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OVERSIGHT AND REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

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

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

CONTINUING OVERSIGHT OF THE RECENT ACTIVITIES OF THE EXPORT-IMPORT BANK AND THE CRITICAL NEED TO REAUTHORIZE THE BANK'S CHARTER

JANUARY 28, 2014

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OVERSIGHT AND REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

TUESDAY, JANUARY 28, 2014

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:03 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order.

Today the Committee again welcomes the Chairman and President of the Export-Import Bank of the U.S., Fred Hochberg. This hearing will continue our ongoing oversight of the Bank's activities.

In addition, the Bank's current authorization expires on September 30, 2014, and it is my goal to work with Ranking Member Crapo and other Members of the Committee to reauthorize the Bank. Today we will hear from the Chairman his ideas for the reauthorization.

The Export-Import Bank is the official export credit agency of the U.S., and it assists in financing the export of U.S. goods and services to international markets. Last year, the Bank supported $37.4 billion in exports and 205,000 U.S. jobs and sent $1 billion to the Treasury Department.

The Bank is one of the few Federal agencies that actually makes money for the U.S. Government, and since 2008 it has been self-funding. This is a testament to the Bank's leadership under Chairman Hochberg, as well as the good work of the dedicated staff and Board of the Bank.

All of the Bank's transactions are backed by the full faith and credit of the U.S. Therefore, it is important for this Committee to make sure that the Bank is working as efficiently and as effectively as possible to protect the taxpayers.

Equally important is the Bank's objective to use exports to help create and maintain jobs here at home. This mission, spelled out in the Bank's charter, is at the very core of what Congress intended for the Bank. I believe that while the Bank is doing a good job, it can—and must—do more in this area.

Last Congress, the Bank was reauthorized with broad bipartisan support. As we begin work on reauthorization this year, it is important that the Committee hear from the Bank on how it has imple-

mented the reforms in the last reauthorization, what challenges it faces moving forward, and what Congress can do to help support the Bank's efforts to increase U.S. exports and jobs.

I now turn to Ranking Member Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you, Mr. Chairman, and, again, welcome, Mr. Hochberg. We appreciate your work.

Today we will review the activities of the Export-Import Bank of the United States as the Banking Committee prepares to consider this years reauthorization of the Bank's charter. U.S. exporters are able to compete very effectively in international markets on the basis of price and quality. However, when aggressive foreign governments provide subsidies as a matter of policy or general practice to their exporters, U.S. exporters are placed at a competitive disadvantage purely because of such financing arrangements.

Relative to the size of their economies, certain European governments use export credit agencies to provide three times as much official credit as the Bank does. China and India provide four times as much. Countries like China institutionalize protectionist policies at the direct expense of other nations, trying to keep up with China's ability to draw on vast foreign reserves to crowd out its trade competitors in foreign markets.

One of the roles of the Bank is to level the playing field for U.S. exporters by countering the public financing made available by foreign governments. The last reauthorization called upon the Treasury Secretary to engage in international negotiations to ultimately eliminate official export credit activity globally. I am interested in hearing what steps the Bank can take to assist the Secretary and what steps the Bank can initiate independently with its international counterparts to jointly reduce international subsidies.

In the 2006 reauthorization, I worked on a number of provisions to make sure the small business community has an advocate to help address its needs and concerns. However, the Bank historically has had trouble meeting its 20-percent small business mandate in terms of authorizations as opposed to sheer number of transactions. Small- and medium-business transactions account for more than 85 percent of the Bank's transactions, but still fall short in the amount of money lent.

My question for Chairman Hochberg is: What additional changes are necessary to improve the Bank's programs for small- and medium-sized businesses to achieve their needs?

It is precisely these companies that operate at the heart of the U.S. economy, and export to new markets is essential for their growth and job creation.

With the most recent increase in the authorization level, the Bank will be pressed to work harder than ever to meet its congressional mandate. Medium-sized businesses, which tap the Bank's medium-term direct lending program that supports transactions in the 5- to 7-year and $50 to $75 million range, actually seem to be getting squeezed between the small business mandate and the Bank's larger portfolio. This occurrence is causing the medium-term program to dramatically shrink to the point where no direct loans are being made whatsoever last year.

As we look at ways to improve efficiency and reduce costs through all Government programs, Chairman Hochberg should be commended for holding the Bank's default rate to a level under that of commercial banks, while each year depositing hundreds of millions of dollars into the U.S. Treasury's general fund for the benefit of the American taxpayer. And I look forward to working with the Chairman and all the Members of the Committee to develop a bipartisan plan for the Bank's upcoming reauthorization that will make a real commitment to small and medium businesses while continuing to ensure that any risk to the American taxpayer is minimized.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Crapo.

Are there any other Members who would like to give brief opening statements?

Senator SHELBY. Mr. Chairman, I would like my statement to be made part of the record.

Chairman JOHNSON. Without objection.

I would like to remind my colleagues that the record will be open for the next 7 days for additional statements and other materials.

Today's witness, Fred Hochberg, is the 23rd President of the Export-Import Bank. Mr. Hochberg, you may begin your testimony.

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

Mr. HOCHBERG. Thank you. Thank you, Chairman Johnson, Ranking Member Crapo, and other Committee Members. You have my written testimony which goes into detail about the Bank's results, processes, and reforms over the last few years, so I would like to take a few moments this morning to highlight just three key issues: our recent results; our efforts to support small business, which has already been mentioned; and changes we have implemented since our last reauthorization.

As I sit before you today, the trade gap is at the lowest level it has been since 2009. Unemployment is down to 6.7 percent, a level not seen since October 2008. And the "Made in America" brand has never been stronger.

American exports are at an all-time high—$195 billion recorded in November alone, the largest 1-month total in the history of the United States.

At the same time, our authorizations were down last year—$27 billion, off from $36 billion the year before.

Let me just repeat that. Exports are up, and Eximbank authorizations are down. That actually is a very good trend.

A significant contributor to the drop in authorizations was that aircraft financing was down $3.5 billion. At the same time, total aircraft deliveries were up. The aerospace industry is less reliant on Eximbank largely because other forms of financing became more available in the last few years. But our real report card is jobs, and that is private sector jobs. Through our financing we have supported 1.2 million private sector jobs over the past 5 years, including 205,000 this last fiscal year.

We are about 400 employees, a little bit more than 400, at Eximbank, a number of whom are with me today, but we punt well

above our weight. For example, we have won 25 awards in the last 5 years, including an Innovation in Government Award from Harvard's Kennedy School of Government, as well as the Best Global Export Credit Agency from Trade Finance magazine, to name just two. And for the first time ever, Eximbank generated more than $1 billion for the U.S. taxpayers above and beyond the cost of all operations and loan loss reserves. Where I come from, we would have called that a profit.

Let me talk about small business. I was a small businessman for 20 years, so I know that small businesses are the engines that drive our economy and create so many jobs back home. I am proud to report that of the 3,800 transactions we approved last year, nearly 90 percent of them were for small businesses, also an all-time record for the Bank.

We have done more than 60 Global Access Forums, from Boise to Billings, from Charlotte to Shreveport. These and other forums in your communities spread the word of how Ex-Im can help reduce the risk for small businesses.

We have also recently partnered with FedEx in a new program to make sure that their small- and medium-size companies who are clients of FedEx understand how we can help them improve and expand their global footprint and at the same time build sales and jobs.

Third, let me now turn to the reforms and improvements we have made since our last reauthorization. We have improved our underwriting and credit monitoring. We hired a new Chief Risk Officer who reports directly to me. We are now posting all transactions, over $100 million, Federal Register prior to Board action. We have updated our economic impact procedures, and we have reviewed our domestic content requirements.

We have enhanced reserves with qualitative factors. We now submit quarterly default rate reports to Congress. In our last report, which was filed just this past Friday, the default rate came in at 0.00267—in other words, just over one-quarter of 1 percent.

Comprehensive risk management and continuous improvement is what guides our work, and our default rate reflects that.

In closing, let me leave you with one thing that does keep me up at night. We live in an extremely competitive world. On a daily basis, American businesses and their workers need to scrap and fight to win overseas sales. There are some 60 other export credit agencies around the globe, some regulated and some not, who are supporting their nation's exporters. They would like nothing more than to steal sales and jobs from companies in your States.

For example, as mentioned earlier, South Korea's ECA finances roughly $100 billion in exports, three to four times the amount that we do in a nation that is less than one-tenth our size. That is why we need your help to reauthorize the Bank on time so that businesses can tap into the 95 percent of the world's customers that live outside of our borders and support U.S. jobs.

Thank you, and I look forward to your questions.

Chairman JOHNSON. Thank you for your testimony.

As we begin questions, I will ask the clerk to put 5 minutes on the clock for each Member.

Mr. Hochberg, while the number of transactions conducted by the Bank increased from 2012 to 2013, the value of authorizations declined. Do you see this trend continuing?

Mr. HOCHBERG. Well, thank you, Chairman Johnson, for this hearing and that question. The number of transactions declined; partly we are tapping into more small businesses and helping more small companies with smaller amounts, which is an important goal of the Bank. It is difficult to gauge how well the capital markets and banks will support U.S. exports. We saw some greater support this year, as I cited, in aircraft. So we are really monitoring this on a regular basis.

Our first quarter results are actually slightly off from last year, although exports are still very strong. So I think we are seeing some banks stepping up more than they have the last few years.

Chairman JOHNSON. As we have discussed before, I believe more needs to be done to support workers and businesses in rural areas. Can you explain how the Bank is working to address the needs of U.S. exporters located in rural areas?

Mr. HOCHBERG. Without question. I mentioned I did an export event with Senator Crapo in Boise this past summer. I have done some with Senator Tester in Billings. I was just in North Carolina in the Textile Belt just a week or two ago. We work with city-State partners in those States to make sure we can support both the export of commodities and raw materials, as well as farm equipment that is often made in those areas. I will be in North Dakota, in Fargo, later this year.

Chairman JOHNSON. If Congress fails to reauthorize the Bank this year, what would be the effect for American exporters and workers?

Mr. HOCHBERG. Well, if we are not reauthorized, we put in jeopardy the 205,000 jobs that our financing supported this last year. When we finance an export, it is because that financing is not available through the private sector. So it is really putting all those 205,000 jobs and all those families that rely on those jobs at risk.

Chairman JOHNSON. What is the Bank doing to help support exporters in Native American communities?

Mr. HOCHBERG. Again, I think that we are working in rural communities, we are working on the commodities, we are working with minority- and women-owned businesses. We are looking at that entire area. I would say, Senator, one out of every five loans made in the small business space was to either minority communities, women communities, or communities that have not as fully participated in the global economy.

Chairman JOHNSON. The Bank's financing must support jobs here in America. What specific steps is the Bank taking to meet the mandate to contribute to the employment of U.S. workers?

Mr. HOCHBERG. Well, our content policy very much says that the financing we do supports work done in America. We require 85 percent content for full financing. If there is 60 percent content, we will supply 60 percent financing. So we match our financing to the amount of work and jobs that are supported in this country.

Chairman JOHNSON. As countries throughout the world expend their export credit efforts, how has the Bank responded? In par-

ticular, what is the Bank doing to counter export financing that is unregulated by the OECD?

Mr. HOCHBERG. This is a very tricky area. It is one of the things I mentioned that does keep me up. And, you know, we often cite China, but, frankly, Russia is a very large threat right now, particularly in the nuclear space. We have two U.S. companies, Westinghouse and GE, competing. And many other countries, allies of ours—Japan, Korea—use what they call sort of "soft loans" and "development loans." Partly we are doing this through diplomatic channels. We are bringing the attention to the OECD when we see them. We are working with the State Department and Treasury to curtail them. But at the same time, when we see an example—we did in Pakistan a few years ago—we, working with the White House and the Treasury Department, came up with offsetting financing to make sure we could negate any impact from sort of offline or one-off financing that some of these countries have been deploying.

Chairman JOHNSON. The Bank plays a critical role in providing access to emerging markets for American exporters. In what regions and industries can the Bank be most effective in supporting American exporters?

Mr. HOCHBERG. I would say—and I think we will have some questions on this. You know, it is a little bit like a barbell. We do a lot in the small business space, and we do a lot with very large companies. Small business always has difficulty getting access to credit, and on some large capital projects, whether it is locomotives or satellites that are simply difficult to finance, are going to countries that have perceived greater credit risk is where the bulk of our business rests.

Chairman JOHNSON. Last, you have noted the Bank's commitment to "Government at the Speed of Business." What steps are you taking to ensure that timely processing of financing requests does not lead to increases in bad loans or fraud?

Mr. HOCHBERG. Well, we pride ourselves on what we call "Government at the Speed of Business." We are not taking any shortcuts whatsoever on due diligence or how we underwrite a transaction. But you know and I know when a transaction comes in and it is reviewed by underwriters and say it takes 8 weeks, they are not working on this 8 weeks, 40 hours a week. There is a lot of time we are waiting for information. It is sitting waiting for an economic impact study or an accounting report or compliance reports. What we are doing is squeezing that air out of the system, making sure we get on the phone, call, making sure our underwriters and our legal teams are working closely together so we are not having transactions waiting around for information. But we are not taking any shortcuts in due diligence, any shortcuts in underwriting to making sure that we are underwriting and financing things that will have a reasonable assurance of repayment.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman.

First, Mr. Hochberg, I want to thank you for your leadership at the Eximbank. I want to go first in my questions back to the first question the Chairman had and just explore it a little further. You talked with him about the fact that the number of Bank trans-

actions has increased from 2012 to 2013 while the overall value of authorizations has actually decreased, and I appreciate your answer to his question about that. One question I have is: What effect does this dynamic have on small business transactions?

Mr. HOCHBERG. Well, small business is something that, one, I feel very close to, one, having run a small business and, frankly, served at the SBA under President Clinton.

We are continually finding new ways to reach small businesses. We have modified our Web site. We opened additional offices when we received an appropriation a few years ago. We are innovating new products. I mentioned the award we received from Harvard's Kennedy School about a product called "Express Insurance." We can turn around and give an answer within 5 working days of a request for insurance to insure overseas receivables. So we are continually finding how do we chip away, how do we find better ways.

The other thing, frankly, Senator, when we were out in Boise meeting with exporters in your State and in many of the Members of this Committee, we had, I think, about—we had standing room only, I recall that. I think we had between 100 and 120 people there who were looking for information how they can export and secure the business and increase sales and thereby increase jobs at home.

Senator CRAPO. Well, thank you, and we do appreciate your outreach on that.

I want to turn to what appears to be a contraction of the medium-term program. In 2013, the medium-term program totaled only about $234 million, and when you compare that to a $27 billion portfolio, it is about 1 percent. And last year, the Bank provided no medium-term loans, as I understand it.

It further appears that the Bank has allowed its medium-term program to contract while overall demand for Bank support has increased.

Why has the Bank allowed the medium-term program to shrink when the overall demand for authorizations is consistently growing?

Mr. HOCHBERG. Well, let us recall that what we do at Eximbank is fill in gaps, gaps that the private sector is not doing. So the private sector always gives small businesses a hard time. That will never change. It is getting better, but it will never change. And for long-term loans in remote parts of the world that require 12-year financing or longer, the private sector also has difficulty there.

The medium-term market is one that banks actually fill well. I do not want to compete with the banks at all. It is not in our charter. We supplement the banks. We are not trying to replace them in any way whatsoever. So where the banks step in, we are happy to step back. We only want to step forward when we are really needed.

Senator CRAPO. Do you have the same credit standards for the medium-term program as you do for other loan programs?

Mr. HOCHBERG. We do have the same standards. I have to tell you, though, when I arrived at Eximbank in 2009, the default rate in the medium-term program was as high as 44 percent. We now have a default rate that we have brought down to 7 percent. You recall that Congress has a mandate that we have to keep overall

defaults 2 percent or less. So we monitor our defaults and say, "What do we need to do?" We are not in the grant business. We are in the loan business. We need to get paid back. And, frankly, a 44-percent default rate—I was in business for 20 years—was just unacceptable. We got it down to 7 percent, and, frankly, we need to still work that to a level that is acceptable by lending standards.

Senator CRAPO. Well, thank you. And the Bank has cofinancing agreements in place with 11 countries. These programs enable the Bank to meet foreign competition by working cooperatively with foreign export credit agencies largely to the benefit of the Bank's largest exporters. The small- and medium-sized enterprise exporting community has long sought such a program.

Does the Bank have a comparable program in supporting similar transactions among small and medium enterprises?

Mr. HOCHBERG. Without question. I will give you one example: Dave Ickert from Olney, Texas, that sells crop dusters and firefighting planes, mostly to farmers; most of their customers are in Latin America. We cofinance with Canada. The engines for those planes come in from Canada supported by EDC, our counterpart in Canada, and we support the manufacturing of the actual airplane itself.

That is just one example that is a medium-term loan. Another aircraft company called Thrush sells a competing product in China. Also those engines come from the Czech Republic, and so we together jointly finance that so that those smaller and medium—it is a medium-size transaction that takes advantage of that.

Senator CRAPO. Thank you. And, last, on this round, with regard to Eximbank's climate change guidelines, last December the Bank issued new environmental guidelines to reduce greenhouse gas emissions, and almost immediately it became more difficult for developing countries to find public financing for coal-fired plants. Is the Bank's guidance consistent with the Bank's chartered mandate to provide competitive financing on behalf of U.S. exporters to find U.S. jobs? I guess the question really is: What is the intention of the Bank with this new guidance? And how does that support the Bank's objectives?

Mr. HOCHBERG. Well, I am glad you asked that question, Senator. You know, our charter, which goes back to 1945, although the Bank will celebrate 80 years this year—is celebrating 80 years this year—has laid out an environmental requirement in our charter back to 1992. So we have always had to balance supporting U.S. jobs and looking at the environmental impact of those jobs for over 20, 22 years now. And we are constantly working with industry and environmental groups and finding that balance between the two. Sometimes I think we make everybody angry at us, both the exporter and the environmental community. Both of them would like us to tilt in one direction or another. We are trying to find that line in between that balances jobs and the environment and keeps that in some kind of balance.

Senator CRAPO. Thank you.

Chairman JOHNSON. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman, and thank you, Director, for your great work over many years.

You mentioned nationally the unemployment rate is 6.7 percent, but in many States it is much higher. In my State it is 9.1. In Nevada it is 8.8. In Kentucky and Mississippi eight-point—it is not a regional phenomenon.

Are there any special efforts that your agency is taking to reach out to these areas that need a little more help?

Mr. HOCHBERG. I think without question. I mean, as I mentioned, I was with Senator Crapo this summer. I was in North Carolina just 2 weeks ago in the textile area, which has been an area that has really been buffeted by a lot of foreign competition.

One of the tools we have is we do these forums, these workshops. I bring in the SBA, we bring in the Commerce Department to make sure that small businesses understand what are the tools available, tools, frankly, they are paying for as taxpayers, that could help them increase their global footprint.

We started that program 3 years ago. Actually at the Chamber of Commerce, Tom Donohue, Jay Timmons of NAM, and a few other Federal agencies all together launched it, and as I mentioned, we have done over 60 of those. We have revamped our Web site. We are continuing looking at outreach, and I would be happy if, for those Members that we have not been to your State, we would like to do that in the new few months.

Senator REED. Well, I would encourage you to do that, but also it is—you know, the areas of the country that really do need an infusion of jobs, and exports generate jobs, I think we would put high on your priority list, and I hope you can do that.

One other area here—and we chatted about this previously—is the fact that, for particularly small businesses, they might be able to have financing or be aware of your programs, but they are not aware of the markets overseas, and that is a Commerce Department activity. Can you talk about how you are going to try to pull together the identification of overseas markets and the potential? Because without that, the financing is sort of moot.

Mr. HOCHBERG. You are absolutely right. I mean, frequently financing is not what is holding them back. Frequently they need to say, well, where could I sell this product overseas? And we work closely with Secretary Pritzker and the Commerce Department. They have something called "U.S. Export Assistance Centers," with the bad acronym of USEAC for Export Assistance Centers. There are about 108 of them around the country. They have more Export Assistance Centers in this country than they have posts overseas. And they help exporters to find those foreign markets and identify where they could sell their products, and we frequently—our regional offices are collocated. So someone can go one stop and see all of that in one location. That is really key.

We have done a number of outreach efforts at community colleges that also have a large footprint with small businesses. But I think that is why when we do an export event in-State, we make sure that SBA and the Commerce Department are with us, because people need to look at the full range of those services, not just at the financing option, as you mentioned.

Senator REED. And you have made it very clear that your mission is really to fill a gap between the commercial financing operations—and, in fact, you note that exports are up and your activity

is down, and that is a good sign because it means that commercial enterprises are, you know, doing the bulk of the lending, as it should be. But there is another area where a gap can develop, and that is in areas where there is political risk and other issues.

Do you consciously sort of, you know, provide support to companies that may be exporting areas where individual commercial enterprises will not engage, not because of the dollars and cents but because of other risks?

Mr. HOCHBERG. I think that is a large portion of our portfolio. I mean, we really—for example, we are not terribly active in Europe. You know, there is not a lot of commercial risk, political risk, and there is a lot more commercial financing there. We are more active in places—for example, in sub-Saharan Africa, about 1 percent of U.S. exports go to sub-Saharan Africa, and it accounts for about 5 percent of our portfolio, which takes into account both commercial and political risk that is perceived in that area. And sometimes there can be—the perception can be far greater than the reality, and that is where we step in. We are only looking to really step in where we need it. Our feelings are not hurt when a customer goes away and goes to a commercial bank. We actually encourage it.

Senator REED. And let me underscore what you have already said, that in addition to getting credit out, you are bringing your default rate down dramatically. So these are good credits, and you have done a good analysis, and you are providing good value, not just to the exporter but to the taxpayer.

Mr. HOCHBERG. Correct.

Senator REED. Thank you.

Mr. HOCHBERG. Thank you.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you. Thank you, Mr. Hochberg.

As you well know, we have a current account deficit; in other words, we are running a huge deficit, exports versus imports, and have for years and years. On the other hand, Germany and China are quite the opposite, for the most part.

What role and what positive things can you tell us that the Export-Import Bank is doing besides helping in the aircraft area? We know the role you play there, which is big. We do not know all of it, but we export a lot of planes. But as we begin to make more here—for example, Airbus is building a huge facility to compete with Boeing—you know of this; they compete all over the world—in my home State of Alabama, Mobile, Alabama, right now. So will this—would the Export-Import Bank be available to Airbus to export the same as Boeing? Or what are the rules going to be?

Mr. HOCHBERG. Well, thank you, Senator Shelby. In terms of the current account deficit, we want to support exports to make sure that when they are competing—and it is not just aircraft. It is farm equipment, it is services. We do a lot in power, oil and gas, in many of those areas.

Senator SHELBY. Can you break it down roughly, unless you have the figures? What percentage of the exports that you aid on this with the Export-Import Bank are aircraft, aircraft-related? What are power plants or power-related? What are agriculture? In other

words, manufacturing and everything. Can you just give us a thumbnail——

Mr. HOCHBERG. Manufacturing was actually at an all-time high. I am doing this from my recollection. It is north of $11 billion of the $27 billion we financed last year. A small business——

Senator SHELBY. OK. Now, does that include aircraft?

Mr. HOCHBERG. No. And then——

Senator SHELBY. OK. And aircraft——

Mr. HOCHBERG. Last year, aircraft was just over $8 billion. It was about 30 percent of what we did. So we actually did more in manufacturing than we did in aircraft. We did a total in small business, direct and indirect, just north of $6 billion. I think we should be doing more in power, frankly, because the world is powering up.

One of the areas that has done a lot of growth in the last few years is services. We do a lot in the service sector, engineering services, things of that nature, architectural, even legal services, insurance. Those are some of the things that we have been increasing in. So those are all large areas.

The other thing, when you mentioned Airbus—let me give you an example. I mentioned power. Siemens opened a turbine factory in Charlotte, North Carolina. We treat Siemens no different than we would treat General Electric. They make the goods here. They employ Americans. We are indifferent to who owns the company. We are most focused on supporting jobs, and if those jobs are in the United States, we will support that company.

Senator SHELBY. So that would include Airbus if they export planes.

Mr. HOCHBERG. Yes. To the extent, though, they have to make the planes here, not just assemble them but they really have to make them here.

Senator SHELBY. And what does that mean? You make them here because say, for example, Boeing imports so many of their parts from all over the world and just assembles them.

Mr. HOCHBERG. Well, for example, on the 787, approximately 60 to 65 percent, depending on the engine, is made in the U.S. and——

Senator SHELBY. Do you have a rule on this?

Mr. HOCHBERG. Yes, we have a content rule. We look at the content. We get a certification. We audit that. And, for example, as you mentioned, on the 787, NEXI, the Japanese credit agency, cofinances with us so we can finance it. So we will cofinance with a foreign country's export credit agency to—they can finance their portion, we will finance our portion so we can put a package together.

Senator SHELBY. What is the impediment to get up to at least 20 percent dealing with small business?

Mr. HOCHBERG. Well, we are at 19 and change this year. We are actually at 27 percent for the first quarter of this year. We had a very strong showing in small business. And partly we need to continue to get the word out to small business. I think as Senator Reed mentioned, sometimes it is not the financing. It is access to markets; it is understanding those markets that makes a difference.

Senator SHELBY. But that is an untapped source we have, I believe, in America.

Mr. HOCHBERG. I think we still have a large untapped source. As I said, I am pleased that we hit 27 percent in the first quarter. If I look at it State by State, Senator, I think all but five or six States, we were well north of 20 percent in our support.

Senator SHELBY. Last—my time is up—what did you get out—what did you take out of the GAO report which we had requested dealing with the Export-Import Bank, your assumptions are different and so forth?

Mr. HOCHBERG. Well——

Senator SHELBY. As far as ultimate risk to the taxpayer, what did you take out of that?

Mr. HOCHBERG. Well, a number of things. There have been a number of—GAO blesses us with many studies and investigations. They are not bashful about coming by. We put in a Chief Risk Officer, is one of the things we have done. We have tightened up our underwriting. We make sure there is a feedback loop for what is called "asset management underwriting," so as we see how a credit is performing, we make sure we provide that information to underwriters so they can take it into account on future transactions.

So a number of those things have been very helpful. Both the IG and the GAO have given us a number of very good recommendations, and, frankly, that is why I believe we have a good default rate.

Senator SHELBY. Do you plan to carry out those recommendations?

Mr. HOCHBERG. We have agreed with each one that the GAO has put forward. We did not object to them.

Senator SHELBY. Thank you.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman, and thank you, Mr. Hochberg, for your leadership in this area.

I would like to follow up on where Senator Shelby started, and talking about the goal of the Eximbank is to promote U.S. exports, and, of course, increasing exports is ultimately supposed to create more jobs at home. But in some cases, those two things maybe in tension with each other.

For example, a loan to a foreign company to buy a U.S. product may increase U.S. exports, but it may also give that foreign company a leg up over its American competitors, thus costing us jobs here at home for the American company.

So how do you balance those two things in making a loan decision?

Mr. HOCHBERG. Gingerly. Our job and our charter calls for us to create those balances and to do that analysis. One of the tools we use to do that is called "economic impact." What that really means is we look at what is the impact of making this export and could there be any harm caused by making this export and balance those two against each other.

In fact—I had a feeling I would get this question—we have got—on our Web site there is an 18-page guide to how we conduct economic impact procedures. So any exporter can know exactly how

we are going to make that assessment, what analysis we will use before we make it.

Our goal is purely about increasing U.S. jobs. We have zero interest, we have no dog in this race in terms of harming the U.S. economy when it comes to jobs. So we have got to do that balancing act, and it is tricky. We have to make a number of assumptions. But we have put that out to the exporters. We have taken the comments. We have created the procedures, and we have put them on our Web site.

Senator WARREN. All right. Good. So you are telling me, though, that you carefully consider the impact if you make the loan, how it may help a foreign company compete against domestic companies that do not have access to that same kind of financing.

Mr. HOCHBERG. Right.

Senator WARREN. OK. Good.

We talked some about small business lending, and I was very pleased to see that in 2013 you committed a greater percentage of your money to small business lending. I think that is terrific. But as everyone has been talking about, the bad news is we are still barely at 20 percent of the assets going into small business lending.

Obviously marginal increases in small business lending are a step in the right direction, but I am concerned that marketing and outreach are not enough to expand small business lending.

So can you describe some ways in which the Bank could make some really meaningful increases in small business lending to push that number well beyond 20 percent?

Mr. HOCHBERG. Well, I think that—I will give you an example. What our competitors to the north in Canada do, they spend north of $3 million a year on advertising. They advertise in in-flight magazines throughout Canada to make sure that business owners—who, generally, if they are exporting, they are on planes—know about them. I think our largest single impediment is people do not know the support that we can offer them.

One of the things, we did a pilot this year called "U.S. Global Business Solutions." Frankly, it was a little disappointing. I am hoping that we can pick that up, which is where Commerce, the SBA, and Eximbank are going to be working more jointly so that if you show up at an SBA office or a Commerce office or an Eximbank office, you do not have to worry about where to do. We will solve the problem and give you the right tool to do that.

I will tell you I bring this up with my counterparts and competitors around the world. They are all having a difficult time with this. It is difficult to reach them. But let us remember, we did reach more small businesses last year than any other year in our history. We have well exceeded 20 percent in our first quarter of this year. I cannot predict the second, third, and fourth quarters. And sometimes the good news is some small businesses are graduating and they are no longer counted as small. So that is the greatest success we have, is when they migrate up, or they are now financially secure, they can actually go to a commercial bank.

So the 20 percent is a barometer, but it is not a perfect index.

Senator WARREN. Well, fair enough that it is a barometer but not a perfect index, but it is also a modest goal. And I think a large part of what we would like to see in supporting this is to go beyond

the 20 percent, and so I look to support every creative approach you are using. I recognize some of them may not work, but that we are out there trying to do it. And also the notion of reaching beyond just trying to market, what else we can do, what other kinds of programs we can put in place that help small businesses get into the export business.

I had one other area I wanted to ask about very briefly, and that is, the Eximbank's charter makes it clear that the Bank is supposed to supplement private capital, and you mentioned this in your testimony. In other words, you should provide public funds only when private funds are not available.

I am interested to know how you make sure that you are complying with that mandate. Is there a process in place to ensure that for every deal the Bank does, there was no private sector capital available?

Mr. HOCHBERG. It is one of the questions that an applicant has to complete and answer when making a loan application. Second, our process is very rigorous. I promise you, if there was another source of capital, most exporters would choose that source of capital. The requirements we have on economic impact we just talked about; content, if it is a large product, having to be shipped on U.S. merchant marine ships; the Iran sanctions we have put in; our default rate—there are many hurdles. So, one, we do not make the process that simple. We are trying to make it more simple and more streamlined, but there are still a number of things, because we are a Government agency. But on top of that, the customer has to state affirmatively they could not get that loan.

I will give you just one example——

Senator WARREN. And let us be brief.

Mr. HOCHBERG. I will be very fast. We exported locomotives to South Africa. Of all the banks surveyed, one bank agreed to make the loan only with our guarantee. So it is one thing if we had ten banks, and you would say, well, maybe to get five of them without a guarantee, we only got one—one applicant would even consider it, and that is only with our guarantee.

Senator WARREN. Well, I just want to say thank you very much. Thank you for the direction that you are pushing us in trade and for the successes you have had, and I hope we have many more that we can celebrate in 2014.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman. And, Mr. Chairman, thank you for being here today as we talk about something that I know is very important to you.

We have had some conversations about this in the past, I know in prior authorizations, but it would appear that as we look at ECAs around the world, especially those outside of the OECD, that there is, generally speaking, a race to the bottom relative to lending. And I am just wondering what your perspective is relative to keeping that from happening—Number one, is it happening? And what can we do to ensure that we do not participate, if you will, in this race to the bottom?

Mr. HOCHBERG. Thank you, Senator Corker. Well, I would say that the primary focus we have is to get more countries in the

OECD. The Organization for Economic Cooperation and Development sets a floor that member countries can charge to do their financing, and it sets a floor in terms of the fee, and it sets a maximum amount of years that a loan can be.

The problem we have today is the BRICs—Brazil, Russia, India, and China, to name just four—large powerhouse countries doing a lot of exports, are outside of the OECD. There are no rules that apply. They can do any deal they want, one-off deals, 20-year loans, 25-year loans, grace periods—nothing that we are allowed to do.

So our first goal is getting them in the fold. President Obama took a leadership role with President Xi. There is a plan to get China to agree to some kind of export framework and regime by the end of this fiscal year. But I am equally concerned about countries like India and Russia and not just China, frankly.

Senator CORKER. Let me ask you this question: Do you agree—and it sounds like you may agree, but there are a lot of people right now that are concerned that, in essence, what China is doing in Africa is the same thing that happened here with subprime loans. I mean, in essence, you know, they are loaning monies to countries on a basis that down the road they are going to be saddled with huge debts that they are not going to be able to repay. Is that phenomenon actually occurring from your standpoint?

Mr. HOCHBERG. It is hard to tell precisely, but China is certainly pouring a lot of money into sub-Saharan Africa with some good results and some not-so-good results. There have been a number of countries that have been looking more toward U.S. exporters and more toward Eximbank because they feel it is a more level playing field. When we export to sub-Saharan Africa, Africans go to work—building a power plant, building roads. Frequently when China does exports, they also export the workers so the African nations get very little benefit from that, and on top of which frequently the workers are left behind, so there is even less of an impact or opportunity for those African nations to succeed.

Senator CORKER. Well, look, I appreciate you being here today. I felt like in the last authorization that things sort of started gelling, if you will, toward the end, and maybe not as well thought out as might have been. I do hope that, you know, as we move ahead, we will figure out a way to ensure that there is access to credit in an appropriate level, but at the same time we do not ourselves pursue policies just to keep up, if you will, that are very damaging both to our country but also to the world. I look forward to talking to you about that further as we move ahead, and I appreciate your service to our country.

Mr. HOCHBERG. Thank you so much.

Chairman JOHNSON. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman.

I want to follow up on a couple points both raised by the Chairman and by the Ranking Member. First is small business, and obviously you are getting a recurring theme here that we all would love to see you do more outreach, more attention, and certainly not just small business but rural small business. I know it might be hard to imagine, but those places in North Dakota we do not consider rural.

We also would obviously love you to reach out to many of our Native American tribes who are looking at economic development and I think have industries within their boundaries that could be well served by expertise that your Bank brings. And so not to be too flip about it, but many of them do not fly on airplanes, so advertising in an in-flight magazine may not work. But almost every small city in North Dakota has an economic development agency, and there is an excellent opportunity to reach out to people who know what is happening on the ground, who know what may be the potential work with Commerce to make that happen.

And so I would really encourage you to continue that kind of effort, and I thank you for your willingness to come to North Dakota. We are trying to set that up. I think there is a great deal of opportunity, and as we know, when we look at employment, we all give lip service to small business, right? Small business is where employment is going to grow maybe the next big business, but yet a lot of the focus is on locomotives and airplanes, and maybe you might find a jewel in the rough here, that gem in the rough that could, in fact, be the next Microsoft or Apple. And so that is just my pitch there.

But I want to talk a little bit about your energy policy and about the decisions that you have made regarding coal-fire generation. You know, the lack of energy and electricity and poverty kind of go hand in hand, and I was reminded of that when I was in Afghanistan, and USAID was bragging because they were bringing a 250-kilowatt—megawatt line, and right now that probably would not power the bakit [phonetic]—you know.

So this is a great disparity in this world, and the access to affordable energy is a key component to building the middle class. And I think that the way you have structured your restrictions really takes out of the mix an opportunity for affordable electricity, and I think there is a lot of—without going too far into the weeds on carbon capture, there are a lot of opportunities beyond carbon capture for higher efficiency, for, you know, looking at environmental standards, but not clamping down so hard that we are not exporting important technologies that can, in fact, provide an opportunity for affordable electricity, but also improve air quality in many of these locations.

And so I just want to ask you how amenable is the Bank to taking a look at reversing some of the policies that they have made on coal-fired electricity and taking a second look, looking at some of the arguments that I have made today.

Mr. HOCHBERG. Well, thank you for your support and the support of small businesses, just to underscore that. I would say, you know, again, almost 90 percent of the transactions we do are small companies, and, you know, I would love it to be 91 or 92 percent, but we are pushing the limits there.

Senator HEITKAMP. Well, your definition of "small" and maybe my definition of "small" are two different things.

Mr. HOCHBERG. We actually use the SBA's definition.

Senator HEITKAMP. There is a long debate about what is small business in America today.

Mr. HOCHBERG. Yes. But my only point is we do not have our own separate private definition. We go with the Government's definition of that.

In terms of the energy issue, I would say that our charter makes it clear that we have to find a balance, and it is a difficult balance. It is a balance between jobs and the environment, and you also mentioned affordable power around the world. And this requirement has been in our charter since 1992, so we are looking to make that balance.

Senator HEITKAMP. But the restriction coal-based fire power has not been an interpretation since 1992, correct?

Mr. HOCHBERG. Well, we have had—well, actually the Bank was sued in the early part of this century because we were not taking into account the environment sufficiently in making loan decisions. So as part of the agreement there, we came up with a more explicit and transparent environmental policy, though in the omnibus bill that was just passed, in some ways put a stay or reversed some of the environmental policies we put into place in December. Net-net, in 82 countries we would be able to finance coal-fired power plants without going through some of the requirements and checks that that policy would have put into place. So of 180 countries around the world, 82 of them—these are the poorest; they are called "IDA" and "IDA-blend" countries—we simply have to apply our standard environmental procedures, which those procedures had been in place and modified over the last 20 years. They are the kinds of things that the World Bank, the IFC, and others have put into place. They are sort of the global international norms. So in that case, for those countries, between now and the end of the year there is no difference.

Senator HEITKAMP. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman.

Thank you very much, Mr. Hochberg. Like many others, I continue to be concerned about Eximbank deals that finance projects essentially in direct competition with U.S. businesses, and, of course, I am mainly talking about the airlines.

It seems very clear that Eximbank financing in many cases has given foreign carriers a significant competitive advantage against domestic carriers, and this has been, in fact, verified in various court decisions and opinions as well. So moving forward, how do you all plan on dealing with that concern and specifically the mandate to Eximbank that it is not supposed to harm U.S. businesses in any of its deals?

Mr. HOCHBERG. Thank you, Senator Vitter. You are referring to a number of lawsuits that have been filed by Delta Airlines against the Bank.

Senator VITTER. Right.

Mr. HOCHBERG. They so far have filed four lawsuits. We won the first case, and the others are in various stages.

Senator VITTER. Just to make clear, I am not really talking about lawsuits. I am talking about the policy concern of providing a competitive advantage to foreign carriers versus U.S. carriers, and it seems to me that is beyond dispute that that is a direct result of these deals.

Mr. HOCHBERG. Well, let us remember two things, I think, that we look at at Eximbank: one, whether we finance and whether an airline decides to buy a Boeing airplane or an Airbus airplane, they are going to fly those plans, and they are going to probably fly a lot of them into the United States and around the world. So, frankly, we do not have a monopoly. It is not like we can—if we decide not to finance and not to sell them an airplane, that a foreign carrier is not going to do so. So after——

Senator VITTER. I am not talking about whether they fly the routes. I am talking about, for instance, the price they fly the routes, because if you substantially reduce the cost of a plane, that can change their whole competitive position.

Mr. HOCHBERG. Currently, when we provide financing, only when it is needed and largely to rebut financing that is provided by Airbus, two things, two factors are considered: one, the price we charge is greater than the public markets, greater than the private sector, and we verify that. We look at—if American Airlines or United is financing a plan, we look at, for that credit risk, what would we charge, and over and over again we charge more than the private sector. That is number one.

Number two——

Senator VITTER. So why does anyone come to you?

Mr. HOCHBERG. Well, a foreign airline will come to us because they cannot find other financing, or partly because Airbus is offering financing, and if we want to have a level playing field to make sure the jobs stay in the United States and not go to Toulouse and Hamburg, we need to provide a level playing field financing to make sure that the airline chooses the best airplane, not simply the one that offers financing, which happens with the Airbus planes coming out of Europe.

Senator VITTER. So you disagree with the basic premise that your financing in these deals gives foreign carriers a significant advantage that they would not otherwise have?

Mr. HOCHBERG. I do disagree with that. And, furthermore, Senator, I would also say we do—it has been asked earlier. We do an economic impact study. We look at what is the economic impact, as we do for every export, and including airline, will we be adding seats to foreign carriers that would compete with U.S. carriers? And we do that evaluation and that review on every single transaction.

Senator VITTER. OK. Mr. Hochberg, I also want to ask about some of your relatively new environmental policy. You have made several new policy pronouncements, I believe as a direct result of the President's Climate Action Plan.

First of all, what is the statutory basis for all of this new policy at Eximbank regarding carbon and environmental concerns? Because I do not see it.

Mr. HOCHBERG. Well, the environmental requirement that the Board must take into account—a reasonable assurance of repayment, U.S. content for jobs, and the environment are all part of our charter. That is in our charter. As I mentioned earlier, it has been in our charter since 1992.

Senator VITTER. And what is the exact language of that of the environmental——

Mr. HOCHBERG. The language, I have not memorized the language. In making a decision to make a loan, we have to look at the environmental impact and balance that against jobs and competitive pressures as well as reasonable assurance of repayment. That is part of the deliberative process that every Board decision requires.

Senator VITTER. And is there any specific grounding—is there any specific statutory basis for all of these recent new requirements and considerations directly related to coal, carbon capture, et cetera?

Mr. HOCHBERG. Well, we have to take—it is obviously an evolving policy, as it would be with any Federal agency, or, frankly, when I was in the business world, any corporation. We continually evolve over time. Since that was put in place in 1992, we have obviously modified——

Senator VITTER. I translate that as a no in terms of statutory basis, but go ahead. Is there anything specific——

Mr. HOCHBERG. No, we have a statutory basis—the basis is we have to be clear to exporters what do we mean by environmental policy. So we put on our Web site what are the environmental concerns that we will look at in making a determination whether we can provide financing or not.

Senator VITTER. As I understand it, you will not block coal-related projects for particularly poor countries. Is that correct?

Mr. HOCHBERG. For the 82 poorest countries in the world, we will not block that at all. We will look at—make sure that it is environmental sound and financially sound. But let me also just add there are no restrictions on the export of coal, which we have been involved in. There is no restriction on the export of coal-mining equipment—drag lines, locomotives, shovels, and so forth. We are still continuing to do that kind of export.

Senator VITTER. But so coal-related projects would be environmentally sound for those countries but not for richer countries?

Mr. HOCHBERG. For the very poorest countries—and I think Senator Heitkamp mentioned it—which have problems finding basic power, things we take for granted, 7 days a week, 24-hour power—for the very poorest countries, we have a lower standard, or a more relaxed standard, I should say, than for the richer countries. If Canada is looking to build a power plant, there are different standards that would apply in Canada than would apply in sub-Saharan Africa.

Senator VITTER. And how do you determine where to draw that line between who gets to benefit from cheaper power and who does not?

Mr. HOCHBERG. Well, the omnibus bill said that when it comes to what are called, through the World Bank, the IDA and IDA-blend countries, about 82 countries, we are looking at purely our standard environmental policies and procedures, some of which, as I say, go back to 1992.

Senator VITTER. OK. Thank you.

That is all, Mr. Chairman.

Chairman JOHNSON. Senator Manchin.

Senator MANCHIN. Thank you very much. Mr. Hochberg, thank you, and I have enjoyed meeting with you a couple times in my of-

fice and learning more about what you can do and what you do do to really help a small State such as mine I think really opening up. So I look forward to the visit that we talked about.

Mr. HOCHBERG. Good.

Senator MANCHIN. What I would like to talk about—I know my good friend from North Dakota here, Senator Heitkamp, has talked to you about coal, and that has been a big concern of all of ours. I know you are saying that you will help a smaller, underdeveloped countries, or 82 of them, so if somebody in West Virginia and North Dakota has technology that can help them use their resources in a much cleaner fashion, we can go in that direction, but in a larger country we are not able to. And I would just say that if the environment is our concern—there are 8 billion tons of coal being burned—we should take the best technology we can anywhere in the world and try to help use it better. So I would hope that maybe—and I know this Administration is not—has been a little bit difficult, if you will, on those issues, and I would like to continue to explore that with you if we can.

I do want to ask you about LNG. This has reversed our fortunes with the fracking and all the gas coming online in America today. And now we have more people applying for export LNG when we were thinking we had to import LNG. I have been very blessed in the State of West Virginia to have both Marcellus and Utica, and we have a tremendous influx of this.

How are you all looking at that now, working with exporting of LNG?

Mr. HOCHBERG. Well, up to now, we have been involved mostly in the export of technology and engineering. We have financed—we are in the process of financing two large LNG facilities in Australia, both being developed and built by Bechtel.

Senator MANCHIN. Is that for them to receive it or for them——

Mr. HOCHBERG. For them to tap it and export it.

Senator MANCHIN. For them to export it?

Mr. HOCHBERG. Yes. Right now we have not had any applications about exporting LNG from the United States. But we are certainly open to that. Just as I mentioned earlier, Senator, we financed the export of coal from the United States.

Senator MANCHIN. I appreciate that very much because that has helped us, because if it was not for the export market right now, our little State would be severely damaged economically, and there is a demand for the product. What we are wanting to say is that I would hope the Administration would look differently about it if we have the technology with the scrubbers, low NOx boilers, supercritical, and all the different technology that we have, why shouldn't we be able to help use coal cleaner around the world? Because they are going to use it.

Mr. HOCHBERG. Well, when it comes to scrubbers or improving the efficiency and the cleanliness of coal, we can finance that.

Senator MANCHIN. So you are saying in existing plants you can finance——

Mr. HOCHBERG. Existing plants we can——

Senator MANCHIN. But building a new plant, if it is not in one of the 82 underdeveloped, you cannot.

Mr. HOCHBERG. Then it needs to—when it becomes commercially sound, it needs to use carbon capture sequestration in those richer countries, because those richer countries have other options. They have options in terms of renewable energy, hydro, nuclear, natural gas, a number of things that the very poorest countries do not have those same options.

Senator MANCHIN. Give me one example as a small business—I have a machine shop in West Virginia, and I have an expertise of something I make that can be used anywhere in the world, but I do not know how to get in those markets. I am scared of the financing of those, whether I get my money or not and how to finance through these international banks. That is where you all step in, I understand, and you can take us through that. And if I came to you as a little small West Virginia company, I could come to you and say I need help financing, I want to sell my product, they want to buy it, I want to make sure I get paid, how do you handle it?

Mr. HOCHBERG. Well, I will give you an example. I am sorry it is in the State of New Hampshire, but——

Senator MANCHIN. That is OK.

Mr. HOCHBERG. That is also a small State. There is a great company there called Boyle Energy. Michael Boyle runs it. I met him. I was so impressed. I put him on our Advisory Committee.

Senator MANCHIN. OK.

Mr. HOCHBERG. So his company does the startup of power plants. It is about a $10 million company. So when they do that startup in Saudi Arabia or the rest of the world, his worry is: "How do I get paid?"

What we do is we will insure that receivable, so he does the work, if for some reason his customer does not pay, we gave him insurance. We pay and then we collect on his behalf.

Senator MANCHIN. You subrogate and go back on——

Mr. HOCHBERG. And then we go——

Senator MANCHIN. But I have to get——

Mr. HOCHBERG. You have to buy insurance.

Senator MANCHIN. Do I have to buy——

Mr. HOCHBERG. Just like you buy buyer insurance, you have got to be——

Senator MANCHIN. But I have got to start with you when I start that process, right? And my contract for this overseas work——

Mr. HOCHBERG. Yes, you——

Senator MANCHIN. I should get involved with you for the——

Mr. HOCHBERG. You cannot ask—just like you cannot ask for fire insurance after the fire happens, you got to come to us and get insurance on the receivable before you actually——

Senator MANCHIN. So I have to buy that insurance, and that has to be part of my cost and return on my——

Mr. HOCHBERG. Frankly, if I was to give any small business owner who is watching this hearing——

Senator MANCHIN. Yes?

Mr. HOCHBERG. If they are watching this hearing, the best bargain they can do is get credit insurance from the Eximbank.

Senator MANCHIN. That is all——

Mr. HOCHBERG. It is very cheap, and it provides them the peace of mind. I often tell people, "I am in the sleep business. If you have credit insurance, you will sleep well at night."

Senator MANCHIN. Well, I look forward very much to having you and your staff, capable staff, coming down and working with us, because we are going to do a lot of business with you.

Mr. HOCHBERG. Good. I look forward to it.

Senator MANCHIN. Thank you.

Chairman JOHNSON. Thank you, Chairman Hochberg, for your testimony today.

This hearing is adjourned.

[Whereupon, at 11:10 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Thank you, Mr. Chairman. Today, we examine the activities of the Export-Import Bank as this Committee considers reauthorizing the Bank's charter.

One of the greatest problems facing our economic well-being in this country is our current accounts imbalance. Countries such as China and Germany have robust export surpluses; however, our current accounts situation is the opposite. I believe we must continue to look for ways to shore up the export deficit.

Further, I believe that the Ex-Im Bank must do more to help small businesses succeed. As small businesses are the backbone of our economy, we must do all we can to help them thrive. Congress has mandated that the Ex-Im Bank reach a 20 percent threshold for small business authorizations, yet the bank has failed to reach that level over the past 3 years. I look forward to hearing from Chairman Hochberg on how we can not only reach this baseline, but make small business more of a centerpiece to the Bank's mission.

Finally, there is growing concern over the level of transparency with the Ex-Im Bank's transactions. I believe we must ensure that the Bank has not and will not become just a government engine for corporate welfare and that the investments made by the Bank are to companies that truly cannot access financing through the private sector.

I look forward to hearing from Chairman Hochberg on these and other concerns, as we consider reauthorizing the Bank's charter. Thank you, Mr. Chairman.

PREPARED STATEMENT OF FRED P. HOCHBERG

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

JANUARY 28, 2014

Chairman Johnson, Ranking Member Crapo, and distinguished Members of the Banking Committee, thank you for inviting me to testify before you as the Committee considers the progress of the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") has made in supporting U.S. jobs through exports since our last reauthorization.

Summary

Today, American exports are at an all-time high. The United States exported a record $194.9 billion in November, 2013. Never before has the U.S. exported more goods and services in a single month. Our trade gap is the lowest it has been since 2009, when U.S. exports totaled $1.9 trillion. In 2012, U.S. exports totaled a record $2.2 trillion. The "Made in America" brand has never been stronger.

I am proud of the job our 400+ employees do each and every day. Ex-Im Bank has supported nearly 1.2 million private sector U.S. jobs since 2009, including 205,000 jobs in FY2013 alone. The Bank operates at no cost to the taxpayers, and in FY2013, the Bank generated more than $1 billion for the U.S. taxpayers above and beyond the cost of all operations and loan loss reserves. This $1 billion goes toward deficit reduction. We do this while maintaining a default rate [1] of 0.267.

Ex-Im Bank has at its core ensuring that small businesses—the foundation of our economy—are at the forefront of U.S. exports. We cannot grow our economy—or our exports for that matter—without fully supporting the small businesses of America. In 2013, the Bank financed a record 3,413 small businesses—nearly 90 percent of Ex-Im's transactions. In addition, Ex-Im financed more small businesses in the last 5 years than the prior 8 years combined. The Bank also financed more minority and woman-owned businesses in the last 5 years than the prior 16 years combined.

As the global economy continues to strengthen, exports are being financed not only by commercial banks but also by capital markets. This is an encouraging trend. In 2013, the total dollar amount of transactions financed by Ex-Im was significantly lower than in 2012, yet exports as a whole from the U.S. were up during that timeframe.

Purpose of Ex-Im Bank

Ex-Im Bank is the official export credit agency of the United States. The mission of the Bank is to enable U.S. companies—large and small—to turn export opportunities into sales that help maintain and create U.S. jobs which contribute to a strong-

[1] This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate report as required in Section 8B of the Bank's charter reflects actual defaults at a particular point in time.

er national economy. The Bank achieves its mission, when needed, by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to do so. For example, we provide trade credit insurance to Miss Jenny's Pickles in North Carolina so they don't need to worry about foreign buyers not paying. We provide a working capital guarantee to Auburn Leather in Kentucky so they can build the inventory necessary to meet large foreign purchase orders. And, we provide direct loans to foreign buyers of GE locomotives so the sales and jobs will benefit workers in Pennsylvania rather than a foreign competitor.

Ex-Im Bank also provides support if necessary to level the playing field when financing is provided by foreign governments to their companies who compete against U.S. exporters. We assume commercial, country, and liquidity risks that are reasonable and responsible, but currently beyond the still-recovering appetite of private lenders. Ex-Im Bank does not compete with private sector lenders, but rather provides financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to accept the political or commercial risk inherent in the deal.

Ex-Im Bank offers a variety of products to help U.S. businesses export around the world. Our working capital financing supports small business exporters to obtain loans which facilitate the exports of goods or services made by commercial lenders and backed by our guarantee. These loans provide small businesses the liquidity and confidence to accept new international contracts, grow export sales, and compete more effectively in the international marketplace. Export credit insurance allows U.S. businesses to increase their export sales by limiting their international risk, offering credit to international buyers, and enabling American businesses to access working capital funds.

Comprehensive Risk Management and Revenue for the Taxpayers

Ex-Im Bank continues its prudent oversight and due diligence standards to protect taxpayers through its comprehensive risk management framework. It begins with effective project underwriting, including detailed documentation and financial structuring to ensure the Bank's rights are protected. It continues long after a transaction is approved and disbursed with proactive monitoring efforts to ensure timely payment.

During all of FY2013, the Ex-Im Bank paid, from the fees we collect, new gross claims of just $48.8 million on a total portfolio greater than $110 billion. The Bank recovered more money—$62.6 million—than it had in new claims for the fiscal year. The Bank is also appropriately reserved to cover expected loan losses. The Bank's reserve methodology has been reviewed, by GAO, our internal auditors, KPMG, and our external auditors Deloitte & Touche. As a result of provisions included in the Bank's charter during last year's reauthorization, Ex-Im Bank submits a quarterly default rate report to Congress. As of December 31, 2013, the Bank's default rate was 0.267 percent. At the same time, over the past 5 years Ex-Im Bank has generated more than $2 billion for U.S. taxpayers, above and beyond all administrative operating costs, claims and loan loss reserves we set aside. We operate at no cost to the taxpayers.

Moreover, we are committed to providing "Government at the Speed of Business", which means top-notch service and a relentless focus on our customers and a drive to innovate. In FY2013, 89 percent of all transactions were completed within 30 days and 98 percent within 100 days. The time required to process long-term transactions dropped to an average of 88 days in FY2013, down from an average of 163 days in FY2009.

In 2013, the Bank named Mr. Charles J. Hall as our new Executive Vice President and Chief Risk Officer. Prudent risk-management is one of our foremost priorities. As chief risk officer, Mr. Hall reports directly to me and is responsible for ensuring that the Bank continues to be properly protected as it fulfills its mission of supporting jobs through exports.

Comprehensive risk management and continuous improvement is what we strive towards, and our default rate reflects that. The Bank has made many improvements over the past few years including:

- Modernizing credit monitoring;
- Creating a Special Assets unit to address emerging credit issues;
- Expanding our proactive monitoring efforts;
- Improving our underwriting; and
- Enhancing credit loss modeling with qualitative factors

We also have plans to implement additional risk management improvements identified over the past two years from our internal analysis of best practices, outside expert advice, audit recommendations, and from our Inspector General.

Meeting Requirements of Reauthorization

Ex-Im Bank has met all of the reporting requirements set forth in our reauthorization bill. We produced several reports to this Committee including:

- Our Business Plan;
- Our Small Business Report;
- Our Content Review;
- Our Report on Financing of Textiles; and
- Our Quarterly Default Rate Reports

We have added a textile industry representative to our Advisory Committee from Frontier Spinning in Greensboro, NC, which I visited earlier this month. We have fully implemented all Iran sanctions provisions, as required under the most recent reauthorization. In certain instances we have gone beyond the requirements of our reauthorization. For example, Congress required us to simply post our economic impact policies. The Bank went beyond the requirement by reevaluating our economic impact procedure process and making changes to that process, which included the review of airline services.

As part of the reauthorization we are working in a transparent and cooperative way with GAO. I personally met with the Comptroller General to express my strong desire to work collaboratively and make the Bank more efficient and effective. I received very positive feedback from the Comptroller General about the cooperation between the GAO and Ex-Im.

Four reviews were required under our last reauthorization. To date, three reviews have been completed: risk management; business plan; and jobs supported calculation. In each of these reviews, the Bank agreed with the GAO's recommendations and we have implemented or are in the process of implementing each of them. We continue to work closely with the GAO as they seek to complete the final audit, due diligence process, which is due in May 2014.

Congressional Mandates

Small businesses are critical to our economy and comprise a significant number of net new jobs. Congress has mandated we make available 20 percent of our financing to meet their needs. In FY2013 we financed a total of $6 billion in small business exports, of which $5.2 billion was for the direct support of American small-business exporters. Total small business exports include those directly exported by small business to a foreign buyer, plus small business inputs into the supply chain of larger U.S. companies' products which are ultimately exported. At Ex-Im Bank, small business accounted for a record-high 3,413 authorizations—nearly 90 percent of the total number of Ex-Im transactions.

To put this in perspective, we have financed more small business in the past 5 years than in the previous 8 years combined.

Another area that we are particularly proud of is our financing to woman- and minority-owned businesses. In FY2013, authorizations for woman-owned and minority-owned small businesses reached a historic high of 761 transactions, totaling $815.5 million. One in five of total authorizations supported woman-owned and minority-owned businesses. In fact, over the past 5 years we have financed more woman and minority owned businesses than the Bank did in the previous 16 years combined.

To address the needs of our small business customers, Ex-Im Bank has implemented a number of new financial products. Our most popular product, Express Insurance, received an innovation in government award from Harvard's Kennedy School and has helped more than 800 small businesses get a prompt response to their application.

The key to expanding exports is marketing and communicating to small businesses. Three years ago, Ex-Im in partnership with Tom Donohue at the U.S. Chamber of Commerce, Jay Timmons at the National Association of Manufacturers (NAM) and commercial banks, launched Global Access for Small Business. To date, we have held over 60 Global Access forums across America. From Billings to Boise and from Shreveport to Charlotte, more than 5,000 businesses have learned how to access foreign markets and use Ex-Im Bank to give them a competitive edge when exporting. For example, in November 2013, Ex-Im and FedEx announced an innovative new alliance that will help U.S. small- and medium-sized businesses (SMEs) reach the 95 percent of the world's customers who live overseas. As part of this

agreement, FedEx international customer representatives will make their clients aware of the Bank's abilities to protect against the risk of nonpayment and to extend credit to buyers, eliminating the need for expensive letters of credit or cash-in-advance payments. Customers who are interested in this service will then be connected to Ex-Im Bank's managers for trade finance counseling. This alliance with FedEx will help businesses increase sales, create jobs, and succeed in international markets.

At Ex-Im Bank we have worked to ensure significant progress in supporting our other congressional mandates to finance more renewable energy exports and exports to sub-Saharan Africa. Our support for renewable energy has increased nearly than tenfold from $30.4 million in FY2008 to $257 million in FY2013.

I am proud of our work in sub-Saharan Africa which is home to seven of the ten fastest growing economies in the world. In the past 4 years, Ex-Im Bank has authorized more than $4 billion in financing for U.S. exports to sub-Saharan Africa, including $604 million in authorizations in FY2013.

The Bank approved a record 188 authorizations to sub-Saharan Africa in FY2013. This financing supported U.S. exports to 35 of 49 sub-Saharan African countries, including Cameroon, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Africa, and Tanzania. Ex-Im Bank is a key player in the Power Africa initiative, involving other U.S. Government agencies including the U.S. Agency for International Development (USAID), U.S. Trade and Development Agency (USTDA), the Overseas Private Investment Corporation (OPIC) and the Departments of State and Energy. Ex-Im Bank pledged support of up to $5 billion over the next 5 years in support of the President's goal of doubling sub-Saharan Africa's access to electricity.

As a destination market, sub-Saharan Africa receives about one percent of U.S. exports, but the region receives a higher percentage of Ex-Im's financing. As of FY2013, almost 5 percent of Ex-Im's total exposure consisted of exposure to sub-Saharan Africa.

Conclusion

I want to thank this Committee for their work on our reauthorization in 2012 and stress the importance of a timely reauthorization in 2014. There are some 60 Export Credit Agencies (ECAs) around the globe. Make no mistake, these foreign governments want the 205,000 American jobs Ex-Im financing helped support last year for themselves. As I travel the world on behalf of American companies, I know that my counterparts in China, Brazil, Russia, and South Korea, are right behind me. These nations, and many others, are serious competitors in the global marketplace. For example, the South Korean government, with an economy less than one tenth of our size finances more than 3 times the exports for South Korean companies than the United States finances for U.S. companies. There is a strong drive to increase exports from many countries around the globe. We need to send the same signal to competitor nations that we stand behind American workers and ensure they are operating on a level playing field. In order for U.S. businesses to be able to compete based on the price and quality of their exports, Ex-Im needs to be there to level the playing field when it comes to meeting foreign ECA competition. The thousands of businesses that benefit from Ex-Im Bank financing—almost 90 percent of which are small businesses—appreciate the fact that Congress was able to reach an agreement to reauthorize the Bank in 2012 and they need to know that we will be around in the years ahead to help them meet foreign competition and grow their exports and create more jobs here at home.

I thank you for this opportunity to provide you with an update on the excellent work Ex-Im Bank is doing to support U.S. jobs. I want to commend the outstanding, professional work of our 400+ employees who are committed to supporting American jobs and increasing U.S. exports. I look forward to working with you to reauthorize the Bank and continue to grow U.S. exports.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Idaho from 2009 to 2013, Ex-Im Bank financed total authorizations of $66,288,220, of which $50,345,720 were small business authorizations. The total number of companies financed was 107 companies, of which 92 were small businesses.

The top three categories supported in Idaho were: manufacturing and sales of noncapital equipment; manufacturing and sales of capital equipment; and agriculture, forestry, fishing, and hunting.

The top four exporters in Idaho supported by Ex-Im Bank were: Micron; George F. Brocke & Sons, Incorporated; Hess Pumice Products, Inc.; and Buck Knives, Inc.

The estimated number of jobs supported in Idaho over the last 5 years by Ex-Im Bank was 500 jobs.

Q.1. On the Apparent Contraction of the Medium Term Program—In FY2013, the Medium Term Program totaled only some $234 million of a $27 billion portfolio, which is about 1 percent, and the Bank provided no direct loans at all last year. It further appears that the Bank has allowed its Medium Term Program to contract while overall demand for Bank support increased.

Why has the Bank allowed the Medium Term Program to shrink when overall demand for authorizations has consistently increased?

A.1. The medium-term program consists of loan guarantees and insurance policies up to a value of $10 million plus exposure fee, if financed, that are typically between 2 and 7 year terms. Ex-Im Bank is fully supportive of the medium-term programs which support U.S. exports and U.S. jobs. In the past, the Bank has sustained significant losses under the medium-term program, such that the fees charged no longer cover our loan loss reserve requirements. When I took over as Chairman & President of Ex-Im Bank, medium-term defaults were above 40 percent. We have brought those down to roughly 7½ percent, which, is still too high.

Improved due diligence steps during the underwriting phase combined with robust monitoring of the medium-term portfolio postauthorization has resulted in a significantly lower loss ratio.

Q.2. What does this mean for medium-sized market exporters?

A.2. Nothing has changed for small- to mid-sized exporters. Ex-Im Bank continues to accept medium-term applications through our electronic application platform. Our staff is available to assist and advise exporters and lenders on complex loan structuring. The good news is that commercial banks have also increased their activity in medium-term transactions.

Q.3. Does the Bank extend the identical credit standards for the Medium Term Program, as for its other programs?

A.3. The Bank has credit standards that are specific to the medium-term loan guarantee and insurance borrower. They can be found on our Web site at: *http://www.exim.gov/tools/upload/ebd-m-39-1.pdf.*

Q.4. *On Cofinancing for Small and Medium Business*—The Bank has cofinancing agreements in place with 11 countries. These programs enable the bank to meet foreign competition by working cooperatively with foreign export credit agencies largely to the benefit of the Bank's largest exporters. The small- and medium-sized enterprise exporting community has long sought such a program.

Does the Bank have a comparable program supporting similar transactions among Small and Medium Enterprises?

A.4. Cofinancing for small- and medium-sized businesses has been available since 2001. Several small and a few large exporters actively use cofinancing. One small Texas company concludes approximately 40 export sales under our cofinancing program each year. Another small business located in Georgia recently concluded approximately 40 export sales under our cofinancing program. The most active export credit agencies that are used to cofinance medium-term programs include: EDC (Canada); EGAP (Czech Republic); Hermes (Germany) and Atradius (Netherlands.)

Q.5. If not, why not?

A.5. N/A

Q.6. *On Ex-Im's Climate Change Guidelines*—In December, the Bank issued new environmental guidelines to reduce greenhouse gas emissions. Almost immediately it became more difficult for developing countries to find public financing for coal-fired power plants.

What authority did the Bank rely on to issue the guidelines?

A.6. Since 1992, Section 11 of the Bank's Charter requires the Bank to establish environmental procedures for projects like coal-fired power plants that meet certain criteria, to take into account the potential beneficial and adverse environmental effects of U.S. exports for which support is requested. Such procedures shall apply to any transaction involving a project:

A. for which long-term support of $10,000,000 or more is requested from the Bank;
B. for which the Bank's support would be critical to its implementation; and
C. which may have significant environmental effects upon the global commons or any country not participating in the project, or may produce an emission, an effluent, or a principal product that is prohibited or strictly regulated pursuant to Federal environmental law. (12 U.S.C.A. §635i-5)

Q.7. How is the Bank's guidance consistent with the Bank's chartered mandate to provide competitive financing on behalf of U.S. exporters to maximize U.S. export jobs?

A.7. Section 11 of the Bank's Charter states that the Bank's environmental procedures "shall permit the Bank's Board of Directors, in its judgment, to withhold or approve financing from a project for environmental reasons or to approve financing after considering the potential environmental effects of a project. Environmental effect is one of many factors, including economic impact and reasonable assurance of repayment, that the Charter directs the Bank to consider in its decisions concerning these kinds of projects.

Q.8. Was it the intention of the Bank's guidance to reduce the number of new coal projects globally?

A.8. The intention of the Bank's Supplemental Guidelines was to set environmental requirements and standards applicable to high-carbon intensity projects, including coalfired power plants, seeking financing support from Ex-Im. These guidelines may result in a reduction of Ex-Im Bank exposure to high carbon-intensity methods of power generation.

Q.9. How does the guidance support U.S. companies?

A.9. The Charter requires the Bank to "aid in the financing and to facilitate exports . . . and in doing so, contribute to the employment of United States workers." The Charter also requires the Bank to "establish procedures to take into account the potential beneficial and adverse environmental effects" of certain categories of financed projects. The Bank's environmental guidelines ultimately support U.S. companies by establishing transparent environmental emission (and effluent) limits for plants which, when adopted by those companies and foreign buyers, enables Ex-Im Bank to provide the financial support required to achieve the U.S. company's exporting endeavors. To the extent that U.S. companies manufacture CCS technology or manufacture new coal-fired power plants that are the best appropriate technology where there is no other economically feasible alternative to high CO2 plans (in the case of the poorest countries), they will benefit through export sales. Also, engineering service companies will benefit from contracts that meet our new guidelines.

Q.10. *On Aircraft Finance*—At the 2013 Dubai Airshow, several state subsidized airlines announced orders totaling $162.6 billion.

What involvement has the Bank in providing loans or any other loan services with regard to any of these aircraft orders from the 2013 Dubai Airshow?

A.10. The 2013 Dubai Airshow was a great win for American jobs and American workers. Orders will support thousands of U.S. jobs over the course of fulfilling these orders. Ex-Im Bank has not been formally approached to provide loans or any other loan services with regard to the aircraft orders that were announced at the 2013 Dubai AirShow.

Q.11. Does the Bank need to provide funding for aircraft that an airline has already committed to purchase?

A.11. Ex-Im Bank provides financing to support the export of U.S. manufactured goods where there is a need for such financing, whether due to a shortfall in the availability of commercial financing or to level the playing field with financing support provided by other export credit agencies. The 2013 Dubai Airshow was a great win for American jobs and American workers. Orders will support thousands of jobs over the course of fulfilling these orders. Ex-Im Bank has not been formally approached to provide loans or any other loan services with regard to the aircraft orders that were announced at the 2013 Dubai Airshow.

Q.12. Does the Bank act as a true "lender of last resort" in such transactions?

A.12. The Bank acts either as a lender of last resort or in the function of leveling the playing field due to competitor ECA financing availability.

Q.13. Why would export credit agencies, the Bank included, need to finance acquisitions for State-owned enterprises in circumstances where sovereign wealth funds exist?

A.13. In the rest of the world, State-owned enterprises are involved in railroads, power generation, airlines, telecommunications, and many other projects. U.S. companies are competing with other foreign countries to sell them goods. Ex-Im financing is used to ensure a level playing field for U.S. businesses—large and small—with foreign competitors.

Q.14. *On the Bank's Domestic Content Policy*—The Bank has identified as worthy for additional analysis, three areas concerning its domestic content policy: namely, the codification of a policy for Services, the expansion of cofinancing arrangements, and a simplification of the content policy.

What is significant about these particular areas and what is the progress of that analysis?

A.14. The three areas identified by the Bank for further exploration all provide opportunities for Ex-Im to streamline policies and establish programs that will add clarity to Ex-Im's content policy and will make engaging with Ex-Im easier for U.S. exporters. Staff is in the process of preparing proposals and plans to bring to Bank management such proposals in the first half of 2014.

The Board has not yet voted on changes to our content policy. However, in the first half of FY2014, the Board of Directors is expected to have an opportunity to consider proposals intended to provide reasonable assurance that Ex-Im Bank's content requirements are met, address operational risks, and propose solutions to the challenges in collecting and verifying content data.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Montana from 2009 to 2013, Ex-Im Bank financed total authorizations of $14,092,989, 100 percent of which were small business authorizations. The total number of companies financed was 47 small businesses and we would like to do more.

The top three categories supported in Montana were: manufacturing and sales of capital equipment; manufacturing and sales of noncapital equipment; and agriculture, forestry, fishing, and hunting.

The top three exporters in Montana supported by Ex-Im Bank were: Agmor Inc.; Rm International, Inc.; and Schoggi, Inc.

Q.1. The recent authorization of the Export Import Bank included a clear directive for the Bank to engage the European Union export credit agencies in negotiations to cease offering loans for the purchase of wide-body aircraft. Please tell me the status of these nego-

tiations and provide us with any letters or proposals exchanged with the EU ECA.

A.1. The 2012 Ex-Im Reauthorization did not require Ex-Im Bank to negotiate a reduction or end of financing of wide-body aircraft with Export Credit Agencies in Europe. The 2012 Ex-Im Reauthorization provides that Treasury initiate and report on the negotiations described in the question. Treasury has submitted two such reports on these negotiations to Congress, the most recent in December 2013.

Q.2. At the 2013 Dubai Airshow, several State-subsidized airlines announced orders totaling $162.6 billion. Has the Bank been approached to provide loans or any other loan services with regard to any of these aircraft orders from the 2013 Dubai Airshow? If so, how many?

A.2. The 2013 Dubai Airshow was a great win for American jobs and American workers. Orders will support thousands of U.S. jobs over the course of fulfilling these orders. Ex-Im Bank has not been formally approached to provide loans or any other loan services with regard to the aircraft orders that were announced at the 2013 Dubai Airshow.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Alabama from 2009 to 2013, Ex-Im Bank financed total authorizations of $224,441,912, of which $190,623,091—or 85 percent—was small business authorizations. That's more than four times the national average of small business authorizations by the Bank. The total number of companies financed was 163 with 136 being small businesses.

The top three categories supported were: manufacturing and sales of noncapital equipment; manufacturing and sales of capital equipment; and transportation and warehousing.

The top three exporters in Alabama supported by Ex-Im Bank were: Biohorizons Implant Systems; American Tank & Vessel Inc.; and Imaging Business Machines.

The estimated number of jobs supported in Alabama by Ex-Im Bank over the last 5 years was 2,500 jobs.

Q.1. Ex-Im Bank has recently finalized its Supplemental Environmental Guidelines for High Carbon Intensity Projects. Ex-Im purports these guidelines will have a positive environmental impact, however some have said these guidelines clearly place domestic industry at a competitive disadvantage. For many parts of the world, coal-generated electricity is vital, because it remains one of the best means to lift people out of poverty. Unquestionably, the lack of affordable energy jeopardizes the future of developing nations and helps to condemn billions worldwide to continued energy poverty. The International Energy Agency (IEA) estimates that over 1.3 billion people—nearly 20 percent of the world's population—live with no access to electricity, to say nothing of the 1.7 billion who have very limited access. This is not just about powering a light bulb

and stoves, but about powering commerce, education, and health care that will improve lives.

How will emerging nations in Africa, South Asia, and Latin America afford and implement alternative energy under Ex-Im's guidelines?

A.1. Since 1992, Ex-Im Bank is required by its charter to consider the impact to the environment of projects it finances. In approving the Supplemental High Carbon Intensity Guidelines, the intent of the Bank was to continue to adhere to our Charter and consider the environment in all Board decisions and set requirements and standards that would result in a reduction of greenhouse gasses (CO2) from new coal plants those otherwise produce very large amounts of CO2. It was also to encourage other ECAs to adopt similar requirements so as to promote broad multilateral standards while leveling the playing field for U.S. exporters. The CO2 emissions from coal-fired power plants represent a large portion of the world's anthropogenic CO2 production. The Guidelines introduced a standard or limit for CO2 emissions produced by power plants in countries such as China that would require mitigation measures including deployment of carbon capture and sequestration (CCS) to lower the plant's CO2 emissions to levels consistent with that of gas-fueled plants. However, for the world's poorest countries, such as most sub-Saharan African nations, the Guidelines for new coal plants do not require CCS. For those poorest countries, we require only that the buyer meet the criteria of best appropriate technology where there is no other economically feasible alternative. The Bank's Supplemental High Carbon Guidelines allow for the financing by Ex-Im Bank of U.S. exports for new affordable coal plants in the world's poorest countries, if the buyer meets requirements such as the submission of an analysis demonstrating that the proposed coal plant is the best appropriate technology where there is no other economically feasible alternative. These Supplemental Carbon Guidelines have no impact on U.S. exports for gas or oil fired power plants worldwide. This policy impacts more developed economies that are able to afford cleaner or alternative technologies.

In many emerging markets the cost of alternative or renewable energy is approaching and sometimes at par with fossil fuel sources since much of the populations without electricity live in rural areas where the cost to connect to the grid would be prohibitively expensive. To make renewable energy affordable, Ex-Im Bank has adopted a policy to offer financing for renewable forms of energy at the maximum allowable repayment terms allowed by the Organization for Economic Cooperation and Development (OECD) group of export credit agencies (ECAs), which is up to 18 years, compared to the 12 year maximum that the OECD allows for ECA support of conventional fossil fueled plants. In addition Ex-Im Bank, consistent with OECD policy, can also offer local cost financing of up to 30 percent of the U.S. export contract, and offer capitalization of interest during construction of the project.

Q.2. To alleviate poverty, countries look to economical and reliable sources of electricity such as coal. Coal remains the backbone of global electricity generation and is the fuel enabling rapid advance-

ment of developing countries, helping to raise living standards and lift hundreds of millions of people out of poverty. Ex-Im's High Carbon Intensity Guidelines could deny developing countries these opportunities and the associated quality of life and environmental improvements correlated with higher standards of living.

Wouldn't a better policy be to promote coal as a low cost and reliable source of electricity that will power growth and sustainable development and the associated environmental improvements for generations to come?

A.2. The Bank does not direct the development of other countries' energy policies. The Bank takes an "all of the above" approach to energy financing. This includes supporting projects that rely on solar, wind, biomass, geothermal, nuclear, and natural gas. Under the Bank's Supplemental Guidelines for High Carbon Intensity Projects, in the world's poorest countries where there is no other economically feasible alternative, coal-fired power plants are expected to use the best appropriate technology.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR VITTER FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Louisiana from 2009 to 2013, Ex-Im Bank financed total authorizations of $587,748,942, of which $325,879,062 were small business authorizations. The total number of companies financed was 276 companies, of which 211 were small businesses.

The top three categories supported in Louisiana were: manufacturing and sales of noncapital equipment; manufacturing and sales of capital equipment; and mining.

The top three exporters in Louisiana supported by Ex-Im Bank were: Pride Offshore Inc.; Atlantis International, Inc.; and Reliable Industries, Inc. of New Orleans.

The estimated number of jobs supported in Louisiana over the last 5 years by Ex-Im Bank was 5,100 jobs.

Q.1. Mr. Hochberg, in 2012, Congress passed the Export-Import Bank Reauthorization Act of 2012. The act required the U.S. Government Accountability Office (GAO) to report on the process and methodology used by Export Import Bank (Ex-Im Bank) to calculate the effects of export financing on U.S. employment. In a 2013 report, GAO found that the Ex-Im Bank's methodology to calculate the number of U.S. jobs associated with the exports, while following a process, does not report serious "limitations in its process or fully detail the assumptions related to its data or methodology." The GAO report concludes that, "because of a lack of reporting on the assumptions and limitations of its methodology and data, Congressional and public stakeholders may not fully understand what the jobs number that Ex-Im Bank reports represents and the extent to which Ex-Im Bank's financing may have affected U.S. employment."

Does Ex-Im Bank maintain a detailed list of U.S. exporters involved or who benefit from individual transactions?

A.1. Ex-Im Bank's mission is to support U.S. jobs through exports. The Bank developed a methodology that utilizes publicly available Commerce Department and Bureau of Labor Statistics data, and is also used by other agencies to calculate jobs numbers. We were pleased that the GAO verified the Bank's jobs calculation methodology and recognized the advantages of the Bank's current jobs calculation methodology. The GAO report also recognized that the Bank's current jobs calculation methodology is commonly used. The report did not recommend any changes to the underlying methodology, but it did recommend that we include detailed information on the assumptions and limitations associated with jobs calculation methodology. These were included in the Bank's "supporting U.S. jobs" section of our FY2013 Annual Report which was released on December 16, 2013.

The Export-Import Bank does maintain information on U.S. exporters involved or that benefit from individual transactions. The Bank's annual report also lists all Long Term guarantees and direct loans. The Bank's Web site also lists all transactions which includes information on the primary exporter. This information is compliant with the Federal Funding and Transparency Act (FFATA) and can be found on the Bank's Open Government Web page.

Q.2. Mr. Hochberg, Office of Inspector General and GAO reports as recent as December 2013 have found that while the Ex-Im Bank Business Plan reported that the Ex-Im Bank's exposure limits were appropriate, the forecasting process used to reach these conclusions have key weaknesses that do not appropriately reflect changing conditions.

What steps is the Ex-Im Bank taking to routinely analyze and report financial performance for mandated transactions? Has Ex-Im Bank increased its ability to evaluate such performance at the sub-portfolio level and inform Congress of related risks?

A.2. Ex-Im Bank is committed to continuous improvement and using the GAO recommendations has improved its forecasting process. In January 2014 in response to GAO concerns, the Bank submitted a report on the Bank's Authorization and Forecasts to the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee.

Ex-Im Bank is routinely analyzing and reporting financial performance for authorized transactions. The Bank has enhanced its ability to evaluate such performance at the sub-portfolio level. Ex-Im Bank began reporting this information in our quarterly default report. The first quarterly report that incorporated this information was the September 30, 2013, Quarterly Default Report. The recent December 31, 2013, Quarterly Default Report also included this information. This report is submitted to the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee. The Bank will continue including this information in future Quarterly Default Reports.

Q.3. Mr. Hochberg, in response to exporter concerns, the Ex-Im Bank revised its medium- and long-term content policy in January 2001. Specifically, the Bank allowed eligible content to be calculated based on the aggregate content of all items within a supply

contract instead of using an item-by-item approach. However, according to the Inspector General, voluntary reporting resulted in limited information for decision makers, and did not establish other appropriate internal controls; because of this, the Bank has not received any statistically valid data to date. Additionally, language included in the Export-Import Bank Reauthorization Act of 2012, required the Ex-Im Bank to address this issue. Since that time it appears that the Ex-Im Bank has failed to achieve one of the key desired outcomes of the 2001 changes to its content policy, and has been unable to comply with its Board of Directors' requirements regarding the analysis and reporting of detailed content trend information.

In 2013 we were told that "The Board of Directors intends to vote on these possible policy changes by the end of calendar year 2013," has the Board done so?

A.3. Section 15 of the reauthorization required the Bank to "conduct a review of its domestic content policy for medium and long-term transactions." The Bank conducted that review as prescribed by Congress and submitted the report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee on time.

The review yielded a number of policy recommendations that the Board is scheduled to consider in the first half of 2014.

Q.4. Mr. Hochberg, due to the above referenced issue (long-term content policies) present day decision makers do not have access to what could have been a robust historical record of over 10 years of content-related data to inform current and future decisions about the content policy and help assess potential impacts on achieving Ex-Im Bank's jobs mandate.

What potential losses or negative decisions could the Bank have avoided had it had access to this historical data?

A.4. It is not possible to speculate as to what potential losses or negative decisions the Bank could have avoided if the historical data had been submitted.

Q.5. Ex-Im Bank has indicated that it is considering additional changes to its content policy. Has Ex-Im Bank enacted all content policy review requirements of the Export-Import Bank Reauthorization Act of 2012? If not, please delineate which have and have not been met.

A.5. Ex-Im Bank has "enacted all content policy review requirements of the Export-Import Bank Reauthorization Act of 2012." However, in the course of conducting the Congressionally mandated review, the process revealed opportunities for Ex-Im Bank to streamline policies and programs. Staff plans to bring several proposals for consideration to the Board in the first half of 2014.

The three areas identified by the Bank for further exploration all provide opportunities for Ex-Im to streamline policies in order to add clarity to Ex-Im's content policy and will make engaging with Ex-Im easier for U.S. exporters. Staff is in the process of preparing proposals and plans to bring to Bank management such proposals in the first half of 2014.

Q.6. Why has it taken 13 years since 2001, and almost 2 years since the 2012 reauthorization for the Board to consider and implement changes needed?

A.6. The issues predated my tenure as Chairman and President of Ex-Im Bank. When the issue was brought to management's attention, it was addressed. In the absence of concrete data from exporters and at a time of record breaking authorizations, there was no evidence that changing the current content policy would result in increased exports and more U.S. jobs. The Congressionally mandated content review was concluded on time at the end of May 2013. Since the conclusion of the review, Bank staff have been analyzing and preparing proposals for streamlining the content policy and plan to bring proposals to senior management and ultimately the Board for consideration in the first half of 2014.

Q.7. What has the Bank done to ensure that it adheres to the 2012 Ex-Im Reauthorization passed provisions instructing it to negotiate a reduction or end of subsidies for wide-body aircraft with the Export Credit Agency in Europe?

A.7. The 2012 Ex-Im Reauthorization did not require Ex-Im Bank to negotiate a reduction or end of financing of wide-body aircraft with Export Credit Agencies in Europe. The 2012 Ex-Im Reauthorization provides that Treasury initiate and report on the negotiations described in the question. Treasury has submitted two such reports on these negotiations to Congress, the most recent in December 2013.

Q.8. I am increasingly concerned that current procedures set up to facilitate and benefit the United States are working at ends that will result in the ultimate harming of U.S. businesses. One glaring example is the recent U.S. Customs and Border Protection, or CBP preclearance customs post at Abu Dhabi airport, which opened on Friday. This post which was funded by Appropriations Committee in 2012 despite widespread bipartisan opposition, solely benefits foreign competitors. Why are the Ex-Im Bank and the DHS pouring money into businesses that do not appear to need it and which directly compete against U.S. businesses? Is there a mandate from the Executive Branch to do so?

A.8. Ex-Im Bank has absolutely no role in appropriating funds for the U.S. Customs and Border Protection preclearance post at Abu Dhabi Airport.

Q.9. *U.S. Competition Questions*—In the U.S. District court, Delta Air Lines et al v. Export Import Bank of the United States; 878 F. Supp. 2d at 57, the memorandum opinion of the U.S. District Judge states, that in previous cases related to 2011 Commitments to Air India, (it) "decisively establishes what seems a matter of common sense: the loan guarantees provided by the Ex-Im Bank to foreign airlines, in the aggregate, have injured ATA's (U.S. based airliners) members."[1] . . . and "competitive injury" "will nevertheless face increased direct competition .. . " Adding further that it "has also shown that additional direct competition on international routes is substantially certain." The Court also "finds that ATA has made a

[1] Ibid, p.58.

factual showing sufficient to establish that it faces imminent competitive injury." There is more than a "vague probability" that the subsidized planes will compete on routes served by ATA's members and an even more significant probability that said competition "will cause [those members] to lose business or drop its prices."

In short, the court appears to find that in previous cases, an entity upon whom the U.S. Government has conferred a significant benefit was in direct competition of a U.S. business which prior Bank guarantees have caused them significant, concrete injuries and that the 2011 Commitments are substantially certain to cause them further injury. What actions and steps is the Bank conducting to ensure that similar processes do not continue to occur?

A.9. Ex-Im Bank's policy on economic impact is to provide an analysis of whether or not Ex-Im support of a transaction will generate more benefits than a potential harm to the U.S. economy. The quotations above from the opinion of the U.S. District Court in Delta Air Lines et al. v. Export-Import Bank of the United States, 878 F.Supp.2d at 57, were stated in the context of the Court's decision that the plaintiffs in the case had standing to bring suit. In the context of a standing analysis, the Court must determine, among other things, if the plaintiffs have met the minimal Constitutional requirement of demonstrating that they have suffered an injury-in-fact and that the injury has occurred or is substantially certain to occur. The finding that a plaintiff has made such a showing says nothing about the merits of the plaintiffs claim. It also says nothing about the entirely different assessment that the Bank's Charter requires it to make, which is whether a proposed transaction is likely to cause substantial injury to U.S. industry. The Bank's economic impact procedures are designed to make that assessment. Moreover, the Court in that opinion went on to conclude that Ex-Im Bank's economic impact procedures were not arbitrary and capricious as alleged by the plaintiffs. Additionally, in April 2013, the Bank put into effect new economic impact procedures and methodological guidelines, including new procedures for aircraft transactions. The procedures include an economic impact review for every transaction and detailed reviews where warranted. In addition, Ex-Im has supported the Treasury Department in negotiating more market oriented terms and conditions for governmental financing support for aircraft exports. The most recent round of these negotiations concluded in 2011.

Q.10. Mr. Hochberg, when the Export-Import bank is completing an Economic Impact Analysis for financing to a foreign entity, does the bank, in order to avoid counting foreign jobs, take foreign content into account as part of any benefit to the United States economy? If so, how does the bank do this?

A.10. The Bank's Economic Impact Procedures have never included, and still do not include, the number of jobs supported by a transaction as a factor in the Economic Impact Procedures or in any detailed economic impact analysis. Ex-Im Bank's mission is to support U.S. jobs through exports. The Bank developed a methodology that utilizes publicly available Commerce Department and Bureau of Labor Statistics data, and is also used by other agencies to calculate jobs numbers. We were pleased that the GAO verified

the Bank's jobs calculation methodology and recognized the advantages of the Bank's current jobs calculation methodology. The GAO report also recognized that the Bank's current jobs calculation methodology is commonly used and cost effective. The report did not recommend any changes to the underlying methodology, but did recommend that we include detailed information on the assumptions and limitations associated with jobs calculation methodology. These were included in the Bank's "supporting U.S. jobs" section of our FY2013 Annual Report which was released on December 16, 2013.

Q.11. Mr. Hochberg, Does the Ex-Im Bank take into account the impact on domestic companies access export credit support against the Home Market Rule?

A.11. The Home Market Rule is a longstanding informal understanding between certain European countries—supporting sales of Airbus aircraft—and the United States—supporting sales of Boeing aircraft—that neither side will finance aircraft into the United States or the European "Airbus countries" (the United Kingdom, France, Spain, and Germany). Under the Home Market Rule, U.S. airlines do not have access to European export credit support for the purchase of Airbus aircraft, just as they do not have access to support for the purchase of Boeing aircraft. Likewise, airlines in European "Airbus countries" do not have access to Ex-Im Bank export credit support for the purchase of Boeing aircraft. However, U.S. airlines do benefit from the United States having the largest, most liquid and sophisticated capital markets in the world.

Q.12. Mr. Hochberg, you have previously stated that the bank does an Economic Impact Analysis on every single transaction the Ex-Im Bank enters into. Is this information available for Congress to review? If so, can you please provide to myself and other Members of the Banking Committee a list and copies of all of the Economic Impact Analysis reports that the bank performed as part of large aircraft transactions during your tenure as Chairman?

A.12. In my testimony, I indicated that the Bank considers the economic impact implications of every application. However, the Bank performs detailed economic impact analyses only on those applications that meet the standards articulated in the Bank's Economic Impact Procedures. In April 2013, new Economic Impact Procedures and Methodological Guidelines went into effect. These new procedures put in place a revised system for assessing whether aircraft transactions are likely to cause an adverse economic impact on U.S. industry. For transactions that include passenger aircraft for commercial use, staff submits to the Ex-Im Bank Board of Directors one of two types of analyses: (1) a no-substantial injury analysis, or (2) a detailed economic impact analysis. For passenger transactions that do not meet the threshold for substantial injury to U.S. industry according to the Bank's Economic Impact Procedures, Ex-Im Bank staff prepares a no-substantial injury memorandum explaining the details of the transaction and why the transaction fails to pass the substantial injury threshold. For passenger aircraft transactions that do meet the threshold for substantial injury to U.S. industry, Bank staff prepares a detailed economic impact analysis, which identifies any financing advantage

that the Bank may provide to the foreign buyer compared to financing available to a similarly situated U.S. airline. If staff finds that Ex-Im Bank has provided a financing advantage, staff calculates an estimate of harm to the U.S. passenger airline industry that could result from the financing advantage, which is weighed against the positive effects of the export. The Ex-Im Bank Board of Directors considers this analysis when deciding whether to finance a transaction. A list of all analyses done since April 1, 2013, is below.

Ex-Im Bank Large Passenger Aircraft Authorizations Subject to Economic Impact Analysis
April 1, 2013 - March 6, 2014

Transaction number	End-user country	Date of authorization	End-user airline
AP087073XX	Philippines	4/18/2013	Philippine Airlines
AP083332XX (conversion #5)	Brazil	5/9/2013	VRG Linhas Aereas (GOL)
AP087791XX	Mexico	5/30/2013	Aeromexico
AP087858XX	Indonesia	5/30/2013	Garuda
AP087013XX	Republic of Korea	6/14/2013	Asiana Airlines
AP087801XX	China	6/20/2013	Air China
AP087872XX	Ethiopia	6/20/2013	Ethiopian Air
AP087223XX & AP087223XA	Norway	7/9/2013	Norwegian Air Shuttle
AP087136XX (conversion #1)	Kazakhstan	7/18/2013	Air Astana
AP087891XX	Canada	7/19/2013	Westjet
AP088099XX	Chile	8/23/2013	LATAM
AP087980XX	Australia	9/19/2013	Jetstar Airways
AP088035XX	Norway	10/24/2013	Norwegian Air Shuttle
AP086031XX	Bangladesh	10/31/2013	Biman
AP088162XX	China	12/12/2013	China Southern
AP088400XX	United Arab Emirates	1/23/2014	Emirates
AP088285XX	Russia	1/23/2014	Aeroflot Russian Airlines
AP088513XX	Canada	3/6/2014	Air Canada

In light of the fact that Ex-Im Bank is involved in several different lawsuits regarding its aircraft transactions, and due to the business confidential and sensitive nature of the information about transactions that is contained in economic impact analyses, it is not appropriate to provide physical copies of these analyses outside of the Bank. We would, however, make arrangements for you or a staff person to do an in camera review of the documents if necessary.

Prior to April 1, 2013, aircraft transactions were subjected to a categorical "exportable goods" screen. Each transaction was checked to make sure that it should be subjected to the "exportable goods" screen, but there is no separate transaction report for each such transaction.

Q.13. Mr. Hochberg, regardless of a foreign airlines' credit rating, from the mid-1980s until 2013, the bank charged foreign airlines a fee of, at most, 1 percent over the triple A rating. Could United States airlines borrow as cheaply during this period, and how does this financing compare to private markets?

A.13. The Aircraft Sector Understanding (ASU) sets the minimum terms and conditions that export credit agencies (ECA) may provide when financing large aircraft transactions, and Ex-Im Bank is fully compliant with these guidelines. During the period from the mid-1980s through today, the United States and others have steadily raised the all-in cost (which includes risk fees, other fees and interest) of ECA support for large aircraft transactions in the ASU.

More recently, U.S. airlines have been able to borrow as cheaply, if not more cheaply, than their foreign competitors who utilize official export credit financing, given the unique financing tools and mechanisms available to them in the U.S. financial markets. In the 1980s and 1990s, as a result of specific U.S. laws and favorable U.S. tax-code provisions, U.S. airlines could avail themselves of tax-favored leases as well as capital market financing known as equipment trust certificates. In the early 2000s, the equipment trust certificate product was modified and the Enhanced Equipment Trust Certificate (EETC) was born; the EETC remains an attractive financing option today.

These financing tools provided significant cost advantages to U.S. airlines and were not available to foreign airlines until 2013 when the first international EETCs were issued by a select few foreign airlines. Also during the 1990s and early 2000s, several U.S. airlines declared bankruptcy as airlines consolidated and changed their business models; this affected the rates they paid for aircraft financing.

Q.14. Mr. Hochberg, the Export-Import bank Web site publishes annual reports detailing its Loans and Long-Term Guarantees. However, at the time of your testimony the 2013 report was not yet available. When will the 2013 report be posted online? Also, please provide Members of the Banking Committee this report as soon as possible.

A.14. In accordance with a directive from the Office of Management and Budget to Federal agencies, Ex-Im Bank posted its FY2013 financial report (PDFs of audited documents) to the Bank's Web site on December 16, 2013, shortly after the Bank's signoff

with its auditors 4 days earlier. In addition, Ex-Im Bank posted the report's year-in-review narrative texts on December 20, 2013. These nonaudited texts supplement the financial report and fulfill Congressional reporting requirements. The full annual report (in individual sections) has been available online since December 20, 2013.

Ex-Im Bank anticipates that printed copies of the FY2013 annual report will be available in the first week of March and will be distributed to your office.

Q.15. *Energy Questions*—Mr. Hochberg, over the last 10 years what has been the historical return on investment for fossil fuels projects, and how does that compare to recent investments in renewables? Please provide that information, in detail by year, to the Committee.

A.15. No investments are made by Ex-Im Bank. Ex-Im Bank does not invest, but rather, provides loans and guarantees. Over the past 10 years, Ex-Im Bank has earned $884 million in fees and interest on fossil fuel transactions, versus losses incurred during that time of $117 million.

Q.16. Mr. Hochberg, as the National Association of Manufacturers has pointed out, the revisions to Ex-Im Bank's Environmental Procedures & Guidelines, as approved by the Ex-Im Bank Board of Directors in December, would substantially deter Ex-Im support for new coal-fired power plants abroad. Can you tell me what the exact benefit of that decision will be? For example, over the next 10, 50, and 100 years what will be the exact change in global temperatures and other weather-related events? Has the Ex-Im Bank determined that by making this decision the climate will stop changing, and no longer do so as it has for millions of years?

A.16. Since 1992, Ex-Im Bank is required by its charter to consider the impact to the environment of projects it finances. In approving the Supplemental High Carbon Intensity Guidelines, the intent of the Bank was to continue to adhere to our Charter and consider the environment in connection with Board decisions related to projects that have an impact on the environment and set requirements and standards that would result in a reduction of greenhouse gasses (CO2) from new coal plants those otherwise produce very large amounts of CO2. It was also to encourage other ECAs to adopt similar requirements so as to promote broad multilateral standards while leveling the playing field for U.S. exporters. The CO2 emissions from coal-fired power plants represent a large portion of the world's anthropogenic CO2 production. The Guidelines introduced a standard or limit for CO2 emissions produced by Ex-Im-supported power plants in countries such as China that would require mitigation measures including deployment of carbon capture and sequestration (CCS) to lower the plant's CO2 emissions to levels consistent with that of gas-fueled plants. However, for the world's poorest countries, such as most sub-Saharan African nations, the Guidelines for new coal plants do not require CCS. For those poorest countries, we require only that the buyer meet the criteria of best appropriate technology where there is no other economically feasible alternative.

Ex-Im Bank still finances coal exports, coal mining projects, and improvements to existing coal-fired power plants. Since 2009 we have completed approximately $2 billion in coal related projects.

Q.17. Mr. Hochberg, prior to passage of the omnibus appropriations bill earlier this month, the Ex-Im Bank was planning on requiring carbon capture and sequestration (CCS) for new coal-fired power plants. How was the Ex-Im Bank planning on determining whether the geology in a region would facilitate CCS or otherwise that the technology existed in a form that wouldn't explode the price of electricity generation for those facilities?

A.17. In the context of any particular project, the Bank's engineers and technical consultants will address the technical feasibility of CCS in their analysis provided to the Bank's Board of Directors for their consideration prior to voting on the transaction.

Q.18. Mr. Hochberg, according to the International Energy Agency (IEA), global demand for electricity will nearly double in 2035 over 2010 levels, as will electricity generated from coal. From now on, the Ex-Im Bank will insist that development agencies give "full consideration" to low-carbon or no-carbon options before moving ahead with a new coal plant. Is Ex-Im using their leverage associated with public finance to move developing countries away from coal-fired power plants thereby denying these countries the opportunities correlated with higher standards of living?

A.18. The Bank does not direct the development of other countries' energy policies. Through its Supplemental Carbon Guidelines, the Bank is using its policies to encourage the poorest countries to employ coal plants using the best appropriate technology where there is no other economically feasible alternative to high CO2 producing plants. In richer countries Ex-Im's Supplemental Carbon Guidelines provide that coal-fired plants must be deployed with techniques such as CCS to mitigate the level of CO2 emissions produced from new coal plants.

Q.19. Mr. Hochberg, the fiscal year 2014 consolidated appropriations bill recently signed into law by President Obama includes language prohibiting Ex-Im and the Overseas Private Investment Corporation from enforcing policies that block support for coal-power generation projects, which will increase exports of U.S. goods and services. How do you intend to comply with the intent of Congress?

A.19. The appropriations bill does not include language "prohibiting Ex-Im . . . from enforcing policies that block support for coal-power generation projects." The appropriations language leaves in place the Bank's policy requiring CCS mitigation for wealthier countries, but it suspends the bank's criteria for financing in IDA-eligible countries. Ex-Im Bank will fully comply with the Appropriations language.

Ex-Im Bank is fully complying with the language of the Appropriations Bill and with the intent of the Congress with respect to the application of its Supplemental High Carbon Intensity Guidelines. The Bank has suspended the application of these Supplemental Guidelines for transactions related to export financing re-

quests in all "IDA-eligible" (IDA-only and IDA-blend) countries. The Bank has posted this suspension on its Web site.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Pennsylvania from 2009 to 2013, Ex-Im Bank financed total authorizations of $6,246,856,291, of which $986,366,231 were small business authorizations. The total number of companies financed was 575 companies, of which 431 were small businesses.

The top three categories supported in Pennsylvania were: manufacturing and sales of capital equipment; mining; and utilities.

The top three exporters in Pennsylvania supported by Ex-Im Bank were: General Electric International, Inc.; Aquatech International Corporation; and Xcoal Energy & Resources.

The estimated number of jobs supported in Pennsylvania over the last 5 years by Ex-Im Bank was 46,000 jobs.

Q.1. You stated that Ex-Im does an economic impact study "for every export and including airlines." Can you please provide a list of the economic impact studies that Ex-Im performed as part of large aircraft transactions during your tenure as Chairman and also provide copies of those studies to the Committee?

A.1. In my testimony, I indicated that the Bank considers the economic impact implications of every application. However, the Bank performs detailed economic impact analyses only on those applications that meet the standards articulated in the Bank's Charter and Economic Impact Procedures.

The following table summarizes the number of transactions for which the Bank has conducted detailed economic impact analyses since May 2009. This table further subdivides the information depending on whether the foreign buyer used the U.S. export to establish or expand production of a good or offer passenger aircraft services.

Summary: Economic Impact Analyses Completed in Association with Authorized Cases
May 2009 – February 2014

Total	CY2009	CY2010	CY2011	CY2012	CY2013	Feb-14
No substantial injury determination	5	3	4	4	21	3
Subject to a detailed economic impact analysis	0	6	2	8	7	1
Goods	**CY2009**	**CY2010**	**CY2011**	**CY2012**	**CY2013**	**Feb-14**
No substantial injury determination	5	3	4	4	6	1
Subject to a detailed economic impact analysis	0	8	2	8	7	0
Aircraft	**CY2009**	**CY2010**	**CY2011**	**CY2012**	**CY2013**	**Feb-14**
No substantial injury determination	NA	NA	NA	NA	15	2
Subject to a detailed economic impact analysis	NA	NA	NA	NA	0	1

The following table lists the analyses by transaction number, end-user country (where the foreign country will use the U.S. export) and industry of the end-user. These transactions are further divided into the type of analysis: (1) No substantial injury determination – where the resulting foreign production is less than 1% of U.S. production or (2) Detailed economic impact analysis – where the resulting foreign production is 1% or more of U.S. production

Detail: Economic Impact Studies Completed in Association with Authorized Cases
May 2009 – February 2014

Post May 2009-December 2009

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
No cases		

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP084183XX	Canada	Mining and Mineral Processing
AP084000XX	Canada	Mining and Mineral Processing
AP084085XX	Ukraine	Mining and Mineral Processing
AP084293XX	Canada	Mining and Mineral Processing
AP083827XX	Nigeria	Manufacturing

2010

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
AP085022XX	Mexico /UK	Manufacturing
AP084044XX	UAE	Mining and Mineral Processing
AP084500XX	Saudi Arabia	Manufacturing
AP085051XX	Ukraine	Mining and Mineral Processing
AP084609XX	Mexico	Mining and Mineral Processing
466606	Mexico	Manufacturing

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
460525	Nigeria	Manufacturing
AP084813XX	Hungary	Power Plants
AP084902XX	Indonesia	Mining and Mineral Processing

2011

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
AP085047XX	Australia	Mining and Mineral Processing
AP085022XA	Mexico /UK	Manufacturing

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP086215XX	China	Agricultural
AP086212XX	China	Agricultural
512034	Mexico	Manufacturing
AP085800XX	South Africa	Mining and Mineral Processing

2012

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
AP086602XX	Canada	Mining and Mineral Processing
AP086753XX	Ukraine	Mining and Mineral Processing
AP085466XX	Saudi Arabia	Manufacturing
AP086383XX	India	Manufacturing
AP087119XX	Iraq	Mining and Mineral Processing
AP086365XX	Russia	Mining and Mineral Processing
AP086105XX	Germany	Manufacturing

AP085937XX	Mexico	Manufacturing

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP086752XX	Ukraine	Mining and Mineral Processing
AP087038XX	Russia	Mining and Mineral Processing
AP087244XX	Ukraine	Agricultural
MT537682	Zambia	Mining and Mineral Processing

2013

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
AP087386XX	Russia	Manufacturing
AP085996XX	UAE	Mining and Mineral Processing
AP086115XX	Mongolia	Mining and Mineral Processing
AP086036XX	Singapore	Manufacturing
AP087256XX	India	Manufacturing
AP086942XX	Turkey	Manufacturing
AP086750XX	Australia	Mining and Mineral Processing

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP086754XX	Ukraine	Mining and Mineral Processing
AP087407XX	Ukraine	Mining and Mineral Processing
AP087782XX	Israel	Manufacturing
AP087461XX	Saudi Arabia	Manufacturing
AP087932XX	China	Agricultural
AP087318XX	Ukraine	Mining and Mineral Processing

Aircraft

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
No cases		

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP083332XX (conversion #5)	Brazil	Transportation
AP086031XX	Bangladesh	Transportation

AP087013XX	Republic of Korea	Transportation
AP087073XX	Philippines	Transportation
AP087136XX (conversion #1)	Kazakhstan	Transportation
AP087223XX & AP087223XA	Norway	Transportation
AP087791XX	Mexico	Transportation
AP087801XX	China	Transportation
AP087858XX	Indonesia	Transportation
AP087872XX	Ethiopia	Transportation
AP087891XX	Canada	Transportation
AP087980XX	Australia	Transportation
AP088035XX	Norway	Transportation
AP088099XX	Chile	Transportation
AP088162XX	China	Transportation

2014 (Through February 2014)

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
No cases		

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP088266XX	Russia	Mining and Mineral Processing

Aircraft

Subject to a detailed economic impact analysis

Transaction Number	End User Country	Foreign Buyer Industry
AP088285XX	Russia	Transportation

No substantial injury determination

Transaction Number	End User Country	Foreign Buyer Industry
AP088400XX	United Arab Emirates	Transportation
AP088513XX	Canada	Transportation

Q.2. When completing an Economic Impact Analysis for the financing of an aircraft to a foreign carrier, does Ex-Im take foreign content into account to avoid counting foreign jobs as part of any U.S. economic benefit? If so, how?

A.2. When completing an Economic Impact Analysis, Ex-Im Bank looks at dollar benefits versus potential dollar harm to the U.S. economy.

Q.3. In your testimony you stated that Ex-Im charges foreign airlines rates that are higher than those that foreign airlines can find in the private market.

How did you come to the determination that Ex-Im charges higher interest rates than private lenders?

A.3. *Note:* Chairman Hochberg would like to ensure that his testimony was not misunderstood. First, Airbus and Boeing compete for almost every single sale. Therefore, Ex-Im Bank must ensure that the financing available to a foreign airline to purchase a U.S.-manufactured airplane is as favorable as the financing provided by the European "Airbus" ECAs. Otherwise, Airbus will just get the sale. In addition, For every large aircraft transaction, Ex-Im Bank first performs an analysis to determine whether the transaction will create significant direct competition for a U.S. airline. If that analysis is affirmative, then Ex-Im Bank compares the cost of financing Ex-Im Bank provides to foreign airlines to the cost of financing available to comparably rated U.S. airlines from commercial sources. With rare and short-lived historical exceptions, U.S. airlines consistently have access to more favorable financing terms than the financing terms that Ex-Im Bank makes available to foreign airlines. Responses to the questions below address how Ex-Im performs this analysis.

Please note the clarification stated above. The Aircraft Sector Understanding (ASU) sets the minimum terms and conditions that export credit agencies (ECA) may provide when financing large aircraft transactions, and Ex-Im Bank is fully compliant with these guidelines. Over the past several years, the United States and others have steadily raised the all-in cost (which includes risk fees, other fees and interest) of ECA support for large aircraft transactions found in the ASU. In addition to the strict cost component, it is also important to note that private aircraft lending over the historical period provided additional flexibilities in terms of advance rate and loan term, for example, that was significantly more advantageous than what Ex-Im could offer under the terms and conditions of the ASU.

With the most recent revision of the ASU in 2011, ECA financing is now less competitive than U.S. bond market financing obtained through instruments such as the enhanced equipment trust certificate (EETC). An EETC is a structure whereby investors can provide financing directly through the capital markets, as opposed to loan financing provided by banks. The EETCs provide significant cost advantages to U.S. airlines. The EETC is premised on Section 1110 of the U.S. Bankruptcy Code, which only applies to U.S. airlines. Section 1110 permits a secured creditor of an airline in bankruptcy to obtain possession of the creditor's collateral (i.e., the aircraft) 60 days after the bankruptcy petition date, notwithstanding

the automatic stay provision that applies to creditors of other types of debtors. This certainty of access to collateral—and thus to payment—significantly decreases the risk to creditors of U.S. airlines and allows these creditors to provide more favorable financing terms than creditors of foreign airlines (which lack equivalent protections).

Q.4. In making the determination that Ex-Im charges foreign carriers higher rates than those that can be found in the private markets, did you consider other benefits of Ex-Im financing, including favorable loan durations and loan-to-value ratios?

A.4. In determining whether Ex-Im Bank provides a pricing advantage, Ex-Im Bank compares the price of financing it provides to foreign airlines to pricing available to comparable U.S. airlines in the U.S. capital markets. This comparison considers loan duration and loan-to-value ratios in analyzing the price of Ex-Im financing in comparison to the price of private markets financing. While we look at and adjust for these factors in case-by-case comparisons, historical data generally demonstrate that both loan duration and loan-to-value ratios are more favorable in the EETC market, the proxy Ex-Im uses for private market financing. With regards to loan duration, the mean average weighted life (AWL) for EETCs during the historical period from 2001 through 2013 was 7.98 years, significantly longer than the typical AWL on a standard Ex-Im aircraft transaction of 6.25 years. Similarly, with regards to loan-to-value (LTV) ratios, while Ex-Im can offer only a maximum financed amount of 85 percent of the net purchase price of the aircraft, EETC LTVs are based on appraised values (not actual purchase price), and as a result oftentimes airlines are able to achieve more beneficial LTVs with the EETC debt instruments than can be achieved through Ex-Im financing.

Q.5. If Ex-Im financing is in fact more expensive than the financing available in the private market, why would a creditworthy foreign carrier ever choose Ex-Im financing?

A.5. There are several reasons why an airline which has access to market financing would need to use Ex-Im Bank financing from time to time. First, as we have seen in recent years, in times of market distress, commercial market financing may be temporarily unavailable, and as a result, Ex-Im Bank may need to step in and fill the financing gap. In this sense, the business of the Export-Import Bank tends to be countercyclical in nature. Second, the nature of aircraft acquisition is for airlines to order a large number of aircraft at one time. Given the volume of aircraft finance needed to finance an order, it is often the case that the commercial markets will only be able to finance a portion of the order, and as a result, Ex-Im Bank financing is needed to complement commercial financing and to finance the aircraft that the market is unable or unwilling to do.

Q.6. On its Web site, Ex-Im publishes an annual report detailing its Loans and Long-Term Guarantees. However, as of January 31, 2014, the 2013 report was not available on your Web site. When do you expect this report to be posted on your Web site? Please also provide the Committee with this report as soon as possible.

A.6. In accordance with a directive from the Office of Management and Budget to Federal agencies, Ex-Im Bank posted its FY2013 financial report (PDFs of audited documents) to the Bank's Web site on December 16, 2013, shortly after the Bank's signoff with its auditors on December 12, 2013, In addition, Ex-Im Bank posted the report's year-in-review narrative texts on December 20, 2013. These nonaudited texts supplement the financial report and fulfill congressional reporting requirements. The full annual report (in individual sections) has been available on line since December 20, 2013.

Ex-Im Bank anticipates that printed copies of the FY2013 annual report will be available in the first week of March and will be distributed to your office.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR COBURN FROM FRED P. HOCHBERG

Thank you for your questions. Over the past 5 years Ex-Im Bank has supported an estimated 1.2 million U.S. jobs through exports. I am pleased to report that in Oklahoma from 2009 to 2013, Ex-Im Bank financed total authorizations of $621,702,468, of which $486,879,357—78 percent, or four times the national average for the Bank—were small business authorizations. The total number of companies financed was 213 companies, of which 166 were small businesses.

The top three categories supported in Oklahoma were: manufacturing and sales of noncapital equipment; services; and manufacturing and sales of capital equipment.

The top three exporters in Oklahoma supported by Ex-Im Bank were: Zeeco Inc.; Royal Mfg Co.; and Devco International.

The estimated number of jobs supported in Oklahoma over the last 5 years by Ex-Im Bank was 5,200 jobs.

Q.1. In FY2013, Ex-Im Bank approved commitments worth $27.3 billion. Of this amount, only 19.1 percent supported exports by small businesses—below the congressionally mandated target of 20 percent. Is the Bank's failure to meet the 20 percent target due to low demand from small businesses or other reasons? What steps will the Bank take to ensure a larger share of its commitments benefit small businesses?

A.1. In FY2013, Ex-Im Bank supported nearly $6 billion in small business, of which $5.2 billion was direct exports. While the direct exports accounted for 19.1 percent, when you take into account the total small business authorizations by the Bank, we are over 20 percent. Our charter requires us to report on direct small business exports, which is why you see the 19.1 percent figure in our reports. Indirect small business exports are vitally important to small business.

Approximately 90 percent of the 3,800 Ex-Im transactions in FY2013 supported small business. This was an all-time record for the Bank. On the demand side, risks associated with the United States' largest trading partner (the EU) decreased in FY2013. Macroeconomic instability in Europe caused U.S. businesses to purchase additional trade credit insurance for their exports to the EU. As European markets have stabilized, demand for export insurance

has decreased. On the supply side, Ex-Im moved "down market" in FY2013 to service more U.S. small businesses. In FY2013, the number of small business transactions increased from 3,313 in FY2012 to 3,413 in FY2013. While the average transaction size decreased from $1.85M to $1.53M over the same period. In addition, thanks to an improving economy, the private sector insurers are actively targeting Ex-Im's larger small business customers via information requested under FOIA. We are continually encouraging the private sector to step up, thereby reducing the demand for Ex-Im Bank support.

The key to expanding exports is marketing and communicating to small businesses. We will continue to leverage outreach programs such as our Global Access Forum events. In addition, we have partnered with FedEx in an innovative new alliance that will help reach and inform their small- and medium-size exporters about how Ex-Im Bank can help increase FedEx's export sales and create jobs.

Q.2. Is Ex-Im Bank a lender of last resort, or does the Bank want to maintain a certain level of business?

A.2. Pursuant to the Bank's Congressional mandate, Ex-Im Bank financing is reserved for transactions for which either: (1) commercial sources of financing are unavailable due to limitations in capacity and/or risk appetite; or (2) competition exists from foreign suppliers and their export credit agencies and, therefore, Ex-Im Bank support is needed to level the financing playing field. Hence, Ex-Im Bank focuses on those U.S. export transactions that would not likely go forward absent Ex-Im Bank support. Ex-Im Bank complements, rather than competes with, commercial sources of financing. As such, the "lender of last resort" label is fitting with respect to those transactions for which commercial sources of financing are unavailable due to limitations in capacity and/or risk.

Q.3. Does Ex-Im Bank issue any staff performance bonuses based on the level of business the Bank does?

A.3. No. Ex-Im Bank issues performance awards based on an employee's achievement of individual performance goals, including a balanced scorecard of such measures as employee effectiveness, customer service, collaboration, productivity, cycle time, and quality.

Q.4. If Ex-Im Bank's mission is to fill gaps in market financing, why does the Bank continue to extend financing to companies which have no problem accessing credit in the private market?

A.4. Ex-Im Bank extends financing to companies for one of two reasons. The first reason is to fill financing gaps unmet by private sources of financing due to capacity and risk-taking limitations. The second reason is to level the financing playing field when U.S. exporters are competing against foreign suppliers that have financing support from their national export credit agencies. Thus, the Bank can and does provide financing to foreign companies that might be able to access private sources of financing with the goal of supporting and increasing U.S. Jobs. The Bank provides this financing only for the purpose of neutralizing financing available from a foreign export credit agency for a specified purchase.

Q.5. How much of Ex-Im Bank's current exposure is comprised of large aircraft financing? Why does large aircraft financing represent such a large portion of the Bank's total exposure, despite being a much smaller share of total U.S. exports? What would be a financially prudent portfolio cap for large commercial aircraft that is also fair to the broader spectrum of U.S. industry?

A.5. Ex-Im Bank's exposure, as of December 31, 2013, is approximately $87 billion (or 77 percent) of the Bank's $113 billion exposure supported capital goods. Of that amount, $49 billion supported large aircraft. Large aircraft represent a significant portion of Ex-Im Bank total exposure because of several factors: (i) aircraft are very expensive; (ii) Boeing's order book has increasingly consisted of orders from airlines located in emerging markets such as Africa, Latin America, Asia, and the Middle East, which are more likely to require Ex-Im Bank financing for at least some of their aircraft purchases; and (iii) during the credit crisis and the great recession, other sources of financing for commercial aircraft were not available, or not available in sufficient quantities to meet the financing needs of the aircraft manufacturers customers.

Boeing is the United States' largest manufacturing exporter. Although exports of commercial aircraft may appear to be a small share of total U.S. exports, that is only because the U.S. economy is so large. The commercial aircraft industry is one of the industries in which the United States continues to run a trade surplus and is one of the largest export industries within the U.S. economy. Ex-Im Bank support for this important U.S. industry is due to the fact that we are called upon to finance large capital goods that face a shortage of financing options as well as where U.S. exporters face foreign competition that is supported by their countries' export credit agencies. The purchase of commercial aircraft requires large amounts of long term financing, which commercial banks have demonstrated a reluctance to finance. Any unilateral "cap" on Ex-Im Bank support for sales of U.S. manufactured commercial aircraft would have only one result: the foreign airlines in question would purchase more European-manufactured aircraft, to the great detriment of U.S. industry. The market for large aircraft is a duopoly, and the sale of Airbus aircraft is heavily supported by ECAs in Airbus's home countries. Therefore, the need for Ex-Im to level the playing field is most intense in this market.

Q.6. Under Ex-Im Bank's new Economic Impact Procedures (EIPs), the Bank estimates only 10 to 15 percent of aircraft transactions will receive a detailed economic impact analysis. Why were the EIPs designed in such a way that so few transactions receive a detailed analysis? How does this 10–15 percent figure compare to nonaircraft transactions of similar dollar value (e.g., above $200 million)?

A.6. Not all aircraft that Ex-Im finances are adding capacity to the commercial airline market. Many are replacing seats on aircraft that are being retired and others are used for cargo shipping. The new EIPs were designed in response to language in the Bank's charter that directs the Bank to: (1) "take into account any serious adverse effect . . . on the competitive position of United States industry" (see Section 2(b)(1)(B) of the charter); and (2) determine if

its transactions could cause "substantial injury" to U.S. industry (see section 2(e)(1)(B) of the charter). Section 2(4) of the Charter defines substantial injury as: " . . . the amount of the capacity for production established, or the amount of the increase in such capacity expanded, by such credit or guarantee equals or exceeds 1 percent of United States production." The terms "serious adverse effect" and "substantial injury" suggest that, for economic impact purposes, the Bank should focus on transactions where the potential for adverse effects are greatest (i.e., relatively large transactions with significant increases in foreign production capacity).

Of the 15 proposed transactions involving large aircraft subject to approval between April 2013, when the new EIPs went into effect, and the end of FY2013, none triggered detailed economic impact analyses. However, one detailed economic impact analysis was performed on a passenger aircraft transaction that was authorized on January 23, 2014. Therefore, between the implementation of the Economic Impact Procedures for aircraft on April 1, 2013, and the time of this writing, one out of 18, or 5.5 percent, of analyses for authorized commercial passenger aircraft transactions has resulted in a detailed economic impact analysis.

For nonaircraft cases, of the 11 cases valued over $200 million supported by Ex-Im financing in FY2013, six cases (or about 55 percent) triggered a detailed economic impact analysis. However, the more appropriate comparison of aircraft and nonaircraft economic impact activity would be to include nonaircraft transactions valued over $10 million (the nonaircraft threshold) to air transactions valued over $200 million (the air threshold). This comparison shows that of the FY2013 authorizations, 8 (or 13 percent) of nonaircraft transactions were subject to a detailed economic impact analysis. The data shows that the percent of transactions which required a detailed economic impact analysis for aircraft and nonaircraft transactions are relatively comparable.

Q.7. According to Ex-Im Bank's new aircraft EIPs, the Bank will only perform a detail economic impact analysis if it determines that the total number of airline seats related to a given transaction exceeds I percent of the total seats in the U.S. fleet, even though this number includes U.S. flights that don't compete with the foreign airline. Is this a fair threshold for performing a detailed analysis?

A.7. The 1 percent test in the EIPs for passenger aircraft was drafted to align with the Bank's Charter. Sec. 2(e)(4) of the Charter states: "For purposes of paragraph (1)(B), the extension of any credit or guarantee by the Bank will cause substantial injury if the amount of the capacity for production established, or the amount of the increase in such capacity expanded, by such credit or guarantee equals or exceeds 1 percent of United States production."

Not all aircraft that Ex-Im finances are adding capacity to the commercial airline market. Many are replacing seats on aircraft that are being retired and others are used for cargo shipping. According to the Bank's EIPs for passenger aircraft transactions, one of the tests used to determine the potential for substantial injury to U.S. industry is the 1 percent test. Bank staff separates all wide-body and narrow-body seats in a transaction, and divides each by

the number of seats in the U.S. fleet of either wide-body or narrow-body aircraft, respectively. This ensures that the number of seats in a transaction involving Bank-supported wide-body aircraft, which are typically used on long-haul international routes, is compared to the number of seats in U.S. wide-body aircraft, which are also largely operated on long-haul international routes. Accordingly, the 1 percent threshold is fair and consistent with the Bank's Charter.

Q.8. When performing a detailed economic impact analysis for an aircraft transaction, does Ex-Im Bank include the foreign-sourced content of the aircraft in its calculations of the export value of the transaction? lf so, why?

A.8. The Bank's Economic Impact Procedures have never included, and still do not, include, the number of jobs supported by a transaction as a factor in the Economic Impact Procedures or in any detailed economic impact analysis. Naturally, jobs are at the heart of the Ex-Im Bank mission, and Ex-Im uses a methodology consistent with that used by the Trade Promotion Coordinating Committee to calculate the number of jobs associated with its financing for reporting purposes. This methodology uses employment data from the Bureau of Labor Statistics (BLS), which includes an average foreign content adjustment by industry. Accordingly, the Bank's methodology accounts for foreign content when calculating the number of jobs associated with its financing. With limited staff and resources, the Bank has developed a practical, easy to use tool that provides an effective approximation of Ex-Im Bank supported jobs; it utilizes publicly available Commerce Department and Bureau of Labor Statistics data, and is also used by other agencies to calculate jobs numbers. We were pleased that the GAO surveyed the Bank's jobs calculation methodology and recognized the advantages of the Bank's current jobs calculation methodology. The GAO report also recognized that the Bank's current jobs calculation methodology is commonly used and cost effective. However, that factor is not then applied in the economic impact analysis.

When Ex-Im Bank conducts a detailed economic impact analysis for a passenger aircraft transaction, the Bank counts the net contract price, including foreign content, as the benefit to the U.S. economy, and counts estimated revenue lost to the U.S. economy. If the first part of a detailed economic impact analysis for a passenger aircraft transaction finds there is a basis to estimate harm to U.S. industry, Bank staff estimates the overall revenue loss to U.S. carriers as the cost to the U.S. economy, regardless of the quantity of foreign content in the service provided by U.S. carriers. Ex-Im Bank employs this practice because calculating the precise foreign content in any business operation that could be harmed by an Ex-Im transaction would require business sensitive information from the injured business, or would otherwise rely solely on speculation. Instead, Ex-Im Bank takes the more workable approach of assuming that the foreign content of the Ex-Im Bank-supported export is roughly comparable to the foreign content of a U.S. business potentially injured by the transaction. Accordingly, the Bank takes foreign content into account when calculating the number of jobs associated with its financing.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

STATEMENT SUBMITTED BY LINDA DEMPSEY, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Chairman Johnson, Ranking Member Crapo, and Members of the Committee, thank you for the opportunity to submit this statement for the record. I am grateful for the chance to highlight the importance of supporting the U.S. Export-Import Bank to help manufacturers compete in the global marketplace.

The National Association of Manufacturers (NAM) is the largest manufacturing association in the United States, representing small and large manufacturers in every industrial sector and in all 50 States. Manufacturing employs nearly 12 million men and women, contributes more than $1.8 trillion to the U.S. economy annually, has the largest economic impact of any major sector and accounts for two-thirds of private-sector research and development. The ability of U.S. companies to export has always been a critical issue for the NAM, and exports are increasingly important to the U.S. economy and to the success of domestic manufacturing. Manufactured goods exports increased by 47 percent between 2009 and 2012, reaching a record $1.35 trillion for 2012.

The NAM strongly supports Ex-Im Bank's mission to support U.S. jobs through exports and views the Bank as one of the most important tools the U.S. Government has to help grow U.S. exports and jobs, which is now more important than ever to U.S. companies. Ex-Im is the only tool American manufacturers have to counter the approximately $1 trillion in export financing that other governments provide their exporters. Without Ex-Im Bank support, customers may turn to foreign competitors that have support from aggressive foreign export credit agencies to the detriment of U.S. industry and jobs. America's manufacturers cannot afford to be defenseless in today's global marketplace.

NAM member companies across the country, from large firms to small businesses, have turned to Ex-Im Bank to take advantage of new international trade opportunities and grow their workforce. Polyguard Products develops and produces materials in Ennis, Texas, for corrosion protection and water proofing of structures and infrastructure. Founded in 1952, Polyguard started to delve into exporting in 2005. Today, the company is trading with more than 30 countries a year and has experienced a 325 percent increase in total sales. Ex-Im Bank was able to mitigate one element of uncertainty in international trade, helping Polyguard cover the credit risk of exporting. Like Polyguard, many small businesses have sought the assistance of Ex-Im Bank and reaped the benefits of expanded market access.

A record 295,000 U.S. small- and medium-sized enterprises exported goods in 2011, accounting for 98 percent of all identified exporters and helping demonstrate the export potential of small businesses. With those new export opportunities, manufacturers in the United States create American jobs. According to the latest figure from the U.S. Department of Commerce, every $1 billion increase in exports creates or supports an estimated 4,000 manufacturing jobs. Exports have a real impact, and that impact is strengthened through the work of Ex-Im Bank.

The Export-Import Bank is essential to boosting exports of U.S. products. In FY2013, Ex-Im was involved with 3,842 transactions that supported more than $37 billion in exports—leveraging about $27 billion in authorizations. Nearly 90 percent of those transactions directly supported small-businesses, with a total of $5.2 billion in support for small business exporters. The Ex-Im Bank is a self-sustaining agency that generates money for the U.S. Government, thereby reducing our national deficit. Last year alone, Ex-Im sent more than $1 billion to the U.S. Treasury. Ex-Im is a net gain for the Federal Government and for the taxpayer. Furthermore, the Bank has maintained its incredibly low default rate of through the recession and through several years of record growth. At last measure, the Bank's default rate was less 0.5 percent.

Despite this tremendous record of success, manufacturers are concerned that Ex-Im Bank's efforts to implement guidelines that categorically deny support to certain exporters contradict the Bank's principal mandate to support U.S. jobs through exports. The revisions to Ex-Im Bank's Environmental Procedures & Guidelines, as approved by the Ex-Im Bank Board of Directors in December 2013, would substantially deter Ex-Im support for most new coal-fired power plants abroad—hindering the supply of U.S. goods and services to countries that need reliable electricity, without any real economic or environmental benefits for those countries. On behalf of manufacturers in the United States, I would urge Chairman Hochberg to heed the clear signal sent recently by Congress to reevaluate those guidelines.

The Ex-Im Bank's charter expires on September 30, 2014, and Congress must act quickly this year to extend its authorization. Reliable access to export financing is a vital part of being globally competitive, and the Ex-Im Bank has taken on even greater significance in today's turbulent financial environment. Exporters often face difficulty in obtaining credit and working capital, and overseas customers are financially stretched. Those customers will continue to place a high priority on favorable financial terms. Failure to reauthorize Ex-Im Bank would threaten the many American jobs that depend directly or indirectly on its crucial export financing.

Additionally, the Ex-Im Bank is the only tool American manufacturers have to counter the huge sums of export financing—many hundreds of billions of dollars—that other governments provide their exporters. Manufacturers in the United States face stiff competition from companies backed by the 59 other export credit agencies around the world, and Ex-Im Bank helps level the playing field so that manufacturers can compete on the merits of their products. If American manufacturers lose access to the Ex-Im Bank, our ability to compete globally will be severely curtailed. Companies large and small will be disadvantaged, and their customers may turn to foreign competitors that have support from aggressive foreign export credit agencies. America's manufacturers cannot afford to be defenseless in today's global marketplace.

I urge you to move swiftly on legislation that will provide a stable, long-term reauthorization for Ex-Im Bank. Thank you, Chairman Johnson and Ranking Member Crapo, for holding this hearing and for allowing me the opportunity to submit a statement for the record.