration that hamstring them from successfully competing. The end result is lost opportunities and fewer U.S. jobs and exports.

For the NEI to be truly effective, Ex-Im Bank, with support from the Administration and Congress, should work on addressing these policy issues. While these policies may have made sense when put into place, the current economic reality is such that they hinder our competitiveness and result in a Bank that at present is more rules than mission oriented.

The first is foreign content, which is a complex issue that has easily become the biggest hindrance to Ex-Im Bank financing. The policy of requiring 85% domestic content appears good in theory, but falls apart in the context of today's global supply chains which major exporters need to maintain their competitiveness internationally. A reason for this shift towards more flexible content rules is the shift in thinking at the ECAs to a "national interest or benefits" approach to financing. That is, if a transaction is to have a benefit to the overall economy of a nation, even if the actual content is lower, the ECA will move forward. This has been a long-developing trend chronicled in the Bank's Annual Competitiveness Report.

Compared to other ECAs, the Bank's content rules are far and away the most stringent; Austria has the next highest content rules at 50%. Currently, if a potential export has 75% U.S. content, the Bank cannot finance the entire export, leaving the exporter to find a third party to cofinance the 10% gap. If cofinancing is not possible, the U.S. exporter is much less appealing to a buyer, who can invariably resort to a foreign competitor with financial support from a more flexible, national-interest focused ECA.

Understandably, content is a nuanced issue, but the Bank does not, or is unable, to take into consideration such things as value-added in the United States, R&D, project management, and overall benefit to the company and the U.S. economy. By contrast, other ECAs are using their flexible rules to solicit the shifting of manufacturing and service capacity to their countries. We encourage the Congress to support a more flexible Bank to ensure that U.S. companies are able to compete on such projects where the other ECA is substantially less hampered by content complexities.

A second issue is the MARAD cargo preference. The requirement that exporters using the Bank are required to ship on U.S. flagged vessels increases shipping costs and too often delays arrival of the export as there are not enough ships both major impediments for both the buyer and exporter. While we understand the Congressional support for the maritime industry, we urge Congress to consider a solution that will not significantly disadvantage the exporter in the process.

Another issue that should be looked at is Tied Aid. Tied aid refers to a combination of export credits and other financing or assistance used to gain a competitive advantage in a transaction. The supplemental financing or assistance is "tied" to the export transaction. It has been increasing over the past few years and is primarily utilized by other governments to establish footholds in regions for certain national industries such as renewable energy. Ex-Im Bank has the ability to match such financing via its Tied Aid War Chest, but access requires a stringent interagency process that results in deals not being processed. In the past five years, the Bank has only utilized the War Chest once in 1998 for a Sub-Saharan Africa deal. We understand that there is consideration to match a tied aid offer by the Chinese, but this should not be a one-off event. The hope is that if other governments know that the U.S. government is willing and able to step up to match such financing, the desire to utilize Tied Aid will drop.

The situation with non-OECD ECAs is even more problematic. China, India, Brazil and others have strongly funded and supported their own ECAs that are active in developing countries without the agreed upon limitations set out in the OECD Arrangement. These governments are using their ECAs to penetrate critical markets in areas such as oil & gas, renewable energy, and natural resources extraction, in which many OECD-compliant ECAs simply are unable to compete with the below market and concessionary financing options provided by China and other governments. CEE represents U.S. businesses at the OECD and has encouraged the organization to do as much as possible to bring these ECAs into the OECD arrangement, and we hope the U.S. government will continue to advocate for this as highly aggressive ECAs outside the OECD Arrangement are an ever increasing reality. CEE is also closely monitoring the OECD's Aircraft Sector Understanding talks as the outcome will have a significant impact on America's aerospace industry, a key contributor to the U.S. balance of trade.

ADDRESS SERVICE EXPORTS

The export of services, especially high-tech services, is one of the fastest growing sectors of the U.S. economy. While the Bank is mandated to provide financing for services, it is not doing all that it should. The reasons include the lack of a services policy for companies to refer to, the lack of a clear idea what the export actually comprises, and the current stringent content rules that are based upon the manufacture of goods. It is easier to pinpoint the content of something made and assembled, but it is

much harder to define U.S. content for a service for which value is received comprising in part intellectual property, research and development, consulting, global supply chain management and even the corporate brand. U.S. technology firms have discussed export opportunities with Ex-Im Bank in the past, but found the Bank unable to help them under the current content definition. These transactions can range from $30-$100 million and would not only support high-paying jobs, but also the establishment of critical technological footholds by U.S. firms in rapidly developing countries.

To their credit, the staff at Ex-Im Bank is aware that this is an issue and has reached out to CEE to begin a project that we hope will result in concrete, workable solutions. We are in the early stages, but we believe there are some ideas that can be implemented sooner rather than later. One place to start is for the Bank to put its current service policy/programs on its website so exporters have a baseline knowledge of their options. We also encourage the Bank to explore a separate content definition for services, similar to their expanded definition used by small businesses. This could include R&D, dividends paid to American stockholders, and the holder of a contract.

Other ECAs are known to finance deals based on who holds the contract for a software installation, maintenance and repair contract, and other similar high-technology transactions. If Ex-Im Bank were to adopt the eligibility guidelines used by other ECAs, it would mean a significant increase in support for U.S. companies that are losing transactions because of financing packages offered by their competitors. As U.S. IT companies are so technologically dominant, this is fertile ground for the NEI and Ex-Im Bank to be supporting high value exports and high paying U.S. jobs against foreign competition.

SMALL BUSINESS

While most of CEE's members are large, global companies, we recognize the critical importance of Ex-Im Bank financing to small business exporters. The Bank is essential for small businesses wary of selling overseas for fear of not being paid; it helps greatly to mitigate these concerns. Ex-Im Bank has been extremely focused on increasing outreach, reducing application processing and approval times, and developing new initiatives to support small businesses, such as the supply chain financing program that will ensure payment to the subcontractor by the Bank at the time his work is completed rather than having to wait until the finished product is exported and the ultimate buyer is paid. This program is critical in supporting small businesses that are a party of the larger global supply chain for larger transactions.

CEE has twice undertaken "supplier studies" that identify the subcontractors or "hidden exporters" involved in large Ex-Im Bank transactions; we have another in process for 2011. In our last such study in 2006, we identified almost 30,000 mostly small businesses that were involved in providing goods and services to the named exporters whose transactions were supported by Ex-Im Bank.

Strongly supporting small business exports is labor intensive and consumes very substantial staff resources. Recognizing the importance of this effort for U.S. jobs, CEE fully supports an increase in administrative appropriations so that the Bank will have the resources to add much needed staff and technological resources to continue to reach small businesses throughout the country.

THE BANK IS SELF-SUSTAINING

We need to emphasize that an increase in administrative appropriations for the Bank is not a burden on the federal budget because it is repaid by Ex-Im Bank to the U.S. Treasury each year, since Ex-Im operates on a self-sustaining basis without costing the U.S. taxpayer any money. In FY 2008, Congress changed the way budget authority is provided to the Bank to acknowledge the funds Ex-Im Bank returns to the U.S. Treasury each year. Fee and interest income collected by the Bank is used to fund its loan-loss reserve and reimburse the U.S. Treasury for the amount appropriated to Ex-Im for program costs and administrative expenses, resulting in a net appropriation of zero and the Bank being self-financing for budgetary purposes. The Bank has also been empowered to keep in reserve a set level of funding as surplus for up to four years as a supplement to its program budget.

In FY 2009, Ex-Im Bank was able to return to the Treasury $135.6 million after repaying its budgetary offsets, funding its loan-loss reserve and retaining $75 million as a reserve. In fact, since the inception of FCRA, the Bank has returned to the U.S. Treasury $5.2 billion more than it received in appropriations for program and administrative costs.

2011 REAUTHORIZATION

The Charter of Ex-Im Bank is due to be reauthorized next year. This is fortuitous timing as the issues the Bank will face during the reauthorization are the same as the ones being addressed under the auspices of the NEI. CEE has begun taking steps in preparation for the reauthorization, including undertaking a new suppliers study, and engaging with the Bank and the Administration on a number of the issues discussed above: developing a meaningful services export program, flexible response to content, addressing access to Tied Aid War Chest, the MARAD cargo preference program and mechanisms for addressing non-OECD ECAs. There are other issues that the Congress should be cognizant of: economic impact procedures, processing time, and the Airline Sector Understanding. As the reauthorization process moves forward, CEE would be happy to address these issues further.

CONCLUSION

The National Export Initiative is the centerpiece of the Administration's commitment to grow U.S. exports and meet the President's goal of doubling exports in five years. We believe that a proactive Administration targeting small business and high value exports and freeing Ex-Im to match the flexibility shown by competing ECAs can dramatically improve its export promotion programs and generate critically needed high value jobs.

Again, I thank you for the opportunity to testify before you and I am happy to answer any questions.

FRED P. HOCHBERG
PRESIDENT AND CHAIRMAN
OF THE
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
AND THE
STATEMENT OF
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

September 29, 2010

Chairman Meeks, Chairman Moore, Ranking Members Miller and Biggert, and Members of the Subcommittees:

Thank you for inviting me to testify before this joint hearing on what the Export-Import Bank of the United States (Ex-Im or the Bank) is doing to create and sustain jobs here in the United States during this very difficult economic period. Since its establishment in 1934, Ex-Im has had but one central objective: to create and sustain American jobs through exports. Ex-Im was founded with this goal during the depths of the Great Depression and has remained true to this mission during the recent economic crisis.

Most importantly, this support of American workers comes at no cost to the taxpayer. Ex-Im is self-sustaining, meaning that it funds its program and administrative budgets from fees paid by buyers and borrowers, not from funds provided by U.S. taxpayers. Since 1992, Ex-Im has returned more than $4.5 billion to the American taxpayers.

MEETING THECURRENT FINANCIAL CHALLENGE

To meet the unprecedented challenges facing our economy and our U.S. exporters, the Bank has increased lending under its loan, guarantee and insurance programs. In FY 2009, Ex-Im's financing was more than $21 billion, a record for the institution and about a fifty percent increase over FY 2008. Of this $21 billion, $4.4 billion, or 21%, of such authorizations supported small business. And Ex-Im has already surpassed its total authorizations for FY 2009. In fact, for FY 2010, which closes tomorrow, the Bank's total authorizations are expected to be about $25 billion, which translates into about 230,000 jobs created or sustained. In this current fiscal year, approximately 85% of the Bank's transactions are with American small businesses, and Ex-Im has helped almost 2,000 small businesses expand their export sales in 2010. Ex-Im anticipates that more than 20% of its total authorizations for FY 2010 supported small business.

While I am pleased to report these results, I personally get much greater satisfaction in looking beyond the dollar signs and percentages to the jobs Ex-Im is supporting. During my first few months on the job, I was fortunate enough to meet Luis Arguello, the founder and owner of Demetech, a Miami small business that exports surgical sutures to more than 80 countries. This year, Demetech sales are up almost 100%, and he attributes about 30% of such increase to the support provided by Ex-Im. More importantly, about 40 of Demetech's 100 employees are working today to fill

orders supported by Ex-Im. My goal as Chairman is to help more companies follow Luis' example.

As the official export credit agency of the United States, Ex-Im plays a critical role in President Obama's National Export Initiative that seeks to double exports to $3.14 trillion by 2015. Working with Congress and other executive agencies, Ex-Im Bank is helping to lead this effort. Exports of U.S. goods and services increased 17.9 percent during the first seven months of FY 2010, according to data released by the Bureau of Economic Analysis of the U.S. Commerce Department. The United States remains on track to meet President Obama's goal of doubling exports and supporting millions of American jobs over the next five years.

Throughout the economic crisis, Ex-Im has played the crucial role that the American people expect. By expanding its programs and increasing its marketing efforts, the Bank is able to assist more U.S. exporters facing the challenges of this current global environment as well as reach more potential U.S. small business exporters. For instance, in reviewing long-term trends for Ex-Im financing, it becomes apparent that such financings often are counter-cyclical -- when commercial financing contracts, the Bank's authorizations expand. The Bank's authorizations are up about 50% across the board, and Ex-Im has seen its direct lending go from an average of about $100 million annually from prior to the crisis to approximately $4.4 billion this year.

NATIONAL EXPORT INITIATIVE

To achieve President Obama's goal of doubling exports, Ex-Im needs to do more than just respond when credit markets constrict. As many Members of this Committee already know, 95% of the world's consumers live outside of America's borders. By tapping into these growing markets, exporters will create higher-paying sustainable U.S. jobs, as Americans working for a firm that exports generally earn more than 15% more than similar workers at firms that do not export.

Ex-Im financing is often the crucial factor to allow American companies to step into the export arena. As outlined in the recent Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years, Ex-Im, along with the U.S. Department of Agriculture and the Small Business Administration, plan to implement the following six steps to satisfy the expected increased demand for export credit assistance.

First, Ex-Im plans new products and an expansion of its existing credit platforms. Two weeks ago, Ex-Im launched a new supply-chain finance guarantee program through which suppliers of components used in products destined for export can sell their accounts receivable. This program will inject liquidity into the marketplace and supply "hidden exporters" with ready access to capital to ramp up production so that American small businesses are able to tap into the rich export market. Additionally, Ex-Im Bank

will soon launch a reinsurance program to help U.S. exporters obtain credit insurance in a market that has curtailed capacity, enabling these companies to manage commercial and political risk in developing markets often shunned by commercial insurers.

Second, this past May, Ex-Im expanded access for small business users of Ex-Im Bank's short-term insurance and working capital guarantee programs. Among other effects, this change expanded the scope of eligibility of the exported items to include all U.S. value added and allowed Ex-Im support of both direct and indirect costs. Luis Arguello of Demetech explains this change as well as anyone. He told me "a component, be it a screw, bolt or a piece of fabric, often represents a small portion of the inputs in selling a product overseas. Demetech's costs in producing a product for export includes more than just a piece of sterile thread, it includes quality control, design, labeling, book-keeping and related support. All of those associated costs mean jobs for Miami-area workers."

Third, while Ex-Im Bank is open for business in approximately 175 countries (the latest being its July opening in Iraq for short and medium-term transactions), Ex-Im Bank has decided to focus its limited outreach resources on nine countries with some of the highest potential for infrastructure growth. Over the next five years, Mexico, Brazil, Colombia, Turkey, India, Indonesia, Vietnam, Nigeria, and South Africa are expected to spend more than $3 trillion on infrastructure improvements. The infrastructure needs of these growing economies, ranging from medical to transportation to energy, align with the technological and productive capacities of the United States. As always, Ex-Im will

continue to provide financing all over the globe, but these nine nations offer a special opportunity for American firms and Ex-Im.

Fourth, quite frankly, Ex-Im Bank is doing a better job of letting American business know about the availability of export financing assistance, especially small and medium-sized companies. Jointly with the Department of Commerce, and Small Business Administration, Ex-Im has led sixteen "Exports Live" seminars, which have been attended by about 3500 people, designed to provide small businesses with the tools they need to begin exporting. Most recently, I traveled to Richmond with Commerce Secretary Gary Locke for an export symposium hosted by Senator Mark Warner, and I would like to offer to come to each of your districts in the near future to discuss the role Ex-Im can play in increasing exports from your state or district.

Fifth, given its limited size, Ex-Im is expanding the number and scope of public-private partnerships. As the main conduit for government export credit, Ex-Im has a staff of fewer than 400. On the other hand, there are an estimated 289,000 exporters in the United States, 97% of which are small and medium-sized enterprises. Therefore, Ex-Im is seeking to leverage new and existing relationships with financial intermediaries, city-state economic development agencies and other entities to increase its outreach and build its presence outside of Washington, DC. Along with SBA, Ex-Im Bank is looking for lenders to participate in our guarantee programs by originating and, in some cases, underwriting transactions. Personally, I have met with lenders in cities from Billings to Boston to enlist their support and listen to their concerns on how Ex-Im can do a better

job of servicing U.S. exporters. Our City/State Marketing program is an excellent example of coordination between the federal and local level in support of the National Export Initiative. The Bank currently has 61 City/State partners and is continuing to work to increase the number of partnerships.

Sixth, Ex-Im will move at the speed of business. No where is this as critical as when dealing with the Bank's small business clients, who may be coming to Ex-Im for the first time. Ex-Im, therefore, is working to streamline the application and review process particularly for those products used by small business, and senior management and I meet every Monday morning at 10:00 to monitor progress. To expedite the transactional turn-around, the Bank is looking to reduce impediments to expanded business with existing banks, brokers and partners through simplification of conditions, faster processing, automated underwriting, and systemized follow-up.

EX-IM INITIATIVES

In addition to the Bank's efforts for small business, there are three other priorities I have for the Bank. First, Ex-Im is expanding its promotion of environmental exports. Second, the Bank is paying special attention to assisting exporters of services. Third, Ex-Im is helping more U.S. companies access the growing economies of Sub-Saharan Africa.

Promoting renewable energy and other green exports is a high priority of the Bank. During the last five years, Ex-Im's support of environmentally-beneficial exports has increased dramatically from $2.64 million in FY 2007 to an estimated $330 million for FY 2010. Current estimates indicate that the total value of renewable energy exports from the United States is approximately $2 billion annually (excluding hydroelectric and geothermal power). Ex-Im Bank remains committed to supporting more of these sales and is working to grow its support for renewable energy transactions in FY 2011.

In 2008, Ex-Im created the Office of Renewable Energy and Environmental Exports and doubled the staff of such office in FY 2010. This past April, on Earth Day, Ex-Im announced its new "Solar Express" product that will provide streamlined financing for U.S. exports to small solar-energy projects that could be approved in as few as 60 days. Export sales using Solar Express will enable the Bank to consider project financing for small solar-power producers seeking loans of $3 million to $10 million.

Ex-Im also is a major driver of the growth in U.S. wind energy exports. According to the U.S. Department of Commerce the United States exported a total of $318.7 million of wind energy equipment in FY 2009. In FY 2010, Ex-Im Bank authorized $220.6 million in financing for the export of U.S. made wind turbines and related equipment. Ex-Im Bank financed large wind turbine exporters Clipper Windpower and Gamesa, as well as small wind turbine makers Southwest Windpower and Bergey Windpower.

While Ex-Im understands and appreciates the legislative goal that 10% of its authorizations should support environmentally-beneficial exports, this may be a challenging target to achieve. Given that Ex-Im's expected FY 2010 authorizations of about $25 billion and that the total value of renewable energy exports from the United States is about $2 billion, Ex-Im could support virtually all renewable exports and still not reach the 10% goal. That said, the Bank remains committed to expanding its support of environmental exports environmental exports, and you have my personal commitment that this will remain a priority of the Bank.

Ex-Im was the first, and thus far only, ECA to institute a carbon policy. One notable example of how this policy is working to benefit the environment and U.S. exporters is the Sasan power project. The Bank's Board of Directors originally voted to decline support for the sale of drag-lines and other mining equipment for the construction and operation of a coal-fired power plant located in northeast India to be operated by Reliance Power Ltd. due to environmental concerns. However, after the Board's initial decision, Reliance executed a Memorandum of Understanding agreeing to supply 250 MW of renewable energy sourced from the United States and agreed to operate the plant so its carbon intensity not exceed 850 grams CO_2/kWh. This is the first time a financing has been made conditional on carbon emissions performance.

A second coal-fired power project to be developed by South Africa's government-owned power utility Eskom will be subjected to the enhanced environmental due diligence called for by Ex-Im's carbon policy in the coming months.

Ex-Im is the leader among both OECD and non-OECD countries on climate-change issues, and is the only ECA that regularly reports the carbon emissions of projects it supports. Ex-Im's new carbon policy resulted in significant changes in the Indian project. Balancing the interests of some U.S. exporters with Ex-Im's environmental obligations remains a challenge, but Ex-Im Bank is committed to being a leader in the ECA community on this issue, and the Bank is advocating that other ECAs adopt similar policies to reduce greenhouse gases. In this way, Ex-Im can help maintain a level playing field for U.S. exporters and their workers.

I also am working to increase the Bank's efforts to the service sector. Ex-Im Bank supports the export of services as well as capital goods, which is a point I often highlight at our Export Live events. For FY's 2007 through 2009, Ex-Im support for services increased steadily - $1.875 billion in FY 2007, $2.213 billion in FY 2008, and $3.791 billion in FY 2009. This total of $7.879 billion comprised about 16.4% of Ex-Im's total financing of $48 billion for that period. There is room for improvement, and this amount should continue to increase, such as legal and banking services, which comprise only 2.3% of the Bank's financings for services. Services account for a trade surplus and a real competitive advantage for U.S. companies.

Finally, Ex-Im is helping more U.S. companies take advantage of emerging opportunities in Sub-Saharan Africa. Congress has directed the Bank to increase financing of U.S. exports to Sub-Saharan Africa (SSA) in a manner consistent with the

Bank's requirement of reasonable assurance of repayment. To this end, Ex-Im has an SSA Advisory Committee that provides insights and advice on the region to assist the Bank in fulfilling its mandate and has created a dedicated Africa business-development group. In addition, the Bank created a $100 million Short-Term Africa Initiative, which makes insurance available for exports to 20 SSA countries that would otherwise not be eligible for Ex-Im support and two bank facilities, one in Nigeria and the other in Angola, help open markets in such countries. As a result of our outreach and credit policy, the Bank has supported over $5 billion in transactions to SSA since 1999. Last year alone, the Bank authorized over $400 million in exports to SSA countries. While Ex-Im's books have not closed for FY 2010, the Bank expects to double this number to over $800 million this year. In terms of U.S. exports, Nigeria and South Africa are the two largest markets in SSA for U.S. exports. As previously mentioned, the Bank has designated these two countries as part of our strategic initiative, and I expect to visit them in November.

BUDGET REQUEST

To reach President Obama's ambitious goals for jobs and exports, Ex-Im needs Congress to appropriate the full amount of the President's request for the Bank's FY 2011 administrative budget. And as I said previously, Ex-Im Bank is self-financing, so this increase comes at no cost to U.S. taxpayers.

We are all aware that full recovery from the recession will not take place until the employment figures improve, and one of the best ways to do this is to assist small

businesses. The request of $105.6 million includes a request for $13.5 million fund to expand small business outreach, new regional offices, and increased staff to improve the turn-around time on small business applications.

Congress has instructed the Bank that at least 20% of its authorizations should directly benefit U.S. small businesses, and Ex-Im expects to be at or exceed this level in FY 2010. Like you, I consider this goal to be a floor, not a ceiling. The Bank's small business authorizations are increasing, but not as fast as its financing for larger transactions.

SPECIAL CHALLENGE

Notwithstanding the phenomenal performance of the Bank over the last two years and in addition to its resource constraints, Ex-Im faces the growing challenge of meeting the competition of countries who are not members of the OECD and, therefore, do not have to abide by the Arrangement. China is the country most often cited. The Chinese are making inroads in markets all over the world, with special attention to Africa, Asia and Latin America. China raises challenges both through the use of more generous export credits terms and trade-distorting tied aid.

I wish I could tell you that I have the answer to this problem, but the fact is, while Ex-Im can match Chinese export credits that are better than allowed under the OECD rules, Ex-Im does not have the resources to match the trade-distorting concessional

financing offered by the Chinese in many markets. When it was first established, the tied aid "war-chest" (as it was known) was created to induce foreign governments to negotiate a set of rules to discipline trade-related aid and channel aid resources away from commercial projects in rich countries. As the OECD tied aid rules have now been in place for almost two decades, aid policies have evolved and the list of donor countries has grown tremendously – to include many non-OECD countries, most notably, China - that choose to apply substantial budgetary resources to tied aid. While the Chinese development aid, like development aid from any country, is welcome, tied aid use for commercially viable projects is trade distorting. Against this backdrop, the funds that Ex-Im Bank has available for tied aid "matching" at present are limited, an amount hovering around $170 million, considering the competitive landscape. Nevertheless, Ex-Im Bank will continue to seek opportunities to employ these funds, in coordination with Treasury, to level the playing field for U.S. exporters competing with trade distorting foreign tied aid offers from other countries. Additionally, Ex-Im Bank remains committed to working with our OECD partners to encourage non-member ECAs to play by the same rules. That said, the opacity and capacity of non-member ECAs remains a challenge for Ex-Im Bank and U.S. exporters, especially in Sub-Saharan Africa.

As mentioned earlier, Ex-Im has identified nine target markets, and I have travelled to seven of them and will be heading to Nigeria and South Africa later this year. Leaders in all these countries say the same thing: They want to buy U.S. goods not because they are cheap, but because our innovation, quality and service after sale are

unmatched by our global competitors. U.S. exporters deliver long-term value, and Ex-Im Bank is committed to helping their efforts.

I want to close by assuring you that we at Ex-Im Bank are determined to do our part in helping to grow employment here in the United States. This is our mission and we are going to work tirelessly to fulfill it. I am always open to your suggestions and want to hear from you and, as I said earlier, hold programs around the country to inform your constituents of the resources Ex-Im is able to provide to them.

Thank you for this opportunity to testify. I will be happy to answer your questions.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittees on Oversight and Investigations and International Monetary Policy and Trade, Committee on Financial Services, House of Representatives

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EXPORT PROMOTION

Observations on the Export-Import Bank's Efforts to Achieve U.S. Policy Goals

Statement of Loren Yager, Director
International Affairs and Trade

GAO
Accountability * Integrity * Reliability

GAO-10-1069T

Mr. Chairmen and Members of the Subcommittees:

Thank you for the opportunity to appear today before the subcommittees to provide our perspective on the role of the U.S. Export-Import Bank (Ex-Im) in promoting exports and achieving other U.S. policy goals. As Congress considers policies to achieve more robust growth in the U.S. economy, it must consider the full range of tools available to further growth and create new jobs for U.S. workers. Some of these tools are related to promoting exports, which can have broad benefits to the U.S. economy. As the official export credit agency of the United States, Ex-Im has a key role in helping many U.S. firms achieve sales in foreign markets. In addition to establishing Ex-Im's broad mandate of supporting U.S. employment through exports, Congress has laid out specific, targeted goals for the bank in areas such as increasing financing for environmentally beneficial exports and expanding services to small and minority-owned businesses.

Today, I will provide some broad observations regarding Ex-Im's contribution to the export promotion goals announced in the President's National Export Initiative. I will also describe progress Ex-Im has made in achieving the specific targets set by Congress, as well as some challenges the bank faces in meeting those targets. In my statement, I will also provide some background information concerning the ways in which exports can enhance U.S. economic output, and I would be happy to provide insights from our recent work on other key agencies' export promotion efforts.

These observations are based on a range of work that we have conducted for Congress over recent years on Ex-Im as well as on the numerous other U.S. agencies involved in export promotion.[1] We conducted this work in

[1]See, for example, GAO, *Export Promotion: Increases in Commercial Service Workforce Should Be Better Planned*, GAO-10-874 (Washington, D.C.: Aug. 31, 2010); GAO, *Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank*, GAO-10-682 (Washington, D.C.: July 14, 2010); GAO, *International Trade: Effective Export Programs Can Help in Achieving U.S. Economic Goals*, GAO-09-480T (Washington, D.C.: Mar. 17, 2009); GAO, *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring Their Effectiveness*, GAO-08-915 (Washington, D.C.: July 17, 2008); GAO, *Export Promotion: Export-Import Bank Has Met Target for Small Business Financing Share*, GAO-08-419T (Washington, D.C.: Jan. 17, 2008); and *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing*, GAO-06-351 (Washington, D.C.: Mar. 3, 2006).

accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The President's National Export Initiative has put forth an ambitious goal of doubling exports in the next 5 years. Ex-Im has been identified as having a key role in the initiative, and a recent administration report identifies a number of specific actions for Ex-Im. Our work on Ex-Im's financing with respect to small business found areas where Ex-Im needed to improve its data systems for accurate reporting as well as its tracking of efforts to increase small business financing. Regarding Ex-Im's environmentally beneficial exports financing, we found that the bank could benefit from more consistently following strategic planning practices. Ex-Im has taken a number of steps in response to GAO recommendations, but opportunities for improvement remain. Additional attention to these issues will enable Ex-Im to develop better communication with Congress and other stakeholders regarding the balance between the small business and environmental export targets and the broader priorities in the National Export Initiative.

Background

Ex-Im's mission is to support U.S. exports and jobs by providing export financing on terms that are competitive with the official export financing support offered by other governments. It had about 350 full-time staff positions in fiscal year 2010. Between fiscal years 2003 and 2008, Ex-Im authorized financing averaging $12.8 billion annually. In fiscal year 2009, Ex-Im had a record year, financing more than $21 billion in 2,891 authorizations. Since fiscal year 2008, Ex-Im has been "self-sustaining" for appropriations purposes, financing its operations from receipts collected from its borrowers.

Exports, and trade more broadly, contribute to the U.S. economy in a variety of ways. Trade enables the United States to achieve a higher standard of living by exporting goods and services that are produced here relatively efficiently and importing goods and services that are produced here relatively inefficiently. An indication of this is that firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically oriented firms of the same size. U.S. exports of goods grew

from $820 billion in 2004 to $1.30 trillion in 2008, and were $1.1 trillion in 2009.[2]

In addition to the longer-term benefits of trade and exports, exports can serve as a countercyclical force for the U.S. economy—that is, strengthening the economy when other parts of it are relatively weaker. For a number of years, as the United States increasingly imported more than it exported, the U.S. economy was an engine of growth for other nations. In contrast, from December 2007 through June 2009—what has been officially labeled a recession period—U.S. economic growth was boosted by an improving trade balance. More recently, strong U.S. exports have been outpaced by import growth.

The National Export Initiative Sets Ambitious Goals for Increasing U.S. Exports and Contains a Key Role for Ex-Im

The President created the National Export Initiative on March 11, 2010, with an ambitious goal of doubling exports in the next 5 years to support job creation. To facilitate achieving this goal, the National Export Initiative established an Export Promotion Cabinet that includes Ex-Im as well as 15 other agencies and executive departments. On September 16, 2010, the White House released a report on the initiative that provides an overview of progress made and lays out a plan for reaching the President's goal.

Ex-Im has a critical role to play in one of the report's priority areas—increasing export credit. The report identifies several actions for Ex-Im. They include, for example, launching new products designed to ensure credit is available to small and medium-sized enterprises (SME); focusing efforts on high-potential industries such as medical technology, renewable power, and transportation; increasing the number and scope of partnerships with financial intermediaries; and introducing a simplified application for credit insurance. GAO has not evaluated the report or other aspects of the National Export Initiative, but would welcome the opportunity to continue its work with the Congress on oversight of these efforts.

[2]Service exports were an additional $502 billion in 2009.

Congress Has Set Targets Regarding the Composition of Ex-Im's Export Financing

GAO has reported on Ex-Im's efforts to achieve specific targets set by Congress regarding the composition of Ex-Im's export financing. For example, Congress has shown interest in the level of financing Ex-Im provides to small businesses, including those owned by women and minorities, and Ex-Im's efforts to increase that financing. Congress has also given Ex-Im directives regarding the share of its financing for environmentally beneficial exports, including renewable energy.

Congress Has Asked Ex-Im to Increase Financing for Environmentally Beneficial Exports

Congressional interest in Ex-Im's financing of environmentally beneficial exports span many years. In 1989, Congress directed that Ex-Im should seek to provide at least 5 percent of its energy sector financing for renewable energy projects and should undertake efforts to promote renewable energy. In 2008, Congress directed Ex-Im to provide not less than 10 percent of its annual financing for environmentally beneficial exports; in 2009-2010, Congress narrowed the targeted environmentally beneficial categories.[3] Congress has also required Ex-Im to develop a strategy for increasing its environmental export financing, and to report on this financing and how the bank tracks it.

GAO recently reviewed Ex-Im's environmentally beneficial export financing and its efforts to meet congressional directives in this area.[4] We found, first, that Ex-Im had fallen far short of achieving the 10 percent environmentally beneficial financing targets set by Congress. However, we also found that Ex-Im's financing for renewable energy has recently increased; the level of renewable energy financing in the first two quarters of fiscal year 2010 exceeded its renewable energy financing for all of fiscal year 2009, which in turn represented a large increase over 2008 financing.

We also reported that Ex-Im needs to further clarify its definitions and improve its reporting on environmentally beneficial exports. For Ex-Im, the term "environmentally beneficial exports" constitutes an overarching category that includes renewable energy, energy efficiency exports including energy efficient end-use technologies, and a mix of other products with beneficial effects on the environment. Ex-Im recently sought to clarify its definitions of energy efficiency exports by publicly

[3]For each of fiscal years 2009 and 2010, Congress specified a 10 percent target for Ex-Im financing but changed the targeted exports to renewable energy technologies or energy efficient end-use technologies.

[4]GAO-10-682.

providing examples of products it considers to be in that category, and it began to track its financing for those exports in its internal data. However, the examples Ex-Im released do not clearly identify which energy efficient end-use technologies would count towards their 10 percent financing target. Given the congressional interest in financing in this area, it is important that Ex-Im be as clear as possible in its application of terms to facilitate communicating financing goals to potential exporters and others and communicating progress in meeting targets to Congress. GAO recommended that Ex-Im develop and provide clear definitions for its subcategories of environmentally beneficial exports and report annually on the level of financing for each of the subcategories.

We reported that while Ex-Im has taken steps to increase financing for environmentally beneficial exports, it could benefit from more consistently following strategic planning practices such as involving stakeholders and realigning resources. Ex-Im routinely shares information with stakeholders such as other U.S. agencies and lending institutions, but has not generally involved them in communicating goals or discussing strategies for achieving them. Ex-Im has considered reorganizing some staff into more focused teams to target priority industries and countries, but this effort has not included an analysis of the resources required to accomplish the goal of increasing certain types of environmentally beneficial exports. On the other hand, Ex-Im has taken some steps to assess factors that affect its financing of environmentally beneficial exports such as conducting analysis of the renewable energy markets to identify the best sectoral and geographic opportunities for Ex-Im financing. In order for Ex-Im to provide valuable information for the Congress and key stakeholders, GAO recommended that the bank consistently implement key practices for effective strategic planning, including clearly communicating the bank's priorities for increasing financing of renewable energy and energy efficient end-use technologies to both internal and external stakeholders. Ex-Im agreed with our recommendations and stated that it would strive to implement them promptly.

Small Business Exports Are a U.S. Trade Priority, and Congress Has Required Ex-Im to Provide a Certain Level of Support for These Exports

Promoting exports by small business has been a long-time priority of Congress as well as the executive branch, given these exports' role in generating growth and employment. While many small businesses export, it is widely recognized that they face a number of challenges in exporting. For example, they typically do not have overseas offices and may not have much knowledge regarding foreign markets. Export promotion agencies have developed various goals with respect to their small business

assistance, and in some cases Congress has mandated specific requirements for supporting small businesses.

Since the 1980s, Congress has required that Ex-Im make available a certain percentage of its export financing for small business. In 2002, Congress established several new requirements for Ex-Im relating to small business, including increasing from 10 to 20 percent the proportion of Ex-Im's aggregate loan, guarantee, and insurance authority that must be made available for the direct benefit of small business. When reauthorizing the bank's charter in 2006, Congress again established new requirements for Ex-Im. These included creating a small business division with an office of financing for socially and economically disadvantaged small business concerns and small business concerns owned by women, designating small business specialists in all divisions, creating a small business committee to advise the bank president, and defining standards to measure the bank's success in financing small business.

For the past 4 fiscal years—2006-2009—Ex-Im has met the Congressional requirement to make available not less than 20 percent of its financing authority for small businesses. Percentages have ranged from almost 27 percent in fiscal year 2007 to about 21 percent in fiscal year 2009. The financing amount for small business was actually highest in 2009, given Ex-Im's overall record financing that year. In fiscal years 2002-2005, Ex-Im did not reach the goal, with its small business financing share ranging from 16.9 percent to 19.7 percent.

GAO has reported on several aspects of Ex-Im's financing for small business exports. In 2006, we identified weaknesses in Ex-Im's data systems for tracking and reporting on its small business financing and made recommendations for improvement.[5] Ex-Im has implemented those recommendations. For example, Ex-Im moved to an electronic, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. This contributed to more timely and accurate information on Ex-Im's financing, and thus a greater level of confidence in Ex-Im's reporting on its efforts relative to congressional goals.

[5]GAO-06-351.

More recently, we reported on the performance standards that Ex-Im established for assessing its small business financing efforts.[6] We found that Ex-Im had developed performance standards in most, although not all, of the areas specified by Congress, ranging from providing excellent customer service to increasing outreach. We also found that some measures for monitoring progress against the standards lacked targets and time frames, and that Ex-Im was just beginning to compile and use the small business information it was collecting to improve operations.

GAO made several recommendations to Ex-Im for improving its performance standards for small business. Ex-Im has provided to GAO information on actions and specific steps it is taking to implement certain of these recommendations. For example, Ex-Im has identified targets for reducing the average turnaround time for processing certain types of small business transactions. GAO looks forward to continuing to work with Ex-Im in documenting that the recommendations have been implemented.

Conclusions

Mr. Chairmen, the National Export Initiative has focused the spotlight on U.S. agencies that assist U.S. exporters as a way of expanding economic growth and creating jobs in the United States. As the nation's export credit agency, the Export-Import Bank is a key part of the initiative, and there are a number of detailed initiatives related to export credit in the report that was released on September 16, 2010. However, the goal of doubling U.S. exports in 5 years is an ambitious goal and would require not only increased activity by agencies such as Ex-Im but also increases in demand in key nations around the world.

This heightened emphasis on overall exports and increasing the level of Ex-Im financing takes place in the context of specific congressional directives regarding the composition of that financing. Our work on Ex-Im's financing with respect to small business—including minority and women-owned businesses—and environmentally beneficial exports has demonstrated that substantial steps have been taken, and Ex-Im continues to face substantial challenges. While Ex-Im has had more success in achieving the congressional targets for small business than for environmentally beneficial exports, opportunities remain for a more strategic use of resources and for better communication with Congress and other stakeholders. More broadly, Ex-Im faces the challenge of

[6]GAO-08-915.

contributing to the doubling of U.S. exports along with meeting other congressional requirements, including operating at little or no cost to the taxpayer. How any sharp increase in Ex-Im financing levels will affect specific targets we have described is not clear, and is likely to be an area requiring further discussion on how to balance these overall priorities.

Chairman Moore, Chairman Meeks, Ranking Member Biggert, and Ranking Member Miller, this concludes my prepared remarks. I appreciate the opportunity to discuss these issues with you today. I would be pleased to respond to any questions you or other members of the subcommittees may have at this time.

For further information about this testimony, please contact Loren Yager at (202) 512-4347 or by e-mail at YagerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of the statement. Individuals who made key contributions to this testimony include Celia Thomas, Shirley Brothwell, Karen Deans, Emily Suarez-Harris, Richard Krashevski, Justine Lazaro, Valerie Nowak, and Jennifer Young.

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Congressional Relations	Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, DC 20548
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Congress of the United States
Washington, DC 20515

September 29, 2010

Mr. Gene Dodaro
Acting Comptroller General
U.S. Government Accountability Office
441 G St., NW,
Washington, D.C. 20548

Dear Mr. Dodaro,

The President has outlined an ambitious goal in the National Export Initiative for doubling exports in the next five years. An increase in exports has the potential to increase output and employment in the United States and also enable U.S. firms to take fuller advantage of their investments in technology. However, a significant share of U.S. firms do not have experience in exporting, and the Committee has questions about whether the current structure of assistance for U.S. exporters—and particularly the Export Import Bank ("Ex-Im Bank") – can help the private sector achieve that goal while still providing support for small and medium enterprises.

In the past, GAO has provided support for congressional oversight of the Export Import Bank's small business goals, and has also reviewed the participation of Ex-Im Bank and other agencies in the Trade Policy Coordinating Committee. At this time, we are very interested in learning how Ex-Im's efforts compare to the export financing efforts of other export credit agencies. We are particularly interested in the range of goals pursued by export credit agencies of other developed nations, and how they balance the needs to serve small and medium enterprises while still supporting other export goals. Recognizing that these nations generally work within the OECD guidelines for export credit agencies, we are also interested in whether there are lessons that the U.S. might learn from those other nations in terms of providing assistance to the private sector.

We look forward to utilizing this report in our oversight of the Export-Import Bank during the next Congress. Please contact Glen Sears (w/ Moore; Glen.Sears@mail.house.gov; 202-226-3027); Nicole Austin (w/ Biggert; Nicole.Austin@mail.house.gov; 202-225-3515); Stéphane Le Bouder (w/ Meeks; Stephane.LeBouder@mail.house.gov; 202-226-3632) and Bret Manley (w/ Miller; Bret.Manley@mail.house.gov; 202-225-3201) with any questions you may have.

Sincerely,

DENNIS MOORE
Chairman, House Financial Services
Oversight & Investigations Subcommittee

GREGORY MEEKS
Chairman, House Financial Services
International Monetary Policy & Trade Subcommittee

JUDY BIGGERT
Ranking Member, House Financial Services
Oversight & Investigations Subcommittee

GARY MILLER
Ranking Member, House Financial Services
International Monetary Policy & Trade Subcommittee

PRINTED ON RECYCLED PAPER

September 29, 2010

Statement for the Record

of

Donna K. Alexander

Chief Executive Officer

on behalf of

BAFT-IFSA

before the

Subcommittee on Investigations and Oversight

and the

Subcommittee on International Monetary Policy and Trade

of the

Committee on Financial Services

United States House of Representatives

BAFT-IFSA

ONE VOICE FOR THE INTERNATIONAL BANKING COMMUNITY

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Subcommittee on Investigations and Oversight
and the
Subcommittee on International Monetary Policy and Trade

Committee on Financial Services

United States House of Representatives
September 29, 2010

Chairman Meeks, Chairman Moore, Ranking Members Miller and Biggert, and Members of the Subcommittees, my name is Donna K. Alexander, and I serve as the Chief Executive Officer of BAFT-IFSA, an international financial services trade association whose membership includes a broad range of financial institutions throughout the global financial community. Thank you for the opportunity to submit a statement on the subject of the Export-Import Bank of the United States (Ex-Im) and the role of trade finance in doubling exports over five years.

The House Financial Services Committee has a long history with the Bankers' Association for Finance and Trade (BAFT), which was this organization's name prior to this year's merger with the International Financial Services Association (IFSA). As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT-IFSA helps build consensus on preserving the safe and efficient conduct of the financial system

worldwide. BAFT-IFSA is the premier global financial services association, serving the needs of its member financial services institutions and suppliers and the transaction banking industry as a whole. Our focus covers a wide range of topics affecting the international business and operational areas of transaction banking, including trade finance, payments, and compliance.

BAFT-IFSA members around the world are active in trade finance and many deal with export credit agencies (ECA's) like Ex-Im on a daily basis. Similar to other ECA's, Ex-Im plays a crucial role in global finance by providing export financing products that help fill gaps in trade financing otherwise provided by private sector lenders. As part of that mission, Ex-Im contributed to the recovery of trade finance markets during the economic crisis. The industry recognizes that contribution and values a continued working relationship with Ex-Im and other ECA's around the world to ensure the continued availability and affordability of trade finance.

There are three points we would like to make:

- Trade finance is critical for economic recovery, and Ex-Im has an important role in that effort.
- The National Export Initiative should be well-coordinated and methodically implemented.
- Ex-Im bank should continue to enhance its programs and competitiveness around the globe.

I. The Importance Of Trade Finance For Economic Recovery –U.S. Export-Import Bank Has A Role

Ex-Im serves the interests of the United States by providing credit support that is a vital component in the competitiveness of U.S. products in international markets. Transactions supported by Ex-Im represent incremental export sales by U.S. companies that support the jobs

of American workers and help to reduce the national trade deficit. A core component of the work undertaken by Ex-Im is accomplished with the support of the private sector trade finance lending community.

During the economic crisis, Ex-Im enhanced its support of trade finance in partnership with the private sector. Financing by Ex-Im has risen to remarkable levels, with $21 billion in financing support recorded for 2009, compared with $14 billion in 2008. The development and implementation of new and unique products also facilitates the ability of Ex-Im to support lenders and exporters.

BAFT-IFSA strongly supports continued cooperation between Ex-Im and the private sector to renew and revitalize trade lending. Ex-Im leadership in the public-/private-sector partnerships was important in helping set the tone for market recovery. These partnerships were enhanced during global efforts to address trade finance market dislocations. This collaboration remains critical to continued efforts in economic recovery around the globe.

Trade finance instruments, such as those offered and supported by Ex-Im, are crucial to sustaining international commerce and the growth of the world economy. During the economic crisis, world trade fell by more than twelve percent in 2009, in part due to some global banks stopping the flow of credit to reduce losses.[1] While some banks raised their lines of available trade credit during the crisis, the fall in overall demand for trade in goods and services mitigated that rise and largely caused the fall in trade volume. During the G-20 meeting in London in April 2009, it was recognized widely by world leaders that trade finance provides significant support for the $14-16 trillion USD in annual global commerce and helps drive growth and development,

[1] World Trade Organization; http://www.wto.org/english/news_e/sppl_e/sppl148_e.htm

especially in the emerging markets.[2] ***A restriction to credit flows for trade finance puts at risk the trading of essential goods, and poses a threat to importers and exporters in emerging markets, with smaller banks and small- and medium-size enterprises (SME's) disproportionately affected.***

Over the past two years, the BAFT-IFSA working relationship with Ex-Im expanded significantly to respond to the crisis in trade finance availability. BAFT-IFSA convened its first Global Trade Finance Summit in London in January 2009 and brought together for the first time the leading stakeholders in global trade finance markets, including banks, ECA's, credit insurers, multilateral agencies, government ministries of finance and trade, and other government entities. Ex-Im participated in three of our summits and, as part of the global public-/private-sector partnerships, many ECA's, including Ex-Im, launched new programs or made existing programs more robust to provide credit and liquidity for the import/export marketplace.

To appreciate the value provided by Ex-Im during the crisis, an understanding of trade finance is necessary. In the recent BAFT-IFSA comment letter to the Basel Committee on Banking Supervision regarding its recommendation on capital requirements,[3] we highlighted that trade finance transactions are generally fixed, short-term instruments that are not automatically renewed or extended upon maturity, and are self-liquidating by nature (*i.e.*, exposures are liquidated by payment at maturity). Trade finance liabilities arise from trade-related obligations underpinned by the movement of goods or services and evidenced by commercial contracts that document the arrangements between buyer and seller.

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[2] G-20; http://www.g20.org/Documents/final-communique.pdf

[3] For more information, please see the BAFT-IFSA Comment Letter to the Basel Committee on Banking Supervision in response to the Basel Consultative Document on Capital, *Strengthening the Resilience of the Banking Sector;* www.baft-ifsa.com

Trade finance has historically maintained a low risk profile in comparison with other financial instruments. According to a survey conducted by the International Chamber of Commerce (ICC) and the Asian Development Bank in September 2010, banks have experienced relatively minimal losses on trade lending--1,140 defaults have been reported within a full data set of 5,223,357 trade finance transactions over five years.[4] In stress situations, countries and banks have traditionally continued to prioritize the repayment of short-term trade finance obligations as they fall due. Additionally, banks active in trade finance are generally able to react swiftly on deteriorations in bank and country risk, as a result of the short-term, self-liquidating nature of the transaction.

As outlined for Ex-Im and other participants at our Global Trade Finance Summit, a key component in supporting access and affordability for trade finance is ensuring much needed changes to the implementation of Basel II--and now the design of Basel III. In North America and elsewhere, the implementation of Basel II, concomitant with the global recession, has put additional pressure on banks, as global risk deterioration has had a dynamic effect on bank capital requirements. This dynamic propelled deleveraging even further during the economic crisis. Given the global economic contraction, banks have had a heightened sensitivity in their exposures to trade clients and have experienced decreased access to private-sector risk mitigation providers, as a result of retrenchment due to the economic impact on their non-trade related business. We believe that certain recommendations made recently by the Basel Committee[5],

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[4] International Chamber of Commerce; http://www.iccwbo.org/uploadedFiles/ICC/policy/banking_technique/Statements/1147%20Register%20Report%20ICC%20Final%20Draft%2021%20September%202010.pdf

[5] Basel Committee Consultative Document on Capital, *Strengthening the Resilience of the Banking Sector,* Bank for International Settlements; http://www.bis.org/publ/bcbs164.pdf

could add to the uncertainty already in Basel II implementation regarding the treatment of trade finance instruments. The proposed changes could result in reduced trade flows for trade focused banks at a time when they are essential to foster a global economic recovery.

II. Ex-Im Bank Should Continue to Enhance its Programs

BAFT-IFSA is encouraged by Ex-Im efforts to enhance its programs in response to global economic conditions. The newly released supply chain financing guarantee program, designed to increase liquidity in the market, is one example of these efforts. The supply chain financing product is intended to support U.S. suppliers – who export to foreign buyers or supply U.S. exporters – by extending financing through the purchase of receivables owed to such suppliers.

The implementation of the Take-Out Option represents another example of the work undertaken by Ex-Im to respond to market needs. The Ex-Im Take-Out Option was launched in 2009 to reduce bank liquidity risks. If a guaranteed lender exercises the take-out option, Ex-Im Bank will buy, and the guaranteed lender will transfer to Ex-Im Bank, any loans covered by a take-out option and all related transaction documents in exchange for payment of the loan purchase price. Ex-Im Bank will charge an annual fee to the lender for this option, and an additional fee if the option is exercised. The option is available for all new dollar-denominated, floating-rate, medium- and long-term Ex-Im Bank guaranteed loans. BAFT-IFSA provided input on behalf of its banks on the development of the option, and several BAFT-IFSA members have completed deals involving the option. As long as the Take-Out Option remains active, BAFT-IFSA believes the industry would benefit from regular updates on the level of its utilization and its effect on pricing.

In the global markets, Ex-Im competes with other ECA's for business. It is important to note that while Ex-Im is a valuable resource to lenders and provides important financing support to U.S. exporters, increasing competition from OECD and non-OECD ECA's spotlights the need for maximum efficiency and competitive programs. Without competitive enhancements to Ex-Im programs, the risk of fewer export sales and loss of jobs is a concern.

Though Ex-Im has enhanced its product offerings in useful ways, much is required to ensure the bank is operating at maximum efficiency for its customers and the wider economy. Issues persist with a culture and organizational structure at Ex-Im that does not always effectively work with its partners in the private sector. The negative impact of some Ex-Im processes and policies is a real concern for our members in light of the slow economic recovery. In the spirit of constructive feedback, BAFT-IFSA offers the following comments on a number of Ex-Im processes and policies that affect BAFT-IFSA members and the industry as a whole. We request your special consideration of each of these recommendations.

- ***Change Domestic Content Requirement to Support Trade Growth***

The Ex-Im mission is to support U.S. jobs through exports. In pursuing that mission, Ex-Im has adopted a restrictive policy of only providing credit support for the value of the U.S. content in an export. Ex-Im limits its involvement in a transaction to the lesser of: (i) 85 percent of the value of eligible goods and services, and (ii) 100 percent of the U.S. content in those goods and services. Thus, if a U.S. export consists of 50 percent U.S.-made components and 50 percent non-U.S., Ex-Im support would be limited to 50 percent of the contract value. This is problematic for a number of reasons. First, as complexity increases in manufacturing processes and the sourcing of components, it is becoming increasingly difficult to track the levels and sources of non-U.S. content. This is particularly true for small businesses that do not have the resources to devote to tracking such data. Second, requiring such strict proportionality can result

in fewer U.S. exports than could otherwise be achieved. This policy puts Ex-Im at a competitive disadvantage to other ECA's which do not impose such onerous restrictions on their programs, and it makes it more difficult for Ex-Im and private sector lenders to support complex, multinational deals that will ultimately benefit the U.S. market.

- ***Reexamine MARAD Policy to Support U.S. Jobs***

Transactions supported by Ex-Im guarantees in excess of $20 million or that have a repayment period of more than seven years are subject to a requirement that the goods being financed must be shipped on a U.S.-flag carrier if they are transported by sea. This is administered by the U.S. Maritime Administration—MARAD. The exporter is required to use a U.S.-flag carrier even though other carriers might be available at lower cost, have vessels that are more suitable for the particular cargo being shipped, and provide logistical advantages with respect to their availability and routing. Although waivers are available in certain limited circumstances, the waiver process itself acts as a disincentive for potential purchasers of U.S. goods. The MARAD requirements often increase processing times and costs associated with Ex-Im transactions. This can diminish the competitiveness of Ex-Im programs in relation to other ECA's and the benefits for lenders and exporters doing business with the bank.

- ***Increase Efficiency in Processing Times and Staffing Levels***

Ex-Im staff has fewer than 400 staff to support a wide variety of programs and handle a growing amount of financing requests every year. There is a general sense amongst various stakeholders and interests that work closely with Ex-Im, including our members, that the employees are overworked and experiencing difficulty handling the high volume of transactions undertaken by Ex-Im. We note that increasing staff is not in and of itself a solution to customer service problems.

General program processing inefficiencies mean that processing times for some Ex-Im transactions can be inordinately long and ultimately compromise some deals. ***This is particularly true of small business transactions, where the costs related to lengthy processing periods can cause difficulties in completing transactions***. In order to fully support the goals of the NEI, and offer incentives for small businesses to use Ex-Im programs, consideration should be given to increased funding for staff resources and a thorough internal examination of ways in which to improve efficiency in transaction processing at all levels of the bank.

- ***Support the Medium Term Delegated Authority Program and Enhance Working Capital Fast Track Delegated Authority Program***

The Medium Term (MT) Delegated Authority program is designed to reduce transaction turnaround time, leverage Ex-Im medium-term program resources and increase lender utilization of Ex-Im medium-term programs, while maintaining credit quality and program integrity. Lenders will share in credit risk and receive a portion of the Ex-Im exposure fee. BAFT-IFSA supports this program and believes it is crucial in supporting small- and medium-size U.S. businesses. Of concern, however, is that use of the program has dropped significantly. BAFT-IFSA believes Ex-Im should invest additional time and resources in the MT program to support small business and drive job creation through exports.

Additionally, under the Ex-Im Fast-Track Delegated Authority programs, approved lenders will have delegated authority to underwrite and authorize Ex-Im Bank-guaranteed medium-term transactions without prior Ex-Im review and approval. Given economic conditions in the U.S., some banks are seeing increased requests for Ex-Im Working Capital Guarantees above the present limit of $25 million for Fast-Track Delegated Authority transactions. Both lender and borrower have agreed to remain at the $25 million cap as the economics of the transaction change above that level. Based on recent discussions with Ex-Im, we understand that

Ex-Im is open to increasing the level of delegated authority by proven Fast Track lenders. We are pleased with this development, as the increase could result in increased working capital support for qualified exporters and help create U.S. jobs.

➢ ***Ensure Consistency in Portfolio Management***

BAFT-IFSA is in discussion with Ex-Im about changes concerning portfolio management. Portfolio management relates to how claims are handled under Ex-Im bank programs. As we outlined to Ex-Im, requests for annual updated financial information and other detailed information on specific deals for medium term (MT) transactions of less than $10 million pose unnecessary burdens for Ex-Im program users focusing on small- to medium-size transactions. These users are already burdened with the constraints of doing business in a recovering economy. A lack of consistency and the absence of a credible rationale for such information hamper loan processes, as program users may not have the resources to provide the information in a cost-effective manner or timeframe required by Ex-Im. The preliminary information requests at the application stage already exceed thresholds of some other global ECA requirements. The additional reporting requirements ultimately affect Ex-Im Bank competitiveness as a result of less demand for the bank programs.

➢ ***Enhance Consultation and Outreach to Industry***

Feedback from some interests in the industry indicates that Ex-Im does not engage sufficiently with key stakeholders and partners before implementing new procedures or policies for programs designed to foster the public-/private-partnership. This approach puts constructive communication at risk and fosters an environment where Ex-Im policies do not always reflect market requirements. Indeed, as a result, these policies may have over-reaching consequences. Open dialogue on key initiatives can help avoid confusion and uncover unintentional consequences imbedded in new programs or policies.

Ex-Im has initially responded to some of our concerns by taking preliminary steps to rectify the irregular consultation process with the industry. BAFT-IFSA and Ex-Im have initiated quarterly calls between senior bank leadership and BAFT-IFSA members. We hope this new initiative will provide the beginnings of regular consultation in the earlier stages of policy or process changes. This dialogue must go hand-in-hand with regular follow-up for meaningful policy improvement. We look forward to engaging accordingly.

III. The National Export Initiative Should be Carefully Implemented

In the United States, a key component of President Obama's plan to ensure a sustained economic revival is the implementation of the National Export Initiative (NEI), with a goal of doubling U.S. exports in five years. BAFT-IFSA strongly supports the National Export Initiative (NEI) and the Administration's goals to improve conditions that directly affect the private sector's ability to export. BAFT-IFSA remains concerned, however, about implementation of the NEI with particular regard to trade finance support. If affordable trade finance is not accessible, we cannot count on sustained global economic recovery. The Administration should support efforts to ensure affordable trade finance, a fundamental tool and catalyst for the NEI.

Coordination amongst the federal agencies driving the NEI is vital to its success. BAFT-IFSA supports the core Trade Promotion Coordinating Committee (TPCC) departments organizing a unified network of support for lenders and exporters to guarantee a user-friendly, fast, and efficient system for trade assistance.

Greater transparency and education around the NEI is crucial to its success. The expansion of national and international "road shows" and a coordinated education campaign for lenders and exporters will help fill information gaps handicapping some market participants.

Increased outreach and marketing efforts by the TPCC are sorely needed. Additionally, the TPCC members and other stakeholders should be aware of the potential impact that certain regulations not related to the NEI may have on the effectiveness of sustained trade promotion. For example, the FDIC policy on repudiation and collateralization of letters of credit could have the potential to unintentionally impede the goals of the NEI.[6]

An important component of the NEI effort is the work of the federal export financing agencies. The export financing programs of the agencies help fill gaps in trade financing otherwise provided by private sector lenders. As part of that mission, programs at these agencies – including Ex-Im, the Small Business Administration (SBA), and the Overseas Private Investment Corporation (OPIC) – have helped contribute to the recovery of trade finance markets during the economic crisis. Continued support of these programs is key to achieving the stated goals of the NEI. Congress should ensure that programs at these agencies are operating at maximum efficiency. A regular dialogue with the private sector on changes or enhancements to these programs should also be launched. This will ensure that unintended consequences of program changes – or the implementation of new requirements – do not inhibit market growth. This is particularly pertinent to Ex-Im for all the reasons outlined above, not the least of which is its core mission.

As the landscape gradually improves for trade markets, global public-/private-sector cooperation is even more critical. The NEI is well-timed—it simply needs to be well-executed. The opportunity for NEI participants is vast--in September 2010, the World Trade Organization (WTO) predicted international trade would increase by over thirteen percent.[7] The most recent

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[6] FDIC PR-36-95 (5-19-95)

[7] World Trade Organization; http://www.wto.org/english/news_e/pres10_e/pr616_e.htm

BAFT-IFSA/International Monetary Fund (IMF) Trade Finance Survey, which tracks trends in trade finance markets, found that total trade finance activities fell slightly on average (one percent) during the fourth quarter of 2009, compared with the fourth quarter in 2008. This was a substantial improvement from the eleven percent decline in the comparison between quarter two 2009 and quarter four 2008.[8]

Recent WTO figures have shown an increase in trade of nearly twenty-five percent for the first half of this year when compared with 2009. In that same report, the WTO found that Asian exports and imports rose by more than thirty-five percent in the second quarter of 2010 as compared to 2009. Exports from Africa and the Middle East were also thirty-five percent higher than in the corresponding period of last year. Such a rise can be attributed, in part, to increased demand in Asia and the US, coupled with higher commodity prices worldwide.[9] The U.S. government must rise to the occasion to ensure the success of the NEI. The banking industry will gladly support such a program, particularly if well-coordinated and embedded with maximum efficiencies.

Conclusion

BAFT-IFSA members believe the U.S. Export-Import Bank has an important role in helping boost U.S. exports. Ex-Im support of BAFT-IFSA global efforts on public-/private-sector partnerships during the economic crisis made a difference in facilitating our ability to provide solutions for global leaders and respond to stakeholders in global trade finance. Continued cooperation and joint leadership is vital to fully recover from the global crisis – we

[8] BAFT-IFSA; www.baft-ifsa.com

[9] World Trade Organization; http://www.wto.org/english/news_e/pres10_e/pr616_e.htm

intend to work hand-in-hand with the major export credit agencies like Ex-Im to provide the means to a full recovery.

Trade finance is a crucial component of global growth and prosperity. The NEI in the U.S., through the work of agencies like Ex-Im, is a cornerstone in ensuring adequate and affordable trade finance availability to support trade. ECA's around the globe, and the Ex-Im in particular, play a crucial role in rebuilding markets for selling goods and services through exports. Operating at maximum efficiency must be a top priority.

We value our continued working relationship with Ex-Im and look forward to a productive and fruitful dialogue with Ex-Im and the U.S. Congress throughout the upcoming reauthorization process and beyond. Thank you again for the privilege of providing a statement for the record to these important subcommittees.

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